



TECHNICAL ASSISTANCE REPORT

GEORGIA

Report on Government Finance Statistics for
State-Owned Enterprises Mission
(APRIL 26–MAY 24, 2021)

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Acronyms and Abbreviations

CCAMTAC	Regional Capacity Development Center for the Caucasus, Central Asia, and Mongolia
D4D	Data for Decision Fund
ECF	Extended Credit Facility
FAD	Fiscal Affairs Department
FRMD	Fiscal Risks Management Division
GFS	Government Finance Statistics
GEL	Georgian Lari (national currency)
GG	General Government
<i>GFSM 2014</i>	<i>Government Finance Statistics Manual 2014</i>
IMF	International Monetary Fund
LEPL	Legal Entities of Public Law
MAFD	Macroeconomic Analysis and Fiscal Policy Planning Department
MCD	Middle East and Central Asia Department
MoF	Ministry of Finance
SOE	State-Owned Enterprise
SFR	Statement of Fiscal Risks
STA	Statistics Department
TA	Technical Assistance
TSA	Treasury Single Account

Summary of Mission Outcomes and Priority Recommendations

- 1. At the request of the Georgia authorities, a remote technical assistance (TA) mission took place during April 26–May 24, 2021.** The mission was conducted in coordination with the IMF’s Middle East and Central Asia Department (MCD) and financed by the Data for Decisions Trust Fund (D4D). The main task of the mission was to assist the Ministry of Finance (MoF) to compile Government Finance Statistics (GFS) for non-market state-owned enterprises (SOEs) that were identified in the context of the 2019 sectorization exercise to meet Georgia’s commitments in the IMF’s extended arrangement under the Extended Fund Facility.
- 2. Georgia is the first country in Central Asia and East Europe that successfully completed a comprehensive sectorization of SOEs.** The sectorization exercise, which was conducted by the MoF with support from the 2019 mission¹, examined 236 SOEs and determined that 183 units operated on a non-market basis and should be consolidated within the general government sector. The outcome of the sectorization exercise was reflected by the MoF in the 2020 Fiscal Risk Statement.
- 3. The mission in cooperation with the MoF conducted a pilot compilation of GFS for non-market SOEs for 2019.** The compilation was based on the information coming from the SOEs’ database established by the MoF to facilitate the analysis and management of fiscal risks. The Statement of Operations and Balance Sheet based on the international statistical standards was compiled for all non-market SOEs where the source data was available.² The enterprises included in the GFS compilation covered 84 percent of all non-market SOEs in terms of the annual turnover.
- 4. Including non-market SOEs in the fiscal reporting will have a material impact on fiscal aggregates and a negative impact on the fiscal balance for 2019.** Based on the pilot compilation, revenue of non-market SOEs accounted for 2.4 percent of GDP (of which government’s grants were 0.6 percent of GDP) and expenditure accounted for 3.0 percent of GDP, which resulted in a deficit (net borrowing) of 0.6 percent of GDP for 2019. The value of stocks of non-financial and financial assets represented 4.3 and 4.7 percent of GDP, respectively. The value of debt liabilities represented 3.1 percent of GDP, of which on-lending from government represented around 2 percent of GDP, thus the consolidated general government debt including SOEs would increase by 1.1 percent of GDP.
- 5. Fiscal results based on the international statistical standards significantly differ from the indicators coming from financial statements.** Application of the GFS methodology on data for 2019 increased revenues of non-market SOEs by 0.35 percent of GDP and decreased their expenses by 0.44

¹ The “[Public Sector Balance Sheet and State-Owned Enterprises](#)” mission was conducted in November 2019 by the Fiscal Affairs Department with the participation of the Statistics Department (STA). One of the key objectives of the mission was to assist the authorities to meet the structural benchmark in the IMF’s extended arrangement under the Extended Fund Facility to determine whether public enterprises should be classified inside or outside the general government. This task was conducted by the STA staff.

² The GFS for non-market SOEs was compiled based on the [Government Finance Statistics Manual 2014](#).

percent of GDP, compared to the aggregates derived from the accounting income statement. This implied a positive impact of 0.79 percent of GDP on the net operating balance compared to the net profit for 2019.³ In addition, contrary to the GFS reporting, financial statements do not provide the fiscal balance (net lending/net borrowing) including expenditure on net investment in non-financial assets which have large negative impact on the financial results (0.85 percent of GDP in 2019). The main conceptual differences between the accounting and GFS methodology leading to different fiscal aggregates and balances are explained in the main body of this report.

