

Government of Georgia, and  
United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)

## **Policy Dialogue on Infrastructure Financing Strategies for Sustainable Development in North and Central Asia**

### **Chair's summary**

The policy dialogue on Infrastructure Financing Strategies for Sustainable Development in North and Central Asia, organized jointly by ESCAP and the Government of Georgia, was held on 7-8 June 2017 in Tbilisi. The policy dialogue was attended by around 50 high-level officials dealing with infrastructure projects from eight countries in the sub-region. It was notably addressed by the Deputy Ministers of Foreign Affairs and Finance of Georgia among other dignitaries. The event also benefited from the expertise of representatives from the private sector, multilateral development bank, central bank and securities board among other stakeholders. In addition to presentations from experts, the policy dialogue included four breakout sessions to facilitate the exchanges of knowledge among participants and stimulate deliberations.

To support the discussions, two studies, one on Georgia and one on North and Central Asia, were prepared and circulated to the participants ahead of the event. A summary of ESCAP's Countries with Special Needs Development Report 2017 was also provided as this year edition focuses on infrastructure and targets the landlocked countries in the sub-region. The data and findings of these studies were presented regarding four main infrastructure sectors (i.e. transport, energy, water and ICT) as well as six main sources of financing- the state budget, multilateral development banks, official development assistance, quasi fiscal sources, and the private sector and PPPs. Key recommendations were to improve public investment management, incentivize private sector involvement by making economies more investor friendly, and putting in place a PPP framework including regulatory and institutional capacities.

Overall, the participants noted that countries of the sub-region have to raise their infrastructure spending from around 5 per cent of GDP (as of today) to 8 per cent of GDP in order to meet future needs and bridge infrastructure gaps. This represents an increase of more than \$500 billion over the period 2016-2030 (excluding Russian Federation). The participants also highlighted that the challenge is not only the lack of infrastructure but also the sub-optimal quality of infrastructure assets in the region. Similarly they recognized the increasingly important role of green-related investments such as for urban infrastructure projects. Meanwhile, the rising public debts limit the possibility of additional borrowing for infrastructure projects (although concessional resources seem to be available). Therefore participants recognized that the event was timely and necessary in order to explore other possible financing strategies. The following ones were discussed in detail:

#### **Mobilizing domestic resources through tax reforms**

While the level of revenue raising is fairly good in comparison to other countries in Asia and the Pacific, the volatility in revenues - due to oil fluctuations in many countries – as well as exchange rate volatility are areas of concerns. In that context, recommendations included increasing the role of direct income taxes as well as goods and services taxes in some cases and reducing the role of trade taxes. Examples were also provided regarding interesting reforms being carried out in other countries in Asia and the Pacific, particularly the unified goods and services tax in India, the tax amnesty in Indonesia and the tax system reform in Cambodia to further bring the informal sector into the formal economy.

From the case of Georgia, the participants learnt on how to increase taxes in order to provide more resources for infrastructure financing while using growth-friendly options such as indirect taxes as well

as excise taxes. Increasing taxes had been important so as to not increase debt and preserving macroeconomic stability. Addition ongoing reforms comprise the removal of some tax exemptions. From Kazakhstan, the participants heard that simplification and reform of the tax code was a priority in the country alongside the stabilization of the national fund and reduction of budget oil dependence. Tax reform policies in the country include efficient tax administration of indirect taxes.

### **Improving public expenditure efficiency for infrastructure development (including gender mainstreaming)**

The participants outlined practical ways to improve the efficiency of public spending in infrastructure that can lead to significant savings (estimated at \$125 billion for the period 2016-2030). This would require though enhancing the whole infrastructure project cycle.

First, infrastructure development has to be based on strong planning to align investment with government objectives, provide a long-term vision and coordinate different infrastructure sectors. In addition, countries have to develop guidelines for the appraisal of infrastructure projects to ensure that investment decisions are based on realistic priorities and cost estimates. The participants also recognized that infrastructure projects cannot be assumed to deliver benefits to men and women equally and that some sectors tend to benefit more women, such as water and health, compared to road. Therefore gender has to be mainstreamed in infrastructure development, for example through gender involvement in stakeholder consultations.

Second, the participants acknowledged that enhancing infrastructure project delivery would require addressing the typical issues of land acquisition and complex construction permits. This could be done by improving land registers and adopting “one-stop-shop” permitting procedures such as the ones Azerbaijan is trying to put in place. The participants also noted that improving governance is necessary to reduce corruption and address the issues of cost overruns. This includes adopting good international practices in public procurement. For instance, e-procurement implemented in Georgia was stressed as a practical way to achieve considerable savings in this area.

Third, the participants highlighted that the use of existing assets has to be optimized and their value preserved through adequate maintenance. Demand management techniques, such as congestion charges, could also reduce the need for additional infrastructure by smoothing the demand and shifting load off-peak. Likewise, modern technology like intelligent transport systems can help to significantly increase the capacity of existing assets. In addition, reducing transmission and distribution losses in water and power was emphasized as a more cost-efficient solution than adding new capacity. Also, the participants noted that governments could leverage more resources from infrastructure assets by tapping commercial activity opportunities, for example shops in assets such as airports and bus terminals.

### **Partnering with the Private Sector through PPP**

The participants recognized that Governments have to effectively involve the private sector for infrastructure development. This necessitates creating a conducive environment for Public-Private Partnership (PPP) and securing a strong commitment from high-level policymakers especially in some countries. In particular, the participants considered that clarity about the project approval process and transparent procurement procedures were of great importance. The country representatives also presented their recent initiatives to develop enabling policy, regulatory and institutional frameworks that can facilitate the emergence of PPP projects. For example, Georgia plans to have a dedicated PPP law by the end of the year (although there were already projects implemented without the law in place). The participants also discussed the different approaches concerning direct negotiations. For instance,

they were considered effective in Tajikistan while Georgia has decided not to allow direct negotiations and submit all unsolicited proposals to competitive tenders (only reimbursing documentation costs of the proponent if the latter is not awarded the PPP contract). It was highlighted that public financial support is often required, notably to finance feasibility studies.

