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

Research study "Assessment of government interventions' impact for
the setup and implementation of financial instruments"

Final Report



REPUBLIKA HRVATSKA
Ministarstvo regionalnoga razvoja
i fondova Europske unije



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Opinion of the research team does not necessarily correspond to the one of the client

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INTRODUCTION

Agreement on provision of “Services of capacity building of financial instruments application by combining them with other public interventions” was concluded between the Central Project Management Agency and Consortium leader BGI Consulting on 19 May 2017. The Consortium providing services also includes Razbor (Croatia), Spatial Foresight (Luxembourg) and t33 (Italy).

Beneficiaries of the services, in addition to the Central Project Management Agency, include two Managing Authorities - Ministry of Finance of the Republic of Lithuania and Ministry of Regional Development and EU funds of the Republic of Croatia. The project also involves two partners – Lithuanian Public Investment Development Agency and Croatian Bank for the Reconstruction and Development.

The overall objective of the services is to enhance the capacity of Lithuanian and Croatian public institutions to use financial instruments to deal with market failures in public sector, and do it in consistency with other forms of public interventions. Apart from the activities aimed at enhancing the institutional capacity such as workshops, working meetings, training and conference events, the main delivery of the project is a research study "Assessment of public interventions' impact for the setup and implementation of financial instruments". The study covers detailed analysis of the different types of government interventions assessed separately and in groups constituting specific services. The research study fully covers designated tasks – the assessment of the scope of the government interventions in each sector (market); assessment of the impact of the government interventions to the market and market players and consistency of the forms of government interventions with each other, with the policy objectives and with the actual market needs in each sector. The consistency among the forms of government intervention is also evaluated in the light of the potential for the use of financial instruments.

The final research study report is structured after the sectors the analysis was aimed at. Namely, 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 sectors were covered in the study.

The final research study, for the purposes of comparability, includes analysis two other countries, to name Germany and Italy. The case studies provided illustrates performance of government interventions in consistency with other forms of interventions like financial instruments. The case studies takes stock of the best practices in the Baltic Sea and Danube / Adriatic regions in the area of introducing and implementing financial instrument based forms of government interventions.

The collected empirical data, its analysis and synthesis, on the basis of sophisticated integrated methodology, allowed the service provided to deliver conclusions and recommendations to the public administrations of Lithuania and Croatia. The recommendations includes provisions on adjusting the policy objectives in order to address the market and government failures properly with the government interventions, provisions on the effective combination of government interventions, which would facilitate the market, change of actual people's behavior and boost potential of financial instruments. The study also provides one of the core deliveries of the project - sectoral recommendations to the potential for application of financial instruments.

1. METHODOLOGY OF THE RESEARCH

The overall objective of the project is to enhance the capacity of Lithuanian and Croatian public institutions **to use financial instruments to deal with market failures in public sector, and do it in consistency with other forms of public interventions**. The object of the study is twofold: first, to analyse systematically existing government interventions in the sectors where services considered as public goods or merit goods are dominating; and secondly, to identify where financial instruments can be used in consistency with other forms of government interventions. Therefore, the study encompasses four main stages that are dedicated to:

- Identification of existing government services and interventions, both in Lithuania and Croatia, in the following sectors: water supply and sewerage, waste management, energetics and energy efficiency, transport and communications, culture and tourism, urban regeneration and conversion, health care, education and science, social welfare;
- Classification of identified government services and related interventions in order to demonstrate a comprehensive system of existing government actions and the way they are interlinked;
- Analysis of selected services and related interventions in terms of their capacity to deal with market failures and identification of prevailing government failures;
- Identification of interventions where financial instruments can be used instead of traditional public funding instruments in order to increase efficiency of government involvement in social and economic activities.

1.1 HOW TO READ AND UNDERSTAND THE REPORT

The overall structure of the report begins with the description of the methodology of the research, later on the results of the analysis in each sector in both countries are presented. Finally, the case studies on financial instruments implementation in Italy and Germany are displayed. The main emphasis in the report is, however, put on the presentation of the results of the analysis in each sector in Lithuania and Croatia. Therefore, the detailed structure of the analysis presented in this part of the report is depicted below.

The structure of the presentation of the results of analysis in each sector is in line with the four main stages of the research described above. However, it is important to note that while in Lithuania the analysis was focused on existing public services and their related interventions, putting a specific emphasis on the analysis of government interventions, in Croatia the focus was more shifted towards the analysis of possibilities to introduce financial instruments. Therefore, the structure of the report on the analysis of the Lithuanian and Croatian public sectors slightly differs. Nevertheless, the same four stage analysis structure is visible in both sectors.

1.1.1 FIRST PART OF THE SECTORAL ANALYSIS CONCERNING ALL SECTOR'S SERVICES AND RELATED INTERVENTIONS

The analysis of each sector begins with the identification of all the main public services (represented in the table presenting sector's services and their objectives) in each sector **and the types and number of**

interventions facilitating the provision of each of the services (represented in the scheme on the logic of interventions in the sector). The abovementioned scheme also represents the main rationales for the introduction of each service. These rationales are theoretical reasons for government intervention in different sectors that are relevant for the Lithuanian and Croatian public policy context.

Identified services, based on their characteristics regarding the main provider of the service, the most common public service delivery mode, consumer pricing of the service and the market share of the public operators are then placed on the relative liberalisation-centralisation axis. This axis reveals the services provided in a relatively (compared to other services in the sector) most liberalised and most centralised way.

The aforementioned parts of the report represents the results of the first two stages of the research, namely the identification of existing public services and government interventions as well as classification of them. The research behind the aforementioned report parts consisted of:

- development of a theoretical map of all possible types of government interventions;
- identification of the main government interventions in each sector (understanding that the current list of government interventions provided in the report could be extended indefinitely if absolutely all existing government interventions were aimed to be identified);
- assignment of individual government interventions to public services the provision of which each of them facilitates;
- identification of certain characteristics of provision of each of the sector's services;
- calculation of the estimates on certain criteria of each of the services in order to place them on the centralisation-liberalisation axis.

Development of the theoretical map of all possible types of government interventions was mainly grounded on the review of the theoretical, scientific literature. The review has revealed that theoretical, scientific literature suggests various ways of classifying government interventions. Some authors distinguish between direct interventions (e.g. seizing land by eminent domain or nationalising a firm) and indirect interventions (e.g. altering the rights and responsibilities of various classes of economic actors, the rules of accounting)¹. Others classify interventions within broad categories such as the prohibition or compulsion, regulation, taxation, subsidies². Yet others provide a detailed classification of interventions, e.g. targeted taxes, targeted tax credits, minimum wage legislation, union shop rules, contracting preferences, direct subsidies to certain classes of producers, price supports, price caps, production quotas, import quotas, and tariffs. The literature review resulted in the identification of the four broad types of interventions: public services, financing, income support and regulations. These broad forms of government interventions provided a uniform framework of classification system for undertaking the identification of all government interventions among the two countries and different sectors. Potential sub-interventions (subtypes) were identified within the two out of four broad types of 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;

¹ Please see The Political Economy of Capitalism, Scott, 2006.

² Baumol, W.J.-Oates, W.E.: 1979 Economics, Environmental Policy, and the Quality of Life, Englewood Cliffs.

- ✓ Customer support through discounts and tariff compensations;
- ✓ Taxes;
- ✓ Reduced taxes / tax exemptions;
- Income support:
 - ✓ Social benefits;
 - ✓ Compensations;
- Regulations.

It is important to note, however, that the different types of government interventions are not equal among themselves. Public services are the main type of interventions (representing each sector's sub-sectors) the implementation of which is then facilitated by other related financial, income support and regulatory interventions.

Based on this theoretical list of possible interventions in each sector the main practically existing interventions were identified. The main public services were identified based on the existing sub-sectors in each sector analysed. Regarding the financing, income support and regulatory interventions, the main interventions (in terms of financial significance, significance in affecting the service provision) were identified.

Further on, the financing, income support and regulatory types of interventions were assigned to the public services the provision of which these interventions facilitate. From this point on, all the service related interventions were analysed in relation to that particular service (the impact of the implementation of government interventions or of certain drawbacks of their implementation on the provision of the related service was assessed).

After having assigned different government interventions to each of the public services, the main characteristics, such as the main provider of the service, the most common public service delivery mode, consumer pricing of the service, the market share of the public operators and others were identified for each public service and its related interventions. Based on these criteria, all the identified public services were placed on the centralisation-liberalisation axis revealing the public services provided in the relatively most centralised and most liberalised way in each sector.

Taking into account the relative position of each service on the centralisation-liberalisation axis as well as other service characteristics such as financial significance of the service in the sector, possibilities to attract more private providers to the service provision market, foreseen possibilities to implement financial instruments, a certain number of public services (including their related interventions) were selected for further in-depth analysis in each sector.

The number of public services (including their related financing, income support and regulatory interventions) selected for the in-depth analysis in each sector varies. The total number and exact public services selected for the in-depth analysis in each sector are presented in the table below.

TABLE 1. SERVICES SELECTED FOR IN-DEPTH ANALYSIS IN EACH SECTOR

Country	Name of the sector	Services selected for in-depth analysis
LT	URBAN REGENERATION AND REVITALISATION	Regeneration of urban public spaces
		Regeneration of urban brownfields
HR	URBAN REGENERATION AND REVITALISATION	Regeneration (management) of brownfields and urban public spaces
LT	WASTE MANAGEMENT	Municipal waste management services
		Waste incineration and co-incineration services

HR	WASTE MANAGEMENT	Collection, transport and disposal of municipal waste
		Maintaining recycling yards
LT	HEALTH PROTECTION	Hospital services
		Primary healthcare services
		Specialised outpatient care
		Rehabilitation care services
HR	HEALTH PROTECTION	Hospital services provided by the state-owned hospitals
		Hospital services provided by hospitals founded by counties
		Primary healthcare services
LT	EDUCATION AND SCIENCE	Public early childhood education
		Public vocational education
		Public non-formal children education
		Public non-formal adult education
HR	EDUCATION AND SCIENCE	Public non-formal children education, public formal and non-formal adult education
		Public higher education
		R&D support services
LT	CULTURE AND TOURISM	Operation of state/municipality-owned ticketed tourist attractions and provision of paid tourism services
		Libraries, archives and museums services
		Professional and amateur stage arts' infrastructure and organisations
		Maintaining free access to cultural and tourism infrastructure and providing free services
HR	CULTURE AND TOURISM	Tourism-related services
		Paid touristic services in the sites of natural and cultural heritage
		Libraries, archives and museums services
		Theatre and music scene-related services
LT	WATER AND SEWAGE	Drinking water supply services
		Waste water management services
HR	WATER AND SEWAGE	Drinking water supply services
		Waste water management services
LT	TRANSPORT AND COMMUNICATIONS	Passenger carriage public services by railway
		Passenger carriage public services by road transport
		Access to the road network
		Development of electric vehicle transport system
HR	TRANSPORT AND COMMUNICATIONS	Access to the roads network
		Passenger carriage public services by railway
		Coastal maritime traffic of passengers
		City public transportation services

LT	ENERGETICS AND ENERGY EFFICIENCY	Reserve electricity production
		Centralized heating services (including supply of hot water)
		Energy efficiency improvement at consumer level (public sector)
		Energy efficiency improvement at consumer level (private sector)
HR	ENERGETICS AND ENERGY EFFICIENCY	Centralised heating services (including supply of hot water)
		Energy efficiency improvement at consumer level (street lighting)
LT	SOCIAL CARE	General social services
		Social support services
		Social care services
		Housing assistance
HR	SOCIAL CARE	Institutional social care services for elderly persons and persons with disabilities
		Home assistance
		Institutional social care services for children

Source: BGI Consulting et al, 2017.

It is important to note that after assessing the position of all services on centralisation-liberalisation axis, only the public services presented in the table above were further analysed in the study.

1.1.2 SECOND PART OF THE SECTORAL ANALYSIS CONCERNING ONLY PUBLIC SERVICES SELECTED FOR IN-DEPTH ANALYSIS

The second part of the sectoral analysis is focused on the presentation of the services selected for the in-depth analysis (please refer to the services presented in TABLE 1.) in each sector. The main policy goals of each sector, relating to the public services selected for the in-depth analysis, are presented, the structure of the provision of each service is depicted, annual financial allocations for each of the services selected for the in-depth analysis are indicated. Furthermore, in this part of the report all the government interventions related to the public services selected for the in-depth analysis are presented (please refer to the table on interventions related to services selected for further analysis).

It is important to note that from this point onwards in the report, the presented government interventions become the main focus of the study and public services the provision of which is facilitated by these government interventions are analysed only as a context for the implementation of the presented government interventions.

1.1.3 THIRD PART OF THE SECTORAL ANALYSIS CONCERNING GOVERNMENT INTERVENTIONS RELATED TO SERVICES SELECTED FOR IN-DEPTH ANALYSIS

The third part of the report begins with the detailed representation of each of the further analysed government interventions (only for Lithuanian sectors, since the analysis of government interventions is not the main focus of the Croatian sectoral analysis). Tables providing data on the separate government interventions in each sector present data on each selected government intervention regarding the selected criteria (please refer to the tables on data on the government interventions in each sector). The data provided in these tables is later on used in a study as a basis for the meta-analysis of interventions according to different criteria (quality of planning, efficiency, side-effects, additionality, affordability and consistency of analysed government interventions). The analysis according to these criteria is also present for Croatian sectors. The methodology criteria according to which the selected government interventions are being analysed in the study are further presented in more detail in the chapter “Analysis of service related interventions according to research criteria”.

After the analysis of government interventions according to different criteria the conclusions and recommendations on government interventions in each sector are presented.

1.1.4 FOURTH PART OF THE SECTORAL ANALYSIS CONCERNING POSSIBILITIES TO INTRODUCE FINANCIAL INSTRUMENTS

The fourth part of the sectoral analysis presents the results of the assessment of the potential for the implementation of financial instruments in each sector. The potential to replace some of the existing government interventions by financial instruments or introduce financial instruments as additional government interventions is being assessed for each service selected for the in-depth analysis (for the full list of services analysed please refer to the [TABLE 1.](#)). Each of the services is analysed according to five criteria (pricing system, regulatory/governance framework, market potential, accountability and capacity) and the conclusions on possibilities to introduce new or change existing government interventions to financial instruments in each sector's service are made. The detailed methodology on the analysis of the potential for financial instruments introduction is presented in the chapter “Potential to use financial instruments”.

After the presentation of the main results of the analysis in each sector, the case studies on financial instruments in Italy and Germany are displayed. More detailed information on the cases selected for the case studies is presented in the chapter “Case studies on financial instruments in Germany and Italy”.

1.2 ANALYSIS OF SERVICE RELATED INTERVENTIONS ACCORDING TO RESEARCH CRITERIA

The goal of this study aiming at better understanding and usage of financial instruments determines the need to analyse the system of government interventions in terms of efficient allocation of public resources and intervention impact on the service provision market and outside of it. The comprehensive view on implementation of government interventions and analysis of their coherence should help to identify cases where interventions do not work appropriately, that is where government failure exists.

In order to better understand the whole system of government interventions, firstly, it is necessary to analyse the rationale for government intervention, that is what is the reason for government, if any, to intervene in a market. This underlying rationale is usually founded either in a **market failure** or in clear government **distributional objectives** that need to be met.

Welfare economics proposes that under some conditions markets cannot operate efficiently and government intervention is necessary. Market failure is a description of a situation where, for one reason or the other, the market mechanism alone cannot achieve economic efficiency. Resources cannot be effectively allocated due to externalities, monopoly privileges, information asymmetries, factor immobility or when the market failure is associated with public goods or merit goods.

Government policies designed to correct market failures are often present in sectors such as public utilities, education, social care where they are provided as public or merit goods. In such cases, the provider has to achieve not only economic but also social and distributive goals.

Well-designed government intervention should help to bridge the gap in supply of services occurring due to market failures. However, government policy can also fail to achieve a socially efficient allocation of resources. That can be characterized by the two major flaws, that is, **government failures**. First, government policy may create economic inefficiencies where market failures do not appear to exist and second, in situations where market failures do exist, government policy may either achieve expensive successes by correcting the failures in a way that sacrifices substantial net benefits or in some cases actually reduces social welfare.³

Whether the government intervention eliminates market failure successfully and whether an attempt to mitigate the cost to society caused by market failure does not lead to possibly even greater cost caused by government failure, depends on various factors including, quality of planning, efficiency of the implementation of the intervention, impact caused by the intervention, availability of the service for the target groups. Moreover, the whole system of government interventions should be coherent; inconsistency of two or more interventions may hinder achievement of the policy objectives and, again, pose the government failure.

Thus, in order to understand the way the government interventions present in Lithuanian and Croatian public sectors analysed were designed to tackle the underlying market failures and to assess how well they are targeted, the provision of each analysed government intervention is described in the following domains:

- Planning quality;

³ Winston C. (2006) Government failure versus Market failure: Macroeconomics Policy Research and Government Performance, AEI-Brookings Joint Center for Regulatory Studies, Washington DC

- Efficiency;
- Side-effects;
- Additionality;
- Affordability;
- Consistency.

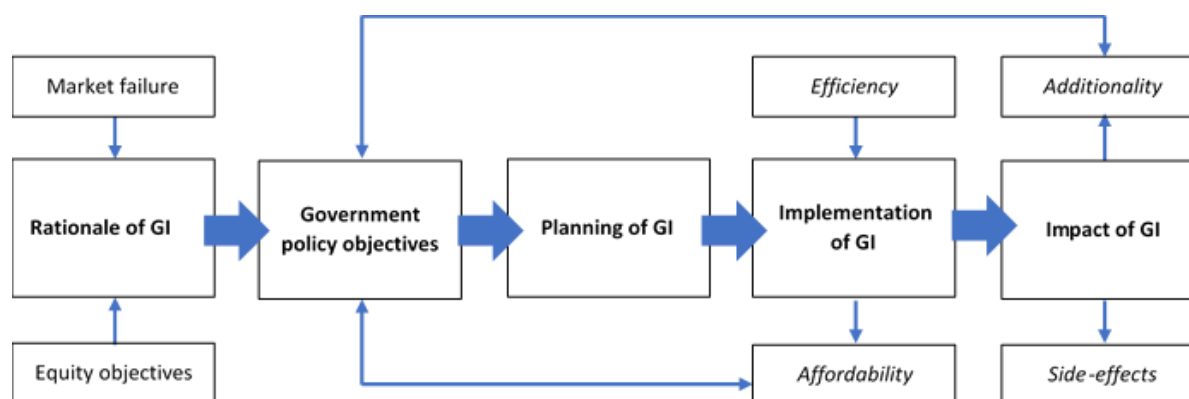


FIGURE 1. THE CYCLE OF GOVERNMENT INTERVENTIONS

Source: BGI Consulting et al, 2017.

1.2.1 PLANNING QUALITY

This criteria covers the identification of policy objectives of the government interventions, their clarity, measurability, reasons/needs to initiate the intervention, institutions that initiated the intervention, definition of the government intervention in terms of period, costs to be incurred and revenue collected, the sources of financing the government intervention implementation, management and delivery standards, results to be achieved, taking into account of the demographical trends and demand trends of the government interventions. The information according to this criteria is presented both in tables on each government intervention and in the analytical text of the report.

In order to tackle market failures without creating government failures, government interventions should be well planned. Even quality implementation of the poorly planned interventions will not have a desired impact. Firstly, well planned government interventions should reflect government policy objectives and add to their attainment. To be able to easily measure whether a particular government intervention adds to the attainment of government policy objectives and does it efficiently, results of the implementation of the government intervention to be achieved should be clearly defined.

Furthermore, in order to ensure the efficient implementation of government interventions, already in their planning phase the types of costs and amount of costs required to implement a particular government intervention as well as the foreseen amount of revenue from its implementation must be defined. Equally important is the setting of the implementation period of a particular government intervention. While planning each intervention, it should be determined, whether its introduction is expected to be permanent or the intervention could be stopped to be implemented after having attained certain objectives.

Since implementation of government interventions should not only be efficient, but also not reduce the affordability of the related service to all society groups, the overall size of the demand of the related service should be taken into account while planning it.

Finally, it is also important to ensure that the management and delivery standards of the implementation of each government intervention are defined.

1.2.2 EFFICIENCY

This criteria covers the overall share of public sector interventions in the market, the current main technical constraints in the sector/service, the state-owned (controlled) entities dominating the market, reasons of operational issues, the internal potential of improving the quality/scope of public services without additional charging of final users, existing incentives to improve efficiency and effectiveness of services, existing private entities providing similar services, legal and other obstacles to allow the private entities to provide the services, readiness of the relevant levels of government to delegate some control to private partners, the impact of the intervention on the efficiency and effectiveness of service provision and service providers. The information according to this criteria is presented both in tables on each government intervention and in the analytical text of the report.

The aim of the public service is to mitigate negative externalities or to stimulate positive ones, when a particular activity produces cost (in case of negative externality) or benefits (in case of positive externality) for other activities that are not directly priced into the market. In sectors such as public utilities, education, social care (providing public or merit goods) the provider has to achieve not only economic, but also social goals of availability and affordability. As a result, the service provider is likely to incur losses. In a situation where, for one reason or another, the market mechanism alone cannot achieve economic efficiency and market failure occurs. For a long time it was believed that such services have to be provided by the public and not the profit-seeking private sector. Thus, the government takes the control over selected services limiting the private entities participation.

In the economy sectors where services of general economic interest are dominating, commonly state-owned institutions or entities are the main, if not only, providers of the services and do not face competition within that market. **The lack of competitive pressure** has a negative effect on cost spent on services, thus causing **X-inefficiency**. That is, due to the absence of competition the actual cost of government provision can be higher than the feasible minimum cost.

It is claimed, that government provision has lower level of efficiency, firstly, in the circumstances where the public provider is a monopoly. Secondly, inefficiency may be observed also where there is the competition but it is among non-profit-maximizing organisations (e.g. NGOs).⁴ That is, the efficiency of service provision is dependent on specific contextual factors, for instance sector specific, regulation or market competition, rather than ownership itself⁵. Thus, assumptions that private providers tend to be more efficient cannot be associated with ownership per se; firstly, it is the importance of competitive pressure on efficiency that matters.

In order to better understand probable efficiency issues of public services the study takes into account the

⁴ Le Grand, J. (1991) The Theory of Government Failure, British Journal of Political Science, Vol.21, No.4, p. 423-442

⁵ Is the Private Sector more Efficient? (2015), UNDP Global Centre for Public Service Excellence

actual competitiveness among service providers and seeks to identify the reasons causing the lack of competition. It is considered, that any existence of private providers, even if in small amount, in particular or similar services may show that traditionally state-owned services might be attractive for private entities. Hence, possible **obstacles to entering the market** are analysed as well, including political, operational (existing natural monopolies) or legal (licences, patents, over-specific technical requirements) barriers.

However, it is important to differentiate whether efficiency is based purely on cost, or it considers how well the service meets the needs or attains equity as well⁶. The literature reveals that in some specific sectors, e.g. health care, for-profit service providers are less efficient than non-profit or public providers⁷. For example, in health care sector private health care service providers are not necessarily more medically effective than their public counterparts, moreover, efficiency of private providers can decrease due to incentives to over-treat⁸.

At this point **the allocative efficiency** should be considered. Allocative efficiency occurs when there is an optimal distribution of goods and services, taking into account consumer's preferences. It means that the social surplus is maximized with no deadweight loss. In terms of efficiency not only the cost of provided output, but also the reasoning behind the outcome (is the output worth providing?) matters. Therefore, validity of demand and supply should be questioned.

Balance between **demand** and **supply** describes the situation when no potential consumers are left without a good or service and no goods or services are left unused. That is, supply and demand are equal and goods or services are allocated in the most efficient way. However, the demand and supply equilibrium is mostly a theoretical term and two types of market inefficiency are faced in the practice – shortage and surplus.

Unsatisfied demand in public service provision is associated commonly with lack of funds. However, demand for public services can also arise as a result of actions by the state itself. That is, demand and supply to some extent can be managed. For instance, when the commodity is provided free at the point of the use to consumers it can boost demand; consumers may not consider their real needs or consume the good out of habit, asking for a greater than allocatively efficient amount. Likewise, excess demand for a public products or services can arise due to government failure creating so called failure demand; failure demand appears due to a failure providing the service in question or other services. And again, efficiency issues on supply side can lead to unsatisfied demand, for example, in the situations where allocated resources are used inefficiently.

Moreover, fail to reach equilibrium not only may indicate existing government failure; it can condition some new negative effects which may also be associated with government failure and should be taken into account.

In shortage situation (i.e. the overall supply is lower than the overall demand) government action or inaction can lead to further losses experienced by consumers (e.g. if a government fails to close the gap on providing water and sanitation, inadequate sanitation conditions might fuel spread of various diseases) or losses inflicted on both producers and consumers (e.g. when government regulation hold prices below

⁶ Andrews R., Entwistle T. (2013) Four Faces of Public Service Efficiency: What, how, when and for whom to produce, Public Management Review, Vol.15: 246-264

⁷ Is the Private Sector more Efficient? (2015), UNDP Global Centre for Public Service Excellence

⁸ Basu S., Andrews J. et al. (2012) Comparative Performance of Private and Public Healthcare Systems in Low- and Middle-Income Countries: A Systematic Review, PLOS Medicine, 9(6): e1001244.

natural levels, resources such as talent and investor capital leave an industry to seek a better return elsewhere), not to mention increase of a shadow economy, nepotism, low government trust rate.

Surplus situation (i.e. the overall supply is greater than the overall demand) leads to a waste of resources (e.g. low price might lead to overconsumption of commodity), low, or no, incentives for private suppliers to enter the market, increased pressure on a state budget, etc.

1.2.3 SIDE-EFFECTS

This criteria covers the impact of government interventions on businesses/competitiveness, the long and short-term consequences of the government interventions, their influence on the market and/or people's behaviour changes. The information according to this criteria is presented both in tables on each government intervention and in the analytical text of the report.

In economic theory, externalities arise when individuals or firms do not have to pay for the full consequences of their actions. Externality is a cost or a benefit that affects a party who did not choose to incur that cost or benefit⁹, that is, other people bear costs when someone produces or consumes a good, and the producer and consumer does not take these costs into account in determining how much of the good to produce or consume.

Government interventions often deal with positive or negative externalities that cause known consequences to the third party. Nevertheless, the implementation of government intervention itself can cause additional "externalities" or, to be more accurate, side-effects on unrelated third parties.

Public interventions may have unintended effects, that is public intervention may produce other than intended results. Then such impact is observed outside the intervention target area or on a third party that is not directly considered as a target group of the intervention it is called side-effects. In terms of this study, situations, where the implementation of one intervention has an impact on the other one, are attributed to the side-effects of intervention as well. Intervention may lead to a great new opportunity but also expected solution may turn into a problem.¹⁰

A positive side-effect is a benefit that is enjoyed by a third-party as a result of government intervention targeted on other groups. It can be an economic research and development spill-overs, increased participation in the labour market of family members of disabled or elderly people receiving care, a better environment for small businesses, such as cafes, shops, due to regeneration of public spaces.

As in the case of externalities, **a negative side-effect** occurs when the consumption or production of a good causes a harmful effect to a third party. For example, financial assistance for low income groups sometimes can have a negative effect on individuals' incentive to work, because increase in their income may lead to decrease in available social benefits¹¹, thus public funds will be spent also on individuals that, under other

⁹ Buchanan J., Stubblebine C. (1962) *Externality*, *Economica*, 29 (116): 371–84.

¹⁰ Haug P., Schwandt T. (2003) Evaluating educational reforms – Scandinavian perspectives, Information Age Pub, Greenwich

¹¹ Lemieux T., Milligan K. (2004) Incentive Effects of Social Assistance: A Regression Discontinuity Approach, NBER Working Paper No. 10541

circumstances, could maintain themselves. Such detrimental effects reduce efficiency of the public intervention and can hinder the achievement of policy goals.

Sometimes side-effects can occur due to interrelated interventions. For example, VAT exemption for heating reduces incentives to save the money spent on heating and perform housing renovation, which is supported by the other intervention. In this case one intervention undermines the impact of another, because it has unintended effect on consumers' behaviour and their choices. This leads to inefficient overconsumption of the product.

Existence of interventions aimed at the same or very similar objectives can also determine prioritisation of one intervention over another based on political agenda, current institutional capacities or other operational reasons. That increases the risk of loss associated with the opportunity costs of intervention, i.e. resources can be allocated to ineffective or less effective intervention forgoing the potential benefits of other possible interventions.

Similar side-effects or unexpected negative consumer behaviour can occur in any sector, where not all costs of intervention to society are being weighed.

1.2.4 ADDITIONALITY

This criteria covers the impact of government intervention on job creation/capital investments, possible loss of jobs and/or capital investments, the long and short-term consequences of the government intervention, existence of government failures as consequences of the government interventions, the main beneficiaries from government interventions. The information according to this criteria is presented both in tables on each government intervention and in the analytical text of the report.

Additionality is the difference between the reference case position and the position when the intervention is implemented. Put in other words, it is the extent to which something occurs as an output or outcome of an intervention, but that would not have happened in the absence of the intervention. Additionality can be achieved in terms of scale (e.g. a greater quantity of jobs is created), quality (e.g. level of skills is enhanced) or timing (results are achieved earlier)¹².

While the study encompasses many government interventions, additionality assessment focuses on **outcome additionality**, i.e. impact of government intervention on **employment or capital investments** that are the ultimate goals of many government interventions and which are likely to arise as a result of some government interventions under consideration. **The positive changes** in productivity or in the size of the workforce can be determined by various interventions aimed at workforce participation, institutional capacity, reduction of infrastructural or operational barriers.

However, consideration also is given to possible **detrimental effects**. Firstly, public intervention can cause displacement effect occurring in product markets if, for example, assisted businesses simply take market share from other local entities producing the same goods or services. Hence, the additionality created from

¹² Additionality & Economic Impact Assessment Guidance Note (2008), Scottish Enterprise

the intervention does not work at the overall economy due to a reduction of benefits of other market players.

Another effect that should be considered in order not to overestimate additionality is substitution. Some interventions can prompt beneficiaries to substitute one activity for a similar one in order to receive public funds. A typical example is the employer replacing existing employees with new employees (e.g. long-term unemployed persons or persons with disability) which remuneration is partly covered by public grant.

1.2.5 AFFORDABILITY

This criteria covers the unintended consequences from service price rate, regressive effect of a tax/price level on lower income groups. The information according to this criteria is presented both in tables on each government intervention and in the analytical text of the report.

The other important rationale for government service/intervention is the achievement of equity objectives. Government policies are also not equal *per se*: they aim at different groups of society, they offer different types of help and help individuals to a different extent. Therefore, a closer look at each intervention is required in order to determine its target group, scope, intensity and possible benefits for individuals as well as societies.

Some services / interventions may seek to redress the inequality and be **targeted at particular social groups** (most commonly attributed to disability status, age, income level, etc.). In such cases the service will be distributed only to consumers identified with certain characteristics. Otherwise, services / interventions are **targeted at the whole society**, thus, expecting that service will be consumed equally among various social groups.

However, in the real life the impact of the intervention on an individual's well-being may vary according to his or her social status, income or living place. It might indicate service affordability issues or failure to achieve equitable efficiency, i.e. deliver equitable distribution of services between target groups.

Most commonly affordability is defined through **price** which is the key element determining scope and intensity of goods' consumption. Increase in prices is likely to lower goods' consumption while decrease is expected to boost the demand accordingly. Lower income groups are especially vulnerable to price fluctuations¹³. Moreover, affordability of the service, especially taking into account lowest income groups, cannot be understood without considering broader context of the overall household spending. The service is affordable when consumption of it does not sacrifice other basic needs, but it is "unaffordable", for example, if household persists paying for health care prioritising it over education or nutrition¹⁴.

At the same time, even though direct price paid by customer plays very important role in determining affordability, it is not the only factor. For example, different studies demonstrate a significant statistical correlation between quality and utilization of health care services¹⁵. Some research¹⁶ reveal that after

¹³ Frankhauser S., Tepic S. (2005) Can poor consumers pay for electricity and water? An affordability analysis for transition countries, European Bank for Reconstruction and Development, Working paper No.92

¹⁴ Russell S. (1996) Ability to pay for health care: concepts and evidence, Health Policy Plan, 11(3): 219-237

¹⁵ Lindelow M., Wagstaff A. (2003) Health facility surveys, World Bank, Policy Research Working Paper

¹⁶ Litvack J.I., Bodart C. (1993) User fees plus quality equals improved access to healthcare, Social Science & Medicine, 37(3): 369-383

improvement in health service quality and proximity, which lead also to decrease in travel and time costs, increase in the direct fee of the service didn't provoke any decline in its consumption even among lower income group. Even when the service is provided free of charge at the consumer level any other perceived extra cost such as time or travel as well as social costs will determine utilisation of the service. Thus, extra cost may discourage poor people from consuming the means-tested subsidies designed to address their particular needs. Therefore, the concept of the **overall costs** needs to be taken into consideration before deciding on goods' affordability and its dispersion among different income, education and other groups. Overall costs are understood as both direct and indirect costs including various conditions creating barriers to consumption of the public service:

Affordability in terms of capabilities. Certain conditions should be fulfilled before the service is available. For example, in order to receive a public compensation for a pre-primary education in a private institution, a greater share of the service price has to be paid by the consumer himself / herself.

Affordability in terms of knowledge. Reduced affordability of the service may be inflicted by potential consumer's limited skills or abilities. For example, the demand for free higher education exceeds the supply, thus examination results are used as entry standard. However, people from lower income groups often achieve worse results in examinations than their well-off counterparts. In consequence, despite the government effort to increase financial accessibility to higher education, rationing based on knowledge raise the barrier to students from poorer backgrounds to enter universities.¹⁷

Red tape constrains. Potential consumers should deal with extended bureaucratic obstacles in order to receive service, i.e. resources (time, people, money) required formally to comply with a rule (regulation, procedure) are large.

Affordability in terms of time. For example, the aforementioned research¹⁸ found that despite increase in fees medicines consumption among lower income groups increased. This counter-intuitive finding is explained by the relative affordability of health care at local government health centres compared to more distant providers which were previously being used, i.e. regardless of medicines price increase, their consumption due to reduced travel costs and time savings also went up;

Social stigma. There are services people are more likely to associate with social stigma and therefore refuse to consume, even though they might be provided at no charge. For example, data reveals that 52 percent of school children in Lithuania suffer abuses related to free meals in public schools they are entitled to¹⁹. Therefore, many even try to discourage their parents from applying to such form of support.

The way the price and aforementioned indirect costs affect service consumption level at various social / income groups also depends on *perceived quality of the service* (if quality of a good increases, higher consumption is likely, even though the price also rises) and *service elasticity* (an inelastic good or service is one in which large changes in price produce only modest changes in the quantity demanded or supplied, if any at all, i.e. the service is essential to the customer and there aren't good substitutes for it).

¹⁷ Le Grand, J. (1991) The Theory of Government Failure, British Journal of Political Science, Vol.21, No.4, p. 423-442

¹⁸ Litvack J.I., Bodart C. (1993) User fees plus quality equals improved access to healthcare, Social Science & Medicine, 37(3): 369-383

¹⁹ <https://www.delfi.lt/news/daily/education/mokiniai-gedijasi-nemokamo-maitinimo.d?id=16949239>

1.2.6 CONSISTENCY

This criteria covers the coherence and harmonisation of the entire system of all forms of government interventions, government interventions contradicting each other or creating government failures, suggestions how to solve the cases of contradictory government interventions. The information according to this criteria is presented both in tables on each government intervention and in the analytical text of the report.

For a public policy to attain its objectives, not only each separate government intervention must be planned and implemented efficiently and have a positive effect on its target group, overall economy and society, but the setup of various government interventions should also be consistent, meaning that different government interventions should supplement each other. Supplementing each other government interventions would strengthen each others impact, together creating a greater impact than they would separately if the other intervention did not exist.

In practice, however, government interventions are not always supplementing each other. In many cases, they have no impact on each other, contradict or replace each other. If the interventions have no impact on each other, it means that their objectives are not related to one another and implementation of one intervention does not affect the impact of another, i.e. the interventions create the same impact as they would if the other one did not exist. If interventions contradict each other, they have contradicting objectives or they have the same objective but undermine the impact of each other, i.e. the interventions create lower impact than they would separately if the other one did not exist. In case of replacing interventions, the interventions have the same or very similar objective and they do not lower each others impact, but, in certain conditions, they may replace one another, i.e. if one of the interventions would not exist, the other one would take its place and still reach the same objective.

Since contradicting and replacing each other interventions reduce the efficiency of public policy implementation, it is important to identify such interventions and to change or withdraw them altogether.

1.3 POTENTIAL TO USE FINANCIAL INSTRUMENTS

Assessment of the potential use of financial instruments builds substantially on the information collected and analysis carried out.

The analysis addresses potential of the relevant providers to become final recipients of financial instruments. As such, the analysis does not address the rationale behind the set-up of a financial instrument for the specific service. This can only be addressed as part of a more in-depth ex-ante assessment. Additionally, the analysis focuses only on the revenue generating potential of the specific providers being considered. Thus, it does not address the potential for any entities funding the service provision as part of a broader mandate to become recipients of financial products to address the financing needs of the relevant service.

Key elements for the assessment are specific for each of the services. For this reason, assessment is based on qualitative scoring. Reasoning behind the individual scoring decision is provided, which allows to understand in full the logic of the assessment. The analysis also clarifies any aspects where the amount and type of data provided does not allow for a scoring decision.

There are five criteria for the potential to introduce financial instruments pointed out, which lead to each sector's service having five decisions about potential to introduce FI to be made. These criteria are uniform despite specificity of the services analysed. They include:

1. *Pricing system.* The criterion determines specificity of the pricing, which can be either set by relevant authorities or have non-regulatory nature. It also deals with service delivery expenses coverage by customers' payments and answers if the provision generates revenue.
2. *Regulatory and governance framework.* Defines service providers, their nature (for example, public or private-owned) and identifies obstacles for private providers to enter the market of a service provision.
3. *Market potential.* Identifies service target groups, their size as well as proportion between public and private providers in the market. The criterion discusses also whether and, if yes, how, revenue generation can be increased.
4. *Accountability.* Deals with the context of intervention, availability of the policy targets and their definition. Criteria seeks to answer if long and short-term objectives are consistent i.e. clear strategic outline for the sector is provided.
5. *Capacity.* Determines services compliance with the qualitative standards and the reasons for either sufficient or non-sufficient quality of the service provision. The criterion also indicates current considerations about service provision transfer to the private entities.

However, it should be noted that criteria are closely interrelated and are separated only for analytical purposes.

The potential of financial instruments introduction for each service is overviewed in tables in regard to five criteria pointed out. *Colour code* used in tables summarises each of the criterion:

- **Red:** current situation is not favourable to the introduction of financial instruments; required changes to the baseline situation, where possible, can be challenging;
- **Yellow:** premise for financial instruments, i.e. changes are possible to the baseline situation, that can increase the potential for financial instruments;
- **Green:** there are no barriers to the introduction of financial instruments.

1.3.1 CRITERIA FOR THE POTENTIAL OF INCREASED FINANCIAL INSTRUMENTS USE IN LITHUANIA AND CROATIA

The data collected during the analysis of the public services and service related interventions was used to assess the compliance of various services and service related interventions with the criteria indicating the potential to introduce financial instruments. Extensive review of the methodological literature led to the identification and further development of some key criteria for financial instruments introduction potential.

TABLE 2. CRITERIA FOR ASSESSMENT OF THE FINANCIAL INSTRUMENTS POTENTIAL

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

Source: BGI Consulting et al, 2017.

All criteria identified relate to the overarching principle of revenue generation. This is a key element to be considered when assessing the type and amount of financial support to be provided by public policy. This is, for instance, clearly acknowledged under ESIF, where net revenue generation is used under certain conditions to reduce the amount of support granted to beneficiaries, the rationale being that profitable investments require less financial support from public money²⁰. When support through financial instruments is considered, revenue generation is a main condition for final recipients to be able to repay the received funds.

Although given separately in the table for the purpose of analysis, the individual criteria are obviously strictly interrelated. For example, pricing can be subject to regulation to some extent, thus can be certainly considered as part of the regulatory framework. However, given its importance for the analysis, this is assessed separately.

Criteria are provided separately for the supply and the demand side, so that the way through which each aspect can affect financial instruments potential is better clarified. Naturally, such distinction simplifies sector's functioning, where supply and demand dynamics might differ depending on the service considered, e.g. generation, transmission, distribution and retail activities in the electricity market. For that reasons their interpretation was sector/service specific when analysis was carried out.

²⁰ For a recent study addressing this topic, see CSIL, t33 (2015), Study to determine flat-rate revenue percentages for the sectors or subsectors within the fields of ICT, RDI and energy efficiency to apply to net revenue generating operations co-financed by the European Structural and Investment Funds (ESI Funds) in 2014-2020.

Additionally, although not being specifically mentioned in the table, some criteria, and especially awareness and past experiences, are relevant in particular for the policy maker. This was considered when carrying out the analysis.

As concerns the individual criteria:

1. A payment mechanism is required to generate revenue. This could be established through a direct contribution based on service consumption (e.g. water or energy tariffs) or through charges (e.g. rental charges) or taxes (not directly linked to service consumption); sometimes based on a flat-rate mechanism. Payments are directly made to the service provider (from the consumer) or through transfers from the organisation in charge of tax/charge recovery.

Within a payment system, pricing can be set based on administrative parameters or through supply and demand adjustment. Prices affect demand through elasticities and also address affordability i.e. the extent to which intended recipients are able to access the public service or good being provided²¹, whenever relevant.

2. Regulatory and governance rules for service provision are key elements for financial instruments, as they affect efficiency and revenue generation capacity. A favourable regulatory framework is stable over time, with a clear definition of the services to be delivered, clearly defined functions and responsibilities of the actors involved, and suitable institutional control mechanisms. Key parameters for supply are, in addition to the pricing mechanisms, property rights, market access conditions and quality standards for the service provision. Within governance, devolution and decentralisation contributes to the determination of the scale of operations. On the demand side, information on the service / good delivered and clear conditions for access are required, as well as mechanisms allowing consumer choices, e.g. between providers. Where relevant, public financing can affect both supply and demand, e.g. through tax relief.
3. In terms of the market potential, present and future needs affect demand for the service provision. This includes the kind of long-term trends such as, for example, ageing and shrinking population, that are going to reshape the extent and accessibility of services.

On the supply side, specific input needed, including their price, as well as possibly the regulatory and governance framework within which they are provided, can affect good / service provision. Relatedly, competitive pressures may be reduced by the same characteristics of the markets, for example in the case of a natural monopoly. Available technology and innovation more generally also contributes to shaping supply²². At the same time, market potential is also determined by more qualitative aspects such as, for instance, consumer preferences.

4. User expectations, driven by better access to credible information on service performance, can create momentum towards improved efficiency and effectiveness of the service delivery²³. More generally, publicly disseminated information is just one of the tools through which users can hold

²¹ See for example OECD (2013), Access to public services: Affordability", in Government at a Glance 2013, OECD Publishing.
http://dx.doi.org/10.1787/gov_glance-2013-52-en

²² For a recent study addressing the impact of technology on the use of resources, see for example McKinsey Global Institute (2011), Resource Revolution: Meeting the world's energy, materials, food, and water need.

²³ See for example, PricewaterhouseCoopers (2007), The road ahead for public service delivery - Delivering on the customer promise.

policy makers and service providers accountable²⁴, leading to potential efficiency gains. This also links closely to the governance framework, through accountability-enhancing strategies.

5. Skills as well as technical and management capacity are crucial to plan and deliver government interventions. This involves having a sufficient number of well-trained staff, as well as setting appropriate incentives for performance, including performance measurement and transparent reporting. However, this also relates to past experience, which can provide information on key parameters to consider such as, for instance, required key players, or the relevant regulatory and governance framework. Assessment of capacity should acknowledge the whole range of actors involved, including the role played and their ability to govern processes²⁵.

²⁴ These also include, for example, consultation, participation, complaint mechanisms. For an example addressing the water sector, see Muller M, Simpson R, and van Ginneken M (2008), Ways to improve water services by making utilities more accountable to their users: A review.

²⁵ For example, see Smeriglio A, Sliwowski P, Bachtler J (2016), Administrative capacity and Cohesion policy: new methodological insights from Italy and Poland, In: Learning from Implementation and Evaluation of the EU Cohesion Policy. RSA Research Network on Cohesion Policy, pp. 173-190.

1.4 CASE STUDIES ON FINANCIAL INSTRUMENTS IN GERMANY AND ITALY

In order to learn from Germany and Italy how the market failures can be targeted by financial instruments, case studies were developed. The case studies focus on: the objectives and rationale for establishing the financial instrument (why the instrument was established, what was the market failure the financial instrument is targeted at, etc.); investment strategy and financial product (what kind of financial instrument is applied, the main characteristics of the financial product, how is the financial viability of the financial instrument ensured, etc.); governance of the financial instruments (main steps and challenges in establishing and administrating the financial instrument) and immediate - long term impacts of the financial instrument. Each case study followed the draft structure for reporting.

Draft structure for reporting the cases of financial instruments in Germany and Italy

1. Objectives and rationale for establishing the financial instrument
2. Investment strategy and financial product
3. Governance of the financial instrument
4. Immediate and long term impacts of the financial instrument

Source: BGI Consulting et al, 2017.

A number of financial instruments in Germany and Italy were reviewed. Several criteria were taken into account when selecting the case studies. The main government interventions, which significantly influence market and government failures in Lithuania and Croatia, were considered in the selection process in order to develop cases that deal with the issues significant for Lithuania and Croatia. Also the selected financial instruments should have good reputation and good implementation records. Sufficient data availability about the financial instrument and possibility to interview stakeholders, responsible for the instrument, were also applied as selection criteria.

TABLE 3. FINANCIAL INSTRUMENTS OF GERMANY AND ITALY SELECTED FOR CASE STUDIES

Name of FI	Objective	Relevant sectors of the study	Level/location applied	Country
IKK Investitionskredit Kommunen / IKK Investment loans for municipalities	Support for long-term investments in local public and social infrastructure such as Kindergarten, schools, sport facilities, technical infrastructure for water and waste water, ICT network, transport infrastructure, solid waste, hospitals, institutions for disabled, generation of building areas	Water supply / sewage, solid waste management, transport & communication, health care, education, social care	Federal level - KfW	Germany
IKU Investitionskredit Kommunale und Soziale Unternehmen / IKU Investment loans for public and social enterprises	Support for investments in local public and social infrastructure such as Kindergarten, schools, sport facilities, urban and village development incl. touristic infrastructure, ICT infrastructure, transport infrastructure, hospitals, institutions elderly care and for disabled, supply and disposal of public services (like	Water supply / sewage, solid waste management, transport & communication, culture & tourism, health care, education, social care	Federal level - KfW	Germany

	water, waste), science, technology and cultural care			
Erneuerbare Energien - Standard / Renewable energies - standard	Support for building, extension and buying of facilities for the use of renewable energy, facilities for heat creation from renewable energy, heating and cooling networks and storage, flexibilisation of power supply and demand. The scheme is available for public and private enterprises, municipalities etc. as well as private persons.	Energy	Federal level - KfW	Germany
Brandenburg-Kredit für Kommunen - Moderne Schule / Brandenburg loan for municipalities - modern school	The scheme aims to support modern public schools. It offers loans for financing investments in building and modernisation of schools in Brandenburg. The scheme has been renewed.	Education	State level Brandenburg	Germany
JESSICA SARDEGNA	Support urban development and energy efficiency in various sectors	Energy and energy efficiency; transport and communication; culture and tourism; social care; urban regeneration and revitalisation	Regional	Italy
JESSICA SICILIA	Support urban development and energy efficiency in various sectors	Education and science; culture and tourism; transport and communication; urban regeneration and revitalisation; social care	Regional	Italy
School buildings	Investment in public school buildings	Education and science; energy efficiency	Regions	Italy
Investment Fund for Habitat	Investment in social housing; with the objective to provide houses to disadvantage group of people	Urban regeneration and revitalisation, social housing	National	Italy

Source: BGI Consulting et al, 2017.

Two multi-sectoral instruments managed by KfW were merged into one case study. Similarly, JESSICA SARDEGNA and JESSICA SICILIA were combined into one case.

2. RESULTS OF THE RESEARCH

2.1 LITHUANIA: URBAN REGENERATION AND REVITALISATION

2.1.1 GENERAL OVERVIEW OF THE SERVICES IN THE SECTOR

This chapter provides an overview of all public services identified in Lithuanian Urban regeneration and revitalisation sector. The rationale for introduction of each public service and the number of service related interventions are identified. Furthermore, the relative position of each public service on liberalisation – centralisation axis is presented.

The main provider of various level urban regeneration and revitalisation services is the public sector. Two main public services were identified in the Urban regeneration and revitalisation sector in Lithuania. The list of all sector's services and their respective aims is provided in the table below.

TABLE 4. LITHUANIAN URBAN REGENERATION AND REVITALISATION SECTOR'S SERVICES AND THEIR OBJECTIVES

Service title	Aim of the service
Regeneration of urban public spaces	Regeneration of urban public spaces refers to modernisation of public spaces by creating additional or new urban centres of attraction.
Regeneration of urban brownfields	Regeneration of urban brownfields refers to renovation of unused, abandoned infrastructure and territories; preparing them for new investments and developing the potential of urban infrastructure.

Source: BGI Consulting et al, 2017.

The Urban regeneration and revitalisation services in Lithuania consists of 2 services which encompass 5 government interventions. Two of them, ESIF funded measures for urban regeneration - Subsidies for conversion of urban brownfields and public buildings, and other Subsidies for regeneration of urban living environment. Another three – Urban planning, Land and Real Estate Tax, Infrastructure Development tax for municipalities define the maintenance of land and real estate; provides the monitoring and evaluation of land; sets the taxation policies of land and real estate in Lithuania.

2.1.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

There are two rationales for provision of services by the public sector in the Urban regeneration and revitalisation sector. One is associated with the lack of incentive to produce/consume merit goods and other service is provided by the public sector due to non-availability or limited availability on the market in case of absence of the government intervention.

The rationale behind the service Regeneration of urban public spaces is provided due to the lack of incentives to produce or consume merit goods. This service is classified as merit goods because their consumption provides benefits for all society. The aim of service is to modernise public spaces by creating additional or new urban centres in order to attract additional private investments and create new jobs for the community.

The service Regeneration of urban brownfields service is provided due to the limited availability of deprived territories regeneration services in the market. The Regeneration of urban brownfields aimed at creation of environment favourable for investments; creation of conditions for renewal of the environment, housing, communication system and engineering equipment in the urbanized part of the residential area (Bielinskas, Burinskienė, 2015).²⁶ The main rationales for this service are cleaning up of underused/former industrial territories and development of basic infrastructure in underused/former industrial territories for private investments. Even though private businesses are investing in abandoned territories normally, urban brownfields often occupy large territories (former industrial military sites) that require complex solutions making it too complicated for private investors. In addition, brownfields are often located in less attractive places such as deprived neighbourhoods of the cities or rural areas. Private entities are investing in more profitable projects that do not include high additional costs. The government interventions in Urban regeneration and revitalisation sector are considered as the main incentives which supplement the current market of this sector.

The rationales of the implementation of government interventions Subsidies for regeneration of public buildings and brownfields and Subsidies for regeneration of urban living environment are designed in order to balance the internal migration and tackling labour mobility problems through improvement of the living environment by focusing investments around the specific target territories, by forming the demand for local business in those territories and enhancing their attractiveness for private investments. The rationales of the government intervention Urban planning are designed in order to ensure sustainable development of territories and rational urbanization, to determine the requirements for the solutions of the spatial planning process; Land and real estate tax is distinguished to ensure the revenue of the real estate tax as an important source of finance for local governments; the main rationales of government intervention Infrastructure development tax for municipalities is designed in order to finance the infrastructure of municipalities, to compensate the part of the infrastructure development costs incurred by the initiators of infrastructure development and to satisfy new needs for the development of social and engineering infrastructure.

The scheme below disassembles the logic of the overall government interventions in the Urban regeneration and revitalisation sector in Lithuania. It starts with the rationale of the provision of the services by the public sector, and then indicates the service corresponding to that particular rationale. The service is classified not only by the rationale it correspond to, but also by a body, which is responsible for the provision. Other government interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

²⁶ Bielinskas, V., Burinskienė, M. 2015. Influence of Brownfield Conversion on Evaluating Real Estate and Implementing the Possibilities of Urban Brownfields in Lithuanian Cities. 7(1): 30-39: *Science – Future of Lithuania*.
<http://www.mla.vgtu.lt/index.php/mla/article/download/710/pdf>

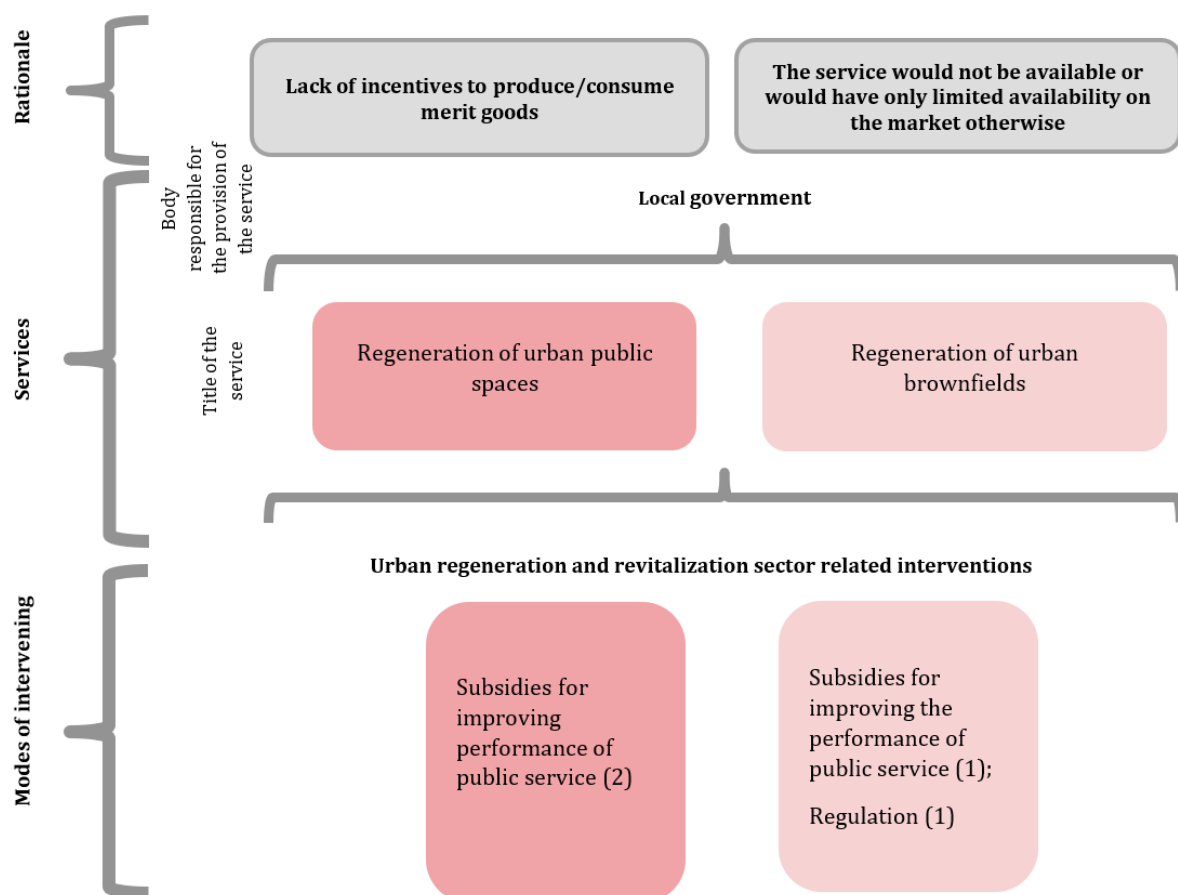


FIGURE 2. LOGIC OF INTERVENTIONS IN THE URBAN REGENERATION AND REVITALISATION SECTOR

Source: BGI Consulting et al, 2017.

2.1.1.2 LEVEL OF LIBERALIZATION OF THE SERVICES PROVISION

„The public services in the Lithuanian Urban regeneration and revitalisation sector were ranked according to the level of liberalisation in their provision in the figure below. The criteria used for ranking the sector’s services according to the level of liberalisation in their provision are – the main provider of the service (the most centralised provider is a government / municipal institution (directly), the most liberalised provider is the market entity (operator)); the most common public service delivery mode (the most centralised delivery mode – direct provision by the governmental / municipal body, the most liberalised – provision by market entity (operator)); consumer pricing of the service (whether the service is free of charge, its pricing is available but non-regulated or its pricing is regulated and set by relevant authorities); market share of the public operators (100, >66, 34-66, <34 percent).”

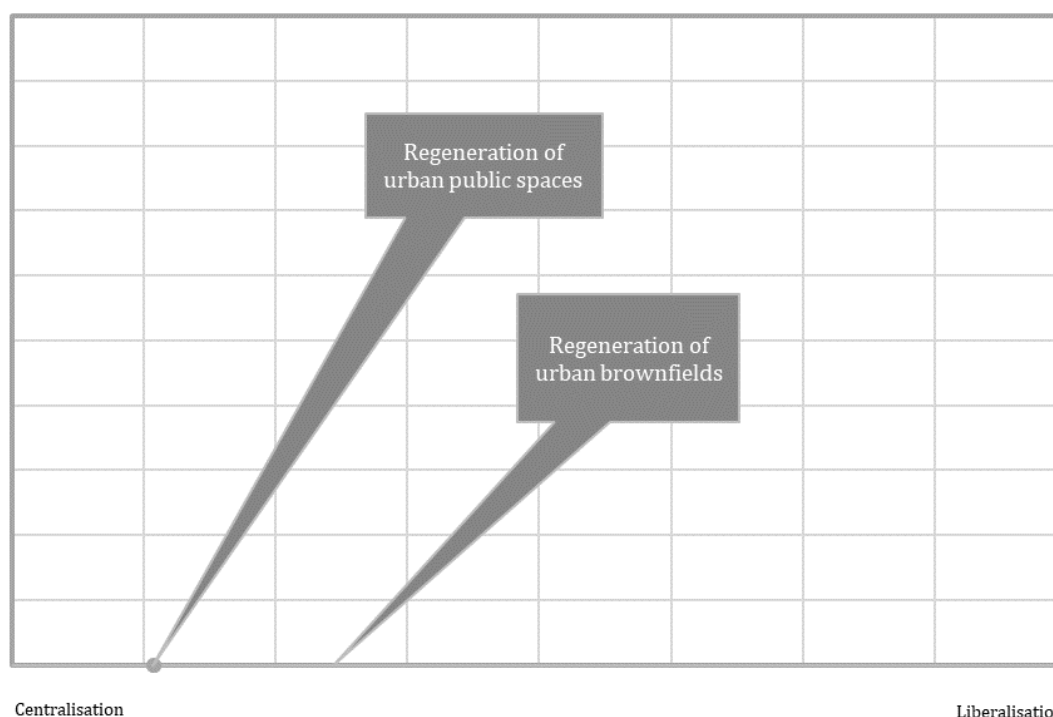


FIGURE 3. SUPPLY SIDE OF LITHUANIAN URBAN REGENERATION AND REVITALISATION SECTOR SERVICES

Source: BGI Consulting et al, 2017.

The services in the Urban regeneration and revitalisation sector are provided in a more centralized rather than liberal way. The more centralised service in the sector is the Regeneration of urban public spaces. The government interventions under this service, as provision of subsidies for regeneration processes in urban territories are regulated by public authorities, as they form the operational goals and initiate regeneration projects. Local municipalities are also in charge of the implementation of urban brownfields revitalisation projects, although similar services are also provided by private businesses in the market.

Due to small number of services identified in Lithuanian Urban regeneration and revitalisation sector, all of them had been selected for further in-depth analysis.

2.1.2 PRESENTATION OF SERVICES AND RELATED INTERVENTIONS SELECTED FOR FURTHER ANALYSIS

This chapter presents the services and related interventions, selected for further analysis. Four services in Lithuanian Urban regeneration and revitalisation sector were selected for further in-depth analysis. These services are:

- Regeneration of urban public spaces;
- Regeneration of urban brownfields.

The main policy goals, modes of provision and interventions related to the abovementioned services are presented in this chapter.

2.1.2.1 MAIN POLICY GOALS OF SERVICES SELECTED FOR FURTHER ANALYSIS

The main policy objectives in Lithuanian Urban regeneration and revitalisation sector established in the National progress programme for 2014-2020²⁷ sets the objectives to enhance the quality of living environment and to increase the competitiveness of the cities and towns in Lithuania. White Paper on Lithuanian Regional Policy for 2017-2030²⁸ sets the main goals to ensure sustainable growth of economy in various Lithuanian regions; to attract private investments in regions; to ensure the cooperation between local and national governments. The Law on Territorial Planning²⁹ defines the policy of territorial planning, the public interest in the processes of planning, which are important in the processes of sustainable urban regeneration. Municipal level strategies defined in the general, specific and detailed plans, address the integrated urban development goals by promoting the enhancement of urban potential by developing public infrastructure and urban brownfields. It is expected that the increased utility of urban spaces and urban accessibility will help to attract more private investments and therefore to stimulate the economy. Accordingly, current urban policy refers to the urgent need to revitalise public spaces (including traditional public spaces in downtown areas and living environment in the residential areas) as well as to the necessity to reduce the urban sprawl by developing centrally located abandoned former industrial territories.

2.1.2.2 THE STRUCTURE OF PROVISION AND FINANCING OF SERVICES SELECTED FOR FURTHER ANALYSIS

Figures provided below depict the structure of each service selected for further analysis. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision identified. Graphs in light red indicate service providers and group(s) the service is targeted at.

²⁷ National Progress Program for Lithuania for the period 2014-2020, Ministry of Finance of the Republic of Lithuania, No. 1482, November 28, 2012

²⁸ White Paper on Lithuanian Regional Policy for sustainable development, National Regional Development Council under the Ministry of Interior of the Republic of Lithuania, 2017

²⁹ The Law on Territorial Planning of the Republic of Lithuania, Seimas of the Republic of Lithuania, No. XII-407, June 27, 2013

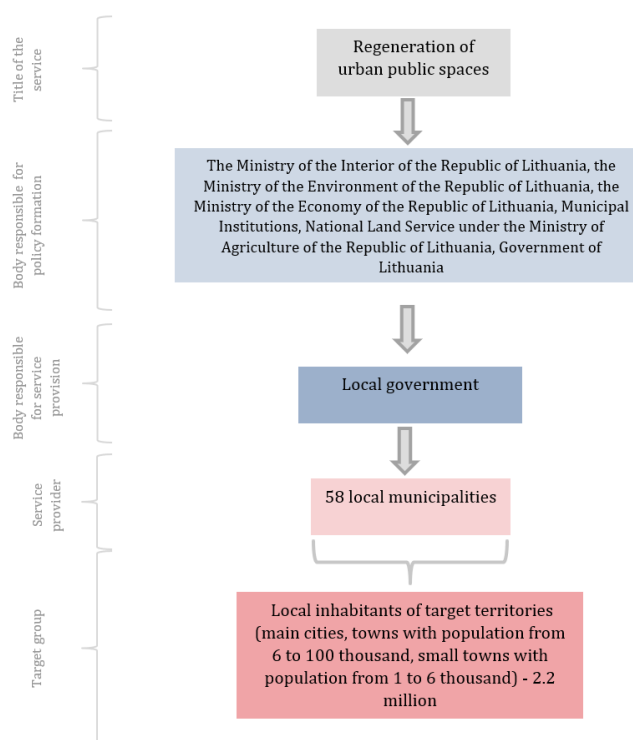


FIGURE 4. REGENERATION OF URBAN PUBLIC SPACES SERVICE PROVISION MECHANISMS IN URBAN REGENERATION AND REVITALISATION IN LITHUANIA

Source: BGI Consulting et al, 2017.

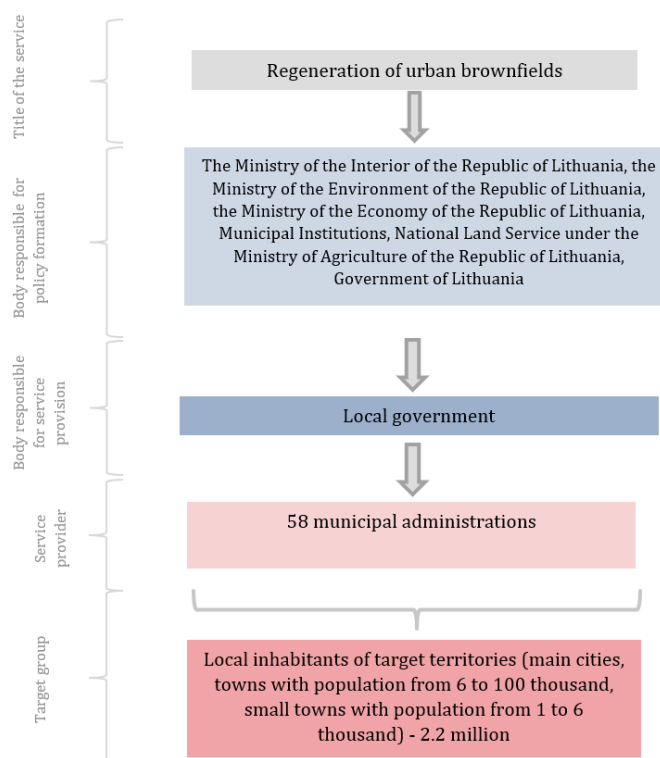


FIGURE 5. REGENERATION OF URBAN BROWNFIELDS SERVICE PROVISION MECHANISMS IN URBAN REGENERATION AND REVITALISATION IN LITHUANIA

Source: BGI Consulting et al, 2017.

Lithuanian regional policy is financed mainly by ESIF investments. The largest part of the ESIF support goes to the regeneration of urban living environment, including renovation of urban parks, public squares, and development of pedestrian and cycling infrastructure, lighting infrastructure, development of small-scale community infrastructure.

In the period of 2014-2020 for the sector *Regional Development* is approved 10 measures for economic and social development of Lithuanian regions.³⁰ Roughly, EUR 3 million are spent annually for the regeneration of urban brownfields. The ESIF expenditure on regeneration of urban public spaces services is around EUR 40 million. ESIF funded measures in the period of 2014-2020 are aimed at providing subsidies for the regeneration processes. Under the measure "Complex development of cities" (No. 07.1.1-CPVA-R-905) were 33 signed contracts for non-refundable subsidy for the target territories with 6 to 100 thousand residents, and smaller municipalities, as amount of funding was EUR 107 380 029,00.³¹ Under the measure "Complex development of the large cities" (No. 07.1.1-CPVA-R-904) were signed 21 contracts for non-refundable subsidy for the large cities of Lithuania, as amount of funding were EUR 150 653 517, 00.³² The main renovation objects were historical and cultural objects of large cities, and territories around. Under the measure "Rural residential renewal" (No. 08.2.1-CPVA-R-908) were signed 13 contracts, amount of funding – EUR 52 003 830, 00.³³ The main supported activities: regeneration of the urban infrastructure and the conversion of underused buildings in small towns and rural areas with the population of 1 to 6 thousand of inhabitants, with the exception of municipal centres. Two measures "Development of transitional target territories I" (07.1.1-CPVA-V-902) as the amount of funding – EUR 7 879 367, 00³⁴ and "Development of transitional target territories II" (07.1.1-CPVA-R-903), the amount of funding – EUR 6 144 971, 00³⁵ were distinguished for the conversion of urban brownfields and general development of urban infrastructure.

Municipal and local-level territorial planning documents are prepared by municipal funds, unless otherwise provided by other laws of the Republic of Lithuania or if, due to the financing of the preparation of territorial planning documents at the local level, there is a different agreement between the planning intermediary and the municipality.³⁶

Land tax rate varies from 0.01% to 4% of the taxable value of the land and is set by municipal councils. The specific rate for each calendar year is established by the municipalities. The object of the tax is private land owned by the natural and legal persons in the Republic of Lithuania, with the exception of forest land and agricultural land in which the forest is established in accordance with the procedure established by laws and other legal acts of the Republic of Lithuania.³⁷ The real estate tax shall be imposed on immovable property in Lithuania, with the exception of actually unused immovable property with unfinished construction; immovable property created (acquired) on the basis of public and private partnership, if the public and private partnership agreement is under implementation and this type of property is used for the

³⁰ The list of the main sectors of EU investments for the period of 2014-2020:

http://www.esinvesticijos.lt/lt/patvirtintos_priemones

³¹ Information about the measure „Complex development of cities“. 2014-2020 European Union Investment in Lithuania:

http://www.esinvesticijos.lt/lt/patvirtintos_priemones/miestu-kompleksine-pletra

³² Information about the measure „Complex development of large cities“. 2014-2020 European Union Investment in Lithuania:

http://www.esinvesticijos.lt/lt/patvirtintos_priemones/didziuju-miestu-kompleksine-pletra

³³ Information about the measure „Rural residential renewal“. 2014-2020 European Union Investment in Lithuania:

http://www.esinvesticijos.lt/lt/patvirtintos_priemones/kaimo-gyvenamuju-vietoviu-atnaujinimas

³⁴ Information about the measure „Development of transitional target territories. I“ 2014-2020 European Union Investment in Lithuania:

http://www.esinvesticijos.lt/lt/patvirtintos_priemones/pereinamojo-laikotarpio-tiksliniu-teritoriju-vystymas-i

³⁵ Information about the measure „Development of transitional target territories. II“ 2014-2020 European Union Investment in Lithuania:

http://www.esinvesticijos.lt/lt/patvirtintos_priemones/pereinamojo-laikotarpio-tiksliniu-teritoriju-vystymas-ii

³⁶ Law on Territorial Planning, No. I-1120, December, 12, 1995.

<https://www.e-tar.lt/portal/lt/legalAct/TAR.26B563184529/sTmEVvIFTQ>

³⁷ Law on Land tax, 26 April, 1994, No. I-446 (Lietuvos Respublikos Žemės mokesčio įstatymas)

<https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.241270?jfwid=fhhu5mkb8>

purpose prescribed by the agreement. Real estate tax rate varies from 0.3 to 3 percent of the tax value of real estate.³⁸

Other government intervention - Infrastructure development tax for municipalities consists of the following parts: 1) development of social and engineering infrastructure; 2) taking of land for public needs; 3) compensation for servitude. Infrastructure development contribution may be paid by setting up infrastructure in accordance with the agreement concluded with the infrastructure development organization.³⁹ The municipalities council decisions on the support for the development of social and engineering infrastructure and provision published by Vilnius City Municipality Council in 2016 (No. 1-291) define the support for the development of infrastructure.⁴⁰

2.1.2.3 INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Each of the service selected for further analysis has related interventions, enabling the provision of the service. All the interventions, related to regeneration of urban territories, urban planning, and regulation of land, real estate and infrastructure maintenance are presented in the table below.

TABLE 5. INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Name of the service	Type of the service related intervention	Name of the service related intervention	Fiche No.
Regeneration of urban public spaces	Subsidy for improving performance of the public service	Subsidies for regeneration of urban living environment	5
Regeneration of urban brownfields	Subsidy for improving performance of the public service	Subsidies for regeneration of public buildings and conversion of brownfields	4
	Regulation	Land and real estate tax	2
	Regulation	Infrastructure development tax	3
	Regulation	Urban planning	1

Further in this study the information is provided not on services as a whole, but only on service related interventions.

³⁸ Law on Real Estate tax, 07 June, 2005, No. X-233 (Lietuvos Respublikos Nekilnojamojo turto įstatymas)

<https://www.e-tar.lt/portal/lt/legalAct/TAR.B4FAA1DD73CF/kyptrVIMTw>

³⁹ Draft Law Project on Infrastructure Development tax, No. 15-1944, <https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/22bc4db2c1a811e48799bc57840226ce>

⁴⁰ Vilnius municipality council decision on the support for the development of social and engineering infrastructure, No. 1-291, January, 20, 2016. <https://www.vilnius.lt/vaktai/Default.aspx?Id=3&DocId=30275085>

2.1.3 DATA ON SELECTED GOVERNMENT INTERVENTIONS IN LITHUANIAN URBAN REGENERATION AND REVITALISATION SECTOR

This chapter provides portrayal and analysis of the government interventions shortlisted for the in-depth assessment. In the chapter separate fiches for each government intervention, analysis of interventions regarding each of the methodological research criteria are presented.

The fiches for each government intervention below provides the main data on each government intervention, which can be read as a self-standing analysis and is also used in later parts of the study as a basis for the meta-analysis of interventions according to different criteria.

TABLE 6. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN URBAN REGENERATION AND REVITALISATION SECTOR (1)

Title of the intervention		Urban planning
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Regulation
Short description of the intervention		The purpose of urban planning is to design and organise urban space and activities within it. The general plans, master plans, as well as special and other plans, is the precondition for the future physical arrangement of the territory.
Year of the introduction and end, stability of the intervention		1995-up to now. Urban planning (approval and preparation of urban plans) is continuous intervention. Special and detailed plans are being renewed at any time depending on the territory development needs (in the situation under consideration, plans should be developed and approved in order to get permission to redevelop former industrial territories). The master plans is the precondition for the future physical arrangement of the territory.
The broader policy objective to which intervention contributes		To ensure sustainable development of territories and rational urbanization, determining the requirements for the solutions of the spatial planning process and the compatibility and interactions of documents of different levels.
Legal background for the establishment of the intervention		Act on Territorial Planning of the Republic of Lithuania (1995-12-12, I-1120) defines possible uses of land and property, regulations of the use of territories.
The objective of the intervention in relation to the broader policy objective to which the intervention contributes		To create healthy, sustainable living environment in residential areas; to create conditions for private investments that generate social and economic well-being; to coordinate the interests of natural and legal persons/groups, municipalities and the state in terms of the use of territory and the development of the territory.
The objective of the intervention and legal background		To regulate the efficient growth of urban areas. Investors developing former brownfields have to comply with existing requirements and plan their property accordingly. Resolution of the Chairman of the Seimas of the Republic of Lithuania on the General plan of the territory of the Republic of Lithuania, 29 October, 2002, No. IX-1154 (Lietuvos Respublikos Seimo nutarimas dėl Lietuvos Respublikos teritorijos bendrojo plano); Resolutions of the Government of Lithuania on the approval of the master plans of the territories of counties (Vilnius county - No. 1310; Utena county - No. 1318; Telšiai county - No. 1299; Tauragė county - No. 1069; Šiauliai county - No. 1042; Marijampolė county - No. 1298; Kaunas county - No. 672; Alytus county - No. 764 - LR Nutarimai dėl bendrųjų apskričių planų).

Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipal administrations, Ministry of Environment of the Republic of Lithuania, Ministry of Interior of the Republic of Lithuania, National Land service under the Ministry of Agriculture
The main source of financing the intervention	Municipal budget
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Land and real estate owners, construction companies, real estate developers and investors
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission; the intervention provides subjects with necessary infrastructure
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	The Law on Territorial Planning ⁴¹ regulates the planning processes of urban territories. The Law on Territorial Planning ensure sustainable and rational urbanization, while setting the monitoring and evaluation processes of the plans.
Unintended impact of the intervention	Issues of management of urban land are provided to the Ministry of Agriculture and subordinate to the National Land Service under the Ministry of Agriculture of the Republic of Lithuania. From the sustainable urban development policy, such subordination is illogical, as urban land must serve for the successful urbanization process, must ensure the socio-economic needs of the population. Due to the large control and bureaucratic interference of the National Land Service, urban planning becomes longer and more expensive in terms of time and cost-effectiveness.
Main issues related to the implementation of the intervention	The regulation of territorial planning and the formulation of state urban policy are taken care by the Ministry of the Environment, but public interventions in urban development are dispersed through separate ministries. The Law on Territorial Planning declares the municipalities right for planning, but the implementation mechanism is not created, i.e., what is the commitment of the public authorities to participate in the implementation of the plans, as public authorities often confine themselves to imposing restrictions, although they are not compensated, and municipalities are facing financial problems.

⁴¹ Law on Territorial Planning, No. I-1120, 27 September, 2016.
<https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/dde75b13095011e78dadb175b73de379?jfwid=wny8rfncr>

Consistency with other related interventions	The real estate and land taxes are consistent with the government intervention urban planning. If real estate or landowners actually do not meet development requirements in respect to their owned property, they have to pay real estate or land taxes. The real estate and land taxes are used for the maintenance of unattended assets of municipalities. These taxes become a measure for the management of urban planning, and a tool for changes regarding the usability of urban territories, therefore this intervention encourages the general development of urban territories.
Possibilities to replace/withdraw the intervention	Although the Law of territorial planning declares that municipal-level and local-level master plans can be implemented through public-private partnerships through private funds, the implementation of urban planning in municipalities due to incomplete mechanism has failed, i.e., it is not clear what the state's commitment is and how the private sector must contribute to the development of the infrastructure. It is needed to reconceptualise the commitments between the public and private sector.

Source: BGI Consulting et al, 2017.

TABLE 7. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN URBAN REGENERATION AND REVITALISATION SECTOR (2)

Title of the intervention	Land and real estate tax
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	Municipal councils have imposed a mandatory land tax to the budget from the value of the available land and real estate. Land tax is payable by both natural and legal persons who own land by the right of ownership. Real estate tax is calculated, declared and paid by legal and natural persons who are owning the property by the right of ownership.
Year of the introduction and end, stability of the intervention	1992-up to now. The land tax law was introduced in 1992 (article no. I-2675 in the law) (Lietuvos Respublikos žemės mokesčio įstatymas).⁴² In 2005 it was changed regarding the reliefs for the landowners, in cases when they have more than one parcel of land; in 2006 it was declared that the land tax is not applied for persons who have 0-40 percent of working capacity; in the tax period from 2013-2016, the tax value of land is calculated by applying the transitional provisions. From 2017 tax value is set to the average market value of the whole parcel of land. 2005-up to now. The intervention (article no. 233 in the law) was introduced in 2005 by the real estate tax law (Lietuvos Respublikos Nekilnojamojo turto įstatymas)⁴³. In 2006, the percentage of the tax rate was adjusted from 0.3 per cent to 1 per cent of the tax value of real estate. In 2010, the information regarding the status of natural and legal taxpayers was detailed. In 2012, the percentage of tax rate ranged from 0.3 per cent up to 3 per cent of the taxable value of immovable property.

⁴² Law of the Supreme Council of the Republic of Lithuania - Reconstituent Seimas on Land Tax of the Republic of Lithuania, 25 June, 1992, No. I-2675, <https://www.e-tar.lt/portal/lt/legalAct/TAR.D267FBDC094B/NGSVNHYYWKg>

⁴³ Law of the Seimas of the Republic of Lithuania on Real Estate, 7 June, 2005, No. X-233, <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.257650/sZbCxuuRao>

The broader policy objective to which intervention contributes	Land owners have to pay land tax depending on the value of the owned land. Land tax usually gets in the municipal budgets and is an important source of their income, and tax administration costs are usually the responsibility of the central tax authority. Real estate owners have to pay real estate tax depending on the amount of their property in order to finance the public expenditure of the state. Real estate tax usually gets in the municipal budgets and is an important source of their income, and tax administration costs are usually the responsibility of the central tax authority.
Legal background for the establishment of the intervention	Law of the Supreme Council of the Republic of Lithuania - Reconstituant Seimas on Land Tax of the Republic of Lithuania, 25 June, 1992, No. I-2675 (Lietuvos Respublikos žemės mokesčio įstatymas). Law on real estate tax, 07 June 2005, No. X-233 (Lietuvos Respublikos Nekilnojamojo turto įstatymas).
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure the revenue of the land tax as an important source of finance for local governments. Land and real estate taxes can be an efficient tool for economic stabilization, income redistribution and development of new activities in certain municipalities. Law of the Seimas of the Republic of Lithuania on the Land of the Republic of Lithuania, 26 April, 1994, No. I-446 (Lietuvos Respublikos žemės įstatymas); Order of the State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania on the Approval of the Land Tax Administration Rules, 30 September, 2003, No. V-266 (Dėl žemės mokesčio administravimo taisyklių patvirtinimo); Law of the Seimas of the Republic of Lithuania on Tax administration, April 13, 2004, No. IX-2112 (Lietuvos respublikos mokesčių administravimo įstatymas). Law of the Seimas of the Republic of Lithuania on the Income tax, 2 July, 2002, No. IX-1007 (Lietuvos Respublikos gyventojų pajamų mokesčio įstatymas); Law of the Seimas of the Republic of Lithuania on the real estate register, 24 September, 1996, No. I-1539 (Lietuvos Respublikos nekilnojamojo turto registro įstatymas); Resolution of the comission responsible for evaluating the compulsory registration of assets On the determination of the average market prices for immovable and movable property on 1 February 2006, 23 January, 2006, No. 1 (Nutarimas dėl nekilnojamojo ir kilnojamojo turto vidutinių rinkos kainų nustatymo 2006 m. vasario 1d.); Law of the Seimas of the Republic of Lithuania on Tax administration, April 13, 2004, No. IX-2112 (Lietuvos Respublikos mokesčių administravimo įstatymas).
The objective of the intervention and legal background	The real estate and land taxes are used for the maintenance of unattended assets of municipalities. These taxes become a tool for changes regarding the usability of urban territories, therefore this intervention encourages the general development of urban territories. The land tax rate varies from 0.01% to 4% of the taxable value of the land and is set by municipal councils. The object of the tax is private land owned by the natural and legal persons in the Republic of Lithuania, with the exception of forest land and agricultural land in which the forest is established in accordance with the procedure established by laws and other legal acts of the Republic of Lithuania. Taxing the real estate in Lithuania. The real estate tax shall be imposed on immovable property in Lithuania, with the exception of: actually unused immovable property with unfinished construction; immovable property created (acquired) on the basis of public and private partnership, if the public and private partnership agreement is under implementation and this type of property is used for the purpose prescribed by the agreement. Real estate tax rate varies from 0.3 to 3 percent of the tax value of real estate. Law of the Seimas of the Republic of Lithuania on the Land of the Republic of Lithuania, 26 April, 1994, No. I-446 (Lietuvos

	Respublikos žemės įstatymas); Order of the State Tax Inspectorate under the Ministry of Finance of the Republic of Lithuania on the Approval of the Land Tax Administration Rules, 30 September, 2003, No. V-266 (Dėl Žemės mokesčio administravimo taisyklių patvirtinimo); Law of the Seimas of the Republic of Lithuania on Tax administration, April 13, 2004, No. IX-2112 (Lietuvos respublikos mokesčių administravimo įstatymas); Law of the Seimas of the Republic of Lithuania on the Income tax, 2 July, 2002, No. IX-1007 (Lietuvos respublikos gyventojų pajamų mokesčio įstatymas); Law of the Seimas of the Republic of Lithuania on the real estate register, 24 September, 1996, No. I-1539 (Lietuvos respublikos nekilnojamojo turto registro įstatymas); Resolution of the comission responsible for evaluating the compulsory registration of assets On the determination of the average market prices for immovable and movable property on 1 February 2006, 23 January, 2006, No. 1 (Nutarimas dėl nekilnojamojo ir kilnojamojo turto vidutinių rinkos kainų nustatymo 2006 m. vasario 1d.).
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	State tax inspectorate Under the Ministry of Finance of the Republic of Lithuania, Government of Lithuania, Municipal administrations
The main source of financing the intervention	Private funds
Additional sources of financing the intervention	Municipal budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Land owners, real estate investors/owners, private business companies, public institutions, residents, real estate developers
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention imposes charges on subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	Land and Real Estate taxes promotes sustainable urban development. Municipalities have successfully used this right to promote the maintenance of land and buildings. Through the establishment of Land and property taxes, constant monitoring is carried out and it is possible to deal with non-sheltered buildings and territories.
Unintended impact of the intervention	In the Land and Real estate law it is not clearly defined the legal regulation of the land acquisition. There is a lack of clarity in informing the society about the taxation criteria of non-levied property.
Main issues related to the implementation of the intervention	The municipal right of land disposal would be one of the most important interventions that could stimulate business investment in the sustainable development of the city. In practice, the municipalities have limited capacity to exercise it, as it is necessary to obtain a permit from the National Land Service under the Ministry of Agriculture of the Republic of Lithuania (except, if the land is a property of the municipality, however, then it must be used only for the public utilities and public for ES development).

Consistency with other related interventions	The real estate and land taxes are consistent with the government intervention urban planning. If the real estate or land owners do not develop their own property, they have to pay real estate or land taxes. These taxes become a measure for the management of urban planning, and a tool for changes regarding the usability of urban territories, therefore this intervention encourages the general development of urban territories.
Possibilities to replace/withdraw the intervention	As land and real estate taxes are the main source of financing the maintenance of unattended assets and ownerless buildings in the municipalities, there should be clearer taxing criteria of such type of asset whereas there is a lack of transparency regarding the publicity of taxing criteria.

Source: BGI Consulting et al, 2017.

TABLE 8. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN URBAN REGENERATION AND REVITALISATION SECTOR (3)

Title of the intervention	Infrastructure development tax
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	Infrastructure development tax is a one-time tax, collected from natural and legal persons in seeking to provide the support for municipalities which are responsible for the cities infrastructure.
Year of the introduction and end, stability of the intervention	2015 (the year of submission of the draft law) The intervention (No. 15-1944) was published in 2015, however the law came into force in 2018. The implementation of intervention is applied in accordance with the acts of municipal councils.
The broader policy objective to which intervention contributes	Management and regulation of social and engineering infrastructure development in order to ensure the development of municipal infrastructure that meets public needs, enabling facilities for natural and legal persons to use engineering networks and social infrastructure.
Legal background for the establishment of the intervention	The law on the Development of Infrastructure of Municipalities of the Republic of Lithuania is not yet approved. There exist only draft version of this law (Lietuvos Respublikos savivaldybių infrastruktūros plėtros įstatymo projektas, 3 March 2015, No. 15-1944).
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	Taxing the development of infrastructure. Infrastructure development tax of municipalities consists of the following parts: 1) development of social and engineering infrastructure; 2) taking of land for public needs; 3) compensation for servitude. Infrastructure development contribution may be paid by installing infrastructure in accordance with an agreement concluded with the infrastructure development organization. The municipalities council decisions on the support for the development of social and engineering infrastructure and provision published by Vilnius City Municipality Council in 2016 (No. 1-291) define the support for the development of infrastructure.
The objective of the intervention and legal background	To finance the infrastructure of municipalities. The main objective of the intervention is the compensation of the part of the infrastructure development costs incurred by the initiators of infrastructure development and to satisfy new needs for the development of social and engineering infrastructure.

	The municipalities council decisions on the support for the development of social and engineering infrastructure and provision published by Vilnius City Municipality Council in 2016 (No. 1-291) define the support for the development of infrastructure.
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Ministry of Environment of the Republic of Lithuania, Municipal administrations
The main source of financing the intervention	Municipal budget
Additional sources of financing the intervention	State budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Real estate investors, construction companies, residents, real estate developers
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention requires certain actions from subjects; the intervention imposes charges on subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	As it exists the draft version of infrastructure development tax, there is no law regulating the collection of the infrastructure tax in Lithuania currently. The development of public infrastructure and related interventions cannot be practiced transparently and legally to attract private funds, because there is no well-established legal practical model.
Unintended impact of the intervention	The absence of a clear legal framework for infrastructure development tax negatively affects consumers. Very often the real estate developers do not pay the infrastructure tax, or attempts to present it as a particular service without clear taxation policy for residents, or business persons who are issued a permit for new construction, as well as for the reconstruction of buildings or overhaul, and this fee becomes as a certain service, which actual price is not defined.
Main issues related to the implementation of the intervention	The Ministry of the Environment has coordinated initiation and drafting of Infrastructure Development Tax since 2007, but so far, it's still in a draft phase. The main reason for the failure to introduce infrastructure development tax is the absence of realistic calculation of the need for the funds for developing a specific territories and it's methodology. It is the result of ineffective trans institutional cooperation where different branch ministries responsible for public infrastructure related issues and the Ministry of Environment responsible for the integrated sustainable development do not reach a consensus on the issues discussed. Therefore, an ad-hoc solution was found to introduce symbolic support requirement for the development of social infrastructure and the establishment of the necessary infrastructure for the development of existing networks. The absence of clear regulation has created tensions between private sector and municipalities as the private sector expects municipalities to develop infrastructure of urban areas.
Consistency with other related interventions	The absence of infrastructure development regulation and taxation is inconsistent with urban planning. Legal framework of infrastructure development tax is not developed. That leads

	to the deficit financial resources for the development of infrastructure at municipal level.
Possibilities to replace/withdraw the intervention	It is important to introduce the Law on Infrastructure Development. Additionally, it is urgently needed to amend the Law on Charges broadening possibility for municipalities to collect the local charges on the development of public infrastructure. The introduction of the Law must be accompanied by the development of implementation framework encompassing required registers and practical tools of setting the charges. It might be considered allowing to independently set and administer local taxes for all the municipalities in order to have greater financial autonomy, and, at the same time, a prospect of activity and financial resources, creating the welfare for local people, promoting entrepreneurship and creating new jobs.

Source: BGI Consulting et al, 2017.

TABLE 9. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN URBAN REGENERATION AND REVITALISATION SECTOR (4)

Title of the intervention	Subsidies for regeneration of public buildings and conversion of brownfields
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving the performance of the public service
Short description of the intervention	ESIF funded measures are aimed at providing subsidies for the regeneration of previously developed land or buildings that is not currently in use, and for regeneration of public buildings, underused public premises that can be better adjusted to the need of communities. Commonly, the subsidies contribute to the preparation of state/municipal owned land/buildings for the private investments.
Year of the introduction and end, stability of the intervention	2014-2023 The implementation of the intervention depends on ESIF allocations.
The broader policy objective to which intervention contributes	To create the conditions for increasing employment of the population in the targeted urban/rural territories and to promote social and economic development.
Legal background for the establishment of the intervention	Operational Programme for EU Structural Funds Investments for 2014-2020, September 2014, CCI, (2014-2020 m. Europos Sąjungos fondų investicijų veiksmų programa)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To develop public infrastructure and deprived territories for communities facing social problems, especially in smaller towns where elder people, children and other community members have very limited supply of leisure, social activities; to prepare the territories for further development as a significant support for business entities aiming at property development.
The objective of the intervention and legal background	To invest in the renovation of public buildings infrastructure and into the regeneration of unused industrial, commercial areas, and into the conversion of abandoned buildings owned or controlled by the municipality in damaged territories. Order of the Minister of the Ministry of Interior of the Republic of Lithuania on terms of the project financing (measures No. 07.1.1-CPVA-V-902; No. 07.1.1-CPVA-R-903 No. 07.1.1-CPVA-R-905; No. 07.1.1-CPVA-R-904; No. 08.2.1-CPVA-R-908) (LR Vidaus reikalų ministro patvirtinti finansavimo sąlygų aprašai); Operational Programme For The European Union Funds' Investments In 2014-2020, TO4. Supporting the shift towards a low-carbon economy in all sectors.
Level of body responsible for policy formation	National level

Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Central Project Management Agency, Municipal administrations, Ministry of Interior of the Republic of Lithuania, VIPA
The main source of financing the intervention	ESIF Funds
Additional sources of financing the intervention	State budget, Municipal budget, potential of private (in case of FI)
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Public administration institution (-s) directly; Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	Project contest
Other means of receiving the intervention for public providers	Regional planning
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the order accepted by each municipality
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	The intervention has positive impact for the regeneration of urban infrastructure in the target territories. The regeneration attract more private investors to the unused urban spaces. The modernisation of public buildings improves the delivery process of social and community services in the target territories. The renovated buildings become new centres for the education, social work or business activities. The conversion of urban brownfields aimed at increasing the integrity of the functional and physical structure of cities and other residential areas; creation of environment favourable for investments; creation of conditions for renewal of the environment, housing, communication system and engineering equipment in the urbanized part of the residential area (Bielinskas, V., Burinskienė, M. 2015)⁴⁴. The conversion of underused infrastructure aims at the adoption of urban spaces to the needs of various groups of society – urban communities or investors and on the same time, it is a part of regeneration of public infrastructure. The conversion of urban brownfields is characterized by the complex solutions designed to manage urban or large areas, encouraging brownfields to be restored.
Unintended impact of the intervention	According to urban policy experts, the interventions applied under the ESIF support for urban regeneration often does not create added socioeconomic value. It improves the quality of the environment (buildings, parks etc.), although the cities and towns are affected by migration flows, there predominate aging population, lack of initiative residents. The ESIF support should increase it's focus to specific urban and regional needs.
Main issues related to the implementation of the intervention	This intervention is applied under the ESIF support which does not always correspond to regional needs. In addition, the use of ESIF funds was not timely, mostly aiming at the investment into

⁴⁴ Bielinskas, V., Burinskienė, M. Influence of the Brownfield Conversion on Evaluating Real Estate and Implementing the Possibilities of Urban Brownfields in Lithuanian Cities. Science – Future of Lithuania. 2015

	developing technical infrastructure, but social inclusion and job creation. There are a few measures in the period of 2014-2020 under which funds can be allocated to urban revitalisation projects. Under the measure "Complex development of cities" (No. 07.1.1-CPVA-R-905) there were 33 contracts signed for non-refundable subsidy for the target territories with 6 to 100 thousand residents, and smaller municipalities. The amount of funding was EUR 107 380 029⁴⁵. Under the measure "Complex development of the large cities" (No. 07.1.1-CPVA-R-904) there were 21 contracts signed for non-refundable subsidy for the large cities of Lithuania. The amount of funding was EUR 150 653 517⁴⁶. The main renovation objects were historical and cultural objects of large cities, and territories around. Under the measure "Rural residential renewal" (No. 08.2.1-CPVA-R-908) there were 13 contracts signed, amounting to – EUR 52 003 830⁴⁷. The main supported activities were regeneration of the urban infrastructure and the conversion of underused buildings in small towns and rural areas with a population of 1 to 6 thousand, with the exception of municipal centres. Two measures "Development of transitional target territories I" (07.1.1-CPVA-V-902) amounting to EUR 7 879 367⁴⁸ and "Development of transitional target territories II" (07.1.1-CPVA-R-903) amounting to – EUR 6 144 971⁴⁹ were channelled for the conversion of urban brownfields and general development of urban infrastructure.
Consistency with other related interventions	EU support for revitalisation of urban territories is consistent with the urban planning. All the measures funded under EU support are designed in respect to the existing legislative documents, which define urban planning at national level.
Possibilities to replace/withdraw the intervention	It is important to ensure and empower municipalities to promote new regeneration initiatives, as the sociodemographic situation in the municipalities is very diverse and the state level interventions may not always tackle all aspects of local situation.

Source: BGI Consulting et al, 2017.

TABLE 10. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN URBAN REGENERATION AND REVITALISATION SECTOR (5)

Title of the intervention	Subsidies for regeneration of urban living environment
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving the performance of the public service
Short description of the intervention	ESIF funded measures are aimed at providing subsidies for regeneration of urban living environment. Renovation of parks, public squares, development of pedestrian and cycling networks, lighting infrastructure, development of small-scale community infrastructure (e.g. playgrounds, car-parking areas).
Year of the introduction and end, stability of the intervention	2014-2023 The implementation of the intervention depends on ESIF allocations.

⁴⁵ Information about the measure „Complex development of cities“. 2014-2020 European Union Investment in Lithuania: http://www.esinvesticijos.lt/lt/patvirtintos_priemones/miestu-kompleksine-pletra

⁴⁶ Information about the measure „Complex development of large cities“. 2014-2020 European Union Investment in Lithuania: http://www.esinvesticijos.lt/lt/patvirtintos_priemones/didziuju-miestu-kompleksine-pletra

⁴⁷ Information about the measure „Rural residential renewal“. 2014-2020 European Union Investment in Lithuania: http://www.esinvesticijos.lt/lt/patvirtintos_priemones/kaimo-gyvenamuju-vietoviu-atnaujinimas

⁴⁸ Information about the measure „Development of transitional target territories. I“ 2014-2020 European Union Investment in Lithuania: http://www.esinvesticijos.lt/lt/patvirtintos_priemones/pereinamojo-laikotarpio-tiksliniu-teritoriju-vystymas-i

⁴⁹ Information about the measure „Development of transitional target territories. II“ 2014-2020 European Union Investment in Lithuania: http://www.esinvesticijos.lt/lt/patvirtintos_priemones/pereinamojo-laikotarpio-tiksliniu-teritoriju-vystymas-ii

The broader policy objective to which intervention contributes	To create the conditions for increasing employment of the population in the targeted territories and to promote social and economic development.
Legal background for the establishment of the intervention	Operational Programme for EU Structural Funds Investments for 2014-2020, September 2014, CCI, (2014-2020 m. Europos Sąjungos fondų investicijų veiksmų programa)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To balance the internal migration and tackle labour mobility problems through improvement of the living environment by focusing investments around the specific target territories, by forming the demand for local business in those territories and enhancing their attractiveness for private investments.
The objective of the intervention and legal background	To invest in the improvement of the living environment in residential districts, by setting up or renovating small-scale community infrastructure, cleaning the environment, investing in green infrastructure and accessibility of these territories (e.g. walking and cycling paths). Order of the Minister of the Ministry of Interior of the Republic of Lithuania on terms of the project financing (measures No. 07.1.1-CPVA-R-903; No. 07.1.1-CPVA-V-902; No. 07.1.1-CPVA-R-904; No. 07.1.1-CPVA-R-905; 08.2.1-CPVA-R-908) (LR Vidaus reikalų ministro patvirtinti finansavimo sąlygų aprašai); Order of the Minister of the Ministry of Interior of the republic of Lithuania the Approval of the Guidelines for the Development and Implementation of the Integrated Territory Development Programs (No. 1V-480) (LR Vidaus Reikalų Ministro Įsakymas dėl Integruotų Teritorijų Vystymo Programų Rengimo ir Įgyvendinimo Gairių Patvirtinimo).
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Central Project Management Agency, Municipal administrations, Ministry of Interior of the Republic of Lithuania
The main source of financing the intervention	ESIF Funds
Additional sources of financing the intervention	State budget, Municipal budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Public administration institution (-s) directly; Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	Project contest
Other means of receiving the intervention for public providers	Regional planning
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the order accepted by each municipality
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	The impact of the intervention is positive for the inhabitants of the target territories, as regeneration of urban infrastructure is aimed at improving their living conditions. The main tasks of intervention are related with the technical development of infrastructure, as reconstruction of city streets lighting system, reconstruction of small architecture in the target territories. Only pilot projects in the EU-supported problematic urban areas are being implemented by applying this intervention. This

	involves mostly an EU-funded Integrated Territory Development Program in urban areas ⁵⁰ .
Unintended impact of the intervention	The investment programs are oriented towards the management of public areas of the city, including the renovation of the infrastructure of the recreational areas and the regeneration of abandoned urban areas. This content of investment programs is broadly in line with the aim of improving the quality of life and the environment and, in theory, is consistent with the intention to increase investment attractiveness. However, that kind of investment programs can only limitedly contribute to the objective of the Lithuanian regional policy strategy until the 2030⁵¹: to create favourable, active, safe, healthy and attractive life and work preconditions throughout Lithuania. Evaluators do not see grounds for claiming that the content of investment programs is inappropriate for achieving the goals set out in the strategy, but the current setup of investment programs reflects only one of the many components needed to achieve the goals pursued by the strategy without taking into account social and demographic aspects. In addition, the use of EU funds did not fully correspond to the complexity of the needs as most of the investments were aimed at developing technical infrastructure, but social exclusion and job creation indicators were not fully achieved.
Main issues related to the implementation of the intervention	The greater share of the projects aims at the regeneration of infrastructure and public spaces, as parks, squares, streets. This intervention has positive impact for the business activities, as the urban areas are prepared for the new investments and work places: by cleaning the environment, building up bike or pedestrian paths. Under the measure "Rural residential renewal" (No. 08.2.1-CPVA-R-908), all the projects were directed for the regeneration of infrastructure of residential urban environment (streets, parks, squares). Under the measure "Complex development of cities" (No. 07.1.1-CPVA-R-905), many projects were aimed at the renovation of the infrastructure of residential districts. Under the measure "Complex development of the large cities" (No. 07.1.1-CPVA-R-904), the biggest part of the non-refundable subsidies was provided for the regeneration of urban infrastructure near the main cultural objects, public parks.
Consistency with other related interventions	EU support for revitalisation of urban territories is consistent with the urban planning. All the measures funded under EU support framework are designed in correspondence to the existing legal documents, which define urban planning at national level.
Possibilities to replace/withdraw the intervention	It is suggested to allow for all the municipalities to independently set and administer local real estate related taxes and charges. That would lead to greater financial autonomy, and, at the same time, to promotion of entrepreneurship and creating new jobs. It is anticipated to introduce measures developed by local municipalities, for example: Programs for the renewal of Vilnius city public spaces and promotion of neighbourhoods.⁵²

Source: BGI Consulting et al, 2017.

⁵⁰ Order of the Minister of the Ministry of Interior of the republic of Lithuania the Approval of the Guidelines for the Development and Implementation of the Integrated Territory Development Programs (No. 1V-480):

<https://www.e-tar.lt/portal/lt/legalAct/1976782008fd11e4adf3c8c5d7681e73/CNvXEzeudI>

⁵¹ National Regional Development Policy under the Ministry of Interior of the Republic of Lithuania, White Paper on Lithuanian Regional Policy for sustainable development, 2017

⁵² Description by Vilnius City Municipal Council, the Implementation of the Vilnius City Region of the Neighbourhood Territories, 4, July, 2017, No. 1-1058 : <https://www.vilnius.lt/vaktai2011/Defaultlite.aspx?id=3&DocId=30296533>

2.1.3.1 SUPPLY SIDE: QUALITY OF PLANNING OF SELECTED INTERVENTIONS

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

TABLE 11. QUALITY OF THE PLANNING OF THE URBAN REGENERATION AND REVITALISATION SECTOR SERVICES RELATED INTERVENTIONS IN LITHUANIA

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Regeneration of urban public spaces	Subsidies for regeneration of urban living environment	√	√	N/A	√	√	√	GOOD
Regeneration of urban brownfields	Subsidies for conversion of urban brownfields and public buildings	√	√	x	√	√	√	GOOD
	Land and real estate tax	√	x	N/A	√	√	√	AVERAGE
	Infrastructure development tax	x	x	N/A	√	x	x	POOR
	Urban planning	x	x	N/A	√	√	√	AVERAGE

Source: BGI Consulting et al, 2017.

In total, there are 5 service related interventions identified in Lithuanian Urban regeneration and revitalisation sector. The planning of the urban regeneration and revitalisation services related interventions is estimated to be average. Subsidies for regeneration of urban living environment, for conversion of urban brownfields and public buildings were planned well. The documents related to the ESI funds lay down clearly the formal requirements for the allocation of funds, including the period of implementation of the intervention, eligible costs, output and outcome indicators, etc. In situations where estimated results cannot be planned in advance, for example the amount of total revenue, project beneficiaries are obliged to provide necessary information in their applications, which is recorded in the EU funds management database. It can be argued that during the planning process on national level the demand of the interventions was not taken into account properly since all the funds were simply distributed among eligible cities/towns that constitute a great proportion of all cities/towns in Lithuania. On the other hand, on municipal level, decisions where to allocate the ESI funds are taken according to the local demand. In addition, the use of ESIF funds was lagging behind the complexity of the measures, most

of the investments were aimed at developing technical infrastructure, but social inclusion and job creation indicators were not always achieved.

The interventions of urban planning, real estate and land tax were assessed as being planned averagely. The period of the implementation of service related interventions, as well as types of costs and amount of costs of the implementation of interventions were not defined. Urban planning (approval of urban plans) is continuous intervention. There is no concrete implementation period for this intervention, as special and detailed plans are being developed and renewed on constant basis depending on the territory development needs.

Intervention of infrastructure development tax at the municipal level was assessed as planned poorly. The intervention lacks legal maturity as there is no legal regulation for the infrastructure development tax which could define the possible types and amounts of cost, implementation period, foreseen amount of intervention set.

2.1.3.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF SELECTED INTERVENTIONS

Firstly, the overall demand of such interventions as subsidies for regeneration of the public buildings and brownfields, subsidies for regeneration of urban living environment is not met by the overall supply. Since the main source of funding is the ESIF support, interventions are not universal and funds are allocated only to limited number of territories. The efficiency of the delivery of these interventions is of a poor quality. The interventions are applied for limited population; ESIF support as the state intervention often does not create added socio-economic value by improving the quality of the environment, aging population, lack of exclusive/specific (e.g. aging society needs for health, leisure) initiatives; the share of the funds of the intervention that is attributed to public providers is 100 per cent.

Secondly, even though both interventions in question comply with the formal requirements of the territory planning (e.g. safety, accessibility requirements, proportion and type of green spaces), spatial and design solutions, materials used do not have clear standards, thus the quality of renewed public spaces, buildings or brownfields varies. The main reason causing insufficient quality of the interventions is insufficient investment and the lack of expertise. The measures are currently being planned and implemented to improve the urban environment, revitalisation of cities, regeneration and decontamination of brownfield sites (including conversion areas), to support employment-friendly growth through the development of endogenous potential as part of a territorial strategy for specific areas, including the conversion of declining industrial regions and enhancement of accessibility to, and development of, specific natural and cultural resources.⁵³ It is expected that by 2020 there will increase the employability of residents of target territories and socio-economic development in these territories.

The quality of urban planning intervention is medium due to lack of institutional collaboration because the regulation of territorial planning and the formulation of state urban policy are taken care by the Ministry of the Environment, but the public interventions in urban development are dispersed through separate ministries. The implementation mechanism for urban planning is not created, i.e., the commitment of the public authorities to participate in the implementation of the plans often confine them by imposed restrictions, not effective compensation mechanisms scarcity of financial resources.

⁵³ Operational Programme for the European Union Funds' Investments in 2014-2020.

It's difficult to evaluate the efficiency of government intervention – infrastructure development tax for municipalities as it is still not enacted. Although, according to the Law on Territorial Planning, it is foreseen that territories may be developed by private incitement rights, but the procedure has not yet been established. Therefore, there are not clear implementation period defined, the types of costs and amount of costs are not defined, and the results for the implementation of the intervention is not defined. With the implementation of infrastructure development tax the development of municipal infrastructure will be ensured, enabling residents and enterprises to use networks, communication and social infrastructure under acceptable conditions.

Finally, the efficiency of service related interventions is of a medium or rather poor quality. The interventions exercised through public bodies only.

2.1.3.3 SUPPLY SIDE: ADDITIONALITY OF SELECTED INTERVENTIONS

The aim of the subsidies for the regeneration of public buildings and conversion of urban brownfields as a part of the regeneration of urban brownfields services is to optimise the usage of public infrastructure. That is, most of the projects dedicated to renovation of public buildings seek to create single space that can accommodate various community service providers instead of the maintenance of the number of separate premises. It is important for residents' well-being and it will contribute to the better quality of life, however its impact on increase in number of jobs is very limited. The subsidies provided for regeneration of public buildings and conversion of urban brownfields is firstly aimed at attraction of business that afterwards are expected to contribute to growth of employment, though the significance of impact on the size of workforce highly depends on specific conditions as well as types and locations of brownfields, the modernisation of public buildings improves the delivery process of social and community services in the target territories. Also, it should be considered that companies coming to the former brownfields may only change their location, instead of creating new workplaces, thus lowering possible outcome additionality.

The subsidies for the regeneration of living environment may encourage some new businesses and therefore contribute to the new jobs as well; however, considering the small scale of possible new businesses (cafes, leisure centres) the impact on overall employment is estimated to be modest. These subsidies are aimed at balancing the internal migration and tackling labour mobility problems through improvement of the living environment by focusing investments around the specific target territories, by forming the demand for local business in those territories and enhancing their attractiveness for private investments.

The urban regeneration and revitalisation sector related interventions have an impact on the capital investment as well. The impact on capital investment prompted by the ESIF funding for regeneration of urban living environment is mostly visible during the project implementation phase. After the project is finished, the capital investment decreases while potential to attract investments into revitalised parts of the cities/towns depends on multiple circumstances. The impact on more sustainable capital investment is significant in terms of subsidies for urban brownfields' conversion. Public funds are allocated to the land clearing and development of basic infrastructure, while all further investments (to property development, equipment, and services) are coming from private funds. The successfully planned urban brownfield revitalisation project has a high potential to attract significant private investments.

The real estate and land taxes get in the state budget and they are an important source of state income, and tax administration costs are usually the responsibility of the central tax authority. These taxes can be an efficient tool for economic stabilization, income redistribution and development of new activities in certain municipalities. The municipalities are responsible for the development of infrastructure, therefore these taxes should be allocated to local governments. The positive impact of the tax is related with the wider

possibilities to financing the development of public infrastructure (as, street lighting, pavement construction).

2.1.3.4 SUPPLY SIDE: SIDE-EFFECTS OF SELECTED INTERVENTIONS

The implementation of Urban regeneration and revitalisation initiatives has a number of side-effects on target groups. Firstly, the regeneration of public living environment encourages activities initiated by residents or community members rather than institutions. Public spaces are used for community gatherings, new activities, events which can be associated with social innovation. On the contrary, the subsidies for revitalisation of urban brownfields can impel private investors that are chosen to develop brownfield site further to postpone their investments since the initial phase was financed by the public funds and investors do not experience any pressure in terms of investment payback.

The subsidies for the regeneration of public buildings and brownfields intervention may cause positive as well as harmful effect to the natural environment. Positive side-effects on the natural environment occur firstly because of the regeneration of the urban brownfields, especially if brownfield land is contaminated from previous industrial use and regeneration project is associated with land clearing. Though the subsidies for the regeneration of urban public spaces can increase pressure on the natural resources since renewed parks or other green spaces attract more visitors and activities which may cause deterioration in the natural condition. However, generally the possible negative impact on the natural environment is outweighed by the positive one in terms of improved maintenance (e.g. planting, watering, and cleaning).

The negative effect of the urban planning intervention due to the large control and bureaucratic interference of the National Land Service, becomes longer and more expensive in terms of time and cost-effectiveness. The negative side-effect of Infrastructure development tax for municipalities related with the negative impact for consumers because developers get away from paying this tax, or try to present it as particular service, which price is not clear. Based on the information gathered during expert interviews, a solution was found to ask for symbolic support for the development of social infrastructure and the establishment of the necessary infrastructure for the development of existing networks.⁵⁴

2.1.3.5 DEMAND SIDE: IMPACT OF SELECTED INTERVENTIONS ON AFFORDABILITY OF THE SERVICE

The urban regeneration and revitalisation interventions in question are targeted firstly for the residents of cities and towns participating in integrated development initiative financed by the ESIF. The overall demand for urban regeneration interventions is significantly bigger than supply, since revitalisation of living environment is a gradual process. However, the accessibility to renewed parts of the cities and towns is ensured for all the inhabitants and tourists. Even more, since the vast majority of urban regeneration projects are implemented in downtown areas or historic centres, many inhabitants regardless of their actual place of residence are using the revitalised public spaces.

⁵⁴ There are a lot of debates regarding the urban infrastructure tax in Lithuania. Due to lack of valid legislative document, the real estate developers are paying the taxes in a form of sponsorship (based on Republic of Lithuania Law on Charity and Sponsorship, No. I-172, 4 June, 1993, <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.253980?ifwid=rivwzvvpvg>)

2.1.3.6 CONSISTENCY OF SELECTED INTERVENTIONS

The real estate and land taxes are consistent with the government intervention urban planning. If the real estate or land owners do not develop their owned property, they have to pay varying real estate or land tax. These taxes become a measure for the management of urban planning, and a tool for changes regarding the usability of urban territories, therefore this intervention encourages the general development of urban territories. ESIF support for revitalisation of urban territories is consistent with the urban planning. All the measures funded under ESIF support are designed in respect to the existing legislative documents which define urban planning at national level. The absence of infrastructure development tax of municipalities is inconsistent with urban planning. As in Lithuania, there are not approved legal documents for infrastructure development tax for municipalities, they do not have enough of financial resources for development of infrastructure.

2.1.4 CONCLUSIONS AND RECOMMENDATIONS ON THE GOVERNMENT INTERVENTIONS IN THE LITHUANIAN URBAN REGENERATION AND REVITALISATION SECTOR

Policy formation in the urban revitalisation and regeneration sector is in the disposition of Ministry of Interior, Ministry of Environment and Ministry of Economy. Other important institutions at the policy implementation level are National Land Service under the Ministry of Agriculture and Municipal institutions, Regional Development Councils under the Ministry of the Interior. The regulation of territorial planning and the formulation of state urban policy is taken care of by the Ministry of the Environment, but state interventions in urban development are dispersed through separate ministries. The Ministry of Interior is responsible for the implementation of region projects financed by ESIF, related with the regeneration of urban territories. Municipal level strategies address the integrated urban development goals by promoting the enhancement of urban potential by developing public infrastructure. Currently ESIF support for the regeneration of urban territories is allocated in a centralised way. The interventions as Subsidies for regeneration of urban living environment and Subsidies for conversion of urban brownfields and public buildings are applied under the ESIF support and should be distributed taking into account the needs and specificities of the regions, e.g., decline in population, aging society, lack of initiative residents in cities and towns.

Detailed urban planning objectives should be defined depending on the local situation, e.g. the particular urban territory can be distinguished as expanding (the number of inhabitants and number of jobs are increasing) or the territory is shrinking (the scale of emigration is wide; the fertility rate is low). According to urban policy experts, the interventions applied under the ESIF support for urban regeneration often does not create added socioeconomic value. It improves the quality of the environment (buildings, parks etc.), although the cities and towns are affected by migration flows, there predominate aging population, lack of initiative residents. When planning ESIF support for urban regeneration, it should be more aimed at specific regional needs.

The using of ESIF support lacks of complexity as most of the investments are allocated to the development of technical infrastructure, but social inclusion and job creation indicators are not always achieved. In terms of the division of responsibilities, municipalities should be given more rights when making decisions regarding the procedures for urban planning, taxing or initiating new urban interventions in particular cities or towns.

According to experts, the investment programs are oriented towards the management of public areas of the cities, including the renovation of the infrastructure of the recreational areas and the regeneration of abandoned urban areas. The investment programs are broadly in line with the aim of improving the quality of life and the environment and, in theory, is consistent with the ambition to increase investment attractiveness. However, the current setup investment programs can only very limitedly contribute to the objective of the Lithuanian regional policy strategy until the 2030: to create favourable, active, safe, healthy and attractive life and work preconditions throughout Lithuania. Evaluators do not see grounds for claiming that the content of investment programs is inappropriate for achieving the goals set out in the strategy, but the status of investment programs reflects only one of the many components needed to achieve the goals pursued by the strategy without taking into account social and demographic aspects.

The planning of the interventions. The planning assessed as average in respect to the interventions of Subsidies for regeneration of urban living environment and Subsidies for regeneration of public buildings and conversion of brownfields. In addition, the use of ESIF funds did not correspond to the complexity of the needs as most of the investments were aimed at developing technical infrastructure, whereas social inclusion and job creation aims were given a secondary priority.

The government intervention Infrastructure development tax assigned to service Regeneration of urban brownfields was assessed poorly planned. As the legal basis of the intervention is still in the drafting phase, the legal regulation for the infrastructure development tax defining possible types and amounts of costs, implementation period, and extent of the intervention is still not defined⁵⁵. It is important to adopt the Law on Infrastructure Development and to amend the Law on Tax Administration⁵⁶ in order set the basis for municipalities to collect the local tax on the development of public infrastructure.

The planning of government intervention Urban planning is ineffective due to the uncertainty of responsibilities and obligations in respect to contributions to the development of infrastructure and planning activities by public and private sectors.

Efficiency of the interventions provision. Since the main source of funding of the interventions Subsidies for regeneration of urban living environment and Subsidies for regeneration of public buildings and conversion of urban brownfields is the ESIF, interventions are not universal and funds are allocated only to limited number of territories. These interventions are applied for limited population as well. The support for regeneration of urban territories should be aimed at targeted regions depending on sociodemographic characteristics.

Although the Law of territorial planning foresees that municipal-level and local-level master plans can be implemented through public-private partnerships through private funds, the implementation of intervention Urban planning in municipalities due to incomplete mechanism has failed, i.e., it is not clear what the state's commitment is and how the private sector must contribute to the development of the infrastructure. It is needed to reconceptualise the commitments between the public and private sector. As well, the lack of the implementation of efficiency of urban planning intervention exist due to absence of the infrastructure development tax which could regulate all the issues related with the taxing policy of infrastructure in different municipalities.

Side-effects of the interventions. The implementation of urban regeneration and revitalisation interventions have a number of side-effects on target groups. The subsidies for regeneration of public

⁵⁵ The draft version of Infrastructure Development Tax Law, No. 15-1944, 3, March, 2015.

<https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/22bc4db2c1a811e48799bc57840226ce>

⁵⁶ Republic of Lithuania Law on Tax Administration, No. IX-2112, 16, June, 2005.

<https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.276549?jfwid=wny8rknac>

buildings and regeneration of urban brownfields can impel private investors that are chosen to develop brownfield site further to postpone their investments since the initial phase was financed by the public funds and investors do not experience any pressure in terms of investment payback. The subsidies for the conversion of urban brownfields and regeneration of public buildings can increase pressure on the natural resources since renewed parks or other green spaces attract more visitors and activities which may cause deterioration in the natural condition.

Finally, the negative effect of the urban planning intervention manifests itself by the excessive control and bureaucratic interference of the National Land Service, what translates into procedural prolongations and increased administrative expenses. Generally, the municipalities in Lithuania cannot exercise the right to of land disposal. That's limited by permission requirements imposed by the National Land Service⁵⁷. As urban policy experts have claimed, the liberalisation of municipal rights of land disposal would be one of the most important interventions' improvement that could stimulate business investment and the sustainable development of the city.

2.1.5 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

This chapter presents the analysis of the potential for the implementation of financial instruments in the two Lithuanian Urban regeneration and revitalisation sector's services selected for the in-depth analysis:

- Regeneration of urban public spaces;
- Regeneration of urban brownfields.

2.1.5.1 REGENERATION OF URBAN PUBLIC SPACES

TABLE 12. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN REGENERATION OF URBAN PUBLIC SPACES SERVICES

Criteria	FI potential
Pricing system	Free of charge
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)
Market potential	Limited potential development of (more) paid services
Accountability	Performance framework
Capacity	Qualitative standards partially met

Source: BGI Consulting et al, 2017.

⁵⁷ Information about the activities and regulated areas of Nacional Land service under the Ministry of Agriculture of the Republic of Lithuania: <http://www.nzt.lt/go.php/eng/About-us/22>

PRICING SYSTEM

The service is free of charge. Additional revenues are generated to some extent by other subsidiary services (e.g. paid parking) and renting to external operators, however each covering a limited share (i.e. less than 25 percent) of total annual costs of the original service provision. The regeneration of urban living environment generates additional revenues when newly parking systems are developed in urban territories.

REGULATORY AND GOVERNANCE FRAMEWORK

Local governments are responsible for provision of the service. Private entities are, at times, involved in service provision in cases of renewing public spaces or private spaces opened to public use (e.g. some parks and squares near private buildings are open for the society). These regenerations of urban public spaces are implemented as government interventions when applying ESIF investments. Major obstacle to enter the market for private entities consists in the gratuity of the service and, consequently, small possibility of direct revenues.

MARKET POTENTIAL

The service covers around 2.2 million local inhabitants of target territories (i.e. main cities, small towns between one and six thousand inhabitants, towns between six and 100 thousand inhabitants, etc.). Market share of public entities is above 66 percent. The demand does not meet the overall supply. There is potential for further development of revenue through increasing the scope of existing activities, taking advantage of the renewed infrastructure to attract more small businesses and initiatives that could rent public infrastructure for their needs (e.g. cafes, local markets, outdoor/indoor events, services for inhabitants and tourists such as bicycle rental system).

ACCOUNTABILITY

The strategy of intervention is clearly defined, even though clear long-term national vision is missing; policy objectives of the service and related targets are provided as well. Short-term and long-term objectives are consistent.

CAPACITY

The public service partially complies with the qualitative standards, also due to lack of expertise. There are neither expected transfers of functions nor internal changes in the authorities taking place.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

More revenue could be generated, in specific locations, by taking advantage of the renewed infrastructure to attract more small businesses and initiatives that could rent public infrastructure for their needs (e.g. cafes, local markets, outdoor/indoor events, services for inhabitants and tourists such as bike rental).

Considering the highly restrict capacity of revenue generation currently seen in the regeneration of urban public spaces, bundling with other projects that can generate revenue is key to FI potential.

2.1.5.2 REGENERATION OF URBAN BROWNFIELDS

TABLE 13. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN REGENERATION OF URBAN BROWNFIELDS SERVICES

Criteria	FI potential
Pricing system	Free of charge
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)
Market potential	Potential increase of revenue (through increase of tariffs to private entities operating on public-owned infrastructure)
Accountability	Performance framework
Capacity	No clear qualitative standards

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

The service is free of charge. Revenue is generated by the provider to a certain extent by renting/selling the infrastructure created to external operators (i.e. depending on specific project, state can own the brownfield land and rent it for private investors after the cleaning/infrastructure development project is implemented). The rent of specific infrastructure could be implemented as government intervention by applying subsidies for regeneration of urban brownfields. However, the rent fee is usually quite low in comparison to allocated total funds and the investment payback period is long, with minor exceptions in some major cities where sites present more attractiveness for investments.

REGULATORY AND GOVERNANCE FRAMEWORK

Local governments dominate the service provision. There are a number of private entities in the property sector present, developing real estate projects in former industrial/abandoned territories. No major obstacles restrict private entities to enter the market. Note that public entities providing the service have a right to introduce new regulations/requirements related with service provision or customer's rights (e.g. introducing new fees).

MARKET POTENTIAL

The service provision is aimed at private businesses/enterprises, in order to stimulate further investment by those in the development of inner city territories and creation of new jobs in benefit of local inhabitants. However, companies coming to former brownfields may only change their location instead of creating new workplaces. There is some potential to develop further revenue via introduction or increase of the tariff for the main service (i.e. increase in rent tariffs of public-owned regenerated brownfields to private entities).

ACCOUNTABILITY

Information is available on the context of the intervention. Policy objectives are clearly defined. Short-term and long-term objectives are consistent.

CAPACITY

There are no clear standards for the public service, except for territorial planning and technical requirements for construction services.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

Revenue for this service is generated through the rent or selling of urban brownfield land to private entities interested in construction. There is some potential to increase revenue, through higher fees to private users.

The Evergreen Fund I is a UDF (Urban Development Fund), part of the Northwest Urban Investment Fund (NWUIF), established in 2009. Evergreen fund provides primarily debt finance, but also equity, for regeneration and commercial property projects, at competitive rates, in the region of Greater Manchester, Cheshire, Lancashire and Cumbria.

NWUIF provided over 41 million pounds for Evergreen Fund I and matching was secured at the project level from commercial banks and Growing Places Funding (GPF). Financing is provided in both senior and mezzanine level, in amounts between 4 and 10 million pounds per projects. The target of Evergreen Fund I is to reclaim/redevelop 11.2 hectares of land.

The following projects show how the Evergreen Fund has invested in urban brownfields regeneration.

Soapworks: Evergreen Fund has provided a loan of 6 million pounds for the construction of The Carlyle Group office in Salford, with over 35 000 square meter of office space. Commercial loans were not available for such project, due to the high perceived risks including the poor reputation and disadvantaged location (out of town), as well as the risk averse attitude of banks. Therefore, the investment of Evergreen Fund created viability for the project (through senior loan at fixed interest rate of 6.25%). Such loan is to be repaid by a refinancing or sale of the asset prior to maturity.

Citylabs: Citylabs, a Manchester-based biomedical centre, has received investment of the Evergreen Fund for the construction of an specialised centre, providing laboratories and offices to the biomedical sector, lodging also spin-off of the NHS, as well as The Manchester College and The Central Manchester University Hospitals NHS Foundation Trust Charity. The fund has provided 4.75 million pounds of senior lending, while private sector funding was provided by the Lloyds Banking Group in *pari-passu* with Evergreen Fund investment. Equity was provided by Bruntwood, the developer entity.

2.2 CROATIA: URBAN REGENERATION AND REVITALISATION

2.2.1 GENERAL OVERVIEW OF THE GOVERNMENT INTERVENTIONS IN THE SECTOR

Urban regeneration and revitalisation is part of the state property management agenda. New law on management of assets owned by the Republic of Croatia is due to come into force (currently in the process of e-consultations). Main strategic objectives proposed are better exercise of ownership rights for all state property and increased attention to the principles of state property management. All state property related policies should be aimed at sustainable, efficient and transparent management and disposal of property owned by the Republic of Croatia⁵⁸. Urban brownfields and other abandoned spaces is part of the state property that requires significant attention.

One public service encompassing regeneration of urban brownfields was identified in the Urban regeneration and revitalisation sector in Croatia. It is provided in the table below.

TABLE 14. CROATIAN URBAN REGENERATION AND REVITALISATION SECTOR'S SERVICES AND THEIR OBJECTIVES

Service title	Aim of the service
Regeneration of brownfields and urban public spaces	To manage state and municipal properties: brownfields and urban public spaces

Source: BGI Consulting et al, 2017

2.2.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

The scheme below disassembles the logic of the overall governmental interventions in the Urban regeneration and revitalisation sector in Croatia. It starts with the rationale of the provision of the services by the public sector, then indicates service corresponding to that particular rationale. Service is classified not only by the rationale it corresponds to, but also by a body, which is responsible for the provision. Other governmental interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

⁵⁸ The Ministry of State Property of the Republic of Croatia, Strategic plan for period 2018.-2020.
<https://imovina.gov.hr/pristup-informacijama/strategije-planovi-i-izvjesca/1297/doc/2069>

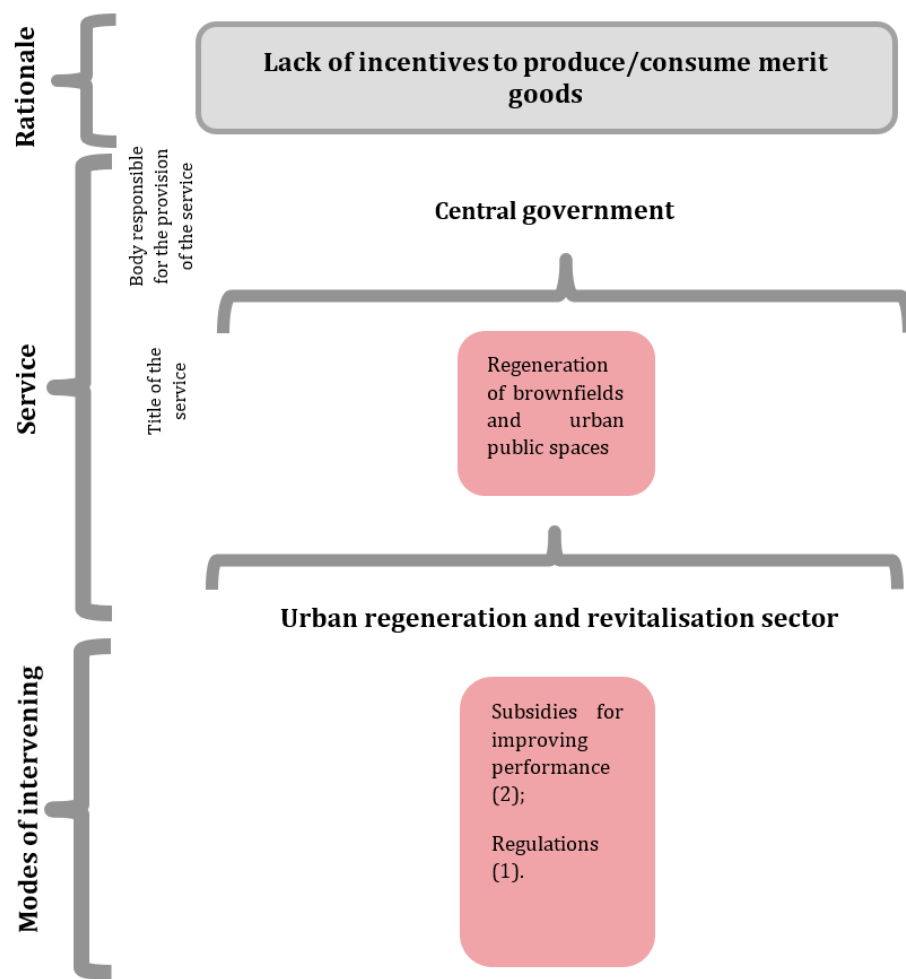


FIGURE 6. LOGIC OF INTERVENTIONS IN THE URBAN REGENERATION AND REVITALISATION SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

The rationale behind the regeneration of brownfields and urban public spaces is lack of incentives to produce/consume merit goods. It is expected that regeneration of currently abandoned territories and infrastructure should promote positive externalities associated with business growth and increase in quality of life of residents. To some extent, government intervention into urban brownfield regeneration is based on availability of similar services in the market also. Since brownfields often occupy large territories (former industrial military sites) it requires complex solutions making it too complicated for private investors.

Within the Operational programme competitiveness and cohesion 2014 – 2020, there is an attempt to ensure the reconstruction of brownfield areas in urban areas that are under Integrated territorial investments. With specific objective 6e2 it is expected that investments based on this specific target will reduce the percentage of unforeseen and unused brownfield land in urban areas. While the reconstruction will be financed through this specific objective, the implementation of services / content on certain refurbished locations will be ensured through other activities according to Integrated territorial investments strategies.

2.2.1.2 LEVEL OF LIBERALIZATION OF THE SERVICES PROVISION

The service in the Urban regeneration and revitalisation sector was ranked according to the level of liberalisation in its provision in the figure below.

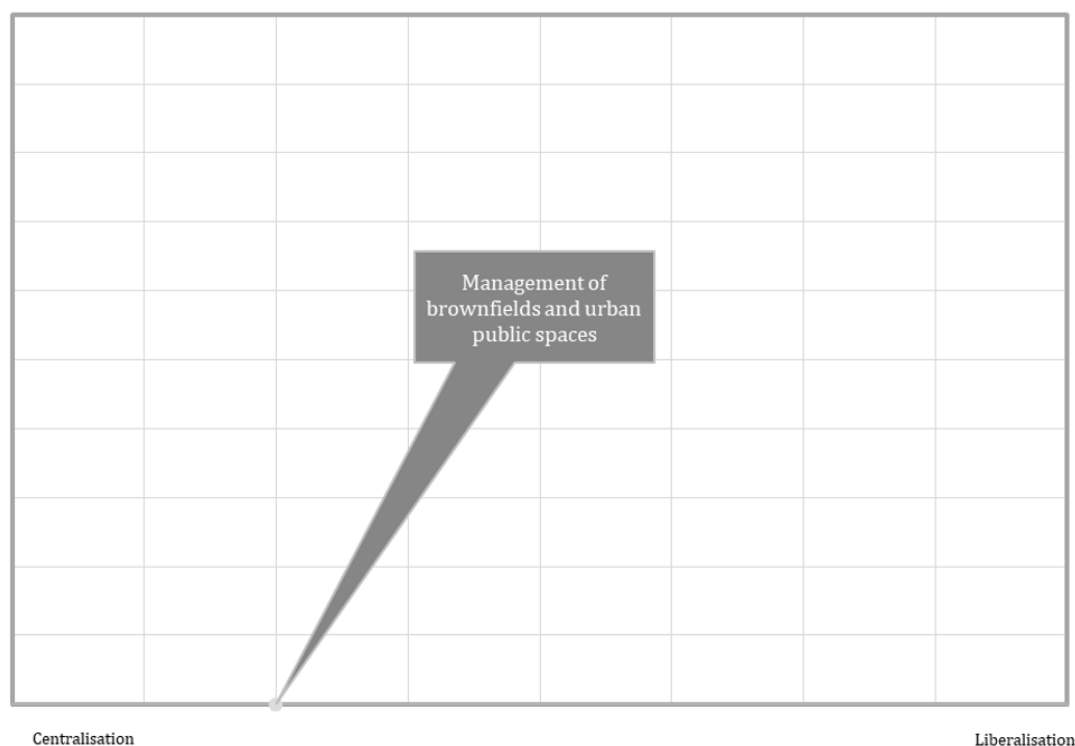


FIGURE 7. SUPPLY SIDE OF URBAN REGENERATION AND REVITALISATION SECTOR SERVICES

Source: BGI Consulting et al, 2017.

Provision of the service in Urban regeneration and revitalisation sector in Croatia is centralized. Although similar services are provided also by private businesses in the market, the service related interventions are aimed mostly at regeneration of state-owned property. Local governments are in charge of urban brownfields strategies and revitalisation projects.

2.2.2 ANALYSIS OF SELECTED INTERVENTIONS

The figure provided below depicts the structure of each service selected for further analysis. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision identified. Graphs in light red indicate service providers and group(s) the service is targeted at.

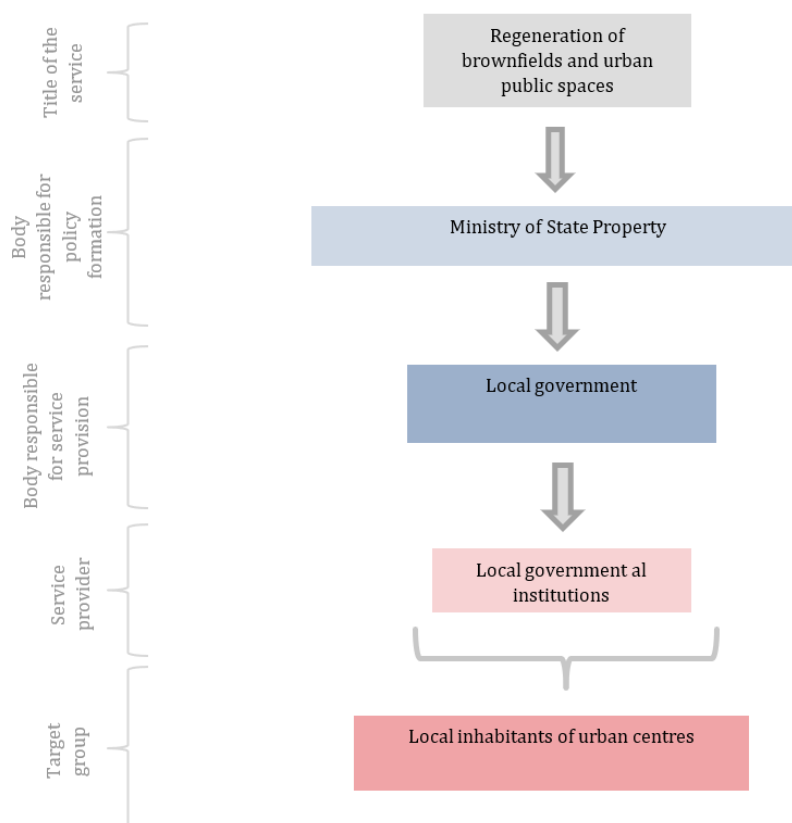


FIGURE 8. SERVICE PROVISION MECHANISMS IN URBAN REGENERATION AND REVITALISATION SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

The main source of funding for regeneration of urban brownfields and public spaces is ESI funds. The funds in the period of 2014-2020 are planned under Integrated territorial investment (ITI) mechanism and combine both infrastructural and performance oriented investments.

In terms of financing, vast majority of funds is allocated to subsidies for regeneration of brownfields. The ESIF expenditure is roughly EUR 11 million annually (funds for all 2014-2020 period amount to EUR 80 million⁵⁹). Intervention is focused on ex-military and industrial sites located in urban centres, however some smaller investments in protection of existing public green areas in cities are available as well.

2.2.2.1 SUPPLY SIDE: QUALITY OF PLANNING OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Quality of planning of the services was evaluated by examining how clearly the long-term (i.e. policy) and the short-term (i.e. operational) objectives of the services were defined and how compatible they are among themselves.

⁵⁹ European Structural and Investment Funds, Operational programme Competitiveness and Cohesion 2014 – 2020 (<http://www.strukturnifondovi.hr/UserDocsImages/Documents/Kriteriji%20odabira%20-%202014-2020/MRRFEU%20Sazetak.pdf>)

TABLE 15. QUALITY OF THE PLANNING OF THE URBAN BROWNFIELDS SERVICES IN CROATIA

Name of the service	The long-term policy objectives are clearly defined	The short-term operational objectives are clearly defined	The long-term and short-term objectives are contradictory	Quality of planning of the service
Management of brownfields and urban public spaces	×	√	√	AVERAGE

Source: BGI Consulting et al, 2017.

The planning of the services is of average quality. Strategic framework in terms of management of public property is undergoing some changes at the moment. It is expected that new law on management of assets owned by the Republic of Croatia will shed some more light on long-term strategy of management and maintenance of state-owned property, since at the moment there is lack of transparency and consistency in the policy framework. While the new law is still under consultation process, long-term vision lacks clarity. Moreover, there are a number of institutions involved in the publicly-owned property management causing overlapping responsibilities and lack of coordination. Thus, the strategic direction of the sector is based on the operational goals approved by the Ministry of the State Property. Operational objectives are quite clear. They are also in line with the strategic goals defined in the new law that is anticipated to come into force soon.

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

TABLE 16. QUALITY OF THE PLANNING OF THE URBAN REGENERATION AND REVITALISATION SECTOR SERVICES RELATED INTERVENTIONS IN CROATIA

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Regeneration of brownfields and urban public spaces	Management of publicly-owned property	×	×	×	×	×	√	POOR
	Subsidy for mapping of problematic areas in urban territories	×	√	N/A	×	×	√	AVERAGE
	Subsidy for revitalisation of urban brownfields	√	√	×	√	√	√	GOOD

Source: BGI Consulting et al, 2017.

