Georgia's Transport Infrastructure under Public-Private Partnership: Challenges and Prospects

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Annotation. *The article, based on the study of the latest literary sources and relevant factual data, discusses an important issue of economic theory and practice - Georgian transport infrastructure under public-private partnership conditions: challenges and recommendations.*

Based on a fundamental study of the issue, challenges hindering the deepening of public-private partnership cooperation in the field of transport infrastructure in Georgia have been identified, such as: the current political situation in the country, the ideological views of the leading political force, myths established in society, the lack of access to objective and high-quality analytical information by society, and the low level of public awareness on this issue.

By generalizing the research results, it is substantiated that the optimal form of joint management of transport and logistics facilities in Georgia with the private sector or implementation of new infrastructure projects will be public-private partnership.

Relevant recommendations are proposed: establishment of a transparent legislative and legal framework and regulations, expansion and strengthening of institutional capacities, improvement of project preparation, evaluation and selection procedures, rationalization of risk allocation, ensuring free competition and transparency, establishment and strengthening of regulatory oversight.

Introduction

In modern conditions, in different countries of the world, the establishment of private interests in public projects is increasingly common. On the basis of such agreements, partners from the private sector participate in the design, construction, management and financing of transport projects. The increase in cases of public-private partnership in this area is clearly noticeable.

Public-private partnerships for the implementation of transport infrastructure projects are particularly common in South America (Guasch, et al., 2008), Southern Europe (Albalate, 2014) and the United States (Bel, et al., 2009). In many developed and developing countries, public-private partnerships are an important and attractive alternative for financing and managing transport arteries and highways.

It is noteworthy that improving the quality of transport infrastructure is one of the most frequently used strategies by politicians to improve road safety. In addition, the high risk of uncontrolled growth of public debt and certain budgetary constraints push governments to take care of improving the quality of road transport and infrastructure by maximizing the savings of public financial

resources. Over time, public-private partnerships have emerged as the most common and effective practice for implementing transport infrastructure projects, bypassing budgetary constraints (Etienne, et al., 2006). In fact, governments have found a reliable base in the form of the private sector to offer citizens new and better transport infrastructure.

In this regard, the example of Georgia is particularly interesting, where public-private partnerships have a long, albeit somewhat unknown, history. In particular, the Chiatura-Poti railway section was built and operated in the form of a concession in the 19th century; the Tbilisi-Lisi funicular, the Tbilisi tram and water supply network, and the Tbilisi airport were organized in the same form.

Today, a proper assessment of the potential of Georgia's international highways, the geographical location of Georgia and the diversity of its terrain provide the country with the opportunity to gain the status of a true "transport hub", which requires the development and modernization of a network of all types of roads and corridors - road, rail, air and sea. In order for Georgia to operate as a "transport hub" with optimal efficiency, it is necessary to provide timely and efficient transportation to each strategic location via highways. Overall, the transport infrastructure can be improved using a public-private partnership model.

It is noteworthy that Georgia has an important geopolitical position in the Eurasian Economic Union (EAEU), not least because the South Caucasus is one of the most favorable transport routes compared to other regions. The transport corridor leading to the historical Silk Road and one of its important links - Georgia - is a connecting corridor between Europe and Asia, where almost all types of transport networks are developed.

Therefore, taking into account economic feasibility and in order to make freight transportation through Georgia more intensive, the operation of international roads in Georgia under the public-private partnership model is of great importance, as improving transport infrastructure and increasing its capacity is a fundamental prerequisite for this goal (Resolution of the Government of Georgia, 2022)..

The research aims to identify the potential of Georgia's transport infrastructure in the new geopolitical situation, to better utilize the geopolitical potential, to clarify the possibilities of increasing the involvement of private structures and interests in the implementation of transport infrastructure projects, to better demonstrate the economic, political and social feasibility of the development of this direction (including identifying factors facilitating and hindering public-private partnership, studying obstacles and new opportunities). Based on the research results, recommendations will be developed for the effective management of the country's existing strategic transport infrastructure facilities and the development of new infrastructure projects in the transport sector.