Participants also noted with interest the different tools developed by ESCAP to support countries in assessing their PPP environment, achieving Value-for-Money and building internal capacity. Several PPP projects from the region were also presented and lessons learnt from these practical experiences. For instance, the participants noted that many PPP projects in the sub-region are in the social sectors (e.g. kindergartens, hospitals, medical test facilities in Tajikistan and Kazakhstan). There were also examples highlighted in more traditional sectors such as energy with transmission lines in Tajikistan and transport with a large port project in Georgia. The participants were also informed of the recent approach in Kazakhstan where social media have been used extensively to connect with private businesses in order to better understand their needs and mobilize resources.

### **Leveraging ODA for infrastructure development**

The participants discussed the current situation and challenges with respect to assistance from international development partners for infrastructure financing. Funding from traditional donors from OECD countries for this purpose was relatively small and declining in many countries. However, non-traditional donors had been growing in importance. The assistance of this group was in terms of both official development assistance and other official flows that either had a smaller concessional component or were tied to institutions or companies of their countries. Such support could play a useful role in adding to funds from traditional donors and by encouraging the participation of private partners. It was pointed out that multilateral development banks were playing an important role in the region, both through concessional support and through other official flows. The potential was highlighted of new regional financial institutions such as the Asian Infrastructure Investment Bank and bodies providing project preparation support such as the Global Infrastructure Facility of the World Bank and the Asia Pacific Project Preparation Facility of the Asian Development Bank. The possibilities arising from the recent Belt and Road Initiative in the region led by China were also considered.

The participants learnt from Armenia about the important role being played by donors such as the World Bank, ADB, EBRD and EIB. For example, the Transport Sector Development Programme of the Government was designed with the assistance of the ADB. The participants were also informed of the assistance being provided by the Russian Federation to the sub-region, with the largest recipients being Tajikistan, Armenia and Kyrgyzstan. Russian assistance is being provided through a number of different channels, including bilaterally, through multilateral development banks and through the United Nations. Some of the focus areas of infrastructure assistance have been to rehabilitate infrastructure in rural areas and urban sewage systems. The Russian Federation emphasized the role of ESCAP as a key platform to coordinate efforts to develop transport infrastructure through regional cooperation.

### **Developing regional infrastructure networks**

Regional connectivity is a priority for North and Central Asian countries as many of them target to play an important transit role between Asia and Europe. This implies though further developing cross-border infrastructure projects, which are by nature more challenging to finance and require coordination at the regional level in order to avoid overinvestment (for example in transit infrastructure). To support the discussions, the results of an ESCAP study on this topic were presented. The study reviews past experience in the energy, transport and ICT sectors and highlights the challenges and policy actions required to mobilize investments for these trans-boundary projects. The participants recognized that

cross-border infrastructure projects can be developed with private resources, notably when there are: sufficient cash flow to pay back the investment; a reasonable level of risks; strong and stable political backing; and limited administrative and technical barriers.

Several regional infrastructure projects of common interests were mentioned such as the Baku-Tbilisi-Ceyhan (BTC) oil pipeline, the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline, the railway development between Baku to Turkey through Georgia, the improvement at the Armenia-Georgia border crossing-point. These projects can improve significantly transit opportunities in the region while also generating financial resources for the involved countries. Eliminating non-tariff barriers, improving cross-border collaboration and developing common standards are however necessary to facilitate the implementation of regional projects. For instance, the Eurasian Economic Union can help to reduce barriers between projects. Likewise, the Belt and Road Initiative can give impetus to regional infrastructure networks and bring significant financing resources such as those provided by the Asian Infrastructure Investment Bank (AIIB) and the Silk Road fund that should contribute to regional infrastructure network development.

### **Tapping financial markets & institutional investors**

Capital markets in North and Central Asia are relatively underdeveloped, compared to other countries in the region. Some have neither bond markets nor stock exchanges. Participants agreed that quality long-term investment is critical for infrastructure and other areas necessary for sustainable development. However, much private investment today is short-term in nature and given the lack of deep and liquid capital markets in the region, participants noted the importance of developing capital markets and especially bond markets for financing infrastructure.

The participants recognized the role of banks in financing infrastructure investment in the early stage of project development but were concerned that banks' long-term financing is constrained by stricter rules and regulations as well as the nature of banks' short-term liabilities. Mobilizing resources from institutional investors, such as pension funds and insurance companies are necessary for ensuring effective private sector participation in infrastructure investment. Participants gave high priority in developing capital markets as a prerequisite for sustainable infrastructure investment. Georgia, for example, has capital market development plan to deepen bond markets, while Russia stressed the importance of long-term finance in infrastructure investment. Kazakhstan is interested in issuing infrastructure bonds and is in the process of setting up international financial center, initiated by the government. Currently, region is relying mostly on official development assistance and concessional loans from multilateral development banks. In this regard, the participants noted the need to engage more the private sector by improving sovereign credit ratings and providing an enabling environment to invest in capital markets such as reforming rules of laws and tax exemptions.

To conclude, there was widespread agreement that countries in the region required more capacity-building to address their infrastructure financing challenges and participants called on UNESCAP to support them in this regard. These supports could be in the form on regional capacity buildings or bilateral policy dialogue. The participants also stressed that countries need to learn from each other and underline the usefulness of this kind of event.