



Infrastructure Financing for Sustainable Development in Georgia

NATIONAL WORKSHOP

June 6, Tbilisi

David Lezhava

Part I – Infrastructure Financing Needs

Infrastructure investment needs globally

- ▶ McKinsey & Company – 1.6 times increase (\$57-67 trillion in 18 years)
- ▶ ADB - 2.0 times increase (\$26 trillion in Asia in 15 years)
- ▶ WB, OECD – 1.5 times increase

Why Infrastructure is so important for Georgia?

Roads

- Transit
- Inclusive Growth

Energy

- Energy Security

Water

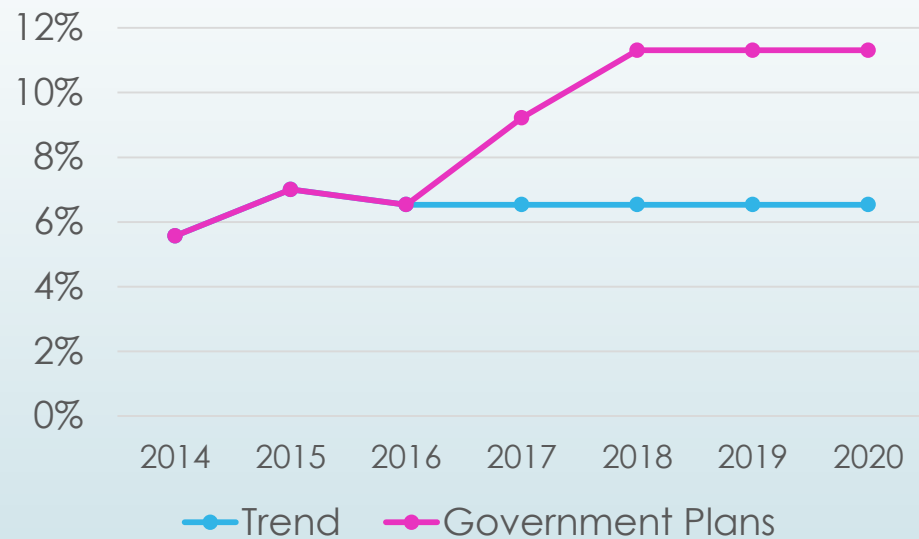
- Sewerage systems
- 24-hour Water supply

ICT

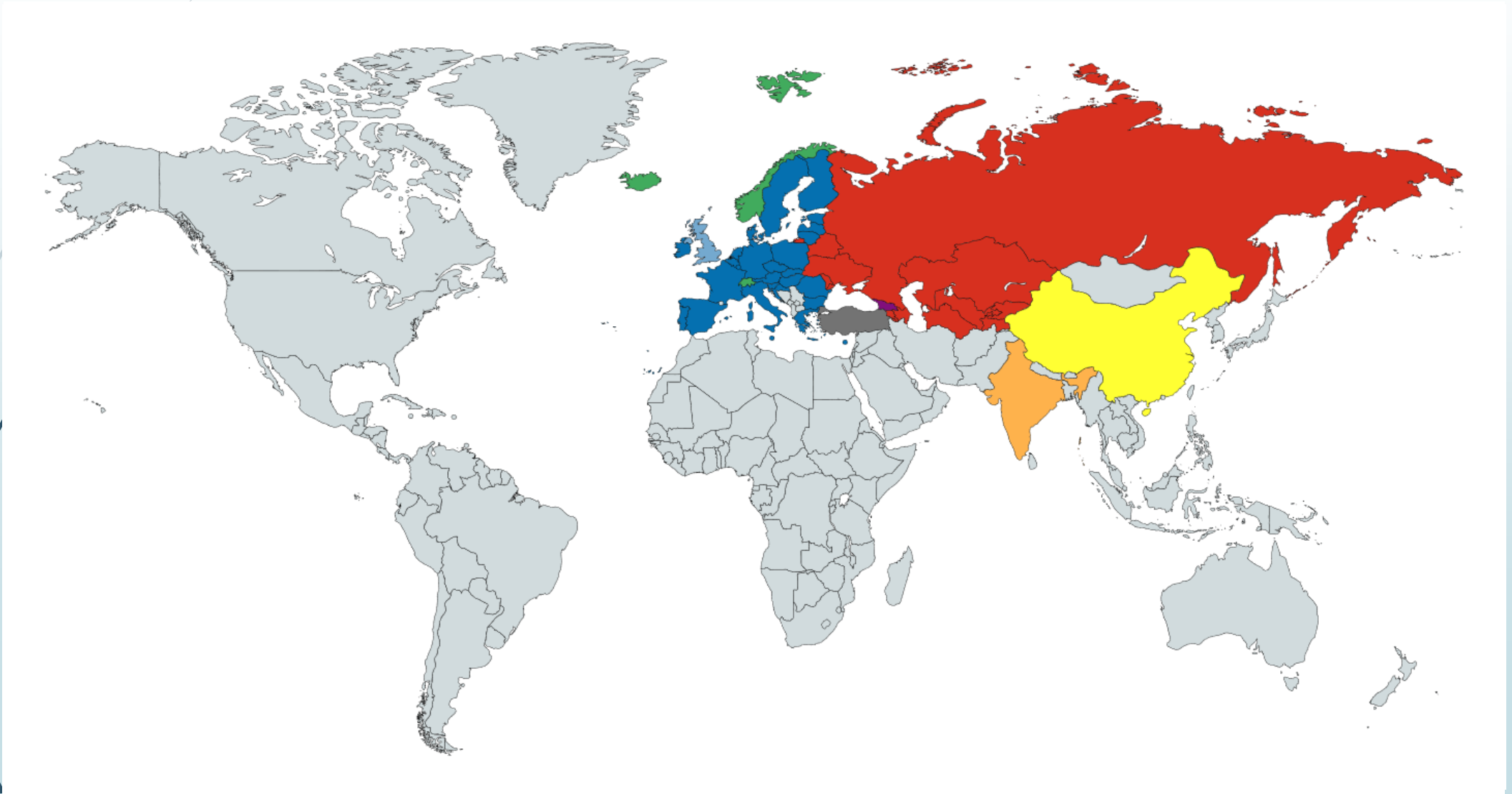
- Inclusion
- Efficiency
- Innovation
- Tourism

Investment Needs for Georgia

	USD
Transport (Roads, bridges, tunnels)	4,128
Transmission lines	786
Water	569
Regional development	160
Irrigation	137
Tourist infrastructure	392