The planning of the urban regeneration and revitalisation services related interventions is estimated to be of various quality.

The poor quality of planning is attributed to the management of publicly-owned property. As it was stated before, the law that should regulate state assets management is not valid yet therefore government actions in terms of property management and related operational decisions are rather incoherent and sporadic.

Subsidy for mapping of problematic areas in urban territories intervention was initiated in order to build a comprehensive view of abandoned and problematic areas located in inner-cities. Local governments can use the intervention as an instrument to better define existing issues and need for investments. However, since there is no imposed obligation to use the intervention, intervention does not have clearly defined period, also there is lack of common understanding of results to be achieved. Therefore, the planning of the intervention is estimated to be of average quality.

Subsidy for regeneration of urban brownfields was planned well. ESI funds related documents lay down clearly the formal requirements for the allocation of funds, including the period of implementation of the intervention, eligible cost, output and outcome indicators, etc. In situations where estimated results cannot be planned in advance, for example the amount of total revenue, it will be done after final list of beneficiaries will be completed. Demand for subsidy was taken into account also since a number of brownfield sites were identified within the urban areas covered by ESIF Integrated territorial investments instrument.

2.2.2.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

TABLE 17. EFFICIENCY OF THE DELIVERY OF THE URBAN BROWNFIELD SECTOR SERVICES IN CROATIA

Name of the service	The overall demand of the service is met by the overall supply	The public service complies with the qualitative standards	There are existing private entities providing similar services in the market	Private entities occupy 34 percent or more of the service provision market	Private entities providing similar services in the market can compete on equal terms with the public providers	Efficiency of the delivery of the service
Regeneration of brownfields and urban public spaces	x	x	√	x	x	LOW

Source: BGI Consulting et al, 2017.

Efficiency of the delivery of the sector specific services is low.

Firstly, overall demand of the services is not met by the overall supply. Since the main source of funding is ESIF, services are not universal and funds are allocated only to limited number of territories. It is expected that current investments will affect only around 5 percent of the brownfield locations in urban agglomerations.

Secondly, even though revitalisation of brownfield sites should comply with the formal requirements of spatial planning and construction, there is no brownfield specific standards. Thus, the quality of renewed public spaces varies. The main reason causing insufficient quality of the service are insufficient investment and lack of expertise.

Finally, although private entities are investing in the regeneration of brownfields, they cannot compete on equal terms with public providers due to restricted public financing as subsidies are basically reserved for public projects. The lack of competitive pressure has supposedly a negative effect on cost spent on the provision of the service.

2.2.2.3 SUPPLY SIDE: ADDITIONALITY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

All services in the Urban regeneration and revitalisation sector in Croatia have significant positive impact on the target groups. The regeneration of urban brownfields directly affects all the residents, as well as the private business entities. Cleaning and revitalisation of former military and industrial sites in Croatia is seen firstly as a tool to improve environmental condition and to promote sustainable resource use thus it should have a positive impact on quality of life of residents of urban agglomerations. At the same time, existing contaminated sites pose a barrier to investments and economic development. Regeneration and afterwards reuse of abandoned territories within inner-cities has a potential to boost economic activities. As cleared and prepared for investments formerly underused territories can attract business entities resulting in the creation of new commercial and business areas in former industrial locations. It is expected that business activities will contribute to growth of employment, though significance of impact on the size of workforce highly depends on specific conditions as well as types and location of brownfields. The conditions that make those locations unattractive to potential investors are unresolved property and legal relations that limit the possibilities and scope of the transformation of individual structures or assemblies, the amount of investment required, the necessity of making or modifying the existing spatial planning documentation, the inability to schedule the realization of the project, and in some cases the cultural heritage protection schemes. Also, it should be considered that companies coming to the former brownfields may only change their location, instead of creating new workplaces, thus lowering possible outcome additionality.

Revitalisation of brownfields and urban public spaces has an impact on the capital investment as well. Impact on capital investment prompted by the ESIF funding for regeneration of contaminated sites is firstly visible during the project implementation phase. After project is finished, the capital investment decreases while potential to attract investments into revitalised parts of the cities/towns depends on multiple circumstances. However, successfully planned urban brownfield revitalisation project has high potential to attract significant private investments.

2.2.2.4 SUPPLY SIDE: SIDE-EFFECTS OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

The most significant side effect encouraged by the implementation of brownfields regeneration and revitalisation initiatives is an impact on natural environment. Brownfields represent a waste of natural resources. Therefore, effect of revitalisation of abandoned urban areas is an important element of sustainable development. Since most of the brownfields are former military or industrial sites, positive side-effects on the natural environment occur firstly because regeneration of urban brownfields, especially if brownfield land is contaminated from previous military or industrial use and regeneration project is associated with land clearing. In few cities in Croatia that were in war zone industrial sites were destroyed during the war and had never been restored. Numerous military and industrial sites are nowadays underused, partially destroyed or completely neglected and left in the condition in which they were 25 years ago.

For example, military site Karlo Rojc in Pula, Croatia, was adapted and some new functions were introduced which contributed to the further strengthening of the social, administrative and service functions of the city district. Degradation and devastation of the urban landscape was stopped and the value of land was increased.

The service and related interventions do not prompt unexpected behaviour of the target groups. However, it should be taken into account that private investments can come slower than it was expected by brownfield project developers since initial phase was financed by public funds and investors do not experience any pressure in terms of investment payback.

The lack of proper planning and management of publicly-owned property has some detrimental effects on business and business environment. Poor coordination and communication across different levels of government as well as lack of policy objectives and transparency represent a serious obstacle to development.

2.2.2.5 DEMAND SIDE: AFFORDABILITY OF THE SERVICES AND IMPACT ON AFFORDABILITY OF THE SERVICE RELATED INTERVENTIONS

The service of regeneration of brownfields and urban public spaces is targeted mainly at the entities that can use former brownfields for business development or other activities. With minor exceptions, results of the interventions cannot be directly used by the individuals.

2.2.2.6 CONSISTENCY OF SERVICE RELATED INTERVENTIONS

There are neither the contradicting, nor the replacing service-related interventions in the Urban regeneration and revitalisation sector.

2.2.3 CONCLUSIONS AND RECOMMENDATIONS

Brownfield areas are part of the state property that requires significant attention. The biggest problem in Croatia are the state properties that were destroyed 25 years ago (during the war) and had never been restored due to unresolved property rights and legal regulation. There is still necessity of making or modifying the existing spatial planning documentation in order to progress with the sectoral policies.

Urban regeneration and revitalisation is part of the state property management agenda. The new law on management of assets owned by the Republic of Croatia, which is due to come into force (currently in the process of e-consultations), sets main strategic objectives aimed better exercise of ownership rights for all state property and increases attention to the principles of state property management.

Within the Operational programme competitiveness and cohesion 2014 – 2020, there is an attempt to ensure the rehabilitation of brownfield areas in urban areas that are under Integrated territorial investments and within specific objective 6e2. It is expected that investments based on this specific target will reduce the share of unforeseen and unused brownfield land in urban areas. Funds for all 2014-2020 period amount to EUR 80 million.

Intervention is focused on ex-military and industrial sites located in urban centres, however some smaller investments in protection of existing public green areas in cities are available as well.

TABLE 18. CONCLUSIONS ON THE GOVERNMENT INTERVENTIONS IN THE URBAN REGENERATION AND REVITALISATION SECTOR IN CROATIA

Name of the service	Planning of the service	Planning of all related interventions is GOOD or AVERAGE	Efficiency of the service provision	All related interventions have impact on the efficiency of the service	The service has positive impact on the target group	All related interventions have positive impact on the target group	The impact of the service on countries' economy is positive	There are no negative side-effects of service implementation	All related interventions have positive or do not have side-effects	The service is affordable to all income groups	There are no service related interventions that contradict or replace each other
Management of brownfields and urban public spaces	AVERAGE	NO	LOW	YES	YES	YES	YES	YES	NO	YES	YES

Source: BGI Consulting et al, 2017.

As seen in the table above, there are 3 criteria that are low or negative for the Management of brownfields and urban public spaces.

The poor quality of planning is attributed to the management of publicly-owned property. The law that should regulate state assets management is not in power yet, therefore government actions in terms of property management and related operational decisions are rather incoherent and sporadic. That lack of planning and management has detrimental effects on business and business environment.

Efficiency of the service provision is low. Firstly, funds are allocated only to limited number of territories and current investments will affect only 5% of the brownfield locations in urban agglomerations, secondly, there is no brownfield specific standards, and finally, private entities cannot compete on equal terms with public providers due to restricted public financing as subsidies are basically reserved for public projects.

The most significant **side effect** encouraged by the implementation of brownfields regeneration and revitalisation initiatives is an impact on natural environment because brownfields represent waste of natural resources. Therefore, effect of revitalisation of abandoned urban areas is an important element of sustainable development. In few cities in Croatia that were in war zone, industrial sites were destroyed during the war and had never been restored. Numerous military and industrial sites are nowadays underused, partially destroyed or completely neglected and left in the condition in which they were 25 years ago.

There are neither contradicting, nor replacing service-related interventions in the Urban regeneration and revitalisation sector.

External operators use the public infrastructures and pay a rent for it. Price is regulated and set by the relevant authorities. Although major obstacles to entering the market are linked to legal and administrative barriers, there are possibilities to start generating revenue through introduction of paid services, reducing management costs, developing auxiliary services or increasing the scope of existing activities.

The Ministry of State Property should continue to act proactively on the implementation of brownfield investments because neglected and destroyed sites would be rehabilitated. That should contribute to potential of business activities, what will eventually lead to growth of employment. Brownfield regeneration represents a valuable opportunity, not only to prevent the loss of pristine countryside, but also to enhance urban spaces and remediate the contaminated areas.

2.2.4 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

2.2.4.1 MANAGEMENT OF BROWNFIELDS AND URBAN PUBLIC SPACES

TABLE 19. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN MANAGEMENT OF BROWNFIELDS AND URBAN PUBLIC SPACES SERVICES

Criteria	FI potential
Pricing system	Revenue generating (covering above 75% of total costs)
Regulatory/governance Framework	Public domain, centralised
Market potential	Limited potential development of (more) paid services
Accountability	Partial performance framework
Capacity	Not available

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Price is regulated and set by relevant authorities. Main source of revenue consists in the sale of (parts of) projects owned by the State or regional/local governments, which covers above 75 percent of the total annual costs of service provision. Subsidiary revenues are also generated, covering a small share of costs, and external operators (different from the owners) use the public infrastructures and pay a rent for it, but to a very limited extend.

REGULATORY AND GOVERNANCE FRAMEWORK

The Ministry of State Property is responsible for the service provision. There is no private provider on the market. Major obstacles to enter individual structures on to the market are the legal restrictions and administrative barriers, e.g. unresolved property and legal issues.

MARKET POTENTIAL

There are possibilities to start generating revenue through introduction of paid services, reducing management costs, developing auxiliary services or increasing the scope of existing activities (e.g. setting state property into operation, cooperation with institutions to efficiently resolve property-related problems). Market potential is limited by a series of factors related to poor planning, poor infrastructures, ineffective management as well as a lack of expertise and incentive.

ACCOUNTABILITY

Policy objectives of the service are not clearly defined in related policy documents (currently valid); short-term and long-term services are non-contradictory.

CAPACITY

In 2015, the State Property Management Office continued to act proactively on the implementation of brownfield investment, successfully combining private and public funding. During 2015, a public call for

the implementation of the Kupari I project was announced as well as a public call to investors for the realization of the Muzil development project.

Such projects are implemented in cooperation with local communities and are part of the Tourism Development Strategy of the Republic of Croatia up to 2020, by the Ministry of Tourism and the Ministry of Economy's Industrial Strategy. It is based on the activation of state-owned assets and also excellent examples of cooperation and decentralization of the system, since a part of the revenue is paid to local self-government units.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Pricing is regulated, but the service shows some capacity of costs covering. Revenues could be increased by renting or selling public assets and areas, with cost increase for the target groups; however, this would require changes in the regulatory and governance framework.

Application of FIs could be considered to support development of urban brownfields, if suitable projects are available. Use of FIs in this area is found in international experiences, illustrating their applicability, as shown below.

Urban regeneration projects were supported by the JESSICA instrument in the municipality of Poznań, under the regional operational programme of Wielkopolska, in Poland. A total of EUR 66 million was allocated to the region through ERDF (50 million) and national funds (16 million). Although initially interest in the instrument was limited, the period of 20 years for repayment of loans and the diminishing of grant resources available in the market resulted in increased attractiveness.

By the second year of operation, 30% of the budget was already allocated and 20 applications filled, including five loan agreements for large investments, already signed in the first half year implementation. Another highlight is the successful promotion of a business perspective, aiming not only for the social benefits, but for projects that generate revenues, increasing the financial sustainability of the area.

Among the projects financed by JESSICA in Poznan are the Poznań Technological-Industrial Park in the Dębiec district, where one of the investors is a private limited company owned by the City of Poznan. A second project is the Podwale Office Centre, located close to the railway behind the historical district, a private investment that rehabilitated the former industrial land for offices purpose.

2.3 LITHUANIA: WASTE MANAGEMENT

2.3.1 GENERAL OVERVIEW OF THE GOVERNMENT INTERVENTIONS IN THE SECTOR

This chapter provides an overview of all public services identified in Lithuanian Waste management sector. The rationale for introduction of each public service and the number of service related interventions are identified. Furthermore, the relative position of each public service on liberalisation – centralisation axis is presented.

The communal waste management services are provided by public as well as private providers. Waste incineration services are currently mostly provided by private sector mostly. In total, four main public services were identified in the Waste management sector in Lithuania. The list of all sector's services and their respective aims is provided in the table below.

TABLE 20. LITHUANIAN WASTE MANAGEMENT SECTOR'S SERVICES AND THEIR OBJECTIVES

Service title	Aim of the service
Municipal waste management services	To provide waste management (collection, transportation, utilisation) services
Waste incineration and co-incineration services	To provide incineration and heat generation services
Hazardous waste management services	To provide hazardous waste management services
Wastewater sludge management services	To provide wastewater sludge management services

Source: BGI Consulting et al, 2017.

2.3.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

There are two main rationales for the intervention of the government in the Waste management sector in Lithuania: *non-availability or limited availability on the market* in case of absence of the government interventions. For example, private suppliers have an interest in providing waste management services where the access is convenient and enough waste is generated. They may not be interested in serving distant districts. Illegal landfills may be created for waste disposal if this activity is not controlled by the state and municipalities. In addition, solid waste management is a public good. This is because waste has a negative impact on the society, not only on individuals who are not involved in the proper management of their waste. In the same way, everyone benefits from the proper management of waste. It is therefore hardly possible to avoid government intervention into waste management provision, as it would be incompletely provided by the free market.

Second service provision rationale in Waste management sector is *monopolistic or non-competitive market*. Waste incineration services are provided by private entities, however public entities will join the service provision in the nearest future. However, at the moment the market is monopolistic and ESIF investments are only contributing to the subduction of competition.

The scheme below disassembles the logic of the overall government interventions in the Waste management sector in Lithuania. It starts with the rationale of the provision of the services by the public sector, and then indicates services corresponding to that particular rationale. Services are classified not only by the rationale they correspond to, but also by a body, which is responsible for the provision of them. Other government interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

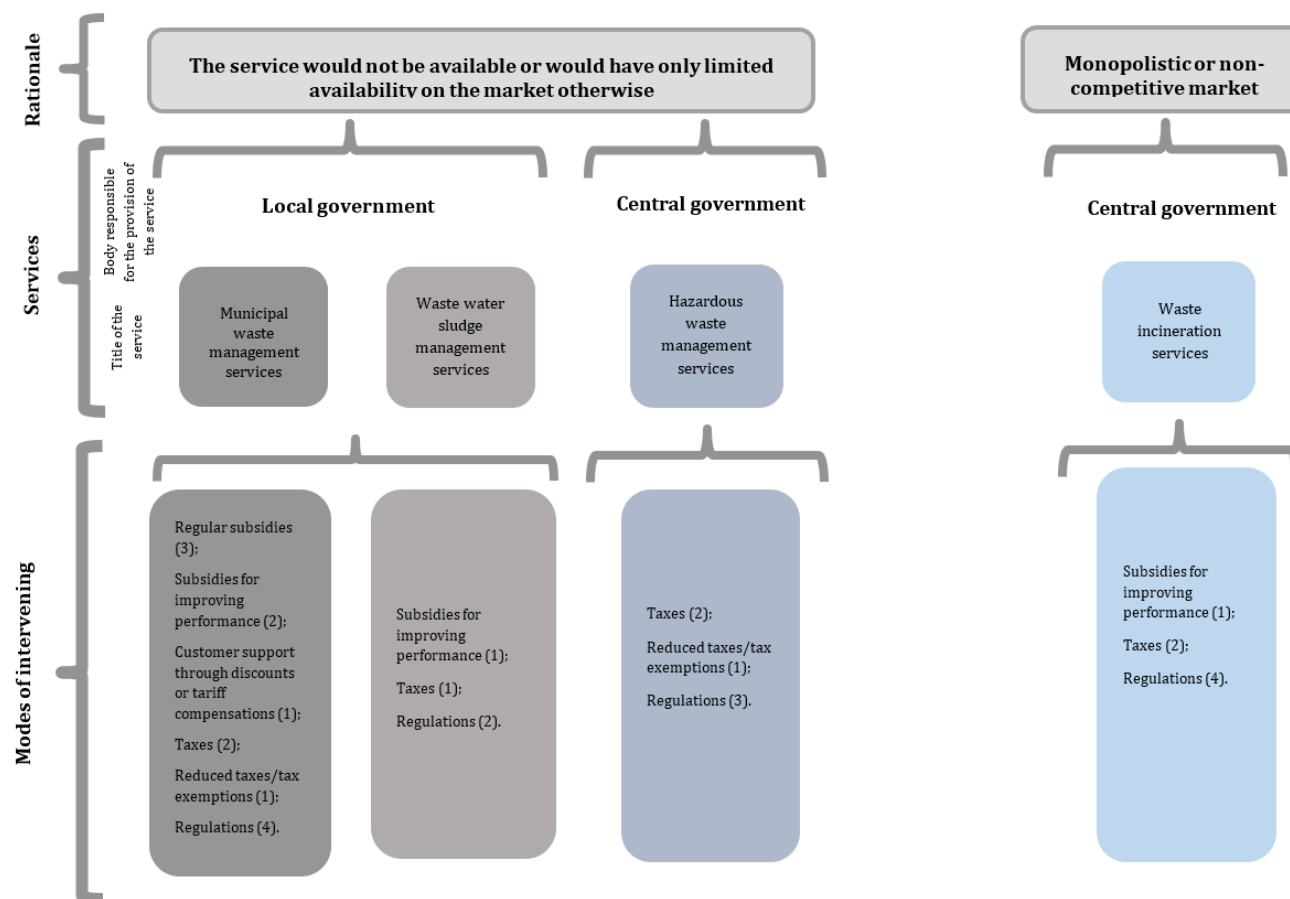


FIGURE 9. LOGIC OF INTERVENTIONS IN THE LITHUANIAN WASTE MANAGEMENT SECTOR

Source: BGI Consulting et al, 2017.

2.3.1.2 LEVEL OF LIBERALIZATION OF THE SERVICES PROVISION

The public services in the Lithuanian Waste management sector were ranked according to the level of liberalisation in their provision in the figure below. The criteria used for ranking the sector's services according to the level of liberalisation in their provision are – the main provider of the service (the most centralised provider is a government / municipal institution (directly), the most liberalised provider is the market entity (operator)); the most common public service delivery mode (the most centralised delivery mode – direct provision by the governmental / municipal body, the most liberalised – provision by market entity (operator)); consumer pricing of the service (whether the service is free of charge, its pricing is available but non-regulated or its pricing is regulated and set by relevant authorities); market share of the public operators (100, >66, 34-66, <34 percent).

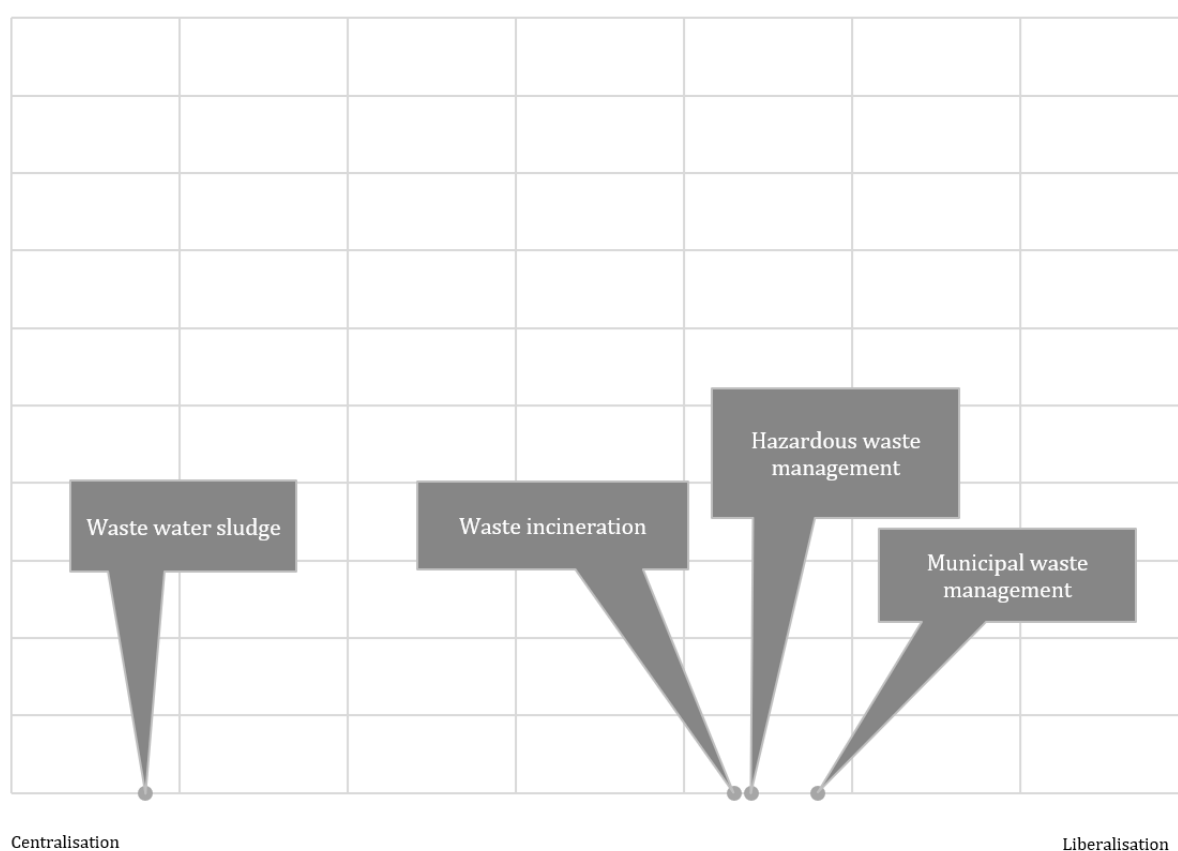


FIGURE 10. PLACEMENT OF THE PUBLIC SERVICES IN THE LITHUANIAN WASTE MANAGEMENT SECTOR ON LIBERALIZATION-CENTRALIZATION

Source: BGI Consulting et al, 2017.

In Lithuania, wastewater sludge management services are services provided at the most centralized mode. Service provision is implemented by the municipal owned entity, the price is regulated and there is no room left for private operators.

Waste incineration and co-incineration and hazardous waste management services are both provided in a medium liberal manner. However, their similarity is limited to the fact that the former currently is provided by privately owned waste incineration plant, while later by public providers.

Municipal waste management services are provided in most liberal manner, having both private providers occupying significant share of the market and consumer pricing.

2.3.2 PRESENTATION OF SERVICES AND RELATED INTERVENTIONS SELECTED FOR FURTHER ANALYSIS

This chapter presents the services and related interventions, selected for further analysis. Two services in Lithuanian Waste management sector were selected for further in-depth analysis. These services are:

- Municipal waste management;
- Waste incineration

The main policy goals, modes of provision and interventions related to the abovementioned services are presented in this chapter.

2.3.2.1 MAIN POLICY GOALS OF SERVICES SELECTED FOR FURTHER ANALYSIS

The main policy objective in the waste management sector is to reduce the share of municipal waste landfilled to 35 percent by 2020 and to 5 percent by 2030. In order to address this target, proper waste collection, management and treatment are required.

In order to attain the targeted value of the indicator reflecting the main policy objective, other operational mid-term objectives related with waste collection, management and treatment must be attained. Waste in the landfill is expected to decrease to 35 percent and two new waste to energy plants are expected to be built by 2020. Municipal paper, glass, plastic and metal waste recycling is planned to increase to 50 percent by 2020. It is important to note that mechanical-biological treatment facilities (MBT) facilities have started to operate since 2015-2016, enhancing the attainment of the abovementioned objectives. Both services selected for further analysis are significantly contribute to attainment of the strategic goals of the sector.

2.3.2.2 THE STRUCTURE OF PROVISION AND FINANCING OF SERVICES SELECTED FOR FURTHER ANALYSIS

Figures provided below depict the structure of each service selected for further analysis. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision identified. Graphs in light red indicate service providers and group(s) the service is targeted at.

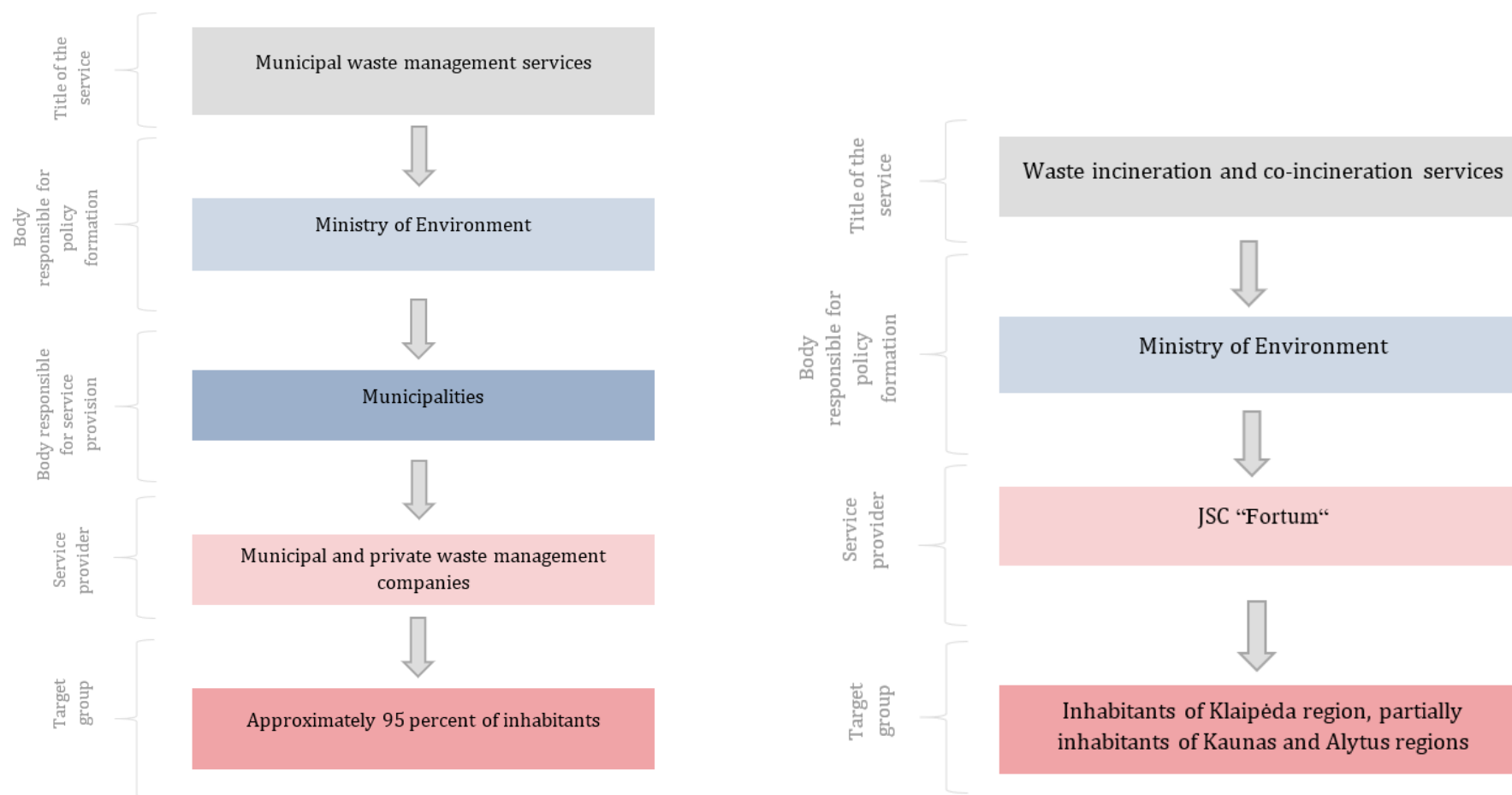


FIGURE 11. MUNICIPAL WASTE MANAGEMENT AND WASTE INCINERATION SERVICES' PROVISION MECHANISMS IN WASTE MANAGEMENT SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017

The average annual cost of municipal waste management (including collection) services is equal to around EUR 260 million. The cost of waste incineration and co-incineration services cost around EUR 16 million for one year. The main financing sources are tariffs for services paid by the consumers. The consumer payments cover around 75-100 percent of the total costs of waste management and 100 percent of the costs of waste incineration and co-incineration services.

In financial terms, the largest services related intervention in the sector is Municipal Environmental Protection Support Special Programme (around EUR 12 million annually) the implementation of which is funded by environmental pollution taxes, fees for natural resources, environmental fines, hunting taxes. There are also a few interventions funded by ESIF Operational Programme. The measure No. 05.2.1-APVA-R-008 "Development of Waste Management infrastructure" (EUR 70 million) and the measure No. 05.2.1-APVA-V-022 "Development of Waste Incineration Capacity" (around EUR 49 million) and 05.2.1-APVA-K-009 Preparation of Municipal Waste for Recycling (around EUR 12 million) are the largest financially. The sector also receives funding from Waste Management Programme (more than EUR 4 million per year).

2.3.2.3 INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Each of the service selected for further analysis has related interventions, enabling the provision of the service. All the interventions, related to municipal Waste management and Waste incineration services presented in the table below.

TABLE 21. INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Name of the service	Type of the service related intervention	Name of the service related intervention	
Municipal Waste management services	Regular subsidy for public service delivery (budgetary financing)	Subsidy for provision of waste management services (under Waste Management Programme)	1
	Subsidy for improving performance of the public service	2014-2020 Cohesion fund EU financial support: measure No. 05.2.1-APVA-K-009 "Preparation of Municipal Waste for Recycling"; No. 05.2.1-APVA-R-008 "Development of Waste Management infrastructure"	2
	Subsidy for improving performance of the public service	Municipal Environmental Protection Support Special Programme	3
	Subsidy for improving performance of the public service	LAAIF (lt. Lietuvos aplinkos apsaugos investicijų fondas) subsidies	4
	Customer support through discount or tariff compensation	Reduced tariffs of waste management fee for vulnerable customers	5
	Taxes	Packaging tax for producers and importers not meeting relevant recycling criteria	6

	Taxes	Pollution tax for disposal of non-hazardous, inert and hazardous waste	7
	Reduced taxes/tax exemptions	Packaging tax differentiation	8
	Regulation	Regulation regarding obligatory register for waste companies	9
	Regulation	Regulation regarding obligatory waste sorting	10
	Regulation	Regulation regarding waste which is not suitable for recycling	11
Waste incineration	Subsidy for improving performance of the public service	2014-2020 Cohesion fund EU financial support: "; No. 05.2.1-APVA-V-022 "Development of Waste Incineration Capacity"	12
	Taxes	Pollution tax for disposal of non-hazardous, inert and hazardous waste	7
	Taxes	Packaging tax for producers and importers not meeting relevant recycling criteria	6
	Regulation	Regulation regarding obligatory waste sorting	10
	Regulation	Regulation regarding waste which is not suitable for recycling	11
	Regulation	Restriction to private sector to invest in waste incineration plants	13

Source: BGI Consulting et al, 2017.

Further in this study the information is provided not on services as a whole, but only on service related interventions.

2.3.3 DATA ON SELECTED GOVERNMENT INTERVENTIONS IN LITHUANIAN WASTE MANAGEMENT SECTOR

This chapter provides portrayal and analysis of the government interventions shortlisted for the in-depth assessment. In the chapter separate fiches for each government intervention, analysis of interventions regarding each of the methodological research criteria are presented.

The fiches for each government intervention bellow provides the main data on each government intervention, which can be read as a self-standing analysis and is also used in later parts of the study as a basis for the meta-analysis of interventions according to different criteria.

TABLE 22. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WASTE MANAGEMENT SECTOR
(1)

Title of the intervention		Subsidy for provision of waste management services (under Waste Management Programme)
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention		The program consists of income from environmental taxes, including Pollution from Packages Tax and Landfill Tax, environmental fines, etc.
Year of the introduction and end, stability of the intervention		1998 - up to now The intervention (article no. 34 in the law) was introduced in 1998 by the waste law, back then it was called waste management fund. In 2003, when the law was changed the programme was reorganised into Products and Packaging Management programme. It was only in 2015 when the 34 article was changed by the law and Waste Management Programme was introduced. There is no date set for the expiry of the intervention.
The broader policy objective to which intervention contributes		To avoid negative influence of the waste to the people's health and environment (waste law, article no. 1)
Legal background of the establishment of the intervention		Waste law, June 16 1998, No. VIII-787 (LR atliekų tvarkymo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes		To provide financing for projects which aim at reduction of negative waste effects to environment and people and which cannot be financed EU investments and waste service tariff
The objective of the intervention and legal background		The intervention aims at subsidising Waste management services when their costs can't be covered through ESIF investments or customers' tariff. In 2017 Lithuanian municipalities were given subsidies for the purchase of new waste containers and absent collection and utilisation services. Regarding the use of financing for Waste Management Programme in 2017(Dėl atliekų tvarkymo programos lėšų naudojimo 2017 metais priemonių plano patvirtinimo). The document is updated on yearly basis. https://www.e-tar.lt/portal/lt/legalAct/eccca960ea1411e6bf03a1097d29892a
Level of body responsible for policy formation		National level
Level of body responsible for implementation (administration) of intervention		National level
Name of the body responsible for implementation (administration) of intervention		LAAIF (Lithuanian environmental protection investments fund)
The main source of financing the intervention		State budget
Market side the intervention is targeted at		Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention		Public
Types of public providers eligible to receive the intervention		Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers		Public procurement. The article 34 of the waste law indicates the Lithuanian public procurement law has to be followed when using programme's financial resources.

The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	100%
Impact of the intervention	Subsidies to municipalities under Waste management programme finances waste management services that are not covered by ESIF investments or customer's tariffs. Lithuanian municipalities were given subsidies EUR 2, 5 million for the purchase of new waste containers for the period 2014-2015. As the result, 122 165 thousand containers for individual houses were bought. There were also EUR 15 393 thousands donated to municipalities for the transportation of old tires for the period 2014-2015.
Unintended impact of the intervention	Keeps tariffs paid by the waste management service consumers lower, without these subsidies tariffs would either increase or waste containers for individual houses would be not distributed and tires not transported.
Main issues related to the implementation of the intervention	Producers collected and treated only 17 percent of tires in period 2013-2015, therefore budgetary funding had to be used. This is to imply that subsidies could be smaller if producers' responsibility principle was properly implemented.
Consistency with other related interventions	There were no inconsistencies with other interventions identified.
Possibilities to replace/withdraw the intervention	Subsidies for municipalities can be withdrawn if the principle of producers and importers' responsibility was better implemented. For example, there were only around 17 percent of old tires collected in 2013-16. Poorly implemented principle of producers and importers' responsibility results in a need to allocate funding from different sources.

Source: BGI Consulting et al, 2017.

TABLE 23. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WASTE MANAGEMENT SECTOR (2)

Title of the intervention	2014-2020 Cohesion fund EU financial support: measure No. 05.2.1-APVA-K-009 "Preparation of Municipal Waste for Recycling"; No. 05.2.1-APVA-R-008 "Development of Waste Management infrastructure"
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Measure regarding Development of Waste Management infrastructure consists of 70.000,00 EUR for bio-waste, bulky waste collection and preparation for re-use; Preparation of Municipal Waste for Recycling consists of 12.741.195,00 EUR; for supporting waste pre-treatment equipment in order to prepare them for recycling; public awareness about waste prevention and management.
Year of the introduction and end, stability of the intervention	2014-2023 and later (due to revolving nature) The initiation of the intervention depended on ESIF allocations, however, the revolving nature of it allows to continue the implementation of the intervention far beyond the 2014-2023 programming period
The broader policy objective to which intervention contributes	To promote climate change adaptation, risk prevention and management and protection of environment and promotion of resource efficiency

The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To protect environment and promote resource efficiency by financing projects that inform society about waste prevention; to finance projects aiming at modernisation and building of waste sorting infrastructure.
Legal background for the establishment of the intervention	Operational Programme for the European Union Funds' Investments in 2014-2020
The objective of the intervention and legal background	To finance projects informing society about waste prevention; to finance projects aiming at modernisation and building of waste sorting infrastructure. 2014-2020 Cohesion fund EU financial support: measure No. 05.2.1-APVA-K-009 "Preparation of Municipal Waste for Recycling"; No. 05.2.1-APVA-R-008 "Development of Waste Management infrastructure"
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	APVA
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	Private funds and municipal budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	Regional planning and project contest
Types of private providers eligible to receive the intervention	Private for-profit entities
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	67-99%
Impact of the intervention	Measure of Preparation of Municipal Waste for Recycling should finance building or modernisation of municipal waste sorting infrastructure as well as education of society on questions of waste sorting and recycling. The measure has not and most likely will not be implemented. Development of Waste Management infrastructure is a rather popular measure and financed projects amounting to EUR 69 million. Mostly it finances development of waste management infrastructure, for example expansion of the waste containers network. Due to the high financial resources measure operates with, it manages to make an impact on waste management infrastructure.
Unintended impact of the intervention	There have been no unintended impact of the interventions identified.
Main issues related to the implementation of the intervention	Measure of Preparation of Municipal Waste for Recycling has not been yet approved.

Consistency with other related interventions	There were no inconsistencies with other interventions under analysis identified.
Possibilities to replace/withdraw the intervention	There were no possibilities to withdraw interventions identified

Source: BGI Consulting et al, 2017

TABLE 24. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WASTE MANAGEMENT SECTOR
(3)

Title of the intervention		Municipal Environmental Protection Support Special Programme
GENERAL CHARACTERISTIS OF THE INTERVENTION		
Type of the intervention	Subsidy for improving performance of the public service	
Short description of the intervention	Municipal fund from taxes collected in the municipality: environmental pollution taxes, fees for natural resources, environmental fines, hunting taxes. Small scale infrastructure development; management of waste, which the holder can not be determined or who no longer exists	
Year of the introduction and end, stability of the intervention	2003 - up to now There were no changes regarding the intervention since its introduction.	
The broader policy objective to which intervention contributes	To avoid negative influence of the waste to the people's health and environment (waste law, article no. 1)	
Legal background for the establishment of the intervention	Waste law, June 16 1998, No. VIII-787 (LR atliekų tvarkymo įstatymas)	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To avoid negative influecne to the people's health and environment by supporting waste management infrastructure development project's, raising public awareness on environmental issues supporting environmental protection projects.	
The objective of the intervention and legal background	To finance measures listed in the 4th article of the Special Programme's law: environmental improvment; waste management infrastructure development; public education on environmental issues; municipal public health support special programme. Each municipality has a document of its own. There are only broad recommendation by the Ministry of Environment of the Republic of Lithuania. Reccomendation of the Ministry - http://www.am.lt/VI/article.php3?article_id=10882	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	Local level (article no. 2, part three of the special programme's law)	
Name of the body responsible for implementation (administration) of intervention	Municipalites of the Republic of Lithuania	
The main source of financing the intervention	State budget	
Additional sources of financing the intervention	Private funds	
Market side the intervention is targeted at	Supply	
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention	Public and private	

Types of public providers eligible to receive the intervention	Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	Annual budgetary financing
Types of private providers eligible to receive the intervention	Private persons
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of services provided applying a fixed rate and the size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Landowners implementing projects of environmental protection
The type of impact of intervention for consumers	The intervention provides consumers with necessary financial resources
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised) Other. Projects of the private persons are judged necessity and price criteria.
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the means-tested approach
Impact of the intervention	The programme is rather small and is mostly used for development and maintenance of small scale infrastructure. Decision how to use funding exactly belongs exclusively to municipalities, as long as it is within the recommendations of the Ministry of Environment. Even though the biggest part of the programme is used by municipalities themselves, there are more demand from the private subjects for the programme's funds. They applies for funding in order to protect their plantations from wild animals Total budget of the programme amounted to EUR 0,15 million in the municipality of Utena. http://www.utena.lt/images/2017_Naujienos/GRUODIS/2017_12_04/taryba.pdf
Unintended impact of the intervention	There have been no unintended impacts of the programme identified
Main issues related to the implementation of the intervention	A mismatch might occur between recommendations of the Ministry of Environment of the Republic of Lithuania and plans of Lithuanian municipalities regarding the use of Municipal Environmental Protection Support Special programme's funds. Also, recommendations undergo frequent changes, for example in 2016, 2015 and 2014. In 2015, a change in recommendations occurred in the middle of the year, thus making implementations more difficult since municipalities' spending was already planned.
Consistency with other related interventions	LAAIF subsidies contradict to the implementation of the Municipal environmental support special programme in terms of finance. Financial injections for subsidies come in from the tax that are paid by companies and physical persons for the pollution of environment. However, after implementation of pollution reducing measures financed by

	LAAIF (for example, water cleaning or air cleaning infrastructure) revenues of Municipal environmental support special programme and thus its ability to finance other measures of environmental protection.
Possibilities to replace/withdraw the intervention	The programme finances construction and maintenance of small scale infrastructure in Lithuanian municipalities. Also more private persons discover the programme and use for protection of their properties, what coincides with environmental protection goals. Even though programme is small, possibilities to withdraw it are limited.

Source: BGI Consulting et al, 2017.

TABLE 25. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WASTE MANAGEMENT SECTOR (4)

Title of the intervention	LAAIF subsidies
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Subsidies administrated by Lithuanian environmental protection investments fund are one of the means to finance waste management in Lithuania
Year of the introduction and end, stability of the intervention	1998 - up to now The intervention (article no. 33, part five of the law) was introduced in 1998 by the waste law, there is no expiry date of the intervention indicated. Until 2004 the intervention existed in the form of financial instrument, however loans didn't have high demand as companies were unwilling to invest into environment protecting, but economically not viable projects. In order to encourage companies to operate on environmentally friendly basis the subsidy mechanism was introduced.
The broader policy objective to which intervention contributes	To avoid negative influence of the waste to the people's health and environment (waste law, article no. 1)
Legal background for the establishment of the intervention	Waste law, June 16 1998, No. VIII-787 (LR atliekų tvarkymo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To provide financing for projects of legal people which aim at reduction of negative effects of economic activities to the environment and ensure continuous positive effects on environment and people
The objective of the intervention and legal background	To provide subsidies for legal persons or companies implementing projects in the territory of the Republic of Lithuania, according to funding direction confirmed by the Minister of Environment (Description of implementation of investment projects under Lithuanian environmental protection investments fund, article no. 5) Description of implementation of investment projects under Lithuanian environmental protection investments fund (Lietuvos aplinkos apsaugos investicijų fondo programos lėšomis finansuojamų investicinių projektų įgyvendinimo ir priežiūros tvarkos aprašas) https://www.e-tar.lt/portal/lt/legalAct/TAR.8C4B823EDD64/pgtgUcxwuo
Clarity of definition of the main objective of the intervention	The main objective of the intervention is clearly defined
Level of body responsible for policy formation	National level

Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	LAAIF (Lithuanian environmental protection investments fund)
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private https://view.officeapps.live.com/op/view.aspx?src=http://www.laaif.lt/wp-content/uploads/2015/05/Informacija-apie-LAAIF_paisiskas_2017-10-16.doc
Types of public providers eligible to receive the intervention	Budgetary institution (-s) and publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	Project contest
Types of private providers eligible to receive the intervention	Private for-profit entities
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	<34%
Impact of the intervention	Finances projects of legal persons which aim at reduction of negative effects of economic activities to the environment and ensure continuous positive effects on environment and population. Since 2010 roughly EUR 21 million have been distributed through LAAIF subsidies programme. In that period the highest yearly grant was made in 2013 and amounted to almost EUR 5 million. The average annual subsidies were smaller – around EUR 2,6 million. Since 2010 up to now approximately 900 projects, mostly from the private sector, have been financed. Without this mechanism projects would be not undertaken since they are financially not viable and there are low incentives for private sector to invest. This intervention resulted in better environmental conditions in the areas in which companies, that have received subsidy, operate.
Unintended impact of the intervention	There were no unintended effects of the LAAIF subsidies identified.
Main issues related to the implementation of the intervention	Some companies faced problems completing technical part of the application, however generally no issues related to the implementation of the intervention have been identified.
Consistency with other related interventions	There are financial overlaps between LAAIF subsidies and Municipal environmental support special programme. Financial injections for subsidies come in from charges that are paid by companies and physical persons for the pollution of environment. However, after implementation of the pollution reducing measures financed by LAAIF (for example, water cleaning or air cleaning infrastructure) revenues of Municipal environmental support special programme and thus its ability to finance other measures of environmental protection.
Possibilities to replace/withdraw the intervention	Up to 2004 intervention existed as a financial instrument, however demand for loans was waste low as companies

	were not willing to experience additional costs. Unwillingness has been accompanied by lower (prior to EU accession) environmental standards and lower environmental awareness. After EU accession environmental standards got higher and people's environmental awareness, to some extent, due to the soft EU's environmental policies also increased. These two factors might motivate return to financial instrument after the 2020, even though this perspective might seem not attractive for businesses from the economic point of view.

Source: BGI Consulting et al, 2017.

TABLE 26. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WASTE MANAGEMENT SECTOR (5)

Title of the intervention	Reduced tariffs of waste management fee for vulnerable customers
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Customer support through discount or tariff compensation
Short description of the intervention	Low income users have remission of waste management fee. Municipalities cover this part from the budget.
Year of the introduction and end, stability of the intervention	1998 - up to now The intervention was introduced in 1998 by the waste law, there is no expiry date of the intervention indicated. However, back in 1998 the law explicated municipalities' right to determine waste management tariffs. In 2012 the law was amended indicating that municipalities, when setting the tariffs, must follow principles of solidarity, proportionality, non-discrimination and pollutor pays (the last principle existed earlier).
The broader policy objective to which intervention contributes	To provide residents with financial support that are in need, thus increasing affordability of public services for them.
Legal background for the establishment of the intervention	Waste law, June 16 1998, No. VIII-787 (LR atliekų tvarkymo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To increase affordability of waste management services for vulnerable groups by reducing waste management tariffs for them.
The objective of the intervention and legal background	To compensate expenses related to waste management fee for vulnerable customers Every Lithuanian municipality has a different regulation. For example Švenčionys - https://www.e-tar.lt/portal/lt/legalAct/SAV.497395/JWXfnUXDOU According to the document provided, municipal council has a right to determine reduced tariffs by its separate order (no. 65)
Clarity of definition of the main objective of the intervention	The main objective of the intervention is not defined
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities of the Republic of Lithuania
The main source of financing the intervention	Municipal budget

Market side the intervention is targeted at	Demand
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Socially vulnerable customers in a particular municipality
The type of impact of intervention for consumers	The intervention provides consumers with necessary financial resources
Level of coercion at consumers' level	The use of intervention is compulsory for the consumers
Consumers' selection criteria	Precise (particularised) Social status or age-related criteria and health status
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the means-tested approach
Impact of the intervention	The intervention provides waste management tariff's exemptions for the socially vulnerable groups. However, exact rules of vary as municipalities are politics responsible for the implementation of the tariff's exemption. For example, resolution of the Telšiai region's municipality entitles the social benefit receivers, lonely pensioners and people having 40 % disability. Aforementioned groups are entitled to 50% exemption. In Vilnius region, for example, objects of religious function are entitled to 100% exemption of the tariff. 70 % tariff exemption is applied of physical persons who have waste containers placed 1 km or more away from the place of their residence. Exemptions are based on the social justice principle, however their exact application differs from municipality to municipality (there are 60 municipalities in Lithuania) as municipalities are politics responsible for the implementation of the exemptions. Thus, intervention is seen as important economic instrument for implementing principle of social justice.
Unintended impact of the intervention	Procedures to receive tariff reductions differ across Lithuanian municipalities. In some, for example Švenčionys, an extract (lt. išrašas) of real estate needs to be delivered in order to secure right for the tariff reduction. For some people it helped to register their real estate and secure property rights thus fixing this legal shortcoming lasting from the transformation in 1990.
Main issues related to the implementation of the intervention	In some Lithuanian municipalities there might still be registry issues. Some municipal councils, for example Švenčionys, have initiated a law change that considered a fact, but not legal situation. De jure situation is ignored case person is entitled to the tariff reduction, but there were other people registered in the place of his living which hindered him from receiving a tariff reduction. If other people de facto do not live there, a right to receive a tariff reduction was still secured despite de jure status. Some municipalities might judge it as the de jure situation thus impeding people to receive the tariff reduction.
Consistency with other related interventions	There is a theoretical contradiction between customer support through discount or tariff compensation and requirements to sort waste or rather to the running costs of current waste sorting facilities.
Possibilities to replace/withdraw the intervention	Possibilities to withdraw this intervention is limited as it would contradict to the principle of social justice established in Monetary help for needy law (LR pinigines socialinės paramos nepasiturintiems įstatymas, 1 July 2003, No. IX-1675)

Source: BGI Consulting et al, 2017.

TABLE 27. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WASTE MANAGEMENT SECTOR
(6)

Title of the intervention	
Packaging tax for producers and importers not meeting relevant recycling criteria	
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Taxes
Short description of the intervention	Producers and importers that will not meet relevant criteria relating to collection, recycling and reuse of packaging and packaging waste are obliged to pay a package tax.
Year of the introduction and end, stability of the intervention	1998 – now There were no changes regarding the intervention (waste law, article no. 32) since its introduction.
The broader policy objective to which intervention contributes	To avoid negative influence of the waste to the people's health and environment (waste law, article no. 1)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To implement the principle "polluter pays" by taxing producers and importers which by producing or importing products also produce or import waste
The objective of the intervention and legal background	To tax producers and importers not meeting relevant recycling criteria
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities of the Republic of Lithuania
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Producers and importers
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention imposes charges on subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups indirectly benefiting from the regulation/tax/tax exemption	Individual households and business in Klaipėda
Impact of the intervention	Intervention taxes importers and producers which bring to Lithuanian market waste that cannot be recycled and has to be either incinerated or landfilled
Unintended impact of the intervention	Non-recyclable waste increase supply for waste incineration plants (at the moment there is only one in Lithuania), which in turn bring the heating price down.
Main issues related to the implementation of the intervention	Incineration capacities are not sufficient and some waste not meeting recycling criteria still has to be landfilled
Consistency with other related interventions	There have been no inconsistencies identified
Possibilities to replace/withdraw the intervention	There have been no withdrawal possibilities identified

Source: BGI Consulting et al, 2017.

TABLE 28. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WASTE MANAGEMENT SECTOR
(7)

Pollution tax for disposal of non-hazardous, inert and hazardous waste	
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Title of the intervention	
Type of the intervention	Taxes
Short description of the intervention	Landfill tax is applied to waste disposal to non-hazardous, inert and hazardous waste landfills. The Law includes tax increase on annual basis.
Year of the introduction and end, stability of the intervention	The environment pollution law was introduced in 1999, however the intervention was established in 2014. There were no changes (article no. 3, part 4) regarding the existence of the intervention since its introduction, however size of the taxes that need to be paid changed.
The broader policy objective to which intervention contributes	To avoid negative influence of the waste to the people's health and environment (waste law, article no. 1)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	By economic means to encourage polluters to reduce pollution of the environment, implement preventive measures and encourage waste management. Also, to use the tax for implementation of other environmental policies.
Legal background for the establishment of the intervention	The environment pollution law, March 13, 1999 m. No. VIII-1183 (Mokesčio už aplinkos teršimą įstatymas)
The objective of the intervention and legal background	To tax non-hazardous, inert and hazardous waste which has to be paid by the landfill's operator Appendix no. 7, Environment pollution law.
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Landfills' operators (RATC)
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Operators of the landfills
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention imposes charges on subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Precise (particularised) Taxes on operators are reduced (but not abandoned) for the removed phosphogypsum residues
Impact of the intervention	Intervention as an economic mean to discourage waste disposal in landfills has a minor effect as reduction of waste disposed at landfills is attributed mostly to operation of mechanical and biological waste treatment plants. However, tariffs collected are used to finance Waste Management programme's goals and thus have considerable impact in this sense.
Unintended impact of the intervention	There have been no unintended impact of the intervention identified.

Main issues related to the implementation of the intervention	There is only one waste incineration plant operating at the end of 2017 in Lithuania. The building of the other two has just started or is about to start. As current incineration capacities are not sufficient, landfill tariff stay low, even though it is set to increase in order to discourage disposal of waste there. A late introduction (2016) of the landfill tax is per se a problem. Municipalities that have shares of Regional waste management centres (RATC; lt. regioniniai atliekų tvarkymo centrai) also have right to vote for the tariffs. In Vilnius region, for example, councils of all 8 municipalities comprising RATC of Vilnius region have to agree on tariff's level. This leaves room for potential conflict over landfill's gate fee. An increase of the landfill's tax paid for the state doesn't automatically translate into increase of the overall tax. For example, in Vilnius region there are plans to increase landfill's tax for non-hazardous waste from 3 to 5 EUR, however this increase will not create more disincentives to dispose waste at landfills as the general gate fee will not rise.
Consistency with other related interventions	Landfill tax is collected to the state budget and used to finance Waste Management programme's goals. As the tax is low and newest data indicate decrease of the waste disposed at the landfills overall income that can be used for purposes of the programme will decline.
Possibilities to replace/withdraw the intervention	Possibilities to withdraw landfill tax are very limited as the tax is an important mean to discourage waste disposal at landfills and meet EU waste management objectives.

Source: BGI Consulting et al, 2017.

TABLE 29. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WASTE MANAGEMENT SECTOR (8)

Title of the intervention	Packaging tax differentiation
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Reduced taxes/tax exemptions
Short description of the intervention	Different taxes are applied for different packaging material
Year of the introduction and end, stability of the intervention	2002 - up to now Even though environment pollution law (article no. 6, part eight) was introduced in 1999, it was only after 3 years when it was amended incorporating packaging tax differentiation in it. Different taxes for different packaging material have been present since then, however there were a few changes on precise value of the tax.
The broader policy objective to which intervention contributes	To avoid negative influence of the waste to the people's health and environment (waste law, article no. 1)
Legal background for the establishment of the intervention	The environment pollution law, March 13, 1999 m. No. VIII-1183 (Mokesčio už aplinkos teršimą įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	By economic means to encourage polluters to reduce pollution of the environment, implement preventive measures and encourage waste management. Also, to use the tax for implementation of other environmental policies.
The objective of the intervention and legal background	To tax packages on the basis of their harmfulness to the environment Appendix no. 4, Environment pollution law.

Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Tax administrator appointed by the Ministry of Environment
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Producers of goods and importers (pollution law no. 4, part 3)
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention imposes charges on subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
Impact of the intervention	Currently producer or importer pays EUR 28 per ton for paper and cardboard (lowest tariff) and EUR 753 per ton for metal. The tax encourages to use material that has less negative effects on environment. However, tax is not fully collected due to failing principle producers' responsibility.
Unintended impact of the intervention	There have been no unintended impact of tax identified
Main issues related to the implementation of the intervention	Tax is not fully collected due to failing principle producers' responsibility
Consistency with other related interventions	There have been no inconsistencies identified
Possibilities to replace/withdraw the intervention	Possibilities to withdraw intervention are limited or non-existent since withdrawal of such regulation would discourage producers or importers to use more environmentally friendly material.

Source: BGI Consulting et al, 2017.

TABLE 30. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WASTE MANAGEMENT SECTOR (9)

Title of the intervention	Regulation regarding obligatory register for waste companies
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	Register is obligatory for waste collecting and transporting companies; waste processing plants; waste traders and brokers; companies, on the site where hazardous waste holding more than six months, and non-hazardous - more than one year.
Year of the introduction and end, stability of the intervention	1998 - up to now The intervention was introduced (article no. 4, part five) in 1998, the waste law stated "waste companies have to register according to the order of the Government". In the year 2011 the regulation was amended bringing more detail in it. It stated that waste companies collecting, processing, selling or

	keeping hazardous (more than 6 month) or non-hazardous (more than 1 year) waste must register to waste managers registry (waste law article no. 4, part 10). Despite the change bringing in more detalisation on registry of waste managing entities, compulsory to register has been constant.
The broader policy objective to which intervention contributes	To avoid negative influence of the waste to the people's health and environment (waste law, article no. 1)
Legal background for the establishment of the intervention	Waste law, June 16 1998, No. VIII-787 (LR atliekų tvarkymo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To have better control over entities operating in the Waste management sector and their compliance to waste management standards
The objective of the intervention and legal background	To register entities operating in Waste sector, to collect, systemize and save data about them. This data can be provided to natural and legal entities. Resolution of the Government of the Republic of Lithuania on creation of the state waste registry (Vyriausybės nutarimas dėl atliekų tvarkytojų valstybės registro įsteigimo, atliekų tvarkytojų valstybės registro nuostatų patvirtinimo ir registro veiklos pradžios nustatymo) https://www.e-tar.lt/portal/lt/legalAct/TAR.63FAF5FB53EB However, compulsory registration has existed before the state waste registry was established in 2012.
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Regional level (http://www.lrvalstybe.lt/aplinkos-apsaugos-departamentai-77/)
Name of the body responsible for implementation (administration) of intervention	Waste companies are registered by regional enviromental departments. There are 8 regional enviromental departments in Lithuania. https://www.e-tar.lt/portal/lt/legalAct/TAR.63FAF5FB53EB
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Waste services providing companies
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Precise (particularised) Company doesn't need to register if it transports only its own non-hazardous waste, if it transports not more than 1 tonne per month of hazardous waste of its own.
Impact of the intervention	Due to the improper processes registered waste companies do not always dispose waste in a proper way making lose both customers and environment. For example, in the year 2015 damage of EUR 7 million was made to the state as waste was not managed and pollution taxes were not paid. However, this negative impact has to be attributed to the part of the registry that gives right to issue warrants about the waste managed.
Unintended impact of the intervention	Due to the improper processes registered waste companies entitled to issue warrants do not always dispose waste in a proper way making lose both customers and environment. For example, in the year 2015 damage of EUR 7 million was made

	to the state as waste was not managed and pollution taxes were not paid.
Main issues related to the implementation of the intervention	Part of the regulation entitled companies to issues warrants about the waste managed is poorly implemented. Companies responsible for the waste management warrants issue provide incorrect data about amounts of waste collected and treated. Data collected from Vilnius, Kaunas, Klaipėda and Utena regions indicate that 19 178 tons of metal, plastic, paper and mixed waste, 3 126 tons of used electric devices and 1 048 tons of tires have been not collected and treated according to standards in 2013-2015.
Consistency with other related interventions	As it is now implemented intervention duplicates subsidies to the municipalities under Waste Management programme. As now implemented the intervention also doesn't secure requirement to sort waste.
Possibilities to replace/withdraw the intervention	Intervention should be strengthened rather than withdrawn. The issue of registry and licence should be stricter and inspections more often including not only headquarters, but also affiliates.

Source: BGI Consulting et al, 2017.

TABLE 31. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WASTE MANAGEMENT SECTOR (10)

Title of the intervention	Regulation regarding obligatory waste sorting
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	Obligation to sort waste
Year of the introduction and end, stability of the intervention	1999 - up to now The law regarding the conditions for the creation of intervention (waste law, article no. 4) was adopted in 1998, however waste management rules describing waste sorting in detail were adopted in 1999. There is whole article regulating waste sorting in the rules, which has undergone minor changes after its adaptation.
The broader policy objective to which intervention contributes	To avoid negative influence of the waste to the people's health and environment (waste law, article no. 1)
Legal background for the establishment of the intervention	Waste law, June 16 1998, No. VIII-787 (LR atliekų tvarkymo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To sort waste in order to reduce negative influence to environment, people's health and to encourage economic use of resources.
The objective of the intervention and legal background	To ensure that the waste is sorted Order of the Environment Ministry of the Republic of Lithuania on confirmation of the waste management rules (Įsakymas dėl atliekų tvarkymo taisykių patvirtinimo) https://www.e-tar.lt/portal/lt/legalAct/TAR.38E37AB6E8E6/RZNKohnjWM
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities of the Republic of Lithuania
Market side the intervention is targeted at	Supply and demand

SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Waste holders (lt. atliekų turėtojai)
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention requires certain actions from subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
Impact of the intervention	In Lithuania effective waste management i.e. waste management that avoids disposal of waste to the landfills, was mostly enabled after mechanical biological waste treatment infrastructure has been built. Even though costly and lacking quality since the start of their operation in 2016, they have already managed to make a considerable impact. According to official data provided by Eurostat, amount of communal waste disposed at the landfills dropped from approximately 60 percent in 2015 to roughly 32 percent in 2016. The changed happened over one year and represent the most significant change in terms of waste landfilled measured by percentages in the EU.
Unintended impact of the intervention	Waste sorting encourages innovation and new business as they give opportunities to propose new ways of using waste that has been sorted However, obligation to sort waste and mechanical biological waste infrastructure that was built following this obligation caused a raise of the tariff that has to be paid by the customers using waste management infrastructure services.
Main issues related to the implementation of the intervention	Expensive infrastructure that enabled sorting of waste was needed due the lack of awareness in the society (in comparison to Northern or Western European countries) with regard to the sorting of waste. At the moment a problem of waste that cannot be recycled exists as Lithuania is still lacking proper waste incineration capacities. Current implementation of the waste sorting makes tariff for the customers raise as infrastructure used to separate waste was very expensive to build and is expensive to run.
Consistency with other related interventions	There have been no inconsistencies with regard to obligatory waste sorting identified
Possibilities to replace/withdraw the intervention	Under the current EU regulation obligation to sort waste can be neither replaced nor withdrawn.

Source: BGI Consulting et al, 2017.

TABLE 32. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WASTE MANAGEMENT SECTOR (11)

Title of the intervention	Regulation regarding waste which is not suitable for recycling
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	Municipal waste produced in the region, which is not suitable for recycling/ recover must be disposed in the same region. The fees or other charges for municipal waste collection and management and their size shall be calculated by the Government rules. The fees are approved by every municipal council. It is planned to regulate Regional Waste Management

	System infrastructure price (landfill, MBT, composting sites, etc.) by Energy Control Commission.
Year of the introduction and end, stability of the intervention	2012 - up to now Wording that the municipalities are responsible for the treatment of waste which is not-suitable for recycling(waste law article no. 30, part 18) was introduced in 2012.
The broader policy objective to which intervention contributes	To avoid negative influence of the waste to the people's health and environment (waste law, article no. 1)
Legal background for the establishment of the intervention	Waste law, June 16 1998, No. VIII-787 (LR atliekų tvarkymo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To avoid negative influence to the people's health and environment by imposing a regulation that only not suitable for recycling waste can be disposed at the landfills.
The objective of the intervention and legal background	To make sure that waste which is not suitable for recycling/ recover is disposed in the same region
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities of the Republic of Lithuania
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Waste services providing companies
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention prohibits certain behaviour of the subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
Impact of the intervention	Waste not suitable for recycling, after it was sorted in mechanical biological waste treatment plants, is delivered to either waste incineration plant or to landfill as the incineration capacities are not yet sufficient in Lithuania. However, obligatory nature of intervention helps to separate recyclable waste from the waste that cannot be already recycled.
Unintended impact of the intervention	Non-recyclable waste can be burned to generate heat and electricity thus making these public services cheaper for the users. For example, the average heating prices fell by 18 percent comparing 2017 and 2016 in Klaipėda.
Main issues related to the implementation of the intervention	The biggest problem related to non-recyclable waste is that due to the lack of waste incineration capacities part of it is still disposed at landfills i.e. waste is not incinerated and energy prices inhabitants of Vilnius and Kaunas do not fall. In Klaipėda, where waste not suitable for recycling is incinerated, ashes of the process are still disposed at landfills instead of using them in the construction of roads.
Consistency with other related interventions	Regulation of waste which is not suitable for recycling is consistent with other interventions
Possibilities to replace/withdraw the intervention	Possibilities to withdraw intervention are limited or non-existent

Source: BGI Consulting et al, 2017.

TABLE 33. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WASTE MANAGEMENT SECTOR
(12)

Title of the intervention	2014-2020 Cohesion fund EU financial support: measure No. 05.2.1- APVA-V-022 "Development of Waste Incineration Capacity"
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Measure regarding Development of Waste Incineration Capacity consists of 67.400.000,00 EUR support for construction of waste incineration plants
Year of the introduction and end, stability of the intervention	2014-2023 and later (due to revolving nature) The initiation of the intervention depended on ESIF allocations, however, the revolving nature of it allows to continue the implementation of the intervention far beyond the 2014-2023 programming period
The broader policy objective to which intervention contributes	To promote climate change adaptation, risk prevention and management and protection of environment and promotion of resource efficiency
Legal background for the establishment of the intervention	Operational Programme for the European Union Funds' Investments in 2014-2020
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To build waste incineration infrastructure
The objective of the intervention and legal background	To build waste incineration infrastructure. 2014-2020 Cohesion fund EU financial support: measure No. 05.2.1- APVA-V-022 "Development of Waste Incineration Capacity"
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	APVA
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	Private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institutions such as municipalities of Lithuania and publicly-owned for profit entities as Vilnius and Kaunas cogeneration plants
Dominant mean of receiving the intervention for public providers	State planning
Types of private providers eligible to receive the intervention	Private for-profit entities
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers

The share of the funds of the intervention that is attributed to public providers	34-66%
Impact of the intervention	The Ministry of Environment of the Republic of Lithuania has decided to finance construction of the Vilnius incineration plant with EUR 49 million from ESIF investment funds in 2017. This project is supposed to reduce heating prices for the inhabitants of Vilnius, reduce waste disposed at the landfill thus decreasing landfill-related air pollution. However, ESIF investments amounting to EUR 49 million were approved in 2017 and didn't have an impact yet.
Unintended impact of the intervention	There is a possible unintended impact of Development of Waste Incineration Capacities measure. The measure co-finance construction of Vilnius incineration plant and ashes as the final product of the incineration process in the plant can be used for the construction of roads. The regulation was changed allowing the use of such ashes to build roads in Lithuania in 2017. However, such ashes must correspond in terms of consistency to the material currently used in road building. The study regarding suitability of such material is still ongoing. However, it should be definitely finished until the launch of Vilnius incineration plant co-financed by the measure.
Main issues related to the implementation of the intervention	The political negotiations regarding ESIF investments for Vilnius incineration plant were prolonged and synchronisation with mechanical biological waste treatment infrastructure was not been secured. Therefore, waste not suitable for further use after its processing is still disposed at landfill and is not incinerated.
Consistency with other related interventions	There were no inconsistencies with other interventions under analysis identified.
Possibilities to replace/withdraw the intervention	There are possibilities to replace ESIF investment with private capital money. For example in Klaipėda, a very similar plant was built without ESIF investments, recently launched project in Kaunas also doesn't plan use of ESIF funds. However, possibilities to withdraw incineration as such are very limited as countries such as Germany or Switzerland use incineration as a method of waste disposal. It is also an integral part of EU's circuit economy.

Source: BGI Consulting et al, 2017.

TABLE 34. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WASTE MANAGEMENT SECTOR (13)

Title of the intervention		Restriction to private sector to invest in waste incineration plants
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Regulation
Short description of the intervention		Only State Importance Projects, where Government has at least 51% of shares, municipal waste can be used as a fuel for energy production.
Year of the introduction and end, stability of the intervention		2002 - up to now There were no changes regarding the intervention since its introduction.
The broader policy objective to which intervention contributes		To ensure protection of state's interests by limiting private investments into strategically important objects

Legal background for the establishment of the intervention	Law with regard to strategic companies, October 10 2002, No. IX-1132 (Strateginę reikšmę nacionaliniam saugumui turinčių įmonių ir įrenginių bei nacionaliniam saugumui užtikrinti svarbių įmonių įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	Assurance that shareholder control package stays at the hands of Lithuanian government. Decisions can be made without jeopardizing national interests.
The objective of the intervention and legal background	To limit the scope of private investments into Vilnius and Kaunas waste incineration plants
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Government of the Republic of Lithuania
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Private companies seeking to invest into waste incineration plants
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention prohibits certain behaviour of the subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
Impact of the intervention	It is forbidden for the private sector to have controlling block of shares in Vilnius and Kaunas waste incineration plants. This regulation resulted in need of ESIF investments in case of Vilnius plant.
Unintended impact of the intervention	Market participants contest European Commission's decision to approve ESIF investments for Vilnius incineration plant.
Main issues related to the implementation of the intervention	Willingness to receive ESIF funding which resulted in prolonged discussions with European Commission and delay of the project
Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	According to Resolution of the Government of the Republic of Lithuania regarding recognition of projects' economic or cultural importance to the state, 13 February 2008, No. 136 (Dėl projektų pripažinimo valstybiai svarbiais ekonominiais ar kultūriniais projektais tvarkos aprašo) a project might lose this status if it fails to achieve its goals, fulfil obligations or has other shortcomings. https://www.e-tar.lt/portal/lt/legalAct/TAR.ED2F336DCEAC/HDkDpnlncY

Source: BGI Consulting et al, 2017.

2.3.3.1 SUPPLY SIDE: QUALITY OF PLANNING OF SELECTED INTERVENTIONS

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

TABLE 35. QUALITY OF THE PLANNING OF THE WASTE MANAGEMENT SECTOR SERVICES RELATED INTERVENTIONS IN LITHUANIA

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Municipal waste management services	Subsidies to municipalities under Waste Management Programme	x	√	N/A	√	√	√	GOOD
	Municipal Environmental Protection Support Special Programme	x	√	√	x	x	√	AVERAGE
	LAAIF subsidies	x	√	√	√	√	√	GOOD
	Packaging tax differentiation	x	x	x	√	x	x	AVERAGE
	Regulation regarding obligatory waste sorting	x	√	√	√	√	√	AVERAGE
	Regulation regarding obligatory register for waste companies	x	N/A	N/A	√	x	x	POOR
	Pollution tax for disposal of non-hazardous, inert and hazardous waste	x	x	x	√	√	x	AVERAGE
	Regulation regarding waste which is not suitable for recycling	x	x	x	√	x	x	POOR

	Reduced tariffs of waste management fee for vulnerable customers	x	x	n/a	√	x	√	AVERAGE
Waste incineration services	2014-2020 Cohesion fund EU financial support: measure No. 05.2.1-APVA-V-022 "Development of Waste Incineration Capacity"	√	√	X	√	√	√	AVERAGE
	Restriction to private sector to invest in waste incineration plants	x	N/A	N/A	√	x	x	POOR

Source: BGI Consulting et al, 2017.

Subsidies to municipalities under Waste Management programme and LAAIF subsidies were estimated as having good planning, even though period of intervention is not defined with regard to these interventions.

Obligation to sort waste was estimated as having an average planning. This is because mechanical biological waste treatment facilities were built just in 2016 and prior to that year the possibilities to sort waste were limited, as according to European Commission amounts of municipal waste equalled 64 and 60 percent in 2013 and 2014 respectively.

Reduced tariffs of waste management fee for vulnerable customers were estimated to have average planning because number of people entitled to tariff reduction varies and can change due to migration and demographics, which makes it difficult for the planners to foresee costs and results of the intervention.

Packaging and pollution taxes both were estimated to be planned averagely. Even though taxes as such are defined in Environment pollution law, amount of revenues collected are difficult to predict in advance. Nevertheless, in case of pollution taxes results to be achieved are very clear, as circular economy as well as the State Waste Management plan 2014-2020 to reduce communal waste landfilled to 35 percent.

Interventions with regard to waste incineration services were given different ratings in terms of planning. "Development of Waste Incineration Capacity" was estimated to be planned averagely because a synchronisation with mechanical biological waste treatment facilities, partially due to prolonged discussion with European Commission with regard to ESIF funding's availability, was not secured. Restriction to private sector to invest in waste incineration plants is estimated to be planned poorly, mostly because willingness to receive ESIF funding result in long debates with European Commission and finally delay of the project.

Most of the interventions have their standards of implementation defined. Interventions of state planning fail to have their implementation period defined and are reviewed, especially those related to budgetary planning, on yearly basis.

2.3.3.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF SELECTED INTERVENTIONS

Restriction to private sector to invest in waste incineration plants and ESIF measure No. 05.2.1- APVA-V-022 "Development of Waste Incineration Capacity" are interventions that will be discussed in the paragraph below.

Waste incineration in private entities occupy a significant share of the market. However, the competition terms were assessed as not equal for public and private entities. For example, intervention that regulates private subjects' ability to invest into Waste incineration plants created higher incentives to bargain for ESIF investments (financial intervention) in case of Vilnius incineration plant Vilnius waste incineration plant has applied for ESIF investments because of its status as a project of state importance i.e. controlling block of shares must be owned by the state, which limited private investments. Discussions with the European Commission whether the object can be supported with ESIF money prolonged, resulting in mismatch between waste supply and incineration capabilities. In the future, however, waste incineration capabilities might exceed demand for incineration, as a third Waste incineration plant is being built in Kaunas. The claim is backed by the Eurostat data which indicates that developed Northern and Western European countries on average incinerate 33 percent of their waste. Lithuania, with just one incineration plant operation incinerated 17 percent of its waste in 2016.

There are also other interventions that lack efficiency. For example, Pollution tax for disposal of non-hazardous, inert and hazardous waste i.e. the tax is supposed to discourage waste disposal at landfills, but partial success regarding reduction of waste landfilled should be attributed to mechanical biological waste treatment facilities rather than the tax.

Intervention obliging to sort waste is also rather inefficient as mechanical biological treatment facilities do not function perfectly. Majority of waste that otherwise would be suitable for recycling is incinerated due to poor sorting results. This inefficiency means that majority of waste, which otherwise could be sorted and recycled, needs to be burned. However, even though mechanical biological treatment facilities struggle to sort communal waste properly they definitely have contributed to reduction of waste landfilled.

Also, there are inefficiencies in terms of obligatory registry (regulatory intervention) for the waste companies, especially regarding the companies that are entitled to issue warrants about the waste managed. Even though some companies are entitled to issue warrants, some management of waste is fictitious and taxes are not paid to the budget. In order to enable better functioning of producers' responsibility principle, integral part of which is the registration of companies entitled to issue warrants, the government of Lithuania is planning to oblige producers and importers to finance management of the communal waste (Government resolution on implementation of the government's programme plan, 13 march 2017, no. 167). This governmental measure should contribute to better implementation of producers and importers responsibility principle.

2.3.3.3 SUPPLY SIDE: ADDITIONALITY OF SELECTED INTERVENTIONS

One of the most important weaknesses of the interventions under waste management services was found with regard to obligatory register for waste companies. Waste companies having contracts with producers and importers have to provide them with documents, confirming that the waste was handled appropriately. However, waste which was supposed to be treated was either not treated or was treated incompletely. Weakness of this improper registry, specifically of companies that are entitled to issue warrants, resulted in loss of EUR 6,5 million in 2015. Also, only 17 percent of tires have been collected and managed in period of 2013-2016.

The impact of Municipal Environmental Protection Support Special Programme is positive, because environmental taxes are spent in the area of environmental protection, small scale waste collection infrastructure installation, etc. The impact of Municipal Environmental Protection Support Special Programme varies as municipalities have different budgets under this programme because of varying number and size of polluters in their territories. For example, municipality of Rokiškis expenses confirmed by the municipality council in 2014 amounted to approximately EUR 27 488, while expenses in the municipality of Klaipėda city equalled roughly EUR 84 145 in the same year.

It also calculated that after Vilnius waste incineration plant, co-financed by measure No.05.2.1- APVA-V-022 Development of Waste Incineration Capacity, CO₂ emissions will decrease by roughly 436 tons per year translating into EUR 17 million. It is also calculated that after Vilnius waste incineration plant will be built, inhabitants of Vilnius city will save EUR 13 million in terms of heating expenses. A significant impact i.e. additionality for the economy is already being made by "Fortum" Klaipėda.

Additionality on the overall economy (productivity of private entities, employment and capital investments) was assessed in most cases as non-existent or insignificantly decreasing. On the one hand, environmental requirements put a burden on business activities. For example, LAAIF programme intervention covers 80 percent of value of projects implemented, however only 50 percent of overall costs are covered and business experience red-tape burden. On the other hand, it is clear that without governmental interventions requiring to undertake environment protecting measures waste would be disposed at landfills - economically most attractive, nevertheless environmentally harmful way. In order to avoid negative additionality for environment and achieve goals of circular economy, landfill tax was introduced and mechanical biological treatment facilities were built in 2016.

Impact of interventions on productivity of private entities, employment and capital investments in most cases have no effect or insignificantly decrease it. Negative impacts on productivity cases are explained by the fact that some interventions require more expenses of private entities, as in the case of LAAIF subsidies, to fulfil the requirements. Some positive effects on employment and capital investments are created by subsidies during implementation of the small scale projects under Municipal Environment protection support special programme or larger as construction of mechanical biological treatment facilities or upcoming building of Vilnius waste incineration power plant, co-financed by measure No.05.2.1- APVA-V-022.

2.3.3.4 SUPPLY SIDE: SIDE-EFFECTS OF SELECTED INTERVENTIONS

Interventions' analysis has identified positive as well as negative side – effects. There are negative side – effects that are related to ESIF investments into waste incineration plant in Vilnius through measure No.05.2.1- APVA-V-022 Development of Waste Incineration Capacity. Market participants label it as undermining competitiveness and NGOs/environmental organizations oppose Vilnius incineration plant project backed by ESIF intervention as it, in their point of view, contradict to EU circular economy policy and national recycling targets. Discussions with the European Commission whether it is possible to provide ESIF investments for the project resulted in the need to keep gates fee low and limited opportunities to regulate disposal of waste at the landfills. Yet another problem related to landfills tax and gates fee. There is no obligation to raise gates fee as landfills tax gets up, thus overall costs of landfilled waste might not rise even if landfill tax raises.

The building of new incineration capacities also raises questions on whether amount of waste to be burned will be sufficient. It is questionable also due to the services-based character of the Lithuanian economy as well as contraction of population due to emigration and low fertility rates. Tallinn based waste incineration plant is already in need to import waste from United Kingdom and Scandinavia. Moreover, Vilnius incineration plant's costs exceed of similar plants that operate in Germany or Switzerland. High construction costs might have to be recovered through a tariff increase which might have a negative side-effect on households, but would be necessary for keeping waste incineration facilities economically viable. On the other hand, a possibility to use ashes (final residue of the incineration process) for the construction of roads is under investigation, which would make infrastructure construction cheaper and reduce landfills' maintenance costs.

Moreover, waste management tax reduction for the vulnerable groups has a side - effect in terms of property rights. For example, in areas of Telšiai and Švenčionys applicants for tariff reduction have to deliver documents on the real estate property they own. In Švenčionys area this requirement exists since 2014 and helped for applicants to get together documents proving their real estate rights. To some extent this side effect also helped to close loopholes of the prolonged transformation period. Subsidies provided for the municipalities under Waste management programme help to keep tariffs for waste collection and management lower as it finances distribution of waste containers for the inhabitants and collection and transportation of used tires. However, the very existence of the subsidies is caused by poor implementation of the producers and importers principle implementation and can be treated as a side-effect of non-enforcement of the principle.

There were both negative and positive side-effects of interventions under analysis identified. Negative mostly related to landfill's tax being low which result from mismatch of construction of waste sorting and waste incineration infrastructure. Future negative side-effects might be related to too costly waste incineration infrastructure as well as not sufficient supply of waste for keeping incineration facilities economically viable. Subsidies for municipalities under Waste Management programme, at least to some extent, is a side-effect of poor implementation of producers' responsibility principle. There were also a few positive side-effects identified: reaffirmation or establishment of right on private property or consideration of possibility to use incinerated waste for construction of roads.

2.3.3.5 DEMAND SIDE: IMPACT OF SELECTED INTERVENTIONS ON AFFORDABILITY OF THE SERVICE

During the impact assessment of selected interventions on affordability of the service, no obstacles or differences in relation to income were identified. However, there are other issues in terms of affordability (geographical, quality of the service). Reduced tariffs of waste management for vulnerable customers secure right for multi-child families, handicapped and lone pensioners to pay less (normally by 50 percent) for the municipal waste management service making it more affordable. However, tariff reduction is not tied to income and in the future, as waste management charges due to expensive mechanical biological treatment facilities and waste incineration infrastructure and it might become more difficult for social vulnerable people (in terms of finances) to use the public service. Subsidies for municipalities under Waste Management programme also help to increase affordability of the service for customers as municipalities distribute waste containers for private, especially more remote, households.

There are shortcomings in implementing obligation to sort waste. According to data from 2017, only 68 percent of households are supplied with all containers (for paper, glass and plastic) enabling waste sorting, 21 percent answered having either one or two waste sorting containers nearby. 10 percent indicated having no sorting opportunities in terms of containers nearby. Percentage of the households having all three types of containers nearby increased by 5 percent over the last two years. This is a problem in terms of affordability as inhabitants are forced to dispose their communal waste in mixed communal waste containers and pay for its management services. Lack of waste sorting possibilities result in inhabitants having limited opportunities to sort waste and reduce tariffs they pay for the waste management services.

Finally, waste incineration capacities are too low resulting in limited affordability to incinerate waste. However, this affordability results from insufficient amount of service being provided.

2.3.3.6 CONSISTENCY OF SELECTED INTERVENTIONS

The main inconsistencies were identified between waste incineration (limitations of private investments, ESIF investments) as it is currently planned and regulatory intervention obliging to sort waste. At the moment it is secured as functioning of mechanical biological treatment facilities has shortages i.e. 28 (State audit report, 2017) percent of waste delivered to facilities can be sorted and recycled, however only 3 percent really are. This secured relatively higher supply for waste incineration plant in Klaipėda. Higher supply is also secured by limited sorting opportunities as only 68 percent of inhabitants (State audit report, 2017) have waste sorting containers nearby. Increase in waste sorting availability, better functioning mechanical biological treatment facilities as well as demographic decline threaten incineration capabilities to become redundant.

However, there are also smaller inconsistencies or problems. For example, LAAIF subsidies finance help for the legal entities i.e. companies to undertake measures reducing pollution of air and water. Taxes collected from companies as polluters finance Municipal Environmental Support Special Programme which aims at development and maintenance of small scale infrastructure. However, since recently, at least in some municipalities, more and more individuals (physical people) apply for subsidies in order to protect privately owned natural environment from wild animals (for example, beavers). Of course, the

primary aim of tax of waste and air pollution is to discourage pollution and no tax would be collected if it worked perfectly. However it would mean that small scale infrastructure financed using Municipal Environmental Support Special Programme would need to look for alternative sources of funding.

There is also a similar contradiction in terms of funding with regard to landfill tax and subsidies to municipalities under Waste Management Programme it finances. Newest data indicate that since 2014 waste disposed at landfills almost halved. Of course, the Programme is also financed by taxes paid by producers and importers, who fail to provide full data on packages (or other waste) brought to Lithuanian market. Therefore, subsidies for municipalities under Waste Management Programme can face financial problems in the future. However, as it was mentioned earlier the programme is by itself a product of poorly implemented principle of producers and importers' responsibility.

As implemented now, intervention obliging waste companies to register, namely companies that can issue warranties confirming that certain amount of waste was managed, contradicts the obligation to sort waste and subsidies for municipalities under Waste Management programme. Because some waste is treated only on paper resulting in losses of tax accumulation. Enforcement of producers' responsibility principle amounts to one of the biggest issues in waste sector which translates into poorer financing of its services.

2.3.4 CONCLUSIONS AND RECOMMENDATIONS ON THE GOVERNMENT INTERVENTIONS IN THE LITHUANIAN WASTE MANAGEMENT SECTOR

Conclusions repeat the main intervention-related analysis points. It will try to highlight policy issues that interventions face and display space for policy improvement.

With regard to Vilnius incineration plant there was long discussion with the European Commission on whether ESIF investments are needed. It was only in 2017 when the project was provided with financial resources. Prolonged discussion meant a delay and inability to synchronize plant with construction of mechanical biological waste treatment facilities. Of course, incineration plant could have been planned quicker, however plant was declared to be project of state importance and private investments that otherwise would have enabled quicker construction, were excluded. The sector also includes third waste incineration plant in Kaunas. It will be built without ESIF support therefore will be able to incinerate not only communal waste. However, there is big question about sufficient supply of waste to all these projects taking into account service-orientated character of Lithuanian economy, need to improve waste sorting in mechanical biological facilities themselves and demographic tendencies. For example a similar plant based in Tallinn faces lack of waste to be incinerated and has to import from United Kingdom and Scandinavia accordingly.

Incineration also disposes waste in a clean way, inflicting no harm on environment. Ashes can be used to build roads, a study on such possibility is currently undergoing. The regulation was changed at the start of 2017, allowing the use of incinerated waste to build roads if the material corresponds to the standards.

The obligation to register, namely part regarding companies that can issue warranties confirming that certain amount of waste was managed, is poorly implemented since right to collect and dispose waste

is given to companies that afterwards do not implement their duties properly. For example, there were round EUR 6,5 million not paid to the budget even though the waste was unmanaged in 2015. Waste companies simply provided producers and imports with documents confirming that their waste was managed, while in reality it was not. Therefore, tougher control of registry is needed in order to avoid such tax evasions in the future. For example, not only headquarters, but also branches of companies need to be checked in order to make sure that amounts of waste managed, as indicated in the documents, correspond to real situation. Possibilities and requirement to register a company should also be review and strengthened. These measures would help to make Waste management sector more transparent and increase possibilities to finance other programmes in the sector. It also needs to be noted that producers and importers of tires do not stick to principle of producers' responsibility. In 2013-2016, for example, only 17 percent of tires have been collected and managed. This is one of the reasons why such programmes as intervention as subsidies for Municipalities under Waste Management programme are needed. If producers and importers implemented principle of their responsibility much smaller or none public financial resources would be needed to enable collection and management of tires. However, subsidies for municipalities under Waste Management programme has a positive impact on the target group as municipalities use the funding *inter alia* to supply inhabitants, especially living in more remote areas, with waste containers.

This poorly implemented intervention also means that inhabitants pay for the waste management (package tax is included into the price of a good) – negative impact on the target group. Inhabitants also pay for the management of mixed communal waste. Partially higher amount of payments are also collected due to *inter alia* insufficient waste sorting possibilities. Percentage of inhabitants having all three waste sorting containers was 68 in the year 2017. This resulted in poorer waste sorting opportunities for the inhabitants. Possibilities for inhabitants to sort waste should be increased.

Due to the governance problems pollution tax for disposal of non-hazardous, inert and hazardous waste is non-effective. It was introduced only in 2016 and is supposed to rise. However, the tax is too small and is not increasing due to shortage of waste incineration capacities. Therefore, recent reduction of waste disposed at landfills should be attributed to mechanical biological waste treatment infrastructure rather than tax. A problem of the tax relate to possibility to exclude it from the general tax paid when entering a landfill (gate fee). The general gate fee should increase together with increases of landfill's tax paid to the state.

2.3.5 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

This chapter presents the analysis of the potential for the implementation of financial instruments in the two Lithuanian Waste management sector's services selected for the in-depth analysis:

- Municipal waste management;
- Waste incineration.

2.3.5.1 WASTE INCINERATION AND CO-INCINERATION

The consumer payment covers the whole annual costs of the service provision. Sale of bottom ash might provide additional revenue. Currently, only one project is operating, other two, namely incineration plants in Vilnius and Kaunas, are being built.

TABLE 36. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN WASTE INCINERATION AND CO-INCINERATION SERVICES

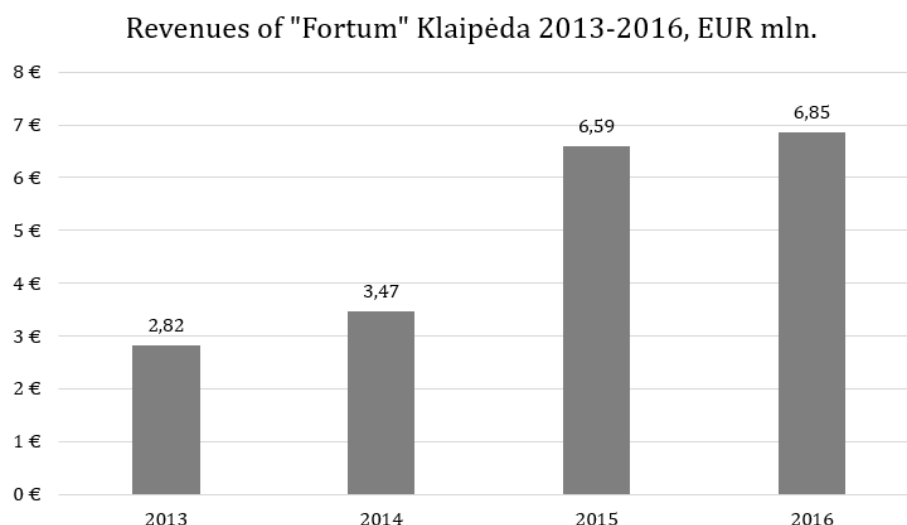
Criteria	FI potential
Pricing system	Consumer-paid service
Regulatory/governance Framework	Currently private domain
Market potential	Currently high, but the market might be too low when all three incineration plants are finished
Accountability	Goals compatibility with sector's aims are not certain
Capacity	Fails to satisfy demand

Source: BGI Consulting et al, 2017

PRICING SYSTEM

Service pricing is regulated and set by relevant authorities. The consumer payment has not only covered provision costs, but generated revenues. Revenues by "Fortum" Klaipėda are provided in the table below.

TABLE 37. REVENUES OF "FORTUM" KLAIPĖDA FOR 2013-2016



Source: BGI Consulting et al, 2017

Additional revenue might be generated through development of bottom ashes usage, product in the construction and road sector. Currently bottom ashes represent expenditure for "Fortum" Klaipėda, which have increased after gate fees were raised.

Increase in the price of the service, along with increase in quality of service provision could be applied with same levels of consumption among all income groups. Additional revenue might also be generated by increase in amount of waste which currently allowed to be incinerated. Additional space for revenue generation was created in 2017 as Ministry of Environment increase the quota of waste to be burned to 255 mln. tonnes. Another way to incinerate more waste and thus increase revenue is by expanding types of waste that can be burned. However, government intervention using ESIF funds resulted in a requirement to incinerate only sorted communal waste in case of Vilnius incineration plant.

REGULATORY AND GOVERNANCE FRAMEWORK

At the moment incineration services are provided by "Fortum" Klaipėda, however in the upcoming projects service provision is distributed between government-owned entities and a private investor (State owned entity Lietuvos energija is owner of Vilnius WtE project and 51 percent of Kaunas WtE project. Klaipėda WtE plant is privately operated by Fortum. Kaunas WtE is 49 percent owned by Fortum).

Such intervention as ESIF investments into Vilnius incineration plant distort competition and result in market participants suing European Commission for provision of unfounded aid. Lithuanian laws also limit private investments into waste incineration projects.

MARKET POTENTIAL

Currently market is dominated by privately owned Fortum Klaipėda. Two upcoming waste incineration plants will be run by state-owned company "Lietuvos Energija". Even though at the moment only around 17 percent of generated waste is incinerated, therefore current state of play indicate high market potential. Waste for the incineration plant is provided by Klaipėda region and partially by Kaunas and Alytus regions. However, demand for incineration, especially facing high gate fees, is high also in other regions of Lithuania. Nevertheless, upcoming projects give rise to concerns that amount of waste won't be sufficient. Such concerns are reinforced by service-orientated Lithuanian economy and negative demographic tendencies. Also, there is a negative regulatory environment, prohibiting to import waste from abroad. All in all, there is limited market potential for all three waste incineration plants in Lithuania.

ACCOUNTABILITY

At first, incineration plant was planned to be attributed for energy sector. Then European Commission intervention has changed the plans. Project at the moment is attributed to the waste sector, which might cause incompatibility with circular economy goals of the sector, especially if Kaunas incineration plant will be built. Therefore, consistency between the goals of the sector and all three waste incineration plants operating profitably is far from certain.

CAPACITY

Service provision quality is not sufficient mainly because it fails to satisfy demand for incineration meaning that some waste is still landfilled rather than incinerated. Such a delay happened mainly due to prolonged bargaining process with European Commission over ESIF investments (financial intervention). However, state at the moment operating incineration plant also burns waste which can be recycled and employed for further use.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

Services are paid, currently operating Fortum Klaipėda generates revenue. Therefore, financial instruments can be introduced. It was even made in case of Vilnius incineration plant as a EUR 190 million loan from European investment bank was taken. However, if all three waste incineration projects were implemented, market potential might be too little for all of them to remain economically viable. These concerns are based on service-orientated character of Lithuanian economy and negative demographic tendencies.

2.3.5.2 MUNICIPAL WASTE MANAGEMENT

Low pricing and market fragmentation limits the potential for the implementation of financial instruments. Additional revenue could be generated to some extent through increase in tariff, as well as through increase in scope and improvement of services.

TABLE 38. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN MUNICIPAL WASTE COLLECTION SERVICES

Criteria	FI potential
Pricing system	Consumer-paid service
Regulatory/governance Framework	Public/private
Market potential	Decreasing population/inner migration
Accountability	Compatibility of short and long term goals
Capacity	Spatial distribution issues

Source: BGI Consulting et al, 2017

PRICING SYSTEM

Service pricing is available but non-regulated. Consumer payment covers between 75 and 100 percent of the costs for service provision. Increase in the price of the service, along with increase in the quality of service provision could be applied with the same levels of consumption among all income groups.

REGULATORY AND GOVERNANCE FRAMEWORK

Around 110 private and municipal companies are delivering the service, with similar costs for both private and public entities. Major obstacles to enter the market for private entities are the service delivery places (e.g. dispersion) and market size.

The tariff or charge is approved by municipal council and usually is a political issue.

MARKET POTENTIAL

Market share of public entities is of less than 34 percent. All households and private companies are targeted by this service. However, inner migration and decreasing number of inhabitants especially in Lithuanian regions limits market potential.

Additional revenue could be generated to some extent through increase in tariff. However, there is little room left for increase in the number of customers as at the moment 95 percent of Lithuanian population use the communal waste management services.

ACCOUNTABILITY

Information is available about the context of the intervention, objectives are clearly defined and targets available. Additionally, short-term and long-term objectives are consistent and target achievements have increased rapidly with the MBT (Mechanical Biological Treatment) plants operations started in 2015-2016.

CAPACITY

Even though demand for the service is met by its supply, as 95 percent of Lithuanian population receive communal waste management service, there are still some affordability issues in scarcely populated Lithuania areas.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

There are private as well as public providers, they are selected on competitive basis. Customers pay for waste management services, however as inner migration intensifies potential for revenue generation in more scarcely populated areas decreases. There is a need to overcome market fragmentation and increase tariff paid by the customers slightly in order to increase potential for FIs.

2.4 CROATIA: WASTE MANAGEMENT

2.4.1 GENERAL OVERVIEW OF THE GOVERNMENT INTERVENTIONS IN THE SECTOR

The main policy goal in the Waste management sector in Croatia is to improve the waste management system and concrete objectives are derived from the assessment of the current state and obligations arising from the adoption of the EU legislation. The policy goal is characterised by the target values of related context indicators for each type of waste. In terms of municipal waste, the main objectives are: to reduce the quantity of communal waste produced by 5 percent, to collect separately 60 percent of the total communal waste, to collect 40 percent of the produced bio-waste and to dispose of less than 25 percent of the communal waste in the landfills.⁶⁰ Goals should be achieved by 2022 compared to 2015. The trend of the indicators is positive, i.e. their target values are achieved or are likely to be achieved in a few years, with respect to special categories of waste. With respect to municipal waste management systems, the trend is positive, yet the achievement of 2022 targets, due to waste management jurisdiction under local governments, is not certain.

TABLE 39. VALUES BY WASTE TYPE THAT HAVE BEEN ACHIEVED IN 2015

Waste type	Annual quantity in tones (2015)
Produced communal waste	1.626.970
Collected separately communal waste	24%
Produced bio-waste	1.001.099
Collected separately bio-waste	11%

Source: Waste Management Plan of the Republic of Croatia for the period 2017 – 2022, 2017.

In total, two main public services contributing to the achievement of the main policy goal of the sector were identified in the Waste management sector in Croatia. The list of all the services in the sector and their respective aims is provided in the table below.

⁶⁰Waste Management Plan of the Republic of Croatia for the period 2017 – 2022 (https://narodne-novine.nn.hr/clanci/sluzbeni/2017_01_3_120.html)

TABLE 40. CROATIAN WASTE MANAGEMENT SECTOR'S SERVICES AND THEIR AIMS

Service title	Aim of the service
Collection, transport and disposal of municipal waste	To collect, transport and dispose communal waste
Maintaining recycling yards	To maintain recycling yards

Source: BGI Consulting et al, 2017.

Local self governing units are responsible for provision of public services in the communal Waste management sector in Croatia. Public service implies collection, transport and disposal of the municipal waste and for the maintenance of recycling yards and it is implemented by communal utility companies, which can be publicly or privately owned (concessionaires).

Below institutional responsibilities in waste management system in Republic of Croatia are listed:

Government / **Ministry for Environmental Protection and Energy:**

- making legislations;
- supervision;
- issuing permits for management of dangerous waste & thermal treatment of waste (including giving consent to contracts btw. EPEEF and service providers managing special categories of waste);
- Issuing consent to import/export waste
- maintaining taxpayers' records (a) records on WM service providers, b) records on importers/exporters of waste, c) records on laboratories & byproducts.

Implementing bodies on national level:

- **Croatian Agency for Environment and Protection**⁶¹: collecting and managing data in accordance with the Waste Management Act (maintaining the waste management information system, producing report on the state of the waste management)
- **Environmental Protection and Energy Efficiency Fund**: managing and collecting environmental fees and providing (co)funding for WM projects and programs; keeping the taxpayers' records on management of special categories of waste.

Implementing bodies on regional level: **administrative offices in the counties** (preparing regional waste management plans, issuing permits for WM other than ones under jurisdiction of MZOE)

Local level: **local self-government units (LSGU)** have the major responsibility for implementation of prescribed waste management measures in particular area. Several units of local and regional self-government can jointly ensure the joint implementation of waste management measures. LSGU have to:

- Secure locations for WM facilities, which includes also changes to spatial plans, if needed

⁶¹ Established 17. September 2015, by merging Agency for Environmental Protection (AZO) and State office for protection of nature

- Prepare WM plan for 8-year period, which should be aligned with County WM plan and national Plan. Local plan contains: measures for separate collection of communal waste, measures for monitoring and managing waste disposal sites, list of sites polluted by waste, the plan for remediation of waste dumpsites (activities and financing)
- Provide public service – collection of communal waste, transport and disposal
- Secure separate collection (containers) for communal waste (paper, metal, glass, plastic, textile, biodegradable) and provide on-the-call service for large house waste
- Maintain one or more recycling yards / mobile units (no. of yards depends on no of inhabitants). These yards have to collect problematic waste, paper, metal, glass, plastic, textile, large house waste, edible oils, detergents, paints, medications, electric and electronic waste, batteries and small scale construction waste.
- Manage illegally disposed waste
- Finance WM facilities
- Compensate real-estate owners in case municipal WM facility is about to be constructed 500 m from the estate
- Give concessions for operators who deal with communal waste management in their area
- Establish prices for communal waste management services in accordance with polluter pays principle and economical viability. Prices have to be formed in relation to the quantity of the waste (measured by weight or volume of containers and frequency of collection)
- Provide data to national bodies
- Organise communication and awareness raising activities

Private operators: According to Art. 84 of Sustainable Waste Management Act (NN 94/13), any legal and physical person (tvrtka, obrt) can collect, transport, trade, recycle, treat and dispose of the waste, subject to obtaining permission from the Ministry (hazardous waste) / County (non-hazardous waste).

2.4.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

The scheme below disassembles the logic of the overall governmental interventions in the Waste management sector in Croatia. It starts with the rationale of the provision of the services by the public sector, then indicates services corresponding to that particular rationale. Services are classified not only by the rationale they correspond to, but also by a body, which is responsible for the provision of them. Other governmental interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

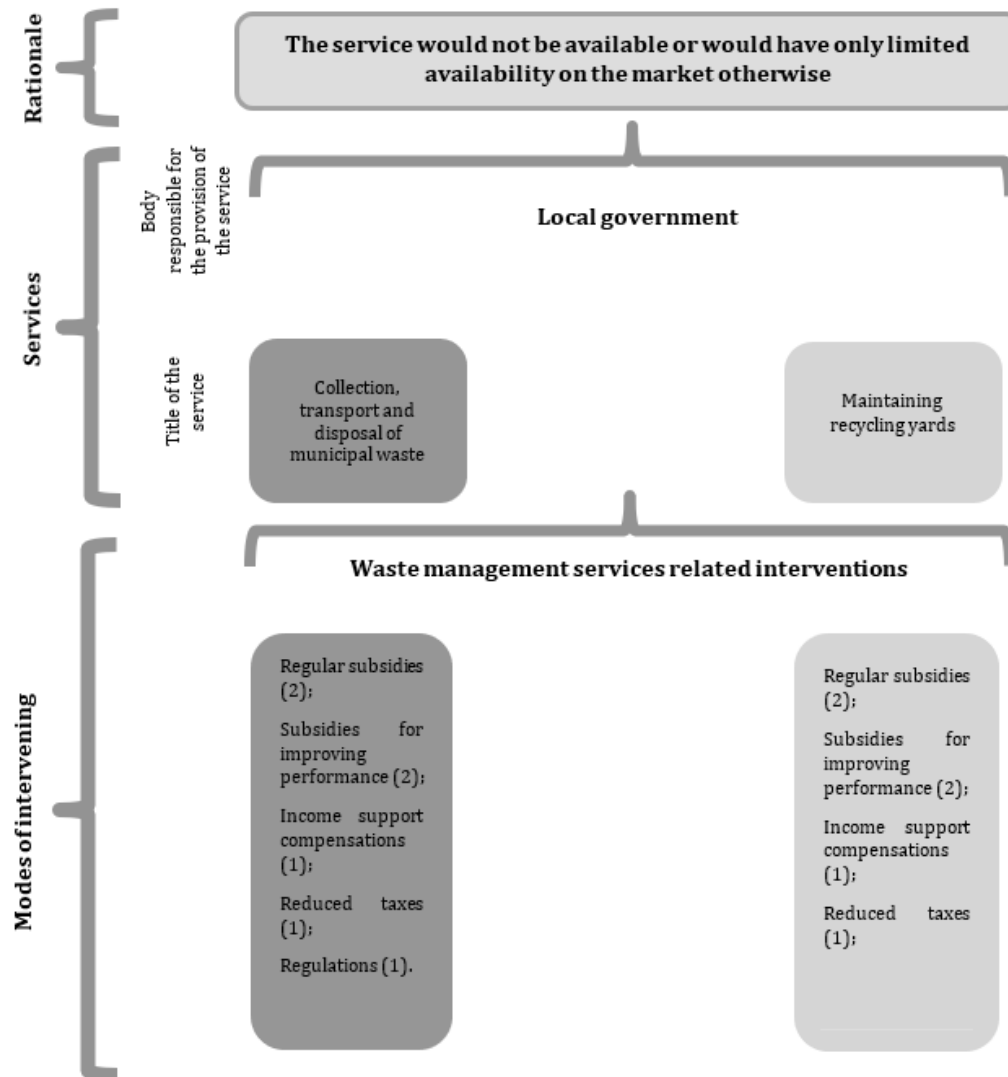


FIGURE 12. LOGIC OF INTERVENTIONS IN THE CROATIAN WASTE MANAGEMENT SECTOR

Source: BGI Consulting et al, 2017.

The reason of providing the services in the Waste management sector in Croatia by the public sector is that these services *would be unavailable or would have only limited availability in the market otherwise*. That is because provision of these services would not be profitable in scarcely populated areas and the government seeks to ensure equal accessibility to the services for all citizens. As both services in the sector are closely related, the same set of related interventions (except one regulation regarding the fee of collection, transport and disposal of municipal waste services) apply to both services.

2.4.1.2 NOTE ON DENSITY OF POPULATION AND TERRITORIAL ORGANISATION IN GENERAL

Republic of Croatia has a land area of 56.594 km² and average density of 75,71 inhab/km², which is for third below EU 27 average (115 inhab/km²) and makes it a low populated country. Out of 6755 settlements, there are only 38 that have more than 10.000 inhabitants.

On the level of counties (21 of them), 13 have below-average density and with great variations – density in city of Zagreb (which has a status of a county) is 1.232,48 inhab/km², which is almost 8 times larger than second most densely populated county (Međimurska, 156,11 inhab/km²). Ličko-senjska county has average density of 9,51 inhab/km².

Territorial administrative division is below optimal – the size of local self-governing units varies from 966,87 km² (Gospić) to 6.1 km² (municipality Dekanovac). Out of 556 local self governing units (127 towns and 429 municipalities), only 67 have more than 10.000 inhabitants (60 towns and 7 municipalities⁶²). Considering the number of LSGs, there is an issue with organizational, financial and human capacities for fulfilling legal requirements in waste management as well as all other sectors⁶³.

2.4.1.3 LEVEL OF LIBERALIZATION OF THE SERVICES PROVISION

The public services in the Waste management sector were ranked according to the level of liberalisation in their provision in the figure below.

⁶² Municipality is a local self governing unit established for a number of settlements homogenous in natural, economic and/or social sense. Town is a local self governing unit that has more than 10.000 inhabitants and/or is a seat of the County. However, the law allows for establishment of the Town in case of special historical, economic and territorial reasons.

⁶³ As assessed by the Spatial Development Strategy of the Republic of Croatia. Notably, the Strategy states this concern in relation to spatial planning system only, but it applies to all other aspects of self-governing. The Law on Regional and Local Self-government (Art. 19) defines that towns and municipalities are responsible for meeting the direct needs of the citizens in sectors: spatial and urban planning and housing, utilities, child care, social care, primary health care, pre-school and primary education, culture and sports, nature environment, civil and fire protection, local transport. Particular sector laws determine responsibilities in more detail. The law does not make distinction in local-self governing jurisdiction between towns and municipalities. However, it stipulates that cities above 35.000 inhabitants (and/or county seats) are additionally responsible for maintenance of local roads, issuing building permits and implementing spatial plans.

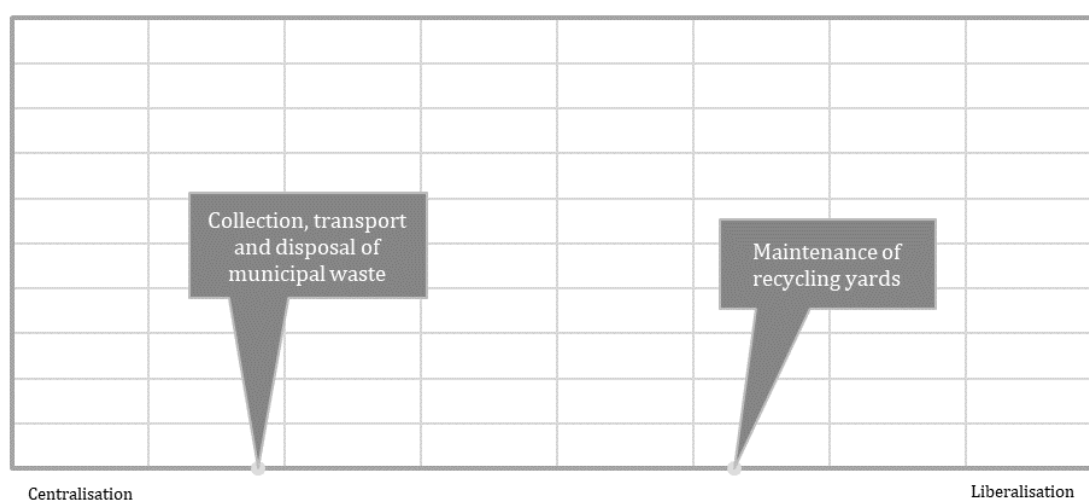


FIGURE 13. SUPPLY SIDE OF THE CROATIAN WASTE MANAGEMENT SECTOR SERVICES

Source: BGI Consulting et al, 2017.

Even though there are only two closely related services in the Waste management sector in Croatia, they significantly differ in terms of liberalisation of their provision.

Provision of collection, transport and disposal of municipal waste is provided by municipality-owned entities, delegation to municipal-owned entity is also the most common current provision mode of the service. The pricing of the service is set by the relevant authorities and there is no room for private operators in the market.

In comparison, the service of maintenance of recycling yards is provided by market entities and provision of the service through private firms (though LSGs have the right to do it themselves) is the most common current delivery mode of the service. Local government units are responsible for establishing a minimal number of recycling yards and/or mobile units (per no. of inhabitants), either through their own utility companies, or private firms registered for waste management services. Public operators' market share ranges from 34 to 66 percent.

Firms in Recycling yard Register are listed below:⁶⁴

1. Nevkoš d.o.o. (Vinkovci, općina Andrijaševci, općina Nuštar, općina Babina Greda, općina Tovarnik, općina Lovas)
2. GKP Pre-kom d.o.o. (Prelog, općina Kotoriba, općina Donja Dubrava, općina Donji Vidovec, općina Sveta Marija, općina Donji Kraljevec, općina Goričan, općina Belica, općina Dekanovec)
3. GKP Čakom d.o.o. (Čakovec, općina Nedelišće, općina Orehovica, općina Strahoninec, općina Mala Subotica, općina Štrigova, općina Šenkovec)
4. Mišić, vl. Antun Mišić (Ivanovec)

⁶⁴ The Ministry of Environment and Energy (<http://www.mzoip.hr/hr/otpad/ocevidnici.html>)

5. Eko-flor plus d.o.o. (Jastrebarsko, općina Sv. Križ Začretje, općina Podravska Moslavina, općina Drenje, općina Gornja Stubica, općina Viljevo, općina Magadenovac, općina Stupnik)
6. Adriatic Blizna d.o.o. (Labin, općina Prgomet)
7. Odlagalište sirovina (Zadar)
8. Baranjska čistoća d.o.o. (Beli Manastir)
9. Čistoća d.o.o. (Zadar, Nin, općina Vrsi, općina Škabrnja, općina Zemunik, općina Pašman, općina Vrsi, općina Sukošan, općina Starigrad, općina Ražanac, općina Privlaka, općina Preko, općina Posedarje, općina Poličnik, općina Novigrad, općina Kukljica, općina Jasenice, općina Galovac)
10. Komunalno poduzeće d.o.o. (Križevci, općina Gornja Rijeka) maj d.o.o. (Umag)
11. Jakob Becker d.o.o. (Gornja Vrba)
12. Vlahovac, vl. Stjepan Vlahovac (Velika Gorica)
13. Ponikve eko otok Krk do.o. (Malinska Dubašnica)
14. Doroslov d.o.o. (Donji Miholjac)
15. Komunalac d.o.o. (Garešnica, općina Hercegovac, Velika Tronovitica I Berek)
16. Zagrebački holding d.o.o. (Zagreb)
17. Ivkom d.d. (Ivanec)
18. Komunalne usluge Cres Lošinj d.o.o. (Mali Lošinj, Veli Lošinj, Unije, Susak, Ilovik)
19. Komunalac Vrbovec d.o.o. (Vrbovec)
20. Med eko services d.o.o. (Medulin)
21. VG Čistoća (Velika Gorica)
22. Komunalac d.o.o. (Koprivnica)
23. KD Čistoća d.o.o. (Rijeka)
24. Murs-ekom d.o.o. (Mursko Središće)
25. Park d.o.o. (Buzet)
26. Komunalac d.o.o. (Vukovar, općina Tompojevci)
27. Slatina kom d.o.o. (Čađavica)
28. Ce-za-r d.o.o. (Kaštel)
29. Komunalni servis d.o.o. (Rovinj)
30. Metris d.od. (Pula, Bakar)
31. Respect d.o.o. (Metković)
32. Komunalno-zabok d.o.o. (Zabok)
33. Čistoća cetinske krajine d.o.o. (općina Otok) maj d.o.o. (Labin)
34. Kommunalac Petrinja d.o.o. (Petrinja, općina Majur, općina Donji Kukuzari)
35. Usluga d.o.o. (Pazin)
36. Unija – Ivanić Grad d.o.o. (Ivanić Grad)
37. Komunalac Davor d.o.o. (općina Davor)
38. Unikom d.o.o. (Osijek, općina Antunovac)
39. Čistoća d.o.o. (Split)
40. Arburoža d.o.o. (Novalja)
41. Komunalac d.o.o. (općina Mošćenička Draga, općina Lovran)
42. Azelija eko d.o.o. (Ozalj, općina Ribnik)
43. Lipkom d.o.o. (Lipik)
44. Čisti otok d.o.o. (općina Vir)
45. Gacka d.o.o. (Otočac)
46. Darkom d.o.o. (Sirač)
47. Babić d.o.o. (Breznički Hum)
48. Nautički centar Komiža d.o.o. (Komiža)
49. Gospodarenje otpadom Sisak d.o.o. (Sisak)

50. Komunalac d.o.o. (Bjelovar)
51. Puntica d.o.o. (općina Funtana)
52. Komunalac Glina d.o.o. (Glina)
53. Čistoća d.o.o. (Varaždin, Gornji Kneginec)
54. Lipkom servisi d.o.o. (općina Lipovljani)
55. TD Komunalac d.o.o. (Slavonski Brod)
56. Vranjevo d.o.o. (Otok)
57. Junakovci d.o.o. (Semeljci)
58. Čistoća do.o.o (Dubrovnik)
59. Čistoća d.o.o. (Karlovac)
60. Vojnić-Krnjak komunalac d.o.o. (općina Vojnić)
61. Unija nova d.o.o. (općina Čepin)
62. Komunalne usluge Đurđevac d.o.o. (Đurđevac)
63. Našički park d.o.o. (Našice)
64. Papuk d.o.o. (Orahovica)
65. Komunalac Fažana d.o.o. (općina Fažana)
66. Peovica d.o.o. (Omiš, općina Dugi Rat, općina Šestanovac, općina Zadvarje)
67. Urbanizam d.o.o. (Valpovo, općina Koška, općina Bizovac, općina Petrijevci)
68. Strunje-trade d.o.o. (općina Privlaka)
69. Kombel d.o.o. (Belišće)
70. Krakom d.o.o. (Krapina)
71. Mull-trans d.o.o. (općina Šodolovci, općina Neretić)
72. Čistoća Pag d.o.o. (Pag)
73. Komunalije d.o.o. (Čazma)
74. Ivakop do.o.o (općina Kloštar Ivanić)
75. Komunalac d.o.o. (općina Plitvička jezera)
76. Novokom d.o.o. (Novska)
77. Komunalno Mljet do.o. (općina Mljet)
78. Komunalno društvo Viškovo d.o.o. (općina Viškovo)
79. Komunalac d.o.o. (Samobor)
80. Rakitovac d.o.o. (općina Oprisavci)
81. Poduzetnička zona Križ d.o.o. (Križ)
82. Trogir holding d.o.o. (Trogir)
83. Pula Herculanea d.o.o. (Pula)

According to the data from Waste management Plan 2017-2022, during 2015, in total 207 companies were providing service of communal waste collection. In period between 2007 and 2016, total number of firms having some sort of waste management licence has increased (no of firms with licences for managing non-hazardous waste was raised for about 42%, and firms with licences for hazardous waste for 55%). In May 2016, in total 441 firms have had some kind of licence for waste management.

2.4.2 ANALYSIS OF SELECTED INTERVENTIONS

The figures provided below depict the structure of each service selected for further analysis. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision identified. Graphs in light red indicate service providers and group(s) the service is targeted at.

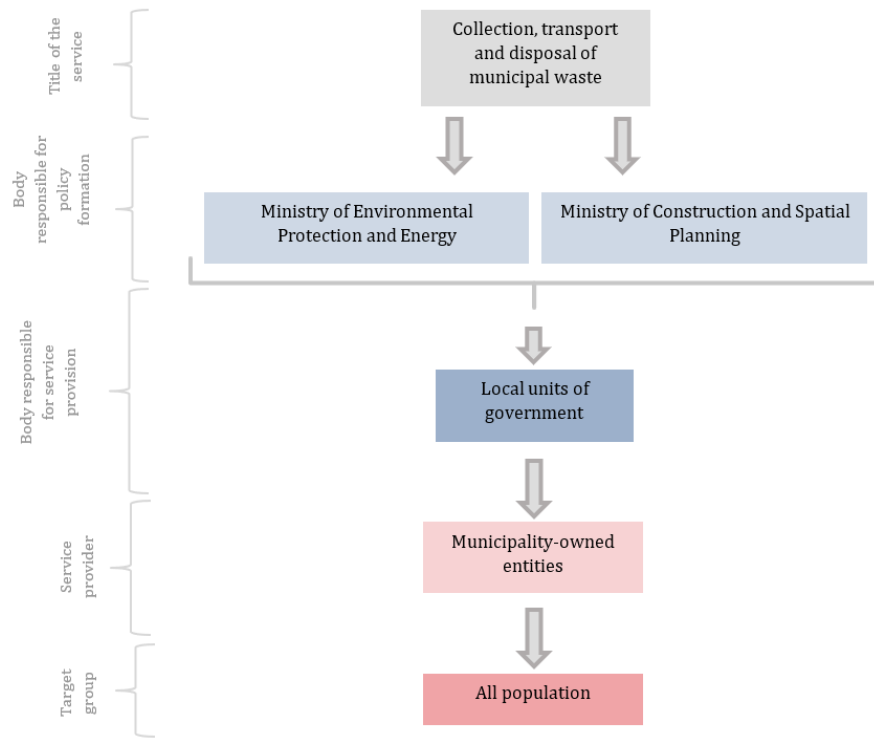


FIGURE 14. COLLECTION, TRANSPORT AND DISPOSAL OF MUNICIPAL WASTE SERVICE PROVISION MECHANISMS IN WASTE MANAGEMENT SECTOR IN CROATIA.

Source: BGI Consulting et al, 2017.

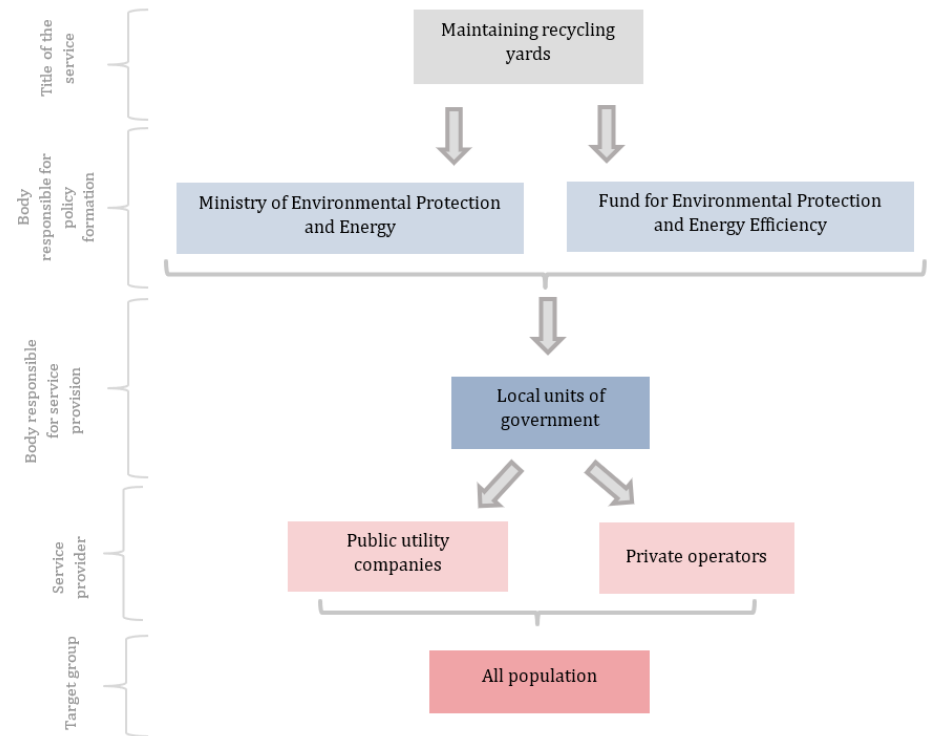


FIGURE 15. MAINTAINING RECYCLING YARDS SERVICE PROVISION MECHANISMS IN WASTE MANAGEMENT SECTOR IN CROATIA.

Source: BGI Consulting et al, 2017.

In terms of financing, collection, transport and disposal of communal waste is a significantly larger service with annual costs of provision estimated to be around EUR 223 million⁶⁵. In comparison, the annual costs of maintaining recycling yards are estimated to be around EUR 9 million

A few interventions, which are related to both services in the sector, constitute most of the costs in the sector. These interventions are construction of county waste management centres, stimulation of recycle and reuse of specific categories of waste, system of refundable fees for managing waste packaging and financing rehabilitation of illegal dumpsites and remediation of municipal landfills.

2.4.2.1 SUPPLY SIDE: QUALITY OF PLANNING OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Quality of planning of the services was evaluated by examining how clearly the long-term (i.e. policy) and the short-term (i.e. operational) objectives of the services were defined and how compatible they are among themselves.

TABLE 41. QUALITY OF PLANNING OF THE WASTE MANAGEMENT SECTOR SERVICES IN CROATIA

Name of the service	The long-term policy objectives are clearly defined	The short-term operational objectives are clearly defined	The long-term and short-term objectives are non-contradictory	Quality of planning of the service
Collection, transport and disposal of municipal waste	√	×	√	AVERAGE
Maintaining recycling yards	√	×	√	AVERAGE

Source: BGI Consulting et al, 2017.

The quality of planning was determined to be average for both services analysed in the Waste management sector in Croatia. The long-term policy objectives are clearly defined for both services, however the short-term operational objectives are not. The operational objectives are supposed to be defined in local waste management plans, which are not prepared yet or only draft versions of the plans are available. As a result, it is difficult to conclude with certainty that long-term and short-term objectives are non-contradictory. Nevertheless, there are no grounds to believe that, once clearly defined, the operational objectives would contradict the policy objectives.

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards

⁶⁵ This is an estimation based on report from Zagreb utility company, which specifies that expenses per tone of mixed communal waste (collection and separation) is 176.81 EUR. Multiplied with total quantity of waste in RH (1.653.918 tons) gives around 223 mil EUR. Other large utility companies (for towns Rijeka, Osijek, Split) do not provide the expenditure per ton of waste.

and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

TABLE 42. QUALITY OF PLANNING OF THE WASTE MANAGEMENT SECTOR SERVICE RELATED INTERVENTIONS IN CROATIA

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Collection, transport and disposal of municipal waste and maintaining recycling yards	Stimulation of collection, recycling and reuse of special categories of waste	×	√	√	√	√	×	AVERAGE
	Subsidised system of refundable fees for managing waste packaging	×	√	√	√	√	×	AVERAGE
	VAT relief for public service of collection of communal waste	×	√	×	√	√	×	AVERAGE
	County Waste Management Centres	√	√	√	√	√	×	AVERAGE
	Support for rehabilitation of illegal dumpsites and remediation of municipal landfills	√	√	√	N/A	√	√	GOOD
	Compensations for reduced market value of the property	√	√	N/A	√	√	×	AVERAGE
Collection, transport and disposal of municipal waste	Regulation of the fee for public service	×	√	√	√	√	√	AVERAGE

Source: BGI Consulting et al, 2017.

The quality of planning was determined to be good for only one intervention – support for rehabilitation of illegal dumpsites and remediation of municipal landfills – out of the ones selected for in-depth analysis. The quality of planning was determined to be average for the rest of the selected interventions. The common shortcoming in planning of these interventions was the lack of clarity in the definitions of types and

amounts of costs of the interventions' implementation, foreseen revenue generated by the interventions and management and delivery standards. In addition, the overall size of the demand of the related services was not always taken into account when planning the interventions.

2.4.2.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Efficiency of delivery of the services was evaluated on the basis of five key criteria: how well the overall demand of the service is met by the overall supply; how well the public service complies with the qualitative standards; the existence of private entities providing similar services in the market; the market share of the private entities in the service provision market; whether the private entities providing similar services in the market can compete on equal terms with public providers.

TABLE 43. EFFICIENCY OF DELIVERY OF THE WASTE MANAGEMENT SECTOR SERVICES IN CROATIA

Name of the service	The overall demand of the service is met by the overall supply	The public service complies with the qualitative standards	There are existing private entities providing similar services in the market	Private entities occupy 34 percent or more of the service provision market	Private entities providing similar services in the market can compete on equal terms with the public providers	Efficiency of the delivery of the service
Collection, transport and disposal of municipal waste	√	√	×	×	×	LOW
Maintaining recycling yards	√	√	√	√	√	HIGH

Source: BGI Consulting et al, 2017.

The efficiency of delivery was determined to be high for one of the analysed services in the sector – maintaining recycling yards. All five key efficiency criteria are satisfied in the delivery of this service. In contrast, the efficiency of delivery was determined to be low for collection, transport and disposal of municipal waste. Private entities cannot compete on equal terms with the public providers of the service, primarily due to legal and administrative restrictions. As a result, there are no private entities providing similar services in the market. Furthermore, the public service does not comply with the qualitative

standards⁶⁶ in some municipalities, mainly due to poor investment planning and ineffective assets management, which results in poor infrastructure and old technology.

There are two government interventions in the sector, which are supposed to contribute to the effectiveness and the enhancement of efficiency of the related service but do not contribute to either of these parameters. These interventions are county waste management centres and support for rehabilitation of illegal dumpsites and remediation of municipal landfills. However, the latter one helps to meet the demand for the collection, transport and disposal of municipal waste. In addition, there is one intervention, namely regulation of the fee for public service, which is supposed to contribute to the effectiveness of the service but does not contribute. Calculation of the fee for the service paid by citizens is set by Waste management Act. The price is calculated proportionally to the quantity of the generated waste and the criterion is either the mass of waste or the volume of the container and frequency of collection (variable part of the total fee). Additionally, service provider should include in the fee the cost of procurement and maintenance of equipment and transport and processing costs (fixed part of the total fee). It directly influences the behaviour of consumers. Regulated prices might be a barrier to the entrance to the market. Yet, this regulation is also in place to stimulate change of behaviour and more efficient pricing. There are no assessment on the size of these effects and indeed whether they are positive or negative.

There is a significant institutional potential for transferring the provision of the services to private entities in the Waste management sector in Croatia. Regarding collection, transport and disposal of municipal waste, there are considerations of transferring the transport and disposal services to the private entities. In fact, changes related to this transfer are already taking place in the responsible authorities. Legal framework is set for transferring services to the private entities. As if why this is not happening, or is happening slowly, one could single out reasons like lack of political will and the opposition from the left side of political spectre, social implications of dismantling communal companies, etc. As of yet, there are no significant obstacles for these internal changes in the responsible authorities. As for maintaining recycling yards, there are considerations to transfer the whole service to the private entities. As with the aforementioned service, the required internal changes in the responsible authorities are taking place without any significant obstacles thus far.

2.4.2.3 SUPPLY SIDE: ADDITIONALITY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Both services in the sector have a significant positive impact on the target group, as well as productivity of private entities, employment and capital investments. The positive impact on the aforementioned macroeconomic indicators can be mainly attributed to the fact that environmental regulations⁶⁷ in the waste management services created the demand for new related services, for example trade, recycling and

⁶⁶ The quality of service varies in different municipality, depending on the quality and wealth of the local government. One particular aspect that varies greatly is the selective collection of waste

⁶⁷ The key legislation are The Waste Management Act, the Act on Fund for Environmental Protection and Energy Efficiency, the Act on Communal Services

reuse of waste. Number of correlated service providers and their profits rise sharply and so does employment.

All the service related interventions in the sector have a positive (in most cases, significant) impact on the target group. Construction of county waste management centres is the intervention, which contributed the most significantly to the overall positive impact on productivity of private entities, employment and capital investments. It will stimulate private capital investments and help local governments to cope with large capital investment requirements, which are entailed in environmental legislation. By opening new waste management centres more people will be employed.

Two waste management centers are currently being established, the Kaštijun Waste Management Center, with a capacity of 90,000 tons per year (Istria County) and the Marišćina Waste Management Center, with a capacity of 100,000 tons per year (Primorje-Gorski Kotar county). The remaining planned centers (11) are under preparation, with 3 of them being in mostly advance stage – regional centre Piškornica (north-West Croatia), WMC Biljane Donje (Zadar county) and WMC Bikarac (Šibenska county).

All the remaining interventions had an insignificant positive impact or had no impact on the macroeconomic indicators analysed.

2.4.2.4 SUPPLY SIDE: SIDE-EFFECTS OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

There are no services and service related interventions in the sector that have the negative side-effects. In terms of the positive side-effects, both services have a significant positive impact on businesses and business environment. This positive impact is mostly created due to construction of county waste management centres and demand for new related services created by the environmental regulations in waste management sector.

2.4.2.5 DEMAND SIDE: AFFORDABILITY OF THE SERVICES AND IMPACT ON AFFORDABILITY OF THE SERVICE RELATED INTERVENTIONS

Both services in the sector are affordable to and consumed by all income groups. In fact, one of the services - maintaining recycling yards – is free of charge for all consumers. Due to the equity in provision of the services, there are no interventions designed to additionally improve affordability of the services in the Waste management sector.

2.4.2.6 CONSISTENCY OF SERVICE RELATED INTERVENTIONS

All the service related interventions in the sector do not have impact on or supplement each other.

2.4.3 CONCLUSIONS AND RECOMMENDATIONS

During the past decade, Republic of Croatia intensively changed regulatory and institutional system to accommodate the requirements of the EU membership with respect to waste management. Regulatory and institutional system is established and foresees application of polluter pays principle and division of responsibilities between different levels of government. While the system is well functioning for special categories of waste, the management of communal waste remains problematic, and there is high probability that Croatia will miss 2020 targets (50% of communal waste separately collected) and will be sanctioned by the EC. From 1st of November 2017 the Regulation on Communal Waste Management is in force and local governments that fail to align their public service with the Sustainable Management Act (selective collection and charging per amount of waste produced) within 3 months will face financial penalties.

2.4.3.1 CONCLUSIONS ON THE GOVERNMENT INTERVENTIONS IN THE WASTE MANAGEMENT SECTOR IN CROATIA

TABLE 44. CONCLUSIONS ON THE GOVERNMENT INTERVENTIONS IN THE WASTE MANAGEMENT SECTOR IN CROATIA

Name of the service	Planning of the service	Planning of all related interventions is GOOD or AVERAGE	Efficiency of the service provision	All related interventions have impact on the efficiency of the service	The service has positive impact on the target group	All related interventions have positive impact on the target group	The impact of the service on country's economy is positive	There are no negative side-effects of service implementation	All related interventions have positive or do not have side-effects	The service is affordable to all income groups	There are no service related interventions that contradict or replace each other
Collection, transport and disposal of municipal waste	AVERAGE	YES	LOW	NO	YES	YES	YES	YES	YES	YES	YES
Maintaining recycling yards	AVERAGE	YES	HIGH	NO	YES	YES	YES	YES	YES	YES	YES

Source: BGI Consulting et al, 2017.

Waste collection and disposal is a public service under the responsibility of local governments, which can assure this service via their own public utility companies or private service providers. The quality of service varies significantly from one municipality to another, depending on financial and administrative capacity of the local government, as well as the political will. From a top down perspective, main policy challenges arise from immense differences on local level that influence the affordability of the service on a given territory (e.g. number of inhabitants, density, high peaks of demand during the summer, accessibility on islands, etc.). However, from the same perspective, it should be noted that there are no legal obstacles for joining more than one unit of local and regional self-government in implementation of waste management measures.

Structural problem with the number and capacity of local self-governments is also the reason why some national level interventions in the sector seem contradictory – e.g. system of fees and charges collected by the Fund for Environmental Protection and Energy Efficiency on the one hand, vis-à-vis subsidies for local level capital investments and remediation of landfills disbursed by the Fund, on the other.

Establishment of Regional Waste Management Centres is a strategic aim considered as the most appropriate solution for introducing levelled standards of the service nation-wide (in addition to regulatory requirements forcing LGs to increase selective collection). The RWMCs will cover multiple municipalities (12 centres for 556 municipalities) and will be financed from private and public funds, by using a model of public-private partnership (PPP). Public funds from local and national level will supplement the EU financing. The plan for RWMC construction has been around for about 7 years and so far 2 out of 12 centres are built and two more are under way. These projects typically entail legal, institutional and technical complexity and multiplicity of interests.

2.4.4 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

2.4.4.1 COLLECTION, TRANSPORT AND DISPOSAL OF COMMUNAL WASTE

TABLE 45. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN COLLECTION, TRANSPORT AND DISPOSAL OF COMMUNAL WASTE SERVICES

Criteria	FI potential
Pricing system	Consumer-paid (covering above 75% of total costs)
Regulatory/governance Framework	Public domain, market fragmentation
Market potential	Potential development of (more) paid services
Accountability	Local targets lacking at times
Capacity	Transfer of parts of service (ongoing) – no lack of resources for transition

Source: BGI Consulting et al, 2017.

REGULATORY AND GOVERNANCE FRAMEWORK

The pricing is defined by the relevant local authorities. Pricing is based on different parameters based on the volume of waste produced, the frequency of waste collection, the square meters of buildings/dwellings or the number of household's members, as well as a part linked to fixed costs (e.g. related to investment and equipment). Each utility company forms the price according these parameters. The service paid by consumers covers almost all the service costs. There is room for a price increase at terms, if the quality of the service provided increases as well (e.g. more selective waste collection).

REGULATORY AND GOVERNANCE FRAMEWORK

State-owned or municipality-owned entities are dominating in the market. Concession to private entities is in theory allowed, but in practice there are no private entities providing the service. Main obstacles to private entrance in the market are linked to the dispersion and fragmentation of the market (small municipality spread over the national territory), as well as existing of legal/ administrative restrictions.

MARKET POTENTIAL

All households are covered by the service, i.e. around 1.5 million households corresponding to 4.25 million people. The market is dominated by public local operators - 417 companies licensed for management of non-hazardous / communal waste - which cover 100 percent of the sector. Subsidiary services generating revenue are provided by the companies in charge of waste management (e.g. cleaning public space). Moreover, revenues are also generated to a limited extent via the selling of reusable materials from waste selection activities. In general, additional revenues could be mainly generated via the increase of tariff, introduction of new paid-auxiliary services and the increase of efficiency in service provision (with a reduction of costs). It worth noting, however, that the sector is capital intensive and requires significant investments (in capital and equipment) to deliver high quality standard services.

ACCOUNTABILITY

Information is available on the context of intervention; recent trends are monitored based on national and international data sources (Eurostat and HAZO data). Long-term policy targets are in line with the EU waste directive objectives and are consistent with short-term objectives. However, short terms objectives at local (municipality) level are not always clearly defined and targets sometime are lacking.

CAPACITY

There is still some area of inefficiency in service provision, which also relates to ineffective assets management. In this context, there is consideration about transferring activities to private partners, such as transportation and disposal of waste. Such transfer would not imply a priori additional costs for households.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

Pricing system shows some capacity of costs covering. Additional revenues could be generated via tariff increase, introduction of new paid-auxiliary services and increased efficiency (with a reduction of costs). As the sector is capital intensive, significant investment is required to deliver high quality standard services.

Croatia shows still a slow process of transition to a circular economy, with high rates of landfilling⁶⁸. Despite the recent adoption of the national waste management plan, Croatia can further develop the use of economic instruments, incentives for management of waste according to waste hierarchy and increase investments.

The example below illustrates that the sector can be a target of investments through FIs, for its capacity to generate savings and revenues from waste transformation.

The London Green Fund (LGF) was established through the JESSICA instrument, aiming to support the achievement of London's goal of 60% reduction on CO₂ emissions by 2025. The fund, combining public and private investments, provides debt and equity funding for projects in the area of waste and energy efficiency.

The LGF was set up with a total funding available of approximately EUR 480 million, being EUR 70 million from ERDF funds, EUR 60 million from regional investment, and another EUR 60 million from private investors. It was distributed along three Urban Development Funds (UDF).

Under the focus of waste and waste-to-energy area, the fund has supported significant projects, such as TEC Biogas, the first anaerobic digestion plant in London. The facility (with capacity of 30000 tonnes per annum of anaerobic digestion and 19000 tonnes per annum of composting) is set to have large impact in reduction of the landfilling rates, as well as creating renewable energy, heat and compost for agriculture. These processes are fed by food and green waste from local households, commerce and manufacturing companies.

The Foresight Group, who manages the waste UDF, was the one to introduce the opportunity of funds to TEC Group (provider of the facility services), also pulling together funds from other sources (a Green Investment Bank fund, managed by Foresight, and a private institutional fund), turning this project possible financially, delivering funding through both equity and debt instruments.

⁶⁸ European Commission (2017), *Commission Staff Working Document, Country Report Croatia 2017, Including an In-Depth Review on the prevention and correction of macroeconomic imbalances*, SWD (2017) 76 final

2.4.4.2 MAINTAINING RECYCLING YARDS

TABLE 46. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN MAINTAINING RECYCLING YARDS SERVICES

Criteria	FI potential
Pricing system	Free of charge (for households)
Regulatory/governance Framework	Mixed public/private (Public share up to 66% of the market)
Market potential	Potential increase of scope of services
Accountability	Local targets lacking at times
Capacity	Transfer of whole service (ongoing) – no lack of resources for transition

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

The pricing is free of charge (for households). Collected reusable waste from households are sold on the market as main source of revenue, for both private and public companies.

