

CHALLENGES OF PERSONNEL AND REMUNERATION POLICY OF STATE ENTERPRISES



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Key Findings

- Despite the financial problems in state-owned companies, a growing trend of employment in all sectors of enterprises has been maintained. In particular, in 2019, compared to the previous year, the number of employees increased by about 2% (+575 employees).
- In 2019, the salaries of employees of 14 state-owned companies amounted to 428 million GEL, a 9% increase compared to 2018 (392 million).
- In the state enterprises surveyed, labor costs saw an increase between 4% and 32% in 2019 as compared to the previous year.
- The growing trend in the salary expenses of state-owned companies was largely maintained against the background of the unfavorable financial performance of the companies. For example, in JSC Georgian Oil and Gas Corporation, salary expenditures increased by 15% while annual profits decreased by 40 million. Remuneration costs in the United Water Supply Company of Georgia Ltd increased by 8% in 2019, while the company's losses amounted to 85 million.
- Individual companies that receive subsidies from the state budget have been issuing bonuses to their employees. For instance, Ltd Georgian Land Reclamation paid 2.8 million GEL in bonuses in 2018-2019 (2019 - 1.3 million, 2018 - 1.5 million), Ltd Black Sea Arena Georgia issued 1.1 million GEL (2019 - 315 thousand, 2018 - 759 thousand).
- The remuneration of the management of 11 state-owned companies in 2019 amounted to 9.5 million GEL in total, which is around a 15% increase compared to 2018 (8.3 million).
- Asset declarations forms filled out by the heads of specific state-owned companies do not contain information about the remuneration received by them.

Introduction

Effective management of state-owned enterprises remains a significant challenge in terms of the country's economy. Over the years, the inefficient and opaque management policies of state-owned companies have had a significant impact on their financial outcomes. For example, the losses of state-owned enterprises in 2019 amounted to 237 million GEL, in 2018 - 816 million GEL.

These opaque and unaccountable activities of state-owned enterprises do not allow the public to fully assess and analyze the existing problems in this area. Although these companies often exercise public legal authority and manage public finances, they oftentimes still refrain from disclosing public information.