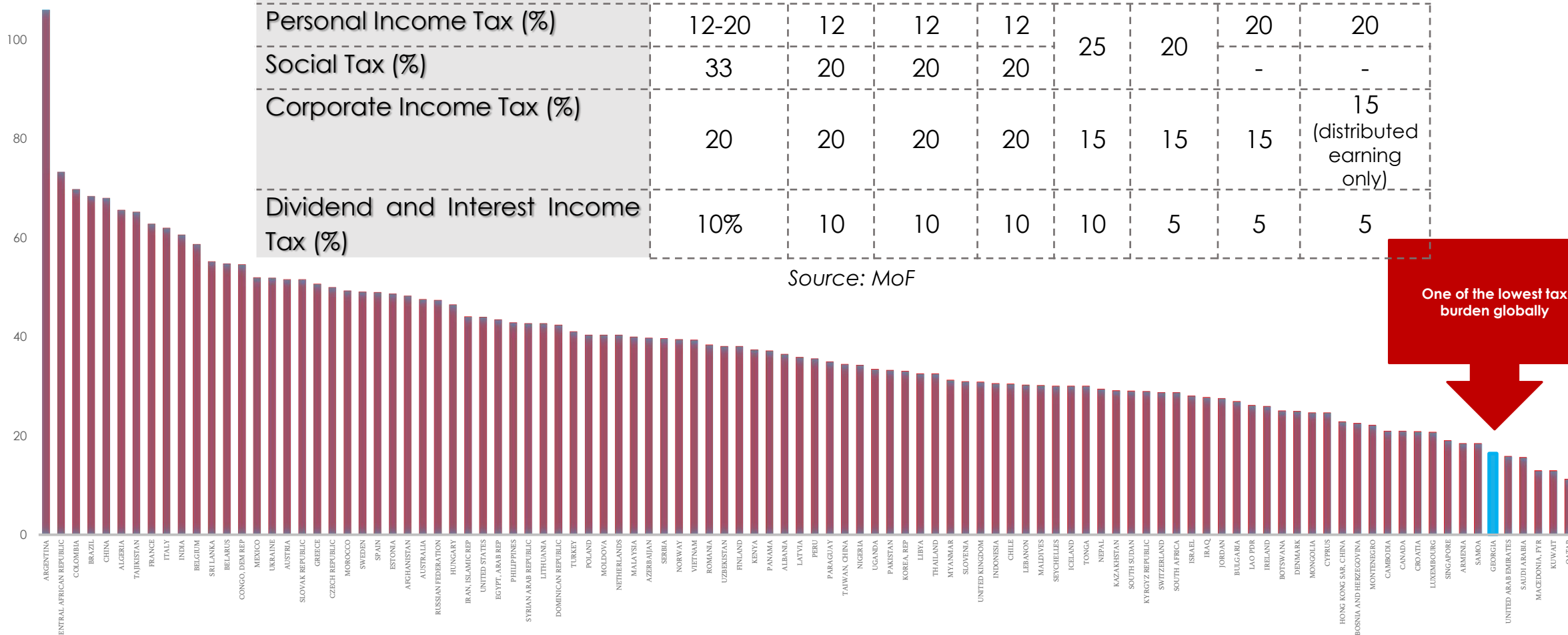


Free Trade Agreements



Tax Burden

Total tax rate (% of profit)



	Before-2004	2005	2006	2007	2008	2009	2010-2016	2017 after
Number of Taxes	21	7	7	7	6	6	6	6
VAT (%)	20	20	18	18	18	18	18	18
Personal Income Tax (%)	12-20	12	12	12		20	20	20
Social Tax (%)	33	20	20	20	25	20	-	-
Corporate Income Tax (%)	20	20	20	20	15	15	15	15 (distributed earning only)
Dividend and Interest Income Tax (%)	10%	10	10	10	10	5	5	5