6. To further enhance fiscal transparency in Georgia, expanding the coverage of GFS reporting by including extra-budgetary entities and a balance sheet would be an important step forward. The coverage of GFS has been limited to the transactions and debt of budgetary entities and does not include any extra-budgetary entities. The latter refers to legal entities of public law (LEPLs) and the newly identified non-market SOEs. The source data for LEPLs is readily available and their consolidation with budgetary entities' GFS should be achievable in the short-term.⁴ On the other hand, the introduction of a regular GFS compilation for non-market SOEs and their inclusion into GFS reporting, and compilation of a balance sheet, will bring new challenges and capacity needs.

7. Appropriate institutional arrangements and adequate capacity are crucial to ensure further progress in expanding the GFS coverage. The current capacity dedicated to GFS may be insufficient to implement the new tasks related to the compilation of a balance sheet and GFS for non-market SOEs on a regular basis. The current institutional framework should be reviewed to ensure suitable institutional arrangements and improved capacity for the collection and processing of the source data for SOEs and to ensure sufficient resources and technical support for the compilation of GFS with broader coverage.

8. The mission expresses its appreciation for the excellent cooperation by the Georgian authorities, which contributed substantially to the success of the mission. In particular, the mission would like to thank the officials in the Fiscal Risks Management Division (FRMD) who were intensively engaged in the mission work and demonstrated high capability, transparency, motivation, and commitment to using data based on the international statistical standards for the analysis and management of fiscal risks.

³ It should be noted that the differences between fiscal indicators based on the GFS and accounting methodology may vary significantly by year and by company, depending on the type of events that are treated differently in GFS and accounting.

⁴ Following the mission recommendations, in the course of June 2021, the MoF submitted revised GFS time series including LEPLs to STA.

9. To ensure that the compilation of GFS for non-market SOE is conducted continuously and the coverage of GFS is expanded by including all extra-budgetary entities and a balance sheet, the mission made the following priority recommendations:

Table 1. Priority Recommendations

Target Date	Priority Recommendation	Responsible Institution
December 2021	Establish appropriate institutional arrangements for the collection and processing of source data for SOEs.	MoF
December 2021	Review the existing institutional framework and capacities dedicated to GFS to ensure sufficient resources and technical support for the compilation of an expanded GFS.	MoF
November 2021⁵ January 2022 March 2022	Expand the coverage of GFS: <ul style="list-style-type: none"> - Include extra-budgetary entities (LEPLs) in the annual GFS and continue regular dissemination of the expanded GFS reporting. - Initiate compilation of the general government balance sheet. - Initiate compilation of GFS for non-market SOEs to consolidate these in the annual reporting for the general government. 	MoF (GFS team)

⁵ The MoF submitted revised GFS timeseries including LEPLs to STA after the mission in June 2021.

Detailed Technical Assessment and Recommendations

A. Compilation of GFS for SOEs

10. The 2019 sectorization exercise recognized 183 SOEs operating on a non-market basis and set up ground to enhance the transparency of fiscal reporting. The exercise was conducted by the Georgia MoF with support from the 2019 IMF's TA mission⁶. The subject of the exercise was to examine whether individual SOEs operate as commercial units/public corporations, or rather as non-market producers/government entities. In total, 236 SOEs were analyzed, of which 183 entities have been classified as general government units because they either act as government agents rather than independent institutional units, or do not provide goods and services at economically significant prices, and/or depend on regular financial assistance from the government.

11. The MoF maintains a database of SOEs to facilitate the analysis and management of fiscal risks. The database has been established and maintained by the FRMD and comprises time series of the main financial indicators for 352 enterprises (irrespective of their sector classification) including SOEs and large municipal enterprises with more than 25 percent of state ownership. Data uploaded in the database are based on financial statements submitted by the enterprises (income statement and balance sheet), information from the National Statistics Office, and other administrative sources. The database includes user-friendly tools to sort the data based on various criteria (e.g., sector classification, industry/sector, controlling unit).

12. The mission in cooperation with the MoF conducted a pilot compilation of GFS for non-market SOEs. The compilation was based on the information coming from the SOEs' database which was during the mission supplemented by the FRMD to include the cash flow statements and detailed items from other financial statements. The expansion of database significantly contributed to the quality of GFS compilation as it allowed to apply more thoroughly the principles and rules from the international statistical standards. The mission supported the MoF with compilation of the [Government Finance Statistics Manual \(GFSM\) 2014](#) based Statement of Operations and Balance sheet for 2019 for all non-market SOEs where the source data was available⁷ (65 large units). The enterprises included in the GFS compilation covered 84 percent of all non-market SOEs in terms of the annual turnover.

⁶ See footnote 1.

⁷ The statement of operations and balance sheet was compiled separately for 10 large units and six economic sectors. The following individual SOEs were covered: Georgia Energy Development Fund, United Water Supply Company, Melioration company, Asset Management Company, Electricity Market Operator of Georgia (ESCO), Partnership Fund, Solid Waste Management Company, Regional Health Center, State Construction Company, and Sportshenservice. GFS for the remaining 55 companies was compiled by the following sectors: agriculture, healthcare, sport, transport, utility sector, and other industries.

