



# Enhancement capacity of Financial instruments application in consistency with other forms of public interventions

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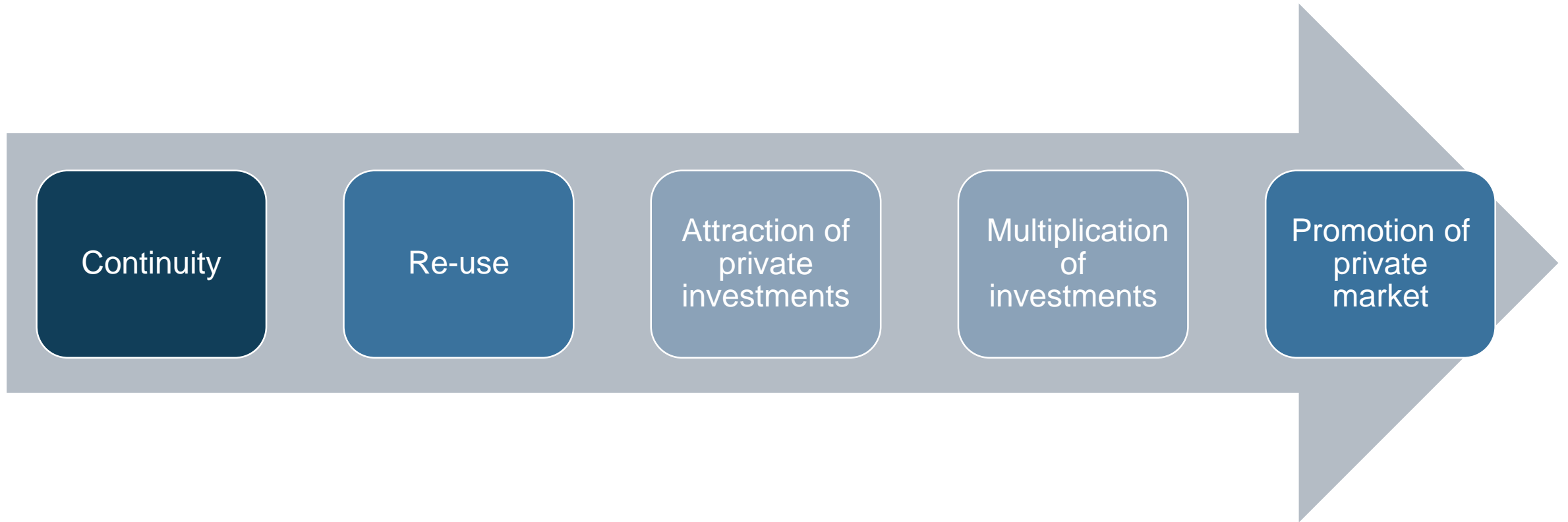
Financed by European Union



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# Why do we care about introducing more FIs?



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# What could you achieve with FIs in 10 years?