Source: MoF

One of the lowest tax burden globally

Improved Rankings

123→13

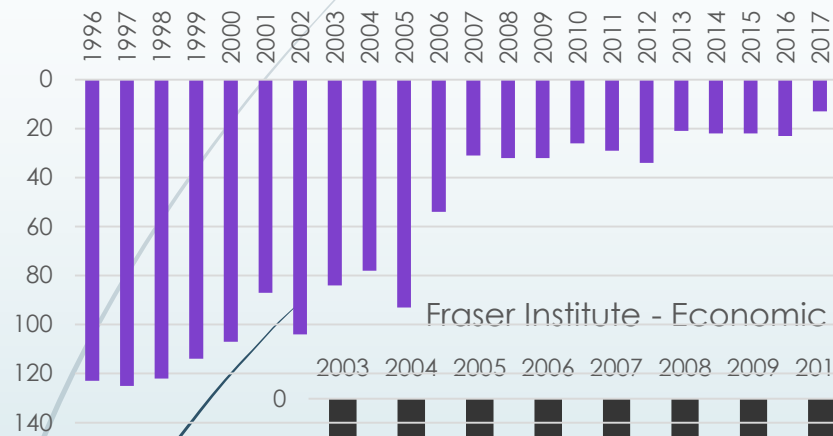
47→5

112→16

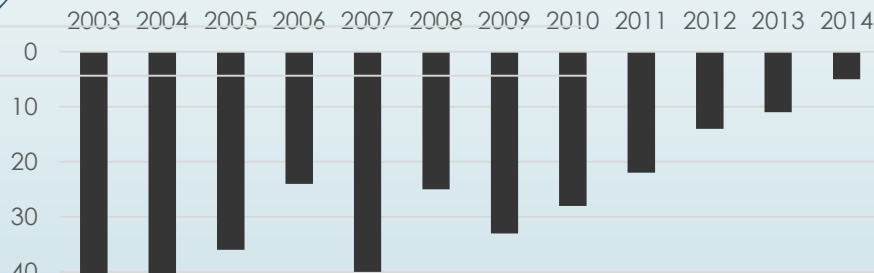
90→59

85→44

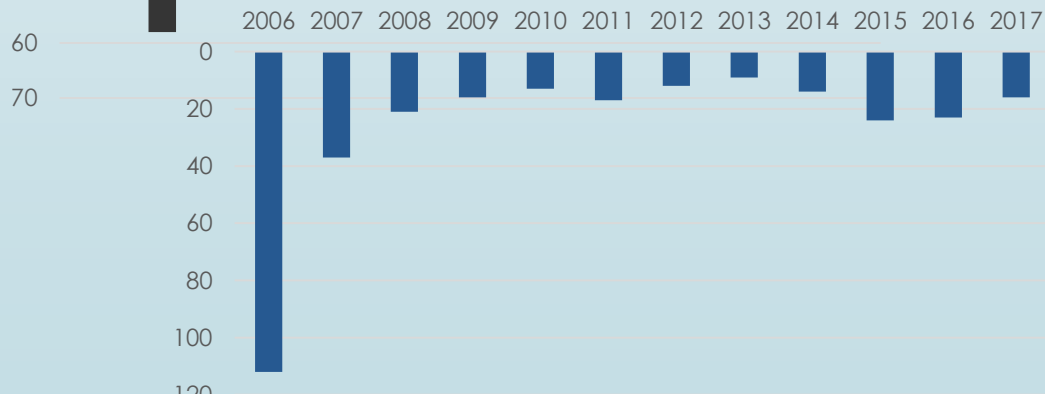
Heritage Foundation - Economic Freedom



