

# ЭКОНОМИКА, ЭКОНОМЕТРИКА И ФИНАНСЫ

## TRENDS OF FINANCING FOR DEVELOPMENT IN GEORGIA

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**Abstract:** Financing for Development is often associated with grants, concessional loans and financial aids; however, it is often unclear and obscure exactly what kind of financing this implies; what the purpose/objective of the financing is and what the actual outcomes are. This article aims at shedding a light on these very issues. It will be attempted to discuss financing for development of Georgia and its actual outcomes against the background of global trends in financing for development. Together with the concept of financing for development and main components implied in financial flows necessary for development the rationale of development and its measures are also analysed in the article.

**Keywords:** Financing for Development (FfD), Official Development Assistance (ODA), International Financial Flows, Foreign Direct Investments (FDI), Sustainable Development.

### **Introduction:**

The term of financing for development (FfD) frequently features in modern academic works and researches, reports of states and international organisations. For a broader public this terminology is associated with grants, concessional loans and financial aids; however, it is often unclear and obscure exactly what kind of financing this implies; what the purpose/objective of the financing is and what the actual outcomes are. This article aims at shedding a light on these very issues. It will be attempted to discuss financing for development of Georgia and its actual outcomes against the background of global trends in financing for development.

### **Brief Discussion of the Rationale of Development and Its Measures:**

Development is a complex concept. There is no universal interpretation for it and, hence, there are no measures, as, to a certain extent it is based on individual perceptions and attitudes and often these perceptions run counter to statistics.

The global understanding of development has changed over the years. In a traditional understanding, development implies economic growth. This is a process under which country and society develops, progresses and becomes richer. Accordingly, traditional measures for development are economic indicators such as GNP and GDP.

The roots of such interpretation are related to colonization period.

Later, views about development have changed. According to the new and more comprehensive definition, this is a process of changes that improve the welfare of people and quality of their life, their social welfare, and allows meeting population's needs. Economic growth can be considered to be both favourable and unfavourable for such development. Qualitative indicators are preferred to be used over quantitative indicators

according to which it is possible to measure the quality of life.

The recent views about the definition of development were formed by the end of the 20<sup>th</sup> century, when the concept of the so-called sustainable development emerged. Sustainable development is development that promotes prosperity and economic opportunity, greater social welfare, and protection of the environment – offers the best path forward for improving the lives of people everywhere [1].

Unfortunately, we don't yet have a single index to measure sustainability that brings together social, economic and environmental changes. The most commonly used index to measure progress currently is gross domestic product (GDP). However, we know that GDP measures only economic development, and includes activities that may actually be damaging from a sustainability point of view. Other well-established measures include the Human Development Index (HDI) that only covers health, inequality and educational issues [2].

As mentioned above, the mankind started to think about the essence of development quite a long time ago, however, from the 21<sup>st</sup> century, completely new era of development started when member states of the UN and international organisations agreed to combine efforts to achieve eight Millennium Development Goals (MDGs) by the end of 2015.

In theory, MDGs concerned all countries but in reality these goals were to be achieved for the countries with poor, developing and transit economy with the financial support of rich, developed countries and international organisations. Originally, in 2001, the UN supposed that in order to reach the goals, USD 61bn per year would be additionally necessary; later in 2002, this figure increased to USD 63-72bn; in 2005, it was supposed that this figure was from USD 82 to USD152bn; and in the beginning of 2011, OECD Development Centre published a report Revisiting MDG Cost Estimates, according to which achieving first 6 goals only

at the global stage required financing over USD 120bn per year, which was unrealistic at the expense of external funding only. Moreover, the economies of reach countries were in crisis at the time and the report indicated the need to direct internal resources (tax and other revenues) of the poor, developing and transit countries towards this aim.

