



# TECHNICAL ASSISTANCE REPORT

## GEORGIA

State-Owned Enterprises Reform: Progress,  
Challenges, and Next Steps

**MARCH 2026**

**Prepared By**

Natalie Manuilova, Yannick Vel, Avril Halstead and Sorana Baci

**Authoring Department**

**Fiscal Affairs Department**

The contents of this document constitute technical advice provided by the staff of the International Monetary Fund to the authorities of Ministry of Finance of Georgia (the "CD recipient") in response to their request for technical assistance. Unless the CD recipient specifically objects to such disclosure, this document (in whole or in part) or summaries thereof may be disclosed by the IMF to the IMF Executive Director for Georgia, to other IMF Executive Directors and members of their staff, as well as to other agencies or instrumentalities of the CD recipient, and upon their request, to World Bank staff, and other technical assistance providers and donors with legitimate interest (see [Staff Operational Guidance on the Dissemination of Capacity Development Information](#)). Publication or Disclosure of this report (in whole or in part) to parties outside the IMF other than agencies or instrumentalities of the CD recipient, World Bank staff, other technical assistance providers and donors with legitimate interest shall require the explicit consent of the CD recipient and the IMF's Fiscal Affairs Department.

The analysis and policy considerations expressed in this publication are those of the IMF Fiscal Affairs Department.

**This technical assistance (TA) was provided with financial support from the Swiss Secretariat for Economic Affairs (SECO).**

# Contents

<b>Abbreviations and Acronyms</b> .....	<b>3</b>
<b>Preface</b> .....	<b>5</b>
<b>Executive Summary</b> .....	<b>6</b>
<b>Recommendations</b> .....	<b>8</b>
<b>I. Background</b> .....	<b>9</b>
<b>II. Fiscal Risk Management and Financial Oversight of the State-Owned Enterprises</b> .....	<b>11</b>
A. Reforms to Date.....	11
B. Current Status.....	12
C. Areas for Strengthening Financial Oversight of SOEs .....	13
D. Fiscal Risks from State Owned Enterprises .....	17
<b>III. SOE Ownership and Governance</b> .....	<b>24</b>
A. Reforms to Date.....	24
B. Current Status.....	26
C. Strengthening SOE Ownership and Corporate Governance .....	32
<b>Boxes</b>	
Box 1. Examples of QFAs and PSOs Delivered by Georgian SOEs.....	14
Box 2. Pre-requisites for an efficient ownership function .....	34
<b>Figures</b>	
Figure 1. 2023 SOE Snapshot .....	17
Figure 2. Trends in SOE Financial Performance (2019-2023) .....	19
Figure 3. SOE Fiscal Risk Analysis (2019-2023).....	21
Figure 4. SOE Ownership Models - Comparative Analysis .....	35
<b>Tables</b>	
Table 1 Identification and Treatment of QFAs .....	15
Table 2 Key Steps of PSO Process .....	16
Table 3 SOE Ownership in Georgia – Detailed Functions.....	29
<b>Annexes</b>	
Annex I. SOE Reform Action Plan 2025-2026 .....	46
Annex II. SOE Board Selection and Appointment .....	48
Annex III. Proposed List of Grounds for.....	53
Annex IV. Outline of the Remuneration Setting .....	55

# Abbreviations and Acronyms

EU	European Union
FAD	Fiscal Affairs Department
FRMD	Fiscal Risks Management Department
FRS	Fiscal Risks Statement
GDP	Gross Domestic Product
GEL	Georgian Lari
GGE	General Government Entities
GMS	General Meeting of Shareholders
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
JSC	Joint Stock Company
KPI	Key Performance Indicators
LLC	Limited Liability Company
MOESD	Ministry of Economy and Sustainable Development
MOF	Ministry of Finance
NASP	National Agency for State Property
OECD	Organization for Economic Co-operation and Development
PSO	Public Service Obligations
QFA	Quasi-Fiscal Activities
SCI	Statement of Corporate Intent
SECO	Swiss Secretariat for Economic Affairs
SOE	State Owned Enterprise
USD	United States Dollar

# Preface

At the request of the Minister of Finance of Georgia (MOF), the IMF's Fiscal Affairs Department (FAD) mission visited Tbilisi between July 15 and 29, 2025, to review progress of the State-Owned Enterprises (SOEs) reforms aimed at improving SOE performance and strengthening their ownership and governance practices, taking stock and analyzing the achievements and challenges encountered in implementing the SOE ownership, financial oversight and governance reforms over the past five years, and identify next steps to further strengthen these efforts to enhance the SOE accountability framework. The mission team was led by Ms. Natalie Manuilova (FAD) and included Mr. Yannick Vel (FAD Fiscal Risks Resident Advisor), Ms. Avril Halstead and Ms. Sorana Baci (FAD short-term experts).

The mission team met with the Deputy Ministers of Finance Mr. Giorgi Kakauridze and Ms. Ekaterine Guntsadze, Mr. Shota Gunia, Head of Fiscal Risks Management Department, and his team. From the Ministry of Economy and Sustainable Development (MOESD), the mission met with the Deputy Minister Mr. Vakhtang Tsintsadze and Ms. Ketevan Chapidze, Head of Economic Analysis and Reform Development, and from the National Agency of State Property (NASP) – with Deputy Chairman Mr. Mirian Chachava and his staff. The team also met with Mr. Levan Zhorzholiani, the Head of the Administration of the Government of Georgia, as well as with the board members and representatives of the executive management from the Development Fund of Georgia (DFG), Georgia State Electrosystem (GSE), Georgia Oil and Gas Corporation (GOGC), Georgian Railway, United Water Supply Company of Georgia (UWSC), and United Airports of Georgia (UAG).

The mission also met with the representatives of the development partners in Georgia, including the World Bank's Mr. Miguel Sanchez Martin, Mr. Ubelis Andzs and Ms. Irina Gordeladze; the Asian Development Bank (ADB) Country Director Ms. Lesley Bearman Lahm and her team; and Mr. Rati Anjaparidze, National Programme Officer from the Swiss Cooperation Office in South Caucasus.

The mission team would like to thank Mr. Shota Gunia (MOF) for his excellent assistance and coordination of this mission and its meetings, and Mr. Andrew Jewell, IMF Resident Representative, and his team for their guidance and administrative support. The mission would also like to thank Ms. Lali Gagnidze and Ms. Natia Jakhia for the interpretation support provided.

# Executive Summary

State-owned enterprises (SOEs) are integral to Georgia's economy, providing essential services in key sectors such as electricity, water, gas, and transportation. Over the past decade, Georgia has embarked on significant reforms to stabilize and enhance the performance of SOEs, reduce fiscal risks, and align governance practices with international standards. The mission reviewed reform progress, assessed remaining challenges, and identified priority actions to advance SOE reform.

Georgia has made substantial progress in reforming SOE financial oversight and strengthening fiscal risk management. The establishment of the Fiscal Risk Management Department (FRMD) in the Ministry of Finance (MOF), and the regular publication of the Fiscal Risks Statement (FRS) and SOE aggregate report have enhanced transparency and informed government decisions on SOE financial health. The introduction of Statements of Corporate Intent (SCIs) has provided a structured framework for setting performance expectations, and the Government Decree 1012 has empowered the MOF to oversee the finances of seven major SOEs. Over the past seven years, the Fiscal Affairs Department (FAD) has been supporting the authorities in implementing these reforms.

The Strategy for the Comprehensive Reform of SOEs (the SOE Strategy or Strategy) was prepared and published in 2022, aiming to align the governance of SOEs with good international practices. Some progress was made in piloting the Strategy in three large SOEs, achieving improvements in the decision making, and government coordination, and professionalizing SOE boards. The authorities have been taking steps to implement this Strategy, including through Decree 1012 and the Code of Corporate Governance for SOEs. The MOF had planned to operationalize the SOE Strategy through an overarching SOE Law, however, the draft law has not yet been approved by the Government and requires significant improvements before submission to Parliament to fully reflect the Strategy objectives.

The SOE Strategy envisaged a dual ownership model— with shareholder responsibilities split between the MOF and line ministries—which faced some implementation challenges but has also delivered tangible benefits in those SOEs where it was piloted. These achievements included clearer separation of the state's roles as owner, policymaker, and regulator; greater transparency in SOE operations with MOF publication of aggregate SOE reports and fiscal risks statement; and the establishment of independent supervisory boards at pilot SOEs that introduced stronger corporate governance practices. Despite these achievements, challenges persist in enforcing existing requirements uniformly across all SOEs and addressing administrative burdens related to shareholder approvals.

The reform gains remain uneven and incomplete. The existing fragmented ownership structure, with decentralized oversight and pilot dual ownership for selected SOEs, complicates governance and accountability. Administrative burdens related to shareholder approval of all transactions involving state property have also hindered progress. The Corporate Governance Code for SOEs, although aligned with international standards, has not been enacted, and the draft SOE Law lacks critical elements for effective governance reform. Political interference in SOE board appointments and dismissals undermines the professionalism and independence of SOE governance bodies. Additionally, the absence of formalized processes for board selection, appointment, and dismissal limits the effectiveness of SOE governance.

The mission recommended building on the progress to date and a strong position of the MOF in SOE financial and fiscal oversight. To advance SOE reforms further, the mission recommended to expand the requirements of Decree 1012 from pilots to all covered SOEs and then gradually expand the Decree scope to include a broader range of SOEs and their material subsidiaries enhancing financial oversight and fiscal risk management. The mission also recommended developing a framework for defining and reporting on public service obligations (PSO) and quasi-fiscal activities (QFA) for a more informed assessment of SOE performance and effectiveness. A portfolio-wide analysis of major SOEs can help identify non-core operations for streamlining, winding down, or transferring to other entities with an aim to improve SOE efficiency, reducing fiscal risks, and enhancing contributions to the state budget.

For SOE ownership and corporate governance, this report emphasizes the importance of the state fulfilling its role as an effective and professional shareholder and proposes next steps for Government consideration. Building on the reform gains achieved by the MOF in SOE financial oversight and fiscal risk management, the mission recommended closing the gaps identified in the state's responsibilities as an owner. This includes establishing a clear division of roles among all stakeholders involved in SOE governance and enhancing critical ownership functions—such as selection, appointment and dismissal of SOE boards and executive management. By doing so, the state can ensure consistent application of good governance practices and reinforce recent progress in transparency, accountability, and oversight across all major SOEs.

The report emphasizes the need for a stronger and clearer legislative framework to underpin the ongoing and planned reforms. Such needs include an update to the SOE Strategy and Action Plan to articulate state ownership objectives, institutional roles, and reform priorities. These are to be supported by enacting the Corporate Governance Code that should be applied to the largest SOEs under a phased approach with “apply or explain” from 2026–2029, and mandatory compliance by 2030, to initiate necessary governance improvements. Developing supplemental regulations for SOE boards selection, appointment, dismissal, remuneration, and performance management is essential to reduce political interference and ensure merit-based processes. In due course, the overarching draft SOE law should be revised to enshrine ownership principles and address the existing gaps in SOE governance.

Further implementation of SOE reforms may continue encountering challenges, potentially stemming from the line ministries' resistance to changes in ownership structures and decision-making powers towards SOEs, and reservations regarding strengthening SOE corporate governance that aims to professionalize decision-making and limit opportunities for policy or political interference with SOEs operations. Other factors, such as insufficient MOF capacity to expand its coverage of SOE oversight, or lack of training for staff at line ministries could also undermine the reform efforts. The existing fragmented ownership responsibilities across the Government risk inconsistent reform application. Overcoming these obstacles will require strong political support, coordinated efforts, and sustained commitment from all stakeholders.

# Recommendations

#	Recommendation	Responsible Party
<b>Fiscal Risks Management and Financial Oversight of the SOEs</b>		
1.	Issue regulations under Decree 1012 to operationalize the MOF's oversight by defining roles, reporting requirements, KPI setting, performance evaluation, and approval procedures for major SOE investments and borrowings	MOF
2.	Expand the scope of Decree 1012 to broaden the range of covered SOEs beyond pilots and include material SOE subsidiaries, align the SOEs covered by the reform under various legislation	MOF, shareholder ministries
3.	Develop a framework for defining and reporting on QFAs, PSOs for informed assessment of SOE performance and effectiveness	MOF, shareholder ministries
4.	Continue strengthening the MOF FRMD staff and building their capacity in analyzing SOEs financial performance, related fiscal risks and providing input to the ownership decision-making	MOF
<b>SOE Ownership and Corporate Governance</b>		
5.	Revise draft SOE Law to enshrine ownership principles, clear division of responsibilities among the stakeholders, define transparency rules, and the ownership function	MOF, MOESD
6.	Update the SOE Strategy and its Action Plan to clearly articulate the state ownership objectives, institutional roles, and sequence of reform priorities	MOF, MOESD
7.	Develop and adopt regulations governing selection, appointment, dismissal, remuneration and performance management of SOE boards and executive management	MOF
8.	Apply the Corporate Governance Code to the largest SOEs under a phased approach with “apply or explain” in 2026–2029 and mandatory compliance by 2030	MOF
9.	Engage annually on SCIs to set a limited number of targets for SOEs and their boards, introduce annual performance assessment of SOE boards and their regular evaluation	MOF, shareholder ministries
10.	Conduct a portfolio-wide analysis of major SOEs, identifying non-core operations for streamlining, winding down or transferring to other agencies/ companies	MOF, shareholder ministries

# I. Background

**1. State-owned enterprises (SOEs) are an important part of the Georgian economy.** They deliver critical services in key economic sectors, including electricity, water and gas supply, and transportation. SOEs are responsible for a significant portion of public investment, employment, and gross domestic product (GDP). According to the Fiscal Risk Statement (FRS) of 2024, at the end of 2023, the 142 SOEs owned by the central government (out of total of 301) held assets worth GEL 5.3 billion, equivalent to about 6.6 percent of GDP, while the remaining 159 SOEs are owned by local governments.<sup>1</sup>

**2. Over the last decade, the authorities have made steady progress in reducing the state presence in the economy and improving the performance of the remaining SOEs.** From over 1,300 entities in 2009, the number of SOEs was reduced dramatically through the liquidation of inactive or underperforming entities and consolidation of small firms. Major SOEs were restructured to improve performance: the Georgian State Electrosystem (GSE) completed its rehabilitation, and the Georgian Rail (GR) was able to improve its performance, including through reducing headcount and due to stabilization of the exchange rate. Four large SOEs—GR, the Georgian Oil & Gas Corporation (GOGC), GSE, and the Electricity System Commercial Operator (ESCO)—were removed from the Partnership Fund and placed under direct oversight by line ministries. The Partnership Fund's external borrowing has been repaid, and its activities were refocused on its statutory mandate as the Development Fund of Georgia (DFG).

**3. The MOF has dedicated significant efforts to building and strengthening their understanding and management of fiscal risks emanating from SOEs and has become an example among comparable countries.** Since 2017, with the FAD support, the MOF's Fiscal Risk Management Unit has included SOE contingent liabilities in its annual FRSs. The quality and transparency of these disclosures have improved substantially and over the past years have become a model in the region. IMF staff have consistently emphasized the importance of empowering the MOF with formal authority over SOE oversight and requiring a clear separation of ownership, regulatory, and policy roles to reduce conflicts and contain fiscal exposure.

**4. Underpinning the SOE reform effort, the authorities approved and began implementing the Strategy for the Comprehensive Reform of SOEs aimed at aligning state ownership and corporate governance with international good practices.** The five-pillar SOE Strategy, adopted under Government Decree in 2022,<sup>2</sup> focused on defining a clear rationale for state ownership and aligning the SOE portfolio accordingly; instilling commercial orientation of relevant SOEs; ensuring competitive neutrality with private sector; improving SOE corporate governance and transparency; and increasing their accountability for performance. The Strategy envisioned the implementation of a dual ownership model, with both the Ministry of Finance (MOF) and the Ministry of Economy and Sustainable Development (MOESD) to serve as co-shareholders on behalf of the state. The SOE Strategy was piloted

---

<sup>1</sup> Source: MOF Fiscal Risks Statement (2024).

<sup>2</sup> Government of Georgia Resolution No. 573 (December 14, 2022) on 2023-2026 Strategy for the Comprehensive Reform of State-Owned Enterprises (SOE).

at three SOEs – Georgian Rail (GR), Georgian Gas Transportation Company (GGTC), and Unified Airports of Georgia (UAG).

**5. There has been tangible progress in implementing some elements of the SOE Strategy, although several challenges continue to hinder its broader implementation.** Fully independent supervisory boards or board with independent board members were appointed to the boards of several other key SOEs (GSE, GOGC, GR, UAG and DFG). Annual Statements of Corporate Intent (SCIs) have been introduced, establishing clear performance targets to be achieved by the SOEs. However, the implementation was hindered by an increased administrative burden and additional oversight requirements, such as for both shareholders to approve numerous transactions relating to state property under the Law on State Property, a role previously carried out by the National Agency for State Property (NASP). This diverted the focus of the co-shareholders from strategic issues to minor administrative tasks. Additionally, the European Union (EU) regulations required the separation of the ownership functions for electricity generation and transmission companies, necessitating modifications to the dual ownership model.

**6. To support SOE reform and strengthen fiscal risk management, the Government introduced respective regulations empowering the MOF to exercise financial oversight over SOEs.** The Decree 1012<sup>3</sup> applies to the seven largest and most important SOEs in Georgia: (i) GSE, (ii) Enguri Hydroelectric Station (Enguri HES), (iii) GOGC, (iv) GR, (v) GGTC, (vi) UAG, and (vii) United Water Supply Company (UWSC). Decree 1012 requires that the MOF approves these SOEs' SCIs, borrowing and investments exceeding GEL 5 million or above 1 percent of the SOEs' assets (whichever is less), quasi-fiscal activities (QFAs), and dividend policies.