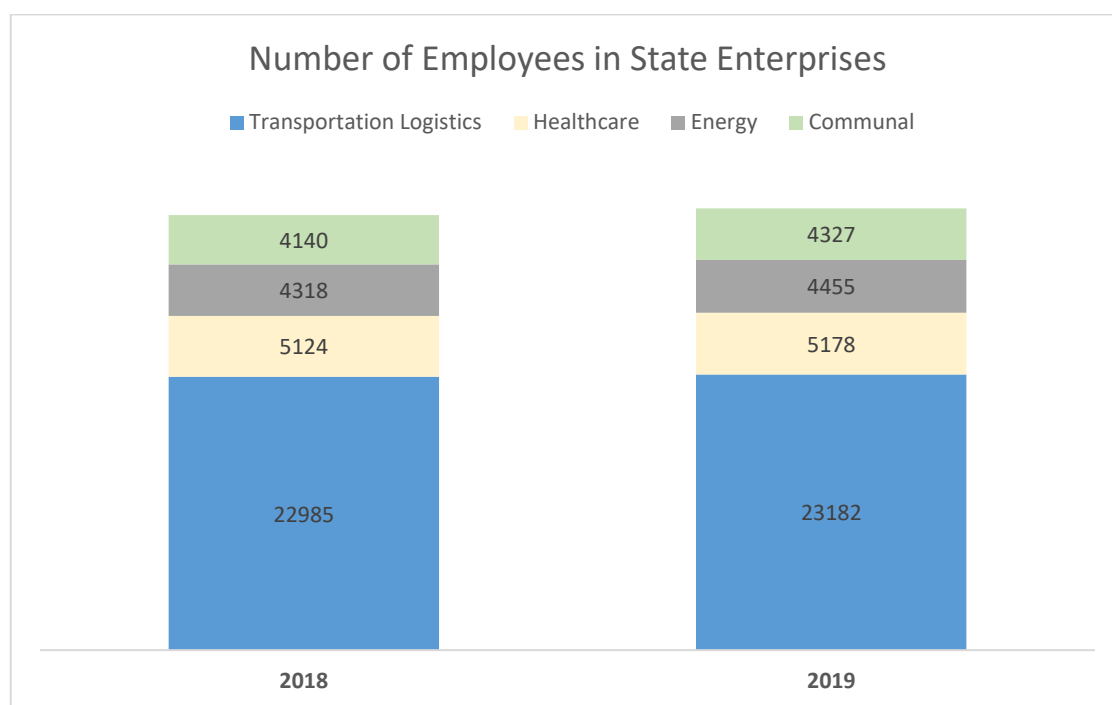
The financial outcomes and existing challenges facing state-owned enterprises are reviewed in the 2021 state budget fiscal risk analysis [document](#) prepared by the Ministry of Finance of Georgia. The analysis prepared by the Ministry is based on data from 352 state-owned enterprises (173 - owned by local government, 179 - owned by central government). According to the fiscal risk analysis document, the fact that the losses in state-owned enterprises in 2019 were significantly reduced compared to the previous year is still not a significant basis for optimism on the issue, and it is necessary to implement state-owned enterprise reform. The large amount of losses incurred by state-owned enterprises in recent years, along with the depreciation of assets, was also precipitated by the quasi-fiscal activities that serve social and political purposes and which would not be implemented by a profit-oriented enterprise. For example, Enguri HPP supplies electricity to the occupied region of Abkhazia free of charge, JSC Georgian Railway subsidizes passenger transportation, JSC Georgian Oil and Gas Corporation subsidizes household gas tariffs, etc. The Ministry of Finance began the identification and publication of quasi-fiscal activities in 2017, and these have been identified only in 6 companies so far.

The hidden quasi-fiscal activities related to employment and wage policies that are inconsistent with commercial purposes in state-owned enterprises may also be discussed as one of the important determinants of the existing financial results revealed among state-owned enterprises. Against the background of opaque activities of state-owned enterprises, non-commercial employment and wage policies can have a significant impact on the financial performance of each enterprise. Unfortunately, the fiscal risk analysis document does not provide a detailed analysis by company in this regard. Analyzing different data in the same document, as well as the data that is publicly available, however, allows us to reach certain conclusions.

Statistics of Employment in State Enterprises

According to the Ministry of Finance, **as of 2019, 37,142 people were employed in state-owned enterprises**. About 95% of the employees working at state enterprises come from among 10 specific state enterprises. Among these, the most - 12,476 people - are employed by JSC Georgian Railway. Also noteworthy in terms of the number of employees are Tbilisi Transport Company Ltd. - 6,302 persons, Tbilservice Group Ltd. - 4,983 persons, United Water Supply Company Ltd. - 2,724 persons, Georgian Post Ltd. - 2,495 persons.

Despite the financial problems state-owned companies have faced in recent years, there is a growing trend of employment in all enterprise sectors. Specifically, the number of employees in 2019 increased by about 2% compared to the previous year (+575 employees).



State Enterprises with the Largest Numbers of Employees	
State Enterprise	Number of Employees
JSC Georgian Railway	12,476
Tbilisi Transport Company Ltd.	6,302
Tbiliservice Group Ltd.	4,983
United Water Supply Company of Georgia Ltd.	2,724
Georgian Post Ltd.	2,495
JSC Georgian State Electric System	1,527
Georgian Land Reclamation Ltd.	1,432
Regional Healthcare Center Ltd.	1,176
State Food Provision Ltd.	1,161
Enguri HPP Ltd.	996

Source: Ministry of Finance, fiscal risk analysis document

Labor Remuneration Costs in State Enterprises

Opaque wage policy is another important challenge, along with the personnel policy in state-owned enterprises, an important challenge that poses risks of mismanagement and misuse of state-owned company

finances. The fiscal risk analysis document clearly emphasizes that wage policy in enterprises is not transparent, which creates a large space for inefficient outcomes. Simultaneously, according to the document, the functions of the supervisory board of state enterprises have legal definitions of their powers such as the appointment/dismissal of the director, determination of salary and other conditions, which is most likely formal in its nature.