REGULATORY AND GOVERNANCE FRAMEWORK

There are 86 entities operating on the market, out of which 50 are public utility companies and 36 are private operators.

Waste disposal costs should reduce the amount of waste that ends at landfills, and because of their economic inadmissibility, directly stimulate other forms of waste treatment. Waste management regulations currently provide for four types of waste disposal charges payable to The Environmental Protection and Energy Efficiency Fund: fee for disposal of municipal waste; fee for disposal of construction waste; fee for environmental load on waste; and fee for hazardous waste.

MARKET POTENTIAL

The service covers 427 municipalities and 127 cities. There is some potential in generating more revenue through increasing the actual activity, considering that the larger the quantity of collected reusable waste, the larger the revenue from selling it. However, the sector is capital intensive and requires significant investments (in capital and equipment), which as a consequence would raise the costs of service provision.

ACCOUNTABILITY

Information is available on the context of intervention; recent trends are monitored based on national and international data sources (Eurostat and HAZO data). Long term policy targets are in line with EU waste directive objectives and are consistent with short term objectives. However, short-term objectives at local (municipality) level are not always clearly defined and targets sometime are lacking.

CAPACITY

There are considerations about transferring the whole service to private partners and there is no lack of resources to promote a smooth transfer.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

The main source of revenue derives from the selling of the collected reusable waste on the market by local self-government units. Waste disposal costs should reduce the amount of waste that ends at landfills, thus directly stimulate other forms of waste treatment. Croatia is still far from meeting the EU targets in recycling (EU average is of 44% while Croatian average is 17%). In this sense, as in the previous service, the use of economic instruments and incentives to management of waste according to waste hierarchy could be further developed.

2.5 LITHUANIA: HEALTH PROTECTION

2.5.1 GENERAL OVERVIEW OF THE SERVICES IN THE SECTOR

This chapter provides an overview of all public services identified in Lithuanian Health protection sector. The rationale for introduction of each public service and the number of service related interventions are identified. Furthermore, the relative position of each public service on liberalisation – centralisation axis is presented.

The main provider of various healthcare services is the public sector, although in some subsectors (primary healthcare, dental services) share of private providers is significant. The main funding source of healthcare services is the budget of the Compulsory Health Insurance Fund. Nine main public services were identified in the Health protection sector in Lithuania. The list of all sector's services and their respective aims is provided in the table below.

TABLE 47. LITHUANIAN HEALTH PROTECTION SECTOR'S SERVICES AND THEIR OBJECTIVES

Service title	Aim of the service
Hospital services	To provide tertiary and secondary care
Primary health care services	To assure primary assistance in around 70 percent of health problems
Specialised outpatient services	To provide outpatient services
Dental care	To provide dental care services
Long term care services provided by public institutions	To provide long term care by the nursing hospitals
Rehabilitation care services	To provide rehabilitation care services which consist of inpatient and outpatient care services
Immunization programmes	To provide immunization services
Risk and disease control programmes	To provide risk and disease control programmes
General health care services to increase accessibility	To increase accessibility to health care services

Source: BGI Consulting et al, 2017.

The Health protection services provided in Lithuania can be divided into three subgroups according to the specific aim they pursue. Risk and disease control and immunization programmes are mostly precautionary services that are aimed at patients' treatment before the occurrence of an illness. Hospital services, primary healthcare services, specialised outpatient care services, dental care, long-term care services and rehabilitation care services aim at patients' treatment after an illness has been identified.

Other measures to increase accessibility to healthcare can be attributed to both of the aforementioned groups as they encompass various governmental interventions directly aimed at increasing accessibility of the healthcare through income support measures or reduced taxes.

2.5.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

There are two rationales for provision of services in the Health protection sector in Lithuania, namely *lack of incentives to produce or consume merit goods* and *inequitable distribution of income and wealth*.

The vast majority of the services and service related interventions are provided due to the lack of incentives to produce or consume merit goods. Healthcare services are classified as merit goods because their consumption provides benefits not only to the individual consumer but also to others. That is, the consumption of health services involves positive externalities on third parties and these benefits have a significant effect on social welfare. Thus, the aim of government interventions is to ensure that accessibility to the quality healthcare services does not depend primarily on the ability to pay for the good or the service. That would be impossible in the free market where prices would rise to reflect the true cost of supply, therefore violating the principle of universal treatment.

Income support measures to increase accessibility of healthcare services are designed in order to address inequitable distribution of income and wealth. As in a free market it may be difficult for some individuals to earn sufficient income or to earn an income at all, the goal to ensure affordable healthcare requires additional assistance through cash benefits or compensation mechanisms.

The scheme below disassembles the logic of the overall government interventions in the Health protection sector in Lithuania. It starts with the rationale of the provision of the services by the public sector, then indicates services corresponding to that particular rationale. Services are classified not only by the rationale they correspond to, but also by a body, which is responsible for the provision of them. Other governmental interventions are attributed to services in relation to which they are implemented. The services and their corresponding interventions are painted in the same colour.

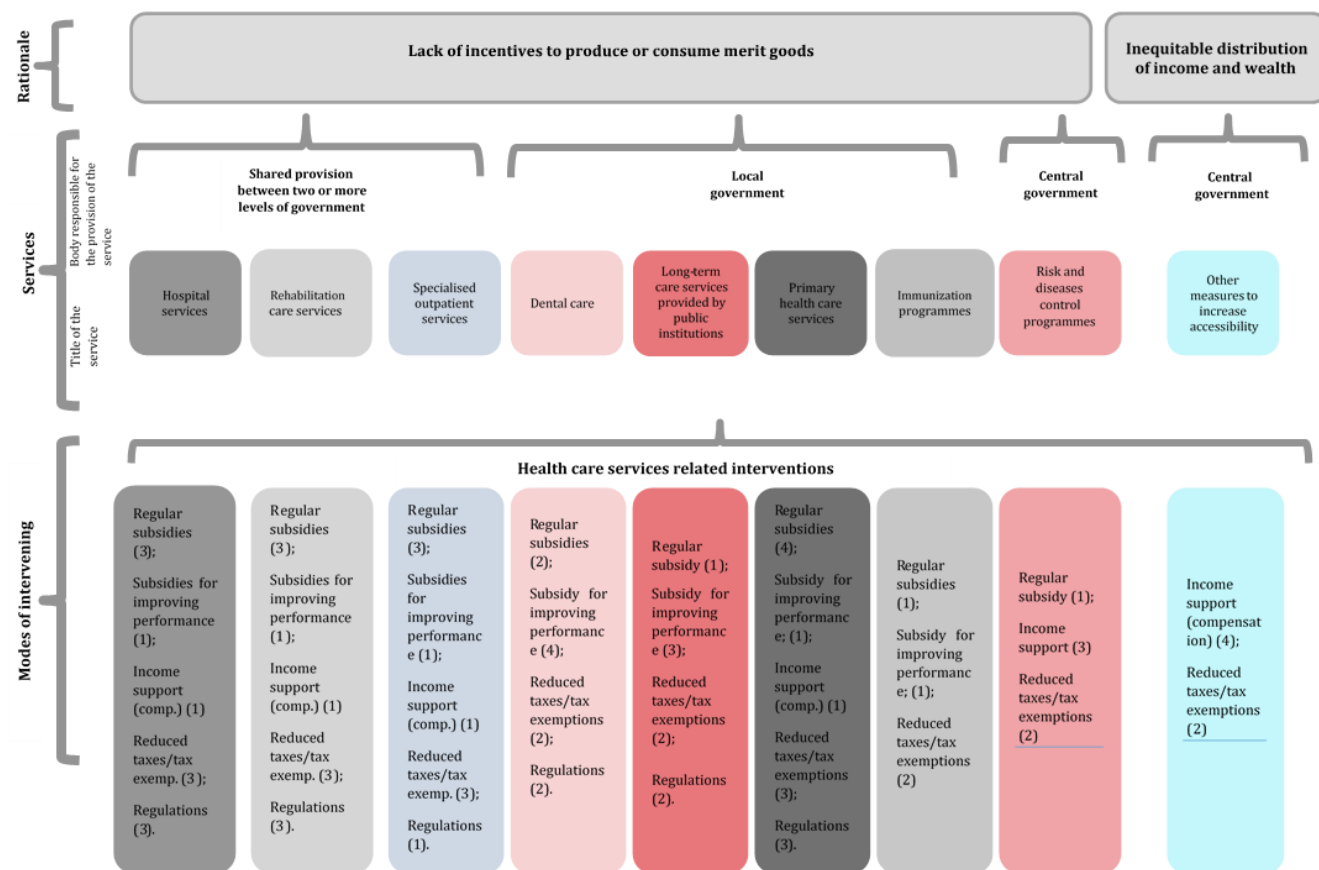


FIGURE 16. LOGIC OF INTERVENTIONS IN THE LITHUANIAN HEALTH PROTECTION SECTOR

Source: BGI Consulting et al, 2017

2.5.1.2 LEVEL OF LIBERALIZATION OF THE SERVICES PROVISION

The public services in the Lithuanian Health protection sector were ranked according to the level of liberalisation in their provision in the figure below. The criteria used for ranking the sector's services according to the level of liberalisation in their provision are – the main provider of the service (the most centralised provider is a government / municipal institution (directly), the most liberalised provider is the market entity (operator)); the most common public service delivery mode (the most centralised delivery mode – direct provision by the governmental / municipal body); consumer pricing of the service (whether the service is free of charge, its pricing is available but non-regulated or its pricing is regulated and set by relevant authorities); market share of the public operators (100, >66, 34-66, <34 percent).

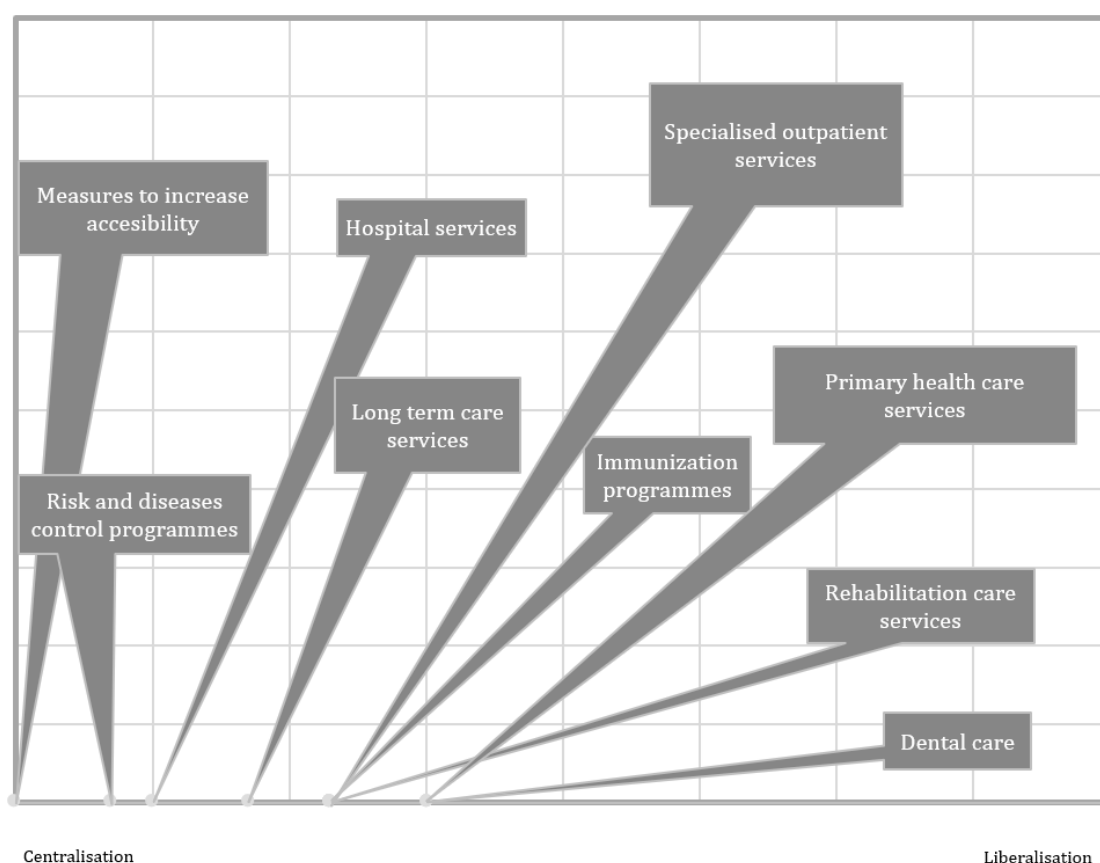


FIGURE 17. SUPPLY SIDE OF THE LITHUANIAN HEALTH PROTECTION SECTOR SERVICES

Source: BGI Consulting et al, 2017.

Modes of provision of Health care services are dispersed in Lithuania even though all services are provided in a more centralized rather than liberal way.

The most centralised service in the Health protection sector is the provision of additional tax exemptions and income support measures in order to increase accessibility to healthcare services. These measures, including preferential VAT for pharmaceuticals, home long-term care benefits and others, are provided and controlled by the central government.

Provision of risk and disease control programmes and hospital services are highly centralized as well. Both aforementioned services are provided directly by the government and are free of charge for the consumers covered by the health insurance (emergency aid is free of charge for all). In the case of hospital services, governmental entities completely dominate the market, while with regards to risk and disease control programmes there are some private entities participating in the market, however, in relatively small numbers.

Long-term care, specialised outpatient, rehabilitation care services are provided and immunization programmes are controlled and implemented relatively centrally as well. All those services are provided free of charge. The most common way of delivery of all of those services is direct provision by state/municipal entities and the market share of public operators in all cases constitutes 34 to 66 percent of the market.

Due to a high number of services identified in Lithuanian Health protection sector, the further in-depth analysis of all of them would not be possible. Since the aim of the study is to identify possibilities to introduce financial instruments or involve private sector service providers more actively, four services currently representing different participation of private providers were selected for further analysis: primary health care provided at the relatively liberal mode, relatively centralised but showing some potential to attract private providers outpatient services and rehabilitation care services, and relatively centralised hospital services. Selected services are also among the largest in Health protection sector in terms of financing.

2.5.2 PRESENTATION OF SERVICES AND RELATED INTERVENTIONS SELECTED FOR FURTHER ANALYSIS

This chapter presents the services and related interventions, selected for further analysis. Four services in Lithuanian Health protection sector were selected for further in-depth analysis. These services are:

- Hospital services;
- Primary healthcare services;
- Specialised outpatient services;
- Rehabilitation care services.

The main policy goals, modes of provision and interventions related to the abovementioned services are presented in this chapter.

2.5.2.1 MAIN POLICY GOALS OF SERVICES SELECTED FOR FURTHER ANALYSIS

The article 53 of the Constitution of the Republic of Lithuania guarantees the right to accessible and free of charge healthcare services to all residents of Lithuania. The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life.⁶⁹ In 2016, the life expectancy was 74.83 years (69.49 years for males and 80 years for females). Since 2005 the life expectancy for males increased by 4.28 years, for females – by 2.52 years.⁷⁰

2.5.2.2 THE STRUCTURE OF PROVISION AND FINANCING OF SERVICES SELECTED FOR FURTHER ANALYSIS

Figures provided below depicts the structure of each service selected for further analysis. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision identified. Graphs in light red indicate service providers and group(s) the service is targeted at.

⁶⁹ Law on Lithuanian Health Care System, 15 July 1994, No. I-552 (LR Sveikatos sistemos įstatymas)

⁷⁰ Health Information Centre of Institute of Hygiene, 2017

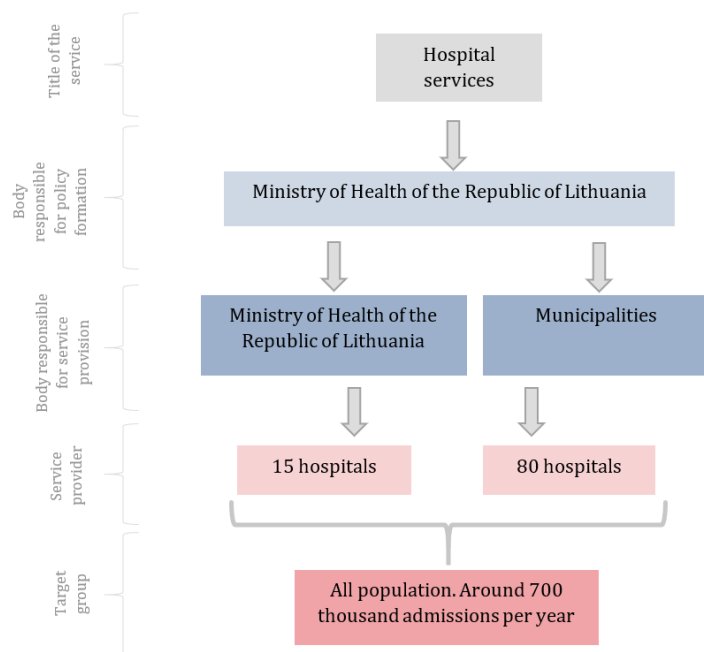


FIGURE 18. HOSPITAL SERVICES PROVISION MECHANISMS IN HEALTH PROTECTION SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

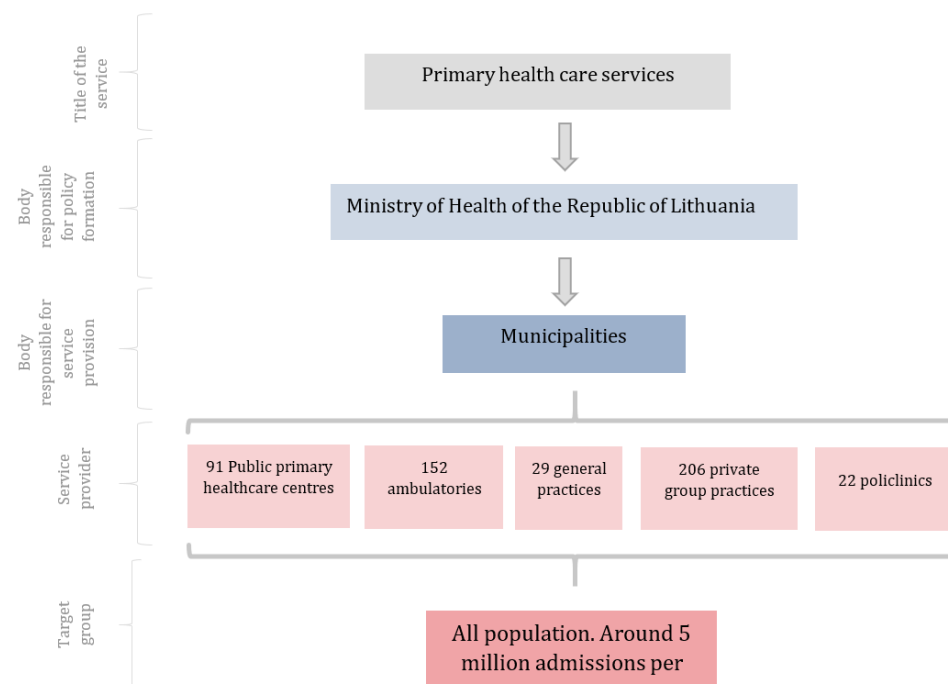


FIGURE 19. PRIMARY HEALTH CARE SERVICES PROVISION MECHANISMS IN HEALTH PROTECTION SECTOR IN LITHUANIA.

Source: BGI Consulting et al, 2017

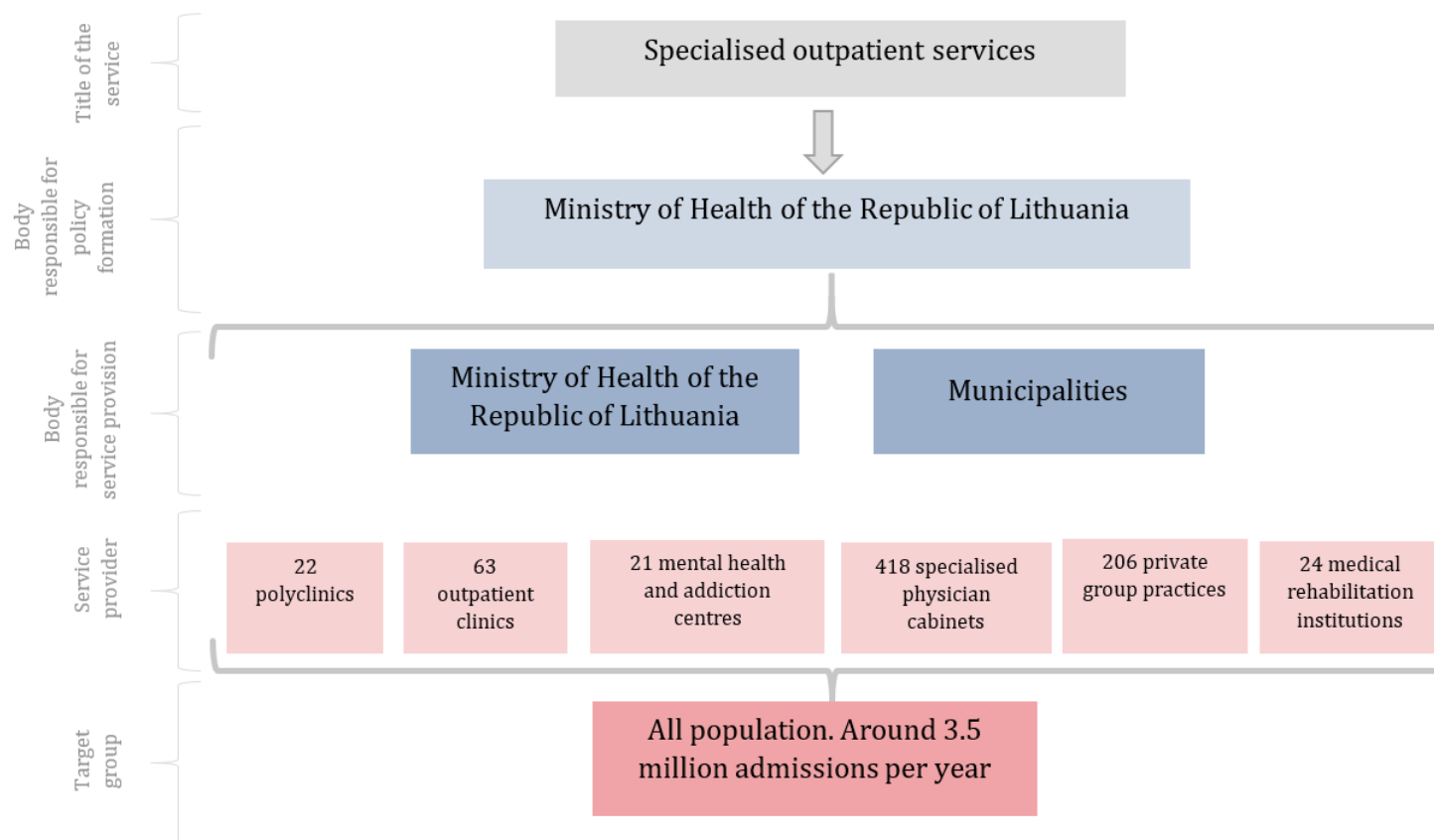


FIGURE 20. SPECIALISED OUTPATIENT SERVICES PROVISION MECHANISMS IN HEALTH PROTECTION SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017

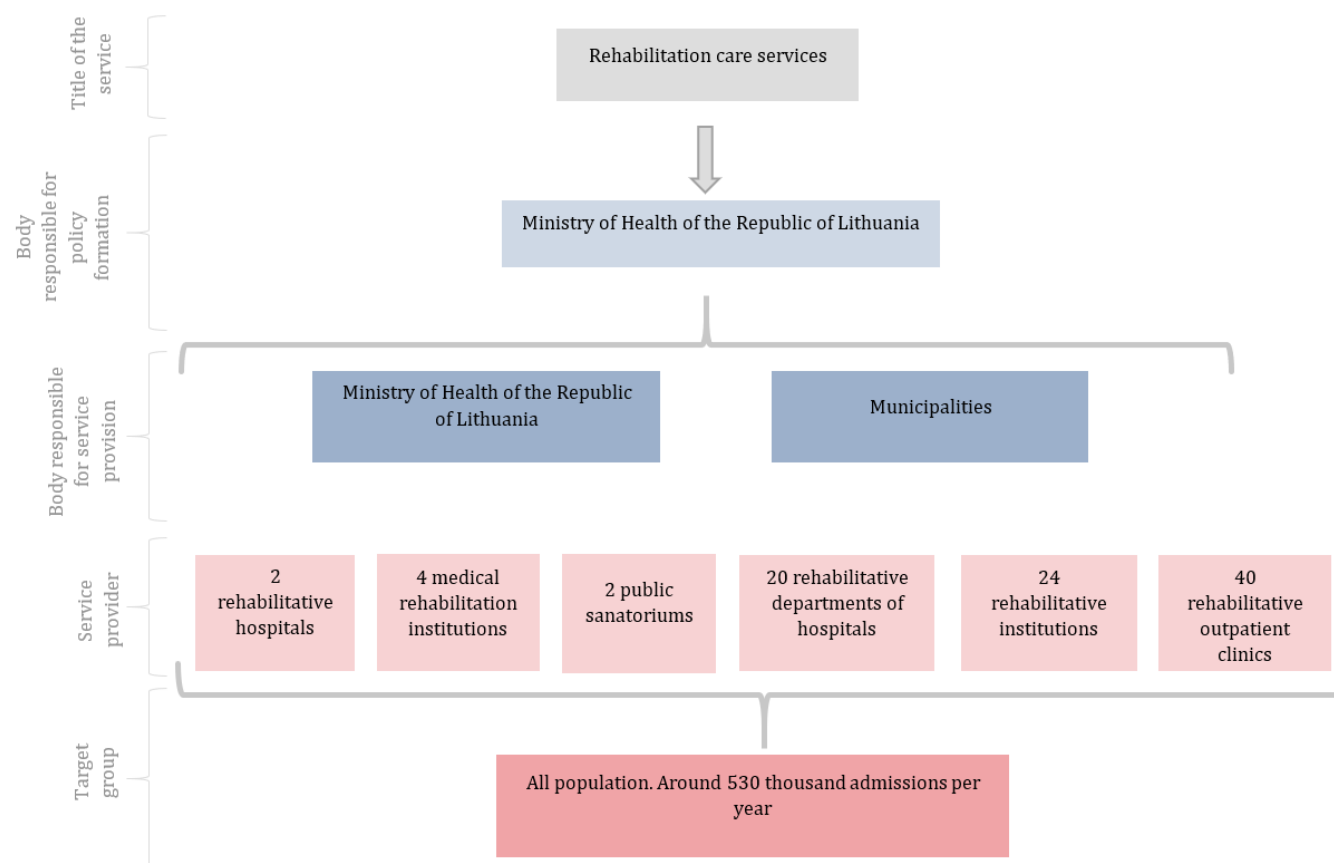


FIGURE 21. REABILITATION CARE SERVICES PROVISION MECHANISMS IN HEALTH PROTECTION SECTOR IN LITHUANIA.

Source: BGI Consulting et al, 2017

Total expenditure on health protection from the Compulsory Health Insurance Fund and other public programmes, except ESI funds, was around EUR 1500 million in 2016⁷¹. In terms of public financing, hospital services are the largest among the services selected for further analysis in Health protection sector in Lithuania. In 2016, hospitals (excluding rehabilitation services) received around EUR 800 million from the Compulsory Health Insurance Fund and other public programmes. The size of funding from the same sources for primary healthcare and specialised outpatient services was around EUR 300 million. Funds allocated to rehabilitation care services amounted to roughly EUR 60 million. All service providers received additional revenues from private insurance companies and out-of-pocket payments. The most significant additional revenue of around EUR 250 million is attributed to primary healthcare and outpatient services.⁷²

2.5.2.3 INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Each of the service selected for further analysis has related interventions, enabling the provision of the service. All the interventions, related to hospital services, primary healthcare services, specialized outpatient services, and rehabilitation care services are presented in the table below.

TABLE 48. INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Name of the service	Type of the service related intervention	Name of the service related intervention	Fiche No.
Hospital services	Regular subsidy for public service delivery (budgetary financing)	Subsidy for provision of healthcare services at hospitals	11
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for centralised payment for pharmaceuticals and medical devices	1
	Income support (compensation)	Compensations of certain pharmaceuticals and medical devices	2
	Income support (compensation)	Compensation of compulsory health insurance fees for particular groups	3
	Subsidy for improving performance of the public service	ESIF subsidies for development of services and infrastructure	4
	Reduced taxes/tax exemptions	Preferential VAT for pharmaceuticals	5
	Reduced taxes/tax exemptions	VAT exemption for health care services	6
	Reduced taxes/tax exemptions	Corporate Income Tax exemption for healthcare institutions (income received from services financed from the Compulsory Health Insurance Fund)	7

⁷¹ Ministry of Health, 2017

⁷² Statistics Lithuania, 2016

Name of the service	Type of the service related intervention	Name of the service related intervention	Fiche No.
	Regulation	Regulation regarding licencing of health care institutions	8
	Regulation	Regulation regarding compulsory contributions to the state health insurance fund	9
	Regulation	Regulation regarding fixed prices of healthcare services	10
Primary healthcare services	Regular subsidy for public service delivery (budgetary financing)	Subsidy for the provision of basic primary healthcare services	12
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for the provision of additional primary healthcare services	13
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for centralised payment for pharmaceuticals and medical devices	1
	Income support (compensation)	Compensations of certain pharmaceuticals and medical devices	2
	Income support (compensation)	Compensation of compulsory health insurance fees for particular groups	3
	Subsidy for improving performance of the public service	ESIF subsidies for development of services and infrastructure	4
	Reduced taxes/tax exemptions	Preferential VAT for pharmaceuticals	5
	Reduced taxes/tax exemptions	VAT exemption for health care services	6
	Reduced taxes/tax exemptions	Corporate Income Tax exemption for healthcare institutions (income received from services financed from the Compulsory Health Insurance Fund)	7
	Regulation	Regulation regarding licencing of health care institutions	8
	Regulation	Regulation regarding compulsory contributions to the state health insurance fund	9
	Regulation	Regulation regarding capitation of funding for primary healthcare service providers	14
Specialised outpatient services	Regular subsidy for public service delivery (budgetary financing)	Subsidy for provision of healthcare services at specialised outpatient care institutions	15
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for centralised payment for pharmaceuticals and medical devices	1
	Income support (compensation)	Compensations of certain pharmaceuticals and medical devices	2
	Income support (compensation)	Compensation of compulsory health insurance fees for particular groups	3
	Subsidy for improving performance of the public service	ESIF subsidies for development of services and infrastructure	4
	Reduced taxes/tax exemptions	Preferential VAT for pharmaceuticals	5
	Reduced taxes/tax exemptions	VAT exemption for health care services	6
	Reduced taxes/tax exemptions	Corporate Income Tax exemption for healthcare institutions (income received from services financed from the Compulsory Health Insurance Fund)	7
	Regulation	Regulation regarding licencing of health care institutions	8

Name of the service	Type of the service related intervention	Name of the service related intervention	Fiche No.
	Regulation	Regulation regarding compulsory contributions to the state health insurance fund	9
	Regulation	Regulation regarding fixed prices of healthcare services	10
Rehabilitation care services	Regular subsidy for public service delivery (budgetary financing)	Subsidy for provision of rehabilitation services	16
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for centralised payment for pharmaceuticals and medical devices	1
	Income support (compensation)	Compensations of certain pharmaceuticals and medical devices	2
	Income support (compensation)	Compensation of compulsory health insurance fees for particular groups	3
	Subsidy for improving performance of the public service	ESIF subsidies for development of services and infrastructure	4
	Reduced taxes/tax exemptions	Preferential VAT for pharmaceuticals	5
	Reduced taxes/tax exemptions	VAT exemption for health care services	6
	Reduced taxes/tax exemptions	Corporate Income Tax exemption for healthcare institutions (income received from services financed from the Compulsory Health Insurance Fund)	7
	Regulation	Regulation regarding licencing of health care institutions	8
	Regulation	Regulation regarding compulsory contributions to the state health insurance fund	9
	Regulation	Regulation regarding fixed prices of healthcare services	10

Further in this study the information is provided not on services as a whole, but only on service related interventions.

2.5.3 DATA ON SELECTED GOVERNMENT INTERVENTIONS IN LITHUANIAN HEALTH PROTECTION SECTOR

This chapter provides portrayal and analysis of the government interventions shortlisted for the in-depth assessment. In the chapter separate fiches for each government intervention, analysis of interventions regarding each of the methodological research criteria are presented.

The fiches for each government intervention below provides the main data on each government intervention, which can be read as a self-standing analysis and is also used in later parts of the study as a basis for the meta-analysis of interventions according to different criteria.

TABLE 49. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (1)

Title of the intervention		Subsidy for centralised payment for pharmaceuticals and medical devices
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention		Certain amount of pharmaceuticals and medical devices is purchased or paid for centralised and distributed among health care institutions.
Year of the introduction and end, stability of the intervention		2000 - up to now. The implementation of the intervention is stable. The implementation of the intervention has not been substantially changed since its introduction and the tendency is to increase the centralisation of the purchase of pharmaceuticals.
The broader policy objective to which intervention contributes		The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life.
Legal background for the establishment of the intervention		Law on Lithuanian Health Care System, 15 July 1994, No. I-552 (LR Sveikatos sistemos įstatymas); Law on Compulsory Health Insurance, 21 May 1996, No. I-1343 (LR Sveikatos draudimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes		To ensure availability of pharmaceuticals and medical devices in hospitals for persons insured by Compulsory Health Insurance.
The objective of the intervention and legal background		To centrally purchase and distribute among hospitals certain pharmaceuticals and medical devices. Order of the Minister of the Ministry of Health of the Republic of Lithuania on centralised payment for pharmaceuticals and medical devices, 28 August 2014, No. V-910 (LR Sveikatos apsaugos ministro įsakymas dėl centralizuotai apmokamų vaistinių preparatų ir medicinos pagalbos priemonių sąrašo patvirtinimo); Order of the Minister of the Ministry of Health of the Republic of Lithuania on the rules of the formation of list of centrally purchased pharmaceuticals and medical devices, 18 April 2014, No. V-488 (LR Sveikatos apsaugos ministro įsakymas dėl centralizuotai perkamų vaistinių preparatų ir medicinos pagalbos priemonių sąrašo sudarymo tvarkos aprašo patvirtinimo); Order of the Director of National Health Insurance Fund, 8 April 2013, No. 1K-70 (Valstybinės ligonių kasos prie sveikatos apsaugos ministerijos direktoriaus įsakymas dėl asmens sveikatos priežiūros įstaigų aprūpinimo centralizuotai

	apmokamais vaistais ir medicinos pagalbos priemonėmis ir jų panaudojimo kontrolės tvarkos aprašo patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	National Health Insurance Fund under the Ministry of Health Ministry of Health of the Republic of Lithuania
The main source of financing the intervention	State insurance fund
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Agreements with licenced providers based on quantitative indicators
Types of private providers eligible to receive the intervention	Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers	Agreements with licenced providers based on quantitative indicators
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of services provided applying a fixed rate The size of the financial transfer is calculated based on the number of beneficiaries applying a fixed rate
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	People insured by Compulsory Health Insurance - 2 957 516 (National Health Insurance Fund, 2016)
Impact of the intervention	The intervention has a positive impact on its consumers, since it ensures that the most expensive pharmaceuticals for curing most challenging diseases are purchased centrally and distributed among hospitals, that certain pharmaceuticals purchased by the hospitals themselves are compensated for and that pharmaceuticals received as a voluntary support from pharmacy enterprises are also distributed centrally among hospitals. This helps to ensure that patients with most challenging diseases have access to the needed pharmaceuticals, which due to their cost would be unavailable for most of the patients otherwise. It also increases the accessibility of hospital treatment for various society groups, since patients treated in hospitals with certain diseases can receive treatment with certain pharmaceuticals and medical devices free of charge. The intervention manages to achieve its main objective to ensure availability of pharmaceuticals and medical devices in hospitals for persons insured by Compulsory Health Insurance, even though the impact could be more significant if the efficiency of the distribution of centrally purchased pharmaceuticals and compensation for pharmaceuticals purchased by hospitals would be increased. Since the intervention is available to both public and private providers it does not have negative effects on the business environment in the sector.
Unintended impact of the intervention	There is no unintended impact of the intervention.

Main issues related to the implementation of the intervention

In 2012, National Audit Office of Lithuania has concluded that the pharmaceuticals in hospitals are not rationally and efficiently used. This was due to lack of diseases diagnostics and treatment protocols and lack of national guidelines regarding uniform preparation of such protocols⁷³. In reaction to these conclusions, in 2014 Ministry of Health of the Republic of Lithuania has released methodological guidelines for preparing diseases diagnostics and treatment protocols⁷⁴. These are now obligatory to use for all hospitals preparing new diseases diagnostics and treatments protocols. Another shortcoming regarding the use of pharmaceuticals in hospitals, pointed out by the National Audit Office of Lithuania, was that there are no common national lists of pharmaceuticals compulsory to have in hospitals. All the discretion regarding the purchase of pharmaceuticals is left to hospitals themselves. This causes vast differences among the types and amount of pharmaceuticals purchased by hospitals and results in differences in treatment available free of charge in different hospitals⁷⁵. In 2013, a group of members of the Parliament of Lithuania, registered a proposition to change the Law on Pharmacy including the obligation for the Ministry of Health of the Republic of Lithuania to prepare and approve a common list of pharmaceuticals compulsory to have in hospitals⁷⁶. However, this change was not accepted and the law was not changed. Therefore, the issue raised in 2012 remains. Another issue, pointed out by the National Audit Office of Lithuania, was that the purchase of pharmaceuticals by hospitals is not effective enough. Only a small fraction of hospitals in 2012 used the Central Procurement Organisation platform, the hospitals did not carry out common procurements, some of the hospitals did not buy necessary pharmaceuticals or chose more expensive pharmaceuticals for no apparent reason. Due to these shortcomings, the price of pharmaceuticals paid by different hospitals varied drastically⁷⁷. Since 2012, the situation has changed, but some of the issues remain. Hospitals are increasingly more using Central Procurement Organisation platform for purchasing pharmaceuticals, the released methodological guidelines for preparing diseases diagnostics and treatment protocols have contributed to some extent to choosing better pharmaceutical options for purchase. In 2017, a pilot attempt to consolidate a purchase of four hospitals for one pharmaceutical was carried out. This attempt was successful and helped to save EUR 80 000 per purchase⁷⁸. However, this practice is still at a pilot phase and not widely used among hospitals. The conclusions of the National Audit Office of Lithuania also stated that the centralised purchase and distribution of the most expensive pharmaceuticals has certain flaws. In reaction to this conclusion Director of the National Health Insurance Fund, released a new order on purchase and

⁷³ National Audit Office of Lithuania, National Audit Report. Provision of Pharmaceuticals in Hospitals, 28 February 2012, No. VA-P-10-10-3

⁷⁴ Order of the Minister of the Ministry of Health of the Republic of Lithuania on methodological guidelines for preparation of diseases diagnostics and treatment protocols, 2 December 2014, No. V-1248 (LR Sveikatos apsaugos ministro įsakymas dėl diagnostikos ir gydymo protokolų rengimo, peržiūrėjimo ir atnaujinimo tvarkos aprašo tvirtinimo)

⁷⁵ National Audit Office of Lithuania, National Audit Report. Provision of Pharmaceuticals in Hospitals, 28 February 2012, No. VA-P-10-10-3

⁷⁶ Press release of the Parliament of the Republic of Lithuania, 28 March 2013, http://www3.lrs.lt/pls/inter/w5_show?p_r=4445&p_d=134348&p_k=1

⁷⁷ National Audit Office of Lithuania, National Audit Report. Provision of Pharmaceuticals in Hospitals, 28 February 2012, No. VA-P-10-10-3

⁷⁸ Press release of the Central Procurement Platform, 16 January 2017, <http://www.cpo.lt/kaip-sumazinti-vaistu-kainas-pasiteisino-cpo-lt-elektronineje-sistemoje-ivykdytas-centralizuotas-konsoliduotas-vaistu-pirkimas-gydymo-istaigoms-tik-vieno-pirkimo-metu-salies-biudzetui-suta/>

	distribution of pharmaceuticals and medical devices in 2013 ⁷⁹ that helped to correct some of the issues identified by the National Audit Office of Lithuania.
Consistency with other related interventions	The intervention is inconsistent with the intervention covering Compulsory Health Insurance fees for particular society groups from the state budget. Since the State cannot fulfil this commitment to cover Compulsory Health Insurance fees for most vulnerable society groups to a full extent, the health care system is constantly underfinanced. Therefore, other interventions, such as subsidy for centralised payment for pharmaceuticals and medical devices, cannot be implemented to the extent needed.
Possibilities to replace/withdraw the intervention	Even though some shortcomings of the implementation of the intervention are visible there are no considerations or need to withdraw it altogether. The centralisation of the purchase of pharmaceuticals for hospitals is generally seen as a positive decision and this centralisation is constantly being increased.

Source: BGI Consulting et al, 2017

TABLE 50. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (2)

Title of the intervention	Compensations of certain pharmaceuticals and medical devices
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Income support (compensation)
Short description of the intervention	Certain pharmaceuticals and medical devices required for treatment of specific diseases or for specific social groups listed in the Order of the Minister of the Ministry of Health of the Republic of Lithuania are compensated by Compulsory Health Insurance.
Year of the introduction and end, stability of the intervention	1996 - up to now. The implementation of the intervention is stable. Since its introduction in 1996, the implementation of the intervention has not been substantially changed.
The broader policy objective to which intervention contributes	The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life.
Legal background for the establishment of the intervention	Law on Lithuanian Health Care System, 15 July 1994, No. I-552 (LR Sveikatos sistemos įstatymas); Law on Compulsory Health Insurance, 21 May 1996, No. I-1343 (LR Sveikatos draudimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To ensure equal accessibility to certain pharmaceuticals and medical devices for all persons insured by Compulsory Health Insurance
The objective of the intervention and legal background	To compensate the costs of certain pharmaceuticals and medical devices for persons insured by Compulsory Health Insurance. Resolution of the Government of the Republic of Lithuania on pharmaceuticals and medical devices compensated from Compulsory Health Insurance, 13 September 2005, No. 994 (LR

⁷⁹ Order of the Director of National Health Insurance Fund, 8 April 2013, No. 1K-70 (Valstybinės ligonių kasos prie sveikatos apsaugos ministerijos direktoriaus įsakymas dėl asmens sveikatos priežiūros įstaigų aprūpinimo centralizuotai apmokamai vaistais ir medicinos pagalbos priemonėmis ir jų panaudojimo kontrolės tvarkos aprašo patvirtinimo)

	Vyriausybės nutarimas dėl ambulatoriniam gydymui skiriamų vaistinių preparatų ir medicinos pagalbos priemonių, kurių įsigijimo išlaidos kompensuojamos iš privalomojo sveikatos draudimo fondo biudžeto lėšų, bazinių kainų apskaičiavimo tvarkos aprašo patvirtinimo); Order of the Minister of the Ministry of Health of the Republic of Lithuania on the list of compensated pharmaceuticals, 28 January 2000, No. 49 (LR Sveikatos apsaugos ministro įsakymas dėl kompensuojamųjų vaistų sąrašų patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	National Health Insurance Fund under the Ministry of Health Ministry of Health of the Republic of Lithuania
The main source of financing the intervention	State insurance fund
Market side the intervention is targeted at	Both
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	Agreements with licenced providers based on quantitative indicators
Types of private providers eligible to receive the intervention	Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers	Agreements with licenced providers based on quantitative indicators
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of services provided applying a fixed rate.
The share of the funds of the intervention that is attributed to public providers	<34%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	People insured by Compulsory Health Insurance - 2 957 516 (National Health Insurance Fund, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with necessary products
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the uniform size approach.
Impact of the intervention	The intervention has a positive impact on its consumers, since it increases accessibility of pharmaceuticals for certain society groups lowering the inequality and for people having certain diseases. The intervention also encourages establishment of pharmacies. Since most of the pharmacies having agreements regarding provision of compensated pharmaceuticals are private, this intervention encourages establishment and functioning of private business entities.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	Despite the existence of the intervention, its coverage is limited. Spending on pharmaceuticals in Lithuania is among the highest levels in the EU (28 percent of the total health care spending

	from public and private sources) ⁸⁰ . Out-of-pocket payments are covering 32 percent of total health expenditure, which is more than double the EU average. The vast majority of out-of-pocket payments are made for pharmaceuticals. This is both due to high co-payments for pharmaceuticals and high prices of the pharmaceuticals. In order to tackle these problems, certain measures are being implemented since 2009. Among the measures the expansion of the list of reference countries and changes to setting reference prices, new requirements for generic pricing, introduction of cost and volume agreements with producers, a positive list of reimbursed medicines and patient choice of medicine with the smallest co-payment can be mentioned ⁸¹ . In July 2017 a new compensated drugs price list has been introduced which is expected to lower the costs of pharmaceuticals significantly (up to a third) ⁸² .
Consistency with other related interventions	The intervention is inconsistent with the intervention covering Compulsory Health Insurance fees for particular society groups from the state budget. Since the State cannot fulfil this commitment to cover Compulsory Health Insurance fees for most vulnerable society groups to a full extent, the health care system is constantly underfinanced. Therefore, other interventions, such as compensations of pharmaceuticals and medical devices, cannot be implemented to the extent needed.
Possibilities to replace/withdraw the intervention	There are no plans or need to withdraw the intervention. On the contrary, since the share spent on pharmaceuticals of the total health care spending in Lithuania is one of the highest among the EU countries, the implementation of the intervention should be further improved and its scope extended so that this spending is lowered.

Source: BGI Consulting et al, 2017

TABLE 51. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (3)

Title of the intervention	Compensation of compulsory health insurance fees for particular groups
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Income support (compensation)
Short description of the intervention	Compulsory health insurance fees are compensated from the state budget for 19 different society groups listed in the Law on Compulsory Health Insurance.
Year of the introduction and end, stability of the intervention	1996 - up to now. The implementation of the intervention is stable. Even though the specific groups for which the health insurance fees are being compensated have changed during the period of the implementation of the intervention, the notion that health insurance fees must be covered for certain society groups has remained stable.

⁸⁰ European Commission, OECD, European Observatory on Health Systems and Policies, State of Health in the EU: Lithuania. Country Health Profile 2017, 2017

⁸¹ European Commission, OECD, European Observatory on Health Systems and Policies, State of Health in the EU: Lithuania. Country Health Profile 2017, 2017

⁸² Order of the Minister of the Ministry of Health of the Republic of Lithuania on the price list of compensated pharmaceuticals, 14 September 2017, No. V-1081 (LR Sveikatos apsaugos ministro įsakymas dėl 2017 m. kompensuojamųjų vaistinių preparatų kainyno patvirtinimo)

The broader policy objective to which intervention contributes	The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life.
Legal background for the establishment of the intervention	Law on Compulsory Health Insurance, 21 May 1996, No. I-1343 (LR Sveikatos draudimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To make health care services accessible for all society groups
The objective of the intervention and legal background	To compensate health insurance fees for certain society groups. Law on Compulsory Health Insurance, 21 May 1996, No. I-1343 (LR Sveikatos draudimo įstatymas)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	National Health Insurance Fund under the Ministry of Health
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Demand and supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s) Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Agreements with licenced providers based on quantitative indicators
Types of private providers eligible to receive the intervention	Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers	Agreements with licenced providers based on quantitative indicators
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of services provided applying a fixed rate The size of the financial transfer is calculated based on the number of beneficiaries applying a fixed rate
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	People insured by Compulsory Health Insurance - 2 957 516 (National Health Insurance Fund, 2016). Compulsory Health Insurance fees are compensated for around 50-60 percent of them each year.
The type of impact of intervention for consumers	The intervention provides consumers with necessary services The intervention provides consumers with necessary financial resources
Level of coercion at consumers' level	The use of intervention is compulsory for the consumers
Consumers' selection criteria	Inclusive (uniform)
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the uniform size approach

Impact of the intervention	The intervention has a positive effect on its consumers, since it allows access to health care services for certain vulnerable society groups that could not afford to pay compulsory health insurance fees otherwise. It also positively affects businesses having agreements with Territorial Health Insurance Funds since it ensures financing of health care services.
Unintended impact of the intervention	The coverage of the compensations of compulsory health insurance fees is extensive. Compulsory health insurance fees are paid from the State budget for 19 categories of society groups and for around 50-60 percent of all insured by Compulsory Health Insurance. However, due to the extensiveness of this commitment of the State budget, the funds are lacking to fulfil it to the full extent.
Main issues related to the implementation of the intervention	The main issue is that the fee paid from the State budget for those receiving compensations of Compulsory Health Insurance is more than twice lower than that paid by persons covering the fee of compulsory health insurance on their own. Despite that, the amount and quality of services received by all insured by Compulsory Health Insurance must be equal. Due to these issues, the national health care system is constantly underfinanced ⁸³ . These shortcomings of the implementation of the intervention also contribute to the fact that health expenditure per capita in Lithuania is among the lowest in the EU ⁸⁴ .
Consistency with other related interventions	Due to the shortcomings of the implementation of the intervention (namely, inability of the State budget to fulfil its commitments to a full extent) the intervention becomes inconsistent with interventions concerning funding of primary health care services, specialised outpatient services, hospital services, subsidy for centralised payment for pharmaceuticals and medical devices in hospitals, compensation of pharmaceuticals for certain society groups. The inconsistency arises since due to lack of contribution from the State budget to Compulsory Health Insurance Fund the health care services and pharmaceuticals cannot be financed to the extent needed ⁸⁵ . The intervention also might not be consistent with preferential VAT for pharmaceuticals, VAT exemption for health care services and Corporate Income Tax exemption for healthcare institutions. Since all the tax exemptions or preferential taxes reduce the revenue of the State budget, it reduces the possibilities of the government to adequately compensate health insurance fees for particular society groups even further. However, this link between the interventions is not straightforward.
Possibilities to replace/withdraw the intervention	The implementation of the intervention, namely coverage of compulsory health care insurance fees for certain society groups is only formal. The funding for the intervention is provided from the State budget, however, it is not adequate and does not cover all the costs that it should cover. Therefore, the intervention should be amended either by increasing the amount compensated per person or by reducing the number of society groups funded (currently there are 19 different society groups supported by the State budget).

Source: BGI Consulting et al, 2017.

⁸³ Based on the information gathered during expert interviews

⁸⁴ European Commission, OECD, European Observatory on Health Systems and Policies, State of Health in the EU: Lithuania. Country Health Profile 2017, 2017

⁸⁵ Based on the information gathered during expert interviews

TABLE 52. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (4)

Title of the intervention	ESIF subsidies for development of services and infrastructure
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	ESIF funded measures aimed at development of health care services and infrastructure.
Year of the introduction and end, stability of the intervention	2014 – 2023. The implementation of the intervention depends on ESIF allocations.
The broader policy objective to which intervention contributes	The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life.
Legal background for the establishment of the intervention	Operational Programme for EU Structural Funds Investments for 2014-2020, September 2014, CCI: 2014LT16MAOP001 (2014-2020 m. Europos Sąjungos fondų investicijų veiksmų programa)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To increase the quality and accessibility of health care services for target groups and reduce health inequalities, support healthy ageing
The objective of the intervention and legal background	To prepare integrated models of health care services provision, implement preventive health care programmes and various preventive measures, update the health care infrastructure with the view to prevent and better cure certain diseases, ensure possibilities for healthy ageing. Orders of the Minister of the Ministry of Health of the Republic of Lithuania on terms of project financing (measures No. 08.4.2-ESFA-K-629; No. 08.1.3-CPVA-V-603; No. 08.1.3-CPVA-V-604; No. 08.1.3-CPVA-V-610; No. 08.1.3-CPVA-V-606; No. 08.1.3-CPVA-R-609; No. 08.4.2-ESFA-R-615; No. 08.1.3-CPVA-V-608; No. 08.4.2-ESFA-V-621; No. 08.1.3-CPVA-V-611; No. 08.4.2-ESFA-V-617; No. 08.4.2-ESFA-V-619; No. 08.1.3-CPVA-V-607; No. 08.1.3-CPVA-V-601; No. 08.4.2-ESFA-V-613; No. 08.4.2-ESFA-R-630; No. 08.4.2-ESFA-V-628; No. J02-CPVA-V; No. 08.4.2-ESFA-V-622; No. 08.1.3-CPVA-V-612) (LR Sveikatos apsaugos ministro patvirtinti priemonių finansavimo sąlygų aprašai)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Central Project Management Agency European Social Fund Agency
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	State budget Municipal budget Private funds Other public funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Public administration institution (-s) directly Budgetary institution (-s)

	Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers	State planning
Other means of receiving the intervention for public providers	Regional planning Project contest
Types of private providers eligible to receive the intervention	Private NGOs
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	People insured by Compulsory Health Insurance - 2 957 516 (National Health Insurance Fund, 2016)
Impact of the intervention	It is difficult to assess the impact of the intervention, since most of the projects have just started to be implemented and are not finished yet. However, the measures to be implemented are selected in line with the needs of investments in the sector and are expected to contribute to increasing the quality and accessibility of health care services for target groups, reducing health inequalities and supporting healthy ageing. ESIF structural funds interventions are especially important taking into account, that national investments in improving the performance of the public health care system are not enough to attain the objectives ⁸⁶ . It is also important to note that the vast majority of ESIF measures are aimed exclusively at public health care services providers. Therefore, these measures will not have a significant impact on private service providers.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	The main issue related with the intervention is that its implementation depends on availability of ESIF funds and is not stable. Currently there are no considerations of changing these interventions by interventions funded from national funds and it is not clear whether there will be allocations from ESIF funds for interventions improving the performance of health care system after the 2020 ⁸⁷ .
Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	The intervention could be replaced by similar interventions funded by national funds. However, the lack of financial resources even for healthcare service provision makes it difficult in current situation. The problem cannot be solved separately as it is closely related to the general efficiency of healthcare system. Insufficient emphasis on primary healthcare and reliance on secondary and tertiary healthcare service, extensive use of hospital beds, unclear role and quality of local hospitals, issues in financing transparency cause inefficient use of scarce public resources. Even more, the scope and necessity of continuous investments into inefficient system should be questioned as there are considerations to close some providers or to reduce the scope of their services.

Source: BGI Consulting et al, 2017

⁸⁶ Based on the information gathered during expert interviews

⁸⁷ Based on the information gathered during expert interviews

TABLE 53. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (5)

Title of the intervention	Preferential VAT for pharmaceuticals
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Reduced taxes/tax exemptions
Short description of the intervention	Pharmaceuticals compensated by Compulsory Health Insurance and prescriptive non-compensated pharmaceuticals are taxed by preferential VAT rate of 5 percent
Year of the introduction and end, stability of the intervention	2002 - up to now (for pharmaceuticals compensated by Compulsory Health Insurance). 2016 - up to 2018 (for non-compensated prescriptive pharmaceuticals the price of which exceeds EUR 300). 2018 - up to now (for non-compensated prescriptive pharmaceuticals) The implementation of the intervention is not stable. There are constant debates whether to expand the scope of the preferential VAT or abandon it. The last changes expanding the scope of the preferential VAT have come into the force since 1 January 2018.
The broader policy objective to which intervention contributes	The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life.
Legal background for the establishment of the intervention	Law on VAT, 5 March 2002, No. IX-751 (LR Pridėtinės vertės mokesčio įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To make pharmaceuticals more accessible to all society groups and increase incentives to provide them.
The objective of the intervention and legal background	To reduce VAT for certain groups of pharmaceuticals. Law on VAT, 5 March 2002, No. IX-751 (LR Pridėtinės vertės mokesčio įstatymas)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	State Tax Inspectorate under the Ministry of Finance
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Demand and supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Pharmacies Persons in need of certain pharmaceuticals
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the inducement for subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups indirectly benefiting from the regulation/tax/tax exemption	All population - 2 821 674 persons (Statistics Lithuania, 2017)

The type of impact of intervention for beneficiaries	The intervention helps to make the society healthier and it has a positive impact on all the population as well as on the labour market.
Impact of the intervention	The intervention has a positive impact on its consumers, since it increases the accessibility of pharmaceuticals for all social groups and reduces the out-of-pocket payments for pharmaceuticals. It also has a positive impact on private businesses in the market, since it encourages higher sales.
Unintended impact of the intervention	Each preferential tax reduces the revenues of the national budget. Even though most of the health care services are financed by National Health Insurance Fund, which is independent from the national budget, such interventions as compensation of compulsory health insurance fees for certain society groups could be affected by this loss of revenue of the national budget.
Main issues related to the implementation of the intervention	There are no significant issues related to the implementation of the intervention.
Consistency with other related interventions	Since the implementation of the intervention causes the decrease of revenues of the national budget, it could contradict the intervention compensating compulsory health insurance fees for certain society groups, since these compensations are paid from the national budget. However, this relation between the two interventions is not direct.
Possibilities to replace/withdraw the intervention	There is no need to withdraw the intervention. The changes expanding the scope of the preferential VAT have been implemented since 1 January 2018. However, the question whether tax payers (customers) benefit from this tax exemption remains relevant.

Source: BGI Consulting et al, 2017

TABLE 54. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (6)

Title of the intervention	VAT exemption for health care services
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Reduced taxes/tax exemptions
Short description of the intervention	Health care services provided by licensed providers are exempt from VAT
Year of the introduction and end, stability of the intervention	1993 - up to now. The implementation of the intervention is stable. Health care services are exempted from VAT since 1993 and this intervention has not been significantly changed since then.
The broader policy objective to which intervention contributes	The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life.
Legal background for the establishment of the intervention	Law on VAT, 5 March 2002, No. IX-751 (LR Pridėtinės vertės mokesčio įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To make health care services accessible for all society groups and increase incentives to provide them.
The objective of the intervention and legal background	To exempt health care services from VAT. Law on VAT, 5 March 2002, No. IX-751 (LR Pridėtinės vertės mokesčio įstatymas)
Level of body responsible for policy formation	National level

Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	State Tax Inspectorate under the Ministry of Finance
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Both
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Health care service providers Consumers of health care services
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the inducement for subjects The intervention provides subjects with necessary financial resources
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups indirectly benefiting from the regulation/tax/tax exemption	All population - 2 821 674 persons (Statistics Lithuania, 2017)
The type of impact of intervention for beneficiaries	The intervention helps to make the society healthier and it has a positive impact on all the population as well as on the labour market
Impact of the intervention	The intervention has a positive impact on its consumers, since it increases the availability of health care services for all society groups. It also has a positive impact on the business environment, since it increases incentives to provide health care services.
Unintended impact of the intervention	Each tax exemption reduces the revenues of the national budget. Even though most of the health care services are financed by National Health Insurance Fund, which is independent from the national budget, such interventions as compensation of compulsory health insurance fees for certain society groups could be affected by this loss of revenue of the national budget.
Main issues related to the implementation of the intervention	There are no significant issues related to the implementation of the intervention.
Consistency with other related interventions	Since the implementation of the intervention causes the decrease of revenue of the national budget, it could contradict the intervention compensating compulsory health insurance fees for certain society groups, since these compensations are paid from the national budget. However, this relation between the two interventions is not direct.
Possibilities to replace/withdraw the intervention	The intervention has been in effect since 1993 without significant changes. VAT exemption for hospital and medical care and closely related activities undertaken by bodies governed by public law or, under social conditions comparable with those applicable to bodies governed by public law and for the provision of medical care in the exercise of the medical and paramedical professions, is laid down in the EU VAT directive ⁸⁸ . This exemption was introduced in the 1970s, when most services were almost exclusively delivered by public bodies ⁸⁹ . Thus, it could be questioned possible changes in terms of public/private

⁸⁸ Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax, Official Journal L 347/1

⁸⁹ Pahlson R. (2015) *The Vat Exemption for health care: EU Law and its impact on Swedish law*, Nordic Tax J. 2015; 2:18-35

	providers and public/private sources of financing, but since the purpose of the tax exemption is to make healthcare more accessible, consumers (who carry the VAT) interest in paying less seems to be the priority. On the other hand, the dilemma of VAT exemptions and its effect on the service providers and its competitiveness is discussed at the EU level ⁹⁰ and might have some implications in the future.

Source: BGI Consulting et al, 2017

TABLE 55. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (7)

Title of the intervention	
Corporate Income Tax exemption for healthcare institutions (income received from services financed from the Compulsory Health Insurance Fund)	
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Reduced taxes/tax exemptions
Short description of the intervention	Income received for health care services financed by Compulsory Health Insurance are exempt from the Corporate Income Tax
Year of the introduction and end, stability of the intervention	2001 - up to now. The implementation of the intervention is stable. The notion that health care services paid by Compulsory Health Insurance are exempt from the Corporate Income Tax has not changed since its introduction in 2001.
The broader policy objective to which intervention contributes	The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life.
Legal background for the establishment of the intervention	Law on Corporate Income Tax, 20 December 2001, No. IX-675 (LR Pelnio mokesčio įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To balance the income and expenditure of the State budget and ensure accessibility of health care services and encourage the provision of them.
The objective of the intervention and legal background	To exempt health care services funded by Compulsory Health Insurance Fund from Corporate Income Tax. Law on Corporate Income Tax, 20 December 2001, No. IX-675 (LR Pelnio mokesčio įstatymas)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	State Tax Inspectorate under the Ministry of Finance
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	

⁹⁰ for example, European Commission. (2011). *Consultation Paper – Review of existing VAT legislation on public bodies and tax exemptions in the public interest*, COM(2011)851 final.

Subjects of the regulation/tax/tax exemption	Health care service providers providing services financed from Compulsory Health Insurance
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the inducement for subjects The intervention provides subjects with necessary financial resources
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups indirectly benefiting from the regulation/tax/tax exemption	All population - 2 821 674 persons (Statistics Lithuania, 2017)
The type of impact of intervention for beneficiaries	The intervention helps to maintain lower prices of healthcare services and therefore increases their accessibility. This results in healthier society from which all population as well as labour market benefits.
Impact of the intervention	The intervention helps to avoid double taxing. Since part of Compulsory Health Insurance Funds are received from the State budget as compensations for compulsory health insurance fees for certain society groups, the intervention makes sure that these funds used to pay for health care services are not taxed a second time. The intervention also has a positive impact on its consumers, since it helps to increase the access to health care services and creates incentives for businesses to provide health care services.
Unintended impact of the intervention	Each tax exemption reduces the revenues of the national budget. Even though most of the health care services are financed by National Health Insurance Fund, which is independent from the national budget, such interventions as compensation of compulsory health insurance fees for certain society groups could be affected by this loss of revenue of the national budget. However, as mentioned before, it also helps to prevent double taxing.
Main issues related to the implementation of the intervention	There are no significant issues related to the implementation of the intervention.
Consistency with other related interventions	Since the implementation of the intervention causes the decrease of revenues of the national budget, it could contradict the intervention compensating compulsory health insurance fees for certain society groups, since these compensations are paid from the national budget. However, this relation between the two interventions is not direct and as mentioned before, the intervention also helps to prevent double taxing.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. It has been in effect since 2001 without significant changes.

Source: BGI Consulting et al, 2017.

TABLE 56. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (8)

Title of the intervention		Regulation regarding licencing of health care institutions
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Regulation
Short description of the intervention		All institutions providing health care services must be licensed
Year of the introduction and end, stability of the intervention		1996 - up to now. The implementation of the intervention is stable. Even though certain licencing procedures have changed during this period, the overall regulation that institutions providing health care services must be licenced remained stable. The notion that only accredited institutions are allowed to provide health care services is valid since 1994.
The broader policy objective to which intervention contributes		The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life.
Legal background for the establishment of the intervention		Law on Lithuanian Health Care System, 15 July 1994, No. I-552 (LR Sveikatos sistemos įstatymas); Law on Health Care Institutions, 6 June 1996, No. I-1367 (LR Sveikatos priežiūros įstaigų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background		To ensure the quality of health care services provided in health care institutions
The objective of the intervention and legal background		To establish the requirements and procedures of licencing health care institutions. Order of the Minister of the Ministry of Health of the Republic of Lithuania on licencing of health care institutions, 2 March 2007, No. V-156 (LR Sveikatos apsaugos ministro įsakymas dėl asmens sveikatos priežiūros įstaigų licencijavimo); Order of the Minister of the Ministry of Health of the Republic of Lithuania on the list of licenced health care services, 14 May 2004, No. V-364 (LR Sveikatos apsaugos ministro įsakymas dėl licencijuojamų asmens sveikatos priežiūros paslaugų sąrašų patvirtinimo)
Level of body responsible for policy formation		National level
Level of body responsible for implementation (administration) of intervention		National level
Name of the body responsible for implementation (administration) of intervention		State Health Care Accreditation Agency
The main source of financing the intervention		Private funds
Market side the intervention is targeted at		Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Subjects of the regulation/tax/tax exemption		Institutions providing health care services
The type of impact of intervention for subjects of the regulation/tax/tax exemption		The intervention provides the subjects with permission
Level of coercion at the level of subject of the regulation/tax/tax exemption		The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption		Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Groups indirectly benefiting from the regulation/tax/tax exemption		All population - 2 821 674 persons (Statistics Lithuania, 2017)

Impact of the intervention	The intervention has a positive impact on the quality of healthcare services provided and consequently on all society, since all society benefits from better quality healthcare services. The licencing of healthcare institutions in Lithuania is stricter and better organised compared to most other EU countries. This is because in Lithuania double licencing is required, meaning that not only the institution providing health care services but also physicians must be licenced. Furthermore, in Lithuania licencing is administered by a national institution, compared to associations of physicians in other countries. The procedures of receiving a licence are common to both public and private providers, therefore, the participation of private entities in healthcare services provision is not burdened by this regulation ⁹¹ .
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	There are no significant issues related to the implementation of the intervention. However, licencing is seen as the only means of ensuring the quality of healthcare services, even though it requires to comply only with minimal, formal requirements. The healthcare services quality control system based on outcomes and indicators reflecting those outcomes is lacking ⁹² .
Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. It has been in effect since 1994 without significant changes. It could only be supplemented by the healthcare services quality control system based not on formal minimal requirements, but on the assessment of outcomes of the healthcare services and indicators reflecting those outcomes ⁹³ .

Source: BGI Consulting et al, 2017

TABLE 57. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (9)

Title of the intervention	Regulation regarding compulsory contributions to the state health insurance fund
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	All citizens of Lithuania, citizens of other countries living permanently in Lithuania and other subjects listed in the Law on Compulsory Health Insurance must pay compulsory health insurance fee.
Year of the introduction and end, stability of the intervention	1996 - up to now. The implementation of the intervention is stable. The notion that all Lithuanian citizens, citizens of other countries living permanently in Lithuania and other subjects listed in the Law on Compulsory Health Insurance must pay compulsory health insurance fee has remained unchanged since its introduction.
The broader policy objective to which intervention contributes	The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life.

⁹¹ Based on the information gathered during expert interviews

⁹² Based on the information gathered during expert interviews

⁹³ Based on the information gathered during expert interviews

Legal background for the establishment of the intervention	Law on Compulsory Health Insurance, 21 May 1996, No. I-1343 (LR Sveikatos draudimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure financing of public health care system accessible to all groups of society
The objective of the intervention and legal background	To establish health insurance system capable to finance health care services. Law on Compulsory Health Insurance, 21 May 1996, No. I-1343 (LR Sveikatos draudimo įstatymas)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	National Health Insurance Fund under the Ministry of Health
The main source of financing the intervention	State insurance fund
Market side the intervention is targeted at	Demand and supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	All citizens of Lithuania Citizens of other countries living permanently in Lithuania Other subjects listed in the Law on Compulsory Health Insurance
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention requires certain actions from subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Precise (particularised) Social status
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	The intervention has a positive impact on its consumers and the healthcare system in general. Funding of the healthcare system from the separate Health Insurance Fund rather than the State budget increases the resistance of healthcare financing from the one-sided political decisions and ensures more stable financing of healthcare services. Compulsory healthcare insurance also ensures the universal availability of healthcare services for all contributing ⁹⁴ .
Unintended impact of the intervention	Certain society groups are not able to pay compulsory health insurance fees. Therefore, their fees must be covered by State budgetary financing.
Main issues related to the implementation of the intervention	There are no significant issues with those persons that pay compulsory health insurance fees for themselves. However, the payments for those society groups that the compulsory health insurance fees are compensated for from the State budget is more than twice lower. Therefore, the overall financing of healthcare services is not adequate ⁹⁵ .
Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. It has been in effect since 1996 without significant changes. However, it should be amended to make sure that the compulsory health insurance fees compensated for certain society groups reach the same level as those paid by insured persons themselves.

Source: BGI Consulting et al, 2017

⁹⁴ Based on the information gathered during expert interviews

⁹⁵ Based on the information gathered during expert interviews

TABLE 58. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (10)

GENERAL CHARACTERISTICS OF THE INTERVENTION	
Title of the intervention	Regulation regarding fixed prices of health care services
Type of the intervention	Regulation
Short description of the intervention	Specialised outpatient care, rehabilitation, hospital and other public health care services are provided at fixed prices uniform throughout the country.
Year of the introduction and end, stability of the intervention	1996 - up to now. The implementation of the intervention is stable. Since introduction of fixed prices for health care services in 1996, this way of financing of health care institutions has not been significantly changed.
The broader policy objective to which intervention contributes	The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life.
Legal background for the establishment of the intervention	Law on Lithuanian Health Care System, 15 July 1994, No. I-552 (LR Sveikatos sistemos įstatymas); Law on Health Care Institutions, 6 June 1996, No. I-1367 (LR Sveikatos priežiūros įstaigų įstatymas); Law on Compulsory Health Insurance, 21 May 1996, No. I-1343 (LR Sveikatos draudimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To centralise health care services price regulation in order to ensure transparency and equal access to health care services among various society groups and across the country
The objective of the intervention and legal background	To set fixed prices of health care services. Law on Health Care Institutions, 6 June 1996, No. I-1367 (LR Sveikatos priežiūros įstaigų įstatymas); Order of the Minister of the Ministry of Health of the Republic of Lithuania on fixed prices of paid health care services, 30 July 1999, No. 357 (LR Sveikatos apsaugos ministro įsakymas dėl mokamų asmens sveikatos priežiūros paslaugų sąrašo, kainų nustatymo ir jų indeksavimo tvarkos bei šių paslaugų teikimo ir apmokėjimo tvarkos); Order of the Minister of the Ministry of Health of the Republic of Lithuania on primary health care services, 5 December 2005, No. V-943 (LR Sveikatos apsaugos ministro įsakymas dėl pirminės ambulatorinės asmens sveikatos priežiūros paslaugų organizavimo ir apmokėjimo tvarkos aprašo bei pirminės ambulatorinės asmens sveikatos priežiūros paslaugų ir bazinių kainų sąrašo tvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Ministry of Health of the Republic of Lithuania
The main source of financing the intervention	State insurance fund
Market side the intervention is targeted at	Demand and supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Public health care institutions providing health care services
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission The intervention prohibits certain behaviour of the subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects

Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups indirectly benefiting from the regulation/tax/tax exemption	All population - 2 821 674 persons (Statistics Lithuania, 2017)
The type of impact of intervention for beneficiaries	Fixed healthcare prices increase the accessibility of healthcare services for all society groups. Better accessibility of healthcare services results in healthier society. Therefore, all population as well as the labour market, benefits from it.
Impact of the intervention	The intervention has a positive impact on its consumers since it increases equal accessibility of healthcare services for various society groups and throughout the country. It also ensures equal conditions of competition among public and private service providers.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	The main issue related with the implementation of the intervention is that the prices of healthcare services are set based not on the real costs of the service but rather on the funding available with the view to balance revenue and expenditure of the National Health Insurance Fund. To attain this, the scoring system of services is used rather than the monetary equivalents to reflect the prices of the services. Therefore, the set prices do not always cover the real costs of healthcare institutions ⁹⁶ . In addition, the scoring of prices is not prone to the changes based purely on the political will. For example, the score for services provided by hospitals in regions is regularly subject to change with the view to sustain the scope of the current activities of regional hospitals despite the decrease of the number of patients, due to negative demographic trends or with the view to reverse such decisions. Such manipulation with prices based purely on the political will impedes the progress in solving other important issues in healthcare system. For example, it does not allow to proceed with the restructuring of the network of hospitals at the speed required ⁹⁷ .
Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. It has been in effect since 1996 without significant changes. However, the stability of implementation of the intervention should be increased or certain mechanisms allowing to set the prices using criteria other than political decisions should be introduced.

Source: BGI Consulting et al, 2017

TABLE 59. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (11)

Title of the intervention	Subsidy for provision of healthcare services at hospitals
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Hospitalisation health care services are funded by Compulsory Health Insurance

⁹⁶ Based on the information gathered during expert interviews

⁹⁷ Based on the information gathered during expert interviews

Year of the introduction and end, stability of the intervention	1996 - up to now. The implementation of the intervention is stable. Since its introduction in 1996, the implementation of the intervention has not been substantially changed.
The broader policy objective to which intervention contributes	The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life.
Legal background for the establishment of the intervention	Law on Lithuanian Health Care System, 15 July 1994, No. I-552 (LR Sveikatos sistemos įstatymas); Law on Compulsory Health Insurance, 21 May 1996, No. I-1343 (LR Sveikatos draudimo įstatymas); Law on Health Care Institutions, 6 June 1996, No. I-1367 (LR Sveikatos priežiūros įstaigų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure equal accessibility of hospitalisation services for all insured by the Compulsory Health Insurance
The objective of the intervention and legal background	To cover the costs of hospitalisation services for persons insured by Compulsory Health Insurance. Order of the Minister of the Ministry of Health of the Republic of Lithuania on funding of health care services, 22 December 2006, No. V-1113 (LR Sveikatos apsaugos ministro įsakymas dėl asmens sveikatos priežiūros paslaugų išlaidų apmokėjimo tvarkos aprašo tvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	National Health Insurance Fund
The main source of financing the intervention	State insurance fund
Market side the intervention is targeted at	Demand and supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Agreements with licenced providers based on quantitative indicators
Types of private providers eligible to receive the intervention	Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers	Agreements with licenced providers based on quantitative indicators
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of services provided applying a fixed rate
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	People insured by Compulsory Health Insurance - 2 957 516 (National Health Insurance Fund, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)

Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the uniform size approach
Impact of the intervention	The intervention has a positive impact on its consumers since it ensures equal access to hospital services for all persons insured by Compulsory Health Insurance. Since the intervention can be received by public and private providers alike it also has a positive impact on the business environment. However, the intervention also has negative unintended impact.
Unintended impact of the intervention	Since hospital services are funded based on the number of services provided or on the number of days of hospitalisation, in some hospitals, with the view to maximise the funding of the institution, the consumption of hospitalisation services is excessive. It is especially true in regional hospitals where due to the shrinking size of the population the demand for hospital services has decreased significantly but the decrease of the hospitalisation rates is not matching it. Regional hospitals are also keen to keep their hospitalisation rates high in order not to be reorganised during the restructuring of the hospital network (hospitals with curative care bed occupancy below 250 days a year are expected to be reorganised) ⁹⁸ .
Main issues related to the implementation of the intervention	The main issues related to the implementation of the intervention are, as mentioned before, inadequately high rates of hospitalisation, especially in regional hospitals, that occurs mainly due to the efforts to maximise the budget of the institution and avoid restructuring. The number of curative beds in Lithuania is the second highest in the EU. For respiratory diseases Lithuania has the second highest number of hospital discharges among EU countries, only after Bulgaria ⁹⁹ .
Consistency with other related interventions	The intervention is inconsistent with the intervention covering Compulsory Health Insurance fees for particular society groups from the state budget. Since the State cannot fulfil this commitment to cover Compulsory Health Insurance fees for most vulnerable society groups to a full extent, the health care system is constantly underfinanced. Therefore, other interventions, such as subsidy for provision of healthcare services at hospitals, cannot be implemented to the extent needed.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. However, the efficiency of its implementation should be increased. The efficiency of the implementation of this intervention is closely related to the success of hospital network restructuring reform ¹⁰⁰ . Currently the reform is hampered due to the decision made early in the health sector reform, when the ownership of all small- and mid-sized hospitals was transferred to municipalities, that now have an interest in maintaining local services and employment opportunities ¹⁰¹ . Despite these obstacles, however, solutions must be found to increase the speed of restructuring since it would also help to increase the efficiency of financing of hospital services.

Source: BGI Consulting et al, 2017

⁹⁸ Based on the information gathered during expert interviews

⁹⁹ European Commission, OECD, European Observatory on Health Systems and Policies, State of Health in the EU: Lithuania. Country Health Profile 2017, 2017

¹⁰⁰ Based on the information gathered during expert interviews

¹⁰¹ European Commission, OECD, European Observatory on Health Systems and Policies, State of Health in the EU: Lithuania. Country Health Profile 2017, 2017

TABLE 60. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (12)

Title of the intervention	Subsidy for the provision of basic primary healthcare services
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Primary health care services provided in public health care institutions are financed from Compulsory Health Insurance for people contributing to it.
Year of the introduction and end, stability of the intervention	1996 - up to now. The implementation of the intervention is stable. Since its introduction in 1996, the implementation of the intervention has not been substantially changed.
The broader policy objective to which intervention contributes	The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life
Legal background for the establishment of the intervention	Law on Lithuanian Health Care System, 15 July 1994, No. I-552 (LR Sveikatos sistemos įstatymas); Law on Compulsory Health Insurance, 21 May 1996, No. I-1343 (LR Sveikatos draudimo įstatymas); Law on Health Care Institutions, 6 June 1996, No. I-1367 (LR Sveikatos priežiūros įstaigų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure equal accessibility of primary health care services for all insured by the Compulsory Health Insurance
The objective of the intervention and legal background	To provide primary health care services for all persons insured by Compulsory Health Insurance free of charge. Order of the Minister of the Ministry of Health of the Republic of Lithuania on primary health care services, 5 December 2005, No. V-943 (LR Sveikatos apsaugos ministro įsakymas dėl pirminės ambulatorinės asmens sveikatos priežiūros paslaugų organizavimo ir apmokėjimo tvarkos aprašo bei pirminės ambulatorinės asmens sveikatos priežiūros paslaugų ir bazinių kainų sąrašo tvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	National Health Insurance Fund under the Ministry of Health
The main source of financing the intervention	State insurance fund
Market side the intervention is targeted at	Demand and supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Agreements with licenced providers based on quantitative indicators
Types of private providers eligible to receive the intervention	Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers	Agreements with licenced providers based on quantitative indicators

The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of beneficiaries applying a fixed rate
The share of the funds of the intervention that is attributed to public providers	34-66%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	People insured by Compulsory Health Insurance - 2 957 516 (National Health Insurance Fund, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the uniform size approach
Impact of the intervention	The impact of the intervention on its consumers is positive. Intervention helps to ensure that primary healthcare services would be equally accessible to all persons covered by compulsory health insurance, all social groups and throughout the whole territory of the country. Since the intervention can be received by public and private providers alike it also has a positive impact on the business environment.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	The capitation fee paid for primary healthcare providers is low. This is caused mainly by the general lack of funds in healthcare system (the health expenditure per capita in Lithuania is among the lowest in the EU ¹⁰²). Thus, the actual costs of the primary health care services are not covered, the remuneration of general practitioners is not competitive, there is a lack of certain primary health care specialists and assistants ¹⁰³ .
Consistency with other related interventions	The intervention is inconsistent with the intervention covering Compulsory Health Insurance fees for particular society groups from the state budget. Since the State cannot fulfil this commitment to cover Compulsory Health Insurance fees for most vulnerable society groups to a full extent, the health care system is constantly underfinanced. Therefore, other interventions, such as subsidy for the provision of basic primary healthcare services, cannot be implemented to the extent needed.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. However, strengthening and development of primary health care services is among the main priorities in the current government plans. Therefore, the remuneration of general practitioners, the number of nurses employed in primary health care institutions is expected to be increased ¹⁰⁴ .

Source: BGI Consulting et al, 2017.

¹⁰² European Commission, OECD, European Observatory on Health Systems and Policies, State of Health in the EU: Lithuania. Country Health Profile 2017, 2017

¹⁰³ Based on the information gathered during expert interviews

¹⁰⁴ Based on the information gathered during expert interviews

TABLE 61. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (13)

Title of the intervention		Subsidy for the provision of additional primary healthcare services
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention		Certain additional primary healthcare services are financed from state and municipalities budgets
Year of the introduction and end, stability of the intervention		2003 - up to now. The implementation of the intervention is stable. Since its introduction in 2003, the implementation of the intervention has not been substantially changed.
The broader policy objective to which intervention contributes		The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life
Legal background for the establishment of the intervention		Law on Lithuanian Health Care System, 15 July 1994, No. I-552 (LR Sveikatos sistemos įstatymas); Law on Compulsory Health Insurance, 21 May 1996, No. I-1343 (LR Sveikatos draudimo įstatymas); Law on Health Care Institutions, 6 June 1996, No. I-1367 (LR Sveikatos priežiūros įstaigų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background		To ensure equal accessibility of certain primary health care services for all citizens
The objective of the intervention and legal background		To provide certain primary health care services free of charge for all citizens. Order of the Minister of the Ministry of Health of the Republic of Lithuania on primary health care services, 5 December 2005, No. V-943 (LR Sveikatos apsaugos ministro įsakymas dėl pirminės ambulatorinės asmens sveikatos priežiūros paslaugų organizavimo ir apmokėjimo tvarkos aprašo bei pirminės ambulatorinės asmens sveikatos priežiūros paslaugų ir bazinių kainų sąrašo tvirtinimo)
Level of body responsible for policy formation		National level
Level of body responsible for implementation (administration) of intervention		National level Local level
Name of the body responsible for implementation (administration) of intervention		Ministry of Health of the Republic of Lithuania and municipalities
The main source of financing the intervention		Municipal budget
Market side the intervention is targeted at		Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention		Public and private
Types of public providers eligible to receive the intervention		Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers		Specific funding (non-regular) from municipalities budgets based on ad hoc agreements
Types of private providers eligible to receive the intervention		Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers		Specific funding (non-regular) from municipalities budgets based on ad-hoc agreements
The basis for the calculation of intervention size transferred to the service providers		The size of the financial transfer is calculated based on the costs of the specific health care measures being implemented

The share of the funds of the intervention that is attributed to public providers	34-66%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	All population - 2 821 674 persons (Statistics Lithuania, 2017)
Impact of the intervention	The impact of the intervention on its consumers is positive since the intervention ensures access to certain primary health care services such as preventive programmes for the groups listed in the intervention establishing documents. This intervention also increases the disposable funds of primary health care institutions and encourages their effectiveness since part of funding is distributed to primary health care institutions as a bonus for achievement of certain results.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	There are no significant issues related to the implementation of the intervention.
Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. Its implementation has been stable since 2003 with no major changes.

Source: BGI Consulting et al, 2017

TABLE 62. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (14)

Title of the intervention	Regulation regarding capitation of funding for primary healthcare services providers
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	Funds of Compulsory Health Insurance are distributed to primary health care providers based on the number of citizens signed up to receive services at that particular institution.
Year of the introduction and end, stability of the intervention	1996 - up to now. The implementation of the intervention is stable. Since its introduction in 1996, the implementation of the intervention has not been substantially changed.
The broader policy objective to which intervention contributes	The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life
Legal background for the establishment of the intervention	Law on Lithuanian Health Care System, 15 July 1994, No. I-552 (LR Sveikatos sistemos įstatymas); Law on Compulsory Health Insurance, 21 May 1996, No. I-1343 (LR Sveikatos draudimo įstatymas); Law on Health Care Institutions, 6 June 1996, No. I-1367 (LR Sveikatos priežiūros įstaigų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure transparent and adequate financing of health care activities

The objective of the intervention and legal background	To establish the requirements and procedures of funding of primary health care institutions. Order of the Minister of the Ministry of Health of the Republic of Lithuania on primary health care services, 5 December 2005, No. V-943 (LR Sveikatos apsaugos ministro įsakymas dėl pirminės ambulatorinės asmens sveikatos priežiūros paslaugų organizavimo ir apmokėjimo tvarkos aprašo bei pirminės ambulatorinės asmens sveikatos priežiūros paslaugų ir bazinių kainų sąrašo tvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	National Health Insurance Fund
The main source of financing the intervention	State insurance fund
Market side the intervention is targeted at	Demand and supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Primary health care institutions funded by Compulsory Health Insurance
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission The intervention prohibits certain behaviour of the subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups indirectly benefiting from the regulation/tax/tax exemption	All population - 2 821 674 persons (Statistics Lithuania, 2017)
The type of impact of intervention for beneficiaries	Since the intervention helps to increase accessibility of healthcare services for all society groups, it results in healthier society. Therefore, all population, as well as labour market benefits from it.
Impact of the intervention	The impact of the intervention on its consumers is positive. Intervention helps to ensure that primary healthcare services would be equally accessible to all persons covered by compulsory health insurance, all social groups and throughout the whole territory of the country. Since the intervention can be received by public and private providers alike it also has a positive impact on the business environment.
Unintended impact of the intervention	Since the payment for primary health care services is based on the capitation principle it does not encourage primary health care institutions to provide more services, therefore in some cases it can prevent patients from receiving the required services ¹⁰⁵ .
Main issues related to the implementation of the intervention	There are no significant issues related to the implementation of the intervention.
Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. Its implementation has been stable since 1996 with no major changes.

Source: BGI Consulting et al, 2017

¹⁰⁵ Based on the information gathered during expert interviews

TABLE 63. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (15)

Title of the intervention		Subsidy for provision of healthcare services at specialised outpatient care institutions
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention		Health care services provided in specialised outpatient care institutions are funded by Compulsory Health Insurance
Year of the introduction and end, stability of the intervention		1996 - up to now. The implementation of the intervention is stable. Since its introduction in 1996, the implementation of the intervention has not been substantially changed.
The broader policy objective to which intervention contributes		The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life
Legal background for the establishment of the intervention		Law on Lithuanian Health Care System, 15 July 1994, No. I-552 (LR Sveikatos sistemos įstatymas); Law on Compulsory Health Insurance, 21 May 1996, No. I-1343 (LR Sveikatos draudimo įstatymas); Law on Health Care Institutions, 6 June 1996, No. I-1367 (LR Sveikatos priežiūros įstaigų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background		To ensure equal accessibility of specialised health care services for all insured by the Compulsory Health Insurance
The objective of the intervention and legal background		To cover the costs of specialised outpatient care services for persons insured by Compulsory Health Insurance. Order of the Minister of the Ministry of Health of the Republic of Lithuania on funding of health care services, 22 December 2006, No. V-1113 (LR Sveikatos apsaugos ministro įsakymas dėl asmens sveikatos priežiūros paslaugų išlaidų apmokėjimo tvarkos aprašo tvirtinimo)
Level of body responsible for policy formation		National level
Level of body responsible for implementation (administration) of intervention		National level
Name of the body responsible for implementation (administration) of intervention		National Health Insurance Fund under the Ministry of Health
The main source of financing the intervention		State insurance fund
Market side the intervention is targeted at		Demand and supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention		Public and private
Types of public providers eligible to receive the intervention		Budgetary institution (-s) Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers		Agreements with licenced providers based on quantitative indicators
Types of private providers eligible to receive the intervention		Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers		Agreements with licenced providers based on quantitative indicators
The basis for the calculation of intervention size transferred to the service providers		The size of the financial transfer is calculated based on the number of services provided applying a fixed rate

The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	People insured by Compulsory Health Insurance - 2 957 516 (National Health Insurance Fund, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the uniform size approach
Impact of the intervention	The impact of the intervention on its consumers is positive. The intervention ensures equal access to specialised outpatient services for all persons covered by Compulsory Health Insurance.
Unintended impact of the intervention	Payments for specialised outpatient services are based on the number of services provided and the prices of different types of services are different. Therefore, healthcare institutions providing specialised outpatient care services and aiming to maximise the budget of the institution aim to provide more services and specifically more services with higher prices. Such practice distorts the supply of services. Some types of specialised outpatient services that have the highest prices, such as cardiac surgeries, are oversupplied, while others the prices of which are significantly lower, such as therapy, are undersupplied ¹⁰⁶ .
Main issues related to the implementation of the intervention	In order to lower incentives for oversupply of services and to reduce spending required from the Compulsory Health Insurance Fund a regulation that three specialised outpatient care visits for the same reason are paid as one was introduced. However, the introduction of such regulation has two negative consequences. Firstly, the price of one visit becomes inadequately low, since it is divided among three visits and secondly, physicians then try to overcome this regulation by prescribing different reasons for each visit ¹⁰⁷ .
Consistency with other related interventions	The intervention is inconsistent with the intervention covering Compulsory Health Insurance fees for particular society groups from the state budget. Since the State cannot fulfil this commitment to cover Compulsory Health Insurance fees for most vulnerable society groups to a full extent, the health care system is constantly underfinanced. Therefore, other interventions, such as subsidy for provision of healthcare services at specialised outpatient care institutions, cannot be implemented to the extent needed.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. However, the overall funding and quality control of the healthcare system should be increased in order to increase the efficiency of the implementation of this intervention.

Source: BGI Consulting et al, 2017.

¹⁰⁶ Based on the information gathered during expert interviews

¹⁰⁷ Based on the information gathered during expert interviews

TABLE 64. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN HEALTH SECTOR (16)

Title of the intervention	Subsidy for provision of rehabilitation services
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Rehabilitation services provided in licenced institutions are funded by Compulsory Health Insurance
Year of the introduction and end, stability of the intervention	1996 - up to now. The implementation of the intervention is stable. Since its introduction in 1996, the implementation of the intervention has not been substantially changed.
The broader policy objective to which intervention contributes	The main objective of health care services is to reduce the health differences between various groups of society, protect society from illnesses, avoidable death and disabilities, prolong the number of healthy life years and increase the overall quality of life
Legal background for the establishment of the intervention	Law on Lithuanian Health Care System, 15 July 1994, No. I-552 (LR Sveikatos sistemos įstatymas); Law on Compulsory Health Insurance, 21 May 1996, No. I-1343 (LR Sveikatos draudimo įstatymas); Law on Health Care Institutions, 6 June 1996, No. I-1367 (LR Sveikatos priežiūros įstaigų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure equal accessibility of rehabilitation services for all insured by the Compulsory Health Insurance
The objective of the intervention and legal background	To cover the costs of rehabilitation services for persons insured by Compulsory Health Insurance. Order of the Minister of the Ministry of Health of the Republic of Lithuania on funding of rehabilitation services, 17 January 2008, No. V-50 (LR Sveikatos apsaugos ministro įsakymas dėl medicininės reabilitacijos ir sanatorinio (antirecidyvinio) gydymo organizavimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	National Health Insurance Fund under the Ministry of Health
The main source of financing the intervention	State insurance fund
Market side the intervention is targeted at	Demand and supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s) Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Agreements with licenced providers based on quantitative indicators
Types of private providers eligible to receive the intervention	Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers	Agreements with licenced providers based on quantitative indicators
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of services provided applying a fixed rate
The share of the funds of the intervention that is attributed to public providers	67-99%

DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	People insured by Compulsory Health Insurance - 2 957 516 (National Health Insurance Fund, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the uniform size approach
Impact of the intervention	The impact of the intervention on its consumers is positive. The intervention ensures equal access to rehabilitation care services for all persons covered by Compulsory Health Insurance.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	There are no significant issues related to the implementation of the intervention.
Consistency with other related interventions	The intervention is inconsistent with the intervention covering Compulsory Health Insurance fees for particular society groups from the state budget. Since the State cannot fulfil this commitment to cover Compulsory Health Insurance fees for most vulnerable society groups to a full extent, the health care system is constantly underfinanced. Therefore, other interventions, such as subsidy for provision of rehabilitation services, cannot be implemented to the extent needed.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. The implementation of the intervention has been stable since 1996 with no major changes.

Source: BGI Consulting et al, 2017.

2.5.3.1 SUPPLY SIDE: QUALITY OF PLANNING OF SELECTED INTERVENTIONS

Quality of planning of the interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

TABLE 65. QUALITY OF THE PLANNING OF THE HEALTH PROTECTION SECTOR SERVICES RELATED INTERVENTIONS IN LITHUANIA

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Interventions common to all services	Subsidy for centralised payment for pharmaceuticals and medical devices	x	x	N/A	x	√	x	POOR
	Compensations of certain pharmaceuticals and medical devices	x	√	N/A	√	√	x	AVERAGE
	Compensation of compulsory health insurance fees for particular groups	x	x	N/A	x	√	x	POOR
	ESIF subsidies for development of services and infrastructure	√	√	N/A	√	√	x	GOOD
	Preferential VAT for pharmaceuticals	x	x	N/A	√	√	x	POOR
	VAT exemption for health care services	x	x	N/A	√	√	x	POOR
	Corporate Income Tax exemption for healthcare institutions (income received from services financed from the Compulsory Health Insurance Fund)	x	x	N/A	√	√	x	POOR
	Regulation regarding licencing of health care institutions	x	√	N/A	√	√	√	GOOD
	Regulation regarding compulsory contributions to the state health insurance fund	x	√	N/A	√	√	√	GOOD

Hospital services	Subsidy for provision of healthcare services at hospitals	x	√	N/A	√	x	√	AVERAGE
	Regulation regarding fixed prices of health care services	x	√	N/A	√	x	√	AVERAGE
Primary healthcare services	Subsidy for the provision of basic primary healthcare services	x	√	N/A	√	x	√	AVERAGE
	Subsidy for the provision of additional primary healthcare services	x	√	N/A	√	√	√	GOOD
	Regulation regarding capitation of funding for primary healthcare services providers	x	√	N/A	√	x	√	AVERAGE
Specialised outpatient services	Subsidy for provision of healthcare services at specialised outpatient care institutions	x	√	N/A	√	x	√	AVERAGE
	Regulation regarding fixed prices of health care services	x	√	N/A	√	x	√	AVERAGE
Rehabilitation care services	Subsidy for provision of rehabilitation services	x	√	N/A	√	x	√	AVERAGE
	Regulation regarding fixed prices of health care services	x	√	N/A	√	x	√	AVERAGE

Source: BGI Consulting et al, 2017

The quality of planning of the healthcare service related interventions varies.

The best quality of planning is attributed to the interventions financed by ESIF applied to both public and private providers. The documents related to the ESIF lay down clearly the formal requirements for allocation of funds, including period of implementation of the intervention, eligible costs, output and outcome indicators, etc. The only criterion of the good planning that it misses is more specified demand for the intervention, which is not taken into account. However, in case of ESIF interventions it is not regarded

as a shortcoming, since ESIF interventions do not aim to cover all the demand. It is a means of distributing the amount of funds planned.

Subsidies for healthcare services provided by hospitals and outpatient clinics as well as rehabilitation services were planned averagely. The largest part of state subsidy to healthcare institutions is funded by the Compulsory Health Insurance Fund and is based on the annual agreements between the National Health Insurance Fund and healthcare providers. However, clear definition of expected results is missing; funding is based on quantitative rather than qualitative indicators. Furthermore, the external quality assurance system is not in place. Thus, in order to increase usually insufficient funding, healthcare providers are indirectly forced to provide excess services. For instance, regional hospitals, where demand for healthcare services has decreased significantly, keep hospitalisation rates at a high level; outpatient service providers aim to provide more services and, specifically, more expensive services; outpatient service providers try to overcome the regulation establishing the rule that three specialised outpatient care visits for the same reason are paid as one by prescribing different reasons for each visit¹⁰⁸. All this kind of manoeuvre helps to increase quantitative indicators but, basically, do not affect outcomes of the services.

Compensation of certain pharmaceuticals and medical devices was also assessed to be averagely planned. The main issue related with the implementation of this intervention is that despite its existent, the spending on pharmaceuticals in Lithuania is among the highest levels in the EU (28 percent of the total health care spending from public and private sources)¹⁰⁹. Out-of-pocket payments are covering 32 percent of total health expenditure, which is more than double the EU average. Therefore, it is clear that the intervention does not take into account the overall demand for the related service and its scope should be expanded.

VAT and corporate income tax exemptions were identified as poorly planned because the laws laying down the rules and requirements for tax exemptions and price regulation in the sector do not define reasoning of interventions, thus the results that are expected to achieve lack clarity. Therefore, interventions' implementation period is not specified, i.e. it is not related to any circumstances or period of time. The lack of proper planning causes some uncertainties in the health protection service provision market, while current taxation and pricing rules can be changed by political decision unexpectedly. For example, the scores on which the fixed price of healthcare services is based are not prone to the changes based purely on the political will. Thus, the score for services provided by regional hospitals is regularly subject to change in order to sustain the scope of activities of these hospitals despite the decreasing number of patients.

Other two interventions the planning of which was assessed as poor are subsidy for centralised payment for pharmaceuticals and medical devices and compensation of compulsory health insurance fees for particular groups. Regarding the subsidy for centralised payment for pharmaceuticals, the types of costs and the amount of costs of its implementation are not clearly defined. Even though, part of the subsidy is used to centrally purchase the most expensive pharmaceuticals for curing most challenging diseases and distribute among hospitals and the types of costs and the amount of costs for this purchase are clearly defined, hospitals also receive a compensation for pharmaceuticals that are purchased by hospitals themselves. For such purchase of pharmaceuticals by the separate hospitals, funds of Compulsory Health Insurance can be used. However, neither the share of Compulsory Health Insurance Fund eligible to be used for purchase of pharmaceuticals, nor the common national lists of pharmaceuticals compulsory to have in hospitals are defined. All the discretion regarding the purchase of pharmaceuticals is left to hospitals

¹⁰⁸ Based on the information gathered during expert interviews

¹⁰⁹ European Commission, OECD, European Observatory on Health Systems and Policies, State of Health in the EU: Lithuania. Country Health Profile 2017, 2017

themselves. This causes vast differences among the types and amount of pharmaceuticals purchased by hospitals and results in differences in treatment available free of charge in different hospitals as well as inefficient use of resources¹¹⁰. Furthermore, the management and delivery standards of centralised purchase of pharmaceuticals are not defined. Hospitals are not obliged to choose more effective means for purchasing pharmaceuticals such as using of Central Procurement Organisation platform or carrying out consolidated purchases. Regarding the procedures of the implementation of the intervention, all discretion is left to hospitals. Finally, the overall demand for the related service is not taken into account. The reserve of centrally purchased pharmaceuticals is not well accounted for and redistribution of this reserve is not efficiently carried out.

Compensation of compulsory health insurance fees for particular groups also does not take into account the types of costs and the amount of costs required to implement the intervention or the demand for the related service. Its management and delivery standards are also not well defined. The compensations of compulsory health insurance for certain society groups paid by the State budget is more than twice lower than that paid by persons covering the fee of compulsory health insurance on their own. Despite that, the amount and quality of services received by all insured by Compulsory Health Insurance must be equal. Due to these issues, the national health care system is constantly underfinanced¹¹¹. Since the State budget is unable to fulfil its commitments to a full extent, it is clear that the social groups, the compulsory health insurance fees of which must be covered by the State budget were defined without taking into account the actual costs of the implementation and the demand needed to be covered. The management and delivery standards of the intervention also state only the minimum contribution required from the State budget.

2.5.3.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF SELECTED INTERVENTIONS

The most recognisable issue causing inefficiencies in Health protection sector is lack of transparency in financing of healthcare providers. Subsidy for provision of healthcare services at hospitals financed by Compulsory Health Insurance Fund is available for licenced providers; the size of the transfer is calculated based on quantitative indicators. It should contribute to higher efficiency. However, hospitalisation is associated with inadequately high rates currently, especially in regional hospitals, that occurs mainly due to the efforts to maximise the budget of the institution and to avoid restructuring. Since hospital services are funded based on the number of services provided or on the number of days of hospitalisation, in some hospitals, with the view to maximise the funding of the institution, the consumption of hospitalisation services is excessive¹¹². The number of curative beds in Lithuania is the second highest in the EU¹¹³.

Subsidy for provision of rehabilitation services is associated with some inefficiencies in the delivery of funds. Even though both public and private providers can receive intervention on the equal terms and there are no significant differences between pricings of private and state-owned providers, distribution of patients may be an issue. Firstly, potential consumers of the services are dispersed in a rather large territory, which makes provision more capital and labour intensive, leading to the increase of the overall

¹¹⁰ National Audit Office of Lithuania, National Audit Report. Provision of Pharmaceuticals in Hospitals, 28 February 2012, No. VA-P-10-10-3

¹¹¹ Based on the information gathered during expert interviews

¹¹² Based on the information gathered during expert interviews

¹¹³ European Commission, OECD, European Observatory on Health Systems and Policies, State of Health in the EU: Lithuania. Country Health Profile 2017, 2017

costs of intervention. Secondly, customers do not always have equal chances to choose between public and private providers as some public hospitals have rehabilitative departments and prefer these departments to services of other providers.

Efficiency issues are caused to some extent by the price regulation intervention as well, as the prices of healthcare services are set based not on the real costs of the service but rather on the funding available with the view to balance revenue and expenditure of the Compulsory Health Insurance Fund. Therefore, service providers aiming to maximise the budget of institution and to cover expenditure tend to provide more services and specifically more services with higher price. That causes oversupply of some services and undersupply of others.

The service quality among different providers varies. Since the funding is based on quantitative rather than qualitative criteria and do not consider outcomes of provided healthcare services, the only means of ensuring the quality of services is licencing of healthcare providers. However, it requires to comply only with minimal, formal requirements, the healthcare services quality control system lacks indicators reflecting outcomes¹¹⁴.

Regarding the equal terms of competition in the market between public and private providers, these are generally equal as subsidies from the Compulsory Health Insurance Fund are available for both public and private providers. However, it is important to note that although both private and public providers can have agreements with Territorial Health Insurance Funds and provide services compensated by the Compulsory Health Insurance Fund, when there are enough providers of certain services, new providers cannot be awarded the contract. Therefore, it can hinder the possibilities to enter the market for private providers.

As for the sector's institutional potential for transferring the provision of the services to the private entities, there are considerations about further partial transfer of all services analysed to the private entities. Already at this stage it is known that state-owned providers of hospital and rehabilitation care services plan to outsource the provision of catering, laundry services, certain lab tests as well as repair of equipment; and primary healthcare services are planned to be fully transferred to private providers. It is expected that wider involvement of private entities will foster efficiency of interventions by increase in competition. However, smooth transition is hindered by staff and training shortages. Moreover, reliance on private suppliers can be negatively affected by the poor performance of existing external providers, as some healthcare institutions have already reduced outsourcing because of that reason¹¹⁵.

2.5.3.3 SUPPLY SIDE: ADDITIONALITY OF SELECTED INTERVENTIONS

All services in the Health protection sector in Lithuania have significant positive impact on the target group. Significance of positive impact is also high because of ensured accessibility to healthcare for all social and income groups throughout the country. Basically, size of financial interventions for healthcare institutions, with exception of primary healthcare, is calculated based on the number of provided services. Thus, healthcare institutions are motivated to serve more clients which is positive in terms of availability of healthcare services, however, on the other hand, it could negatively affect the quality of health care. In terms of primary healthcare, funds for the institutions are allocated based on the capitation principle. It does not

¹¹⁴ Based on the information gathered during expert interviews

¹¹⁵ Based on the information gathered during expert interviews

encourage primary health care institutions to provide more services, therefore in some cases it can prevent patients from receiving the required services¹¹⁶.

In terms of direct impact, healthcare sector related interventions have a positive impact on private businesses. Firstly, all interventions are available and all sector's services analysed can be provided by private entities that receive funds from the Compulsory Health Insurance Fund on the equal terms. Secondly, health protection sector interventions related to tax incentives and compensations of certain pharmaceuticals and medical devices increase consumption and encourage establishment of service providers and service related businesses as private pharmacies that have agreements regarding provision of compensated pharmaceuticals.

Regarding the number of jobs, most of the interventions have only an insignificant effect. Such interventions as ESIF subsidies for the development of services and infrastructure of healthcare providers increase number of jobs in construction sector, but only momentarily and insignificantly. Subsidies for the provision of healthcare services (coverage of health care services provision costs) increase demand (affordability) of these services, which makes employment in the sector to rise, though insignificantly in comparison to current number of jobs, in order to meet that demand. However, a few interventions may have an insignificant negative impact on the size of workforce in the sector. For example, service price regulation may act as a disincentive to sector development as it prompt providers to cut costs and to reduce number of jobs.

Health protection sector interventions have an impact on the capital investment as well. The impact on capital investment is significant, however not very sustainable in long-term. The ESIF funding for improving performance of healthcare services is the main source used for infrastructure improvements (along with some investments financed by state investment programme), thus increasing capital investments. However, after implementation works are finished, the capital investment loses the momentum, though the maintenance costs are present. Other interventions, firstly regulatory ones, basically do not have impact on capital investment or even have insignificant negative effect.

2.5.3.4 SUPPLY SIDE: SIDE-EFFECTS OF SELECTED INTERVENTIONS

The most noticeable negative side-effects of some interventions in Health protection sector are closely related to insufficient funding. Normally, price regulation interventions and service based funding are considered to foster efficiency and to avoid an overcharge. However, existing interventions encompassing price regulation and scoring based financing of healthcare providers have detrimental side-effect on efficiency and transparency of healthcare provision as, due to inadequate funding per service, service providers are forced to provide additional, probably unnecessary services in order to collect funds needed to maintain institutions.

On the other hand, application of capitation principle in primary healthcare financing (regulation regarding capitation of funding for primary healthcare service providers) may prompt service providers to reduce number of patients visits and to prevent patients from receiving the required healthcare services¹¹⁷.

¹¹⁶ Based on the information gathered during expert interviews

¹¹⁷ Based on the information gathered during expert interviews

Compulsory contributions to the state health insurance fund and compensation of compulsory health insurance fees for particular groups means that the vast majority of patients are eligible to free healthcare services at various institutions. That is, inhabitants or government, in case of particular groups, contribute to the state health insurance fund in advance and the number and quality of the service do not depend on the size of person's contribution. Universal healthcare ensures access to the necessary services for majority of population and, thus, creates positive side-effects on the country's wealth. However, at the same time, the healthcare service provision encourages negative behaviour of the target group. Overconsumption or non-effective use of the health services is the common negative side-effect attributed to the free at consumer level health protection sector as people tend to exploit more possibilities than it would be necessary based on clinical evidence and expertise. Consumer's behaviour can also be driven by habit or hunches rather than rational choice leading to overuse of the services. Moreover, since the healthcare institutions, with exception of primary healthcare, are basically financed based on the number and type of provided services, the services providers are keen to oversupply provision of certain type of the services. Nevertheless, negative side-effects related to the target group are also outweighed by positive side-effects on society such as better productivity of human resources and increase in healthy life years.

2.5.3.5 DEMAND SIDE: IMPACT OF SELECTED INTERVENTIONS ON AFFORDABILITY OF THE SERVICE

Subsidies for provision of healthcare services at hospitals, primary healthcare centres, specialised outpatient clinics, and rehabilitation hospitals ensure basic accessibility to health protection services to the whole society. Overall demand is met by the overall supply and satisfactory level of healthcare is provided as all services comply with basic qualitative standards. There are no significant service affordability issues in terms of financing identified since nearly every inhabitant can afford health services provided free at consumer level without incurring financial hardship (for some groups compulsory health insurance fees are compensated by the state).

However, service consumption is not necessarily equal among various social and income groups because of behavioural differences. Low-income groups face knowledge shortages causing underestimation of the utility of the services. Especially, consumption of preventative health measures, immunisation programmes correlate with social and income status of potential consumers. Gender related behavioural differences seem to affect consumption of healthcare services as well. Even though average lifespan of males is growing faster than of females, the difference between genders in terms of life expectancy remains significant¹¹⁸.

Moreover, the affordability of services is not exclusively defined by the consumers' incomes and ability to pay for the services. In Lithuanian health care sector both high and low-income groups face consumption related obstacles. The main constraints are the high intensity of the time (long waiting lists, etc.) and limitations due to long distances between places patients live in and places the services are provided at. The main issues causing aforementioned situation is related, firstly, to the lack of healthcare professionals, especially in the regional healthcare institutions. Low fixed prices of healthcare services and, therefore, insufficient subsidies for provision of healthcare services make it difficult to form and maintain professional staff.

¹¹⁸ according to the data provided by Health Information Centre of Institute of Hygiene, 2017

2.5.3.6 CONSISTENCY OF SELECTED INTERVENTIONS

Most of the service related interventions analysed complement each other or are neutral with exception of the intervention aimed at covering Compulsory Health Insurance fees for particular society groups from the state budget. Since the State cannot fulfil its commitment to cover Compulsory Health Insurance fees for most vulnerable society groups to a full extent, the health care system is constantly underfinanced. This issue lowers the positive effect of other interventions and hinders growth in outcomes and development of the healthcare system.

In addition, such interventions as VAT exemptions for pharmaceuticals, healthcare services and corporate income tax exemption, encourages consumption of healthcare services and provision of them, however, it also reduces the revenue of the State budget. Therefore, it indirectly affects implementation of the intervention covering Compulsory Health Insurance fees for particular society groups, since it reduces the possibilities of the State budget to fulfil its commitments to a full extent even further.

Some regulatory interventions might have some contradicting effect on subsidies aimed at the improvement of performance of healthcare providers. It is expected that ESIF subsidies for enhancement of healthcare services and infrastructure and similar interventions will contribute to an increase in quality and scope of the services. However, fixed prices regulate scope and quantity of the healthcare services provided by individual institutions and therefore impede growth boosted by aforementioned interventions to some extent.

2.5.4 CONCLUSIONS AND RECOMMENDATIONS ON THE GOVERNMENT INTERVENTIONS IN THE LITHUANIAN HEALTH PROTECTION SECTOR

Health protection sector in Lithuania is primarily regulated by the state. Responsibility for the service provision is shared between the state (part of hospital, outpatient, and rehabilitation service providers) and municipalities (whole primary healthcare system and part of hospital, outpatient, and rehabilitation service providers). Shared responsibility for healthcare provision at hospitals causes one of the main issues regarding the efficiency of the entire healthcare system. Even though there exist long lasting efforts to optimise healthcare network and to rely at the local level more on primary healthcare or day services at specialised centres, inefficient regional hospitals continue to exist without more noticeable changes. In order to avoid restructuring and to maintain existing institutions, some healthcare providers are keen to provide excess services that do not contribute to better outcomes. Thus, Lithuania has the second highest number of curative beds in the EU¹¹⁹, at the same time having one of the lowest financing for the healthcare system. Furthermore, many municipalities due to the need for political dividends and due to the pressure experienced from the community hinders the implementation of the reform by providing additional funding to even inefficient local hospitals that are not able to survive on their own. Since the Ministry of Health does not have any means of controlling the quality of the services provided in hospitals (there are

¹¹⁹ European Commission, OECD, European Observatory on Health Systems and Policies, State of Health in the EU: Lithuania. Country Health Profile 2017, 2017

no clear qualitative indicators), it also has no means to stop the municipalities and encourage them to proceed with the reform at the expense of inefficient institutions. Therefore, it is recommended to implement the quality supervision system with transparent qualitative indicators, that would allow to evaluate the performance of different health care institutions based on their outcomes and not on the political decisions. The quality of cooperation among the Ministry of Health and municipalities should also be increased including better distribution of responsibilities.

The sector suffers from the lack of financing that is primarily related to the insufficient contributions to the state health insurance fund. Main sources of the state health insurance fund revenue are compulsory contributions paid by all employees and other groups listed in the Law on Compulsory Health Insurance and the compensations of compulsory health insurance for certain categories of society groups paid from the State budget. State's commitment to cover health insurance fees for extensive list of consumers is not fulfilled due to the lack of resources. Thus, the fee paid from the State budget to the state insurance fund for those receiving compensations of compulsory health insurance is more than twice lower than the fee paid by the first group of insured persons (employees and other groups that are covering the fee on their own). Therefore, reduced budget of the state insurance fund leads to constant underfinancing of the healthcare system, as health expenditure per capita in Lithuania is among the lowest in the EU¹²⁰. This is a long-lasting issue that could be resolved only either by increasing the share of State budget attributed to compensations of Compulsory Health Insurance fees for certain society groups or reducing the number of such groups (currently there are 19 such social groups and they account for 50-60 percent of all covered by the compulsory health insurance). Moreover, frequently the state and municipalities use public resources to additionally finance healthcare institutions (at least some of them) channelling public funds directly. If at least part of these public funds were redirected via the Compulsory Health Insurance Fund as state contribution, it could partially reduce the problem of the underfinance of the Compulsory Health Insurance Fund and, no less important, to increase transparency of the use of the public funds.

Insufficient resources impede smooth implementation of certain interventions that are supposed to contribute to the efficiency and quality of the healthcare services. Regulation regarding fixed prices of the healthcare services is designed in order to ensure transparency and equal access to health care services among various society groups and throughout the country. However, due to the lacking financial resources, the prices of healthcare services are set based on the available funding rather than on the real cost. To attain this, the scoring system of services is used rather than the monetary equivalents to reflect the prices of the services. Taking into account that set prices do not always cover the expenditure of healthcare institutions, manipulation with the scores in order to maintain certain types of providers are present. Regular changes of the financing based on the political preferences rather than the real costs of the service provision hinder the efficiency and overall quality of healthcare system performance.

Lack of financial allocations distorts the supply of the services as well. Some healthcare institutions aiming to maximise insufficient budget seek to provide more services than it would be necessary or are oriented to the services with higher prices. However, regulations imposed by the state in order to ensure efficiency of the healthcare provision and to reduce unnecessary visits to the healthcare institutions does not seem to work properly. For example, a regulation that three specialised outpatient care visits for the same reason are paid as one, firstly, lowers disproportionately the price paid per visit and, secondly, can be avoided by prescribing different reasons for each visit. All that type of measures does not reach their ultimate goal

¹²⁰ European Commission, OECD, European Observatory on Health Systems and Policies, State of Health in the EU: Lithuania. Country Health Profile 2017, 2017

until the financing of the health care is on the lowest level and healthcare providers have to constantly manipulate services and resources, including professional staff, in order to maintain the institution.

The outlined issues regarding the probable overconsumption of the services in the hospitals or outpatient centres are not relevant to the primary healthcare institutions since the financing of the basic primary healthcare services is determined by the number of inhabitants affiliated to the particular primary healthcare centre. However, capitation principle is causing other problems, since it does not encourage primary health care institutions to provide more services that could have detrimental effect on the success of preventative activities aimed at protecting patients from potential health threats, reducing risk factors, and promoting healthy life style. Moreover, it can prevent patients from receiving the required treatment. The additional funding that is available for primary healthcare providers as a bonus for achievement of certain results helps to some extent to mitigate the aforementioned risk of the underuse of primary healthcare services. In order to enhance the primary healthcare contribution to better health outcomes of the whole society, the outcome based financing of the services providers should be further developed. Strong primary healthcare service could reduce pressure on hospitals, as it services to decrease delay to the healthcare system and supports people to avoid illnesses or to manage their health issues at the early stage.

2.5.5 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

2.5.5.1 HOSPITAL SERVICES

TABLE 66. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN HOSPITAL SERVICES

Criteria	FI potential
Pricing system	Free of charge
Regulatory/governance Framework	Public domain
Market potential	Limited potential development of (more) paid service
Accountability	Partial performance framework
Capacity	Transfer of parts of service – Lack of staff and training

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

The service is free of charge for the most of the inhabitants across the whole country as hospital services are subsidised from the Compulsory Health Insurance Fund. For certain groups of inhabitants, the fee to the Compulsory Health Insurance Fund is covered by the state. Additional revenues are generated to a limited extent by external services (e.g. clinical studies or overnight accommodation services), services provided to non-residents and others not covered by compulsory health insurance (e.g. cosmetic surgery).

Effect of price increase on demand of such services depends on the profile of consumers (e.g. low-income groups would probably consume less).

REGULATORY AND GOVERNANCE FRAMEWORK

State-owned or municipality-owned entities are dominating in the market. Specifically, there are 84 state/municipalities owned hospitals, and 12 private hospitals (4 of these are long-term hospitals; only one is considered a large hospital). Therefore, very few private entities are providing directly the service, mainly due to high fixed costs, market size and dispersion of population across the territory, as well as existing restrictions (e.g. regulation regarding licencing of health care institutions, regulation regarding fixed prices of healthcare services). The supply is mainly of monopolistic competition nature, based on a territorial repartition of providers.

MARKET POTENTIAL

There are around 700,000 hospital admissions per year. Admission rates are positively correlated with age of the population. It is worth noting the existence of certain problems of access for people living in rural areas and less educated people. There are potentials for the provision of private-based services (e.g. private pharmacy or catering services), as well as for cost reduction (by increasing the efficiency of existing health care providers network and transparency of funding) and the increase of the scope of activities generating revenue. The actual share of costs covered by such paid services is currently low.

ACCOUNTABILITY

Information is available on the context of intervention; recent trends are monitored based on national and international data sources. However, policy targets are not always clearly defined. In addition, some short-term and long-term objectives lack consistency. The licencing of healthcare providers and subsidy for provision of healthcare services at hospitals are based on quantitative rather than qualitative criteria.

CAPACITY

There are considerations about transferring certain specific non-core activities in outsourcing (e.g. catering). Such transfer would not imply additional costs for public providers. However, resources of staff and training are lacking to promote a smooth transition process.

The service meets partially the qualitative standards; shortcomings are linked to insufficient investment, ineffective assets management and lack of human resources and expertise. Hospitals demonstrate inadequately high rates of hospitalisation (the number of curative beds in Lithuania is the second highest in the EU). It happens in order to maximise budget and to maintain existing capacities among other reasons since the subsidy for provision of healthcare services at hospitals is counted based on the number of service provided without considering the health outcomes.

Especially the regional and local healthcare providers face the shortage of professional healthcare personnel.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Due to the principle of free access to hospitals, there is little room for the development of FIs related to the hospital services. Paid services to users, mainly provided through outsourcing of some services, could be developed to a certain extent depending on efficiency considerations.

2.5.5.2 PRIMARY HEALTH CARE

TABLE 67. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN PRIMARY HEALTH CARE SERVICES

Criteria	FI potential
Pricing system	Free of charge, potential affordability concerns
Regulatory/governance Framework	Mixed public/private (Public share up to 66% of the market)
Market potential	Limited potential development of (more) paid service
Accountability	Performance framework
Capacity	Transfer of whole service (ongoing) – Lack of staff and training

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

The service is free of charge for the most of the inhabitants as primary healthcare services are subsidised from the Compulsory Health Insurance Fund. For certain groups of inhabitants, the fee to the Compulsory Health Insurance Fund is covered by the state. Additional revenues are generated by providers to a limited extent from services not covered by compulsory health insurance (e.g. certain rehabilitation services and lab tests, vaccination for diseases not covered by calendar, dental care materials). Effect of price increase on demand of such services depends on the profile of consumers (e.g. low-income groups would probably consume less).

REGULATORY AND GOVERNANCE FRAMEWORK

Local government is responsible for the provision of the service. The service is delivered by municipality-owned entities. Private sector is present in delivering the service through private cabinets and private groups. The main obstacles to enter the market for private entities are the existing restrictions imposed by the regulatory framework ((e.g. regulation regarding licencing of health care institutions, regulation regarding capitation of funding for primary healthcare service providers). In order to be able to provide health care services covered by compulsory health insurance, private as well as public providers need to sign agreements with Territorial Health Insurance Fund and to receive subsidy for the provision of basic primary healthcare services. However, when there are enough service providers, additional agreements are not signed and therefore, new providers cannot provide services covered by compulsory health insurance. Consequently, the prices of their services become non-competitive.

MARKET POTENTIAL

All the resident population is covered; market share of public entities is less than 66 percent. There is some potential to develop further revenues based on paid auxiliary services, through cost reduction and by enlarging the scope of activities generating revenues or savings. The share of total costs covered by such services is actually very low.

ACCOUNTABILITY

Information is available on the context of intervention; recent trends are monitored based on national and international data sources. Policy objectives and targets are defined. Short-term and long-term objectives are in general consistent, even if under political debate.

CAPACITY

There are considerations about fully transferring primary healthcare to private entities, but only when referring to small entities in rural areas. Such transfer would not imply additional costs for public providers, but it is limited by a lack of staff and training.

Service complies partially with qualitative standards; shortcomings are linked to ineffective assets management, lack of human resources, expertise and incentives.

Healthcare providers, especially those located in regions, small towns, face the shortage of professional healthcare personnel.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

Due to the principle of free access to the primary health care services, there is little room for the development of financial instruments. Paid services, related to additional services not covered by health insurances, could be developed to a certain extent depending on demand and supply at local level.

2.5.5.3 SPECIALIZED OUTPATIENT SERVICES

TABLE 68. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN SPECIALIZED OUTPATIENT SERVICES

Criteria	FI potential
Pricing system	Free of charge, potential affordability concerns
Regulatory/governance Framework	Mixed public/private (Public share up to 66% of the market)
Market potential	Limited potential development of (more) paid services
Accountability	Objectives not always well defined
Capacity	Qualitative standards partially met

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

The service is free of charge for the most of the inhabitants as specialised outpatient services are subsidised from the Compulsory Health Insurance Fund. For certain groups of inhabitants, the fee to the Compulsory Health Insurance Fund is covered by the state. Additional revenues are generated by providers to a limited extent on services not covered by public health insurance (e.g. certain lab tests, additional specialised services). Effect of price increase on demand of such services depends on the profile of consumers (e.g. low-income groups would probably consume less).

REGULATORY AND GOVERNANCE FRAMEWORK

Municipality-owned entities are mainly responsible for the provision of the service. Private sector is present in delivering the services through private groups. The main obstacles to enter the market for private entities are the high fixed costs of infrastructures and investments, dispersion of places for service delivery (i.e. private outpatient health care institutions prefer to locate in towns where density and income of population are higher, allowing for more revenues), market size (i.e. small number or density of population in certain locations), and restrictions imposed by the regulatory framework (e.g. regulation regarding licencing of health care institutions, regulation regarding fixed prices of healthcare services).

MARKET POTENTIAL

All the resident population is covered by the service providers, as well as specific health disability status groups and residents in marginal areas. Market share of public entities is 34-66 percent. There is some potential to develop further revenues based on paid auxiliary services, through cost reduction or enlarging the scope of activities generating revenues or savings. However, the share of total costs covered by such services is actually very low.

ACCOUNTABILITY

Information is available on the context of intervention; recent trends are monitored based on national and international data sources. Policy objectives of the service are not always defined and targets fixed. Short-term and long-term objectives are in general consistent, even if under political debate.

CAPACITY

There is some distortion in the supply of the specialised outpatient services. Providers aim to provide more services and specifically more services with higher prices, thus maximising the budget, as price for the service paid from the Compulsory Health Insurance Fund is based on the number of services provided and the prices of different types of services are different. Some specialised outpatient services are oversupplied while other are undersupplied.

There is consideration about centralising specialized, related to high-end equipment services while more basic services should be provided more decentralised, located closer to patients.

Service partially meets the qualitative standards. The shortcomings are linked to insufficient investment, ineffective assets management and lack of human resources and expertise. Especially the regional and local healthcare providers face the shortage of professional healthcare personnel.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

There is little room for the development of FIs related to the specialised outpatient services. High fixed costs, market size and legal/administrative restrictions create entry barriers. Additionally, the nature of the service (provide a merit good) implies generated revenue is lower. Paid services, related to additional services not covered by health insurance, could be developed to a certain extent depending on demand and supply at local level.

2.5.5.4 REHABILITATION CARE SERVICES

TABLE 69. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN REHABILITATION CARE SERVICES

Criteria	FI potential
Pricing system	Free of charge (Consumer-paid in some cases, covering up to 50% of total costs; potential affordability concerns)
Regulatory/governance Framework	Mixed public/private (Public share up to 66% of the market)
Market potential	Limited potential development of (more) paid service
Accountability	Long term policy objectives are not defined
Capacity	Transfer of whole service – Lack of staff and training

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

The service is free of charge for the most of the inhabitants as rehabilitation care services are subsidised from the Compulsory Health Insurance Fund. For certain groups of inhabitants, the fee to the Compulsory Health Insurance Fund is covered by the state. Additional revenues are generated by providers on services not covered by public health insurance. Actual share of costs of the service covered by consumers paid fees is between 25 and 50 percent. Effect of price increase on demand of such services depends on the profile of consumers (e.g. low-income groups would probably consume less).

REGULATORY AND GOVERNANCE FRAMEWORK

Municipality-owned entities are responsible for provision of the service. Private sector is present in delivering the service through private groups. The main obstacles to enter the market for private entities are the high fixed costs of infrastructures and investments, dispersion of places for service delivery, market size and restrictions imposed by the regulatory framework (e.g. regulation regarding licencing of health care institutions, regulation regarding fixed prices of healthcare services). In order to be able to provide health care services covered by compulsory health insurance, private as well as public providers need to sign agreements with Territorial Health Insurance Funds. However, when there are enough service providers, additional agreements are not signed and therefore, new providers cannot provide services covered by compulsory health insurance. Consequently, the prices of their services become non-competitive.

MARKET POTENTIAL

All the resident population is covered by the service providers, as well as specific health disability status groups. Market share of public entities is 34-66 percent. There is some potential to further develop revenues in private entities based on paid auxiliary services (e.g. catering, laundry, lab test, repair of equipment), through cost reduction and increase of the scope of activities generating revenues or savings.

ACCOUNTABILITY

Information is available on the context of intervention; recent trends are monitored based on national and international data sources. Long-term policy objectives of the service are not defined and targets not fixed. Short-term and long-term objectives are in general consistent, even if under political debate.

CAPACITY

Service partially meets the qualitative standards. The shortcomings are linked to insufficient investment, ineffective assets management and lack of human resources and expertise.

It might be higher concentration of rehabilitation services in certain institutions as some public hospitals have rehabilitative departments and prefer these departments to services of other providers.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

There is little room for the development of FIs related to the rehabilitation care services. More paid services, specifically those related to additional services not covered by health insurance, could be developed to a certain extent depending on the demand and supply at local level

2.6 CROATIA: HEALTH PROTECTION

2.6.1 GENERAL OVERVIEW OF THE GOVERNMENT INTERVENTIONS IN THE SECTOR

The Constitution of the Republic of Croatia guarantees for everyone the right to healthcare in accordance with law, and that right is exercised through the healthcare system. The healthcare system is expected to contribute to the quality of life and economic growth through preserving and improving health of each individual and the entire population. Main objectives in the Health protection sector in Croatia are to assure equal nationwide availability of the healthcare services and increase quality and efficiency of the healthcare services.¹²¹ Context indicators depicting desirable changes are related to the efficient use of current resources by resolving health problems on the lower level of healthcare system where possible. Long-term goals are aimed at decreasing the number of referrals from primary to secondary healthcare by 20 percent as well as increasing the number of procedures implemented in day hospitals/day surgeries by 10 percent before 2023 in comparison to 2013¹²².

In total, five public services were identified in the Health protection sector in Croatia. The list of all the services in the sector and their respective aims is provided in the table below.

TABLE 70. CROATIAN HEALTH PROTECTION SECTOR'S SERVICES AND THEIR AIMS

Service title	Aim of the service
Hospital services provided by the state-owned hospitals	To provide hospital services (secondary care)
Hospital services provided by hospitals founded by counties	To provide general and specialized hospitals' services
Primary healthcare services	To provide primary health care
Immunization programmes	To provide immunization for primary and secondary education students and seasonal flu immunization for vulnerable groups
Risk and disease prevention programmes	To provide examinations against breast cancer, cervical cancer and colorectal cancer

Source: BGI Consulting et al, 2017.

Services provided in Health protection sector can be grouped into specific precautionary measures and more general healthcare services. The first group of services include immunization and national risk and disease prevention programmes as these programmes seek to prevent illnesses from occurrence. The

¹²¹ The Ministry of Health of the Republic of Croatia

(<https://zdravlje.gov.hr/UserDocsImages/O%20Ministarstvu%20-%20dokumenti/Strate%C5%A1ki%20plan%20Ministarstva%20zdravstva%20za%20razdoblje%202017.-2019..pdf>)

¹²² National Plan for the Development of Clinical Hospital Centers, Clinical Hospitals, Clinics and General Hospital in the Republic of Croatia 2015 - 2016. (https://narodne-novine.nn.hr/clanci/sluzbeni/2015_03_26_544.html)

second group encompasses health services provided by hospitals (state owned hospitals and hospitals founded by counties) and primary healthcare centres.

2.6.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

The scheme below disassembles the logic of the overall government interventions in the Health protection sector in Croatia. It starts with the rationale of the provision of the services by the public sector, and then indicates services corresponding to that particular rationale. Services are classified not only by the rationale they correspond to, but also by a body, which is responsible for the provision of them. Other government interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

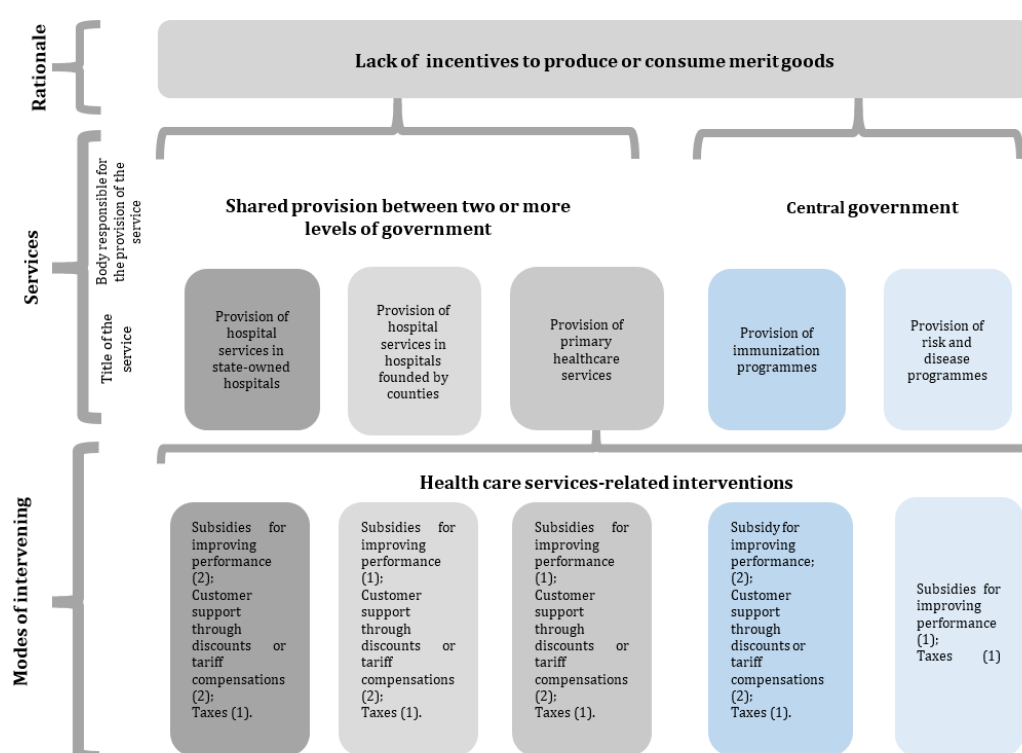


FIGURE 22. LOGIC OF INTERVENTIONS IN THE CROATIAN HEALTH PROTECTION SECTOR

Source: BGI Consulting et al, 2017.

Provision of Health protection services by the public sector in Croatia is based on a single rationale. All services and service related interventions are provided due to the *lack of incentives to produce or consume merit goods*. Healthcare services are classified as merit goods because their consumption provides benefits not only to the individual consumer but also to others. That is, the consumption of health services involves positive externalities on third parties and these benefits have a significant effect on social welfare. Thus, the aim of government interventions is to ensure that accessibility to the quality healthcare services does not depend primarily on the ability to pay for the good or the service. That would be impossible in the free market where prices would rise to reflect the true cost of supply, therefore violating the principle of universal treatment.

There are 20 interventions related to the services identified, of which the most numerous are the customer support through discounts or tariff compensations.

2.6.1.2 LEVEL OF LIBERALIZATION OF THE SERVICES PROVISION

The public services in the Health protection sector were ranked according to the level of liberalisation in their provision in the figure below.

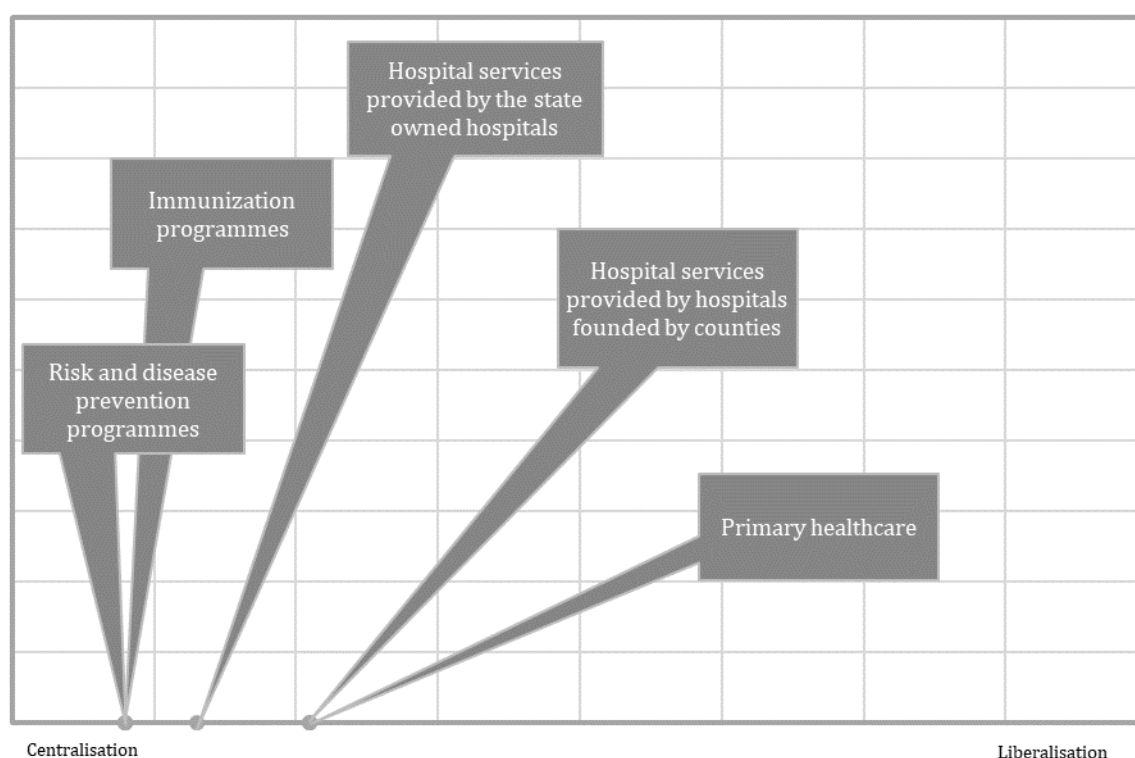


FIGURE 23. SUPPLY SIDE OF THE CROATIAN HEALTH PROTECTION SECTOR SERVICES

Source: BGI Consulting et al, 2017.

As the figure above indicates, immunization and risk and disease prevention programmes are provided at the most centralized mode. It can be argued that Croatian government realizes the importance of precautionary measures not only for individuals receiving treatment, but also for the whole society (positive externalities); therefore the nationwide coverage and control are crucially important. Both of these programmes are most commonly provided by delegating them to state or county owned entities, services are not priced and governmental institutions fully control the market.

Provision of hospital services is also very centralized. Hospital services are delivered by state owned hospitals, the pricing of those services is regulated and public operators occupy 34 to 66 percent of the market leaving some space for the private providers. Direct provision by state owned entity is the most common service delivery mode.

Primary healthcare and hospital (provided by hospitals founded by counties) services are both provided by public institutions, most commonly by delegating the provision of the service to state or municipal-owned entity, pricing of both services is set by relevant authorities and the market share of the public operators amounts to 34 – 66 percent.

Overall, Croatian health protection sector is very centralized as there are no services provided in the liberal or moderate way of centralization.

2.6.2 ANALYSIS OF SELECTED INTERVENTIONS

The figures provided below depicts the mechanism for the analysis of each selected service. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision. Graphs in light red indicate service providers and group they are targeted at. Second part of the paragraph provides services' comparison in terms of finances they are provided with.

