

12th Annual America - Georgia Business Council Conference

Funding Options for Businesses in Georgia

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Topics

- Availability of Finance in Georgia
- Multilateral Programs
- How to qualify for credit support



Contraction in the Economy

- Georgia has recently undergone two external shocks – the Russian incursion and the global crisis
- According the NBG, real GDP contracted 5.9% year on year in 1st quarter 2009
- Budget deficit
 - 4.7% of GDP in 2007
 - 6% of GDP in 2008
- Current Account Deficit
 - 17% of GDP for 2007
 - 25% in 2008
- FDI
 - \$531million in first quarter of 2008
 - \$124 million first quarter 2009
- A smaller trade account deficit from fewer exports has narrowed the current account deficit



Borrowing by the Government

- The ability of the GoG to borrow will be a key to its economic recovery
 - From January-July 2009 government revenue contracted by nearly 12% compared with the corresponding period in 2008
 - The bulk of the contraction came from lower tax revenue
- GoG is now borrowing
 - In August the GoG issued T-bills with a maturity of between 175 and 364 days.
 - Demand for these instruments was well in excess of supply at all auctions to date
- Short maturities suggest risk aversion among domestic commercial lenders remains high, prompting them to invest some of their excess liquidity in safer instruments.



Banks Can Only Lend When the Economy Grows

- Lending in Georgia has decreased due to a recession in the economy
- As the economy has retracted substantial fewer bank deposits have limited loan activity
 - July 2009 -- bank sector deposits 12% lower than in corresponding period in 2008
 - July 2009 -- Total bank assets fell by 14% year on year
 - March 2009 v 2008 -- External debt owed by banks fell by 7% quarter on quarter but this still represented an increase of 19% of bank debt year on year
- NPL have risen to 18.8% as of June 2009 from 3.4% in June 2008