The shortcomings of the remuneration policy of state enterprises are also mentioned in the [2015 report](#) prepared as part of the performance audit conducted by the State Audit Office. The report states that the system of remuneration and incentives for state-owned enterprises has not been introduced, which creates risks of inadequate labor remuneration.

For state-owned companies, the limited liability for the disclosure of public information provided under Georgian law significantly complicates a detailed analysis of existing payroll policies of these companies. In this regard, the reporting portal ([reportal.ge](#)), created by the Accounting, Reporting, and Audit Supervision Service, where the financial and managerial accounts of various existing Georgian entities, including state-owned companies, are located, provides some means of monitoring. Additionally, the property declarations of the heads of state enterprises posted on the website of the Civil Service Bureau that reflect the income they received from the performance of their work provide an additional avenue for monitoring¹.

Within the framework of the study, IDFI examined the 2019 financial statements posted on the reporting portal by the state-owned companies with the highest cash flows, in which the submitted estimates include the sum payroll costs of the employed staff for the years 2019 and 2018. These figures often combine employee salaries, bonuses, allowances, employee health insurance, pension fund expenses, and other staff benefits.

According to the financial reports² of the 14 state-owned companies surveyed, their spending on employee labor remuneration in 2019 amounted to GEL 428 million, which is a 9% increase compared to 2018 (GEL 392 million). In the state enterprises surveyed, labor costs saw an increase between 4% and 32% in 2019 as compared to the previous year. The highest percentage increase (+ 32%) in 2019 was found in the Georgian Gas Transportation Company Ltd., where labor costs have increased from 10.7 million to 14.1 million.

According to the cost of goods sold by Batumi Seaport Ltd. (the state has transferred the exclusive right to manage 100% of the shares to the “Batumi Oil Terminal”, a company owned by JSC “Kazhtransoil” enterprise registered in Kazakhstan), in 2019 employee remuneration amounted to GEL 12.7 million, which is 5% lower than in 2018 (13.4 million). However, the remuneration of employees in the area of direct administrative expenses in 2019 amounted to 4.1 million GEL, which is 5% more than in 2018 (3.9 million).

The trend for growing salary expenses of state-owned companies is largely maintained against the background of unfavorable financial outcomes from these companies. For example, in JSC Georgian Oil and Gas Corporation, salary expenditures increased by 15% while annual profits decreased by 40 million. Remuneration costs in the United Water Supply Company of Georgia Ltd. increased by 8% in 2019, while the company's losses reached 85 million.

¹ In accordance with the recommendations of IDFI and other civil society organizations presented in 2013 within the framework of the Open Government Partnership International Initiative, the amendments to the Law of Georgia on Conflict of Interest and Corruption in Public Service increased the scope of persons required to submit property declarations. The list of officials includes the heads of enterprises, 100% of the shares or stakes of which are owned by a state or local self-government body, as well as the heads of subsidiaries of these enterprises.

² In the case of state-owned companies that have subsidiaries, the data is taken from consolidated accounts.

One may find explanations related to the increases in the salary fund in the financial statements of individual companies. For example, the reason for the 15% increase in the salary of JSC Georgian Oil and Gas Corporation was indicated to be the increase in the number of employees of Gardabani Thermal Power Plant 2 and Georgian Gas Storage Ltd, as well as increases in the salaries of temporary workers of the corporation.

Various indicators and explanations presented in the financial statements of state-owned companies indicate that, in addition to contractual remuneration, state enterprises also issue bonuses and salary supplements. For example, the financial report of Sakernavigatsia Ltd. contains expanded data on staff salaries, according to which, in 2019, 3.6 million was issued in bonuses and 3.3 million was issued to in the form of salary supplements to employees. According to the company's internal policy, employees are issued salary supplements on a monthly basis, the amount of which depends on years of service.