## LITHUANIAN FI „WINDOW“

**EUR 1.1bn**  
ESIF FUNDS  
INVESTED

**EUR 1.4bn**  
PRIVATE  
INVESTMENTS  
ATTRACTED



**EUR 505m** REPAYED AND RE-INVESTED

**59,048** HOUSEHOLDS RENOVATED  
**616 GWH** OF ENERGY SAVED  
**143,667 T** OF CO<sub>2</sub> REDUCED

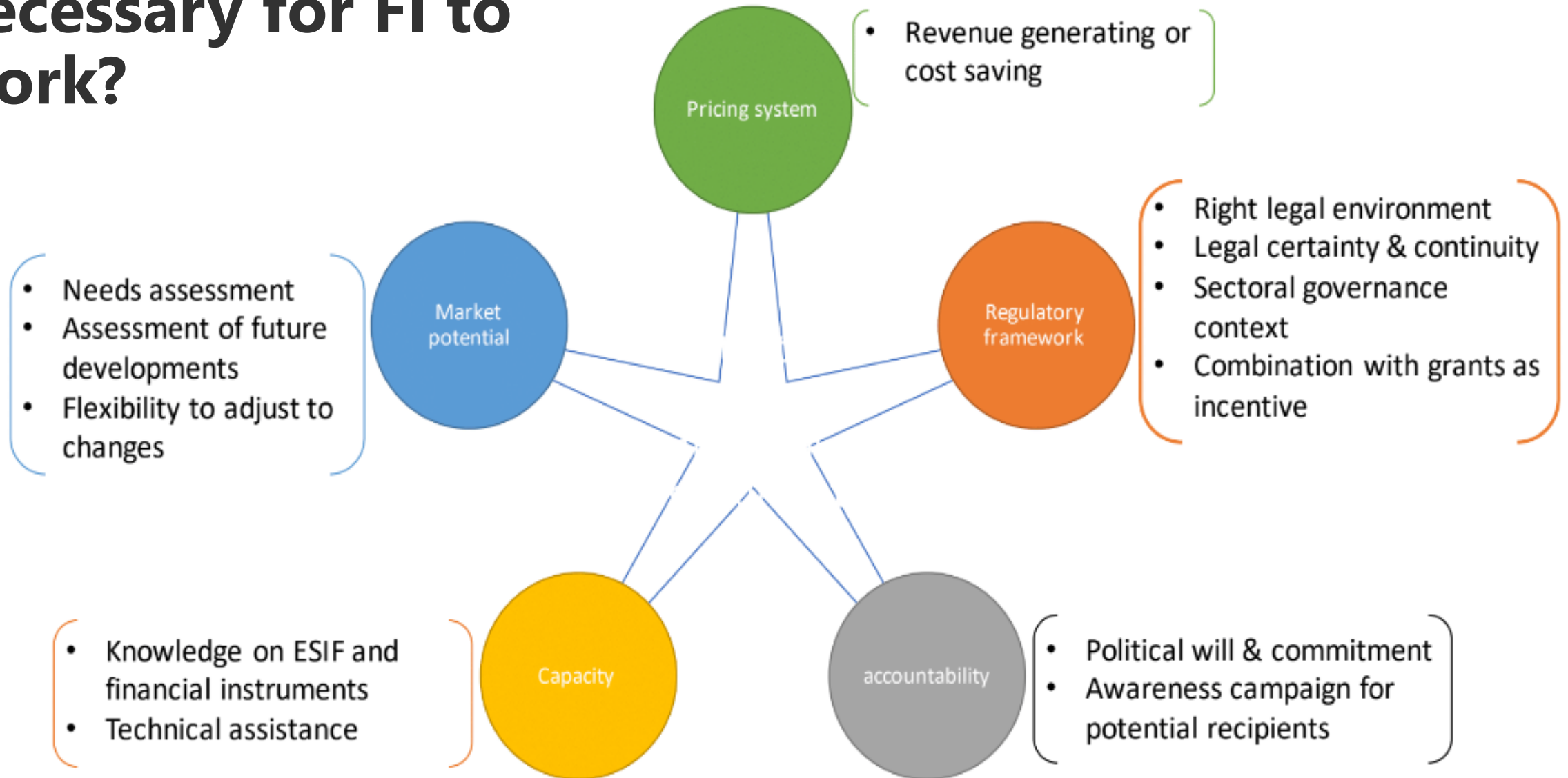
**9,508** LOANS/GUARANTEES FOR SME'S  
**102** VENTURE CAPITAL INVESTMENTS  
MADE  
**5,364** GUARANTEES FOR AGRICULTURAL  
AND RURAL ECONOMY FINAL RECIPIENTS