The research used primary and secondary research methods. Two in-depth interviews were conducted within the framework of the primary research: the first interview was conducted with the founder and manager of one of the largest banks in Georgia (TBC), who was subsequently involved in the implementation of Georgia's largest transport infrastructure project (Anaklia Port) and in relations with major investors. The second interview was conducted with a respondent with extensive experience in the public sector, who had direct contact with issues related to the subject of the research. A comparative analytical approach was used within the framework of the secondary (desktop) research. In particular, the secondary research

includes an analysis of the results of previous research conducted by other researchers, a review of examples and best practices from different countries, and an assessment of the compatibility of these examples and practices with the reality of Georgia.

The main limitation of the study was the inability to conduct focus groups on the research questions with the local population in different regions of Georgia. This would have allowed us, on the one hand, to assess the current situation in the country from the first-hand perspective, and on the other hand, to find out the attitude of the local population to the features of public-private partnerships (details of the benefits and risks of the created transport highways). In addition, interviews could not be conducted with representatives of central and local authorities, which is why the results of this study could not reflect their opinions on the research questions.

Main text

The study revealed that the development of the Georgian transport and logistics system is stagnating, and in a number of areas is even going backwards.

Based on the study of relevant scientific literature, research reports, the use of best practices and comparative analysis, the analysis of public information related to the issue, as well as interviews with practicing economists and representatives of the business sector with relevant experience, it is clear that the optimal form of joint management of transport and logistics facilities in Georgia with the private sector or the implementation of new infrastructure projects will be public-private partnership. This, among other factors, is determined by Georgia's geopolitical potential.

In addition, it was determined that the main obstacle to the deepening of public-private partnership cooperation is not economic feasibility, lack of interest from the private sector or the opposing opinion of international partners or a combination of other objective factors, but the current political situation in the country, the ideological views of the leading political force, myths established in society, the lack of access to objective and high-quality analytical information by the public, and the low level of public awareness on this issue.

Despite the above-mentioned skepticism, according to the interviewed respondents, this challenge can be overcome if decision-makers, based on economic feasibility, take political “risks”.

As a result of the interviews conducted and the analysis of the information obtained, it was determined that the management of Georgia's infrastructure facilities and services in cooperation with the private sector, as well as the development of new infrastructure projects, has repeatedly been on the agenda and has even been partially implemented in such areas of the national economy as water supply and healthcare.

It was revealed that international donors and partners of strategic large transport infrastructure projects being built in Georgia are not only not opposed to the deepening of cooperation between the Georgian government and the private sector, but also welcome the start of such a process and are ready to actively contribute to the deepening and development of such partnerships.

Moreover, there is the European PPP Expertise Centre, which is an integral part of the European Investment Bank’s consulting services, whose mission is to help different countries, including candidate countries, to better work on public-private partnerships. With the help of this centre, a number of projects were financed worldwide from 1990 to 2024.

As a result of the analysis of the current situation, the following challenges and

risk factors for the public-private partnership model operating in the field of transport infrastructure in Georgia were identified:

⇐ The inherent shortcomings of the current political system in Georgia - informal governance, weak independence of state institutions, problems with the rule of law - have a negative impact on both the political situation in the country and its socio-economic development. Without an agenda based on real needs and challenges, the behavior of the country's executive authorities is devoid of long-term strategic vision and, often, inconsistent. This is the biggest challenge that contradicts the country's economic development in general, including the development of its transport infrastructure network.

⇐ Incoherent policy, lack of succession - the current model (when transport highways are owned by the state) makes it impossible to quickly overcome the challenges facing the country. More than once, there have been cases of politicians not keeping their promises, a significant change in the path taken by their "successors," and a radical shift in priorities. For example, in 2016, Prime Minister G. Kvirikashvili presented a rather ambitious plan for the "Spatial Development Project of the Country," according to which, by 2020, it was planned to build up to 1,000 km of roads, build 550 km of highways, rehabilitate and reconstruct up to 800 km of roads, build up to 300 bridge crossings, and build 50 road tunnels (Government of Georgia, 2016-09-16). He emphasized that Georgia has the full potential to become a transport and logistics hub connecting Europe and Asia. In this context, an important role was assigned to the improvement of road infrastructure and its development according to modern, European standards. However, despite the promise, the Prime Minister's ambitious plan could not be implemented, as the completion of most projects was postponed first until 2022, then until 2024, and some of the initiatives have not yet begun (Magali-Tad, Rustavi-Tsiteli Khidi road).