According to the financial report of JSC Georgian Railway, the company has a bonus system based on the evaluation of an employee's performance. According to the report, prior to 2017 the bonus was distributed on a quarterly basis only to leading employees, while beginning with 2017 not only the leading but all employees are awarded annual bonuses.

Salary Expenses of the State- Companies with Large Cash Flows							
	Cash Flow 2019 (mln)	Profit 2019 (mln)	Profit 2018 (mln)	Subsidiaries	Salaries 2019	Salaries 2018	Salary Increases
JSC Georgian Oil and Gas Corporation	719	121	161	4	23,004,000	20,076,000	+15%
JSC Electricity System Commercial Operator	568	1	0	-	2,834,022	2,694,128	+5%
JSC Georgian Railway	435	-6	-717	8	160,561,000	154,338,000	+4%
JSC Georgian State Electric System	196	30	47	2	31,089,000	27,565,000	+13%
Georgian Gas Transportation Company Ltd.	144	20	16	-	14,129,000	10,693,000	+32%
Georgian Post Ltd.	87	3	0	2	26,548,000	24,921,000	+7%
Sakernavigatsia Ltd.	76	3	17	-	39,897,000	33,945,000	+18%
Tbilservice Group Ltd.	76	-15	-71	-	56,561,253	51,447,815	+10%
Georgian Airports Association Ltd.	62	2	0	-	7,541,000	6,518,000	+16%
Enguri HPP Ltd.	61	-5	21	1	13,146,000	10,484,000	+25%
United Water Supply Company of Georgia Ltd.	48	-85	-40	-	25,313,000	23,392,000	+8%
Batumi Seaport Ltd.	43	1	6	-	12,670,561	13,382,364	-5%
JSC United Energy System Sakrusenergo	39	14	15	-	10,803,000	10,156,000	+6%
Batumi Airport Ltd.	30	21	21	-	3,468,000	2,826,000	+23%

Note: The data for Enguri HPP Ltd. and Batumi Seaport Ltd. are the indicators of remuneration of employees in terms of the cost of goods sold

Source1: Financial reports placed on the reporting portal reportal.ge

Source2 : Ministry of Finance fiscal risk analysis document

According to the financial reports of companies receiving subsidies from the state budget, funds are issued to employees in the form of bonuses in specific companies of this kind as well. For example, Georgian Land Reclamation Ltd paid GEL 2.8 million in bonuses in 2018-2019 (2019 - 1.3 million, 2018 - 1.5 million), Black Sea Arena Georgia Ltd issued GEL 1.1 million (2019 - 315 thousand, 2018 - 759 thousand).

Additionally, in many cases, there is a growing trend of wage growth in the companies receiving subsidies as well. For example, the salary expenditures of Georgian Solid Waste Management Company Ltd. increased by 12% in 2019 and by 8% in the State Construction Company Ltd.

Salary Expenses of Various State Companies Receiving State Subsidies						
	Subsidy 2019 (mln)	Profit 2019 (mln)	Profit 2018 (mln)	Salaries 2019	Salaries 2018	Salary Increase
Georgian Land Reclamation Ltd.	18	-31	-39	16,227,137	15,908,014	+2%
				Bonuses 1,267,727	Bonuses 1,514,505	
Georgian Solid Waste Management Company Ltd.	12	7	-8	4,330,122	3,857,195	+12%
Black Sea Arena Georgia Ltd.	10	-2	-4	2,536,000	2,871,000	-13%
				Bonuses 315 00	Bonuses 759 00	
Ltd. State Construction Company	9	10	-7	1,315,061	1,212,474	+8%

Source1: Financial reports placed on the reporting portal reportal.ge

Source2 : Ministry of Finance fiscal risk analysis document

Financial statements of state-owned companies often include information on the remuneration costs incurred by the management of the company. Similar information was reflected in the reports of 11 companies surveyed by IDFI. Analysis of these data reveals that the remuneration of the management of 11 state-owned companies in 2019 amounted to GEL 9.5 million, which is about 15% more than in 2018 (8.3 million). Unfortunately, in many cases the information on the number of people in managerial positions is not indicated, which makes it difficult to calculate the average annual salary. In companies where the number of employees in management was specified, the figures look as follows.