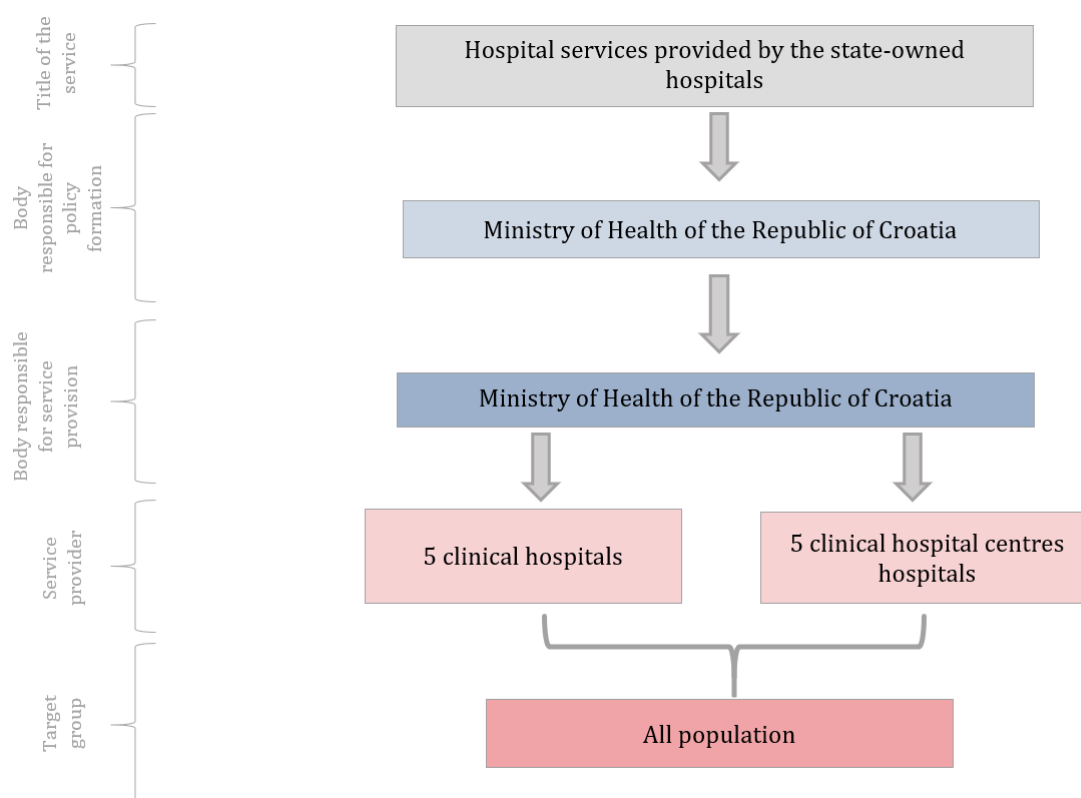


FIGURE 24. HOSPITAL SERVICES PROVIDED BY THE STATE-OWNED HOSPITALS PROVISION MECHANISMS IN HEALTH PROTECTION SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

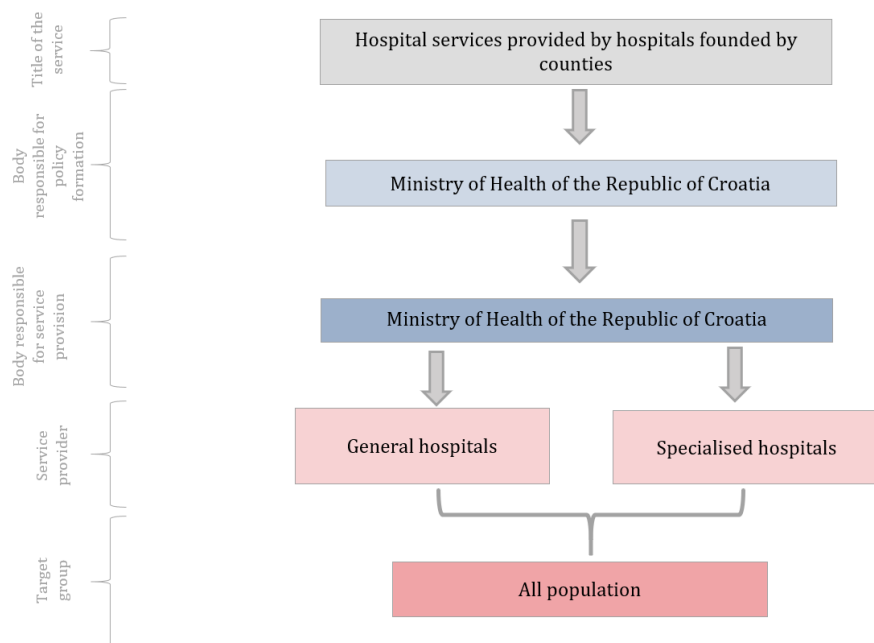


FIGURE 25. HOSPITAL SERVICES PROVIDED BY HOSPITALS FOUNDED BY COUNTIES PROVISION MECHANISMS IN HEALTH PROTECTION SECTOR IN CROATIA

Source: BGI Consulting et al, 2017

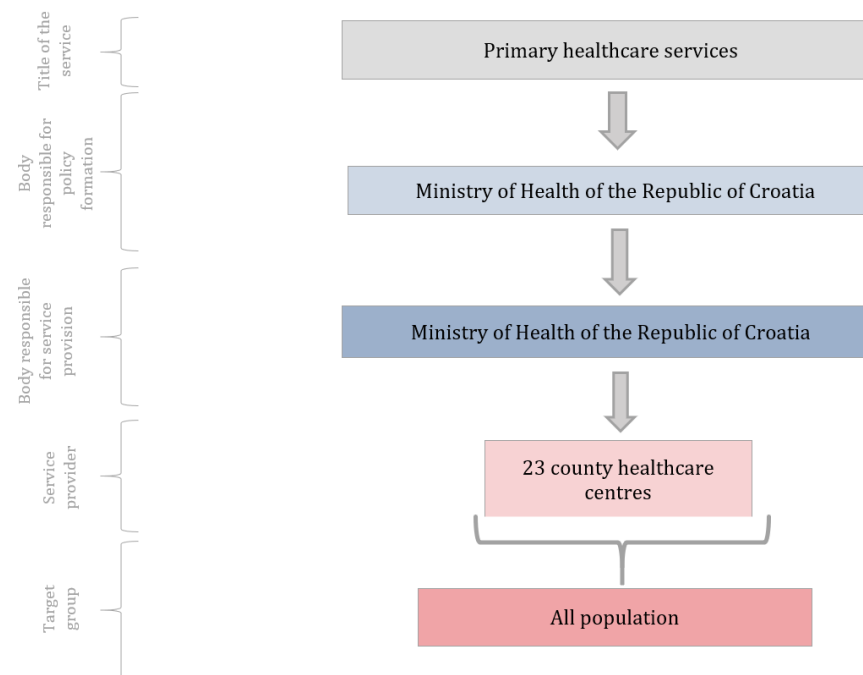


FIGURE 26. PRIMARY HEALTH CARE SERVICES PROVISION MECHANISMS IN HEALTH PROTECTION SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

State-owned hospitals are the main providers of health care in terms of expenditure, accounting for around EUR 830 million annually¹²³. The largest part of the funds is allocated to the hospital running costs and service delivery. Both services provided by hospitals founded by counties and services provided by primary healthcare centres receive roughly EUR 500 million per year¹²⁴. Again, the largest proportion of these funds are spent on the running costs of the service providers.

2.6.2.1 SUPPLY SIDE: QUALITY OF PLANNING OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Quality of planning of the services was evaluated by examining how clearly the long-term (i.e. policy) and the short-term (i.e. operational) objectives of the services were defined and how compatible they were among themselves.

TABLE 71. QUALITY OF THE PLANNING OF HEALTH PROTECTION SECTOR SERVICES IN CROATIA

Name of the service	The long-term policy objectives are clearly defined	The short-term operational objectives are clearly defined	The long-term and short-term objectives are non-contradictory	Quality of planning of the service
Hospital services provided by the state-owned hospitals	x	x	√	AVERAGE
Hospital services provided by hospitals founded by counties	x	x	√	AVERAGE
Primary healthcare services	x	x	√	AVERAGE

Source: BGI Consulting et al, 2017.

The quality of planning of health protection services in Croatia is average. Even though the long term and operational objectives are in place, the lack of corresponding indicators and target values prevents systematic monitoring and evaluation of policy effectiveness. The same issue is typical for the planning of hospital services as well as primary healthcare services. Only a few target values of policy objectives are available, namely target values of indicators representing the goals to change proportions of health services provided by institutions (increased numbers of primary healthcare and outpatient services and decreased numbers of inpatient services).

Main long-term and operational goals of the Croatian health sector in general and related services in particular are consistent. However, regular and objective feedback about progress towards policy objectives is missing due to abovementioned lack of policy indicators.

¹²³ Own calculation from state budget performance of all state-owned hospitals in 2016. (<http://www.mfin.hr/hr/drzavni-proracun-2016-godina>)

¹²⁴ Croatian Health Insurance Fund (<http://www.hzzo.hr/o-zavodu/izvjesca/>)

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

TABLE 72. QUALITY OF PLANNING OF THE HEALTH PROTECTION SECTOR SERVICES RELATED INTERVENTIONS IN CROATIA

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Hospital services provided at national level	VAT exemption	x	x	N/A	√	x	√	POOR
	ESIF investments in infrastructure and equipment	√	√	N/A	√	√	√	GOOD
	Free compulsory health insurance	x	x	N/A	√	x	√	POOR
	Compulsory health insurance" (regulation)	x	√	x	√	x	√	POOR
	Free supplemental health insurance	x	x	N/A	√	x	√	POOR
	Specialist healthcare services provided by private institutions	x	x	N/A	x	x	√	POOR
	Specialist healthcare services provided by state-owned institutions	√	√	√	√	√	√	GOOD
Hospital services provided by hospitals founded by counties	VAT exemption	x	x	N/A	√	x	√	POOR
	ESIF investments in infrastructure and equipment	√	√	N/A	√	√	√	GOOD

	Free compulsory health insurance	x	x	N/A	√	x	√	POOR
	Compulsory health insurance" (regulation)	x	√	x	√	x	√	POOR
	Free supplemental health insurance	x	x	N/A	√	x	√	POOR
	Specialist healthcare services provided by state-owned institutions	√	√	√	√	√	√	GOOD
Primary healthcare services	VAT exemption	x	x	N/A	√	x	√	POOR
	ESIF investments in infrastructure and equipment	√	√	N/A	√	√	√	GOOD
	Free compulsory health insurance	x	x	N/A	√	x	√	POOR
	Compulsory health insurance" (regulation)	x	√	x	√	x	√	POOR
	Free supplemental health insurance	x	x	N/A	√	x	√	POOR
	Specialist healthcare services provided by state-owned institutions	√	√	√	√	√	√	GOOD

Source: BGI Consulting et al, 2017.

The quality of planning of the interventions related to Croatian healthcare services is assessed to be mostly poor. The main issue that can be attributed to the moderate quality of the planning is the lack of planning of results. There are no clear estimations of the results achieved due to interventions designed to provide customer support through tax exemptions or tariff compensations. Additionally, there is the lack of calculations of the increase in state expenditure caused by spending on healthcare of vulnerable groups that are qualified for exemption from compulsory healthcare insurance.

None of the interventions, with exception of those financed by the EU funds, has a defined implementation period. Although, the definition of the intervention implementation period is not of the utmost importance in the situations where state intervention is permanent and is only slightly revised annually, it can cause issues when it comes to healthcare services provided by private entities. Lack of information on intervention implementation period can cause instability of the service providers, e.g. where healthcare

services provided by private institutions are subsidised on annual basis according to the need to reduce unsatisfied demand for the service at publicly owned hospitals.

2.6.2.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Efficiency of delivery of the services was evaluated on the basis of five key criteria: how well the overall demand of the service is met by the overall supply; how well the public service complies with the qualitative standards; the existence of private entities providing similar services in the market; the market share of the private entities in the service provision market; whether the private entities providing similar services in the market can compete on equal terms with public providers.

TABLE 73. EFFICIENCY OF THE DELIVERY OF THE HEALTH PROTECTION SECTOR SERVICES IN CROATIA

Name of the service	The overall demand of the service is met by the overall supply	The public service complies with the qualitative standards	There are existing private entities providing similar services in the market	Private entities occupy 34 percent or more of the service provision market	Private entities providing similar services in the market can compete on equal terms with the public providers	Efficiency of the delivery of the service
Hospital services provided by the state-owned hospitals	√	√	√	√	×	MEDIUM
Hospital services provided by hospitals founded by counties	√	√	√	√	×	MEDIUM
Primary healthcare services	√	√	√	√	√	HIGH

Source: BGI Consulting et al, 2017.

Efficiency of the delivery of the health protection services in Croatia is between medium and high. The medium efficiency of the delivery is attributed to hospital services provided both by state-owned or by counties founded healthcare institutions. Even though services in question seem to comply with the qualitative standards and, generally, are sufficient to meet the demand, uneven conditions applied to public and private service providers can be seen as an issue. State regulation imposes minimal requirements in terms of infrastructure for all service providers with exception of infrastructure that was developed before the regulation came into force. In practical terms, it means that the regulation does not apply for most of the publicly owned facilities because traditional public providers operate in a long-established infrastructure. Moreover, only public providers are eligible for the EU support aimed at improvement of healthcare service infrastructure and equipment. Considering the high fixed costs related to infrastructure and installation as well as baseline technological superiority of public hospitals, existing technical

requirements constrain private entities' potential to compete with public providers on equal terms. Consequently, absence of the real competition in the market causes decrease in efficiency of public hospitals.

In terms of provision of primary healthcare services, there is a competitive pressure since both privately and publicly owned providers face equal requirements and have equal opportunities to apply for the EU funds. However, some changes in the future might happen taking into account some considerations favouring a possibility to return to public providers part of the primary healthcare services currently provided by private entities.

Contribution of the services related interventions to increase in the efficiency of service provision is limited. Basically, only EU funding allocated to enhancement of healthcare infrastructure and equipment is directly aimed at promotion of the efficiency. At the same time, some interventions help to increase effectiveness in terms of demand. Public funds allocated to private service providers increase the supply of healthcare services and contribute to a reduction in waiting time.

2.6.2.3 SUPPLY SIDE: ADDITIONALITY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

All services of the Health protection sector in Croatia have significant positive impact on the target group. Underlying rationale behind is that ageing western societies face increase in the demand for services related to various medical treatments. Both primary and hospital services provide the society with crucial health protection services.

All service related interventions contribute to a positive impact on the target groups. Firstly, VAT exemption applied on all healthcare services reduce the price paid by consumer (where it is not provided free of charge) and increase affordability of the service accordingly. Secondly, interventions providing free health insurance for vulnerable groups ensure accessibility to health protection regardless of the individual's income.

Interventions aimed at private hospital service providers have a positive impact on the target group as well since customers benefit from the shortened waiting time at public healthcare institutions and increased availability of services. However, the overall impact of the intervention on the whole target group is not significant due to limited number of medical procedures that are provided by private entities and financed from public funds.

Most of the services and service related interventions have only an insignificant impact on the increase in number of jobs in comparison to the current employment in the Health protection or other sectors. Such interventions as subsidies for development of infrastructure of healthcare institutions from EU funds increase the number of jobs in construction sector, but only momentarily and insignificantly. Increasing the coverage of the health services provided by private entities in order to better meet the demand makes employment to rise, however, insignificantly in comparison to the total number of jobs in the sector.

Similarly, the impact on capital investments is positive though insignificant. Some interventions aimed at increase of hospital services provision by private providers have a potential to attract more private investments since private providers have to develop infrastructure and equipment in order to meet the requirements. However, lack of consistent involvement of private hospitals into public financing schemes prevent them from more significant further investments.

Most of the services related interventions do not have a significant direct impact on private entities productivity except from the EU funds investment in infrastructure and equipment in primary healthcare services provided by private bodies. On the other hand, businesses benefit from appropriate and affordable healthcare due to better health and therefore increased productivity of human capital.

2.6.2.4 SUPPLY SIDE: SIDE-EFFECTS OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Overconsumption or non-effective use of the health services is the common negative side-effect attributed to all Health protection sector's services. As these services are often provided free of charge at consumer level, people tend to exploit more possibilities than it would be necessary based on clinical evidence and expertise. Consumer's behaviour can also be driven by habit rather than rational choice leading to the overuse of the services. Provision of free compulsory health insurance and free supplementary health insurance for some social groups even strengthen this negative side-effect.

Public intervention that finance some specialist services provided by private healthcare institutions encourage some changes in consumer behaviour. Having right to choose between private and public provider, patients are showing a preference for private service providers. That is, services that are supposed to be supplementary to the mainstream services provided by publicly owned institutions tend to become more desirable at consumer level. Often clients prefer to use publicly funded services at private healthcare institution even though the same service may be available at public hospital as well.

Provision of all services in Health protection sector has a positive impact on businesses in terms of demand for utilities and supply, including R&D intensive production. However, some interventions like ESIF investments in infrastructure and equipment in public hospitals hinder competitiveness of private providers of similar services. On the other hand, the same intervention has a significant positive effect on private entities providing primary healthcare services since they are eligible for ESIF assistance.

2.6.2.5 DEMAND SIDE: AFFORDABILITY OF THE SERVICES AND IMPACT ON AFFORDABILITY OF THE SERVICE RELATED INTERVENTIONS

Health protection services in question are targeted at the whole society. Generally, supply meets demand and basic level of healthcare is ensured. Nevertheless, a timely provision of healthcare services remains an issue and various interventions are aimed at a reduction in waiting time. It is expected that ESIF support for infrastructure and equipment will lead to the enhancement of service provider's capacity and will allow to shorten current waiting lists for specific healthcare services. As an alternative for later interventions, state intervention in specialist care provided by private institutions is designed in order to employ additional resources and redirect some patients from public to private providers where they can be served faster.

There are no significant service affordability issues in terms of financing identified since every citizen can afford health services without incurring financial hardship. Thus, services are consumed equally among various social and income groups. Interventions providing free compulsory health insurance and free supplementary health insurance for vulnerable groups help to ensure accessibility for the service regardless of personal income and capacity to contribute to health insurance fund.

However, the intervention aimed at specialist healthcare services provided by private institutions is more intensively used by patients representing high- and middle-income groups. Although the intervention covers the costs of services provided by private specialists, lower income patients sometimes have limited knowledge about the intervention and opportunities to use it.

2.6.2.6 CONSISTENCY OF SERVICE RELATED INTERVENTIONS

There are no contradicting or replacing each other interventions in Croatian Health care sector.

2.6.3 CONCLUSIONS AND RECOMMENDATIONS

Main objectives in the Health protection sector in Croatia are to assure equal nationwide availability of the healthcare services and increase quality and efficiency of the healthcare services. Services provided in Health protection sector can be grouped into specific precautionary measures and more general healthcare services. The first group of services include immunization and national risk and disease prevention programmes as these programmes seek to prevent illnesses from occurrence. The second group encompasses health services provided by hospitals (state owned hospitals and hospitals founded by counties) and primary healthcare centres. The aim of government interventions is to ensure that accessibility to the quality healthcare services does not depend primarily on the ability to pay for the good or the service. There are 20 interventions related to the services identified, of which the most numerous are the customer support through discounts or tariff compensations.

Five public services were identified in the Health protection sector in Croatia. The quality of planning of health protection services in Croatia is average. Even though the long-term and operational objectives are in place, the lack of corresponding indicators and target values prevents systematic monitoring and evaluation of policy effectiveness. The same issue is typical for the planning of hospital services as well as primary healthcare services. Main long-term and operational goals of the Croatian Health care sector in general and related services in particular are consistent.

2.6.3.1 CONCLUSIONS ON THE GOVERNMENT INTERVENTIONS IN THE CROATIA HEALTH PROTECTION SECTOR

TABLE 74. CONCLUSIONS ON THE GOVERNMENT INTERVENTIONS IN THE HEALTH PROTECTION SECTOR IN CROATIA

Name of the service	Planning of the service	Planning of all related interventions is GOOD or AVERAGE	Efficiency of the service provision	All related interventions have impact on the efficiency of the service	The service has positive impact on the target group	All related interventions have positive impact on the target group	The impact of the service on countries' economy is positive	There are no negative side-effects of service implementation	All related interventions have positive or do not have side-effects	The service is affordable to all income groups	There are no service related interventions that contradict or replace each other
Hospital services provided by the state-owned hospitals	AVERAGE	NO	MEDIUM	NO	YES	YES	YES	YES	NO	YES	NO
Hospital services provided by hospitals founded by counties	AVERAGE	NO	MEDIUM	NO	YES	YES	YES	YES	NO	YES	YES
Primary healthcare services	AVERAGE	NO	HIGH	NO	YES	YES	YES	YES	NO	YES	YES

Source: BGI Consulting et al, 2017.

The quality of planning of the interventions related to Croatian healthcare services is assessed to be mostly poor. The main issue that can be attributed to the moderate quality of the planning is the lack of planning of results. There are no clear estimations of the results achieved due to interventions designed to provide customer support through tax exemptions or tariff compensations. Additionally, there is the lack of calculations of the increase in state expenditure caused by spending on healthcare of vulnerable groups that are qualified for exemption from compulsory healthcare insurance. None of the interventions, with exception of those financed by the EU funds, has a defined implementation period.

Efficiency of the delivery of the health protection services in Croatia is between medium and high. The medium efficiency of the delivery is attributed to hospital services provided both by state-owned or by counties founded healthcare institutions. Even though services in question seem to comply with the qualitative standards and, generally, are sufficient to meet the demand, uneven conditions applied to public and private service providers can be seen as an issue. Only public providers are eligible for the EU support aimed at improvement of healthcare service infrastructure and equipment. Consequently, the absence of the real competition in the market causes decrease in efficiency of public hospitals. In terms of provision of primary healthcare services, there is a competitive pressure since both privately and publicly owned providers face equal requirements and have equal opportunities to apply for the EU funds. Contribution of the services related interventions to increase in the efficiency of service provision is limited. Some interventions help to increase effectiveness in terms of demand. Public funds allocated to private service providers increase the supply of healthcare services and contribute to a reduction in waiting time.

All services of the Health protection sector in Croatia have significant positive impact on the target group, and all service related interventions contribute to a positive impact on the target groups. Interventions aimed at private hospital service providers have a positive impact on the target group as well since customers benefit from the shortened waiting time at public healthcare institutions and increased availability of services. However, the overall impact of the intervention on the whole target group is not significant due to a limited number of medical procedures that are provided by private entities and financed from public funds.

Most of the services and service related interventions have only an insignificant impact on the increase in number of jobs in comparison to the current employment in the Health protection or other sectors. Similarly, the impact on capital investments is positive though insignificant. Most of the services related interventions do not have a significant direct impact on private entities productivity except from the EU funds investment in infrastructure and equipment in primary healthcare services provided by private bodies. On the other hand, businesses benefit from appropriate and affordable healthcare due to better health and therefore increased productivity of human capital.

Croatian health protection sector is very centralized as there are no services provided in the liberal or moderate way of centralization. Even though services in question seem to comply with the qualitative standards and, generally, are sufficient to meet the demand, uneven conditions applied to public and private service providers can be seen as an issue. Regulation does not apply for most of the publicly owned facilities because traditional public providers operate in a long-established infrastructure. Moreover, only public providers are eligible for the EU support aimed at improvement of healthcare service infrastructure and equipment. Both primary and hospital services provide the society with crucial health protection services. Overconsumption or non-effective use of the health services is the common negative side-effect attributed to all Health protection sector's services. Having right to choose between private and public provider, patients are showing a preference for private service providers. Often clients prefer to use publicly funded services at private healthcare institution even though the same service may be available at public hospital as well. Health protection services in question are targeted at the whole society. Generally, the supply meets the demand and basic level of healthcare is ensured.

2.6.4 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

2.6.4.1 HOSPITAL SERVICES PROVIDED BY THE STATE-OWNED HOSPITALS

TABLE 75. POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN HOSPITAL SERVICES PROVIDED BY THE STATE-OWNED HOSPITALS

Criteria	FI potential
Pricing system	Consumer-paid, regulated (Low cost coverage)
Regulatory/governance Framework	Mixed public/private (Public share up to 66% of the market)
Market potential	Limited potential development of (more) paid services
Accountability	Partial performance framework
Capacity	Qualitative standards are met / Transfer of parts of service (at policy-level plan)

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by relevant authorities; consumer payment covers a reduced share of the service provision costs (less than 25 percent). Additional revenue is generated to some extent through subsidiary services/products using the same infrastructure and other resources available. Price increase of the services, together with improvement of service delivery, could result in same levels of consumption among all categories of incomes.

REGULATORY AND GOVERNANCE FRAMEWORK

Ten public state-owned hospitals dominate the service provision. Private entities are present to some extent providing certain diagnostic and surgical procedures which are also available in state-owned hospitals.

Hospitals are funded partially from services provided and partially in lump sum. The payment for services provided is subject to a limited amount, i.e. after reaching a financing limit, hospital cannot earn more money for services provided.

Major obstacles to enter the market for private entities are the high fixed costs (infrastructural, R&D investments), technological barriers (related to R&D investments), market size and legal/administrative restrictions imposed by state/municipal body.

MARKET POTENTIAL

The target group of the service is the whole population (i.e. active insurers around 35 percent, farmers less than 1 percent, family members around 16 percent, and other insured persons around 34 percent). Market share of public operators is between 34 and 66 percent. There is a potential for savings generation in this service, mainly based on the strengthening primary healthcare provision (i.e. the more services - and the more efficiently - provided in primary healthcare, the cheaper becomes healthcare provision in the hospitals level, enabling generation of savings).

Additionally, there are limited potentials for revenue generation through provision of auxiliary services, not funded by health insurances (e.g. cosmetic surgeries).

ACCOUNTABILITY

Information is available on the context of intervention. However, objectives of the service are not clearly defined in related documents, target values are not available. Short-term and long-term objectives are consistent.

CAPACITY

The public service complies with qualitative standards in general. However, there are currently considerations about transferring certain diagnostic procedures as well as operational (non-core) services to private partners (e.g. cleaning services, food preparation).

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

As it aims to provide a merit good, the service has a highly limited capacity of revenue generation, which does limit the potential for introduction of FIs. Paid services, related to additional services not covered by health insurances, could be further developed in order to generate some additional revenue.

As pointed out by the EC Country Report of 2017, reorganisation of the health system is crucial, for instance by enhancing responsible management of hospitals, as well as spatial distribution of the network (i.e. reduce concentration of capacity in metropolitan areas), to achieve sustainability for the system.

Some regions in Poland have benefited from the support of EU and the European Investment Bank, through financial instruments, for upgrading and improvement of health infrastructure.

In 2016, additional financial support for the projects related to the hospital facilities for the Rydygier Regional General Hospital in Torun, Poland, were signed by the EIB and the special-purpose company, Kujawsko-Pomorskie Inwestycje Medyczne Sp. z o.o., created by the Region in 2009. The project is a continuation of the rehabilitation and extension and equipping of the existing public hospital. It also includes the replacement construction for two other outdated hospitals in Torun, the Psychiatric and Infectious Diseases Hospital, and their integration with the Rydygier General Hospital on a single site.

The loan of around EUR 57 million provided under the EFSI, is the third agreement with the Kujawsko-Pomorskie Region, supporting its Development and Modernisation Investment Programme, with the objective to achieve the standards in hospital operation from both Polish and EU law, by 2019.

The total costs expected for the project, around EUR 152 million, are covered by a mix of financing methods, with own-budget resources and other EU financing sources.

2.6.4.2 HOSPITAL SERVICES PROVIDED BY HOSPITALS FOUNDED BY COUNTIES

TABLE 76. POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN HOSPITAL SERVICES PROVIDED BY HOSPITALS FOUNDED BY COUNTIES

Criteria	FI potential
Pricing system	Consumer-paid, regulated (Low cost coverage)
Regulatory/governance Framework	Mixed public/private (Public share up to 66% of the market)
Market potential	Limited potential development of (more) paid services
Accountability	Partial performance framework
Capacity	Qualitative standards are met / Transfer of parts of service (at policy-level plan)

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by relevant authorities and consumer payment covers up to 25 percent of the service provision costs. Additional revenue is generated to some extent through subsidiary services/products using the same infrastructure and other resources. Effect of price increase of the services could result in same levels of consumption.

REGULATORY AND GOVERNANCE FRAMEWORK

Forty-two hospitals owned by counties dominate the service provision. Private entities are present to some extent providing certain diagnostic and surgical procedures which are also available in counties-owned hospitals. Major obstacles to enter the market for private entities are the high fixed costs (infrastructural, R&D investments), technological barriers (related to R&D investments), market size and legal/administrative restrictions imposed by state/municipal body.

MARKET POTENTIAL

Target group for the service is the whole population (i.e. active insurers around 35 percent, farmers less than 1 percent, family members around 16 percent, other insured persons around 34 percent). Market share of public operators is between 34 and 66 percent. There are limited potentials for revenue generation through provision of auxiliary services, not funded by health insurances (e.g. cosmetic surgeries).

ACCOUNTABILITY

Information is available on the context of intervention. However, objectives of the service are not clearly defined in related documents, target values are not available. Short-term and long-term objectives, even though not clearly defined, are consistent.

CAPACITY

Public service complies with qualitative standards in general. However, there are considerations about transferring certain diagnostic procedures as well as operational (non-core) services to private partners (e.g. cleaning services, food preparation).

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

In the same line of the previous service, low capacity of revenue generation limits the potential for introduction of FIs. Paid services, related to additional services not covered by health insurances, could be further developed in order to generate some additional revenue.

2.6.4.3 PRIMARY HEALTHCARE SERVICES

TABLE 77. POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN PRIMARY HEALTHCARE SERVICES

Criteria	FI potential
Pricing system	Consumer-paid, regulated (Low cost coverage)
Regulatory/governance Framework	Mixed public/private (Public share up to 66% of the market)
Market potential	Potential increase of scope of services
Accountability	Partial performance framework
Capacity	Qualitative standards are met

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by relevant authorities and consumer payment covers a limited share of the service provision costs (less than 25 percent). Additional revenue is generated by renting of infrastructure to external operators, thus covering another share between up to 25 percent. Effect of price increase on demand of such services depends on the profile of consumers (e.g. low-income groups would probably consume less).

REGULATORY AND GOVERNANCE FRAMEWORK

Service provision is dominated by 23 county healthcare centres (one per county, except for City of Zagreb, which counts with three centres). Private entities are present to some extent through primary healthcare doctors' offices in concession, who can provide a cheaper service due to the absence of administrative staff.

The current framework has been promoting further development of primary healthcare. ESIF financing has been directed partially towards strengthening the sector and, with the aim of reducing costs of healthcare provision, as well as increase of efficiency as a whole, since procedures done at primary healthcare level are cheaper than hospital level procedures.

Major obstacles to enter the market for private entities are the high fixed costs incurred (i.e. in infrastructural or R&D equipment).

MARKET POTENTIAL

Target groups are in general households (i.e. active insurers, farmers, family members and other insured persons). Market share of public operators is between 34 and 66 percent. There is a potential for generating revenue via increasing the scope of existing revenue generating activities (i.e. providing more medical services such as ultrasound for soft tissues).

ACCOUNTABILITY

Information is available on the context of intervention. However, objectives of the service are not clearly defined in related documents, target values are not available.

CAPACITY

Service provision complies with the required qualitative standards. There seem to be considerations for returning parts of the services back to public providers (considering Ministers public statements), although not clearly communicated.

More specifically, the issue refers to the fact that a part of the primary healthcare providers (doctors) are self-employed in „concessions“ given by the counties, while others are employed by primary healthcare centres (PHC) managed by counties. Although they both provide the same services for the same costs, private providers earn more than double for the same services, raising some unfairness.

So far, there have not been any procedural steps in this direction.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Consumer payment and renting of infrastructure covers only a small share of the service provision costs, therefore limiting the potential for introduction of FIs. Increasing the scope of services offered by the primary healthcare centres (i.e. providing medical services not existent now, such as ultrasound of soft tissues), and improving efficiency in healthcare service management, could generate more revenue.

2.7 LITHUANIA: EDUCATION AND SCIENCE

2.7.1 GENERAL OVERVIEW OF THE SERVICES IN THE SECTOR

This chapter provides an overview of all public services identified in Lithuanian Education and science sector. The rationale for introduction of each public service and the number of service related interventions are identified. Furthermore, the relative position of each public service on liberalisation – centralisation axis is presented.

The main funding source of various level education services as well as scientific activities in Lithuania is the public sector. Eight main public services were identified in the Education and science sector in Lithuania. The list of all sector's services and their respective aims is provided in the table below.

TABLE 78. LITHUANIAN EDUCATION AND SCIENCE SECTOR'S SERVICES AND THEIR OBJECTIVES

Service title	Aim of the service
Public early childhood education	To provide early childhood education in public institutions free of charge. Parents have to pay additionally only for the children's meals and additional education hours not covered by the school/education voucher.
Public general education	To provide general education free of charge.
Public vocational education	To provide primary and continuous vocational education in public institutions.
Public formal adult education	To provide lower and upper secondary education for adults, who have not acquired it previously, free of charge.
Public non-formal children education	To provide non-formal children education in general education or non-formal education institutions.
Public non-formal adult education	To provide public non-formal adult education in public education institutions.
Public higher education	To provide public higher education in public institutions.
R&D support services	To support research and development activities that in the long-term can help the country to develop its economy, create more knowledge-intensive jobs, find solutions to pertinent issues of the society.

Source: BGI Consulting et al, 2017.

Seven out of eight services identified in Education and science sector provide different types of education for different target groups in Lithuania. Public education services in Lithuania are provided to children and adults alike. Both of these groups are provided with possibilities to participate in formal and non-formal education. Formal education services can also be broken down into pre-school and pre-primary, general, vocational and higher education services. One out of eight services is aimed at providing support for the research and development activities.

2.7.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

There are two rationales for the provision of services by the public sector in the Education and science sector in Lithuania: lack of incentives to produce or consume merit goods and creation of incentives for production and consumption with positive externalities. The first rationale i.e. lack of incentives to produce or consume merit goods encompasses seven services providing different types of education to different target groups. Government decides to intervene and provide these services in public institutions and mostly free of charge, since education, being a merit good, is seen by society and government itself as worth financing, due to its external benefits and since without public financing it would be under-consumed. Among the external benefits of education relevant to the overall society and the country itself the provision of skills, relevant for the labour market and enabling economic growth, increase of social cohesion and strengthening of civil society can be mentioned. The assumption, that without government intervention educational services would be under-consumed is strengthened by the data showing that certain educational services (e.g. vocational education) are under-consumed even when they are provided free of charge by public institutions.

The rationale for government intervention in provision of services providing support for research and development is creation of incentives for production and consumption with positive externalities. The government mainly aims to ensure that research and development activities that have significant positive externalities for the overall society (results of research and development activities help to solve the most pertinent issues of the society, increase economic well-being, create high quality, high paying jobs for highly skilled experts) are produced and consumed at a sufficient rate.

Regarding the rationales of implementation of different government interventions, related to the aforementioned services, around one third of them is implemented in order to ensure continuous financing of educational activities or operation of public education institutions. One in four interventions is implemented with the view to improve the provision of services either by introducing new service provision models, increasing the quality of personnel responsible for the service provision or upgrading and developing the infrastructure. Less than 10 percent of interventions are aimed at providing support for consumers of educational services in order to ensure that educational services are equally accessible to all society groups and throughout the country. The remaining are regulatory interventions implemented with the view to ensure transparency of financing of educational activities and institutions or establishing minimal requirements for the quality of provision of educational services.

The scheme below disassembles the logic of the overall governmental interventions in the Education and science sector in Lithuania. It starts with the rationale of the provision of the services by the public sector, then indicates services corresponding to that particular rationale. Services are classified not only by the rationale they correspond to, but also by a body, which is responsible for the provision of them. Other governmental interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

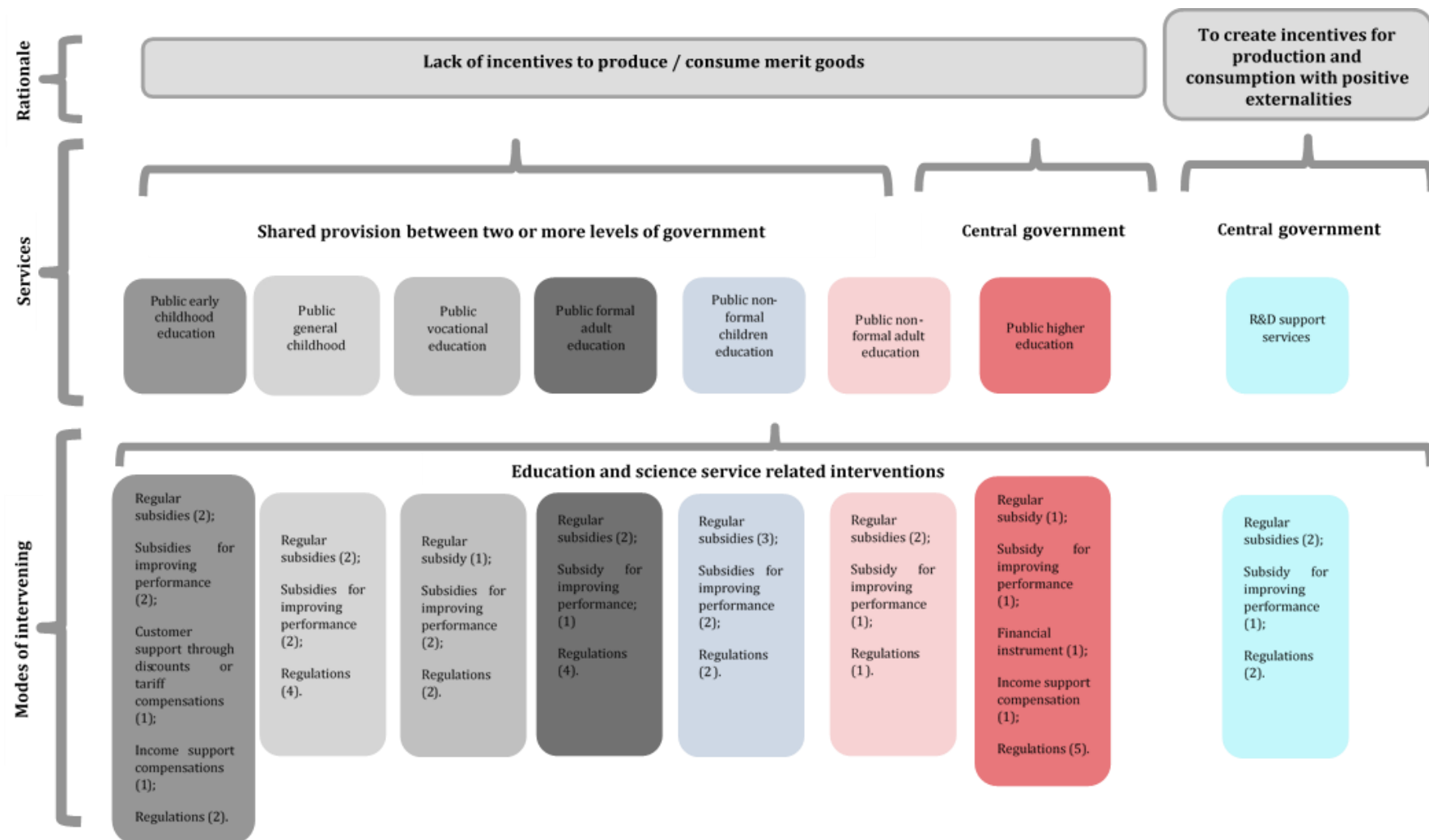


FIGURE 27. LOGIC OF INTERVENTIONS IN THE LITHUANIAN EDUCATION AND SCIENCE SECTOR

Source: BGI Consulting et al, 2017.

2.7.1.2 LEVEL OF LIBERALIZATION OF THE SERVICES PROVISION

The public services in the Lithuanian Education and science sector were ranked according to the level of liberalisation in their provision in the figure below. The criteria used for ranking the sector's services according to the level of liberalisation in their provision are – the main provider of the service (the most centralised provider is a government / municipal institution (directly), the most liberalised provider is the market entity (operator)); the most common public service delivery mode (the most centralised delivery mode – direct provision by the governmental / municipal body, the most liberalised – provision by market entity (operator)); consumer pricing of the service (whether the service is free of charge, its pricing is available but non-regulated or its pricing is regulated and set by relevant authorities); market share of the public operators (100, >66, 34-66, <34 percent).

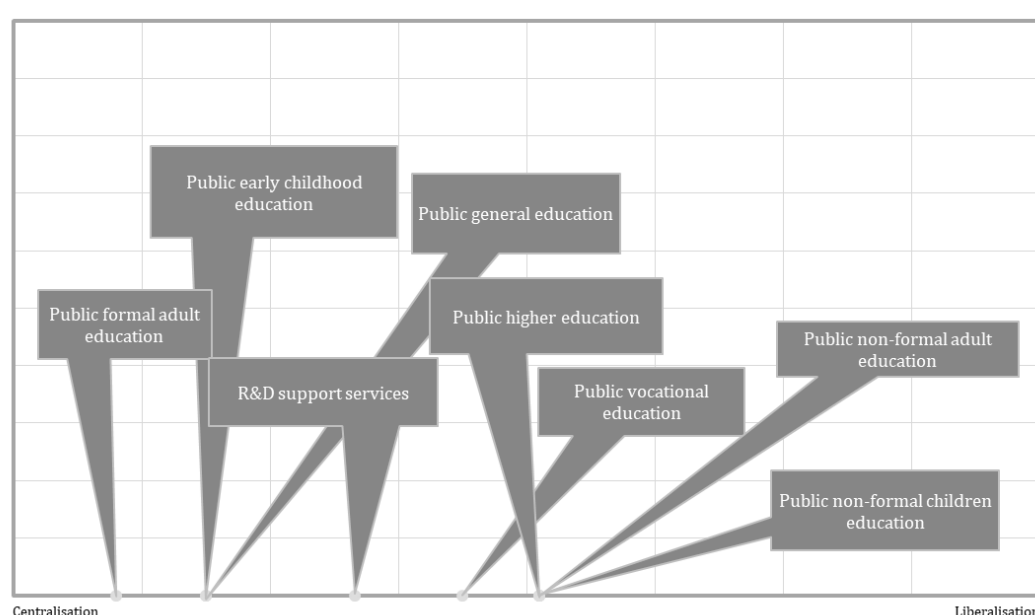


FIGURE 28. PLACEMENT OF THE PUBLIC SERVICES IN THE LITHUANIAN EDUCATION AND SCIENCE SECTOR ON LIBERALIZATION-CENTRALIZATION AXIS

Source: BGI Consulting et al, 2017.

Public higher education, public non-formal adult education and public non-formal children education turn out to be sector's services provided at the most liberal mode. Aforementioned services are provided by either public or budgetary institutions, their most common current delivery mode is delegation to state or municipal owned entity, pricing for consumers of those services is available but non-regulated and public operators providing them occupy between 33 and 66 percent of the market.

Public formal adult, public early childhood and public general education are the three most centrally provided sector's services. All of them are provided by budgetary institutions and are free of charge for the consumers. Consumers of early childhood education have to pay certain fees, however those cover only the costs of childrens meals and care services. Delegation to state or municipality owned entity is the most common current service delivery mode for all three of them. Services can be differentiated through public operators' market share as public formal adult education is provided by public entities only, while the market of provision of early childhood education and general education are not fully occupied by public entities.

The provision of other services such as public vocational education and R&D support services occupy a middle position in the centralisation-liberalisation axis. With regards to vocational education, initial vocational education and training is provided in a very centralised mode, mostly in public institutions and is free of charge for consumers. The provision of continuous vocational education and training, however, is much more liberalised. The share of private service providers providing continuous vocational education and training is much higher, the fee for services is paid either by consumer himself or by his/her employee. Public funds cover only the fees of continuous vocational education and training of unemployed persons and persons warned of redundancy.

Due to a high number of services identified in Lithuanian Education and science sector, the further in-depth analysis of all of them would not be possible. Since the aim of the study is to identify possibilities to introduce financial instruments or involve private sector service providers more actively, two interventions currently provided at the most liberal mode – non-formal children and non-formal adult education – as well as two services provided at a relatively centralised mode, but having the most perspectives to attract more private providers – early childhood education and vocational education – were selected for further analysis.

2.7.2 PRESENTATION OF SERVICES AND RELATED INTERVENTIONS SELECTED FOR FURTHER ANALYSIS

This chapter presents the services and related interventions, selected for further analysis. Four services in Lithuanian Education and science sector were selected for further in-depth analysis. These services are:

- Public early childhood education;
- Public vocational education;
- Public non-formal children education;
- Public non-formal adult education.

The main policy goals, modes of provision and interventions related to the abovementioned services are presented in this chapter.

2.7.2.1 MAIN POLICY GOALS OF SERVICES SELECTED FOR FURTHER ANALYSIS

The main policy objective in Lithuanian Education and science sector, established in the National Education Strategy 2013-2022, is to turn education in Lithuania into a solid ground for the increase of well-being of the country and the upbringing of a dashing and independent person, building the future of his own, Lithuania and the world with responsibility and solidarity. In order to attain this objective, the attention is focused on creating the possibilities to participate in quality life-long learning for all members of society despite their age, social status or level of educational attainment¹²⁵. Each of the four services selected for further analysis have their specific policy goals, contributing to the attainment of the aforementioned main policy objective of the sector.

One of the main aims of the early childhood education is to increase the level of participation by increasing the quality and accessibility of it. It is expected, that by 2022 the share of children between 4 years old and the age for starting compulsory primary education participating in early childhood education and care will

¹²⁵ Ministry of Education and Science of the Republic of Lithuania, National Education Strategy 2013-2022, 2014

reach 95 percent¹²⁶. Currently the percentage of such children attending early childhood education institutions in Lithuania is 91.4.¹²⁷ Furthermore, in order to attain this objective the difference of participation rates in early childhood education in rural and urban areas should be reduced. Comparing the overall share of children (1-6 years and older) in early childhood education, it can be seen that the participation rate in urban areas is 85.2 percent, while in rural areas this rate is only 35.2 percent¹²⁸.

The increase of the number of students is relevant also for vocational education. The share of participants from the target group of both – initial and continuous vocational education and training – is lower than the EU average. Less than a third (26.7 percent in 2014) of all upper secondary school students participate in the initial vocational education and training, while in other EU countries around 50 percent on average participate¹²⁹. The share of employees participating in continuous vocational education and training is around 20 percent, while the EU average is around 40 percent¹³⁰. In order to increase participation, changes, such as optimization of the network of vocational education institutions and vocational education programmes, as well as development of qualification development and acknowledgement system are foreseen.

Not only formal, but also non-formal education of children and adults is not consumed up to the rate expected. Currently, around 56 percent of children of school attending age participate in non-formal education¹³¹. It is expected to increase this number up to 100 percent by 2022¹³². The rate of participation in non-formal education of adults is even lower. The rate of participation in lifelong learning activities, the vast majority of which are non-formal education activities, of persons aged 25-64 is around 6 percent in Lithuania, while the EU average is 10.8 percent¹³³.

It is also important to note that the vast demographic changes taking place in Lithuania are significantly affecting the implementation of the aforementioned policy objectives and are rapidly changing the overall situation of the Lithuanian Education and science sector (e.g. due to the demographic changes some problems, such as lack of places in early childhood education institutions in certain areas, are naturally being solved, while the importance of others, such as lack of teachers or increased costs of maintenance of educational institutions per child, are only strengthened). Due to emigration and negative demographic trends, the number of schoolchildren has decreased by around one quarter since 2000¹³⁴.

2.7.2.2 THE STRUCTURE OF PROVISION AND FINANCING OF SERVICES SELECTED FOR FURTHER ANALYSIS

Figures provided below depict the structure of each service selected for further analysis. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision identified. Graphs in light red indicate service providers and group(s) the service is targeted at.

¹²⁶ Ministry of Education and Science of the Republic of Lithuania, National Education Strategy 2013-2022, 2014

¹²⁷ Ministry of Education and Science of the Republic of Lithuania, Centre of Information Technologies in Education, Lithuanian Education in Numbers 2016. Pre-school and pre-primary education, 2016

¹²⁸ Data of Statistics Lithuania, 2016

¹²⁹ Ministry of Education and Science of the Republic of Lithuania, Qualifications and Vocational Education and Training Development Centre, Review of the Condition of Vocational Education 2017, 2017

¹³⁰ Data of Eurostat, 2010

¹³¹ Order of the Minister of the Ministry of Education and Science of the Republic of Lithuania regarding the working plan of the Ministry of Education and Science of the Republic of Lithuania 2016, 2017 (LR Švietimo ir mokslo ministro įsakymai dėl Lietuvos respublikos švietimo ir mokslo ministerijos 2016 ir 2017 metų darbų plano patvirtinimo)

¹³² Ministry of Education and Science of the Republic of Lithuania, National Education Strategy 2013-2022, 2014

¹³³ Data of Eurostat, 2016

¹³⁴ European Commission: Directorate-General for Education and Culture, Education and Training Monitor 2017. Lithuania, 2017

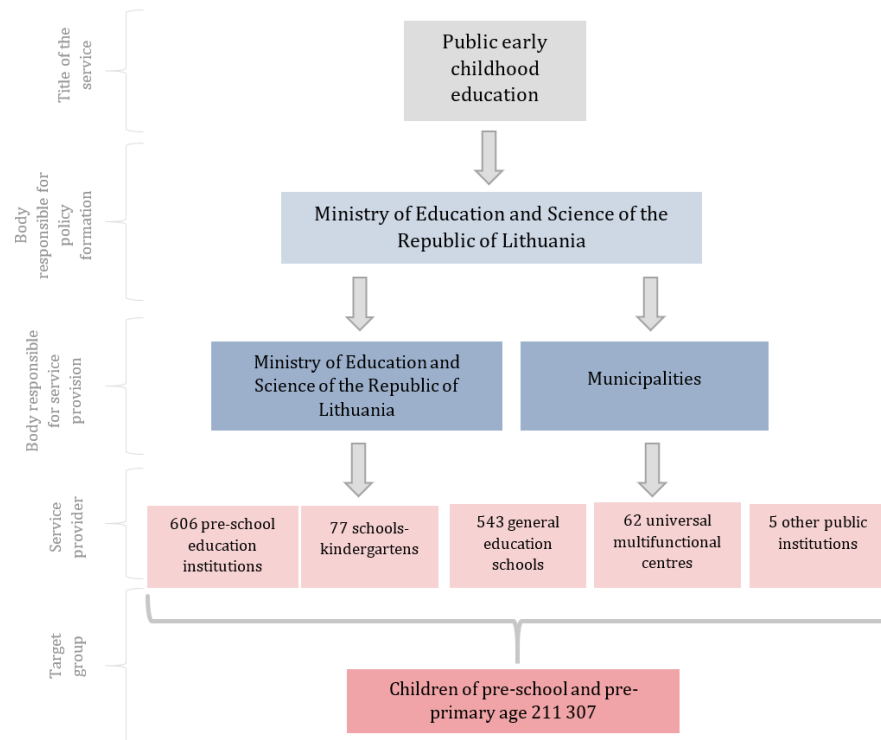


FIGURE 29. THE STRUCTURE OF PUBLIC EARLY CHILDHOOD EDUCATION PROVISION

Source: BGI Consulting et al, 2017.

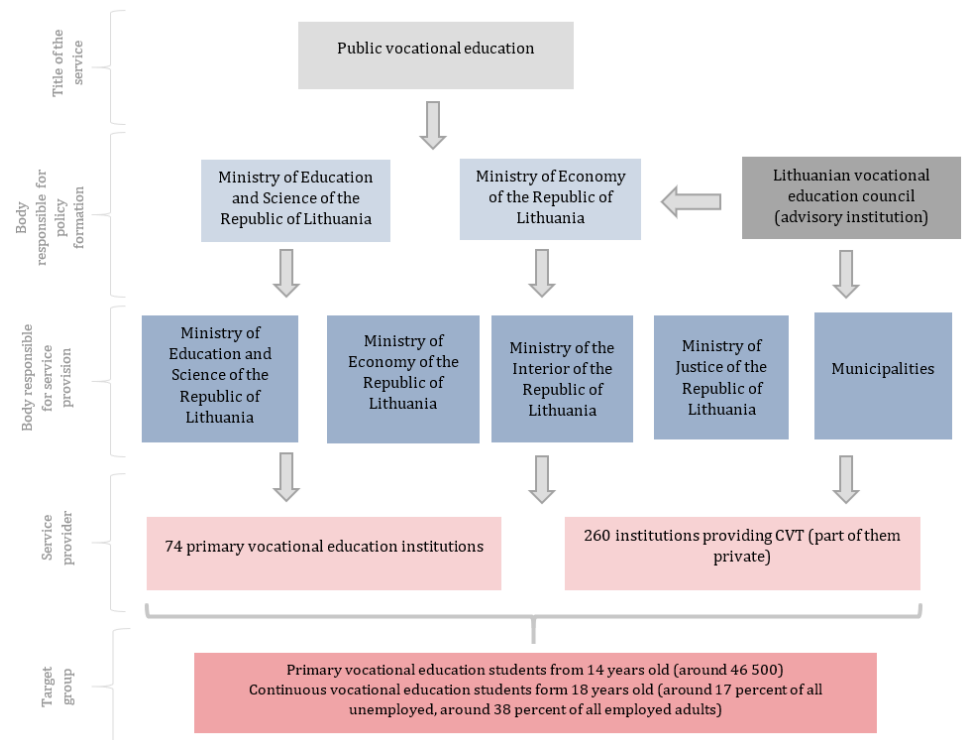


FIGURE 30. THE STRUCTURE OF PUBLIC VOCATIONAL EDUCATION PROVISION

Source: BGI Consulting et al, 2017.

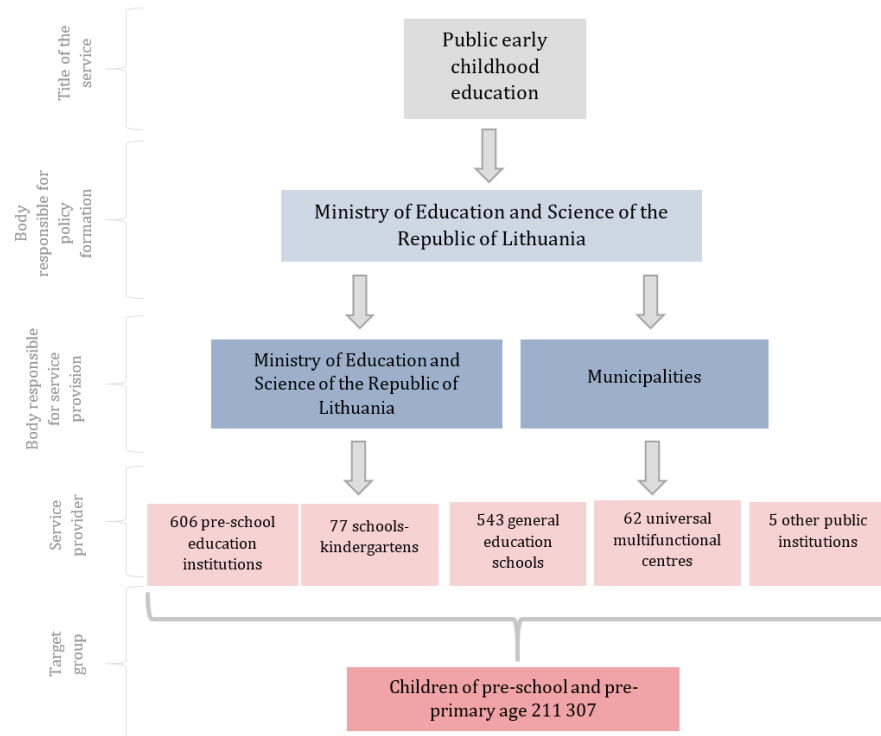


FIGURE 31. THE STRUCTURE OF PUBLIC NON-FORMAL CHILDREN EDUCATION PROVISION

Source: BGI Consulting et al, 2017.

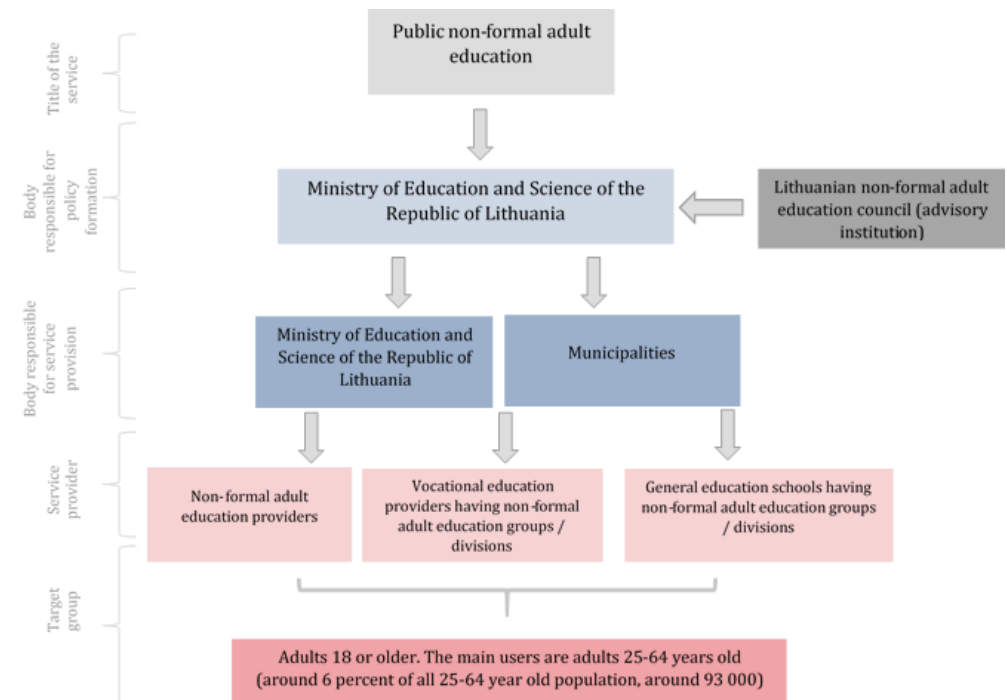


FIGURE 32. THE STRUCTURE OF PUBLIC NON-FORMAL ADULT EDUCATION PROVISION

Source: BGI Consulting et al, 2017

In terms of national public financing, interventions, ensuring the provision of early childhood education receive the largest sum annually, which is equal to around EUR 350 million per year¹³⁵. Public financing of interventions ensuring the provision of public vocational education service amounts to around EUR 100 million annually¹³⁶. The public financing of both non-formal children and adult education combined is equal to approximately EUR 125 million a year¹³⁷. The main sources of public funding of all the service related interventions is municipalities' budgets, supplemented by funding provided by the state budget. Each of the services will also receive ESIF funding for improvement of the services provision in 2014-2020.

The largest share of recurrent service provision costs is financed by the education/school voucher interventions in early childhood and vocational education. These funds are received from the national budget as a target dotation for municipalities, which then distribute these funds among the education providers.

Consumers also cover at least part of the funding required for the provision of each service. The largest share of the service provision costs is covered by consumers of public non-formal adult and continuous vocational education. Usually, these services are paid by either consumer himself or the employer of the consumer (in case of continuous vocational education). Significant share of costs of the service provision are also paid by consumers using non-formal children education services. Initial vocational education and training is free of charge for consumers, while consumers of early childhood education cover only the costs of meals and care services.

Most of the time investments in the upgrade of infrastructure or increase of quality of the service provision are made using ESIF investments.

2.7.2.3 INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Each of the services selected for further analysis has related interventions, enabling the provision of the service. All the interventions, related to public early childhood education, vocational education, non-formal children and non-formal adult education are presented in the table below.

TABLE 79. INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Name of the service	Type of the service related intervention	Name of the service related intervention	Fiche No.
Public early childhood education	Regular subsidy for public service delivery (budgetary financing)	Subsidy for covering public early childhood educational institutions maintenance cost	1
	Regular subsidy for public service delivery (budgetary financing)	Education / school voucher for early childhood education students	2
	Subsidy for improving performance of the public service	ESIF subsidies for improving quality and accessibility of early childhood education	3
	Subsidy for improving performance of the public service	ESIF subsidies for upgrading infrastructure of early childhood education	4

¹³⁵ Own calculations based on the data provided by Statistics Lithuania (reference year 2016)

¹³⁶ Statistics Lithuania, 2016

¹³⁷ Own calculations based on the data from various sources

	Customer support through discounts or tariff compensations	Compensation (full or partial) of the cost of children meals in early childhood education institutions	5
	Income support (compensation)	Compensations for families whose children are attending private early childhood education institutions	6
	Regulation	Regulation establishing compulsory participation in pre-primary education	7
	Regulation	Regulation regarding the use of early childhood education voucher	8
Public vocational education	Regular subsidy for public service delivery (budgetary financing)	Education / school voucher for covering running costs of vocational education institutions	9
	Regular subsidy for public service delivery (budgetary financing)	Education / school voucher for vocational education students	10
	Subsidy for improving performance of the public service	ESIF subsidies for improving quality and accessibility of vocational education	11
	Subsidy for improving performance of the public service	ESIF subsidies for upgrading infrastructure of vocational education	12
	Regulation	Regulation regarding the licencing of formal vocational education providers	13
	Regulation	Regulation regarding the use of vocational education voucher	14
Public non-formal children education	Regular subsidy for public service delivery (budgetary financing)	Subsidy for covering public educational institutions providing non-formal children education maintenance cost	15
	Regular subsidy for public service delivery (budgetary financing)	Education / school voucher for general (primary, lower secondary and upper secondary (except for vocational)) education students	16
	Regular subsidy for public service delivery (budgetary financing)	Education / school voucher for non-formal children education students	17
	Subsidy for improving performance of the public service	ESIF subsidies for improving quality and accessibility of non-formal children education	18
	Subsidy for improving performance of the public service	ESIF subsidies for upgrading infrastructure of non-formal children education	19
	Regulation	Regulation regarding the use of general education voucher	20
	Regulation	Regulation regarding the use of non-formal children education voucher	21
Public non-formal adult education	Regular subsidy for public service delivery (budgetary financing)	Subsidy for covering public educational institutions providing non-formal adult education maintenance cost	22
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for implementation of selected non-formal adult education programmes	23
	Subsidy for improving performance of the public service	ESIF subsidies for developing adult education	24
	Regulation	Regulation regarding the funding of selected adult non-formal education programmes	25

Source: BGI Consulting et al, 2017.

Further in this study the information is provided not on services as a whole, but only on service related interventions.

2.7.3 DATA ON SELECTED GOVERNMENT INTERVENTIONS IN LITHUANIAN EDUCATION AND SCIENCE SECTOR

This chapter provides portrayal and analysis of the government interventions shortlisted for the in-depth assessment. In the chapter separate fiches for each government intervention, analysis of interventions regarding each of the methodological research criteria are presented.

The fiches for each government intervention below provides the main data on each government intervention, which can be read as a self-standing analysis and is also used in later parts of the study as a basis for the meta-analysis of interventions according to different criteria.

TABLE 80. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (1)

Title of the intervention		Subsidy for covering public early childhood educational institutions maintenance costs
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)	
Short description of the intervention	The network of public pre-school and pre-primary education institutions is developed and maintained by their founders (municipalities or state) providing subsidies for the educational institutions maintenance costs (including wages of technical assistance employees).	
Year of the introduction and end, stability of the intervention	1991 - up to now. The implementation of the intervention is stable. The notion that the founder of the pre-school or pre-primary education institution must cover its running costs has remained unchanged.	
The broader policy objective to which intervention contributes	The main objective of pre-school education is to help a child meet his natural, cultural, as well as etnical, social and cognitive needs. The main objective of pre-primary education is to help a child to prepare for successful learning according to the primary education programme	
Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR švietimo įstatymas)	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure operation of public pre-school and pre-primary education institutions in order to attain the objectives of pre-school and pre-primary education.	
The objective of the intervention and legal background	To cover the running costs of budgetary pre-school and pre-primary education institutions. Law on education, 25 June 1991, No. I-1489 (LR švietimo įstatymas); orders of the directors of administrations of municipalities regarding the financing of budgetary institutions (Savivaldybių administracijos direktorių įsakymai dėl ūkio lėšų iš savivaldybės biudžeto apskaičiavimo tvarkos aprašų)	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	National level Local level	
Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania and municipalities.	
The main source of financing the intervention	Municipal budget	
Additional sources of financing the intervention	State budget	

Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	Annual budgetary financing
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the need of financing for covering the running costs of the institution
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Consumers of early childhood education that are children up to 7 years old in early childhood education institutions - 116 814 children (Statistics Lithuania, 2016)
Impact of the intervention	The intervention has a positive impact on its consumers, since it enables running of public early childhood education institutions. However, this intervention does not have any impact on private business entities providing early childhood education services in the market, since the subsidy can be received only by public providers.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	The main issue related with the implementation of the intervention is that it does not take into account the demographic trends and the concentration of pupils in educational institutions. Due to emigration and negative demographic trends, the number of schoolchildren (including children in early childhood education) has decreased by around one quarter since 2000. Consequently, the overall spending on education per pupil has increased steadily. This increase in 2010-2016 was equal to around 3 percent per year ¹³⁸ . The financing of running costs of educational institutions per pupil has also increased. Furthermore, the distribution of funds is unequal throughout the country. The financing of running costs in small educational institutions (up to 200 pupils) per pupil is significantly higher than in large educational institutions. Financing of educational institutions running costs per pupil in rural areas is also higher than financing per pupil in urban areas ¹³⁹ . These trends are especially visible in educational institutions providing early childhood education, since the difference between the share of children in early childhood education in urban and rural areas is very significant (98.2 percent and 47.6 percent enrolment rates respectively for 4-6-year-olds in 2015 ¹⁴⁰) resulting in high differences of financing of running costs per pupil. Lack of linkage between demographic trends or concentration of pupils in educational institutions and financing of running costs results in inefficient use of resources. These problems are being tackled by the reform of school network carried out since 2004-2005. However, recent report of the National Audit Office of Lithuania has revealed that despite the decreasing number of educational institutions the overall financing of running costs of educational institutions remains at the same level or even increases. An audit conducted in 66 educational institutions has revealed that during the 2014-2016 the funding of running costs of these institutions has increased by 11.5 percent ¹⁴¹ . This is caused by the tendency of municipalities not

¹³⁸ European Commission: Directorate-General for Education and Culture, Education and Training Monitor 2017. Lithuania, 2017

¹³⁹ Ministry of Education and Science of the Republic of Lithuania, Education Supply Center, Lithuania. Education in Regions. Schools, 2015

¹⁴⁰ European Commission: Directorate-General for Education and Culture, Education and Training Monitor 2017. Lithuania, 2017

¹⁴¹ National Audit Office of Lithuania, National Audit Report. Can the achievements of Lithuanian students be increased, 28 November 2017, No. VA-2017-P-50-1-20

	to close the small rural educational institutions having low numbers of pupils but rather formally reform them to become a branch of some other institution. Therefore, even if the total number of educational institutions decreases, the need for covering running costs remains at the same level or even increases ¹⁴² .
Consistency with other related interventions	The intervention is not entirely consistent with education/school voucher for early childhood education students. While the amount and implementation of education/school voucher is related with each student in early childhood education and therefore, takes into account the demographic trends as well as helps to increase efficiency of early childhood education, the coverage of running costs of early childhood education institutions do not take into account demographic trends, nor encourages efficiency of the provision of early childhood education.
Possibilities to replace/withdraw the intervention	There are no considerations or need to withdraw the intervention altogether. However, the efficiency of its implementation should be increased. The funding of running costs of educational institutions should be more closely related with the concentration of pupils in educational institutions. This could be achieved either by making sure that the school network reform results not only in reduced number of schools but also in reduced area of educational institutions requiring maintenance and increased concentration of pupils per square meter or by introducing measures of distributing the subsidy relating the size of it directly with the number of pupils per school. Despite the need to increase its efficiency, currently there are no considerations of significantly changing this intervention. Nevertheless, a group of Parliament members on 13 September 2017 has submitted a project to change the Law on Education with the suggestion to expand the scope of the subsidy and provide the equivalent financing of running costs of educational institutions not only for public but for private institutions as well ¹⁴³ . Such change most likely would increase the incentives for private providers to participate more actively in the service provision market and might decrease the price of early childhood education in private early childhood education institutions for its consumers, thus encouraging more active migration of early childhood education consumers from public to private providers. However, in order to know the exact expected effects of such change the ex-ante regulatory impact assessment of the proposed change should be carried out. The discussions regarding this change continues and the proposal is neither accepted nor rejected yet.

Source: BGI Consulting et al, 2017.

TABLE 81. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (2)

Title of the intervention	Education / school voucher for early childhood education students
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Education / school voucher is a subsidy for each student in pre-school and pre-primary (ISCED 0 level) education, the amount of which is calculated each year according to the methodology approved by the government decree.
Year of the introduction and end, stability of the intervention	2011 - up to now (pre-school education). 2003 - up to now (pre-primary education). The intervention was introduced in 2003 and 2011 (for pre-primary and pre-school education respectively). Previously the financing of

¹⁴² National Audit Office of Lithuania, National Audit Report. Can the achievements of Lithuanian students be increased, 28 November 2017, No. VA-2017-P-50-1-20

¹⁴³ Law (project) on changing the Law on Education, 13 September 2017, No. XIIIIP-1106 (LR Švietimo įstatymo Nr. I-1489 67 straipsnio pakeitimo įstatymas (projektas))

	educational activities in pre-school and pre-primary education institutions was part of a regular budgetary subsidy. Since introduction of the intervention the implementation of it has been stable as it has not been changed significantly.
The broader policy objective to which intervention contributes	The main objective of pre-school education is to help a child meet his natural, cultural, as well as etnical, social and cognitive needs. The main objective of pre-primary education is to help a child to prepare for successful learning according to the primary education programme.
Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure the financing of educational activities in early childhood education institutions, increase the competition among them and ensure higher quality of early childhood education.
The objective of the intervention and legal background	To distribute the funds for covering educational needs of early childhood education consumers. Resolution of the Government of the Republic of Lithuania on methodology of calculation and distribution of education voucher, 27 June 2001, No. 785 (LR Vyriausybės nutarimas dėl mokinio krepšelio lėšų apskaičiavimo ir paskirstymo metodikos patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level Local level
Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania and municipalities.
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Demand and supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	Agreements with licenced providers based on quantitative indicators
Types of private providers eligible to receive the intervention	Private for-profit entities
Dominant mean of receiving the intervention for private providers	Agreements with licenced providers based on quantitative indicators
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of beneficiaries applying a fixed rate
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Consumers of early childhood education that are children up to 7 years old in early childhood education institutions - 116 814 children (Statistics Lithuania, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is compulsory for the consumers
Consumers' selection criteria	Inclusive (uniform)
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the uniform size approach.
Impact of the intervention	The impact of the intervention on its consumers is positive since it covers part of educational costs in early childhood education institutions and increases accessibility of early childhood education for all society groups and throughout the country. In addition, it

	allows families to choose the most suitable early childhood education institution more easily. Since the intervention is available to both public and private service providers, it also encourages participation of private service providers in the market.
Unintended impact of the intervention	The intervention causes unintended behaviour of municipalities. The education/school voucher is intended to cover the costs of provision of 4 hours of early childhood education per day. In institutions that provide longer early childhood education programmes, the remaining part should be covered by the founders' (mostly municipalities) funds. However, some municipalities do not attribute additional funds and require early childhood education institutions to carry out early childhood education programmes of 8 up to 12 hours a day with the same funds of education/school voucher meant to cover 4 hours. This situation results in lower remuneration of employees, poorer quality of early childhood education, lower or no investments in increasing the qualification of early childhood education employees, renewing educational equipment ¹⁴⁴ .
Main issues related to the implementation of the intervention	Besides the lack of some municipalities' contribution to the provision of early childhood education, there exist several other problems related with the implementation of the intervention. Firstly, even though the education/school voucher is distributed to private providers as well, there are no instruments of ensuring that the services provided by private early childhood education institutions are of sufficient quality. Since there are no external national early childhood education quality assurance system, it is complicated to ensure the quality of early childhood provided in public and private educational institutions alike. However, the founders of public early childhood education institutions (municipalities and the state) still have an obligation to ensure quality of early childhood education provided by public providers. Even though this quality assurance is quite sporadic and differs among municipalities, it is still in place. Conversely, with regards to private early childhood education providers none of the public institutions has instruments to ensure the quality of the educational activities carried out there ¹⁴⁵ . Secondly, the flexibility of provision of education/school voucher is lacking. Theoretically, the early childhood education/school voucher is supposed to follow the child to whichever early childhood education institution the family chooses. However, due to the methodology of early childhood education/school voucher calculation and distribution, when the funds of education/school voucher are distributed once a year based on the number of contractual children in early childhood education institution, if a child changes the institution during the year, the education/school voucher does not follow him/her immediately. This causes problems for both a new educational institution that child attends and the one that was left. Since the new institution cannot immediately receive the funds of early childhood education/school voucher and the institution that was left has to return the funds to the budget. This issue is especially prominent in municipalities, where compensation system for children attending private early childhood education institutions was established, since it encouraged movement of children from public to private institutions ¹⁴⁶ . Thirdly, the funds of early childhood education/school voucher do not cover all the costs of early childhood education provision in institutions where the number of children attending the institution is low. Mostly, the institutions lacking funds are located in rural areas. Due to the lack of funds in most cases municipalities have to allocate specific dotations from municipalities budgets to such institutions. In addition, the Ministry of Education and Science of the Republic of Lithuania also differentiates the methodology of calculation of education/school voucher according to different types and geographic locations of educational institutions. However, such differentiations and constant changes cause instability in funding and hinder

¹⁴⁴ Based on the information gathered during expert interviews

¹⁴⁵ Based on the information gathered during expert interviews

¹⁴⁶ Press release of the Vilnius Municipality, 28 October 2015 <http://www.vilnius.lt/index.php?1386983483>

	implementation of other initiatives, such as a reform of educational institutions network ¹⁴⁷ .
Consistency with other related interventions	The intervention is not consistent with Compensations for families whose children are attending private early childhood education institutions. While the compensation encourages migration from public to private institutions, the methodology of education/school voucher calculation and distribution, does not allow enough flexibility to adapt to such changes effectively. The intervention is also not entirely consistent with subsidy for covering the running costs of early childhood education institutions. Early childhood education/school voucher encourages efficiency of early childhood education institutions and differentiates among institutions that are able and not able to attract enough users. Subsidy for covering the running costs of early education institutions, conversely, is aimed at keeping running the institutions despite their efficiency or possibilities to attract users.
Possibilities to replace/withdraw the intervention	There are no considerations or need to withdraw the intervention altogether. However, there are considerations of changing the way of implementation of the intervention. Since 2016, a pilot methodology of distributing the education/school voucher is being tested. Selected number of educational institutions are funded based on the number of class/group complexes instead of the number of pupils/students, applying different rates depending on the number of students in the class/group. This methodology is expected to be more beneficial for small and medium schools. If the pilots are successful, the methodology of calculation and distribution of education/school voucher (including early childhood education school/voucher) will be changed ¹⁴⁸ . With regards to early childhood education/school voucher, the number of educational hours to be funded is constantly debated. The practice of various EU countries concerning the number of hours of early childhood education funded by the state budget varies and different models are available ¹⁴⁹ . In order to better adapt to mobility of consumers changing the implementation of the intervention in line with the models used in healthcare system could be considered. For example in primary health care system the vast majority of financing for primary health care institutions is given based on the number of patients subscribed to that particular institution (therefore, it is similar to the financing of educational institutions using education/school voucher, since the amount of financing is clearly related with the number of subscribed service users). However, unlike in case of education/school voucher the number of subscribed service users in primary health care centres is revised each month, not once a year. Therefore, if a person changes a primary health care centre to which he is subscribed, the funding for that person will be transferred to his chosen primary health care institution immediately (the new subscriber will be accounted for in primary health care institutions report the next month and the institution will receive a payment for the services provided to this new subscriber during a previous month). Such flexibility could be also introduced while distributing education/school voucher funds.

Source: BGI Consulting et al, 2017.

¹⁴⁷ National Audit Office of Lithuania, National Audit Report. Assessment of Education Voucher Planning and Use, 3 April 2012, No. FA-P-34-1-2

¹⁴⁸ Press release of the Ministry of Education and Science of the Republic of Lithuania, 25 November 2015
https://www.smm.lt/web/lt/pranesimai_spaudai/naujienos_1/skelbiamos-penkios-savivaldybes-kuriose-bus-isbandomas-klases-krepselis

¹⁴⁹ Based on the information gathered during expert interviews

TABLE 82. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (3)

Title of the intervention	
ESIF subsidies for improving quality and accessibility of early childhood education	
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Some measures funded by ESIF are aimed at maintaining and increasing the quality and accessibility of early childhood education provided by the state. Investments are planned to be made in developing the competence of teachers, the content of education, establishing and introducing new forms of education organisation, increasing the accessibility of education.
Year of the introduction and end, stability of the intervention	2014 – 2023. The implementation of the intervention depends on ESIF allocations.
The broader policy objective to which intervention contributes	The main objective of pre-school education is to help a child meet his natural, cultural, as well as etnical, social and cognitive needs. The main objective of pre-primary education is to help a child to prepare for successful learning according to the primary education programme.
Legal background for the establishment of the intervention	Operational Programme for EU Structural Funds Investments for 2014-2020, September 2014, CCI: 2014LT16MAOP001 (2014-2020 m. Europos Sąjungos fondų investicijų veiksmų programa)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To improve the quality of content of early childhood education as well as develop the competences of teachers working in early childhood education institutions in order to increase the quality and accessibility of early childhood education.
The objective of the intervention and legal background	To introduce new educational organisation models, virtual education environments, increase the quality of education, improve the competence of teachers. Orders of the Minister of the Ministry of Education and Science of the Republic of Lithuania on terms of project financing (measures No. 09.2.1-ESFA-K-728; No. 09.2.1-ESFA-V-727) (LR Švietimo ir mokslo ministro patvirtinti priemonių finansavimo sąlygų aprašai)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	European Social Fund Agency
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	State budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Public administration institution (-s) directly Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	Project contest
Other means of receiving the intervention for public providers	State planning
Types of private providers eligible to receive the intervention	Private for-profit entities

Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Consumers of early childhood education that are children up to 7 years old in early childhood education institutions - 116 814 children (Statistics Lithuania, 2016)
Impact of the intervention	It is difficult to assess the impact of the intervention, since its implementation has only just started. However, it is expected that the intervention will have a positive impact on its consumers, since it will allow to create and implement new early childhood education organisation models, renew the content of early childhood education, establish virtual environments, increase the competence of educational employees working in early childhood education institutions. This intervention is especially important since these improvements could not be made without ESIF support ¹⁵⁰ . The intervention will also help to strengthen private service providers, since in some measures private service providers can also receive the funds.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	The main issue related with the intervention is that its implementation depends on availability of ESIF funds and is not stable. There are currently no considerations on how the ESIF investments will be changed by national funds after 2020 and in some cases the sustainability of the results created is not ensured. In some cases, for example in case of the measure aimed at improvement of the competences of educational employees in early childhood education institutions, the results are expected to be sustainable. The training programmes for educational employees in early childhood education institutions will be used also later on for training of early childhood education institutions employees financed by early childhood education institutions according to the need. In other cases, however, such as in case of creation of external quality assurance and evaluation system of early childhood education, the funds are allocated only for creating such system but there are currently no plans on how it will be implemented or funds allocated for its implementation ¹⁵¹ .
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	The intervention could be replaced by similar interventions funded by national funds. However, currently there are no such plans.

Source: BGI Consulting et al, 2017.

TABLE 83. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (4)

Title of the intervention	ESIF subsidies for upgrading infrastructure of early childhood education
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Some of ESIF funded measures are aimed at providing subsidies for upgrading the infrastructure of early childhood education.

¹⁵⁰ Based on the information gathered during expert interviews

¹⁵¹ Based on the information gathered during expert interviews

Year of the introduction and end, stability of the intervention	2014 – 2023. The implementation of the intervention depends on ESIF allocations.
The broader policy objective to which intervention contributes	The main objective of pre-school education is to help a child meet his natural, cultural, as well as etnical, social and cognitive needs. The main objective of pre-primary education is to help a child to prepare for successful learning according to the primary education programme
Legal background for the establishment of the intervention	Operational Programme for EU Structural Funds Investments for 2014-2020, September 2014, CCI: 2014LT16MAOP001 (2014-2020 m. Europos Sąjungos fondų investicijų veiksmų programa)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To improve the infrastructure of early childhood education in order to increase the quality and accessibility of early childhood education
The objective of the intervention and legal background	To renew the infrastructure of early childhood education. Orders of the Minister of the Ministry of Education and Science of the Republic of Lithuania on terms of project financing (measure No. 09.1.3-CPVA-R-705) (LR Švietimo ir mokslo ministro patvirtinti priemonių finansavimo sąlygų aprašai)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Central Project Management Agency
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	Municipal budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Public administration institution (-s) directly Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	Regional planning
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Consumers of early childhood education that are children up to 7 years old in early childhood education institutions - 116 814 children (Statistics Lithuania, 2016)
Impact of the intervention	It is difficult to assess the impact of the intervention, since its implementation has only just started. However, it is expected that the intervention will have a positive impact on its consumers, since the intervention will help to upgrade and modernise the infrastructure of early childhood education institutions and better adapt it to the needs of children. However, it is important to note that the intervention can be received by public service providers only, therefore, it will not have any impact on private service providers.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	The main issue related with the intervention is that its implementation depends on availability of ESIF funds and is not stable. There are currently no considerations on how the ESIF

	investments will be changed by national funds after 2020 and it is not clear whether infrastructural investments in early childhood education institutions will be available, even though it is evident that such interventions will still be needed.
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	The intervention could be replaced by similar interventions funded by national funds. However, currently there are no such plans.

Source: BGI Consulting et al, 2017.

TABLE 84. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (5)

Title of the intervention	Compensation (full or partial) of the cost of children meals in early childhood education institutions
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Customer support through discounts or tariff compensations
Short description of the intervention	For children attending early childhood education institutions who are entitled to receive free meals, 100 percent of the cost of meals is compensated. For children having disabilities, children living with only one parent, for children living in families raising 3 and more children, for children whose parents are enrolled full-time in a general or higher education institution, for children whose one of the parents serves in a compulsory military service 50 percent of the cost of meals in early childhood education institutions is compensated. However, it should be noted that discretion to make the final list of conditions on which children are entitled to this compensation is left to the establishers of early childhood education institutions, that are mostly municipalities. Therefore, the final list of eligibility criteria can vary across municipalities.
Year of the introduction and end, stability of the intervention	1991 - up to now. The intervention is stable. It has existed since 1991 with no major changes or abolishments. In 2014, the amount of costs of meals eligible to be covered by public funds calculated as a number of basic social allowances was increased. However, it is not considered to be a significant change, since it only lets to account for general inflation.
The broader policy objective to which intervention contributes	The main objective of pre-school education is to help a child meet his natural, cultural, as well as etnical, social and cognitive needs. The main objective of pre-primary education is to help a child to prepare for successful learning according to the primary education programme.
Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas) Law on social support for students, 13 June 2006, No. X-686 (LR Socialinės paramos mokiniams įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure accessibility to early childhood education for children from various socio-economic backgrounds.
The objective of the intervention and legal background	To compensate the cost of children meals in early childhood education institutions for families having certain characteristics. Law on social support for students, 13 June 2006, No. X-686 (LR Socialinės paramos mokiniams įstatymas); decrees of the councils of municipalities regarding the payment for care of children in early childhood education institutions (Savivaldybių tarybų nutarimai dėl mokesčio už vaiko išlaikymą įstaigose, įgyvendinančiose ikimokyklinio ir priešmokyklinio ugdymo programas ir vienos dienos vaiko maitinimo normos nustatymo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level Local level

Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania and municipalities.
The main source of financing the intervention	Municipal budget
Additional sources of financing the intervention	State budget
Market side the intervention is targeted at	Demand
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	Annual budgetary financing
The basis for the calculation of intervention size transferred to the service providers	The additional finances are added to the regular budgetary financing of the institution based on the number of children eligible for compensation attending the institution.
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Consumers of early childhood education that are children up to 7 years old in early childhood education institutions - 116 814 children (Statistics Lithuania, 2016)
The type of impact of intervention for consumers	The intervention provides the inducement for consumers The intervention provides consumers with necessary financial resources
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised) Income Social status or age-related criteria Family composition Health status
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the uniform size approach.
Impact of the intervention	The intervention has a positive impact on its consumers, since it helps to increase accessibility of early childhood education for various social groups and for those most in need. Since the intervention is applicable only to children attending public early childhood education institutions, it does not have any effect on private early childhood education providers.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	There are no significant issues related with the implementation of the intervention.
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	The intervention has been implemented since 1991 and there is no apparent need or considerations of replacing or withdrawing it.

Source: BGI Consulting et al, 2017.

TABLE 85. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (6)

Title of the intervention		Compensations for families whose children are attending private early childhood education institutions
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Income support (compensation)	
Short description of the intervention	Some municipalities (the municipalities of the 4 largest cities (Vilnius, Kaunas, Klaipėda, Šiauliai) as well as municipalities of Šiauliai, Kaunas and Klaipėda districts) provide partial subsidies for the private pre-primary education institutions fees for children who are attending private pre-primary education institutions due to lack of places available in public sector pre-primary education institutions.	
Year of the introduction and end, stability of the intervention	2014 - up to now. The intervention is not stable. Its implementation procedures are being changed and discussed constantly, its scope is being expanded. The intervention is meant to be temporary until the required changes occur and its necessity is being constantly debated. However, the end of its implementation is not clearly defined.	
The broader policy objective to which intervention contributes	The main objective of pre-school education is to help a child meet his natural, cultural, as well as etnical, social and cognitive needs. The main objective of pre-primary education is to help a child to prepare for successful learning according to the primary education programme.	
Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas)	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure access to early childhood education for children who are not able to attend public early childhood education institutions and could not attend private early childhood education institutions without the support.	
The objective of the intervention and legal background	To compensate the costs of attendance of early childhood education institutions that have the right to provide early childhood education programmes and the establisher of which is not the state or the municipality. Decisions of the councils of municipalities regarding the compensation of the costs of care in private early childhood education institutions (Savivaldybių tarybų sprendimai dėl mėnesinio mokesčio už ikimokyklinio amžiaus vaikų ugdymą nevalstybinėse švietimo įstaigose, vykdančiose ikimokyklinio ugdymo programas, kompensavimo)	
Level of body responsible for policy formation	Local level	
Level of body responsible for implementation (administration) of intervention	Local level	
Name of the body responsible for implementation (administration) of intervention	Municipalities	
The main source of financing the intervention	Municipal budget	
Market side the intervention is targeted at	Demand	
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention	Private	
Types of private providers eligible to receive the intervention	Private for-profit entities	
Dominant mean of receiving the intervention for private providers	Agreements with licenced providers based on quantitative indicators	

The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of beneficiaries applying a fixed rate
The share of the funds of the intervention that is attributed to public providers	<34%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Consumers of early childhood education that are children up to 7 years old in early childhood education institutions - 116 814 children (Statistics Lithuania, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with necessary financial resources
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the uniform size approach.
Impact of the intervention	The intervention has a positive impact on its consumers, since it increases accessibility of early childhood education and helps to solve the lack of vacancies in public early childhood education institutions in largest cities. The intervention also has a positive impact on private service providers, since it encourages establishment of more private early childhood education institutions and increases the number of users of services provided by private early childhood education institutions.
Unintended impact of the intervention	The intervention increases social segregation, since the amount of support only covers a small share of private early childhood education fees and therefore can be used only by high-income families, able to cover the rest of the costs by private funds. Therefore, the intervention encourages segregation between high-income families' children attending private early childhood education institutions and middle or low-income families children attending public early childhood education institutions ¹⁵² .
Main issues related to the implementation of the intervention	The main issue regarding the implementation of the intervention is that it is considered to be a temporary measure helping to ensure adequate accessibility of early childhood education. However, it is not clearly stated when the intervention will be stopped implementing. In addition, the implementation of the intervention is a subject to constant change. This indeterminacy of the implementation of the intervention creates uncertainty for both service providers and consumers of the service.
Consistency with other related interventions	The intervention is not entirely consistent with the implementation of early childhood education/school voucher. The intervention encourages greater mobility of early childhood education consumers. However, the methodology of calculation and distribution of early childhood education voucher is not flexible enough to effectively adapt to this mobility.
Possibilities to replace/withdraw the intervention	The intervention could be withdrawn and most likely will be withdrawn once the problem of lack of vacancies in public early childhood education institutions in largest cities is solved. The intervention is seen as an alternative to establishing new early childhood education institutions, taking into account that due to the demographic changes the issue of lack of vacancies might be temporary.

Source: BGI Consulting et al, 2017.

¹⁵² Based on the information gathered during expert interviews

TABLE 86. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (7)

Title of the intervention		Regulation establishing compulsory participation in pre-primary education
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Regulation	
Short description of the intervention	Pre-primary education (1 year) is compulsory since 1 of September 2016 for children aged 6, or aged 5 in specific cases.	
Year of the introduction and end, stability of the intervention	2016 - up to now. The intervention is stable. It is relatively new, however, it is established in the main law regulating education, therefore it is expected to be long-lasting.	
The broader policy objective to which intervention contributes	The main objective of pre-primary education is to help a child to prepare for successful learning according to the primary education programme	
Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas)	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure that all children have equal starting positions for attending primary education and increase the quality of early childhood education	
The objective of the intervention and legal background	To establish the age of the start of compulsory pre-primary education Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas)	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	National level Local level	
Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania and municipalities.	
The main source of financing the intervention	Municipal budget	
Additional sources of financing the intervention	State budget	
Market side the intervention is targeted at	Demand	
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Subjects of the regulation/tax/tax exemption	Children aged 6 - 29 258 (Statistics Lithuania, 2017) or 5 – 29 298 (Statistics Lithuania, 2017) in particular cases	
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention requires certain actions from subjects	
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects	
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)	
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Groups indirectly benefiting from the regulation/tax/tax exemption	All population - 2 821 674 persons (Statistics Lithuania, 2017)	
The type of impact of intervention for beneficiaries	Participation in early childhood education is proved by various scientific studies to have a significant positive effect on childrens achievements later in life, integration in society, lower crime rates, and employment opportunities. Therefore, the whole society also benefits from higher participation rates in early childhood education, since it helps to create more inclusive, better-educated, safer society and increases economic productivity.	

Impact of the intervention	The intervention has a positive impact on its consumers, since it requires to participate in early childhood education that helps to provide equal possibilities for children from various socioeconomic backgrounds to succeed later in life, increase educational attainments, integrate in the society better and have better employment opportunities. The intervention also has a positive impact on private early childhood education providers, since it increases the overall demand for early childhood education services. Furthermore, it helps to achieve Lithuanian national target to have 95 percent participation rate in early childhood education of pupils aged between 4 years old and the starting age of compulsory education by 2020 ¹⁵³ .
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	The main issue related with the implementation of the intervention is to ensure that early childhood education institutions are ready to accept more pupils, that there are enough qualified education employees, enough vacancies in early childhood education institutions (in large cities) and ensured possibilities to safely reach early childhood education institutions (in rural areas). Since early education employees, vacancies in early childhood education institutions in large cities and possibilities to safely reach early childhood education institutions in rural areas are in general lacking ¹⁵⁴ , these issues are not easy to overcome.
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	There are currently no considerations or need to withdraw the intervention, but the compulsory age of starting pre-primary education is foreseen to be shifted to 5 years old (consequently, the primary education programme will be started at 6 years old). This change is expected to be fully implemented by 2020 ¹⁵⁵ .

Source: BGI Consulting et al, 2017.

TABLE 87. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (8)

Title of the intervention	Regulation regarding the use of early childhood education voucher
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	The expenditure of education providers eligible to be covered by the education voucher funds is restricted to the eligible expenditure listed in the government decree.
Year of the introduction and end, stability of the intervention	2011 - up to now (pre-school education). 2003 - up to now (pre-primary education). The intervention was introduced in 2011 and 2003 (pre-school and pre-primary education respectively). Previously the financing of educational activities in pre-school and pre-primary education institutions was part of a regular budgetary subsidy, therefore the regulatory intervention did not exist. Since introduction of the intervention, the implementation of it has been stable as it has not been changed significantly.
The broader policy objective to which intervention contributes	The main objective of pre-school education is to help a child meet his natural, cultural, as well as ethnic, social and cognitive needs. The main objective of pre-primary education is to help a child to prepare for successful learning according to the primary education programme

¹⁵³ European Commission: Directorate-General for Education and Culture, Education and Training Monitor 2017. Lithuania, 2017

¹⁵⁴ Based on the information gathered during expert interviews

¹⁵⁵ Based on the information gathered during expert interviews

Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure the transparent financing of educational activities in early childhood education institutions, establish the rules for using the funds.
The objective of the intervention and legal background	To establish the transparent rules of using education / school voucher. Resolution of the Government of the Republic of Lithuania on methodology of calculation and distribution of education voucher, 27 June 2001, No. 785 (LR Vyriausybės nutarimas dėl mokinio krepšelio lėšų apskaičiavimo ir paskirstymo metodikos patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level Local level
Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania and municipalities.
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Demand and supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Municipality administrations Early childhood education service providers
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission The intervention prohibits certain behaviour of the subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
Impact of the intervention	The intervention has a positive impact on its consumers, since it allows greater flexibility in choosing the early childhood education institution. Since the intervention establishes that the funding can be received by both public and private service providers, it encourages also participation of private providers in the market.
Unintended impact of the intervention	The unintended impact of the intervention is that it establishes that the education/school voucher covers the costs of provision of 4 hours of early childhood education per day. In institutions that provide longer early childhood education programmes, the remaining part should be covered by the founders' (mostly municipalities) funds. However, some municipalities do not attribute additional funds and require early childhood education institutions to carry out early childhood education programmes of 8 up to 12 hours a day with the same funds of education/school voucher meant to cover 4 hours. This situation results in lower remuneration of employees, poorer quality of early childhood education, lower or no investments in increasing the qualification of early childhood education employees, renewing educational equipment ¹⁵⁶ .

¹⁵⁶ Based on the information gathered during expert interviews

Main issues related to the implementation of the intervention	The methodology of calculation and distribution of early childhood education/school voucher established by the intervention is not flexible enough to adapt to the changes during the school year when a child changes the educational institution. The issue is especially relevant in municipalities where compensation for children attending private early childhood education institutions was established and the mobility of children from public early childhood education institutions to private early childhood education institutions has increased. Another issue is that the methodology of calculation and distribution of early childhood education voucher is a subject to constant change. In order to ensure adequate funding of early childhood education institutions in rural areas where the number of children is low, the Ministry of Education and Science of the Republic of Lithuania adopts different tariffs for calculating early childhood education/school voucher, depending on the type, size and geographical location of the educational institution. However, such differentiation of tariffs and constant changes in their values do not allow proper long-term planning and hinders the implementation of other initiatives, such as the reform of educational institutions network ¹⁵⁷ .
Consistency with other related interventions	The intervention is not consistent with Compensations for families whose children are attending private early childhood education institutions. While the compensation encourages migration from public to private institutions, the methodology of education/school voucher calculation and distribution, does not allow enough flexibility to adapt to such changes effectively ¹⁵⁸ .
Possibilities to replace/withdraw the intervention	There are no considerations or need to withdraw the intervention altogether. However, there are considerations of changing the way of implementation of the intervention. Since 2016, a pilot methodology of distributing the education/school voucher is being tested. Selected number of educational institutions are funded based on the number of class/group complects instead of the number of pupils/students, applying different rates depending on the number of students in the class/group. This methodology is expected to be more beneficial for small and medium schools. If the pilots are successful, the methodology of calculation and distribution of education/school voucher (including early childhood education school/voucher) will be changed ¹⁵⁹ . With regards to early childhood education/school voucher, the number of education hours to be funded is constantly debated. The practice of various EU countries concerning the number of hours of early childhood education funded by the state budget varies and different models are available ¹⁶⁰ . In order to better adapt to mobility of consumers changing the implementation of the intervention in line with the models used in healthcare system could be considered. For example in primary health care system the vast majority of financing for primary health care institutions is given based on the number of patients subscribed to that particular institution (therefore, it is similar to the financing of educational institutions using education/school voucher, since the amount of financing is clearly related with the number of subscribed service users). However, unlike in case of education/school voucher the number of subscribed service users in primary health care centres is revised each month, not once a year. Therefore, if a person changes a primary health care centre to which he is subscribed, the funding for that person will be transferred to his chosen primary health care institution immediately (the new subscriber will be accounted for in primary health care institutions report the next month and the institution will receive a payment for the services provided to this

¹⁵⁷ National Audit Office of Lithuania, National Audit Report. Assessment of Education Voucher Planning and Use, 3 April 2012, No. FA-P-34-1-2

¹⁵⁸ Press release of the Vilnius Municipality, 28 October 2015 <http://www.vilnius.lt/index.php?1386983483>

¹⁵⁹ Press release of the Ministry of Education and Science of the Republic of Lithuania, 25 November 2015

https://www.smm.lt/web/lt/pranesimai_spaudai/naujienos_1/skelbiamos-penkios-savivaldybes-kuriose-bus-isbandomas-klases-krepselis

¹⁶⁰ Based on the information gathered during expert interviews

new subscriber during a previous month). Such flexibility could be also introduced while distributing education/school voucher funds.

Source: BGI Consulting et al, 2017.

TABLE 88. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (9)

Title of the intervention		Education / school voucher for covering running costs of vocational education institutions
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)	
Short description of the intervention	The network of public vocational education providers is maintained by their founders providing subsidies for covering running costs in a form of education / school voucher.	
Year of the introduction and end, stability of the intervention	2011 - up to now. The intervention was introduced in 2011. Previously the financing of the running costs of vocational education institutions was part of a regular budgetary subsidy. Since introduction of the intervention, the implementation of it has been stable as it has not been changed significantly.	
The broader policy objective to which intervention contributes	The main objective of vocational education is to help a person to acquire, change and improve qualification and to prepare for participation in the labour market.	
Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas); Law on profesional education and training, 14 October 1997, No. VIII-450 (LR Profesinio mokymo įstatymas)	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure running of vocational education institutions in order to attain the objectives of vocational education and save financial resources by relating this financing with the number of students of vocational education.	
The objective of the intervention and legal background	To distribute the financing for vocational education institutions running costs based on the number of vocational education students. Resolution of the Government of the Republic of Lithuania on financing of running costs of vocational education institutions, 23 March 2011, No. 337 (LR Vyriausybės nutarimas dėl ūkio lėšų skyrimo savivaldybių profesinio mokymo įstaigoms iš atitinkamų metų valstybės biudžeto tikslinių dotacijų savivaldybių biudžetams metodikos patvirtinimo)	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	National level Local level	
Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania and municipalities.	
The main source of financing the intervention	State budget	
Market side the intervention is targeted at	Demand and supply	
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention	Public	
Types of public providers eligible to receive the intervention	Budgetary institution (-s)	
Dominant mean of receiving the intervention for public providers	Agreements with licenced providers based on quantitive indicators	

The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of beneficiaries applying a fixed rate.
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Consumers of formal vocational education are students in initial vocational education and training - 47 661 (Review of the state of vocational education, 2016/2017)
The type of impact of intervention for consumers	The intervention provides consumers with necessary infrastructure
Level of coercion at consumers' level	The use of intervention is compulsory for the consumers
Consumers' selection criteria	Inclusive (uniform)
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the uniform size approach.
Impact of the intervention	The intervention has a positive impact on its consumers, since it ensures running of vocational education institutions. However, the intervention has no impact on private service providers, since only public service providers are eligible to receive the intervention.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	There are no significant issues related with the implementation of the intervention.
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	There are currently no considerations or need to withdraw the intervention altogether. However, in the new Law on Vocational Education approved by the Parliament of the Republic of Lithuania on 14 December 2017, the legal status of all vocational education providers will be change to public non-profit organisation(s) which will have an impact on financing of vocational education institutions. It is expected that it will help to attract more private funding and will make the vocational education institutions more independent ¹⁶¹ .

Source: BGI Consulting et al, 2017

TABLE 89. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (10)

Title of the intervention	Education / school voucher for vocational education students
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Educational / school voucher is a subsidy for each student in vocational (formal vocational covering part of ISCED 2, 3 and ISCED 4 levels) education, the amount of which is calculated each year according to the methodology approved by the government decree based on the cost of one contact teaching hour.
Year of the introduction and end, stability of the intervention	2004 - up to now. The intervention was introduced in 2004. Previously the financing of vocational education was part of a regular budgetary subsidy. Since introduction of the intervention, the implementation of it has been stable as it has not been changed significantly.

¹⁶¹ Press release of the President of the Republic of Lithuania, 14 December 2017, <http://www.regionunaujienos.lt/atveriamas-kelias-profesinio-mokslo-pertvarkai/>

The broader policy objective to which intervention contributes	The main objective of vocational education is to help a person to acquire, change and improve qualification and to prepare for participation in the labour market.
Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas); Law on vocational education and training, 14 October 1997, No. VIII-450 (LR Profesinio mokymo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure the financing of educational activities in vocational education institutions, increase the competition among them and ensure higher quality of vocational education.
The objective of the intervention and legal background	To distribute the funds for covering educational needs of vocational education consumers. Resolution of the Government of the Republic of Lithuania on methodology of calculation and distribution of vocational education voucher, 8 December 2008, No. 1320 (LR Vyriausybės nutarimas dėl profesinio mokymo lėšų skaičiavimo vienam mokiniui, kuris mokosi pagal formaliojo profesinio mokymo programą, metodikos patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level Local level
Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania and municipalities.
The main source of financing the intervention	State budget
Additional sources of financing the intervention	Municipal budget State insurance fund
Market side the intervention is targeted at	Demand and supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	Agreements with licenced providers based on quantitative indicators
Types of private providers eligible to receive the intervention	Private for-profit entities
Dominant mean of receiving the intervention for private providers	Agreements with licenced providers based on quantitative indicators
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of beneficiaries applying a fixed rate
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Consumers of formal vocational education are students in initial vocational education and training - 47 661 (Review of the state of vocational education, 2016/2017)
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is compulsory for the consumers
Consumers' selection criteria	Inclusive (uniform)
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the uniform size approach.

Impact of the intervention	The impact of the intervention on its consumers is positive, since it ensures equal accessibility to vocational education for all society groups and throughout the country. It also increases the flexibility of consumers in choosing the most suitable vocational education institution. Since the intervention can be received by both public and private service providers, it also encourages development of private service providers.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	The main issue related with the implementation of the intervention is that even though education/school vouchers for vocational education students and for covering running costs of vocational education institutions are meant to increase transparency of the funding of vocational education, the funding is not distributed equally among vocational education providers. Due to the methodologies of calculation of these vouchers and due to the additional funding from the State and municipalities budgets received by vocational education institutions as well as by different amount of private funds received by vocational education institutions, the differences among the funding per student across the country are vast ¹⁶² .
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	There are no considerations or need to withdraw the intervention altogether. However, in the new Law on Vocational Education approved by the Parliament of the Republic of Lithuania, the legal status of all vocational education providers will be change to public non-profit organisation(s), which will have an impact on financing of vocational education institutions. It is expected that it will help to attract more private funding and will make the vocational education institutions more financially independent ¹⁶³ .

Source: BGI Consulting et al, 2017.

TABLE 90. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (11)

Title of the intervention		ESIF subsidies for improving quality and accessibility of vocational education
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Subsidy for improving performance of the public service	
Short description of the intervention	Some measures funded by ESIF are aimed at maintaining and increasing the quality and accessibility of public vocational education. Investments are planned to be made in developing the competence of teachers, the content of education, the opportunities of formal and non-formal education, establishing and introducing new forms of education organisation, increasing the accessibility of education.	
Year of the introduction and end, stability of the intervention	2014 – 2023. The implementation of the intervention depends on ESIF allocations.	
The broader policy objective to which intervention contributes	The main objective of vocational education is to help a person to acquire, change and improve qualification and to prepare for participation in the labour market	

¹⁶² Ministry of Education and Science of the Republic of Lithuania, Qualifications and Vocational Education and Training Development Centre, Review of the Condition of Vocational Education 2017, 2017

¹⁶³ Press release of the President of the Republic of Lithuania, 14 December 2017, <http://www.regionunaujienos.lt/atveriamas-kelias-profesinio-mokslo-pertvarkai/>

Legal background for the establishment of the intervention	Operational Programme for EU Structural Funds Investments for 2014-2020, September 2014, CCI: 2014LT16MAOP001 (2014-2020 m. Europos Sąjungos fondų investicijų veiksmų programa)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To increase the attractiveness and compliance of vocational education and training with the labour market needs, increase the competitiveness of employed human resources and ensure possibilities to adapt to the needs of the economy.
The objective of the intervention and legal background	To finance training of private and public sector employees, develop vocational education information systems, implement external and internal evaluation of vocational education institutions, develop qualifications of general and vocational education teachers, increase the internationalisation of vocational education system. Order of the Minister of the Ministry of Economy of the Republic of Lithuania on terms of project financing (measure No. 09.4.3.-ESFA-K-827)(LR Ūkio ministro patvirtintas finansavimo sąlygų aprašas) Orders of the Minister of the Ministry of Education and Science of the Republic of Lithuania on terms of project financing (measures No. 09.4.2-ESFA-K-737; No. 09.4.1-ESFA-V-713; No. 09.2.1-ESFA-V-727; No. 09.4.2-ESFA-V-715; No. 09.4.2-ESFA-K-714) (LR Švietimo ir mokslo ministro patvirtinti priemonių finansavimo sąlygų aprašai)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	European Social Fund Agency
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	State budget Private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Public administration institution (-s) directly Budgetary institution (-s) Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	State planning
Other means of receiving the intervention for public providers	Project contest
Types of private providers eligible to receive the intervention	Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Consumers of formal vocational education are students in initial vocational education and training - 47 661 (Review of the state of vocational education, 2016/2017). Consumers of continuous vocational education and training - 43 243 (Review of the state of vocational education, 2017 I-II quarter).

Impact of the intervention	It is difficult to assess the impact of the intervention, since it has only recently started to be implemented. However, it is expected that the impact of the intervention on its consumers will be positive, since it will allow to improve professional competences of private and public sector employees, increase the competences of teachers working in vocational education institutions, increase the internationalisation of vocational education, establish quality control measures of the content of vocational education. Since the intervention can be received by both public and private service providers, it will also encourage more intensive participation of private providers in the service provision market.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	The main issue related with the intervention is that its implementation depends on availability of ESIF funds and is not stable. There are currently no considerations on how the ESIF investments will be changed by national funds after 2020. Furthermore, the quality, efficiency and sustainability of the products created by the intervention are not ensured. For example, during the period of 2007-2013 ESIF investments were used to prepare 10 professional standards and 76 modular vocational education programmes ¹⁶⁴ . However, only one of the prepared professional standards has been approved yet and only 46 modular programmes are currently being implemented ¹⁶⁵ . In addition, the adequate sequence of activities funded by ESIF funds was not ensured. Modular vocational education programmes were being prepared at the same time as professional standards and educational measures for implementing modular programmes were prepared earlier than the programmes themselves ¹⁶⁶ .
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	The intervention could be replaced by similar interventions funded by national funds. However, currently there are no such plans. Furthermore, the implementation of the intervention should be amended in order to ensure that the products created using ESIF funds are used efficiently, are of high quality and their further sustainability is ensured.

Source: BGI Consulting et al, 2017.

TABLE 91. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (12)

Title of the intervention	ESIF subsidies for upgrading infrastructure of vocational education
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Some of ESIF funded measures are aimed at providing subsidies for upgrading the infrastructure of vocational education.
Year of the introduction and end, stability of the intervention	2014 – 2023. The implementation of the intervention depends on ESIF allocations.

¹⁶⁴ National Audit Office of Lithuania, National Audit Report. How are the Possibilities of Vocational Education Used, 22 February 2016, No. VA-P-50-1-1

¹⁶⁵ Ministry of Education and Science of the Republic of Lithuania, Qualifications and Vocational Education and Training Development Centre, Review of the Condition of Vocational Education 2017, 2017

¹⁶⁶ National Audit Office of Lithuania, National Audit Report. How are the Possibilities of Vocational Education Used, 22 February 2016, No. VA-P-50-1-1

The broader policy objective to which intervention contributes	The main objective of vocational education is to help a person to acquire, change and improve qualification and to prepare for participation in the labour market.
Legal background for the establishment of the intervention	Operational Programme for EU Structural Funds Investments for 2014-2020, September 2014, CCI: 2014LT16MAOP001 (2014-2020 m. Europos Sąjungos fondų investicijų veiksmų programa)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To increase the quality and accessibility of vocational education and training by investing in infrastructure
The objective of the intervention and legal background	To upgrade the vocational education infrastructure and develop sectoral practical training centres. Orders of the Minister of the Ministry of Education and Science of the Republic of Lithuania on terms of project financing (measures No. 09.1.2-CPVA-K-722; No. 09.1.2-CPVA-V-721) (LR Švietimo ir mokslo ministro patvirtinti priemonių finansavimo sąlygų aprašai)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Central Project Management Agency
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	State budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	State planning
Other means of receiving the intervention for public providers	Project contest
Types of private providers eligible to receive the intervention	Private for-profit entities
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Consumers of formal vocational education are students in initial vocational education and training - 47 661 (Review of the state of vocational education, 2016/2017). Consumers of continuous vocational education and training - 43 243 (Review of the state of vocational education, 2017 I-II quarter).
Impact of the intervention	It is difficult to assess the impact of the intervention, since it has only recently started to be implemented. However, it is expected that the impact of the intervention on its consumers will be positive, since it will allow to renew and develop the infrastructure of vocational education as well as develop sectoral practical training centres. Since the intervention can be received by both public and private providers, it will encourage the development of services provided by private service providers as well.

Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	The main issue related with the intervention is that its implementation depends on availability of ESIF funds and is not stable. There are currently no considerations on how the ESIF investments will be changed by national funds after 2020. Furthermore, the sustainability and efficient use of the infrastructure created by ESIF investments is not ensured. For example, sectoral practical training centres were established using ESIF funds during the period of 2007-2013, however the expected intensity of the use of the infrastructure created was not attained in any of the established sectoral practical training centres. In one third of sectoral practical training centres only a third of the expected intensity of the use of infrastructure created was achieved. One sectoral practical training centre has not carried out any vocational education programmes for a year since it did not have a licence. Therefore, the infrastructure created was not used at all despite the fact that in the region there is another vocational education institution carrying out vocational education programmes but not having the necessary infrastructure ¹⁶⁷ . It is also important to note that all these issues arise due to the lack of competences of vocational education institutions administrations to attract new users, and foresee effective measures to increase the efficiency of the use of new infrastructure. Despite these issues related with the efficiency of the use of the sectoral practical centres, ESIF funds are foreseen to be further invested in the development of them.
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	The intervention could be replaced by similar interventions funded by national funds. However, currently there are no such plans. Furthermore, based on the experience of the previous ESIF implementation period, the need to continue the implementation of the intervention should be reconsidered. In case it was decided that further similar investments are still needed, the implementation of the intervention should be amended in order to ensure that the intensity of the use of the created or renewed infrastructure will reach the level foreseen.

Source: BGI Consulting et al, 2017.

TABLE 92. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (13)

Title of the intervention	Regulation regarding the licencing of formal vocational education providers
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	All formal vocational education providers must be licenced in order to carry out formal vocational education activities.
Year of the introduction and end, stability of the intervention	1991 - up to now. The intervention is stable. It has existed since 1991 with no major changes or abolishments.
The broader policy objective to which intervention contributes	The main objective of vocational education is to help a person to acquire, change and improve qualification and to prepare for participation in the labour market.

¹⁶⁷ National Audit Office of Lithuania, National Audit Report. How are the Possibilities of Vocational Education Used, 22 February 2016, No. VA-P-50-1-1

Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas); Law on vocational education and training, 14 October 1997, No. VIII-450 (LR Profesinio mokymo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure the sufficient quality of vocational education
The objective of the intervention and legal background	To provide licences for formal vocational education providers. Resolution of the Government of the Republic of Lithuania on instructions of licencing of formal vocational education providers, 29 June 2004, No. 822 (LR Vyriausybės nutarimas dėl formaliojo profesinio mokymo licencijavimo taisyklių patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Formal vocational education providers
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups indirectly benefiting from the regulation/tax/tax exemption	All population - 2 821 674 persons (Statistics Lithuania, 2017)
The type of impact of intervention for beneficiaries	The intervention ensures at least minimum quality of vocational education. Since vocational education has a positive impact on the overall population, as it helps to increase employment and ensure economic growth, ensurance of the quality of vocational education also has a positive impact on the overall population.
Impact of the intervention	The intervention has a positive impact on its consumers, since it ensures at least minimum quality of vocational education.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	One of the main issues related with the licencing of vocational education institutions is that the licence to vocational education providers is issued or not issued based on the conclusions of expertise carried out by the Qualifications and Vocational Education and Training Development Centre (QVETDC). However, vocational education institutions need to pay only for the licence, but the costs of carrying out the expertise are covered by the QVETDC itself. This situation in some cases leads to the inefficient use of QVETDC resources, since the expertise must be carried out also for institutions, which are lacking the necessary resources and are not prepared to carry out vocational education programmes. Even though such institutions are concluded to not be eligible to be licenced, the costs of the expertise still need to be covered by QVETDC. Another issue is that due to the lack of funds QVETDC is not able to involve in the process of expertise relevant social partners or experts and therefore the expertise must be carried out exclusively by QVETDC employees. Furthermore, even though the Ministry of Education and Science of the Republic of Lithuania is obliged to carry out the supervision of the quality of activities carried out in licenced institutions, due to the lack of human

	resources such systematic supervision is not in place and the supervisions are carried out only in case of complaints received ¹⁶⁸ .
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	There are currently no considerations or need to withdraw the intervention altogether. However, its implementation should be amended ensuring enough funding for expertise activities, that would allow involvement also of social partners and experts in the process. In addition, certain barriers should be established that would discourage institutions not having enough resources to carry out vocational education from applying for an expertise and thus using the resources of QVETDC inefficiently. Furthermore, the supervision of the quality of activities of licenced institutions should be more systematic. The new Law on Vocational Education approved by the Parliament of the Republic of Lithuania on 14 December 2017 establishes the obligation to carry out external audit of vocational education institutions every 5 years and other quality control measures ¹⁶⁹ . Therefore, it is expected that the implementation of the intervention will be improved.

Source: BGI Consulting et al, 2017.

TABLE 93. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (14)

Title of the intervention	Regulation regarding the use of vocational education voucher
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	The funds of the vocational education voucher can be used only for purposes established in the Government Decree.
Year of the introduction and end, stability of the intervention	2004 - up to now. The intervention was introduced in 2004. Previously the financing of vocational education was part of a regular budgetary subsidy, therefore, the regulation did not exist. Since introduction of the intervention, the implementation of it has been stable as it has not been changed significantly.
The broader policy objective to which intervention contributes	The main objective of vocational education is to help a person to acquire, change and improve qualification and to prepare for participation in the labour market.
Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas); Law on vocational education and training, 14 October 1997, No. VIII-450 (LR Profesinio mokymo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure the transparent financing of educational activities in vocational education institutions, establish the rules for using the funds.
The objective of the intervention and legal background	To establish transparent rules of determining the size of vocational education voucher. Resolution of the Government of the Republic of Lithuania on methodology of calculation and distribution of vocational education voucher, 8 December 2008, No. 1320 (LR Vyriausybės nutarimas dėl profesinio mokymo lėšų skaičiavimo vienam mokiniui, kuris mokosi pagal formaliojo profesinio mokymo programą, metodikos patvirtinimo)

¹⁶⁸ Ministry of Education and Science of the Republic of Lithuania, Qualifications and Vocational Education and Training Development Centre, Review of the Condition of Vocational Education 2017, 2017

¹⁶⁹ Press release of the President of the Republic of Lithuania <http://www.regionunaujienos.lt/atveriamas-kelias-profesinio-mokslu-pertvarkai/>

Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level Local level
Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania and municipalities.
The main source of financing the intervention	State budget
Additional sources of financing the intervention	Municipal budget State insurance fund
Market side the intervention is targeted at	Demand and supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Municipality administrations Vocational education service providers
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission The intervention prohibits certain behaviour of the subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
Impact of the intervention	The impact of the intervention on its consumers is positive, since it ensures equal accessibility to vocational education for all society groups and throughout the country. Since the intervention can be received by both public and private service providers, it also encourages development of private service providers.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	The main issue related with the implementation of the intervention is that even though education/school vouchers for vocational education students and for covering running costs of vocational education, institutions are meant to increase transparency of the funding of vocational education, the funding is not distributed equally among vocational education providers. Due to the methodologies of calculation of these vouchers and due to the additional funding from the State and municipalities budgets received by vocational education institutions as well as by different amount of private funds received by vocational education institutions, the differences among the funding per student across the country are vast ¹⁷⁰ .
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	There are no considerations or need to withdraw the intervention altogether. However, in the new Law on Vocational Education approved by the Parliament of the Republic of Lithuania, the legal status of all vocational education providers will be change to public non-profit organisations, which will have an impact on financing of vocational education institutions. It is expected that it will help to attract more private funding and will make the vocational education institutions more independent ¹⁷¹ .

Source: BGI Consulting et al, 2017.

¹⁷⁰ Ministry of Education and Science of the Republic of Lithuania, Qualifications and Vocational Education and Training Development Centre, Review of the Condition of Vocational Education 2017, 2017

¹⁷¹ Press release of the President of the Republic of Lithuania <http://www.regionunaujienos.lt/atveriamas-kelias-profesinio-mokslo-pertvarkai/>

TABLE 94. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (15)

Title of the intervention		Subsidy for covering public educational institutions providing non-formal children education maintenance cost
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)	
Short description of the intervention	The network of public general education institutions providing non-formal children education and specialised non-formal children education institutions is developed and maintained by their founders (municipalities or state) providing subsidies for the educational institutions maintenance costs (including wages of technical assistance employees).	
Year of the introduction and end, stability of the intervention	1991 - up to now. The implementation of the intervention is stable. The notion that the founder of the non-formal children education institution must cover its running costs has remained unchanged.	
The broader policy objective to which intervention contributes	The main objective of the non-formal children education is to develop childrens' competences through self-realisation and help the children to integrate themselves into society.	
Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas)	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure operation of public non-formal children education institutions in order to attain the objectives of non-formal children education.	
The objective of the intervention and legal background	To cover the running costs of budgetary non-formal children education institutions. Law on education, 25 June 1991, No. I-1489 (LR švietimo įstatymas); orders of the directors of administrations of municipalities regarding the financing of budgetary institutions (Savivaldybių administracijos direktorių įsakymai dėl ūkio lėšų iš savivaldybės biudžeto apskaičiavimo tvarkos aprašų)	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	National level Local level	
Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania and municipalities.	
The main source of financing the intervention	Municipal budget	
Additional sources of financing the intervention	State budget	
Market side the intervention is targeted at	Supply	
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention	Public	
Types of public providers eligible to receive the intervention	Budgetary institution (-s)	
Dominant mean of receiving the intervention for public providers	Annual budgetary financing	
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the need of financing for covering the running costs of the institution	
The share of the funds of the intervention that is attributed to public providers	100%	

DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Consumers of non-formal children education are children participating in non-formal children education - 102 491 (Statistics Lithuania, 2016)
Impact of the intervention	The intervention has a positive impact on its consumers, since it ensures operation of educational institutions providing non-formal children education. Since this operation is ensured using state and municipalities funds, the fees paid by the consumers of non-formal children education can be lowered, thus increasing the accessibility of non-formal children education. However, since the intervention can be received by public providers only, it does not encourage development of non-formal children education services provided by private service providers.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	The main issue related with the implementation of the intervention is that the calculation and distribution of the subsidy is not related with the number of consumers of non-formal children education or with the results of non-formal children education. This causes the inefficiency of the use of the funding since institutions not attracting consumers or providing services of low quality can still receive the funding and continue operating.
Consistency with other related interventions	The intervention is partially inconsistent with the non-formal children education/school voucher. While the non-formal children education/school voucher encourages efficiency of the service provision, providing the funds only to those providers that attract customers, the intervention covering the running costs finances all budgetary non-formal children education institutions not taking into account their efficiency or other criteria.
Possibilities to replace/withdraw the intervention	There are currently no considerations or need to replace the intervention. However, its implementation could be amended by establishing the linkage between the calculation and distribution of the subsidy and the number of consumers of the service in the educational institution or the quality criteria of the programmes carried out.

Source: BGI Consulting et al, 2017.

TABLE 95. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (16)

Title of the intervention	Education / school voucher for general (primary, lower secondary and upper secondary (except for vocational)) education students
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Part of the funds of general education / school voucher can be used for covering the costs of education complementary to formal education, education school voucher can also be used for covering the costs of non-formal children education provided in general education institutions.
Year of the introduction and end, stability of the intervention	2002 - up to now. The implementation of the intervention is stable. It was introduced in 2002 and has not been changed significantly since then.
The broader policy objective to which intervention contributes	The main objective of the non-formal children education is to develop childrens' competences through self-realisation and help the children to integrate themselves into society.

Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure financing of non-formal children education and increase accessibility of it
The objective of the intervention and legal background	To distribute the funds for covering educational needs of non-formal children education consumers. Resolution of the Government of the Republic of Lithuania on methodology of calculation and distribution of education voucher, 27 June 2001, No. 785 (LR Vyriausybės nutarimas dėl mokinio krepšelio lėšų apskaičiavimo ir paskirstymo metodikos patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level Local level
Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania and municipalities.
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Demand and supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	Agreements with licenced providers based on quantitative indicators
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of beneficiaries applying a fixed rate. The size of the financial transfer is calculated based on the order accepted by each municipality.
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Consumers of non-formal children education are children participating in non-formal children education - 102 491 (Statistics Lithuania, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the uniform size approach
Impact of the intervention	The intervention has a positive impact on its consumers, since it ensures the possibilities to participate in non-formal children education carried out in general education institutions free of charge and ensures availability of long-term education complementary to formal education programmes that are aimed at developing the specific skills and talents of children. The intervention increases accessibility of non-formal children education carried out in general education institutions and education complementary to formal education for all society groups.
Unintended impact of the intervention	There is no unintended impact of the intervention.

Main issues related to the implementation of the intervention	The main issue related with the implementation of the intervention is that even though municipalities and general education providers are obliged to use part of general education/school voucher funds for funding non-formal children education activities in general education institutions (recommended amount per student is 3,03 Eur per year) and education complementary to formal education programmes (recommended amount per student is 1,48 Eur per month), not all municipalities and general education institutions use these funds for such purposes. Some municipalities, due to lack of funds to carry out general education programmes in general education institutions having low numbers of students, redistribute the funds dedicated to non-formal children education for implementation of general education programmes. Some general education institutions instead of carrying out non-formal education activities, use the funds of general education/school voucher to finance activities complementing formal education (for example for additional lessons of certain subjects, helping to prepare for the exams) ¹⁷² .
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	There are no considerations or need to withdraw the intervention altogether. However, its implementation should be amended by ensuring effective supervision of the use of general education/school voucher funds dedicated to the implementation of non-formal children education programmes, ensuring that these funds are used according to their purpose by municipalities and general education institutions.

Source: BGI Consulting et al, 2017.

TABLE 96. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (17)

Title of the intervention	Education / school voucher for non-formal children education students
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Education / school voucher is a subsidy for each student in non-formal education who is enrolled in general education school and participates in non-formal education programme accredited by the municipality. The amount of education voucher can vary from 10 to 20 EUR per student, depending on the municipality.
Year of the introduction and end, stability of the intervention	2015 - up to now. The implementation of the intervention is stable. Even though the intervention has been introduced quite recently, the implementation of it has not been changed significantly since its introduction
The broader policy objective to which intervention contributes	The main objective of the non-formal children education is to develop childrens' competences through self-realisation and help the children to integrate themselves into society.
Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas)

¹⁷² National Audit Office of Lithuania, National Audit Report. How is the Non-formal Children Education Organised, 4 February 2015, No. VA-P-50-3-1

The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure financing of non-formal children education and increase accessibility of it.
The objective of the intervention and legal background	To distribute the funds for partial compensation of non-formal children education costs for its consumers. Resolution of the Government of the Republic of Lithuania on methodology of calculation and distribution of education voucher, 27 June 2001, No. 785 (LR Vyriausybės nutarimas dėl mokinio krepšelio lėšų apskaičiavimo ir paskirstymo metodikos patvirtinimo); Order of the Minister of Education and Science of the Republic of Lithuania on distribution and use of non-formal children education voucher, 5 January 2016, No. V-1 (LR Švietimo ir mokslo ministro įsakymas dėl neformaliojo vaikų švietimo lėšų skyrimo ir panaudojimo tvarkos aprašo patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level Local level
Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania and municipalities.
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Demand and supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s) Non-profit organisation(s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Agreements with licenced providers based on quantitative indicators
Types of private providers eligible to receive the intervention	Private for-profit entities Private NGOs Private persons
Dominant mean of receiving the intervention for private providers	Agreements with licenced providers based on quantitative indicators
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of beneficiaries applying a fixed rate.
The share of the funds of the intervention that is attributed to public providers	34-66%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Consumers of non-formal children education are children participating in non-formal children education - 102 491 (Statistics Lithuania, 2016)
The type of impact of intervention for consumers	The intervention provides the inducement for consumers The intervention provides consumers with necessary financial resources
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the uniform size approach
Impact of the intervention	The intervention has a positive impact on its consumers, since it increases the accessibility of non-formal children education for various social groups and throughout the country. The intervention also helped to increase the share of children involved in non-formal children education (in 2014-2015 the

	share of children involved in non-formal children education programmes was around 30 percent, while in 2016 the share was 55.83 percent) ¹⁷³ . Since the intervention can be received by both public and private service providers, it also has a positive effect on increasing the number of private service providers and ensuring the variety and accessibility of non-formal children education programmes ¹⁷⁴ .
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	One of the issues related with the implementation of the intervention is that the funds attributed to its implementation have been cut down in the year 2017 and are not enough to cover the demand for the intervention ¹⁷⁵ . However, it is expected to be increased in 2018. Furthermore, the non-formal children education voucher can be received only by children attending general education institutions. It is not clear why the voucher cannot be received by children in early childhood education institutions ¹⁷⁶ .
Consistency with other related interventions	The intervention is partially inconsistent with the subsidy for covering running costs of non-formal children education institutions. While the non-formal children education/school voucher encourages efficiency of the service provision, providing the funds only to those providers that attract customers, the intervention covering the running costs finances all budgetary non-formal children education institutions not taking into account their efficiency or other criteria.
Possibilities to replace/withdraw the intervention	There are no considerations or need to withdraw the intervention altogether. Conversely, the intervention is planned to be made permanent ensuring adequate and continuous financing for its implementation ¹⁷⁷ . There are also plans to expand the scope of the intervention and apply it not only to children attending general education institutions, but also to children attending early childhood education institutions ¹⁷⁸ .

Source: BGI Consulting et al, 2017.

TABLE 97. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (18)

Title of the intervention	ESIF subsidies for improving quality and accessibility of non-formal children education
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Some of ESIF funded measures are aimed at providing subsidies for increasing the quality and accessibility of non-formal children education.

¹⁷³ Order of the Minister of the Ministry of Education and Science of the Republic of Lithuania regarding the working plan of the Ministry of Education and Science of the Republic of Lithuania 2016, 2017 (LR Švietimo ir mokslo ministro įsakymai dėl Lietuvos respublikos švietimo ir mokslo ministerijos 2016 ir 2017 metų darbų plano patvirtinimo)

¹⁷⁴ Decision of the Parliament of the Republic of Lithuania regarding the continuity and development of non-formal children education voucher, 28 September 2017, No. XIII-659 (LR Seimo nutarimas dėl neformaliojo vaikų švietimo krepšelio finansavimo tęstinumo ir plėtros)

¹⁷⁵ Decision of the Parliament of the Republic of Lithuania regarding the continuity and development of non-formal children education voucher, 28 September 2017, No. XIII-659 (LR Seimo nutarimas dėl neformaliojo vaikų švietimo krepšelio finansavimo tęstinumo ir plėtros)

¹⁷⁶ Based on the information gathered during expert interviews

¹⁷⁷ Decision of the Parliament of the Republic of Lithuania regarding the continuity and development of non-formal children education voucher, 28 September 2017, No. XIII-659 (LR Seimo nutarimas dėl neformaliojo vaikų švietimo krepšelio finansavimo tęstinumo ir plėtros)

¹⁷⁸ Based on the information gathered during expert interviews

Year of the introduction and end, stability of the intervention	2014 – 2023. The implementation of the intervention depends on ESIF allocations.
The broader policy objective to which intervention contributes	The main objective of the non-formal children education is to develop childrens' competences through self-realisation and help the children to integrate themselves into society.
Legal background for the establishment of the intervention	Operational Programme for EU Structural Funds Investments for 2014-2020, September 2014, CCI: 2014LT16MAOP001 (2014-2020 m. Europos Sąjungos fondų investicijų veiksmų programa)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To reduce the number of early school leavers by increasing the quality and accessibility of non-formal children education.
The objective of the intervention and legal background	To invest in increasing the variety and accessibility of non-formal children education programmes as well as implement preventive and health strengthening programmes in general education schools. Order of the Minister of the Ministry of Education and Science of the Republic of Lithuania on terms of project financing (measure No. 09.2.2-ESFA-V-729) (LR Švietimo ir mokslo ministro patvirtintas priemonių finansavimo sąlygų aprašas)
Clarity of definition of the main objective of the intervention	The main objective of the intervention is clearly defined.
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	European Social Fund Agency
The main source of financing the intervention	ESIF funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	State planning
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers.
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Consumers of non-formal children education are children participating in non-formal children education - 102 491 (Statistics Lithuania, 2016)
Impact of the intervention	It is difficult to assess the impact of the intervention, since all the projects funded by ESIF are still being implemented. However, it is expected that the implementation of this intervention will have a positive impact on its consumers. The intervention will allow to develop accessibility of non-formal children education for various social groups and across the country (especially in regions), to ensure possibilities for children to participate in non-formal children education activities during the summer break or specialised preventive programmes in general education schools.
Unintended impact of the intervention	There is no unintended impact of the intervention.

Main issues related to the implementation of the intervention	The main issue related with the intervention is that its implementation depends on availability of ESIF funds and is not stable. There are currently no considerations on how the ESIF investments will be changed by national funds after 2020.
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	The intervention could be replaced by similar interventions funded by national funds. However, currently there are no such plans.

Source: BGI Consulting et al, 2017.

TABLE 98. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (19)

Title of the intervention	ESIF subsidies for upgrading infrastructure of non-formal children education
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Some of ESIF funded measures are aimed at providing subsidies for upgrading the infrastructure of non-formal children education.
Year of the introduction and end, stability of the intervention	2014 – 2023. The implementation of the intervention depends on ESIF allocations.
The broader policy objective to which intervention contributes	The main objective of the non-formal children education is to develop childrens' competences through self-realisation and help the children to integrate themselves into society.
Legal background for the establishment of the intervention	Operational Programme for EU Structural Funds Investments for 2014-2020, September 2014, CCI: 2014LT16MAOP001 (2014-2020 m. Europos Sąjungos fondų investicijų veiksmų programa)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To increase the effectiveness of the network of non-formal children education providers by investing in infrastructure.
The objective of the intervention and legal background	To develop, renew and modernise the infrastructure of non-formal children education. Orders of the Minister of the Ministry of Education and Science of the Republic of Lithuania on terms of project financing (measures No. 09.1.3-CPVA-K-723; No. 09.1.3-CPVA-R-725) (LR Švietimo ir mokslo ministro patvirtintas priemonių finansavimo sąlygų aprašas)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Central Project Management Agency
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	State budget Municipal budget Private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private

Types of public providers eligible to receive the intervention	Public administration institution (-s) directly Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	Regional planning
Other means of receiving the intervention for public providers	Project contest
Types of private providers eligible to receive the intervention	Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers.
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Consumers of non-formal children education are children participating in non-formal children education - 102 491 (Statistics Lithuania, 2016)
Impact of the intervention	It is difficult to assess the impact of the intervention since ESIF funded measures are currently just starting or not yet started to be implemented. However, it is expected that the intervention will have a positive impact on its consumers since it will allow to renew the infrastructure of non-formal children education institutions. Since private providers are also eligible to receive the intervention, it will encourage the development of private service providers and will increase the scope and variety of non-formal children education programmes available.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	The main issue related with the intervention is that its implementation depends on availability of ESIF funds and is not stable. There are currently no considerations on how the ESIF investments will be changed by national funds after 2020.
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	The intervention could be replaced by similar interventions funded by national funds. However, currently there are no such plans.

Source: BGI Consulting et al, 2017.

TABLE 99. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (20)

Title of the intervention	Regulation regarding the use of general education voucher
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	The expenditure of education providers eligible to be covered by the education voucher funds is restricted to the eligible expenditure listed in the government decree.
Year of the introduction and end, stability of the intervention	2001 - up to now. The implementation of the intervention is stable. It was introduced in 2002 and has not been changed significantly since then.

The broader policy objective to which intervention contributes	The main objective of the non-formal children education is to develop childrens' competences through self-realisation and help the children to integrate themselves into society.
Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure the transparent financing of non-formal educational activities in general education institutions, establish the rules for using the funds.
The objective of the intervention and legal background	To establish the transparent rules of using education / school voucher. Resolution of the Government of the Republic of Lithuania on methodology of calculation and distribution of education voucher, 27 June 2001, No. 785 (LR Vyriausybės nutarimas dėl mokinio krepšelio lėšų apskaičiavimo ir paskirstymo metodikos patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level Local level
Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania and municipalities.
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Demand and supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Municipality administrations General education providers carrying out non-formal children education activities Providers of education complementary to formal education
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission The intervention prohibits certain behaviour of the subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups indirectly benefiting from the regulation/tax/tax exemption	All population - 2 821 674 persons (Statistics Lithuania, 2017)
The type of impact of intervention for beneficiaries	Non-formal children education helps to develop personality, responsibility and independence of children, increase social inclusion and strengthen civil society as well as to prevent violence and addictions. Since this intervention increases accessibility of non-formal education it allows to realise the benefits of non-formal children education. Those benefits in turn are experienced by all population.
Impact of the intervention	The intervention has a positive impact on its consumers, since it ensures transparency of funding of non-formal children education and increases accessibility of it.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	The main issue related with the implementation of the intervention is that even though municipalities and general education providers are obliged to use part of general education/school voucher funds for funding non-formal children education programmes in general education institutions and education complementary to formal education programmes, not all municipalities and general education institutions use these funds for such purposes.

	Some municipalities, due to lack of funds to carry out general education programmes in general education institutions having low numbers of students, redistribute the funds dedicated to non-formal children education for implementation of general education programmes. Some general education institutions instead of carrying out non-formal education activities, use the funds of general education/school voucher to finance activities complementing formal education (for example for additional lessons of certain subjects, helping to prepare for the exams) ¹⁷⁹ .
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	There are no considerations or need to withdraw the intervention. However, its implementation should be amended by ensuring effective supervision of the use of general education/school voucher funds dedicated to the implementation of non-formal children education programmes, ensuring that these funds are used according to their purpose by municipalities and general education institutions.

Source: BGI Consulting et al, 2017.

TABLE 100. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (21)

Title of the intervention	Regulation regarding the use of non-formal children education voucher
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	The non-formal children education providers and consumers of non-formal children education must meet certain requirements listed in the government decree.
Year of the introduction and end, stability of the intervention	2016 - up to now. The implementation of the intervention is stable. Even though the intervention has been introduced quite recently, it has not been changed significantly since its introduction
The broader policy objective to which intervention contributes	The main objective of the non-formal children education is to develop childrens' competences through self-realisation and help the children to integrate themselves into society.
Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure the transparent financing of educational activities in non-formal children education institutions, establish the rules for using the funds.
The objective of the intervention and legal background	To establish the transparent rules of using non-formal children education / school voucher. Resolution of the Government of the Republic of Lithuania on methodology of calculation and distribution of education voucher, 27 June 2001, No. 785 (LR Vyriausybės nutarimas dėl mokinio krepšelio lėšų apskaičiavimo ir paskirstymo metodikos patvirtinimo); Order of the Minister of Education and Science of the Republic of Lithuania on distribution and use of non-formal children education voucher, 5 January

¹⁷⁹ National Audit Office of Lithuania, National Audit Report. How is the Non-formal Children Education Organised, 4 February 2015, No. VA-P-50-3-1

	2016, No. V-1 (LR Švietimo ir mokslo ministro įsakymas dėl neformaliojo vaikų švietimo lėšų skyrimo ir panaudojimo tvarkos aprašo patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level Local level
Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania and municipalities.
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Demand and supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Municipality administrations Non-formal children education providers
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission The intervention prohibits certain behaviour of the subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is voluntary for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups indirectly benefiting from the regulation/tax/tax exemption	All population - 2 821 674 persons (Statistics Lithuania, 2017)
The type of impact of intervention for beneficiaries	Non-formal children education helps to develop personality, responsibility and independence of children, increase social inclusion and strengthen civil society as well as to prevent violence and addictions. Since this intervention increases accessibility of non-formal education it allows to realise the benefits of non-formal children education. Those benefits in turn are experienced by all population.
Impact of the intervention	The intervention has a positive impact on its consumers, since it increases the accessibility of non-formal children education for various social groups and throughout the country. The intervention also helped to increase the share of children involved in non-formal children education (in 2014-2015 the share of children involved in non-formal children education programmes was around 30 percent, while in 2016 the share was 55.83 percent) ¹⁸⁰ . Since the intervention can be received by both public and private service providers, it also has a positive effect on increasing the number of private service providers and ensuring the variety and accessibility of non-formal children education programmes ¹⁸¹ .
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	Non-formal children education voucher can be received only by children attending general education institutions. It is not clear why the voucher cannot be received by children in

¹⁸⁰ Order of the Minister of the Ministry of Education and Science of the Republic of Lithuania regarding the working plan of the Ministry of Education and Science of the Republic of Lithuania 2016, 2017 (LR Švietimo ir mokslo ministro įsakymai dėl Lietuvos respublikos švietimo ir mokslo ministerijos 2016 ir 2017 metų darbų plano patvirtinimo)

¹⁸¹ Decision of the Parliament of the Republic of Lithuania regarding the continuity and development of non-formal children education voucher, 28 September 2017, No. XIII-659 (LR Seimo nutarimas dėl neformaliojo vaikų švietimo krepšelio finansavimo tęstinumo ir plėtros)

	early childhood education institutions ¹⁸² . The changing of this regulation could be considered. There are no other issues related with this regulatory intervention.
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	There are no considerations or need to withdraw the intervention altogether. Conversely, the intervention is planned to be made permanent ensuring adequate and continuous financing for its implementation ¹⁸³ . There are also plans to expand the scope of the intervention and apply it not only to children attending general education institutions, but also to children attending early childhood education institutions ¹⁸⁴ .