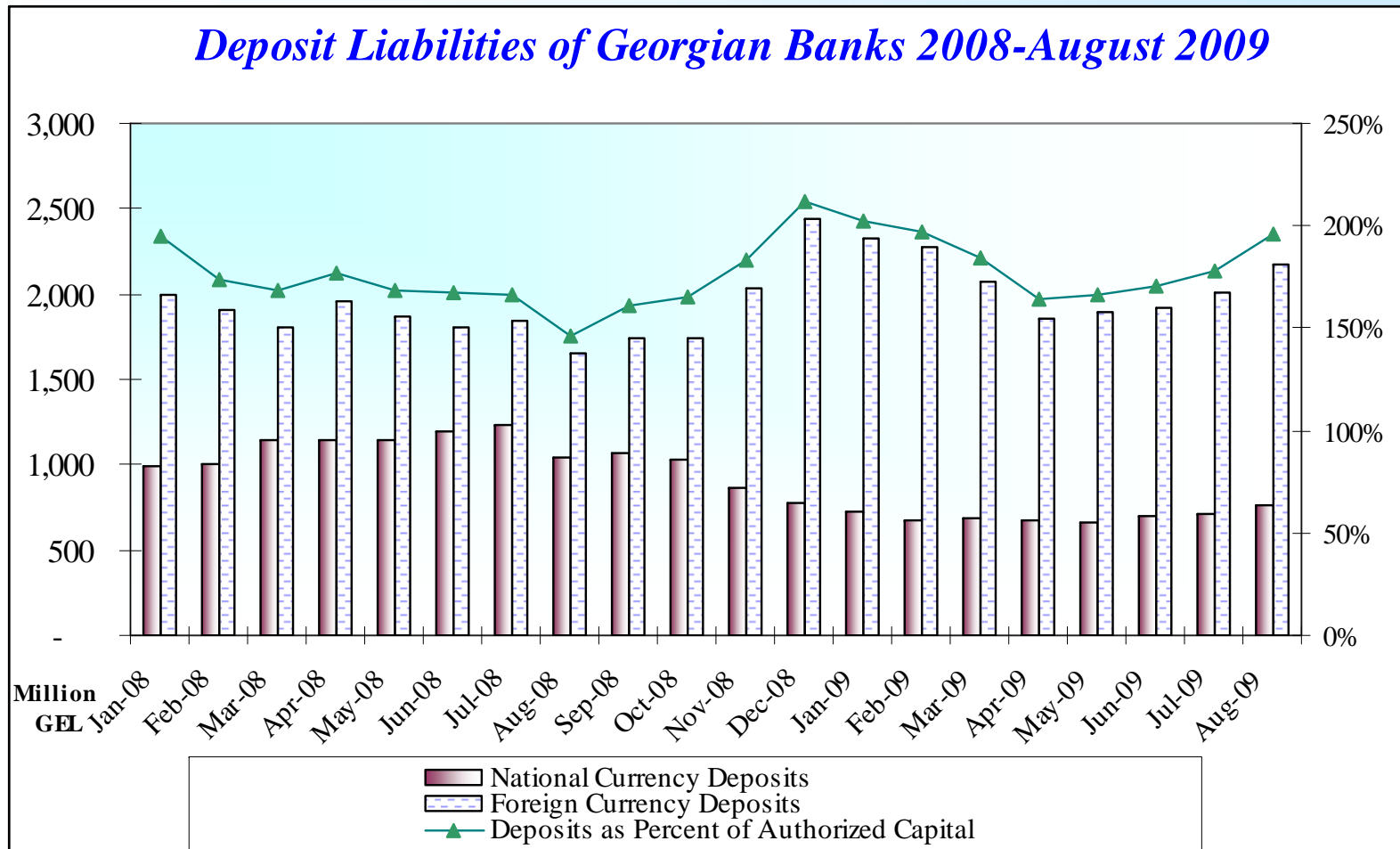


Foreign Debt and Foreign Banks

- Foreign Debt as percent of GDP
 - 2007 --18.64%
 - 2008 --20.9%
 - 2009 -- 24.75%
- Increased donor debt has provided valuable liquidity but require larger shares of future budget revenue
- As of September, 19 registered banks with foreign majority ownership in 16 of those including stakes from donor agencies
- Majority of loan assets controlled by foreign capital restrictions



