

THE PECULIARITIES OF **SOEs** IN GEORGIA: RED FLAGS AND WAYS TO IMPROVE TRANSPARENCY, ACCOUNTABILITY AND PREVENTION CORRUPTION

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- ▶ Law on entrepreneurs
- ▶ Law on state property

LEGISLATION

State share 100%- 100, >50%-29, 50%< -30

Central government -159

32 out of 77 are in Tbilisi and Batumi

Municipalities - 77

2017 – IN TOTAL 289 COMPANIES (50
DAUGHTER COMPANIES INCLUDED)

2
0
1
7

Ministry of Economy
and Sustainable
Development **111**

Partnership Fund **26**

Ministry of Regional
Development and
Infrastructure **3**

Ministry of Defence **5**

Ministry of Environment
Protection and
Agriculture **7**

Ministry of Education,
Science, Culture and
Sport **2**

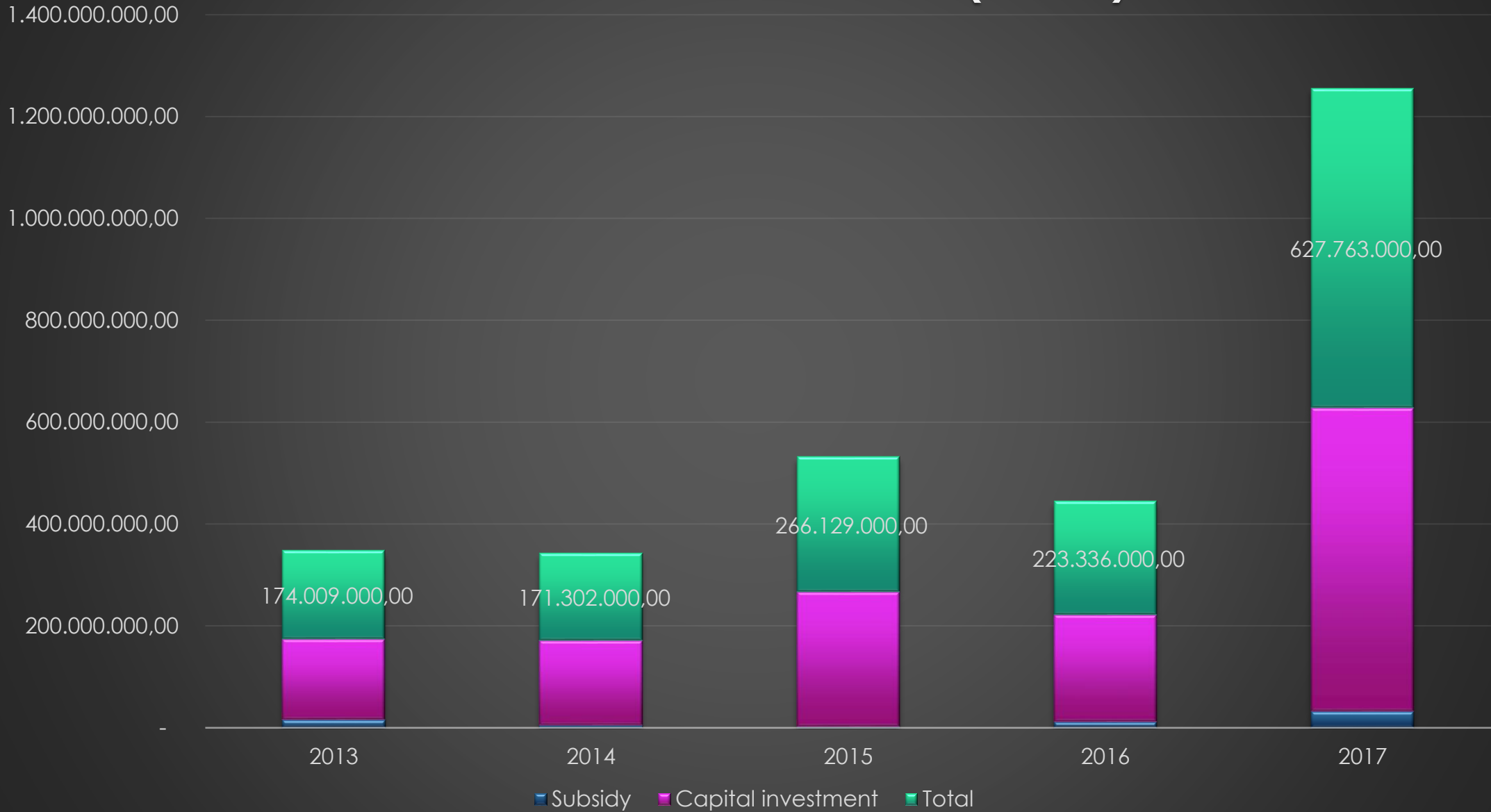
Ministry of Internally
Displaced Persons from
the Occupied
Territories, Labour,
Health and Social
Affairs **1**