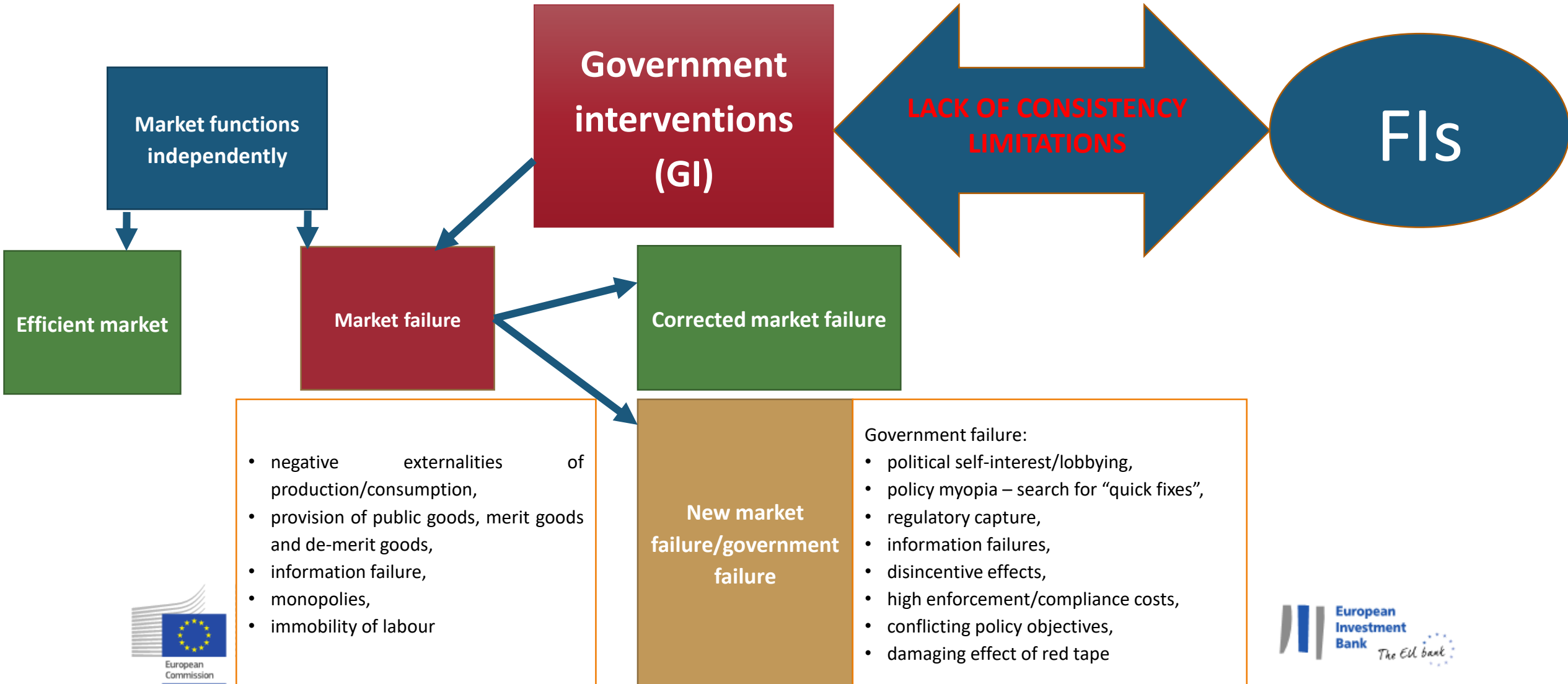
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# What preconditions are necessary for FI to work?



# What is the challenge?



# Initiative and purpose of MRA project



Project title:

**Enhancement capacity of Financial instruments application in consistency with other forms of public interventions**

Main objective:

To **UNLOCK THE POTENTIAL of FIs** in different sectors by enhancing capacity of Lithuanian and Croatian public institutions:

- **to use financial instruments** to deal with market failures in the public sector
- To do it **in consistency with other forms of public intervention.**



Total budget: EUR 1,020,599  
EU grant: EUR 969,569



Timeframe:  
01/02/2017 – 01/02/2018



Partners: 2 Countries; 5 institutions,  
21 team members



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# Joined LT- HR expertise

## Project partners



### Ministry of Finance

Managing Authority ,  
responsible of coordination of  
European Union Structural  
Funds (ERDF, CF AND ESF)  
investments in Lithuania for  
2007-2013 and 2014-2020