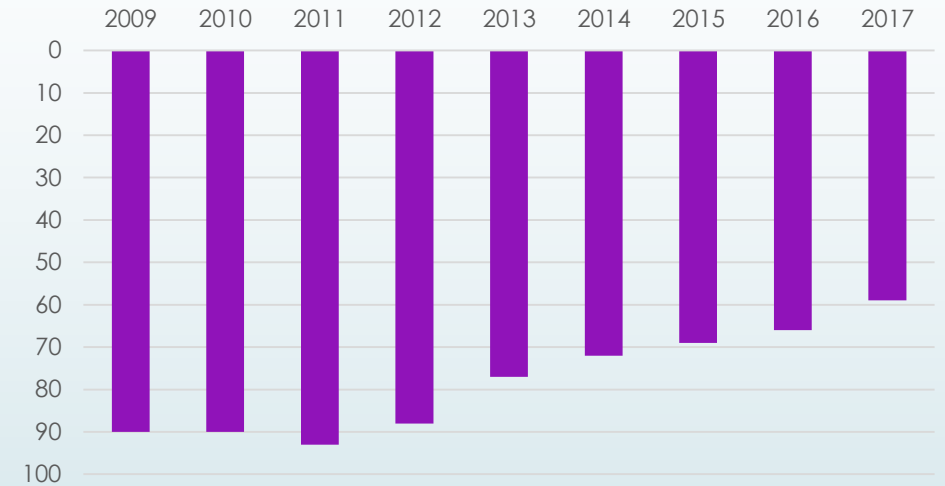
Fraser Institute - Economic Freedom



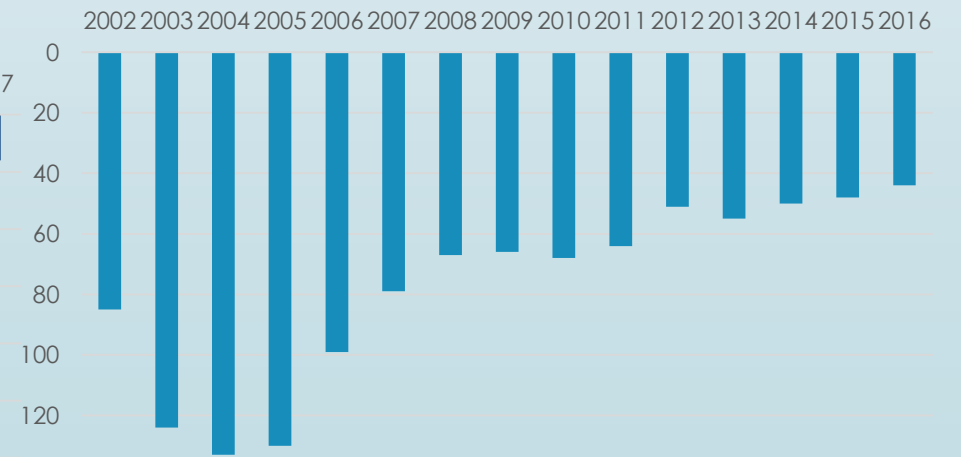
WB - Doing Business



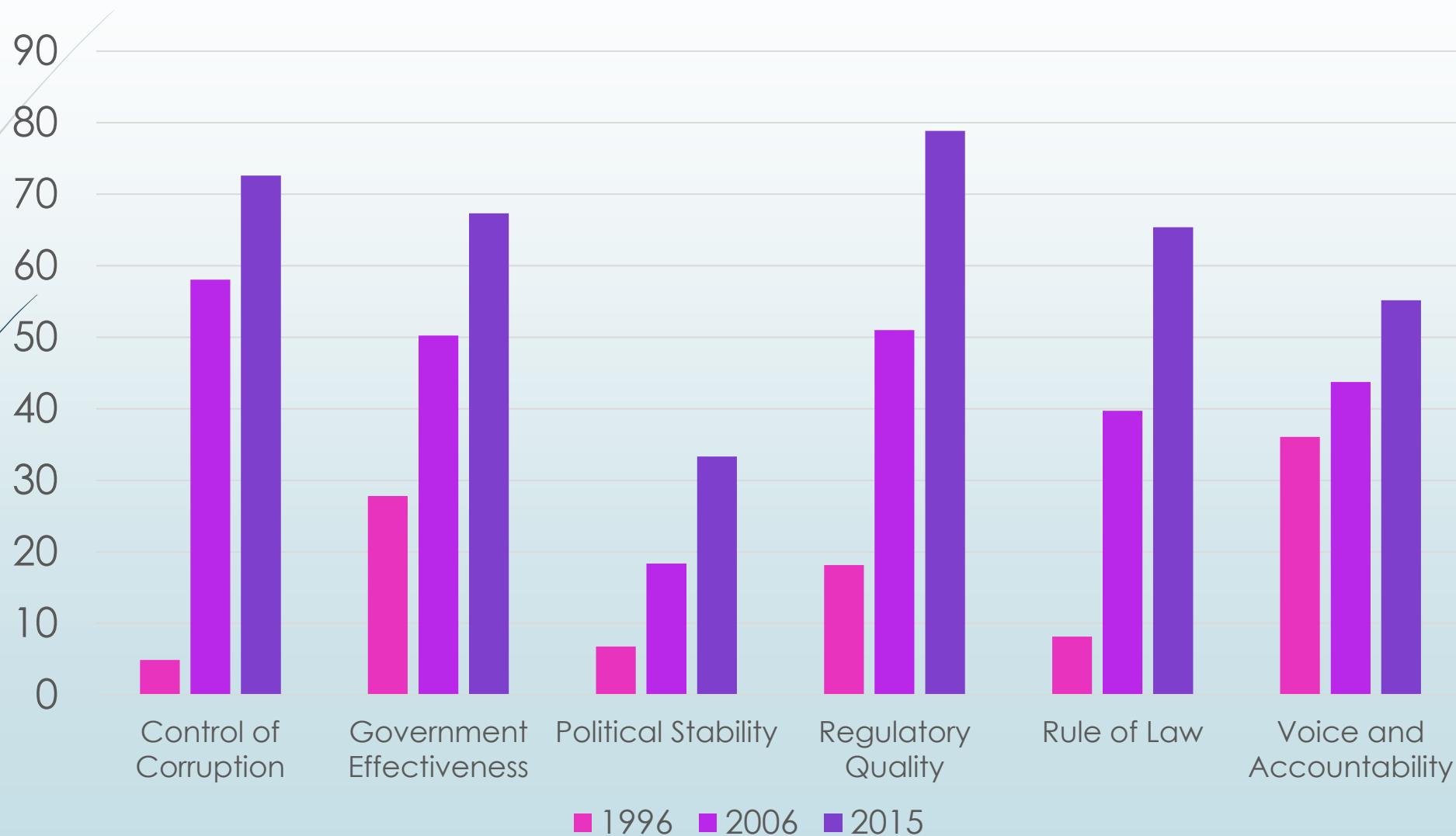
WEF - Global competitiveness index