### How is Development Financed?

There can be two components implied in financial flows necessary for development [3]:

1. Official development financing (ODF), which in turn comprises of:
  - domestic revenues of developing countries (internal financing) the growth of which decreases the need for external financing;
  - Official development assistance (ODA) – bilateral and multilateral concessional loans and grants;
  - bilateral and multilateral non-concessional financing that are mobilised from international financial institutions or private sources and are mainly used for infrastructure or for funding other income generating projects;
2. Private external financing, by means of foreign direct investment and other portfolio flows, which

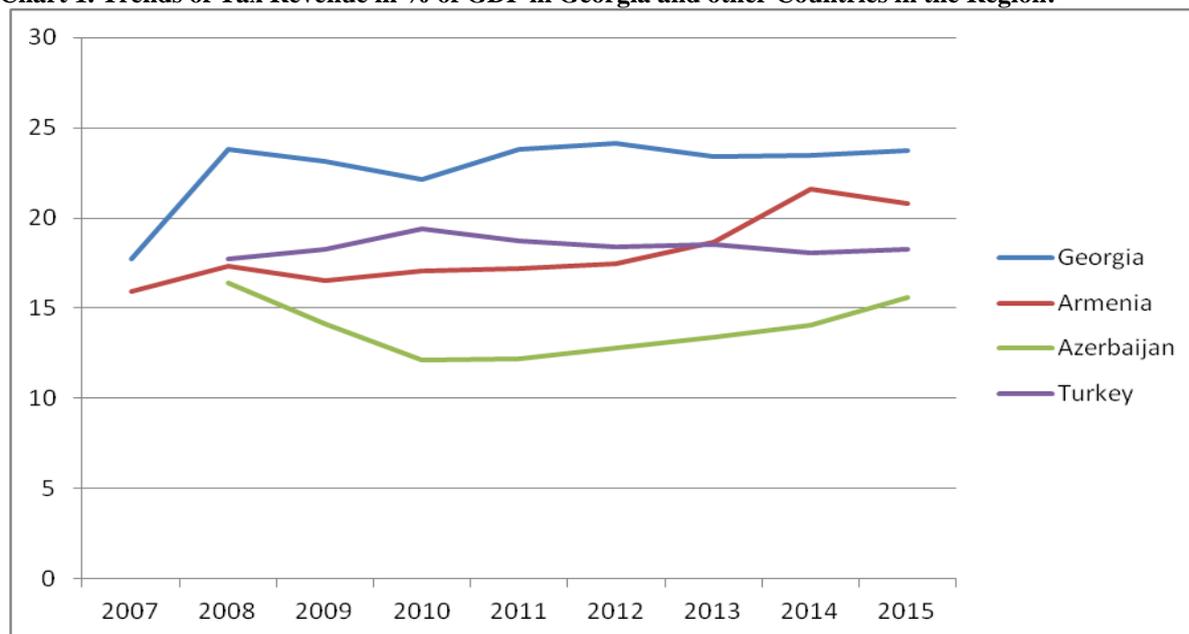
are mostly aimed at growth and are not used for social objectives.

### The Domestic Sources of Official Financing for Development:

Domestic revenue of a country plays a particular role in financing development irrespective whether the country is high-income or low-income. Public finances are the main source of investments necessary for sustainable development. In 2011, developing countries (except for China and India) mobilised USD 2.8 trillion for financing development. Out of this, USD 2.3 trillion has been mobilised in the form of internal revenues by governments, which is quite a high indicator. However, it does not meet the common needs of sustainable development goals. In the recent years, many developing countries improved their tax to GDP ratio, however, there is still a large gap between the indexes of developed and developing countries.

It should be noted that, according to this indicator, Georgia is far ahead of other countries not only in the region but high income countries as well (Chart 1). However, similar to many developing countries, internal revenues are not sufficient to finance development and it still needs support from outside.

**Chart 1. Trends of Tax Revenue in % of GDP in Georgia and other Countries in the Region:**



**Data Source:** <https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?locations=XN>

Until 2000, the volume of investments by the developed world was approximately 4.5% of the global output, whereas savings were around 4%. The gap between these figures required external finance for development. It amounted averagely to USD 40 bn per year in the 1980s and USD 80 bn in the next decade. A group of developing countries has had higher savings than investments since 2000. Surplus is about over USD 340 bn per year. According to experts, this trend will continue in future as well [3].

