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THE LOAN COMPONENT OF THE POST-WAR PLEDGE: AN EVALUATION

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Table of Contents

Executive Summary 4
Background 7
The Joint Needs Assessment 7
The Donors Conference 8
Loans versus Grants: a Theoretical Overview 9
Development Banks 12
Overview of loan component 15
How much of the loan would have arrived without the war? 15
Sectoral Priorities 16
Interest and concessionality 19
Interest rates to the Government 19
Private Loans 21
Conditionality of the Loans 22
Sustainability 24
Different Banks, Different Models, Different Priorities 28
The World Bank 28
Asian Development Bank 30
EBRD and EIB 31
Bilateral Development Organizations 33

Executive Summary

At the post-war donors conference approximately USD 3 billion[1] of the USD 4.8 billion total pledge took the form of loans. Half of the loan was pledged to the government and the other half was allocated to help support private companies. This paper has been written for Open Society Georgia Foundation as part of the Transparent Foreign Aid to Georgia Coalition to provide a general overview of loan component of the pledge.

The public-sector loans seem to be responsibly undertaken and target the sectors one would expect for a post-war stimulus package of this kind. The focus on, social and budgetary support, infrastructure and banking is aimed to alleviate short-term social problems, provide liquidity for the banking sector, create short-term employment opportunities and provide improvements in the country's economic efficiency in the long-term. The loans to the government are offered on a long-term basis and at low interest rates and are unlikely to create significant burden on public finances.

That said, most of these this USD 3 billion would have been loaned to Georgia even if the war had not happened. The vast majority of the projects listed at the donor's conference were already being considered by the International Financial Institutions (IFIs) before the war. The significant increase in lending that this money represents resulted more from long-term improvements in the Georgian economy and in its regulatory arrangements than as a direct reaction to the war. Of course, it is possible that some of the loans under consideration would not have been agreed but almost all of the organizations who offered loans had agreed their funding 'envelop' (the general volume of their loans) prior to the August war and did not change that amount significantly afterwards. That said, the war did, however, affect the speed with which deals were agreed and money was released.

In particular, the war produced considerable 'front-ending' of IFI expenditure with money allocated for 2009 being spend in 2008 and money allocated for 2010 being spent in 2009. As a result, the total amount of money loaned may be more than the donor pledge as lenders reassess their funding envelop for future years. There are some indications that this increase is already happening.

2008 and 2009 did see a dramatic increase in IFI lending over previous years but this was largely the result of Georgia's increased attractiveness to development

1 All of the values in this text are calculated at current rates. Because the Euro has gone up in value relative to the dollar since the original pledge was made, the dollar value has gone up.

institutions generally and not only because of the war. The World Bank's International Bank for Reconstruction and Development (IBRD), the Asian Development Bank (ADB) and the Japanese International Cooperation Agency (JICA) had all announced plans to start/dramatically increase lending in Georgia before the war. On top of that, because of the financial crisis, the development institutions with a strong private lending component have all seen their opportunities for investment expand as alternative sources of credit on commercial markets have evaporated.

At today's interest rates all of the IFI debt is concessional by the IMF's rules of classification. As a result the biggest sustainability issue of the government's overall debt burden relates to the Eurobond debt that the government incurred before the war, not the post-war IFI debt. The national debt is currently around USD 2.9 billion the government post-war loan pledge amounts to 1.5 billion so represents a very significant increase from current debt levels. However, this debt is cheap and will generally only start being repaid in 5-10 years time. By that time the value of the debt in real terms and in terms of GDP will have declined significantly.

However, repayments of the Eurobond debt will put the Ministry of Finance in a difficult position in about four years. Based on IMF projections loan repayments will cost about 14% of government revenue in 2013, compared to around 4% now, mostly because of planned Eurobond repayments. This could encourage the government to roll-over its Eurobond debt, even though it is considerably more expensive than money available from IFIs.

While the new IFI debts definitely seem sustainable it is important to realize that this level of debt does bring risks. In particular, the manageability of the debt very much depends on exchange rates and growth projections. If the GEL depreciates significantly, or if the economy stagnates, then these repayments could create more problems in the future than we expect now.

Another concern is that about 1/2 of the proposed post-war loan pledge have interest-rates attached to international lending rates which are currently historically cheap but could go up dramatically before disbursement. Once disbursed, a range of hedging instruments can be used to try and limit the exposure of the country to exchange rate volatility but all of these come with costs. Clearly the government needs to avoid taking on debt that looks cheap now, but that could become expensive in the near future.

Ultimately the effectiveness of these loans will depend on how productively they are employed. The public loans have largely been targeted more at big infrastructure projects and less at social assistance, than proposed by the joint needs assessment. This is clearly consistent with the government's pre-war priorities and with international best practice which suggests that debt should generally be invested rather than consumed. Also the focus on roads should fit the needs of 'stimulus spending' since it will involve fairly quick disbursement and good short-term job creation.

That said, the government and IFIs clearly need to make sure that they do not get carried away by the imperative to spend money. Investment projects, like roads, should be assessed on the basis of their impact on the overall economy and loans should only be undertaken if they generate sufficient increases in growth to finance the debt repayment.

In the private sector, the IFIs have prioritized banks, which were explicitly highlighted in the JNA, and private companies, that were not. Bank lending was, of course, intended to forestall a liquidity crisis however, this strategy can only be considered successful if the banks then lend the money they borrow. There is considerable anecdotal evidence that this is not happening and that banks are finding it difficult to identify reliable businesses who want to borrow. Therefore, much of the liquidity is not being released. Addressing this problem will be one of the key challenges of the next twelve months.

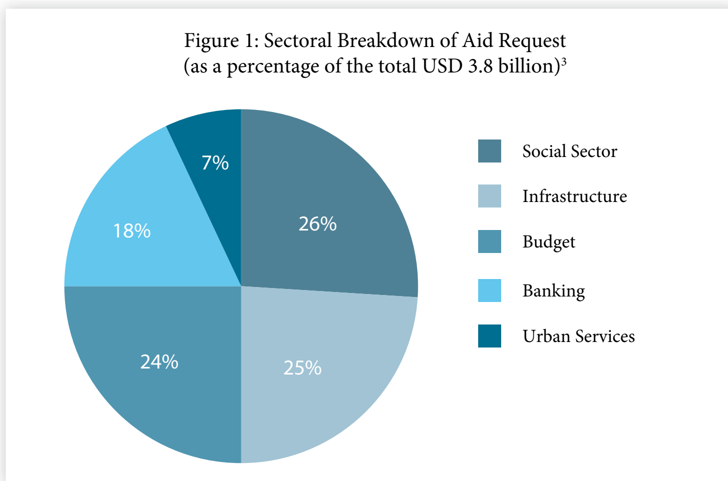
The loans to non-banking private companies have generally focused on the property sector. The effectiveness of these loans as a stimulus is ultimately dependant on whether they result in a resumption of building work. If the loans simply allow companies to avoid the right-down of assets and continue to pay their debts, then it is not clear whether they will produce much economic stimulus. This project did not try to assess the level of this impact. It is also unfortunate that the banks continue to have a very difficult time identifying agribusiness projects to invest in, since more or less everyone accepts that these would have the most beneficial effect on employment.

All of these reservations notwithstanding the need for a stimulus package was and does remain clear. The JNA projections of what would happen to the economy in the absence stimulus spending were dire and there is little question that these loans were necessary. In addition, the government has generally stuck to best practice, planning to invest the loans in productively beneficial infrastructure projects. Consistent with 'stimulus packages' being spent all over the world, these aim to produce short-term stimulus to demand by providing spending and jobs and long-term efficiencies gains to the economy. This objective was clearly worth incurring some debt.