### CPVA

Administration of  
programmes and projects  
(acts as implementing agency)  
Public private partnership,  
public investments  
competence center

### VIPA (Affiliated entity)

Implementation of financial  
instruments for urban  
development, optimization of  
public infrastructure and  
energy efficiency  
improvements

*Ministry of regional  
development and  
EU funds and  
Croatian Bank for  
Reconstruction and  
Development  
(Affiliated entity)*

MRDUF - Coordinating Body  
for ESIF implementation and  
the Managing Authority for  
the ERDF and CF financed  
Operational Programme  
HBOR - Development and  
export bank, focuses on  
financing of infrastructure  
and supporting the  
development of small  
business



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# TEAM



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# Specific aims of the project



01

To help the authorities **to understand impact of the government interventions to the market**, to the government objectives, to the functioning of financial instruments, and to identify the optimal balance of financial instruments and the other forms of government interventions.

02

To help Lithuanian and Croatian and other Member States institutions **to understand when and how financial instruments can or cannot be consistent with other forms of government interventions**

03

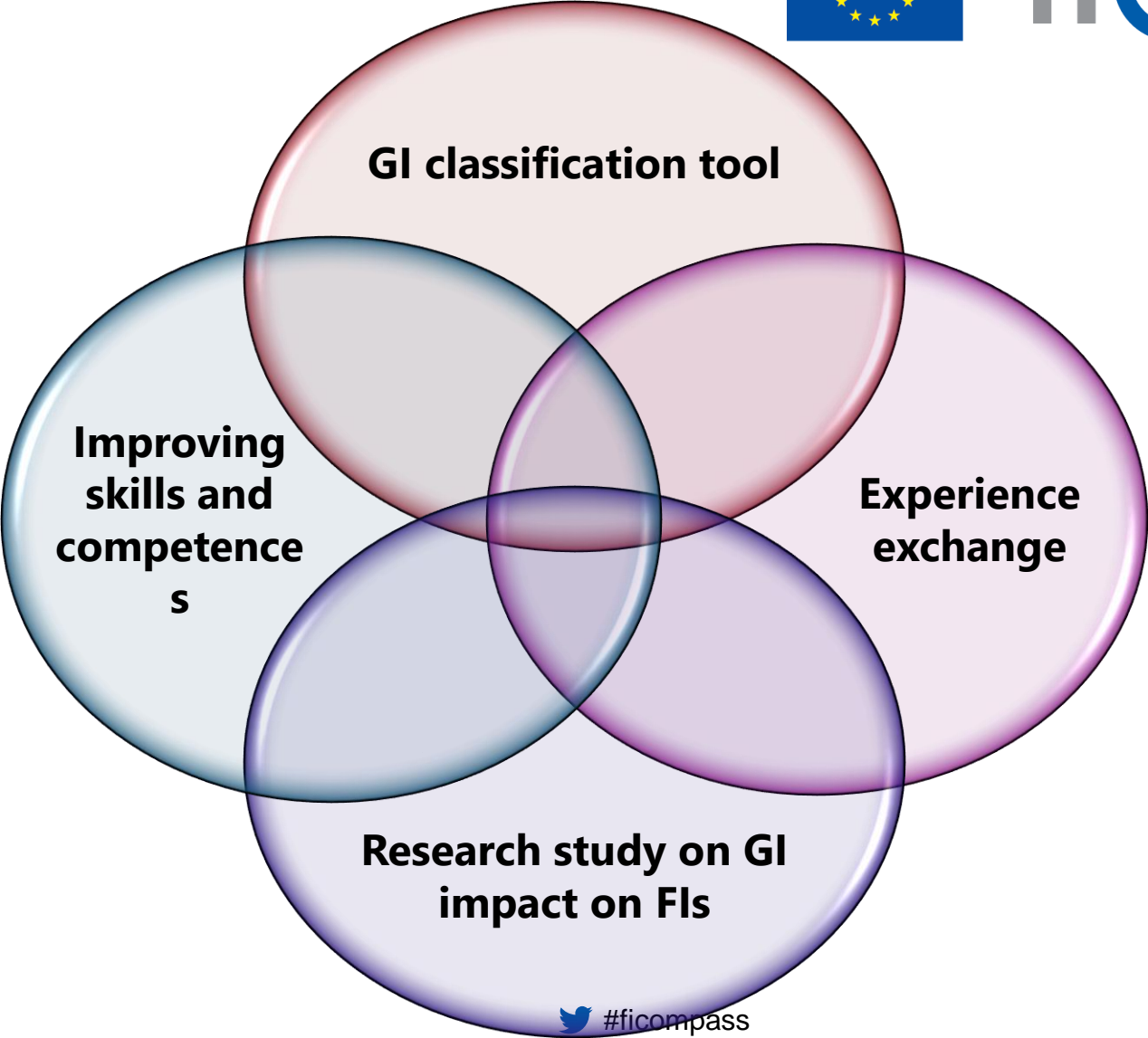
To provide Lithuanian and Croatian Authorities with the **statistical and analytical data, conclusions and recommendations, which would allow to build the comprehensive and systematic view on existing government interventions in the markets** where services of general economic interest or/and considered as merit goods are dominating. Namely in the following sectors: water supply/sewage, solid waste management, energy and energy efficiency, transport and communications, culture and tourism, urban regeneration and revitalization, health care, education and science, social care.