Results of the Pilot GFS Compilation

13. Inclusion of non-market SOEs will increase Georgia's fiscal deficit by 0.6 percent of GDP in 2019 and will have a material impact on revenue and expenditure. Based on the pilot compilations, revenue of non-market SOEs accounted for 2.4 percent of GDP and expenditure accounted for 3.0 percent of GDP, which resulted in a deficit (net borrowing) of -0.6 percent of GDP for 2019. The share of financial support from government (grants) accounted for 24 percent of total revenues and the remaining revenues were mainly the income from sales of goods and service. Almost half of the received grants related to transfers of non-financial assets from the government to SOEs⁸. The deficit of SOEs was financed by incurrence of debt (0.4 percent of GDP) and by disposals of financial assets (0.3 percent of GDP). Detailed results are illustrated in the Statement of Operations compiled in line with the [GFSM 2014](#) methodology (Table 2).

Table 2. Statement of Operations of Non-Market SOEs, 2019

14.

	Million GEL	Percent of GDP	
Revenue	1,175	2.4	
Taxes & social contributions	0	0.0	
Grants	278	0.6	
Other revenue	897	1.8	
Expenditure	1,485	3.0	
Compensation of employees	107	0.2	
Use of goods and services	713	1.4	
Consumption of fixed capital	55	0.1	
Interest	70	0.1	
Subsidies	0	0.0	
Grants	46	0.1	
Social benefits	0	0.0	
Other expense	79	0.2	
Net investment in nonfinancial assets	417	0.8	
Net lending (+) / Net borrowing (-)	-310	-0.6	
Financing	-315	-0.6	
Net acquisition of financial assets	-139	-0.3	
Net incurrence of liabilities		175	0.4
Statistical discrepancy: NLB vs Financing		-5	0.0

Source: IMF and MoF calculations.

⁸ The transfers of non-financial assets have been treated in the financial statements as an increase in the equity of SOEs but classified as an expense (grant) in the GFS.

14. Georgia’s consolidated debt will increase by 1.1 percent of GDP and net financial worth will decrease by 4.2 percent of GDP in 2019 as a result of the consolidation of non- market SOEs within the government sector.⁹ Based on the pilot balance sheet compilation, the value of stocks of non-financial and financial assets of non-market SOEs accounted for 4.3 and 4.7 percent of GDP respectively; and the value of debt liabilities 3.1 percent of GDP in 2019, of which on-lending from the government presented around 2 percent of GDP (that as a result of consolidation increases general government debt by 1.1 percent of GDP). The balance sheet was compiled on the basis of the financial statements and at this stage, no specific adjustments have been made to the outstanding amounts of assets and liabilities in terms of their valuation. Among next steps, GFS compilers would need to examine the compliance of the accounting rules with the valuation principles of GFS. Detailed results are illustrated in [Table 3](#).

Table 3. Balance Sheet of Non-Market SOEs, 2019

	Million GEL	Percent of GDP
Total assets	4,408	8.9
Nonfinancial assets	2,097	4.3
Financial assets	2,311	4.7
Currency and deposits	152	0.3
Loans	53	0.1
Equity and investment fund shares	1,857	3.8
Other accounts receivable	248	0.5
Liabilities	4,403	8.9
Loans	1,272	2.6
Equity and investment fund shares	2,871	5.8
Other accounts payable	260	0.5
Net financial worth	-2,092	-4.2

Source: IMF calculations.

⁹ The pilot balance sheet includes a liability in ‘Equity and investment fund shares’ reflecting the bookkeeping value as reported in the financial statements of non-market SOEs. Based on the *GFSM 2014* paragraph 1.170, in principle, general government units do not have equity liabilities except for the units which were established as a corporation but act as a non-market producer (their equity liabilities will be consolidated within the general government). Nevertheless, some units included in the pilot balance sheet act as ‘pure’ general government units and the market value of their equity capital is likely zero. Further work would need to be done to make appropriate adjustments.

Bridging Financial Statements into GFS

15. Although accounting financial statements and GFS present comparable, integrated, and comprehensive sets of data, some conceptual differences exist.¹⁰ Both data sets provide information on the results of operations, financial position and cash flows, and importantly, data on flows are integrated with stocks. On the other hand, GFS and accounting reporting (financial statements) have different objectives as the primary goal of the accounting reporting is to provide information on the performance of individual organizations, while GFS is designed for fiscal analysis and fiscal policy at the macro-level in conformity with the outputs from other macroeconomic statistical frameworks (i.e., the system of national accounts, external statistics, and monetary financial statistics). Due to the different objectives, the structure of accounting financial statements, the level of details, the classification and substance of individual items are not fully in line with the GFS rules and principles¹¹. Still, accounting financial statements provide a good basis for the compilation of GFS, keeping in mind the conceptual differences, as described below.