THE JOINT NEEDS ASSESSMENT

The Joint Needs Assessment (JNA) published by the World Bank and United Nations at the beginning of October 2008 calculated that there was a need for USD 3.15 billion additional donor support and an additional USD 700 million to support the banking sector.[2]

Figure 1: Sectoral Breakdown of Aid Request
(as a percentage of the total USD 3.8 billion)[3]



These financial requests are best understood as a post-war stimulus package, 'to help Georgia attain its pre-conflict economic growth and social development trajectory'. Very little of the spending relates to physical war damage.[4] For example, the total spending on roads of USD 969 million (including money allocated from the budget) but this only includes USD 18 million of post-war repair work. Similarly, the urban and municipal services development is the expansion of already existing urban renewal programs, not a response to war damage.

2 United Nations and World Bank. (9 October 2008) Georgia: Joint Needs Assessment. Not publically available. A summarised version of this document is available, United Nations and World Bank. (October 2008) Georgia: Summary of Joint Needs Assessment Findings. and for a brief analysis of the JNA see Transparency International Georgia. (November 2008) Aid to Georgia: Transparency, Accountability and the JNA. Tbilisi.

3 United Nations and World Bank. (October 2008) Georgia: Summary of Joint Needs Assessment Findings.

4 Ibid.

Like the fiscal stimulus in the United States, this spending was supposed to achieve three objectives. First, to ensure that diminishment in private demand did not trigger reduction in government spending/bank lending which would have created a negative fiscal spiral.

Second, the proposed projects in the JNA aim to use this increased spending, in the most part, to improve long-term infrastructure, most notably, roads urban and municipal infrastructure and electricity production/transmission. The focus on roads/municipal infrastructure has been a long-term government policy and was already the recipient of large donor funding, particularly from the World Bank and Millennium Challenge Corporation. The Eurobond issue had also been partially driven by the desire for a gas storage facility (to improve Georgia's energy security) and high voltage electricity lines (to facilitate export).

Third, the JNA was intended to alleviate short-term suffering. In addition to the costs of housing and feeding IDPs and those directly affected by the war, the JNA sought to increase targeted social assistance payments and health cover for the newly poor. In addition, the infrastructure and road-building program are intended to produce jobs.

THE DONORS CONFERENCE

On the 22nd October 2008 a donor's conference was held to collect pledges of post-war assistance. A total of USD 4.8 billion was offered by the donors (USD 4.5 billion by the exchange rates on the day), 26% more money was pledged than was asked for.

Transparency International, Georgia have offered a comprehensive overview of the donor pledge[5] which I will not repeat here. The government has also published and maintained a central list of all the main components of the pledge, its connected projects and planned disbursement on the Ministry of Finance website.[6] They have also been happy to provide detail on the financial conditions of these deals, like the interest rate charged and the life expectancy of the loans.

One obvious means of evaluating the pledges at the donors conference is to offer a side-by-side comparison between the joint needs assessment and the donors conference.

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5 Transparency International Georgia. (November 2008) Aid to Georgia: Transparency, Accountability and the JNA. Tbilisi.

6 The full list can be found at http://www.mof.ge/default.aspx?sec_id=3211&lang=1

Figure 2: Comparison of JNA request with money pledged at donor's conference

	Amount requested in the JNA (USD millions)[7]	Amount pledged (USD millions)[8]
General budget support and social support[9]	1,926	1,555
Infrastructure	958	1,597
Urban and municipal	257	196
Banking	700	782
Business	0	**338**
Other/unallocated	7	**325**
	3,848	**4,793**

As one can see budget support and social spending, taken together are 20% lower than the money asked for in the JNA and spending on infrastructure is 65% higher. Also, USD 338 million of direct support to businesses (mainly property companies) is included in the pledge though this was not envisaged by the JNA.

LOANS VERSUS GRANTS: A THEORETICAL OVERVIEW

The morality and efficacy of giving loans to poor countries is one of the key debates about Overseas Development Assistance. In this section I will discuss how these debates have emerged in some of the literature generally and at the end of the section I will highlight which of the arguments seem relevant to Georgia. There are two principle reasons why one might give loans rather than grants. First, it allows a country to gain access to far more money. Since loans are repaid, the donor country only has to pay the concessional component of the loan.[10] This means that from the lenders point of view many times more cash can be made available in loans than grants for the same money.

7 These numbers are from the JNA with the USD 700 million in banking support added. United Nations and World Bank. (October 2008) Georgia: Summary of Joint Needs Assessment Findings.

8 These figures are principally derived from the list of pledges listed at http://www.mof.ge/default.aspx?sec_id=3211&lang=1 and further detail was offered by OPIC and IFC directly.

9 The combination of budget and social support should not be taken to suggest that all of the general budget was spent on social services. However, there seems little value to make the division between budget and social support since support is impossible to know how much of the direct budgetary support is spent on social services.

10 This is not to be confused with the 'grant component' discussed below.

The other main motive offered in the literature for loans is that loans might be more effectively used by the government than grants. The suggestion is that since loans need to be repaid, countries are more likely to think of them as an investment and take responsibility for them.[11] Conversely, it has been suggested that grants may simply displace tax revenue as a source of government spending and so reduce the incentives for tax collection. Based on the study of 107 countries, Clements et al conclude that 'an increase in loans causes government revenues to increase, whereas an increase in grants causes revenues to decline'.[12]

Against this, there are generally considered to be three main problems with loans; the priorities of loan giving, the ethics of debt and the difficulty of policing that debt. The first problem is that as Bulow and Rogof claim 'a vastly disproportionate share of aid goes to middle income countries via disguised interest subsidies, rather than to the poorest countries'.[13] Loans tend to target mid-income countries, rather than very poor countries, because one of the first responsibilities of development banks is to ensure repayment, and very poor countries are high risk. They may be corrupt or simply lack the management and oversight mechanisms to give the bank confidence of repayment. In addition, development banks are essentially looking for 'investments' but in very poor countries there may be very few businesses or government projects which generate good financial returns. Therefore, if we see the principle point of ODA as poverty eradication then the money is poorly targeted.

The second commonly stated problem with loans is that it is unethical to put poor countries into debt. This point is particularly salient in the context of the 'Third World Debt' issue that has become central to ODA discussions in recent years. Third World Debt has highlighted the problem that lending, if misapplied, can have far more disastrous long-term consequences than poorly given grants.

Of course, all aid can have negative side-effects, like damaging local markets, encouraging corruption or stimulating inflation. However, the anti-loan argument suggests that since debts tend to be so much larger they may have worse side-effects. On top of which, if debts are poorly spent then they can create repayment problems for generations. In worst case scenarios further debts are incurred to

11 For example, Klein, M. and T. Harford (March 2005). 'Grants or Loans'. The World Bank Group: Public Policy for the Private Sector 287.

12 Clements, B., S. Gupta, et al. (September 2004). 'Foreign Aid: Grants versus Loans'. Finance and Development p48

13 Bulow, J. and K. Rogoff (May 2005). 'Grants versus Loans for Development Banks'. AEA Papers and Proceedings. pp393-394

pay current debts creating a downward debt spiral which can have disastrous consequences.[14]

Connected to both of these points, the third problem with loans occurs if development lending institutions see themselves too much as banks rather than development organisations. As banks they might feel obligated to police old loans and restrict new loans to poor countries with a bad credit record, they may focus on lucrative deals (particularly in the private sector) rather than those deals with the highest developmental impact and they may damage the local credit market (again, in the private sector) by offering unfair competition with local banks.