Ministry of Justice of
Georgia **1**

Under the
management of legal
entities **3**

1
5
9

Financial aid from the state to PA-s (In GEL)




AUDIT OF SOES/SCOPE & METHODS

The audit comprises the period of 2012 to November 1, 2014. The following issues were studied and analyzed:

- ▶ Criteria for establishment and performance assessment of SOEs;
- ▶ The state of implementation of corporate governance principles: the delegation of partner's duties by the state to the various authorities; Transparency and accountability of business activities; Remuneration and promotion systems;
- ▶ Privatization of enterprise shares and assets: Feasibility study of privatization; Determination of privatization fees; Evaluation process of the investors;
- ▶ Profit distribution of SOEs;

AUDIT OF SOES/SCOPE & METHODS (CONTINUED)


The following methods were used to answer questions related to the application of the basic principles of corporate governance:

- ▶ Legal analysis
 - ▶ Analysis of Governance System
 - ▶ Statistical analysis
 - ▶ Analysis of economic and financial data
 - ▶ Analysis of contracts
- 


AUDIT OF SOES/FINAL CONCLUSIONS AND RECOMMENDATIONS

- ▶ Governance practices were not uniform
 - ▶ Information on enterprise management was incomplete and not aggregated
 - ▶ Coordination between agency and ministries was complicated, impeding making decisions timely and modern corporate governance.
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AUDIT OF SOES/FINAL CONCLUSIONS AND RECOMMENDATIONS (CONTINUED)

- ▶ Not all functioning enterprises were included in the system
 - ▶ As for the Ministries of Agriculture and Energy, the reporting system in these agencies was not actually implemented
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AUDIT OF SOES/FINAL CONCLUSIONS AND RECOMMENDATIONS (CONTINUED)

- ▶ There was no integrated reporting system in place. Therefore, audit team concluded that the existing reporting system did not ensure transparency of business activities.
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AUDIT OF SOES/FINAL CONCLUSIONS AND RECOMMENDATIONS (CONTINUED)

- ▶ Georgia had begun implementing significant additional financial control mechanisms in state-owned enterprises such as internal audit, annual audit reports and International Financial Reporting Standards.
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AUDIT OF SOES/FINAL CONCLUSIONS AND RECOMMENDATIONS (CONTINUED)

- ▶ The elaborate, but still not officially approved, instruction
- 
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AUDIT OF SOES/FINAL CONCLUSIONS AND RECOMMENDATIONS (CONTINUED)

- ▶ privatization fee is the audit conclusion and that investors' solvency is not checked to reduce their risk of default.
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AUDIT OF SOES/FINAL CONCLUSIONS AND RECOMMENDATIONS (CONTINUED)

- The absence of a clear profit-sharing policy and methodology
 - The duties of the State as a partner are not actively exercised
 - In addition, the Agency does not have a viable system in place to receive dividends from enterprises on time.
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AUDIT OF SOES/FINAL CONCLUSIONS AND RECOMMENDATIONS (CONTINUED)

- ▶ The process of profit sharing and subsequent investment (spending) by JSC Partnership Fund is not coordinated.
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AUDIT OF SOES/RECOMMENDATIONS NASP

- ▶ Criteria for the establishment of state-owned enterprises should be defined,
 - ▶ In the first phase Georgia should move to the so-called state enterprise governance dualistic model
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AUDIT OF SOES/RECOMMENDATIONS NASP

- ▶ The agency should first register all state-owned enterprises (whether functioning or non-functioning) in the country and update their assets and liabilities information.
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AUDIT OF SOES/RECOMMENDATIONS NASP

- ▶ The reporting system should be unified and a sample of report should be developed whereby all state-owned enterprises regularly report on their performance and financial performance to the governing body (agency, ministries).
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AUDIT OF SOES/RECOMMENDATIONS NASP

- ▶ It is important to develop specific regulation / instruction that will regulate the issue of management remuneration (salary, premium) in state-owned enterprises.
- ▶ It is important to determine the value of a privatization object (asset, share in the enterprise) in line with current worldwide good practice
- ▶ Prior to conducting the auction, information should be provided to potential investors and a competitive bidding environment should be created.

AUDIT OF SOES/RECOMMENDATIONS MESD

- ▶ It is important that the commission set up for the distribution of enterprise net profits be held on a regular basis (annually) in order to timely mobilize the budget income.
 - ▶ An effective mechanism should be established if the management of the enterprise does not timely transfer funds (dividend) into the budget.
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Thank you for attention!

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