**7. The SOE Strategy and Decree 1012 have formed the foundation of the Government's SOE reform efforts up to date demonstrating some early successes and met some challenges.** Building on early successes, such as introduction of SCIs, increase of independence at SOE boards, and strong financial oversight and fiscal risks management function, a greater effort is needed to achieve a more effective ownership-level decision making, reduce political influence on SOEs, minimize conflict of interest between ownership and policy making functions by the line ministries, and improve effectiveness in SOE operations.

**8. This report takes stock of the SOE reforms undertaken to date, notes the gains achieved, assesses the existing challenges, and proposes the next steps for Government's consideration.** Recognizing the need to recalibrate ongoing reforms, the authorities requested an evaluation of progress made in SOE ownership, financial oversight, and governance over the past five years. The mission engaged extensively with key stakeholders to assess reform achievements, identify implementation constraints, and gather perspectives on the next phase of the SOE reform. This report is intended to support the Government's efforts in enhancing SOE operational efficiency, increasing their contributions to the state budget, strengthening fiscal risk management, reducing political interference over SOE governance, and ensuring that SOEs operate transparently and in the best interest of the citizens of Georgia.

---

<sup>3</sup> Government of Georgia Decree No. 1012 (June 10, 2022) on Financial Oversight of the SOEs.

## II. Fiscal Risk Management and Financial Oversight of the State-Owned Enterprises

### A. Reforms to Date

---

**9. Over the past decade, Georgia has achieved significant progress in strengthening its fiscal risks management function and building capabilities in SOE financial oversight.** Since 2013, the MOF has developed a comprehensive fiscal risk management framework, which includes the identification, analysis and management of fiscal risks. With support from the FAD and the Caucasus, Central Asia, and Mongolia Regional Capacity Development Center (CCAMTAC), the quantification and analysis of SOE risks have become more sophisticated in three broad stages: (i) disclosure of main fiscal aggregates and financial performance; (ii) assessment of quasi fiscal activities (QFAs) and borrowing risks with central government; and (iii) forward looking sensitivity analysis of major risks to SOEs.

**10. The authorities publish an annual Fiscal Risks Statement with comprehensive section on SOE-related fiscal risks, which is considered as good practice in the region.** More recently, the MOF has initiated publication of an aggregate SOE report covering broader information on SOE portfolio, in line with the OECD Guidelines on Corporate Governance of State-Owned Enterprises (SOE Guidelines).<sup>4</sup> The two reports contain comprehensive information on the Georgian SOEs, their performance, and potential sources of fiscal risk, including: (i) an overview of the SOEs covered and reforms taking place, (ii) a review of aggregate SOE financial results, (iii) individual review of 13 largest SOEs, (iv) sensitivity analysis of SOE financial results to changes in macroeconomic variables, and information on (v) funding received by SOEs, (vi) dividends paid by SOEs, (vii) quasi-fiscal activities undertaken by SOEs, and (viii) on-lending to SOEs.

**11. In 2022, the Government of Georgia approved Decree 1012 empowering the MOF to exercise direct financial oversight over seven largest SOEs in the country.** The Decree enables the direct reporting line between the MOF and covered SOEs,<sup>5</sup> requiring the MOF to approve SOEs' SCIs; borrowing and investments exceeding GEL 5 million or above 1 percent of the SOEs' assets (whichever is less); their QFAs; and dividend policies. The Decree authorizes the MOF to issue subordinate regulations providing more detailed guidance on the requirements to SOEs. During 2025, FAD advised the MOF on the development of these regulations as they pertain to the details of the SCI preparation and monitoring, setting the key performance indicators (KPIs), evaluation of SOE performance against KPIs, and details of the reporting process by the covered SOEs.<sup>6</sup>

**12. Outside of Decree 1012, the MOF has identified additional SOEs to be targeted as part of its reform roadmap.** These include the Development Fund of Georgia (DFG), previously Partnership Fund,<sup>7</sup> Georgian Post (GEOPOST), and Georgian Amelioration (GA). These are all Public Interest

---

<sup>4</sup> Guidelines on Corporate Governance of State-Owned Enterprises (OECD: 2024)

<sup>5</sup> SOEs covered by Decree 1012: (i) GSE, (ii) Enguri HES, (iii) GOGC, (iv) GR, (v) GGTC, (vi) UAG, and (vii) UWSC.

<sup>6</sup> Georgia: Strengthening Financial and Fiscal Oversight of State-owned Enterprises (IMF: 2025)

<sup>7</sup> Subsequent to the mission, the government informed FAD about its plans to liquidate DFG.

Entities (PIEs),<sup>8</sup> have strategic importance to the country, are large employers with sizeable asset bases, and have meaningful implications for fiscal risks.

**13. The MOF’s Fiscal Risks Management Department possesses the necessary skills set but may require strengthening to enable further reforms implementation.** In recent years, two new divisions have been created within the Fiscal Risks Management Department (FRMD) to improve the MOF’s capacity to monitor and oversee the SOEs. One division is focused on fiscal risk management, and the other on financial oversight of SOEs. The FRMD capacity has been enhanced in terms of the number of staff, and their skills and experience. FRMD capacity has enabled the improved monitoring of SOE fiscal risks, both quantitatively and qualitatively, but additional capacity may be required if the scope of their activities is increased beyond the current SOE coverage.

## B. Current Status

---

**14. Georgia has made substantial progress in systematizing financial performance monitoring and increasing fiscal transparency of key SOEs.** The annual SCI process has enhanced inter-agency coordination and enabled better alignment between enterprise objectives and broader fiscal policy goals. Fiscal risk management and its public disclosure are now comprehensive and regular through the annual FRS,<sup>9</sup> informing the Government of the impact of SOEs on public finances. The MOF has been a key driver behind this progress.

**15. Nonetheless, inefficiencies persist that relate to uneven application of the Decree 1012 and administrative challenges.** In particular, the requirements of Decree 1012 are not applied evenly by all covered SOEs, as the mission noted. Some SOEs do not implement the SCI process as required or provide their financial information to the MOF on a timely basis. In addition, administrative challenges that require shareholder-level approval of transactions involving state property created a disproportionate administrative burden for the MOF and the MOESD. Further clarifying the procedures is needed to ensure consistency in the enforcement of Decree 1012 could help facilitate greater achievements in SOE governance and accountability, supporting the ongoing reform efforts.

**16. Progress achieved so far should form the basis for advancing the SOE reforms, building on strong fiscal and financial oversight over SOEs achieved by the MOF.** Looking ahead, it is critical that the next phase of SOE reforms builds on the progress already achieved and continues to strengthen the MOF’s leadership in financial oversight while collaborating with line ministries on other issues related to SOE ownership. The MOF was instrumental in drafting the SOE Code on Corporate Governance, contributing to drafting the SOE Law, and preparing a detailed action plan for 2025–2026 (Annex I). Sustaining the SOE reform momentum will depend on reinforcing the MOF’s role and leveraging its institutional capacity to align SOE ownership and governance with good international practices and sound fiscal management.<sup>10</sup>

---

<sup>8</sup> As defined by the Law of Georgia on Accounting, Reporting and Auditing (2016)

<sup>9</sup> Titled “Information on Fiscal Risks / SOE Aggregate Report”

<sup>10</sup> Such as those formulated in the Guidelines on Corporate Governance of State-Owned Enterprises (OECD: 2024), and the How to Improve the Financial Oversight of Public Corporations (IMF: 2016).

## C. Areas for Strengthening Financial Oversight of SOEs

---

### Leverage Decree 1012: Strengthen, Expand, and Ensure Consistent Implementation

**17. Building on early successes of SOE financial oversight, the requirements of Decree 1012 should be evenly enforced for all SOEs currently covered by its scope.** The SOEs that fall within the scope of Decree 1012 are compiling SCIs, but the implementation of the SCI process and other provisions appear to be uneven and there may be inconsistencies between the covered SOEs, such as in comprehensiveness of SCI or the degree of consultation with the MOF. This would ensure that all key entities are compliant and receive feedback from the MOF on a timely basis. This concerns both types of SOEs – those classified as public corporations and the general government entities.

**18. Clarifying governance and financial oversight responsibilities for energy SOEs is essential to maintain proper fiscal risk monitoring.** The recent reallocation of oversight responsibilities for electricity generation SOEs to the NASP has introduced uncertainty regarding the continued application of Decree 1012 to entities such as GOGC and Enguri HES. While delegating oversight to NASP was required to meet the requirements for un-bundling the energy sector, it is important to ensure that fiscal risks emanating from these SOEs remain within the monitoring scope of the MOF. To this end, these SOEs should continue to comply fully with Decree 1012, and submit their regular financial and operational reports to the MOF, enabling it to fulfil their fiscal and financial oversight mandate.

**19. The MOF should consider expanding the scope of Decree 1012 beyond the SOEs that are currently covered to enhance the reach of SOE financial oversight and management of related fiscal risks.** Decree 1012 could gradually be expanded to include a broader range of SOEs for example to: (i) all centrally owned public corporations; or (ii) all SOEs - public corporations and general government entities - that meet the thresholds of the first category entities' revenue, assets in line with the Law of Georgia on Accounting, Reporting and Auditing; or (iii) all SOEs that are beneficiaries of state support (e.g., subsidies or transfers, on-lending, guarantees etc.)

**20. Decree 1012 should be clarified as to the coverage of SOEs and their subsidiaries.** Presently, Decree 1012 is not clear in its application to the subsidiaries of the covered SOEs, such provision is not clearly specified. The SOEs covered by Decree 1012 have material subsidiaries that are not properly subject to the MOF oversight and reporting. Therefore, the MOF should consider expanding the scope to include the material subsidiaries that meet the criteria of the expended coverage of Decree 1012 on a stand-alone basis. The various lists of SOEs covered by the different legislation (the SOE Strategy, Decree 1012, Corporate Governance Code for SOEs) should be aligned for consistent implementation efforts.

**21. Support the application of Decree 1012 by issuing the secondary regulations to further strengthen the MOF's financial oversight role and provide guidance to the covered SOEs.** Decree 1012 authorizes the MOF to issue secondary regulations that could set the more detailed requirements and provide guidance to the reporting SOEs. Such regulations are needed to spell out in more detail the roles, responsibilities and timelines for compiling the SCI, setting the KPIs for performance of SOEs, their in-year and end-of-year reporting requirements, and the procedures for evaluating performance and

linking the evaluation to rewards or sanctions. In addition, the regulations could spell out the procedures relating to obtaining the MOF approval of major investments and borrowings incurred by SOEs.

## Define and Formalize Public Service Obligations and Quasi-fiscal Activities

**22. SOEs assist the Government in delivering public policy objectives, the cost of which is often imposed on the entities with or without compensation.** Such operations are undertaken by SOEs at the behest of the state. These are typically non-commercial activities that tend to worsen the position of the SOE relative to strictly commercial profit-maximizing goals, therefore, they tend to negatively impact on the SOE's financial performance. Such quasi-fiscal activities (QFAs) can take various forms, including and not limited to: public service obligations or PSOs (charging less than commercial cost for certain goods or services); financing non-core activities or assets; or other operations that do not correspond to regular business activities of an enterprise.<sup>11</sup> It is a good practice that QFAs, or at least defined PSOs are reimbursed directly from the state budget to ensure transparency, and help introduce cost-efficiency and accountability in the way that they are executed.

**23. Georgia has started quantifying QFAs and providing for some compensation from the state budget.** As detailed in Box 1, some of the major identified QFAs include: (i) supply of electricity free of charge to the population of the Autonomous Republic of Abkhazia by Enguri HES; (ii) subsidized cost of passenger rail transportation by GR; (iii) supply of social gas by GOGC; and (iv) supply of water by UWSC at tariffs below cost. While SOEs are not supposed to undertake any QFAs that are not mandated by a legal act of the Government, there still appear to be examples of such QFAs, such as financing of non-core activities or inflated staffing.

### Box 1. Examples of QFAs and PSOs Delivered by Georgian SOEs

<p><b>GOGC.</b> The cost of supplying social gas by GOGC has been growing in recent years, reducing its profitability. Although the new energy legislation authorizes compensation for such PSOs, GOGC has not yet received any. In 2022, the company faced liquidity challenges, prompting the state to provide GEL 230 million loan.</p>	<p><b>Enguri HES.</b> A significant share of electricity generated by Enguri HES's is supplied free of charge to the population of the Autonomous Republic of Abkhazia, enabled by its low generation costs. However, insufficient investment in maintenance and timely asset replacement may result in fiscal risks materializing in the future, as the infrastructure reaches the end of its life. From 2025, some compensation for these QFAs are introduced via the tariff.</p>
<p><b>GR</b> provides passenger rail services at reduced fares, with partial compensation from the state budget. The remaining costs are cross subsidized by profits from freight operations. This limits GR's ability to finance essential investments, such as rolling stock replacement and rail network upgrades.</p>	<p><b>UWSC.</b> The company's operating revenue is insufficient to cover its costs, preventing it from repaying state on-lending or co-financing network expansion. As a result, the state provides UWSC with an annual subsidy of approximately GEL 60 million to service its debts.</p>

Source: MOF Fiscal Risks Statement (2023).

<sup>11</sup> How to Improve the Financial Oversight of Public Corporations (IMF: 2016)

**24. In Georgia, major SOEs are not paying dividends due to limited profitability and the need to retain earnings to strengthen their balance sheets.** Un-defined QFAs and un-compensated PSOs are among some of the factors that negatively impact SOEs' financial position, reducing their potential in budget contributions and eventually leading to materialization of fiscal risks. They often lead to cross-subsidization between commercial and non-commercial activities at the enterprise level, liquidity constraints, and growing financial losses—ultimately reducing the ability of SOEs to contribute to the state budget.

**25. Georgia lacks a PSO framework that could increase the transparency of SOE support from the budget, enhance the ability to assess SOE performance, and improve their effectiveness.** As a first step, Georgia would benefit from assessing the existing guidance on QFAs and practices in PSO compensation and identify critical gaps. The IMF guidance on identification and definition of QFAs is summarized in Table 1.

**Table 1 Identification and Treatment of QFAs**

Action	Details
Identify QFAs	Identify QFAs and establish mechanisms to track them at entity level
Quantify and Report	Quantify QFAs and include in fiscal risk statements, ideally integrate into the budget
Governance	Establish reporting requirements, oversight, and transparency by SOEs
Phase Out	Where possible, convert QFAs into direct fiscal transfers for clarity and accountability

Source: Mission adaptation, based on IMF Fiscal Transparency Code (IMF: 2019) and Fiscal Transparency Handbook (IMF: 2018)

**26. While Georgia has made initial progress in applying good practices for identifying and managing PSOs, the current framework remains informal and underdeveloped.** The definitions of PSOs and QFAs are broader than international norms, and many activities have yet to be formally identified, quantified, or costed. Procedures for determining and compensating PSOs are not yet clearly established. For example, the provision of water at tariffs significantly below cost is not reported in the FRS or the annual aggregated SOE report, limiting transparency and fiscal oversight.

**27. Design of the formal PSO framework could begin with clear definition and quantification of PSOs.** In addition to the guidance provided by the IMF, the OECD recommends that PSOs assigned to SOEs should be linked to their main line of business, mandated by the relevant authorities and publicly disclosed. The EU has a well-developed PSO framework<sup>12</sup> that seeks to ensure that PSOs do not distort competition and are managed equitably and effectively across different sectors and regions. For instance, in the EU, PSOs are embedded within a broader framework governing Services of General Economic Interest, i.e., economic services considered essential to the public but not adequately provided by the market. For effective implementation, these concepts and key steps need to be clearly defined (Table 2).

<sup>12</sup> European Commission, Communication on the Application of the European Union State Aid Rules to Compensation Granted for the Provision of Services of General Economic Interest (2012/C 8/02), Commission Decision 2012/21/EU, EU Framework for State Aid in the Form of Public Service Compensation (2011), and Commission Regulation (EU) No. 360/2012 (collectively referred to as the "Almunia Package"). Official Journal of the European Union, January–April 2012.

While the EU allows considerable flexibility for its member states to define PSOs based on their unique needs, the key definitions must adhere to specific principles.

**Table 2 Key Steps of PSO Process**

Action	Details
<b>Entrustment</b>	Identify the most cost-effective service provider through competitive selection. Formally assign the PSO via legislation or contract, specifying beneficiaries, service levels, KPIs, mandate duration, compensation arrangements, and reporting requirements
<b>Costing</b>	Establish an objective and transparent costing methodology considering net costs of a defined service covered by the PSO
<b>Compensation</b>	Compensation should ideally cover no more than the net cost plus a reasonable profit. If the PSO is assigned without a competitive process, compensation may be based on the costs of a typical, well-run sector operator
<b>Monitoring and Auditing</b>	Introduce reporting requirements to ensure PSO-related activities are financially separated from other operations, avoiding cross-subsidization. Require detailed public reporting on costs, compensation, and service outcomes from each SOE to enhance transparency

Source: Mission adaptation, based on the European Commission guidance documents

**28. FRMD has initiated the sourcing of QFA information from SOEs, but formalization of this exchange is needed.** MOF currently obtains information on the impact of such QFAs by sending templates to SOEs to fill every year and only three SOEs comply with such requests (GR, GOGC, Enguri HES), indicating that the full scope of the existing QFAs is not known and could be a source of fiscal risk. Moving forward, a well-defined framework to identify and quantify all QFAs (explicit and implicit), as well as monitor their impact, will be needed to enhance fiscal risks management of SOEs.