Source: BGI Consulting et al, 2017.

TABLE 101. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (22)

Title of the intervention		Subsidy for covering public educational institutions providing non-formal adult education maintenance cost
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention		The network of formal adult education institutions and general education institutions having adult formal education classes is maintained by their founders (municipalities or state) providing subsidies for the educational institutions maintenance costs (including wages of technical assistance employees). Since some of non-formal adult education programmes are provided in these institutions, it can be said, that some non-formal adult education providers also receive this subsidy.
Year of the introduction and end, stability of the intervention		1991 - up to now. The implementation of the intervention is stable. The notion that the founder of the education institution must cover its running costs has remained unchanged.
The broader policy objective to which intervention contributes		To ensure possibilities to participate in lifelong learning, develop the acquired qualification and acquire new competences as well as meet the cognitive needs of adult learners.
Legal background for the establishment of the intervention		Law on education, 25 June 1991, No. I-1489 (LR švietimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background		To ensure operation of formal adult education institutions and general education institutions providing formal and non-formal adult education programmes in order to attain the objectives of formal and non-formal adult education.
The objective of the intervention and legal background		To cover the running costs of budgetary formal adult education institutions and general education institutions providing formal and non-formal adult education programmes. Law on education, 25 June 1991, No. I-1489 (LR švietimo įstatymas); orders of the directors of administrations of municipalities regarding the financing of budgetary

¹⁸² Based on the information gathered during expert interviews

¹⁸³ Decision of the Parliament of the Republic of Lithuania regarding the continuity and development of non-formal children education voucher, 28 September 2017, No. XIII-659 (LR Seimo nutarimas dėl neformaliojo vaikų švietimo krepšelio finansavimo tęstinumo ir plėtros)

¹⁸⁴ Based on the information gathered during expert interviews

	institutions (Savivaldybių administracijos direktorių įsakymai dėl ūkio lėšų iš savivaldybės biudžeto apskaičiavimo tvarkos aprašų)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level Local level
Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania and municipalities.
The main source of financing the intervention	Municipal budget
Additional sources of financing the intervention	State budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	Annual budgetary financing
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the need of financing for covering the running costs of the institution.
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	The consumers of non-formal adult education services are adults participating in non-formal adult education programmes - 6 percent of people aged 25-64 (around 93 000 persons) (Eurostat, 2016 and own calculations).
Impact of the intervention	The impact of the intervention on its users is positive. Coverage of the running costs of some educational institutions providing non-formal adult education programmes helps to lower the costs of provision of non-formal adult education and reduces the price of non-formal adult education paid by adult learners. However, the intervention does not have any impact on private service providers, since this subsidy is attributed to public providers only.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	The primary objective of the intervention is to cover the running costs of formal adult education or general education institutions and it relates with non-formal adult education only to the extent to which non-formal adult education programmes are provided in these institutions. Therefore, the main issues related with the implementation of the intervention, are those common to all subsidies covering the running costs of educational institutions. Among the main issues, lack of relation between the subsidy and the number of service users or results of the activities carried out in institutions can be mentioned. This lack of relation between the number of service users or results of the activities of educational institutions in some cases results in inefficient use of funds (especially taking into account the demographic changes), hinders the implementation of other initiatives, such as a reform of school network.
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	There are no considerations or need to withdraw the intervention altogether. However, the efficiency of its implementation could be increased by linking the calculation

and distribution of the subsidy to the number of service users or the results of the service provision.

Source: BGI Consulting et al, 2017.

TABLE 102. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (23)

Title of the intervention		Subsidy for implementation of selected non-formal adult education programmes
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention		Certain number of selected adult non-formal education programmes (based on specific criteria) are funded each year. The programmes are selected by the government accredited institution or the administration of the municipality.
Year of the introduction and end, stability of the intervention		2016 - up to now. The intervention is very recently introduced. However, its implementation is expected to be stable since this intervention is established in the Law on Non-formal and Continuous Adult Education.
The broader policy objective to which intervention contributes		To ensure possibilities to participate in lifelong learning, develop the acquired qualification and acquire new competences as well as meet the cognitive needs of adult learners.
Legal background for the establishment of the intervention		Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas); Law on non-formal adult and continuous education, 30 June 1998, No. VIII-822
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background		To develop non-formal adult education services and ensure their compliance with the needs of the society and the labour market.
The objective of the intervention and legal background		To fund certain selected non-formal adult education programmes complying with established requirements. Resolution of the Government of the Republic of Lithuania on methodology of financing selected non-formal and continuous adult education programmes, 14 January 2016, No. 22 (LR Vyriausybės nutarimas dėl mokymosi pagal neformaliojo suaugusiųjų švietimo ir tęstinio mokymosi programas finansavimo metodikos patvirtinimo); Order of the Minister of Education and Science of the Republic of Lithuania on methodology of financing selected non-formal and continuous adult education programmes, 30 March 2016, No. V-269 (LR Švietimo ir mokslo ministro įsakymas dėl neformaliojo suaugusiųjų švietimo ir tęstinio mokymosi programų, finansuojamų Lietuvos Respublikos Švietimo ir mokslo ministerijai skirtomis valstybės biudžeto lėšomis, finansavimo ir atrankos tvirtinimo aprašo patvirtinimo); Decisions of the councils of municipalities regarding the financing of non-formal and continuous adult education programmes (Savivaldybių tarybų sprendimai dėl neformaliojo suaugusiųjų švietimo ir tęstinio mokymosi programų, finansuojamų savivaldybės biudžeto lėšomis, finansavimo ir atrankos tvarkos aprašo)
Level of body responsible for policy formation		National level
Level of body responsible for implementation (administration) of intervention		National level Local level
Name of the body responsible for implementation (administration) of intervention		Ministry of Education and Science of the Republic of Lithuania and municipalities.

The main source of financing the intervention	State budget
Additional sources of financing the intervention	Municipal budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s) Publicly-owned for profit entity Non-profit organisation(s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Project contest
Types of private providers eligible to receive the intervention	Private for-profit entities Private NGOs Private persons
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers, however, it cannot exceed a certain amount.
The share of the funds of the intervention that is attributed to public providers	34-66%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	The consumers of non-formal adult education services are adults participating in non-formal adult education programmes - 6 percent of people aged 25-64 (around 93 000 persons) (Eurostat, 2016 and own calculations)
Impact of the intervention	The intervention has a positive impact on its target group, since it increases access to non-formal adult education for various society groups and throughout the country. It also helps to attain the national objective of increasing the level of lifelong learning. In addition, the intervention has a positive impact on the private businesses in the field, since it supports provision of services by both public and private suppliers and helps to increase the overall demand for non-formal adult education services.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	One of the main issues related to the implementation of the intervention is a relatively low rate of participation of municipalities. Currently only around 20 percent of municipalities are involved in the implementation of this intervention. Another issue is that the national financing distributed to participating municipalities as co-financing for the implementation of the intervention is too low to attain significant results or involve a sufficient number of municipalities. Furthermore, there is no separate budget line dedicated to non-formal adult education, the funds for the implementation of the intervention are taken from the overall education budget at the expense of other educational levels. This situation causes the relative instability and uncertainty of further implementation of the intervention. It is never clear whether the intervention will be funded next year. Another issue is that currently the rules of the implementation of the intervention allows to submit projects that are aimed at training civil servants. Even though none of such projects were funded by the intervention, the possibility itself should not exist. There are other measures aimed at training of civil servants and by the law the state is obliged to train civil servants using other funds. Furthermore, the intervention is implemented with the view to expand the scope of non-formal

	adult education and increase participation rates in lifelong learning. Training of civil servants will not add to the attainment of such objectives ¹⁸⁵ .
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	There are currently no considerations or need to withdraw the intervention altogether. However, there are considerations to transfer the responsibility of the implementation of the intervention to municipalities to a much greater extent. The intervention should also be amended to prevent the funding of civil servants training programmes. In order to increase the stability and predictability of the implementation of the intervention, it would be beneficial to introduce a separate budget line dedicated specifically to funding of non-formal adult education programmes ¹⁸⁶ .

Source: BGI Consulting et al, 2017.

TABLE 103. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (24)

Title of the intervention	ESIF subsidies for developing adult education
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	A few measures targeted at improving the quality and accessibility of the adult education are planned to be funded using ESIF.
Year of the introduction and end, stability of the intervention	2014 – 2023. The implementation of the intervention depends on ESIF allocations.
The broader policy objective to which intervention contributes	To ensure possibilities to participate in lifelong learning, develop the acquired qualification and acquire new competences as well as meet the cognitive needs of adult learners.
Legal background for the establishment of the intervention	Operational Programme for EU Structural Funds Investments for 2014-2020, September 2014, CCI: 2014LT16MAOP001 (2014-2020 m. Europos Sąjungos fondų investicijų veiksmų programa)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To increase the accessibility of quality adult education by investing in infrastructure, increase the attractiveness of adult education and compliance with labour market needs, create conditions and incentives to participate in life-long learning ensuring effective help in the learning process, increase the competitiveness of employed human resources by ensuring possibilities to adapt to the labour market needs.
The objective of the intervention and legal background	To finance training of private and public sector employees, implement non-formal adult education programmes in regions and increase their quality, develop the competences recognition, validation and certification system. Order of the Minister of the Ministry of Economy of the Republic of Lithuania on terms of project financing (measure No. 09.4.3.-ESFA-K-827) (LR Ūkio ministro patvirtintas finansavimo sąlygų aprašas) Orders of the Minister of the Ministry of Education and Science of the Republic of Lithuania on terms of project financing

¹⁸⁵ Based on the information gathered during expert interviews

¹⁸⁶ Based on the information gathered during expert interviews

	(measures No. 09.4.2-ESFA-K-737; No. 09.4.2-ESFA-V-715; No. 09.4.2-ESFA-K-714; No. 09.4.1-ESFA-V-734; No. 09.3.2-ESFA-V-710) (LR Švietimo ir mokslo ministro patvirtinti priemonių finansavimo sąlygų aprašai) Order of the Minister of the Ministry of Social Security and Labour of the Republic of Lithuania on terms of project financing (measure No. 08.3.2-ESFA-K-415) (LR Socialinės apsaugos ir darbo ministro patvirtintas priemonės finansavimo sąlygų aprašas)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	European Social Fund Agency
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	State budget Private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Public administration institution (-s) directly Budgetary institution (-s) Publicly-owned for profit entity Non-profit organisation(s) established by state/municipality
Dominant mean of receiving the intervention for public providers	State planning
Other means of receiving the intervention for public providers	Project contest
Types of private providers eligible to receive the intervention	Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	34-66%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	The consumers of non-formal adult education services are adults participating in non-formal adult education programmes - 6 percent of people aged 25-64 (around 93 000 persons) (Eurostat, 2016 and own calculations).
Impact of the intervention	It is difficult to assess the impact of the intervention since most of the projects have only started to be implemented. However, it is expected that the intervention will have a positive impact on its consumers, since it will provide adult learners with general and in some cases professional competences, will help to develop competences acknowledgement systems and increase possibilities for adult learners to receive formal certificates for their knowledge acquired through non-formal and informal learning.
Unintended impact of the intervention	There is no unintended impact of the intervention.
Main issues related to the implementation of the intervention	The main issue related with the intervention is that its implementation depends on availability of ESIF funds and is not stable. There are currently no considerations on how the ESIF investments will be changed by national funds after 2020. Furthermore, as the experience from the previous

	programming period shows, the sustainability of certain implemented projects is not always ensured. For example, the online platform for adult learners (SMIS) was established using ESIF funds. However, after the implementation of the project neither the continuous funding was ensured nor the institution responsible for its administration was appointed. Institution responsible for the administration of this platform has been changed 3 times, while the funding for the update and renewal of the content of the platform is still not available. The risk arises, that projects implemented using ESIF funds of 2014-2020 programming period will also not be sustainable since in most cases, there are currently no decisions made on how the products created will be kept running using national funds. Another issue is that not all measures targeted at the improvement of adult education are planned taking into account the needs of adult learners. In some cases, the coordination of interests of different ministries or the lack of it can be seen as one of the main reasons of introducing the intervention. For example, one of the projects funded by the measure No. 09.4.2-ESFA-V-715 is meant to fund the non-formal adult education. However, it is applicable only to adults between 18 and 54 years old. This measure is administered by the Ministry of Education and Science of the Republic of Lithuania. Another measure No. 08.3.2-ESFA-K-415 administered by the Ministry of Social Security and Labour of the Republic of Lithuania is aimed at adults over 54 years old. Among other activities, this measure funds also non-formal adult education activities for population of 54 years and more. The reasons for the separation of the group of 54 years and older persons from the whole population of adult learners receiving non-formal adult education funded by ESIF are not well grounded. Furthermore, the funds attributed to the measure aimed at persons 54 years and older are three times higher than those attributed to other adult learners. This separation of one particular age group from the whole adult population has even raised questions of the compliance of the measure with the principles of equality¹⁸⁷.
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	The intervention could be replaced by similar interventions funded by national funds. However, currently there are no such plans.

Source: BGI Consulting et al, 2017.

TABLE 104. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN EDUCATION AND SCIENCE CARE SECTOR (25)

Title of the intervention	Regulation regarding the funding of selected adult non-formal education programmes
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	Non-formal adult education programmes to be funded from government or municipalities' budget must meet specific criteria established in the Government Decree, Order of the Minister of the Ministry of Education and Science of the Republic of Lithuania, decisions of municipalities councils.
Year of the introduction and end, stability of the intervention	2016 - up to now. The intervention is very recently introduced. However, its implementation is expected to be stable since this intervention is established in the Law on non-formal and continuous adult education.

¹⁸⁷ Based on the information gathered during expert interviews

The broader policy objective to which intervention contributes	To ensure possibilities to participate in lifelong learning, develop the acquired qualification and acquire new competences as well as meet the cognitive needs of adult learners.
Legal background for the establishment of the intervention	Law on education, 25 June 1991, No. I-1489 (LR Švietimo įstatymas); Law on non-formal adult and continuous education, 30 June 1998, No. VIII-822
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure the transparent financing of non-formal and continuous adult education programmes, establish the rules for using the funds.
The objective of the intervention and legal background	To establish the transparent rules of funding non-formal adult education programmes. Resolution of the Government of the Republic of Lithuania on methodology of financing selected non-formal and continuous adult education programmes, 14 January 2016, No. 22 (LR Vyriausybės nutarimas dėl mokymosi pagal neformaliojo suaugusiųjų švietimo ir tęstinio mokymosi programas finansavimo metodikos patvirtinimo); Order of the Minister of Education and Science of the Republic of Lithuania on methodology of financing selected non-formal and continuous adult education programmes, 30 March 2016, No. V-269 (LR Švietimo ir mokslo ministro įsakymas dėl neformaliojo suaugusiųjų švietimo ir tęstinio mokymosi programų, finansuojamų Lietuvos Respublikos Švietimo ir mokslo ministerijai skirtomis valstybės biudžeto lėšomis, finansavimo ir atrankos tvirtinimo aprašo patvirtinimo); Decisions of the councils of municipalities regarding the financing of non-formal and continuous adult education programmes (Savivaldybių tarybų sprendimai dėl neformaliojo suaugusiųjų švietimo ir tęstinio mokymosi programų, finansuojamų savivaldybės biudžeto lėšomis, finansavimo ir atrankos tvarkos aprašo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level Local level
Name of the body responsible for implementation (administration) of intervention	Ministry of Education and Science of the Republic of Lithuania and municipalities.
The main source of financing the intervention	State budget
Additional sources of financing the intervention	Municipal budget
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Ministry of Education and Science of the Republic of Lithuania Municipalities administrations Non-formal adult education providers
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission The intervention prohibits certain behaviour of the subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
Impact of the intervention	The intervention has a positive impact on its consumers, since it ensures better accessibility to non-formal adult education for different society groups and throughout the country. Since it enables both private and public service providers to receive the intervention, it also has a positive impact on private business environment. Furthermore, it helps to attain the national objective of increasing the level of lifelong learning.
Unintended impact of the intervention	There is no unintended impact of the intervention.

Main issues related to the implementation of the intervention	One of the main issues related with the implementation of the intervention is that the rules of selecting non-formal adult education programmes to be funded allows to fund programmes aimed at training civil servants. Even though such programmes were not funded even the regulation allowing it increases the risk of double financing and hinders the possibilities to use this intervention as a means to increasing the level of lifelong learning.
Consistency with other related interventions	The intervention is consistent with other related interventions.
Possibilities to replace/withdraw the intervention	There are no considerations or need to withdraw the intervention altogether. However, the intervention should be amended to prevent possibilities to implement the training of civil servants using the funds. In order to increase the stability and predictability of the implementation of the intervention, it would be beneficial to introduce a separate budget line dedicated specifically to funding of non-formal adult education programmes ¹⁸⁸ .

Source: BGI Consulting et al, 2017.

2.7.3.1 SUPPLY SIDE: QUALITY OF PLANNING OF SELECTED INTERVENTIONS

Quality of planning of the selected interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

TABLE 105. QUALITY OF PLANNING OF SERVICE RELATED INTERVENTIONS IN THE LITHUANIAN EDUCATION AND SCIENCE SECTOR

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Public early childhood, non-formal children and adult education	Subsidy for covering public educational institutions maintenance costs	×	√	N/A	√	×	×	AVERAGE
Public early childhood	Education / school voucher for early	×	√	N/A	√	×	√	AVERAGE

¹⁸⁸ Based on the information gathered during expert interviews

	childhood education students							
	ESIF subsidies for improving quality and accessibility of early childhood education	√	√	N/A	√	√	×	GOOD
	ESIF subsidies for upgrading infrastructure of early childhood education	√	√	N/A	√	√	×	GOOD
	Compensations for families whose children are attending private early childhood education institutions	×	√	N/A	√	×	√	AVERAGE
	Compensation (full or partial) of the cost of children meals in early childhood education institutions	×	×	N/A	√	×	×	POOR
	Regulation establishing compulsory participation in pre-primary education	×	√	N/A	√	×	×	AVERAGE
	Regulation regarding the use of early childhood education voucher	×	√	N/A	√	×	×	AVERAGE
Public vocational education	Education / school voucher for covering running costs of vocational education institutions	×	√	N/A	√	×	√	AVERAGE
	Education / school voucher for vocational education students	×	√	N/A	√	×	√	AVERAGE
	ESIF subsidies for improving quality and accessibility of vocational education	√	√	N/A	√	√	×	GOOD
	ESIF subsidies for upgrading infrastructure of vocational education	√	√	N/A	√	√	×	GOOD
	Regulation regarding the licencing of formal vocational education providers	×	×	N/A	√	√	×	AVERAGE

	Regulation regarding the use of vocational education voucher	×	√	N/A	√	×	√	AVERAGE
Public non-formal children education	Education / school voucher for general (primary, lower secondary and upper secondary (except for vocational)) education students	×	√	N/A	√	×	√	AVERAGE
	Education / school voucher for non-formal children education students	×	√	N/A	√	×	√	AVERAGE
	ESIF subsidies for improving quality and accessibility of non-formal children education	√	√	N/A	√	√	×	GOOD
	ESIF subsidies for upgrading infrastructure of non-formal children education	√	√	N/A	√	√	×	GOOD
	Regulation regarding the use of general education voucher	×	√	N/A	√	×	√	AVERAGE
	Regulation regarding the use of non-formal children education voucher	×	√	N/A	√	×	√	AVERAGE
Public non-formal adult education	Subsidy for implementation of selected non-formal adult education programmes	×	×	N/A	√	×	×	AVERAGE
	ESIF subsidies for developing adult education	√	√	N/A	√	√	×	GOOD
	Regulation regarding the funding of selected adult non-formal education programmes	×	×	N/A	√	×	×	AVERAGE

Source: BGI Consulting et al, 2017.

In total, there are 25 service related interventions identified in Lithuanian Education and science sector. Regular budgetary financing (subsidy) covering the maintenance costs of public education institutions is given to institutions providing three types of services, namely early childhood, non-formal children and adult education. The maintenance costs of public vocational education institutions are covered applying the education/school voucher financing distribution principle.

The planning of most of the selected interventions in Lithuanian Education and science sector is average. The planning was determined to be good in around 28 percent of cases, average – in around 68 percent, while only one intervention was assessed to be poorly planned.

In case of the poorly planned intervention, namely in case of “Compensation (full or partial) of the cost of children meals in early childhood education institutions”, this decision was made taking into account that neither the types and the amount of costs of its implementation, nor the results to be achieved were defined while planning it. Furthermore, the overall size of the demand of related service was not taken into account.

Most of the interventions the planning of which was assessed to be good or average also have certain planning shortcomings. In many cases, the period of the implementation of the intervention is not defined. However, it must be noted, that in case of regular recurrent interventions, such as subsidies ensuring the provision of the service (education/school vouchers, financing of running costs of budgetary institutions etc.), lack of definition of the implementation period is not a drawback. These recurrent interventions are meant to be permanent and are changed usually only due to the change in the political will.

Nevertheless, in case of the intervention “Compensations for families whose children are attending private pre-primary education institutions” the lack of definition of the implementation period could be regarded as a shortcoming. This intervention was introduced as a temporary measure, ensuring access to early childhood education for children that are not able to attend public early childhood education institutions, due to the lack of vacancies. The intervention is seen as one of the means to avoid investments in development of public early childhood education institutions infrastructure or establishment of new public early childhood education institutions. It is foreseen that, due to the demographic changes, the problem of the lack of places in public early childhood education institutions in the largest cities most likely will cease to be relevant in the foreseeable future, consequently investments in development of the infrastructure would result in the inefficient use of funds. Therefore, the intervention is foreseen to cease to be implemented once the problem of the lack of places in public early childhood education institutions is solved. However, this is not defined in the documents establishing the intervention. Furthermore, the implementation of the intervention is a subject to constant change. Each year the scope of the intervention is expanded or the regulations determining the implementation of the intervention are changed. Such indeterminacy of the implementation of the intervention creates uncertainty for both service providers and consumers of the service.

Similarly, some of the interventions that do not take the overall size of the demand of the related service into account were still assessed to be planned good. This decision was made taking into account that certain types of interventions, such as ESIF measures, are aimed to distribute a certain amount of funding and do not aim to cover all the demand of the related service.

However, in case of interventions such as regular subsidies for covering the running costs of early childhood, non-formal children and non-formal adult education institutions the lack of connection between the amount of funds to be distributed, the rules of distribution and the size of the demand of the related service is a significant issue. The subsidies for covering the running costs of early childhood, non-formal children and non-formal adult education institutions do not take into account the demographic trends and the concentration of pupils/students in educational institutions. Due to emigration and negative demographic trends, the number of schoolchildren (including children in early childhood education and non-formal children education) has decreased by around one quarter since 2000. Consequently, the overall spending on education per pupil/student has increased steadily. This increase in 2010-2016 was equal to around 3 percent per year¹⁸⁹. The financing of running costs of educational institutions per pupil/student has also increased. Furthermore, the distribution of funds is unequal throughout the country. The financing

¹⁸⁹ European Commission: Directorate-General for Education and Culture, Education and Training Monitor 2017. Lithuania, 2017

of running costs in small educational institutions (up to 200 pupils/students) per pupil/student is significantly higher than in large educational institutions. Financing of educational institutions running costs per pupil/student in rural areas is also higher than financing per pupil/student in urban areas¹⁹⁰. These trends are especially visible in educational institutions providing early childhood education, since the difference between the share of children in early childhood education in urban and rural areas is very significant (85.2 and 35.2 percent respectively in the age group of 1-6 years old and older ¹⁹¹) resulting in high differences of financing of running costs per pupil. Lack of linkage between demographic trends or concentration of pupils/students in educational institutions and financing of running costs results in inefficient use of resources. These problems are being tackled by the reform of school network carried out since 2004-2005. However, despite the decreasing number of educational institutions the overall financing of running costs of educational institutions remains at the same level or even increases. An audit conducted in 66 educational institutions has revealed that during the 2014-2016 the funding of running costs of these institutions has increased by 11.5 percent¹⁹². This is caused by the tendency of municipalities not to close the small rural educational institutions having low numbers of pupils/students but rather formally reform them to become a branch of some other institution. Therefore, even if the total number of educational institutions decreases, the need for covering running costs remains at the same level or even increases¹⁹³.

The same trends are applicable to non-formal adult and children education. The subsidies for covering the running costs of educational institutions providing non-formal adult and non-formal children education do not take into account the decreasing number of adults or children, that is caused by high emigration rates and negative demographic trends.

There are also some cases where the planning of the intervention was determined to be good or average even though the results to be achieved by the intervention are marked to be not defined. In those cases, the results of the intervention are actually defined, however they lack clarity and/or target values are not available. Nevertheless, the lack of definition of the results is a prominent problem with regards to most interventions. However, it is important to note that this lack of definition of the results to be attained by separate interventions is reflecting the general lack of planning of results to be attained in Lithuanian Education and science sector. For example, currently, there are no programmes foreseeing the development of early childhood education or vocational education services. The last programme that clearly stated the operational objectives of early childhood education was implemented during the period of 2011-2013, while the last programme clearly stating the operational objectives of vocational education was implemented during the period of 2014-2016. Without clear objectives at the service/sub-sector level, it is difficult to define the results of separate interventions as well.

Finally, it is also important to note that in case of all service related interventions in Lithuanian Education and science sector the definition of the amount of the revenue foreseen is marked as not applicable. This is due to the nature of the sector, that is aimed at providing services that mainly aim to encourage the consumption of the merit good and, therefore, no revenue generation is expected.

¹⁹⁰ Ministry of Education and Science of the Republic of Lithuania, Education Supply Center, Lithuania. Education in Regions. Schools, 2015

¹⁹¹ Data of Statistics Lithuania, 2016

¹⁹² National Audit Office of Lithuania, National Audit Report. Can the achievements of Lithuanian students be increased, 28 November 2017, No. VA-2017-P-50-1-20

¹⁹³ National Audit Office of Lithuania, National Audit Report. Can the achievements of Lithuanian students be increased, 28 November 2017, No. VA-2017-P-50-1-20

2.7.3.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF SELECTED INTERVENTIONS

Even though the vast majority of selected interventions in Lithuanian Education and science sector are meant to cover the recurrent running costs of the services' provision, some also help to increase the effectiveness and/or efficiency of the related services provision. Mostly these are ESIF funded interventions.

ESIF subsidies for improving quality and accessibility of the early childhood, vocational, non-formal children education and for developing adult education improves the effectiveness and efficiency of the related services provision by ensuring better access to the service for the target group (increasing the number of members of the target group serviced) and improving the outcomes of the service keeping the running costs at the same level. ESIF structural funds subsidies for improving the infrastructure of early childhood, vocational and non-formal children education also increase the efficiency of the service provision by reducing infrastructure maintenance costs.

Similar impact on the effectiveness of the services' provision is attained by certain interventions funded from national or municipalities budgets. Compensations for parents whose children are attending private pre-primary education institutions increases the effectiveness of the early childhood education services provision, while the financing of selected non-formal adult education programmes and non-formal children education/school voucher increases the effectiveness of non-formal adult education and non-formal children education services provision respectively. In both cases, the number of users of the target group using the service is increased.

Despite some interventions having a positive impact on increasing the effectiveness and/or efficiency of related services provision, in case of some interventions their implementation effectiveness and/or efficiency is hindered by certain issues resulting in negative effects on the provision of related services.

Firstly, the overall composition of public interventions is hindering the efficiency of implementation of public services. One of the conditions of increasing the efficiency of public services provision is existence of private providers, providing similar services in the market. The existence of private service providers creates a competitive pressure for public service providers thus encouraging them to increase the efficiency of their operation. Even though in Lithuanian Education and science sector there are no interventions formally creating obstacles for private service providers to enter the service provision market at any of educational levels, the share of private service providers is still not significant. Other obstacles are preventing them. Among the main obstacles for private entities to enter the vocational education service provision market high fixed costs and a relatively small market can be mentioned. High fixed costs are related to the specific infrastructure required for provision of the labour market relevant vocational education, while a small market for the service is related with the relative unpopularity of vocational education resulting in unfilled vacancies even in the state funded public vocational education institutions. Small market is a relevant issue also for private providers wanting to enter continuous vocational education market, since in Lithuania the awareness of the importance of lifelong-learning and the participation rates are low. Similar obstacles are faced by private entities providing early childhood education, non-formal children and adult education services. The size of the market or the spatial dispersion of the consumers of the service in many cases discourage private entities from providing services (for example private early childhood education providers are present in large cities, however, they rarely participate in the market in the rural areas). The aforementioned obstacles could be reduced by specific government interventions. However, the analysis of selected government interventions has revealed, that only one intervention of the 25 analysed is targeted exclusively at private providers and only around half of the remaining interventions can be received by both public and private providers. However, even in the vast majority of these interventions eligible to be received by both public and private providers around 67-99 percent of funds attributed to the implementation of the intervention are distributed among public providers only. It means

that the existing composition of government interventions is not sufficient for encouraging active participation of private service providers in the service provision market.

Furthermore, certain issues related to the implementation of particular government interventions, also has a negative effect on the overall effectiveness of the related services provision. For example, the education/school voucher of all educational levels is meant to increase the efficiency of educational institutions and consequently of the provision of educational services, since it increases possibilities of service consumers to choose among various institutions. Theoretically, it should help to distinguish between efficient institutions attracting many pupils/students and enough funds to continue its activities and inefficient educational institutions that do not attract enough pupils/students and consequently do not have enough resources to continue its activities. However, the actual implementation of this intervention reduces its effects on efficiency of the provision of educational services since the Ministry of Education and Science itself applies different tariffs of education/school vouchers for educational institutions in rural areas not attracting enough pupils/students. Furthermore, municipalities also find ways to provide additional financing for such educational institutions either by using their own resources or redistributing the resources of education/school voucher dedicated for other purposes (for example for financing of non-formal children education)¹⁹⁴. This type of additional financing might be justified by ensuring the equity and accessibility of education but it undermines the effects of increasing the efficiency of educational institutions and, consequently, provision of related educational services intended by introducing education/school voucher.

The analysis of ESIF interventions also reveals certain issues. The main issue related with the implementation of ESIF interventions is that the sustainability of products and infrastructure created as well as an efficient use of them is not ensured. Even though this issue is prominent for all educational levels, it is most visible in case of vocational education. For example, during the period of 2007-2013 ESIF investments were used to prepare 10 professional standards and 76 modular vocational education programmes¹⁹⁵. However, only one of the prepared professional standards has been approved yet and only 46 modular programmes are currently being implemented¹⁹⁶. In addition, the adequate sequence of activities funded by ESIF funds was not ensured. Modular vocational education programmes were being prepared at the same time as professional standards and educational measures for implementing modular programmes were prepared earlier than the programmes themselves¹⁹⁷. Another example is sectoral practical training centres established using ESIF during the period of 2007-2013. After the implementation of the intervention the expected intensity of the use of the infrastructure created was not attained in any of the established sectoral practical training centres. In one third of sectoral practical training centres, only a third of the expected intensity of the use of infrastructure created was achieved. One sectoral practical training centre has not carried out any vocational education programmes for a year since it did not have a licence. Therefore, the infrastructure created was not used at all despite the fact that in the region there is another vocational education institution carrying out vocational education programmes but not having the necessary infrastructure¹⁹⁸. It is also important to note that all these issues arise due to the lack of competences of vocational education institutions administrations to attract new users, and foresee effective measures to increase the efficiency of the use of new infrastructure, meaning that these are

¹⁹⁴ National Audit Office of Lithuania, National Audit Report. How is the Non-formal Children Education Organised, 4 February 2015, No. VA-P-50-3-1

¹⁹⁵ National Audit Office of Lithuania, National Audit Report. How are the Possibilities of Vocational Education Used, 22 February 2016, No. VA-P-50-1-1

¹⁹⁶ Ministry of Education and Science of the Republic of Lithuania, Qualifications and Vocational Education and Training Development Centre, Review of the Condition of Vocational Education 2017, 2017

¹⁹⁷ National Audit Office of Lithuania, National Audit Report. How are the Possibilities of Vocational Education Used, 22 February 2016, No. VA-P-50-1-1

¹⁹⁸ National Audit Office of Lithuania, National Audit Report. How are the Possibilities of Vocational Education Used, 22 February 2016, No. VA-P-50-1-1

practical, solvable issues and not predetermined by structural problems. Despite these issues related with the efficiency of the use of the sectoral practical centres, ESIF funds are foreseen to be further invested in the development of them. This lack of sustainability of results attained by ESIF funds results in the inefficient use of public resources and reduced quality of related vocational education services.

Other examples of inefficient implementation of interventions and their effect on provision of related services are licencing of vocational education institutions and funding of selected non-formal adult education programmes.

Licence to vocational education providers is issued or not issued based on the conclusions of expertise carried out by the Qualifications and Vocational Education and Training Development Centre (QVETDC). However, vocational education institutions need to pay only for the licence, but the costs of carrying out the expertise are covered by the QVETDC itself. This situation in some cases leads to the inefficient use of QVETDC resources, since the expertise must be carried out also for institutions, which are lacking the necessary resources and are not prepared to carry out vocational education programmes. Even though such institutions are concluded to not be eligible to be licenced, the costs of the expertise still need to be covered by QVETDC¹⁹⁹. Furthermore, even though the licencing of vocational education institutions obliges the Ministry of Education and Science to carry out the supervision of the quality of activities carried out in licenced vocational education institutions, due to the lack of human resources and the lack of funds, such systematic supervision is not in place and the supervisions are carried out only in case of complaints received. Therefore, only the compliance with minimal standards needed to receive the licence for providing vocational education services is ensured, but further supervision of the quality of vocational education programmes carried out is only sporadically performed²⁰⁰. This situation results in public vocational education not always complying with the needs of the labour market and not always providing the users of the service with the labour market relevant skills.

Regarding the funding of selected non-formal adult education programmes, currently the rules of the implementation of the intervention allows to submit projects that are aimed at training civil servants. Even though none of such projects were funded by the intervention, the possibility itself should not exist. There are other measures aimed at training of civil servants and by the law the state is obliged to train civil servants using other funds. Furthermore, the intervention is implemented with the view to expand the scope of non-formal adult education and increase participation rates in lifelong learning. Training of civil servants will not add to the attainment of such objectives, thus decreasing the effectiveness of non-formal adult education service provision²⁰¹.

It is also important to note that in certain cases not the issues of the implementation of existing government interventions, but the absence of certain government interventions results in inefficiency of related services provision.

For example, in case of early childhood education one of the main issues hindering its effectiveness is the mismatch among the overall supply and the overall demand. The difference between the share of children in early childhood education in urban and rural areas is very significant (98.2 percent and 47.6 percent enrolment rates respectively for 4-6-year-olds in 2015²⁰²), resulting in unmet demand in the largest cities and oversupply of the service in rural areas. Even though the overall demand across the country is met by the overall supply, the inequality of distribution of early childhood education consumers and early

¹⁹⁹ Ministry of Education and Science of the Republic of Lithuania, Qualifications and Vocational Education and Training Development Centre, Review of the Condition of Vocational Education 2017, 2017

²⁰⁰ Ministry of Education and Science of the Republic of Lithuania, Qualifications and Vocational Education and Training Development Centre, Review of the Condition of Vocational Education 2017, 2017

²⁰¹ Based on the information gathered during expert interviews

²⁰² European Commission: Directorate-General for Education and Culture, Education and Training Monitor 2017. Lithuania, 2017

childhood education providers results in this mismatch between the supply and demand in certain areas. Furthermore, in certain cases, mostly in rural areas, the overall demand is met by the overall supply only because part of the potential consumers of early childhood education refuses to consume it due to the lack of information of the benefits and encouragement from local government institutions²⁰³. Therefore, it is visible that existing government interventions, tackling the mismatch among the overall supply and the overall demand of early childhood education are not enough and additional interventions should be introduced or the scope of existing interventions should be expanded. Furthermore, the problem of the refusal to consume early childhood education in rural areas due to the lack of information of the benefits and encouragement from local government institutions should be addressed by introducing interventions enabling and requiring local governments to actively address and reach out to the whole population of potential users and not only those that are capable enough to find and consume the services themselves.

Another issue relevant for early childhood education is the difficulty of ensuring its quality. It is important to note that the national external early childhood education quality assurance system does not exist. Establishers of public early childhood education institutions (mostly municipalities and in some cases the state) must ensure the quality of services provided in their established institutions. However, the quality supervision systems differ among municipalities and the quality assurance is not in all cases systematically performed, there is no clear agreement and understanding among different municipalities, what constitutes a high or sufficient quality early childhood education. Lack of national external early childhood education quality assurance system also means that the quality of early childhood education provided in private institutions is not ensured, even though private providers can receive the government intervention providing funds for service provision in a form of early childhood education school/voucher²⁰⁴. Such absence of the national external quality assurance system results in potential inefficient use of public funds, since the quality of the services provided using public funds is not ensured and might not be sufficient. Introduction of additional government interventions establishing national external early childhood education quality assurance system and ensuring its financing would help to tackle these issues.

One of the means of increasing the efficiency of the provision of services in Lithuanian Education and science sector is the transfer of provision of services or parts of services to private providers. A few conclusions about the sectors institutional potential for transferring the provision of the services to the private entities can be drawn.

Currently in Education and science sector significant changes are taking place with regards to vocational education and training. On 14 December 2017 changes to the Law on Vocational Education were accepted by the Parliament of the Republic of Lithuania. Among the most important changes, the anticipated change of the legal status of vocational education institutions from budgetary to public non-profit organisation(s) can be mentioned. This change is expected to impact the financing of vocational education institutions, help to attract more private funding and make the vocational education institutions more financially independent²⁰⁵. Furthermore, it is established that external quality control of vocational education institutions must be carried out every 5 years and that the apprenticeship must become a regular part of vocational education programmes. With the implementation of these changes the participation of the private sector in vocational education provision should increase. These changes also means that certain government interventions facilitating the provision of vocational education will need to be modified. Government interventions such as education/school voucher for covering running costs of vocational

²⁰³ Based on the information gathered during expert interviews

²⁰⁴ Based on the information gathered during expert interviews

²⁰⁵ Press release of the President of the Republic of Lithuania, 14 December 2017, <http://www.regionunaujienos.lt/atveriamas-kelias-profesinio-mokslo-pertvarkai/>

education institutions and education / school voucher for vocational education students might need to be modified to adapt to the abovementioned changes.

In case of early childhood education, no significant changes concerning the financing or transfer of the service provision to private providers is anticipated. However, the measures are currently being planned and implemented to advance the age of the start of compulsory pre-primary education. It is expected that by 2020 the compulsory age for starting pre-primary education will be 5 years. This change should expand the scope of pre-primary education consumers and therefore increase the incentives and need of more active participation of private service providers in the market²⁰⁶. Furthermore, these changes will increase the amount of funds needed to implement certain interventions – subsidy for covering public early childhood educational institutions maintenance costs, education/school voucher for early childhood education students, compensation (full or partial) of the cost of children meals in early childhood education institutions. It might also increase the demand for the public intervention compensations for families whose children are attending private early childhood education institutions.

Regarding non-formal children and non-formal adult education, no significant changes are foreseen. With regards to non-formal children education, provision of non-formal children education/school voucher is foreseen to be continued, possibly also expanding its coverage to be provided also to pupils in early childhood education. This change, if implemented, might affect the amount of funds needed to implement this intervention.

2.7.3.3 SUPPLY SIDE: ADDITIONALITY OF SELECTED INTERVENTIONS

The vast majority of analysed interventions in Lithuanian Education and science sector have a positive effect on the target group. The interventions selected for analysis facilitate the provision of early childhood, vocational, non-formal children and non-formal adult education, that in turn enhance better educational and labour market outcomes of the target groups, reduces social exclusion, lowers the risk of criminal behaviour later in life, increases quality of health and quality of life, strengthens civil society or equips the target group with the labour market relevant skills²⁰⁷. However, it is important to note that the setup of government interventions and certain shortcomings of their implementation reduces their impact on facilitating the positive impact on the target group of public vocational education. The existing government interventions fail to ensure that public vocational education would comply with the needs of the labour market.

Regarding the outcomes additionality on the overall economy, interventions related to public early childhood and non-formal children education do not have any impact on the productivity of private entities. Conversely, the vast majority of interventions related to public vocational education and public non-formal adult education insignificantly increases the productivity of private entities. Since analysed interventions facilitate the provision of public vocational education and public non-formal adult education that in turn equips the target group with the labour market relevant skills, these interventions also positively affect the productivity of private entities. However, as the consumption of both – vocational education and non-formal adult education – services is not up to the level required, the impact of government interventions facilitating their provision on the productivity of private entities is insignificant.

Around a half of all selected interventions in Lithuanian Education and science sector (around 48 percent) have no impact on the overall employment (number of jobs). It means that these interventions do not create

²⁰⁶ Based on the information gathered during expert interviews

²⁰⁷ OECD, Education Indicators in Focus, 2016

any additional working places and only fund the working places required for the provision of the public service itself. However, there are a few interventions, having a positive impact on the overall employment. Mostly these are ESIF funded interventions, implementation of which requires additional workforce, thus significantly increasing the overall employment. However, it must also be noted that this increase is temporary and not sustainable, lasting only during the implementation of ESIF funded projects.

One more intervention that helps to increase the overall employment in Lithuanian Education and science sector is compensations for parents whose children are attending private pre-primary education institutions, due to the lack of vacancies in public early childhood education institutions. This intervention has stimulated the development of private early childhood education institutions, thus also creating more jobs and increasing the overall employment. However, it must be noted that the effect of this intervention on the overall employment is insignificant, since this intervention is applied only by part of municipalities and is relevant to a relatively small share of families using early childhood education services. Therefore, the increase of number of jobs as a consequence of the implementation of this intervention is not significant. Another two interventions having a positive effect on increasing the overall employment is education/school voucher for non-formal children education students and subsidy for implementation of selected non-formal adult education programmes. Similarly, as in case of compensations for parents whose children are attending private pre-primary education institutions, due to the lack of vacancies in public early childhood education institutions, these intervention stimulate the development of private non-formal children and non-formal adult education providers, which results in creation of more jobs and increases the overall employment. However, due to the scope of these interventions, their impact on the overall employment is not significant. Education/school voucher for early childhood education students and education/school voucher for vocational education students also helps to increase overall employment, since these interventions can be received by both public and private service providers thus encouraging private providers to participate more actively in the market. However, in case of these interventions, the vast majority of funds is still attributed to public providers. Therefore, the impact of these interventions on the overall employment is positive insignificant.

The vast majority of the analysed interventions decreases capital investments. The only interventions that have increasing effect on capital investments are compensations for parents whose children are attending private pre-primary education institutions, subsidy for implementation of selected non-formal adult education programmes and education/school vouchers for early childhood, non-formal children and vocational education students. However, the effect of selected non-formal adult education programmes and education/school vouchers for early childhood, non-formal children and vocational education students on increasing private investments is not significant, since these interventions can be received by both public and private providers and the vast majority of receivers of these interventions are public institutions.

2.7.3.4 SUPPLY SIDE: SIDE-EFFECTS OF SELECTED INTERVENTIONS

There are no analysed interventions that have negative impact on businesses and business environment. Interventions related to the provision of non-formal children education do not have any impact on businesses and business environment. All other interventions related to early childhood, vocational and non-formal adult education have positive impact on businesses and business environment. Since these interventions facilitate the provision of early childhood, vocational and non-formal adult education, they also facilitate the positive side-effects on businesses and business environment of these services. The positive side-effects on businesses and business environment of selected interventions facilitating the provision of early childhood, vocational and non-formal adult education services manifest themselves through created possibilities for parents of children of pre-school age to come back to the labour market sooner, thus increasing the numbers of the available workforce in the labour market, and provision of the

service users with the skills relevant for the labour market, in this way reducing the need for private firms to invest in training of their employees

The vast majority of analysed interventions also does not encourage unforeseen target group's behaviour. However, there is one intervention, namely, compensations for parents whose children are attending private pre-primary education institutions, that encourages negative unforeseen behaviour of the target group. Even though this intervention is meant to be given to families whose children did not get a place in a public early childhood education institution, some receivers use it as a means of financing better quality services in a private early childhood education institution, which they would have chosen even without the compensation. In these cases, the compensation does not attain its aims and since more and more families, using the compensation are choosing private education institutions, thus even leaving free places in public education institutions, results in public resources being wasted.

Another intervention, namely education/school voucher for early childhood education students, encourages unforeseen behaviour not of its target group, but of institutions responsible for its implementation. The intervention causes unintended behaviour of municipalities. The education/school voucher is intended to cover the costs of provision of 4 hours of early childhood education per day. In institutions that provide longer early childhood education programmes, the remaining part should be covered by the founders' (mostly municipalities) funds. However, some municipalities do not attribute additional funds and require early childhood education institutions to carry out early childhood education programmes of 8 up to 12 hours a day with the same funds of education/school voucher meant to cover 4 hours. This situation results in lower remuneration of employees, poorer quality of early childhood education, lower or no investments in increasing the qualification of early childhood education employees, renewing educational equipment²⁰⁸.

Similarly, most of the analysed interventions has a positive impact on the overall society. However, there are also some interventions that do not have or have negative impact on the overall society. Compensations for parents whose children are attending private pre-primary education institutions have both – positive and negative impact on the overall society. On the one hand, these compensations increase accessibility of early childhood education and since early childhood education has positive impact on the overall society, this intervention also has positive impact on the overall society. On the other hand, these compensations increase the segregation of society, since services provided in private early childhood institutions, even with the compensation, are still affordable only to middle and higher income families. Therefore, this compensation only increases incentives for middle and higher income families to transfer to private early childhood education institutions resulting in increased segregation of society.

Other interventions that have negative impact on the overall society are ESIF measures aimed at increasing quality and accessibility of vocational education and renovating the infrastructure of it. In general, such interventions should have a positive effect on the overall society. However, since certain shortcomings of provision of vocational education exist, such investments that are done without reforming the overall system of the service provision and are not directly related to the number of users of the service, are at least partially wasted, thus negatively affects the overall society.

²⁰⁸ Based on the information gathered during expert interviews

2.7.3.5 DEMAND SIDE: IMPACT ON AFFORDABILITY OF THE SERVICE OF SELECTED INTERVENTIONS

Most of the selected interventions that are applied to persons as opposed to legal entities are used equally among all consumers of the services. Only compensations for parents whose children are attending private early childhood education institutions and education/school vouchers for non-formal children education students are used less by low-income families.

Most of the analysed interventions also help to meet the demand of the service. The only types of interventions that do not add up to increasing the number of users of the service are regulatory interventions.

However, the existing setup of government interventions does not ensure equal accessibility of certain services for all members of the target groups. In case of public early childhood education, one of the main issues faced by its consumers and potential consumers are age-based obstacles since there are very few possibilities to receive public early childhood education for children up to 3 years old. In addition, spatial obstacles are relevant. Due to the unequal distribution of the supply of early childhood education in some areas of the country some members of the target group can not use the service, due to the lack of vacancies/providers. Currently, there are no government interventions targeting specifically the age-based affordability obstacle. Furthermore, the government interventions tackling the unequal distribution of the supply of early childhood education also do not attain their aims, meaning that either the scope of existing government interventions tackling this issue should be increased or additional government interventions should be introduced.

The main affordability related obstacle for consumers of non-formal children and non-formal adult education services is income. Low-income individuals/households tend to consume less of non-formal children and non-formal adult education. One of the reasons of lower consumption is the direct price paid by consumer, since both non-formal children and non-formal adult education services are mainly paid by the consumer. Furthermore, low-income is usually associated with lower educational attainment level and lower educational attainment level individuals/households tend to underestimate the importance of non-formal education and do not regard it as a commodity of primary importance, thus tending to use it less. Even though there are certain government interventions aimed at covering at least part of the costs of the aforementioned services such as education/school voucher for non-formal children education, subsidy for implementation of selected non-formal adult education programmes and ESIF subsidies for developing adult education, currently, only around 56 percent of children of school attending age participate in non-formal education (compared to the Lithuanian target of 100 percent)²⁰⁹ and only around 6 percent (compared to the EU average of 10.8 percent) of the population aged 25-64 years participate in adult education activities. These statistical indicators reveal that the consumption of non-formal children and non-formal adult education is not up to the rate expected, meaning that the existing government interventions reducing the dependence of consumption of these services on family's income are not enough to sufficiently increase the affordability of those services.

²⁰⁹ Order of the Minister of the Ministry of Education and Science of the Republic of Lithuania regarding the working plan of the Ministry of Education and Science of the Republic of Lithuania 2016, 2017 (LR Švietimo ir mokslo ministro įsakymai dėl Lietuvos respublikos švietimo ir mokslo ministerijos 2016 ir 2017 metų darbų plano patvirtinimo)

2.7.3.6 CONSISTENCY OF SELECTED INTERVENTIONS

There are a few interventions that are contradicting each other in Lithuanian Education and science sector. The subsidy for covering running costs of public early childhood education institutions contradicts education/school voucher for early childhood education students. While the education/school voucher helps to increase the efficiency of the provision of various levels of education by separating educational institutions able to attract enough pupils/students and educational institutions, not able to attract enough pupils/students, the subsidy for covering running costs of educational institutions is aimed at financing all budgetary educational institutions despite their efficiency. In case of vocational education this issue is solved by providing the subsidy for running costs of vocational education institutions in a form of education/school voucher as well.

Furthermore, compensations for families whose children are attending private early childhood education institutions contradicts education/school voucher for early childhood education. While the compensation encourages migration from public to private institutions, the methodology of education/school voucher calculation and distribution, does not allow enough flexibility to adapt to such changes effectively²¹⁰.

2.7.4 CONCLUSIONS AND RECOMMENDATIONS ON THE GOVERNMENT INTERVENTIONS IN THE LITHUANIAN EDUCATION AND SCIENCE SECTOR

The main issue to be solved by all governments with regards to the provision of education is the attainment of the right balance of the tradeoff between efficiency and equity²¹¹. While in many cases the participation of more private entities in education provision increases the efficiency of it, in most cases it also decreases the equity or accessibility of education for certain social groups. Conversely, in educational systems dominated by public providers the equity or accessibility of education is ensured, however, the efficiency of it is not always attained.

In Lithuania, the provision of all levels of education is mostly concentrated in public institutions. Even though, private providers exist in provision of each level of education, their share of the market occupied is comparatively low. This concentration helps to attain equal accessibility of education in most cases (with the exception of early childhood education). However, the foreseen level of efficiency of the services provision is not always attained. One of the features of the Lithuanian education system, hindering its efficiency is a complicated and contradictory system of its governance. The main institution responsible for education policy formation is the Ministry of Education and Science of the Republic of Lithuania. However, at the level of policy implementation, much more actors are involved. The main responsibility for the implementation of the various government interventions in education sector is divided between the Ministry of Education and Science of the Republic of Lithuania and municipalities. Nevertheless, with regards to the implementation of the government interventions of certain levels of education, more actors are involved. For example, implementation of government interventions in vocational education must be coordinated not only among the Ministry of Education and Science and municipalities, but also with the

²¹⁰ Press release of the Vilnius Municipality, 28 October 2015 <http://www.vilnius.lt/index.php?1386983483>

²¹¹ Lauri, T., & Pöder, K, 536; Musset, P., School Choice and Equity: current policies in OECD countries and a literature review. OECD Education Working Papers, No. 66. Paris: Organisation for Economic Co-operation and Development (OECD), 2012 <http://dx.doi.org/10.1787/5k9fq23507vc-en>

Ministry of Economy, Ministry of Justice and in certain cases with Ministry of Social Security and Labour. This division of responsibilities and need for coordination, that is not always successful, in certain cases results in inefficient implementation of government interventions.

One of the examples of such inefficiencies is the intervention aimed at covering the running costs of budgetary educational institutions. The subsidy for covering the running costs of educational institution must be provided by its establisher. Most of the educational institutions are established by municipalities. Due to the emigration and negative demographic trends, the number of schoolchildren in the state has decreased by around one quarter since 2000. However, the funds for covering running costs of educational institutions are not decreasing in line with the decreasing number of pupils/students, meaning that more and more funds are used for covering the running costs of institutions not occupied to their full capacity. This problem is being solved since 2004-2005 by implementing educational institutions' network reform. However, as the recent report of the National Audit Office of Lithuania has revealed, despite the decreasing number of educational institutions the overall financing of the running costs of educational institutions remains at the same level or even increases²¹². This is mainly caused by the divided responsibility for the implementation of government interventions in education sector between the Ministry of Education and Science and municipalities. The ministry has little power of coercing municipalities to implement the reform and increase the efficiency of the implementation of subsidies for covering the running costs of educational institutions. Municipalities on their part have political motives and experience the pressure from the community to keep even the inefficient educational institutions running and therefore either do not implement the reform at all, or only does it in a formal way. In many cases only the status of inefficient educational institutions (usually small institutions in rural areas) to a branch of the bigger institution is changed²¹³, thus not changing the overall area of educational institutions and not decreasing the amount of funds needed to cover the running costs.

Similar issues are experienced with the implementation of the education/school voucher intervention in various education levels. The education/school voucher is meant to increase the efficiency of educational institutions since it increases possibilities to choose among various institutions for service consumers. Theoretically, it should help to distinguish between efficient institutions attracting many pupils/students and enough funds to continue its activities and inefficient educational institutions that do not attract enough pupils/students and consequently do not have enough resources to continue its activities. However, the actual implementation of this intervention reduces its effects on efficiency since the Ministry of Education and Science itself applies different tariffs of education/school vouchers for educational institutions in rural areas not attracting enough pupils/students. Furthermore, municipalities also find ways to provide additional financing for such educational institutions either by using their own resources or redistributing to such institutions the resources of education/school voucher dedicated for other purposes (for example for financing of non-formal children education)²¹⁴. This type of additional financing might be justified by ensuring the equity and accessibility of education but it undermines the intended effects of increasing the efficiency of educational institutions by introducing education/school voucher.

One of the means of increasing the capacity of the Ministry of Education and Science to control the educational process, efficiency of the use of resources of educational institutions and reduce the influence of municipalities when it is based on political motives rather than the need to seek higher quality and efficiency of education, would be introduction of government interventions establishing external quality control systems in all levels of education. Currently, external quality control system does not exist in early

²¹² National Audit Office of Lithuania, National Audit Report. Can the achievements of Lithuanian students be increased, 28 November 2017, No. VA-2017-P-50-1-20

²¹³ National Audit Office of Lithuania, National Audit Report. Can the achievements of Lithuanian students be increased, 28 November 2017, No. VA-2017-P-50-1-20

²¹⁴ National Audit Office of Lithuania, National Audit Report. How is the Non-formal Children Education Organised, 4 February 2015, No. VA-P-50-3-1

childhood education²¹⁵. In other cases, for example in vocational education, such system does exist, however, due to the lack of resources it is not systematically implemented²¹⁶. The introduction or expansion of the external quality control system in various educational levels would also be beneficial since education/school voucher in all educational levels can be received by private providers as well. However, currently the Ministry of Education and Science and other related public institutions in some cases have almost no data on how these funds are used by private providers.

The coordination issues regarding the implementation of government interventions arise not only within different governance levels but also among different ministries. The lack of coordination between different ministries is revealed in a case of ESIF interventions planning. For example, in the programming period 2014-2020 one of the measures coordinated by the Ministry of Education and Science is meant to fund the non-formal adult education. However, it is applicable only to adults between 18 and 54 years old. Another measure administered by the Ministry of Social Security and Labour is aimed at adults over 54 years old. Among other activities, this measure funds also non-formal adult education activities for population of 54 years and more. The reasons for the separation of the group of 54 years and older persons from the whole population of adult learners receiving non-formal adult education funded by ESIF are not well grounded. Furthermore, the funds attributed to the measure aimed at persons 54 years and older are three times higher than those attributed to other adult learners. This separation of one particular age group from the whole adult population has even raised questions of the compliance of the measure with the principles of equality²¹⁷. This example reveals the lack of coordination among different ministries. Therefore, in order to increase the efficiency of implementation of the abovementioned interventions in particular and all interventions in general, it is recommended to increase the coordination among different ministries and among different levels of governance.

Furthermore, the drawback common to all ESIF interventions is that the sustainability and efficient use of the results created by these investments is not ensured. For example, the established sectoral practical training centres are not used to the extent foreseen. However, this issue is prominent in all levels of education. In order to increase the efficiency of the implementation of ESIF interventions, it is recommended to ensure sustainability and efficiency of the results created by these interventions.

Another issue common to a vast majority of analysed government interventions is the lack of clear definition of results to be attained by introducing the intervention. However, this shortcoming is symptomatic of the overall planning of Lithuanian Education and science sector. For example, currently there are no programmes foreseeing the development of early childhood and vocational education. The last programme that clearly stated the operational objectives of early childhood education was implemented during the period of 2011-2013, while the last programme that clearly stated the operational objectives of vocational education was implemented during the period of 2014-2016. Without the programmes clearly stating the operational objectives of different education level policies it is difficult to determine the objectives and foresee results to be attained by separate government interventions as well. Therefore, in order to increase the quality of the planning of the related government interventions, it is recommended to prepare programmes clearly stating the objectives of early childhood and vocational education and the measures to attain them.

In addition, the current setup of government interventions is not sufficient to address the main issues in each educational level. At the level of early childhood education the main issues are the mismatch among the overall supply and the overall demand as well as the lack of compliance with the qualitative standards.

²¹⁵ Based on the information gathered during expert interviews

²¹⁶ Ministry of Education and Science of the Republic of Lithuania, Qualifications and Vocational Education and Training Development Centre, Review of the Condition of Vocational Education 2017, 2017

²¹⁷ Based on the information gathered during expert interviews

In order to reduce the mismatch between the overall supply and overall demand, additional interventions facilitating the reform of the network of early childhood education institutions should be finished to be implemented. Regarding the compliance with qualitative requirements, the government interventions establishing external national quality assurance system of early childhood education should be introduced. It would help to ensure sufficient quality of early childhood education in both public and private early childhood education institutions.

In case of vocational education the main drawback is that it does not always comply with the needs of the labour market and does not always provide the users of it with the labour market relevant skills. Furthermore, this mismatch between the labour market needs and vocational education programmes, causes unpopularity of vocational education. This in turn causes negative side-effects for the whole society, since the resources attributed for government interventions facilitating public vocational education provision are wasted as it is constantly undeconsumed. In order to increase the efficiency of the provision of vocational education government interventions ensuring better compliance of vocational education with the labour market needs should be introduced.

The main issue related with public non-formal children and non-formal adult education is the affordability of it. Low-income individuals/households tend to consume less of non-formal children and non-formal adult education. One of the reasons of lower consumption is the direct price paid by consumer. Furthermore, low-income is usually associated with lower educational attainment level and lower educational attainment level individuals/households tend to underestimate the importance of non-formal education and do not regard it as a commodity of primary importance, thus tend to use it less. However, interventions such as non-formal children education/school voucher or funding of selected non-formal adult education programmes help to increase accessibility of non-formal children and non-formal adult education for all society groups. Therefore, in order to increase accessibility of non-formal children and non-formal adult education, the scope of interventions such as non-formal children education/school voucher or funding of selected non-formal adult education programmes should be expanded.

There are also two interventions that have unintended impact on its target group. Compensations for parents whose children are attending private pre-primary education institutions, is meant to be given to families whose children did not get a place in a public early childhood education institution. However, some receivers use it as a means of financing better quality services in a private early childhood education institution, which they would have used even without the compensation. In these cases, the compensation does not attain its aims and since more and more families, using the compensation are choosing private education institutions, thus even leaving free places in public education institutions, public resources are being wasted. In order to prevent this wasting of resources, the implementation of the intervention should be amended to make sure that only those not able to attend public early childhood education institutions due to the lack of vacancies receive the intervention.

Another intervention, namely education/school voucher for early childhood education students, encourages unforeseen behaviour of municipalities. The education/school voucher is intended to cover the costs of provision of 4 hours of early childhood education per day, however, some municipalities require early childhood education institutions to carry out early childhood education programmes of 8 up to 12 hours a day with the same funds of education/school voucher meant to cover 4 hours. This situation results in lower remuneration of employees, poorer quality of early childhood education, lower or no investments in increasing the qualification of early childhood education employees, renewing educational equipment²¹⁸. In order to prevent this unforeseen behaviour, the Ministry of Education and Science should ensure better supervision of the use of the funds of early childhood education/school voucher.

²¹⁸ Based on the information gathered during expert interviews

Finally, there is one intervention related to non-formal adult education the implementation of which is not entirely efficient, namely the funding of selected non-formal adult education programmes. Currently the rules of the implementation of the intervention allows to finance projects that are aimed at training civil servants. This regulation increases the risk of double financing since training of civil servants should be implemented by other measures. In addition, the funding of selected non-formal adult education programmes aims to increase participation rates in lifelong learning. Funding of the training of civil servants would not help to attain this objective. In order to increase the efficiency of the implementation of intervention, funding of the training of civil servants by this intervention should not be allowed.

2.7.5 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

This chapter presents the analysis of the potential for the implementation of financial instruments in the four Lithuanian Education and science sector's services selected for the in-depth analysis:

- Public early childhood education;
- Public vocational education;
- Public non-formal children education;
- Public non-formal adult education.

2.7.5.1 PUBLIC EARLY CHILDHOOD EDUCATION

TABLE 106. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN PUBLIC EARLY CHILDHOOD EDUCATION SERVICES

Criteria	FI potential
Pricing system	Free of charge (fee is present, but does not target the educational costs)
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)
Market potential	Limited potential development of (more) paid services
Accountability	Operational objectives and targets not defined
Capacity	Qualitative standards not clear /Spatial distribution issues/ Age-related obstacles

Source: BGI Consulting et al, 2017

PRICING SYSTEM

Service is free of charge across the whole country (due to the implementation of such government intervention as subsidy for covering public early childhood educational institutions maintenance costs, education/school voucher for early childhood education students). It is important to clarify, though, that a fee for public kindergartens exists, but is not considered here since, in theory, it is directed only to the costs of child care and meals, not involving the educational costs (i.e. the whole educational costs are subsidized by the government or municipalities and parents are not charged for it). It is also important to note that the intervention compensation (full or partial) of the cost of children meals in early childhood education institutions fully or partially covers even the costs of meals for children from certain social groups based on defined criteria. Revenue is generated to a small extent through rent of the infrastructure to external

operators (e.g. non-formal children education providers rent the infrastructure of early childhood education for their services).

Effect of price increase on demand of such services depends on the profile of consumers (e.g. low-income groups, who already do not have a lot of incentives to use the service, would consume less). Low-income groups usually also have lower educational attainment levels and consequently do not regard education as a commodity of primary importance or are not aware of the benefits of it. Therefore, low-income groups currently tend to use less early childhood education services. It is expected that in case of the price increase low-income groups would reduce their consumption of early childhood education services even further. Since service provision is focused on encouraging consumption of early childhood education (as a merit good), there is generally no room for introducing charging fees.

REGULATORY AND GOVERNANCE FRAMEWORK

Service is provided by local governments (municipalities) in combination with the Ministry of Education and Science. Public sector dominates the provision of service in the market, although private entities are present in the market. According to 2015 data, there are 721 institutions providing pre-school education, from which 606 are public and 115 private. The latter ones provide the services more expensively and are often not present in more remote areas.

Major obstacles to enter the market for private entities are linked to the dispersion of consumers and market size. The dispersion of consumers and the market size are obstacles for private entities willing to enter the service provision market, since the number of consumers of early childhood education in urban and rural areas differs significantly. The early childhood education consumption rates for 4-6-year-olds in 2015 were 98.2 percent in urban and 47.6 percent in rural areas.²¹⁹ This proportion also means that the demand for early childhood education services in rural areas is completely met by the public service providers (however, in certain cases it is only because the potential demand is not taken into account). In fact, in rural areas even the oversupply of the early childhood education exists, therefore, there is almost no room for private providers to enter the market. However, in urban areas, especially largest cities, the demand for early childhood education services exceeds the supply. In these cases, private providers have more possibilities to enter the service provision market. Furthermore, the municipalities of the largest cities have introduced an intervention that provides compensations for consumers attending private early childhood education institutions, due to the lack of vacancies in public early childhood education institutions. Therefore, private providers have even more incentives to enter the market.

MARKET POTENTIAL

Service provision targets specific groups, children up to 6 years old for pre-school services and children between 6 and 7 years old for pre-primary services (in 2015, 211 307 children on this age range in the country). Market share of public providers is above 66 percent.

Potential for generating additional revenue is limited. For instance, the ability to rent the existent infrastructure is restricted to the periods when it is not being used for the main service provision.

Additionally, since in some cases demand is not met by the public provision (e.g. remote areas), there is considerable room for private providers, which can also offer alternative qualities and characteristics compared to public service elements. The provision of services by private providers is enhanced by such government interventions as education/school voucher for early childhood education students that can be received by public and private providers alike, compensations for families whose children are attending

²¹⁹ European Commission: Directorate-General for Education and Culture, Education and Training Monitor 2017. Lithuania, 2017

private early childhood education institutions (received by private providers only) as well as ESIF subsidies for improving quality and accessibility of early childhood education that can also be received by both public and private service providers alike.

ACCOUNTABILITY

Although the main policy objectives are defined by the Law on Education, operational objectives of the service and targets are not defined in any strategic documents. Therefore, short-term and long-term objectives are not available to be analysed in their consistency. Furthermore, the interventions establishing external quality control system of early childhood education in public and private early childhood education institutions does not exist. Therefore, it is even more difficult to ensure proper accountability.

CAPACITY

There are no clear qualitative standards, therefore, it is difficult to assess whether the service meets them. In general the service meets the overall demand. However, spatial distribution of the service is not always efficient, offering less services than demanded in a certain locations and more services than demanded in others. Also certain age groups of potential consumers experiences difficulties to use the service, since very few services are offered to children up to 3 years old.

Currently, there are no considerations about transferring the service provision to private partners. However, there are plans of advancing the age of compulsory start of pre-primary education to 5 years old. If this change is implemented, it would increase the overall number of consumers of the service and thus will increase possibilities for private providers to enter the market. Furthermore, parts of the service provision (such as laundry services and food catering services) are being transferred from public to private providers. Instead of inhouse provision of such services, private companies are contracted in certain cases. However, this transfer is not systematic and takes place only in certain instances.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Although a fee is in place for this service, it is directed only to cover the costs of meal and childcare, therefore the purely educational part of the service is delivered free of charge for consumers. The service presents, therefore, very small to no capacity of revenue generation, which limits the potential FI support. Additional revenue could be generated to a certain extent through development of more paid services (child care related). Savings also could be generated to a certain extent by transferring certain services (such as laundry services or food catering services) to private providers.

2.7.5.2 PUBLIC VOCATIONAL EDUCATION

TABLE 107. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN PUBLIC VOCATIONAL EDUCATION SERVICES

Criteria	FI potential
Pricing system	Free of charge (Consumer-paid in case of CVT services – covering above 75% of total costs)
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)
Market potential	Potential increase of scope of services/ rent of infrastructure
Accountability	Operational objectives and targets not defined
Capacity	Qualitative standards partially met

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Initial vocational education and training is provided free of charge (due to the implementation of such government interventions as education/school voucher for covering running costs of vocational education institutions, education/school voucher for vocational education students), while for CVT (Continuous Vocational Education and Training) pricing is available but non-regulated and consumer payment covers a share above 75 percent of the annual costs for the service provision. Additional revenue is generated to some extent (shares between 0 and 25 percent of the service provision costs), through renting of infrastructure and subsidiary products/services (in many cases the rentable infrastructure is created by ESIF interventions). However, these activities helping to generate additional revenue are currently not intensive enough, the possibilities to rent infrastructure and produce subsidiary services/products is not used to the full capacity. An increase of price for the service, along with improvement of its quality, could be applied with partially same levels of consumption among all income groups.

REGULATORY AND GOVERNANCE FRAMEWORK

Service is provided by local governments (municipalities) in combination with the Ministries of Education and Science, Economy, Justice and Interior. Public sector dominates the provision of service in the market, through 74 initial vocational education institutions and 260 CVT institutions (the latter combining private and public providers providing both free and paid services). Private entities are present in the market providing the same services, as well as private companies who organise vocational training for their own employees or have their own training centres.

Major obstacles to enter the market for private entities are linked to the high fixed costs, service delivery places (e.g. dispersion) and market size. Provision of vocational education requires specific and expensive infrastructure. The obstacle related with the infrastructural requirements is partially being solved by the government intervention ESIF subsidies for upgrading infrastructure of vocational education, since these subsidies can be received by both private and public service providers alike. However, the funding of this intervention is not enough to attract a significant number of private providers to the service provision market. The private entities participating in the market are also experiencing obstacles since popularity of vocational education in Lithuania is low and even public institutions (providing the service free of charge) do not attract enough consumers in certain cases.

MARKET POTENTIAL

Service provision targets specific age, income and social status groups (in 2016, 46,543 students in initial vocational education). Consumers of initial vocational education must be at least 14 years old, consumers of continuous vocational education – at least 18 years old. Unemployed and people warned of redundancy can participate in continuous vocational education free of charge. Market share of public providers is above 66 percent.

Potential for generating additional revenue exists, through increasing the usage of existing infrastructure (i.e. increasing the amount of revenue through rent of spaces), as well as through enlarging the scope of services provided. For example, some institutions can provide more CVT paid programmes for adults, institutions having infrastructure for providing sectoral practical training can increase the intensity of the use of infrastructure. The participation of private service providers is also encouraged by implementing such interventions as education/school voucher for vocational education students, ESIF subsidies for improving quality and accessibility of vocational education, ESIF subsidies for upgrading infrastructure of vocational education that can be received by both public and private service providers.

ACCOUNTABILITY

Although the main policy objectives are defined by the Law on Education, operational objectives of the service and targets are not defined in any strategic documents. Therefore, short-term and long-term objectives are not available to be analysed in their consistency. Furthermore, even though the external vocational education quality control system exists and there are certain government interventions establishing the requirements for vocational education providers, such as regulation regarding the licencing of formal vocational education providers, due to the lack of human and financial resources it is not systematically implemented.

CAPACITY

Service provision complies partially with qualitative standards, since skills and qualifications relevant to the labour market are not always significantly approached by the vocational training services. Poor investment planning, ineffective assets management and lack of expertise affect the quality of service provision. It is worth noting though that large parts of ESIF were directed towards improving infrastructure and technologies required for the provision of quality vocational education in recent years.

There are currently no considerations about transferring parts of service to private partners. However, recently approved changes to the Law on Vocational Education foresees more active involvement of private entities in provision of vocational education. One of the means of increasing involvement foreseen is the change of the legal status of public vocational education institutions to public non-profit organisation(s), the councils of which will have to include private entities. Furthermore, the apprenticeship is approved as a compulsory part of vocational education. Therefore, public vocational education institutions will have to cooperate with private entities more closely in order to fulfil this requirement.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

A lack of demand implies that not enough low-skilled people receive the training necessary²²⁰.

It is necessary to increase participation of target groups of the service (upper secondary school population and employees, respectively for initial and continuous CVT services), through the improvement of the programmes and institutions providing the service. Furthermore, considering the non-regulated pricing

²²⁰ European Commission (2017), *Commission Staff Working Document, Country Report Lithuania 2017*, SWD (2017) 80 final

system, reasonable capacity of costs covering and certain participation of private entities, the Continuing Vocational Training (part of public vocational education service) presents some revenue generating potential, as well as a potential for more market service provision.

It is also worth to highlight the importance of tackling deficits on the planning of the service, indicated on the previous sections, setting clear short- and long-term operational objectives, implementing the external quality control measures more systematically.

2.7.5.3 PUBLIC NON-FORMAL CHILDREN EDUCATION

TABLE 108. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN PUBLIC NON-FORMAL CHILDREN EDUCATION SERVICES

Criteria	FI potential
Pricing system	Consumer-paid, non- regulated (covering up to 75% of total costs)
Regulatory/governance Framework	Mixed public/private (Public share up to 66% of the market)
Market potential	Lacking demand No potential for additional revenue
Accountability	Performance framework
Capacity	Qualitative standards not clearly defined

Source: BGI Consulting et al, 2017

PRICING SYSTEM

Service pricing is available but non-regulated and consumer payment covers a share between 50 and 75 percent of the total annual costs of the service provision (interventions such as subsidy for covering public educational institutions providing non-formal children education maintenance costs, education/school voucher for general (primary, lower secondary and upper secondary (except for vocational)) education students, education / school voucher for non-formal children education students, depending on the institution, cover the rest). Additional revenue is generated to a small extent (up to 25 percent of the total service provision costs) through renting of existent infrastructure to external operators (not all non-formal children education providers have their own infrastructure to rent out).

Low-income individuals show lower rates of consumption due to the direct price of the service to be paid by consumer, limited knowledge about the service and opportunities to use it.

An increase of price for the service, along with improvement of its quality, could be applied with partially same levels of consumption among all income groups.

REGULATORY AND GOVERNANCE FRAMEWORK

Municipalities and Ministry of Education and Science are responsible for provision of the service, through 238 public institutions. Private entities are significantly present (54 institutions) providing similar services, sometimes of greater variety or better quality. Funding mechanism has been recently changed by introducing education vouchers to non-formal children education.

MARKET POTENTIAL

Service targets specific groups of age and social status, i.e. children up to 19 or 21, in case of special needs (102,491 people have consumed non-formal children education in 2016). Market share of public operators is between 34 and 66 percent. Service provision is often scarcer in rural/remote areas.

Major obstacles to enter the market for private entities are the high fixed costs, as well as a certain lack of demand, since non-formal children education is not compulsory and some families do not understand the value of it or do not have resources to fund the consumption of such service. Therefore, private non-formal children education providers in some cases do not have the demand expected for the service. However, interventions such as ESIF subsidies for upgrading infrastructure of non-formal children education that can be received by public and private providers alike tackle the problem of high fixed costs, while interventions such as education/school voucher for non-formal children education students are tailored to address the lack of demand.

There is currently no foreseen potential for generation of additional revenue (at least until the demand for the service has increased).

ACCOUNTABILITY

Information is available on the context of intervention; recent trends are monitored. Objectives are clearly defined and target values available. Additionally, short-term and long-term objectives are consistent. The recent introduction of non-formal children education voucher has also increased accountability, since the voucher can be received only for services provided in institutions accredited by municipalities.

CAPACITY

It is not clear whether the service complies with qualitative standards, since these are not clearly defined. There are currently no considerations about transferring the service provision to private partners, which already have significant participation in provision.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

The service shows a considerable costs covering capacity and and significant participation of private providers. The largest barrier, though, is a lack of demand (currently, only around 56 percent of children of school attending age participate in non-formal education²²¹) and no foreseen potential for generation of additional revenue (due to the lack of demand). Further demand could be promoted through a wider scope and increased quality of the services, as well as through inclusion of low-income groups (who are currently the ones to consume the service the least). Introduction of certain interventions such as education/school voucher for non-formal children education students is aimed at increasing the inclusion of low-income groups.

²²¹ Order of the Minister of the Ministry of Education and Science of the Republic of Lithuania regarding the working plan of the Ministry of Education and Science of the Republic of Lithuania 2016, 2017 (LR Švietimo ir mokslo ministro įsakymai dėl Lietuvos respublikos švietimo ir mokslo ministerijos 2016 ir 2017 metų darbų plano patvirtinimo)

2.7.5.4 PUBLIC NON-FORMAL ADULT EDUCATION

TABLE 109. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN PUBLIC NON-FORMAL ADULT EDUCATION SERVICES

Criteria	FI potential
Pricing system	Consumer-paid, non-regulated (covering above 75% of total costs)
Regulatory/governance Framework	Mixed public/private (Public share up to 66% of the market)
Market potential	No potential for additional revenue Spatial and income-based obstacles
Accountability	Performance framework
Capacity	Qualitative standards not clearly defined

Source: BGI Consulting et al, 2017

PRICING SYSTEM

Service pricing is available but non-regulated and consumer payment covers a share above 75 percent of the total annual costs of service provision (the remaining costs are covered by interventions such as subsidy for covering public educational institutions providing non-formal adult education maintenance costs and subsidy for implementation of selected non-formal adult education programmes). Additional revenue is generated to a small extent (up to 25 percent of the total service provision costs) through renting of existent infrastructure to external operators (not all non-formal adult education providers have their own infrastructure to rent out).

Low-income individuals show lower rates of consumption due to the direct price of the service to be paid by consumer (users are compensated only for a small share of non-formal adult education service through interventions such as subsidy for implementation of selected non-formal adult education programmes and ESIF subsidies for developing adult education), limited knowledge about the service and opportunities to use it. Effect of the price increase on the demand of such services depends on the profile of consumers (e.g. low-income groups would consume less).

REGULATORY AND GOVERNANCE FRAMEWORK

Service provision is dominated by private entities. Public entities providing this service are established by municipalities or the Ministry of Education and Science.

MARKET POTENTIAL

Service provision is directed to adults aged 25-64 years old and the target for 2022 is to reach 12 percent of this public (only around 6 percent of this public has consumed the service in 2016). Usage of the service is restricted to specific location areas (in some cases the accessibility of non-formal adult education is poor, e.g. rural areas); and income-based obstacles are also relevant. Low-income individuals/households tend to consume less of non-formal adult education. One of the reasons of lower consumption is the direct price paid by consumer. Furthermore, low-income is usually associated with lower educational attainment level and lower educational attainment level individuals/households tend to underestimate the importance of non-formal education and do not regard it as a commodity of primary importance, thus tend to use it less. Interventions such as subsidy for implementation of selected non-formal adult education programmes and ESIF subsidies for developing adult education aim to tackle these income-related consumption obstacles. However, the funds attributed to the implementation of these interventions are very scarce, therefore, only

a small share of the target group benefits from these interventions. Furthermore, the rules of implementation of certain interventions, for example, of a subsidy for implementation of selected non-formal adult education programmes allows the funds to be used for funding the non-formal education of such groups as government employees which would be participating in non-formal adult education even without the intervention (since they are able to fund the consumption of these services themselves or these services would be funded by other public sources anyway).

There is currently no foreseen potential for generation of additional revenue, since the consumption rate is well below the targets, i.e. introduction of higher tariffs is hardly feasible; and providers are often already renters of spaces for service provision and not owners of such infrastructure.

ACCOUNTABILITY

Information is available on the context of intervention. Objectives are clearly defined and target values available. Additional, short-term and long-term objectives are consistent.

CAPACITY

It is not clear whether the service complies with qualitative standards, since these are not clearly defined. The supply of the service is generally higher than demand itself. Objectives aim to increase the share of population served by non-formal adult education.

There are currently no considerations about transferring service provision to private entities, since private providers already occupy a large share of the market. There is, though, considerations on the opposite – public providers are constantly encouraged to offer more services in non-formal adult education.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Similar to the previous service, non-formal adult education shows large participation of private providers and considerable costs covering capacity. However, lack of demand is a barrier, while the operational targets aim to double attendance. In this case, further demand could be promoted, by reaching larger shares of the public, which would also increase revenues. However, in order to reach larger shares of the public, right groups must be targeted (for example low-income individuals, individuals having low-educational attainment levels) that are currently not consuming the service.

2.8 CROATIA: EDUCATION AND SCIENCE

2.8.1 GENERAL OVERVIEW OF THE GOVERNMENT INTERVENTIONS IN THE SECTOR

Among the main policy objectives in the Croatian Education and science sector, established in Croatian Education, science and technology strategy, enhancing the lifelong learning, increasing the quality and availability of higher education and strengthening of innovative economy and society by increasing investments into R&D can be mentioned.

Enhancing of lifelong learning is foreseen with the view to provide Croatian working age population with the knowledge and skills increasing their employability and adaptability to the labour market needs²²². It is expected to increase participation of adults (aged 25-64) in lifelong learning to 5 per cent of adult population by 2020 in conformity with Europe 2020 goal. Currently the share of adults participating in lifelong learning is around 3 percent and there has been almost no change in the value of the indicator during the last few years. In order to attain this objective it is foreseen to create preconditions for greater inclusion of adults into lifelong learning programmes, improve and expand on-the-job education and training, establish quality assurance system in adult education and improve organisation, financing and administration of adult education processes²²³.

The policy goal of increasing the quality and availability of higher education is established expecting to increase the share of persons aged 30-34 having attained tertiary education degree up to 35 percent²²⁴. Currently, the share of persons having attained tertiary education degree in Croatia is 29.5 percent and the trend of the indicator has been fluctuating in the recent years²²⁵. Improvement of study programmes, increase of competences of the staff and development of infrastructure required for higher education provision are foreseen to attain this objective²²⁶.

Besides the policy objectives relevant for education, it is also expected to strengthen the innovative economy and society in Croatia by increasing investments into R&D. It is expected that the investments into R&D activities will be increased to 1.4 percent of GDP by 2020, of which 0.7 percent through state / public funding. By introducing measures for strengthening of research and development funding from the business sector and from other national and foreign sources, Croatia will strive to achieve investment as high as 2 percent of GDP in 2020.²²⁷ Currently, the share of GDP spent on R&D activities in Croatia is equal to 0.85 percent²²⁸. In order to attain this objective it is foreseen to increase the international competitiveness of Croatian universities and research institutions, create grounds for the transfer of knowledge and cooperation between public research institutions and business sector, create national research infrastructure and increase integration into the international research networks²²⁹.

The main provider of various education level services as well as the main funding source of scientific activities in Croatia is the public sector. Five main public services were identified in the Education and

²²² Croatian education, science and technology strategy (http://narodne-novine.nn.hr/clanci/sluzbeni/2014_10_124_2364.html)

²²³ Ibid.

²²⁴ Ibid.

²²⁵ Ibid.

²²⁶ Ibid.

²²⁷ Europe 2020 Strategy

²²⁸ Ibid.

²²⁹ Ibid.

science sector in Croatia. The list of all sector's services and their respective aims is provided in the table below.

TABLE 110. CROATIAN EDUCATION AND SCIENCE SECTOR'S SERVICES AND THEIR OBJECTIVES

Service title	Aim of the service
Public early childhood education	To provide public early childhood education
Public general education	To provide public general education
Public non-formal children education, public formal and non-formal adult education	To provide public non-formal children education (music, languages, etc.) and public formal and non-formal adult education.
Public higher education	To provide public higher education free of charge for students with low socioeconomic status as well as highly successful students
R&D support services	To improve R&D conditions and make R&D facilities more accessible

Source: BGI Consulting et al, 2017.

Services provided by the public sector in Croatian Education and science sector can be divided into supporting science (R&D support services) and education (the remaining four services). Types of education provided by public institutions in Croatia encompass formal pre-school, general, higher, adult as well as non-formal education for adults and children.

2.8.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

The scheme below disassembles the logic of the overall governmental interventions in the Education and science sector in Croatia. It starts with the rationale of the provision of the services by the public sector, then indicates services corresponding to that particular rationale. Services are classified not only by the rationale they correspond to, but also by a body, which is responsible for the provision of them. Other governmental interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

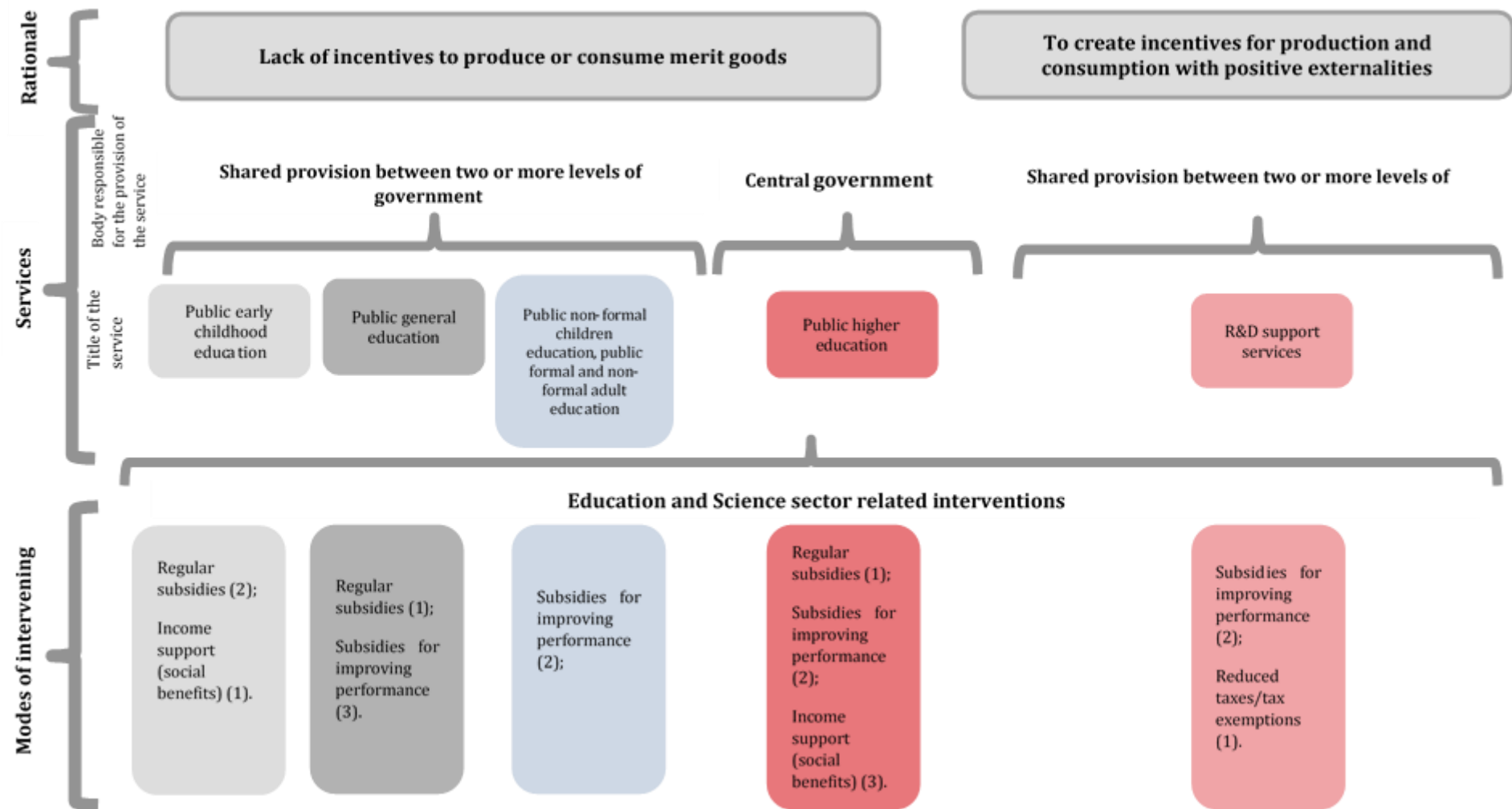


FIGURE 33. LOGIC OF INTERVENTIONS IN THE CROATIAN EDUCATION AND SCIENCE SECTOR

Source: BGI Consulting et al, 2017.

There are two rationales that explain the provision of services by the public sector in the Education and science sector in Croatia. *Lack of incentives to produce or consume merit goods*, is the first rationale for government intervention into the sector, encompassing the majority – four sector's services, all of which relate to the provision of education to different target groups. Since all levels of education create positive externalities for the overall society and economy, it is in the interest of the society and the government that these services would be consumed to a certain extent. However, in the absence of government interventions education services would be under consumed. This presumption is confirmed by the fact that even in the current situation, when educational services are provided free of charge by the public entities, government has to constantly take actions to increase consumption of education services, especially those that are not compulsory, such as non-formal children, non-formal adult education or higher education services.

The second rationale for the provision of services by government interventions – *to create incentives for production and consumption with positive externalities* – corresponds to the science part of the sector and includes only provision of R&D support services. Since R&D has positive externalities for the overall society (e.g. helps to solve the most pertinent issues of the society, develop the economy, increase productivity of private entities and create high quality jobs) it is in the interest of the society and the government to increase the scope of these activities to a certain extent. Since currently, the scope of R&D activities in Croatia is not sufficient, government intervenes with the aim to increase it.

2.8.1.2 LEVEL OF LIBERALISATION OF THE SERVICES PROVISION

The public services in the Education and science sector were ranked according to the level of liberalisation of their provision. The results of this ranking are provided in the figure below.

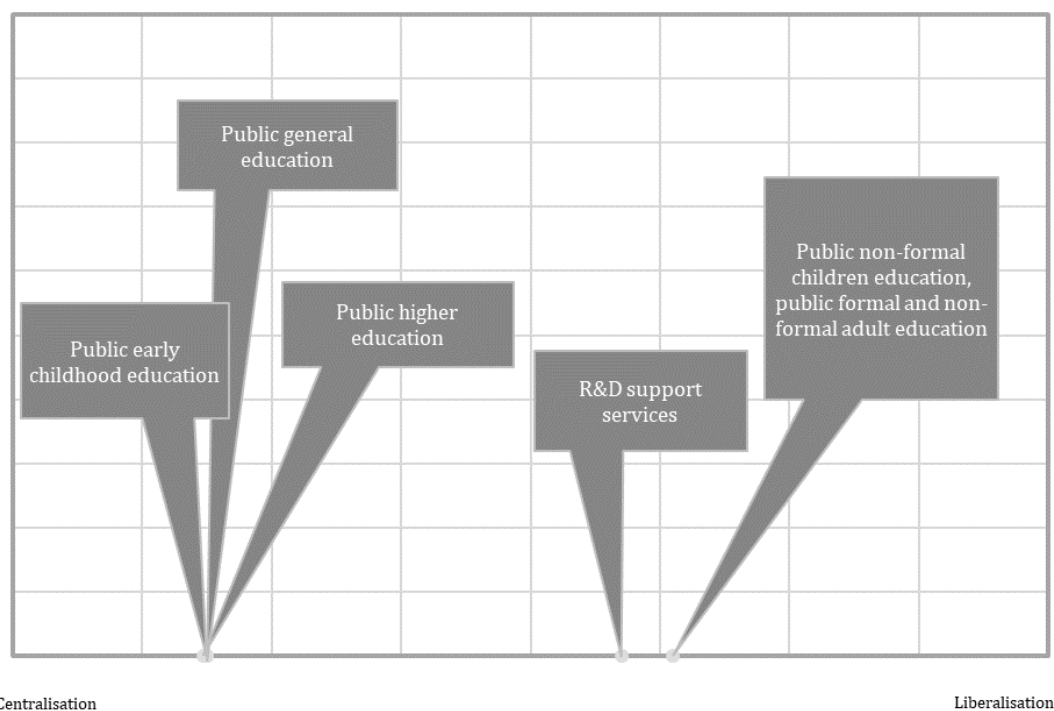


FIGURE 34. PLACEMENT OF THE PUBLIC SERVICES IN THE CROATIAN EDUCATION AND SCIENCE SECTOR ON LIBERALIZATION-CENTRALIZATION AXIS

Source: BGI Consulting et al, 2017.

There are two types of service provision in the Education and science sector in Croatia: relatively centralised and relatively liberalised. The provision of the vast majority of educational services – public early childhood, general and higher education – is relatively centralised. All of these services are provided by either budgetary or public institutions, they are either free of charge (elementary and secondary education) or their pricing is regulated (pre-school and higher education), markets of these services are dominated by the public operators occupying more than 70% of the market (for ex. There are altogether 131 tertiary education institutions of which 27 is private; there are approx 1067 kindergartens of which 914 are public, and so on)²³⁰. Delegation to state or municipality-owned entity is the most common service delivery mode of all three of them.

Public non-formal children, formal and non-formal adult education and R&D support services are provided in a relatively liberal mode. Common among them is that the price for consumers of all of these services is not regulated and public operators occupy only 34 percent or less of these services provision markets. However, it is important to note that in case of R&D support services, private providers mostly only carry out R&D activities for their own purposes and do not sell these services on the market for other companies to use. Providers that sell their services to other entities are mostly public.

All in all, the modes of provision of services in Education and science sector in Croatia are dispersed. Formal education (early childhood, general and higher) services are provided in a relatively centralised mode, while non-formal children, formal and non-formal adult education as well as R&D support services are provided at a relatively liberal mode.

2.8.2 ANALYSIS OF SELECTED INTERVENTIONS

Figures provided below depict the structure of each service selected for further analysis. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision identified. Graphs in light red indicate service providers and group(s) the service is targeted at.

²³⁰ Statistics is available on official web site of Ministry of education <https://mzo.hr/hr/rubrike/obrazovanje> and Croatian bureau of statistics <https://www.dzs.hr/>

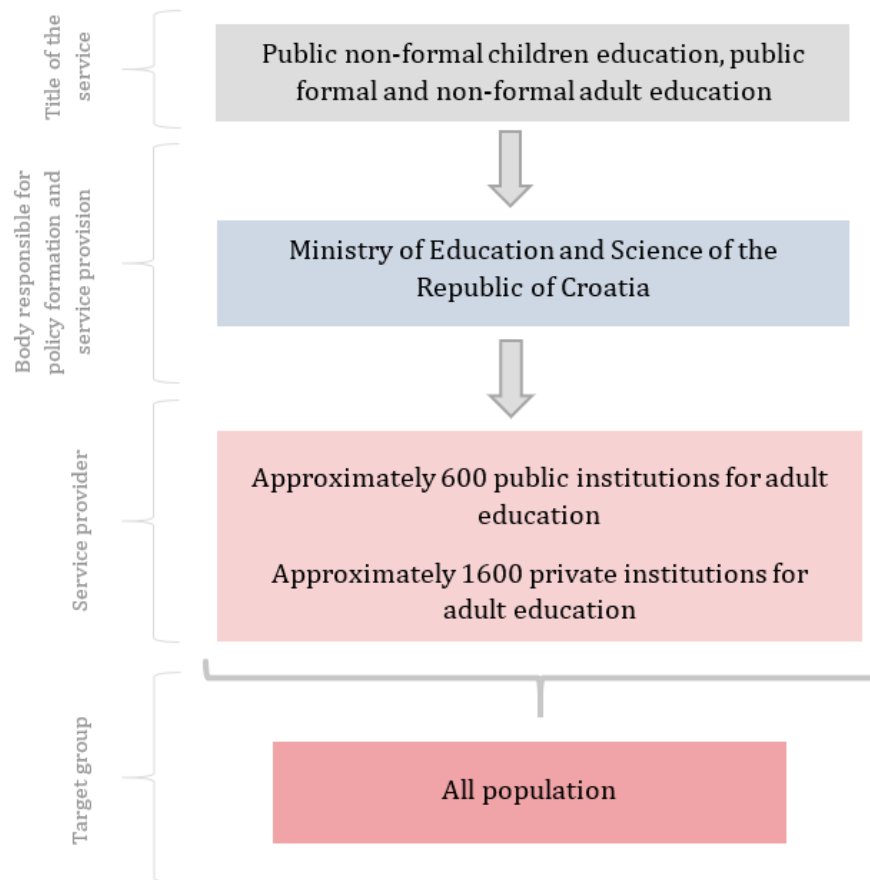


FIGURE 35. THE STRUCTURE OF PUBLIC NON-FORMAL CHILDREN, FORMAL AND NON-FORMAL ADULT EDUCATION PROVISION

Source: BGI Consulting et al, 2017.

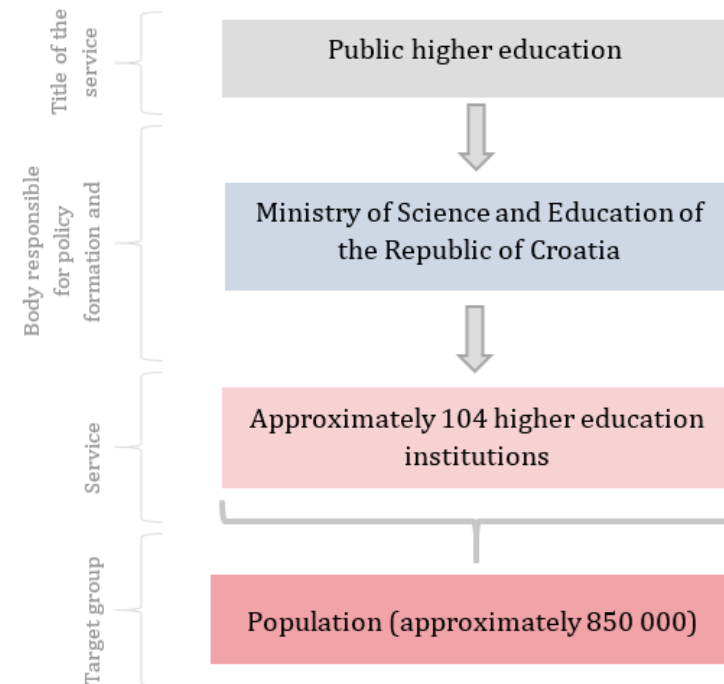


FIGURE 36. THE STRUCTURE OF PUBLIC HIGHER EDUCATION PROVISION

Source: BGI Consulting et al, 2017

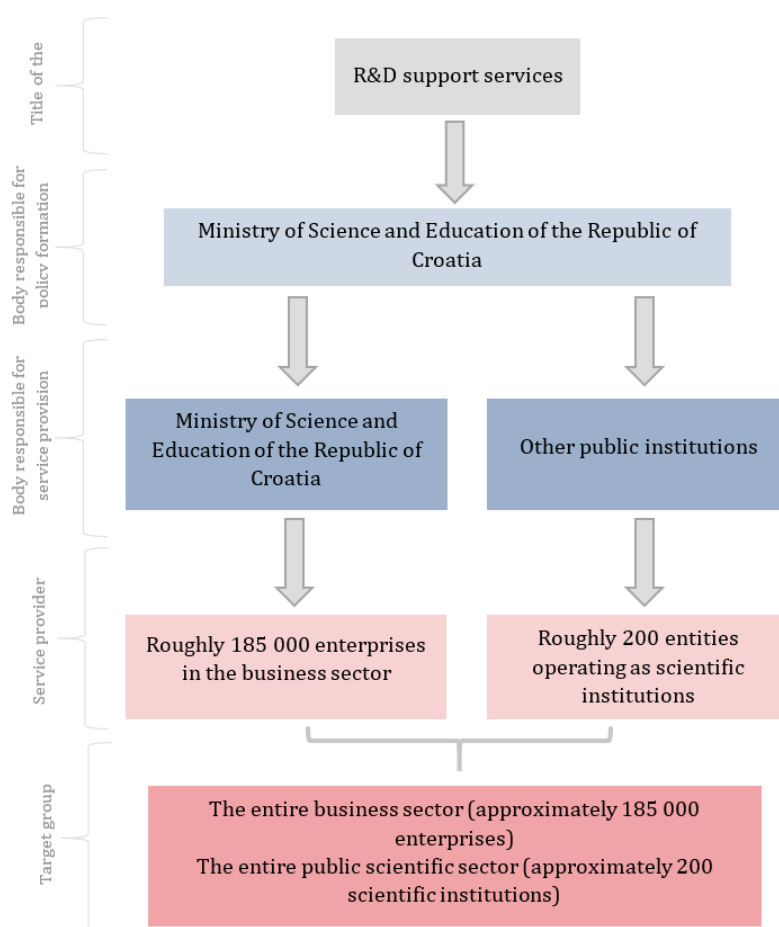


FIGURE 37. THE STRUCTURE OF R&D SUPPORT SERVICES PROVISION

Source: BGI Consulting et al, 2017.

Public non-formal children, formal and non-formal adult education services and R&D support services were selected for further analysis as services provided at the most liberal mode, due to this feature foreseeing a possibility for further liberalisation of the provision of those services. In addition, strong interest in the analysis of these particular services was expressed by the Croatian authorities, responsible for the supervision of the study. Strong interest of the Croatian authorities was also the reason for selection of public higher education services for further analysis.

In terms of public financing, interventions, ensuring the provision of public higher education receive the largest sum annually, which is equal to around EUR 135 million per year²³¹. Public financing of interventions ensuring the provision of R&D support services amounts to around EUR 100 million annually²³². The public financing of non-formal children, formal and non-formal adult education is equal to approximately EUR 8 million a year²³³. The vast majority of interventions ensuring the provision of services

²³¹ Own calculations based on data provided from the Yearly budget of the Ministry of education and science, OPCC and OPEHR

²³² Own calculations based on data provided from OPCC and yearly state budget

²³³ Own calculations based on data provided from OPEHR and yearly state budget and yearly budgets of local government units

are funded by the state budget, supplemented by interventions funded by the municipalities', regional authorities' budget and EU funds.

The largest interventions in financial terms, enabling the provision of services are funded by the EU structural funds in all three services selected. The largest share of financing attributed to public non-formal children, formal and non-formal adult education is covered by EU structural funds subsidies for improvement of education conditions in non-formal children, formal and non-formal adult education institutions.

Significant share of the costs of provision of public higher education are also covered by EU funded subsidies for improvement of educational conditions in higher education institutions, and subsidies for construction and reconstruction of student dormitories.

R&D support services also benefit significantly from the EU support. The main interventions in financial terms, enabling the provision of these services are subsidies for R&D projects and support for private and public entities as well as investments in infrastructure, equipment and capacities for R&D.

2.8.2.1 SUPPLY SIDE: QUALITY OF PLANNING OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Quality of planning of the services was evaluated by examining how clearly the long-term (i.e. policy) and the short-term (i.e. operational) objectives of the services were defined and how compatible they are among themselves.

TABLE 111. QUALITY OF PLANNING OF SERVICES IN THE CROATIAN EDUCATION AND SCIENCE SECTOR

Name of the service	The long-term policy objectives are clearly defined	The short-term operational objectives are clearly defined	The long-term and short-term objectives are non-contradictory	Quality of planning of the service
Public non-formal children education, public formal and non-formal adult education	√	√	√	GOOD
Public higher education	√	√	√	GOOD
R&D support services	√	√	√	GOOD

Source: BGI Consulting et al, 2017

The quality of planning was determined to be good in case of all public services analysed. The long-term policy and short-term operational objectives are clearly defined in all services. These long-term and short-term objectives are also non-contradictory, enabling the attainment of one another.

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

TABLE 112. QUALITY OF PLANNING OF SERVICE RELATED INTERVENTIONS IN THE CROATIAN EDUCATION AND SCIENCE SECTOR

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Public non-formal children education, public formal and non-formal adult education	Operation of public institutions providing formal and non-formal education for adults and children	×	√	N/A	×	×	√	AVERAGE
	Subsidies for improvement of educational conditions in institutions providing formal and non-formal education for adults and children	√	√	N/A	√	√	×	GOOD
Public higher education	Regular subsidy for the provision of free higher education	×	√	N/A	×	×	×	POOR
	Subsidies for improvement of educational conditions in higher education institutions	√	√	N/A	√	√	×	GOOD
	Subsidies for construction or reconstruction of student dormitories	√	√	N/A	√	√	×	GOOD
	Scholarships for students	×	√	N/A	√	√	√	GOOD
	Subsidies for full-time student's meals	×	√	N/A	√	√	√	GOOD
	Subsidy for accommodation in student home	×	√	N/A	√	√	√	GOOD
R&D support services	Tax reliefs for investments in R&D	×	√	N/A	√	×	√	GOOD
	Subsidies for R&D projects and support for	√	√	N/A	√	√	×	GOOD

	private and public entities							
	Investments in infrastructure, equipment and capacities for R&D	√	√	N/A	√	√	×	GOOD

Source: BGI Consulting et al, 2017.

In total, there are 11 service related interventions identified in Croatian Education and science sector. The planning of most of these service related interventions is good. There is only one service related intervention, the planning of which was determined to be average, and one the planning of which was determined to be poor.

In case of the poorly planned intervention, this decision was made taking into account that neither the management and delivery standards, nor the results to be achieved were defined while planning it. In terms of management it is relatively clear who is financing the intervention and how, but in terms of delivery standards for the service there are no general standards determined. Each university (faculty) determines its own service delivery standards (some even introduce ISO quality norms), but this is not obligatory nor regulated on the state level even though the financing of those institutions is on the state level. Only basic legislative norms are in place, but none of them precisely defines the requirements for the quality of the service delivery. Furthermore, the overall size of the demand of the related service was not taken into account.

The planning of the investments for the operation of public institutions providing formal and non-formal education for adults and children was assessed to be average, since the management and delivery standards of this intervention were not defined and the results of the implementation of the intervention, even though defined, lacked clarity. There are some legislative requirements that institutions providing formal and non-formal education for adults and children must comply with (such as safety, hygiene, etc.). However, there are no standards determining the requirements for the quality of the services on the state level.

The implementation period of both of the above discussed interventions was also not defined. However, the implementation period was not defined also in several cases where the overall planning of the intervention was still assessed as good. The reason for such assessment is that in case of regular recurrent interventions, such as regular subsidy for the provision of higher education, scholarships for students, subsidies for full-time student's meals and other, lack of definition of the implementation period is not a drawback, since these interventions are meant to be permanent and are changed usually only due to the change in the political will.

Similarly, some of the interventions that do not take the overall size of the demand of the related service into account were still assessed to be planned well. This decision was made taking into account that certain types of interventions, such as EU structural funds measures, are aimed at distribution of a certain amount of funding and do not aim to cover all the demand of the related service.

There is also one case (concerning the intervention "Tax reliefs for investments in R&D") where the planning of the intervention was determined to be good even though the results to be achieved by the intervention are marked to be not defined. In this case, the results of the intervention are actually defined, however they lack clarity and/or target values are not available.

Finally, it is also important to note that in case of all service related interventions in Croatian Education and science sector the definition of the amount of the revenue foreseen is marked as not applicable. This is due to the nature of the sector, that is aimed at providing services that mainly aim to encourage the consumption of the merit good and, therefore, no revenue generation is expected.

2.8.2.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Efficiency of delivery of the services was evaluated on the basis of five key criteria: how well the overall demand of the service is met by the overall supply; how well the public service complies with the qualitative standards; the existence of private entities providing similar services in the market; the market share of the private entities in the service provision market; whether the private entities providing similar services in the market can compete on equal terms with public providers.

TABLE 113. EFFICIENCY OF THE SERVICES IN CROATIAN EDUCATION AND SCIENCE SECTOR

Name of the service	The overall demand of the service is met by the overall supply	The public service complies with the qualitative standards	There are existing private entities providing similar services in the market	Private entities occupy 34 percent or more of the service provision market	Private entities providing similar services in the market can compete on equal terms with the public providers	Efficiency of the delivery of the service
Public non-formal children education, public formal and non-formal adult education	√	×	√	√	√	MEDIUM
Public higher education	×	×	√	×	√	LOW
R&D support services	×	×	√	√	√	LOW

Source: BGI Consulting et al, 2017.

The efficiency of the delivery of services in Croatian Education and science sector is either medium or low.

One of the main drawbacks, of the delivery of services, common to all of them, is that there are no clear qualitative standards for the service provision. Even though in all cases there are some minimum standards for the providers of the service, determining their ability to provide such services, quality standards are not met.

Quality assurance in higher education in the Republic of Croatia is based on the Law on Scientific Activity and Higher Education as well as on the Statutes of Universities and particular higher education institutions (faculties), as well as the rules and recommendations of the Ministry of Science and Education, National Council for Higher Education. Also, by signing the Bologna Declaration, the Republic of Croatia has undertaken to implement Standards and Guidelines for Quality Assurance in Higher Education (ESG).

Standards give guidelines for conducting internal quality assurance procedures, and external evaluations of institutions that are periodically carried out. In this regard, some documents have been produced and the necessary activities have been undertaken to stimulate and develop the quality of higher education however this is still mostly in the form of respecting the norm and not in actual efforts to improve the quality. Institutions still lack adequate IT solutions, curricula is not adjusted to labour market needs and

student standard is not at a high level. Croatia has thus envisaged to increase the quality and effectiveness of higher education also through OPEHR by financing projects aimed at updating curricula and adjusting it to labour market needs as well as the actual demand both of students and market as well as significant investments to enhance student standard through OPCC in terms of new students dormitories, IT equipment, etc.

Another shortcoming, relevant for public higher education and R&D support services is that the overall demand for these services is not met by the overall supply. However, it also enables a more active participation of private providers of similar services. In case of both, public higher education and R&D support services, private providers, providing similar services in the market are present. Private providers providing services similar to R&D support services even occupy more than 34 percent of the total service provision market. However, it is important to note that private companies carrying R&D activities mostly do it for their own purposes and do not sell it on the market for other entities to consume. Therefore, their R&D services are usually only provided for their own purposes.

Non-formal children, formal and non-formal adult education services market is also not entirely dominated by public providers. Private providers, providing similar services not only exist in the service provision market, but, as in case of R&D support services, even occupy more than 34 percent of the total service provision market.

In general, in case of all services analysed private entities providing similar services in the market can compete on equal terms with the public providers. Some difficulties are encountered by private entities willing to enter the market of R&D services provision. Among such difficulties high fixed costs of the service provision (such as costs for infrastructure and technologies required), lack of experienced and skilled personnel, and uncertainty of the return of investments can be mentioned.

Despite generally equal terms of competition for public and private service providers, public financial support for the provision of services is not available to private providers on equal terms. In case of formal adult education they are entitled to receive funding only for the implementation of formal adult education programmes, but not for the operational costs. Private educational institutions can participate in some subsidy programmes planned through OPEHR and funded by ESF. Those are in general projects that help improve their curricula to meet labour market needs and similar “soft” projects.

In case of higher education services, national funds are not given for private entities for the provision of the services, they can only receive EU structural funds support. However, even some EU structural funds funded measures are available to public providers only. For example, EU structural funds subsidies for construction and reconstruction of student dormitories are given to public entities only. In addition, subsidies for accommodation in student home are given to students studying in public institutions only.

Entities providing services similar to R&D support services are entitled to receive all interventions related with the service. However, in case of interventions funded by EU structural funds, different requirements for private and public entities apply – the share of co-financing required from private entities is much higher than that required from public entities.

The efficiency of the overall service is closely related with the efficiency of the interventions comprising it, or more specifically with their impact on the efficiency of the service provision.

The vast majority of services related interventions have impact on either the effectiveness or the efficiency of the service provision, or both. There is only one service related intervention that does not have impact on the effectiveness or the efficiency of the provision of services. However, this intervention is aimed at keeping public institutions providing formal and non-formal education for adults and children running, therefore it is not expected to increase the efficiency of the service provision.

All EU structural funds funded service related interventions either increase the number of users of the service that can access the service or increase its quality parameters so that better services are provided using the same resources. Among such examples subsidies for improvement of educational conditions in institutions providing non-formal children, formal and non-formal adult as well as higher education, subsidies for construction and reconstruction of student dormitories, subsidies for R&D projects and support for private and public entities, investments in infrastructure equipment and capacities for R&D can be mentioned.

In addition, some of the national budget funded interventions also help to increase the effectiveness and efficiency of the public services provision. For example, scholarships, subsidies for meals or subsidies for accommodation in student housing facilities provided for higher education students increase the accessibility of higher education and increase the number of users of the service, especially by allowing attendance of higher education institutions for students from lower-income families.

There are no services' related interventions that would be planned to have an impact on the efficiency of the service provision and would not have it.

One of the means of increasing the efficiency of the provision of service in Croatian Education and science sector is the transfer of provision of services or parts of services to private providers. A few conclusions about the sector's institutional potential for transferring the provision of the services to the private entities can be drawn.

Currently there are no considerations of transferring the provision of the whole service or part of services to private providers or change mechanisms of financing of non-formal children, formal and non-formal adult or higher education services. However, it is expected that in case of R&D support activities part of public funding will be replaced by private funding. In order to attain this change currently projects increasing cooperation of the public and private sector in R&D services provision are being implemented.

2.8.2.3 SUPPLY SIDE: ADDITIONALITY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

All services in Croatian Education and science sector have a significant positive impact on the target group they are aimed at.

The non-formal children education has a significant positive effect on the target group since it helps children to develop their specific talents and skills, attain competences that can not be acquired in formal education, develop creativity, increase the quality of life by ensuring enriching free time activities, good physical and psychological health. It also helps to increase social inclusion and cohesion as well as strengthen the civil society.

The formal and non-formal adult education provides its target group with similar effects of increasing the quality of life by ensuring rich free time activities, increasing social inclusion and cohesion as well as strengthening of the civil society. In addition, formal and non-formal adult education provides its target group with the skills relevant for the labour market, thus increasing their employability and enabling to increase earnings.

The significant positive effect of public higher education on its target group manifests through provision of high qualification and skills, enabling the target group to work in high quality, knowledge intensive work places and be versatile in the labour market.

Provision of R&D support services positively affects its target group since they enable the increase of quantity and quality of R&D production.

In addition to their impact on the target group, all services in Croatian Education and science sector have positive impact on the overall economy as well. All services analysed increase the productivity of private entities. Adequately skilled workforce is one of the preconditions of increasing the productivity of private entities. Since both, public formal and non-formal adult and higher education, develop the skills of the workforce they enable the increase of the productivity. However, since increase of the productivity requires not only qualified workforce, but also investments into technology and infrastructure, the productivity increasing effect of these services is insignificant. R&D support services, on the contrary, significantly increase the productivity of private entities, since they enable the development and introduction of new technologies allowing to attain better or more results using the same resources.

R&D support services also have an insignificant effect on the overall employment. Support for R&D activities create more high-quality and skills intensive workplaces. In addition, the results of R&D activities enable private companies to expand production of goods and services and in this way increases the number of jobs. Nevertheless, this effect on emergence of new working places is mainly indirect and not significant, compared to the overall employment. Non-formal children, formal and non-formal adult and higher education services do not have any impact on the overall employment. Meaning that these services create only work places necessary for the provision of the services themselves.

Non-formal children, formal and non-formal adult and higher education services also do not have any impact on capital investments, while R&D support services insignificantly increase capital investments since it enables private entities to develop new products/processes and expand businesses as well as to supplement public support for R&D activities by own investments.

All the services related interventions also have a significant or insignificant positive impact on the target group.

Regarding the outcomes additionality on the overall economy, all interventions enhancing the provision of the services analysed have positive effect on the productivity of private entities. The most visible effect on productivity of private entities is created by interventions related to R&D support services.

However, regarding the impact on the overall employment, interventions enhancing non-formal children, formal and non-formal adult as well as higher education do not have any impact, meaning that they do not create any additional working places. Conversely, interventions comprising R&D support services, especially EU structural funds funded measures do have impact on the overall employment, even though it is not significant in comparison to the overall employment.

Similar effect of the services related interventions is seen in relation to the capital investments. Interventions enhancing provision of non-formal children, formal and non-formal adult education do not have impact or have an insignificant decreasing effect on capital investments, while interventions comprising R&D support services insignificantly increase capital investments.

Summarising, it can be stated that all three services have significant positive impact on their target group. The impact on the overall economy of these services is also positive. All services analysed increase the productivity of private entities. R&D support services also have an insignificant effect on the overall employment and insignificantly increase capital investments.

2.8.2.4 SUPPLY SIDE: SIDE-EFFECTS OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Formal and non-formal adult, higher education and R&D support services have positive impact on businesses and business environment. Formal and non-formal adult as well as higher education help to produce more competent labour force, having attained the skills relevant for the labour market and in this

way positively affect businesses and business environment. R&D support services provide businesses with new technologies and new solutions as well as enable the development of businesses, introduction of new products and services.

None of the services analysed encourage unforeseen behaviour of the target group or affect natural environment. However, all of them have positive impact on the overall society. Non-formal children, formal and non-formal adult as well as higher education have positive impact on the overall society since all these services either provide users with the skills relevant for the labour market or help to increase social cohesion and strengthen civil society. R&D support services contribute to the well-being of the overall society by helping to solve society's most pertinent issues, develop economy and introduce new knowledge intensive work places.

All services related interventions have significant or insignificant positive impact on businesses and business environment.

None of them encourage any type of unforeseen behaviour of the target group or have any impact on the natural environment.

However, since all the services related interventions enhance the provision of the services analysed, all of them have positive impact on the overall society.

Overall, the side effects of the provision of services on businesses and business environment are positive. None of the services analysed encourage unforeseen behaviour of the target group or affect natural environment.

2.8.2.5 DEMAND SIDE: AFFORDABILITY OF THE SERVICES AND IMPACT ON AFFORDABILITY OF THE SERVICE RELATED INTERVENTIONS

Income related or any other obstacles do not restrict access to R&D support services for any of the target group members. However, consumers of non-formal children, formal and non-formal adult education services experience certain income-based obstacles of services consumption. Low-income individuals/households tend to use these services less. This is due to both – the direct price of the service and the association between low-income and low-educational attainment levels. Individuals and households having lower educational attainment level tend to not regard education as a commodity of primary importance and are less likely to consume it than the high-income individuals/households that usually also have higher educational attainment levels. Consumers of higher education services experience similar obstacles. The consumption of higher education services is lower among low-income individuals/households. This is not only due to the direct price of the service but also due to spatial restrictions. Higher education services tend to be concentrated in a few urban centres, increasing other costs related with the consumption of higher education services, such as living costs for the target group aiming to consume these services.

None of the interventions related to non-formal children, formal and non-formal adult education or R&D support services are applied to users of these services directly, but rather to the public and private entities providing the services. Only certain interventions related to the provision of public higher education are applied to the users of the service directly. These interventions are scholarships for students, subsidies for student's meals and subsidies for accommodation in student home. The availability of these interventions is restricted to certain income groups only. These interventions are applied to service users from low-income households. Scholarships for students and subsidies for accommodation in student homes are also applied to highest achieving students.

Services related interventions covering running costs of non-formal children, formal and non-formal adult as well as higher education provision help to meet the demand for these services. However, EU structural funds funded interventions related with these services only increase the quality of the services provision but do not add up to meeting the overall demand of these services. Similarly, scholarships and subsidies for student's meals or accommodation in student home only add up to affordability of the services but do not help to meet the overall demand. Only in case of R&D support services all service related interventions help to meet the demand for these services.

To sum up, income related obstacles are relevant to consumers of public non-formal children, formal and non-formal adult education as well as higher education services. Consumers or higher education service also experience spatial obstacles since the provision of higher education services tend to be concentrated in a few urban centres. Services related interventions covering running costs of non-formal children, formal and non-formal adult as well as higher education provision help to meet the demand for these services. Only EU structural funds funded interventions and interventions aimed at increasing the affordability of higher education services, such as scholarships for students, subsidies for student's meals or accommodation in student homes do not add up to meeting the overall demand of the services. In case of R&D support services all service related interventions help to meet the demand for these services.

2.8.2.6 CONSISTENCY OF SERVICE RELATED INTERVENTIONS

There was no contradicting or replacing interventions found in Croatian Education and science sector. All of the services related interventions in this sector supplement each other.

2.8.3 CONCLUSIONS AND RECOMMENDATIONS

In terms of EU average and especially Europe 2020 strategy goals, the sector of education and science in Croatia is substantially lagging. Basic skills (literacy, mathematics, science and technology) have declined and are below the EU average. There are differences in performance linked to socioeconomic status, but the low quality of curricula and teaching appear to be the main driver of Croatia's poor performance. Participation rates in early childhood education and care and in adult education are among the lowest compared to other EU countries. The relevance of skills acquired in vocational and higher education is not in conformity to market needs. In addition, Croatia is considered only as a „moderate innovator“ with R&D investments amounting to low 0.85 percent of GDP. One of the major obstacles for increasing spending in R&D is weak innovation capacity of companies and R&D potential, limited interest for collaboration between industry and R&D institutions and inadequate institutional support system to foster innovation. This leads to overall low economic competitiveness and high rate of unemployment which amounted to almost 12 percent in 2016. Education and science is considered to be of special public interest so in the period 2014 – 2020 a number of new measures (in terms of GIs) have been introduced in order to attain national and EU goals however, progress up to 2017 has been limited.

TABLE 114. CONCLUSIONS ON THE GOVERNMENT INTERVENTIONS IN THE EDUCATION AND SCIENCE SECTOR IN CROATIA

Name of the service	Planning of the service	Planning of all related interventions is GOOD or AVERAGE	Efficiency of the service provision	All related interventions have impact on the efficiency of the service	The service has positive impact on the target group	All related interventions have positive impact on the target group	The impact of the service on countries' economy is positive	There are no negative side-effects of service implementation	All related interventions have positive or do not have side-effects	The service is affordable to all income groups	There are no service related interventions that contradict or replace each other
Public non-formal children education, public formal and non-formal adult education	GOOD	YES	MEDIUM	NO	YES	YES	YES	YES	YES	NO	YES
Public higher education	GOOD	NO	LOW	YES	YES	YES	YES	YES	YES	NO	YES
R&D support services	GOOD	YES	LOW	YES	YES	YES	YES	YES	YES	YES	YES

Source: BGI Consulting et al, 2017.

Even though the overall progress of the sector has been limited so far in terms of attainment of EU and national goals. The performance of the sector does not show such bad results. Main indicators showing the sector performance were analysed in terms of services and government interventions related to services provided within the sector taking into consideration quality of planning, efficiency of delivery, additionality, side-effects of the services and affordability of services within the sector. The slow sectoral progress may however be connected to certain interventions which have shown lower performance quality thus disabling full attainment of set goals within the sector and the fact that the implementation of certain significant interventions has just begun so no real results can be analysed, just predicted thus giving the overall positive performance image.

Overall, the sector shows good planning of the services and interventions. Clear long-term and short-term objectives were set up. Objectives are consistent and realistic. The objectives were set up based on thorough analysis of the situation (weaknesses and possibilities) and in conformity with EU 2020 goals. The objectives are clearly marked in strategic and/or legal documents with set achievement indicators for most government interventions within the sector. Only one intervention was assessed as poor (Regular subsidy for the provision of free higher education) and one as average (Operation of public institutions providing formal and non-formal education for adults and children) in terms of planning. This is due to the fact that these interventions do not have set implementation periods with clear goals and indicators of achievement, so the success of those interventions cannot be properly assessed. In addition, no substantial management and delivery standards are set. Looking at all interventions in the sector, we can conclude that interventions planned through Operational programmes for ESI funds are thoroughly planned and raise the average assessment of planning while interventions planned on state level to be financed from state budget do not have such clear planning.

Despite the overall good planning, the efficiency of delivery of the interventions and services is medium to low. Services and interventions have no clear qualitative standards. There are minimum legal requirements set concerning the quality of higher and adult education in terms of respecting the norm, but no actual quality results are achieved since all research and analysis show that the student standard is low, ICT equipment is poor and outdated, knowledge of teachers/professors regarding ICT usage is low, curricula is non-conformant to actual labour market needs, etc. In addition, in terms of public higher education and R&D support services the overall demand is not met by the overall supply leaving thus the gap in the market which in fact leads to low progress regarding national and EU goals. For example, the number of people with higher education attainment cannot be increased to meet the goal if studying conditions are not met (e.g. not enough accommodation capacities, outdated curricula which is not conformant to the labour market needs leaving highly educated people unemployed, limited enrolment quotas, etc.), thus leaving people not able or not wanting to study. In addition, R&D investments cannot be increased if the infrastructure is non-existent or concentrated only in public research institutions and similar so that the access to it is very limited and often expensive. Some of the problems mentioned here are now being tackled through interventions that are being implemented through OPCC and financed by ESI funds but since they are still at the beginning of their implementation no real results are shown to this date.

In terms of additionality, all services and interventions have positive impact on target groups and bring certain added value to target groups as well as overall economy. Nonetheless, what needs to be noted is that certain interventions such as R&D support services related interventions and interventions related to enhancement of student standard and high education quality are still in early phase of implementation so their positive impact is yet to be determined in the forthcoming period. The overall prediction based on situation and needs analysis shows good potential for a positive impact and attainment of set national goals for this sector.

The interventions and services in the sector also show positive side-effects or in terms of interventions that are just being implemented good potential for positive side-effects on society and overall economy.

Affordability of services within the education and science sector seems to play quite a significant role, which may be one of the causes of lower performance of the sector in terms of attainment of set national goals so far. In terms of education, Individuals and households having lower educational attainment level and lower income tend to not regard education as a commodity of primary importance and are less likely to consume it than the high-income individuals/households that usually also have higher educational attainment levels. In terms of R&D, SMEs have somewhat limited access to R&D because the services are mainly centralised to public institutions and expensive so not many SMEs can afford to carry out and invest into R&D activities.

Due to good planning this sector shows consistency of services and interventions. Interventions do not contradict or exclude one another but in fact supplement each other meaning that the impact of the intervention is strengthened by the presence of another intervention. For example, all interventions related to higher education supplement each other (free higher education, scholarships, subsidies for meals, subsidies for construction of new dormitories, etc) thus enabling easier access to higher education to all income groups. The same is with all other education and science related interventions. This in fact gives the sector a much greater possibility for the overall good performance.

2.8.4 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

2.8.4.1 PUBLIC NON-FORMAL CHILDREN EDUCATION, PUBLIC FORMAL AND NON-FORMAL ADULT EDUCATION

TABLE 115. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN NON-FORMAL CHILDREN EDUCATION, PUBLIC FORMAL AND NON-FORMAL ADULT EDUCATION SERVICES

Criteria	FI potential
Pricing system	Consumer-paid (Low cost coverage, affordability concerns)
Regulatory/governance Framework	Mixed public/private (Public share up to 66% of the market)
Market potential	Potential development of (more) paid services/rent of infrastructure
Accountability	Performance framework
Capacity	No clear qualitative standards

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is available but non-regulated and consumer payment covers a share below 25 percent of the total costs for the service provision. In some specific cases, additional revenue is generated through subsidiary services/products. Effect of price increase on the demand of such services depends on the profile of consumers (e.g. low-income groups would probably consume less).

REGULATORY AND GOVERNANCE FRAMEWORK

Service provision is dominated by municipality-owned institutions (approximately 594 bodies). Private entities are also present providing the same services and there are no major obstacles to enter the market for private companies.

MARKET POTENTIAL

Service provision targets all population (approximately 4 million inhabitants), with special focus on low educated and unemployed groups (around 3 million). Market share of public operators is between 34 and 66 percent.

Additional revenue can be generated to some extent through introduction of paid auxiliary services and rent of infrastructure. Some institutions already apply these activities, renting their premises for other functions (e.g. staging plays, sharing space with other schools to maximize the use through the entire day).

ACCOUNTABILITY

Information is available on the context of the intervention; recent trends are monitored. Objectives are clearly defined and target values available. Additionally, short-term and long-term objectives are consistent.

CAPACITY

Overall demand is met by the current supply of service. There are no clear qualitative standards for the service provision, although minimum requirements are established by national law.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Service pricing is non-regulated, but consumer payment covers only a small share of the costs. Additionally, introduction/increase of fees does not seem feasible, mainly considering the pressing needs for education in Croatia (skilling and reskilling of population for the labour market)²³⁴.

In this context, development of auxiliary paid services, as well as rent of existent infrastructure to external operators could increase revenues. It is also important to point out the reform of the education system, which is being considered but currently delayed in its implementation²³⁵.

2.8.4.2 PUBLIC HIGHER EDUCATION

TABLE 116. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN PUBLIC HIGHER EDUCATION SERVICES

Criteria	FI potential
Pricing system	Consumer-paid, regulated (Low cost coverage)
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)

²³⁴ European Commission (2017), *Commission Staff Working Document, Country Report Croatia 2017, Including an In-Depth Review on the prevention and correction of macroeconomic imbalances*, SWD (2017) 76 final

²³⁵ Ibid

Market potential	Potential development of (more) paid services/rent of infrastructure
Accountability	Performance framework
Capacity	No clear qualitative standards / Quality issues

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by relevant authorities, consumer payment covers a share up to 25 percent of total annual costs for service provision. Revenue is currently generated to a small extent by subsidiary services/products. Small price increase, together with improvement of service quality, could be applied without changes of the level of consumption by all income groups.

REGULATORY AND GOVERNANCE FRAMEWORK

Service is provided by the central government, through higher education institutions (104 entities), which dominate the market. Private entities are present providing the same education services, fee-based. There are no major obstacles to enter the market for private companies.

MARKET POTENTIAL

Service provision targets specific groups, adults aged between 18 and 34 years old (around 845 000 people). The consumption of the service is restricted to certain areas, since there is a considerable concentration in bigger urban areas. Market share of public providers is above 66 percent.

There is a potential for generation of additional revenue through introduction of paid auxiliary services. Various institutions already offer such services (e.g. research services to business sector, rent of dormitories during summer season) still to a small extent, which can thus be further increased and systematized for the increase of revenue.

ACCOUNTABILITY

Information is available on the context of intervention; recent trends are monitored. Objectives are clearly defined and target values available. Additionally, short-term and long-term objectives are consistent.

CAPACITY

The overall demand is currently not met by the overall supply of the service. There are no clear qualitative standards for the service provision, although minimum requirements are established by national law. Factors such as poor infrastructure and old technology affect the quality of service provision.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

This service shows low capacity of revenue generation and a small share of non-public entities delivering service on the market, together with low level of efficiency for service delivery. In this context, development of auxiliary paid services, as well as rent of existent infrastructure to external operators could increase revenues. It is also important to point out the reform of the education system, which is being considered but currently delayed in its implementation²³⁶.

²³⁶ Ibid

2.8.4.3 R&D SUPPORT SERVICES

TABLE 117. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN R&D SUPPORT SERVICES

Criteria	FI potential
Pricing system	Consumer-paid (Low cost coverage)
Regulatory/governance Framework	Mixed public/private (Public share up to 66% of the market)
Market potential	Potential increase of scope of services/more public-private cooperation
Accountability	Performance framework
Capacity	Transfer of parts of service (ongoing) / Quality issues

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is available but non-regulated and consumer payments cover a share up to 25 percent of the total annual costs of service provision. Additional revenue is generated to a small extent (between 0 and 25 percent of the total service provision costs) through subsidiary services/products.

REGULATORY AND GOVERNANCE FRAMEWORK

Service is provided by public institutions which dominate the market (182 public scientific institutions). Private entities are also present on the market, mainly large companies, which carry R&D activities for their needs, but usually do not offer these services to other companies.

MARKET POTENTIAL

Service targets private companies (around 185 000 enterprises, among large and small) and public research institutions. Market share of the public providers is between 34 and 66 percent. Major obstacles to enter the market are the high fixed costs characteristic to the service, technological superiority of particular entity/entities (related to personnel's experience and knowledge, as well as to investment) and the market size.

There is a potential for generation of revenue through expanding the scope of services offered on the market and promoting better connection between public and private sector, consequently, enhancing development of new products/processes, which increase the capital investments.

ACCOUNTABILITY

Information is available on the context of intervention; recent trends are monitored. Objectives are clearly defined and target values available. Additionally, short-term and long-term objectives are consistent.

CAPACITY

There are no clear qualitative standards for the public service. The shortcomings are linked to poor infrastructure, old technology, lack of human resources and expertise.

There are currently considerations about transferring parts of the service provision to private partners, related to further connection of private and public entities for collaboration and sharing resources for the provision of R&D support activities on the market, enhancing R&D activities altogether. Related changes required to carry out transition are already taking place.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Consumer payments cover a limited share of the total annual costs of service provision. However, a wider scope of the services offered and improved cooperation between public and private sector could increase revenues.

As highlighted by the EC Country Report for 2017, Croatia still lags behind in terms of investment in R&D as a share of GDP, also due to a lack of public-private cooperation, and low levels of international integration and private investment in R&D. Although a series of policies have been introduced to foster innovation and competitive funding forms for R&D, public expenditure in the field remains low.

In this context, FIs could be considered as means of financing private R&D projects, as long as an adequate project pipeline is present, i.e. technical and development potential of entities/projects existent in the country must be assessed to ensure viability of any FI.

The example below illustrates how FIs can support SMEs with high growth potential, as well as it clarifies the need to evaluate *a priori* the existence of conditions for support through FIs.

The co-investment Instrument under JEREMIE initiative in Languedoc-Roussillon (FR) was a response to a high potential detected in the region through the ex-ante assessment – the technological capabilities of local companies, high density of researchers and increasing growth of R&D expense when compared to the nation.

The JEREMIE initiative for the region had a total funding available of around EUR 150 million, providing guarantees and loans, distributed in a diverse portfolio of investments in SMEs in all phases (seed, start-up, growth and development). The co-investment instrument, specifically, counted with EUR 11 million and was dedicated to SMEs with high potential of growth. It is based on a leverage of 2x, i.e. private players always (at least) match the public investment, on *pari passu* terms, amounting to a maximum of EUR 2.5 million per SME per annum.

The targeted investees are in general cross-sector SMEs, with special focus to innovative and technological companies. By 2015, the initiative has co-financed 31 SMEs, with an amount around EUR 45 million invested (being more than EUR 100 million from the public source), i.e. the instrument has more than doubled the target of EUR 22 million invested, and attracted more than triple of private investment targeted.

A success story is found on the Medtech company, by 2012 a small start-up specialized in surgical robotics which, through the co-investment instrument, extended activities to a highly profitable market (spine surgery), increasing from 15 to 40 employees and from a turnover of EUR 1.9 million to 20 million expected for 2016.

2.9 LITHUANIA: CULTURE AND TOURISM

2.9.1 GENERAL OVERVIEW OF THE SERVICES IN THE SECTOR

This chapter provides an overview of all public services identified in Lithuanian Culture and tourism sector. The rationale for introduction of each public service and the number of service related interventions are identified. Furthermore, the relative position of each public service on liberalisation – centralisation axis is presented.

Six main public services corresponding were identified in the Culture and tourism sector in Lithuania. The list of all services in the sector and their respective aims is provided in the table below.

TABLE 118. LITHUANIAN CULTURE AND TOURISM SECTOR'S SERVICES AND THEIR AIMS

Service title	Aim of the service
Operation of state/municipality-owned ticketed tourist attractions and provision of paid tourism services	To provide paid tourism services in state/municipality-owned ticketed tourist attractions
Libraries, archives and museums services	To operate heritage organisations such as museums, libraries and archives
Professional and amateur stage arts' infrastructure and organisations	To operate professional and amateur stage arts' infrastructure and organisations
Cultural and creative industries' incubators	To operate cultural and creative industries' incubators
Promotion of Lithuania's cultural and touristic product in domestic and foreign markets	To promote Lithuania's cultural and touristic product in domestic and foreign markets
Maintaining free access to cultural and tourism infrastructure and providing free services	To maintain free access to cultural and tourism infrastructure and provide free services

Source: BGI Consulting et al, 2017.

The public services aimed at tourism are focused on achieving the objective to develop sustainable, responsible, and high-quality tourism and, more specifically, providing and maintaining the touristic infrastructure and promoting tourism. The public services aimed at culture seek to achieve the policy objectives by focusing on maintaining and running the infrastructure and organisations required for different forms of art and culture and by preserving the cultural heritage.

2.9.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

There are four rationales of state intervention in the Culture and tourism sector in Lithuania. Four services are associated with the lack of incentives to produce/consume merit goods rationale. These mostly include culture-related services, which do not generate enough revenue to be attractive for private entities. In addition, state funding is necessary to maintain high quality and affordable prices of some services, e.g.

professional performance arts. Some of the tourism-related services are also provided under this rationale since conservation of the objects of heritage visited by tourists bears costs, which would make the services too expensive if they were provided by the private entities.

One service is related to creation of incentives for production and consumption with positive externalities. That is, cultural and creative industries' services are also being provided as the incubators enable and facilitate cultural and creative activities that have positive externalities. There is also one service, which is *not targeted at a market failure*, namely operation of state/municipality-owned ticketed tourist attractions and provision of paid tourism services. Similar services are efficiently provided by the private entities in the market. It is argued that this government intervention is necessary due to low and highly seasonal tourist flows, which makes the services unprofitable for private entities. This results in a lack of touristic services, which in turn prevent tourist flows from growing. However, this argument is quite dubious as private entities occupy the majority of the market and satisfy most of the demand for the services.

The main rationale behind almost half of the service-related interventions analysed is the preservation or renovation of cultural and touristic infrastructure, namely cultural heritage objects. Some analysed interventions concern provision of financing that enable provision of the services (e.g. stage arts), while there was one intervention directly aimed at improving the quality of the service, namely services of libraries. The rationale behind one particular type of analysed interventions – VAT exemptions – is increasing the affordability of the services.

Four out of six services in the Culture and tourism sector in Lithuania are provided through shared provision between multiple levels of government, while two services are provided by the local government and one service by the central government alone.