For example, the upper rungs of the management of Batumi Seaport Ltd. (the state has transferred the exclusive right to manage 100% of the shares to the "Batumi Oil Terminal", a company owned by JSC "Kazhtransoil" enterprise registered in Kazakhstan) consisted of 5 persons, whose remuneration in 2019 amounted to a total of GEL 2.2 million (an average of GEL 440 thousand per person). The amount contains salaries, bonuses and accommodation costs.

The remuneration of the management of JSC United Energy System Sakrusenergo (the owners of the company are Georgia with 50% and the Russian Federation with 50%) in 2019 reached GEL 1.68 million. According to

the report, these funds were issued to the director and their deputies. According to the information available on the [website](#) of Sakrusenergo, the director of the company has 4 deputies; therefore, the remuneration was split among 5 persons, amounting to GEL 336 thousand per person on average.

According to the financial report of the Georgian Post Ltd., the GEL 1,171,000 issued to the management team in 2019 was split among 12 employees (the director, three deputies, 8 department heads). Therefore, the remuneration for each manager was on average GEL 98 thousand.

Among the companies surveyed, the least amount of funds was indicated in the remuneration of the management of Georgian Airports Association Ltd. – GEL 107 thousand, which was issued to just the director.

Labor Remuneration Costs for the Management of State Enterprises		
	Salaries 2019	Salaries 2018
Batumi Seaport Ltd.	2,203,962	1,767,550
JSC United Energy System Sakrusenergo	1,680,000	1,333,000
Georgian Gas Transportation Company Ltd.	1,223,000	721,000
Georgian Post Ltd.	1,171,000	1,059,000
JSC Georgian Railway	908,000	981,000
JSC Georgian Oil and Gas Corporation	860,000	697,000
Batumi Airport Ltd.	488,000	559,000
Enguri HPP Ltd.	390,000	409,000
United Water Supply Company of Georgia Ltd.	262,000	273,000
JSC Electricity System Commercial Operator	255,043	361,600
Georgian Airports Association Ltd.	107,000	109,000

For the purposes of discovering the labor remuneration issued to individual heads of state enterprises, IDFI also studied the asset and property declaration forms filled out by persons in managerial positions in the past 3 years. During the monitoring process, IDFI identified cases where the heads of specific companies did not reflect the information on the labor remuneration received by them during their employment in specific positions.

For instance, the declaration filled out by the chairman of the management council of JSC Georgian State Electric System Sulkhan Zamburadze in 2019 does not contain information about the labor remuneration received in 2018. This specific position is noteworthy for the volume of remuneration. For example, in 2017 the same Sulkhan Zamburadze received a total of GEL 341,700 in labor remuneration.

Additionally, in the declaration forms filled out by the director of “Black Sea Arena Georgia” Ltd. Director Taniel Kharchilava in 2020 and 2019, the information about the labor remuneration received by him was also not indicated.

საქართველოში ან სხვა ქვეყანაში, თქვენი, თქვენი ოჯახის წევრის მიერ შესრულებული ნებისმიერი ანაზღაურებადი სამუშაო, სამეცნიერო საქმიანობაში მონაწილეობის გარდა

სამუშაოს შესრულებული პირის ვინაობა (სახელი, გვარი)	სამსახური, რომელშიც პირს უკავია თანამდებობა ან ასრულებს სამუშაოს, ასევე რომელშიც წინა წლის პირველი იანვრიდან 31 დეკემბრის ჩათვლით ეკავა თანამდებობა ან ასრულებდა სამუშაოს	თანამდებობის დასახელება ან სამუშაოს შინაარსი	საწყისი თარიღი	საბოლოო თარიღი	სამუშაოს შესრულებით წინა წლის პირველი იანვრიდან 31 დეკემბრის ჩათვლით მიღებული შემოსავალი
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The declaration filled out by the former chairman of the council of heads of JSC Georgian State Electrosystem, which does not indicate the labor remunerations received for completed work;