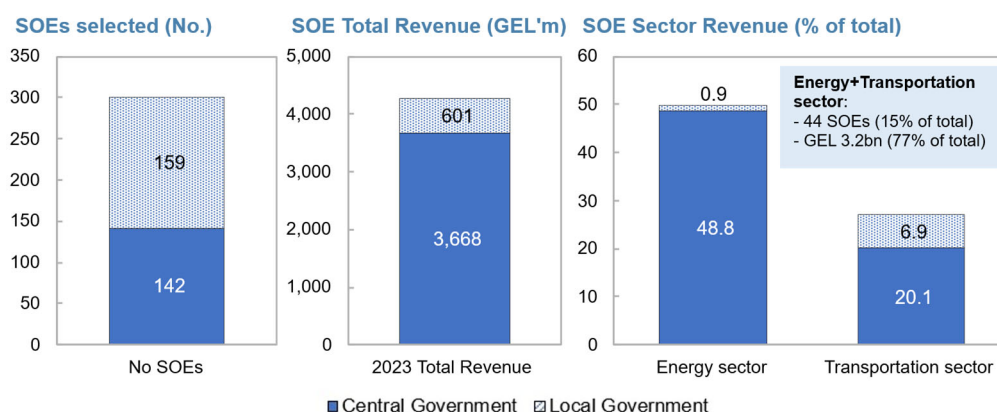
### Fiscal Risk Management Capacity

**29. The MOF's role in fiscal risk management and financial oversight of SOEs should be maintained and strengthened.** Enhancements to the legal and regulatory environment can reinforce this role, for instance through empowering the MOF to fulfill its fiscal risk management and financial oversight functions in the SOE Law (see next section) and issuing subordinate regulations to Decree 1012. Simultaneously, the internal capacity of the FRMD to assess and manage SOE fiscal risks must be maintained through ongoing capacity building, succession planning and ensuring it is adequately resourced to effectively meet the scope of functions the department is required to perform.

## D. Fiscal Risks from State Owned Enterprises

**30. For the 2025 budget, 301 SOEs were considered important for fiscal risks analysis.** As per the MOF SOE Aggregate Report and FRS 2024, these SOEs are selected based on several criteria<sup>13</sup> and account for 92 percent of total SOEs revenue for 2023. Out of these 301 SOEs, 142 entities are fully owned by the central government, accounting for over 85 percent of the selection's total revenue. SOEs from the energy and transportation sectors account for only about 15 percent of the total portfolio by number, but account for almost 77 percent of total revenues in 2023. These SOEs also have 103 subsidiaries. Figure 1 provides an overview of the Georgian SOE landscape.

**Figure 1. 2023 SOE Snapshot**



Source. FRS 2024, Mission workings

### Trends in SOE Financial Performance

**31. SOE financial liabilities have shown a declining trend over the past five years.** The total level of SOE liabilities has decreased from GEL 15 billion in 2019 (30 percent of GDP) to about GEL 9.7 billion in 2023 (about 12 percent of GDP). This decrease was due to a combination of loan repayments and other important factors, such as robust GDP growth following the post-pandemic recovery in 2021, and local currency appreciation. Overall, SOE liabilities have demonstrated a considerable decline of about 11 percent of GDP in 2019 terms (Figure 2).

**32. SOE liabilities are concentrated within the largest SOEs that hold about 60 percent of all SOE liabilities.** The key SOEs targeted under the reform action plan<sup>14</sup> – seven covered by Decree 1012 and five others – continue to hold over 60 percent of all SOE liabilities. Among those, GR, GSE and UWSC hold the largest obligations of up to 6 percent of the country's GDP, half of total SOE liabilities of around 12 percent of 2023 GDP. Such concentration warrants closer monitoring by the MOF and holding these SOEs to stricter fiscal discipline, as higher risk entities.

<sup>13</sup> SOEs are selected based on several criteria: full central government ownership, and municipal enterprises with at least 25 percent of central government share.

<sup>14</sup> SOEs covered by Decree 1012: GSE, ENGURI, GOGC, GR, GGTC, UAG, UWSC. Plus, additional SOEs targeted for reform: DFG, GEOPOST, AMDC, GEDF, GA.

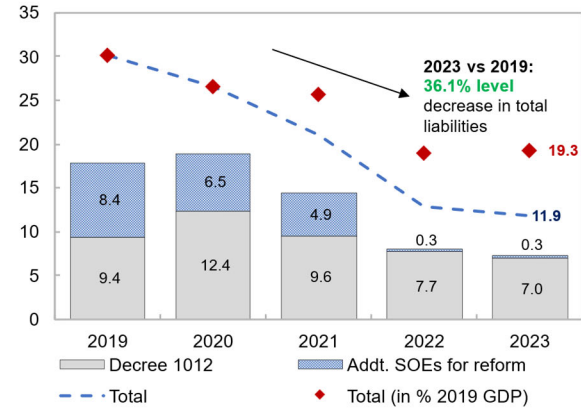
**33. SOE financial performance has been improving post-COVID with two notable exceptions that negatively impact the aggregate SOE profitability.** The Government dedicated significant effort to commence the SOE reforms aiming to improve financial oversight and ensure better operational efficiencies, and this progress has been evident over the past five years. While the SOEs' total operating income has remained largely the same in absolute terms, total costs have been reduced. For example, during 2019-2023, there was a reduction in staffing of about 15 percent in the twelve SOEs covered by the reforms, which led to growing profitability.

**34. There are two important and material exceptions to SOE portfolio performance - UWSC and GA.** These two entities are classified as general government entities. They are included in the state budget and do not operate on a market basis, as they deliver PSOs. At the same time, their activities erode the SOE portfolio profitability, warranting a need for a comprehensive analysis of their effectiveness, and quantification of QFAs they deliver. As a result, cumulative SOE profitability from 2019 to 2023 is net loss of GEL 858 million or 1.1 percent of GDP. Should the losses of UWSC and GA be excluded, the cumulative results would be a net profit of about GEL 140 million. This difference also indicates that the size of QFAs delivered by these two entities should be carefully assessed for any possible effectiveness gains, or other policy actions at the Government's consideration.

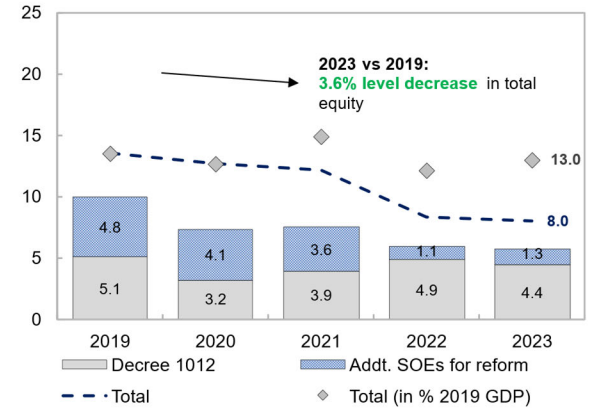
**35. Although a substantial improvement in SOE performance is evident, there is still scope for further improvement.** While the aggregate returns produced by the SOEs have improved compared to previous periods, there is scope for more progress. Largely low returns are attributable to QFAs undertaken by these SOEs but can also mean shortfalls in SOE performance attributable to inefficiencies and poor decision-making. Conducting a more detailed analysis of each entity—specifically examining their performance and the extent of support provided to core versus non-core activities—could help address this issue.

**Figure 2. Trends in SOE Financial Performance (2019-2023)**

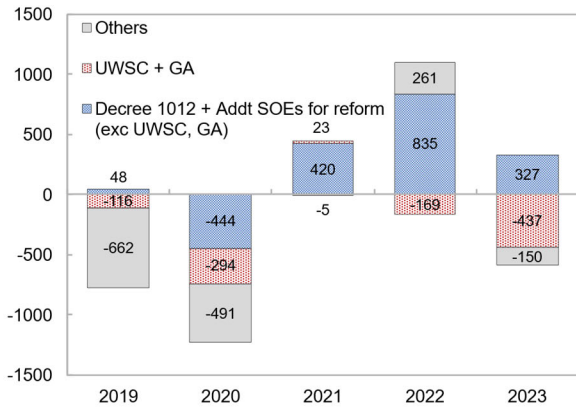
**SOE Total Liabilities (% GDP)**



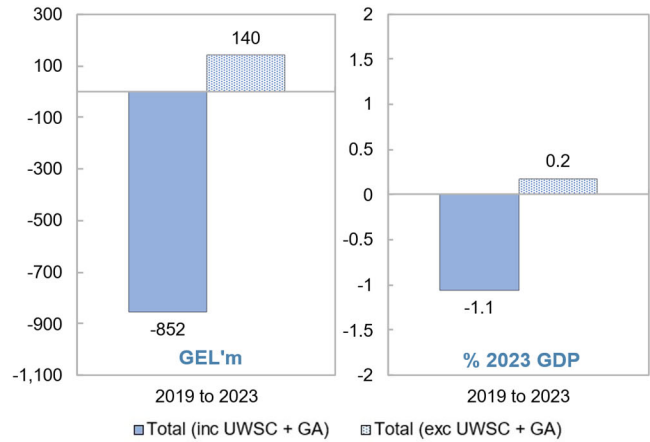
**SOE Total Equity (% GDP)**



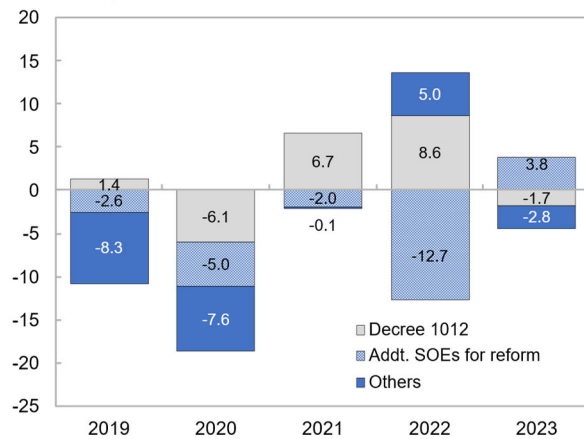
**SOE Profits (GEL'm)**



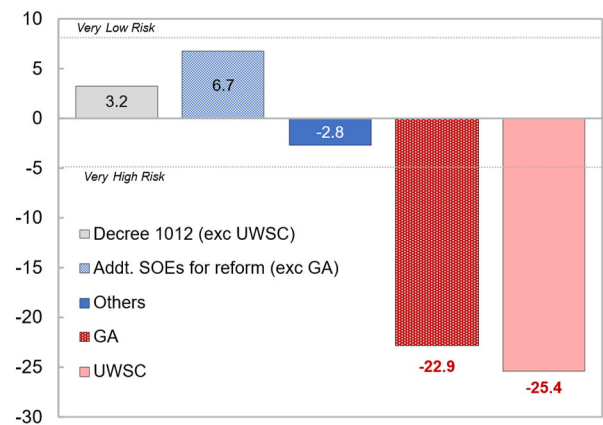
**SOE Cumulative Profits**



**SOE ROA, 2019-2023**



**SOE ROA, 2023**



Source. MOF FRMD data, Mission workings

## Main Sources of SOE Fiscal risks

**36. The quality of financial performance and risks analysis carried out by the FRMD has substantially strengthened over the past decade.** Presently, FRMD assesses the likelihood and magnitude of SOE fiscal risks by assigning risk ratings across key financial ratios using generally accepted parameters as adopted by major credit rating agencies, in line with the FAD SOE Health-Check Tool.<sup>15</sup> The combined ‘overall risk rating’ is based on profitability, liquidity and solvency scores of each entity.

**37. The evolution of risk levels across SOEs profitability, liquidity and solvency has improved.** The combined risk rating has shown improvement since 2019 to lower risk categories for the reform targeted SOEs. As demonstrated by Figure 3, contrasting against total size of their liabilities, most of SOEs have migrated to lower risk scores and lower liabilities between 2019 and 2023, with DFG decreasing their liabilities size most significantly following re-alignment of their portfolio SOEs back to the respective line ministries. However, while total liabilities have fallen, UWSC remains at the highest risk category of persistent and material losses, with Enguri HES and GOGC raising their risk profile by one notch, warranting a closer monitoring of these entities’ financial performance and fiscal discipline.

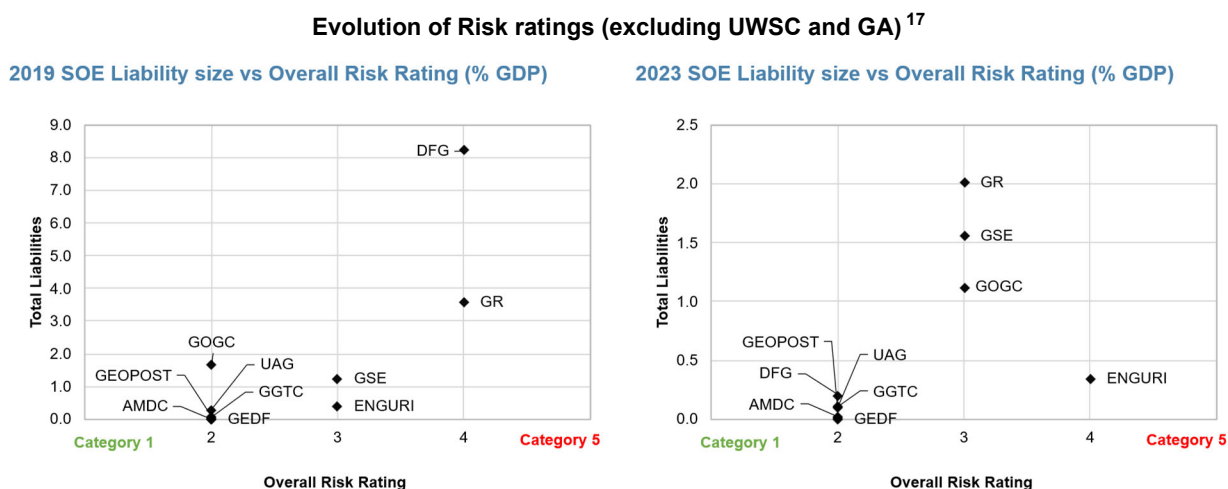
**38. One of the reasons for SOEs incurring losses are QFAs<sup>16</sup> carried out on behalf of the state.** Non-reimbursed PSOs are de-facto QFAs that negatively impact SOEs financial position, contributing to persistent losses, eventually leading to negative equity and higher fiscal risks. As indicated in the fiscal risk statements, such QFAs delivered by GR, GOGC, and Enguri HES have had a significant negative impact on their profitability during 2021 - 2023. Without these QFAs, or had these been reimbursed, the financial performance of these SOEs would have been markedly stronger. This indicates an urgent need in developing a practical mechanism for assessing and quantifying QFAs, and developing a framework for PSO implementation and compensation, even if partial.

---

<sup>15</sup> [FAD SOE Health-Check Tool](#)

<sup>16</sup> In the context of select Georgian SOEs, PSOs – where the government requires SOEs to provide services of general interest, are effectively QFAs – SOE activities where prices are charged below market rates, as they are not fully reimbursed.

**Figure 3. SOE Fiscal Risk Analysis (2019-2023)**



Source. FRS 2023 and 2024, Mission workings

Note. Risk Category 1 to 5 = 'Very low risk' to 'Very high risk'. UWSC, GA are excluded as they are classified as on-budget GGEs.

**39. Net flows between the state budget and SOEs have been mostly negative over the past five years.** The average net cash flow from the state budget to SOEs amounted to -0.3 percent of GDP over 2019 to 2023 signaling a one-sided relationship with SOEs consuming more public funds than contributing to the state budget. The level of SOE dividends has been negligible - at about GEL 32 million in total or an average of 0.05 percent of GDP between 2019 to 2023. Direct subsidies and other types of budget transfers<sup>18</sup> to SOEs have been dominated by UWSC and GA, which are general government entities (GGE) tasked with fulfilling material PSOs. Other transfers to SOEs have been through loans and on-lending such as that of GOGC amounting to GEL 230 million.

**40. The MOF should introduce more stringent monitoring of the SOEs with large losses.** In particular, UWSC and GA require closer monitoring and analysis of their ongoing activities amid high losses and leverage profile. UWSC falls under the purview of Decree 1012 but does not abide by its provisions to the full extent. Additionally, despite being GGEs with their activities fully reflected on-budget and having 'known and planned' transfers from the state budget, it is highly important to monitor these entities closely to lessen the likelihood of risk realization. Such measures could include more stringent financial oversight and timely provision of financial statements, while also improving governance arrangements that can contribute towards an improved financial performance and transparency of these entities.

**41. Present sensitivity and scenario analysis conducted by the MOF and included in the FRS for major SOEs highlight key risks.** Such analysis looks at individual and combined shock scenarios to

<sup>17</sup> SOEs covered by Decree 1012: GSE, ENGURI, GOGC, GR, GGTC, UAG, UWSC. Plus, additional SOEs targeted for reform: DFG, GEOPOST, AMDC, GEDF, GA.