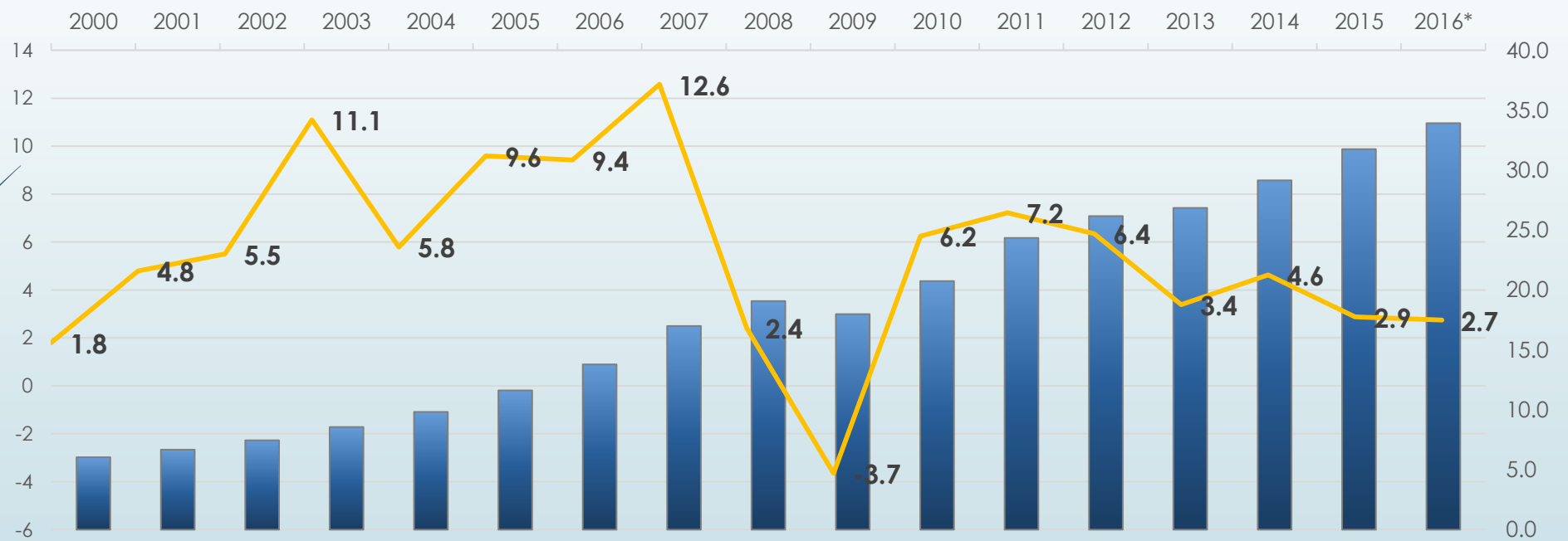
TI - Corruption Perception Index



Worldwide Governance Indicators



GDP

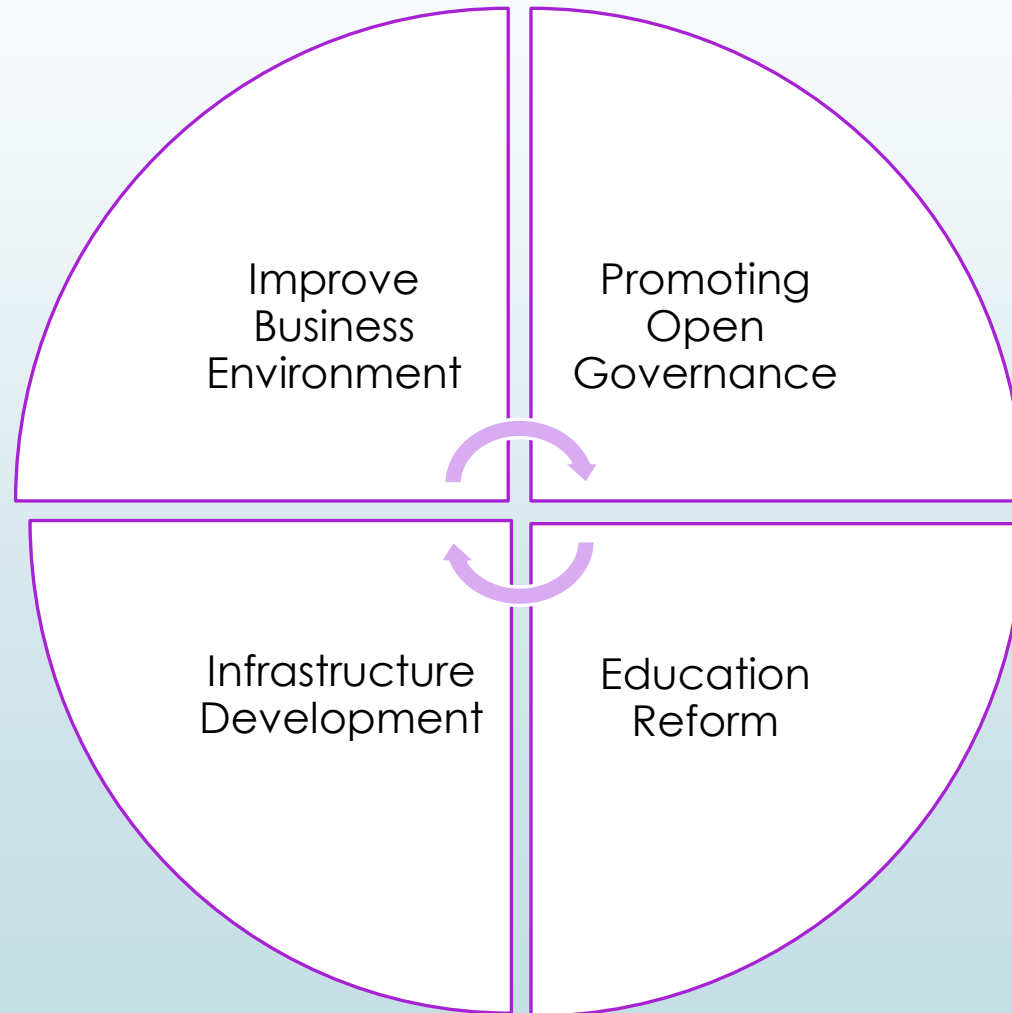


Source: GEOSTAT

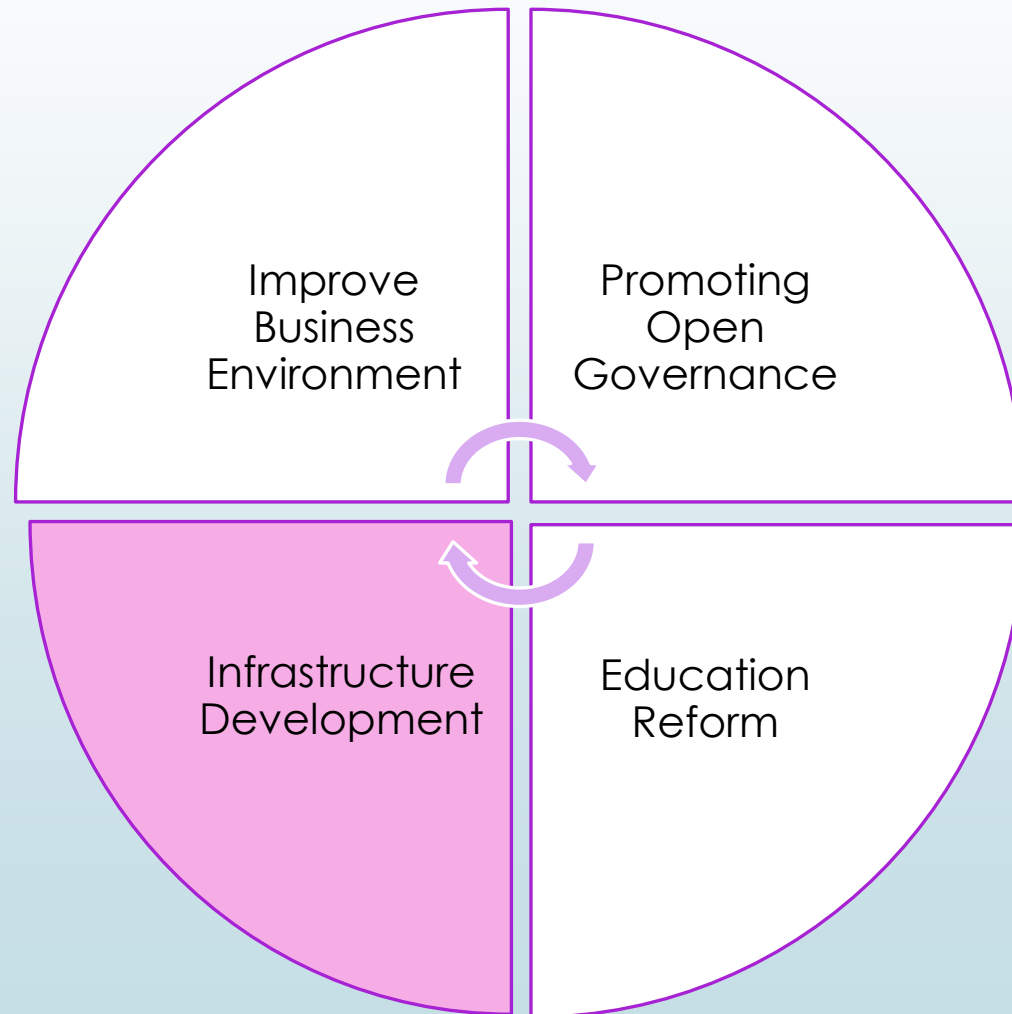
■ GDP Current prices (RHS, Billion GEL)