16. The conceptual differences between accounting financial statements and GFS may have material implications on fiscal aggregates and balances. The impact of application of the [GFSM 2014](#) methodology on the main fiscal aggregates and balances of non-market SOEs for 2019 comparing to the results based on financial statements is illustrated in [Table 4](#).

Table 4. Impact of the Application of the GFS Methodology on the Main Fiscal Indicators of Non-market SOEs, 2019

II. million GEL				
Accounting items	Income Statement	Transition to GFS	GFS	GFS items
Income	1,002	+173	1,175	Revenue
Expense	1,285	-217	1,068	Expense
Net profit	-283	+390	107	Operating balance
	x	+417	417	Net investment in NFA
	x	-310	-310	Net lending/net borrowing

Source: SOEs' Income Statements, IMF compilations.

- While the revenue was higher by 173 million GEL (0.35 percent of GDP), the expense was lower by 217 million GEL (0.44 percent of GDP) than the income statement's items.
- As a result, application of the GFS methodology implied a positive impact of 390 million GEL (0.79 percent of GDP) on the operating balance compared to the net profit¹² in 2019.

¹⁰ The differences in the estimated impact of non-market SOEs on the general government deficit and debt as presented in the 2020 Fiscal Risks Statement (FRS) and this report are mainly due to the conceptual and methodological differences applied in accounting financial statements (used in the FRS) and the [GFSM 2014](#) methodology presented in this report.

¹¹ A detailed description of differences between the reporting based on accounting and GFS rules and principles is in Appendix 6 of [GFSM 2014](#).

¹² Note that all transactions covered in the net profit are included in the GFS based operating balance.

- On the other hand, adding expenditure on net acquisition of non-financial assets (not reported in the income statement) led to the increase of expenditure by 417 million GEL (0.85 percent of GDP).
- Consequently, the ultimate fiscal balance (net lending/net borrowing) accounted for -310 million GEL (0.63 percent of GDP) in 2019. Even though the net lending/net borrowing aggregating all non-market SOEs was very close to the net profit reported in the income statement (-283 million GEL, or -0.58 percent of GDP), the difference between net lending/borrowing and net profit by individual non-market SOEs varied between -0.27 percent of GDP (United Water Supply Company) and +0.24 percent of GDP (transport sector).

17. A brief overview of the conceptual differences between accounting financial statement and GFS, impacting fiscal aggregates and balances, is provided below.¹³

- **Operating balance/net profit** — One of the main differences between accounting financial statements and GFS is that GFS strictly distinguishes between *transactions*. (i.e., operations resulting from government's decisions), and *other economic flows*. Other economic flows result from such events, which are generally out of the government control (e.g., revaluation gains/losses due to changes in exchange rates or other changes in market prices of assets/liabilities; or losses on fixed assets from a natural disaster). The GFS based fiscal balance measures the impact of government transactions/operations, excluding other economic flows. In contrary, the accounting net profit is impacted by all types of flows as the income statement classifies both, transactions as well as other economic flows as income and expense. In addition, the income statement may include some transactions in financial assets/liabilities, which are treated in GFS as financing rather than revenue/expense. Moreover, depending on the accounting standard in use, some transfers are not included in the income statement (e.g., subsidies, capital transfers, taxes, dividends).
- **Net lending/net borrowing (NLB)** — In addition to revenue and expense reflected in the operating balance, GFS also includes expenditures related to the net investment in non-financial assets (acquisitions less disposals less consumption of fixed capital). Thus, the ultimate GFS based balance of government operations, net lending/net borrowing, is also impacted by transactions in non-financial assets in addition to revenue/expense. The financial statements do not report such an indicator.
- **Financing** — Financial statements do not provide comprehensive information on transactions in financial assets and liabilities, other than the stock positions of financial assets and liabilities included in the balance sheet in accounting financial statements, and some financing transactions in the cash flow statement. In GFS, financing data is an inevitable element of the statement of operations, illustrating how the net lending/net borrowing was financed, and what was the impact of government operations in financial assets/liabilities on the government balance sheet. Financing data should be reconcilable with the operations in revenue and expenditure and with the stocks of financial assets and liabilities. The reconciliation of these data sets serves as an important tool to check the quality of the fiscal balances and the financial balance sheet.

¹³ Detailed description of the differences is provided in Appendix 6 of the [GFSM 2014](#).