The scheme below disassembles the logic of the overall governmental interventions in the Culture and tourism sector in Lithuania. It starts with the rationale of the provision of the services by the public sector, then indicates services corresponding to that particular rationale. Services are classified not only by the rationale they correspond to, but also by a body, which is responsible for the provision of them. Other governmental interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

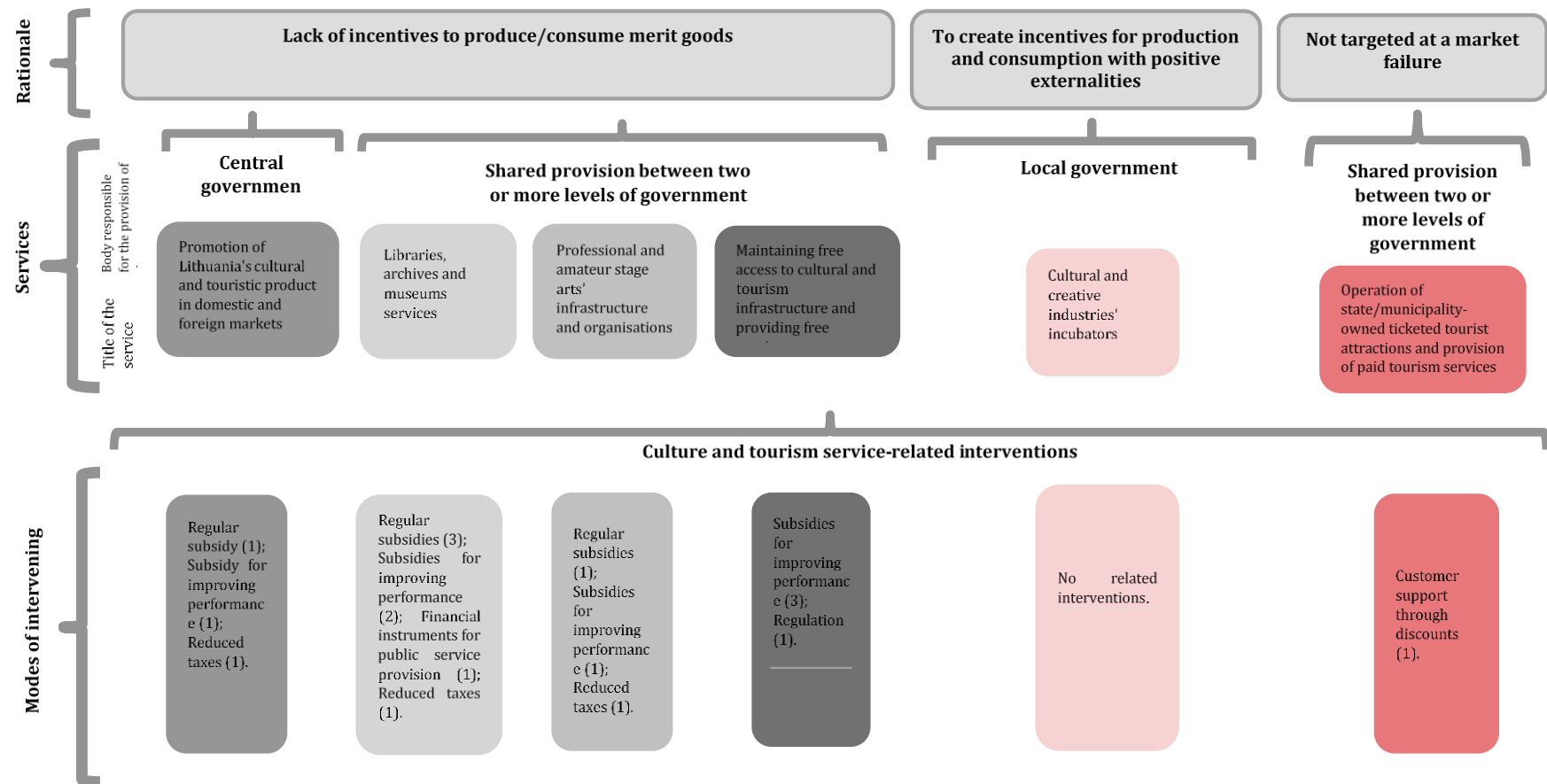


FIGURE 38. LOGIC OF INTERVENTIONS IN THE CULTURE AND TOURISM SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

2.9.1.2 LEVEL OF LIBERALISATION OF THE SERVICES PROVISION

The public services in the Lithuanian Culture and tourism sector were ranked according to the level of liberalisation in their provision in the figure below. The criteria used for ranking the sector's services according to the level of liberalisation in their provision are – the main provider of the service (the most centralised provider is a government / municipal institution (directly), the most liberalised provider is the market entity (operator)); the most common public service delivery mode (the most centralised delivery mode – direct provision by the governmental / municipal body, the most liberalised – provision by market entity (operator)); consumer pricing of the service (whether the service is free of charge, its pricing is available but non-regulated or its pricing is regulated and set by relevant authorities); market share of the public operators (100, >66, 34-66, <34 percent).

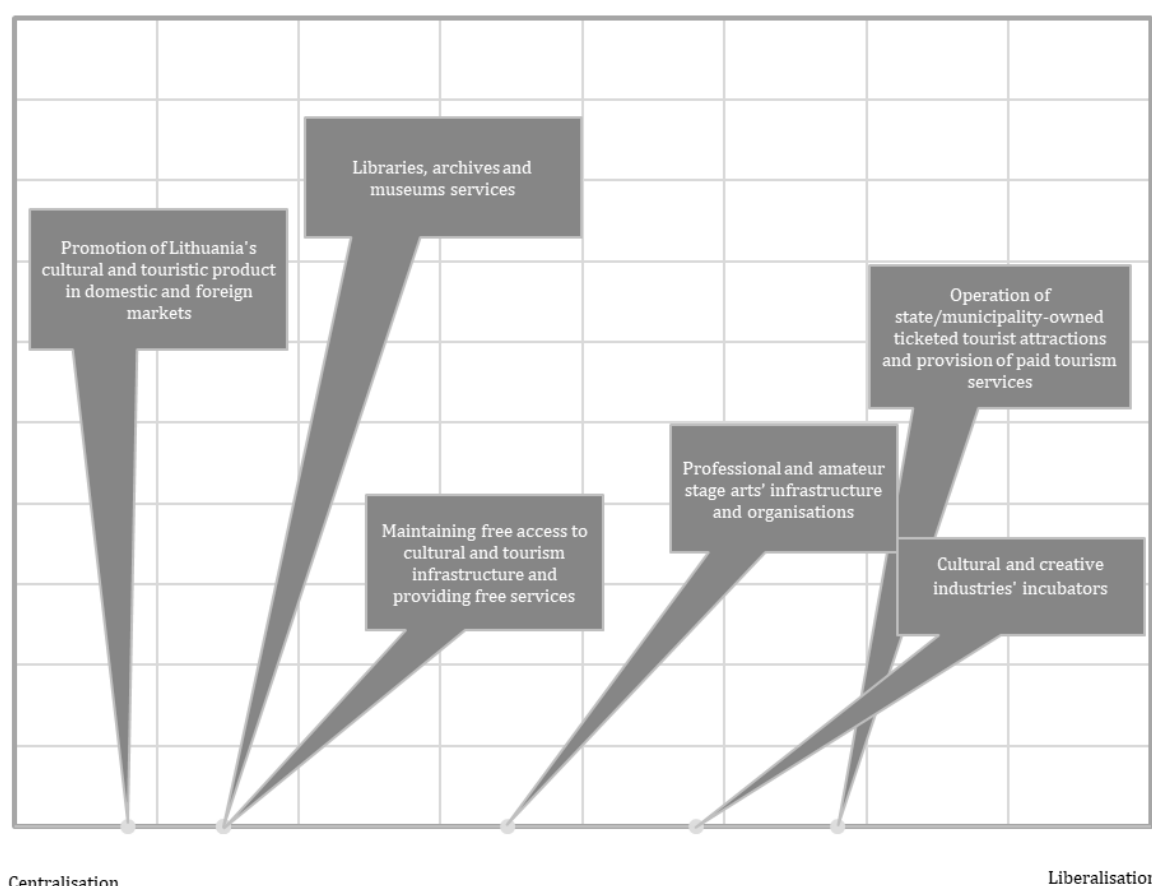


FIGURE 39. SUPPLY SIDE OF THE LITHUANIAN CULTURE AND TOURISM SECTOR SERVICES

Source: BGI Consulting et al, 2017.

Operation of state/municipality-owned ticketed tourist attractions and provision of paid tourism services turns out to be the service provided in the most liberal way in the sector of Culture and tourism in Lithuania. The main reasons for this are the fact that the pricing of the service is non-regulated and the market share of the public operators is low.

The same features apply to the second most liberal service of the sector – cultural and creative industries' incubators. However, this service is delivered by a budgetary institution, which lowers its provisions liberalisation level. The mode of the provision of the service related to professional and amateur stage arts'

infrastructure and organisations is also only slightly more centralised. The fact that the pricing of the service is non-regulated contributes to the relatively liberal delivery mode of this service the most.

The remaining three services of the Culture and tourism sector in Lithuania are delivered in a largely centralised way. The main reasons for it are the facts that public operators occupy the majority of the markets for these services and the main providers of the services are public or budgetary institutions.

Due to a high number of services identified in Lithuanian Culture and tourism sector, the further in-depth analysis of all of them would not be possible. Since the aim of the study is to identify possibilities to introduce financial instruments or involve private sector service providers more actively, the service provided in the most liberal way that is also prospective in terms of attracting more private providers, namely, Operation of state/municipality-owned ticketed tourist attractions and provision of paid tourism services, was selected for further analysis. Professional and amateur stage arts' infrastructure and organisations and libraries, archives and museums services were also identified as services that have a relatively higher potential of attracting private providers. In addition, maintaining free access to cultural and tourism infrastructure and providing free services was selected for further analysis as this group of services encompass a large share of the government interventions of the Lithuanian Culture and tourism sector.

2.9.2 PRESENTATION OF SERVICES AND RELATED INTERVENTIONS SELECTED FOR FURTHER ANALYSIS

This chapter presents the services and related interventions, selected for further analysis. Four services in Lithuanian Culture and tourism sector were selected for further in-depth analysis. These services are:

- Operation of state/municipality-owned ticketed tourist attractions and provision of paid tourism services;
- Libraries, archives and museums services;
- Professional and amateur stage arts' infrastructure and organisations;
- Maintaining free access to cultural and tourism infrastructure and providing free services.

The main policy goals, modes of provision and interventions related to the abovementioned services are presented in this chapter.

2.9.2.1 MAIN POLICY GOALS OF SERVICES SELECTED FOR FURTHER ANALYSIS

The main tourism-related policy objectives are to improve the image of Lithuania as a tourist destination, to develop the touristic infrastructure, improve the quality of touristic services and to reduce the seasonality of the touristic services²³⁷. The main tourism-related context indicator is income received from tourism. Although this single indicator does not fully encompass to the main policy objectives, it shows a positive trend as the target value for 2020 has already been exceeded.

The main culture-related policy objective is to reveal, preserve and develop society's cultural identity and creative potential. The main culture-related context indicator is the share of population engaging in cultural and artistic activities²³⁸. As is the case with tourism, the single indicator does not fully encompass the policy

²³⁷ Lithuania's Tourism Development Programme 2014-20, Government of the Republic of Lithuania, 2016.

²³⁸ Guidelines for the Change in Lithuanian Cultural Policy, Parliament of the Republic of Lithuania, 2010.

objective but shows a positive trend regarding achievement of the target values²³⁹. However, the indicator does not allow to determine whether the policy objectives are achieved, since its target value is not defined in the strategic documents. Each of the four services selected for further analysis have their specific policy goals that contribute to the attainment of the aforementioned main policy objectives of the sector.

There are multiple culture-related policy objectives. These are contribution to growth, employment, innovation, competitiveness and regional cohesion in the creative and cultural industries; contribution to personal and societal development in terms of creativity, self-expression, inclusiveness; enhancement of national identity and citizenship.

The main objective of *operation of state/municipality-owned ticketed tourist attractions and provision of paid tourism services* is to promote the development of sustainable, responsible, and high-quality tourism. The main policy objectives that can be attributed to *libraries, archives and museums services* are life-long development of the individual's cultural competencies and creativity, increase in the availability of culture in Lithuania²⁴⁰ and development high-quality cultural services²⁴¹. The main policy objectives related to the service *professional and amateur stage arts' infrastructure and organisations* are also development of the individual's cultural competencies and creativity and increase in the availability of culture in Lithuania, as well as development high-quality cultural services, modernisation of cultural infrastructure and promotion of development of cultural and creative industries and culture-related creative innovations²⁴². Increasing the availability of culture in Lithuania is also an objective related to *maintaining free access to cultural and tourism infrastructure and providing free services*. Other objectives which are related to this service are preservation and application of cultural heritage and modernisation of cultural infrastructure²⁴³, as well as reduction of tourism's negative environmental impact and promotion of ecologically efficient tourism²⁴⁴.

2.9.2.2 THE STRUCTURE OF PROVISION AND FINANCING OF SERVICES SELECTED FOR FURTHER ANALYSIS

Figures provided below depict the structure of each service selected for further analysis. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision identified. Graphs in light red indicate service providers and group(s) the service is targeted at.

²³⁹ Residents' participation in the cultural activity and satisfaction with cultural services. UAB „Socialinės informacijos centras“, UAB „Norstat LT“, 2017.

²⁴⁰ Guidelines for the Change in Lithuanian Cultural Policy, Parliament of the Republic of Lithuania, 2010.

²⁴¹ The National Progress Programme for Lithuania 2014-20, Government of the Republic of Lithuania, 2014.

²⁴² The National Progress Programme for Lithuania 2014-20, Government of the Republic of Lithuania, 2014.

²⁴³ *ibid.*

²⁴⁴ National Strategy for Sustainable Development, Government of the Republic of Lithuania, 2003.

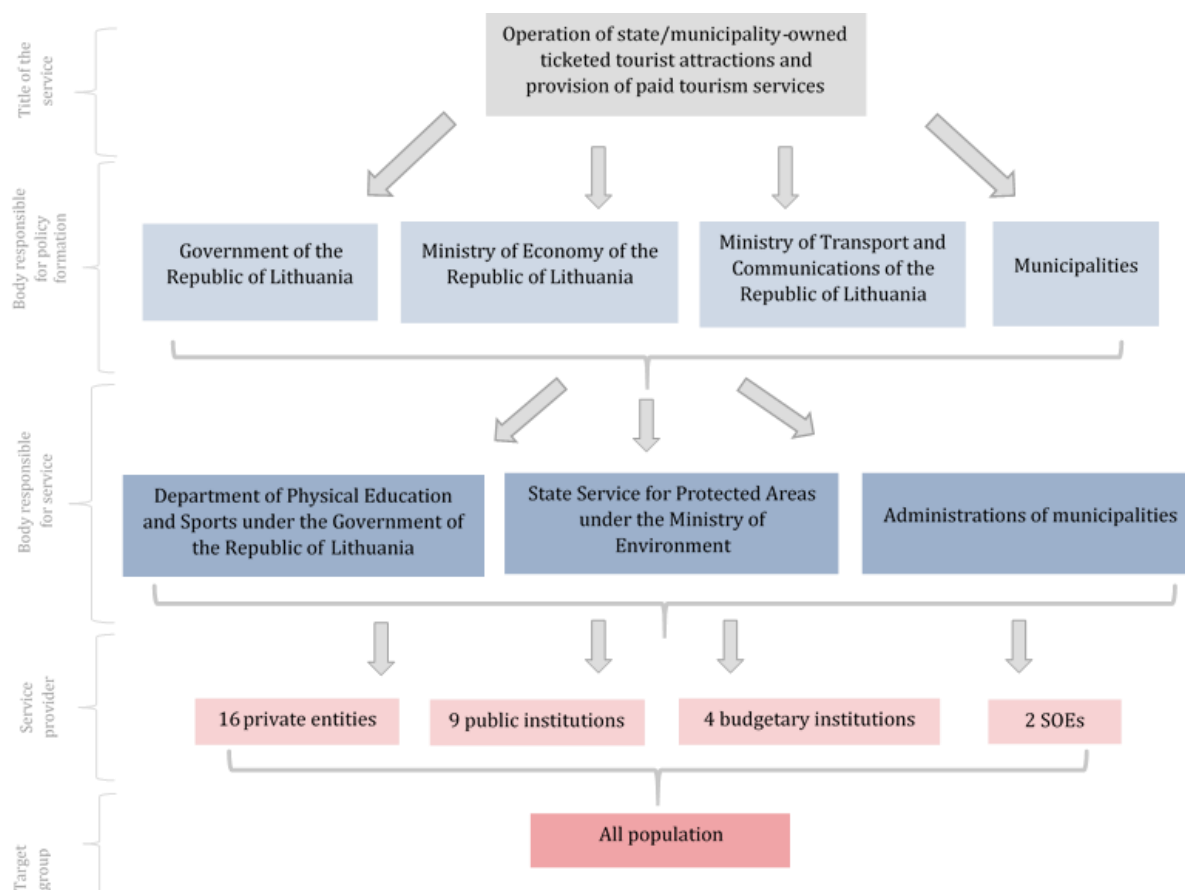


FIGURE 40. OPERATION OF STATE/MUNICIPALITY-OWNED TICKETED TOURIST ATTRACTIONS AND PROVISION OF PAID TOURISM SERVICES PROVISION MECHANISMS IN CULTURE AND TOURISM SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

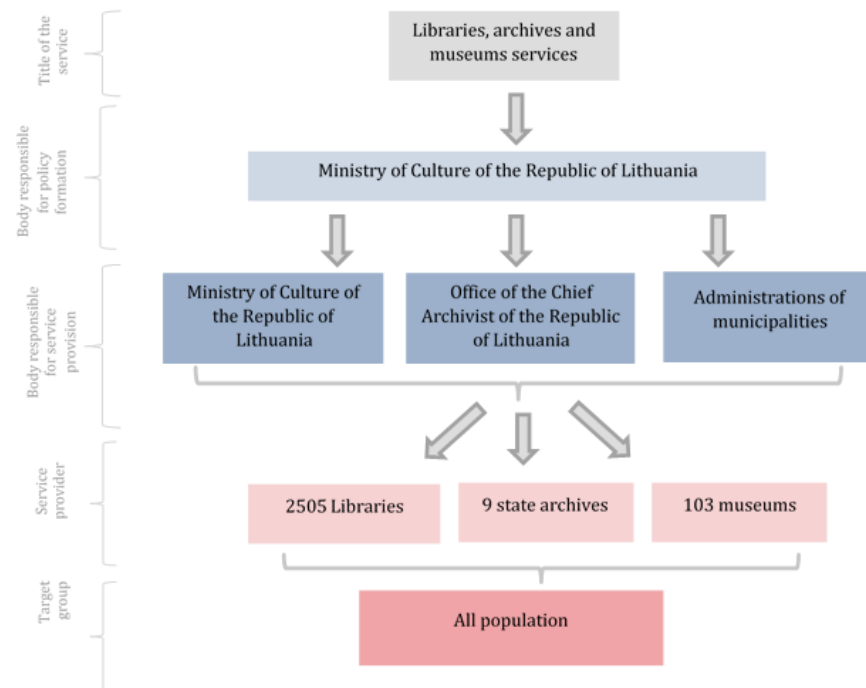


FIGURE 41. LIBRARIES, ARCHIVES AND MUSEUMS SERVICES PROVISION MECHANISMS IN CULTURE AND TOURISM SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

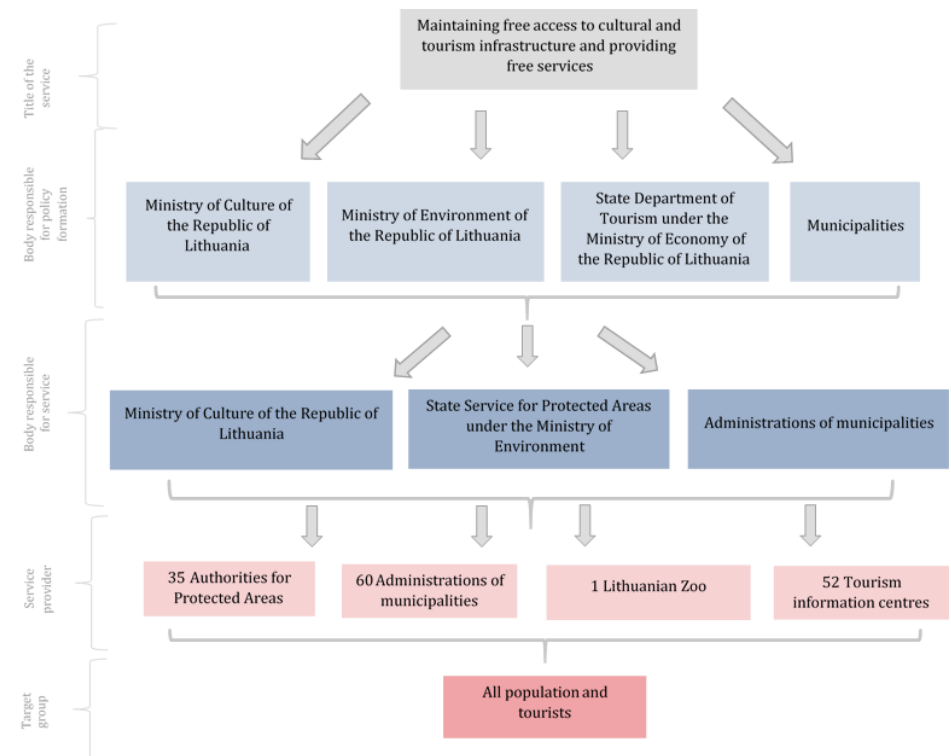


FIGURE 42. MAINTAINING FREE ACCESS TO CULTURAL AND TOURISM INFRASTRUCTURE AND PROVIDING FREE SERVICES PROVISION MECHANISMS IN CULTURE AND TOURISM SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

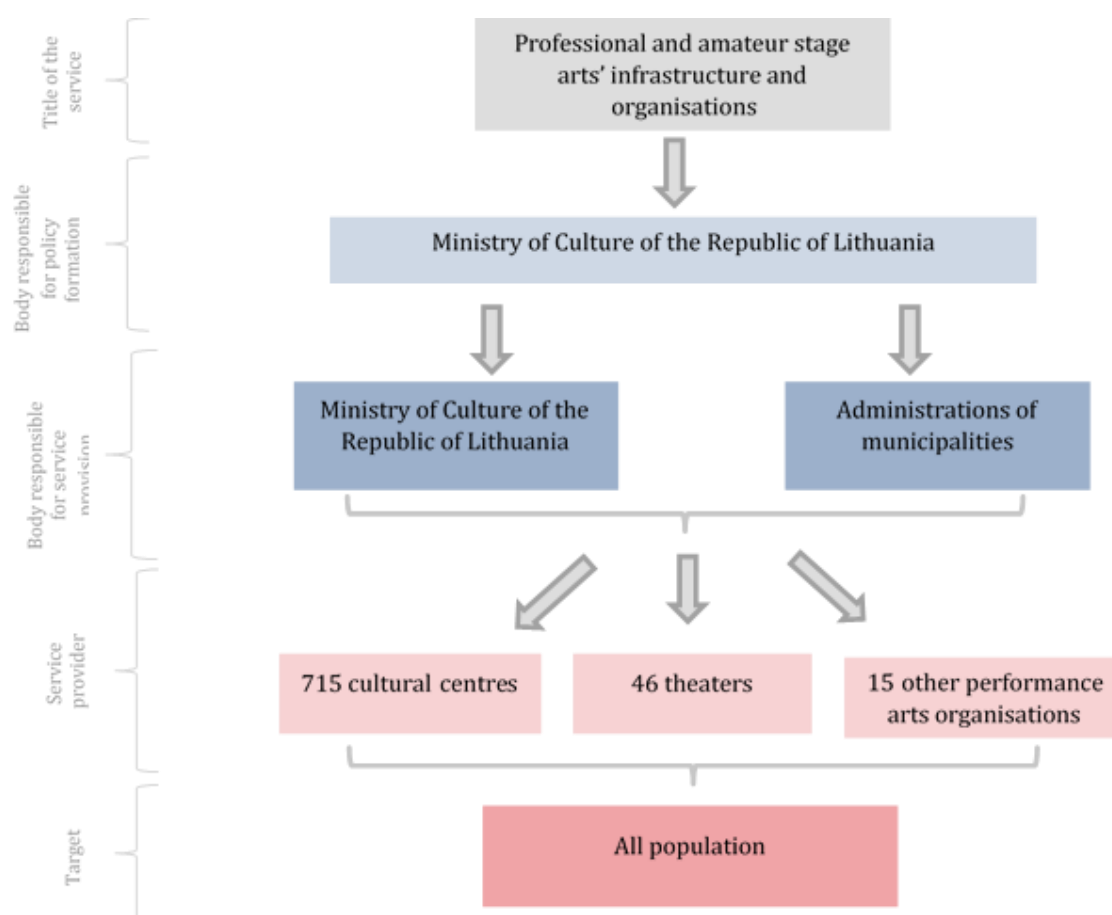


FIGURE 43. PROFESSIONAL AND AMATEUR STAGE ARTS' INFRASTRUCTURE AND ORGANISATIONS PROVISION MECHANISMS IN CULTURE AND TOURISM SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

In terms of financing, libraries, archives and museums services are the largest among the four services selected for in-depth analysis in the Culture and tourism sector in Lithuania with the annual costs of provision of around EUR 130 million. Maintaining free access to cultural and tourism infrastructure and providing free services are the second largest in terms of financing with the annual costs of around EUR 85 million. The annual amount of funding for operation of state/municipality-owned ticketed tourist attractions and provision of paid tourism services is around EUR 60 million, while the annual costs of running professional and amateur stage arts' infrastructure and organisations are slightly lower at around EUR 55 million.

EU investment subsidies for renovation of cultural infrastructure and for restoration of the objects of heritage are the two financially largest interventions in the sector at around EUR 115 million and EUR 107 million respectively. These interventions are related to all the selected services of the sector. There are also interventions, related to libraries, archives and museums services, which are significantly smaller in terms of financing. Subsidies for development of the services of libraries and subsidies for promotion of national traditions and valorisation of heritage are the smallest interventions in the sector at around EUR 150 thousand and EUR 45 thousand respectively. Both of these interventions are financed from the state budget.

2.9.2.3 INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Each of the service selected for further analysis has related interventions, which constitute the service. All the interventions, related to operation of state/municipality-owned ticketed tourist attractions and provision of paid tourism services, libraries, archives and museums services, professional and amateur stage arts' infrastructure and organisations and maintaining free access to cultural and tourism infrastructure and providing free services are presented in the table below.

TABLE 119. INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Name of the service	Type of the service related intervention	Name of the service related intervention	Fiche No.
Operation of state/municipality-owned ticketed tourist attractions and provision of paid tourism services	Customer support through discounts or tariff compensations	Reduced tariffs for particular groups of users of state or municipality-owned tourist and cultural services	14
Libraries, archives and museums services	Regular subsidy for public service delivery (budgetary financing)	Subsidy for promotion and valorisation of national heritage	1
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for initiatives for preservation of the historical memory	2
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for implementation of cultural projects to raise awareness and revitalise immovable heritage	3
	Subsidy for improving performance of the public service	Subsidy for development of the services of libraries (digital literacy)	4
	Subsidy for improving performance of the public service	ESIF subsidies for restoration of heritage objects	5
	Financial instruments for public service provision	Financial instrument (loan) for upgrading heritage objects	6
	Reduced taxes/tax exemptions	Reduced VAT for books and other publications	7
Professional and amateur stage arts' infrastructure and organisations	Regular subsidy for public service delivery (budgetary financing)	Subsidy for implementation of cultural and artistic projects	8
	Subsidy for improving performance of the public service	ESIF subsidies for renovation of cultural infrastructure	9
	Reduced taxes / tax exemptions	VAT exemption for cultural services	10
Maintaining free access to cultural and tourism infrastructure and providing free services	Subsidy for improving performance of the public service	ESIF subsidies for restoration of heritage objects	5
	Subsidy for improving performance of the public service	Subsidy for research and restoration of movable and immovable heritage	11
	Subsidy for improving performance of the public service	Subsidy for restoration of Catholic sacral heritage	12
	Regulation	Regulation regarding requirements for preservation of heritage	13

Source: BGI Consulting et al, 2017.

Further in this study the information is provided not on services as a whole, but only on service related interventions.

2.9.3 DATA ON SELECTED GOVERNMENT INTERVENTIONS IN LITHUANIAN CULTURE AND TOURISM SECTOR

This chapter provides portrayal and analysis of the government interventions shortlisted for the in-depth assessment. In the chapter separate fiches for each government intervention and analysis of interventions regarding each of the methodological research criteria are presented.

The fiches for each government intervention below provides the main data on each government intervention, which can be read as a self-standing analysis and is also used in later parts of the study as a basis for the meta-analysis of interventions according to different criteria.

TABLE 120. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN CULTURE AND TOURISM SECTOR (1)

Title of the intervention		Subsidy for promotion and valorisation of national heritage
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention		Projects that help to reveal the revival of the nation's culture, acknowledge the most prominent individuals and their achievements, promote Lithuania's national heritage abroad and encourage the use of modern technologies to present national heritage receive partial financing (up to 90% of the project's costs can be covered)
Year of the introduction and end, stability of the intervention		2003 - up to now The amount of annual funding for the implementation of the intervention decreased significantly in 2009 compared to 2003-2008 period (from around EUR 280 thousand to around EUR 60 thousand). The annual funding further decreased by around 25 percent in 2013 and has remained similar since then (e.g. EUR 43 thousand in both 2017 and 2018).
The broader policy objective to which intervention contributes		To form a common and integrated policy of preservation of heritage and preserve the national language
Legal background for the establishment of the intervention		Order of the Minister of Culture on the rules of partial financing of the projects of promotion and valorisation of national heritage, 17 May 2016, No. IV-392 (LR kultūros ministro įsakymas dėl lituanistikos tradicijų ir paveldo įprasminimo projektų dalinio finansavimo taisyklių, paraiškos sąmatos, sutarties ir ataskaitų formų patvirtinimo)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes		To contribute to the preservation of Lithuanian national traditions and heritage by protecting the memory of events, phenomena and personalities significant for Lithuanian culture
The objective of the intervention and legal background		To finance the projects of valorisation of the memory of events, phenomena and personalities significant for Lithuanian culture. "The Action Plan of the Commission for Valorisation of Lithuanian Traditions and Heritage for 2015-2020" (Lituanistikos tradicijų ir paveldo įprasminimo komisijos veiklos kryptys 2015-2020)
Level of body responsible for policy formation		National level
Level of body responsible for implementation (administration) of intervention		National level
Name of the body responsible for implementation (administration) of intervention		Ministry of Culture of the Republic of Lithuania
The main source of financing the intervention		State budget
Additional sources of financing the intervention		Private funds, municipal budget

Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Public administration institution (-s) directly, budgetary institution (-s), publicly-owned for profit entity, non-profit organisation(s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Project contest
Types of private providers eligible to receive the intervention	Private for-profit entities, private NGOs
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Residents of Lithuania, 2.813 million (Statistics Lithuania, 2017); Lithuanian nationals living abroad, 0.62 million (Statistics Lithuania, 2014); foreign nationals interested in Lithuanian culture
The type of impact of intervention for consumers	The intervention provides consumers with information
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	The intervention positively contributes to preservation of intangible Lithuanian national heritage, however it is too small to have a significant impact.
Unintended impact of the intervention	No unintended impact.
Main issues related to the implementation of the intervention	Since the funding is annual and the amount of available funding is limited, it is difficult to finance long-term projects that would be more likely to have a significant impact. In addition, similar projects are financed by the Lithuanian Council for Culture. Having more than one source of financing for similar kinds of projects increases the administrative workload and is less efficient.
Consistency with other related interventions	The intervention partially replaces and overlaps with subsidies for initiatives for preservation of the historical memory. It also might overlap with the activities of other organisations concerned with preservation of national heritage, especially with those of the Council for Protection of Ethnical Culture (Etninės kultūros globos taryba). In addition, similar projects are financed by the Lithuanian Council for Culture and the reasons for having different sources of funding for similar kind of projects are not clear.
Possibilities to replace/withdraw the intervention	There are no considerations to withdraw or replace the intervention. However, in order to be able to finance the projects that create a more significant impact, a single and bigger source of funding would be necessary, while currently similar projects are financed by both the Ministry of Culture (under this intervention) and by the Lithuanian Council for Culture. Alternatively, the projects financed by this intervention could be financed by a similar but financially significantly bigger measure "Subsidies for initiatives for preservation of the historical memory".

Source: BGI Consulting et al, 2017.

TABLE 121. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN CULTURE AND TOURISM SECTOR (2)

Title of the intervention		Subsidy for initiatives for preservation of the historical memory
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)	
Short description of the intervention	Projects that aim to valorise the events and personalities important for Lithuanian culture, enhance the understanding of originality of Lithuania's history and culture and present high-quality cultural programmes to the society receive partial financing (up to 90% of the project costs can be covered)	
Year of the introduction and end, stability of the intervention	2006 – up to now Implementation was stable, there were no major changes. The amount of financing for the implementation of the intervention has been stable throughout the implementation period (e.g. EUR 762 thousand in both 2017 and 2018)	
The broader policy objective to which intervention contributes	To form a common and integrated policy of preservation of heritage and preserve the national language	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To valorise the Lithuanian national traditions and heritage via preservation of the memory of events, phenomena and personalities significant for Lithuanian culture	
Legal background for the establishment of the intervention	Order of the Minister of Culture on the rules of partial financing of the projects of preservation of the historical memory, 17 May 2016, No. ĮV-388 (LR kultūros ministro įsakymas dėl istorinės atminities išsaugojimo iniciatyvas įgyvendinančių projektų dalinio finansavimo taisyklių, paraiškos, sutarties, sąmatos, įvykdymo rezultatų ataskaitos ir faktinės išlaidas patvirtinančių dokumentų sąrašo bei leidinio perdavimo-priėmimo akto formų patvirtinimo)	
The objective of the intervention and legal background	To finance the projects of preservation of the memory of events, phenomena and personalities significant for Lithuanian culture. Order of the Minister of Culture on the rules of partial financing of the projects of preservation of the historical memory, 17 May 2016, No. ĮV-388 (LR kultūros ministro įsakymas dėl istorinės atminities išsaugojimo iniciatyvas įgyvendinančių projektų dalinio finansavimo taisyklių, paraiškos, sutarties, sąmatos, įvykdymo rezultatų ataskaitos ir faktinės išlaidas patvirtinančių dokumentų sąrašo bei leidinio perdavimo-priėmimo akto formų patvirtinimo)	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	National level	
Name of the body responsible for implementation (administration) of intervention	Ministry of Culture of the Republic of Lithuania	
The main source of financing the intervention	State budget	
Additional sources of financing the intervention	State budget and private funds	
Market side the intervention is targeted at	Supply	
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention	Public and private	
Types of public providers eligible to receive the intervention	Public administration institution (-s) directly, budgetary institution (-s), publicly-owned for profit entity, non-profit organisation(s) established by state/municipality	
Dominant mean of receiving the intervention for public providers	Project contest	

Types of private providers eligible to receive the intervention	Private for-profit entities, private NGOs
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Residents of Lithuania, 2.813 million (Statistics Lithuania, 2017); Lithuanian nationals living abroad, 0.62 million (Statistics Lithuania, 2014)
The type of impact of intervention for consumers	The intervention provides consumers with information
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	The intervention positively contributes to preservation of historical memory.
Unintended impact of the intervention	No unintended impact
Main issues related to the implementation of the intervention	Since the funding is annual and the amount of available funding is limited, it is difficult to finance long-term projects that would be more likely to have a significant impact.
Consistency with other related interventions	The intervention partially replaces and overlaps with subsidies for promotion and valorisation of national heritage
Possibilities to replace/withdraw the intervention	There are no considerations to replace or withdraw the intervention.

Source: BGI Consulting et al, 2017.

TABLE 122. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN CULTURE AND TOURISM SECTOR (3)

Title of the intervention	Subsidy for implementation of cultural projects to raise awareness and revitalise immovable heritage
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Projects and publications aimed at recognition, revitalisation of cultural heritage or raising awareness and understanding about cultural heritage receive partial financing (up to 90% of the project costs can be covered)
Year of the introduction and end, stability of the intervention	2005 – up to now Implementation was stable, there were no major changes.
The broader policy objective to which intervention contributes	To preserve immovable cultural heritage and create the conditions for the society to recognise and use it
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To revitalise immovable cultural heritage and increase public awareness of it
Legal background for the establishment of the intervention	Order of the Minister of Culture on the rules of financing the projects of awareness-raising and revitalisation of immovable heritage, 11 May 2005, No. IV-205 (LR kultūros ministro įsakymas dėl nekilnojamo kultūros paveldo pažinimo sklaidos ir atgaivinimo projektų rėmimo valstybės biudžeto lėšomis taisyklių patvirtinimo)

The objective of the intervention and legal background	To finance the projects aimed at revitalisation of the immovable cultural heritage and raising public awareness of it. Order of the Minister of Culture on the rules of financing the projects of awareness-raising and revitalisation of immovable heritage, 11 May 2005, No. IV-205 (LR kultūros ministro įsakymas dėl nekilnojamo kultūros paveldo pažinimo sklaidos ir atgaivinimo projektų rėmimo valstybės biudžeto lėšomis taisyklių patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Department of Cultural Heritage under the Ministry of Culture of the Republic of Lithuania
The main source of financing the intervention	State budget
Additional sources of financing the intervention	State budget and private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s), non-profit organisation(s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Project contest
Types of private providers eligible to receive the intervention	Private NGOs
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Residents of Lithuania, 2.813 million (Statistics Lithuania, 2017); Lithuanian nationals living abroad, 0.62 million (Statistics Lithuania, 2014)
The type of impact of intervention for consumers	The intervention provides consumers with information
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	The impact of the intervention on the awareness of cultural heritage is positive but minimal since the limited amount of available funding is dispersed among a high number of different minor projects. Bigger projects which, for example, seek to employ IT tools to raise awareness of cultural heritage, are not financed because the amount of funding dedicated for one project is very limited.
Unintended impact of the intervention	No unintended impact.
Main issues related to the implementation of the intervention	The limited amount of funding is very dispersed – in 2017 EUR 150 thousand were divided among 79 different projects (on average less than EUR 1.9 thousand per project). As a result, bigger and more innovative projects that would employ IT tools such as mobile applications to raise the awareness and would be likely to have a more significant impact are too expensive and cannot be financed by this measure.
Consistency with other related interventions	The intervention supplements the projects of restoration of heritage objects financed from both national and EU budgets.

Possibilities to replace/withdraw the intervention	There are no plans to replace or withdraw the intervention. It is recommended to spread the financing among a smaller amount of more significant and ambitious projects. In addition, it is important to ensure complementarity with the projects of restoration of heritage objects financed from both national and EU budgets. So that the owners of renovated cultural heritage objects could subsequently implement the projects of awareness-raising.

Source: BGI Consulting et al, 2017.

TABLE 123. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN CULTURE AND TOURISM SECTOR (4)

Title of the intervention	Subsidy for development of the services of libraries (digital literacy)
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Projects aimed at improving digital literacy, especially among people with disabilities, socially excluded groups and including children and youth in creation and usage of digital content receive partial financing (up to 90% of the project costs can be covered; EUR 5000 to 20 000 can be assigned for one project)
Year of the introduction and end, stability of the intervention	2008 – up to now Implementation was stable, there were no major changes
The broader policy objective to which intervention contributes	To effectively use the potential of libraries to ensure the development of lifelong learning and socio-economic welfare, increase the impact on the development of the country and its regions and to achieve good quality of the services provided by the libraries
Legal background for the establishment of the intervention	Order of the Minister of Culture on the rules of partial financing of the libraries' development projects, 28 April 2016, No. IV-341 (LR kultūros ministro įsakymas dėl bibliotekų plėtros projektų dalinio finansavimo iš valstybės biudžeto lėšų taisyklių, projekto paraiškos, sąmatos prie paraiškos, sutarties, išlaidų sąmatos prie sutarties, ataskaitos, faktinės išlaidas patvirtinančių dokumentų sąrašo ir vertinimo formų patvirtinimo)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To develop the ICT skills and knowledge of Lithuanian residents in the public libraries
The objective of the intervention and legal background	To contribute to the reduction of the digital exclusion of the residents of Lithuania by encouraging them to gain knowledge and skills required for the successful use of ICT for the purpose of improving the quality of life. Order of the Minister of Culture on the rules of partial financing of the libraries' development projects, 28 April 2016, No. IV-341 (LR kultūros ministro įsakymas dėl bibliotekų plėtros projektų dalinio finansavimo iš valstybės biudžeto lėšų taisyklių, projekto paraiškos, sąmatos prie paraiškos, sutarties, išlaidų sąmatos prie sutarties, ataskaitos, faktinės išlaidas patvirtinančių dokumentų sąrašo ir vertinimo formų patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Ministry of Culture of the Republic of Lithuania
The main source of financing the intervention	State budget
Additional sources of financing the intervention	State budget and municipal budget
Market side the intervention is targeted at	Supply

SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Users of the services of National Library of Lithuania, Lithuanian Library for the Blind and public municipal and regional libraries, 1.208 million (Report of Lithuanian Libraries, 2016).
The type of impact of intervention for consumers	The intervention provides consumers with necessary skills, information
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	The intervention positively contributes to development of the necessary ICT skills, especially focusing on potentially socially excluded groups and increases the target group of the services of libraries in general
Unintended impact of the intervention	No unintended impact.
Main issues related to the implementation of the intervention	Since the financing is received via project contest and not all libraries implement the projects, members of the target group living in particular areas might not have the access to the services provided by the intervention.
Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	There are no plans and there is no need to replace or withdraw the intervention, it is recommended to increase the availability of the services financed by the intervention to all members of the target group regardless of location of their residence.

Source: BGI Consulting et al, 2017.

TABLE 124. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN CULTURE AND TOURISM SECTOR (5)

Title of the intervention	ESIF subsidies for restoration of heritage objects
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Subsidies for the projects aimed at restoration of the objects of cultural heritage and their application for cultural, educational, social and economic needs
Year of the introduction and end, stability of the intervention	2014 – 2023 Implementation was stable, there were no major changes
The broader policy objective to which intervention contributes	To enhance relevance, number of visits and visibility of cultural heritage
Legal background for the establishment of the intervention	European Commission decision approving the Lithuanian OP of ESIF for 2014-2020, 8 September 2014, No C(2014)6397 (2014–2020 metų Europos Sąjungos fondų investicijų veiksmų programa)

The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To enhance relevance of the cultural heritage by applying it for cultural, educational, social and economic needs
The objective of the intervention and legal background	To renovate the objects of cultural heritage and apply them for cultural and related educational, economic, social and other needs while preserving and revealing the valuable qualities of the objects of heritage and increasing the interest and visitors' flows in the objects of cultural heritage. Orders of the Minister of Culture on the financing of the measures under the Lithuanian OP 5 priority, 28 April 2016, No. IV-15; IV-684; IV-943 (LR kultūros ministro įsakymai dėl 2014-2020 metų Europos Sąjungos fondų investicijų veiksmų programos 5 prioriteto "Aplinksauga, gamtos išteklių darnus naudojimas ir prisitaikymas prie klimato kaitos" priemonių Nr. 05.4.1-CPVA-V-301 "Aktualizuoti kultūros paveldo objektus"; Nr. 05.4.1-CPVA-R-302 "Aktualizuoti savivaldybių kultūros paveldo objektus"; No. 05.4.1-CPVA-K-303 "Aktualizuoti viešąjį ir privatų kultūros paveldą" finansavimo sąlygų aprašo patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Ministry of Culture of the Republic of Lithuania
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	Private funds, state budget, municipal budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s), publicly-owned for profit entities; non-profit organisation(s) established by state/municipalities
Dominant mean of receiving the intervention for public providers	State-level project planning
Other means of receiving the intervention for public providers	Regional-level project planning; project contest
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the project promoters
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Residents that visited an object of cultural heritage over the last year (58.3% of the population over the last year) ²⁴⁵ ; local tourists, 827.5 thousand (Statistics Lithuania, 2016); foreign tourists, 1.246 million (Statistics Lithuania, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with information
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)

²⁴⁵ Residents' participation in the cultural activity and satisfaction with cultural services. UAB „Socialinės informacijos centras“, UAB „Norstat LT“, 2017.

Impact of the intervention	It is too early to evaluate the actual impact of the intervention as not a single project has been finished yet, however, some early implications can be drawn. Unlike similar interventions in the previous programming period, this intervention's main aim is preservation and actualisation of the cultural heritage, whereas there were no measures dedicated to cultural heritage as such in 2007-2013, the interventions were focused on the tourism-related aims and restoration of some objects of cultural heritage were a positive side-effect rather than the main aim. The measures aimed at application of publicly-owned heritage objects for cultural activities started off well, however there is no sufficient demand among the private owners of heritage objects to apply the objects for other non-cultural activities (e.g. hotels, restaurants). Private owners can only receive funds for the restoration works, however the infrastructure required to start a business in the object is not financed at all, thus most private owners find the contribution to be too small. In addition, private owners do not feel capable of achieving sufficient visitor flows and generating sufficient revenue. As a result, most of the private owners of heritage objects cannot meet the requirements to receive funding and the impact of this particular measure (No. 05.4.1-CPVA-K-303) will probably be limited and lesser than expected. Meanwhile, the demand for financing among the public owners of heritage objects might not be fully satisfied, however the impact is expected to be positive as there is a sufficient number of public owners that are able to complement the EU funds by contribute with the required amount from other sources of financing.
Unintended impact of the intervention	The requirements for the owners of heritage have regulatory effect on what activities the renovated object of heritage can be used for and how many visitors' hours it has to generate
Main issues related to the implementation of the intervention	Most private owners of heritage objects are not capable of meeting the requirements to receive the funding. Only restoration and not general infrastructural works can be financed when the owner wants to apply the object for non-cultural activities, consequently large contributions from the owners themselves are required. In addition, some owners that, for example, inherited the heritage object and do not intend to treat the facilities as a heritage object, feel that they are forced to meet some kind of requirements (and use their own money to do it) just because they happen to possess the object of heritage.
Consistency with other related interventions	Projects for renovation of heritage objects are also financed from the State Investments' Programme and by the Lithuanian Council for Culture. There is some coordination between the former and ESIF subsidies. For example, some theatres that are being renovated for 10-15 years received funding for initial stages of renovation from the State Investments' Programme and then received funding for the latter stages from ESIF. This is a good example of complementarity, as projects can be finished in a shorter period of time. However, there has been a lack of coordination between the ESIF subsidies and subsidies from the Lithuanian Council for Culture, thus these interventions might overlap. Coordination is required in order to achieve complementarity and increase the overall impact. Possible coordination with the Lithuanian Council for Culture is not limited to its heritage restorations projects. The Council also finances various cultural activities, which might be held in the objects renovated from ESIF if only the investments were coordinated.
Possibilities to replace/withdraw the intervention	It is not yet clear what will be the mechanism for financing the objects of cultural heritage with ESIF subsidies in the next programming period. It is likely that a greater share of the projects will have to be financed from the State Investment' Programme.

Source: BGI Consulting et al, 2017.

TABLE 125. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN CULTURE AND TOURISM SECTOR (6)

Title of the intervention	Financial instrument (loan) for upgrading heritage objects
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Financial instruments for public service provision
Short description of the intervention	Loans are provided for private and public owners of the heritage objects via a financial intermediary in order to renovate the heritage objects and apply them for cultural, educational, social and economic needs by preserving the valuable qualities of the heritage object.
Year of the introduction and end, stability of the intervention	2014 – 2023 Implementation has barely started yet because a financial intermediary has not been found yet. If the intermediary is not found until February 2018, i.e. the additional private capital is not attracted, there will be a major change as the loans will only be provided by the Public Investment Development Agency (VIPA) and the amount of total financing available will be reduced by 50%.
The broader policy objective to which intervention contributes	To enhance relevance, number of visits and visibility of cultural heritage
Legal background for the establishment of the intervention	European Commission decision approving the Lithuanian OP of ESIF for 2014-2020, 8 September 2014, No C(2014)6397 (2014–2020 metų Europos Sąjungos fondų investicijų veiksmų programa)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To enhance the relevance and visibility of the cultural heritage objects by applying them for cultural, educational, social and economic needs
The objective of the intervention and legal background	To preserve and reveal the valuable qualities of the cultural heritage objects by applying them for cultural, educational, social and economic needs. Order of the Minister of Culture on the measures of Lithuanian OP implemented by the Ministry of Culture, 12 May 2016, No. [V-380 (LR kultūros ministro įsakymas dėl LR kultūros ministerijos 2014–2020 metų ES fondų investicijų veiksmų programos prioritetų įgyvendinimo priemonių įgyvendinimo plano ir nacionalinių stebėsenos rodiklių skaičiavimo aprašo patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Ministry of Culture of the Republic of Lithuania
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	Private funds, state budget, municipal budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s), publicly-owned for profit entities; non-profit organisation(s) established by state/municipalities
Dominant mean of receiving the intervention for public providers	Financial instrument (loan)
Dominant mean of receiving the intervention for private providers	Financial instrument (loan)

The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the project promoters and their capabilities to borrow
The share of the funds of the intervention that is attributed to public providers	Not yet clear as none of the funds have been transferred as of January 2018
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Residents that visited an object of cultural heritage over the last year (58.3% of the population over the last year) ²⁴⁶ ; local tourists, 827.5 thousand (Statistics Lithuania, 2016); foreign tourists, 1.246 million (Statistics Lithuania, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with information
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	It is too early to evaluate the actual impact of the intervention as not a single project has started yet. However, the early signs are not inspiring as the financial intermediary, which is necessary in order to double the total funding available, has not been found – not a single Lithuanian bank participated in a public tender, which shows that the banks perceive the sector to be risky and possibly do not see the demand for such kinds of loans. The financial instrument can be implemented without a financial intermediary solely by the Public Investment Development Agency (VIPA) with a total available funding of EUR 5.2 million (all from ESIF), however there are signs that, at least among private owners of the heritage objects, there might not even be enough demand for such smaller amount of funding, since the demand for subsidies for restoration of heritage is low and private owners of heritage objects may be even more reluctant to take a loan as compared to a subsidy. The conclusions cannot be drawn yet but it is likely that the instrument will be a failure and its impact, at least on the privately-owned heritage, will be negligible.
Unintended impact of the intervention	No unintended impact has been indicated so far at this early stage of implementation of the instrument.
Main issues related to the implementation of the intervention	The main issue that has not even allowed to begin the implementation so far is the reluctance of banks to participate as financial intermediaries and attract at least another EUR 5.2 million which could be lent to the owners of heritage objects. It is likely that the banks perceive the sector to be risky and do not believe that there will be sufficient demand for such kind of loans. In addition, the problems with the subsidies for restoration of heritage objects for private owners suggest that the demand among the private owners for this measure will be lower than initially expected.
Consistency with other related interventions	No consistency issues identified so far. However, as with the ESIF subsidies for restoration of heritage objects, in order to maximise the impact, it is recommended to ensure the complementarity between the ESIF financial instrument and projects financed by the Lithuanian Council for Culture and the State's Investment Programme
Possibilities to replace/withdraw the intervention	The mechanism of financing the renovation of the objects of cultural heritage with ESIF subsidies in the next programming period is not clear yet. The financial instrument would be likely to be expanded if it was a success in this programming period, which does not seem to be the case at the moment.

Source: BGI Consulting et al, 2017.

²⁴⁶ Residents' participation in the cultural activity and satisfaction with cultural services. UAB „Socialinės informacijos centras“, UAB „Norstat LT“, 2017.

TABLE 126. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN CULTURE AND TOURISM SECTOR (7)

Title of the intervention		Reduced VAT for books and other publications
GENERAL CHARACTERISTIS OF THE INTERVENTION		
Type of the intervention	Reduced taxes	
Short description of the intervention	Reduced VAT rate (9%) applies to books, other non-periodical publications (e.g. dictionaries, textbooks, encyclopedias) and periodical publications (e.g. newspapers and magazines)	
Year of the introduction and end, stability of the intervention	1994 – up to now There were significant changes in the implementation of the intervention over time. Periodical and non-periodical publications were fully exempted from VAT 1994-2002. During 2003-2008 the reduced VAT rate (5%) rate was applied, while in 2009 the reduced VAT rate was raised to 9% and only applied to periodical publications. Since 2013 the reduced VAT rate (9%) is applied to both periodical and non-periodical publications.	
Legal background for the establishment of the intervention	VAT law, 5 March 2002, No. IX-751 (LR pridėtinės vertės mokesčio įstatymas)	
The broader policy objective to which intervention contributes	To develop educated and informed civic society	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To encourage reading, which contributes to the development of educated and informed civic society, by making both periodical and non-periodical publications more affordable	
The objective of the intervention and legal background	To increase the affordability of periodical and non-periodical publications among all income groups	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	National level	
Name of the body responsible for implementation (administration) of intervention	State Tax Inspectorate	
The main source of financing the intervention	State budget	
Market side the intervention is targeted at	Both demand and supply	
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Subjects of the reduced tax	Authors and publishers of periodical and non-periodical publications	
Level of coercion at the level of subject of the tax exemption	The intervention is compulsory for the subjects	
Selection criteria of subjects receiving the tax exemption	Precise (particularised). Some types of publications are subject to a regular VAT rate, these include: e-publications and unethical, erotic or violent type of publications, advertising publications	
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Groups benefiting from the tax exemption	Buyers of books (50.1% of the residents of Lithuania bought at least one book over the last year) ²⁴⁷ , other non-periodical publications, newspapers and magazines	
Impact of the intervention	The impact of affordability is different for periodical and non-periodical publications. When the VAT for books was increased, the final prices of the books increased slightly more than the VAT rate in both 2003 and 2009, thus the impact on affordability	

²⁴⁷ Residents' participation in the cultural activity and satisfaction with cultural services. UAB „Socialinės informacijos centras“, UAB „Norstat LT“, 2017.

	was slightly smaller than planned. However, in 2009 the surge in prices could also be explained by the increase in taxation of the authors which was introduced at the same time period. Meanwhile, the prices for newspapers and magazines increased less than then increase in VAT in both 2003 and 2009, i.e. part of the additional price was absorbed by the publishers, however when the VAT for periodical publications was reduced in 2013, the final prices barely changed, i.e. the reduction of VAT resulted in higher profit margins of the publishers²⁴⁸. In general, the demand for both printed books and printed periodical publications has gradually decreased, however it is mostly associated with the increased demand for e-books and e-publications and it is difficult to say what is the exact impact of VAT rates for publications that increased over time. It is also difficult to estimate the impact of the reduced VAT rate for books since a regular VAT rate was never applied for books, however since the demand for books is considered to be highly elastic, it is likely that the demand for books would fall significantly if the regular VAT rate was applied for books.
Unintended impact of the intervention	Increased profit margins of the publishers. Although it has not been significant. Also, negative environmental effects since the reduced rate is only applied for printed publications.
Main issues related to the implementation of the intervention	The reduced VAT rate is not applied for e-publications as they are considered to be a service rather than a good. Such a decision follows EU regulations and a further analysis is required to determine whether the VAT rate should be reduced for e-publications, however, currently a less environmentally-friendly way is promoted.
Consistency with other related interventions	No consistency issues
Possibilities to replace/withdraw the intervention	There are not and there should not be any considerations for withdrawing the intervention. It is recommended to prepare Lithuania's position on the possible reduction of VAT rate for e-publications

Source: BGI Consulting et al, 2017.

TABLE 127. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN CULTURE AND TOURISM SECTOR (8)

Title of the intervention	Subsidy for implementation of cultural and artistic projects
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Projects in miscellaneous fields of art and culture receive partial financing, which comes from two sources: revenue collected from the excise duty on alcohol and tobacco and revenue collected from the lottery and gambling tax
Year of the introduction and end, stability of the intervention	2008 – up to now There was one significant change in financing of the intervention implemented in 2013, when the share of the revenue collected from the excise duty on alcohol and tobacco dedicated for this fund increased from 1% to 3%
The broader policy objective to which intervention contributes	Not defined
Legal background for the establishment of the intervention	The law on the Culture Assistance Fund, 4 July 2007, No. X-1260 (LR kultūros rėmimo fondo įstatymas)

²⁴⁸Analysis of the impact of the reduced 9% VAT rate for books and periodical publications on public finance and culture identifying the purposefulness of its continuity or proposing other mechanisms of state assistance. UAB „Ekonominės konsultacijos ir tyrimai“, 2016.

The objective of the intervention in relation to the broader policy objective to which the intervention contributes	Not defined
The objective of the intervention and legal background	To have an independent source of financing the projects of art and culture
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Lithuanian Council for Culture
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s); publicly-owned for profit entity; non-profit organisation(s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Project contest
Types of private providers eligible to receive the intervention	Private for-profit entities; Private NGOs
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Residents of Lithuania attending stage arts events (61% of the population over the last year); consumers of visual arts and crafts (50% of the population over the last year); residents attending museums, galleries or exhibitions (35% of the population over the last year) ²⁴⁹
The type of impact of intervention for consumers	The intervention provides consumers with information
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	The impact of the intervention is positive as it is one of the most significant sources of financing for projects in various fields of art and culture, which allows to implement the projects which would not be implemented in the absence of the fund and allows to implement the projects of higher quality.
Unintended impact of the intervention	No unintended impact identified.
Main issues related to the implementation of the intervention	Since all the financing is allocated via a project contest, it is not possible to have programmes which cover all the target institutions. For example, if the trainings to improve the competences of the museums' employees are financed via a project contest, only a limited number of the employees will be able to improve the competences.
Consistency with other related interventions	It is not clear whether this intervention is coordinated with other programmes administered by the Ministry of Culture that

²⁴⁹ Residents' participation in the cultural activity and satisfaction with cultural services. UAB „Socialinės informacijos centras“, UAB „Norstat LT“, 2017.

	are financed from the state budget. In case it is not, the overlapping is possible.
Possibilities to replace/withdraw the intervention	There are and should not be considerations to withdraw or replace the intervention. However, it is important to ensure the complementarity between this intervention and other programmes administered by the Ministry of Culture.

Source: BGI Consulting et al, 2017.

TABLE 128. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN CULTURE AND TOURISM SECTOR (9)

Title of the intervention		ESIF subsidies for restoration of cultural infrastructure
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Subsidy for improving performance of the public service
Short description of the intervention		Subsidies for the projects aimed at restoration of museums, libraries, cultural centres, concert halls, theatres
Year of the introduction and end, stability of the intervention		2014 – 2023 Implementation was stable, there were no major changes
The broader policy objective to which intervention contributes		To revitalise public urban spaces by making use of their specific cultural resources and objects
Legal background for the establishment of the intervention		European Commission decision approving the Lithuanian OP of ESIF for 2014-2020, 8 September 2014, No C(2014)6397 (2014–2020 metų Europos Sąjungos fondų investicijų veiksmų programa)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes		To renovate cultural infrastructure objects as the centres of public urban spaces
The objective of the intervention and legal background		To renovate the cultural infrastructure in order to improve the quality, availability and interactivity of the cultural services, increase their value-added, increase the flows of visitors and create more business-friendly environment. Orders of the Minister of Culture on the financing of the measures under the Lithuanian OP 7 priority, 6 May 2016, No. IV-371; 28 October 2016, IV-837 (LR kultūros ministro įsakymai dėl 2014-2020 metų Europos Sąjungos fondų investicijų veiksmų programos 7 prioriteto “Kokybiško užimtumo ir dalyvavimo darbo rinkoje skatinimas” priemonių Nr. 07.1.1-CPVA-V-304 “Modernizuoti kultūros infrastruktūrą”; Nr. 07.1.1-CPVA-R-305 “Modernizuoti savivaldybių kultūros infrastruktūrą”) and project of the order of the Minister of Culture on the financing of the measure No. 07.1.1-CPVA-K-306 “Modernizuoti viešąją ir privačią kultūros infrastruktūrą” finansavimo sąlygų aprašų patvirtinimo
Level of body responsible for policy formation		National level
Level of body responsible for implementation (administration) of intervention		National level
Name of the body responsible for implementation (administration) of intervention		Ministry of Culture of the Republic of Lithuania
The main source of financing the intervention		ESIF funds
Additional sources of financing the intervention		Private funds, state budget, municipal budget
Market side the intervention is targeted at		Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention		Public and private
Types of public providers eligible to receive the intervention		Budgetary institution (-s), publicly-owned for profit entities; non-profit organisation(s) established by state/municipalities

Dominant mean of receiving the intervention for public providers	State-level project planning
Other means of receiving the intervention for public providers	Regional-level project planning; project contest
Dominant mean of receiving the intervention for private providers	Project contest
Other means of receiving the intervention for private providers	Regional-level project planning
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the project promoters
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Residents of Lithuania attending museums, galleries or exhibitions (50% of the population over the last year); residents attending stage arts events (61% of the population over the last year) ²⁵⁰ ; local tourists, 827.5 thousand (Statistics Lithuania, 2016); foreign tourists, 1.246 million (Statistics Lithuania, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with information
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	It is too early to evaluate the actual impact of the intervention as not a single project has been finished yet. However, the projects have to meet certain specific requirements set out in the planning phase to receive the funding, thus expected results can be drawn assuming that the projects will fulfil the requirements and achieve their expected impact. If that is the case, the intervention will primarily have a positive impact on the flows of visitors.
Unintended impact of the intervention	No unintended impact identified
Main issues related to the implementation of the intervention	The infrastructural investments are not coordinated with the funding of cultural activities, for example, the ones that are financed by the Lithuanian Council for Culture.
Consistency with other related interventions	No consistency issues identified
Possibilities to replace/withdraw the intervention	It is not yet clear whether the measures for restoration of the cultural infrastructure will be included in the Lithuanian OP in the next programming period.

Source: BGI Consulting et al, 2017.

TABLE 129. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN CULTURE AND TOURISM SECTOR (10)

Title of the intervention	VAT exemption for cultural services
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Tax exemptions
Short description of the intervention	VAT is not applied to bibliographical and informational libraries' services, all kinds of cultural and artistic events (e.g. theatre plays, concerts, exhibitions, etc.), film-making and showing, services of museums, zoos, botanical gardens and

²⁵⁰ Residents' participation in the cultural activity and satisfaction with cultural services. UAB „Socialinės informacijos centras“, UAB „Norstat LT“, 2017.

	circuses when these services are provided by non-profit organisations.
Year of the introduction and end, stability of the intervention	1994 – up to now All cultural services were exempted from VAT by the first law on VAT in 1994. Since the new law on VAT was passed in 2002, only particular cultural services provided only by non-profit organisations are exempted from VAT, while the cultural events organised by other providers were subject to a regular VAT rate from 2002 to 2006. A reduced VAT rate of 5% was briefly applied to all cultural events from 2006 to 2008, however, this exemption was revoked during the financial crisis in 2009 and cultural events (except the ones organised by non-profit providers) have been subject to a regular VAT rate since then.
Legal background for the establishment of the intervention	VAT law, 5 March 2002, No. IX-751 (LR pridėtinės vertės mokesčio įstatymas)
The broader policy objective to which intervention contributes	Not defined
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	Not defined
The objective of the intervention and legal background	To increase the affordability and the demand for the cultural services
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	State Tax Inspectorate
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Both demand and supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the reduced tax	Museums, libraries, zoos, botanical gardens, circuses, theatres, concert halls, art centres, film studios, cinemas
Level of coercion at the level of subject of the tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups benefiting from tax exemption	Residents of Lithuania attending museums, galleries or exhibitions (50% of the population over the last year); residents that use libraries' services (31% of the population over the last year); residents that attended cinemas (41% of the population over the last year) ²⁵¹ ; visitors of zoos, botanical gardens, circuses
Impact of the intervention	VAT exemption should theoretically increase the affordability of cultural services, however, it is difficult to assess the actual impact as the current exemption on services provided by non-profit organisations has been ever-present. It is likely that the positive impact on affordability is greater for more expensive services (e.g. theatres), while, for example, services of public museums tend to be inexpensive and would probably remain relatively affordable even if VAT was applied. As for the impact of changing VAT rates for other cultural events, the overall price level of leisure and culture services actually slightly decreased when a regular VAT rate for cultural events were introduced in 2002. The impact on the overall price

²⁵¹ Residents' participation in the cultural activity and satisfaction with cultural services. UAB „Socialinės informacijos centras“, UAB „Norstat LT“, 2017.

	level of leisure and culture services of reducing VAT rate for cultural events to 5% in 2006 was also different the expected as the price level remained very similar and even slightly increased. The impact of a change in VAT rate on the overall price level of leisure and culture services was also minimal in 2009, when a regular VAT rate of 19% was introduced. The corresponding increase in the price level was only around 1%, which is significantly lower than increase in prices of some other goods and services that were also subject to the increased VAT rate. While it is likely that changes in price levels of the actual services that were subject to an increased/decreased VAT rate was more significant, the data on the price levels on a more aggregate level suggest that the change in the actual prices was much smaller than the change in VAT rate in all 3 cases in 2002, 2006 and 2009. As a result, the impact of VAT exemptions for cultural events on affordability is likely to be insignificant.
Unintended impact of the intervention	Firstly, the VAT is currently not applied only for services provided by non-profit organisations. Such arrangement creates disfavours private providers that seek to generate profit, even though the cultural services they provide might also be considered as merit goods. Secondly, as the changes in the price level of cultural services do not fully correspond with the changes in the VAT rate, it is likely that changes in VAT rate affect service providers rather than consumers. While VAT exemptions in general might have an objective to stimulate the supply, the related documents do not indicate that this is the case with the VAT exemptions for cultural services.
Main issues related to the implementation of the intervention	Only a minor share of a reduction/increase in VAT rate is reflected in the price level.
Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	Currently there are no considerations to withdraw or change the existing VAT exemption. Since the impact of it was never examined in detail, a thorough analysis is needed to determine whether the exemption is necessary. Also, reintroducing a reduced VAT rate for all cultural events was considered in the past, however such considerations are not likely in the foreseeable future as it would not be in line with the current government's policy to reduce the number of VAT exemptions.

Source: BGI Consulting et al, 2017.

TABLE 130. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN CULTURE AND TOURISM SECTOR (11)

Title of the intervention	Subsidy for research and restoration of movable and immovable heritage
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Restoration and research of both publicly and privately-owned cultural heritage objects is partially or fully financed from the state budget
Year of the introduction and end, stability of the intervention	1994 – up to now The first laws that established protection of immovable (1994) and movable (1996) heritage foresaw the conditions under which the renovation or research of the objects of heritage can be financed from the state budget. The current more specific financing terms were confirmed in by the order of the minister of Culture on the 30th June 2014.
The broader policy objective to which intervention contributes	To preserve movable and immovable Lithuanian cultural heritage, create the conditions for the society to acknowledge and use it and to pass it on to the future generations

Legal background for the establishment of the intervention	Order of the Minister of Culture on the financing terms of the preservation of movable and immovable cultural heritage objects, 30 June 2014, No. IV-524 (LR kultūros ministro įsakymas dėl nekilnojamųjų ir kilnojamųjų kultūros vertybių išsaugojimo darbų finansavimo tvarkos aprašo patvirtinimo)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To finance the preservation of some movable and immovable cultural heritage objects, so that more of them are preserved
The objective of the intervention and legal background	To finance the preservation of cultural movable and immovable heritage. Order of the Minister of Culture on the financing terms of the preservation of movable and immovable cultural heritage objects, 30 June 2014, No. IV-524 (LR kultūros ministro įsakymas dėl nekilnojamųjų ir kilnojamųjų kultūros vertybių išsaugojimo darbų finansavimo tvarkos aprašo patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Department of Cultural Heritage under the Ministry of Culture of the Republic of Lithuania
The main source of financing the intervention	State budget
Additional sources of financing the intervention	Municipal budget, private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Public administration institutions directly, budgetary institutions, publicly-owned for profit entity, non-profit organisation(s) established by state/municipality
Types of private providers eligible to receive the intervention	Private for-profit entities, private NGOs, private persons
Dominant mean of receiving the intervention for public providers	Project contest
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Residents that visited an object of cultural heritage over the last year (58.3% of the population over the last year); local tourists, 827.5 thousand (Statistics Lithuania, 2016); foreign tourists, 1.246 million (Statistics Lithuania, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with information
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	Mostly renovation of object that require urgent protection are financed by this measure, however the need for financing far exceeds the available funds.
Unintended impact of the intervention	Preparation of applications require the applicants to possess considerable human and financial resources, as well as

	sufficient level of knowledge and skills ²⁵² . These factors might deter the applicants from applying, thus some objects of cultural heritage might not be renovated and preserved.
Main issues related to the implementation of the intervention	The programmes of preservation of movable and immovable cultural heritage lack clear objectives and indicators, thus it is difficult to evaluate the success of the intervention. In addition, the prioritisation of the cultural heritage objects lacks clarity – whilst there are national, regional and local levels of importance, the level of importance of a significant share of the objects is not determined. ²⁵³
Consistency with other related interventions	While this intervention does not directly oppose any on the other interventions analysed, the whole system of preservation of cultural heritage lacks coordination as the subsidies for restoration of cultural heritage from the national budget are not coordinated with ESIF subsidies or other sources of financing on the strategic level.
Possibilities to replace/withdraw the intervention	There are no plans to withdraw or replace the intervention. While it is clear that the intervention is necessary, clearly defined and more precise objectives and indicators are required to ensure a more efficient use of the state funds, while coordination with other sources of financing the renovation of cultural heritage would allow to improve the overall level of preservation of heritage.

Source: BGI Consulting et al, 2017.

TABLE 131. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN CULTURE AND TOURISM SECTOR (12)

Title of the intervention	Subsidy for restoration of Catholic sacral heritage
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Restoration of cultural sacral heritage objects owned by the Catholic church of Lithuania is partially or fully financed from the state budget
Year of the introduction and end, stability of the intervention	2005 – up to now Major changes in the implementation have not occurred but the amount of financing devoted for the programme was reduced significantly in 2010 from more than EUR 2 million annually to around EUR 1 million annually.
The broader policy objective to which intervention contributes	To valorise the Catholic church's moral, cultural and historical contribution to the Lithuanian nation.
Legal background for the establishment of the intervention	Order of the Minister of Culture on the financing terms of the preservation of movable and immovable cultural heritage on the basis of a treaty between the Republic of Lithuania and the Holy See on the cooperation in the area of education and culture, 18 July 2014, No. IV-559 (LR kultūros ministro įsakymas dėl nekilnojamojų ir kilnojamojų kultūros vertybių išsaugojimo darbų pagal Lietuvos Respublikos ir Šventojo Sosto sutarties dėl bendradarbiavimo švietimo ir kultūros srityje (paveldotvarka) programą finansavimo tvarkos aprašo patvirtinimo)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To preserve movable and immovable Catholic sacral heritage
The objective of the intervention and legal background	To finance the preservation of cultural movable and immovable heritage owned by the Catholic church of Lithuania

²⁵²Evaluation of incentive system in the field of cultural heritage preservation. UAB „ESTEP Vilnius“, UAB „PPMI Group“, 2015.

²⁵³Ibid.

Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Department of Cultural Heritage under the Ministry of Culture of the Republic of Lithuania
The main source of financing the intervention	State budget
Additional sources of financing the intervention	Municipal budget, private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Private
Types of private providers eligible to receive the intervention	Private NGOs (parishes)
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	0%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Attendants of Catholic churches; residents that visited an object of cultural heritage over the last year (58.3% of the population over the last year); local tourists, 827.5 thousand (Statistics Lithuania, 2016); foreign tourists, 1.246 million (Statistics Lithuania, 2016) ²⁵⁴
The type of impact of intervention for consumers	The intervention provides consumers with necessary infrastructure, services and information
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	This is the main source of financing the renovation of the places of worship and about half of the applicants tend to receive the funding, while the main reason for rejecting the applications are the lack of funds available, thus the demand for the intervention exceeds the supply and mostly only the objects that are in the worst condition and require urgent restoration are renovated with the funds of the programme.
Unintended impact of the intervention	No unintended impact was identified.
Main issues related to the implementation of the intervention	The share of funds from other sources of financing (municipal budget, funds of the applicants and other funds) is very small, meaning that the preservation of the objects of Catholic sacral heritage almost fully depends on the state budget.
Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	There are no plans to replace or withdraw the intervention. It is recommended to create incentives that would attract funds from other sources necessary for restoration of the objects of Catholic heritage.

Source: BGI Consulting et al, 2017.

²⁵⁴ Residents' participation in the cultural activity and satisfaction with cultural services. UAB „Socialinės informacijos centras“, UAB „Norstat LT“, 2017.

TABLE 132. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN CULTURE AND TOURISM SECTOR (13)

Title of the intervention	Regulation regarding requirements for preservation of heritage
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulations
Short description of the intervention	The use and renovation of cultural heritage objects are regulated in order to preserve the most valuable features of the heritage
Year of the introduction and end, stability of the intervention	1994 – up to now Since the first laws that defined the regulation of preservation of immovable (1994) and movable (1996) heritage were passed, more specific and precise requirements were introduced
Legal background for the establishment of the intervention	The law on preservation of immovable cultural heritage, 22 December 1994, No. I-733 (LR nekilnojamojo kultūros paveldo apsaugos įstatymas); The law on preservation of movable cultural products, 23 January 1996, No. I-1179 (LR kilnojamyjų kultūros vertybių apsaugos įstatymas)
The broader policy objective to which intervention contributes	To preserve movable and immovable Lithuanian cultural heritage, create the conditions for the society to acknowledge and use it and to pass it on to the future generations
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To ensure the standardised process of preserving the cultural heritage
The objective of the intervention and legal background	To preserve the most valuable features of the cultural heritage objects Order of the Minister of Environment on the technical regulation of construction regarding the requirements for the use and maintenance of the residential houses, 1 July 2002, No. IV-351 (LR aplinkos ministro įsakymas "Dėl statybos techninio reglamento STR 1.12.05:2002 "Gyvenamųjų namų naudojimo ir priežiūros privalomieji reikalavimai ir jų įgyvendinimo tvarka"; order of the Minister of Environment and the Minister of Culture on the technical regulation of construction regarding the requirements for construction work in the objects of cultural heritage, 5 May, 2005, No. IV-196 (LR aplinko ministro ir LR kultūros ministro įsakymas dėl statybos techninio reglamento STR 1.01.01:2005 "Kultūros paveldo statinio tvarkomųjų statybos darbų reglamentai" patvirtinimo.
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Ministries of Culture and Environment of the Republic of Lithuania
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation	Owners of the cultural heritage objects
Level of coercion at the level of subject of the regulation	The use of intervention is compulsory for the service providers
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups benefiting from the regulation	The society in general since cultural heritage is considered to be national heritage. More specifically, visitors of the objects of cultural heritage (58.3% of the population visited such an

	object over the last year) ²⁵⁵ benefit since the quality of the services they receive can be higher due to requirements.
Impact of the intervention	Although the preservation of the valuable features of cultural heritage objects is well-regulated in theory, there are a lot of objects that are not maintained despite being acknowledge as valuable, mainly due to the lack of funds.
Unintended impact of the intervention	Some investors and real estate developers are deterred from developing cultural heritage objects since the requirements do not allow to change the objects at all in most cases, while some changes are necessary in order to adapt the object for new activities. Such adaptation is necessary since the original function of the objects is often no longer relevant. As a result, some objects that could be adapted and used by protecting its most important features, are not used and not properly maintained.
Main issues related to the implementation of the intervention	There are a lot of cultural heritage objects that are not properly documented (e.g. their level of significance (national, regional, local) is not defined, they do not have photo fixation, etc.). In addition, the requirements sometimes lack flexibility and limit possibilities to adapt the object for new activities.
Consistency with other related interventions	In the cases where the requirements are too rigid and deter the owners of the object or potential investors from renovating the object and applying it for new activity, there are inconsistencies with the measures of financing the renovation and application of the objects (subsidies from the state budget, ESIF funds, loans from ESIF funds) as the requirements hinder the owners' opportunities to make use of the available financing.
Possibilities to replace/withdraw the intervention	There are no plans to replace or withdraw the intervention.

Source: BGI Consulting et al, 2017.

TABLE 133. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN CULTURE AND TOURISM SECTOR (14)

Title of the intervention	Reduced tariffs for particular groups of users of state or municipality-owned tourist and cultural services
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Customer support through discounts or tariff compensations
Short description of the intervention	Reduced tariffs are applied for social or age-related groups (e.g. children, students, pensioners), soldiers and employees of some cultural institutions (e.g. museums) in cultural and tourist objects owned by the state and municipalities.
Year of the introduction and end, stability of the intervention	1998 – up to now Implementation was stable, there were no major changes
The broader policy objective to which intervention contributes	To increase the availability of cultural and tourism services
Legal background for the establishment of the intervention	Order of the Minister of Culture on the determination of reduced tariffs in museums, 31 August 2015, No. ĮV-556 (LR kultūros ministro įsakymas dėl muziejų lankymo lengvatų nustatymo)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To increase the availability of cultural and tourism services for specific target groups by making the services more affordable

²⁵⁵ Residents' participation in the cultural activity and satisfaction with cultural services. UAB „Socialinės informacijos centras“, UAB „Norstat LT“, 2017.

The objective of the intervention and legal background	To guarantee the availability of cultural and tourism services for all groups of the society Order of the Minister of Culture on the determination of reduced tariffs in museums, 31 August 2015, No. ĮV-556 (LR kultūros ministro įsakymas dėl muziejų lankymo lengvatų nustatymo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Ministry of Culture of the Republic of Lithuania
The main source of financing the intervention	State budget
Additional sources of financing the intervention	Regional budget
Market side the intervention is targeted at	Demand
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Pensioners, ~800 thousand (Statistics Lithuania, 2017); pupils, ~331 thousand (Statistics Lithuania, 2017); students, ~125 thousand (Statistics Lithuania, 2017); soldiers, ~20 thousand (Lithuanian Armed Forces, 2015), former political prisoners and exiles, persons with disabilities, pre-school-age children, children from children care home, employees of museums
The type of impact of intervention for consumers	The intervention provides consumers with information
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised)
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	Social status or age-related criteria (e.g. students, pensioners, etc.) and family composition (e.g. multi-child families) for some services The amount of the transfer for a particular member of the consumers group is identified using the uniform size approach
Impact of the intervention	The intervention is the main instrument, which increases the availability and affordability of cultural and tourism services provided by the state or municipality-owned entities. The impact on the target group is significantly positive
Unintended impact of the intervention	Reduced revenues of the institutions providing the services, which are not compensated.
Main issues related to the implementation of the intervention	Some museums generate very little revenue since even their regular tariffs are small already
Consistency with other related interventions	No consistency issues identified
Possibilities to replace/withdraw the intervention	It is planned to make visits in all state or municipality-owned museums for pupils completely free of charge. However, this decision has not been well-discussed with the representatives of museums and they are concerned with the fact that lost revenues are not going to be compensated.

Source: BGI Consulting et al, 2017.

2.9.3.1 SUPPLY SIDE: QUALITY OF PLANNING OF SELECTED INTERVENTIONS

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

TABLE 134. QUALITY OF PLANNING OF THE CULTURE AND TOURISM SECTOR SERVICE RELATED INTERVENTIONS IN LITHUANIA

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Operation of state/municipality-owned ticketed tourist attractions and provision of paid tourism services	Reduced tariffs for particular groups of users of state or municipality-owned tourist and cultural services	×	×	N/A	√	√	√	AVERAGE
Libraries, archives and museums services	Subsidy for promotion and valorisation of national heritage	×	√	N/A	√	×	×	AVERAGE
	Subsidies for initiatives for preservation of the historical memory	×	√	N/A	√	×	×	AVERAGE
	Subsidy for implementation of cultural projects to raise awareness and revitalise immovable heritage	×	√	N/A	√	×	×	AVERAGE
	Subsidy for development of the	×	√	N/A	√	√	×	AVERAGE

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
	services of libraries							
	ESIF subsidies for restoration of heritage objects	√	√	N/A	√	√	×	AVERAGE
	Financial instrument (loan) for upgrading heritage objects	√	√	√	√	×	×	AVERAGE
	Reduced VAT for books and other publications	×	×	N/A	√	×	×	POOR
Professional and amateur stage arts infrastructure and organisations	Subsidy for implementation of cultural and artistic projects	×	√	×	√	√	×	AVERAGE
	ESIF subsidies for renovation of cultural infrastructure	√	√	N/A	√	√	√	GOOD
	VAT exemption for cultural services	×	×	N/A	√	×	×	POOR
	Reduced tariffs for particular groups of visitors	×	×	N/A	√	√	√	AVERAGE

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
	at arts and culture events organised by state or municipality-owned entities							
Maintaining free access to cultural and tourism infrastructure and providing free services	ESIF subsidies for restoration of heritage objects	√	√	N/A	√	√	√	GOOD
	Subsidy for research and restoration of movable and immovable heritage	×	√	N/A	√	×	×	AVERAGE
	Subsidy for restoration of Catholic sacral heritage	×	√	N/A	√	×	×	AVERAGE
	Regulation regarding requirements for preservation of heritage	×	×	N/A	√	√	√	AVERAGE

Source: BGI Consulting et al, 2017.

In total there were 14 interventions related to the services selected for in-depth analysis in the Culture and tourism sector in Lithuania. The quality of planning was determined to be good only for ESIF subsidies for restoration cultural infrastructure.

In most cases (78.6 percent) the quality planning was determined to be average. The most common shortcomings for these interventions are not defined results of implementation of the intervention and not taking into account the overall demand for the related services when planning the intervention. The fact

that the results are not defined is closely related to the fact that the objectives of most interventions are not defined in the documents that establish and describe the interventions. Even though the objectives can sometimes be understood from the general description of the interventions, the lack of clearly defined objectives leaves unnecessary freedom for interpretation. Consequently, the exact results that the intervention should achieve are not clear.

An especially clear example of not taking into account the overall demand is the subsidies for renovation and application of cultural heritage. More precisely, the demand among the private owners of cultural heritage objects was misjudged. The separate call for private owners of heritage objects was announced because it was known that a significant share of the heritage objects are owned by the private owners. However, only when the call was announced it became apparent that the number of private owners who are willing to contribute with a significant amount of their own funds to apply the heritage objects for new activities (e.g. education, accommodation, catering) and are able to meet the requirements (e.g. achieve the required number of visitors' hours spent in the object) is significantly smaller than expected²⁵⁶. As a result, it is likely that a share of the funds assigned for this call will have to be redistributed for public owners of heritage objects and a smaller number of privately-owned objects will be renovated.

The quality planning was determined to be poor only for both VAT exemptions analysed – reduced VAT rate for books and other publications and VAT exemption for cultural services provided by non-profit organisations. That is due to the fact that there were not any analyses of the possible impact of the exemptions before introducing or changing them. Since the objective of these exemptions is to increase affordability of publications and cultural services, there should be mechanisms that guarantee that reduction in VAT will result in reduced prices for consumer and not increased profit margins of providers, however such mechanisms were not foreseen when planning both VAT exemptions analysed, nor was their impact on the public finance assessed.

It is important to note that while implementation period is only defined for interventions financed from ESIF, this is not considered to be a shortcoming as all other interventions are permanent and not designed for a specific time period only.

2.9.3.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF SELECTED INTERVENTIONS

The main issue related to inefficiency in the implementation of the interventions in the Lithuanian Culture and tourism sector is inefficient use of the funds due to excessive administration, this is the case in the delivery of two interventions analysed. Subsidies for promotion and valorisation of national heritage are a small-scale intervention and similar projects are financed by the Lithuanian Council for Culture. The reasons for having this additional source of financing for a relatively narrow group of projects are not clear and having these different sources results in additional administrative workload. It is important to notice that the administrative costs of this intervention are not limited to administration of the projects as there is also a parliamentary commission²⁵⁷ which is mostly responsible for the implementation of this intervention. In the case of subsidies for implementation of cultural projects to raise awareness and revitalise immovable heritage, the need for more administrative work is caused by the fact that the limited funding available is dispersed among a high number of small-scale projects (e.g. EUR 150 thousand divided among 79 different projects).

²⁵⁶ Based on the information gathered during expert interviews

²⁵⁷ Liet. Lituanistikos tradicijų ir paveldo įprasminimo komisija

In addition, VAT exemption for cultural services is an example when the design of the intervention hinders the efficiency of delivery of the related service. VAT for cultural services is not applied only when the services are provided by non-profit organisations. Most of the non-profit organisations providing cultural services are public, while most private ones seek to generate profit. As a result, the current design of the VAT exemption hinders equal competition between public and private providers in the cultural services market. Since equal competition between public and private providers is considered to be one of the conditions of efficiently-functioning markets, this is considered to be a shortcoming in terms of efficiency.

2.9.3.3 SUPPLY SIDE: ADDITIONALITY OF SELECTED INTERVENTIONS

Majority of interventions in the Lithuanian Culture and tourism sector have positive impact on their respective target groups. However, in some cases the impact is only minimal due to the small scale of the intervention (e.g. subsidies for promotion and valorisation of national heritage), while subsidies for research and restoration of movable and immovable heritage and subsidies for restoration of Catholic sacral heritage have a positive impact on the members of the target group (i.e. owners of the heritage objects), however the demand for funding far exceeds the available funds, thus the positive impact only partially covers the target group. The impact is also similarly not maximised in the case of ESIF subsidies for renovation and application of heritage objects. As discussed in the analysis of the planning efficiency, only a low share of private owners of cultural heritage meet the requirements and are able to use the subsidies for renovation and application of heritage objects. As a result, only a low share of the target group is subject to the positive impact of the intervention. However, it is important to note that in general it is too early to assess the impact of the ESIF interventions, as none of the projects have been completed thus far.

Regulation regarding requirements for preservation of heritage is the only intervention where a negative impact on the target group (i.e. owners of heritage objects) is present. According to real estate developers, the requirements are too rigid as the objects of heritage cannot be changed at all during the renovation in most cases, while it is sometimes necessary to change some parts in order to apply the object for new activities²⁵⁸. Thus, the requirements might limit the owners' possibilities to productively use the object. On the other hand, these requirements are primarily aimed at protecting the interest of the broader target group (i.e. visitors of the heritage objects and society in general) rather than those of the owners of heritage objects. However, the positive impact that this intervention aims to create for the aforementioned broader target group is only partially achieved as a large number of the heritage objects are still not properly documented (e.g. their valuable features are not assessed, level of significance (national, regional or local) is not defined), which means that theoretically defined requirements are not applied in practice.

Majority of the interventions in the sector are not aimed at stimulating the economy, thus they do not have any impact on productivity of private entities, employment and capital investments. Nevertheless, one of the aims of the interventions aimed at restoration and application of the heritage objects is to apply them for economic activities and thus generate economic benefits. The aforementioned lack of flexibility of the requirements for preservation of heritage and problems with implementation of the measures designed for the private owners of the heritage objects do not allow to create the expected economic impact, however it is too early to derive final conclusions as none of the projects financed from ESIF have been completed.

²⁵⁸ Evaluation of incentive system in the field of cultural heritage preservation. UAB „ESTEP Vilnius“, UAB „PPMI Group“, 2015.

2.9.3.4 SUPPLY SIDE: SIDE-EFFECTS OF SELECTED INTERVENTIONS

A significant number of services and related interventions have a positive impact on the business environment, mostly because the implemented interventions result in an increased number of tourists and visitors of cultural touristic objects. One such example could be the ESIF subsidies for renovation of cultural infrastructure, as renovated infrastructure tends to attract more visitors and more events take place there, consequently there is a greater incentive for service-providing businesses (e.g. catering) to set up in the area.

However, VAT exemptions for cultural services have negative unintended impact on business competitiveness as the VAT rate is not applied only for services provided by non-profit organisations. Such arrangement disfavours private providers that seek to generate profit, even though the cultural services they provide might also be considered as merit goods. In addition, both VAT exemptions for cultural services and VAT exemptions on books and other publications have an unintended impact as they the providers more than consumers or at least it seems to be the case since the analysis of changes in price levels²⁵⁹ after changes in the aforementioned VAT rates suggest that only a minor share of reduction in VAT is transferred to the actual consumer prices, while the majority of the change is absorbed by the publishers, services and providers of the services.

Also, there are cases where government interventions have negative side-effects on the direct subjects of the intervention. In the case of subsidies for research and restoration of movable and immovable heritage, the application process is complex and requires the applicants to possess considerable human and financial resources, as well as sufficient level of knowledge and skills²⁶⁰. These factors might deter the applicants from applying, thus some objects of cultural heritage might not be renovated and preserved. Meanwhile, reduced tariffs for particular groups of users of state or municipality-owned tourist and cultural services reduce revenues of the providers of the services and the reduction is not compensated. As a result, the quality of the services of some providers that generate low amounts of revenue (e.g. most museums) might suffer²⁶¹.

In the case of subsidies for restoration of Catholic sacral heritage, the intervention itself does not have any side-effects, however the restoration of these objects should not have become as reliant on these subsidies as it is now. It is planned that these subsidies should be complemented with the funds from the municipal budgets or by the applicants themselves, however the share of funds from these other sources is extremely small, thus the restoration of Catholic sacral heritage objects is completely dependent on the funds from the state budget.

Finally, it is likely that VAT exemptions on books and other publications have a slight negative impact on the natural environment as the reduced VAT rate is only applied to published publications and not e-publications. Such an arrangement, which follows the European Commission's directive on VAT ²⁶², stimulates the consumption of published materials and thus indirectly results in higher emissions.

²⁵⁹ Analysis of the impact of the reduced 9% VAT rate for books and periodical publications on public finance and culture identifying the purposefulness of its continuity or proposing other mechanisms of state assistance. UAB „Ekonominės konsultacijos ir tyrimai“, 2016.

²⁶⁰ Evaluation of incentive system in the field of cultural heritage preservation. UAB „ESTEP Vilnius“, UAB „PPMI Group“, 2015.

²⁶¹ Based on the information gathered during expert interviews

²⁶² Council directive 2006/112/EC on the common system of value added tax, 28 November 2006.

2.9.3.5 DEMAND SIDE: IMPACT OF SELECTED INTERVENTIONS ON AFFORDABILITY OF THE SERVICE

Most of the interventions in the sector are applied to the legal entities rather than persons, however these interventions are aimed at renovating, upgrading or maintaining cultural and touristic infrastructure (e.g. libraries, cultural heritage objects) that can be visited and used free of charge and thus is accessible for all potential visitors and users. However, in the case of subsidies for development of the services of libraries (digital literacy), not all the members of the target group have equal opportunities to benefit from the projects since all the financing is received via a project contest, thus not libraries receive the subsidies and members of the target group living in some particular areas might not be able to participate in the projects promoting digital literacy in the public libraries²⁶³.

The main intervention aimed at increasing the affordability of the services in the Culture and tourism sector is discounts or free access for some target groups (students, pensioners, multi-children families, etc.) that is granted in the case of tourist attractions and events of performance arts. Although this is an effective measure of increasing affordability of the services, the consumption of cultural and touristic services is still the lowest among the low-income individuals and households and the main reason for the lower consumption remains the price of the services. In addition, VAT exemptions for cultural services and books and other publications are also aimed at increasing the affordability of these merit goods for all members of society, however, as discussed previously, only a minor share of the reduced VAT rate is reflected in the reduction of the actual prices. Moreover, it is argued that low-income individuals and households cannot fully enjoy the benefits of the reduced VAT as the cultural services or books might still be too expensive for them.

2.9.3.6 CONSISTENCY OF SELECTED INTERVENTIONS

While there are not any interventions in Culture and tourism sector in Lithuania that directly contradict each other, the overall system of interventions in the sector is not coordinated and thus the possible impact is not maximised. For example, subsidies for renovation of cultural heritage from different sources of financing (state budget and ESIF funds) are not coordinated between each other in terms of strategic objectives. Moreover, the “hard” infrastructural investments (subsidies for renovation of cultural heritage and cultural infrastructure) are not coordinated with “soft” investments oriented towards activities in stage and other forms of arts administered by the Lithuanian Council for Culture. Greater results could be achieved if “soft” investments were purposefully directed in the areas where the cultural infrastructure was renovated.

2.9.4 CONCLUSIONS AND RECOMMENDATIONS ON THE GOVERNMENT INTERVENTIONS IN THE LITHUANIAN CULTURE AND TOURISM SECTOR

The sector of culture and publicly-provided tourism services faces a trade-off between affordability and income generation. Since most cultural services are considered to be merit goods, requiring the institutions

²⁶³ Based on the information gathered during expert interviews

that provide these services to generate profit would likely have a negative impact on affordability of the services and that would not be in line with the overall objective of the cultural services and publicly provided free tourism services²⁶⁴.

One main shortcoming that is common for most of the sector's government interventions analysed is the lack of strategic planning. Firstly, most of the interventions do not have clearly defined objectives. As a result, it is difficult to evaluate the success and effectiveness of the interventions. In addition, the whole system of interventions in the sector lacks inter-institutional cooperation or even coordination within the same institution. It is especially apparent in the field of preservation of cultural heritage, where different sources of financing are not strategically coordinated, which is an especially relevant problem considering the future beyond the current programming period when the EU assistance will be reduced. Conclusions regarding the main shortcomings of the particular government interventions will be analysed below.

Subsidies for promotion and valorisation of national heritage is the only analysed intervention in the sector which might be completely replaced. It is a small intervention in terms of financing which has significant related administrative costs since it is managed by a separate parliamentary commission. Similar projects are financed from other sources, while rationale of having this separate intervention for a relatively narrow group of projects lacks clarity. Thus, the administrative costs could be reduced and the funds could be used more efficiently if this intervention was ceased and the funds for implementation of this intervention would be directed towards one of the other similar interventions (e.g. subsidies for initiatives for preservation of the historical memory)

Subsidies for implementation of cultural projects to raise awareness and revitalise immovable heritage is a necessary intervention, which complements the investments in the renovation and application of the heritage objects. However, the limited financing available for these subsidies is dispersed among a high number of small-scale projects, thus it is difficult to create a more focused long-term impact. In addition, a more thorough coordination with the aforementioned "hard" investments in the renovation of heritage objects would help to maximise the impact of this intervention.

Besides the previously discussed the lack of planning with other interventions related to renovation and preservation of heritage, the main shortcoming of subsidies for implementation of cultural projects to raise awareness and revitalise immovable heritage is the misjudged potential of the private owners of heritage objects. It turned out that the number of private owners of heritage that are willing to apply their objects for cultural, economic, social or education purposes under the current conditions is much lower than expected, thus the number of privately-owned heritage objects that will be renovated during the current programming period will be lower than expected as well.

Financial instrument (loan) for upgrading heritage objects is the first attempt to apply financial instruments in the sector. However, it seems that the perceived potential of the sector was misjudged when planning the intervention – the implementation of the financial instrument did not began as planned since not a single commercial bank agreed to be the financial intermediary for these loans as they did not see the demand for such an instrument. It is too early to draw the final conclusions, however the potential of applying financial instruments for renovation of heritage objects in Lithuania is dubious so far.

Reduced VAT for books and other publications has been present since the first law on VAT was passed in 1994 and is in line with the recommendations of the European Commission. However, the impact of the reduced rate on the consumers, as well as on the publishers, retailers and public finance was not assessed before the implementation, while the analysis of the changes in price levels show that the changes in the actual price levels only partially reflect the changes in VAT rate (the exact rate was changed several times).

²⁶⁴ Based on the information gathered during expert interviews

The effect on the price levels is similarly limited in the case of VAT exemption for cultural services. As with the reduced VAT for books, the expected impact of the exemption was not assessed before the implementation. Furthermore, the VAT is not applied only when the cultural services are provided by the non-profit organisations, thus disfavours the profit-generating private-sector providers.

The main issue with some of the interventions is that the demand far exceeds the available financing. Thus, only objects that are in the worst condition and require urgent protection are financed from the state budget subsidies for research and restoration of movable and immovable heritage and for renovation of the Catholic sacral heritage. In addition, the process of applying for the former ones is complex and might deter the potential applicants from applying, while the problem with latter is that the renovation of these sacral objects is completely dependent on the state budget as the contribution from the other sources (municipal budgets, applicants' funds) is extremely small.

Regulation regarding requirements for preservation of heritage suffers from the fact that it is not implemented as it is planned. There is a large number of objects that remain properly undocumented and due to the large number of objects and limited capacity of the responsible authorities some of them will not be documented for at least few more years²⁶⁵. In addition, real estate developers and potential investors argue that the requirements are not flexible enough and that the requirement to maintain all parts of the object unchanged do not allow to adapt them for the currently relevant purposes.

2.9.5 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

This chapter presents the analysis of the potential for the implementation of financial instruments in the four Lithuanian Culture and tourism sector's services selected for the in-depth analysis:

- Operation of state/municipality-owned ticketed tourist attractions and provision of paid tourism services;
- Libraries, archives and museums services;
- Professional and amateur stage arts' infrastructure and organisations;
- Maintaining free access to cultural and tourism infrastructure and providing free services.

²⁶⁵ Evaluation of incentive system in the field of cultural heritage preservation. UAB „ESTEP Vilnius“, UAB „PPMI Group“, 2015.

2.9.5.2 OPERATION OF STATE/MUNICIPALITY-OWNED TICKETED TOURIST ATTRACTIONS AND PROVISION OF PAID TOURISM SERVICES

TABLE 135. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN OPERATION OF STATE/MUNICIPALITY-OWNED TICKETED TOURIST ATTRACTIONS AND PROVISION OF PAID TOURISM SERVICES

Criteria	FI potential
Pricing system	Consumer-paid, non-regulated (covering up to 75% of total costs)
Regulatory/governance Framework	Mixed public/private (Public share below 34% of the market)
Market potential	Potential development of (more) paid services
Accountability	Operational objectives and targets not defined
Capacity	Qualitative standards are met

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Pricing is not regulated, but fixed by providers. On average, considering all the providers, 50-75 percent of the total annual costs of service provision are covered by a tariff mechanism.

Increase in prices would mainly affect the low-income group of consumers, who would consume less of the service. However, these groups (e.g. pensioners, students, multi-children families) are also often subject to the reduced tariffs.

REGULATORY AND GOVERNANCE FRAMEWORK

Publicly-owned entities are responsible for the provision of the service, i.e. Department of Physical Education and Sports under the Government of the Republic of Lithuania, municipal administrations and State Service for Protected Areas under the Ministry of Environment (Valstybinė saugomų teritorijų tarnyba). However, the service is often conceded to private entities or in public-private partnership (PPP). Market size is the major obstacle for private entities to enter the market.

MARKET POTENTIAL

The target groups are composed of local visitors and tourists in general. At least 31 providers are identified across the country, of which 16 are rented/conceded to private business entities, nine are public institutions entirely or partly owned by state or municipalities, four are state/municipal budgetary institutions and two are business entities of state or municipal capital.

In practice, private entities dominate the market, with a market share higher than 70 percent, mainly providing accommodation services, managing skiing slopes and wellness centres.

Revenue could be increased via introduction of a number of new paid auxiliary services, increasing the tariff or reducing the management costs.

ACCOUNTABILITY

Information is available on the context of intervention and indicators reflecting the long-term policy objectives are defined, recent trends are monitored. In addition, short-term and long-term objectives are consistent providing a clear strategic outline for the sector. However, targets for operational objectives are lacking.

CAPACITY

Service complies with qualitative standards and meets the overall demand. There are neither expected transfers of functions nor internal changes in the authorities taking place.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

The service shows wide participation of private companies and a capacity to meet qualitative standards and the overall demand. Against this background, FIs support could be considered, depending on availability of a suitable project pipeline to be invested upon.

If current pricing allows to partly cover the total annual costs of service provision, any increase would be to be considered against affordability issues that may decrease consumption among low-income groups in case of price raise. This suggests the need of maintaining the interventions now in place (namely the provision of discounts or free access to public sector-owned paid tourist and cultural infrastructure and services) to prevent the possible decrease of consumption among target groups.

2.9.5.3 LIBRARIES, ARCHIVES AND MUSEUMS SERVICES

TABLE 136. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN OPERATION OF LIBRARIES, ARCHIVES AND MUSEUMS SERVICES

Criteria	FI potential
Pricing system	Free of charge
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)
Market potential	Limited potential development of (more) paid services/rent of infrastructure
Accountability	Lack of clear performance framework
Capacity	Quality standards partially met

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

The service is free of charge and, in general, does not generate revenue. Revenues are generated to a very limited extent through the sale of subsidiary services (e.g. the rent of museum space to organise events). Note that level of consumption depends on subjective (personal) preferences rather than prices (demand is relatively inelastic to price).

REGULATORY AND GOVERNANCE FRAMEWORK

The Ministry of Culture, the Office of the Chief Archivist of Lithuania, as well as local municipalities are responsible for the provision of the service. High fixed costs of investment are the main barrier to enter the market for private entities.

MARKET POTENTIAL

The main providers of the service are individual state archives (9), museums (103) and libraries (2505); while the target group are households (i.e. library and museum visitors). The overall demand is well covered by the overall supply. The market is dominated by public operators, although in some cases, privates or NGOs are also involved (e.g. through management of museums).

Revenue could increase via introduction of (new) paid auxiliary services, through the introduction of a tariff or increase of the scope of existing activities. Museums apply free admission or follow very low pricing due to low service quality or lack of entrepreneurship skills and the fact that they provide merit goods which should be affordable to the whole population, which is related to the status of museums as public organisations. Libraries have also a potential to increase the offer of paid services becoming local hubs of educational activities, but to make it happen motivation of staff members and overall organisation should be increased, besides the services of libraries are meant to be affordable, thus the introduction of paid services might somewhat contradict the objective of the service.

ACCOUNTABILITY

Information is available on the context of intervention (through general indicators of participation). However, long-term and short-term objectives and targets are not well defined.

CAPACITY

The public service partially complies with quality standards. The shortcomings are linked to insufficient investments, poor condition of infrastructure and poor maintenance as well as the use of old technologies.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

The service in general does not aim to generate revenue, as it intends to guarantee access to merit goods, which also implies a limited participation of private entities. Against this background, improvement of managing capacity, increased diversification of activities and facilitating the entrance of private operators could increase the potential for revenue generation. Such improvement could also be tailored towards the needs of improvement of human capital, for example by increasing the role of libraries as educational hubs. However, due to high fixed costs and low profitability of the services, the entrance of the private service providers is not very likely.

2.9.5.4 PROFESSIONAL AND AMATEUR STAGE ARTS' INFRASTRUCTURE AND ORGANISATIONS

TABLE 137. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN OPERATION OF PROFESSIONAL AND AMATEUR STAGE ARTS' INFRASTRUCTURE AND ORGANISATIONS

Criteria	FI potential
Pricing system	Consumer-paid, non-regulated (Low cost coverage)
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)
Market potential	Potential development of (more) paid services
Accountability	Lack of clear performance framework
Capacity	No clear qualitative standards

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Pricing is available and non-regulated. Direct price of the service paid by customer cover a small share of total costs of service provision (less than 25 percent). Additional revenues are generated to a limited extent using the same infrastructure. Prices affect the consumption of low-income groups, however the reduced tariffs for specific groups (e.g. pensioners, students, multi-children families) make the services more affordable for some of the low-income consumers.

REGULATORY AND GOVERNANCE FRAMEWORK

Publicly-owned entities (at state or municipality level) are responsible for and dominate the provision of the service (more than 66 percent of the market share). Private / NGO / informal groups do provide cultural services in the field of theatre, instrumental and vocal music. High fixed costs are the main obstacle for the entrance of private organisations on the market.

MARKET POTENTIAL

The target group is represented by the whole population. The main providers are cultural centres, theatres and other performing arts organizations. There is room for generating additional revenues via the increase of tariffs, introduction of paid auxiliary services and reduction of managing costs. In some cases, tariffs are lower than the perceived value of the service. In such cases fees can be raised. Paid auxiliary services, such as guided tours, educational activities, rent of facilities, corporate events, could be promoted. Better management can potentially help to reduce costs.

ACCOUNTABILITY

Information is available on the context of intervention (through general indicators of participation). However, long terms and short-terms objectives and targets are not well defined.

CAPACITY

Qualitative standards are not well defined. There are neither expected transfers of functions nor internal changes in the authorities taking place.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Although pricing is not regulated, some affordability issues are raised, and the capacity of revenue generation remains low. However, better management could help to reduce costs, as well as price could be raised where lower than the perceived value of the service. In addition, more paid auxiliary services could be promoted, such as guided tours, educational activities, rent of facilities, corporate events.

Use of FIs in this area is growing in importance and its applicability could be considered according to the availability of a suitable pipeline of projects. Additionally, investments could take advantage of existing programmes and schemes.

For instance, the Guarantee Facility for CCS was launched in 2016 by the European Commission, with a EUR 121 million budget, through the Creative Europe Programme. Such scheme aims to increase the access to finance by small and medium enterprises (SMEs) in the cultural and creative sectors, by providing partial cover for financial intermediaries' potential losses when engaging with this type of projects. The targeted sectors include architecture, archives and libraries, artistic crafts, audiovisual (including film, television, video games and multimedia), cultural heritage, design, festivals, music, performing arts, publishing, radio and visual arts.

Two models are utilised, both the provision of guarantees to financial intermediaries to cover portfolios of loans, and the provision of counter-guarantees to Guarantee Institutions supporting financial intermediaries to cover portfolios of loans or project-based loans. Additionally, the scheme includes a capacity building instrument to train financial intermediaries, enabling those to improve their understanding of CCS peculiarities.

Below, an example is given of one of the first guarantee agreements already signed, supporting investments in the culture sector in Spain.

Early in 2017, the first guarantee agreement of the Guarantee Facility for CCS was signed, between the European Investment Fund and the Compañía Española de Reafianzamiento (CERSA), an entity connected to the Spanish Ministry of Economy and Industry. Such support is expected to allow for a EUR 100 million portfolio of counter-guarantees, enabling CERSA to substantially increase its financing to regional mutual guarantee institutions in the next two years. 19 mutual guarantees schemes are available throughout Spain and have more than 118,000 members and formalised guarantees for more than EUR 28 billion in the last 30 years, with a mobilised investment of over EUR 37 billion. The average loan amount secured by a mutual guarantees scheme is around EUR 100,000, repayable over eight years

EUR 150 million in loans are expected to become available for more than 1000 SMEs in the CCS in Spain, including the areas of film, theatre, video games production, music and performance and editorial sectors.

2.9.5.5 MAINTAINING FREE ACCESS TO CULTURAL AND TOURISM INFRASTRUCTURE AND PROVIDING FREE SERVICES

TABLE 138. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN OPERATION OF MAINTAINING FREE ACCESS TO CULTURAL AND TOURISM INFRASTRUCTURE AND PROVIDING FREE SERVICES

Criteria	FI potential
Pricing system	Free of charge
Regulatory/governance Framework	Mixed public/private - museums (Public share above 66% of the market)
Market potential	Potential for more cooperation and tourism related services
Accountability	Partial performance framework Potential for more cooperation and tourism related services
Capacity	Qualitative standards partially met

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service is free of charge, with marginal revenue generation (tickets are sold for visiting some natural sites).

REGULATORY AND GOVERNANCE FRAMEWORK

The operators are publicly-owned entities. There are no private entities on the market.

MARKET POTENTIAL

The main providers of the service are the natural heritage sites (35 directorates for protected areas), 60 municipal administrations, the Lithuanian Zoo and 52 tourism information centres. Revenues could be generated through the sale of paid auxiliary services (e.g. tickets for visits or information services) or the reduction of management costs (e.g. in tourism information centres).

ACCOUNTABILITY

Information is available on the context of the intervention. However, long-term and short-term objectives and targets are not well defined.

CAPACITY

The public service complies partially with quality standards. The shortcomings are linked to insufficient investments, poor infrastructures and poor maintenance.

There are neither expected transfers of functions nor internal changes in the authorities taking place.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Service is free of charge, with very limited potential for revenue generation, and no participation of private entities. In this context, providing more paid auxiliary services e.g. tickets for visits or information services, and the reduction of management costs e.g. in tourism information centres, could contribute to increasing efficiency of service delivery and increase potential for revenue generation.

2.10 CROATIA: CULTURE AND TOURISM

2.10.1 GENERAL OVERVIEW OF THE GOVERNMENT INTERVENTIONS IN THE SECTOR

The main tourism-oriented policy objectives in the Culture and tourism sector in Croatia are increasing employment in tourism industries and attracting investments into services and infrastructure related to tourism²⁶⁶. These objectives are characterised by the target values of subsequent context indicators: 22 thousand new places of employment created and EUR 7 billion of investments in tourism attracted until 2020²⁶⁷. The trend of the indicators is positive, i.e. their values are likely to be achieved until 2020. The main culture-oriented policy objectives of the sector are development of cultural and artistic creation and protection of cultural heritage²⁶⁸. These objectives are in conformity with European Agenda for Culture.

In total, seven public services related to the policy goals of the sector were identified in the Culture and Tourism sector in Croatia. The list of all the services in the sector and their respective aims is provided in the table below.

TABLE 139. CROATIAN CULTURE AND TOURISM SECTOR'S SERVICES AND THEIR AIMS

Service title	Aim of the service
Tourism-related services	To ensure free and/or higher quality services in tourism - bringing Croatian tourism to a higher level.
Paid touristic services in the sites of natural and cultural heritage	To ensure protection and maintenance of the sites of natural and cultural heritage by generating income from touristic activities in the sites.
Libraries, archives and museums services	To provide non-marketable cultural public services
Theatre and music scene-related services	To provide cultural public services which require support and are not completely marketable
Audio-visual arts-related services	To protect, preserve and enhance audio-visual arts.
Additional medical teams on the seacoast during the summer season	To meet the increased demand for medical staff during the summer season.
Public records on cultural assets available free of charge	To document all cultural assets in Croatia so that the information regarding them is available for public use and facilitates the maintenance of them and planning of investments.

Source: BGI Consulting et al, 2017.

²⁶⁶ Tourism Development Strategy of the Republic of Croatia Until 2020.
http://www.mint.hr/UserDocsImages/Tourism_development_strategy_2020.pdf

²⁶⁷ Tourism Development Strategy of the Republic of Croatia Until 2020.
http://www.mint.hr/UserDocsImages/Tourism_development_strategy_2020.pdf

²⁶⁸ Strategic plan of the Ministry of Culture of the Republic of Croatia 2015-2017

Four services in the sector are aimed at culture, while the remaining three services are aimed at tourism. The services aimed at the culture sector are related with running and developing different forms of art and culture, as well as preserving cultural heritage. The services aimed at the tourism sector aim to meet the demand for touristic services in terms of both infrastructure and human resources, while also creating additional employment in the process.

2.10.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

The scheme below disassembles the logic of the overall governmental interventions in the Culture and tourism sector in Croatia. It starts with the rationale of the provision of the services by the public sector, then indicates services corresponding to that particular rationale. Services are classified not only by the rationale they correspond to, but also by a body, which is responsible for the provision of them. Other governmental interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

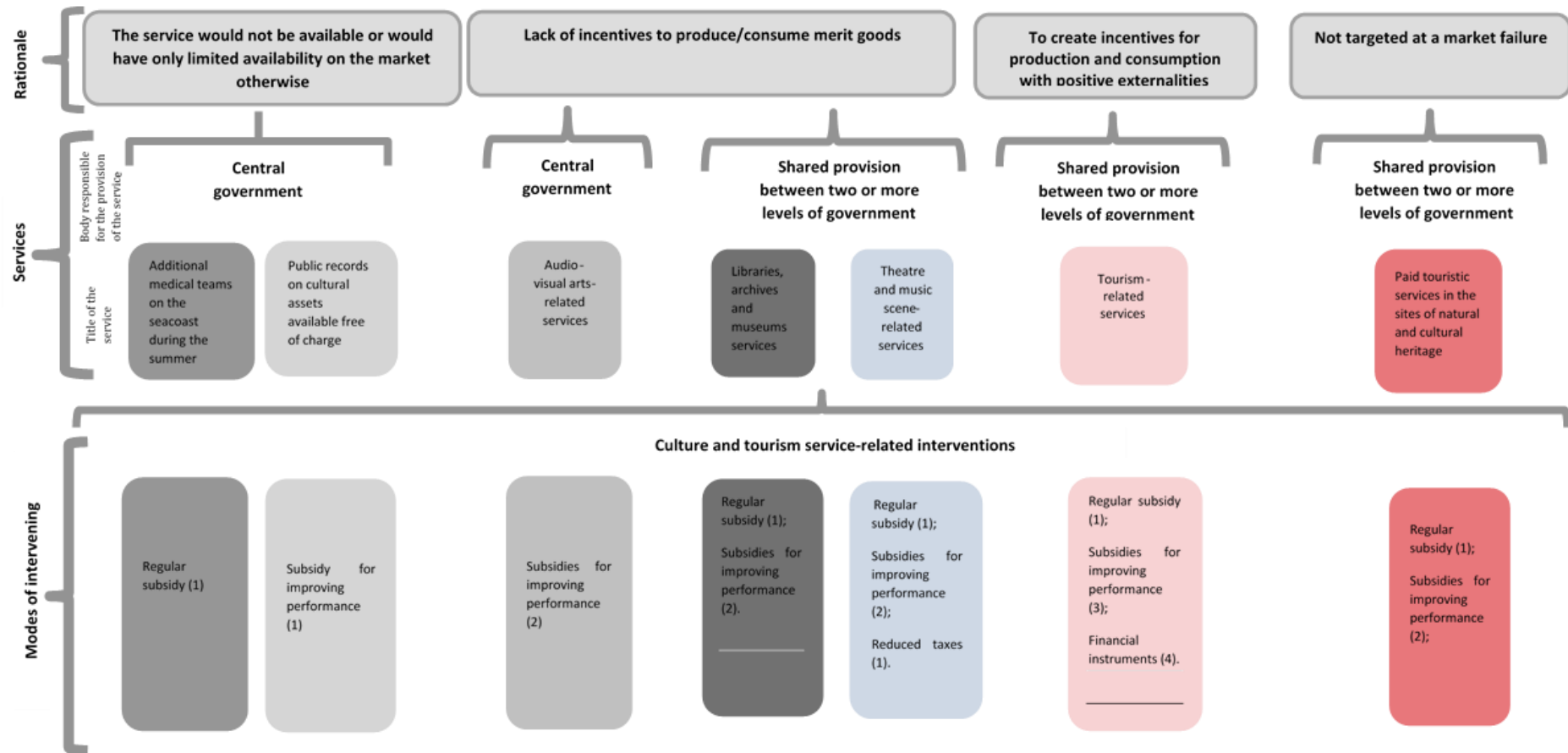


FIGURE 44. LOGIC OF INTERVENTIONS IN THE CROATIAN CULTURE AND TOURISM SECTOR

Source: BGI Consulting et al, 2017.

There are four rationales for public services provision in the Culture and tourism sector in Croatia. Three services are introduced due to *lack of incentives to produce or consume merit good*. These services include, for example, libraries and museums, which are considered to be crucial for education and cultural development of the society²⁶⁹ but are not profitable and thus require support from the state budget. Two services *would not be available or would have only limited availability in the market* had it not been provided by the government and one service is provided *to create incentives for production and consumption with positive externalities*. There is also one service, namely touristic services in the sites of natural and cultural heritage, which is *not targeted at a market failure*. This service is primarily aimed not at achieving economic efficiency but rather at ensuring sustainable use and protection of the sites of natural²⁷⁰ and cultural heritage²⁷¹. Four services in the Culture and tourism sector in Croatia are provided through shared provision between multiple levels of government, while three services are provided by the central government alone.

2.10.1.2 LEVEL OF LIBERALISATION OF THE SERVICES PROVISION

The public services in the Culture and tourism sector were ranked according to the level of liberalisation in their provision in the figure below.

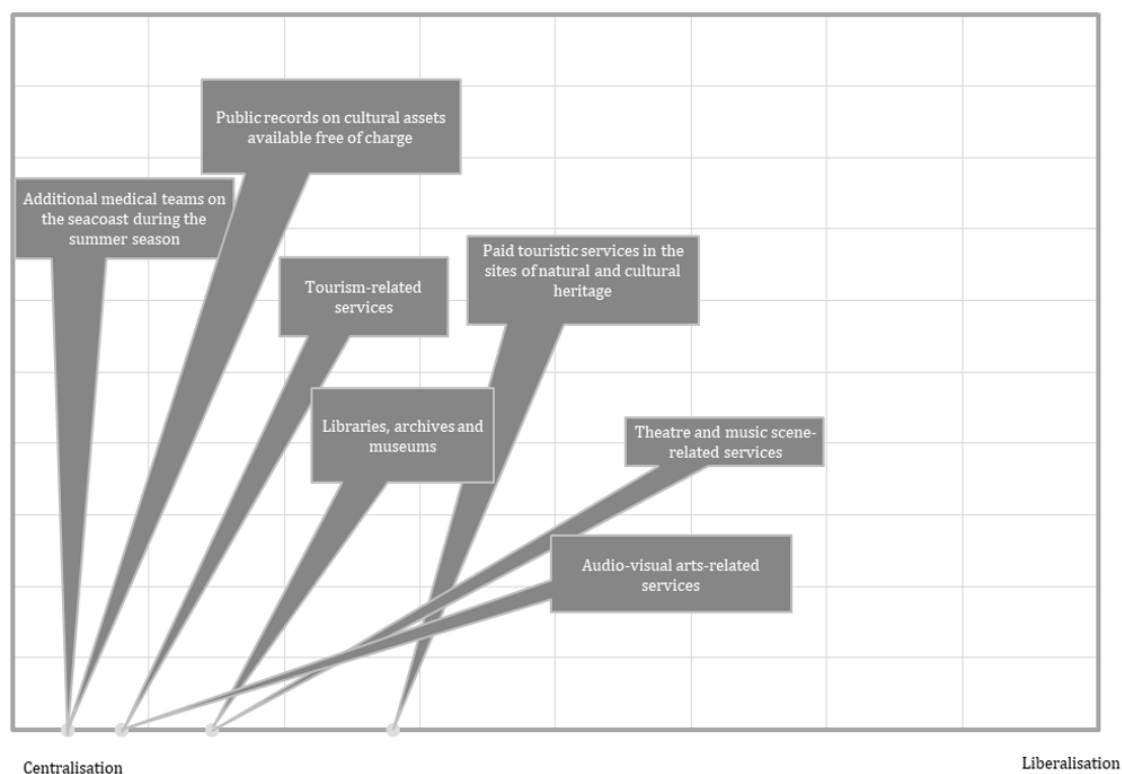


FIGURE 45. SUPPLY SIDE OF CROATIAN CULTURE AND TOURISM SECTOR SERVICES

Source: BGI Consulting et al, 2017.

²⁶⁹ Strategic plan of the Ministry of Culture 2015 – 2017 (http://www.min-kulture.hr/userdocsimages/FINANCIRANJE/strateski%20plan%20web%202015-2017_SP%20MK%20-%20dopunjen.pdf)

²⁷⁰ Action plan for development of green tourism (http://www.mint.hr/UserDocsImages/160715_AP_Zelenog_t.pdf)

²⁷¹ Strategy for protection, safe and sustainable economic use of cultural heritage of the Republic of Croatia (http://www.min-kulture.hr/userdocsimages/bastina/STRATEGIJA_BASTINE_VRH.pdf)

Paid touristic services in the sites of natural and cultural heritage turns out to be the service provided in the most liberal way in the sector of Culture and tourism in Croatia. Although the service is fully provided by the public institutions (Public institutions in culture and Public institutions that manage protected areas of nature), the pricing of the service is non-regulated. However, the negative scores suggest that this delivery mode is still more centralised than liberal. Libraries, archives and museums, theatre and music scene-related services and tourism-related services are in the middle among the other services on the liberalisation-centralisation axis. Although the delivery of these services is highly centralised, the public operators are not the only providers in the market, there are also services provided from other domestic legal entities. For example, there are private museums and theatres operating in the market. As for tourism-related services, there are SMEs providing services such as accommodation and catering services for tourists.

Audio-visual arts-related services appear to be more liberally provided than additional medical teams on the seacoast during the summer season and public records on cultural services available free of charge that are the services with the least liberal delivery mode. Although all of these four services are fully provided by the public institutions, the most common delivery mode of the former ones is delegation to state-owned entity (ex. Croatian audiovisual centre), while the latter ones are also provided through direct provision (managed by the Ministry of culture).

In conclusion, all seven services are provided in a more centralised rather than liberal way. Public institutions are the dominant providers in this sector, where they tend to occupy either the majority of the market or the whole market. The services in this sector can be differentiated through different consumer pricing (either regulated or non-regulated), while only the least liberal services of the sector are provided directly by the governmental/municipal bodies.

2.10.2 ANALYSIS OF SELECTED INTERVENTIONS

The figures provided below depict the structure of each service selected for further analysis. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision identified. Graphs in light red indicate service providers and group(s) the service is targeted at.

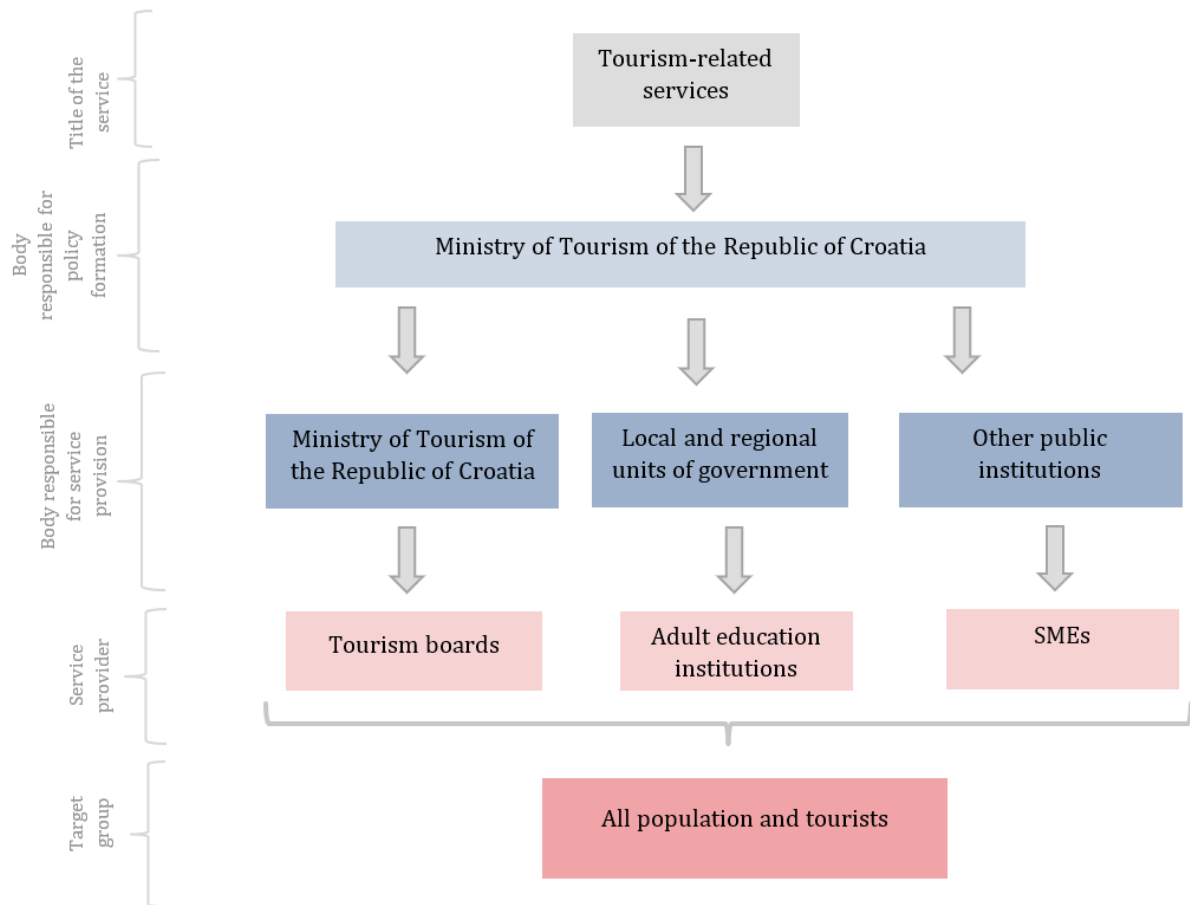


FIGURE 46. TOURISM RELATED SERVICES PROVISION MECHANISMS IN CULTURE AND TOURISM SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

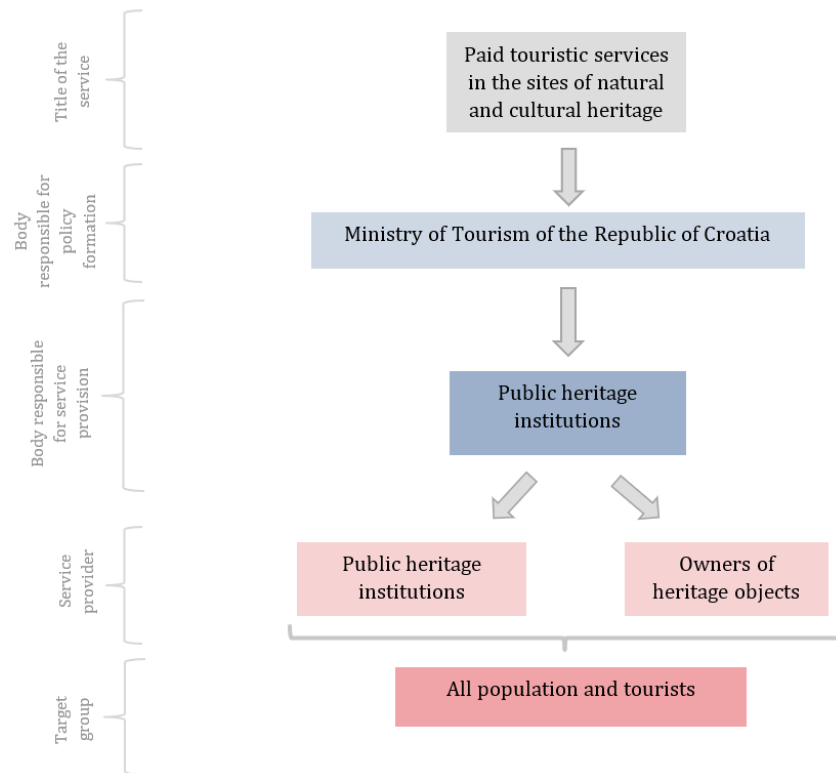


FIGURE 47. PAID TOURISTIC IN THE SITES OF NATURAL AND CULTURAL HERITAGE SERVICES PROVISION MECHANISMS IN CULTURE AND TOURISM SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

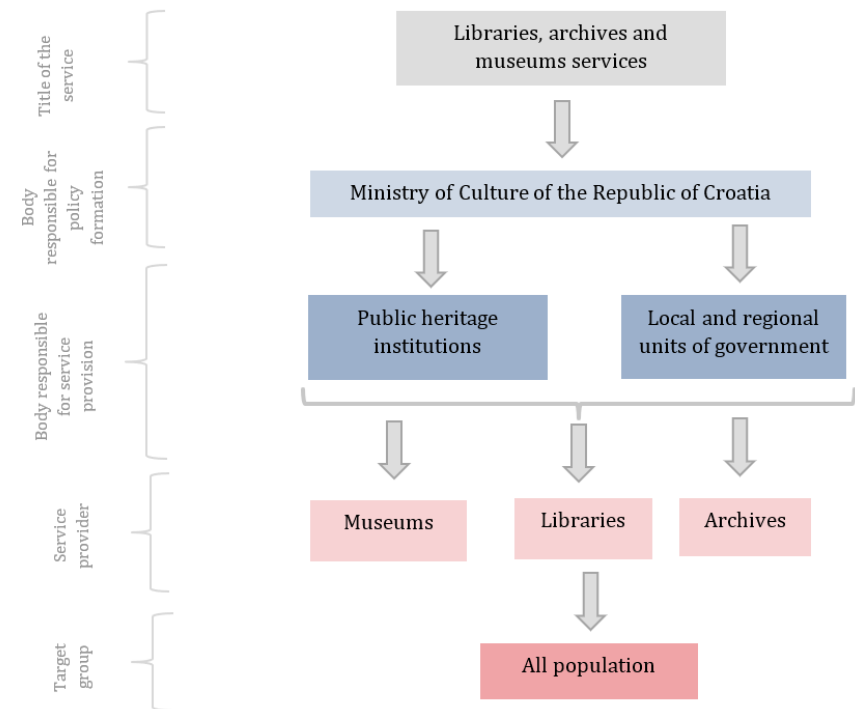


FIGURE 48. LIBRARIES, ARCHIVES AND MUSEUMS SERVICES PROVISION MECHANISMS IN CULTURE AND TOURISM SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

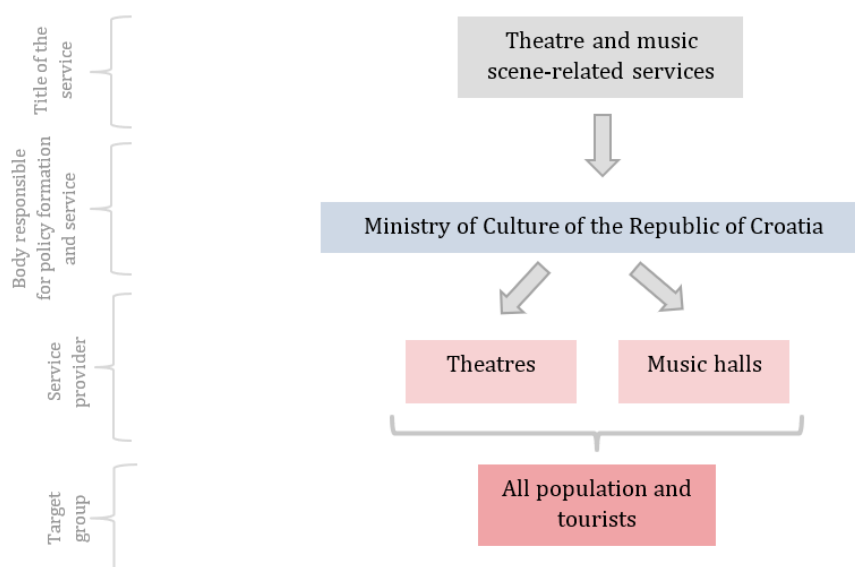


FIGURE 49. THEATRE AND MUSIC SCENE-RELATED SERVICES PROVISION MECHANISMS IN CULTURE AND TOURISM SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

In terms of financing, paid touristic services in the sites of natural and cultural heritage is the largest service among the four selected for further analysis in the Culture and tourism sector in Croatia with the annual costs of provision of around EUR 145 million²⁷². The annual amount of funding for tourism-related services is around EUR 44 million²⁷³, while the total annual costs of providing libraries, archives and museums services are roughly EUR 20 million²⁷⁴. Theatre and music-scene related services are the smallest ones in terms of financing with the total annual funding of almost EUR 8 million.²⁷⁵

The largest part of costs related to paid touristic services in the sites of natural and cultural heritage is attributed to operation of state/municipality-owned tourist attractions at around EUR 119 million²⁷⁶ annually. This intervention is financed from multiple sources: state, municipal and regional authorities' budgets as well as revenues from ticket sales in the attractions. Meanwhile, subsidies for investments into maintenance of cultural heritage constitute the smallest part of the total financing of paid touristic services in the sites of natural and cultural heritage at around EUR 13 million²⁷⁷.

The largest part of costs related to tourism-related services is attributed to financing of tourism boards and subsidising cultural manifestations at more than EUR 9 million²⁷⁸ and around EUR 8 million²⁷⁹ annually respectively. Both of these interventions are financed from the state budget, while tourism boards are also financed from municipal budgets and by regional authorities. Meanwhile, subsidies for investment into

²⁷² Calculation based on State budget and OPCC plans for 2014-2020 (<http://www.mfin.hr/hr/drzavni-proracun-2017-godina>)

²⁷³ Calculations based on state budget plans, OPCC plans for 2014-2020, HBOR and HAMAG-BICRO data for loans given to SMEs in tourism sector.

²⁷⁴ State budget (<http://www.mfin.hr/hr/drzavni-proracun-2017-godina>)

²⁷⁵ State budget (<http://www.mfin.hr/hr/drzavni-proracun-2017-godina>)

²⁷⁶ Calculation based on state budget for 2017, local government units and/or institutions managing cultural and natural sites

²⁷⁷ State budget execution for 2016 (subsidies awarded in 2016)

²⁷⁸ Own calculations based on financial reports of each tourism board

²⁷⁹ State budget (<http://www.mfin.hr/hr/drzavni-proracun-2017-godina>)

touristic infrastructure for development of specific tourism niches constitute the smallest part of total financing of tourism-related services at just under EUR 1 million.²⁸⁰

Operation of libraries, archives and museums comprise the vast majority of costs related to libraries, archives and museums services at around EUR 20 million annually, which are granted from the state budget.²⁸¹ The only other costs related to libraries, archives and museums services are subsidies to improve accessibility to libraries, which constitute more than EUR 0.8 million annually²⁸².

The largest part of costs related to theatre and music-scene related services is attributed to operation of theatres at around EUR 5 million annually. Financing operation of public music halls and theatres cost around EUR 2 million annually, while subsidies for cultural and artistic creation bear annual costs of a bit more than EUR 1 million. All of these interventions are financed from the state budget.²⁸³

2.10.2.1 SUPPLY SIDE: QUALITY OF PLANNING OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Quality of planning of the services was evaluated by examining how clearly the long-term (i.e. policy) and the short-term (i.e. operational) objectives of the services were defined and how compatible they are among themselves.

TABLE 140. QUALITY OF PLANNING OF THE CULTURE AND TOURISM SECTOR SERVICES IN CROATIA

Name of the service	The long-term policy objectives are clearly defined	The short-term operational objectives are clearly defined	The long-term and short-term objectives are non-contradictory	Quality of planning of the service
Tourism-related services	√	√	√	GOOD
Paid touristic services in the sites of natural and cultural heritage	√	√	√	GOOD
Libraries, archives and museums services	√	√	√	GOOD
Theatre and music scene-related services	√	√	√	GOOD

Source: BGI Consulting et al, 2017.

The quality of planning was determined to be good for all four services analysed in the Culture and tourism sector in Croatia. All services have clearly defined long-term and short-term objectives, which are non-

²⁸⁰ Own calculation based on State budget (<http://www.mfin.hr/hr/drzavni-proracun-2017-godina>) and planned funding published by the Ministry of Tourism in call for proposals (<http://www.mint.hr/default.aspx?id=370>)

²⁸¹ State budget (<http://www.mfin.hr/hr/drzavni-proracun-2017-godina>)

²⁸² This is referred to bibliobus services which are a part of library services. Libraries plan funding in their annual budgets and some of those are co-financed by local authorities – founders of libraries so this calculation is based on annual budgets of libraries in Croatia

²⁸³ All values from State budget (<http://www.mfin.hr/hr/drzavni-proracun-2017-godina>)

contradictory among themselves. Those objectives can be found in Tourism Development Strategy of the Republic of Croatia until 2020²⁸⁴ or in Strategic Plan of the Ministry of Culture²⁸⁵.

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

TABLE 141. QUALITY OF PLANNING OF THE CULTURE AND TOURISM SECTOR SERVICE RELATED INTERVENTIONS IN CROATIA

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Tourism-related services	Financing of tourism boards	×	×	N/A	×	×	×	POOR
	Subsidies for development and implementation of training programs for disadvantaged groups in tourism	√	√	N/A	√	×	×	AVERAGE
	Subsidies for cultural manifestations	×	×	N/A	√	×	×	POOR
	Subsidies for investment into touristic infrastructure for development of specific tourism niches	√	×	×	√	√	√	AVERAGE
	Guarantees for covering part of the loan or leasing principal for SMEs	√	√	N/A	√	×	√	AVERAGE
	ESIF guarantees for covering part of the loan or leasing	√	√	N/A	√	√	√	GOOD

²⁸⁴ Ministry of Tourism, Republic of Croatia (<http://www.mint.hr/default.aspx?id=364>)

²⁸⁵ Ministry of Culture, Republic of Croatia (<http://www.min-kulture.hr/default.aspx?id=4>)

	principal for SMEs							
	ESIF loans for micro and SMEs	√	√	N/A	√	√	×	AVERAGE
	HBOR microloans	√	√	N/A	√	√	×	AVERAGE
Paid touristic services in the sites of natural and cultural heritage	Operation of state/municipality-owned ticketed tourist attractions and paid services	×	×	×	×	√	×	POOR
	Subsidies for investments into infrastructure and development of touristic product on natural and cultural heritage sites	√	√	×	√	√	×	AVERAGE
	Subsidies for investments into cultural infrastructure	×	√	×	√	√	×	AVERAGE
Libraries, archives and museums services	Operation of libraries, archives and museums	√	×	×	√	√	×	AVERAGE
	Subsidies for accessibility to libraries	√	×	N/A	√	√	×	AVERAGE
Theatre and music scene-related services	Financing operation of public music halls and theatres	√	√	×	√	√	√	AVERAGE
	Subsidies for operation of theatres	√	×	×	√	√	×	AVERAGE
	Reductions of taxes for donations for cultural purposes	×	√	×	√	×	×	POOR
	Subsidies for cultural and artistic creation	√	×	×	√	√	√	AVERAGE

Source: BGI Consulting et al, 2017.

The quality of planning was determined to be good for only one intervention out of the ones related to the services selected for in-depth analysis. In most cases (more than 70 percent) the quality of planning of the interventions was determined to be average. The most common shortcomings in planning of these interventions were not defined types and amounts of costs and amount of revenue expected in relation with the implementation of the interventions. Although, it has to be noted that not all interventions are

expected to generate revenue. In addition, the overall demand for the related services was rarely taken into account when planning the service related interventions.

The quality of planning was determined to be poor for nearly a quarter (around 24 percent) of the analysed interventions. Besides the aforementioned shortcomings, the results of implementing the interventions and management and delivery standards were not defined in some cases. These two criteria turned out to be the crucial factors for determination of whether the quality of planning was poor or average. In addition, the implementation period of the interventions was often not defined, however, the fact that not all of the interventions are designed for only a particular period of time was taken into account. According to the aforementioned criteria, financing of tourism boards and operation of state/municipality-owned ticketed tourist attractions and paid services stand out as the interventions with the poorest quality of planning as the vast majority of the criteria were not met when planning these interventions.

2.10.2.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Efficiency of delivery of the services was evaluated on the basis of five key criteria: how well the overall demand of the service is met by the overall supply; how well the public service complies with the qualitative standards; the existence of private entities providing similar services in the market; the market share of the private entities in the service provision market; whether the private entities providing similar services in the market can compete on equal terms with public providers.

TABLE 142. EFFICIENCY OF DELIVERY OF THE CULTURE AND TOURISM SECTOR SERVICES IN CROATIA

Name of the service	The overall demand of the service is met by the overall supply	The public service complies with the qualitative standards	There are existing private entities providing similar services in the market	Private entities occupy 34 percent or more of the service provision market	Private entities providing similar services in the market can compete on equal terms with the public providers	Efficiency of the delivery of the service
Tourism-related services	√	√	√	×	√	MEDIUM
Paid touristic services in the sites of natural and cultural heritage	×	√	√	×	√	MEDIUM
Libraries, archives and museums services	√	√	√	×	√	HIGH
Theatre and music scene-related services	√	×	√	×	√	MEDIUM

Source: BGI Consulting et al, 2017.

The efficiency of the delivery was determined to be high for one out of four analysed services. While the market share of the private entities in the market of libraries, archives and museums services is insignificant, this is a common trait of all the services in the sector and all the other criteria were met.