Because of these opposing element the literature tends to suggest that the decision on the appropriateness of 'loans vs grants' should be contextual. Two issues that will influence the suitability of loans versus debts will be the level of responsibility of the government and the current level of indebtedness of a recipient country. The study of Cordella and Ulku which looked at 62 developing countries for the period of 1976-1995, found that high level of loan concessionality/grants is better for poor countries with bad policies and weak institutions. On the other hand, 'countries that have better policy environments or are just richer seem to be able to absorb less-concessional (but larger) aid flows more effectively'.[15]

The relevance of these arguments to Georgia will be considered over the course of this paper. The paper will particularly look at the long-term benefit of increased debt-based aid. But one issue, in particular, stands out from these arguments in a Georgian context. The explosion of debt availability in Georgia is the result of development bank's bias to middle-income countries. Georgia has gained sudden and dramatic increases in funds in 2008 for three main reasons (apart from the war), improved GDP per capita, reduction in national debt levels, and governance reform, particularly in the Ministry of Finance. These three characteristics combined were probably more responsible for Georgia's expansion of credit availability than the war. The IBRD (part of World Bank Group), and the Japanese International Cooperation Agency (JICA) started working in Georgia explicitly because it is now a 'middle income' country with a good credit rating and a reforming government. Similarly, while the more 'privately-oriented' IFIs and investment banks like European Bank for Reconstruction and Development (EBRD), IFC (part of the World

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14 The issue of 'defensive lending' has been investigated in, Birdsall, N., S. Claessens, et al. (2003). 'Policy Selectivity Forgone: Debt and Donor Activity in Africa'. World Bank Economic Review 17(3): 409-435.

15 Cordella, T. and H. Ulku (2007). 'Grants vs. Loans'. IMF Staff Papers 54(1): 139-162.

Bank Group) and the US Governments Overseas Private Investment Corporation (OPIC) have all been present here for a long-time, the improving economic situation of the country has increased their opportunities for making deals.

This does not exclude the role of politics in IFI decision making. Clearly as Georgia enjoys considerable support from the West, especially the United States, the large volumes of international aid are related to that political support. However, even this issue is not simple. Georgia's Western orientation is not just about geopolitics. Several of the IFIs suggested that the attractiveness of Georgia was very much encouraged by the accessibility and openness of the government and english language ability of businesses and government. All of these components of 'western orientation' seem to be just as important practically, as geopolitics.

Also, these debates remind us that the terms of the loans are not necessarily the only priority in assessing the likely effectiveness of loans. It is essential that governance structures are in place to ensure that the money is spent wisely and repayment/debt is effectively managed. The paper will return to this issue later when discussing the overall economic impact of the debt.

DEVELOPMENT BANKS

One simple way of thinking about development banks is to compare them to normal banks. There are two major differences. First, while normal banks assess investments, loans and their returns almost exclusively in financial terms, development banks are supposed to have broader reaching criteria, considering the way that the loan will help the country to develop. Second, development banks are expected to be self-sustaining rather than profit-making.

Because the banks have access to cheap sources of money, they are able to offer loans that are in various ways 'concessional', usually lending at below market rates or lending to projects that are too risky or too long-term for private lenders.

The biggest division in IFIs activity is between the loans they make to the public sector and those made to private companies. The World Bank is actually made up of three banks, the International Development Agency (IDA), the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC) and these different organizations divide the responsibility for public/private lending. The IDA/IBRD lend to governments and the IFC lends exclusively to private companies.

Most of the other IFI operating in Georgia will work with the public and private sectors, except OPIC that only works with the private sector.

Government, public or 'sovereign loans' are cheaper and more long-term than private loans. Public loans can occasionally be given simply as 'budget support' and in which case the government can choose the purpose of the spending (within some broad limitations). Most of the time, however, government loans are given for particular projects like infrastructure development.

The other big division in development banks relates to their level of commercialism. This is not a neat dividing line since all development banks are commercial to some extent. They all, for example, require loans to be repaid and charge interest. However, some are more commercial than others in that they focus more on government or government-like loans and they offer different levels of loan concessionality. On this rough division, at least in Georgia, the IDA, ADB and JICA are the least 'commerical', offering highly concessional loans and conducting most of their loans with government. While ADB will consider commercial projects, if they have high developmental returns, these tend to emphasize large infrastructure and bank support. Similarly, EIB explicitly focuses on infrastructure, whether in the private or the public sector.

IBRD loans are still concessional but usually they are more expensive than IDA, ADB and JICA since their charges are based on international borrowing rates.[16]

IFC and OPIC only work with private companies and EBRD has generally tended to offer more private than public loans in Georgia. In these mostly private deals all three charge closer to international market rates (though a lot cheaper than local market rates). To that extent, these firms are far more actively engaged in 'getting deals' and so work more like conventional investment banks.

Georgia's attractiveness to these banks, and in particular its dramatic increase in recent loans is the result of a number of factors. First, Georgia's growth in recent years has facilitated its move into the category of 'middle-income' country, and as such, has started to become very attractive to development banks like IBRD, ADB, JICA who were not offering loans to Georgia until very recently. This has also been helped (particularly with public sector loans) by improvements in public finance

16 As I will discuss below at the current moment IBRD loans are actually cheaper than ADB loans because international borrowing rates are so low. But one would not expect this to remain the case in the long term.

management, reduction in government and national debt, reduced corruption and improvements in the transparency of public finances.

In addition, the perception of Georgia as a country that is very receptive to reform and very 'accessible' is also profoundly attractive to development banks. One senior development banker explained it like this,

> Many of the countries where they [some of the other development banks] work are problematic. The risk of default is high and it is very difficult to get decisions made and deals done. They come to Georgia and immediately have access at a ministerial level, and the Ministry of Finance knows the lending regulations of the banks better than the visiting consultants do. Getting decisions made and money disbursed is simply easier here.[17]

Finally, of course, the banks are financed by (largely western) governments, so there is no question that geopolitical considerations have an impact. The general popularity of Georgia's reform agenda and its role as a 'beacon of democratic transformation' will certainly have encouraged the dramatic recent increases in lending. In addition, although there seems little doubt that the majority of the USD 3 billion loan pledge would have come if the war did not happen, sympathy for Georgia since the war may will lead to an increase of this funding envelope in the future.

17 Interview with Gio Kiziria, Country Coordination Officer, Asian Development Bank, June 2009

HOW MUCH OF THE LOAN WOULD HAVE ARRIVED WITHOUT THE WAR?

Around USD 3 billion or 63% of the total pledge was made in the form of loans. About half of the 3 billion is being spent on public sector loans and about half is being loaned to private companies. Most of the major IFIs or national development banks suggested that the war had not increased the amount they expected to spend significantly, although they all accepted that it had accelerated the speed with which deals were done and money was disbursed.

All of the branches of the World Bank explicitly acknowledged that the arrangements they have made fit in with the funding envelop that they expected before the war. ADB increased its spending by USD 90 million, or 36% as a result of the war, by reallocating funds from elsewhere in the region, EBRD, EIB, GTZ, JICA and OPIC all seem accelerated deals that were already in development. [18]

That said, the war expedited the development of certain deals and in some cases resulted in forward-funding of deals from future-year budgets. World Bank's IDA brought forward USD 40 million of development policy lending to provide budget support and agreed USD 20 million towards the East-West Highway. Similarly, some of the consideration of the large road projects seems to have been accelerated by IBRD, in particular they expedited the agreement of USD 70 million for local road construction and have accelerated consideration of the USD 210 million financing of the main East-West highway.