Consolidation of Non-market SOEs within the General Government Sector

18. Consolidation of the accrual-based GFS for non-market SOEs within the general government (GG) sector will entail some amendments to the cash-based data for the budgetary entities. Large values of non-momentary (in kind) transfers between the budgetary entities and non-market SOEs were identified while compiling GFS for non-market SOEs for 2019, as illustrated in [Table 5](#). These operations refer mainly to: (i) transfers of non-financial assets from the state to SOEs (most of them were executed as injections into the equity capital, but recorded as an expense in GFS) and to some less significant; (ii) transfers of non-financial assets from SOEs to the State To allow for proper consolidation of non-market SOEs into the GG sector, the non-monetary transfers should be imputed to revenues and expenditures of the budgetary entities as these are currently reported on a cash basis.

Table 5. Consolidation of Non-Market SOEs within the General Government Sector, 2019

	million GEL							
	GFS (current cash reporting)	Accrual adjustments		Amended GFS	Non- market SOEs (accrual)	Con- solida- tion	Consoli- dated GG incl. SOEs	Total impact
		Transfers of NFA with non-market SOEs	Special purpose grants reclass. into financing					
1	2	3	4=1+2+3	5	6	7=4+5+6	8=7-1	
Revenue	12,907	32	0	12,940	1,175	-278	13,837	929
Expenditure	14,260	33	-35	14,257	1,485	-278	15,464	1,204
Expense	10,832	133	-35	10,929	1,068	-278	11,719	887
Investment in non-financial assets	3,428	-100	0	3,328	417		3,744	316
Net lending (+) / Net borrowing (-)	-1,353	0	35	-1,317	-310	0	-1,627	-274
Financing	-1,353	0	35	-1,317	-315	0	-1,632	-279
Net acquisition of financial assets	15		35	50	-139	-2	-91	-106
Net incurrence of liabilities	1,367	0		1,367	175	-2	1,541	174
Discrepancy	0	0	0	0	-5	0	-5	-5

Source: IMF compilations.

Note: NFA = non-financial assets. Data on transfers of NFA are based on the notes to financial statements and some assumptions where direct information was not available.

19. Including transfers in kind will not change the fiscal balance, but will transparently show increased government expenses and reduction of the government assets (see [Table 5](#), column 2). The mission treated the transfers of non-financial assets as an expense (capital grant) from the State to non-market SOEs matched by a decrease in the non-financial assets (133 mill GEL). The withdrawal of non-financial assets by the state from SOEs was treated as a revenue (capital grant), matched by an increase in the State's non-financial assets (32 mill GEL). To facilitate the consolidation, another adjustment would need to be done with respect to the treatment of special purpose grants from the State to SOEs which accounted for 35 mill GEL in 2019. These grants were treated by SOEs in line with the accrual accounting rules as a financing operation (liability in other accounts payable) reflecting the prepayment to finance future capital expenditure. The prepayment will be gradually converted into a revenue (capital grant) at the time when related expenditure financed by the grant will be made (this will lead to a gradual reduction in other accounts payable matched by a revenue in grants). However, since the budgetary entities report data on a cash basis, the expenditure (capital grant) is recorded for the full amount at the time when the cash payment is

made. To allow for proper consolidation of such special purpose grants, the time of recording should be consistent in the accounts of both, the grantor (State) and the beneficiary (SOE). Accordingly, the related cash-based expense in grants of budgetary entities should be reclassified into financing (acquisition of a claim/other accounts receivable to SOEs), that will decrease the deficit by 35 mill GEL ([Table 5](#), column 4).

20. Based on the pilot compilations, around 20 percent of non-market SOEs' expenditure was financed by grants from government. The estimated value of grants received by non-market SOEs from the State and local government was 278 mill GEL (0.6 percent of GDP), of which 145 mill GEL was provided in cash, and 133 mill GEL in kind (by transfers of non-financial assets). Due to the incomplete source data and time constraints, tax, and dividend payments by SOEs to their owners were not consolidated during the mission.

B. Expanding the Coverage of GFS

Sector Coverage

21. The coverage of publicly available GFS is limited to budgetary entities, excluding LEPLs.¹⁴ The Georgian authorities disseminated GFS only for the budgetary entities of the central and local government and no data on extra-budgetary funds (EBFs) were reported. In Georgia, the subsector of EBFs should cover LEPLs and non-market SOEs. The source data for LEPLs is readily available and introducing regular reporting consolidating these entities within the GFS should be achievable in the short-term. This would imply a noticeable impact on the fiscal aggregates¹⁵ and enhance transparency of the fiscal reporting.

22. Including non-market SOEs into the GFS reporting is crucial but would require additional capacity. Compiling GFS for SOEs requires an operational system to be in place for collecting the full set of financial statements, their processing (including quality checks if the input data is not audited), bridging the source data into the GFS categories, and consolidating the results with other GG units. This new task will bring new challenges and needs for additional capacities since the source data significantly differs from the budget reporting that will have implications on the data collection, quality checks, and especially on the compilation of GFS. As explained in the previous sections of the report, financial statements do not explicitly provide all requested details to compile GFS and thus GFS compilers would need to acquire new skills and use different techniques to routinely compile GFS based on the financial statements. In addition, the SOEs are large in number and are not yet used to provide timely and high-quality data as well as additional details to compile GFS based on the international statistical standards.