— GDP growth

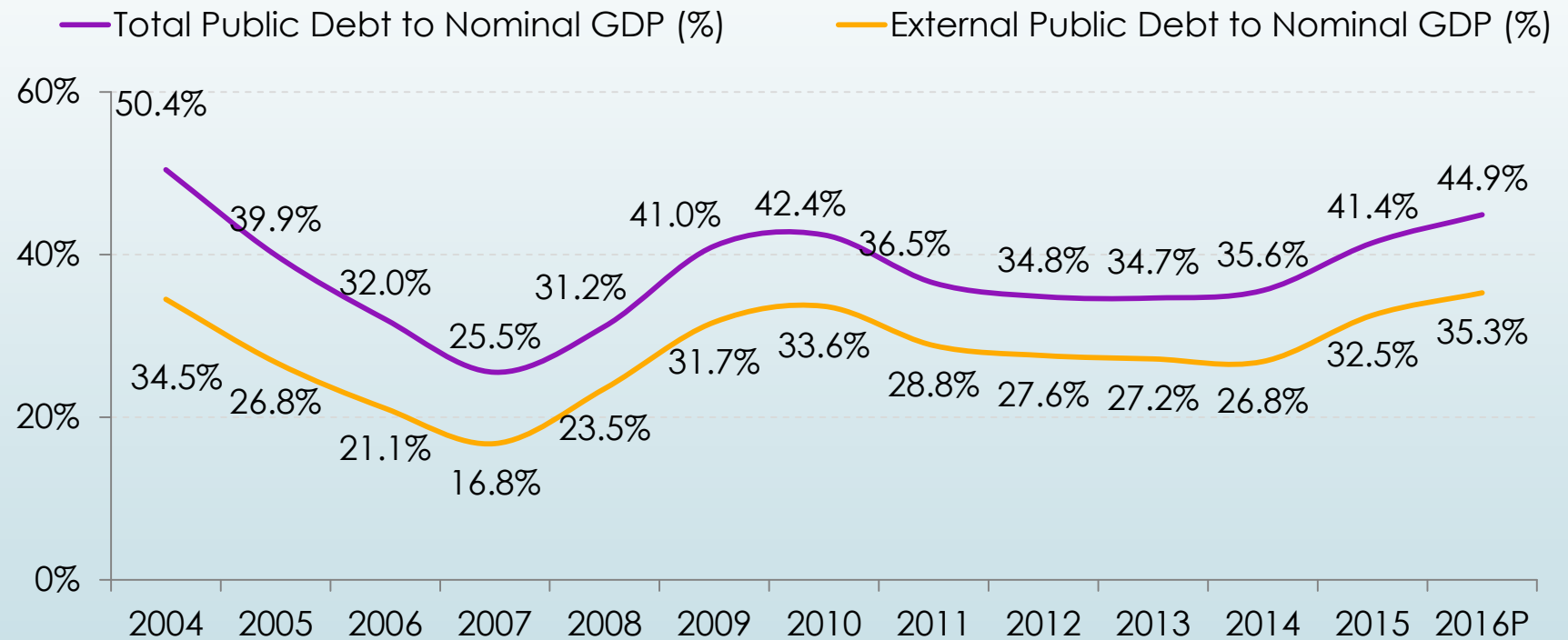
4 point plan



4 point plan

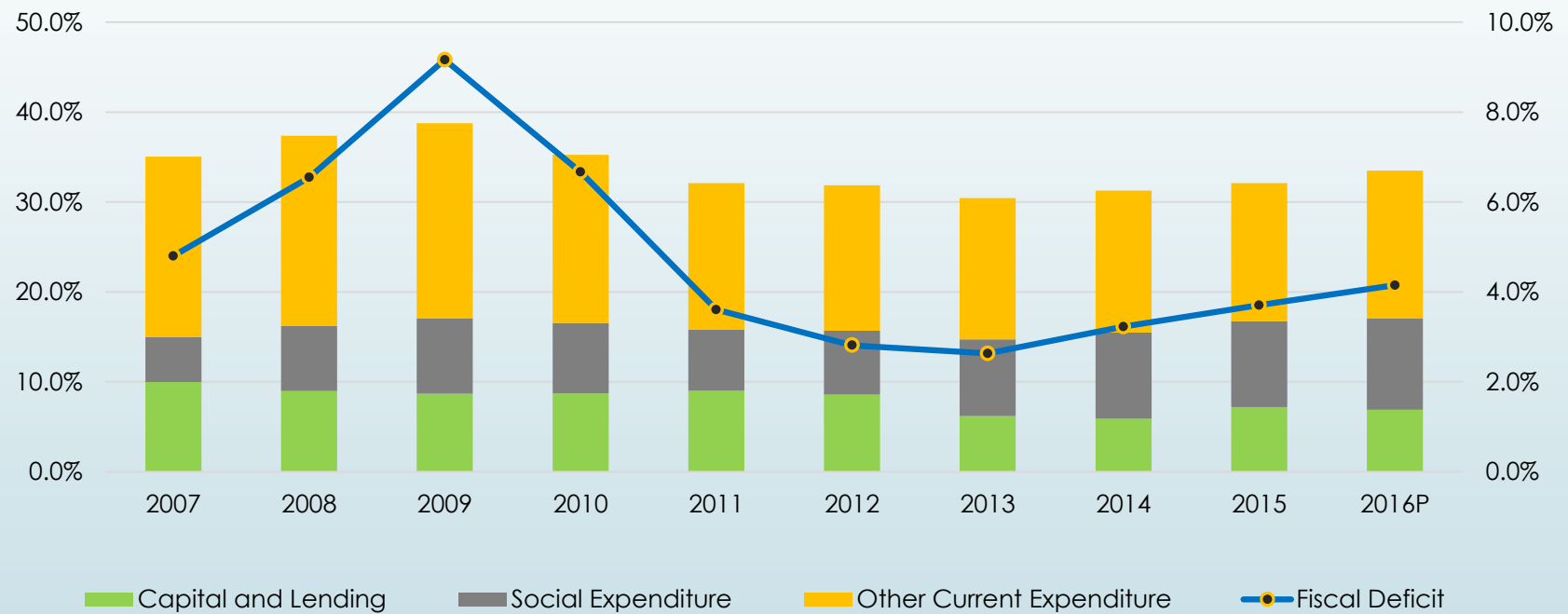


Public Debt



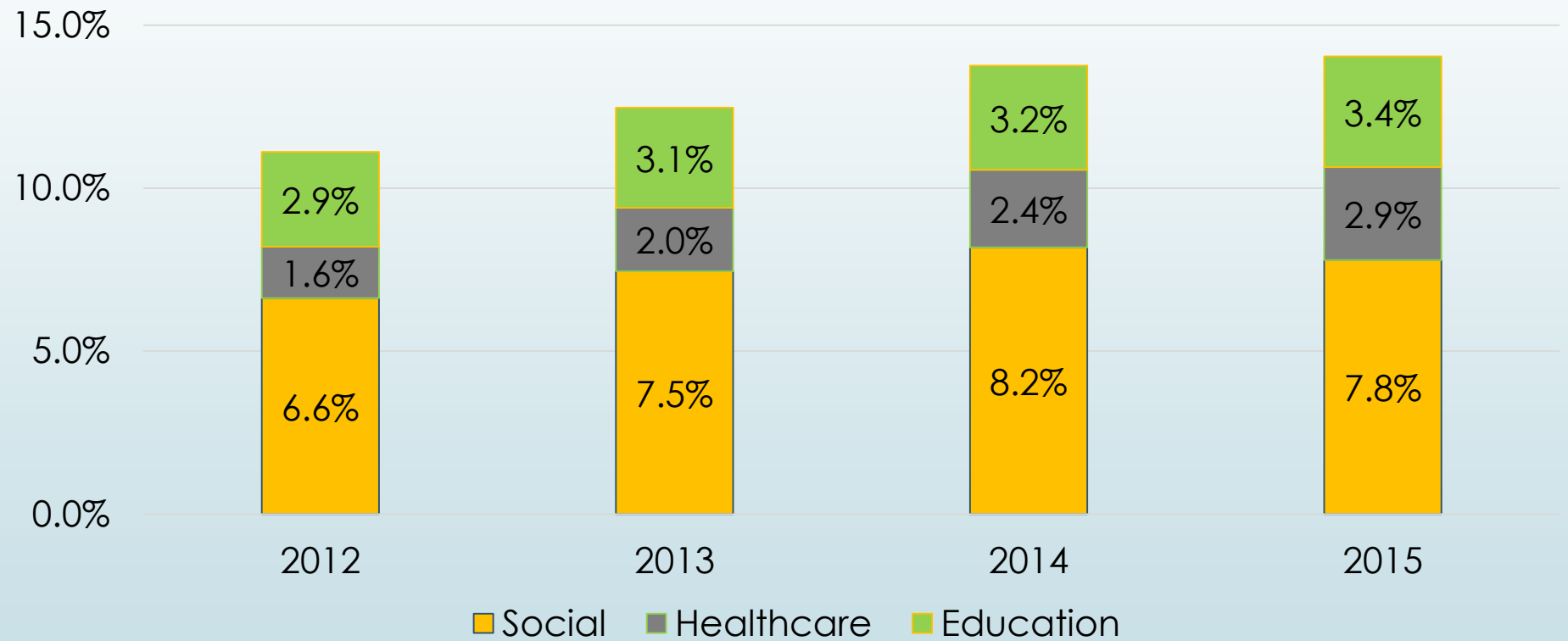
Source: MoF

Budget Deficit



Source: MoF

Current Expenditure Dynamics



Source: MoF

How can the gap be closed?

Thank you!



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Part II – infrastructure Financing Strategies