The efficiency of delivery was determined to be medium for the remaining three services. While the market share of private entities is insignificant in the markets of all of these services (tourism-related services; paid touristic services in the sites of natural and cultural heritage; theatre and music scene-related services) and all the other criteria were met, the main determinant was compliance with the qualitative standards. Tourism-related services only partially comply with the qualitative standards due to insufficient investment, which results in poor infrastructure and old technologies. Meanwhile, there are no clear qualitative standards at all for paid touristic services in the sites of natural and cultural heritage and theatre and music scene-related services, which suggests that it may be difficult to ensure an efficient delivery of these services.

A vast majority of the service related interventions analysed contribute to either or both efficiency and effectiveness of the related service delivery. The only notable exception is subsidies for development and implementation of training programs for disadvantaged groups in tourism. However, improving efficiency is not an objective of this intervention, it is rather aimed at improving inclusion of the disadvantaged groups²⁸⁶.

As for the institution potential for transferring the provision of the services to the private entities, currently there are no plans to transfer the provision of any of the analysed services to the private entities. The only change that is being considered concerns the funding mechanism for tourism-related services. Specifically, there are plans to reduce public funding for tourism boards with an objective to make them self-sufficient. Plans will be defined with the new Law on Tourist Boards and the Promotion of Croatian Tourism²⁸⁷.

2.10.2.3 SUPPLY SIDE: ADDITIONALITY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

A vast majority of the services and related interventions have positive outcome additionalities, that is they positively affect their respective target groups, as well as productivity of private entities, employment and capital investment. In some cases, the interventions do not have any impact on the aforementioned factors as their objectives are different or their scale is too small to have a significant impact.

The only notable exception is tourism-related services, which do not have any impact on employment. Although these services have a potential to create more jobs, there is a lack of qualified workforce. Thus, the employment in the sector does not increase. Having said that, training programmes for disadvantaged groups have been started, which should increase the inclusion of disadvantaged groups in the labour market and thus increase the overall level of employment.

²⁸⁶ Operational Programme Enhancement of Human Capacities 2014 - 2020

²⁸⁷ Proposal for the Law on Tourist Boards and Promotion of Croatian Tourism, with final law proposal (<https://esavjetovanja.gov.hr/ECon/MainScreen?entityId=1473>)

2.10.2.4 SUPPLY SIDE: SIDE-EFFECTS OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Most of the services and related interventions in the sector do not have any noticeable side-effects. Libraries, archives and museums services and theatre and music scene-related services have a potential to create an indirect positive effect on business environment, yet there is a lack of tangible evidence that the impact currently exists.

2.10.2.5 DEMAND SIDE: AFFORDABILITY OF THE SERVICES AND IMPACT ON AFFORDABILITY OF THE SERVICE RELATED INTERVENTIONS

Both tourism-related services and paid touristic services in the sites of natural and cultural heritage are affordable to and consumed by all income groups. However, consumption of libraries, archives and museums services and theatre and music scene-related services is the lowest among the low-income individuals and households. That is because the prices of these services (with the exception of public libraries and archives) make some of them unaffordable for these individuals and households. For example, some household can't afford to go to the museum or to watch an act in the theatre because of the ticket prices. As a result, low-income households do not have a full access to cultural education. There are no interventions designed to improve affordability of the services in the sector.

2.10.2.6 CONSISTENCY OF SERVICE RELATED INTERVENTIONS

Most of the service related interventions in the sector do not have impact or supplement each other. The only exception is present in the tourism-related services, where financial instruments for public service provision (e.g. guarantees for covering part of the loan, ESIF loans for micro and SMEs) replace each other.

2.10.3 CONCLUSIONS AND RECOMMENDATIONS

In terms of performance, tourism sector is highly productive taking up as high as 18% of total GDP of the Republic of Croatia. The number of visitors is constantly increasing but that also presents new challenges for Croatian tourism in terms of accommodation capacities, quality of touristic offer, etc. which need to be tackled constantly. In this case it is important to mention that the tourism sector performance is good also due to the inevitable "sea and sun" offer of Croatia. In terms of culture, the performance is not at the highest level. Culture (theatres, museums, etc.) is mostly considered a luxurious commodity and consumed primarily by the high-income households. This leads to insufficient funds needed for maintenance of cultural assets, cultural production and operation of cultural institutions. This further leads to decline of cultural production and deterioration of valuable cultural heritage which could be used in terms of tourism as well. EU has recognised this as a problem throughout Europe and there are plans and efforts to use culture for tourism purposes thus tackling both fields and increasing their performance which is currently being done in Croatia through structured EU funded interventions.

TABLE 143. CONCLUSIONS ON THE GOVERNMENT INTERVENTIONS IN THE CULTURE AND TOURISM SECTOR IN CROATIA

Name of the service	Planning of the service	Planning of all related interventions is GOOD or AVERAGE	Efficiency of the service provision	All related interventions have impact on the efficiency of the service	The service has positive impact on the target group	All related interventions have positive impact on the target group	The impact of the service on countries' economy is positive	There are no negative side-effects of service implementation	All related interventions have positive or do not have side-effects	The service is affordable to all income groups	There are no service related interventions that contradict or replace each other
Tourism-related services	GOOD	NO	MEDIUM	NO	YES	YES	YES	YES	YES	YES	NO
Paid touristic services in the sites of natural and cultural heritage	GOOD	NO	MEDIUM	YES	YES	YES	YES	YES	YES	YES	YES
Libraries, archives and museums services	GOOD	YES	HIGH	YES	YES	YES	YES	YES	YES	NO	YES
Theatre and music scene-related services	GOOD	NO	MEDIUM	YES	YES	YES	YES	YES	YES	NO	YES

Source: BGI Consulting et al, 2017.

In terms of planning, the services within the tourism sector seem to be properly planned with clear long-term and short-term goals determined within strategic documents and founded on the basis of real needs and opportunities. However, there seems to be a discrepancy when it comes to planning of interventions within those services which are rated mostly average to poor. Only one intervention within the chosen services was assessed as properly planned. When it comes to planning the interventions within tourism and culture sector it seems that very few interventions have clear implementation periods, determined costs of implementation, foreseen revenues, clear management and delivery standards as well as expected results which is the most important part of planning a successful intervention. Taking this into consideration, we can conclude there are clear national goals about what needs to be achieved within the sector but neither a clear plan nor structured means of execution for the achievement of planned goals have been set.

The overall efficiency of delivery of services within tourism and culture sector was rated as medium primarily because the sector is very centralised with very few private operators on the market providing tourism and culture related public services. In addition, paid touristic services on the sites of natural and cultural heritage are not meeting the demand which is why intervention for restructuring of those sites and putting them to better touristic usage was initiated and is being carried out. Also, theatre and music scene-related services do not seem to have clear qualitative standards for service delivery making it less efficient and less attractive for users. These fall-backs can be in fact connected to the high centralisation of the sector which is making it less sensitive to market demands and needs because of public funding.

Additionality of the sector's services and interventions is assessed as positive, but this has to be observed twofold. Additionality of interventions already being carried out within the services of the sector do show positive effect on overall economy in terms of higher employment, more investments, improving tourism offer, etc. Other interventions which are being launched recently still have not reached results or additionality indicators. In other words, they have great potential and it is expected that they will have positive additional effect since they aim at job creation, enhancement of tourism and culture offer and similar activities which inevitably lead to improvement of economical situation.

Interventions within the sector do not show any negative side effects. They are either considered neutral in cases where actual evidence of positive side effect cannot be shown (e.g. positive side-effect on business sector by increasing tourism activities connected to museums, music-halls, etc. where it is evident that increased number of visitors will result in more spending and thus positively affect business sector as well, but it is too small scale and too broad for exact measuring) or positive where a clear impact can be measured (e.g. increase of tourists to cultural heritage sites resulting in opening of new businesses near the sites).

Services within tourism and culture sector are generally attributed to relatively higher income consumer groups, however, given that certain services are provided free of charge (e.g. cultural manifestations and similar) they are consumed by all income groups and thus considered affordable. On the other hand, theatre, music shows, museums and the like are almost exclusively consumed by the higher income groups and are not considered affordable. Even the fact that there are both publicly and privately operated cultural service providers does not result in distinction when it comes to affordability between the two even though that would be expected since public operators do receive public subsidies for operation costs for example. Apart from that, there are no interventions designed to improve affordability of the services in the sector.

The consistency of services and interventions within tourism and culture sector is primarily supplementary meaning that interventions supplement each other making thus stronger impact on target groups and achieving results faster or more easily. Only the interventions aimed at private sector providing tourism related services on the market (e.g. accommodation, catering, etc.) are replaceable, meaning they have the same or very similar objective and they do not lower each others impact, but, in certain conditions, they may replace one another.

2.10.4 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

2.10.4.1 TOURISM-RELATED SERVICES

TABLE 144. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN TOURISM RELATED SERVICES

Criteria	FI potential
Pricing system	Consumer-paid, regulated, low elasticity (covering above 75% of total costs)
Regulatory/governance Framework	Public domain, no discretion
Market potential	Potential development of (more) paid services
Accountability	Performance framework
Capacity	Qualitative standards partially met

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Pricing is regulated and set by relevant authorities. Consumer payment covers a share between 75 and 100 percent of the total annual costs for service provision. If the price of service increased a little but the quality of service improved as well, the level of consumption would remain similar.

REGULATORY AND GOVERNANCE FRAMEWORK

State-owned (controlled) entities are dominating in the market. There are no private entities (incl. natural persons, NGOs) providing similar services in the market, due to existing legal/ administrative restrictions.

The entities providing the service do not have a right to introduce new regulations/requirements related with service provision or customers rights (e.g. introducing new fees).

MARKET POTENTIAL

There are 422 tourism boards and info centres and approximately 75-100 percent of the total annual costs of the service provision is covered by consumer paid fees. The intention is to have the tourism boards self-sufficient, although the funding from public sources is on a voluntary basis as each local/regional unit has the right to finance their boards. Revenue could be increased via introduction of paid auxiliary services, for example by organising more events paid by customers.

ACCOUNTABILITY

Information is available on the context of intervention and policy objectives; recent trends are monitored. Context indicators are provided and policy targets are set at service level. In addition, short-term and long-term objectives are consistent, providing a clear strategic outlined for the sector.

CAPACITY

Service provision meets partially the qualitative standards; shortcomings are linked to insufficient investment, poor infrastructure and old technology that affect the quality of service.

There are neither expected transfers of functions nor internal changes in the authorities taking place.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

A significant share of the total annual costs for service provision is covered through consumer payment and the introduction of more paid auxiliary services could further increase revenues. A wider scope of activities would also directly contribute towards the needs of the sector to increase tourist average expenditure²⁸⁸. In the same line, investments in infrastructure and technology can contribute to meet qualitative standards, thus increasing the possibilities for self-sufficient tourism boards.

2.10.4.2 PAID TOURISTIC SERVICES IN THE SITES OF NATURAL AND CULTURAL HERITAGE

TABLE 145. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN PAID TOURISTIC SERVICES IN THE SITES OF NATURAL AND CULTURAL HERITAGE

Criteria	FI potential
Pricing system	Consumer-paid, non-regulated (covering up to 75% of total costs)
Regulatory/governance Framework	Public domain
Market potential	Potential development of (more) paid services
Accountability	Performance framework
Capacity	No clear qualitative standards

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

The pricing is available but non-regulated. Consumer payment covers a share between 50 and 75 percentage of total annual costs for service provision. Impact of price changes (corresponding to quality improvement) on the level of consumption requires more in-depth investigation.

REGULATORY AND GOVERNANCE FRAMEWORK

The touristic exploitation of natural heritage sites is limited to public institutions that protect them and, at the same time, operate and charge tickets. For cultural heritage sites public institutions do not offer direct service for customers, but are in charge of implementation of law to protect cultural heritage sites - offering "services" to owners of cultural heritage. Owners provide touristic services to customers if they choose to and, in that case, there are both public and private entities in the market.

MARKET POTENTIAL

There are approximately 14.3 million tourists per year in Croatia. Revenue generated from consumers, paid services, selling souvenirs, etc. currently covers 25-50 percent of the total annual costs of service

²⁸⁸ European Commission (2017), *Commission Staff Working Document, Country Report Croatia 2017, Including an In-Depth Review on the prevention and correction of macroeconomic imbalances*, SWD (2017) 76 final

provision. Auxiliary services like additional touristic services offered on sites can increase revenue of public institutions responsible for management of heritage sites.

ACCOUNTABILITY

Information is available on the context of intervention and policy objectives; recent trends are monitored. Context indicators are provided and policy targets are set at service level. In addition, short terms and long terms objectives are consistent providing a clear strategic outline for the sector.

CAPACITY

There are no clear qualitative standards for the public service. There are neither expected transfers of functions nor internal changes in the authorities taking place.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Additional touristic offers on natural and cultural heritage sites could increase revenue of public institutions responsible for their management and contribute to the increase of tourist expenditure and general revenue of the sector. It is important, however, to highlight the need to continue preservation of the country's coast and avoid additional pressure to the environment from touristic activity, since this has been an important differential and advantage for the country, when compared to other Mediterranean destinations²⁸⁹. Addressing the lack of qualitative standards should increase efficiency of the service delivery.

2.10.4.3 LIBRARIES, ARCHIVES AND MUSEUMS SERVICES

TABLE 146. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN LIBRARIES, ARCHIVES AND MUSEUMS SERVICES

Criteria	FI potential
Pricing system	Consumer-paid, regulated, affordability concerns (covering up to 75% of total costs)
Regulatory/governance Framework	Mixed public/private – museums (public share above 66% of the market)
Market potential	Potential development of (more) paid services
Accountability	Performance framework
Capacity	Qualitative standards partially met

Source: BGI Consulting et al, 2017.

²⁸⁹ European Commission (2017), *Commission Staff Working Document, Country Report Croatia 2017, Including an In-Depth Review on the prevention and correction of macroeconomic imbalances*, SWD (2017) 76 final

PRICING SYSTEM

Pricing is regulated and set by relevant authorities. Consumer payment covers a share between 50 and 75 percent of total annual costs for service provision. Direct price of the service paid by customer leads to lower consumption by low-income individuals/households.

REGULATORY AND GOVERNANCE FRAMEWORK

Publicly-owned entities dominate service provision. However, private entities are providing museum services in some cases.

MARKET POTENTIAL

There are 156 museums, 1 600 libraries, and 17 archives. Primarily museums and libraries could organize and offer additional services to sell on the market (more tourism related). Based on international experience, there should be projects allowing for revenue generation.

ACCOUNTABILITY

Strategy of intervention is defined; recent trends are monitored. Policy targets are set at service level. In addition, short-term and long-term objectives are consistent providing a clear strategic outline for the sector.

CAPACITY

Service meets partially the qualitative standards; shortcomings are linked to insufficient investment and old technology that affect the quality of service provision. There are neither expected transfers of functions nor internal changes in the authorities taking place.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

The costs of service provision are only partly covered and further price increases may raise affordability issues. While publicly-owned entities dominate service provision, private entities are providing museum services in some cases. Primarily museums and libraries could organise and offer additional services, in a more tourism related manner, to increase revenue/sustainability.

2.10.4.4 THEATRE AND MUSIC SCENE-RELATED SERVICES

TABLE 147. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN THEATRE AND MUSIC SCENE-RELATED SERVICES

Criteria	FI potential
Pricing system	Consumer-paid, regulated, affordability concerns (covering up to 75% of total costs)
Regulatory/governance Framework	Mixed public/private – museums (public share above 66% of the market)
Market potential	Potential for more cooperation and tourism related services
Accountability	Performance framework
Capacity	No clear qualitative standards

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Pricing is regulated and set by relevant authorities; consumer payment covers a share between 50 and 75 percent of total annual costs for service provision. Direct price of the service paid by customer leads to lower consumption by low-income individuals/households.

REGULATORY AND GOVERNANCE FRAMEWORK

Publicly-owned entities dominate service provision. Although there are experiences of privately-owned theatres, there are currently no plans for further involvement of private parties in the provision of the service. Customers are free to choose between private and state-owned providers.

MARKET POTENTIAL

There are 233 theatres and music halls. Market size represents the major obstacle to entering the market for private entities²⁹⁰. Introducing more tourism related services, services which are not only provided in the theatres and music halls but outside of them, increasing cooperation with other sectors, could generate more revenues. Based on international experience, there should be projects allowing for revenue generation.

ACCOUNTABILITY

Strategy of intervention is defined; recent trends are monitored (e.g. number of new programmes). Policy targets are set at service level. In addition, short-term and long-term objectives are consistent providing a clear strategic outlined for the sector.

CAPACITY

There are no clear standards for the public service. There are neither expected transfers of functions nor internal changes in the authorities taking place.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Annual costs for service provision is only partially covered by regulated pricing and any price increases may raise affordability issues. Introducing more tourism related services, i.e. services which are not only provided in the theatres and music halls but outside of them, and increasing cooperation with other sectors could generate more revenues. Addressing the lack of qualitative standards could increase efficiency of the service delivery.

The use of FIs in the sector could be considered depending on the availability of a suitable pipeline of projects. In addition, investments could take advantage of existing programmes and schemes.

For instance, the Guarantee Facility for CCS was launched in 2016 by the European Commission, with a EUR 121 million budget, through the Creative Europe Programme. Such scheme aims to increase the access to finance by small and medium enterprises (SMEs) in the cultural and creative sectors, by providing partial cover for financial intermediaries' potential losses when engaging with such field of projects. The targeted sectors include architecture, archives and libraries, artistic crafts, audiovisual activities (including film, television, video games and multimedia), cultural heritage, design, festivals, music, performing arts, publishing, radio and visual arts.

²⁹⁰ The biggest problem for private entities to enter the market more easily is market size because theatre and music programmes are consumed mostly by higher income part of society so the market size is limited only to them. The demand for such services is not high and it is considered as luxury.

Two models are utilised, both the provision of guarantees to financial intermediaries to cover portfolios of loans, and the provision of counter-guarantees to Guarantee Institutions supporting financial intermediaries to cover portfolios of loans or project-based loans. Additionally, the scheme includes a capacity building instrument to train financial intermediaries, enabling those to deeper understanding of CCS characteristics.

Below, an example is given of one of the first guarantee agreements already signed, initiating investments in the sector in France.

In the beginning of 2017, the European Investment Fund has signed with Bpifrance a guarantee agreement, first in France supported under the Guarantee Facility for CCS. Such support allows Bpifrance to create a new financing product (Prêt Industries Créatives), targeting a portfolio of EUR 30 million of loans to more than 200 SMEs over the next two years. Companies in fields of film, theatre, video game production, music and performance, and editorial sectors will be able to access the new programme, available from June of 2017 on.

Bpifrance is a subsidiary of the Caisse des Dépôts (French Consignments and Loans Fund) and the State, highly engaged in supporting companies from start-up to stock exchange listing, with credit, collateral and equity.

2.11 LITHUANIA: WATER AND SEWAGE

2.11.1 GENERAL OVERVIEW OF THE SERVICES IN THE SECTOR

This chapter provides an overview of all public services identified in Lithuanian Water and Sewage sector. The rationale for introduction of each public service and the number of service related interventions are identified. Furthermore, the relative position of each public service on liberalisation – centralisation axis is presented.

The main provider of two sector's services, which in principle can be understood as one, is the public sector. Their short list and their respective aims is provided in the table below.

TABLE 148. LITHUANIAN WATER AND SEWAGE SECTOR'S SERVICES AND THEIR OBJECTIVES

Service title	Aim of the service
Drinking water supply services	To provide water supply and drinking water purification services
Waste water management services	To provide wastewater and storm water collection and management services

Source: BGI Consulting et al, 2017.

It can be repeated that services in principle can be treated as one.

2.11.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

The main rationale for the provision of services by the public sector in the Lithuanian Water and Sewage sector is *unavailability or limited availability of the services on the market otherwise*. For example, if sewerage networks did not exist, customers would need to install local sewerage networks or to use the existing local systems, most of which do not meet the environmental requirements. It is highly probable that shortages in terms of water quality and wastewater management would be felt.

The scheme below disassembles the logic of the overall governmental interventions in the Water and sewerage sector in Lithuania. It starts with the rationale of the provision of the services by the public sector, then indicates services corresponding to that particular rationale. Services are classified not only by the rationale they correspond to, but also by a body, which is responsible for the provision of them. Other governmental interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

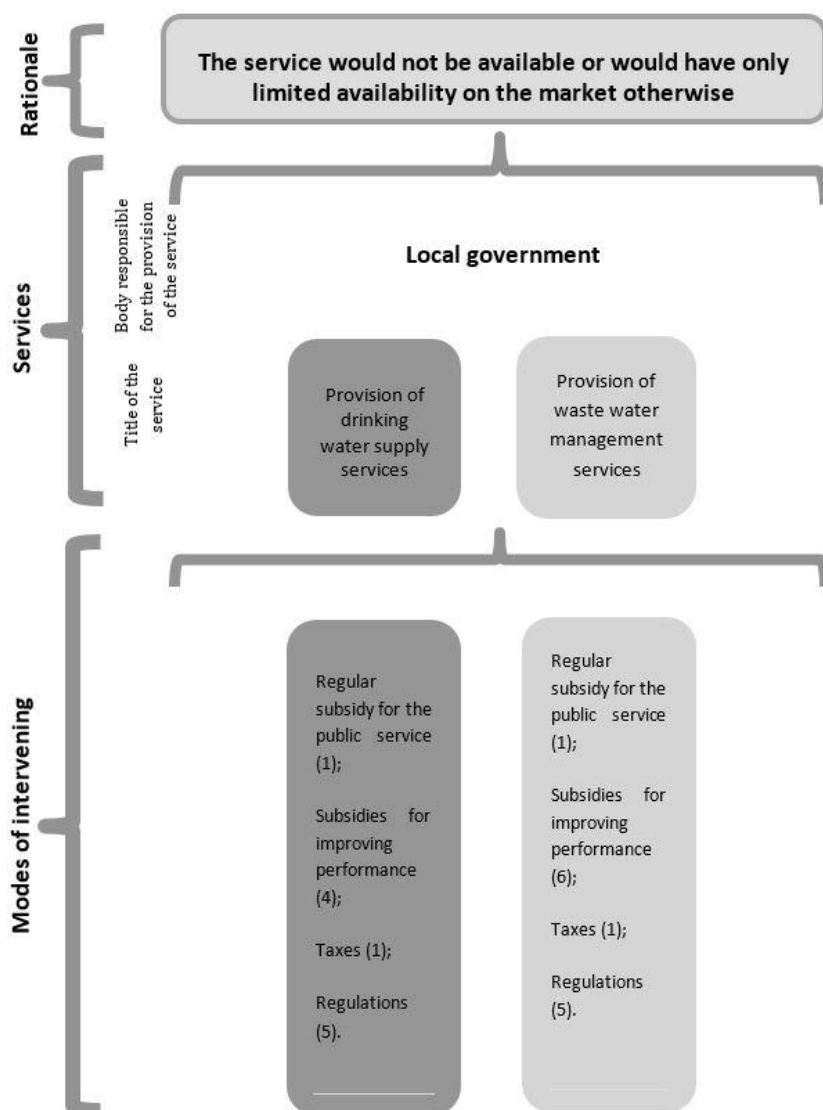


FIGURE 50. LOGIC OF THE INTERVENTIONS IN THE LITHUANIAN WATER AND SEWERAGE SECTOR

Source: BGI Consulting et al, 2017

2.11.1.2 LEVEL OF LIBERALIZATION OF THE SERVICES PROVISION

The public services in the Lithuanian Water and Sewage sector were ranked according to the level of liberalisation in their provision in the figure below. The criteria used for ranking the sector's services according to the level of liberalisation in their provision are – the main provider of the service (the most centralised provider is a government / municipal institution (directly), the most liberalised provider is the market entity (operator)); the most common public service delivery mode (the most centralised delivery mode – direct provision by the governmental / municipal body, the most liberalised – provision by market entity (operator)); consumer pricing of the service (whether the service is free of charge, its pricing is available but non-regulated or its pricing is regulated and set by relevant authorities); market share of the public operators (100, >66, 34-66, <34 percent).

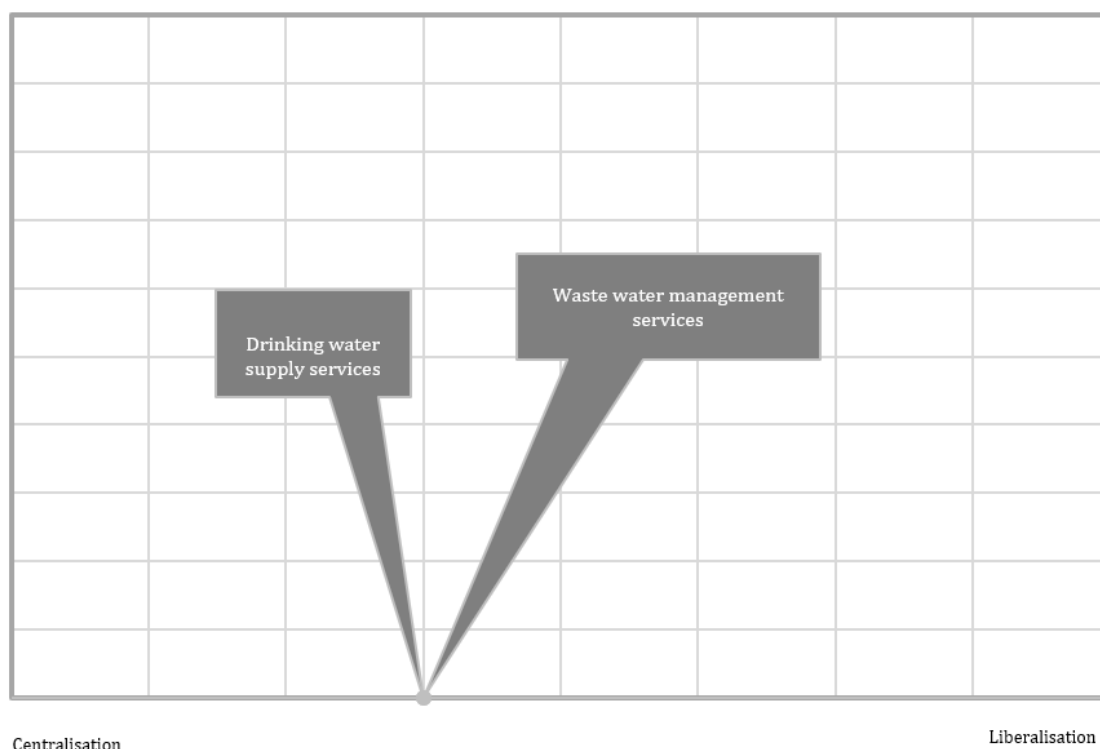


FIGURE 51. SUPPLY SIDE OF THE LITHUANIAN WATER AND SEWERAGE SECTOR SERVICES

Source: BGI Consulting et al, 2017.

Both Water and Sewerage sector's services are delivered in the same mode as normally they are provided by the same legal subjects in Lithuania. With a few exceptions, these subjects are municipality-owned entities. Though prices are not high, both of the services are not free of charge for customers; the market share of public operators is significant, amounting to almost 100 percent.

2.11.2 PRESENTATION OF SERVICES AND RELATED INTERVENTIONS SELECTED FOR FURTHER ANALYSIS

This chapter presents the services and related interventions, selected for further analysis. Both services of Lithuanian Water and Sewage sector were selected for further in-depth analysis. These services are:

- Drinking water supply;
- Waste water management.

The main policy goals, modes of provision and interventions related to the abovementioned services are presented in this chapter.

2.11.2.1 MAIN POLICY GOALS OF SERVICES SELECTED FOR FURTHER ANALYSIS

The long-term policy objective of the Water and sewerage sector in Lithuania, as defined in National Environmental Strategy confirmed by the Parliament on 16 April 2015, is to ensure good quality drinking water supply and wastewater management services to 100 percent of inhabitants by 2050. Sector's short-term objectives are assurance of the availability of drinking water and wastewater management services for at least 83 and 81 percent of the Lithuanian population respectively. Generally, long-term and short-term objectives are non-contradictory, however strategic plan of Environmental ministry for 2017-2019 indicate slightly different numbers i.e. 89 and 85 percent connected to drinking water supply and water waste sewage services by 2020 respectively. However, despite the consistency of policy planning, the real improvement has not been sufficient over the recent years. According to the same National Environmental Strategy document, there were only 67 percent of Lithuanian inhabitants' connection to sewerage and 76 percent to drinking water supply services in 2012-2013. According to data provided by Eurostat, water connectivity percentage equalled 80.2, while connectivity to urban wastewater collection and treatment systems amounted to 72.4 percent in 2015. Equal figures are also provided by resolution of Lithuanian government on Water Development programme 2017-2023, February 1 2017, No. 88 (Dėl vandens tiekimo ir nuotekų tvarkymo 2017-2023 programos patvirtinimo).

2.11.2.2 THE STRUCTURE OF PROVISION AND FINANCING OF SERVICES SELECTED FOR FURTHER ANALYSIS

Figures provided below depict the structure of each service selected for further analysis. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision identified. Graphs in light red indicate service providers and group(s) the service is targeted at.

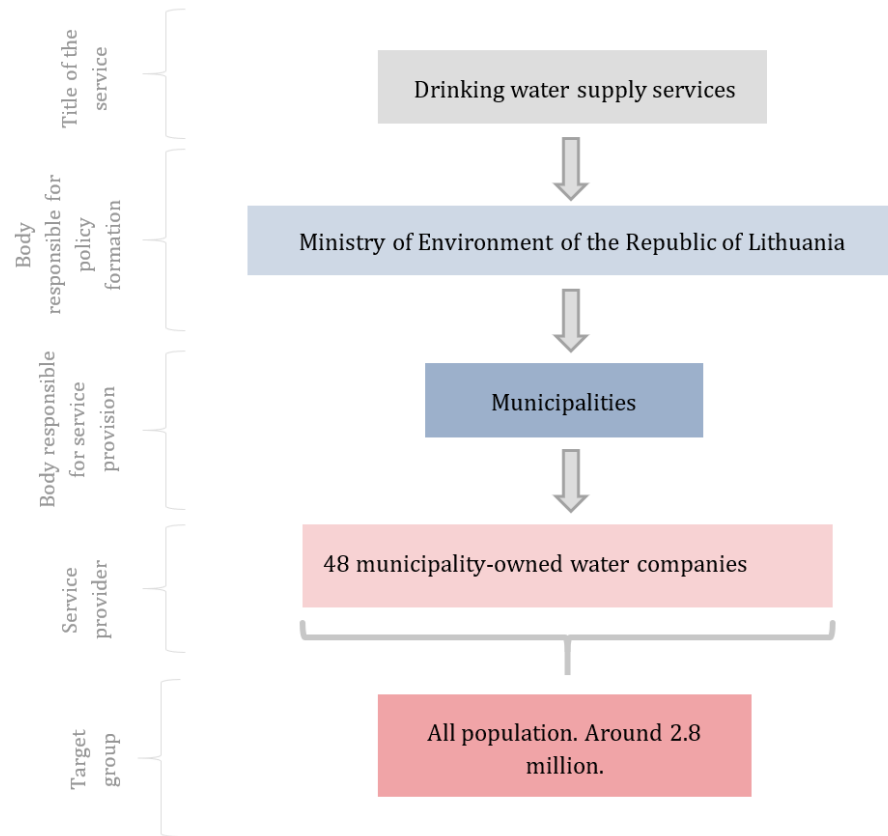


FIGURE 52. SERVICE PROVISION MECHANISMS IN WATER AND SEWERAGE SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

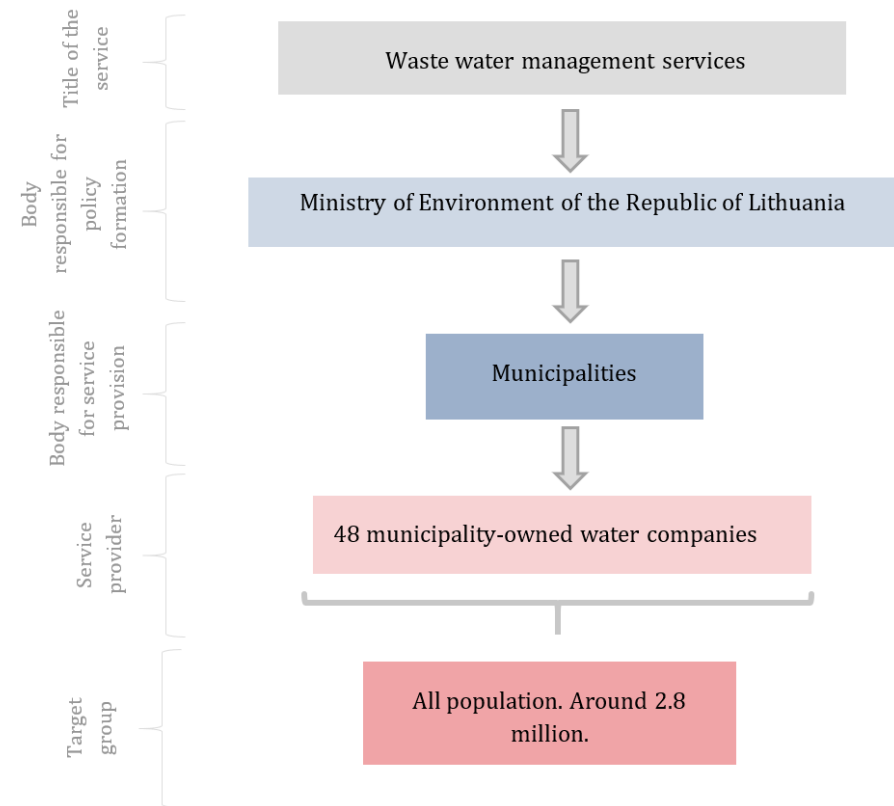


FIGURE 53. SERVICE PROVISION MECHANISMS IN WATER AND SEWERAGE SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

2.11.2.3 INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Each of the service selected for further analysis has related interventions, enabling the provision of the service. All the interventions, related to drinking water supply and water waste management are presented in the table below.

TABLE 149. INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Name of the service	Type of the service related intervention	Name of the service related intervention	Fiche No.
Drinking water supply	Subsidy for improving performance of the public service	ESIF subsidies for storm water management infrastructure	1
	Subsidy for improving performance of the public service	Subsidy for development of public and private sector waste water treatment infrastructure (under Lithuanian Environmental Investment Fund (LAAIF))	2
	Subsidy for improving performance of the public service	Subsidy for development of water and storm water infrastructure in rural areas	3
	Subsidy for improving performance of the public service	ESIF subsidies for improvement of water and waste water infrastructure (05.3.2-APVA-V-013; 05.3.2-APVA-R-014)	4
	Taxes	Pollution tax/natural resources tax applied to water companies for pollution discharged to natural environment and drinking water as natural resource extraction	5
	Regulation	Regulation establishing price ceilings for water supply and/or waste water management services	6
	Regulation	Regulation requiring obligatory connection to the existing water supply infrastructure (upcoming)	7
	Regulation	Regulation regarding licensing for companies providing water and waste water management services	8
	Regulation	Regulation establishing restrictions regarding privatisation of water and waste water services supplying companies	9
	Financial instruments for public service provision	Financial instruments for renovation of water and waste water infrastructure	10
Waste water management	Subsidy for improving performance of the public service	ESIF subsidies for storm water management infrastructure	1
	Subsidy for improving performance of the public service	Subsidy for development of public and private sector waste water treatment infrastructure (under Lithuanian Environmental Investment Fund (LAAIF))	2
	Subsidy for improving performance of the public service	ESIF subsidies for improvement of water and waste water infrastructure (05.3.2-APVA-V-013; 05.3.2-APVA-R-014)	4
	Subsidy for improving performance of the public service	Subsidy for development of water and storm water infrastructure in rural areas	3
	Taxes	Pollution tax/natural resources tax applied to water companies for pollution discharged to natural environment and drinking water as natural resource extraction	5
	Regulation	Regulation establishing price ceilings for water supply and/or waste water management services	6

	Regulation	Regulation requiring obligatory connection to the existing waste water management infrastructure (upcoming)	7
	Regulation	Regulation regarding licensing for companies providing water and waste water management services	8
	Regulation	Regulation establishing restrictions regarding privatisation of water and waste water services supplying companies	9
	Financial instruments for public service provision	Financial instruments for renovation of water and waste water management infrastructure	10

Source: BGI Consulting et al, 2017.

Further in this study the information is provided not on services as a whole, but only on service related interventions.

2.11.3 DATA ON SELECTED GOVERNMENT INTERVENTIONS IN LITHUANIAN WATER AND SEWAGE SECTOR

This chapter provides portrayal and analysis of the government interventions shortlisted for the in-depth assessment. In the chapter separate fiches for each government intervention, analysis of interventions regarding each of the methodological research criteria are presented.

The fiches for each government intervention below provides the main data on each government intervention, which can be read as a self-standing analysis and is also used in later parts of the study as a basis for the meta-analysis of interventions according to different criteria.

TABLE 150. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WATER AND SEWAGE SECTOR (1)

Title of the intervention	ESIF subsidies for storm water management infrastructure
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	ESIF subsidies are foreseen to finance development and renovation of the surface (storm) water treatment infrastructure
Year of the introduction and end, stability of the intervention	2014-2023 The implementation of the intervention depends on ESIF allocations
The broader policy objective to which intervention contributes and legal background	To ensure storm and wastewater collection services. Law on Local Self-government, 7 July 1994, No. I-533 (LR vietos savivaldos įstatymas)
The legal background of the establishment of the intervention	Operational Programme for the European Union Funds' Investments in 2014-2020
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To develop and renovate the surface (storm) water treatment infrastructure with an aim to ensure storm and wastewater collection services

The objective of the intervention and legal background	To finance development and renovation of the surface (storm) water treatment infrastructure in towns with population of over 20,000 Order of the Minister of Environment on terms of project financing (measure No. 05.1.1-APVA-R-007) Order of the Minister of Environment on terms of project financing (measure No. No. 05.1.1-APVA-R-007)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Environmental Project Management Agency under the Ministry of Environment
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	Municipal budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	Regional planning
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Residents and guests of the intervened towns and drivers crossing these towns.
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is compulsory for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	There were different sums allocated for the Lithuanian regions under 05.1.1-APVA-R-007 measure: EUR 6,2 million for Klaipėda, EUR 1,7 million for cities in Utena region, EUR 23 million for cities in Vilnius region, EUR 1,5 million for Marijampolė, EUR 0,9 million for Tauragė, EUR 2,3 million for Alytus, EUR 4,6 million for Šiauliai.
Unintended impact of the intervention	There have been no unintended impact of the intervention identified
Main issues related to the implementation of the intervention	Storm water infrastructure that was build (renovated) or is still being built using ESIF funding will require renovations in the future. Therefore, in face of decreasing ESIF investments financial instruments (such as bank loans, for example) will have to be used. Economic viability is one the criteria for companies to receive a loan and taxation of inhabitants (not only companies) will have to be considered.
Consistency with other related interventions	There have been no inconsistencies with regard to other interventions identified
Possibilities to replace/withdraw the intervention	Possibilities of intervention withdrawal are limited

Source: BGI Consulting et al, 2017

TABLE 151. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WATER AND SEWAGE SECTOR
(2)

Title of the intervention	
Subsidy for development of public and private sector waste water treatment infrastructure (under Lithuanian Environmental Investment Fund (LAAIF))	
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Lithuanian Environmental Investment Fund (LEIF, or LAAIF in Lithuanian) subsidies are foreseen for public and private sector waste water treatment infrastructure
Year of the introduction and end, stability of the intervention	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.
The broader policy objective to which intervention contributes	To ensure wastewater treatment services. Law on Local Self-government, 7 July 1994, No. I-533 (LR vietos savivaldos įstatymas)
The legal background of the establishment of the intervention	Law on Local Self-government, 7 July 1994, No. I-533 (LR vietos savivaldos įstatymas); Law on environmental pollution tax, 13 May 1999, No. VIII-1183 (LR mokesčio už aplinkos teršimą įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To finance connection to wastewater collection network or creation of wastewater treatment capacities, with an aim to ensure wastewater treatment
The objective of the intervention and legal background	To finance connection to wastewater collection network or creation of wastewater treatment capacities 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 kryptių patvirtinimo) 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 kryptių patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Lithuanian Environmental Investment Fund
The main source of financing the intervention	State budget
Additional sources of financing the intervention	State budget
Market side the intervention is targeted at	Supply and demand
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Publicly-owned for profit entity

Dominant mean of receiving the intervention for public providers	Project contest
Types of private providers eligible to receive the intervention	Private for-profit entities
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	34-66%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Industrial companies, users (whose wastewater treatment is affected by the intervention)
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is compulsory for the consumers
Consumers' selection criteria	Precise (particularised) Other. Inhabitant living next to companies that install water and air pollution preventing measures.
Impact of the intervention	Since the start of the programme, roughly 115 projects related to installation of water waste management infrastructure have been completed or are still undergoing. There were roughly EUR 5,5 million from 2010 to 2017 for the projects related to wastewater infrastructure allocated as the data available dating back to 2010 indicate.
Unintended impact of the intervention	There have been no unintended consequences of the intervention identified.
Main issues related to the implementation of the intervention	There have been no issues with regard to the intervention identified
Consistency with other related interventions	Subsidy for development of public and private sector waste water treatment infrastructure (under Lithuanian Environmental Investment Fund (LAAIF) is consistent with other interventions.
Possibilities to replace/withdraw the intervention	Possibilities to withdraw the intervention are limited

Source: BGI Consulting et al, 2017.

TABLE 152. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WATER AND SEWAGE SECTOR
(3)

Title of the intervention	Subsidy for development of water and storm water infrastructure in rural areas
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Rural development program (lt. Kaimo plėtros programa) subsidy is foreseen to finance development of water and storm water infrastructure in rural areas
Year of the introduction and end, stability of the intervention	2014-2023 The implementation of the intervention depends on ESIF allocations
The broader policy objective to which intervention contributes and legal background	To ensure water supply and wastewater treatment services. Law on Local Self-government, 7 July 1994, No. I-533 (LR vietos savivaldos įstatymas)
The legal background of the establishment of the intervention	Rural Development Programme for Lithuania 2014–2020

The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To develop water and storm water infrastructure in rural areas in order to ensure water supply and wastewater treatment services
The objective of the intervention and legal background	To finance development of water and storm water infrastructure in rural areas. Order of the Minister of Agriculture on terms of project financing (measure No. 7 "Support for investments in all types of small scale infrastructure") Rural Development Programme for Lithuania 2014–2020
Level of body responsible for policy formation	National and regional level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	National Paying Agency under the Ministry of Agriculture of the Republic of Lithuania
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	Municipal budget; private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	Regional planning
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Members of rural communities (connected to the network or potentially to be connected)
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	So far, 25 application to be financed have been selected. These projects have been drafted by municipalities and confirmed by regional development councils. Projects are complex and aim at financing not only small scale water infrastructure, but also reconstruction of cemeteries, leisure time areas as well as local roads. This measure helps to improve quality of water not only for individual households of rural settlements (up to 200 inhabitants), but also for rural schools, libraries, culture centres.
Unintended impact of the intervention	There have been no unintended impacts identified
Main issues related to the implementation of the intervention	Due to shrinking population infrastructure might get redundant in the future. Also, it is difficult to connect inhabitants to the water networks as they themselves should cover costs of inlet. European Commission excluded financing of water waste treatment in rural areas from 2014-2020 investments programme, it still existed in 2007-2013 financial period.
Consistency with other related interventions	Subsidies for development of water and storm water infrastructure in rural areas are consistent with other interventions
Possibilities to replace/withdraw the intervention	Possibilities to replace/withdraw the intervention are limited

Source: BGI Consulting et al, 2017

TABLE 153. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WATER AND SEWAGE SECTOR
(4)

Title of the intervention		ESIF subsidies for improvement of water and waste water infrastructure
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Subsidy for improving performance of the public service
Short description of the intervention		ESIF subsidies are foreseen to finance renovation and development of drinking water and waste water systems
Year of the introduction and end, stability of the intervention		2014-2023 The implementation of the intervention depends on ESIF allocations
The broader policy objective to which intervention contributes and legal background		To ensure water supply and wastewater treatment services. Law on Local Self-government, 7 July 1994, No. I-533 (LR vietos savivaldos įstatymas)
The legal background of the establishment of the intervention		Operational Programme for the European Union Funds' Investments in 2014-2020
The objective of the intervention in relation to the broader policy objective to which the intervention contributes		To renovate and develop drinking water and waste water systems in order to ensure water supply and wastewater treatment services
The objective of the intervention and legal background		To finance renovation and development of drinking water and waste water systems Orders of the Minister of Environment on terms of project financing (measures No. 05.3.2-APVA-V-013, 05.3.2-APVA-R-014)
Level of body responsible for policy formation		National and regional level
Level of body responsible for implementation (administration) of intervention		National level
Name of the body responsible for implementation (administration) of intervention		Environmental Project Management Agency under the Ministry of Environment
The main source of financing the intervention		ESIF funds
Additional sources of financing the intervention		Municipal budget; private funds
Market side the intervention is targeted at		Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention		Public
Types of public providers eligible to receive the intervention		Publicly-owned for profit entities and budgetary institutions
Dominant mean of receiving the intervention for public providers		State and regional planning
The basis for the calculation of intervention size transferred to the service providers		The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers		100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Consumers of the intervention		Households and private companies (connected to the network or potentially to be connected)
The type of impact of intervention for consumers		The intervention provides consumers with necessary services
Level of coercion at consumers' level		The use of intervention is compulsory for the consumers
Consumers' selection criteria		Inclusive (uniform)

Impact of the intervention	There are two ESIF investment measures that aim at renovation and development of drinking water and waste water systems: No. 05.3.2-APVA-V-013, 05.3.2-APVA-R-014 in the investments period 2014-2020. Investments under the first measure amount to almost EUR 80 million. List of projects suggested to finance from measure include development of water and sewerage infrastructure in Panevėžys city and its region (EUR 1,2 million), reconstruction of water infrastructure in Alytus (EUR 3 million), reconstruction of water infrastructure in Jonava (EUR 2,5 million), water provision and infrastructure development in Kazlų Rūda and Jūra village (EUR 1,2 million), new water and sewerage infrastructure development in Paobelys (EUR 0,55 million), water and sewerage infrastructure development in Klaipėda and its region (EUR 4 million), development of water improvement infrastructure in Kupiškis (EUR 0,65 million), water and sewerage infrastructure development in Kuršėnai (EUR 0,65 million), development of water and sewerage infrastructure in Lazdijai city and region (EUR 4 million), development of water and sewerage infrastructure in Vilnius region (EUR 3,7 million), development of water and sewerage infrastructure in Vilnius region (EUR 5,7 million), development of water and sewerage infrastructure in Pakruojis region (EUR 1,4 million), development of water and sewerage infrastructure in Pasvalys region (EUR 2,5 million), development of water and sewerage infrastructure in Pasvalys region (EUR 0,4 million), development of water and sewerage infrastructure in Radviliškis (EUR 1,4 million), development of water and sewerage infrastructure in Raseiniai region (EUR 0,4 million), development of water and sewerage infrastructure in Rokiškis (EUR 1 million), development of water and sewerage infrastructure in Marijampolė region (EUR 1 million), reconstruction of Lepšiai water supply site in Šiauliai (EUR 2 million), development of water and sewerage infrastructure in Šilalė region (EUR 0,9 million), reconstruction of water station in Šlaitas street in Tauragė (EUR 2,1 million), development of water and sewerage infrastructure in Varėna region (EUR 0,9 million), development of water and sewerage infrastructure in Panevėžys region (EUR 0,4 million), development of water and sewerage infrastructure in Vilkaviškis region (EUR 2,6 million), development of water and sewerage infrastructure in Vilnius city (EUR 4,6 million), development of water and sewerage infrastructure in Anykščiai region (EUR 4,1 million), development of water and sewerage infrastructure in Kretinga region (EUR 5,1 million). EUR 10,7 million were allocated to Utena and 7,5 to Telšiai sludge infrastructure construction. Therefore a considerable impact has been made in terms of water and waste water services quality improvement and distribution. Investments under measure 05.3.2-APVA-R-014 have received 60 applications and 54 of them have been signed distributing EUR 119 million. There were roughly EUR 30 million allocated for water and sewerage infrastructure projects in Vilnius region; EUR 7 million have been allocated for infrastructure projects in Telšiai region; EUR 27 million for Kaunas region and EUR 12 million for Panevėžys and Klaipėda regions each.
Unintended impact of the intervention	This infrastructure will have running costs which will have limited possibilities to be covered from ESIF funding after 2020.
Main issues related to the implementation of the intervention	Connectivity to infrastructure is low (especially in suburbs and smaller cities) as there is no obligation to connect and companies don't cover connection costs.
Consistency with other related interventions	There were no inconsistencies with other interventions identified
Possibilities to replace/withdraw the intervention	There have been no possibilities to replace or withdraw intervention identified

Source: BGI Consulting et al, 2017.

TABLE 154. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WATER AND SEWAGE SECTOR
(5)

Title of the intervention Pollution tax / natural resources tax applied to water companies for pollution discharged to natural environment and drinking water as natural resource extraction	
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Taxes
Short description of the intervention	Taxes applied to Water Companies for pollution discharged to natural environment and drinking water as natural resource extraction.
Year of the introduction and end, stability of the intervention	2006 - up to now The law was introduced in 1991, however the intervention didn't exist until 2006 when it was initiated by an amendment of the law. Natural resources law amendment, 25 May 2006 No. X-616 (LR mokesčių už valstybinius gamtos išteklius įstatymo pakeitimo įstatymas). In 2014, there are a decrease of tax for extraction of surface water from EUR 0,003 per cubic meter to 0,00003 per cubic meter. The change is attributed to reduce expenses of liquefied natural gas terminal which stated to operate in Lithuania in that year.
The broader policy objective to which intervention contributes and legal background	To encourage economical use of natural resources by economic means as well as finance expenses that state suffer eliminating damage of the pollution. Natural resources law, March 1991, No. I-1163 (LR mokesčių už valstybinius gamtos išteklius įstatymas)
Legal background for the establishment of the intervention	Natural resources law, March 1991, No. I-1163 (LR mokesčių už valstybinius gamtos išteklius įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To encourage economical use of water resources by putting a tax on water extraction
The objective of the intervention and legal background	To tax extraction of the drinking water Natural resources law, March 1991, No. I-1163 (LR mokesčių už valstybinius gamtos išteklius įstatymas); Natural resources law amendment, 25 May 2006 No. X-616 (LR mokesčių už valstybinius gamtos išteklius įstatymo pakeitimo įstatymas)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	The Ministry of Environment of the Republic of Lithuania
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Legal and physical persons extracting water resources
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention imposes charges on subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
Impact of the intervention	Highest tariffs have to be paid for extraction of underground water which is used by legal entities for their commercial purposes (EUR 4,29 per cubic meter), extraction of mineral water which is not used in health institutions (EUR 4,29 per cubic meter); extraction of water which is used at health institutions (EUR 2,14 per cubic meter). Lithuania collects EUR

	8-10 million to its national budget as the result of water extraction taxation.
Unintended impact of the intervention	There were no unintended consequences of the intervention identified
Main issues related to the implementation of the intervention	Roughly 10 percent from the sum collected from the tax are dedicated for geology related scientific research. Also, water consumption is rather low in Lithuania and amounts only to roughly 60 liters per person. This means that prime cost of water is rather high as infrastructure can't be reduced as consumption falls.
Consistency with other related interventions	There were no inconsistencies with pollution tax identified
Possibilities to replace/withdraw the intervention	There were no possibilities for tax withdrawal identified

Source: BGI Consulting et al, 2017

TABLE 155. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WATER AND SEWAGE SECTOR
(6)

Title of the intervention Regulation establishing price ceilings for water supply and/or waste water management services	
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	The service price is regulated by State Prices and Energy Control Commission and approved by municipal Council. The service price (water and waste water) cannot exceed 4 % of household average monthly income.
Year of the introduction and end, stability of the intervention	2014 - up to now The law was introduced in 2006, however the intervention didn't exist until 2014 when it was initiated by a change of the law. The mark of 4 percent was chosen as the recommendation of the World Bank.
The broader policy objective to which intervention contributes	To determine common requirements and standards for drinking water supply and waste sewerage in order to avoid negative effect for the health of the people and environment. Article one, Water and sewerage law, 13 July 2006, No. X-764 (LR geriamo vandens tiekimo ir nuotekų tvarkymo įstatymas)
Legal background for the establishment of the intervention	Article one, Water and sewerage law, 13 July 2006, No. X-764 (LR geriamo vandens tiekimo ir nuotekų tvarkymo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To set price ceilings for drinking water and sewage services in order to control prices customers pay for aforementioned services. Price ceilings won't let price increases happen and keep services affordable in monopolistic sector.
The objective of the intervention and legal background	To establish drinking water and water sewage prices so that they would not exceed 4 percent of household average monthly income To establish drinking water and water sewage prices so that they would not exceed 4 percent of household average monthly income. Article 9.17, Amendment of Water and sewerage law, 12 June 2014, No. XII-939 (LR Geriamojo vandens tiekimo ir nuotekų tvarkymo įstatymo nr. X-764 pakeitimo įstatymas).
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	National commission for energy control and prices
Market side the intervention is targeted at	Demand

SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Users of centralised drinking water supply and waste management services
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides subjects with necessary financial resources
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups indirectly benefiting from the regulation/tax/tax exemption	Users of centralised drinking water supply and waste management services
The type of impact of intervention for beneficiaries	The intervention provides consumers with necessary financial resources
Impact of the intervention	Since there are no municipalities in which price would exceed 4 percent, the impact is minor. However, it might be that precisely this intervention keep the prices low and thus is making an impact.
Unintended impact of the intervention	A side-effect was that price setting rights were partially taken away from municipalities and partially passed to National commission for energy control and prices. This legal amendment resulted in a new price calculation methodology and increase of tariff for water and sewerage. The price setting procedure has been at least partially depoliticized.
Main issues related to the implementation of the intervention	Calculation of 4 percent average income is based on Lithuanian counties (lt. apskritys). Therefore, averages might reflect distorted view of income distribution. For example, average income, for calculation of 4 percent, in Vilnius county is higher due to the higher income of Vilnius city inhabitants. Also, some municipalities, for example Neringa, keeps water prices artificially low by compensating them even though 4 percent average income line is not exceeded.
Consistency with other related interventions	There were no inconsistencies with regard to compensation for water supply and waste water collection for vulnerable consumers.
Possibilities to replace/withdraw the intervention	It would be possible to return rights of the price setting for the municipalities, however re- politicization of the price would be hardly avoidable.

Source: BGI Consulting et al, 2017

TABLE 156. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WATER AND SEWAGE SECTOR (7)

Title of the intervention	Regulation requiring obligatory connection to the existing water supply infrastructure (upcoming)
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	Upcoming
Year of the introduction and end, stability of the intervention	Upcoming Upcoming
The broader policy objective to which intervention contributes and legal background	Upcoming
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	Upcoming

Clarity of definition of the objective of the intervention in relation to the broader policy objective to which the intervention contributes	Upcoming Upcoming
The objective of the intervention and legal background	Upcoming Upcoming
Clarity of definition of the main objective of the intervention	Upcoming Upcoming
Level of body responsible for policy formation	Upcoming
Level of body responsible for implementation (administration) of intervention	Upcoming
Name of the body responsible for implementation (administration) of intervention	Upcoming
The main source of financing the intervention	Upcoming
Additional sources of financing the intervention	Upcoming
Market side the intervention is targeted at	Upcoming
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Upcoming
The type of impact of intervention for subjects of the regulation/tax/tax exemption	Upcoming
Level of coercion at the level of subject of the regulation/tax/tax exemption	Upcoming
Selection criteria of subjects receiving the regulation/tax/tax exemption	Upcoming Upcoming
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups indirectly benefiting from the regulation/tax/tax exemption	Upcoming
The type of impact of intervention for beneficiaries	Upcoming
Impact of the intervention	n/a
Unintended impact of the intervention	n/a
Main issues related to the implementation of the intervention	n/a
Consistency with other related interventions	n/a
Possibilities to replace/withdraw the intervention	n/a

Source: BGI Consulting et al, 2017

TABLE 157. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WATER AND SEWAGE SECTOR (8)

Title of the intervention	Regulation regarding licencing for companies providing water and waste water management services
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	Every water or waste water company providing public service has to receive a license in order to be able to provide these services

Year of the introduction and end, stability of the intervention	2014 - up to now After the water and sewerage law amendment (LR geriamojo vandens tiekimo ir nuotekų tvarkymo įstatymo Nr. X-764 pakeitimo įstatymas) National commission for energy control and prices provides licences for subjects providing water and sewerage services. On from 2015 subjects willing to engage in further provision of services have to receive licenses from the National commission which evaluates governance, financial and technological capabilities of the entities. Up to 2015 Nacional Commission was merely involved in the process of price establishment.
The broader policy objective to which intervention contributes and legal background	To determine common requirements and standards for drinking water supply and waste sewerage in order to avoid negative effect for the health of the people and environment. Water and sewerage law, 13 July 2006, No. X-764 (LR geriamo vandens tiekimo ir nuotekų tvarkymo įstatymas)
Legal background for the establishment of the intervention	Water and sewerage law, 13 July 2006, No. X-764 (LR geriamo vandens tiekimo ir nuotekų tvarkymo įstatymas), water and sewerage law amendment (LR geriamojo vandens tiekimo ir nuotekų tvarkymo įstatymo Nr. X-764 pakeitimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To determine common requirements and standards for licensing of companies providing water and waste water services, depoliticize the provision of services strengthening powers of National commission for energy control and prices.
The objective of the intervention and legal background	To regulate activities of the companies providing water and waste water services. Resolution of the Government of the Republic of Lithuania on licensing of public water providers, 29 January 2007, No. 89 (LR Vyriausybės nutarimas dėl viešojo vandens tiekimo licencijavimo taisyklių patvirtinimo) Resolution of the Government of the Republic of Lithuania on licensing of public water providers, 29 January 2007, No. 89 (LR Vyriausybės nutarimas dėl viešojo vandens tiekimo licencijavimo taisyklių patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	National commission for energy control and prices
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Water and waste water services providing companies. There are 73 major companies operating in Lithuania and occupying nearly 100 percent of the market.
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
Impact of the intervention	Subjects providing water and sewerage services had to receive the licence until 1 November 2015. National commission for energy control and prices became responsible for the evaluation of subjects' governance, financial and technical capabilities. This was part of the depolitization process and reduced involvement of municipalities in provision of water and sewerage services.
Unintended impact of the intervention	As the law was enforced small water providing companies merged (number of providers decreased) and the right to license water providing companies was taken away from

	municipalities and passed to National commission for energy control and prices.
Main issues related to the implementation of the intervention	There have been no issues with regard to new licencing rules identified
Consistency with other related interventions	New licencing rules are consistent with other intervention
Possibilities to replace/withdraw the intervention	Licensing rules were changed as the Water and sewerage law was amended in 2014. It gave licencing powers to National commission of energy control and prices. Therefore, theoretically the licencing rules can be changed once again.

Source: BGI Consulting et al, 2017.

TABLE 158. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WATER AND SEWAGE SECTOR (9)

Title of the intervention	Regulation establishing restrictions regarding privatisation of water and waste water services supplying companies
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	Municipality owned drinking water supplying and water waste managing companies cannot be privatized and cannot be transferred by the concession.
Year of the introduction and end, stability of the intervention	2014 - up to now The law was introduced in 2006, however the intervention didn't exist until 2014 when it was initiated by a change of the law.
The broader policy objective to which intervention contributes and legal background	To determine common requirements and standards for drinking water supply and waste sewerage in order to avoid negative effect for the health of the people and environment. Water and sewerage law, 13 July 2006, No. X-764 (LR geriamo vandens tiekimo ir nuotekų tvarkymo įstatymas)
Legal background for the establishment of the intervention	Water and sewerage law, 13 July 2006, No. X-764 (LR geriamo vandens tiekimo ir nuotekų tvarkymo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To protect public interests by prohibiting of drinking water and sewage services providing companies
The objective of the intervention and legal background	To keep the waste water supplying companies at the municipal control. Water and sewerage law amendment, 12 June 2014, No. XII-939 (LR Geriamojo vandens tiekimo ir nuotekų tvarkymo įstatymo nr. X-764 pakeitimo įstatymas)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Ministry of Environment
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Private investors in drinking water and sewage services
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention prohibits certain behaviour of the subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)

Impact of the intervention	Resolution of the government of Lithuania regarding water and sewerage providing companies important for the national security, June 16, 2004, No. 761 (LR Vyriausybės nutarimas dėl nacionaliniam saugumui užtikrinti svarbių vandens tiekimo ir nuotekų šalinimo paslaugas teikiančių įmonių sąrašo patvirtinimo, 2004 birželio 16 Nr. 761) declared almost 100 water and sewerage companies as having legal status of subjects important for the affairs of national security. Strategically important objects law, 10 October 2002, No. IX-1132 indicate that their property rights belong to state. Therefore amendment of the law (2014) indicating prohibition of privatize water companies is redundant. It was a symbolic gesture as there are only few private water providing companies in Lithuania and there were no plans and possibilities to privatize those owned by municipalities.
Unintended impact of the intervention	It can be argued that further fragmentation of water sector has been stopped as the law prohibiting privatisation was enforced, however there are no real evidences that privatisation processes were about to take place.
Main issues related to the implementation of the intervention	There have been no issues with regard to intervention identified as Services Directive leaves organisation of water and sewerages services at member states responsibility.
Consistency with other related interventions	There were no inconsistencies with regard to restrictions regarding privatisation of water and waste water services supplying companies identified.
Possibilities to replace/withdraw the intervention	According to Resolution of the Government of the Republic of Lithuania regarding recognition of projects' economic or cultural importance to the state, 13 February 2008, No. 136 (Dėl projektų pripažinimo valstybiai svarbiais ekonominiais ar kultūriniais projektais tvarkos aprašo) a project might lose this status if it fails to achieve its goals, fulfil obligations or has other shortcomings. shortages. https://www.e-tar.lt/portal/lt/legalAct/TAR.ED2F336DCEAC/HDkDpnlnCY

Source: BGI Consulting et al, 2017.

TABLE 159. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN WATER AND SEWAGE SECTOR (10)

Title of the intervention	Financial instruments for renovation of water and waste water infrastructure
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Financial instruments for public service provision
Short description of the intervention	ESIF funds are used to finance financial instrument for renovation and development of drinking water and waste water systems
Year of the introduction and end, stability of the intervention	2014-2023 and later (due to revolving nature) The initiation of the intervention depended on ESIF allocations, however, the revolving nature of it allows to continue the implementation of the intervention far beyond the 2014-2023 programming period Fund has not been established as yet.
The broader policy objective to which intervention contributes and legal background	To ensure water supply and wastewater treatment services. Law on Local Self-government, 7 July 1994, No. I-533 (LR vietos savivaldos įstatymas)
The legal background of the establishment of the intervention	Operational Programme for the European Union Funds' Investments in 2014-2020
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To provide loans for renovation and development drinking water and waste water systems in order to ensure water supply and wastewater treatment services

The objective of the intervention and legal background	To finance renovation and development of drinking water and waste water systems Order of the Minister of Environment on measures' implementation plan (please see measure No. 05.3.2-FM-F-015)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Fund manager will be selected for administration of the fund
The main source of financing the intervention	ESIF funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	Other. Financial ability of the applying body will be judged in order to find out if a company is revenue-generating.
Types of private providers eligible to receive the intervention	Private for-profit entities
Dominant mean of receiving the intervention for private providers	Other. Financial ability of the applying body will be judged in order to find out if a company is revenue-generating.
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Households and private companies (connected to the network or potentially to be connected)
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is compulsory for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	The impact of intervention depends on the scope of reforms aiming at merger and enlargement of water companies that currently operate on municipal bases. If current situation will not be changed and water companies continue operate on municipal level, neither demand for loans will be high nor willingness of the fund manager to lend as current mode of companies operation is not revenue generating. However, possibility to establish such fund is still negotiated. Experts also argue that need for such FI is questionable as at the moment loans can be provided by banks.
Unintended impact of the intervention	The fund has not been yet established and unintended impact of its functioning cannot be estimated
Main issues related to the implementation of the intervention	Success of the fund depend on merger of current water companies and division of countries territory into 3-5 parts managed by 3-5 companies.
Consistency with other related interventions	As the intervention is still planned there were no inconsistencies with other interventions identified
Possibilities to replace/withdraw the intervention	The intervention has not been yet implemented

Source: BGI Consulting et al, 2017.

2.11.3.1 SUPPLY SIDE: QUALITY OF PLANNING OF SELECTED INTERVENTIONS

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

TABLE 160. QUALITY OF PLANNING OF THE WATER AND SEWERAGE SECTOR SERVICES RELATED INTERVENTIONS IN LITHUANIA

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Interventions related to both services	Compensation for water supply and waste water collection for vulnerable consumers	x	x	N/A	√	x	x	POOR
	ESIF subsidies for improvement of water and waste water infrastructure	√	√	√	√	√	√	GOOD
	Subsidy for development of water and storm water infrastructure in rural areas	√	x	x	√	x	x	POOR
	ESIF subsidies for storm water management infrastructure	√	√	√	√	√	√	GOOD
	Financial instruments for renovation of water and waste water infrastructure	Upcoming	Upcoming	Upcoming	Upcoming	Upcoming	Upcoming	Upcoming

Pollution tax / natural resources tax applied to water companies for pollution discharged to natural environment and drinking water as natural resource extraction	x	x	x	√	x	x	POOR
Regulation establishing restrictions regarding privatisation of water and waste water services supplying companies	x	N/A	N/A	√	√	x	POOR
Regulation requiring obligatory connection to the existing water supply infrastructure	Upcoming	Upcoming	Upcoming	Upcoming	Upcoming	Upcoming	Upcoming
Regulation regarding licencing for companies providing water and waste water services	x	N/A	N/A	√	x	x	POOR
Subsidy for development of public and private sector waste water treatment infrastructure (under Lithuanian Environmental Investment Fund (LAAIF))	x		N/A	√	x	x	POOR

Source: BGI Consulting et al, 2017.

10 interventions have been selected for further analysis. Two of them, namely regulation requiring obligatory connection to the existing water supply infrastructure and financial instruments for renovation of water and waste water infrastructure, have not been yet implemented. In case of obligatory connection, there were attempts to make implement the obligation, however such attempts have been rejected as opposing to the constitutional rights. Also, there is also little interest from the side of water supply companies. Therefore, this question is still open and a political decision needs to be made. Financial instruments should be introduced in the sector in the future, however as the demand for loans due to market fragmentation would be low. This intervention is in planning stage. 6 interventions were given POOR values in terms of planning. For example, regulation establishing restrictions regarding privatisation

of water and waste water services supplying companies was identified to be redundant. In 2014 Water and sewerage law was amended prohibiting privatisation of water companies. However, such regulation at least indirectly existed before the amendment was made. Government resolution with regard to companies important for affairs of national security June 16, 2004, No. 761 (LR Vyriausybės nutarimas dėl nacionaliniam saugumui užtikrinti svarbių vandens tiekimo ir nuotekų šalinimo paslaugas teikiančių įmonių sąrašo patvirtinimo, 2004 birželio 16 Nr. 761) declared almost 100 water and sewerage companies as having legal status of subjects important for the national security. Strategically important objects law, 10 October 2002, No. IX-1132 indicate that their property rights belong to state.

2 interventions were estimated to have good planning quality. ESIF projects financed under 014 measure have their investment plans prepared with both financial and economic analysis of projects. measures.

2.11.3.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF SELECTED INTERVENTIONS

Service providers in the sector operate inefficiently mostly because of the market fragmentation. Problem of fragmentation need to be overcome in order to reach significant increase in terms of efficiency. Limited efficiency increase was reached due to regulation regarding licencing for companies providing water and waste water services. As the right to license was transferred to National commission for energy control and prices very small companies' merged decreasing administration and water provision costs per water unit. The same conclusion can be made about merger of Klaipėda city and Klaipėda region's waters. Merger allowed joint company to optimise its labour force (to 380 workers), more efficiently manage ESIF investments and improve quality of water provided. Having stated that merger of companies results in efficiency gains, it needs to be mentioned the opposite – fragmentation results in efficiency losses. For example, municipality of Trakai can be easily connected to infrastructure disposed by Vilnius city. Double infrastructure creates efficiency losses as costs of water unit provided increases. These efficiency losses are conditioned by concentration of political power in smaller polities and unwillingness to let this power go away for the sake of economic gain. Intervention merging currently operating companies would significantly contribute to efficiency increases. Most interventions analysed, such as upcoming interventions, interventions of regulatory nature and taxes have no influence on efficiency of service provision.

According to the Services Directive, organisation of water services is within the decision power of individual member states of the EU. Existing regulation of Lithuania declares water providing companies to be public entities. There were no considerations about transferring provision of services to private entities. Water supply companies are objects of state importance and cannot be privatised. This regulation was confirmed by Water and sewerage law amendment in 2014. However, such transfer prior to merger would have even negative effects as companies operating in scarcely populated areas would be left for constant subsidies need.

2.11.3.3 SUPPLY SIDE: ADDITIONALITY OF SELECTED INTERVENTIONS

Firstly, it should be noted that good quality drinking water supply and waste water management according to EU and national standards improve public health, implying that the provision of services is a prerequisite for the good quality of life. If the provision was left to the market, market players most probably would privatize companies operating in bigger cities leaving rural areas for constant subsidies need i.e. if ESIF investment declines it would become more difficult for these companies to secure high service quality.

Regulatory intervention prohibiting privatisation implies that companies operating in fragmented market cannot be privatised, that makes a positive impact in the long run. On the other hand, fragmentation also implies that demand for water management fund's loans (when it's established) might be limited.

Productivity of companies is rather low due to the fragmentation of the market and lack of political incentives for optimisation. Sector's services only insignificantly increase the number of jobs in the economy in Lithuania. The number of jobs in the economy is also insignificantly increased due to the infrastructure planning, design, construction works and operation which mostly happened due to ESIF investments into infrastructure, for example, through measures 05.3.2-APVA-V-013 and 05.3.2-APVA-R-014. However, these investments cause only temporary change in size of labour force in the sector. Generally, labour force in the sector should be reduced if optimisation procedures are undertaken. For example, merger of Klaipėda city and Klaipėda region water companies' conditioned decrease in labour force numbers to 380.

Economic impacts are negative and mostly relate to the fragmentation of the market. It can be demonstrated by a quick analysis of 4 (2 big and 2 minor) water and sewerage services provision markets in Lithuania.

Kaunas. Turnover of Kaunas Waters amounted to EUR 21 million in 2014 and EUR 22 million in 2015. Prime costs of the service to EUR 17 million in 2014 and EUR 18 million in 2015. Amortisation costs amounted to EUR 6,5 million in 2015 and 2014. Profits of Kaunas Waters (Kauno vandenys) amounted to EUR 1,4 million in 2016 and EUR 1,2 million in 2015 and 2,4 million in 2014. There were 300 thousand inhabitants in municipality of Kaunas city in 2014.

Klaipėda. Turnover of Klaipėda Water (Klaipėdos Vanduo) equalled EUR 13 million in both 2015 and 2016. Prime service costs amounted to EUR 10 million in both 2014 and 2015. Amortisation costs amounted to EUR 4 million in both 2015 and 2014. Profits of Klaipėda Waters (Klaipėdos Vandenys) equalled EUR 89 thousand in 2014 and 110 thousand in 2015. There were 150 thousands inhabitants in municipality of Klaipėda city in 2017.

Nemėžis. Nemėžis communal services (Nemėžio komunalininkas) profits were negative in 2015 amounting to EUR 316 thousand, the next year was profitable, thus company managed to earn approximately 10 times less than it loss a year ago – EUR 29 thousand. Amortisation costs amounted to almost 400 thousand in both 2015 and 2016. Overall turnover equalled EUR 4,1 million in both 2015 and EUR 4,3 million in 2016, however it needs to be mentioned that prime costs were EUR 3,9 million in 2015 and EUR 3,7 million in 2016. Taking into consideration costs of amortisation it is difficult to imagine company's economic activities being highly profitable. It has been estimated that Nemėžis communal services (Nemėžio komunalininkas) provides water and sewerage services to approximately 10 thousand inhabitants.

Šakiai. The situation is not very different in municipality of Šakiai. Turnover of the Šakiai vandenys equalled EUR 1 million in 2014 and 2015. Prime costs of the service equalled EUR 1 million in 2014 and EUR 0,89 million in 2015. Amortisation costs amounted to EUR 1 million in 2014 and EUR 1,2 million in 2015. Profits of company were negative and amounted to EUR 210 thousand in 2014 and EUR 75 thousand in 2015. There were 29 thousand inhabitants in municipality of Šakiai in 2017.

Therefore, analysis comes to conclusion that the more inhabitants there are, the more profit municipal water providing companies can generate.

However, recently important steps towards implementation of cost recovery principle mostly through tariff increase have been made. Average price of water provision went up from EUR 1,22 in 2015 to EUR 1,72 in 2017. Amendment of Water and sewerage law made several steps towards National Commission for

Energy Control and Prices empowerment. For example, prices are reviewed on yearly basis and Commission has a right to set prices unilaterally if municipalities don't do this in 30 days period. These changes helped to reduce sector's losses from EUR 20, 89 million in 2014 to EUR 4, 49 million in 2016. However, amortisation costs are further not included into tariffs which makes more difficult for smaller municipalities to implement cost recovery principle. Further analysis of I interventions indicate that so far investments amounting to EUR 59 million (ESIF subsidies for storm water management infrastructure, measure No. 05.1.1-APVA-R-007) and almost EUR 200 million (ESIF subsidies for improvement of water and waste water infrastructure, measures No. 05.3.2-APVA-V-013, 05.3.2-APVA-R-014) have been made. Such huge investments and inability to implement principle of expenditure return poses danger of need for further subsidies and burden for Lithuanian economy if ESIF funds were to decline. Also, these investments into water and waste water infrastructure had greater impact if the question of connectivity to water and sewerage infrastructure would have been solved. Investments into storm water management infrastructure make an impact anyway because storm water collection/management is a public good, which is non-excludable in its nature.

Finally, since the start of the subsidies for development of public and private sector waste water treatment infrastructure (under Lithuanian Environmental Investment Fund (LAAIF) programme, roughly 115 projects related to installation of water waste management infrastructure have been completed or are still undergoing. There were roughly EUR 5, 5 million from 2010 to 2017 for the projects related to wastewater infrastructure allocated as the data available since 2010 indicate.

2.11.3.4 SUPPLY SIDE: SIDE-EFFECTS OF SELECTED INTERVENTIONS

Most selected interventions have no side-effects. Only a couple of interventions can be mentioned as exceptions. For example, regulation establishing price ceilings for water supply and/or waste water management services is intervention partially took away price setting rights away from municipalities and increased powers of National commission for energy control and prices as a side-effect. As the result price setting procedure has been at least partially depoliticized. A small decrease in the number of service providing companies is a side-effect of regulation regarding licencing for companies providing water and waste water services. This was because very small companies could not match new criteria for subjects' governance, financial and technical capabilities.

2.11.3.5 DEMAND SIDE: IMPACT OF SELECTED INTERVENTIONS ON AFFORDABILITY OF THE SERVICE

First of all it should be mentioned that from 2000 to 2013 EUR 0,84 billion had been invested into Water and Sewage sector. They were used for construction of 2953 kilometres of new waste sewerage and 2231 kilometres of new water provision infrastructure. However, connectivity i.e. affordability levels, due to the reasons discussed in the consistency chapter, increased only slightly. According APVA's data percentages of connected to sewerage and drinking water infrastructure increase just by 5,7 and 4 percentage points respectively over 2004 – 2015. As the result of these low affordability levels European Commission initiated infringement procedure against Lithuania in 2017.

Impact in terms of service affordability is expected to be made by subsidies for development of water and storm water infrastructure in rural areas. So far, 25 applications to be financed have been selected. These projects have been drafted by municipalities and confirmed by regional development councils. However, projects are complex and aim at financing not only small scale water infrastructure, but also reconstruction

of cemeteries, leisure time areas as well as local roads. Nevertheless, this measure helps to improve quality of water not only for individual households of rural settlements (up to 200 inhabitants), but also for rural schools, libraries, culture centres.

Moreover, under measure 05.3.2-APVA-V-013 31 applications amounting to EUR 80 million are submitted for evaluation. Financing under measure 05.3.2-APVA-R-014 is even greater and amount to 54 applications and EUR 118,8 million. Both ESIF investment measures aim at financing construction and renovation of water and wastewater networks, difference is that 05.3.2-APVA-R-014 also finances improvement of companies' management. However, due to connectivity issues impact of these interventions on affordability is not as high as one might expect.

ESIF funding under 05.1.1-APVA-R-007 measure increased storm collection services' affordability. There were different sums allocated for the Lithuanian regions under 05.1.1-APVA-R-007 measure: EUR 6.2 million for Klaipėda, EUR 1.7 million for cities in Utena region, EUR 23 million for cities in Vilnius region, EUR 1,5 million for Marijampolė, EUR 0.9 million for Tauragė, EUR 2.3 million for Alytus, EUR 4.6 million for Šiauliai. There were 16 applications received, all of them were signed and received EUR 59 million in total. Storm water collection is a public good, therefore it can be claimed that these investments have contributed to the affordability of the service.

Services are affordable for all income groups in terms of price. Inhabitants of municipality of Neringa pay most for the cubic meter of water - EUR 3.41, while lowest prices exist in Klaipėda, Kaunas and Druskininkai – EUR, 141, EUR 1,35 and EUR 1,33 per cubic meter. Regulation setting price ceiling for water and (or) water waste sewage services at 4 percent level is meant to keep the services affordable in terms of income.

To sum up, both drinking water supply and waste water management services are affordable to all income groups. However, not all groups regardless of income have access to the services.

2.11.3.6 CONSISTENCY OF SELECTED INTERVENTIONS

Inconsistency can be found between subsidies for development of water and storm water infrastructure in rural areas or ESIF subsidies for improvement of water and waste water infrastructure which terms of financing require connection of certain number of inhabitants to infrastructure for the projects to be successful. On the other hand, ESIF funds can't be awarded to physical persons. Furthermore, quite a few legal complications would arise once a publicly owned pipe was laid down on private plot. This inconsistency creates a paradoxical situation – services provision pipelines are built, but inhabitants not connected. Reasons for the policy failure can be attributed to unwillingness of companies to connect as they would experience additional costs in terms of finances and time (high alternative costs). Their unwillingness has been reinforced by political pressure to master ESIF investments and lack of pressure to achieve results in terms of connectivity. However, inhabitants also were not eager to make investments for building outlets and other infrastructure enabling the use of water and sewerage pipelines. Therefore, in Riešė, for example, only 17 percent of inhabitants made efforts to connect despite infrastructure built.

2.11.4 CONCLUSIONS AND RECOMMENDATIONS ON THE GOVERNMENT INTERVENTIONS IN THE LITHUANIAN WATER AND SEWAGE SECTOR

Lack of obligation to connect and low connectivity rate in turn is a good starting point for conclusions with regard to Water and Sewerage sector in Lithuania. Due to the political pressure to master ESIF investments it has been done rather poorly, mostly building water and sewerage infrastructure. However, according to EU regulation, ESIF investments can't be awarded to private individuals. As the result, it was up to private subjects themselves to finance inlets (lt. įvadai) in their territories. Without obligation to connect to the infrastructure built and lacking pressure for companies to finance inlets from their own budgets a paradoxical situation came about. On the one hand, huge investments amounting to EUR 1 billion have been made throughout a period of 2000-2017, however at least partially due to the lack of legal obligation to connect, connectivity rates are rather quite low. Only 80 percent of Lithuanian inhabitants used centrally provided water services and 72 percent central management of water waste in 2015. Due to too low connectivity rates, infrastructure built can't operate on full capacity and, as the result, is not viable economically. For example, in Riešė, small city neighbouring Vilnius, only 17 percent of inhabitants connected to the infrastructure built. There were attempts to oblige inhabitants to connect to infrastructure in order to make it economically viable, however the Law department of the Lithuanian Parliament ruled such attempt out arguing that such law would contradict to the right of self-determination granted by the Lithuanian Constitution. It should be noted that neighbouring Baltic countries such as Latvia and Estonia also face similar connectivity challenges. A decision to this problem was found in Germany, where water and sewerage networks are built using ESIF funding, however inlets are financed by companies and symbolic contributions from the side of inhabitants.

As long as this connectivity problem is not solved, it would be difficult for companies to avoid economic losses and thus need for further subsidies in the future. What is more, political organisation and incentives should be changed. Even though, important steps regarding depolitisation of the sector and partial transfer of rights for price establishment have already been made.

Need for further subsidies is unavoidable if market Lithuanian Water sector remains fragmented. Bold political steps should be taken in order to merge companies attributing 0,3-0,5 million inhabitants for each to provide services for. This is a prime condition to ensure sufficient demand of financial instruments, such as loans from Water management fund. An intervention enabling merger would make a significant contribution to increases of service provision efficiency and lay a ground stone for more intensive use of financial instruments in the sector.

2.11.5 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

This chapter presents the analysis of the potential for the implementation of financial instruments in the four Lithuanian Water and Sewage sector's services selected for the in-depth analysis:

- Drinking water supply;
- Water waste management.

2.11.5.1 DRINKING WATER SUPPLY

Tariffs are often insufficient to cover the costs of the service provision, especially for smaller water companies. Additional revenue can be generated to a limited extent through the increase of tariffs. Concentration of municipality-owned bodies providing the service could achieve the economies of scale.

TABLE 161. POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN LITHUANIAN DRINKING WATER SUPPLY SERVICES

Criteria	FI potential
Pricing system	Consumer-paid service, regulated
Regulatory/governance Framework	Public domain
Market potential	Limited potential of tariffs increasing
Accountability	Performance framework
Capacity	Quality issues in service provision

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by the relevant authorities (approved by municipal councils and National commission for energy and prices in a political process) and consumer payment is supposed to cover the whole costs of the service provision. However, tariff doesn't cover service provision costs and amortisation costs are not included into the tariff paid by the service customers. However, it should be noted that there was an improvement in terms of sector's finances over the last 65 years as the accumulated loss decreased from approximately EUR 20 million in 2013 to roughly EUR 4 million in 2016. This tendency was a result of steady tariff increase. At the same time it should be underlined that the tariff increase has its end as regulatory intervention sets price ceilings that can be paid by the customers for water supply and (or) waste management services. Finally, better pricing system can be enabled by complete depolitisation of price setting procedure.

REGULATORY AND GOVERNANCE FRAMEWORK

According the date provided by National commission for energy and prices at the moment there are 73 services providing companies.

Only small portion of them operate on private basis. However, legislation foresees that water management services cannot be provided by private entities. Because of this intervention most of the services providers in the sector are public bodies. However, successful intervention merging services providing companies and reducing their number to 3-5 is needed before service provision can be transferred to private subjects. Otherwise, only companies operating in bigger cities would be privatised, leaving more scarcely populated areas in constant need for subsidies.

MARKET POTENTIAL

Households and private companies are target group of this service (the whole population of over 2.8 million inhabitants) and the market share of public operators is above 90 percent. Due to migration to bigger cities, more Lithuanian territories get less densely populated. These tendencies pose danger for companies operating in the regions to lose significant portion of the customers and possibilities to make business viable in terms of economics. Intervention enabling merger of water companies would soften this effect. Unsolved issue of connectivity poses yet another challenge for the market potential as it reduces the number of potential customers.

ACCOUNTABILITY

Information is available on the context of the intervention; operational objectives of the service are clearly defined and targets available. Additionally, short-term and long-term objectives are consistent. Since recently National commission for energy control and prices more powers were given in the process of price establishment which in its turn should make process more transparent.

CAPACITY

Quality of the service provision increased over the last year. This was a direct result of ESIF investments that modernised old water supply and waste water management infrastructure. Modernisation also decreased water losses in the pipelines. However, due to poor investment planning service does not meet the overall demand.

There are currently no considerations about transferring provision of the service to private entities. It is prohibited by the existing laws and would be unwise considering the fragmentation of the market.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

Although the fee is in place for this service, it doesn't cover all provision costs. For example, tariff paid by the customers doesn't include amortisation costs. Therefore, even though due to the rising tariff accumulated loss has been reduced over the past years, the sector is still in need of reforms in order to increase capacity for revenue generation. Tariff increases that do not exceed 4 percent average monthly income accompanied by the merge of companies might be the path to be followed.

2.11.5.2 WASTE WATER MANAGEMENT

Waste water management services are usually provided by the same companies as water supply services, therefore FI potential evaluation criteria coincide. In waste water management case, tariffs are also often insufficient to cover the costs of the service provision. Additional revenue can be generated to some (limited) extent through tariff or efficiency increase.

TABLE 162. POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN LITHUANIAN WASTE WATER MANAGEMENT SERVICES

Criteria	FI potential
Pricing system	Consumer-paid service, regulated
Regulatory/governance Framework	Public domain
Market potential	Limited development of additional services and tariffs increasing
Accountability	Performance framework
Capacity	Quality issues in service provision

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by the relevant authorities (approved by municipal councils and National commission for energy and prices in a political process) and consumer payment is supposed to cover the whole costs of the service provision. Currently, no additional revenues are created. Currently, tariff doesn't cover service provision costs and amortisation costs are not included into the tariff paid by the service customers. However, it should be noted that there was an improvement in terms of sector's finances over the last 65 years as the accumulated loss decreased from approximately EUR 20 million in 2013 to roughly EUR 4 million in 2016. This tendency was a result of steady tariff increase. At the same time it should be underlined that the tariff increase has its end as regulatory intervention sets price ceilings that can be paid by the customers for water supply and (or) waste management services. Finally, better pricing system can be enabled by complete depolitisation of price setting procedure.

REGULATORY AND GOVERNANCE FRAMEWORK

According the date provided by National commission for energy and prices at the moment there are 73 services providing companies.

Only small portion of them operate on private basis. However, legislation foresees that water management services cannot be provided by private entities. Because of this intervention most of the services providers in the sector are public bodies. However, successful intervention merging services providing companies and reducing their number to 3-5 is needed before service provision can be transferred to private subjects. Otherwise, only companies operating in bigger cities would be privatised, leaving more scarcely populated areas in constant need for subsidies

MARKET POTENTIAL

Households and private companies are target group of this service (the whole population of over 2.8 million inhabitants) and the market share of public operators is above 90 percent. Due to migration to bigger cities, more Lithuanian territories get less densely populated. These tendencies pose danger for companies operating in the regions to lose significant portion of the customers and possibilities to make business viable in terms of economics. Intervention enabling merger of water companies would soften this effect. Unsolved issue of connectivity poses yet another challenge for the market potential as it reduces the number of potential customers.

ACCOUNTABILITY

Information is available on the context of the intervention; operational objectives of the service are clearly defined and targets available. Additionally, short-term and long-term objectives are consistent. Since recently National commission for energy control and prices more powers were given in the process of price establishment which in its turn should make process more transparent.

CAPACITY

Quality of the service provision increased over the last year. This was a direct result of ESIF investments that modernised old water supply and waste water management infrastructure. Modernisation also decreased water losses in the pipelines. However, due to poor investment planning service does not meet the overall demand.

There are currently no considerations about transferring provision of the service to private entities. It is prohibited by the existing laws and would be unwise considering the fragmentation of the market.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

Although the fee is in place for this service, it doesn't cover all provision costs. For example, tariff paid by the customers doesn't include amortisation costs. Therefore, even though due to the rising tariff accumulated loss has been reduced over the past years, the sector is still in need of reforms in order to increase capacity for revenue generation. Tariff increases that do not exceed 4 percent average monthly income accompanied by the merge of companies might be the path to be followed.

2.12 CROATIA: WATER AND SEWERAGE

2.12.1 GENERAL OVERVIEW OF THE GOVERNMENT INTERVENTIONS IN THE SECTOR

There are a several main policy objectives in the Water and sewerage sector in Croatia with respect to protection of waters and environment, protection from waters, managing water resources and the use of waters, all of which are defined by basic strategic document of the sector, the Water Management Strategy²⁹¹. With respect to the use of water for human consumption, one of the main goals is to increase the levels of connectivity to public drinking water supply and waste water management services. Another objective is to improve the quality of managing water supply systems in terms of economic efficiency, rational use of resources and access to good quality drinking water²⁹². Water sector policy has been rapidly refined in recent years in order to comply with the EU regulation, notably Water Framework Directive that commits European Union member states to achieve good qualitative and quantitative status of all water bodies. In terms of water supply and wastewaters, the most relevant are the requirements of the Drinking Water Directive (98/83/EC) and Urban waste water directive (91/271/EEC), which stipulate the obligation for the appropriate treatment of municipal waste water (depending on the susceptibility of the recipient) for all agglomerations of more than 2000 ES and border and corresponding quality standards and monitoring of water intended for human consumption. These objectives and requirements guide the prioritisation of investments in water sector, implemented by Croatian Waters, national legal entity for water management and local self governments, responsible for water management on local level and organisation of provision of service to citizens.

On operational (local) level it is expected to make the provision of both services more efficient by reducing the losses of drinking water supply network and gradually introducing the economic price²⁹³ of waste water management services²⁹⁴. The long-term policy goals as well as short-term objectives of both services are clearly defined and target values of them are available - increase connection of population to public supply at 85%-90%; Institutionally reorganise public sector service provision and introduce economical price of water; Reduce water losses in supply networks to 10-20%. There are no contradictions between long-term and short-term goals in the sector. Moreover, the trend of each of the indicators reflecting the main long-term objectives has been positive, meaning that the policy objectives are likely to be achieved in a few years to come. The scope of the sector amounts to three public services identified. The list of all sector's services and their respective aims is provided in the table below.

²⁹¹ Water management strategy (https://narodne-novine.nn.hr/clanci/sluzbeni/2008_08_91_2900.html)

²⁹² Multiannual Programme for Construction of Water Systems

http://www.voda.hr/sites/default/files/nn_117_2015_visegodisnji_program_gradnje_komunalnih_vodnih_gradevina_0.pdf

²⁹³ An economic term that means selling price which includes direct, indirect and hidden costs.

²⁹⁴ Water management strategy (https://narodne-novine.nn.hr/clanci/sluzbeni/2008_08_91_2900.html)

TABLE 163. CROATIAN WATER AND SEWERAGE SECTOR'S SERVICES AND THEIR OBJECTIVES

Service title	Aim of the service
Drinking water supply services	To supply citizens with drinking water. Services are provided by 156 public companies serving all 555 Croatian municipalities.
Drinking water quality control services	To perform regular water quality control
Waste water management services	To construct and maintain facilities needed for provision of waste water management services

Source: BGI Consulting et al, 2017.

The Water and sewerage services provided in Croatia can be divided into two subgroups: drinking water related services and waste water management related services.

2.12.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

The scheme below disassembles the logic of the overall governmental interventions in the Water and sewerage sector in Croatia. It starts with the rationale of the provision of the services by the public sector, then indicates services corresponding to that particular rationale. Services are classified not only by the rationale they correspond to, but also by a body, which is responsible for the provision of them. Other governmental interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

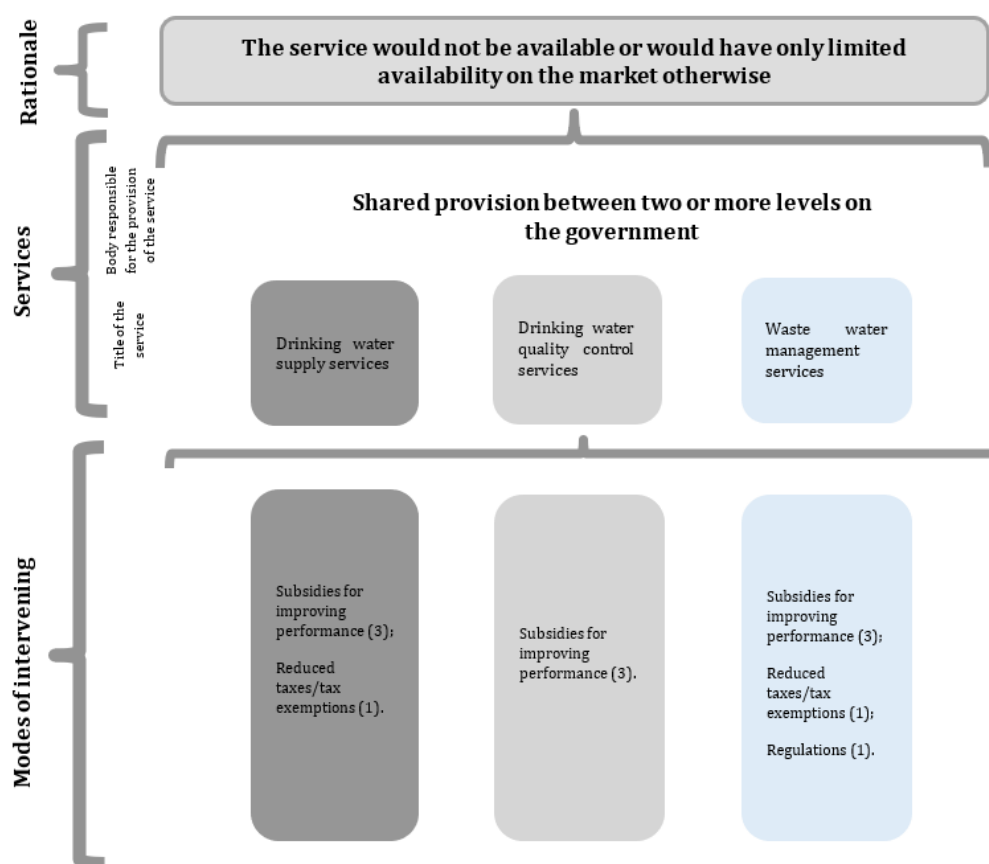


FIGURE 54. LOGIC OF INTERVENTIONS IN THE CROATIAN WATER AND SEWERAGE SECTOR

Source: BGI Consulting et al, 2017

There is one rationale explaining the provision of services in Water and sewerage sector in Croatia: *unavailability or limited availability of the services on the market otherwise*. Waste water management and drinking water supply are to be delivered under the non-discriminatory and socially acceptable conditions and the market would not be able to meet them. The services, if provided by the private entities, would not be available in less densely populated areas, such as islands, montaneous areas, small settlements or the pricing would be socially unacceptable.

2.12.1.2 LEVEL OF LIBERALIZATION OF THE SERVICES PROVISION

The public services in the Water and sewerage sector were ranked according to the level of liberalisation in their provision in the figure below.

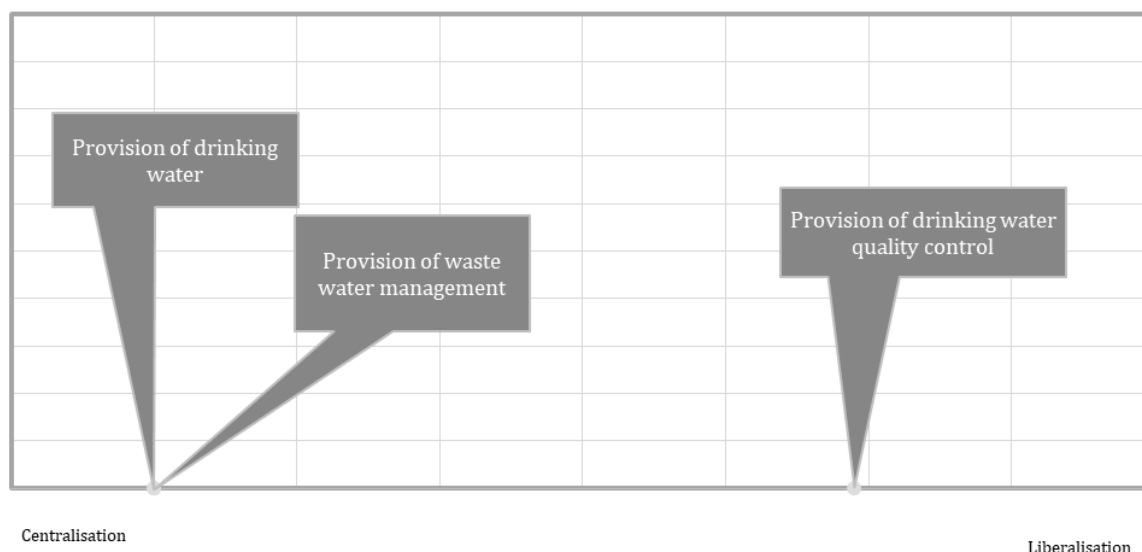


FIGURE 55. SUPPLY SIDE OF THE CROATIAN WATER AND SEWERAGE SECTOR SERVICES

Source: BGI Consulting et al, 2017.

Provision of drinking water and waste water management services turn out be services provided in the most centralised way in the Croatian Water and sewerage sector. Customers pay for both of the aforementioned services, but the pricing is regulated by the relevant Croatian authorities²⁹⁵. Water prices in Croatia today are based on different criterias, ranging from HRK 2,50 (0,33 EUR) to HRK 16.00 (2,13 EUR) per m³ of water delivered, which is not a consequence of the actual cost of water use but of different approaches to price formation. Within the mentioned price, the water use and water protection fees, which together amount to HRK 1.7 / m³ (0,23 EUR), are constant and equal for all Croatian citizens²⁹⁶. For example, in City of Zagreb price for water service by 1m³ is around 2 EUR²⁹⁷, while in City of Split price for water service by 1m³ is around 1,5 EUR²⁹⁸.

Both are provided by the municipalities-owned entities, which occupy almost all the market, leaving no room for private providers.

Drinking water quality control, a comparatively smaller-scale service, is delivered at a more liberalised mode. Municipalities-owned entities providing the service occupy 66 percent or more of the market. Municipalities-owned providers do not deliver the service themselves, but outsource it to public Health institutes. Water quality control is free of charge for the consumers as the state regulates the pricing.

²⁹⁵ Rules on calculation and payment of water use fee (https://narodne-novine.nn.hr/clanci/sluzbeni/1991_06_30_865.html)

²⁹⁶ Water management strategy (https://narodne-novine.nn.hr/clanci/sluzbeni/2008_08_91_2900.html)

²⁹⁷ Water supply and drainage, City of Zagreb ([https://www.vio.hr/UserDocsImages/CIJENA%20GRAD%20ZAGREB_01112015%20\(3\).pdf](https://www.vio.hr/UserDocsImages/CIJENA%20GRAD%20ZAGREB_01112015%20(3).pdf))

²⁹⁸ Rezi je.hr (<http://www.rezi je.hr/split/74-split-voda1>)

2.12.2 ANALYSIS OF SELECTED INTERVENTIONS

The figures provided below depict the mechanism for the analysis of each service selected. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision. Graphs in light red indicate service providers and group they are targeted at. Second part of the paragraph provides services' comparison in terms of finances they are provided with.

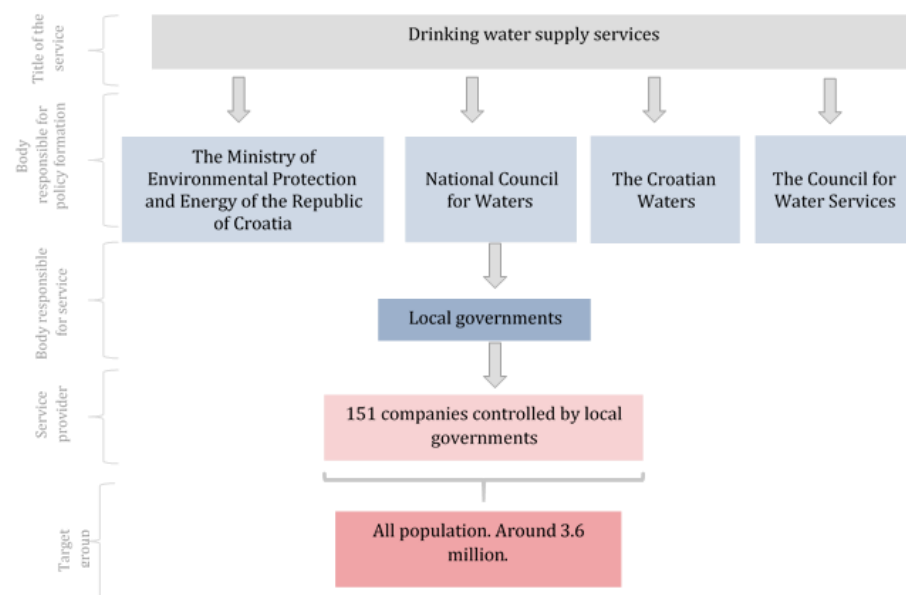


FIGURE 56. SERVICE PROVISION MECHANISMS IN WATER AND SEWERAGE SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

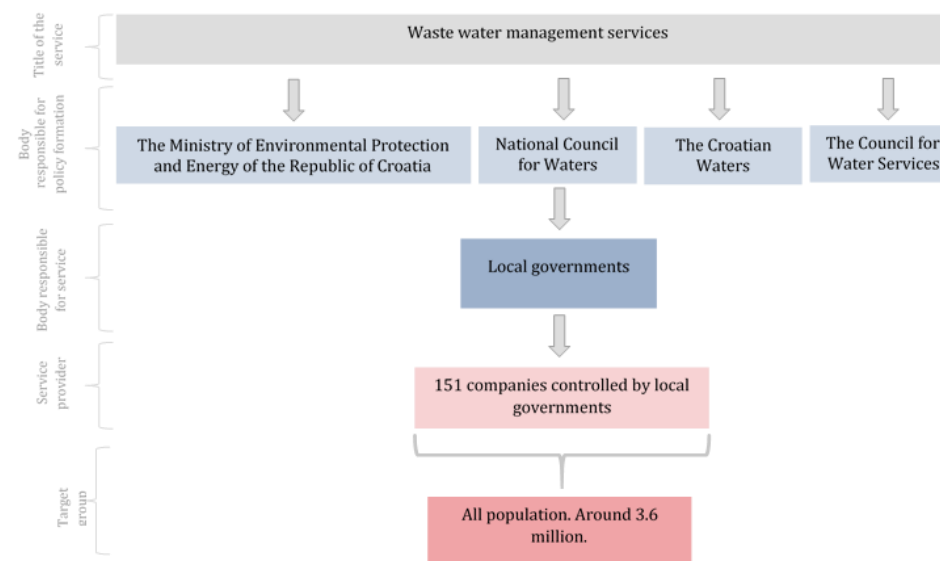


FIGURE 57. SERVICE PROVISION MECHANISMS IN WATER AND SEWERAGE SECTOR IN CROATIA

Source: BGI Consulting et al, 2017

The estimates of the Croatian Waters suggest that the cost of water supply amounts to roughly EUR 44,8 million a year, while the provision of waste water management services is a bit less expensive and makes up roughly EUR 14,4 million annually. It needs to be noted that both estimates exclude depreciation costs.

TABLE 164. REVENUES AND COSTS OF THE WATER AND SEWERAGE SECTOR SERVICES IN CROATIA

Cost of service by Multiannual Program (pg 45)				
	Hoseholds	Industry	Total	EUR
Revenues (in mil. HRK)	714	576	1290	172,000,000
Running costs, without depriciation	727	336	1063	44,800,000
% of cost return	98%	171%	121%	
WW COLLECTION				
Revenues (in mil. HRK)	208	195	403	53,733,333
Running costs, without depriciation	241	108	349	14,400,000
% of cost return	86%	179%	115%	

Source: data of Croatian Waters.

2.12.2.1 SUPPLY SIDE: QUALITY OF PLANNING OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Quality of planning of the services was evaluated by examining how clearly the long-term (i.e. policy) and the short-term (i.e. operational) objectives of the services were defined and how compatible they are among themselves.

TABLE 165. QUALITY OF THE PLANNING OF THE WATER AND SEWERAGE SECTOR SERVICES IN CROATIA

Name of the service	The policy objectives are clearly defined	The short-term operational objectives are clearly defined	The long-term and short-term objectives are non-contradictory	Quality of planning of the service
Drinking water supply services	√	√	√	GOOD
Waste water management services	√	√	√	GOOD

Source: BGI Consulting et al, 2017.

The planning of both sector's services was estimated to be good. As the table above indicates, both services have their long-term as well as short-term objectives, which are non-contradictory, defined.

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

TABLE 166. QUALITY OF THE PLANNING OF THE WATER AND SEWERAGE SECTOR SERVICES RELATED INTERVENTIONS IN CROATIA

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Interventions related to all services	Water fees and subsidies to local water utility companies	×	✓	✓	✓	✓	✓	GOOD
	Value added tax relief for services of drinking water supply and sewerage	×	✓	N/A	✓	✓	×	AVERAGE
	National investments in water supply and waste water management infrastructure	✓	✓	N/A	✓	✓	✓	GOOD
	ESI funds support for investments in water supply and waste water management infrastructure	✓	✓	N/A	✓	✓	×	GOOD
Waste water management	Concessions for waste water management	×	N/A	×	✓	✓	×	POOR

Source: BGI Consulting et al, 2017.

There were 9 service related interventions identified in Water and sewerage sector in Croatia. Four interventions are related to all services analysed.

National and EU investments in water supply and waste water management infrastructure were estimated to be planned well. They managed to meet all criteria pointed out with the exception of the foreseen revenue which does not apply as these interventions are not expected to generate any revenues. EU structural funds support also does not take into account the overall demand for the related service. However, since EU structural funds projects are aimed at distributing a certain amount of funds with the aim to improve certain aspects of the service provision, it does not and should not take into account the overall demand for the related service. Therefore, the planning of this intervention is still assessed as good.

Water fees and subsidies to local water utility companies were also estimated to be planned good, even though the implementation period of this intervention is not defined²⁹⁹. However, this intervention is meant to be permanent and the end of its implementation depends on the political will.

The planning of VAT relief for services of drinking water supply and sewerage was defined to be average, since its implementation period was not defined and the size of the demand for the related service was not taken into consideration when planning the intervention.

Concessions for waste water management is the only intervention not related to both sectors' services. It is planned poorly because it does not have a period of its implementation defined, fails to foresee the revenue and take the size of the overall demand for the related service into consideration.

2.12.2.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Efficiency of delivery of the services was evaluated on the basis of five key criteria: how well the overall demand of the service is met by the overall supply; how well the public service complies with the qualitative standards; the existence of private entities providing similar services in the market; the market share of the private entities in the service provision market; whether the private entities providing similar services in the market can compete on equal terms with public providers.

TABLE 167. EFFICIENCY OF THE DELIVERY OF THE WATER AND SEWERAGE SECTOR SERVICES IN CROATIA

Name of the service	The overall demand of the service is met by the overall supply	The public service complies with the qualitative standards	There are existing private entities providing similar services in the market	Private entities occupy 34 percent or more of the service provision market	Private entities providing similar services in the market can compete on equal terms with the public providers	Efficiency of the delivery of the service
Drinking water supply services	x	√	x	x	x	LOW
Waste water management services	x	√	√	x	x	MEDIUM

Source: BGI Consulting et al, 2017.

The efficiency of the delivery of drinking water services was estimated to be low, while the efficiency of the delivery of waste water management services – medium. The difference appears because in the case of waste water management, part of the service delivery – emptying of septic tanks or waste water treatment

²⁹⁹ Act on Financing Water Utility Sector (Zakon o financiranju vodnog gospodarstva, NN 153/09, 90/11, 56/13, 154/14, 119/15)

– is outsourced from private providers. Apart from that, the provision of these services is separated only analytically as both water supply and waste water management services are provided by the same 151 municipalities-owned entities in Croatia.

Most importantly, entities owned by local governments are natural monopolies because new entrants into the market would waste the resources and inflict efficiency losses. Even though in case of waste water management, there are private entities, providing parts of the service, state-controlled entities almost entirely occupy the market. No participation of private entities in provision of water supply service is legally possible, while in the case of waste water, part of service (treatment) may be entrusted to private entities³⁰⁰.

In case of waste water management, parts of the service provision are outsourced from private providers, yet the provision is fully controlled by the state-controlled entities. Both public water supply and waste water management are by law defined as public services performed by public service providers – companies in which all shares are held by local self-governments. However, the efficiency of provision is medium not only because the competition is lacking, but also due to the inability of the entities providing the service to meet the aggregated demand.

As the table above indicates, the services lack efficiency in the Water and sewerage sector in Croatia. However, this doesn't imply that all service related interventions are non-efficient. In fact, there were only two service related interventions not contributing to the efficiency (they still contribute to effectiveness) identified. These are water fees and subsidies to local water utility companies and the value added tax relief for service of drinking water supply and sewerage.

Other service related interventions contribute to both efficiency and effectiveness of the services. For example, national investments in water supply and waste water management infrastructure improve water supply network which leads to better quality of water supplied (effectiveness). National investments at local level, managed by Croatian waters, include financing technical preparation of the projects and actual investments into infrastructure. In 2016, Croatian Waters invested about 15,8 mil EUR in water supply (beneficiaries: 83 local utility companies) and about 20.2 mil EUR in waste water infrastructure (beneficiaries 68 local utility companies). In the same year, CW also administered about 175,3 mil EUR worth projects funded from ESI funds³⁰¹. At the same time investments reduce water loss and running costs of the infrastructure (efficiency). There are, also no considerations about transferring either of the sector's services to private entities

2.12.2.3 SUPPLY SIDE: ADDITIONALITY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

It must be noted that both services of the Croatian Water and sewerage sector have a significant positive impact for the group targeted. Societies are in need of drinking water supply and waste water management as provision of both of these services create conditions for the good quality of life.

³⁰⁰ The Water Act, Art. 201, 202 (Zakon o vodama, NN 153/09, 130/11)

³⁰¹ Croatian Waters, basic financial report for 2016., <http://www.voda.hr/hr/financijski-izvjestaji>

For employment, these services comprising interventions have no impact. Provision of both services is capital intensive and any new investments will imply technological advancement, thus the net impact on employment will be almost non-existent.

Both services insignificantly affect capital investments as there is a need for them to comply with the water legislation, notably Water Act, Act on Financing Water Utility Sector and Multiannual Programme for Construction of Water Systems, which establishes priority investments in relation to various EU directives, notably Urban Waste Water Directive (91/271/EEC), Drinking Water Directive (98/83/EC) and Directive 2007/60/EC on the assessment and management of flood risks. However, there are no constant investments into capital that result in many local governments, due to their insufficient capacities, struggling with maintenance of existing networks.

Therefore, services were identified to have positive, though insignificant influence on productivity of private entities and capital investments. Despite that, employment is not affected by the implementation of those services and the overall impact on the Croatian economy of them is estimated to be insignificant.

All service related interventions have a significant positive effect on the groups targeted. For example, national investments planned by Croatian Waters in 2017 amount to 228,7 mil. EUR, out of which 150 mil for EU-financed projects, 31 mil EUR for irrigation and flood protection and 47,6 mil for water supply and waste water management infrastructure³⁰².

Majority of service related interventions have only insignificant positive influence on the productivity of private entities. However, two of them have a different effect. Water fees and subsidies to local water utility companies have negative influence on private entities' productivity as they overpay in order to compensate for underpayment of households. In case of drinking water supply, VAT relief has no effect on their productivity because their participation in service provision is not allowed³⁰³. In case of waste water management service legal base is different³⁰⁴ and VAT relief has an insignificant positive impact as it might be an incentive for private entities to enter the market.

Direct impact on the number of jobs in the economy is non-existent in both cases. Most interventions are capital intensive and any new investments will imply technological advancement, thus the net impact on employment will be almost non-existent.

All but one service related interventions increase capital investments in Croatia. Only VAT relief for services of drinking water supply has an insignificant influence. Reduced cost of the service provision due to reduced VAT rate allows companies to make more investments, but this effect is not significant.

Summarizing, it should be noted that services as well as service related interventions have a significant positive impact on the groups targeted. Societies are in need of drinking water supply and waste water management as both of these services are conditions for the good quality of life. Outcome additionally for the overall economy is insignificant, since the influence on number of jobs of the services is non-existent and impact on productivity of firms and capital investments is minor.

³⁰² Croatian Waters' Water Management Plan 2017, pg. 3, http://www.voda.hr/sites/default/files/plan_2017.-usvojeni.pdf

³⁰³ The Water Act, Art. 201, 202 (Zakon o vodama, NN 153/09, 130/11)

³⁰⁴ Ibid.

2.12.2.4 SUPPLY SIDE: SIDE-EFFECTS OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Due to the existence of private entities, there are significant positive side-effects for businesses and business environment of waste water management services identified. However, the supply of drinking water has no side-effects for businesses and business environment.

Waste water management services have negative unforeseen influence on the behaviour of the targeted groups as possible increases of the service price in the future induce some municipalities to delay sewerage construction. For example, The Slavonski Brod agglomeration drainage network is not currently completed and should be built, reconstructed or reconstructed in all settlements and in one settlement near City of Porec the construction of the sewerage system has not yet been completed as there are plots at a lower altitude than the collector whose connection will be required to upgrade the system. Drinking water supply has no effects on the target groups' behaviour.

Neither of the services analysed have any unintended impacts on either overall society or natural environment.

Majority of service-related interventions have insignificant positive side-effects on businesses and business environment. However, water fees and subsidies to local water utility companies have insignificantly negative, while value added tax relief for service of drinking water supply and sewerage has no impact on businesses and business environment. Detailed information on different water tariffs and VAT relief is provided below.

WATER TARIFF (VODNI DOPRINOS)

- Paid when the building is constructed, by the investors. Calculated on the basis of m3, type of building and zone.
- Price is set by the Government (*Uredba o visini vodnog doprinosa*, NN 78/10, 76/11, 19/12, 151/13, 83/15).
- This is the revenue of CW, **but LSGU has the right on 8% of the charge collected on their area.**
- The revenue from the water tariff is used according to the principles of solidarity and priority in the needs of the state territory of the Republic of Croatia. It is used for:
 - Construction of regulation and water-control structures.
 - Construction of buildings for basic melioration drainage.
 - Implementation of preventive, regular and extraordinary flood defense.
 - Coverage of costs of preparatory and legal actions for the registration of public water resources in the land registry and cadastre and the purchase and expropriation of real property in favor of the public water asset.

TARIFF FOR WATER USE (NAKNADA ZA KORIŠTENJE VODA)

- Paid for catching water or for the use of waterpower. Payers are legal and natural persons who catch surface / groundwater for different uses, entities that use water power for electricity generation or for the operation of the equipment and local utility providers of public water supply. The calculation is based on the amount of water cached in m3, or the amount of electricity produced (kWh).

- Price is set by the Government (Uredba o visini naknade za korištenje voda, NN 82/10, 83/12, 10/14)³⁰⁵.
- Revenue of CW, collected from citizens by public service providers (item on a water bill).

TARIFF FOR WATER PROTECTION (NAKNADA ZA ZAŠTITU VODA)

- Paid by legal/natural persons who discharge wastewater and persons that produce or import mineral fertilizers and plant protection products. The calculation is based on the amount of water discharged (m3).
- Price is set by the Government (Uredba o visini naknade za zaštitu voda, NN 82/10, 83/12, 151/13)³⁰⁶.
- Revenue of CW, collected from citizens by public service providers (item on a water bill).

TARIFF FOR REGULATION OF WATERS (NAKNADA ZA UREĐENJE VODA)

- Paid for all properties except for agricultural land. Payers are owners or other legitimate property owners. The base for calculating is a square meter (m2) of the property in question.
- Price is set by the Government (Uredba o visini naknade za uređenje voda, NN 82/10, 108/13)³⁰⁷.
- Revenue of CW, collected from citizens by local government (public communal service providers).

Tariffs for water use and water protection are Croatian Water's revenues and are used jointly by all users and according to the needs of the Republic of Croatia, while the 'development tariffs' – Water tariff and tariff for regulation of waters are shared between CW and municipalities. In addition, LSGU can impose additional local development tariffs that are exclusive revenue of the water service provider of the municipality.

TABLE 168. OVERVIEW OF CROATIAN WATERS REVENUES FROM TARIFFS (HRK)

	2013	2014	2015	2016
Water use	398,797,279	547,401,381	709,042,104	764,307,165
Water protection	277,890,013	278,595,348	288,706,525	284,619,801
SUM 1 & 2	676,687,292	825,996,729	997,748,629	1,048,926,966
Water tariff	138,386,335	257,453,827	335,394,656	311,901,367
Tariff for regulation	782,761,191	775,335,377	779,922,217	799,198,457
SUM 1,2,3 & 4	1,597,834,818	1,858,785,933	2,113,065,502	2,160,026,790
	(213 mil EUR)	(247,8 mil EUR)	(281,7 mil EUR)	(288 mil EUR)

Source: data of Croatian Waters.

Water charges – price of services

Collected by local public utility company.

³⁰⁵ 2010: 0,8 kn/m3, 2012:1,35 kn/m3, 2014: 2,85 kn/m3

³⁰⁶ 2010: 0,9 kn/m3, 2012:1,35 kn/m3

³⁰⁷ Since this tariff encompasses Tariff for sand and gravel extraction (naknada za vađenje pijeska i šljunka), Tariff for melioration drainage (naknada za melioracijsku odvodnju), Tariff for melioration irrigation (naknada za melioracijsko navodnjavanje)

Price paid by citizens consists of³⁰⁸:

- Items with VAT (13%):
 - Water supply service
 - Sewerage service
 - WW treatment service
 - Fixed price
- Items without VAT (tariffs):
 - Tariff for water protection
 - Tariff for use of water
 - Development tariffs set by local government³⁰⁹: e.g. tariff for development of waters, tariff for development of sewerage, tariff for development of treatment.

None of the service related interventions encourage unforeseen behavior of the target groups, create unintended impact for the overall society or have an unintended impact for the natural environment.

Generalising, it can be said that waste water management services as well as the majority of service related interventions have positive side effects on businesses and business environment. In the majority of cases, there are no unintended side-effects in relation to target groups' behaviour, overall society and natural environment. Supply of drinking water has no side-effects for businesses and business environment.

2.12.2.5 DEMAND SIDE: AFFORDABILITY OF THE SERVICES AND IMPACT ON AFFORDABILITY OF THE SERVICE RELATED INTERVENTIONS

The services are provided to natural persons as well as legal entities in Water and sewerage sector in Croatia. In general, all the services in the sector are affordable to all income groups and there are no obstacles to access these services.

All service related interventions are provided to natural persons as well as legal entities. More than half of the interventions do not help to meet the demand of the services quantity-wise i.e. number of beneficiaries is not increased due to these interventions. For example, ESI funds support for investments in water supply and waste water management infrastructure is not sufficient to cover all investment needs, but is tailored to administrative capacities for their implementation. Exceptions are water fees and subsidies to local water utility companies as well as VAT relief for drinking water supply and sewerage.

2.12.2.6 CONSISTENCY OF SERVICE RELATED INTERVENTIONS

In the sector, two interventions contradicting each other have been found. Concessions for waste management services contradict water fees and subsidies to local water utility companies.

³⁰⁸ In Zagreb 50% of price are services, 50% are tariffs; see at <http://thoriumaplus.com/voda-sto-i-koliko-placamo/>

³⁰⁹ namjenske naknade za razvoj

2.12.3 CONCLUSIONS AND RECOMMENDATIONS

Water sector policy is quite centralized, with Croatian Waters being the main legal entity for water management, overseen by sectorial ministry and National Council for Waters nominated by the Parliament. Croatian Waters are organised on territorial and functional basis (6 Departments for 6 water basins and departments for various aspects of water management) and take care of the implementation of all water related policies, e.g. flood protection, irrigation, water protection and use of water. By the Water Act, water supply and sewerage are public services (established as 'Water Services' by the Act) performed by local governments and their utility companies. Exceptionally, local governments can give a concession to a private operator for wastewater treatment and servicing septic tanks.

2.12.3.1 CONCLUSIONS ON THE GOVERNMENT INTERVENTIONS IN THE LITHUANIAN EDUCATION AND SCIENCE SECTOR

TABLE 169. CONCLUSIONS ON THE GOVERNMENT INTERVENTIONS IN THE WATER AND SEWERAGE SECTOR IN CROATIA

Name of the service	Planning of the service	Planning of all related interventions is GOOD or AVERAGE	Efficiency of the service provision	All related interventions have impact on the efficiency of the service	The service has positive impact on the target group	All related interventions have positive impact on the target group	The impact of the service on countries' economy is positive	There are no negative side-effects of service implementation	All related interventions have positive or do not have side-effects	The service is affordable to all income groups	There are no service related interventions that contradict or replace each other
Drinking water supply services	GOOD	NO	LOW	YES	YES	YES	YES	YES	NO	YES	NO
Waste water management services	GOOD	NO	MEDIUM	YES	YES	YES	YES	NO	NO	YES	NO

Source: BGI Consulting et al, 2017.

In terms of water supply and wastewater collection service, the focus of government interventions in the past decade was on improving the infrastructure (capital investments), paralleled with improving financial and institutional sustainability of utility sector (reducing the number of utility companies and restructuring towards establishing the economic price of the service, improving quality and quantity of services and service levels, and to increase ability for absorption of international finance for infrastructure improvement). Presently the water utility sector of Croatia is highly scattered with a large number of service providers (160 utility companies out of which 25 supply 4/5 of all water), and generally high levels of non-revenue water (roughly 46 %). Large cities and towns are well supplied with drinking water, though in some (rural) areas coverage for water supply is as low as 80 %. Countrywide coverage for sewerage (43 %) and wastewater treatment (28 %) is low. There are great regional differences in the compliance with water quality and hygiene standards: roughly 6 % of the water samples for chemical and microbiological recovery of the services delivered, which means the sector as a whole is not yet financially sustainable.

According to the Ministry's position³¹⁰, the introduction of economic price of the water services is necessary requirement of the EU regulation and shall be impossible within current atomized system of small utility companies. Hence the restructuring is proposed that foresees 20 'service areas' (formed on technical and economic criteria such as minimum volume of water production for achieving economies of scale). However, from the administrative introduction of 'service areas' in 2014 to date, the restructuring of the sector has not been carried out. Local water supply companies depend on state financial transfers to maintain the system, and local budgets are largely insufficient for capital investments. There are also occurrences of party groups in power imposing priorities, nepotism employment and corruption in public procurement, which adds to concerns raised in public discourse that this public sector is intentionally weakened in order to prepare it for privatization.

From 01st of January 2018 Art. 23 and 24 of Act on Financing Water Services is to be enacted, which foresees that the 'water fee' currently being paid by final consumers according to the consumption (and not subject to VAT) shall be paid by water suppliers, and according to the amount of water extracted. Since in overall about 50% of water is lost before the final consumer, it will largely raise the price of service and influence financial sustainability of local utility companies, which is potentially inconsistent with objective of improving the efficiency in the sector.

According to the publicly available information during the public consultation process on the changes to Act on Financing Water Services carried out from 10.08. to 09.09.2017³¹¹, position of service providers (as expressed by Croatian Group for Water and Sewerage) is that implementation of aforementioned articles will increase the cost of service from 10 to 30%, while not having real effect on improving the service or reducing losses.

³¹⁰ Public presentation of new Act on Water Services in 2015.

Source: <https://prezi.com/qjas2id3orw7/audio-prezentacija-nacrta-zakona-o-vodnim-uslugama/>

³¹¹ <https://esavjetovanja.gov.hr/ECon/MainScreen?entityId=5871>

2.12.4 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

2.12.4.1 DRINKING WATER SUPPLY SERVICES

TABLE 170. POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN CROATIA
DRINKING WATER SUPPLY SERVICES

Criteria	FI potential
Pricing system	Tariff allows to cover total costs
Regulatory/governance Framework	Public-domain
Market potential	Potential development of (more) paid services/increase of scope of services
Accountability	Performance framework
Capacity	Qualitative standards partially met

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by relevant authorities and consumer payment covers more than the whole annual costs of service provision. Charge for the service varies from residential buildings (charge per person), households (per consumption by individual water meter) and legal persons (charge depends on the type of production/infrastructure). Providers generate additional revenue through subsidiary services/products (e.g. plumbing services, connecting houses to public network, hydrogeological surveys, technical design), using the same infrastructure and other resources, with a share varying from company to company. Depending on the organization, public supplier can benefit from synergy effects from its shares in companies operating at the market (e.g. construction firms), generating also additional revenue. Increase of price for the service, along with its quality could be applied maintaining the same levels of consumption among all income groups.

REGULATORY AND GOVERNANCE FRAMEWORK

The 555 local governments and 151 local utility companies (limited liability companies controlled by local governments) are responsible for service provision. There are no private companies on the market, since it is legally not allowed for private entities to provide this service. In addition to the legal/administrative restrictions imposed, major obstacle to enter the market for private companies is the fragmentation of the market (dispersion of service delivery places).

Policy makers are gradually introducing the principle of economic price. It is foreseen that it will be introduced by technological integration of systems and establishment of distribution areas with unique water price. Water price corrections should increase the security of public supply, construction and operation of water conditioning systems according to European standards, and enhanced quality control

of the water delivered and the level of service. Economic water pricing should also contribute to the rationalization of consumption³¹².

Economic price of the water must cover all expenditure (management, operational costs, depreciation), yet it has to be affordable, i.e. not above 3 percent of net available income. According to the Croatian Waters' opinion expressed in mid-2015, during public consultations on new legislative proposal (Act on Public Service in Water Sector)³¹³, the economic price will most certainly be above the defined threshold due to inefficient organisation in the sector (162 public service providers, only 25 of them supplying 4/5 of all water in Croatia, and 30 percent of them having underestimated price tariffs). Thus, the key challenge for policy maker is finding proper solution that will balance (in part opposing) demands: economic price of service vis-a-vis affordability, sustainability and financial viability of utility companies vis-à-vis self-governing principles and jurisdiction of local governments.

MARKET POTENTIAL

All households and private companies are targeted by the service. Estimations provided by Croatian Waters suggest that return of costs is on average 121 percent (benefit/cost ratio), although information on shares corresponding to main service and subsidiary products are not available.

Potential additional revenue could be generated through introduction of paid auxiliary services (e.g. plumbing services, connecting houses to public network, hydrogeological surveys, technical design), reduction of costs and increasing the scope of existing activities. Utility companies freely operate at the market, provided that they maintain separate accounting for public service. Therefore, there is a possibility to generate revenues through market activities and institutional and organisational restructuring.

ACCOUNTABILITY

Information is available on the context of intervention, recent trends are monitored based on national and international data sources (Eurostat, Environmental Protection Agency); objectives of the service are clearly defined and targets available. Additionally, short-term and long-term objectives are consistent.

CAPACITY

The service partially meets the qualitative standards (e.g. some water supply systems have large water loss; some systems need to be improved in terms of water conditioning). Poor investment planning, poor infrastructure, old technology and ineffective assets management affect the quality of service provision.

There are currently no considerations about transferring provision of the service to private entities.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

Service is exclusively delivered by public operators and provision by private entities is not allowed. The main market potential is related to improved efficiency (e.g. reduce losses of water and supply systems, improve water conditioning), as well as a wider scope of activities.

³¹² Multiannual Programme for Construction of Water Utility Systems, Ch.3.1.1.

³¹³ <https://prezi.com/qjas2id3orw7/audio-prezentacija-nacrta-zakona-o-vodnim-uslugama/>

In this sense, there is space for application of FIs based on investments capable to generate savings through the improvement of infrastructure. Application of FIs in this area is largely seen in international experiences. For instance, the European Investment Bank is often involved in loans provision to promote rehabilitation of water networks in European countries. Some examples are shown below.

In Moldova, the provision of clean drinking water requires large improvements. To modernise its capital's infrastructure of water and wastewater, projects with a total cost of EUR 59 million will be carried, including rehabilitation of networks, reservoirs and water treatment services. For financing such projects, the EBRD (European Bank for Reconstruction and Development) and the EIB will each provide loans of EUR 24 million to the city company S.A. Apa Canal Chisinau, while the EU will contribute with EUR 11 million in grants through the Neighbourhood Investment Facility. The combination of loans and grants enable the implementation of the necessary upgrades with low burden on the citizens of the capital.

These investments directly contribute to preservation of environment and reduction of public health risks, increase access to clean water and improve energy efficiency with replacement of outdated equipment.

2.12.4.2 WASTE WATER MANAGEMENT SERVICES

TABLE 171. POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN CROATIA WASTE WATER MANAGEMENT SERVICES

Criteria	FI potential
Pricing system	Tariff allows to cover total costs
Regulatory/governance Framework	Public-domain, market fragmentation
Market potential	Potential development of (more) paid services/increase of scope of services
Accountability	Performance framework
Capacity	Qualitative standards partially met

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by relevant authorities and consumer payment covers more than the whole of annual costs of service provision. Charge for the service varies from residential buildings (charge per person), households (per consumption by individual water meter) and legal persons (charge depends on the type of production/infrastructure). Providers generate additional revenue through subsidiary services/products (the same as for drinking supply services) using the same infrastructure and other resources, with a share varying from company to company.

Depending on the organization, public supplier can benefit from synergy effects from its shares in companies operating in the market (e.g. construction firms - utility company can construct irrigation systems), generating also additional revenue. Increase of price for the service, along with its quality could be applied maintaining the same levels of consumption among all income groups.

REGULATORY AND GOVERNANCE FRAMEWORK

The 555 local governments and 151 local utility companies (limited liability companies controlled by local governments) are responsible for service provision. The service is legally entitled exclusively to public operators, but exceptionally private entities are present in the market to a small extent, providing services of wastewater treatment and emptying of septic tanks; participation of private companies in service provision is decided by local government. Major obstacles to enter the market for private entities are the dispersion of the market and its size, as well as control of more than one stage of service delivery chain by one or few entities (i.e. local utility company may be responsible for extracting and conditioning the water, delivering and selling it to the consumer, collecting it from the consumer and delivering it to be treated, the latter stage being then the only one where private operator can be involved).

MARKET POTENTIAL

All households and private companies are targeted by the service (about 2 million people reached by wastewater collection systems). The sector is capital intensive and requires significant investments (in capital and equipment) to deliver high quality standard services, which also represents an obstacle for private companies entering the market (i.e. high fixed costs).

Estimations provided by Croatian Waters suggest that return of costs is on average 115 percent (benefit/cost ratio), although information on shares corresponding to main service and subsidiary products are not available.

Potential additional revenue could be generated through introduction of paid auxiliary services (e.g. plumbing services, connecting houses to public network, hydrogeological surveys, technical design), reduction of costs and increasing the scope of existing activities (e.g. widening sewerage network). It is worth noting that utility companies freely operate at the market, provided that they maintain separate accounting for public service. Therefore, there is a possibility to generate revenues through market activities and institutional and organisational restructuring.

ACCOUNTABILITY

Information is available on the context of intervention, recent trends are monitored based on national and international data sources (Eurostat, State Statistics Office); objectives of the service are clearly defined and targets available. Additionally, short-term and long-term objectives are consistent.

CAPACITY

The service partially meets the qualitative standards (e.g. technical and engineering aspects to be improved as well as scope of the service), and factors as poor investment planning, poor infrastructure, old technology and ineffective assets management affect the quality of service provision.

There are currently no considerations about transferring provision of the service to private entities.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

Service shows capacity to generate sufficient revenue for covering its costs. Service is mostly delivered by public operators with high fragmentation of the service (a large number of small providers). The main market potential consists in improvement of efficiency or service delivery, as well as wider scope of activities could generate additional revenue.

In this sense, as shown in the previous service of drinking water supply services, the applicability of FIs in this sector is frequent, focused in savings and improvement of efficiency. A further example is provided below, with the projects of improvement of water and wastewater systems in Portugal.

The European Investment Bank (EIB) is involved with financing investments in the water system sector in various countries. An example is the recent agreement on loans for the Portuguese water infrastructure company Aguas de Portugal (AdP).

The total cost of the planned projects is of EUR 836 million, of which 418 million is financed by EIB. A first tranche of EUR 220 million was signed in 2017, which is guaranteed by the European Fund for Strategic Investments (EFSI). AdP is to improve the quality and efficiency of water and wastewater services in the country, with construction and renovation of infrastructure facilities through the country. It will also ensure the compliance with the Urban Waste Water and the Drinking Water Directives. Such works are expected also to create more than 7400 jobs for its implementation, benefitting over 8 million people through water system improvements and over 6 million people through wastewater system improvements.

2.13 LITHUANIA: TRANSPORT AND COMMUNICATIONS

2.13.1 GENERAL OVERVIEW OF THE SERVICES IN THE SECTOR

This chapter provides an overview of all public services identified in Lithuanian Transport and communications sector. The rationale for introduction of each public service and the number of service related interventions are identified. Furthermore, the relative position of each public service on liberalisation – centralisation axis is presented.

Ten services significant in terms of population served and infrastructure used are listed for the Transport and communications sector. Eight services are attributed to transport and two services to communications. Out of the eight services in the transport system, three provide passenger carriage (by railways, roads and water transport) and four are aimed at ensuring access to transport infrastructure (railways, airports, seaport and roads), one transport related service is aimed at development of the electric vehicle transport system. The list of all sector's services and their respective aims is provided in the table below.

TABLE 172. LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR'S SERVICES AND THEIR OBJECTIVES

Service title	Aim of the service
Passenger carriage public services by railway	To provide passenger carriage services by railway. Encompass regular local railway routes.
Passenger carriage public services by road transport	To provide passenger carriage services by road transport. Encompass local urban and suburban public transport services.
Passenger carriage services by public sector owned inland water transport company	To provide passenger carriage services by inland water transport (route from Klaipeda to Curonian Spit).
Access to railway infrastructure for freight transportation	To ensure access and use of railway infrastructure for freight transportation
Access to airport infrastructure	To ensure access and use of airport infrastructure, provision of navigation and management services by public sector owned companies
Access to seaport infrastructure and related services	To ensure access and use of seaport infrastructure, provision of various services by public sector owned companies
Provision of electronic public and administrative services	To provide various electronic public and administrative services such as application for a driver's licence, registration of business, etc.
Access to broadband infrastructure for private operators	To ensure access to broadband infrastructure for private internet providers
Access to the road network	To provide access to national significance and local roads and streets. Encompass building and maintenance of the roads, including monitoring of road network, cleaning snow on roads, lighting, reconstruction, etc.
Development of electric vehicle transport system	To reduce negative impact of the transport system to the environment and climate change

Source: BGI Consulting et al, 2017.

2.13.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

There are three rationales for the provision of public services in the Transport and communications sector in Lithuania: *immobility of labour*, *limited availability of the services on the market without the government intervention* and *negative externalities of production/service delivery*. The most common rationale or market gap that is filled in by public services is limited availability of the services in the market without the government intervention. Seven services are provided by the public sector due to this rationale. E.g. the market could probably ensure access to the roads with highest intensity, but could not serve the roads with low intensity as the costs of the service would not be covered by the revenues (or the tariffs would be so high that a certain share of population could not pay for the private roads). Development of electric vehicle transport system is driven by the negative externalities of production/consumption. The use of traditional fuel have negative externalities on the environment, therefore the authorities encourage the use of the alternative fuel that is environmentally friendly. The rationale for passenger carriage by railway and road transport public services lays in the immobility of labour and the need to ensure mobility of the society. Labour mobility and mobility of citizens in general is crucial to ensuring the quality of life and effective functioning of the national economy. As the routes covering sparsely populated areas are not profitable for the operators, private market could not ensure necessary transport services.

In terms of government interventions related to the services their rationales combine (a) the need to ensure financing for the service provision by compensating of losses to the service providers since the services are not profitable or by direct financing as in the case of roads, (b) the need to ensure proper infrastructure for service delivery, (c) necessity to ensure that the services are safe for passengers, operators and third parties by setting various regulatory requirements, (d) the need to limit negative effects on the environment and human health, (e) necessity to ensure that service are financially affordable for all groups of society.

The scheme below disassembles the logic of the overall government interventions in the Transport and communications sector in Lithuania. It starts with the rationale of the provision of the services by the public sector, then indicates services corresponding to that particular rationale. Services are classified not only by the rationale they correspond to, but also by a body, which is responsible for the provision of them. Other governmental interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

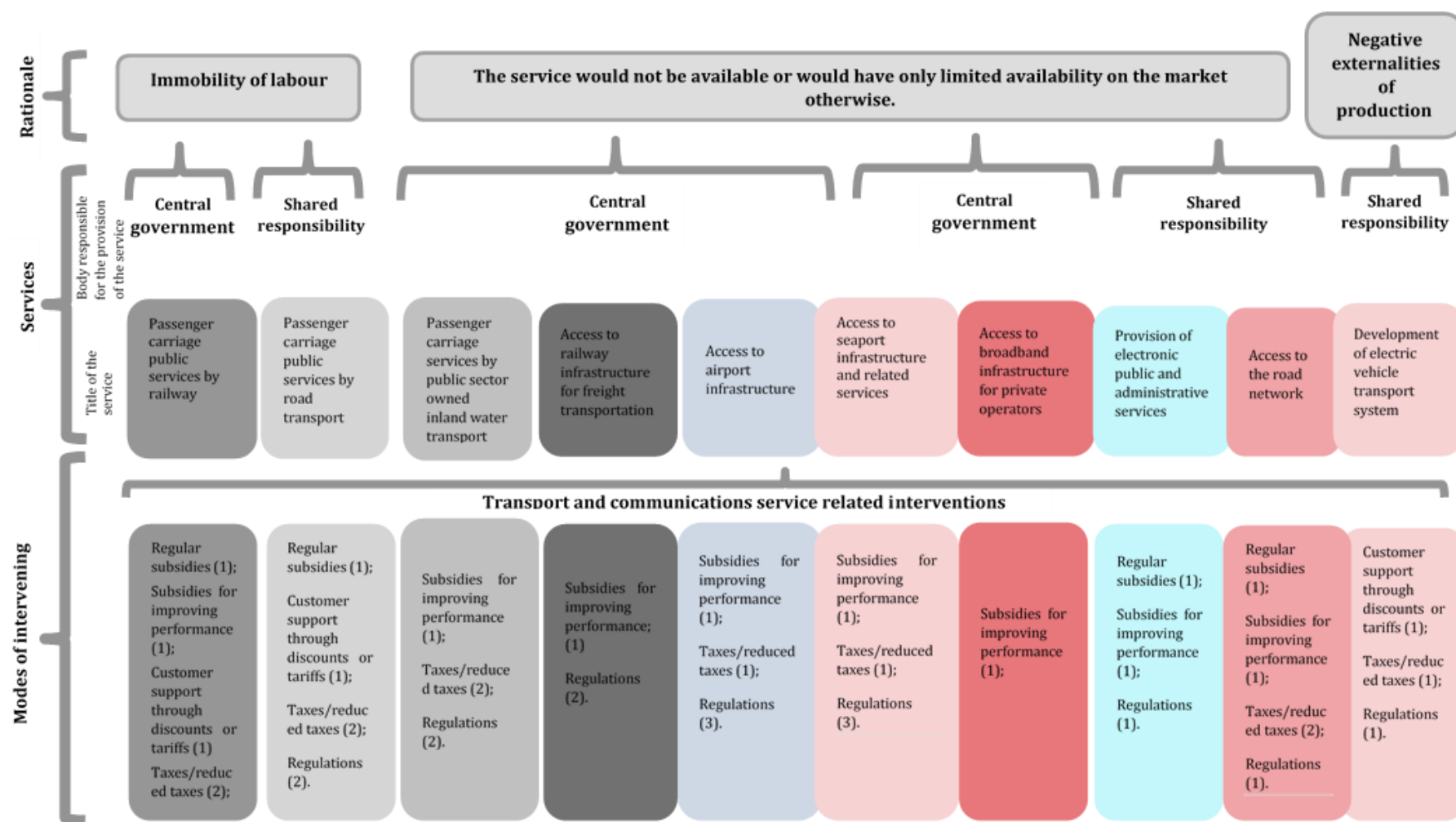


FIGURE 58. LOGIC OF INTERVENTIONS IN THE LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR.