<sup>18</sup> Another form of support provided to these entities outside of direct subsidies include payments made directly to contractors for capital investment projects.

economic growth, exchange rates and interest rates, where their financial impact on SOEs is analyzed and possible fiscal risks to the budget assessed. Key risks for SOEs in Georgia include:

- Exchange rate risks – with SOE debt totaling GEL 9.5 billion—much of it in foreign currency—and most earnings in local currency, SOEs are highly exposed to exchange rate shocks. A 30 percent local currency depreciation could raise the debt-to-asset ratio by 15 percent in the first year (2024 FRS). Some SOEs, like GSE, are seeking to shift to local currency borrowing, though this introduces interest rate risk. For IFI on-lending, the MOF transfers exchange rate risk to SOEs.
- Contingent liabilities – the debt position of major SOEs warrants a closer monitoring, such as GR's USD 500 million Eurobond maturing in 2028. While there is time to plan for repayment or refinancing, this is complicated by GR's need to finance renewal of its rolling stock to support the GR operations. Together, these factors present a potential implicit contingent liability that requires the MOF's attention.

## Plans to Strengthen SOE Fiscal Risk Assessment

**42. MOF plans to enhance the FRMD operational effectiveness with the newly created SOE Financial Oversight Division.** This will allow implementing the strategic SOE reform roadmap, deepen the effectiveness and institutional maturity of fiscal risk management in Georgia, including through:

- Addressing capacity constraints – According to the FRMD, the SOE Financial Oversight Division is currently under-staffed (only one staff), limiting its ability to provide comprehensive SOE oversight. To strengthen the Division, planned measures should include filling existing vacancies, creating new positions to match the growing mandate (both in volume and complexity), and providing staff training in financial analysis, modeling, risk assessment, and corporate governance.
- Introducing quantification and measurement of QFAs – should aim to better capture the full extent and more accurate assessment of QFAs impact on SOEs financial performance, including their fiscal implications. However, this will require further policy reforms, such as the development of guiding principles for identification, reporting and compensating PSOs.
- Operationalizing the Fiscal Risk Registry – the MOF intends the registry to serve as a centralized repository for all fiscal risks—not just from SOEs, but also from PPPs, macroeconomic shocks, and legal disputes. It should document each risk's likelihood, potential impact, and mitigation measures, while assigning ownership across MOF departments and relevant agencies to improve coordination of fiscal risk management throughout the budget process.

## Recommendations

---

**Recommendation #1.** Issue regulations under Decree 1012 to operationalize the MOF's oversight by defining roles, reporting requirements, KPI setting, performance evaluation, and approval procedures for major SOE investments and borrowings (MOF, short-term).

**Recommendation #2.** Expand the scope of Decree 1012 to broaden the range of covered SOEs beyond pilots and include material SOE subsidiaries, meeting a defined criteria or threshold, align the SOEs covered by the reform under various legislation (MOF and shareholder ministries, short-term).

**Recommendation #3.** Develop a framework for defining and reporting on QFAs and PSOs to enable an informed assessment of SOE performance and effectiveness (MOF in cooperation with relevant line ministries, longer-term).

**Recommendation #4.** Continue strengthening the MOF FRMD staff and building their capacity in analyzing SOEs financial performance, related fiscal risks and providing input to the ownership decision-making (MOF, ongoing).

## III. SOE Ownership and Governance

### A. Reforms to Date

---

**43. In 2020, the MOF conducted a sectorization exercise to classify SOEs as either public corporations (PCs) or general government entities (GGEs).** The classification was done with IMF assistance and in line with the Government Financial Statistics Manual (GFSM, 2014). Out of 241 SOEs analyzed, 196 were classified as GGEs, including the largest entities, such as Partnership Fund (now, DFG), Electricity System Commercial Operator (ESCO), UWSC (water utility), and GA (irrigation). Subsequently, Partnership Fund underwent the unbundling, when all major SOEs<sup>19</sup> from its portfolio were re-aligned to their respective line ministries. As part of the process, its mandate was refocused in line with its legislative mandate, and its Supervisory Board was reinforced with independent members. The entity was renamed the Development Fund of Georgia (DFG) and reclassified as a PC.

**44. The sectorization exercise formed the foundation for further SOE reform and the different treatment of SOEs based on their assigned classification.** SOEs classified as PCs are to be treated as market producers and should operate under commercial principles, with a focus on stronger financial performance and corporate governance. These entities are subject to more stringent financial oversight but maintain operational autonomy and are expected to generate revenue sufficient to cover their costs. In contrast, SOEs classified as GGEs perform primarily non-market activities, deliver essential public services, and are recipients of direct budget transfers. They should be integrated into the general government sector for statistical and fiscal reporting purposes, and be subject to stricter budgetary controls, including reporting under the state budget framework.

**45. The Corporate Governance Code applicable to SOEs was developed and adopted by the government in 2021 but has yet to be implemented.**<sup>20</sup> The Corporate Governance Code for SOEs (the Code) is largely based on the OECD Guidelines on the Corporate Governance of SOEs, and sets out requirements relating to corporate governance, risk management, internal control and internal audit, remuneration, financial reporting, and the disclosure of information. It also details the main elements of corporate governance practices, including SOE boards characteristics, board-level committees, independence requirements, selection and appointment of board members and management.

**46. The Code sets out the respective roles and responsibilities of SOE shareholders, their boards and executives, with detailed focus on SOE boards selection and qualification.** Inter alia, the Code requires SOEs to obtain shareholder approval for major transactions, exceeding 30 percent of the SOE's assets value. It sets out the selection process for SOE boards by the Government, on recommendation of the MOF, MOESD and a Selection Advisory Commission, of which at least 20 percent of the members to be appointed by business association and relevant social interest groups. The Code introduces the requirement for SOE boards to establish board-level committees: Audit; Remuneration,

---

<sup>19</sup> Georgian Rail (GR), Georgian Oil and Gas Corporation (GOGC), Georgian State Electrosystem (GSE) and ESCO.

<sup>20</sup> Decree No. 1618 (September 21, 2021) on Approval of the Corporate Governance Code of the State-Owned Enterprises.

Nomination and Governance committees, and to put in place a code of ethics. It also requires that SOE boards be comprised entirely of independent members and offers a definition of independence.<sup>21</sup>

**47. In 2022, the Government approved the Strategy for the Comprehensive Reform of SOEs for reforming the management of its SOEs aimed at improving their performance (the SOE Strategy).**

The Strategy introduced the concept of dual ownership over SOEs with shared responsibilities between the MOF and MOESD. The Strategy is based on five key pillars:

- **Improving SOE corporate governance in line with good international practice**, such as, with the OECD SOE Guidelines. This includes appointing independent boards at each SOE, composed of members with appropriate skills, knowledge, and experience. Additionally, SOEs were expected to enhance their reporting, transparency, and disclosure by aligning with private sector standards, including auditing and publishing annual financial statements, and disclosing remuneration policies.
- **Ensuring SOEs are commercially focused**: SOEs were expected to prioritize commercial, profit-oriented activities, and minimize their non-core activities. When required to carry out non-commercial functions, they were to be compensated (fully or partially) for the associated costs.
- **Warranting competitive neutrality of SOEs**: SOEs were to be subject to the same legislation, regulations and taxation as comparable private sector companies and the same reporting and corporate governance requirements. They should not benefit from concessionary financing and financial support from the state. The shareholder responsibilities for electricity generation and transmission were to be segregated in line with EU directives.
- **Defining an ownership policy for SOEs**: Criteria for the ownership and incorporation of SOEs were to be defined and justified only when a cost-benefit analysis demonstrated it was the most effective way to achieve a public policy objective, such as national security, natural monopolies, essential public services, or large-scale investments. Non-viable or ineffective SOEs were to be restructured, privatized, or liquidated.
- **Increasing accountability of the SOEs**: The state's objectives for SOEs were to be defined in Statements of Corporate Intent (SCIs), developed annually by SOE boards and agreed with the shareholding entities (MOF, MOESD). Strategic plans covering a four-year period were to be developed, setting out how the objectives set out in the SCI were to be achieved. SOEs would be required to submit regular reports comparing actual performance against the SCI targets.

**48. The SOE Strategy was planned to be operationalized by an overarching SOE Law.** The law was intended to establish a framework for SOE governance and management to be further detailed in subordinate regulations. It aimed to define the roles of shareholding ministries and the MOF, which had already been tasked with financial and fiscal oversight over SOEs, approving SCIs and QFAs, and monitoring fiscal risks. It also aimed to establish the framework for SOE board appointments to be transparent, merit-based, and competitive. The SOE Law also aimed to set major parameters of the

---

<sup>21</sup> The Code defines an independent member as a person that, within the last two years, has not been this SOE's board member or CEO, has not occupied the position of Minister, Deputy Minister, Member of Parliament or other political position, has not run a business that directly or indirectly has a significant business relationship with the SOE or provided professional or other business services to the SOE, has no material liabilities to management or shareholders of the SOE, receives no remuneration from the SOE other than their remuneration as a Supervisory Board member, and has no other kind of relationship that may affect their independence.

rationale for SOE ownership that would be the basis for rationalizing the existing SOEs and provide clear guidelines for establishment of any new entities. Such new SOEs were only to be created if there was a natural monopoly, market failure, or strategic interest justifying state ownership over private alternatives. The Law aimed to establish additional requirements for SOE transparency and disclosure, such as publication of audited financial statements and annual reports, while the state would produce an aggregated report on the SOE portfolio.

**49. The draft of the SOE Law has been on hold since 2023 due to significant gaps vis-à-vis good international practices and lack of consensus within the Government.** Key areas still requiring strengthening include, but are not limited to introducing: (i) clear separation of roles and responsibilities between the MOF, MOESD, other line ministries and regulators; (ii) elements of the rationale for continuous state ownership or establishment of new enterprises that are aligned with public policy objectives; (iii) minimum qualification requirements for SOE board members; (iv) high-level provisions on SOE executive appointments and remuneration and board authority over it; (v) definition and high-level guidelines on treatment of PSOs; and (vi) other key principles of good corporate governance, such as performance management, board dismissal, commercial principles, and anti-corruption policies.<sup>22</sup>

## B. Current Status

---

**50. The coverage of the ongoing SOE reforms varies, while focusing on the companies of the most significance to Georgia and those with the largest revenues, assets, liabilities, and on-lending exposures.** The SOE Strategy and application of the dual ownership model focus on three pilot SOEs: GR, GGTC and UAG. Two more SOEs – GSE and GDF - went through different types of restructuring and un-bundling that led to improvements in their corporate governance practices. SOE financial oversight performed by the MOF under Decree 1012 extends to seven SOEs: GSE, GOGC, GR, GGTC, UAG, Enguri HES, and UWSC. Some of these SOEs have subsidiaries that are material and therefore should fall within the scope of the reform on a stand-alone basis. More SOEs are targeted for further reform coverage (GEOPOST, GA), which is yet to be formalized.

### SOE Ownership and Oversight

**51. The regulatory framework for SOEs lacks critical elements that should set the key governance mechanisms between SOEs and the Government.** The Law on Entrepreneurs continues to serve as the legal basis for managing all companies in Georgia, including SOEs. This legislation, however, does not address key ownership and governance issues specific to SOEs—such as the role of the state as owner, safeguards against political interference, procedures for appointing and dismissing SOE boards, the delineation of commercial and non-commercial mandates of SOEs, or transparency requirements that go beyond general accounting and audit legislation. A draft SOE Law intended to address these gaps, but it still lacks certain critical elements in SOE governance and has not yet been approved.

**52. The Corporate Governance Code for SOEs provides a strong foundation largely aligned with the OECD SOE Guidelines but remains unimplemented.** The Code draws extensively on good

---

<sup>22</sup> Detailed comments to the draft SOE Law were shared with the MOF during previous FAD missions and are summarized in Section III-C “SOE Legislation and Corporate Governance Code”.

international practices, and aims to improve corporate governance, performance, accountability, and transparency of the applicable SOEs. While the Code was designed to apply to the largest SOEs on a “comply or explain” basis, its implementation has not started, as the list of SOEs to which it applies was never published.

**53. The current ownership structure in Georgia is fragmented—combining decentralized oversight for most SOEs, and pilot of a dual ownership for three selected entities.**<sup>23</sup> The National Agency for State Property (NASP) is the registered legal owner of all central government’s SOE shares; it can delegate its shareholder authority to other ministries or agencies. NASP has direct responsibility for overseeing 62 SOEs and has delegated its shareholder responsibilities for 24 SOEs to the relevant line ministries. A small subset of three SOEs have been subject to a pilot of the dual ownership model involving two ministries – MOF and MOESD – jointly exercising their shareholder powers.

**54. As part of the energy sector un-bundling, three energy sector SOEs were re-assigned back to NASP, further complicating the SOE ownership arrangements.** In order to comply with the requirements on the European Union Energy Community, Georgia was required to separate the ownership function over its electricity transmission SOEs from those engaged in other parts of the energy sector, such as generation. To comply, the Government has retained the GSE (transmission system operator) under the direct ownership of MOESD, and transferred shareholder powers over other energy SOEs to NASP - Enguri HES, GOGC, and ESCO. MOF preserved its financial oversight mandate over GSE, Enguri HES, and GOGC, while ESCO—classified as a general government entity—remained outside of the scope of SOE financial oversight.

**55. The existing fragmented oversight arrangements are not conducive to effective SOE ownership or governance.** The vast majority of SOEs in Georgia are overseen solely by their respective line ministries, with no central coordinating authority to ensure consistency in ownership practices, accountability, or strategic alignment across the portfolio. While the MOF retains a clear mandate to review and approve major financial decisions for some of the major SOEs, there is variation in the assignment of other core ownership functions—such as board appointments, participation in shareholders’ meetings, and oversight of strategic decisions. The division of responsibilities between the MOF and line ministries is often ambiguous, leading to inconsistent practices across the portfolio. The fragmented approach and institutional uncertainty weaken the state’s ability to act consistently and drive a coherent strategy for the SOE portfolio, and risks diluting oversight and the accountability of the state to the public.

**56. The dual ownership pilot revealed some challenges but created a strong basis for more coordinated SOE ownership and oversight function.** The mission took stock of the pilot achievements and challenges, also taking into account a broader context of a stronger role of the MOF in financial and fiscal oversight over SOEs. As noted earlier in this report, the MOF role in high quality and timely analysis of SOE financial health and related fiscal risks is evident. Moreover, it has demonstrated clear benefits in improving SOE transparency through regular publication of SOE section in the FRS and more recently – aggregate SOE report.

---

<sup>23</sup> Georgian Rail (GR), Georgian Gas Transportation Company (GGTC), and Unified Airports of Georgia (UAG).

**57. The mission identified only one main challenge related to dual ownership relating to the requirement for shareholder approval of any transactions involving state property.** It was noted by several stakeholders that due to the requirements of the Law on State Property, all transactions involving state property belonging to SOEs, including routine mundane transactions regardless of their value, must be approved by the shareholders. In the case of the dual ownership model this means approval by both the MOF and the relevant sector ministry, resulting in duplicate approvals and delays. This administrative burden slows down day-to-day operations and diverts institutional capacity away from more strategic oversight tasks. This complication, however, is of purely administrative manner and can be addressed by introducing higher thresholds for shareholder approval, or delegating approval authority for non-material transactions, to improve efficiency and allow the ownership function to focus on strategic, higher-value issues.

**58. NASP lacks the capacity and faces inherent overlap of roles to perform effective shareholder functions.** NASP is subordinated to the MOESD, which in the Georgian context is a sector ministry for the energy and certain infrastructure SOEs. This setup blurs the lines between ownership and policymaking responsibilities, creating conflicts of interest and undermining the commercial orientation of SOE governance. While NASP is the legal owner of all SOE shares, its role is largely administrative—share registration and approval of state property transactions—without involvement in strategic oversight, corporate governance, or performance monitoring. This dual role—combining ownership and policymaking, and occasional operational interference through appointments and dismissals—creates conflicts of interest and contradicts good practice, which calls for a clear separation between the state’s ownership function from regulatory or policy-making roles. This overlap, coupled with lack of expertise in corporate governance, finance, and risk analysis, prevents NASP from acting as an effective, informed shareholder in line with good international practice.

**59. Due to its low capacity and institutional subordination to MOESD, NASP’s role in SOE ownership and governance should be limited to supporting function only.** NASP could perform legal and administrative functions that support shareholding ministries in carrying out their ownership functions, such as handling routine approvals for SOE transactions below a defined threshold. For more strategic policy matters and significant decisions—such as appointments and dismissals of SOE boards and executive management—the relevant shareholding ministries and the MOF should be in the lead.

**60. Any advances in SOE ownership arrangements and the respective roles of various ministries or agencies should build on the strong MOF role and the reform progress up to date.** Georgia has achieved tangible gains in building financial and fiscal oversight over SOEs, and piloting dual ownership model. While international experience demonstrates the benefits of a more centralized ownership model, next reform steps should build on the achieved progress and reflect the Georgian context that includes multiple roles of MOESD (central and sectoral), MOF strong financial and fiscal oversight record, and a weak ownership agency (NASP). Moving to a more centralized model, if pursued, should account for these factors and focus on assigning the key shareholders’ functions (Table 3) instead of assigning the lead shareholder role.