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# Expected results



# Activities



ESIF

- 1.1 Preparation of terms of reference (ToR) and selection of academia partners for the classification of all possible types of state interventions and identification of typical state interventions
- 1.2 Preparation of terms of reference (ToR) for selection of consultant to perform impact analysis of the different types of state interventions for the Fis (Preparation of TOR will be done under activity 1.1)
- 1.3 Selection of service provider for preparation of research study to assess state interventions' impact for the application of FIs in the predefined sectors
- 1.4 Performing the research study to assess state interventions' impact for the application of FIs in the predefined sectors
- 2.1 Two study visits of Lithuanian and Croatian partners to selected countries - performed 3 study visits
- 2.2 2 Experience exchange events (1 in Lithuania 1 in Croatia)
- 2.3 Final conferences ( 1 in Lithuania 1 in Croatia)
- 3.1 Training programme preparation
- 3.2 Trainings delivery (2 trainings , 1 in Lithuania, 1 in Croatia)

Commission



# Service providers



BGI



spatial



foresight



RAZBOR



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# Summary of outcomes



## Classifier of the types of public intervention

The classifier shall provide the background for further monitoring of existing and assessment of new planned interventions



## Recommendations for the revision of the existing public interventions and balancing of the FI with other types

Recommendations shall facilitate the wider use of the financial instruments



## Training programs and trainers trained

Training (80 trainees)  
Training program shall be further applicable and used by Lithuanian and Croatian institutions to maintain the competence



## Conference, Broshures, publications

2 X 100 conferences in HR and LT  
Materials for dissemination of results and knowledge.



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# The Research – Aim



**AIM:** to provide **recommendations** on the application of FIs in consistency with other forms of public interventions:

- **how to adjust policy objectives** to address market and government failures properly with the government interventions
- **how to effectively combine** different government interventions and sectoral recommendations on the potential for application of FIs.

**Research question:** how government interventions can improve the potential for FIs? *i.e. focus on change rather than assessment of level of current/future potential*



# The Research – Tasks & Structure



Assessment  
and  
indication  
of :

the scope of GIs  
in 9 sectors

the impact of  
GIs on the  
market and  
market players

consistency of  
the forms of GIs

potential to  
introduce FIs

Study report  
structured  
according to:

- the sectors analysed
- different **GIs** are analysed **individually** as well as **in groups** constituting specific services in each sector



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# The Research – Scope & Classification



## Types of government interventions:

- Public services;
- Financing:
  - Regular subsidy for public service delivery (budgetary financing);
  - Subsidy for improving performance of the public service;
  - **Financial instruments** for public service provision;
  - Customer support through discounts and tariff compensations;
- Taxes;
  - Reduced taxes / tax exemptions;
- Income support:
  - Social benefits;
  - Compensations;
- Regulations.