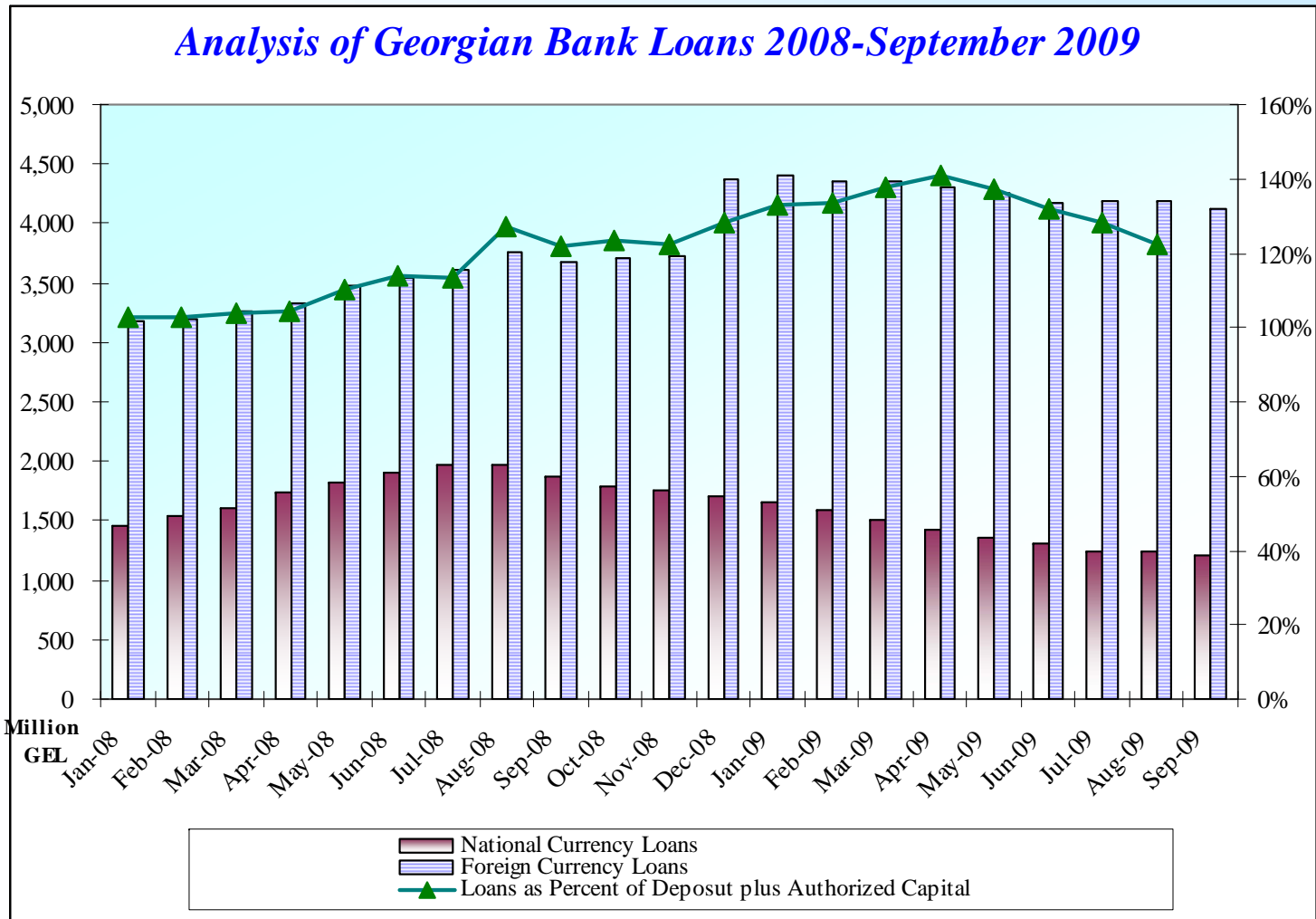
Bank Deposits are largely Foreign



Deposits are larger percent of capital base

Foreign Currency Deposit have grown from 67% to 74%

Loans are Largely Foreign Currency



Domestic loans have decreased by 20% while foreign loans have increased by 23% over period