Since so much of the money has been brought forward from future-years budgets it is seems likely that the overall loan will be expanded in the future. For example, ADB has recently increased both its concessional and non-concessional budget for 2010 considerably and other banks will do the same. This is impressive given the current international context, since the financial crisis has created a high demand for IFI lending. Any increase would, therefore, almost certainly reflect post-war international sympathies.

18 All of these statements were made explicitly during interview with representatives of the different banks.

With the acceleration in spending about USD 1.2 billion has been contractually committed USD 833 million has been contracted to private loans and USD 352 million has been contracted on public loans.[19] Even though this seems like a relatively small proportion of the pledge, in volume terms most of the banks are on, or ahead of, schedule in their deal-making. This is consistent with the World Bank's recent assessment of the post-war pledge generally. As they say,

> recovery and reconstruction program has got off to an encouraging start with donors having followed through with financing for the immediate period (October 2008 to March 2009) in the amounts corresponding to their pledges and to the requirements as assessed by the JNA. [20]

Furthermore it seems as though the majority of the outstanding USD 2 billion may be contacted by the end of the year.[21]

SECTORAL PRIORITIES

The loans can be divided into a range of different sectors. Below is one overview based on the post-war commitments (with several recent amendments):

Figure 3: Sectoral Breakdown of Loan Component

Description	USD millions
Budget	275
Municipal Development	135
Banking	780
Business – General	157
Business – Property	186
Road	659
Rail	182
Airport	51
Energy	621
	3047

19 These totals are slightly different to the numbers provided in the detailed section about the banks below, because this aggregate data was provided by the Ministry of Finance several days before completion of this project.

20 United Nations and World Bank. (June 2009) Georgia Joint Needs Assessment: Donor Funding in Support of Post-Conflict Recovery and Reconstruction Progress Report. p2

21 These figures were confirmed with the Ministry of Finance in early June. Since that time alterations have been made to some of the details for each of the institutions elaborated below. The totals were not changed to reflect these more recent amendments because of the rolling nature of the changes. For an up-to-date overview of disbursements of the total post-war donor pledge see Ibid. and the Ministry of Finance Website.

Budgetary Support (USD 275 million):
The budgetary support offered by IDA (World Bank) and ADB are on highly concessional terms but are not targeted at any particular sector. For that reason it is impossible to judge what the funds will be spent on.

The Municipal Development Fund (USD 145 million)
Money spent on municipal development is largely being funneled through a 'municipal development fund'. This fund was initially set up to allow the municipalities some involvement in both the selection of local infrastructure repair projects, and in order to let them take responsibility for the financing. While the first part of this objective has been fulfilled, with projects being submitted to the MDF for selection, the local municipalities have so far taken limited responsibility for loans or repayments, since in most cases they do not have sufficient sources of tax revenue to pay for it.

Banking, Business and Property (USD 1.1 billion): The direct financing of banking, business and property really needs to be seen as one category of loan since it is all aimed at maintaining the availability of credit for businesses and this has become intimately connected with support of the property sector. Direct loans have been offered to large, mainly property oriented, companies. However, IFIs don't generally offer loans of less than USD 2-3 million, because the set-up and oversight costs of managing these loans are so high. Therefore, in order to loan money to smaller companies they have made credit available to banks. Sometimes this money is 'targeted' so that it has to be loaned to small and medium sized businesses, or has to be offered as mortgages. Sometimes it is simply offered as money to be loaned as the banks see fit.

Transportation (USD 889 million): The largest part of transportation infrastructure that will be financed by the pledged loans is road rehabilitation. The category above says USD 659 million is being loaned for roads, but the actual number is probably higher since a significant proportion of the municipal development fund is also spent on roads. Out of this USD 659 million, USD 410 million will be loaned to help produce improve the East-West Highway, USD 119 million will be spent on a bypass in Ajara, USD 60 million will be spent on improving the Vaziani-Telavi road and USD 70 million on local roads.

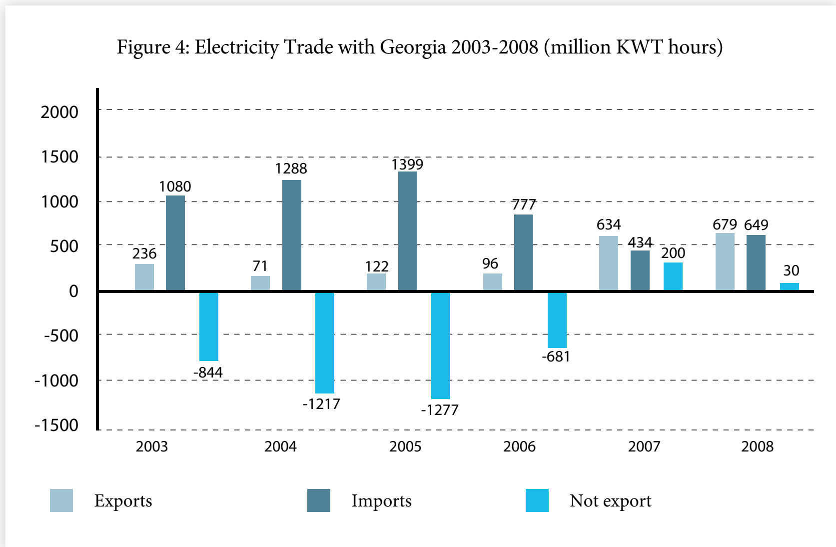
Spending on roads is a common economic stimulus strategy for a range of reasons. First, it is consistent with Georgia's broader aspiration to be a transportation corridor. Second, roads improve the ease with which business is conducted, particularly improving access to markets, and can therefore help facilitate long-term growth. Finally, in a global economic crisis, roads can have a positive direct effect on em-

ployment for the duration of the construction. World Bank experts estimate that $3000 of investment creates one month of work for one person. Apparently, after tax this is a little lower – with 100 million creating 24,000 man-months of work or one years work for 2000 people. Therefore, the total USD 659 million dollars spent on roads should produce 13,180 jobs for one year or 4,390 jobs for 3 years.

USD 230 million of the transportation pledge was targeted at airport repair and railways.

Electricity production and delivery infrastructure (USD 621 million)
The second largest 'infrastructure' sector to be financed is electricity production and distribution. No loans have so far been made in this sector but the most advanced plan is a USD 288 million project to be financed by KfW, EBRD and EIB, to build a high voltage power transmission line to connect hydro electric production in the north of Georgia with Turkey.

The logic behind this project is simple. Georgia has huge potential for hydroelectricity production. The nature of hydro production means that the country exports in the summer and imports in the winter. It has become a net-exporter in recent years.



Reference: Ministry of Energy (http://www.minenergy.gov.ge/index.php?m=306 Accessed June 2009)[22]

22 The reason for the significant increase in imports in 2008 is that Georgia experienced a very cold winter that year.

In order to develop hydroelectric capacity further the country needs more reliable power transmission lines for delivering electricity to the Turkish market. The belief is that once the transmission lines are being built, hydro-electric investment will become very attractive. The IFIs are anticipating considerable public/private investment in hydroelectric production in future years. The total value of pledges for this hydro production is USD 333 million at the current time but many of the IFIs we spoke to said this might expand. Also, given the size of the projects this is one area that could easily absorb more investment. For example, the construction/reconstruction of the Oni dam, for example, could cost as much as USD 1 billion in total. [23]

INTEREST AND CONCESSIONALITY

The most important factor determining the cost of a loan is the interest rate and these will differ significantly depending on the nature of the project and the borrower. The simplest division of borrowers for IFIs and development banks, is the division between public lending (lending to the government) and private lending (lending to companies and people).