Options for Closing Financing Gap

Public Sources

Borrowing

Budget

Quasi Fiscal

Private Sources

PPI

PPP

PPA

Require Less

Maintenance

PIM

Option 1. For Closing Financing Gap

Public Sources

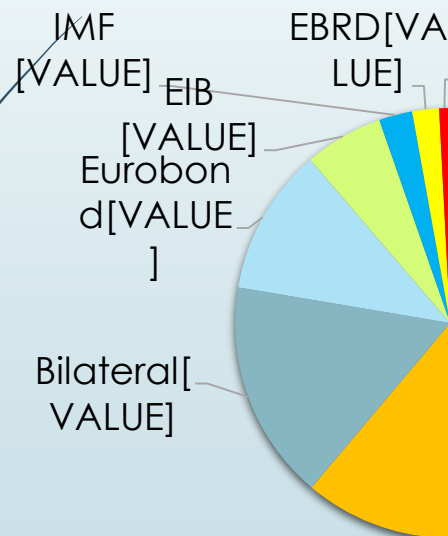
Borrowing - Donors

Budget

Quasi Fiscal - SOEs

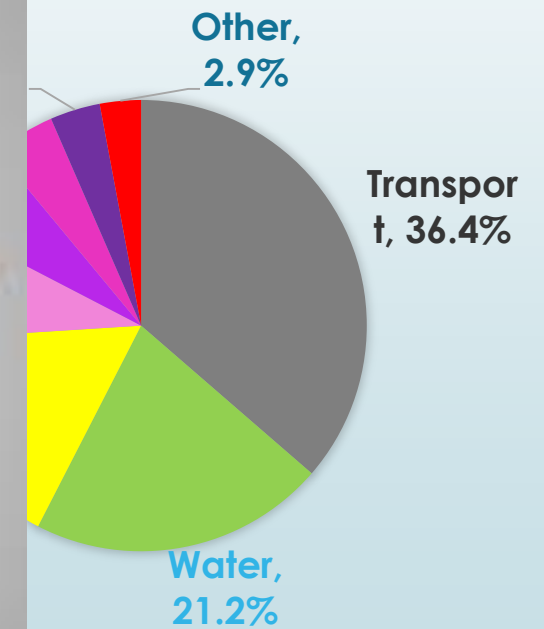
Public Sources – Donor Financing

External Public Debt



Source: MoF

Donor Financed Projects by Sector

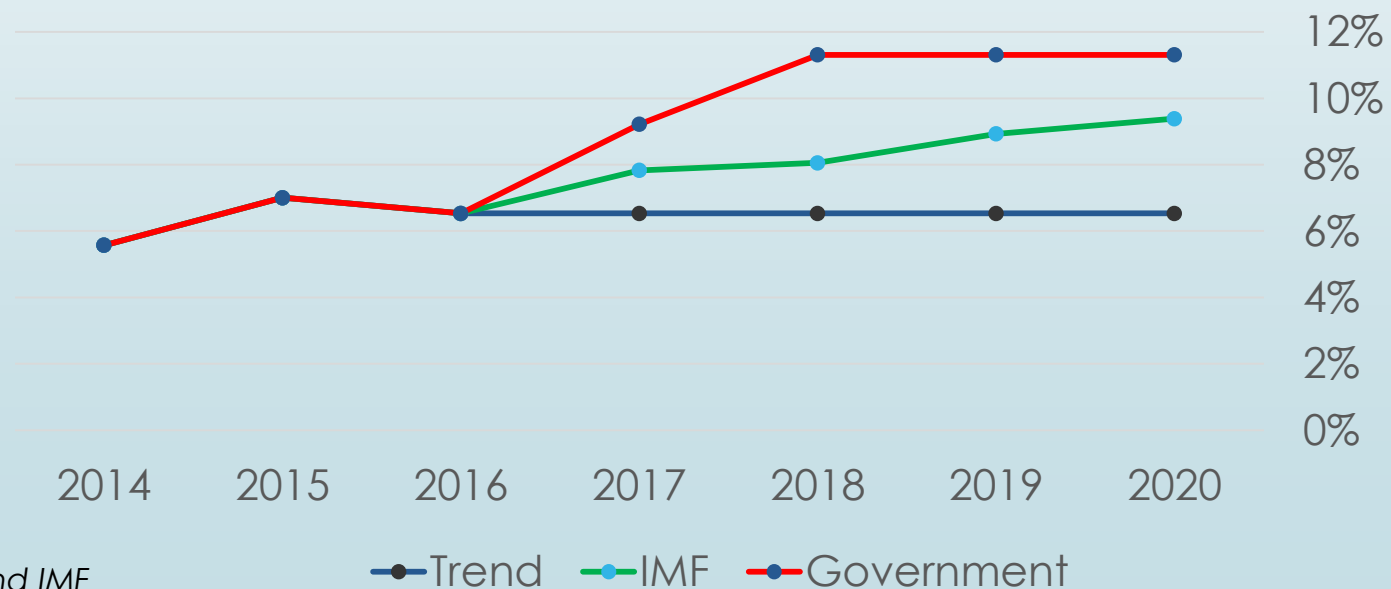


Public Funds – Fiscal Room

- ### Expenditure Measures

 - Wage Bill
 - Administrative Spending
 - Healthcare Expenditures
- ### Revenue Measures

 - Tobacco
 - Alcohol
 - Fuel



Source: MoF and IMF

Public Sources - SOEs

- ▶ On-lending practices, no guarantees
- ▶ Borrowing and Investing (Rail, GOGC)
- ▶ Strengthening financial conditions (UWC)
- ▶ Way forward for Partnership Fund

Option 2. For Closing Financing Gap

Private Sources

PPI – Private Participation in Infrastructure

PPP – Public Private Partnership

PPA – Power Purchase Agreement

Private Sources – Private Participation in Infrastructure (PPI)

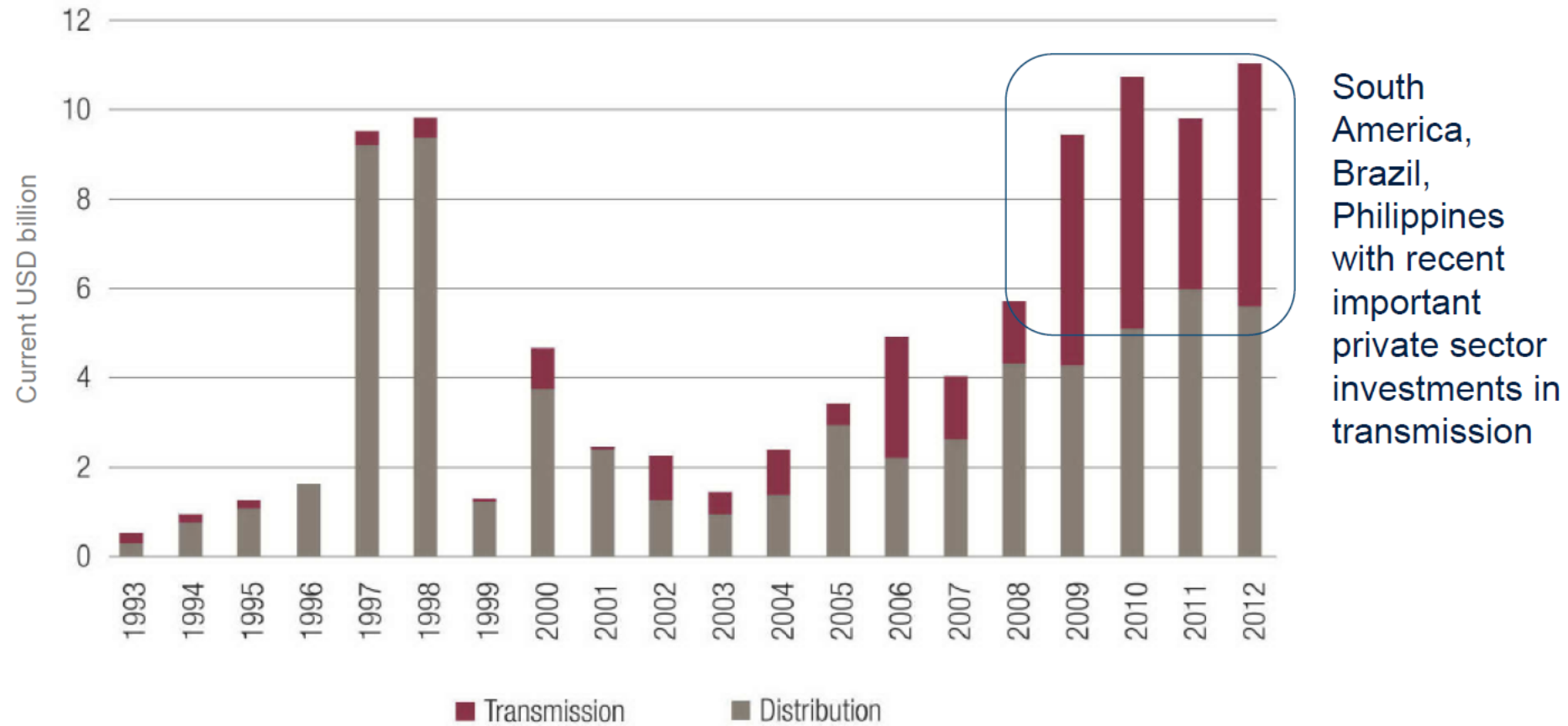
- Business environment (Taxes, Deregulation, Corruption and Red Tape)
- User fees (Tariff, Toll)
- Capital Market and Banking Sector
- Privatization

Privatization

- Revenues and Efficiency
- Privatization in Energy Sector – Success Story
- Is anything left to privatize?