Loans as percent of deposits and capital have decreased

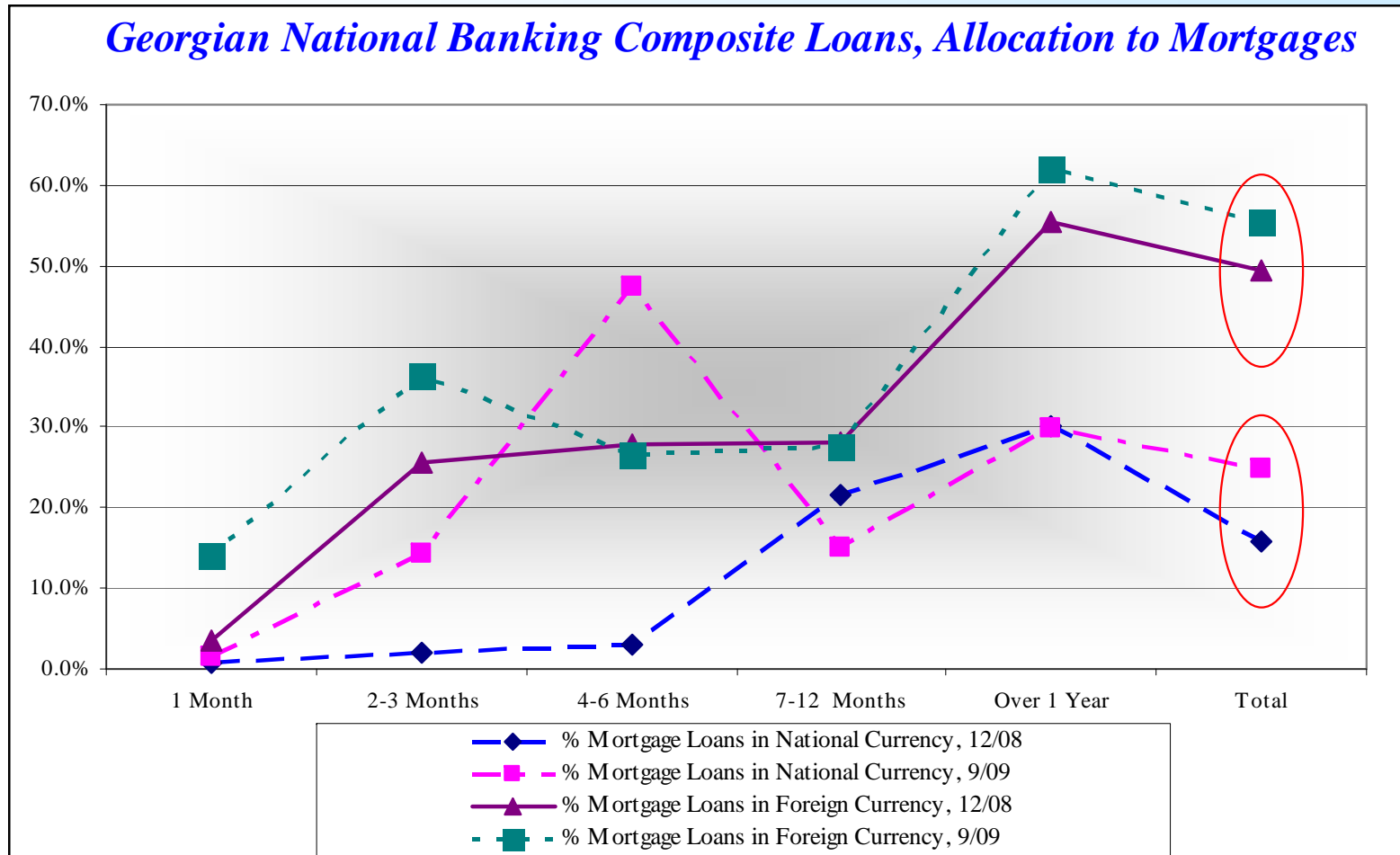


Lending to Georgian SMEs, and Consumers is Limited

- According the NBG as of October 2nd
 - 78.1 percent of total volume of loans to legal entities went to three sectors -- industry, construction and trade.
- While microfinance (MFIs) institutions doubled to 34 over the last year access to finance in rural areas is constrained
- MFIs constrained by NBG deposit rules and poor credit information often lead to high spreads
- In 2007, of 12 regions, half of less than one bank branch per 100,000 citizens



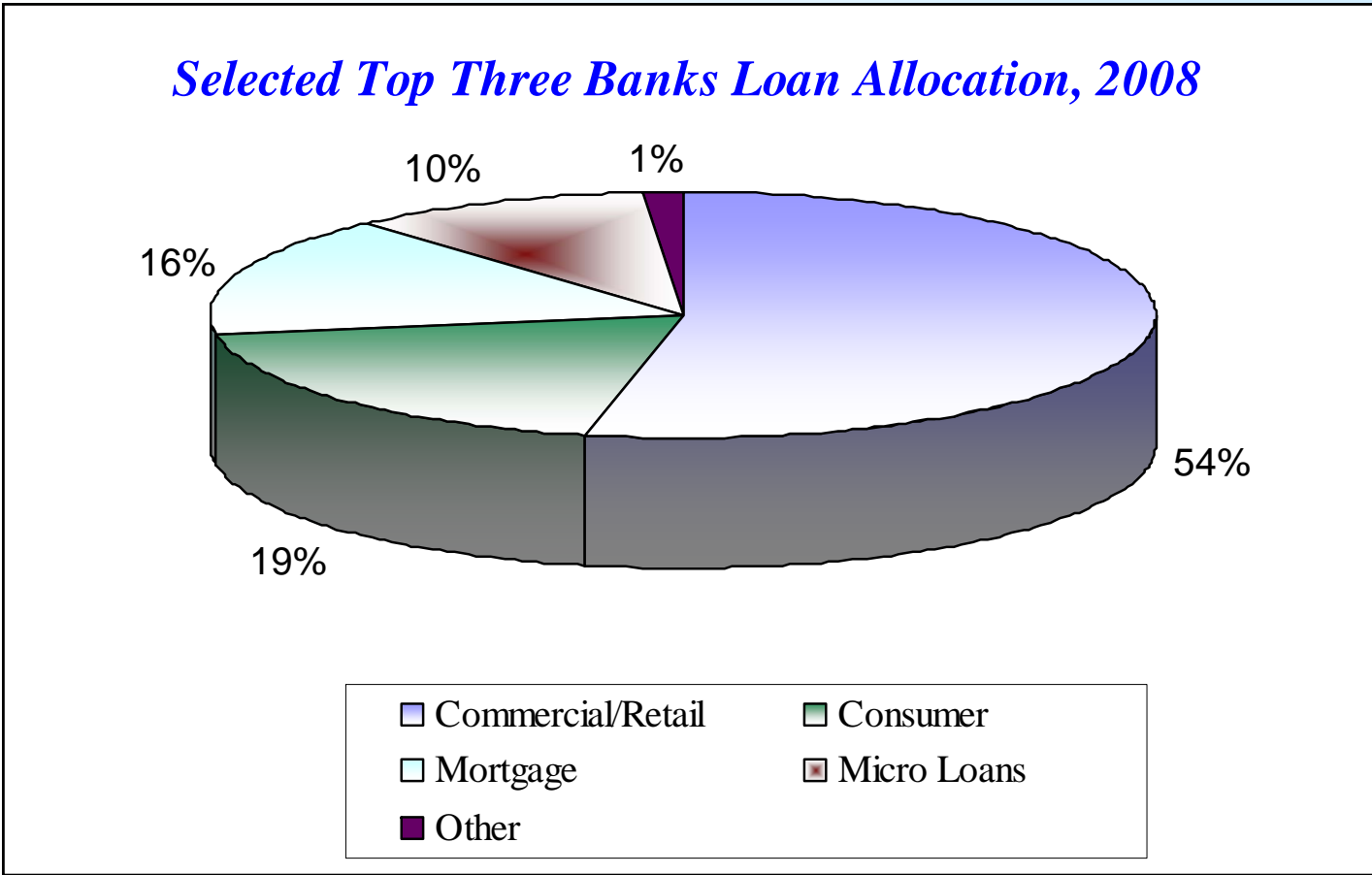
Percent Allocation of Mortgages Across all Loans