**Table 3. SOE Ownership in Georgia – Detailed Functions**

<b>Function / Responsibility</b>	<b>Current Role / Status</b>
1. Development and update of the State Ownership Policy (SOE Strategy/ Action Plan)	MOF and MOESD
2. Participation in general meeting of shareholders (GMS)	Shareholders (MOF, MOESD, NASP, other line ministries)
a) Approval of annual business plan and budget	
b) Approval of investment plans	
c) Approval of annual reports and financial statements	
d) Approval of independent auditor	
e) Set dividend policy and profit distribution	
f) Appointment of SOE boards	
g) Approval of SOE legal and corporate structure (mergers, acquisitions, restructurings, liquidation)	
h) Approve capital decisions (increase, decrease in share capital, new share issues)	
i) Approve major transactions (major acquisitions or disposals of assets, investments, etc.)	
3. Board nomination and appointments	Identified gap
a) Set up a Selection and Nomination Committee (SNC) formed of shareholding representatives, independent experts	
b) Develop SOE specific board profile (matrix) and individual candidates' profiles	
c) Launch the call for open board positions	
d) Review applications and prepare a long list with HR expert	
e) Prepare a short list based on best fitted qualifications	
f) Perform interviews with the short list candidates	
g) Propose top 2 candidates for appointment for each open position	
h) Appoint the selected Board member by GMS	
i) Repeat for each opening (or perform a group selection for multiple positions)	
4. SOE Performance Management	MOF, MOESD, other shareholders
a) Setting the policy objectives, shareholders' expectations, performance objectives (targets) through Statements of Corporate Intent (SCI)	SOE Boards develop Approval by the MOF with other shareholders (MOESD, NASP, other ministries) by Decree 1012
b) Monitoring SCI implementation	To be implemented (GD 1012 Art. 5)
c) Evaluate board performance, including corrective measures (when necessary)	To be implemented (GD 1012 Art. 5)
5. Develop and adopt remuneration policy for SOE boards and executives	Identified gap
6. CEO appointment to be carried out by SOE Boards with shareholders' oversight	Identified gap
7. Monitor and oversight of SOE financial performance	MOF (GD 1012)
8. Assessment and management of SOE related fiscal risks	MOF (GD 1012)
9. Approval of major investment and borrowing decisions	MOF (GD 1012)
10. Development and adoption of PSO framework (incl. quantification, monitoring of SOEs' QFAs)	Identified gap
11. Report on SOE portfolio	
a) Fiscal Risk Statement	MOF
b) SOEs Aggregate Reporting	MOF
c) Report on the Implementation of SOE Ownership Policy/ SOE Strategy	Identified gap

Source: Mission

## SOE Boards and Executive Management

**61. SOE board processes in Georgia are not yet formalized.** Under the current Law on Entrepreneurship, boards are not required unless their creation is envisaged by an entity charter. The Code introduces mandatory creation of boards for the largest SOEs, but this requirement is not yet enforceable as the Government has not approved the list of SOEs to which the Code applies, delaying its rollout.

**62. Although there is no legislative requirement, some SOEs have appointed boards, in some cases including independent directors.** However, the process for such appointments remains informal and not yet fully operationalized. Good practices were initiated at GSE that established a fully independent board, with few other SOEs following suit with appointing independent directors hired via a competitive procedure. Current SOE board structures in Georgia could be classified into three categories: (i) fully independent boards (GSE); (ii) mixed boards comprising government officials and independent members (UAG); and (iii) boards composed exclusively of public officials (GOGC, Georgian Post). Where independent board members had been appointed, interviews were conducted, suggesting only the nascent beginnings of a merit-based process, which needs to be formalized for all major SOEs.

**63. The current approach to board appointments and dismissals undermines the professionalism and independence of SOE governance bodies.** Board appointments are made directly by line ministers, with boards often composed of senior civil servants, such as deputy ministers, or ministers themselves—raising concerns about conflicts of interest and lack of operational independence. There is no formal nomination process, no clear eligibility criteria, and no involvement of the MOF, as the co-shareholder for some SOEs and with responsibility for financial oversight and fiscal management for all SOEs. Crucially, the lack of a clear dismissal procedure further erodes SOE boards' independence, as members may face arbitrary removal or remain unaccountable for underperformance.

**64. Critical governance functions—such as board-led CEO appointments, establishment of board committees, and structured performance evaluations—remain underdeveloped in most SOEs.** In practice, SOE boards—where they exist—seldom play a decisive role in appointing or dismissing chief executive officers. These decisions are typically made directly by line ministries or other supervisory authorities, bypassing SOE boards and weakening their oversight of executive management. This arrangement limits the board's ability to hold executives accountable for SOE performance, erodes their operational autonomy, and blurs lines of responsibility.

**65. SOE board level committees have not yet become common practice.** Some SOE boards have begun to establish board-level committees, with a particular focus on creating audit committees. However, this practice is not formalized or consistently applied. The absence of functioning audit or risk committees and the lack of regular board evaluations further diminish the board's effectiveness as a governance body, as highlighted in the World Bank's Report on the Observance of Standards and Codes (ROSC).<sup>24</sup> These gaps point to the need for a clearer allocation of roles and strengthened institutional mechanisms to ensure that boards are empowered to fulfil their strategic and oversight mandates.

---

<sup>24</sup> [Georgia - Report on the Observance of Standards and Codes \(ROSC\): Corporate governance country assessment \(World Bank: 2022\)](#)

**66. SOE board size and composition in Georgia are highly varied, and a standardized, merit-based appointment process has yet to be institutionalized.** Among the SOEs consulted during the mission, the size of supervisory boards ranged from three members (in one case, with only two incumbents) to nine members. The mission noted the absence of minimum requirements for the skills, knowledge, or experience of individual board members or the board as a whole, similarly, disqualifying criteria were also absent in practice. Participation of high-level public officials remains common, despite good international practices—including the OECD SOE Guidelines—discouraging the involvement of political officeholders and high-level civil servants. The World Bank ROSC report also found women to be underrepresented on supervisory boards in Georgia. These gaps reflect on the absence of national guidance on board composition, appointment criteria, and requirements for a transparent, competitive, merit-based selection process.

**67. Remuneration practices for SOE boards and executives are insufficiently structured and lack transparency.** Many SOEs operate without formal board compensation policies, and uncertainty persists over whether public officials should be remunerated for board duties or not. Such absence of standardized remuneration policies limits the state's ability to attract qualified professionals, while compensation practices vary widely across SOEs. While non-executive board members should not be remunerated based on enterprise performance, good practice recommends market-related compensation reflecting the SOE's scale and complexity to attract high-caliber board member candidates. In Georgia, CEO remuneration is typically determined directly by the shareholder—usually the sector ministry—rather than by the board, weakening board oversight and accountability.<sup>19</sup>

## SOE Performance Management and Statements of Corporate Intent

**68. Initial progress in SOE performance management has been made through the introduction of SCIs for SOEs covered under Decree 1012.** SCIs were concluded for seven major SOEs in 2022 and 2023. An SCI is a four-year, forward-looking document prepared annually by SOE boards and then reviewed and approved by the MOF. Under Decree 1012, SCIs must set out: the SOE field of activity; its financial and non-financial goals with corresponding key performance and target indicators; dividend policy; risk limits; planned transfers to be received from the state budget; any QFAs and related budget transfers to cover their costs; disclosure requirements; and the consequences of not meeting agreed goals.

**69. Launch of the SCI process has introduced a structured framework for setting performance expectations for major SOEs, but implementation remains at an early stage.** In practice, SCIs often contain a large number of financial and non-financial targets—some outside the control of SOE boards or focused on inputs rather than outcomes—making it difficult to identify and focus on priorities of the state. The scope and ambition of targets also vary, while the state's engagement in reviewing and challenging these targets has been limited, particularly after the first year of implementation.

**70. The coverage of QFAs in SCIs—and the discussion of SOEs' relationship with the budget, including related budget transfers—remains incomplete.** Many SOEs are yet to clearly identify, quantify, and cost their QFAs. While risks are generally described, explicit risk limits are rarely set. This could be addressed through a PSO framework that this report recommends developing.

**71. Mechanisms to systematically monitor the achievement of SCI goals, provide feedback to SOE boards and hold them accountable are not yet established.** While SCIs set annual and multi-year targets, there is no structured process for mid-year or year-end assessments that would enable timely corrective action or inform future target setting. End-of-year reporting is not linked to formal consequences for SOE boards or executive management. The absence of regular, evidence-based feedback from the state shareholder limits the ability of SOE boards to adjust strategies, address underperformance, and strengthen SOE board and management accountability. The absence of performance-based rewards or sanctions weakens the link between SCI targets and SOE accountability, increasing the risk that the process becomes procedural rather than a driver of improved governance and performance.

### General Government Entities

**72. Some GGEs are included within the scope of the SOE reforms, namely UWSC, GA, and Asset Management company.** UWSC operates in a water utilities sector in competition with private sector providers, demonstrating its potential to function commercially, while the other two GGEs also exhibit commercial aspects in their operations. This inclusion reflects recognition of their evolving roles and the need to enhance their financial and operational performance, as well as accountability of their executive management for these entities' performance.

**73. While reforms targeting the management of GGEs have been initiated, there is currently no overarching strategy guiding these efforts.** GGEs remain outside the formal SOE Strategy, which primarily focuses on PCs. Nonetheless, GGE management reforms are underway, including current coverage of the UWSC under Decree 1012, and plans for all GGEs to be fully integrated into the Treasury system by the end of 2026, enabling automated reporting and requiring MOF approval of their budgets. Given their unique status, the extent of governance reforms—particularly regarding corporate governance practices—may be applied with appropriate flexibility to reflect their closer government integration and public service mandates.

## C. Strengthening SOE Ownership and Corporate Governance

---

### SOE Ownership and Oversight

**74. To ensure SOEs deliver long-term value, the state must act as an informed, professional, and active owner.** Strategic ownership means setting clear mandates, appointing competent and independent boards, monitoring performance, and holding enterprises accountable. When the state plays only a passive or fragmented role, SOEs tend to underperform, face unclear responsibilities, and become fiscal liabilities. The OECD SOE Guidelines emphasize the importance of separating the ownership function from policymaking and regulation, and of ensuring consistency, transparency, and professionalism in how the state exercises its shareholder rights.

**75. The pilot dual ownership model has delivered tangible improvements in SOE ownership arrangements in Georgia, but it requires strong coordination between ministries involved.** MOF fulfills its role in SOE financial oversight and fiscal risk management, while also carrying broader shareholder responsibilities—tasks that can divert resources away from strategic priorities. Line ministries primarily focus on operational targets aligned with policy goals. When well-coordinated, this model

promotes balanced oversight—combining financial scrutiny with sector expertise—and offers a realistic framework for managing ownership within existing administrative setup. However, without clear division of responsibilities and active coordination, the model is flawed by inefficiencies, conflicting objectives, and fragmented accountability across the SOE portfolio.

**76. For Georgia it is critical to ensure that all key shareholder functions are effectively carried out and the identified coordination and capacity gaps between the MOF and line ministries are addressed.** While international experience demonstrates the benefits of a centralized ownership model, it may take time and significant effort to achieve this model in practice. Instead, it is more urgent for Georgia to focus on closing the gaps identified by the mission and outlined in Table 3, such as developing formal procedures for SOE boards and executive management appointments and dismissals, establishing clear remuneration policies, and developing PSO frameworks. It is critical, regardless of how the state's ownership model is ultimately structured.

**77. While a centralized ownership model can deliver greater coherence, professionalization, and transparency in managing SOEs, it also requires strong political support and close coordination within the Government.** Consolidating ownership rights—either fully or through a stronger coordinating function within the MOF—can enable a unified oversight, consistent governance standards, facilitate depoliticized board appointment and dismissal processes, and ensure robust performance monitoring. Even where line ministries retain ownership, a centralized unit can harmonize practices, set governance policies, support board nominations, and aggregate performance data, ensuring whole-of-government oversight. However, this approach requires strong political commitment, and close cooperation between the central coordinating entity and line ministries to balance sectoral expertise with strategic and fiscal objectives, while adhering to the key separation of roles between agencies responsible for policy making, regulatory and ownership functions.

**78. Regardless of the ownership model pursued, a pragmatic approach could significantly improve SOE ownership arrangements and build a more effective oversight system.** Sometimes, centralization of SOE ownership may not be feasible. In this case, the existing ownership arrangements could be strengthened by clearly allocating shareholder functions among the existing key stakeholders, and empowering the MOF with the authority to: (i) exercise centralized financial and fiscal oversight, (ii) participate in SOE governance through boards and executive management appointments, dismissals, and (iii) play a decision-making role in the decisions that concern public finances. These powers should be anchored in formal regulations and procedures, as is already the case in Georgia. Key features of a strong and efficient ownership function are listed in Box 2.

## Box 2. Pre-requisites for an efficient ownership function

**1. Legal mandate and policy authority:** An effective ownership function must be grounded in the law or high-level government policy. Its mandate should explicitly authorize it to access SOE data, influence SOE board nominations, shape ownership policies, and issue guidance across the SOE portfolio.

**2. Institutional Autonomy:** To ensure objective decision-making and minimize political interference, the function should be located in a ministry or structure without sectoral policy or regulatory responsibilities. Moreover, it could place in an entity be accountable to the broader Government and Parliament, not merely a single line ministry, thereby strengthening public oversight and transparency.

**3. Qualified People:** Ownership entity must be staffed with professionals possessing the right mix of technical and policy skills. Key functional areas include accounting and finance, public administration and corporate law, corporate governance, human resources, and data management. Leadership must have the capacity to steer and coordinate ownership functions across sectors.

**4. Adequate Financing:** Proper and transparent budget allocations are essential to ensure the entity can operate independently and effectively. Its budget should be adequate to cover permanent staffing costs, operational tools (e.g., SOE monitoring software), external expertise when needed (e.g., legal reviews, financial restructuring efforts).

Source: Mission based on the OECD SOE Guidelines (2024)

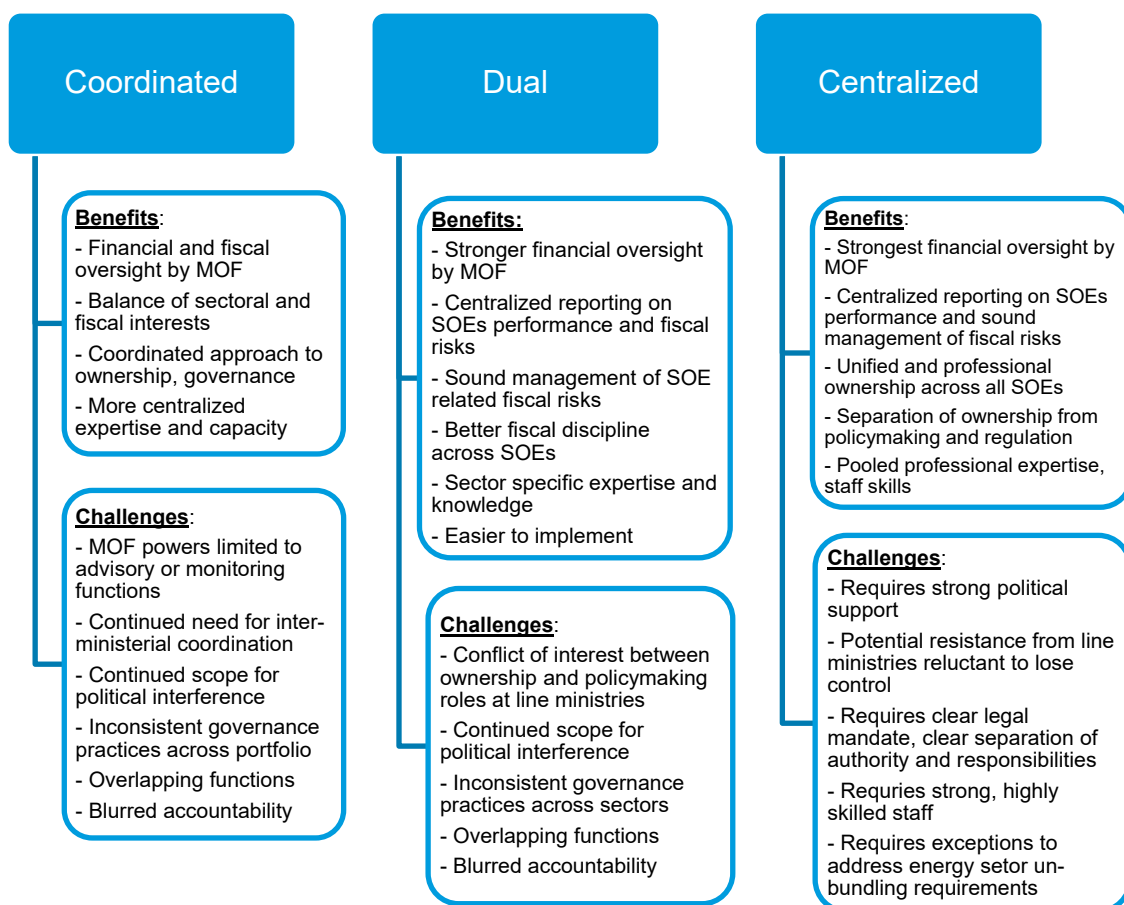
**79. Designing effective SOE ownership arrangements in Georgia require balancing institutional realities with its EU accession commitments.** Georgia's streamlined government structure, designed to maintain a small public administration, has resulted in ministries with broader mandates than in many other jurisdictions. MOESD operates under a combined mandate covering sector policy, regulatory, and shareholder functions across energy and transport sectors—limiting the scope for a full institutional separation of these roles. At the same time, MOF has developed strong SOE oversight capacity, producing annual FRS since 2017 and comprehensive SOE reports that analyze SOE performance, quantify QFAs, and identify potential fiscal risks. The MOF has also been instrumental in advancing governance reforms jointly with the MOESD, including drafting the SOE Strategy, Corporate Governance Code for SOEs, and implementing Decree 1012.