Interest rates to the Government
Government loans amount to approximately USD 1.5 billion out of the USD 3 billion in loans that has been pledged. On top of this there is approximately USD 252 million of funding for Oni and Paravani hydroelectric power stations which may be public or private.

The notion of concessionality is conceptually simple. Any loan offered at below market rate is, technically speaking, concessional. However, calculating a cut-off point for what is considered 'concessional' is more tricky. To do this we need to decide what should be considered 'market rate' and how far below that rate does a loan need to be to be treated as 'concessional'.

Georgia's Eurobond offers us the easiest benchmark of 'market rate' for Georgian government loans. It was offered at 7.5% before the war and would presumably be more expensive now. Against this rate then the rates offered by the IFIs are all highly concessional.

At current rates all of the public debt conforms to the IMF definition of 'concessional'. In order to assess the concessionality of loans the IMF calculates the loan's 'grant element' and anything with more than 35% grant element is classified 'concessional'. Calculation of 'grant element' is fairly technical but basically, it is a way

23 Interview with Thea Gigiberia, Country Representative, International Finance Corporation, May 2009.

Figure 5: List of terms for different loans

Bank	Value (million USD)	Typical interest rate[24]	Grace Period	Term	Grant equivalent at current rates [25]
IDA (World Bank)	130	0.75%	10yrs	20 years	54%
IBRD (World Bank)	336	LIBOR - 0.05% (currently 1%)	5 years	30 years	55%
ADB	300	1- 1.5%	8 years (1% interest)	32 years	57%
JICA	180	0.65%	10 years	40 years	70%
EBRD	200 – 326	LIBOR + (currently 2%)	5 years [26]	20 years	37%
EIB	78 - 204	EURIBOR + 0.5% (currently 1.7%)	5 years	20 years	40%
KfW [27]	140	Unknown	Unknown	Unknown	

References: For public or commercial loans most of these prices are standard. JICA is offering particularly concessional terms because of Georgia's post-war status. KfW does not have a standard sovereign rate and it has yet to be negotiated.

of comparing the cost of the loan to the market price.[28] The grant level then tells you how much cheaper the loan is than that market price. So, if the loan is USD 100,000 and the grant element is 60% then you are getting USD 100,000 for the cost of a market priced loan of 40,000. That is to say, it is like the bank gave you USD 60,000 for free and a 40,000 loan at 6.7%.[29]

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24 Current LIBOR and EURIBOR rates were checked in July on http://www.bankrate.com/

25 Grant equivalents were calculated using the IMF calculator at http://www.imf.org/external/np/pdr/conc/calculator/default.aspx. These are estimates which are based on the current market rates. They also almost certainly slightly exaggerate the grant equivalent rates because an accurate figure would include management fees for setting up the loan.

26 For both EBRD and EIB the term and grace period will be decided through negotiation. For the purposes of calculating the grant element I have selected a plausible grace period and term that seems to fit into the range of what one might expect.

27 These are unknown because the deal has yet to be negotiated and KfW would not provide a standard sovereign rate.

28 At the current time the IMF takes 6.7% as its baseline market price. This percentage is also based on a complicated derivative calculation, but for our purpose it is worth noting that this is not far off Georgia's international market rate before the war.

29 This may seem confusing since how can we argue a loan has a 'grant element' if it all has to be repaid? The basis of the calculation is the simple idea that payments in the future are worth less than payments made now. We are used to thinking about this in the case of inflation. So, if I borrow money from you now and don't pay you back for 20 years then the worth of the money will have gone down by the value of inflation. For example USD 10 at 5% inflation will, in 20 yrs, be able to buy what USD 3.77 can buy today. In this case we deflate the value of future payments by the interest rate the market charges. To work out the grant element we work out the total current value of all future repayments (capital repayments plus interest) and compare it to the value of the loan. If the current value of the repayments is 65,000 and the value of the loan is 100,000 then the grant element is 35,000 or 35%.

While IDA, ADB and JICA which very clearly highly concessional by any standard the situation is more complicated for the others. IBRD, EBRD, EIB and KfW base their rates on the international lending rates called 'EURIBOR' and 'LIBOR'.[30] The problem is that LIBOR and EURIBOR have been fluctuating widely in the last 12-18 months. LIBOR is currently 1% and EURIBOR is currently 1.2%. but this is incredibly low by historic standards and both of these rates are usually 2-5% range. As a result, these loans currently look far more concessional than one would normally expect. This could easily change by the time the loans are disbursed if the interest rate goes up.

Private Loans

It is a lot harder to say a great deal about the terms that IFIs offer to commercial companies because neither the banks nor the companies disclose the details. Clearly they must be cheaper than the companies could get on the market, since otherwise the companies would not take them.

In discussion with the different banks and different organizations who have borrowed from them, there has been a general sense that the private lending tends to fall anywhere in the 5-10% range depending on international borrowing rates like LIBOR, country risk at a given time and the risk of the overall project.

These rates are not very concessional if judged against international lending rates. However, local rates are routinely over 16% so compared to these rates the IFIs look cheap. For that reason, IFC told us that 12 months ago organizations like banks (who had access to international borrowing) were not really interested in borrowing from them because their rates were close to market rates and IFC loans came with a lot of reporting requirements and restrictions. However, now that international capital is a lot less readily available there is a lot more interest from private organizations in taking IFI loans. Now the biggest problem for the IFIs is finding reliable enough projects.

The rates charged by the IFIs represent a difficult developmental balancing act. On the one hand, by offering cheap loans to growing businesses they can stimulate growth. On the other hand, they do not want to heavily subsidise one particular company or damage the national credit market as a whole by presenting unfair competition.

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30 LIBOR and EURIBOR are the rates at which banks lend to each other and often forms the baseline for interest rate calculations. IBRD and EBRD use LIBOR as their baseline. EIB lending is based on Euro equivalent Euribor.

One bilateral credit agency worthy of note OPIC. OPIC will only offer loans to companies with at least 25% US ownership. This helps to encourage US companies to invest in developing markets, thereby producing jobs, stimulating secondary business and transferring skills. However, at the same time, as a subsidy of American businesses on foreign soil it also gives those companies a considerable advantage. For example, if the market rates is 14% and OPIC offers a loan of 7% then this is the equivalent of 1/3 of the loan value coming as a grant to the company from the US government. So, a USD one million at that value is the same as the US Government giving a USD 333,000 cash grant to the company. This may reduce the businesses costs and let them out-compete local companies that need to borrow money locally.

CONDITIONALITY OF THE LOANS

There are a huge host of different forms of 'conditions' that can be attached to loans. I will roughly divide these into 'political', 'sectoral', 'governmental' and 'technical'. Political conditions are the conditions that can be placed upon grants or loans to limit disbursement conditional on fulfilling certain kinds of democratic (rather than technical) reform. For example, an IFI could, in principle, require that Georgia improved in terms of indicators for media, judiciary or elections before disbursing money. These conditions are not applied by any of the IFIs.

What I am calling 'governmental conditionality' relates to administrative reforms in government that an IFI may demand. The World Bank, Poverty Reduction Support Operation did require reforms in the public sector under four 'pillars'; strengthening public sector accountability, efficiency and transparency, improving the electricity and gas sector, improving the environment for private sector development and improving social protection, education and health care services. These 'pillars' are then translated into a range of 'targets' against which the government reform is assessed.