However, the developing world, is not homogeneous and unfortunately, this trend will not apply to many countries of Africa, Latin America and the Caribbean,

as well as developing countries and countries in transition in Europe, including Georgia. These countries still need large external financing and unfortunately, this need will most likely persist in future too.

### External Sources of Official Financing for Development:

Official Development Assistance is a significant external source of financing for development. ODA stands for flows that promote the economic development and welfare of developing countries. These flows are concessional and have grant elements of at least 25 percent. ODA cannot be used for military purposes.

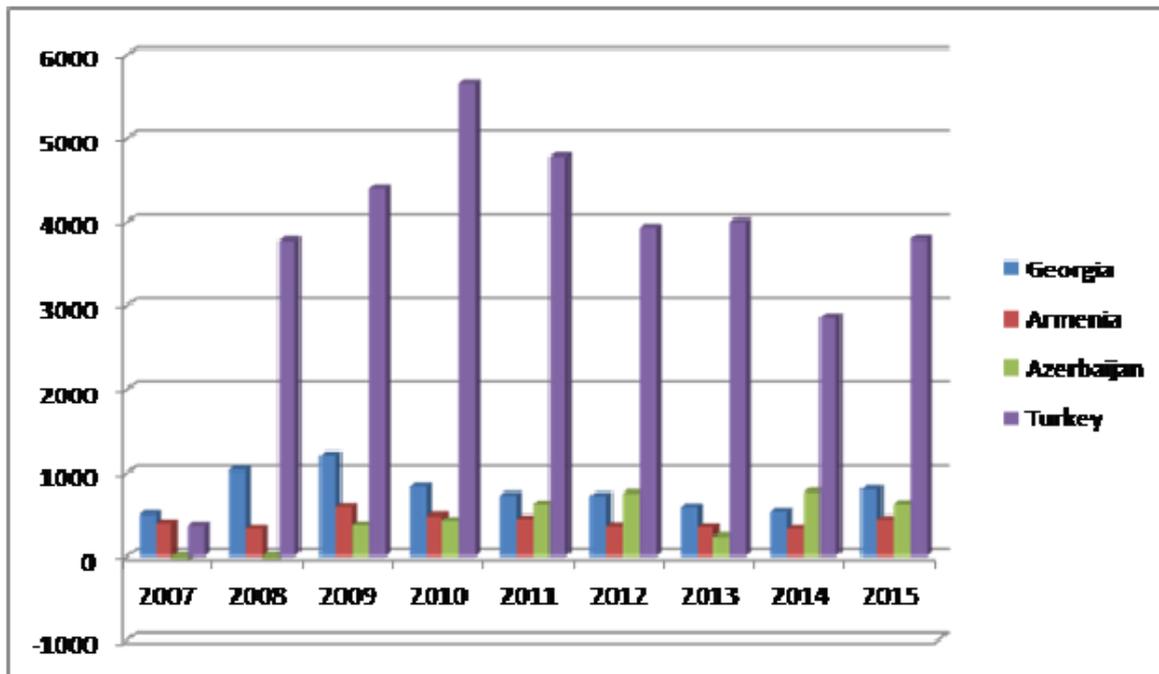
OECD defines and periodically updates the list of countries eligible for ODA.

In these countries per capita income should be less than USD 12 276. As early as in 1970 The UN sought its long-term goal of achieving 0.7% index of ODA/GNI (Official Development Assistance/Gross

National Income) in developing countries, whereas according to the World Bank this index for such a country as Georgia amounted to 3.29% in 2015.

The picture of the dynamics of official financial resources for development of Georgia and several countries in the region in 2007-2015 is given in the Chart 2 below.