⇐ Corruption in the tenders for announced infrastructure projects is increasing the cost of building transport highways. It is important that in 2019, Transparency International Georgia revealed possible corruption risks through the "revolving door" problem.

⇐ Low level of qualification of employees in the transport infrastructure sector and the absence of a policy to correct this difficult situation.

⇐ Economic instability due to the political instability in the country.

Within the framework of the study, the effectiveness of public-private partnerships was assessed in the context of the experience of other countries in the context of "Value for Money Analysis". In general, world experience shows that public-private partnerships are a means of effective use of public and private sector spending, the defining indicator of which is Value for Money Analysis (VFM analysis). The OECD study showed that 19 out of 20 surveyed countries use VFM analysis to assess project effectiveness.

VFM analysis includes the following stages:

1. Qualitative analysis - the initial stage of assessing the effectiveness of public-private partnerships. At this time, the issue of whether the project will meet the needs or expectations of users is considered. Different countries have pre-defined criteria for assessing this, for example: (1) According to the UK Treasury, a qualitatively desirable public-private partnership is when the services

of a private company are long-term and predictable; the private sector can manage risks and implement the project; there is competition in the market for investors; (2) In France, the priority is the optimal distribution of risks between the private and public sectors; (3) In Virginia and the USA, public-private partnerships meet the criteria of qualitative analysis in the case when the project proposed by the private company covers various complex issues for further operation.

I believe that according to the practice of the above-mentioned countries, in the context of Georgia, public-private partnerships may be desirable in the context of qualitative analysis if the private company takes responsibility for ensuring that the roads of international transit importance, if operated by it, meet the infrastructure standards envisaged by the agreement, while ensuring safety, increasing throughput and achieving implementation within the project timeframe.

2. Quantitative analysis - the second stage of assessing the effectiveness of public-private partnerships. In particular, in order to assess the effectiveness of public-private partnerships: (1) in Chile, each The costs are compared, on the one hand, the total cost in the presence of a public-private partnership, and on the other hand, the cost of construction by the state; (2) In Colombia, Canada, Korea and South Africa, the risks that are transferred from the government sector to private companies are expressed in terms of possible losses, i.e. if the cost of a public-private partnership exceeds the construction carried out using the traditional model, this is justified by the fact that the private sector bears the risk.

The difficulty of the calculation lies in the fact that in terms of quantitative analysis, there is no source of relevant costs in Georgia when implementing a public-private partnership. That is why, when assessing the effectiveness in terms of quantitative analysis, the costs of the existing model in Georgia should be compared with the average costs of European countries where public-private partnerships operate.

According to the Georgian Roads Department, the construction of the 35-km Tbilisi-Sagarejo highway is financed from the state budget and its total cost More than 527 million GEL. A simple mathematical operation shows that the cost per 1 km is more than 15 million. It should be noted that against the background of the above costs, Georgia was assigned 2.7 points in the World Bank's Logistics Performance Index (LPI) in 2023, while Ireland was assigned 3.6 points in the above-mentioned rating (Logistics Performance Index, LPI). And Ireland's cost per 39 km is 400 million euros, of which 50 million are land acquisition costs (which the Georgian government does not have), that is, the amount spent on infrastructure improvement alone is per 1 km: (400 million-50 million)/ 39 km = 8 million euros per 1 km. (Transport Infrastructure Ireland, 2019).

When assessing cost-effectiveness, average wage rates should be taken into account. Average monthly salary in Georgia 1280 GEL, while the average monthly salary in Ireland is 3683 EUR.

It is worth considering the ratio of construction costs per 1 km to the GDP of Ireland and Georgia. Ireland's GDP as of 2022 is 533.1 billion USD (Data Commons. Ireland), while Georgia's GDP as of 2022 is 24.78 billion USD (Data Commons. Georgia), or approximately 69.384 billion GEL. The calculation shows that Georgia's cost per 1 km is 0.022% of GDP, while Ireland's is 0.002%. Finally, it is clear that Georgia's cost per GDP is 11 times higher than Ireland's, which highlights the inefficiency of the current model.

A comparative analysis shows that in

addition to the lack of cost-effectiveness in Georgia, the current model does not infrastructural quality that meets international standards is achieved. In Ireland, where costs are lower and the private sector has more spending on human resources in the form of salaries, cost-effectiveness is achieved, along with road infrastructure development.