**80. Alignment with the EU Acquis will require further modifications to SOE ownership arrangements to satisfy the unbundling requirements for regulated sectors.** As part of the EU accession, Georgia has carried out an un-bundling of its energy sector as it relates to achieving ownership separation for electricity transmission companies from entities involved in other areas of the energy sector. Even when un-bundled and overseen independently, such SOEs should still be subject to Decree 1012 and be required to provide the MOF with their financial information to enable fiscal risk assessment. This is particularly important in the case of GOGC, which has been a source of growing fiscal risk in recent years. Georgia will also be required to align with the OECD SOE Guidelines, apply strict rules governing PSOs and state aid, and others.

**81. There are options for Georgia to enhance its SOE ownership function, all of which should build on the reform achievements and strong foundations built by MOF and MOESD.** Compared to other countries, Georgia has already achieved less fragmentation, as the MOF conducts robust financial performance analysis, fiscal risks assessment, and prepares an aggregated report on the SOE portfolio.

In case the authorities choose to introduce a coordinated ownership option, the MOF would be assigned an advisory role for broader shareholder functions, but this option will not achieve the full separation of ownership and policymaking functions of the line ministries. Such options would only bring marginal improvements, and is least recommended given Georgia's progress achieved. If the centralized ownership option is pursued, as previously advised by the FAD,<sup>25</sup> assigning the MOF the role of centralized owner would leverage its existing capacity, ensure greater consistency in ownership practices, pool specialized skills, and strengthen performance management and board appointment processes, while reducing duplication. Figure 4 presents some of the key benefits and challenges of ownership options for Georgia given their current progress of reaching the dual model and potential consideration for moving to the centralized ownership model.

**Figure 4. SOE Ownership Models - Comparative Analysis**



Source: Mission, based on the SOE Guidelines (OECD: 2024) and Ownership and Governance of State-Owned Enterprises (OECD: 2024).

**82. The MOF must always play a key role in SOE oversight as part of its core public finance management responsibilities, regardless of the ownership approach adopted.** In Georgia, the MOF is responsible for managing the budget process, approving guarantees and on-lending, and ensuring sound fiscal risk management. To manage the budget process, the MOF's role necessarily extends to

<sup>25</sup> Georgia: Developing a Public Corporation Governance Reform Strategy (IMF, 2020)

both revenues from SOEs (e.g., taxes, dividends) and expenditures in their favor (e.g., recapitalizations, compensation for QFAs), as well as the broader use of public resources by SOEs. Effective fiscal oversight requires the MOF to receive regular in-year and annual SOE reports, monitor and manage fiscal risks, and—ideally—be involved in major transactions (e.g., investments, divestments), setting performance targets, assessing results, and participating in the appointment, dismissal, and remuneration of SOE supervisory board members.

**83. Line ministries shall continue playing an important role in SOE ownership, leading sector policy formulation and contributing to SOE objective setting, regardless of the ownership model.**

Under both centralized and coordinating ownership models, line ministries remain responsible for defining sector strategies, ensuring that SOEs' objectives are aligned with public policy goals, and providing technical input on sector-specific challenges. In a centralized model, their role shifts away from direct ownership tasks—such as board appointments or performance monitoring—toward providing policy expertise and input to the central ownership entity. In a coordinating model, line ministries may retain some operational ownership responsibilities but work within a framework set by the central body, applying standardized ownership practices while maintaining a close connection to sector priorities. In both cases, effective coordination and clear delineation of responsibilities between the central ownership function and line ministries are critical to ensuring policy coherence and the commercial efficiency of SOEs.

**84. To build on the progress thus far, Georgia should focus on operationalizing key shareholder functions rather than on selecting an ownership model.** This approach offers a pragmatic path toward a more professionalized ownership framework, while retaining the achievements of the SOE reform made to date, and minimizing the risks associated with Georgia's already concentrated ministerial structure. As noted in Table 3, key remaining gaps in SOE ownership framework in Georgia are: (i) clear division of responsibilities between all actors in SOE ownership and governance; and (ii) formalized processes for selection, appointment and dismissal of SOE board members. Assigning clear roles to all actors in SOE corporate governance and formalizing SOE board processes could assist in instilling greater accountability of SOE executive management, incentivizing them to improve SOE effectiveness and efficiency, and introduce more transparency in SOE relationships with the state.

## **SOE Legislation and Corporate Governance Code**

**85. Updating and streamlining the existing legislation governing SOE ownership and governance arrangements are key steps of the reform.** An SOE Law should be put in place to cement the direction for the reforms as set out in the SOE Strategy and clearly define the roles of respective ministries and agencies involved, at the same time aligning the division of responsibilities between various governance bodies – General Meeting of Shareholders, SOE boards, and the executive management.

**86. The existing draft of the SOE Law has some elements that can help strengthen SOE governance and oversight, but it also contains critical gaps that need to be closed.** While recognizing that details of many functions could be spelled out in secondary legislation, it is important that key requirements are established by the SOE Law, including:

- **Clear separation of roles and shareholder functions** among key stakeholders involved in SOE governance, such as between MOF, MOESD, other line ministries and regulators, achieving separation of ownership, policy making and regulatory functions.
- **Rationale for state ownership**, building on the SOE Strategy and introducing key elements of the SOE Ownership Policy, such as the rationale for continuous ownership or establishment of new enterprises that are aligned with public policy objectives.
- **Defined role for the MOF** that in addition to having financial and fiscal oversight responsibilities should have equal responsibilities alongside other state shareholder representatives, i.e., having the same level of responsibility in the appointment and dismissal of SOE board members, approval of major transactions, development of the Letter of Expectations, etc.
- **Key aspects of selection and appointment of SOE board members**, including eligibility and minimum qualification requirements for SOE board members, requirements for SOE board members to be considered independent, limitations on the time or number of terms for which SOE board members could serve, and high-level details on the selection and appointment process for greater transparency, and competitiveness.
- **Limitations on the circumstances and requirements for dismissing SOE board members.** Limiting the causes for dismissal of SOE board members to clearly defined and objective criteria is essential to protect their independence and ensure that board decisions are guided by the long-term interests of the enterprise rather than short-term political or personal considerations. Dismissals should be limited to clearly defined situations where there has been a dereliction of duty, or the board member no longer meets the requirements to be a fit and proper board member, or others (Annex III).
- **Fiduciary responsibilities of SOE board members.** SOE board members should be required to act in the best interests of the SOE only. The responsibilities of the SOE board should include ensuring compliance with laws, ensuring the integrity of the accounting and reporting, managing conflicts of interest and related party transactions, and determining the remuneration of the executives.
- **High-level provisions on SOE executive appointments, and SOE board authority over it**, to ensure professional, merit-based leadership and safeguarding the independence of SOE governance process. SOE board should be given the clear and exclusive authority to appoint and, if necessary, dismiss SOE CEO to align SOE management with the strategic direction set by the SOE board, reinforce accountability lines, and limit undue political or administrative interference in operational decision-making.
- **High level details for evaluating SOE performance against the SCI.** These provisions should include the timelines, circumstances under which changes could be made to SCI, requirements for evaluating SOE performance vis-e-vis the SCI targets, and consequences for failing to achieve them.
- **PSO definition and framework for their implementation.** A clear definition of PSOs should be provided and requirements relating to their entrustment, costing, compensation, monitoring, auditing and reporting stipulated. This could also be addressed with reference to a broader PSO framework, dealing with PSOs that may be assigned both to public and private sector companies.
- **References to the relevant secondary regulations.** The SOE Law should explicitly refer to the secondary legislation that would provide detailed guidance on the above points and include additional

precures on SOE board and executive remuneration, ethics, anti-corruption policies, internal controls, internal audit, risk management, sustainable development, others as needed.

**87. Other legislation related to SOE ownership and governance will need to be reviewed and amended to align with the intended direction of the SOE reform.** To ensure smooth and coherent implementation of the SOE reform, the SOE Strategy and related Action Plan (Annex I) need to be updated to clearly articulate the state ownership objectives, institutional roles, and sequence of reform priorities. Moreover, the Corporate Governance Code for SOEs (the Code) should be enacted and applied to the relevant SOEs, to be selected by the Government, ideally, targeting the same SOEs covered by the reform effort thus far.

**88. The Code establishes a strong foundation for good practice SOE ownership and corporate governance and should be enforced without delay.** It introduces key processes at the government ownership level, including performance management. The Code promotes board independence, merit-based appointments, and clearly defined oversight responsibilities. It requires supervisory boards for SOEs with assets or a turnover exceeding GEL 10 million and sets expectations for independent, professionally qualified board members. It also encourages the formation of board committees (audit, nomination, risk), adoption of board charters, and regular board evaluations. These governance principles are broadly consistent with the OECD SOE Guidelines, which emphasize professional and independent boards as essential to effective state ownership.

**89. The initial application of the Code should be on a “comply or explain” basis, gradually transitioning to mandatory application for major SOEs targeted by the reform.** The initial application of the Code should follow a “comply or explain” approach currently envisaged, allowing targeted SOEs to either implement the Code or transparently disclose reasons for non-compliance. To support this, the list of SOEs subject to the Code should be published promptly. Gradual implementation under this approach encourages adoption while providing flexibility. However, to fully realize the governance benefits, the Code’s application should become mandatory for all major SOEs covered by the SOE Strategy and Decree 1012, in a more medium term, such as three to five years. This transition should be reinforced by incorporating key Code provisions into the forthcoming SOE Law and clearly assigning responsibility for monitoring compliance. This approach is consistent with OECD SOE Guidelines, which emphasize transparency, accountability, and progressive implementation of governance reforms.

## General Meeting of Shareholders

**90. The General Meeting of Shareholders (GMS) is significantly underutilized in Georgian SOEs.** Under Georgian law, the GMS is the highest decision-making body in joint stock companies (JSCs), with an equivalent role for meetings of participants in limited liability companies (LLCs). The Law on Entrepreneurs assigns the GMS key responsibilities including approving charter amendments, electing and dismissing supervisory board members, endorsing financial statements, authorizing major transactions, and deciding on reorganization or liquidation. In LLCs, similar decisions rest with participant meetings, though procedures are often less formalized.

**91. In practice, these formal shareholder mechanisms are frequently bypassed in SOEs, replaced by direct ministerial decisions.** Many SOEs—whether structured as JSCs or LLCs—do not hold formal shareholder meetings. Decisions that legally fall within the exclusive competence of the GMS or participant meetings, such as approval of financial results, board appointments, or strategic actions,

are often enacted through executive decrees. This undermines legal governance safeguards and reduces transparency and accountability.

**92. Strengthening SOE governance requires formalizing shareholder decision-making processes and clearly defining the roles of state actors.** Even wholly state-owned enterprises should convene shareholder or participant meetings, formally document decisions, and publish key resolutions. Clarifying the division of responsibilities among the GMS, SOE boards, executive management, and state bodies such as line ministries and the MOF will reduce overlaps, enhance accountability, and align with international best practices.

## SOE Boards and Executive Management

**93. Competent and autonomous SOE boards with clear mandates are essential for effective SOE oversight, strategic direction, and accountability.** When professionally composed and empowered, SOE boards can set strategy, appoint and evaluate the executive management, and oversee internal control and risk management. Such autonomy, paired with clear accountability, strengthens transparency, shields boards from short-term pressures, and improves both commercial outcomes and public trust. Many countries embed these roles in law and practice:

- Lithuania mandates boards for all large SOEs and complements legislation with a Corporate Governance Code;
- Latvia applies public nomination procedures and standardized mandates;
- Estonia grants decision-making authority over CEO appointments and strategy, balanced by reporting to the finance ministry; and
- Slovak Republic curbs political interference through formalized responsibilities and performance-linked oversight.

**94. The good practice and the OECD SOE Guidelines increasingly favor eliminating political representation on SOE boards, appointing state representatives mainly at the technical rather than political level.** This strengthens SOE board independence, curbs political interference, and ensures decisions are driven by commercial priorities. Countries such as Sweden, New Zealand, Lithuania, and the United Kingdom appoint senior civil servants or technical experts as state nominees, professionalizing appointments by selecting board members for expertise, not political affiliation. Such approaches boost credibility, align with private-sector standards, and improve SOE performance and accountability.

**95. The inclusion of independent board members strengthens the objectivity, professionalism, and integrity of SOE decision-making.** International standards define independence as the absence of political affiliation, employment ties with the SOE or ownership entities, and material financial interests that could impair impartial judgment. According to the 2024 OECD Compendium, over 60 percent of surveyed jurisdictions require independent members to comprise at least one-third of large SOE boards, with some exceeding this benchmark. Lithuania mandates a minimum of half independent directors in large SOEs, appointed through transparent, merit-based procedures coordinated by the Governance Coordination Centre (VKC). Latvia has likewise advanced board independence by introducing formal nomination processes using external recruitment firms and restricting civil servants and elected officials from serving on SOE boards.

**96. Balance should be found between appointing qualified independent members and technical-level state representatives.** Reducing political appointees in favor of technically skilled professionals, alongside empowering boards to appoint and evaluate CEOs, would improve strategic oversight and shield commercial decisions from political cycles. Independent representation could also start with one or two directors and gradually increase to at least one third of the SOE boards composition. Greater representation of independent members would be a step towards best practices and should be encouraged by the state.

**97. Georgia should strengthen SOE boards' autonomy and independence with formalizing selection, appointment and dismissal processes, and reducing political influence on SOE boards.** This includes formalizing transparent, competitive, merit-based processes for the selection and appointment of SOE board members, and clear limitation of grounds for their dismissal to reduce political influence. Clear criteria for board composition, emphasizing relevant skills and experience, should be established to ensure competent oversight. Strengthening board independence will enable more effective strategic guidance and hold management accountable, aligning with international best practices and improving overall SOE performance and governance.

**98. Georgia's Corporate Governance Code for SOEs sets solid procedures for SOE board selection and appointment.** It mandates transparent, merit-based processes for board appointments and establishes minimum standards for professional qualifications and independence. The Code discourages the appointment of political figures or civil servants unless specifically justified and requires structured dismissal procedures based on performance and cause.

**99. The use of a Selection and Nomination Committee (SNC) could play a central role in safeguarding the integrity of the merit-based appointment process to SOE boards.** The SNC could comprise of the most relevant stakeholders involved in SOE governance. It should be responsible for leading the selection process, including compiling a long- and shortlist of candidates, from which SOE board appointments can be made. Good practice—as implemented in countries such as Lithuania, Latvia, and Estonia—requires that the SNC be composed of 3–5 members with representation from the ownership entity, relevant sector ministries, and independent experts (e.g., human resources or governance professionals). The SNC is responsible for preparing board profiles, defining evaluation criteria, and assessing candidates based on a scoring grid. Public advertising of vacancies—typically for a minimum of 30 days—is combined with proactive outreach and headhunting, expanding the pool of qualified applicants and strengthening transparency.

**100. The clear division of responsibilities in the selection process must be respected to prevent overlaps, delays, and informal interventions.** The ownership entity oversees the appointment process and ensures compliance with the established framework, while the line ministry provides sector-specific input. The SNC should conduct candidate screening and shortlists typically 3–5 candidates per vacancy, followed by interviews and final evaluation. The GMS would formally appoint the selected candidates within indicated timeframe. Transparency is ensured by publishing an anonymized summary report detailing the process, which supports accountability in the exercise of shareholder responsibilities. An outline of an example for SOE board selection and appointment process is presented in Annex II.

**101. Clear and professional criteria for dismissing SOE board members are essential to reduce political interference and ensure stability in governance.** Board members should only be dismissed

for justifiable reasons such as demonstrable underperformance, dereliction of duty, or failure to meet fit-and-proper standards. Removal decisions should be insulated from electoral cycles and political considerations. SCI should set out the performance criteria to be met by the SOE and against which the SOE board members may be held to account.

**102. Transparency and fairness must govern the dismissal process, mirroring the rigor applied to appointments.** SOE board members should be given the opportunity to respond to concerns before removal. Following dismissal, a detailed report explaining the reasons for dismissal, including any board member representations, should be published. This transparency ensures that the state, as shareholder, remains accountable for its decisions. Annex III provides a model list of dismissal criteria to support this framework.

**103. In Georgia, reforms have begun promoting the division of responsibilities between SOE boards and executive management, but SOE boards still lack full authority over management appointments.** International good practices, as outlined by the OECD SOE Guidelines, advocate for boards to have the authority to select and dismiss CEOs based on merit and performance, independent of political cycles. In Georgia, line ministries lead in CEO appointments and dismissal, bringing political interference into SOE governance. Building on the reforms to professionalize SOE governance through establishing clear criteria and procedures for CEO appointments that strengthen board autonomy and formalizing clear roles, supported by tools like performance agreements, should reduce political interference, clarify responsibilities, and improve transparency and accountability in Georgian SOEs.

**104. A clear division of responsibilities between SOE boards and executive management is key to institutional integrity and effective SOE performance.** International good practice assigns SOE boards with strategic oversight and performance monitoring, while management handles daily operations. Estonia, for example, requires boards to approve strategic plans and oversee risk management, supported by board member qualifications and MOF oversight.

## SOE Performance Management and SCIs

**105. SCIs form a solid foundation for SOE performance management but need to focus on a limited number of clear, measurable KPIs to strengthen SOE accountability.** The current SCIs contain an excessive number of financial and non-financial targets, diluting priorities and reducing their effectiveness. Some indicators also measure inputs rather than outcomes (e.g., number of committee meetings instead of risk mitigation results). The SCIs can be strengthened by focusing on a limited number of key performance indicators (KPIs) – up to fifteen – that are within the control of the SOE board and that are strategically focused on creating value. There also seems to be scope for the state to set more challenging targets for the SOEs and their boards.