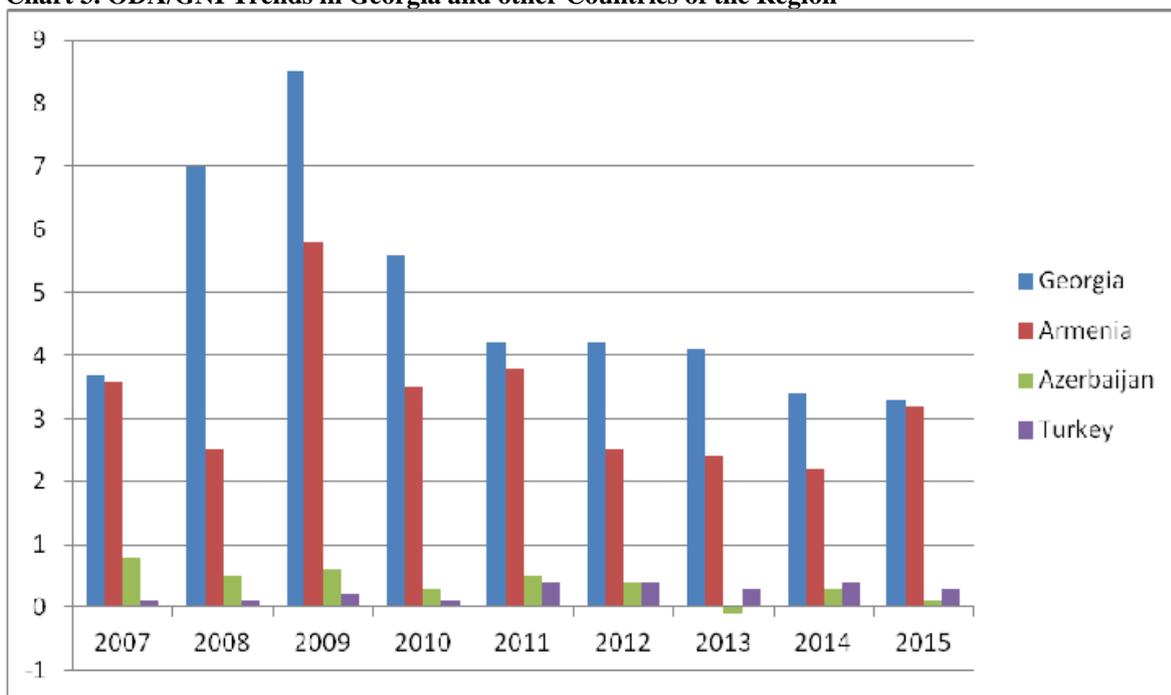
**Chart 2. Official Development Flow in Georgia and Other Countries in the Region, Millions of US Dollars**



Data Source: the world Bank, available at: <https://data.worldbank.org/indicator/DT.ODA.ALLD.CD>

For the analysis of official financing for regional development the statistics for ODA/GNI is presented below in Chart 3.

**Chart 3. ODA/GNI Trends in Georgia and other Countries of the Region**



Data Source: The World Bank, available at: <http://databank.worldbank.org/data/reports.aspx?source=2&series=DT.ODA.ODAT.GN.ZS&country>

This last chart shows that in Georgia, compared with other countries in the region, the amount of official funding is characterised by trends of decrease in terms of GNP but is still high and is something to be considered. Decrease of percentage of ODA in central government expenditure can be considered to be a positive trend. It indicated increase in the internal resource of financing for development.

As regards state and state guaranteed loans from international finance institutions and other sources, their contribution to financing for development, is smaller compared to other sources in the context of any category of a country.

**Private external financing:**

The role of external private financing inflows for financing for development is irreplaceable. It is similarly important for both low-income and high-income countries.

A significant component of private finances is foreign direct investment (FDI). In any category of state, even in low-income countries, there are significant inflows of FDI.

According to the world investment reports, the foreign direct investment inflows increased by 9% in 2013 up to 1.45 trillion and in developing countries the global share of FDIs increased by 54% which is a record indicator.

Foreign Direct Investment (FDI) inflows in 2014 declined 16 per cent to USD1.2 trillion. However, recovery is in sight in 2015 and beyond. FDIs flows today account for more than 40% of external development finance to developing and transition economies.