¹⁴ Following the mission's recommendations, the MoF submitted to the IMF Statistics Department after the mission, in the course of June 2021, revised GFS for 2004-2020 including LEPLs.

¹⁵ The mission hasn't dealt in detail with the issue of LEPLs, but based on the 2017 TA mission "[Enhancing the Fiscal Rules Framework](#)" conducted by the Fiscal Affairs Department, by end-2015, LEPLs own revenues represented about 12 percent of general government total revenue, and about 17 percent of total expenditures. The inclusion of LEPLs in general government statistics would: (i) increase revenue by 4.5 percent of GDP; (ii) increase expenditures by 4.3 percent of GDP; and (iii) decrease the general government deficit by 0.2 percent of GDP for 2015.

23. Appropriate institutional arrangements should be in place to facilitate the inclusion of non-market SOEs into the GFS reporting. Best practices encourage the establishment of a special unit responsible for the collection and processing of source data provides its output to a dedicated GFS team. Though the output of the data processing unit may possibly include an automatic conversion of the source data into the GFS categories, the GFS compilers are ultimately responsible for the translation of the source data into the GFS reporting applying the rules and principles based on the [GFSM 2014](#) methodology. The dedicated GFS team is also responsible for disseminating GFS and availing them to users (including internal users such as the FRMD, among others). Should amendments to the institutional framework take place, the existing legal framework would need to be updated accordingly. Several options might be considered to set up appropriate institutional framework:

- First, it should be decided what entity is responsible for the **collection and processing of the financial statements**. In some countries, the national statistical office, or a tax authority is responsible for this task. It might however be even more appropriate to assign this task to the Treasury staff that is usually responsible for the processing of financial statements compiled by the GG entities, and the response rate and quality of data reported by SOEs is usually higher than when this task is assigned to another agency. Importantly, irrespective of the institutional arrangements, the entire set of financial statements should be processed (to facilitate GFS compilers alongside the fiscal risks management needs), possibly including additional questionnaires providing supplementary information as needed (e.g., reconciliation of stocks with specific movements in related assets, and/or liabilities).
- Alternatively, **inclusion of the non-market SOEs into the Treasury Single Account (TSA) might be considered**. The advantage would be the availability of timely, high-frequency, and comprehensive cash data (it would however be crucial to also maintain accrual source data at least on an annual basis). This option would be appropriate especially for the entities which are “pure” government units according to the qualitative sectorization criteria as they act on behalf of the government, highly depend on the government financing and in most cases do not act as autonomous units. Special considerations should however be given to the inclusion into the TSA of those SOEs which are currently non-market but have a potential to start operating on a commercial basis and thus qualify to be reclassified in the sector of public corporations¹⁶. In principle, unless an SOE is discharging a government function, it should not be included in the TSA¹⁷.
- Importantly, **resources devoted to the GFS compilation** and related institutional arrangements should be reviewed. Currently, three staff members of the Fiscal Forecasting Division are involved in GFS compilation for the central and local budgetary units alongside other tasks assigned to the Division. Expanding GFS reporting by including LEPLs, non-market SOEs and other, currently non-reported elements of the GFS framework, such as a balance sheet, will significantly increase the workload, require new technical skills, and involve more methodological work. Based on the best practice, a special unit/division is devoted exclusively to the GFS compilation. One of its important tasks is to cooperate closely with the internal users to ensure that the fiscal reporting produced by the GFS team and based on international statistical standards facilitates the fiscal policy needs.

¹⁶ The qualitative and quantitative sectorization criteria are explained in the 2020 Georgia TA report “[Public Sector Balance Sheet and State-Owned Enterprises](#)”, Box 2.1.

¹⁷ See the IMF’s technical Note “[Treasury Single Account: An Essential Tool for Government Cash Management](#)”.

Sectorization of Public Entities Engaged in Financial Activities

24. Based on the available information, the Pension Agency meets the criteria of financial corporations, while the Deposit Guarantee Fund falls in the GG sector according to the

[GFSM 2014](#). The mission discussed the sector classification of the Deposit Guarantee Fund and the newly- established cumulative Pension Agency, since the 2019 sectorization exercise did not cover public units engaged in financial activities.