**106. The PSOs to be delivered by SOEs and the corresponding state funding should be clearly defined in SCIs.** The objectives for SOEs undertaking PSOs and the projected costs of QFAs are not currently provided in SCIs. For many SOEs, QFAs remain unidentified and unquantified, with a broad and unclear interpretation of what constitutes a QFA. Additionally, information on state transfers to SOEs is lacking. To enable SOEs to commit to achieving performance targets tied to state funding, the state must demonstrate a corresponding commitment to provide the necessary resources.

**107. Georgia needs to establish mechanisms for regular monitoring and feedback with SOE boards to improve the effectiveness of SCIs.** Currently, SOEs report that after submitting SCIs, there is no systematic process to track their performance during the year or to confirm progress toward end-of-year objectives. This lack of ongoing review limits the state's ability to ensure SOE activities stay aligned with financial and operational goals and reduces the opportunity to address underperformance promptly instead of waiting until year-end.

**108. Performance-based rewards and sanctions linked to SCI targets are essential to strengthen SOE accountability and ensure the incentives for board and management are aligned with SOE strategic objectives.** International good practices emphasize using SCIs as a basis for performance contracts with boards and CEOs, with executive remuneration and incentives linked to measurable outcomes. Currently, SCIs do not set out the consequences for the SOE board if SCI performance targets are not met, rather it lays out the impact of underperformance on the SOE (e.g., challenges paying creditors). While SOEs submit end-of-year reports comparing actual performance against SCI targets and explaining deviations, these reports are not tied to formal consequences for either the SOE board or executive management. SOE boards have noted difficulties in implementing performance-based incentives for executives, and no rewards or sanctions are currently linked to SCI outcomes.

**109. Formalizing the link would between performance and consequences would encourage SOE boards and executives in Georgia to prioritize agreed-upon goals.** This should eventually lead to the improved operational results and enhanced governance effectiveness. Without clear mechanisms to reward success or address underperformance, the planning and performance management process risks becoming a mere procedural formality rather than an effective tool to improve SOE governance and outcomes.

## Remuneration of SOE Boards and Executive Management

**110. Across OECD member and partner countries,<sup>26</sup> there is a strong consensus that non-executive board members should receive fixed-fee remuneration, with amounts varying according to the SOE's size and commercial focus.<sup>27</sup>** In commercially oriented SOEs, board members earn on average around USD 17,356 annually<sup>28</sup>—about 64 percent of the national average wage—while in SOEs focused on public policy objectives, the average drops to approximately USD 8,700. Countries such as Latvia, Chile, and France report higher fees reflecting the complexity and scale of their SOEs. Conversely, some countries with outdated regulatory frameworks, like Croatia and Turkey, struggle to attract qualified board members due to statutory limits on fees. Importantly, nearly all countries avoid performance-based, or variable pay for non-executive directors to safeguard their independence. Additional compensation is typically modest and reserved for more demanding roles, such as audit committee chairs.

---

<sup>26</sup> The OECD works with Member countries and a range of partner countries that are either going through an accession process, or were designated as Key Partners to participate in policy discussions, take part in regular OECD surveys and are included in statistical databases (<https://www.oecd.org/en/about/members-partners.html>)

<sup>27</sup> Remuneration of boards of directors and executive management in state-owned enterprises in Asia (OECD: 2024)

<sup>28</sup> Remuneration of Boards of Directors and Executive Management in State-Owned Enterprises (OECD: 2022), based on data collected from a sample of 36 OECD member and partner countries.

**111. Remuneration setting models for SOE boards vary across countries.** In countries like Sweden, Norway, and Finland, centralized ownership bodies set or benchmark director fees using standardized principles and comparative data. By contrast, in the UK and France, SOEs propose remuneration levels that require shareholder approval, typically by the line ministry or MOF. In cases where SOE boards initiate remuneration proposals, as seen in the Netherlands and New Zealand, shareholder oversight remains crucial to ensure consistency and safeguard the public interest. The OECD highlights that fragmented decision-making—such as involvement of multiple uncoordinated ministries—can cause inconsistencies, reputational risks, and hinder board professionalization.

**112. Treatment of public servants on SOE boards remains a critical governance issue, with growing momentum toward boards' professionalization and avoidance of conflicts of interest.** Several OECD countries—including Latvia, Lithuania, and New Zealand—have introduced explicit rules restricting the participation of civil servants and elected officials on SOE boards, especially in commercially oriented entities. Where public officials are permitted to serve, they are often subject to zero-fee policies or capped remuneration. In some cases, their service is treated as part of their regular duties, without additional compensation. These safeguards are designed to reinforce board independence, discourage politically driven appointments, and uphold public confidence in SOE governance.

**113. CEO and executive management compensation in SOEs typically includes both fixed and variable components that are typically established and overseen by SOE boards.** The fixed pay usually covers the base salary, reflecting the role's responsibilities, market benchmarks, and internal pay equity. Variable pay—often linked to individual, financial, or strategic performance targets—serves to incentivize executives to meet or exceed specific goals, such as profitability, efficiency, or achievement of KPIs. In many jurisdictions, performance bonuses, long-term incentives, and other benefits complement base salaries, with remuneration packages periodically reviewed by boards or remuneration committees to ensure competitiveness and accountability.

**114. For CEOs and executive management, remuneration frameworks are typically established by SOE board's remuneration and compensation committee.** These committees—composed primarily of independent board members—ensure that CEO pay is aligned with SOE medium-term performance targets, market comparators, and the SOE's strategic priorities. Countries such as Lithuania, Latvia, and France have strengthened the role of such committees in recent years, thereby enhancing the objectivity, credibility, and consistency of executive remuneration decisions. In some countries like Norway and Sweden, SOE executive compensation is set within clear frameworks established by ownership entities, often with caps or guidelines to maintain public trust. In contrast, some countries with less mature governance frameworks may have less structured or transparent approaches, leading to variability in executive pay practices. In all cases, the state's role as owner is preserved through its approval of remuneration policies and performance frameworks.

**115. Transparency remains a cross-cutting feature of good practice across all remuneration dimensions.** Majority of countries now require disclosure of board and CEO remuneration, either at the individual or aggregate level, with several jurisdictions—such as Norway, the Netherlands, and New Zealand—publishing detailed data through centralized government portals. This strengthens

accountability and enables public scrutiny of compensation practices across the SOE portfolio. High level guidelines on establishing SOE boards and executive management remuneration are offered in Annex IV.

## General Government Entities (GGEs)

**116. Georgia has several entities that operate as SOEs but are categorized as GGEs, requiring a modified approach for the governance and financial oversight.** Unlike commercially oriented SOEs, such GGEs rely primarily on state transfers because their functions are generally not commercially viable. However, these GGEs carry out a mix of public policy and commercial activities and require management approaches similar to public corporations. Typical examples include entities responsible for roads and water supply. In Georgia, entities such as UWSC, GA, and the Asset Management Company have been identified as GGEs that should be incorporated into the ongoing SOE reform efforts.

**117. While GGE ownership and governance requirements must follow general SOE reform thrust, some of the aspects could be simplified and differ from those of commercial SOEs.** Such entities, operating at the borderline between serving commercial and public interests, should remain under the same budget controls as other GGEs and be subject to the SOE ownership and governance reforms with some simplifications. For example, certain deviations from SOE ownership and governance arrangements could be relaxed or nuanced for GGEs, such as:

- **GGEs should be subject to the same financial oversight as budget spending units.** GGEs should be accounted for on-budget and their financial activities be fully incorporated into respective line ministries' budgets and operations. Their budgets should be approved by the relevant line ministry and/ or MOF, and they should submit their regular in-year and end-of-year execution reports to the line ministry and MOF demonstrating how the funding they received has been utilized.
- **GGEs should not be permitted to borrow or have budget deficits.** Ultimately, such borrowing must be repaid from state funds and hence represents borrowing by the state. Any borrowing by GGEs must be consolidated as part of the state's borrowing for reporting purposes. GGEs should not be permitted to budget for a deficit and retention of any surplus they generate should be subject to approval of the MOF.
- **GGEs could remain under the line ministry supervision.** As GGEs do not usually compete with private sector companies, there is no immediate need to separate the state's shareholding and policymaking responsibilities. In fact, GGEs are essentially mechanisms through which line ministries execute their policy mandates. They should remain within the same budget controls and operate under the Treasury Single Account, as all other GGEs in the country.
- **Corporate governance arrangements could be simpler.** The complexity of activities undertaken by GGEs tends to be lower than for PCs, as they are primarily concerned with expending the money they are allocated by the state, rather than having to generate revenue themselves. Consequently, the governance structures can also be simpler.
- **GGE Boards do not necessarily need to be majority independent.** If deemed necessary, the GGE board can be staffed largely with representatives from relevant ministries. Appointing independent board members can still be useful in bringing the specialized perspective.
- **GGEs must provide financial reporting in accordance with GFS for consolidation as part of general government.** Unlike PCs, which are only included as part of the public sector reporting,

GGEs should be consolidated as part of general government. For this purpose, GGE must produce financial reports in line with GFS, although they may also produce financial statements in accordance with International Financial Reporting Standards (IFRS). Their financial results should be audited in accordance with the requirements applicable to other budgetary spending units.

- **GGEs should be subject to similar ethical, risk management, internal control and audit requirements as PCs.** Their CEO and the Board (where applicable), should have similar fiduciary duties as for other SOEs, including, importantly, requirements to act in the best interests of the GGE and manage conflicts of interest. The relevant provisions in the Code of Corporate Governance for SOEs should be applicable to GGEs.

**118. Additional capacity is needed within the MOF to effectively oversee the GGE finances.**

Currently, FRMD is responsible for approving the GGE budgets as is required to commit budget funds, but they do not have the requisite capacity to fulfil this role effectively. Since financial oversight of GGEs aligns closely with that of other budgetary units, this function would be better placed within the Budget Department. This shift would require strengthening the Budget Department with adequately skilled staff to fulfill these responsibilities. This would necessitate ensuring that the department is capacitated with sufficient staff within the requisite skills.

## Recommendations

**Recommendation #5.** Revise the draft SOE Law to enshrine the ownership principles, clear division of responsibilities among the stakeholders, define transparency rules, and the mandate of the ownership function (MOF and MOESD, medium-term).

**Recommendation #6.** Update the SOE Strategy and its Action Plan to clearly articulate the state ownership objectives, institutional roles, and sequence of reform priorities (MOF and MOESD, medium-term).

**Recommendation #7.** Develop and adopt regulations governing selection, appointment, dismissal, remuneration and performance management of SOE boards and executive management (MOF, medium-term).

**Recommendation #8.** Apply the Corporate Governance Code to the largest SOEs under a phased approach with “apply or explain” in 2026–2029 and mandatory compliance by 2030 (MOF, medium-term).

**Recommendation #9.** Engage annually on SCIs to set a limited number of targets for SOEs and their boards, institutionalize annual performance assessment of SOE boards and their regular evaluation (MOF and other shareholder ministries, annually).

**Recommendation #10.** Conduct a portfolio-wide analysis of major SOEs, identifying non-core operations for streamlining, winding down or transferring to other agencies/ companies (MOF, shareholding ministries, medium-term).

## Annex I. SOE Reform Action Plan 2025-2026

The below Action Plan was prepared by the Government of Georgia and commented by the mission. Below includes the revisions and comments proposed by the mission, as discussed with the authorities.

<b>Proposed Timeline</b>	<b>Action</b>
March 2026	Creation of SOE Reform Council and Working Group
March 2026	Approval of the 2025-2028 SOE Strategy and 2025-2026 Action Plan
March 2026	Determination of the shareholder(s) of enterprises (SOEs)
April 2026	Corporate Governance Code update, including defining the SOEs to which it should apply
April 2026	Determination of the core function of SOEs by the shareholder(s), as well as long-term goals/ expectations and indicators for the board
April 2026	Defining the SCI content, process for its finalization, financial and non-financial oversight mechanisms (performance management system for SOE boards and the executive management)
April 2026	Submission of the SCI agreed with the shareholder(s) to the MOF and shareholder/s (if different)
April 2026	Development and adoption of SOE board selection, appointment, remuneration and dismissal policies
June 2026	Staffing boards in SOEs and defining their main functions and responsibilities under the newly introduced policies
June 2026	Formation of SOE board-level audit and remuneration committees and determination of their provisions (charters of the committees)
June 2026	Board approval of remuneration policy at each SOE (in agreement with shareholder(s))
June 2026	SOE boards' approval of the SCI approved by the MOF
June 2026	Analyzing the specifics of SOE procurement by boards and submitting to the Reform Council and Working Group those procurement codes where it is justified and necessary to maintain special procurement regime

July 2026	Approval of special procurement rules for SOEs
August 2026	Development of the Guidelines on the quantification of non-commercial activities (PSOs/QFAs)
September 2026	Revision and finalization of the SOE Law for submission to Parliament
September 2026	Boards to analyze each direction of SOE's operation (including their subsidiaries) and submit comprehensive information on activities other than the SOE's main function (employees, revenues, expenses, activities of private sector representatives in the same direction or the possibility of doing so) to the Reform Council and Working Group (based on criteria as per SOE Strategy), identifying areas where the private sector could be more effective
September 2026	Boards to submit a register of real estate of SOEs to the Reform Council and Working Group. The register should be accompanied by an argumentation on the need for each property to be owned by the SOE
September 2026	Analyzing the information received by the Working Group with the involvement of the Competition Agency. Developing an action plan for the gradual termination/ suspension of the SOE activities in the areas where the private sector would be more effective, submit those to the Reform Council for the decision making (based on the SOE Strategy)
October 2026	Identification of non-commercial expenses of SOEs by boards and submission of information to the Reform Council and Working Group on their reduction, cancellation of financing from the budget (with appropriate detailed calculations)
October 2026	The Council's Working Group to make a decision on the privatization of the SOE's non-core property and an action plan for its implementation
October 2026	Analyzing the information received by the Working Group, gradual elimination of non-commercial expenses of SOEs of their exclusion from the budget. Develop an action plan to establish a transparent funding mechanism and submit it to the Reform Council for decision making
October 2026	Approval of the Reform Action Plan for 2026-2027

# Annex II. SOE Board Selection and Appointment Guidelines

Below guidelines are produced based on the mission compilation of the OECD Working Party of State Ownership and Privatization Practices materials and the good international practices.

These Guidelines are aimed to provide a broad procedure for selecting and appointing SOE board members, which will require adjustments to fit the local legislation and practices of Georgia.

## Procedures for Selection and Appointment of SOE Board Members in Georgia<sup>29</sup>

---

### 1. Objective and Principles

This proposed procedure establishes a clear, merit-based framework for the selection and appointment of SOE board members, which ensures professional governance and reduces political interference, while aligning with international standards. It is based on the following principles:

- Transparency and open competition
- Meritocracy and professional competence
- Independence and ethical integrity
- Board diversity and balance of skills
- Accountability to the state as shareholder

### 2. Institutional Roles and Responsibilities

Entity	Responsibility
Ownership Entity	Triggers and oversees the selection process; ensures compliance
Line Ministry	Provides input on sectoral needs and SOE Strategy
Selection and Nomination Committee (SNC)	Evaluates candidates and prepares appointment proposal
Independent Expert (optional)	Supports technical screening and interviews
GMS / Ownership Entity	Formally appoints board members based on shortlist

---

<sup>29</sup> Aligned with OECD SOE Guidelines and good practices from Finland, Lithuania, Romania, and Sweden.

### 3. Procedural steps

#### Step 1: Launch of the Selection Process

- Initiated at least 4 months before mandate expiry, or within 30 days of a vacancy.
- Ownership Entity issues a formal launch notice and publishes a call for candidates on official websites (ownership entity, SOE) and job portals.

#### Step 2: Establishment of the Selection and Nomination Committee (SNC)

- Appointed by the Ownership Entity.
- Composition: 3-5 members, including: 1 from the Ownership Entity; 1 sector expert appointed by the line ministry; and 1 independent governance or HR expert.
- All members sign confidentiality and conflict-of-interest declarations.

#### Step 3: Preparation of Selection Materials

The SNC prepares and approves:

- Board Profile: Required collective competencies (e.g. finance, strategy, sectoral knowledge).
- Candidate Profile: Required qualifications, traits, and experience.
- Evaluation Grid: Scoring tool for screening and interviews.
- Interview Framework: Standardized questions assessing governance, strategy, ethics, etc.

#### Step 4: Public Call for Applications

- Public call is issued and remains open for at least 30 calendar days.
- In addition to open calls or applications, the SNC should proactively seek out suitable candidates through targeted headhunting, which remains the most effective method for attracting high-caliber profiles. Further sources may include proposals from the SOE Board Nomination Committee, which—given their sectoral knowledge—can often suggest credible individuals. Additional channels such as professional associations, industry networks, desktop research, etc.
- Application package must include:
  - CV and application form
  - Degrees, certificates, and references
  - Integrity and conflict-of-interest declarations
  - Motivation or intent letter

### **Step 5: Screening and Shortlisting**

- SNC reviews complete applications.
- SNC applies evaluation grid to score candidates.
- SNC produces a longlist and selects a shortlist of 2–3 candidates per vacancy.

### **Step 6: Interview and Final Evaluation**

- Shortlisted candidates interviewed by SNC using the approved interview plan.
- Candidates scored on:
  - Technical expertise and governance judgment
  - Integrity, strategic thinking, and independence
- SNC prepares a final report including:
  - Scores and rankings
  - Justification for selection
  - Recommended appointments and reserve list

### **Step 7: Appointment**

- Ownership Entity endorses the SNC Final Report and decides on the candidate/s.
- The GMS or relevant authority appoints board members within 10 working days.
- Results and anonymized summary published online.