In 2015, global flows of foreign direct investment rose by about 40%, to USD1.8 trillion, the highest level since the global economic and financial crisis began in 2008.

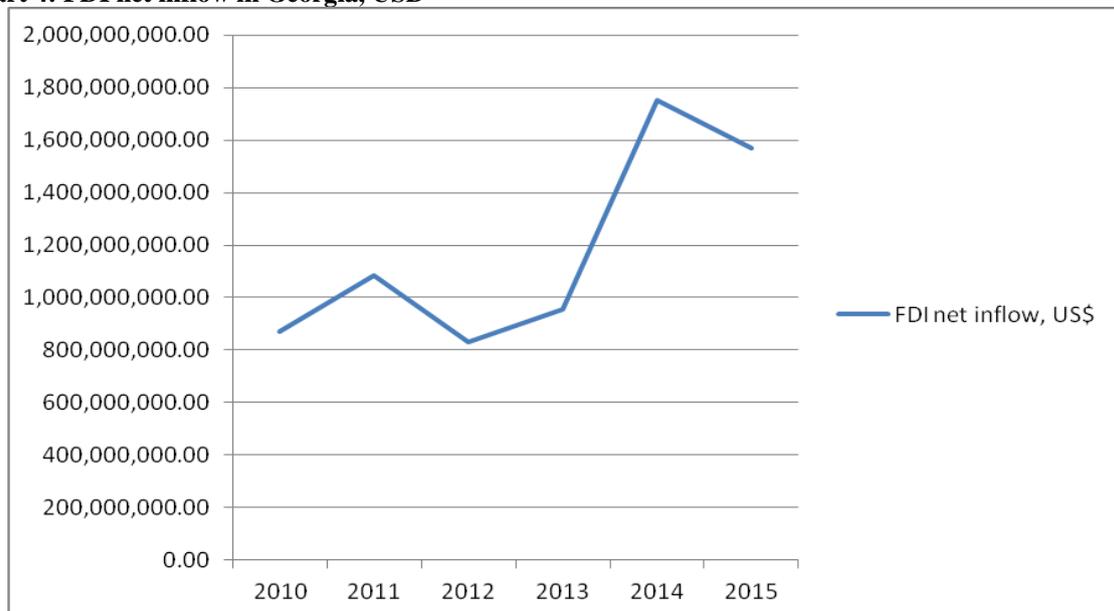
In 2016, global flows of foreign direct investment fell by about 2%, to USD1.75 trillion. Investment in developing countries declined even more, by 14 per cent, and flows to LDCs and structurally weak economies remain volatile and low. Although UNCTAD predicts a modest recovery of FDI flows in 2017–2018, they are expected to remain well below their 2007 peak.

Developing Asia nowadays attracts more foreign direct investments than the European Union and the United States. However, developing and transit countries also steadily increase foreign investments. In 2014, the outflow of direct foreign investment amounted to 39% of the total global outflow of foreign direct investments, which in 2000, e.g. constituted 12%.

The role of private investments in reaching the goals and objectives of sustainable development is great. However, search for private investments to finance development is related to many obstacles. According to the Sustainable Development Goals (SDGs) report, in 2016, private funds have been mobilised in sustainable development sectors such as climate change adaptation, infrastructural development, food safety, health and education, and investments. Currently there is USD2.5 trillion deficit in the sustainable sector, in terms of investments, whereas according to the report, in future, the investment needs for developing countries will be from 3.3 to 4.6 trillion USD [4].