The World Bank's assessment of these reforms has generally been very favourable and this assessment has helped to justify further loans. However, it needs to be understood that the reforms are assessed on aggregate and underperformance in one area does not necessarily mean that future budgetary lending will not occur. For example, in the PRSO supplement of September 2008 the project document does acknowledge that reforms to the civil service and the chamber of control have not taken the form that the PRSO had envi-

saged. Nonetheless, it is never suggested that this should be used as a criteria for withholding funds.[31]

Sector conditionalities can be used to make sure that loans are spent in a particular area. Clearly, all funds provided for particular projects are sector specific. Budgetary support can be sector specific if funds are ear-marked for a particular area. So, some of the money given in the form of grants was provided to the government on the condition that it was spent on social projects or IDPs.

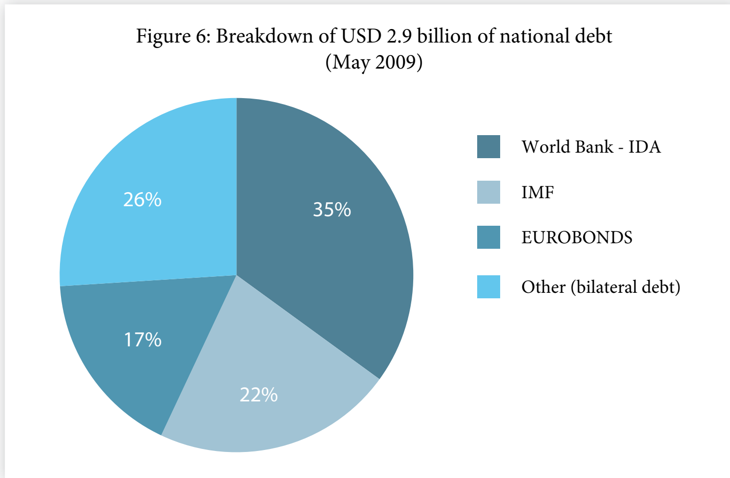
This kind of sectoral targeting did not occur in the budget support of the IDA (World Bank) and Asian Development Bank. Budgetary support provided by IDA operates under the conditions of the Poverty Reducation Support Operation (PRSO). An equivalent is currently being produced by Asian Development Bank. The PRSO does highlight the social sectors that they consider important and the World Bank has assessed the government of Georgia favorably in terms of those social conditions. However, none of the banks stipulate spending levels for any of the social sectors and without these requirements the budgets cannot be called sector specific.

However, all of the IFIs and development banks list the kind of expenditure that their loans cannot be used to support. This usually includes the purchase or production of weapons, particular kinds of environmentally damaging activities like logging or strip mining and certain kinds of socially negative activities like tobacco production, investments requiring the resettlement of indigenous people, child labor etc.

The most common form of requirement placed upon the borrower by IFIs in both public and private borrowing are technical conditions. These refer to a considerable list of different requirements that relate to project development, implementation and evaluation. All IFIs have these kind of conditions and, while these requirements would rarely be considered 'conditionalities' in the broadest sense, they often present the biggest hurdle to the adoption of loans from IFIs.

31 International Development Association. (September 2008) Supplemental Financing Document for a Proposed Supplemental Credit in the Order of SDR 25.5 million (USD 40 million) to Georgia for the Fourth Poverty Reduction Support Operation. p8

At the end of May 2009 the national debt stood at USD 2.9 billion dollars. The breakdown of that debt can be seen in Figure 6



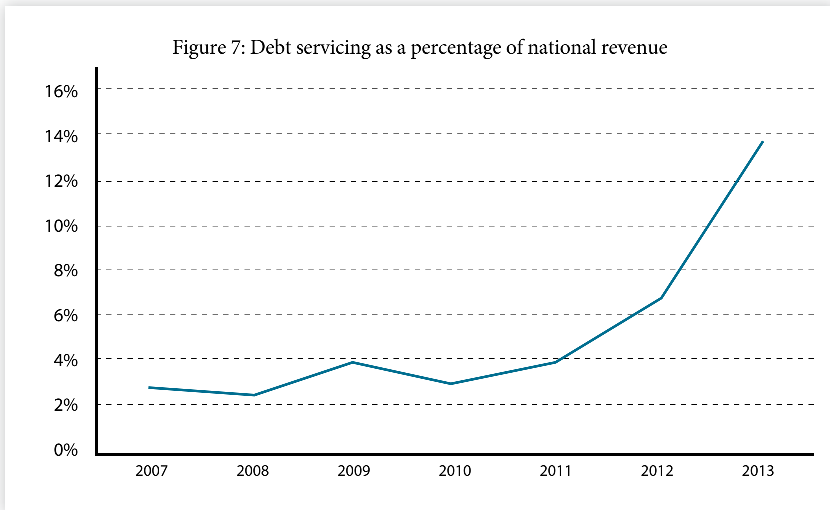
Source: Ministry of Finance (http://www.mof.ge/common/get_doc.aspx?doc_id=5905: accessed June 2009)

The IDA debt is highly concessionary, IMF debt and bilateral debts are variable and hard to assess exactly, but generally offered on good terms. The Eurobonds debt stands out because it is very much more costly than the other debt. At 7.5%, this loan was given at almost 5% over LIBOR at the time which is very high and compares to 0.05% below LIBOR that IBRD would charge and 1% over LIBOR for EBRD.

Of course, the government argues that it is unreasonable to compare these debts because the purpose of the sorvereign debt was to establish a sovereign benchmark for corporate borrowers, to introduce the country to institutional investors and to leverage additional foreign direct investment. However, it is important to make the comparison here so that one does not confuse the impact of post-war highly concessionary debt with the more expensive debt commitments taken on before the war. IBRD loans currently have an interest rate that is 6.5% lower than the Eurobond and far better terms generally so it is clear that where possible IFI loans should be taken rather than market debt.

This very expensive debt which has to be paid back fairly quickly will have the biggest effect on debt servicing over the next few years. Debt servicing is how much the government has to pay in a combination of repayments and interest in any given year. According to an IMF report debt servicing is set to increase dramatically between now and 2013. As they say, 'In terms of debt management, 2013 appears to be the most challenging year, as the $500 million Eurobond matures and repurchases under SBA [IMF] obligations peak'. [32]

In fact, the servicing of the debt will go from GEL 143 million (USD 87 million) in 2007 to over GEL 1 billion (USD 606 million) in 2013. Based on the IMF projections of both debt servicing and national revenue this will mean an increase of debt servicing as a percentage of revenue from around 3% in 2007 to 14% in 2013.



Source: Based on IMF projections (March 2009)[33]

Assessing the debt situation in the longer-term, the World Bank and IMF generally use GDP ratios as a rule of thumb where debt that is over 50% of GDP is considered unsustainable.[34] Using this measure the IMF provides an optimistic appraisal of the

32 International Monetary Fund, Georgia. (March, 2009) Staff Report for the 2009 Article IV Consultation and Second Review Under the Stand-by Arrangement.