PSP in transmission assets is a relatively new phenomenon



Private Sources – PPP/PPA

- Mostly positive experience, **but...**
- Option to circumvent fiscal costs?
- PPP framework is must
- PPA practice
 - Introduce and follow the rules
 - Make it transparent
 - Limit exposure



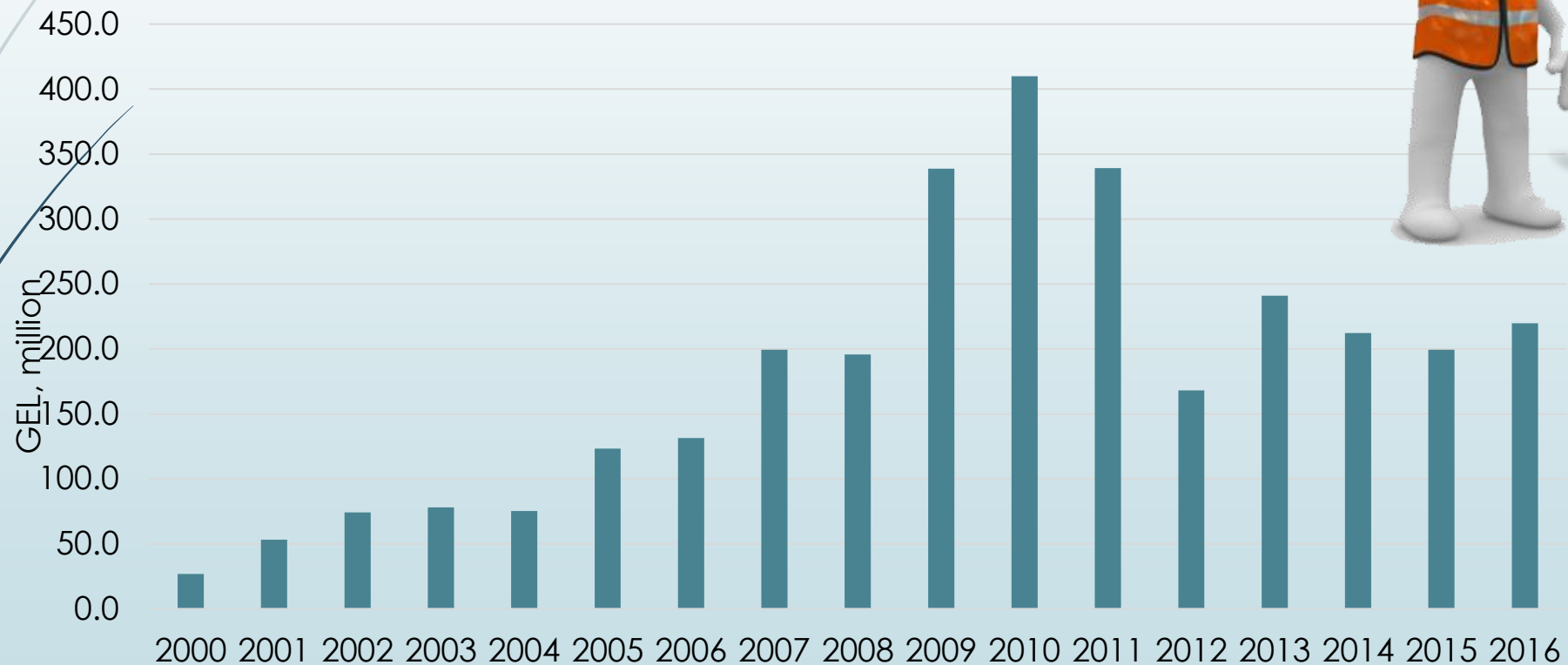
Option 3. For Closing Financing Gap

Require Less

Maintenance

PIM

Require Less – Use Maintenance

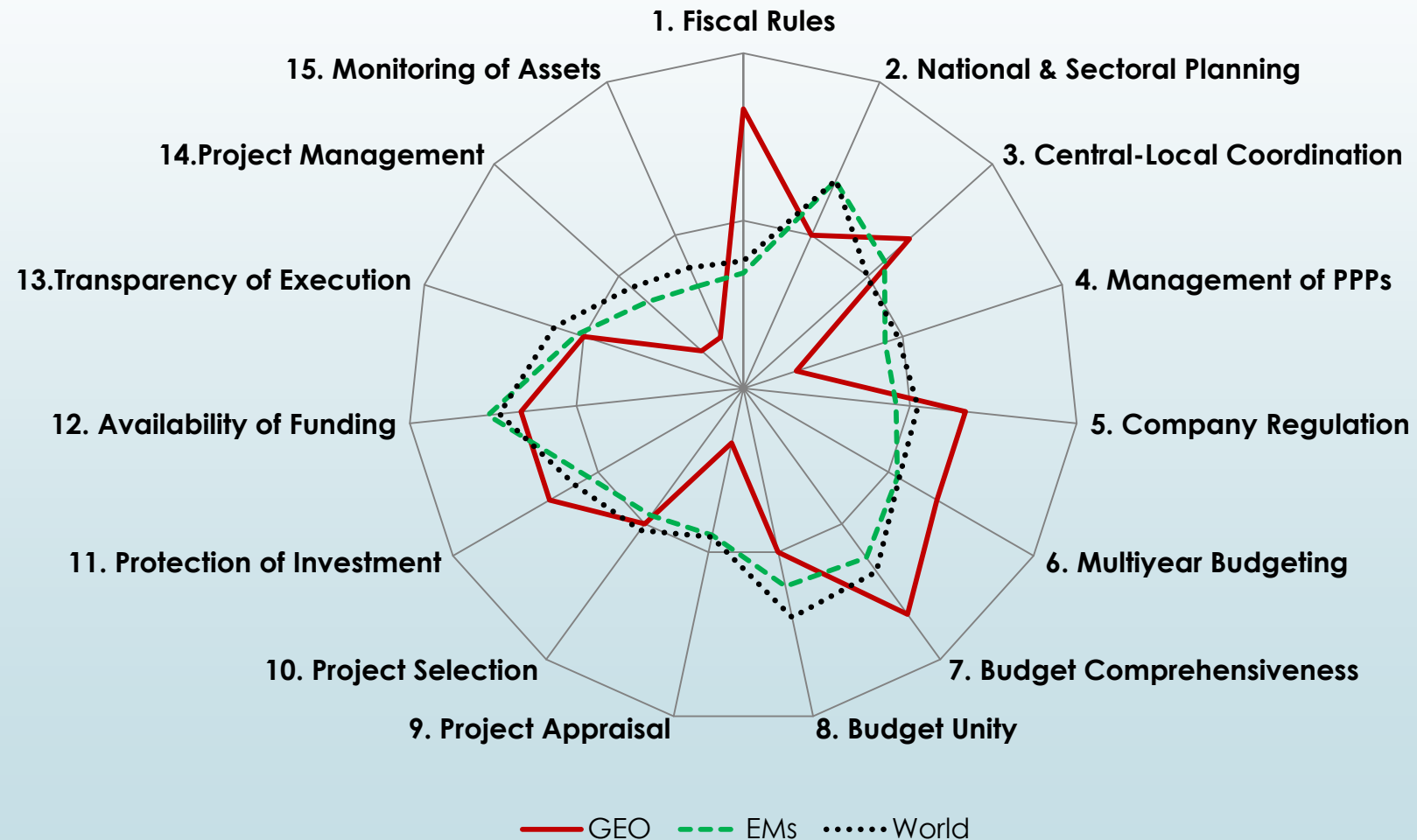


Source: Roads Department



Require Less – Strengthen PIM

27



Source: IMF and author's estimate

Conclusion

- Impressive reforms didn't bring full satisfaction
- There is a need for increased investment
- Finding fiscal room
- Greater Involvement of the private sector is vital, but needs to be done prudently
- Strengthening PIM gives significant savings

Thank you!