Based on the conducted research, it was revealed that Georgia is unable to expand its transport infrastructure network at a pace and volume that would meet the priorities set for the country both in international policy and in the country's socio-economic development. In addition, Georgia is experiencing a decline in the relevant ratings of the World Bank and other leading international financial organizations, according to all the data that reflect the development of the transport and logistics network of individual countries.

It was revealed that due to the unhealthy political system operating in the country, the delay in democratic development, the unformed economic policy, the lack of quality information and the lack of appropriate advocates, Georgia cannot ensure the timely and high-quality development of its transport infrastructure network. This situation hinders the country's socio-economic growth, weakens its position in the international arena, which is benefiting from other, competing international transport corridors (connecting the East and the West).

It has also been revealed that corruption risks, problems with the rule of law, political instability and opaque decisions made in international projects (for example, the Anaklia port) hinder both the involvement of the local private sector and the interest of international companies in the implementation of Georgian infrastructure projects.

Taking into account all of the above and based on the characteristics of Georgia's political and socio-economic development, the only alternative way to modernize and develop the transport infrastructure network is to develop public-private cooperation in this sector. The society of our country is poorly or not at all informed about the benefits that deepening cooperation with the private sector, in particular, the development of the transport and logistics network in the form of public-private partnership, can bring. Therefore, along with the elimination of the above-mentioned problems, it will be important to raise public awareness of the benefits that this form of cooperation can bring to the transport infrastructure sector and, in general, to the development of the country.

Conclusion and recommendations

The experience of Poland, Hungary, the Czech Republic, Croatia, Slovenia, Romania and Serbia over the past 10-17 years has shown that taking into account the recommendations below is a fundamental prerequisite for creating a favorable environment for public-private partnerships in the transport infrastructure sector, as well as attracting investments from the private sector to meet rapidly growing infrastructure needs:

1. Establishing a transparent legislative framework and regulations:

- Developing legislative acts and regulations that facilitate public-private partnerships, which will clearly establish the roles and responsibilities of public and private partners;
- Enforcing mechanisms and procedures for preventing corruption risks at the legislative level;
- Creating and considering effective mechanisms for protecting private investors in the legislative framework;
- Standardizing public-private partnership contract terms and procurement procedures to ensure efficiency and transparency;
- Strict adherence to the principles of the rule of law (Queiroz, 2005).

2. Enhancing and strengthening institutional capacity:

- Increasing the technical capacity of the Public-Private Partnership Agency and the level of expert knowledge of its employees;
- Improving the capacity of public service employees with the skills and knowledge necessary to deepen public-private cooperation (identification, management of public-private partnership projects, etc.);
- Coordination and improvement of the database of public-private partnership projects, standardization of project documentation.

3. Improving the procedures for preparing, evaluating and selecting projects:

- Objective and in-depth study of the feasibility of public-private partnership projects, risk analysis;
- Prevention of corruption interests, money laundering and international economic sanctions in public-private partnership projects Identifying and preventing risks of self-harm;
- Objective and independent assessment of the fiscal sustainability of public-private partnership projects;
- Development of a national strategy for the development of transport infrastructure and alignment of public-private partnership projects with it;

4. Rationalization of risk allocation:

- Allocation of risks among public-private partnership partners on the principle of ensuring their optimal management;
- Ensuring proper identification and reflection of risks in public-private partnership contracts;
- Ensuring guarantees of support from the state for the management of those risks that the private sector cannot manage independently (De Vera, et al., 2013).

5. Ensuring free competition and transparency:

- Ensuring the independence of the judiciary and unwavering adherence to the principles of the rule of law;
- Ensuring fair competition and transparency of the procurement process for public-private partnership projects;
- Standardizing the selection of private sector partners in public-private partnerships, ensuring equal conditions for them;
- Establishing transparent and objective criteria for selecting potential partners in public-private partnerships, evaluating their proposals, and adhering to them as much as possible (Flor, 2018).

6. Establishing and strengthening regulatory oversight:

- Establishing effective mechanisms for resolving disputes between parties to public-private partnerships and ensuring the impartiality of the court;
- Creating an independent body to oversee the conclusion and implementation of public-private partnership contracts and the protection of consumer interests;
- Establishing transparent tariff-setting mechanisms and ensuring attractive investment conditions for private sector partners.

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