33 Ibid.

34 For example, discussion of acceptable debt ratios can be found at the World Bank on: http://pgpblog.worldbank.org/policy_implications_of_a_nonlinear_relationship_between_aid_debt_and_gdp_growth

increases in debt that the government is currently taking on. As they say, the 'public external debt is projected to peak at around 30 percent of GDP in 2011'.[35] This is not particularly large in historical terms. As the JNA points out, 'between 2003 and 2007 external public debt has gone down from 46% percent to 18% of GDP'.[36] The IMF concludes that this level of debt is sustainable, 'Despite the substantial external financing in 2008–10 and the likely exchange rate depreciation, the low initial indebtedness and the concessionality of official inflows limit the risk that debt levels will become unsustainable'.[37]

The situation is even more positive if one looks at the exact nature of the debt rather than the simple GDP ratio. Sustainability of debt has far more to do with the terms of that debt (interest rate and repayment schedule) than its size. The long-term debt that Georgia is taking on as part of the post-war pledge is really unlikely to be a problem because its interest rates are so low and the repayment schedule very long-term. In most cases repayment will often only start 10 years from now, by which time the debt will be lower in real terms and as a proportion of GDP.[38]

However, it is worth drawing attention to a few crucial issues. First, these projections are crucially based upon projections of GDP growth and exchange rates. Since the debts are held in dollars then a significant devaluation of the GEL could dramatically increase the local value of the debts. Second, GDP projections are extremely varied at this time and the government is offering growth projections far higher than those offered by other international organizations. The government is, for example, projecting growth rate of 9% in 2013. In March, the IMF was projecting only 5%.[39]

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35 International Monetary Fund, Georgia. (March, 2009) Staff Report for the 2009 Article IV Consultation and Second Review Under the Stand-by Arrangement. p14

36 United Nations and World Bank. (October 2008) Georgia: Summary of Joint Needs Assessment Findings.

37 International Monetary Fund, Georgia. (March, 2009) Staff Report for the 2009 Article IV Consultation and Second Review Under the Stand-by Arrangement. p14

38 For example, with a ten-year grace period and suggesting a modest inflation of 3%, any debt taken out today will only be worth about 74% of its original real value by the time it starts being repaid. Any debt remaining after 20yrs will only be worth 57% of its original value. If one also includes GDP the significance of the loan diminishes further. The total government debt that will be taken on in post-war is USD 1.5 billion, this is about 12% of GDP. If one assumes GDP growth then together with inflation this will reduce to about 7% of GDP in 10 years and 1% of GDP after 30 years.

39 IMF projections in March International Monetary Fund, Georgia. (March, 2009) Staff Report for the 2009 Article IV Consultation and Second Review Under the Stand-by Arrangement. p28. Government projections presented to parliament can be seen at http://www.parliament.ge/index.php?lang_id=GEO&sec_id=435&info_id=23623

There seems little doubt that the government was right to take on the debt. The JNA projections of what would happen to the economy in the absence of this stimulus are bleak.[40] The stimulus was necessary and most of the loans have been spent on infrastructure investment that should have clear material impact on income. At the same time, the majority of public debt was offered at highly concessionary rates.[41]

In terms of the type of future debt that the government should consider, Merab Kakulia, in his assessment of Georgian debt argued that the government should not take on anymore market (that is, non-concessional) debt in the short to medium term.[42] This seems to be a sensible conclusion given the massive availability of concessional loans both short and medium term.

Therefore, the current and projected debts, resulting from the donor conference pledges, are not worrying. The debt is long-term and will decline in real value and the interest rates are low. However, if IFI loans remain available in the long-term it is clear that continuing to absorb them at the current rate is not sustainable.

40 United Nations and World Bank. (October 2008) Georgia: Summary of Joint Needs Assessment Findings.

41 A fact that is acknowledged by the IMF in their report. International Monetary Fund, Georgia. (March, 2009) Staff Report for the 2009 Article IV Consultation and Second Review Under the Stand-by Arrangement. p16 footnote 8

42 Kakulia, M. (2009). Policy Paper No. 18: The implementation of the 18 month economic program in Georgia in the framework of the IMF stand-by mechanisms. Tbilisi, Open Society Georgia Foundation.

THE WORLD BANK

The World Bank is the most well known of the lending institutions and the loan committed by the different organizations that form the 'World Bank'. The current envelop developed since the donors conference is USD 875 million. The World Bank is actually a group of three institutions, the International Development Association (IDA), the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC).

There are two main divisions between these banks. First, the IDA and IBRD loan to governments, not to private companies. IFC exclusively lends to private companies. Second, IDA lends to very poor countries at a highly concessional rate, while IBRD only lends to middle income country at a somewhat higher rate.

Figure 8: World Bank Committed and Pledged Spending as of June 2009

	USD	Committed total	Description
IDA	40.0	Yes	Budget Lending (PRSO) (2008)
IDA	85.0	No	Budget Lending (DPL) (2009)
IDA	40.0	Yes	Lending to Municipal Infrastructure through the Municipal Development Fund
IDA	20.0	Yes	East-West Highway
IBRD	70.0	Yes	Secondary and Local Roads Project
IBRD	210.0	No	East-West Highway (Svaneti-Rikoti including Rikoti tunnel rehabilitation)
IBRD	60.0	No	Vaziani-Gombori-Telavi Road
IFC	185.0	Yes	Direct Support to Banking – Bank of Georgia 100 million, TBC bank USD 70 million and Bank Republic 15 million
IFC	34.0	Yes	Trade Finance Lines to BoG USD 20 million and Bank Republic USD 10 million and USD 4 million Bank of Georgia Swap
IFC	50.0	Yes	Real Estate Rakeen
IFC	81.0	No	Outstanding – this will probably be increased and the future focus for IFC is likely to be energy and real estate projects.
Total	875		

Reference: IBRD and IDA data was given by MoF and confirmed by World Bank. IFC information derives from IFC directly.

43 Committed loans are those where agreements have already been signed between the government and the World Bank.

The World Bank develops a Country Partnership Strategy every four years (it is currently finalizing its new country strategy). The last Country Partnership Strategy highlights electricity, roads, rural infrastructure and services, education and municipal development.[44]

Most of these loans fall within that strategy generally. The IDA makes most of its loans to the Government in the form of direct budget support, though through the Municipal Development Fund is also supporting municipal infrastructure. IBRD spends most of its money on the stated priority of roads. Since the first commitment is to help in the financing of secondary and local roads, one could also see this as a commitment to rural infrastructure. Only IFC seems to have deviated from this strategy, with its post-war commitments focusing on banking and real-estate, which are not highlighted as priority areas in the Country Partnership Strategy. Support of the electricity sector is not a focal point of any currently agreed post-war deals, but IFC has stated that this will be one of their focal sectors in the coming two years with likely support for hydro-electric projects.

The two sectors which are highlighted in the Country Strategy which do not see significant support are education and agricultural development. While budgetary support could be seen as support for the educational sector, this is probably something of a stretch since education is less than 10% of government spending. In agricultural development, while the Country Partnership Strategy explicitly highlights that 'IFC will consider investment in agro-processing industries'[45] they have found it very difficult to find deals of this kind.[46]

Another issue not included in the Country Strategy Document is that in 2005 the World Bank did not expect IBRD to start operating in Georgia. In 2005 the Country Partnership Strategy argued that, 'While Georgia's debt situation is improving, it still faces a moderate risk of worsening that will likely preclude normal IBRD lending during this CPS period'.[47] Following on from that, in 2008 IBRDs decided

44 World Bank. (2005) International Development Association and International Finance Corporation: Country Partnership Strategy for Georgia.

45 Ibid. p24

46 Interview with Thea Gigiberia, Country Representative of International Finance Corporation, (May 2009)

47 World Bank. (2005) International Development Association and International Finance Corporation: Country Partnership Strategy for Georgia.

that Georgia had developed sufficiently to qualify for loans and the first of those loans was agreed in 2009.

> Previously, based on debt sustainability and other considerations, Georgia had been eligible only for concessional IDA (International Development Association) borrowing....[however] remarkable changes in economic performance...together with the equally striking improvements in governance and the business environment, were important factors in the country's creditworthiness assessment., Georgia became eligible for IBRD loans.[48]

According to World Bank representatives this decision was made before the war and therefore, also cannot be seen as the result of it.

It is therefore important to realise that while all three banks have dramatically increased their funding envelope since the war, this results more from perceived changes in the Georgian economy and government than it is dependent on the war.