საქართველოში ან სხვა ქვეყანაში, თქვენი, თქვენი ოჯახის წევრის მიერ შესრულებული ნებისმიერი ანაზღაურებადი სამუშაო, სამეცნიერო საქმიანობაში მონაწილეობის გარდა

სამუშაოს შესრულებული პირის ვინაობა (სახელი, გვარი)	სამსახური, რომელშიც პირს უკავია თანამდებობა ან ასრულებს სამუშაოს, ასევე რომელშიც წინა წლის პირველი იანვრიდან 31 დეკემბრის ჩათვლით ეკავა თანამდებობა ან ასრულებდა სამუშაოს	თანამდებობის დასახელება ან სამუშაოს შინაარსი	საწყისი თარიღი	საბოლოო თარიღი	სამუშაოს შესრულებით წინა წლის პირველი იანვრიდან 31 დეკემბრის ჩათვლით მიღებული შემოსავალი (სულზე აღებული თანხა)
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Declaration filled out by the director of "Black Sea Arena Georgia" Ltd. Taniel Kharchava, which does not indicate the labor remunerations received for completed work;

The analysis of the data collected from the declarations also raises some questions regarding the accuracy of the information regarding the established labor remuneration instructions. In particular, from 2020 (in some cases also from 2019), the column for the salary received by the officials indicates the net income received by the official in the previous year, instead of the gross amount. Accordingly, the declared income for 2019 (in terms of fixed remuneration) should be less than the amount of remuneration from previous years by the amount of the tax rate established by law. In the case of a number of heads state enterprises, the declared (net) income in 2019 exceeds and/or is at the same level as the income declared in previous years (gross). For example, the declared income of the Head of Georgian Post Levan Chikvaidze in 2019 was 168,595 GEL for positions at Georgian Post Ltd., Georgian Lottery Company Ltd., and Express Ltd., 157,988.8 GEL for the same positions in 2018, and 159,725.6 GEL in 2017. Therefore, if we assume that the 2019 income reflects the net income, while previous years indicate gross income, then the remuneration has increased by about 60 thousand GEL compared to the previous year.

The declared income of Gocha Mezvrishvili, head of the Sakaeronavigatsia Ltd, in 2019 amounted to GEL 153,074, while for 2018-2017 the equal amount of GEL 103,200 has been declared. Taking into account the fact that the gross amount to be received should be reflected in the 2019 income, Gocha Mezvrishvili's salary has almost doubled compared to 2018-2017.

The salary of the Chairman of the Board of Directors of Enguri HPP Ltd. for 2019, 2018, 2017 has been declared in the same amount - GEL 99 thousand. Due to the circumstances of filling out the declaration with different calculations in different years, the coincidence in the amount of income each year raises questions about their accuracy.

Despite such questions about accuracy, the data reflected in the declarations show that the heads of state enterprises are notable because of their high wages. It should be noted, however, that these remunerations are often received by company executives against the stark background of unfavorable financial outcomes of the state enterprises under their control.

For example, in 2019-2017, the annual salary of the executive director of the Partnership Fund averaged about 300,000 thousand GEL. The head of JSC Georgian State Electric System received GEL 341,700 in compensation in 2017, while the company's losses reached GEL 320 million. The remuneration of the head of JSC Georgian Railway in 2018 amounted to GEL 226,725, while the company's losses reached 717 million GEL.