I. Characterisation of the public service (internal attributes)					
Aim of the service	Government level introducing and forming general policy regarding the public service	Level of regulation of the service	Key rationale of the intervention		
II. Supply (production side of the service)					
Body responsible for the provision of the service	Provider of the service	Most common current public service delivery mode	Consumer pricing of the service	Factor intensity of public service production	Market share of the public operators
III. Demand (consumption side of the service)					
General target group of the public service			Specification of household consumption		

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# The Research – GI classifier



BGI consulting

## Enhancement capacity of financial instruments application in consistency with other forms of public interventions Classification of different types of government interventions

Selected shortlisted interventions

Back to main menu

Back to GI list

Freeze heading

Unfreeze heading

Sector	Service title	Aim of the service	Type of service related intervention	Sub-type (VS)	Title of the intervention	Short description of the intervention	The main document (-s) establishing the intervention	Please indicate the year of the introduction and the end of the intervention	Stability of the implementation of intervention	The main broader policy objective to the attainment of which the intervention contributes	Additional document (-s) describing the implementation and objectives of intervention in detail
Water supply and sewerage	Centralised drinking water supply	To supply and purify drinking water in the regions	Subsidy for improving performance of the public service		ESIF subsidies for storm water management infrastructure	ESIF subsidies are foreseen to finance development and renovation of the surface (storm) water treatment infrastructure	Operational Programme for the European Union Funds' Investments in 2014-2020	2014-2023	The implementation of the intervention depends on ESIF allocations	To ensure storm and wastewater collection services. Law on Local Self-government, 7 July 1994, No. I-533 (LR vietos savivaldos įstatymas)	Order of the Minister of Environment on terms of project financing (measure No. No. 05.1.1-APVA-R-007)
			Subsidy for improving performance of the public service		ESIF subsidies for storm water management infrastructure	Lithuanian Environmental Investment Fund (LEIF, or LAAIF in Lithuanian) subsidies are foreseen for public and private sector waste water treatment infrastructure	Law on environmental pollution tax, 13 May 1999, No. VIII-1183 (LR mokesčio už aplinkos teršimą įstatymas)	1999 - up to now	According to publicly accessible investments directions, wastewater related projects received EUR 950 thousand in both 2015 and 2016. Funding was aimed at creation of surface water collection capabilities and development of water waste infrastructure in rural areas (settlements less than 200 people). In 2017, the financing under programme increased to reach EUR 4000 thousands and mostly financed water waste treatment in rural areas and areas of economic entities.	To ensure wastewater treatment services. Law on Local Self-government, 7 July 1994, No. I-533 (LR vietos savivaldos įstatymas)	Order of the Minister of Environment on approval of LEIF programme annual financing axes (LR aplinkos ministro įsakymas dėl Lietuvos aplinkos apsaugos investicijų fondo programos lėšų naudojimo <...> m. finansavimo krypčių patvirtinimo)

# The Research – Impact & Consistency



## IMPACT:

- efficiency
- side effects
- Additionality
- affordability.

## CONSISTENCY:

- SUPPLEMENT
- CONTRADICT
- REPLACE



# The Research – Potential of FIs



## 1. Criteria for the potential of the use of increased FIs in LT and CR

Key criteria	Supply side (Service providers)	Demand side (Users)
1. Good/service pricing system	Price setting/ cost reduction e.g. energy efficiency	Elasticities, affordability (incl. income)
2. Regulatory and governance framework	Rules and institutional setting for service provision, including e.g. market access, property rules, quality requirements	Information on price/goods and services, choice, incentives e.g. fiscal
3. Market potential	Input incl. prices, market players, technology, innovation	Present and future needs, preferences
4. Accountability awareness	Performance metrics/data, complaint mechanisms, other tools	Market mechanisms supporting/information activities
5. Capacity	Technical and management skills, incentives, past experience	Information/market acceptance