ASIAN DEVELOPMENT BANK

The Asian Development Bank opened its offices in Georgia in 2008 having made an initial private loan of USD 25 million to Bank of Georgia in 2007. While ADB makes public and private loans, its donor conference commitments entirely related to public loans.

ADB is the one IFI that seems to have substantially increased its funding as the result of the war. ADB original planned public funding for Georgia was USD 40 million for the Municipal Developmet Fund and a planned envelop for 2009-2010 of USD 149 million of concessional funds. An additional USD 60 million was subsequently allocated from sub-regional fund but was also not related to the war. So we can say USD 249 million would have been made available without the war.

Following the war, some of the 2009-2010 funds were spent in 2008. An additional USD 60 million allocation was made available for two budgetary support loans and an additional USD 30 million for the municipal development fund. So we can say that funding for Georgia increased by USD 90 million, or 36%, because of the war. Total distribution of funds is listed below.

Figure 9: Lending of the Asian Development Bank

Value (USD)	Committed	Description
70.0	70	Budget Support (2008)
80.0	80	Budget Support (2009)
40.0	40	2008 Municipal Development Fund – Various projects
119.0	0	Ajara Bypass Road
30.0	0	**2009 Municipal Development Fund Tbilisi Road Improvement**
339	190	

Reference: Information obtained by from the Ministry of Finance and confirmed with ADB

USD 190 million of the total amount is already committed and the rest is likely to be agreed this year since one effect of the current financial situation is that Asian Development Bank is bringing forward all of its government assistance funding so that its two year 'envelop' will be spent in one year.

As a result, ADB will spend more than its pledge in the 2008-2010 period. It is planning to bring more concessional and non-concessional lending into place for 2010.[49]

EBRD AND EIB

European Bank for Reconstruction and Development (EBRD) and European Investment Bank (EIB) are both international financial institutions that finance government and private investments. EBRD has one of the largest and most complex pledges from the donor conference. As with the other development banks, its pledge was largely made up of pipeline projects.

Breakdown and analysis of EBRD financing is made difficult because most of its deals that relate to the post-war donors conference (then pipeline) are still under consideration and so the terms are not entirely clear. One cannot even clearly identify the breakdown by public/private because at this time it is unclear whether the hydroelectric power plants at Paravani or Oni will be financed as public or private entities.

EBRD's strategy document from 2006 highlights infrastructure (particularly electricity production), enterprise and banking as key sectors and their committed and proposed investments seem to be in line with that strategy.

49 Email exchange with Gio Kziria, Country Coordinator, Asian Development Bank (June 2009)

Figure 10: EBRD pledge and signed deals

Value (USD)	Committed[50]	Public or Private	Description
25.2	7.7	Public	Municipal water projects (multi-donor pooled funding, Ajara, Bakuriani, Poti, Kutaisi, Borjomi, Tskhaltubo)
491.4	337.4	Private	Banking sector financing (loans, equity) - 157 mln Euro in 2008, 84 mln Euro in 2009, 110 mln Euro in 2010
151.2	95.2	Private	Enterprise financing (44 mln Euro in 2008, 24 mln Euro in 2009, 40 mln Euro in 2010)
91.0	0	Public	Railway rehabilitation
15.4	0	Private	Tbilisi airport runway
14.0	0	Public	Airport navigation system
70.0	0	Public	500 kv transmission line (co-funded by KfW, EBRD and EIB)
56.0	0	Unknown	Paravani HEP
70.0	0	Unknown	Oni cascade
984.2	439.7		

In previous years EBRD has tended to concentrate on private rather than public loans. At the time of the last Country Partnership Strategy (October 2006) around 79% of their total portfolio of loans in Georgia was private while only 21% was public.[51] Since then their loans have stayed overwhelmingly private. All of the USD 269 million in 2007 was private and less than 2% of the USD 301 million in 2008 was public. In 2009, all of the USD 81.4 million financing committed so far has been private and the rest of the deals are still in the preparatory stages. EBRD does expect to commit another USD 270 million over the course of the year and also expects USD 350 million to be available for 2010.[52]

The European Investment Bank (EIB) tends to focus more on infrastructure projects, though it will contract both with private and public organizations. It has a generalized co-financing agreement with EBRD whereby if EBRD is looking for co-financing on a project it will be offered to EIB first and vice-versa.

50 Email exchange with Gio Kziria, Country Coordinator, Asian Development Bank (June 2009)

51 The volumes shown as 'committed' are simply the summation of 2008 and 2009 figures that relate to the areas pledged.

52 European Bank for Reconstruction and Development. (21 November 2006) Strategy for Georgia. p5

Bank.

Figure 11: Breakdown of European Investment Bank Pledge

Value USD	Committed	Public or Private	Description
78.4	0	Public	500 kv transmission line (co-funded by KfW, EBRD and EIB)
126.0	0	Unclear	Hydro power plants
91.0	0	Public	Railway rehabilitation
15.4	0	Public	Tbilisi airport runway
310.8			

As one can see, they have not committed funds on any of these projects yet. The most advanced of the projects in terms of evaluation is the power-line which, as we have discussed before, will form the basis of the governments electricity export development strategy.

BILATERAL DEVELOPMENT ORGANIZATIONS

In addition to the IFIs, a number of national development banks and government development organizations pledged loans at the donor's conference rather than grants. The largest of these commitments came from the Japanese International Cooperation Agency (JICA) who pledged USD 190 million, followed by the US Overseas Private Investment Corporation which committed to USD 176 million and GTZ who committed to USD 140 million.

Figure 12: Loans by National Development Banks/Development Organisations

Country/ Organisation	Value (USD)	Committed	Public or private	Description
Japan – JICA	180.0	0.0	pub	Samtredia-Kutaisi-Zestaponi road rehabilitation
US – OPIC	40.0	40.0	priv	Banking - BoG - Capital Adequacy
US – OPIC	40.0	40.0	priv	GMT Real Estate
US – OPIC	40.0	0.0	priv	TBC - for property mortgages
US – OPIC	40.0	0.0	priv	Park Hyatt Tbilisi
US – OPIC	10.0	0.0	priv	GMT Mtatsminda
US – OPIC	6.3	0.0	priv	SB Siberia
Germany – KfW	140.0	0.0	pub	High voltage power transmission line
Germany – BMZ	5.6	Unclear	pub/priv	Microfinance support project
Netherlands – FMO	30.0	Unclear	priv	Support to banking sector
France	6.4	Unclear	pub	Tbilisi airport equipment
Total	538.3	80		

As one might expect, the nature of the loans from the individual nations is fairly idiosyncratic and matches no common standard. Once again, however, almost all of the money that was pledged was already being considered prior to the August war so it is hard to see it as new money. To take each of these organizations in turn, JICA's government loan commitment of USD 180 million was in the planning phase prior to the August war, but was both expedited and discounted (offered at a lower rate of interest) as a result of the war.

The terms of the loan were made more generous because of Georgia's post-war 'status'. Under normal circumstance middles income countries would be charged 1.4% with a 25 year loan and a 7 year grace period. Because of the war they will be charged 0.65% with a 40 year loan and a ten year grace period. According to JICA a commitment is expected to be made by the end of the summer.

OPICs funding is also worth note. OPIC is the only 'development' bank out of those spending money in Georgia, that has national ownership requirements for its clients. It will only consider a company for financing if that company has at least 25% ownership by a US company or a US citizen.[53]

53 Exceptions can, apparently be made to this rule but are rare.

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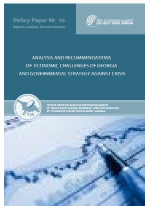

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