Labor Remuneration for Completed Work Declared by the Heads of State Enterprises							
State Enterprise	Position	Name, Surname	2019 (net)	Name, Surname	2018 (gross/net)	Name, Surname	2017 (gross)
Batumi Airport Ltd.*	Director	Mustafa Iltan Oqtemi	287,357.3	Mustafa Iltan Oqtemi	319,500.47 (net)	Mustafa Iltan Oqtemi	322,164.9
JSC Partnership Fund	Executive Director	Davit Saganelidze	237,231.3	Davit Saganelidze	294,000.0	Davit Saganelidze	336,000.0
JSC Georgian State Electric System	Chairman of the Management Committee/Rehabilitation Head	Ucha Uchaneishvili	212,520.4	Sulkhan Zumberidze	X	Sulkhan Zumberidze	341,700.0
JSC Georgian Oil and Gas Corporation	General Director	Giorgi* Bakhtadze	215,616.0	Davit Tvalabeishvili	209,346.0	Davit Tvalabeishvili	175,000.0
JSC Georgian Railway	General Director	Davit* Peradze	216,479.1	Davit* Peradze	226,725.7	Mamuka Bakhtadze	X
						Davit* Peradze (1 month)	15 696.3
JSC Georgian Energy Development Fund	Director	Giorgi Chikovani	190,953.9	Tornike Rzhvadze (6 months)	55,177.2	Mamuka Kobakhidze	166 988.1
				Giorgi Chikovani (3 months)	37,383.5		
Georgian Post Ltd.	Head	Levan* Chikvaidze	168,595.6	Levan* Chikvaidze	157,988.8	Levan* Chikvaidze	159,725.6
Sakeronavigatsia Ltd.	General Director	Gocha Mezvrishvili	153,074.1	Gocha Mezvrishvili	103,200.0	Gocha Mezvrishvili	103,200.0
JSC Electricity System Commercial Operator	General Director	X	X	Vakhtang Ambokadze	131,200.0	Vakhtang Ambokadze	132,840.0
Georgian Gas Transportation Company Ltd.	General Director	Jaba Khmaladz (9 months)	88,509.0	Jaba Khmaladze	104,000.0	Irakli Bendeliani (10 months)	88,571.0

		Mikheil Shalamberidze	30,501.2				
Enguri HPP Ltd.	Chairman of the Council of Directors	Levan Mebonia*	99,152.0	Levan Mebonia	99,130.0	Levan Mebonia	99 157.0
Mountain Resorts Development Company Ltd.	Director	X	X	Aleksandre Onophrishvili	77,314.3 (net)	Aleksandre Onophrishvili	100220.0
Georgian Airports Association Ltd.	Director	X	X	Ketevan Aleksidze	80,371.0	Ketevan Aleksidze	72,700.0
State Food Provision Ltd.	Director	Alexi Zandarashvili	60, 000.0	Alexi Zandarashvili	60,000.0 (net)	Alexi Zandarashvili	75 000.0
Tbilisi Transportation Company Ltd.	General Director	Giorgi Sharkov	60725.67	Mamuka Kobakhidze	84,250.0	X	X
Ecoservice Group Ltd.	Director	Vakhtang Nozadze	51013,8	Vakhtang Nozadze	43,240.0 (net)	X	X

Note * “Batumi Airport” Ltd. has been transferred to the Turkey-based company “Tav Batum Operations” for management

- Labor remuneration received dependant on the position occupied in various state enterprises

Conclusion

This data show that the heads of state-owned enterprises, regardless of the financial outcomes demonstrated by the company under their management, are distinguished by high wages. Simultaneously, IDFI believes that the remuneration data reflected in the financial statements and the declared incomes of the people in managerial roles do not fully assess the scale of the challenges facing wage policy in state-owned companies and their negative impact on the companies’ financial outcomes. At the same time, the opaque activities of state enterprises significantly increase the risks of irrational personnel and payroll policies.

IDFI welcomes the steps taken to implement reforms of state enterprises and hopes that relevant legislative changes will be made within the framework of the ongoing reform process in order to ensure the transparency of state-owned enterprises, the regulation of employment and remuneration policies, and the setting of accountability standards.