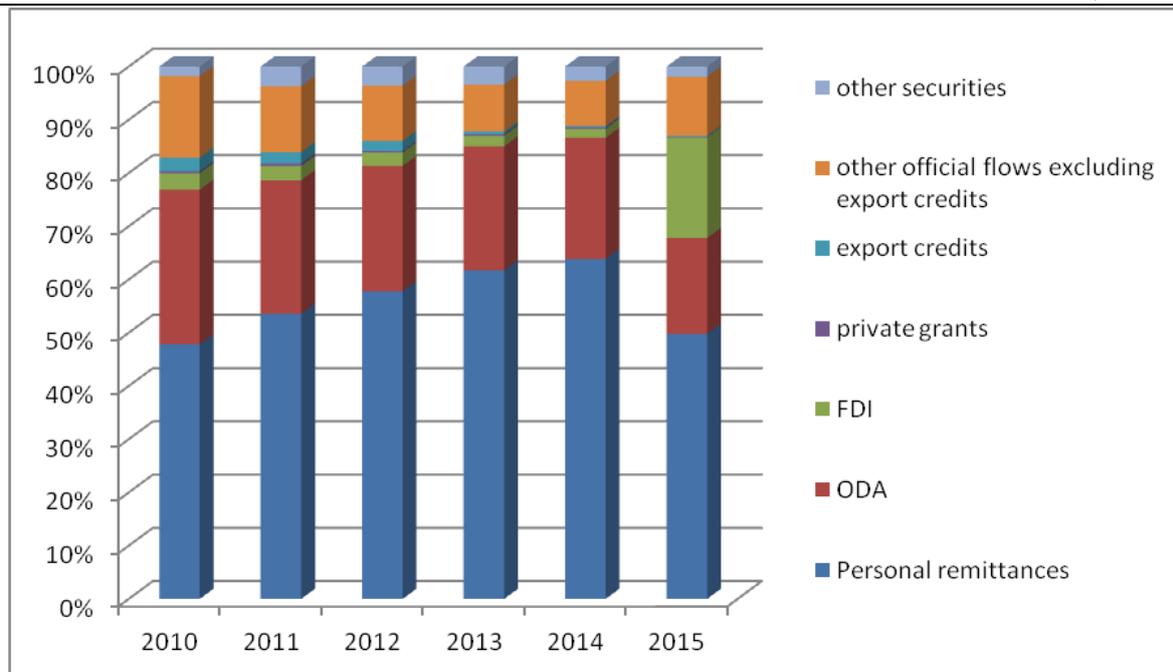
The volumes of FDI Georgia received for years are given on Chart 4:

**Chart 4: FDI net inflow in Georgia, USD**



**Data Source:** The World Bank, available at: <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS>

**Chart 5. Percentage of FDI flows in Georgia in terms of the entire amount of foreign flows in according to years:**



**Data Source:** [https://public.tableau.com/views/Shareofnon-ODAflows/ODAvsNON-ODA?:embed=y&:display\\_count=no?&:showVizHome=no#1](https://public.tableau.com/views/Shareofnon-ODAflows/ODAvsNON-ODA?:embed=y&:display_count=no?&:showVizHome=no#1)

Despite the fact that the amount of FD that entered in Georgia in 2015 was decreased, its share is considerably higher mainly due to the decrease in personal transfers and ODA.

#### Conclusion:

MDG terms expired on 2015. As the information submitted above shows, rather large internal and external financial resources have been mobilized to achieve MDGs. However, about 1 billion people still live on less than USD1.25 a day – (the World Bank measure on poverty) and more than 800 million people do not have enough food to eat. Women are still fighting hard for their rights, and millions of women still die in childbirth.

Therefore, 17 Sustainable Development Goals have been elaborated by UN that could transform the world by 2030. One of the major challenges for SDGs, similar to MDGs is to mobilize the required finances. In order to determine the financing needs and resources intergovernmental committee of experts on sustainable development financing was set up in 2013. In August 2014, the Intergovernmental Committee of Experts on Sustainable Development Financing adopted its report: “proposing options on an effective sustainable development financing strategy to facilitate the mobilization of resources and their effective use in achieving sustainable development objectives”. According to experts’ calculations, the cost of providing a social safety net to eradicate extreme poverty will amount to about USD66bn a year, while annual investments in improving infrastructure (water, agriculture, transport, power) could be up to a total of USD7tn globally [5].