## **4. Eligibility Criteria**

### **4.1 Mandatory Requirements**

All candidates must meet the following minimum conditions:

#### **1. Education**

- Bachelor's degree in a relevant field (e.g. economics, law, engineering, finance, management, public administration).
- A postgraduate degree (Master's or PhD) is an asset.

#### **2. Professional Experience**

- Minimum of 8 years of relevant experience, including at least 3-5 years in a leadership, board-level, or senior management role.
- Preference is given to the experience in sectors relevant to the SOE.

### **3. Corporate Governance Knowledge**

- Demonstrated understanding of corporate governance principles, fiduciary duties, strategy, and oversight.
- Previous board experience in public or private sector is preferred.

### **4. Integrity and Reputation**

- Clean criminal and tax record.
- Not subject to ongoing investigations, bankruptcy, or disciplinary sanctions.
- Declaration of independence, ethics, and impartiality required.

### **5. Independence**

According to Georgia Corporate Governance Code for SOEs, an independent member of SOE board is a member who does not belong to any of the following groups:

- For the last two years has been in personal relations, such as kinship, cohabitation, and so on with a member of the Supervisory Board or CEO of the enterprise, or with a person or persons holding a significant share of the enterprise.
- For the last two years has held the position of a Minister, Deputy Minister, Member of the Parliament of Georgia and / or other political or state-political positions defined by the legislation of Georgia.
- Has managed / run the business (directly or indirectly) for the past two years, or has had any other substantial business relationship with the enterprise or with a person or persons that directly or indirectly owns a significant share in the enterprise.
- Has any material liabilities, including financial, to management or shareholders holding a significant share of the enterprise.
- Has had a professional or other business relationship (including providing business services) with the enterprise, its executives, or shareholders holding a significant share of the enterprise for the past five years.
- In addition to the dividend and the fixed salary received for the supervisory board membership, the enterprise pays him/her additional amounts.
- Has any other kind of relationship that may affect his or her independence.
- Is a public servant as defined by Paragraph 4 of Article 46 of the Law of Georgia on Entrepreneurs

### **6. Conflict of Interest and Declarations**

Must submit all required declarations on:

- Conflicts of interest
- Political exposure
- Assets and income (if applicable)

## 4.2 Additional Considerations (for competitive scoring)

- Sectoral expertise relevant to the SOE's activities
- International experience (e.g., international organizations, multinational corporations)
- Diversity contribution (gender, age, background, region)
- Commitment and time availability (estimated 15–25 days/year)
- Not over-boarded (not serving on more than 3 boards simultaneously)

## 4.3 Disqualifications

A candidate will be disqualified if they:

- Hold elected office or high-ranking political positions
- Have been convicted of fraud, corruption, or similar offences
- Are party to litigation against the SOE or state
- Have been dismissed from a position on grounds of breach of trust
- Fail to disclose required declarations
- Provide false information

## 5. Timeline Overview

Phase	Duration
Launch and Public Call	Day 0–30
Application Review and Shortlisting	Day 30–50
Interviews and Final Evaluation	Day 50–65
Appointment Decision	Day 65–75

## 6. Special Procedures

- Vacancy Mid-Term: Fast-track procedure may be used (e.g., from a pre-qualified pool of candidates).
- Mandate Renewal: Incumbents may reapply but must undergo performance review.
- Induction: Newly appointed board members should receive governance induction training.

## Annex III. Proposed List of Grounds for Dismissing an SOE Board Member

Limiting the causes for dismissal of SOE board members to clearly defined and objective criteria is essential to protect their independence and ensure that board decisions are guided by the long-term interests of the enterprise rather than short-term political or personal considerations. Such safeguards, recommended by the OECD, help attract and retain qualified professionals, promote stability in governance, and enhance investor and stakeholder confidence in the integrity of the SOE.

The powers of a member of SOE board may be terminated early only on the following grounds:

- (i) failure by the SOE to achieve the objectives defined in the letter of expectations, as determined by the SOE's ownership entity or GMS, and based on the results of the performance evaluation of the SOE board;
- (ii) discovery of facts indicating that the board member does not meet the qualification requirements, or that the independent board member fails to meet independence criteria. Information about such findings must be published on the SOE's website within two working days from the date of such discovery;
- (iii) improper performance by the board member of his/her duties as defined by the civil-law contract and/or the SOE's charter, or failure to meet the requirements for professional competence and business reputation. Early termination of powers on these grounds may be initiated by:
  - a. the SOE board, which by a decision adopted by at least two-thirds of its total membership, submits a request to the ownership entity (or general meeting) for termination of the member's powers. The procedure for submitting such a request is defined by the SOE board;
  - b. a shareholder (participant) holding at least 25 percent of the shares (stakes), who initiates consideration of this issue at the GMS, provided that the SOE board issues an opinion on the validity of the matter and/or based on the performance evaluation results. The procedure for preparing the opinion is determined by the SOE board;
- (iv) submission of a written notice of resignation by the SOE board member, provided it is submitted no later than two weeks prior to termination of powers;
- (v) submission of a written notice of resignation by the SOE board member due to health reasons or other grounds preventing the performance of duties;
- (vi) entry into legal force of a court verdict or decision sentencing the SOE board member to punishment that precludes the fulfillment of their duties;
- (vii) entry into legal force of a court decision holding the SOE board member administratively liable for a corruption-related offense;

- (viii) death of the SOE board member, or a court ruling declaring him/her legally incapable, partially capable, missing, or deceased;
- (ix) entry into legal force of a court decision finding the SOE board member guilty of violating fiduciary duties according to Georgian law;
- (x) receipt by the SOE of a written notice regarding the replacement of a SOE board member representing a shareholder (participant);
- (xi) disposal by the shareholder (participant), represented by the SOE board member, of all their shares (stakes) in the company.

The decision to terminate the powers of a SOE board member early on the grounds provided in subclauses (i)–(iii) of this Clause shall be made by the SOE’s GMS.

# Annex IV. Outline of the Remuneration Setting Procedure for SOE Board and Management

Below guidelines are produced based on the mission compilation of the OECD Working Party of State Ownership and Privatization Practices materials and the good international practices.

These Guidelines are aimed to provide a broad procedure for selecting and appointing SOE board members, which will require adjustments to fit the local legislation and practices of Georgia.

## Introduction

This procedure outlines the process for determining, approving, and disclosing the remuneration of Board members and Chief Executive Officer (CEO) in SOEs. It is designed to ensure that remuneration practices are based on a competitive process to attract and retain qualified professionals, while upholding transparency, accountability, and public trust. This outline is largely aligned with the OECD Guidelines on Corporate Governance of State-Owned Enterprises and incorporates relevant international best practices. It clearly defines the roles and responsibilities of the relevant stakeholders, such as MOF, MOESD, other line ministries, SOE boards and their Nomination and Remuneration Committees, and other key stakeholders, while embedding the remuneration framework within the broader envisaged performance management system. It aims to balance fiscal discipline and policy objectives with the need for effective, professional governance, ensuring that remuneration decisions are fair, transparent, and directly linked to SOE performance and strategic goals.

## Proposed Approach for Developing Remuneration for SOE Board Members and CEO

---

### I – Establish the Remuneration Policy Framework

**Lead Responsibility:** MOF and MOESD (for dual model)

**Timeline/Frequency:** Initial adoption and review at least every three years, or earlier if there are significant market or regulatory changes.

- 1) MOF and MOESD shall develop and maintain a Remuneration Policy covering all SOEs under state ownership.
- 2) The policy shall outline the principles guiding remuneration, including competitiveness to attract and retain qualified candidates, public accountability, transparency, and alignment with the long-term interests of the state.
- 3) The policy shall define the remuneration-setting model to be applied nationally (e.g., centralized fee grid, SOE proposal with shareholder approval, or tiered formula based on size and complexity).
- 4) Standard remuneration bands for board members and CEOs shall be included, with clearly defined caps, chair multipliers, and rules for committee fees.

- 5) The policy shall explicitly prohibit performance-based pay for SOE board members to preserve their independence.
- 6) The policy shall require full public disclosure of remuneration levels, methodology, and approval decisions.

## II – Develop Annual Remuneration Guidance

**Lead Responsibility:** MOF and MOESD (for dual model)

**Timeline:** By the fourth quarter of each year, for application in the next financial year.

- 1) MOF and MOESD shall publish the Annual Remuneration Guidance detailing any adjustments to salary bands, taking into account inflation, market conditions, and fiscal constraints.
- 2) The guidance shall specify disclosure templates, performance measurement criteria for CEOs, and any sector-specific constraints relevant to remuneration.
- 3) Copies of the guidance shall be distributed to all SOEs and relevant ministries to ensure alignment before the annual remuneration-setting process begins.

## III – Conduct Benchmarking and Develop Proposals

**Lead Responsibility:** SOE Board Nomination and Remuneration Committee (NRC)

**Supporting Roles:** External remuneration advisors (optional), Line Ministries (for policy-oriented SOEs)

**Timeline:** Last quarter of each year for the following year (to be included in the SOE budget)

- 1) NRC shall conduct external benchmarking for CEO remuneration against comparable organizations in the same sector, size, and complexity, and verify that board fees are positioned appropriately within the national fee grid.
- 2) NRC shall draft two proposals:
  - Board Remuneration Terms (within the limits of the national framework).
  - CEO Remuneration and Performance Agreement, including base salary, performance-related pay, key performance indicators (KPIs), payout ranges, and caps.
- 3) KPIs for CEOs shall be designed to align with the SOE's strategic objectives, public service obligations, and corporate governance principles provided in the Corporate Governance Code.
- 4) NRC shall confirm that no variable pay is proposed for board members and that committee fees are modest, capped, and linked to workload.

#### IV– Board Review and Internal Approval

**Lead Responsibility:** SOE Board

**Timeline:** Within one month of receiving the NRC proposals.

- 1) Full SOE Board shall review the proposals developed by the NRC to ensure alignment with the SOE's strategic objectives, risk appetite, and the Remuneration Policy.
- 2) SOE Board shall approve the proposed remuneration packages at SOE level, ensuring they fall within the limits set by the Ownership Entity's framework.

#### V – Submission for Ownership Entity or Government Approval

**Lead Responsibility:** SOE Board Chair / Corporate Secretary

**Timeline:** No later than two weeks after Board approval.

- 1) SOE Board shall submit the following documentation to MOF and MOESD (for dual model):
  - The proposed Board remuneration terms and justification.
  - The proposed CEO Remuneration and Performance Agreement, including KPI definitions, weights, targets, and payout scenarios.
  - A compliance statement confirming alignment with the Remuneration Policy and Annual Guidance, and highlighting any exceptions.

#### VI – Review and Decision by Ownership Entities

**Lead Responsibility:** MOF and MOESD (for dual model)

**Timeline:** Within one month of receiving the submission.

- 1) MOF and MOESD shall review the submission for compliance with the Remuneration Policy, alignment with national strategic objectives, and market competitiveness.
- 2) For board fees, approval shall follow the national model (e.g., ministerial approval under a fee framework or GMS approval for listed SOEs).
- 3) For CEO remuneration, MOF and MOESD shall confirm that performance incentives are reasonable, KPIs are measurable, and safeguards such as caps and clawback provisions are in place.
- 4) Decisions shall be communicated in writing to the SOE Board, with reasons provided in case of modifications or rejections.

## VII – Implementation and Mid-Year Review

**Lead Responsibility:** SOE Board and CEO

**Supporting Role:** NRC

**Timeline:** Midway through the performance year.

- 1) CEO shall implement the Remuneration and Performance Agreement and report quarterly to the NRC on KPI progress.
- 2) NRC shall conduct a mid-year review to assess progress, identify risks to performance delivery, and recommend any pre-approved adjustments.
- 3) Where significant changes to KPIs or remuneration are required mid-cycle (e.g., due to market shocks or strategic shifts), prior approval from MOF and MOESD shall be obtained.

## VIII – Year-End Performance Assessment and Bonus Approval

**Lead Responsibility:** NRC and Full SOE Board

**Timeline:** Within two months of the financial year-end.

- 1) NRC shall assess the CEO's performance against the approved KPIs, using audited and verified data.
- 2) NRC shall calculate the formula-based performance bonus and apply any malus or clawback provisions if necessary.
- 3) Full SOE Board shall approve the final payout, ensuring it does not exceed the caps established in the Remuneration Policy.
- 4) Any exceptional payouts outside the approved limits shall be submitted to MOF and MOESD for final approval.

## IX – Disclosure and Portfolio-Level Reporting

**Lead Responsibility:** SOE Board and Ownership Entities - MOF and MOESD (for dual model)

**Timeline:** Concurrent with publication of the SOE's Annual Report.

- 1) SOE shall publish individual-level remuneration data for all Board members and the CEO, including base pay, allowances, benefits, and performance-related pay.
- 2) KPI outcomes and the rationale for any discretionary decisions shall be disclosed transparently.
- 3) MOF and MOESD shall compile and publish the board and CEO remuneration across the SOE portfolio, as part of the SOE aggregate report.

## Board Remuneration Examples<sup>30</sup>

Country	Typical SOE focus	Ordinary board member fee (USD)	% of national average wage	Chair multiplier	Committee fees	Civil servants on SOE boards
Latvia	Commercial / mixed	34,760	≈116%	1.5–2.0×	Limited/capped	Often zero or capped fees; participation being reduced
France	Commercial / mixed	≈25,000–30,000	n/a	1.5–2.0×	Limited	Civil servants allowed but subject to same fiduciary duties; transparency required
Netherlands	Commercial / mixed	≈25,000–30,000	n/a	1.5–2.0×	Limited	Disclosure of affiliations/compensation; no special incentives
Chile	Commercial / mixed	≈25,000–30,000	n/a	1.5–2.0×	Limited	Not a focus in the note
New Zealand	Both types	Set by Cabinet Fees Framework	n/a	1.5–2.0×	Limited	Phasing down civil servant participation, especially in commercial SOEs
Estonia	Both types	Varies (within grid)	n/a	Up to 2.0×	Modest, capped; Audit Chair only	Limits on number of mandates; public disclosure
Portugal	Both types	Varies (within grid)	n/a	Up to 2.0×	Modest, capped	Limits on mandates for officials
Croatia	Policy-oriented	Low fixed fees	<30%	Often uniform	Rare	Civil servants common; fixed by law
Lithuania	Commercial / mixed	n/a	n/a	1.5–2.0× (typical)	Limited	Reducing civil servant participation, esp. in commercial SOEs

<sup>30</sup> Percentages are calculated relative to each country's average national wage where data is available. Commercially oriented SOEs tend to have higher fee levels than public policy-oriented SOEs, reflecting market competition for talent. Variable pay for directors is generally avoided; committee fees, where applicable, are modest and capped.

Multi-country average	Commercially oriented	17,356	64%	1.5–2.0×	Multi-country average	Some jurisdictions still allow civil servants on SOE boards, although this is increasingly discouraged.
Multi-country average	Public policy-oriented	8,974	42%	1.5×	Multi-country average	

Growing consensus that elected politicians and political appointees (Ministers, Deputy Ministers) should not serve on SOE boards

Source: *Trends in Remuneration of Boards of Directors in State-Owned Enterprises* (OECD: 2022), based on cross-country data and national policy frameworks.

## Potential Approach for SOE Board Remuneration Package for Georgia

The proposed remuneration framework for members of the Boards of Directors of SOEs in Georgia below is calibrated to the country's economic context and aligned with OECD Guidelines and international best practices.

### 1. National Wage Context

According to the latest available data,<sup>31</sup> the average gross monthly wage in Georgia is approximately 2,058 GEL (about USD 763). This corresponds to an annual gross wage of around USD 9,156. The remuneration proposals below are expressed both as fixed annual fees and as percentages of the national average wage.

### 2. Recommended Annual Fee Ranges

SOE Type	Ordinary Member Fee (USD)	% of National Avg Wage	Chair Multiplier	Committee Chair Premium
Commercially Oriented SOEs	6,000 – 8,000	65–85%	1.5× – 2.0×	Up to 20–30%
Public Policy–Oriented SOEs	4,000 – 5,000	45–55%	1.5×	Up to 15–20%

<sup>31</sup> National Statistics Office of Georgia (Geostat: 2024), *Average Monthly Nominal Earnings of Employees*, available at: <https://www.geostat.ge/en/modules/categories/39/wages..>

### 3. Example Calculations

#### 3.1. Commercial SOE – Large & Complex:

- Base (ordinary member): USD 7,000 (~77% of avg wage)
- Chair fee (2×): USD 14,000
- Committee premium (25%): USD 1,750 (for e.g., Audit Chair role)
- Total (Chair & Committee): USD 15,750 + reimbursable expenses

#### 3.2. Public Policy–Oriented SOE – Medium:

- Base (ordinary member): USD 4,500 (~50% of avg wage)
- Chair fee (1.5×): USD 6,750
- Committee premium (15%): USD 675
- Total (Chair & Committee): USD 7,425 + reimbursable expenses

### 4. Additional Rules and Safeguards

- No performance-based pay for board members, in line with OECD Guidelines to preserve independence.
- Fee caps to be reviewed annually by MOF and MOESD to maintain competitiveness and public accountability.
- Civil servants serving on SOE Boards to receive nominal (a symbolic or very small fee) or zero fees, with limits on the number of mandates held.