- The *Pension Agency* was established on August 15, 2018 as an independent legal entity under public law and launched on January 1, 2019 in accordance with the Law of Georgia on Cumulative Pensions dated August 6, 2018. The Agency is supervised by a Supervisory Board (composed of three ministers and one private official¹⁸), except for the investment activities that are supervised by the National Bank of Georgia. The Pension Agency is as a defined-contribution pension scheme having features of a ‘second pillar’ cumulative pension scheme, or a ‘provident fund’ as defined in the [GFSM 2014](#)¹⁹. According to the information obtained during the mission, the fund is an autonomous institutional unit operating as a financial intermediary, it is supposed to bear related risks and rewards (i.e., placing itself at risk by incurring liabilities to households and investing in financial assets). Based on these characteristics, the fund meets the criteria to be classified in the financial corporation sub- sector.
- Regarding the *Deposit Guarantee Fund*, it should be classified in the GG sector based on the [GFSM 2014](#) since fees payable to the scheme are compulsory and beneficiaries (banks) cannot opt out of the scheme²⁰

Balance Sheet

25. Currently, GFS reporting does not include a balance sheet, except for data on stocks of debt of the central government budgetary entities. The mission compiled a pilot balance sheet for the non-market SOEs for 2019 but was not able to produce a consolidated general government balance sheet since the statistical reports cover only debt of the central government budgetary entities. However, the central government financial statements produced by the Treasury on an annual basis provide data on the majority of stocks that is a good ground to start compiling a balance sheet despite of the observed gaps in the source data.

26. Dissemination of balance sheet data within GFS reporting will further enhance the quality and transparency of fiscal reporting.²¹ Initiation of the balance sheet compilation based on the available source data will be an opportunity to review in detail the existing source data and identify all drawbacks and gaps with respect to the completeness of stocks and their valuation compared to the

¹⁸ The Supervisory Board of the Agency consists of the following four (4) members: Minister of Finance of Georgia, Minister of Economy and Sustainable Development of Georgia, Minister of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia and the Chairman of the Investment Board of the Agency (is not a public official). The Head of the Supervisory Board of the Agency is the Minister of economy and sustainable development of Georgia.

¹⁹ See [GFSM 2014](#), paragraphs 2.148 – 2.151.

²⁰ See [GFSM 2014](#), paragraph 2.135.

²¹ See also the recommendations of the 2016 “[Fiscal Transparency Evaluation](#)” mission and 2019 “[Public Sector Balance Sheet and State Owned Enterprises](#)” mission.

[GFSM 2014](#) requirements. Such an inventory of related issues will serve as inputs to produce an action plan to gradually improve the quality of available data. As observed in other countries, implementing the required changes in the accounting source data might be a long-term task. Therefore, the compilation of a statistical balance sheet requires statisticians to make appropriate adjustments to the available source data on a best effort basis in order to improve completeness and quality of the balance sheet. In this respect, an important tool is to use cross-sector comparisons and counterparty information. For example, the value of shares and equities owned by the government to be compared with the stocks of equity capital of the government owned enterprises will likely provide more accurate figures. It is also important to check consistency of the stock data with the Monetary and Financial Statistics and International Investment Position compiled by the National Bank (e.g., deposits, loans, equities, and debt liabilities). The issue of valuation of non-financial assets could be solved by using estimates based on the information on the replacement (market) costs of non-financial assets compiled by the Statistical Agency for national accounts compilation purposes.

C. The Way Forward and Action Plan

27. The authorities are committed to expand the fiscal reporting in line with international standards. Further steps should be focused on establishing appropriate institutional framework and ensuring sufficient capacities and technical support to expand the coverage of regular GFS reporting by including data on LEPLs, Deposit Guarantee Fund, and non-market SOEs, and initiating the compilations of a balance sheet. As soon as the MoF reinforces capacities for the GFS compilation, further TA might be needed, including from the newly established IMF’s Regional Capacity Development Center for the Caucasus, Central Asia and Mongolia (CCAMTAC), to support the implementation of these important tasks. In the meantime, the authorities should be in a position to start disseminating GFS including LEPLs and the Deposit Guarantee Fund which appears to be a non-market producer.

28. To ensure that the compilation of GFS for non-market SOE is conducted continuously and the coverage of GFS is expanded by including all extra-budgetary entities and a balance sheet, the mission made the following recommendations:

Table 6. Action Plan

Priority	Action/Milestone	Target Completion Date
Outcome:		
High	Establish appropriate institutional arrangements for the collection and processing source data for SOEs.	December 2021
High	Review the existing institutional framework and capacities dedicated to GFS to ensure sufficient resources and technical support for the compilation of an expanded GFS.	December 2021
High	Expand the coverage of GFS: <ul style="list-style-type: none"> - Include extra-budgetary funds (LEPLs) and the Deposit Guarantee Fund in the annual GFS and continue regular dissemination of the expanded GFS reporting. - Initiate compilation of the general government balance sheet on an annual basis. - Initiate compilation of GFS for non-market SOEs to consolidate these in the annual reporting for the general government. 	November 2021 January 2022 March 2022