Public finances and aids have great role in achieving sustainable development goals. According to the prognosis made by the World Bank, 50-80% of the funds necessary for achieving SDGs, should be mobi-

lized through internal resources, economic growth being the primary source. MDGs did not make express focus on economic development of countries. One of the targets of the eighth sustainable development goal – decent work and economic growth - is 7% growth of GDP in the least developed countries. The very economic growth is the significant precondition for mobilising huge financial resources needed for achieving the goals. The contribution of ODA is great too. In 2016, official development assistance peaked at USD 142.6 billion. Contribution made by private investments is similarly vital for achieving SDGs. However, mobilizing private investments for sustainable development is related with many challenges. There is a deficit of 2.5 trillion of investments in the sector of sustainable development. According to the report prepared by experts, the investment needs of developing countries are in the vicinity of USD 3.3-4.5 trillion.

Unfortunately, neither major conference on financing for the SDGs held in July 2015 in the Ethiopian capital Addis Ababa could offer countries any new, innovative sources for sustainable development. Focus is still made on collecting more taxes and fighting against tax evasion.

Time will show how countries and international community will manage to mobilize deficit financial resources necessary for sustainable development goals. It should, however, be borne in mind that accessibility of the required financing only is not enough. While finances are vital for development, it does not mean that the countries with more income have greater progress in achieving the development goals. Good governance based on transparency and accountability and adequately functioning institutions are similarly vital in achieving these goals.

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## ЦИФРОНОМИКА КАК ФАКТОР ПОВЫШЕНИЯ КАЧЕСТВА ПРОЦЕССА РАЦИОНАЛЬНОГО ПРИРОДОПОЛЬЗОВАНИЯ

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### АННОТАЦИЯ

В научном проекте обосновывается особая значимость перехода от сырьевого типа *хозяйствования* (т.е. не рационального *потребления природных ресурсов*) к высокотехнологичному (производству, где важно наличие природных ресурсов, их качество и рациональное использование). Учитывая данную специфику *научное исследование* нацелено на характеристику трансформаций экономических отношений сферы рационального природопользования в контексте цифровой экономики и обозначение движущих сил этого процесса.

**Ключевые слова:** рациональное природопользование, природные ресурсы, мировое хозяйство, цифровая экономика, цифровизация, экологические системы, детерминанты природопользования, системный подход.

С конца XX – начала XXI вв. развитие мирового хозяйства базировалось на экономике использования природных ресурсов. Многочисленные полезные ископаемые рассматривались как основополагающий фактор роста ВВП национальных хозяйств, что обеспечило их «глобальное потребление», а именно формирование системы, основанной на бесконечном нарастании эксплуатации недр [7].

Только по приблизительным оценкам к 2000-х г.:

- общемировой объем добычи угля, нефти, природного газа, металлических и неметаллических руд составлял около 100 млрд. тонн (в пересчете на *единую систему измерений*);

- сопутствующее образование минеральных отходов, попутных смесей газов и паробразных углеводородных и не углеводородных компонентов варьировалось от 23 до 80% в добытой минеральной массе (в зависимости от технологии добычи) [4; 5];

- из чистого объема добычи около 90 млрд. тонн впоследствии трансформировалось в отходы [7].

С 2000-е г., из-за ускоренных темпов загрязнения окружающей среды производственными и бытовыми отходами и в силу других причин, началось активное развитие цифровой экономики. Был запущен процесс перехода от сырьевого типа *хозяйствования* (т.е. не рационального *потребления природных ресурсов в экономическом производстве*) к высокотехнологичному (производству, где важно наличие природных ресурсов, их качество и рациональное использование).

В частности, более чем в 50-ти % различных отраслей мирового хозяйства, сопутствующие такой экономике информационные технологии трансформируются в основополагающий фактор роста ВВП, постоянно повышая эффективность производственных процессов [6].

Учитывая выделенную специфику, *исследование* нацелено на характеристику трансформаций экономических отношений природопользования в контексте цифровизации. При этом приоритетно решение следующих фундаментальных научных задач:

- выделение логики трансформации природопользования (в связи с существующим глобальным экологическим кризисом);