## 2. Efficiency of the introduction of FIs and their balance with other GIs

## 3. The optimal place and role of FIs among other public interventions



# The Research – some findings common for most GIs



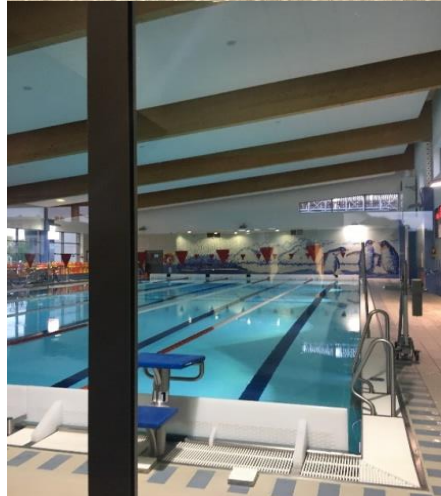
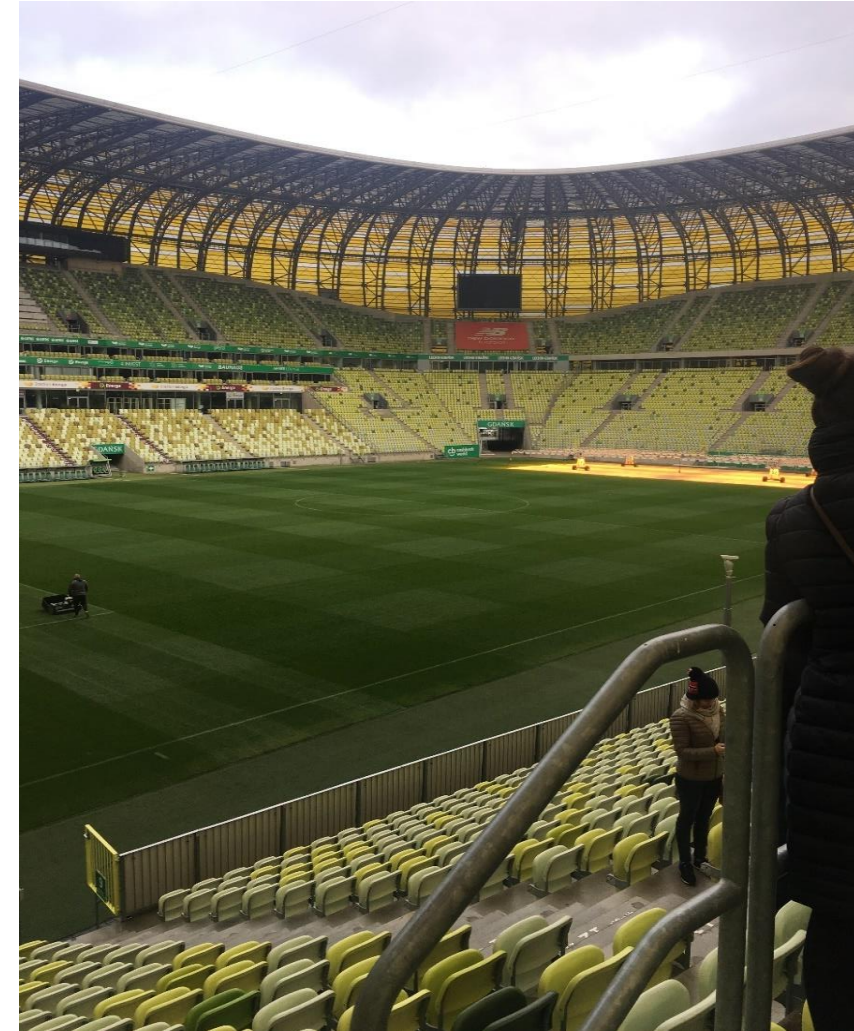
- **Lack of definition for GI timeline, purpose, objectives and results expected** -> UNCERTAINTY for public service users & providers; difficulties assessing the necessity & relevance of GI
- **The gap between planned scope of GI and actual capabilities of public institutions to fully implement**
- **Lack of coordination among institutions responsible for GIs & Lack of transparency of funding mechanisms** - > HINDERS EFFICIENCY of GI implementation
- **Lack of awareness of supply & demand side for the service**
- **Lack of data for analysis**
- **No actions to increase number of potential users of the service**
- **Lack of external control mechanisms, continuity and use of results** – REDUCE IMPACT of GI on target groups
- **Lack of coordination and compatibility of different GIs**
- **Unclear needs of target groups**