Appendix I. Bridging Financial Statements into the GFS Statement of Operations and balance sheet

		Source data / financial statements
1	Compile revenue and expense	Income Statement
2	Exclude income/expense from the Income Statement that do not belong to the GFS revenue/expenditure categories	
	- Exclude other economic flows - revaluation and other changes in the volume of assets and liabilities (e.g., changes due to exchange rates, provisions, impairment, changes in the accounting methodology)	Income Statement and/or notes to financial statements
	- Exclude transactions in financial assets and liabilities (e.g., investments in equity of subsidiaries)	Income Statement and/or notes to financial statements
3	Include transactions in revenue and expense not covered in the Income Statement	
	- Add other revenue and expense, such as taxes, subsidies, dividends, and other current and capital transfers, as relevant (depending on the coverage of the nationally based Income Statement)	Cash Flow Statement and/or notes to financial statements
4	Compile net investments in non-financial assets (expenditure)	
	- Compile cash transactions on purchase and sale of non-financial assets	Cash Flow Statement
	- Add non-monetary transactions in non-financial assets (e.g., transfer of non-financial assets from/to government)	Notes to financial statements
	- Deduct depreciation as a proxy to the consumption of fixed capital	Income Statement
5	Compile financing operations	
	- Use data on cash inflows/outflows on all financial instruments (e.g., loans granted, inflows from repayment of claims, inflows from borrowing, repayment of debt). Direct data on transactions in other accounts receivable/payable are usually not available.	Cash Flow Statement
	- Add data on accrued interest receivable/payable, when relevant	Income Statement
	- Transactions in other accounts receivable/payable compile as a change in stocks (a proxy substituting transactions)	Balance sheet
	- When possible, exclude other economic flows (revaluation or write-offs) from the changes in stocks of other accounts receivable/payable	Income Statement and/or notes to financial statements
	- Add non-monetary transactions in financial assets/liabilities (e.g., conversion of debt into the equity capital; injection into the capital by transfer of non-financial or financial assets; debt assumption or debt cancellation)	Statement of Changes in Equity and notes to financial statements

6	Compile balance sheet	
	<ul style="list-style-type: none"> - Convert data from the accounting balance sheet on a best effort basis into the GFS categories using supplementary information from notes to financial statements. - As a second priority, examine the compliance of valuation principles applied in the accounting with the GFS rules and principles. 	Balance sheet, notes to financial statements
7	Reconcile stocks and flows	
	<ul style="list-style-type: none"> - Compare changes in stocks by individual (GFS) categories of assets/liabilities with related transactions from the statement of operations, and with data on other economic flows as identified in the income statement and notes to financial statements. - Examine discrepancies between stocks and flows, focusing on possibly missing transactions in assets and liabilities (e.g., transfers of assets for free, debt assumption/cancellation, financial leasing, etc.) Amend data on revenue. Expenditure, and financing accordingly. 	GFS statement of operations and balance sheet, and notes to financial statements

Appendix II. List of Officials who Attended the GFS Workshop

	Name	Department/Division of the MoF
1	Shota Gunia	Head of Fiscal Risks Management Division
2	Ana Chabashvili	First Category Junior Specialist at Fiscal Risks Management Division
3	Maia Lavrinenko	Third Category Senior Specialist at Fiscal Risks Management Division
4	Elene Chkheidze	First Category Junior Specialist at Fiscal Risks Management Division
5	Mirza Gelashvili	Head of Macroeconomic Analysis and Fiscal Policy Planning Department
6	Pridon Aslanikashvili	Deputy Head of Macroeconomic Analysis and Fiscal Policy Planning Department
7	Ekaterine Guntsadze	Head of Budget Department
8	Natia Gulua	Deputy Head of Budget Department
9	Nato Khaladze	First Category Junior Specialist at State Debt Department
10	Giorgi Mtskerashvili	First Category Junior Specialist at State Debt Department

Appendix III. Officials Met During the Mission

Name	Institution/Department
Nikoloz Gagua	MoF, Deputy Minister
Shota Gunia	MoF, Division of Fiscal Risks Management
Maia Lavrinenko	MoF, Division of Fiscal Risks Management
Elene Chkheidze	MoF, Division of Fiscal Risks Management
Ana Chabashvili	MoF, Division of Fiscal Risks Management
Mirza Gelashvili	MoF, Head of Macroeconomic Analysis and Fiscal Policy Planning Department
Pridon Aslanikashvili	MoF, Deputy Head of Macroeconomic Analysis and Fiscal Policy Planning Department
Ekaterine Guntsadze	MoF, Head of Budget Department
Natia Gulua	MoF, Deputy Head of Budget Department