

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Rating	Mitigation Measures	Responsibility
1. Electricity export volume continues to remain low and risk of contingent liabilities increases	M	The government will closely monitor risks associated with contingent liabilities. Decisions on investments in new hydropower plants and transmission networks will consider export volume projections as a key parameter. With a legally and functionally well-established and autonomous regulator, the risk of not transferring the higher tariffs to customers is moderate.	MOESD, MOF
2. Continuation of COVID-19 pandemic and global economic slowdown adversely affect Georgia's economic growth rate and create a shortfall in fiscal revenue.	H	The risk level continues to be high. The government has initiated a series of measures and will need to be further extended in case of prolonged COVID-19 restrictions, to address the health and socioeconomic impacts of COVID-19 and protect the most vulnerable people. The government also augmented its public deficit by increasing its expenditure and borrowings. With the public deficit covered and support provided to vulnerable people, the impact on implementation of financial restructuring plan for GSE and its financial sustainability will be limited.	MOF
3. Inadequate public sector institutional accountability	L	Georgia's accounting and financial reporting follows international standards. The Law of Georgia on Accounting, Reporting and Auditing (2016) provides a legal framework for financial oversight in Georgia. The law empowers the Service for Accounting, Reporting and Auditing Supervision under MOF, which oversees International Financial Reporting Standards compliance and accounting and auditing standards for state-owned enterprises.	Service for Accounting, Reporting and Auditing Supervision (MOF)
4. Weak debt management, including for contingent liabilities under power purchase agreements, leading to greater fiscal risk	S	The MOF developed a new public debt management strategy with key action steps that will help minimize fiscal risks. The strategy includes a decrease in bilateral and multilateral lending and substitution of that debt with funds raised through domestic market instruments and enhanced monitoring of contingent liabilities. GSE's debt management strategy developed under the program is also in line with the MoF's new public debt management strategy. MOF's fiscal risk	MOF

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		assessment capacity and monitoring of power purchase agreement performance is enhanced by IMF technical assistance.	
5. The government's reliance on foreign currency-denominated debt financing results in significant foreign exchange risk for Georgia State Electrosystem	S	A foreign exchange mitigation plan that encourages locally sourced financing has been approved by MOF as part of a new public debt management strategy.	MOF
6. The legal and regulatory framework and capacity for fiscal compliance assurance and risk management are inadequate.	M	MOF's Financial Risk Division is mandated to perform fiscal risk management and monitoring. Its report is published as an annex to the annual budget, as mandated by the Budget Law of Georgia. The fiscal risk assessment methodology used by the MOF is adequate and the annual assessment process is guided by IMF technical support. The State Audit Office performs the supreme audit for fiscal compliance assurance. All training and quality assurance support for the Financial Risk Division staff are provided by the IMF technical assistance program.	Financial Risk Division (MOF); State Audit Office
7. The legal framework and MOF capacity for fiscal compliance assurance and risk management are inadequate	S	Fiscal compliance assurance, reporting and disclosure requirements are implemented by MOF's Fiscal Risk Division with capacity building support by IMF. MOF will increase its staff dedicated to fiscal risk, and upgrade the division in charge of fiscal risk appraisal and monitoring to a department with enough capacities to perform oversight functions over SOEs including GSE.	MOF

COVID-19 = coronavirus disease, GSE = Georgian State Electrosystem, H = high, IMF = International Monetary Fund, L = low, M = moderate, MOESD = Ministry of Economy and Sustainable Development, MOF = Ministry of Finance, S = substantial, SOE = state-owned enterprise.

Source: Asian Development Bank.