Despite downturn, mortgage finance is a primary product of the banking system



Lending to Georgian SMEs, Mortgages and Consumers is Limited



Larger Banks more concentrated with commercial lenders and retail

Multilateral Programs

- MLAs have provided lower cost capital to many banks in Georgia
 - \$240 million to BoG at LIBOR +/- 10%
 - \$60 Million to Banl Republic at maturities of 10-12 years
 - \$177 million to TBC in equity and debt
- MLAs are also available directly to companies



Asian Development Bank

- The ADB is an international development finance institution whose mission is to help its developing member countries reduce poverty and improve the quality of life of their people.
- Headquartered in Manila and was established in 1966.
- ADB's operations are financed by its 67 members
- ADB's main partners are governments, the private sector, non-government organizations, development agencies, community-based organizations, and foundations
- Current project include roads, financial technical assistance and bank on-lending



International Finance Corporation/World Bank Group

- The IFC, a member of the World Bank Group, is the largest and oldest of the limited recourse project finance agencies.
- It is also the largest multilateral source of loan and equity financing for private sector projects in the developing world.
- Its principal product is limited recourse project finance
- Significant equity program as well as a notable syndication program
- The World Bank Group has allocated USD 880 million to Georgia over the next three years
- A number of donor agencies from the EU, US, Japan and other countries recently pledged \$4.55 Billion USD to Georgia over the next three years.



European Bank for Reconstruction and Development

- Founded in 1991, the European Bank for Reconstruction and Development (EBRD) is owned by 61 countries and two intergovernmental institutions.
- Despite its public sector shareholders, it invests mainly in private enterprises, usually together with commercial partners.
- Almost half of the EBRD's portfolio in Georgia is in the financial sector.
 - The Bank has extended a €72 million loan facility to Bank of Georgia to support the bank's capital base
 - Bank Republic has received €3.6 million for energy efficiency projects and €7.1 million for on-lending to micro, small and medium sized enterprises as well as signing a €10 million mortgage credit line.
 - Support to Caucasus Online
- Provides both Equity and Senior Debt (leverage to 65% of costs)



Overseas Private Investment Corporation

- OPIC can only provides senior debt, no equity
- OPIC is a independent agency which operates under a full faith guaranty from the US Treasury
- OPIC can provide finance from \$200K to \$250 million
- OPIC has supported projects in retail, hotel and tourism, bank on lending and infrastructure in Georgia since 1999