# Study visits



Three study visits of Lithuanian and Croatian partners to Portugal, Spain, Poland, Italy (Sardinia)



# Exchange events



## Two events for exchange of experience held in Croatia and Lithuania



### Exchange event/Workshop CR

Purpose – discussion on use of government interventions in different fields, market failures, similarities and differences between HR and LT



### Site visit to Karlovac

Three diverse projects were visited:

1. Remediation of hazardous waste landfill Lemić;
2. Aquatika: Slatkovodni Akvarij Karlovac;
3. Karlovac University : Innovation, technology transfer and research provision infrastructure development



### Exchange event/Workshop LT

Purpose – to provide insights on the study results, examples of introducing financial instruments as government intervention and examples of implementing financial instruments in different national contexts.



### Site visit to Alytus and Druskininkai

On site projects visited:

1. Craft Beer restaurant Dzūkija in Alytus;
2. Druskininkai Aqua park, Cable car, Ski slope arena;
3. Tour along renovated multi apartment buildings



# Trainings



## Four trainings sessions held in Croatia and Lithuania

✓ The training sessions in Lithuania aimed at discussing and applying the *methodology for assessing the combination of public interventions* which should form the stable, consistent and long-term normative background for financial instruments (28 participants)



✓ The training sessions in Croatia aimed at discussing different examples of *implementing financial instruments in consistency with other public interventions*. These sessions functioned more as eye-opener for the participants on the benefits of financial instruments as one example of public interventions and on the different steps to consider when implementing financial instruments. (47 participants)



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# Key conclusions - Lithuania



- Provide a stable normative framework with a long-term perspective
- Clearly define the needs and the purpose of the government intervention
- Encourage policy coordination and cooperation
- Monitoring the impact of the intervention on the target groups





# Key conclusions - Lithuania



European and national public interventions need to be considered for unlocking the potential for financial instruments.

Changing political objectives challenges consistency in government interventions

Strategic planning supports further cross-sector coordination

Financial instruments are the future for state funding



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# Key conclusions - Croatia



- ✓ Setting up financial instruments in new policy areas demand continued learning
- ✓ Financial instruments have different benefits against grants for different players:
  - **Final recipients.** The experience with the first financial instruments implemented in Croatia shows applicants find it relatively easy to apply for the financial instruments
  - **Financial intermediaries.** Compared with grants, it is relatively easier to assess project proposals since they are submitted on a more regular basis
  - **Ministries.** One of the advantages for Ministries is that there is no need for project selection and monitoring and evaluation at project level. Allowing more time for strategic planning. Furthermore, financial instruments deliver generally more results against policy objectives than grant projects.



# Key conclusions - Croatia



- Added value of financial instruments
- Changed role for Ministries regarding strategic planning, project selection, monitoring and reporting
- Financial instruments need to be implemented in coordination with government interventions
- Introducing financial instruments in all policy sectors demand thinking out-of-the-box.
- Finding areas with market potential is a key to successful implementation of financial instruments.



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# Lessons learned Croatia



- Change of mentality
  - ✓ General public and decision makers (absorption mentality)
  - ✓ Local government level (lack of knowledge and fear of debt)
- Incentives for fiscal responsibility
- Designing self-sustainable (revenue generating) projects
- Critical mass of projects
- Reform public sector (monopoles)
- Demographic challenges





*“There is need for creative chefs rather than prescribed cookbook”.*

Questions?