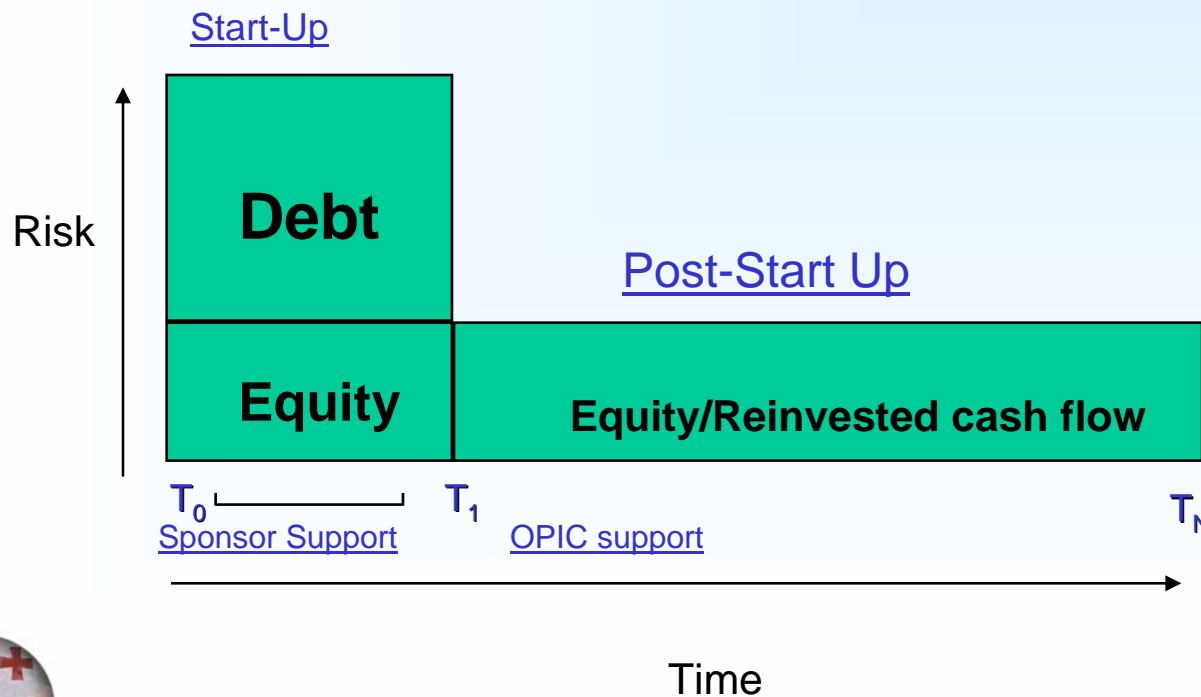
Overseas Private Investment Corporation: Eligibility Requirements

- The U.S. Company:
 - Must be substantially based in the United States either through company operations or shareholding.
 - Must own at least 25% of the project company's total share capital.
 - Must have direct experience in the sector and geographic region for which borrowing is sought.
- Also, the U.S. company must have substantial “equity at risk” in the venture
- US Company must be able to stand behind the project until stabilization



Overseas Private Investment Corporation

- Project Sponsor should cover commercial start-up risk (i.e. cost over-runs, adverse changes in local taxes, etc.)
- OPIC is a limited recourse lender.



Millennium Challenge Georgia Fund

- Established in 2004, MCGF has \$395 million in funding authority
- The MCGF has invested and pledged over \$310 million in road, energy, water and other infrastructure projects.
- \$20 million to provides grants for technical and market information assistance
- Funded SEAF's \$30 million Georgia Regional Development Fund
 - GRDF makes between \$500k to \$3 million investments in small and medium size enterprises operating outside Tbilisi
 - GRDF has approved 10 investment projects with the total value of \$21 million
 - Projects include: Fishing Vessels, Concrete Plant, 18 Room Hotel



Developing Financial Information – Project Costs and Financing

- Understanding the lending process is crucial and each MLA has unique process
- The full range of implementation costs need to be included in the finance plan
- A sound Business Plan should describe management track record and management challenges
- “Project Costs” need to be comprehensive (i.e. not just capital expense)
- Project Costs should be based on the cumulative negative cashflow a project can generate until sufficient revenue to pay operating costs and debt service



Developing Financial Information – Cash Flow

- Cash flow statement is the most important schedule provided to Lenders
- The primary goal of the statement is to provide Lenders a break-even milestone
- The cash flow statement should also indicate major changes to cashflow from special events such as capital upgrades, further project expansion, etc.



The Role of Debt and Equity

- Limited collateral for lenders argue for equity transactions
- Projects which require immediate start-up to capture market share are better financed with equity or when no senior position for collateral to a lender can be offered
- Debt financing should be pursued when longer timeframes do not jeopardize the ability to capture market share or margins
 - Sufficient equity has been raised to “bridge” the transaction until completion
- Cardinal Rule: *Debt cannot replace the need for sufficient equity for any project*



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Thank you for your attention!

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