Source: BGI Consulting et al, 2017.

2.13.1.2 LEVEL OF LIBERALIZATION OF THE SERVICES PROVISION

The public services in the Lithuanian Transport and communications sector were ranked according to the level of liberalisation in their provision in the figure below. The criteria used for ranking the sector's services according to the level of liberalisation in their provision are – the main provider of the service (the most centralised provider is a government / municipal institution (directly), the most liberalised provider is the market entity (operator)); the most common public service delivery mode (the most centralised delivery mode – direct provision by the governmental / municipal body, the most liberalised – provision by market entity (operator)); consumer pricing of the service (whether the service is free of charge, its pricing is available but non-regulated or its pricing is regulated and set by relevant authorities); market share of the public operators (100, >66, 34-66, <34 percent).

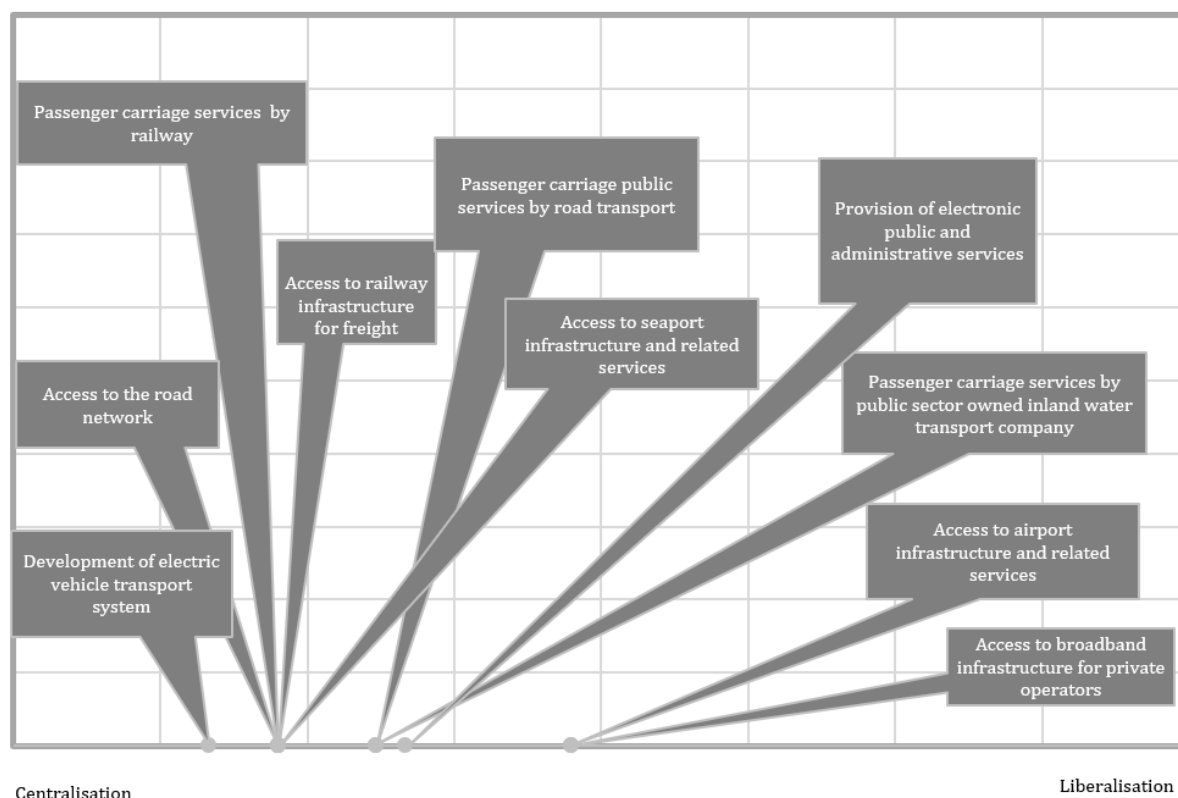


FIGURE 59. PLACEMENT OF THE PUBLIC SERVICES IN THE LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR ON LIBERALIZATION-CENTRALIZATION

Source: BGI Consulting et al, 2017.

Two services closest to the liberal mode of provision (compared to other services in the sector) are – access to airport infrastructure and access to broadband infrastructure for private operators. The placement on the relatively more liberal side of the centralisation-liberalisation axis can be explained by the fact, that the pricing in a case of airport services is available, but not regulated. The pricing for broadband infrastructure is regulated, but more liberal estimation was assigned due to a significantly smaller market share of public operators. The most common current public service delivery mode for these services is delegation to state/municipal owned entity.

Among the services provided in the most centralised (governmental/municipal) way, access to railway infrastructure for freight transportation, passenger carriage public services by railway, access to seaport infrastructure and related services, access to the road network and development of electric vehicle transport system can be mentioned. The three services ensuring access to infrastructure are provided through state/municipal owned entities and the market share of public operators is 100 percent. The pricing is regulated for railway and seaport infrastructure. The access to roads is free of charge for the majority of users. The development of electric vehicle transport system is implemented by the central government and municipalities directly and most of the services so far are free of charge.

All in all, service provision through state/municipal owned entities is the dominating service provision model in the Transport and communications sector. The main difference in the assessment of liberalisation is the pricing regulation (whether the price is regulated or not) and in some cases the market share of public operators.

Due to a high number of services identified in Lithuanian Transport and communications sector, the further in-depth analysis of all of them would not be possible. Four services that are most centralised on the liberalisation – centralisation axis were selected for in-depth analysis: development of electric vehicle transport system, access to the road network, passenger carriage public services by railway and passenger carriage public services by road transport. Three of the services - access to the road network, passenger carriage public services by railway and passenger carriage public services by road transport – are serving large number of population and are financially significant. So these are additional justification for the selection. Development of electric vehicle transport system has a particular potential for financial instruments therefore is very relevant for in-depth analysis.

2.13.2 PRESENTATION OF SERVICES AND RELATED INTERVENTIONS SELECTED FOR FURTHER ANALYSIS

This chapter presents the services and related interventions, selected for further analysis. Four services in Lithuanian Transport and communications sector were selected for further in-depth analysis. These services are:

- Passenger carriage public services by railway;
- Passenger carriage public services by road transport;
- Access to the road network;
- Development of electric vehicle transport system.

The main policy goals, modes of provision and interventions related to the abovementioned services are presented in this chapter.

2.13.2.1 MAIN POLICY GOALS OF SERVICES SELECTED FOR FURTHER ANALYSIS

There are a few main long-term objectives in the Transport and communications sector. One of the key objectives of the sector is to increase the mobility of passengers by ensuring network connections and improving compatibility of different transport modes. Another two objectives, that are horizontal for all transport sector, are to increase the energy efficiency in transport, reduce negative impact to the

environment and increase safety in the transport system.³¹⁴ Each of the four services selected for further analysis have their specific policy goals, contributing to the attainment of the aforementioned main policy objectives of the sector.

The key aims³¹⁵ in relation to passenger carriage public services by railway include the development of new and upgrading of existing international and local network, implementation of new control and management projects, including electrification of railway lines. Increase of safety of the railway system is also one of the key aims.

Passenger carriage public services by road transport are aimed³¹⁶ at better interoperability of urban, suburban public transport and private transport as well as better accessibility of public transport. The main aims also involve upgrade of transport fleet and improvement of public transport infrastructure.

In terms of ensuring access to the road network it is aimed³¹⁷ at developing new and upgrade of existing TEN-T roads infrastructure and connections to it. Another key trend is to implement intellectual transport systems in TEN-T, national, local roads and streets, in order to improve better mobility of goods and passengers. The objective to increase safety is even more critical than for other services.

The trends of quantitative indicators (number of passengers in different transport modes, length of roads and railway lines)³¹⁸ in relation to the key objectives were assessed as constant, meaning that their changes over the past years were small. However, the qualitative improvement of the infrastructure, e.g. the quality of roads, is significant although not sufficient.

Development of electric vehicle transport system aims to improve energy efficiency by supporting the use of alternative fuel. Positive changes are seen in the statistics on the number of electric vehicles public charging stations and the number of electric vehicles³¹⁹, however the attained level is still low.

2.13.2.2 THE STRUCTURE OF PROVISION AND FINANCING OF SERVICES SELECTED FOR FURTHER ANALYSIS

Figures provided below depict the structure of each service selected for further analysis. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision identified. Graphs in light red indicate service providers and target group(s) the service is targeted at.

³¹⁴ National transport development programme for 2014-2022

³¹⁵ National transport development programme for 2014-2022; Implementation plan for 2017-2019 of the National transport development programme for 2014-2022

³¹⁶ National transport development programme for 2014-2022; Implementation plan for 2017-2019 of the National transport development programme for 2014-2022; Strategic plans of municipalities

³¹⁷ National transport development programme for 2014-2022; Implementation plan for 2017-2019 of the National transport development programme for 2014-2022

³¹⁸ Statistics Lithuania and EUROSTAT

³¹⁹ Based on data of Ministry of Transport and Communications

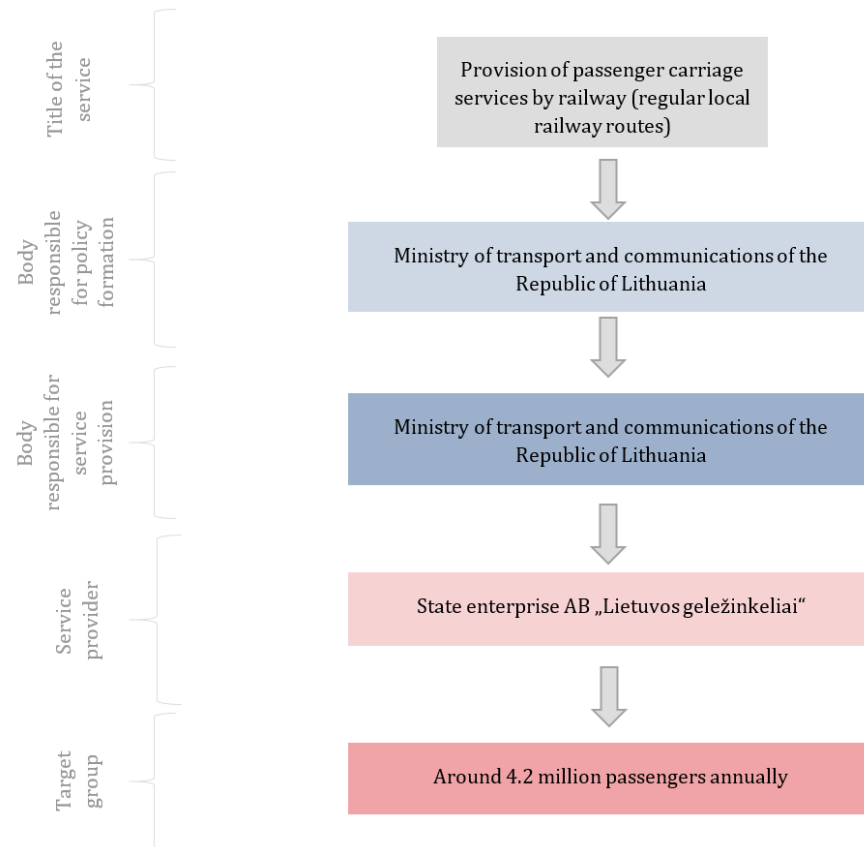


FIGURE 60. PASSENGER CARRIAGE PUBLIC SERVICES BY RAILWAY SERVICE PROVISION MECHANISMS IN TRANSPORT AND COMMUNICATIONS SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

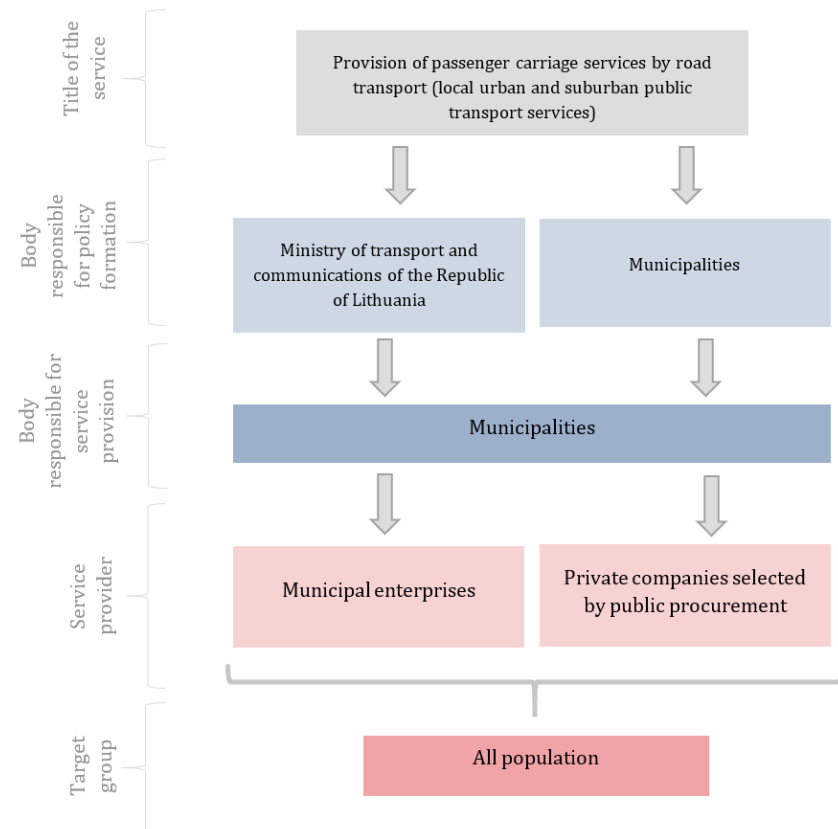


FIGURE 61. PROVISION OF PASSENGER CARRIAGE BY ROAD TRANSPORT SERVICE PROVISION MECHANISMS IN TRANSPORT AND COMMUNICATIONS SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

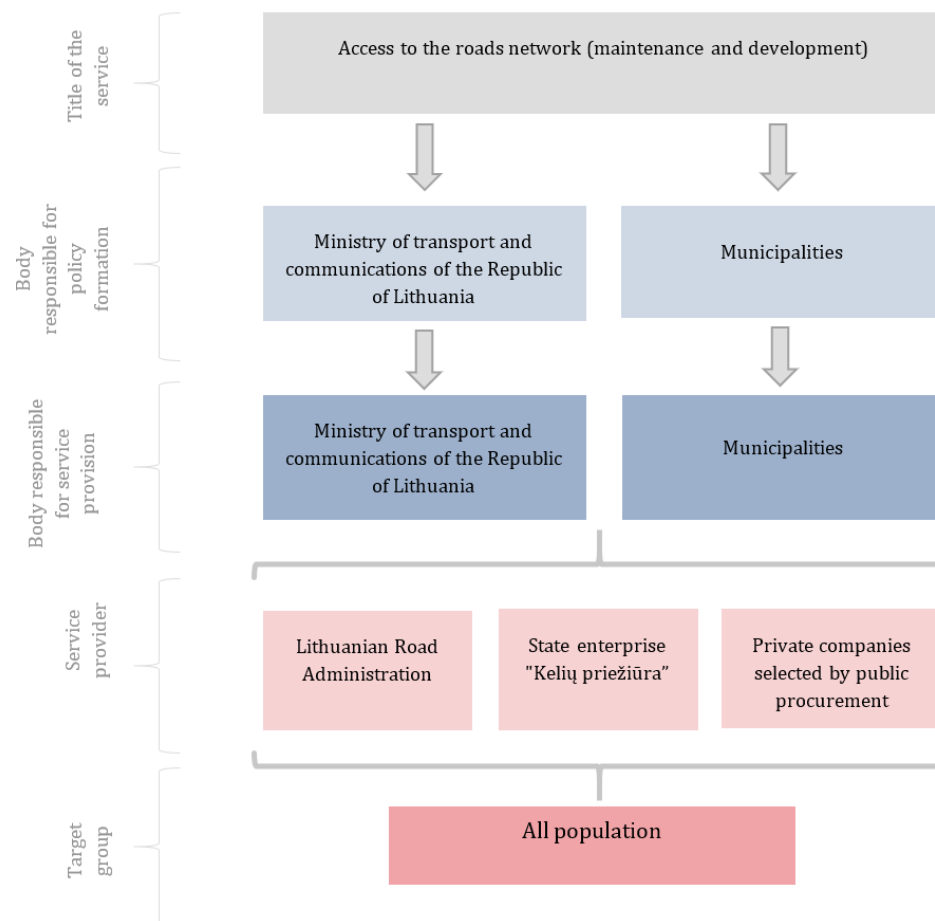


FIGURE 62. ACCESS TO THE ROADS NETWORK SERVICE PROVISION MECHANISMS IN TRANSPORT AND COMMUNICATIONS SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

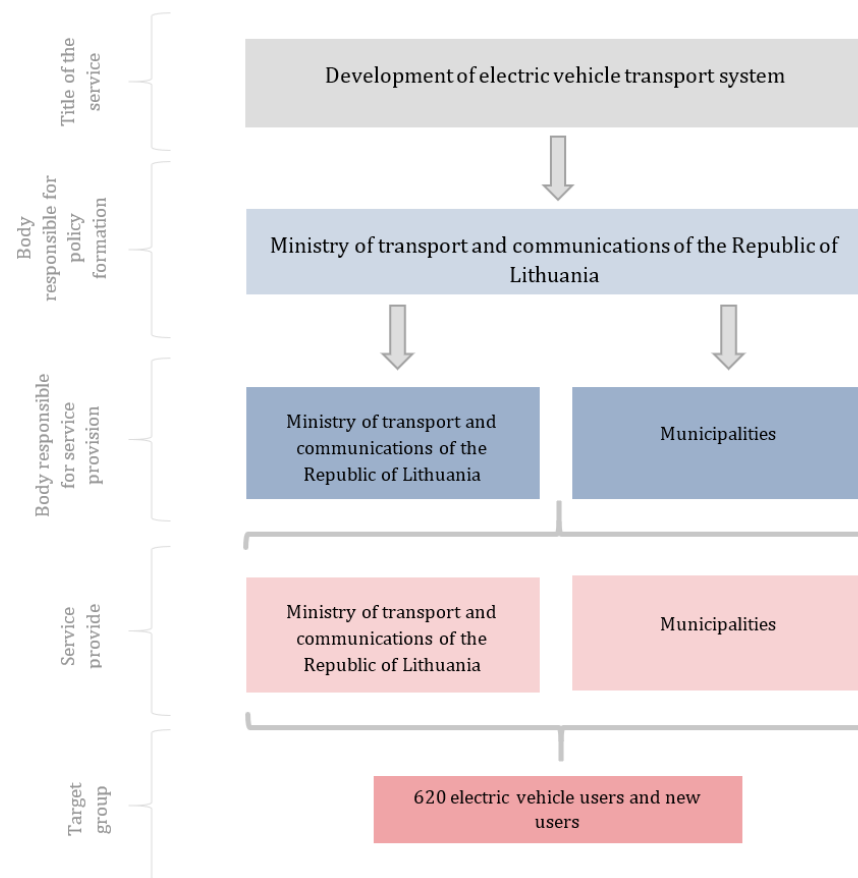


FIGURE 63. DEVELOPMENT OF ELECTRIC VEHICLE TRANSPORT SYSTEM SERVICE PROVISION MECHANISMS IN TRANSPORT AND COMMUNICATIONS SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

In terms of costs of the service provision, the largest among the selected services is access to roads network. The rough estimation of the scope of financial interventions for maintenance and development of roads makes up around EUR 500 million annually. The financing comes from the state and municipal budgets, user fees in the form of vignettes and ESI funds. The second largest among the selected services is provision of passenger carriage services by the road transport. The financing of it mainly comes from the revenues from passengers and municipal budgets. The estimation indicates that the provision of this service costs around EUR 160 million for one year. The cost for provision of passenger carriage services by railway amounts to around EUR 45 million. The costs are covered by the revenues of the state enterprise AB "Lietuvos geležinkeliai" and by small amount from the state budget for partial compensation of losses (only EUR 0.328 million compensated out of EUR 34.2 million loss in 2014)³²⁰. The data on the development of electric vehicle transport system is not available.

2.13.2.3 INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Each of the service selected for further analysis has related interventions, enabling the provision of the service. All the interventions, related to passenger carriage public services by railway, passenger carriage public services by road transport, access to the road network and development of electric vehicle transport system are presented in the table below.

TABLE 173. INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Name of the service	Type of the service related intervention	Name of the service related intervention	Fiche No.
Passenger carriage public services by railway	Regular subsidy for public service delivery (budgetary financing)	Subsidy for carrying passengers by railway	1
	Subsidy for improving performance of the public service	ESIF subsidies for upgrade and construction of railway infrastructure	2
	Customer support through discounts or tariff compensations	Reduced tariffs for particular groups of passengers	3
	Taxes	Tax on environment pollution	4
	Taxes	VAT exemption for passenger carriage services	5
	Regulation	Regulation regarding licencing of passenger carriage by railways	6
	Regulation	Regulation regarding definition of railway routes	7
Passenger carriage public services by road transport	Regular subsidy for public service delivery (budgetary financing)	Subsidies for carrying passengers by road transport	16
	Subsidy for improving performance of the public service	ESIF subsidies for renewal of transport fleet	17

³²⁰ „Analysis of the demand for public transport and the compatibility of long-distance bus and intercity train routes compatibility analysis” Author - BGI Consulting, Contracting Authority - Ministry of Transport and Communications, 2016

	Customer support through discounts or tariff compensations	Reduced tariffs for particular groups of public road transport passengers	18
	Taxes	Tax on environment pollution	4
	Taxes	VAT exemption for passenger carriage services	5
	Regulation	Regulation regarding licencing of passenger carriage by roads	19
	Regulation	Regulation regarding definition of public road transport routes	20
Access to the road network	Regular subsidy for public service delivery (budgetary financing)	Subsidy for the development and maintenance of road infrastructure (under Maintenance and Development Programme for Roads)	8
	Subsidy for improving performance of the public service	Subsidies for upgrade and construction of road infrastructure	9
	Taxes	Charge on road users (vignettes)	10
	Taxes	Excise duty on energy products	11
	Regulation	Regulation regarding requirements for building and maintenance of roads	12
Development of electric vehicle transport system	Subsidy for improving performance of the public service	Subsidy for developing charging system for electric vehicles	13
	Taxes	Tax discounts for parking of electric vehicles	14
	Regulation	Regulation regarding permission to use designated lines of roads	15

Source: BGI Consulting et al, 2017.

Further in this study the information is provided not on services as a whole, but only on service related interventions.

2.13.3 DATA ON SELECTED GOVERNMENT INTERVENTIONS IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR

This chapter provides portrayal and analysis of the government interventions shortlisted for the in-depth assessment. In the chapter separate fiches for each government intervention, analysis of interventions regarding each of the methodological research criteria are presented.

The fiches for each government intervention bellow provides the main data on each government intervention, which can be read as a self-standing analysis and is also used in later parts of the study as a basis for the meta-analysis of interventions according to different criteria.

TABLE 174. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (1)

Title of the intervention		Subsidy for carrying passengers by railway
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention		Compensation of the loss of carrying passengers by railway transport in local (not international) routes.
Year of the introduction and end, stability of the intervention		2004 - up to now. Since 2009 the compensation is supposed to be provided based on the public service contract with the operator (following the Regulation (EC) No 1370/2007). However only minor share of losses was actually compensated. New public service contract is planned to be launched in 2018.
The broader policy objective to which intervention contributes		To ensure mobility of the society by railway even in the routes that are commercially unprofitable for the railway operator.
Legal background for the establishment of the intervention		Codex of railway transport, 22 April 2004, No. IX-2152 (LR geležinkelių transporto kodekso patvirtinimo, įsigaliojimo ir taikymo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes		The railway operator takes the responsibility to serve the society in defined routes at commercially unprofitable conditions, therefore the losses are compensated by State budget programme following public service contract.
The objective of the intervention and legal background		The railway operator takes the responsibility to serve the society in defined routes at commercially unprofitable conditions, therefore the losses are compensated by State budget programme following public service contract. Resolution of the Government of the Republic of Lithuania on compensation of loss in relation to public service provision, 7 June 2010, No 716 (LR Vyriausybės nutarimas Dėl nuostolių, patirtų vykdant viešųjų paslaugų įsipareigojimą, kompensavimo tvarkos aprašo patvirtinimo ir Lietuvos Respublikos Vyriausybės 2004 m. rugpjūčio 19 d. nutarimo Nr. 1036 "Dėl įgaliojimų suteikimo" pakeitimo)
Level of body responsible for policy formation		National level
Level of body responsible for implementation (administration) of intervention		National level
Name of the body responsible for implementation (administration) of intervention		Ministry of Transport and Communications
The main source of financing the intervention		State budget
Market side the intervention is targeted at		Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention		Public and private
Types of public providers eligible to receive the intervention		Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers		Agreements with licenced providers based on quantitative indicators
Types of private providers eligible to receive the intervention		Private for-profit entities
Dominant mean of receiving the intervention for private providers		According to the regulation private providers can get the intervention, but in practise currently there are no private providers in this market

The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers applying formula approved by Government resolution
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	Compensation of losses is part of public service contract. The contract ensures provision of mobility services for the society. The railway serves around 3,4 million passengers annually. However, in practise only minor share of losses was actually compensated. The company covers the losses from the profit gathered in other activities (goods transportation).
Unintended impact of the intervention	Compensations are not natural market items, thus is part of ineffective market.
Main issues related to the implementation of the intervention	In practise only minor share of losses was actually compensated. New public service contract is planned to be launched in 2018. ³²¹
Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	No need to replace or withdraw the GI. The GI is expected to be improved by launching new public service contract.

Source: BGI Consulting et al, 2017

TABLE 175. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (2)

Title of the intervention	ESIF subsidies for upgrade and construction of railway infrastructure
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Development, modernisation and construction of railway infrastructure, implementation of traffic safety and environmental measures. The investments are funded by Operational programme for the European Union funds' investments in 2014-2020 and State enterprise "Lietuvos geležinkeliai".
Year of the introduction and end, stability of the intervention	2014 – 2023. The implementation of the intervention depends on ESIF allocations
The broader policy objective to which intervention contributes	Improve interoperability between national multimodal transport system and trans-European transport networks and enhance regional mobility through developing regional connections to the main transport network of the country and implement traffic safety measures
Legal background for the establishment of the intervention	European Commission decision approving the Lithuanian OP of ESIF for 2014-2020 , 8 September 2014, No C(2014)6397 (2014–2020 metų Europos Sąjungos fondų investicijų veiksmų programa)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To upgrade the railway infrastructure, increase of interoperability and safety.

³²¹ Based on the information gathered during expert interviews

The objective of the intervention and legal background	To improve railway system and increase safety. Conditions for project financing (several measures) approved by Order of the Minister of Transport and Communications
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	State enterprise "Lithuanian Railways"
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	State budget and private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	Selection of operations based on state planning procedure
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is based on application for operation and the principles of eligible costs
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	The investments increase safety and speed of the services, reduce negative impact of noise.
Unintended impact of the intervention	Although the intervention finances the service that is not environment friendly, the use of public transport is less environmentally harmful than use of private cars.
Main issues related to the implementation of the intervention	No significant issues identified.
Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	No need to replace or withdraw the GI.

Source: BGI Consulting et al, 2017.

TABLE 176. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (3)

Title of the intervention	Reduced tariffs for particular groups of railway passengers
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Customer support through discount or tariff compensation
Short description of the intervention	Reduced tariffs are applied for pupils, students, elderly persons, disabled and other.
Year of the introduction and end, stability of the intervention	1996 - up to now. The scope of discounts has been changed a few times.
The broader policy objective to which intervention contributes	To ensure mobility for all groups of the society.

Legal background for the establishment of the intervention	Law on transport discounts, 30 March 2000, No. VIII-1605 (LR transporto lengvatų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To make the travel ticket price affordable for some groups of the society and compensate corresponding losses for the service providers.
The objective of the intervention and legal background	To compensate the losses for the service providers in relation to discounted ticket. Resolution of the Government of the Republic of Lithuania on implementation of the law on transport discounts, 28 April 2000, No. 478 (LR Vyriausybės nutarimas dėl LR transporto lengvatų įstatymo įgyvendinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Ministry of Transport and Communications
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Both
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	Compensation of losses in relation to discounted tickets based on report of service provider following the rules approved by the Government.
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service provider applying conditions approved by Government resolution
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Children, students, elderly persons, disabled and other.
The type of impact of intervention for consumers	The intervention provides the inducement for consumers
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised) Age-related, health and other criteria
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The scope of discount is uniform for a particular group (different for different groups)
Impact of the intervention	The reduced tariffs allow providing the service to the target groups at lower price and increase mobility of these groups.
Unintended impact of the intervention	Although the intervention supports the service that is not environment friendly, the use of public transport is less environmentally harmful than use of private cars.

Main issues related to the implementation of the intervention	Different discounts applied by railway operator and municipalities. This creates difficulties in developing combined services and single ticket system. ³²²
Consistency with other related interventions	Consistency issues with discounts applied by municipalities. The differences create difficulties in developing combined services and single ticket system.
Possibilities to replace/withdraw the intervention	No need to replace or withdraw the intervention. The GI should be improved by better coordination of the scope and target groups applied by municipalities.

Source: BGI Consulting et al, 2017.

TABLE 177. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (4)

Title of the intervention	Tax on environment pollution
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Taxes
Short description of the intervention	Taxes are applied for mobile pollution sources (road, railway, air, water motor vehicles) that are used for commercial purposes.
Year of the introduction and end, stability of the intervention	1991 - up to now The intervention was significantly changed in 1999 (new law introduced)
The broader policy objective to which intervention contributes	To reduce pollution from mobile sources.
Legal background for the establishment of the intervention	Law on pollution from mobile sources, 13 May 1999, No. VIII-1183 (LR mokesčio už aplinkos teršimą įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To encourage the polluters to decrease the pollution (to keep the pollution below the norms) by applying economic instruments and to gather funds for environmental purposes.
The objective of the intervention and legal background	To encourage the polluters to decrease the pollution (to keep the pollution below the norms) by applying economic instruments and to gather funds for environmental purposes. Law on pollution from mobile sources, 13 May 1999, No. VIII-1183 (LR mokesčio už aplinkos teršimą įstatymas)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	State Tax Inspectorate
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Entities polluting the environment from mobile sources (road, railway, air, water motor vehicles)
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention imposes charges on subjects

³²² Based on the information gathered during expert interviews

Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Precise (particularised) Pollution from mobile sources
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	The tax is very small to have an impact.
Unintended impact of the intervention	No unintended impacts identified.
Main issues related to the implementation of the intervention	The tax does not change the behaviour of polluters. The use of revenues generated is not directly linked to environmental issues. ³²³
Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	The tax should be improved in terms of impact and use of revenues.

Source: BGI Consulting et al, 2017.

TABLE 178. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (5)

Title of the intervention	VAT exemption for passenger carriage services
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Reduced taxes/tax exemptions
Short description of the intervention	9 % VAT (instead of 21%) is applied for carrying passengers by regular railway routes
Year of the introduction and end, stability of the intervention	1993 - up to now In 1993 it was established that passenger carriage (in defined routes) is not subject to VAT, then 5% VAT was established for these services and later 9%.
The broader policy objective to which intervention contributes	To ensure mobility of the society
Legal background for the establishment of the intervention	Law on VAT, 5 March 2002, No. IX-751 (LR pridėtinės vertės mokesčio įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To reduce the price for travelling that is considered essential service for the society.
The objective of the intervention and legal background	To establish lower VAT rate for passengers carriage services.
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	State Tax Inspectorate
Market side the intervention is targeted at	Both
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Providers of passenger carriage services in defined routes
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention reduces tax burden on the services

³²³ Based on the information gathered during expert interviews

Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Precise (particularised) Passenger carriage services in defined routes
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	The impact of reduced VAT is ambiguous, since the ticket prices after VAT reduction in most cases remained the same. However, if the VAT would be increased the prices would be increased as well. ³²⁴
Unintended impact of the intervention	Reduced state budget revenues due to VAT exemption.
Main issues related to the implementation of the intervention	Shadow market of service providers that do not pay VAT. Lower ticket price increase the demand for service that has negative impact on the environment.
Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	No need to replace or withdraw the GI. The control of shadow market of illegal service providers should be improved.

Source: BGI Consulting et al, 2017.

TABLE 179. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (6)

Title of the intervention	Regulation regarding licencing of passenger carriage by railways
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	Financial and professional capacities are inspected in order to issue the licence.
Year of the introduction and end, stability of the intervention	1996 - up to now The rules of licencing approved by Resolution of the Government of the Republic of Lithuania were changed a few times.
The broader policy objective to which intervention contributes	To increase safety in the transport system.
Legal background for the establishment of the intervention	Resolution of the Government of the Republic of Lithuania on the Codex of railway transport, 22 April 2004, No. IX-2152 (LR geležinkelių transporto kodekso patvirtinimo, įsigaliojimo ir taikymo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To ensure legal, reliable and safe system of railway services.
The objective of the intervention and legal background	To define criteria and rules for licencing railway operators. Resolution of the Government of the Republic of Lithuania on licencing rules of railway services, 17 June 2003, No. 783 (LR Vyriausybės nutarimas Dėl keleivių, bagažo ir krovinių vežimo geležinkelių transportu licencijavimo taisyklių patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Lithuanian Transport Safety Administration

³²⁴ Based on the information gathered during expert interviews

Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Providers of passenger carriage services by railway
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission and the intervention requires certain actions from subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Precise (particularised) Business activity
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	The intervention contributes to reliability and safety of railway services.
Unintended impact of the intervention	No unintended impact.
Main issues related to the implementation of the intervention	No issues in relation to implementation.
Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	No need to replace or withdraw the intervention.

Source: BGI Consulting et al, 2017.

TABLE 180. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (7)

Title of the intervention	Regulation regarding definition of railway routes
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	Ministry of Transport and Communication defines the routes.
Year of the introduction and end, stability of the intervention	2002 - up to now The routes are subject to regular revision according to the needs of society.
The broader policy objective to which intervention contributes	To ensure mobility of the passengers.
Legal background for the establishment of the intervention	Order of the Minister of Transport and Communications of the Republic of Lithuania on definition of routes for regular passengers transportation by railway, 19 December 2012, No. 3-865 (LR susisiekimo ministro įsakymas Dėl keleivių vežimo traukiniais reguliariojo vietinio susisiekimo maršrutų nustatymo)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	Definition of routes allows applying VAT exemption on these routes and compensation for losses.
The objective of the intervention and legal background	Definition of routes allows to apply VAT exemption. Order of the Minister of Transport and Communications of the Republic of Lithuania on definition of routes for regular passengers transportation by railway, 19 December 2012, No. 3-865 (LR susisiekimo ministro įsakymas Dėl keleivių vežimo traukiniais reguliariojo vietinio susisiekimo maršrutų nustatymo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Ministry of Transport and Communications

Market side the intervention is targeted at	Supply and demand
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Providers of passenger carriage services by railway
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Precise (particularised) Business activity
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	Set the scope of public services from spatial point of view. Definition of routes allows applying VAT exemption on these routes.
Unintended impact of the intervention	Although the intervention establishes the service (from spatial point of view) that is not environment friendly, the use of public transport is less environmentally harmful than use of private cars.
Main issues related to the implementation of the intervention	Setting of routes is a balance between the financial possibilities of the state and needs of the population as majority of routes are unprofitable. Some population feel not being served properly.
Consistency with other related interventions	Duplication of routes served by different transport means occurs. The duplication of routes is mainly caused by the fact that routes and timetables of different modes of transport are planned by different institutions and the mechanism, which would oblige the coordination of routes and timetables, does not exist. The absence of such mechanism determines that the institutions responsible for route planning do not seek to minimise the costs incurred by the whole public transport system. Conversely, the aforementioned institutions seek to increase the number of passengers using their transport mode at the cost of other modes of public transport.
Possibilities to replace/withdraw the intervention	No need to replace or withdraw the intervention.

Source: BGI Consulting et al, 2017

TABLE 181. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (8)

Title of the intervention	Subsidy for the development and maintenance of road infrastructure (under Maintenance and Development Programme for Roads)
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Subsidies for roads maintenance and development are provided from specially designated public programme (Maintenance and Development Programme for Roads).
Year of the introduction and end, stability of the intervention	2000 - up to now The share of excise duty allocated for the Programme was changed a few times.
The broader policy objective to which intervention contributes	To develop new and upgrade existing roads.
Legal background for the establishment of the intervention	The Law on road maintenance and development financing programme, 12 October 2000 No. VIII-2032 (Lietuvos

	Respublikos kelių priežiūros ir plėtros programos finansavimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To collect and use financial resources for roads maintenance and development.
The objective of the intervention and legal background	To have a financial source for roads maintenance and development. The Law on road maintenance and development financing programme, 12 October 2000 No. VIII-2032 (Lietuvos Respublikos kelių priežiūros ir plėtros programos finansavimo įstatymas)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Lithuanian Road Administration under the Ministry of Transport and Communications
The main source of financing the intervention	The main financing source is excise duty on fuel products.
Additional sources of financing the intervention	Private funds (vignettes)
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Public administration institutions, budgetary institutions and publicly-owned for profit entities
Dominant mean of receiving the intervention for public providers	Annual budgetary financing.
The basis for the calculation of intervention size transferred to the service providers	The calculation methods differ between the targeted roads (state and local roads).
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	It is the main source to fund the maintenance and development of roads. Based on the results of costs benefit analysis, the impact of investments into road sector manifests through time savings, avoided accidents, road maintenance costs savings, vehicle operating costs savings. ³²⁵
Unintended impact of the intervention	The Programme supports the service that has negative impact on the environment.
Main issues related to the implementation of the intervention	Part of the revenues gathered for Road maintenance and development programme are taken away for other purposes. The share of excise duty that is allocated for roads maintenance and development was reduced after 2008. In 2008 80% of revenues from excise duty on fuel products was allocated for roads maintenance and development. In 2018 the share will be 48% only. Reduced share creates a lack of funding for roads maintenance and development. ³²⁶
Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	No need to replace or withdraw the intervention.

Source: BGI Consulting et al, 2017

³²⁵ „Analysis of the demand for public transport and the compatibility of long-distance bus and intercity train routes compatibility analysis“ Author - BGI Consulting, Contracting Authority - Ministry of Transport and Communications, 2016

³²⁶ Based on the information gathered during expert interviews

TABLE 182. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (9)

Title of the intervention		Subsidy for upgrade and construction of road infrastructure
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Subsidy for improving performance of the public service
Short description of the intervention		Building missing links, development, modernisation and construction of road (TEN-T, state and municipal roads) infrastructure, implementation of traffic safety and environmental measures. The investments are funded by Operational programme for the European Union funds' investments in 2014-2020, Fund for roads maintenance and development (Kelių priežiūros ir plėtros fondas) and Municipal budgets.
Year of the introduction and end, stability of the intervention		2014 – 2023 The implementation of the intervention depends on ESIF allocations
The broader policy objective to which intervention contributes		Improve interoperability between national multimodal transport system and trans-European transport networks and enhance regional mobility through developing regional connections to the main transport network of the country and implement traffic safety measures
Legal background for the establishment of the intervention		European Commission decision approving the Lithuanian OP of ESIF for 2014-2020 , 8 September 2014, No C(2014)6397 (2014–2020 metų Europos Sąjungos fondų investicijų veiksmų programa)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes		Improve TEN-T network, upgrade the surfaces of roads, improve safety, decrease impact to the environment, develop connectivity in regions.
The objective of the intervention and legal background		Improve TEN-T network, upgrade the surfaces of roads, improve safety, decrease impact to the environment, develop connectivity in regions. Conditions for project financing (several measures) approved by Order of the Minister of Transport and Communications
Level of body responsible for policy formation		National level
Level of body responsible for implementation (administration) of intervention		National and local level
Name of the body responsible for implementation (administration) of intervention		Lithuanian Road Administration under the Ministry of Transport and Communications (1), State enterprise "Kelių priežiūra" (1), municipalities (60).
The main source of financing the intervention		ESIF funds
Additional sources of financing the intervention		State budget and municipal budgets
Market side the intervention is targeted at		Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention		Public
Types of public providers eligible to receive the intervention		Public administration institution (-s) directly and budgetary institution
Dominant mean of receiving the intervention for public providers		Selection of operations based on state planning and regional planning procedures
The basis for the calculation of intervention size transferred to the service providers		The size of the financial transfer is based on application for operation and the principles of eligible costs
The share of the funds of the intervention that is attributed to public providers		100%

DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	Significant positive impact of the investments into road upgrade and development was proved by number of studies. E.g. EVALUATION OF PLANNING AND IMPLEMENTATION EFFICIENCY OF THE EU STRUCTURAL ASSISTANCE FOR THE ROAD SECTOR (The evaluation was commissioned by the Ministry of Transport and Communications of the Republic of Lithuania and conducted by the public policy research and evaluation company BGI Consulting in 2012-2013) concluded that only due to the EU investments in the programming period of 2007-2013 the GDP was higher by 1,9% (in 2010 - peak years of the investments). The results of macro econometric modelling shows that additional GDP created in 2007-2020 due to ESIF investment into the road sector in 2007-2013 programming period exceeds the amount of investment (from all financing resources as a percentage from GDP) 2.3 times. Based on the results of costs benefit analysis, the impact of investments into road sector manifests through time savings, avoided accidents, road maintenance costs savings, vehicle operating costs savings.
Unintended impact of the intervention	The subsidy is used to finance the development of roads. The use of roads has negative impact to the environment in terms of noise and pollution.
Main issues related to the implementation of the intervention	Development of new roads is highly dependent on ESIF funding. The benefits of investments into roads sometimes are not understood by the society.
Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	There was one case in 2015 of building new road by applying PPP model (Palanga roundabout) instead of providing subsidy. Next few years should reveal if that model pays off. ³²⁷

Source: BGI Consulting et al, 2017

TABLE 183. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (10)

Title of the intervention	Charge on road users (vignettes)
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Taxes
Short description of the intervention	Access to main Lithuanian roads A1–A18 for buses, heavy vehicles (N1–N3) and their combinations, special road vehicles is charged and should be paid by buying vignettes
Year of the introduction and end, stability of the intervention	2000 - up to now In 2007 the way of paying the charge was changed. Before it was paid as transaction to the account of State Tax Inspectorate, since 2007 the charge is paid by buying the vignette in gas stations and other trading spots. In 2015 the prices were changed.
The broader policy objective to which intervention contributes	To develop new and upgrade existing roads.
Legal background for the establishment of the intervention	Law on financing roads maintenance and development programme, 12 October 2000, No. VIII-2032 (Lietuvos Respublikos kelių priežiūros ir plėtros programos finansavimo įstatymas)

³²⁷ Based on the information gathered during expert interviews

The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To finance the maintenance and development of roads.
The objective of the intervention and legal background	To define rules of vignettes application Order of Minister of Transport and Communications on the rules of vignettes application, 23 March 2007, No. 3-97 (LR susisiekimo ministro įsakymas Dėl Vinječių formos, jų reikalavimų, išigijimo ir naudojimo tvarkos aprašo patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Lithuanian Road Administration under the Ministry of Transport and Communications
Market side the intervention is targeted at	Demand
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Buses, heavy vehicles (N1–N3) and their combinations, special road vehicles
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention imposes charges on subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Precise (particularised) Vehicle type
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	The revenue from this charge is one of sources for financing roads maintenance and development in Lithuania (around 3% of total funding (calculated as share in KPP and KPP share in overall funding)).
Unintended impact of the intervention	The revenue is used to finance the development of roads. The use of roads has negative impact to the environment in terms of noise and pollution.
Main issues related to the implementation of the intervention	The current pricing system of the vignettes and the revenues collected do not properly compensate the scope of pollution and damage to the road infrastructure. The current pricing system is based on time and does not represent the length of roads used (kilometres) by a particular vehicle. ³²⁸
Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	The intervention is planned to be improved by shifting from time based pricing system to kilometres based system (e-tolling). The shift requires investments into intellectual transport systems.

Source: BGI Consulting et al, 2017.

³²⁸ Based on the information gathered during expert interviews

TABLE 184. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (11)

Title of the intervention		Excise duty on energy products
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Taxes	
Short description of the intervention	Excise duty is applied on fuel used for transport vehicles	
Year of the introduction and end, stability of the intervention	1994 - up to now The scope of excise duty applied is subject to periodic revisions.	
The broader policy objective to which intervention contributes and legal background	To develop new and upgrade existing roads.	
Legal background for the establishment of the intervention	Law on excise duty, 30 October 2001, No IX-569 (Lietuvos Respublikos akcizų įstatymas)	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To reduce the use of fuel that is having negative impact on the environment and to collect revenue to the State budget.	
The objective of the intervention and legal background	To define application of exercise duty. Resolution of the Government of Lithuania on implementation of the law on exercise duty, 4 June 2002 (LR Vyriausybės nutarimas dėl akcizų įstatymo nuostatų įgyvendinimo)	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	National level	
Name of the body responsible for implementation (administration) of intervention	State Tax Inspectorate	
Market side the intervention is targeted at	Demand	
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Subjects of the regulation/tax/tax exemption	Owners and importers of products that are subject of excise duty application.	
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention imposes charges on subjects	
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects	
Selection criteria of subjects receiving the regulation/tax/tax exemption	Precise (particularised) Type of fuel	
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Impact of the intervention	The exercise duty is among the key sources for financing roads maintenance and development (around 90% of total funding for roads maintenance and development programme /around 54% of total funding for roads).	
Unintended impact of the intervention	Illegal (excise duty not applied) trade of fuel.	
Main issues related to the implementation of the intervention	The share of excise duty that is allocated for roads maintenance and development was reduced after 2008. In 2008 80% of revenues from excise duty on fuel products was allocated for roads maintenance and development. In 2018 the share will be 48% only. Reduced share creates a lack of funding for roads maintenance and development. ³²⁹	

³²⁹ Based on the information gathered during expert interviews

Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	The intervention is appropriate, no need to replace or withdraw. The control of illegal trade of fuel should be improved.

Source: BGI Consulting et al, 2017

TABLE 185. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (12)

Title of the intervention		Regulation regarding requirements for building and maintenance of roads
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Regulation	
Short description of the intervention	Technical and safety requirements for building and maintaining roads	
Year of the introduction and end, stability of the intervention	1990 - up to now Technical and safety requirements for building and maintaining roads are subject to periodic revisions	
The broader policy objective to which intervention contributes	To develop new and upgrade existing roads.	
Legal background for the establishment of the intervention	Order of the Minister of Transport and Communications on the constitution of Lithuanian Road Administration, 30 November 2006, No 3-457 (LR susisiekimo ministro įsakymas dėl Lietuvos automobilių kelių direkcijos prie Susisiekimo ministerijos nuostatų patvirtinimo)	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure appropriate maintenance and development of roads in terms of technical, safety and organisational requirements.	
The objective of the intervention and legal background	To ensure appropriate maintenance and development of roads in terms of technical, safety and organisational requirements. Rules for building and maintaining various parts of roads.	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	National level and local level	
Name of the body responsible for implementation (administration) of intervention	Lithuanian Road Administration under the Ministry of Transport and Communications (1), State enterprise "Kelių priežiūra" (1), municipalities (60).	
Market side the intervention is targeted at	Supply	
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Subjects of the regulation/tax/tax exemption	Institutions responsible for roads maintenance and development	
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention requires certain actions from subjects	
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects	
Selection criteria of subjects receiving the regulation/tax/tax exemption	Precise (particularised) Road type	
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Impact of the intervention	Sets the technical and organisational requirements for roads maintenance and development, therefore are important for the quality of the service.	

Unintended impact of the intervention	No unintended impact identified.
Main issues related to the implementation of the intervention	The quality of roads due to their depreciation over time is not sufficient in some of the cases. The requirements for buildings of roads were revised recently aiming at better quality.
Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	Audit of quality of roads started in 2017. It should reveal technical and organisation weaknesses of the intervention.

Source: BGI Consulting et al, 2017.

TABLE 186. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (13)

Title of the intervention	Subsidy for developing charging system for electric vehicles
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	National and local authorities in addition to private operators are establishing charging points for electric vehicles.
Year of the introduction and end, stability of the intervention	2010 - up to now The attention to the intervention and financing of the infrastructure is constantly growing since about 2011.
The broader policy objective to which intervention contributes	To increase energy efficiency in transport and reduce negative impact to the environment
Legal background for the establishment of the intervention	Order of the Minister of Transport and Communications on guidelines for electric vehicle infrastructure development, 6 May 2015, No 3-173 (1.5 E) (LR susisiekimo ministro įsakymas dėl viešosios elektromobilių įkrovimo infrastruktūros plėtros rekomendacijų ir šalia valstybinės reikšmės kelių numatomų įrengti viešųjų elektromobilių įkrovimo prieigų plano patvirtinimo)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To encourage the use of electric vehicles and thus decrease the use of oil fuel products and reduce negative impact on the environment.
The objective of the intervention and legal background	To encourage the use of electric vehicles and thus decrease the use of oil fuel products and reduce negative impact on the environment. Order of the Minister of Transport and Communications on guidelines for electric vehicle infrastructure development, 6 May 2015, No 3-173 (1.5 E) (LR susisiekimo ministro įsakymas dėl viešosios elektromobilių įkrovimo infrastruktūros plėtros rekomendacijų ir šalia valstybinės reikšmės kelių numatomų įrengti viešųjų elektromobilių įkrovimo prieigų plano patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National and local level
Name of the body responsible for implementation (administration) of intervention	Lithuanian Road Administration under the Ministry of Transport and Communications and municipalities (60).
The main source of financing the intervention	ESIF funds, state budget, municipal budget and private funds
Market side the intervention is targeted at	Supply and demand
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public

Types of public providers eligible to receive the intervention	Public administration institution (-s) directly and budgetary institution
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	7926 hybrid and 620 hybrid vehicles in Lithuania (data of December 1. 2017) ³³⁰
The type of impact of intervention for consumers	The intervention provides consumers with necessary infrastructure
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised) based on type of transport vehicle criteria.
Impact of the intervention	The development of infrastructure for electric vehicles is an essential tool to foster the use of environmentally friendly transport.
Unintended impact of the intervention	No unintended impact identified.
Main issues related to the implementation of the intervention	The level of use of electric vehicles is currently low (620 electric vehicles in Lithuania ³³¹). The charging infrastructure for electric vehicles is not well developed.
Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	No need to replace or withdraw the GI.

Source: BGI Consulting et al, 2017

TABLE 187. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (14)

Title of the intervention	Tax discount for parking of electric vehicles
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Reduced taxes/tax exemptions
Short description of the intervention	In some municipalities the parking for electric vehicles is free of charge and in others the tariff is very small
Year of the introduction and end, stability of the intervention	2011 - up to now The discounts are subject to municipal decisions. The price after discounts differs among municipalities, but in all cases it is rather small.
The broader policy objective to which intervention contributes	To increase energy efficiency in transport and reduce negative impact to the environment
Legal background for the establishment of the intervention	Law on charges, 13 June 2000, No VIII-1725 (Lietuvos Respublikos rinkliavų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To reduce a negative impact to the environment by encouraging shift to electric vehicles.
The objective of the intervention and legal background	To define the charges of parking transport vehicles. Decision of Vilnius city municipality council on local parking charges, 13 July 2011 (Vilniaus miesto savivaldybės tarybos sprendimas Dėl Vietinės rinkliavos už naudojimąsi Tarybos

³³⁰ Data provided by Ministry of Transport and Communications

³³¹ Data provided by the Ministry of Transport and Communications

	nustatytomis mokamomis vietomis automobiliams statyti nuostatų tvirtinimo). Similar decisions of other municipalities.
Level of body responsible for policy formation	Local level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipal enterprises, e.g. "Susisiekimo paslaugos" in Vilnius, "Automobilių stovėjimo aikštelės" in Kaunas, etc.
Market side the intervention is targeted at	Demand
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Owners of electric vehicle
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the inducement for subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Precise (particularised) Vehicle type
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	The discounts on parking of electric vehicles are part of complex measures aimed at supporting the use of electric vehicles.
Unintended impact of the intervention	Reduced revenue to municipal budgets from parking charges.
Main issues related to the implementation of the intervention	No issues identified.
Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	No need to replace or withdraw the GI.

Source: BGI Consulting et al, 2017

TABLE 188. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (15)

Title of the intervention	Regulation regarding permission to use designated lines of roads
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	Electric vehicles are allowed to use transport lines designated for public transport
Year of the introduction and end, stability of the intervention	2012 - up to now The application of permission to use designated lines of roads for electric vehicles is subject to municipal decisions.
The broader policy objective to which intervention contributes	To increase energy efficiency in transport and reduce negative impact to the environment
Level of body responsible for policy formation	National and local level
Level of body responsible for implementation (administration) of intervention	National and local level
Name of the body responsible for implementation (administration) of intervention	Municipalities and Lithuanian Road Police Service
Market side the intervention is targeted at	Demand

SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Drivers of electric vehicle
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is voluntary for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Precise (particularised) Type of transport vehicle
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	The permission to use designated lines is part of complex measures aimed at supporting the use of electric vehicles. It provides time savings for electric vehicle users. According to the study ³³² , it is not difficult to implement such a measure and it is a strong incentive for users of electric vehicles.
Unintended impact of the intervention	No unintended impact identified.
Main issues related to the implementation of the intervention	No issues in relation to implementation.
Consistency with other related interventions	No consistency issues.
Possibilities to replace/withdraw the intervention	No need to replace/withdraw the intervention

Source: BGI Consulting et al, 2017

TABLE 189. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (16)

Title of the intervention	Subsidy for carrying passengers by road transport
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Compensation of the loss of carrying passengers by local bus routes.
Year of the introduction and end, stability of the intervention	2002 - up to now Although in documents the compensation rules are well defined, in practise the municipalities are not providing the compensations timely.
The broader policy objective to which intervention contributes	To ensure mobility of the passengers.
Legal background for the establishment of the intervention	Codex of road transport, 19 November 1996, No I-1628 (LR kelių transporto kodeksas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	The municipalities ensure provision of road transportation services in relation to society interest and compensate for relevant losses.
The objective of the intervention and legal background	To compensate the loss that is generated due to provision of transportation services in relation to society interest. Order of the Minister of Transport and Communications on compensation of loss in relation to public service provision, 20 July 2010 No. 3-457 (LR susisiekimo ministro įsakymas Dėl Nuostolių, patirtų vykdant keleivinio kelių transporto viešųjų

³³²Complex feasibility study on development of electric vehicles transport system, Ministry of Economy, Ministry of Energetics, Ministry of Transport and Communications / Smart Continent, Respublikinis energetikų mokymo centras, Civitta.

	paslaugų įsipareigojimus, kompensacijos apskaičiavimo tvarkos aprašo patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities
The main source of financing the intervention	Municipal budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	The loss is compensated based on public service provision contracts.
Types of private providers eligible to receive the intervention	Private for-profit entities
Dominant mean of receiving the intervention for private providers	The loss is compensated based on public service provision contracts.
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers applying formula approved by Minister of Transport and Communications
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	The compensations allows providing the services at lower price, therefore the accessibility of the service is increased. Based on the information of the study ³³³ commissioned by Ministry of Transport and Communications of the Republic of Lithuania, the average cost of serving one passenger seat (empty and occupied) for one kilometre in suburban routes is 47 cent. The municipalities compensate on average 18 cent, this is nearly 40 percent of the costs.
Unintended impact of the intervention	On the one hand, compensation of loss helps to ensure financial sustainability of the services, on the other hand compensations are not natural market item, thus is part of ineffective market. Although the intervention supports the service that is not environment friendly, the use of public transport is less environmentally harmful than use of private cars.
Main issues related to the implementation of the intervention	Although in documents the Compensation rules are well defined, in practise the municipalities are not providing the compensations timely. The losses to be compensated should be calculated taking into account both profitable and unprofitable routes (merged in one tender). ³³⁴
Consistency with other related interventions	No consistency issues identified.

³³³ Analysis of the demand for public transport and the compatibility of long-distance bus and intercity train routes compatibility analysis" Author - BGI Consulting, Contracting Authority - Ministry of Transport and Communications, 2016

³³⁴ Based on the information gathered during expert interviews

Possibilities to replace/withdraw the intervention	No need to replace or withdraw the intervention was identified. The implementation should be improved by providing the compensations to the service providers timely.

Source: BGI Consulting et al, 2017

TABLE 190. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (17)

Title of the intervention	ESIF subsidies for renewal of transport fleet
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	ESIF subsidy provided for purchasing new transport vehicles in 5 largest cities.
Year of the introduction and end, stability of the intervention	2014 – 2023 The implementation of the intervention depends on ESIF allocations
The broader policy objective to which intervention contributes	To increase energy efficiency in transport and reduce negative impact to the environment.
Legal background for the establishment of the intervention	European Commission decision approving the Lithuanian OP of ESIF for 2014-2020 , 8 September 2014, No C(2014)6397 (2014–2020 metų Europos Sąjungos fondų investicijų veiksmų programa)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To renew public transport fleet for largest municipalities and thus reduce negative impact to the environment.
The objective of the intervention and legal background	To improve the quality of city public transport and thus encourage the use of public transport in five largest cities of Lithuania. Conditions for project financing (measure No. 04.5.1-TID-V-517) approved by Order of the Minister of Transport and Communications
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Municipalities
Name of the body responsible for implementation (administration) of intervention	5 largest municipalities
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	Municipal funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private (that has a public service contract with the municipality for at least 5 years)
Types of public providers eligible to receive the intervention	Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	Selection of operations based on state planning procedure
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is based on application for operation and the principles of eligible costs
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	66 (by 2018) and 4 (by 2023) ecologic transport vehicles will be purchased and used in the public transport system of 5 largest cities. Current old transport fleet (e.g. the trolleybuses in Kaunas city are 22 years old on average and the buses are

	13 years old. ³³⁵) is old. However the scope of new vehicles is not sufficient for 5 largest cities. In the period of 2007-2013 a similar measure was implemented (87 transport vehicles bought). It was planned that after the intervention the number of users of public urban transport should increase by 5 percent, the actual number of users increased by 32 percent. ³³⁶
Unintended impact of the intervention	No unintended impact identified.
Main issues related to the implementation of the intervention	No issues identified.
Consistency with other related interventions	No consistency issues identified.
Possibilities to replace/withdraw the intervention	The subsidies from ESI funds allocated for acquisition of new transport vehicles do not satisfy the demand of fleet renewal. Financial instrument in a form of loan or a loan combined with subsidy might be considered. Revolving financial instrument would allow acquiring more new vehicles than in case of subsidies and would contribute to the sustainability of renewal process. New transport vehicles bring financial savings of operating costs and better meeting with the quality standards.

Source: BGI Consulting et al, 2017.

TABLE 191. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (18)

Title of the intervention	Reduced tariffs for particular groups of public road transport passengers
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Customer support through discount or tariff compensation
Short description of the intervention	Reduced tariffs are applied for pupils, students, elderly persons, disabled and other.
Year of the introduction and end, stability of the intervention	1996 - up to now The scope of discounts has been changed few times.
The broader policy objective to which intervention contributes	To ensure mobility for all groups of the society.
Legal background for the establishment of the intervention	Law on transport discounts, 30 March 2000, No. VIII-1605 (LR transporto lengvatų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	To make the travel ticket price affordable for particular groups of the society and compensate corresponding losses for the service providers.
The objective of the intervention and legal background	To compensate the losses for the service providers in relation to discounted tickets and to define the implementation of the discounts. Resolution of the Government of the Republic of Lithuania on implementation of the law on transport discounts, 28 April 2000, No. 478 (LR Vyriausybės nutarimas dėl LR transporto lengvatų įstatymo įgyvendinimo) and Decisions of Councils of Municipalities
Level of body responsible for policy formation	National and local level
Level of body responsible for implementation (administration) of intervention	National and local level

³³⁵ Data of AB "Kauno autobusai"

³³⁶ Evaluation of 2007-2013 EU funds impact on transport, Ministry of Transport and Communications, Civitta, 2016.

Name of the body responsible for implementation (administration) of intervention	Lithuanian transport safety administration and municipalities
The main source of financing the intervention	State budget
Additional sources of financing the intervention	Municipal budget
Market side the intervention is targeted at	Both
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	Compensation of losses in relation to discounted tickets based on report of service provider following the rules approved by the Government and Municipal Councils (for additional groups of users)
Types of private providers eligible to receive the intervention	Private for-profit entities
Dominant mean of receiving the intervention for private providers	Compensation of losses in relation to discounted tickets based on report of service provider following the rules approved by the Government and Municipal Council (for additional groups of users)
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service provider applying conditions approved by Government resolution and Municipal Council (for additional groups of users)
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Children, students, elderly persons, disabled and other.
The type of impact of intervention for consumers	The intervention provides the inducement for consumers
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised) Age-related, health and other criteria
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The scope of discount is uniform for a particular group (different for different groups)
Impact of the intervention	The reduced tariffs allow providing the service to the target groups at lower price and increase mobility of these groups.
Unintended impact of the intervention	Although the intervention supports the service that is not environment friendly, the use of public transport is less environmentally harmful than use of private cars.
Main issues related to the implementation of the intervention	The municipalities establish different discounts (they also differ from discounts provided by railway operator) and this creates difficulties in developing combined services and single ticket system. ³³⁷
Consistency with other related interventions	Consistency issues inside the GI among different municipalities and railway operator.
Possibilities to replace/withdraw the intervention	No need to replace or withdraw the intervention. The GI should be improved by better coordination of the scope and target groups between (a) municipalities and (b) municipalities and railway operator

Source: BGI Consulting et al, 2017

³³⁷ Based on the information gathered during expert interviews

TABLE 192. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (19)

Title of the intervention		Regulation regarding licencing of passenger carriage by roads
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Regulation
Short description of the intervention		Financial and professional capacities are inspected in order to issue the licence.
Year of the introduction and end, stability of the intervention		1996 - up to now The rules of licencing approved by the Minister of Transport and Communications were changed a few times.
The broader policy objective to which intervention contributes		To increase safety in the transport system.
Legal background for the establishment of the intervention		Codex of road transport, 19 November 1996, No I-1628 (LR kelių transporto kodeksas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes		To ensure safe and reliable passenger carriage by roads services
The objective of the intervention and legal background		To define the rules of licencing of passenger transportation service providers. Order of the Minister of Transport and Communications on licencing rules of passenger transportation by roads, 15 April 1997, No 130 (LR susisiekimo ministro įsakymas Dėl Leidimų vežti keleivius reguliaraus susisiekimo kelių transporto maršrutais išdavimo ir naudojimo taisyklių, Keleivių ir bagažo vežimo kelių transportu taisyklių ir Keleivių vežimo lengvaisiais automobiliais-taksi taisyklių patvirtinimo)
Level of body responsible for policy formation		National level
Level of body responsible for implementation (administration) of intervention		National and local level
Name of the body responsible for implementation (administration) of intervention		Lithuanian transport safety administration
Market side the intervention is targeted at		Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Subjects of the regulation/tax/tax exemption		Providers of passenger carriage services by roads
The type of impact of intervention for subjects of the regulation/tax/tax exemption		The intervention provides the subjects with permission and the intervention requires certain actions from subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption		The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption		Precise (particularised) Business activity
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Impact of the intervention		The licencing help to ensure that the services are reliable and safe.
Unintended impact of the intervention		No unintended impact indicated.
Main issues related to the implementation of the intervention		No issues identified.
Consistency with other related interventions		No consistency issues.
Possibilities to replace/withdraw the intervention		No need to replace or withdraw the intervention.

Source: BGI Consulting et al, 2017

TABLE 193. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR (20)

Title of the intervention		Regulation regarding definition of public road transport routes
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Regulation	
Short description of the intervention	Encompass local urban and suburban public transport services. Municipalities define the routes for operations.	
Year of the introduction and end, stability of the intervention	2002 - up to now The routes are subject to regular revision according to the needs of society.	
The broader policy objective to which intervention contributes	To ensure mobility of the passengers.	
Legal background for the establishment of the intervention	Law on VAT, 5 March 2002, No. IX-751 (LR pridėtinės vertės mokesčio įstatymas)	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes	Definition of routes allows applying VAT exemption on these routes and compensation for losses.	
The objective of the intervention and legal background	Definition of routes allows applying VAT exemption. Municipal decisions establishing the routes and schedules	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	Local level	
Name of the body responsible for implementation (administration) of intervention	Municipalities	
Market side the intervention is targeted at	Supply and demand	
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Subjects of the regulation/tax/tax exemption	Providers of passenger carriage services by roads	
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission	
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects	
Selection criteria of subjects receiving the regulation/tax/tax exemption	Precise (particularised) Business activity	
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Impact of the intervention	Set the scope of public services from spatial point of view. Definition of routes allows applying VAT exemption on these routes.	
Unintended impact of the intervention	Although the intervention establish the service (from spatial point of view) that is not environment friendly, the use of public transport is less environmentally harmful than use of private cars.	
Main issues related to the implementation of the intervention	Setting of routes is a balance between the financial possibilities of the municipality and needs of the population as majority of routes are unprofitable. Some population feel not being served properly.	
Consistency with other related interventions	The duplication of routes is mainly caused by the fact that routes and timetables of different modes of transport are planned by different institutions and the mechanism, which would oblige the coordination of routes and timetables, does not exist. The absence of such mechanism determines that the institutions responsible for route planning do not seek to minimise the costs incurred by the whole public transport	

	system. Conversely, the aforementioned institutions seek to increase the number of passengers using their transport mode at the cost of other modes of public transport.
Possibilities to replace/withdraw the intervention	No need to replace or withdraw the intervention.

Source: BGI Consulting et al, 2017.

2.13.3.1 SUPPLY SIDE: QUALITY OF PLANNING OF SELECTED INTERVENTIONS

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

TABLE 194. QUALITY OF THE PLANNING OF THE TRANSPORT AND COMMUNICATIONS SECTOR SERVICES RELATED INTERVENTION IN LITHUANIA

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Passenger carriage public services by railway & passenger carriage public services by road transport	Tax on environment pollution	×	×	√	√	×	√	AVERAGE
	VAT exemption for passenger carriage services	×	×	N/A	√	×	√	AVERAGE
Passenger carriage public services by railway	Subsidies for carrying passengers by railway	×	√	N/A	×	×	√	AVERAGE
	Reduced tariffs for particular groups of passengers	×	√	N/A	√	×	√	AVERAGE
	ESIF subsidies for upgrade and construction of railway infrastructure	√	√	×	√	√	√	GOOD
	Service providers must have licence for carrying passengers.	×	×	N/A	√	×	√	AVERAGE
	Routes are defined by Ministry of Transport and Communications.	×	N/A	N/A	√	×	√	AVERAGE

Passenger carriage public services by road transport	Subsidies for carrying passengers by road transport	×	√	N/A	×	×	√	AVERAGE
	Reduced tariffs for particular groups of passengers	×	√	N/A	√	×	√	AVERAGE
	ESIF subsidies for renewal of transport fleet	√	√	×	√	√	√	GOOD
	Service providers must have licence for carrying passengers.	×	×	N/A	√	×	√	AVERAGE
	Routes are defined by public institutions (municipalities).	×	N/A	N/A	√	×	√	AVERAGE
Access to the road network	Charge on road users (vignettes)	×	×	√	√	×	√	AVERAGE
	Subsidy for the development and maintenance of road infrastructure (under Maintenance and Development Programme for Roads)	×	√	√	√	×	√	AVERAGE
	Excise duty on energy products	×	×	√	√	×	√	AVERAGE
	Subsidies for upgrade and construction of road infrastructure	√	√	×	√	√	√	GOOD
	Specific requirements applied for building and maintenance of roads (Norms on the maintenance of automobile roads, etc)	×	×	N/A	√	×	√	AVERAGE

Development of electric vehicle transport system	Subsidy for developing charging system for electric vehicles	×	×	N/A	√	√	√	GOOD
	Tax discounts for parking of electric vehicles	×	×	N/A	√	×	√	AVERAGE
	Permission to use designated lines of roads	×	×	N/A	√	×	√	AVERAGE

Source: BGI Consulting et al, 2017.

The quality of planning of interventions for the majority of them was assessed as average. There are some systemic reasons. The implementation period was not defined for the interventions establish by law. Although this is a common practice in the laws, this does not provide a clear vision on how long the intervention will be applied. Only the interventions provided under the Operational Programme of ESI funds have their implementation period planned.

In most cases, the results to be achieved by the interventions lack clarity. A typical situation is that there is an understanding on the main expected aim/result (e.g. to have passenger carriage losses compensated), but they are not quantified or detailed enough (e.g. what is the result for the users). The interventions provided under the Operational Programme of ESI funds involve such result indicators.

Definition of management and delivery standards and consideration of the overall demand were assessed as good for all interventions related to selected services.

The definition of costs of the implementation of service related interventions varied depending on the type of intervention. It was defined for subsidies and reduced tariffs for particular groups of passengers. However, it was not sufficiently defined for taxing interventions. The costs for implementing taxes were understood as the costs for tax administration. The public sources lack clarity about the costs for tax administration for these taxes.

2.13.3.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF SELECTED INTERVENTIONS

The majority of government interventions related to passenger carriage services by railways and public road transport are contributing to the potential to meet the mobility demand of the society. The largest contribution is provided by customer support through discounts or tariff compensations and subsidies for carrying passengers by road transport (compensation of the loss of carrying passengers by local bus routes.). The compensations for bus services make the price lower than the real costs and the discounts make the price of the service affordable for the target groups. However the efficiency of the intervention is decreased by the fact that the municipalities are not providing the compensations timely.

In addition to that, the application of subsidies for carrying passengers by local bus routes could be improved by changing the way of selecting operators for particular routes. Both profitable and unprofitable routes could be merged in one package for selection.

Road public transport fleet is mostly old and the level of comfort is not sufficient. E.g. the trolleybuses in Kaunas city are 22 years old on average and the buses are 13 years old.³³⁸ In the period of 2014-2023 ESIF subsidies are provided for purchasing new transport vehicles. The intervention covers 5 largest cities. New transport vehicles provide reduction of fuel consumption and savings in maintenance costs, therefore there is a potential to apply financial instrument (e.g. loan) or a combination of loan and subsidy. Application of financial instrument would make the intervention revolving and implemented on a wider scale.

There are some efficiency issues in regulation regarding definition of public road transport routes. The demand is not fully satisfied in sparsely populated areas, where the public service is rare. Setting of routes is a balance between the financial possibilities of the municipality and needs of the population as majority of routes are unprofitable.

The railway operator takes the responsibility to serve the society in defined routes at commercially unprofitable conditions. Since 2009 the compensation to the railway operator is supposed to be provided based on the public service contract with the operator (following the Regulation (EC) No 1370/2007). However, only a minor share of losses was actually compensated (e.g. only EUR 0.328 million compensated out of EUR 34.2 million loss in 2014³³⁹). New public service contract in line with the regulation is planned to be launched in 2018.³⁴⁰

Several efficiency issues identified in relation to the tax on environment pollution (for mobile pollution sources that are used for commercial purposes). The tax is not supporting the delivery of passenger carriage services. Also the tax is not changing the behaviour of polluters. Another weakness is that the use of revenues generated by the tax is not directly linked to environmental issues.³⁴¹

All five interventions in relation to roads maintenance and development are contributing to the potential to meet the demand for road network. The most significant in terms of the scope are: Maintenance and Development Programme for roads and ESIF investments for upgrade and construction of road infrastructure. There are efficiency problems in financing the roads and in the regulation regarding requirements for building and maintenance of the roads. There is a practise that part of the revenues from excise duty dedicated for road maintenance and development programme are taken away for other purposes of the state. Also the financing of roads could be further improved by changing the application of vignettes. The current pricing system based on time does not represent the length of roads used (kilometres) by a particular vehicle. Shifting from time based pricing system to kilometres based system (e-tolling) should increase the efficiency of the intervention by making the revenues more adequate to the scope of pollution and damage to the road infrastructure.

In addition to the above mentioned issues there are weaknesses in the regulation of roads building and maintenance and cases of inefficient use of public funds.³⁴² As a result the quality of roads is not sufficient in many cases. In addition, the share of paved roads in the overall network is lagging behind the EU standards. The investigation of the road quality initiated by the Ministry of Transport and communications in 2017 should reveal systemic problems in the process of building and maintenance of roads. Furthermore, the maintenance and development is managed entirely by the public sector (private operators are involved

³³⁸ Data of AB "Kauno autobusai"

³³⁹ „Analysis of the demand for public transport and the compatibility of long-distance bus and intercity train routes compatibility analysis” Author - BGI Consulting, Contracting Authority - Ministry of Transport and Communications, 2016

³⁴⁰ Based on the information gathered during expert interviews

³⁴¹ Based on the information gathered during expert interviews

³⁴² <http://sumin.lrv.lt/lt/naujienos/pirmieji-keliu-kokybes-audito-rezultatai-be-defektu-tik-1-is-10-keliu> or <http://sumin.lrv.lt/lt/naujienos/vi-automagistrale-auditas-neskaidrus-sandoriai-atostogos-italijoje-idarbinti-gimines-ir-paslaugos-saviems>

through public procurement procedure). There are processes started by the Ministry to make the sub-sector of roads transparent.

In terms of supporting the system for electric vehicles, private initiative is available in developing charging stations, private operators has more or less equal terms of competition with public providers. Some improvements in the efficiency (or sustainability of financing) might be possible in the future by introducing of tariffs for charging of electric vehicles. The charging infrastructure needs to be significantly developed. However, reaching a certain level of the use of electric vehicles would allow gradually introducing the tariffs. Availability of tariffs would make the financing of the infrastructure sustainable as the revenues could be used for maintenance and further development of the infrastructure.

Concerning the considerations about transferring provision of the service or its part to private partners a few statements can be made. The passenger carriage services provided by railways and majority of the suburban routes operated by roads transport are not profitable. The service is provided for wider social and economic benefits, but not for the financial profit. Therefore these activities are not potential for market services (not subsidised). The loss of passengers' carriage by railways is compensated by the profit earned in transportation of goods. There is a debate ongoing that this practice is not expedient.³⁴³ The government has not fulfilled its obligation to compensate all loss, however the operator was criticised as not making enough efforts to reduce the loss. The ministry and the new managers of the railway company are committed to solve both issues. New public service contract is planned to be launched in 2018³⁴⁴. Development of the charging stations for electric vehicles can be implemented by public companies and that is being done already.

2.13.3.3 SUPPLY SIDE: ADDITIONALITY OF SELECTED INTERVENTIONS

Majority of the interventions has a significant positive effect on the target group. The exceptions are: tax on environment pollution, regulation that service providers must have licence for carrying passengers, road user charge (vignettes), excise duty on energy products and reduced VAT applied for carrying passengers by regular routes.

The tax on environment pollution slightly increases the costs of service provision. However the tax is very small to have any significant effect on the target group.

While the road users' charge (vignettes) and excise duty on energy products are financial burden for the users, the revenue from these taxes are among the key sources for financing roads maintenance and development. Therefore, it contributes to the quality of roads. The sum of negative and positive impact on the users is assessed as insignificant positive. However, the current pricing system of vignettes based on time does not represent the length of roads used (kilometres) by a particular vehicle. The effect on the target group could be increased by shifting to kilometres based pricing (e-tolling) supported by intellectual transport systems. Length based pricing would make the charging more adequate to the scope of pollution and damage to the road infrastructure.³⁴⁵

Additionally the efficiency of exercise duty on energy products is reduced by some political decisions. In 2008 80 percent of revenues from excise duty on fuel products was allocated for roads maintenance and development, however in 2018 the share is 48 percent only. Reduced share of exercise duty that is allocated

³⁴³ „Analysis of the demand for public transport and the compatibility of long-distance bus and intercity train routes compatibility analysis“ Author - BGI Consulting, Contracting Authority - Ministry of Transport and Communications, 2016

³⁴⁴ Based on the information gathered during expert interviews

³⁴⁵ Based on the information gathered during expert interviews

for road maintenance and development programme together with the bad practise that part of the revenue gathered for the programme are reallocated for other purposes of the state make it challenging to have a sufficient funds for roads maintenance and development.³⁴⁶ At the same time the positive effect on the target group is reduced.

The impact on the target group of reduced VAT rate applied for carrying passengers by regular routes is ambiguous. In most cases the operators did not reduce the prices after VAT reduction. However, increase of VAT rate would result in increase of ticket prices.³⁴⁷

2.13.3.4 SUPPLY SIDE: SIDE-EFFECTS OF SELECTED INTERVENTIONS

The side-effects of the selected government interventions on businesses and business environment in most cases vary across insignificant positive and no effect. The interventions contribute to labour mobility, however the scope of contribution of single interventions was assessed as insignificant with the exemptions of financing interventions for roads maintenance and development. These financing interventions play a key role in the service delivery and were assessed as having significant effect on businesses and business environment.

Only a few cases identified when the interventions create unforeseen behaviour of the target groups. Exercise duty could be pointed out as such a case, since the duty is closely related to the illegal trade of fuel.³⁴⁸ Some negative side effects of implementing the interventions occur for the environment and human health as well. On the one hand, the interventions support services that have side effects manifesting in pollution, including nitrous oxides, particulars, noise, emissions of carbon dioxide and climate change. On the other hand, the alternative to private cars provided by public transport contributes to reduction of negative impact to the environment and human health. Obviously, the development of electric vehicles transport system reduces the negative impact of the transport sector.

Negative effects on the budget due to reduced VAT or provision of subsidies in relation to the service are considered to be outweighed by the positive impact on the mobility of the society.

2.13.3.5 DEMAND SIDE: IMPACT OF SELECTED INTERVENTIONS ON AFFORDABILITY OF THE SERVICE

No significant financial affordability issues were identified in relation to the interventions. Some interventions support the affordability of particular target groups (students, old people, etc.) by providing discounted prices of the services. The groups that are not supported in this way were assessed as not facing financial affordability issues in general.

In Lithuania the affordability of public services of passenger carriage is not so much related with the income level. The prices are in fact lower than the actual costs of the service provision and some target groups also get discounted prices for the services. The consumption is more limited by the place of service provision (geographical affordability). The population that is living in remote areas face challenges in terms of distance to the service point and timing of the services. The government interventions could contribute to

³⁴⁶ Based on the information gathered during expert interviews

³⁴⁷ Based on the information gathered during expert interviews

³⁴⁸ Study "Excise duty in Lithuania". Authors: UAB „Ekonominės konsultacijos ir tyrimai“ VŠĮ „Mokesčių ir verslo procesų administravimo centras“, 2014.

better geographical affordability. Solving the inefficiencies in delivering financing interventions described in the efficiency section would make the use of funding more rational. Also the potential of combined/integrated carriage system is not used. Such a system should encompass joint transportation services, using at least two means of transport managed through a single information service, ticket system and timetable.

The access to roads was assessed as not having any affordability issues.

The development of electric vehicle transport system is more relevant for high and middle-income individuals/households. However, low-income individuals/households use other means for movement, such as public transport or vehicles powered by traditional fuel, therefore the limitation in affordability should not have negative consequences.

2.13.3.6 CONSISTENCY OF SELECTED INTERVENTIONS

Inconsistencies among discounts applied for particular groups of passengers create difficulties for development of combined/integrated passenger carriage system.³⁴⁹ Law on transport discounts³⁵⁰ define the scope of discounts, but the municipalities can add new groups of supported passengers or increase the level of discounts on the road transport in their responsibility. The difference between municipal decisions and discounts applied for railways complicates the introduction of combined/integrated passenger system that would encompass joint transportation services, using at least two means of transport managed through a single information service, ticket system and timetable.

It is worth mentioning that planning of routes and timetables does not ensure avoiding duplications. The duplication of routes is mainly caused by the fact that routes and timetables of different modes of transport are planned by different institutions and the mechanism, which would oblige the coordination of routes and timetables, does not exist. The absence of such mechanism determines that the institutions responsible for route planning do not seek to minimise the costs incurred by the whole public transport system. Conversely, the aforementioned institutions seek to increase the number of passengers using their transport mode at the cost of other modes of public transport.

2.13.4 CONCLUSIONS AND RECOMMENDATIONS ON THE GOVERNMENT INTERVENTIONS IN THE LITHUANIAN TRANSPORT AND COMMUNICATIONS SECTOR

The interventions selected for in-depth analysis are related with financially large services of the Transport and communications sector. In terms of costs of the service provision, the largest is roads maintenance and development service (access to the road network) - around EUR 500 million annually, taking into account state and municipal budgets and ESI funds. Provision of passenger carriage services by the road transport costs around EUR 160 million and by railway - around EUR 45 million for one year. Development of electric vehicle transport system is the smallest service in financial terms.

³⁴⁹ Based on the information gathered during expert interviews

³⁵⁰ 30 March 2000, No. VIII-1605

The quality of planning government interventions in the sector varies between good and average. None of the interventions were assessed as having poor planning quality. The main weaknesses involve uncertainty about implementation period, results to be achieved and costs of implementation. Good planning was observed in ESI funded interventions as the planning involves all necessary components: implementation period, considerations on the target group, costs and revenues, results to be achieved, delivery standards.

The majority of government interventions related to passenger carriage public services by railway and road transport are contributing to the potential to meet the mobility demand of the society. However there are some problems in delivering the compensations for the loss in relation to provision of public services. The compensation to railway operator (state owned) is provided only to a minor extend (e.g. only EUR 0.328 million compensated out of EUR 34.2 million loss in 2014), therefore the operator has to cover the losses from the profit gathered in other activities (goods transportation). On the one hand the government has not fulfilled its obligation to compensate all loss, on the other hand the operator was criticised as not making enough efforts to reduce the loss. The ministry and the new managers of the railway company acting since the end of 2016 are committed to solve both issues. New public service contract is planned to be launched in 2018.

The costs of passenger carriage provision by railway could be decreased by reducing the capacity of the rolling stock used for the passenger carrying, abolishment of routes generating very low passenger flows, focusing on the most demanded railway routes, implementation of combined/integrated carriage system, that would encompass joint transportation services, using at least two means of transport managed through a single information service, ticket system and timetable. However, the establishment of combined/integrated carriage system, among other challenges, faces an issue in relation to customer support through discounts intervention. The target groups that are supported and the scope of discounts applied in road transport services vary across the municipalities, also there are differences in the discounts comparing to the railway operator. The intervention should be improved by better coordination of the scope and target groups of the discounts.

The compensations provided by municipalities to passenger carriers in local road routes were not timely in some of the cases. In addition to that, the intervention could be improved by changing the way of selecting operators for particular routes. Both profitable and unprofitable routes could be merged into one package for selection.

Additional revenue in road public transport can be generated through better coordination of the routes and timetables between municipalities, as well as between road transport modes and railway.

The quality of passenger carriage public services by roads needs to be improved. The transport fleet is mostly old and the level of comfort is not sufficient. Municipalities lack of funds to renew the transport fleet. The subsidies from ESI funds allocated for acquisition of new transport vehicles do not satisfy the demand of fleet renewal. Financial instrument in a form of loan or a loan combined with subsidy might be considered. Revolving financial instrument would allow acquiring more new vehicles than in case of subsidies and would contribute to the sustainability of renewal process. New transport vehicles bring financial savings of operating costs and better meeting with the quality standards.

The consumption of passenger carriage public services is limited by the place of service provision. The population that is living in remote areas face challenges in terms of distance to the service point and timing of the services. Solving the above mentioned inefficiencies in delivering financing interventions in relation to railway and road transport would make the use of funding more rational and unlock possibilities for improvement of geographical affordability.

The tax applied for mobile pollution sources (road, railway, air, water motor vehicles) that are used for commercial purposes does not change the behaviour of polluters. Another inconsistency is that the use of revenues generated by the tax is not directly linked to environmental issues. The tax should be improved in terms of impact and use of revenues.

The impact on the target group of reduced VAT rate (9 percent instead of regular 21 percent) applied for carrying passengers by regular routes is ambiguous. The ticket prices after VAT reduction in most cases remained unchanged by the operators. However, if the VAT would be increased the prices would be increased as well thus negatively affecting the affordability of services.

Financing of the roads maintenance and development programme faces major challenges. In 2008 80 percent of revenues from excise duty on fuel products was allocated for roads maintenance and development. In 2018 the share is 48 percent only. This creates a lack of funding for roads maintenance and development. In addition to that, there is a bad practise that part of the revenues gathered for road maintenance and development programme are taken away for other purposes of the state.

The current pricing system of the road vignettes and the amount of revenues collected do not properly compensate the scope of pollution and damage to the road infrastructure. The system based on time does not represent the length of roads used (kilometres) by a particular vehicle. Shifting from time based pricing system to kilometres based system (e-tolling) should improve the intervention by making the revenues more adequate to the scope of pollution and damage to the road infrastructure.

In addition to the above mentioned issues there are weaknesses in the regulation of roads building and maintenance and cases of inefficient use of public funds. As a result of that the quality of roads is not sufficient in many cases. The investigation of the road quality initiated by the Ministry of Transport in 2017 should reveal systemic problems in the process of building and maintenance of roads. In addition to that, there are processes started to make the sub-sector of roads transparent.

In terms of supporting the system for electric vehicles, private initiative is available in developing charging stations, private operators has more or less equal terms of competition with public providers. There is a future potential to develop revenue through the introduction of tariffs for charging of electric vehicles. The level of use of electric vehicles is currently very low (620 electric vehicles in Lithuania) and the charging infrastructure needs to be significantly developed. Reaching a certain level of the use of electric vehicles would allow gradually introducing the tariffs in order to ensure resources for maintenance of the infrastructure and further development.

2.13.5 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

This chapter presents the analysis of the potential for the implementation of financial instruments in the four Lithuanian Transport and communications sector's services selected for the in-depth analysis:

- Passenger carriage public services by railway;
- Passenger carriage public services by road transport;
- Access to the road network;
- Development of electric vehicle transport system.

2.13.5.1 PASSENGER CARRIAGE PUBLIC SERVICES BY RAILWAY

TABLE 195. POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN LITHUANIA
PASSENGER CARRIAGE PUBLIC SERVICES BY RAILWAY

Criteria	FI potential
Pricing system	Consumer-paid (low cost coverage, affordability concerns)
Regulatory/governance Framework	Public-domain, centralised
Market potential	Potential for efficiency improvement/increase of scope of services
Accountability	Performance framework
Capacity	Qualitative standards are met

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is available and regulated. Consumer payment for the service covers only a share up to 25 percent of the total annual costs of provision (ticket prices had some small increase in the last years). Further revenue is generated through subsidiary services (e.g. transportation of parcels and rent of railway wagons), covering another small share of service provision costs. Service is less consumed by high income individuals, who often prefer to use private transport modes rather than the railways service. Effect of price increase on the demand of such services, together with service quality improvement, depends on the profile of consumers. Service provision to passengers is not profitable and it is provided for wider social and economic benefits.

REGULATORY AND GOVERNANCE FRAMEWORK

The service is provided exclusively by the state-owned entity AB "Lietuvos geležinkeliai". No private entities deliver this service in the market due to high-fixed costs, technological superiority of particular entity/entities and market size.

Furthermore, foreign operators could not enter the market due to technical reasons, since the standard gauge of railway lines in Lithuania and Western Europe are different and, consequently, huge investments would be necessary for new operators to finance the rolling stock appropriate for Lithuanian infrastructure.

There are considerations about changing the mechanism for funding the service (intervention “Subsidy for carrying passengers by railway”). Losses from provision of such service (since it is not profitable nor fully covered by consumer payment), should be compensated from state budget, however the actual compensation (intervention “Subsidy for carrying passengers by railway”) accounts only for small fraction of the losses, being then compensated by the profit earned in transportation of goods (subsidiary services). Ongoing debate questions the adequacy of this practice and raise considerations for changing funding mechanisms. New public service contract that establish proper loss compensation mechanism is planned to be launched in 2018.

MARKET POTENTIAL

All households are targeted by the service (specifically, 4.2 million passengers on local routes according to data of 2015 annual report) and the state enterprise makes 100 percent of the market in service provision. There is room for further increase of prices in the routes that are most demanded, generating more revenue.

Additionally, the costs could be reduced by reduction of the capacity of the rolling stock used for the passenger carrying by railways, abolishment of routes generating very low passenger flows, focusing on the most demanded railway routes.

Further revision of railway routes, implementing combined carriage system can be considered. In this regard it is proposed to establish a new type of passenger carriage – integrated (or combined) passenger carriage, which would encompass joint transportation services, using at least two means of transport managed through a single information service, ticket system and timetable.

Better route planning of local railway routes and long-distance bus routes could increase the revenue and decrease costs of railways.

ACCOUNTABILITY

Information is available on the context of the service, objectives are clearly defined and targets available. Additionally, short-term and long-term objectives are consistent.

CAPACITY

There are currently no considerations about transferring provision of the service to private entities. The service meets the qualitative standards.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

Consumer payments of service cover only a small share of the costs. Revenue can be generated through improvement of efficiency (i.e. better planning of routes according to demand, increasing the scope through joint coordination between transport modes – railway/roads).

The Lithuanian railway company AB “Lietuvos geležinkeliai” has, in the recent years, utilised loans from the EIB for various works related to the railway system improvement (for instance, purchase of rail freight wagons to modernise the rolling stock between 2012 and 2016; and, more recently, signed a loan contract with the EIB in the end of 2015, for renewal of the passenger rolling stock, electrification and rail freight infrastructure. Indeed, the EC Country Report of 2017 indicates that significant progress is expected in the near future on the sector of railway transport systems, from the financial and funding instruments currently being used. It is worth noting, however, that the market remains non-competitive, despite being formally open to competition.

Finally, under improved conditions in the capacity of revenue/savings generation projects and entities, FIS are commonly utilised in international experiences as means of investing in improvement and enlargement of railroad services. Such use is illustrated below, through the example of the Italian railway network.

In December 2015, the European Investment Bank (EIB) and Italian state railway company Ferrovie dello Stato (FS) signed a EUR 300 million financing agreement, in the form of a bond subscription, to fund the acquisition of new rolling stock for use on regional lines.

Specifically, the EIB subscribed a corporate bond issued by FS to finance the acquisition of new trains (49 trainsets and 250 double-deck coaches) for regional services in Lazio, Tuscany, Veneto, Piedmont and Liguria. Passenger services operator Trenitalia's total investment in the five regions is EUR 700 million.

The bond also carries the guarantee of the European Fund for Strategic Investments (EFSI).

2.13.5.2 PASSENGER CARRIAGE PUBLIC SERVICES BY ROAD TRANSPORT

TABLE 196. POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN LITHUANIA
PASSENGER CARRIAGE PUBLIC SERVICES BY ROAD TRANSPORT SERVICE

Criteria	FI potential
Pricing system	Consumer-paid (covering up to 75% of total costs)
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)
Market potential	Potential for efficiency improvement/better coordination
Accountability	Performance framework
Capacity	Transfer of whole service (at policy-level plan) / Qualitative standards partially met

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by relevant authorities. Consumer payment for the service covers a share between 50 and 75 percent of the total annual costs of provision. Further revenue is generated through subsidiary services (e.g. transportation of parcels and advertising in buses and trolleybuses). Service is less consumed by high income individuals, who often prefer to use private transport modes rather than this service. Effect of price increase on the demand of such services, together with improvement of service quality, depends on the profile of consumers.

REGULATORY AND GOVERNANCE FRAMEWORK

Municipality-owned entities dominate the market of service provision in urban and sub-urban routes. Private operators are also present in the market serving long-distance routes as well as some suburban transportation routes, through public procurement. Major obstacles to enter the market for private companies are linked to market size (low number of passengers in majority of the routes) and legal/administrative restrictions imposed by state/municipal body. Choice by the costumer is not possible though, since some routes are operated by public providers only.

Insufficient investment affects the quality of the service (e.g. old transportation fleet in some municipalities, low level of comfort in some buses and trolleybuses). Intervention "ESIF subsidies for renewal of transport fleet" in 5 largest cities was available.

MARKET POTENTIAL

All population is targeted by the service (specifically, 378,877 passengers in buses and trolleybuses in 2016) and market share of public providers is above 66 percent. Additional revenue could be generated through a better coordination of public transport system between municipalities, as well as further coordination between road and railway modes of transport. However, the establishment of combined/integrated carriage system, among other challenges, faces an issue in relation to customer support through discounts intervention. The difference between municipal decisions and discounts applied for railways complicates the introduction of combined/integrated passenger system.

It is worth noting the sector is mainly capital intensive and require significant investments (in capital and equipment) to deliver high quality standard services.

ACCOUNTABILITY

Information is available on the context of the service, objectives are clearly defined and targets available. Additionally, short-term and long-term objectives are consistent.

CAPACITY

The route operators are selected by competitive tendering procedure organised by municipalities. Some routes are already operated by private entities selected through tendering procedure.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

Service provision already counts with a mixed public/private participation, which can be further enhanced. Additional revenue can be generated through better coordination between municipalities, as well as between railway and road transport modes. Introduction of new transport vehicles for the service provision can generate operational savings in terms of fuel consumption and maintenance. There is a potential of introducing financial instrument (loans) combined with subsidies for renewal of the transport fleet.

2.13.5.3 ACCESS TO THE ROAD NETWORK

TABLE 197. POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN LITHUANIA
ACCESS TO THE ROAD NETWORK SERVICE

Criteria	FI potential
Pricing system	Free of charge for passenger cars. Vignettes applied for buses and trucks.
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)
Market potential	Market barriers (High capital investments)
Accountability	Performance framework
Capacity	Qualitative standards met partially

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service is free of charge for passenger cars. Buses and trucks pay for the roads by purchasing vignettes (intervention “Charge on road users (vignettes)”).

There is a potential for generating additional revenue through improving the application of vignettes (shifting from time based pricing of vignettes to length based tolling) and introduction of tariffs for some roads (e.g. motorways). Effect of price increase on the demand of such services, together with improvement of service quality, depends on the profile of consumers.

REGULATORY AND GOVERNANCE FRAMEWORK

Service provision is dominated by government-owned entity (state enterprise “Kelių priežiūra”), together with municipalities. Private entities are present in the market, selected by public procurement, providing services such as road construction and maintenance.

Insufficient investment (interventions “Subsidy for the development and maintenance of road infrastructure (under Maintenance and Development Programme for Roads)” and “Subsidies for upgrade and construction of road infrastructure”) affects the quality of the service (e.g. not sufficient share of paved roads, cases of insufficient quality of roads in terms of depreciation over time).

MARKET POTENTIAL

All households and private companies are targeted by this service (1.5 million road transport vehicles, 1.1 million private cars in Lithuania). Also the service is used by transiting vehicles for abroad.

It is worth noting the sector is mainly capital intensive and require significant investments (in capital and equipment) to deliver high quality standard services. Interventions “Subsidy for the development and maintenance of road infrastructure (under Maintenance and Development Programme for Roads)” and “Subsidies for upgrade and construction of road infrastructure” are available.

ACCOUNTABILITY

Information is available on the context of the service, objectives are clearly defined and targets available. Additionally, short-term and long-term objectives are consistent.

CAPACITY

There are currently no considerations about transferring provision of the service to private partners. Qualitative standards are met partially.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

The service is free of charge for passenger cars and does not demonstrate capacity of revenue generation, thus limiting the space for FIs introduction. Potential revenue can be generated through improving the application of vignettes and introduction of tariffs in certain roads.

2.13.5.4 DEVELOPMENT OF ELECTRIC VEHICLE TRANSPORT SYSTEM

TABLE 198. POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN LITHUANIA
DEVELOPMENT OF ELECTRIC VEHICLE TRANSPORT SYSTEM SERVICE

Criteria	FI potential
Pricing system	Free of charge
Regulatory/governance Framework	Public/private (Public share up to 66% of the market)
Market potential	Market barriers (Small market size)
Accountability	Performance framework
Capacity	Transfer of parts of service (ongoing) – no lack of resources for transition

Source: BGI Consulting et al, 2017

PRICING SYSTEM

The electric charging stations developed by public sector (intervention “Subsidy for developing charging system for electric vehicles”) provide the service for electric vehicles free of charge. No additional revenue is currently generated.

There is a limited potential to develop revenue through the introduction of tariffs (i.e. replace the service of free electric charging with the paid one). However, this could be a barrier to the development of use of electric vehicles. Effect of price introduction on the demand of such services, together with improvement of the service quality, could be applied keeping the same levels of consumption among all groups.

REGULATORY AND GOVERNANCE FRAMEWORK

Service is delivered by governmental institution (Ministry of transports and communications) together with the 60 municipalities. Private operators are present in the market providing stations for electric charging of vehicles.

MARKET POTENTIAL

Service is not consumed by all groups, specifically not by low-income individuals/households, since the objective of the service is relevant only for certain groups of society (i.e. electric vehicles are usually affordable for high and middle-income individuals/households only).

Service provision targets specific income groups (7926 hybrid and 620 electric vehicles in the country (December 1, 2017)). Market share of public providers is between 34 and 66 percent.

ACCOUNTABILITY

Information is available on the context of the service, objectives are clearly defined and targets available. Additionally, short-term and long-term objectives are consistent.

CAPACITY

Building of the network of electric charging stations is implemented by public (intervention “subsidy for developing charging system for electric vehicles”) and private sector. Some charging stations were developed by private operators at their costs.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Service is free of charge and has potential for introduction of tariffs to generate revenue to some extent. The level of use of electric vehicles is currently very low and the charging infrastructure needs to be significantly developed. Reaching a certain level of the use of electric vehicles would allow gradually introducing the tariffs in order to ensure resources for maintenance of the infrastructure and further development. Upon availability of adequate projects, there is space for the introduction of FIs.

2.14 CROATIA: TRANSPORT AND COMMUNICATIONS

2.14.1 GENERAL OVERVIEW OF THE GOVERNMENT INTERVENTIONS IN THE SECTOR

The main policy objectives³⁵¹ in the Transport and communications sector are to increase the connectivity and integration between different transport modes and networks, improve safety, reduce negative impact on the environment and improve the efficiency of the services.

Particular objectives³⁵² are foreseen for different transport modes. In terms of roads transport the objectives involve the need to increase accessibility of certain areas and connectivity with neighbouring countries, reduce traffic congestion in certain areas (including support to intermodal transport), business restructuring of the road sector in terms of the asset management and financial sustainability. Policy objectives in the relation to the railway services include the improvement of cargo transportation to and from Rijeka port, improvement of the use of railways in larger agglomerations (Zagreb, Rijeka, Split, Varaždin, Osijek), improvement of the level of service and the railway fleet, increase in the efficiency of the public service in general (business and financial management, logistics). In terms of coastal maritime traffic of passengers the objectives involve development of Rijeka port and development of sea cargo transport. City public transportation services aim at better connectivity between city transport, road, railway and water transport, quality of the services and better efficiency similarly as the services mentioned before.

Positive trends were identified in terms of the main context indicators³⁵³ for the road transport (length and categorisation of road network; road capacities; road quality (in terms of security, environment, technical design) and for maritime traffic of passengers (maritime transport of passengers by NUTS 2 regions; number of passengers per port, etc.). Constant trend with no significant changes was identified for city public transportation services (public transport accessibility (number of population/distance to public transport)).

TABLE 199. CROATIAN TRANSPORT AND COMMUNICATIONS SECTOR'S SERVICES AND THEIR OBJECTIVES

Service title	Aim of the service
Passenger carriage public services by railway	To provide railway carriage of passengers.
Access to railway infrastructure	To secure railway connectivity: operation, building, reconstruction and maintenance of railway.
Access to airport infrastructure	To stimulate air traffic/support tourism development/maintain national strategic infrastructure.
Access to inland waterways	To maintain and develop inland waterways and ports, as a national strategic resource.
Access to broadband networks	To develop NGN broadband infrastructure in areas without sufficient commercial interest for investments, for the maximum increase of social and economic benefits.

³⁵¹ Transport Development Strategy 2014-2030 (<http://www.mppi.hr/default.aspx?id=16279>)

³⁵² Transport Development Strategy 2014-2030 (<http://www.mppi.hr/default.aspx?id=16279>)

³⁵³ Data from Eurostat, Ministry of Sea, Transport and Infrastructure, State Office for Statistics, Croatian Roads, EU Observatory on Road Safety, Ministry of Interior.

Access to the road network	To secure good road connections in the whole territory: operation, building, reconstruction and maintenance of highways, state roads and county roads.
Coastal maritime traffic of passengers	To secure connection of islands with mainland.
City public transportation services	To provide public transportation.

Source: BGI Consulting et al, 2017.

Seven services are attributed to transport and one service to communications sub-sector. Out of the seven services in the transport system, three provide passenger carriage (by railway, by water and by public city transport) and four are aimed at ensuring the access to transport infrastructure (railway, airports, waterways and roads).

2.14.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

The scheme below disassembles the logic of the overall governmental interventions in the Transport and communications sector in Croatia. It starts with the rationale of the provision of the services by the public sector, then indicates services corresponding to that particular rationale. Services are classified not only by the rationale they correspond to, but also by a body, which is responsible for the provision of them. Other governmental interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

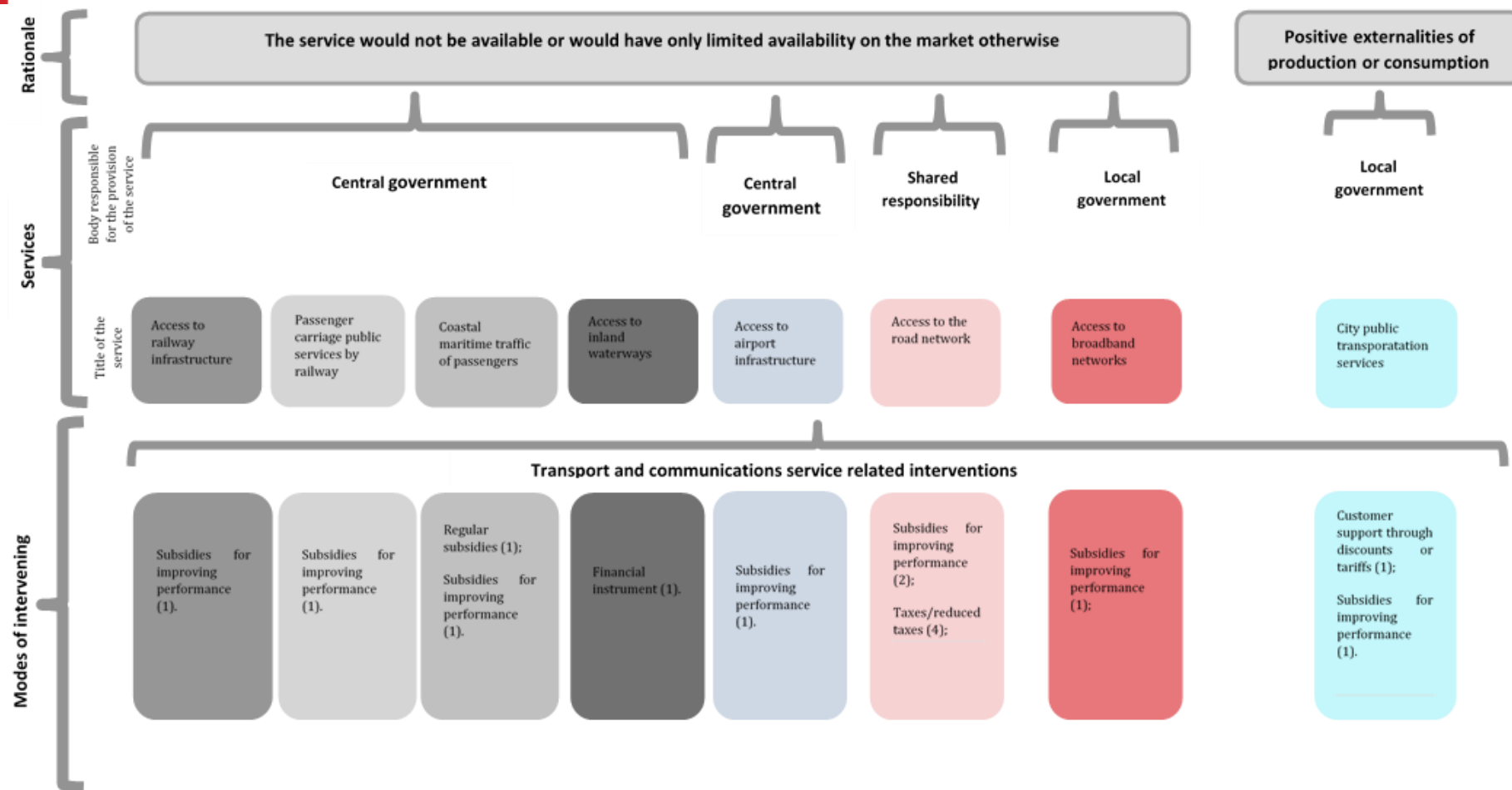


FIGURE 64. LOGIC OF THE INTERVENTIONS IN THE CROATIAN TRANSPORT AND COMMUNICATIONS SECTOR

Source: BGI Consulting et al, 2017

There are two rationales for the provision of public services in the Transport and communications sector in Croatia: *limited or no availability of the services in the market without the government intervention* and *creating incentives for production and consumption with positive externalities*. The most common rationale or market gap that is filled in by public services is *limited or no availability of the services in the market without the government intervention*. Seven services are provided by the public sector due to this rationale. E.g. public transport in coastal liner shipping is considered to be an important factor ensuring permanent and regular linkage of the island with the mainland and the islands to each other, which is a necessary precondition for the sustainable development of inhabited islands. The vast majority of lines are not profitable off-season, so market could not ensure the provision of service in a way necessary. Regarding the city public transportation services, this kind of transport, especially within large urban agglomerations is considered to be a social benefit and more environmentally-friendly.

2.14.1.2 LEVEL OF LIBERALIZATION OF THE SERVICES PROVISION

Public services in the Transport and communications sector were ranked according to the level of liberalisation in their provision in the figure below.

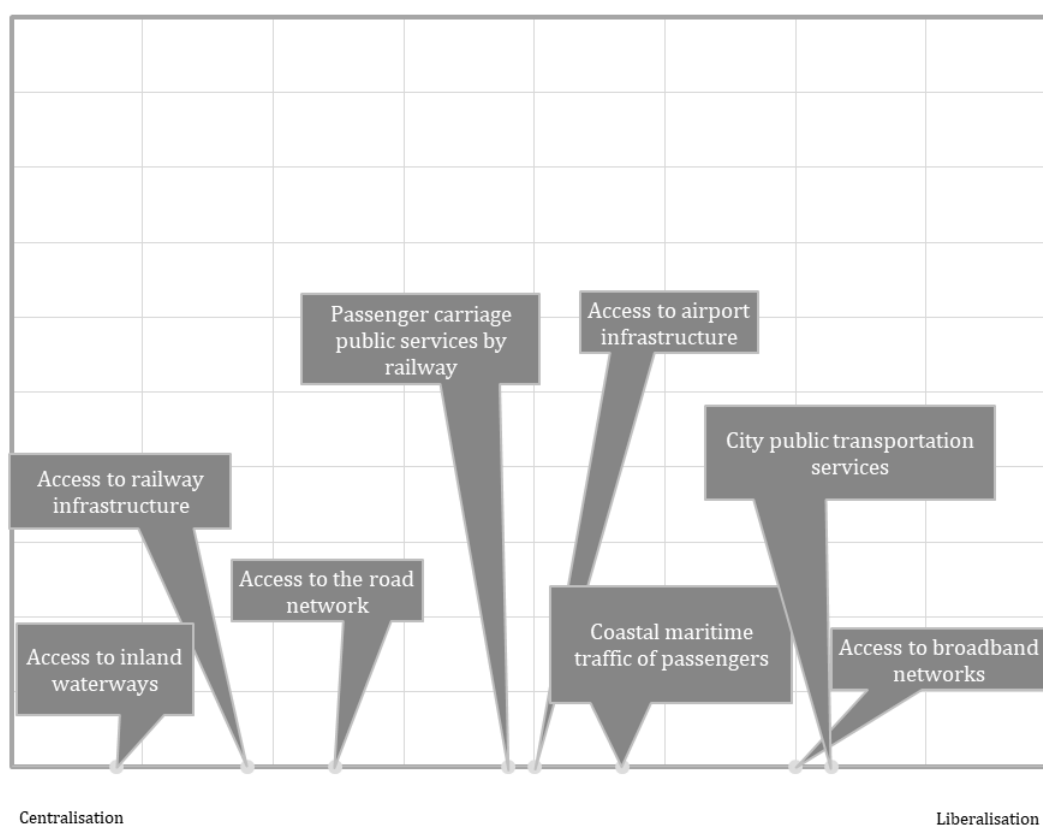


FIGURE 65. SUPPLY SIDE OF THE CROATIAN TRANSPORT AND COMMUNICATIONS SECTOR SERVICES

Source: BGI Consulting et al, 2017.

The most centralised services are access to inland waterways, access to railway infrastructure and access to the road network. The assessment is mainly explained by the selection to provide the services through state/municipal owned entity and by dominating position of public operators in the market. In addition, the services are free of charge or the pricing is available, however, regulated.

Two services closest to the liberal mode of provision (compared to other services in the sector) are – city public transportation services and access to broadband networks. The placement on the relatively liberal side of the centralisation-liberalisation axis of city public transportation services can be mainly explained by the selected service delivery mode (regulated privatisation) and the fact that pricing is available but not regulated. The most common service delivery mode of the access to broadband network is through private firms and they have a large share of the market.

2.14.2 ANALYSIS OF SELECTED SERVICES

The figures provided below depicts the mechanism for the analysis of each service selected. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision. Graphs in light red indicate service providers and group they are targeted at.

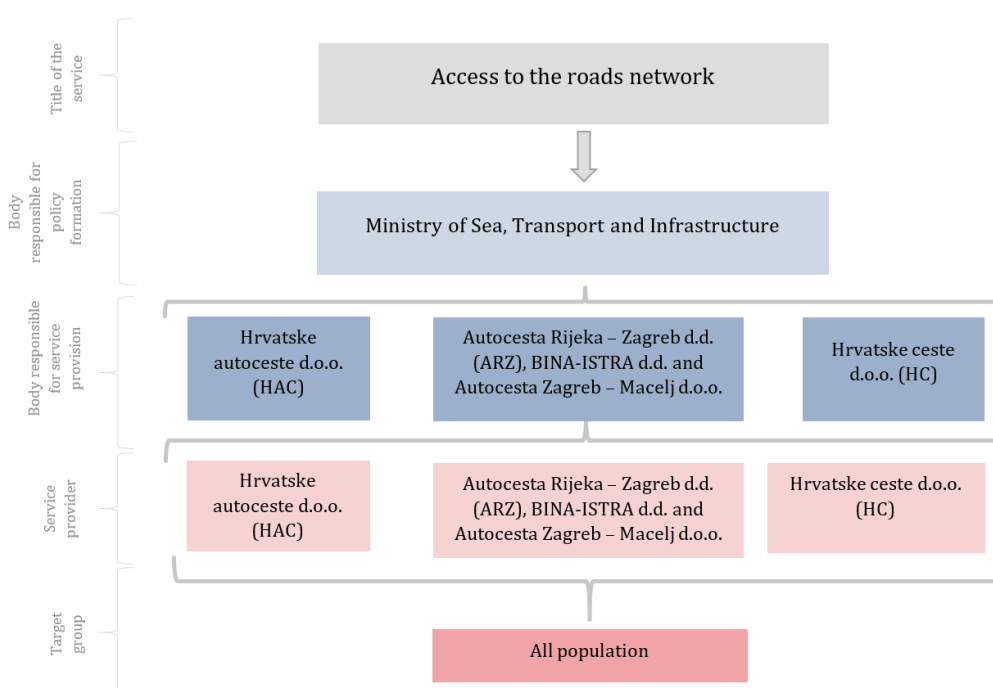


FIGURE 66. ACCESS TO THE ROADS NETWORK SERVICE PROVISION MECHANISMS IN TRANSPORT AND COMMUNICATIONS SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

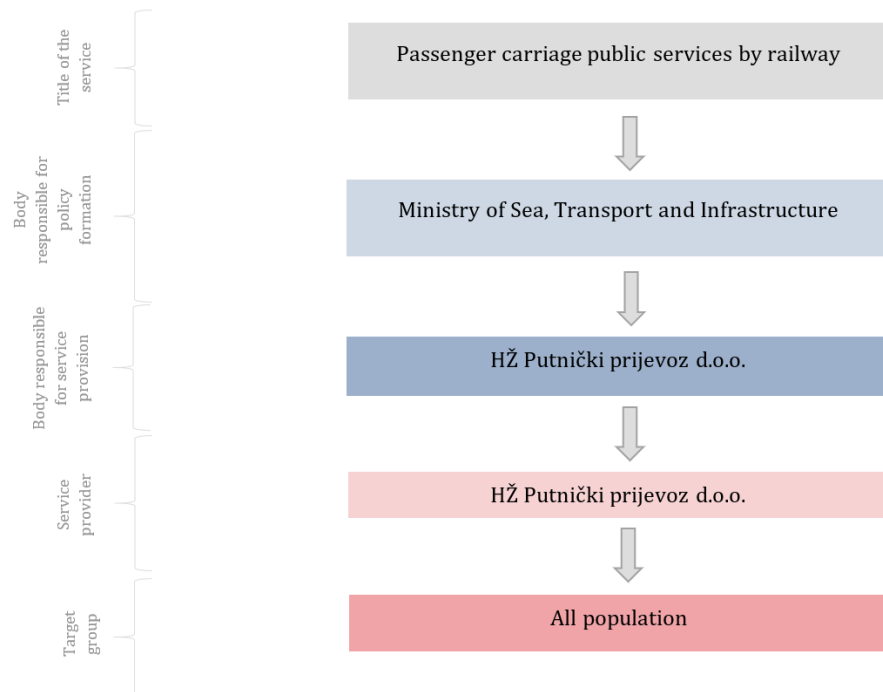


FIGURE 67. PASSENGER CARRIAGE PUBLIC SERVICE BY RAILWAY PROVISION MECHANISMS IN TRANSPORT AND COMMUNICATIONS SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

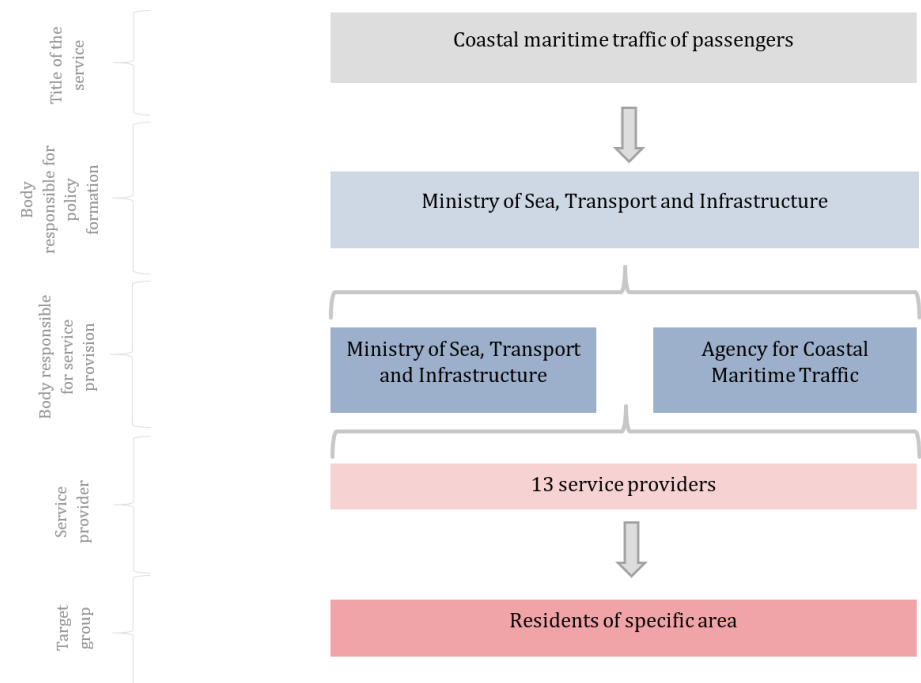


FIGURE 68. COASTAL MARITIME TRAFFIC OF PASSENGERS SERVICE PROVISION MECHANISMS IN TRANSPORT AND COMMUNICATIONS SECTOR IN CROATIA

Source: BGI Consulting et al, 2017

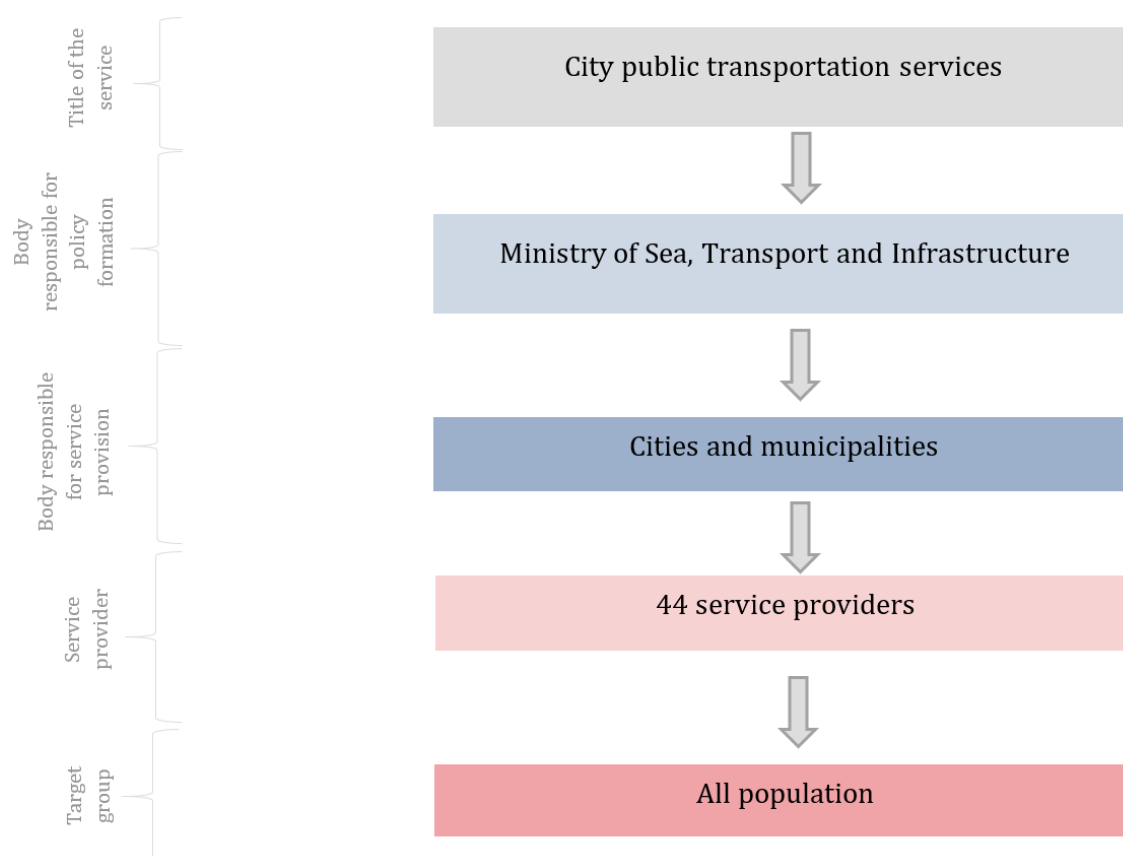


FIGURE 69. CITY PUBLIC TRANSPORTATION PROVISION MECHANISMS IN TRANSPORT AND COMMUNICATIONS SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

In terms of costs of the service provision the largest among the selected services is ensuring the access to the roads network. Croatian Motorways (HAC) annual expenditure is about EUR 200 million, out of which about 113 million is for repayment of loans and Croatian Roads (HC) annual expenditure makes up around EUR 325 million.³⁵⁴ Major funding sources for roads maintenance and development are excise duty on gasoline for both motorways (HAC) and state roads (HC) and HAC additionally has revenues from tolls. County roads are managed by County Road Administration, whilst maintenance and investments in local roads are the responsibility of local governments. Both of these are funded from county and local taxes. Among selected the second largest service in financial terms is passenger carriage public services by railway. Annual expenditure of HŽ Putnički prijevoz d.o.o. is around EUR 135 million.³⁵⁵ Subsidies for passenger transportation (PSO contract with the Government) make up around half of the enterprise operational revenue, around one third is received from the passenger tickets and the rest are revenues from provision of services and sale of goods.³⁵⁶ Amount of subsidies from the state budget for coastal maritime traffic of passengers ranged from EUR 50 to 40 million annually³⁵⁷. According to national

³⁵⁴ Transport Development Strategy of the Republic of Croatia 2014-2030 (<http://www.mppi.hr/default.aspx?id=16279>), pg 116, 117

³⁵⁵ Average expenditure for years 2012 – 2015, on data from Transport Development Strategy of the Republic of Croatia 2014-2030 (<http://www.mppi.hr/default.aspx?id=16279>, pg. 94

³⁵⁶ Own calculation from Financial statement of HŽ Putnički prijevoz d.o.o. for 2016 (<http://www.hzpp.hr/izvjesca-2?m=400&mp=324&r=294>, Izvješće o stanju Društva za 2016. Godinu)

³⁵⁷ Data from Transport Development Strategy 2014-2030 (<http://www.mppi.hr/default.aspx?id=16279>), pg. 148, 149 and Report on the state budget (<http://www.mfin.hr/hr/izvjestaji-o-izvršenju-drzavnog-proracuna>)

Transport Development Strategy, annual revenues in city public transportation services are about EUR 47,7 million³⁵⁸. Analysis of financial reports for 2015 of public transportation service providers in 4 largest cities (Zagreb, Rijeka, Osijek and Split), show annual revenue of about 133 million EUR.

2.14.2.1 SUPPLY SIDE: QUALITY OF PLANNING OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Quality of planning of the services was evaluated by examining how clearly the long-term (i.e. policy) and the short-term (i.e. operational) objectives³⁵⁹ of the services were defined and how compatible they are among themselves. Both the long-term and short-term operation objectives were assessed as not clearly defined. However, the objectives are available, therefore the overall assessment is average. Only in the case of passenger carriage public services by railway the assessment is poor, since long-term and short-term objectives were identified as non-consistent (railway sector does not have a coordination and strategic business plan).

TABLE 200. QUALITY OF THE PLANNING OF THE TRANSPORT AND COMMUNICATIONS SECTOR SERVICES IN CROATIA

Name of the service	The long-term policy objectives are clearly defined	The short-term operational objectives are clearly defined	The long-term and short-term objectives are non-contradictory	Quality of planning of the service
Access to the roads network	×	×	√	AVERAGE
Passenger carriage public services by railway	×	×	×	POOR
Coastal maritime traffic of passengers	×	×	√	AVERAGE
City public transportation services	×	×	√	AVERAGE

Source: BGI Consulting et al, 2017.

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

³⁵⁸ Data from Transport Development Strategy 2014-2030 (<http://www.mppi.hr/default.aspx?id=16279>), pg 40.

³⁵⁹ Transport Development Strategy 2014-2030 (<http://www.mppi.hr/default.aspx?id=16279>)

TABLE 201. QUALITY OF THE PLANNING OF THE TRANSPORT AND COMMUNICATIONS SECTOR SERVICES RELATED INTERVENTIONS IN CROATIA

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Access to the road network	Special environmental charge on motor vehicles (Posebna naknada za okoliš na vozila na motorni pogon)	x	√	√	√	x	x	AVERAGE
	Special tax on motor vehicles (Poseban porez na motorna vozila)	x	x	√	√	x	x	AVERAGE
	Tax on road motor vehicles (Porez na cestovna motorna vozila)	x	√	√	√	x	x	AVERAGE
	Fee for the use of public roads (Naknada za uporabu javnih cesta)	x	√	√	√	√	x	GOOD
	ESI funds support for upgrade of TEN-T road network	√	√	x	√	√	√	GOOD
	ESI funds support for improving road safety	√	√	x	√	√	√	GOOD
Passenger carriage by railway	ESI funds for improving railway infrastructure	√	√	x	√	√	√	GOOD

Coastal maritime traffic of passengers	ESI funds support for improving public transportation service to islands	√	√	×	√	√	×	GOOD
	Subsidies for regular marine passenger lines	√	√	N/A	√	√	√	GOOD
City public transportation services	Road user charge (vignettes)	×	√	N/A	×	√	√	GOOD
	Maintenance and Development Programme for roads	√	×	×	√	√	√	GOOD

Source: BGI Consulting et al, 2017.

The quality of planning of interventions for majority of them was assessed as good. Only the tax type interventions were assessed as having average quality of planning. Their implementation period was not defined, as they are established by law and this is a common practice in the laws. However, such practise does not provide clear vision how long the intervention will be applied. Some gaps were also identified regarding the definition of results to be achieved and the overall size of the demand of the related services was not taken into account.

The quality of planning was assessed as good for ESI funds measures. The main weaknesses in these cases are related with the planning of revenues. Currently the revenues at the intervention level are not planed, however at project level each project shall be assessed in terms of financial feasibility and sustainability (CBA).

2.14.2.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Several criteria were taken into consideration for the assessment of the service delivery efficiency: satisfaction of demand and qualitative standards, availability of private entities and terms of competition between public and private sector.

TABLE 202. EFFICIENCY OF THE DELIVERY OF THE TRANSPORT AND COMMUNICATIONS SERVICES IN CROATIA

Name of the service	The overall demand of the service is met by the overall supply	The public service complies with the qualitative standards	There are existing private entities providing similar services in the market	Private entities occupy 34 percent or more of the service provision market	Private entities providing similar services in the market can compete on equal terms with the public providers	Efficiency of the delivery of the service
Access to the roads network	√	√	√	×	×	MEDIUM
Passenger carriage public services by railway	×	×	×	×	×	LOW
Coastal maritime traffic of passengers	×	√	√	×	√	MEDIUM
City public transportation services	×	√	√	×	√	MEDIUM

Source: BGI Consulting et al, 2017.

Efficiency of the service delivery was assessed as medium for three of the services and one service was assessed as delivered poorly. Ensuring access to the roads network satisfies the demand and qualitative standards, but faces challenges in relation to private entities' participation in the market on equal terms with public entities. It should be noted that private entities in the road sub-sector face legal/administrative restrictions and the costs of service are higher than of public operators.

The services of coastal maritime passengers and city public transportation has ensured proper conditions for private entities, e.g. each service provider is granted a right to operate a certain maritime route on the basis of public competition and PSO contract with the Agency for Coastal Maritime Traffic, however both services do not satisfy the demand.

Passenger carriage public services by railway does not satisfy the demand, lacks clear qualitative standards and the market of its provision is dominant by a public service provider, so the overall assessment given for this service is low. The main reasons causing insufficient quality of passengers transportation by railways involves a combination of poor infrastructure and maintenance of it, as well as ineffective management of the assets.³⁶⁰

All interventions are contributing to the potential to meet the demand (effectiveness of the service) or efficiency of the service, except for the tax type interventions in relation to access to the roads network. They were assessed as neither contributing to the effectiveness nor efficiency of the services. According to the Ministry of Finance, Croatian tax system is characterised by a large tax burden in comparison to neighbouring countries on the one hand, and a large number of tax reliefs, exemptions on the other,

³⁶⁰ Transport Development Strategy of the Republic of Croatia 2014-2030 (<http://www.mppi.hr/default.aspx?id=16279>)

resulting in questionable effects.³⁶¹ In addition, there is instability and uncertainty that worsens business environment and hinders the investments (from 2012 to 2015 there were 44 amendments to the tax regulations).

The ESI funded interventions³⁶² are expected to increase the efficiency of the roads system by reducing the number of congestion, creating new connections in the TEN-T network and thus reducing the duration of travel. ESI interventions in the railway system aim to upgrade the fleet, improve traffic management and increase connectivity with other modes of transport. The investments should also reduce the travelling time. Similarly, the ESI funds for coastal maritime traffic of passengers and city transport services aim at faster and more cost-effective provision of the services that is in line with the main objectives of the sector.

Concerning the considerations about transferring the provision of the service or its part to private partners a few statements can be made. Coastal maritime traffic of passengers and city public transportation services are already open to private partners. There are also policy level considerations of wider transfer of operation and maintenance of certain parts of highway network. Currently the government is analysing models for financial and business restructuring of public companies. The activities have only been initiated in summer 2017, so the alternatives are not yet formulated.³⁶³ There are also considerations in relation to passenger carriage public services by railway. The government analyses the models for financial and business restructuring of the railway sector. Formally, the market is liberalised, even though in passenger transportation there is only one-public-supplier. To the large extent formal and legislative preconditions for liberalised market are fulfilled through Act on regulation of railway services market (NN71/04). However, such barriers of the market as outdated and bad infrastructure as well as the size of the market remain.

2.14.2.3 SUPPLY SIDE: ADDITIONALITY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

All selected services were assessed as having significant positive effect on the target groups, except for the passenger carriage public service by railway the impact of which was identified as positive, however insignificant. To a certain degree, the railway passenger carriage service is an efficient and effective way of transportation. However, the raise of other means of transport (primarily road), diminishes the impact of passenger carriage public services by railway.

During the last 20 years the Croatian road sector has expanded resulting in high quality modern infrastructure, which also boosted the economic recovery in a post-war period. In terms of impact of coastal maritime traffic of passengers, Croatia has indented coastline and a fairly large number of inhabited islands, many of which do not have basic social infrastructure. Maintaining connectivity of islands with the mainland is just one of the measures for sustainable development of islands, as guaranteed through the Act on Islands.³⁶⁴ Efficient transport in cities is one of the main constituents of the economy and a common

³⁶¹ The law on income tax (<https://www.porezna-uprava.hr/Dokumenti%20vijesti/ZAKON%20%20POREZU%20NA%20DOHODAK%20%2011%202016%20%20KONA%C4%8CNO%20iza%2010.pdf>)

³⁶² Operational Programme Competitiveness and Cohesion 2014 – 2020 (http://www.strukturnifondovi.hr/UserDocsImages/Novosti/Programme_2014HR16M10P001_1_2_en.pdf)

³⁶³ The Ministry of the Sea, Transport and Infrastructure – Financial and business restructuring of the road sector (http://www.mppi.hr/UserDocsImages/2_Tekst%20poslovnog%20i%20financijskog%20restrukturiranja%20cestovnog%20sektora_VRH%20prilog%20ODLUCI_24032017.pdf)

³⁶⁴ Act on Islands (https://narodne-novine.nn.hr/clanci/sluzbeni/1999_04_34_706.html)

development factor. Improving the local or regional transportation system encourages job creation and population growth.

The outcome additionality for the overall economy varies across positive significant and insignificant. No negative effects were identified. The coastal maritime traffic of passengers is a precondition for maintaining and extending the employment of island population. However, due to the size of the target group, this impact cannot be characterised as significant. Efficient mobility in cities creates economic opportunities, enables trade, facilitate access to markets and services. Cities with good public transport are more appealing to businesses and tourists.

All subsidies were assessed as having significant positive effect on the target groups. Only tax related interventions related to the access to the roads network were assessed as having negative effects. E.g. special environmental charge on motor vehicles was assessed as having a negative effect on the target group. Revenue collected through this taxation is about 5 EUR per inhabitant annually³⁶⁵ and alongside other pollution related taxation it represents quite a burden for the economy. On the other hand, it allows for the implementation of quite stringent environmental policy, which is beneficial in the long-term.

The outcome additionality of the services related interventions in most cases is insignificant for productivity of private companies and has no effect on employment and capital investments. Negative effects, however insignificant, were identified only in the tax type interventions related to access to the roads network service. Significant additionality on productivity and employment was pointed out in relation to ESI funds support for improving public transportation service to islands. Improving infrastructure of ports will directly increase the productivity of private entities; increase of employment is expected to come as a result of greater productivity. ESI funds for improving public transportation services are also expected to have significant positive effects on the productivity and employment. Complexity of such projects implies increased productivity of a wide range of businesses. Large capital investments/complex projects such as these have potential to provide twice as many local jobs compared to the investment in other areas, e.g. roads.

2.14.2.4 SUPPLY SIDE: SIDE-EFFECTS OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Positive side-effects of all four selected services on businesses and business environment were identified. The side-effects vary across significant and insignificant. One of the key effects of the services is an increase in labour mobility. The services analysed have a great influence on the balanced territorial development. It enables the business sector to connect with the resources they need for businesses, as well as with other business entities and markets. Some more specific effects apply. E.g. maintaining connectivity with the mainland is a precondition for islands economy.

In terms of effect on the unforeseen behaviour of the target groups, none of the four services has such effects. However, all services, except the passenger carriage public services by railway, were identified as having negative side-effects on the environment. Increased air pollution, reduced biodiversity, greater risk of on the spot pollution were pointed out in the case of roads development. Increased traffic in the water

³⁶⁵ Regulation on unit charges, corrective coefficients and more detailed criteria and criteria for determining the special environmental fee for motor vehicles (https://narodne-novine.nn.hr/clanci/sluzbeni/2014_09_114_2168.html)

causes the damage to the environment. This impact is recognised and measures are taken to curb it. The environmental impact of the city public transportation is factored in urban mobility development plans.³⁶⁶

All services related interventions were assessed as having positive or no effect on businesses and business environment, except for the tax type interventions related to access to the roads network service. Their impact was assessed as either significant or insignificant negative, as they put a financial burden on business entities. Positive significant side-effects on businesses and business environment were pointed out for both interventions in relation to coastal maritime traffic of passengers. ESI funds support for improving public transportation service to islands will allow for significant investments into port infrastructure, modernisation of the fleet, improving logistics and management, improving the quality and reliability of the service. These capital investments should have positive effect on various business entities operating in the maritime traffic market. In addition to that, subsidies for regular marine passenger lines enable the economic activity on islands.

The services related interventions do not encourage unforeseen behaviour of the target groups. However, some negative side-effects on the environment were identified for subsidy type interventions implemented in relation to access to the roads network and coastal maritime traffic of passengers.

2.14.2.5 DEMAND SIDE: AFFORDABILITY OF THE SERVICES AND IMPACT ON AFFORDABILITY OF THE SERVICE RELATED INTERVENTIONS

No issues in terms of financial affordability of the services were identified. It was assessed that the consumption is more limited by place of the service provision for all services except for the roads transport. Lower consumption of passenger carriage public services by railway and city public transportation services was identified in high-income households due to their preference of other means of transportation.

Similarly as in the case of services, no financial affordability obstacles were identified in relation to the service related interventions. On the contrary, they support the affordability and availability of the services. E.g. subsidized island public road transport has been carried out since 2001 and provides free transportation for the following categories: elementary and high school students, students, pensioners and persons over the age of 65 as well as disabled persons.³⁶⁷

2.14.2.6 CONSISTENCY OF SERVICE RELATED INTERVENTIONS

There were no replacing or contradicting interventions found in the sector. All of the services related interventions either supplement or have no impact on each other.

³⁶⁶ Strategic Environmental Impact Study of the Transport Development Strategy of the Republic of Croatia 2017-2030 (http://www.mppi.hr/UserDocsImages/Strategic%20Impact%20Study-Transport%20Development%20Strategy%202017-2030%2016-6_17.pdf)

³⁶⁷ Ordinance on the conditions, criteria and manner of achieving the right to free public road transport (https://narodne-novine.nn.hr/clanci/sluzbeni/2007_08_82_2600.html)

2.14.3 CONCLUSIONS AND RECOMMENDATIONS

Railway. Main regulatory preconditions for restructuring the railway sector are set by separating the maintenance of infrastructure, operation of the network and transportation services. The maintenance and operation of the network is carried out by public operator, HŽ Infrastruktura Ltd, which allocates the train routes, determines the availability of infrastructural capacities and sets the prices for the use of infrastructure.

Roads. The Croatian motorway network is managed by four concessionaires: publicly-owned Croatian Motorways (HAC) and Motorway Zagreb-Rijeka (ARZ), and privately held Bina Istra and Autocesta Zagreb Macelj (AZM). HAC is a limited liability company for the management, construction, operation and maintenance of 914 km of motorways. ARZ started operations in 1998 as a limited liability company for construction, operation, management and maintenance of 187 km of motorway, mainly along the Rijeka-Zagreb section. HAC ONC, a joint subsidiary of HAC and ARZ, was created in 2013 from the operations and maintenance departments of the two companies, and was contracted in 2014 on a non-competitive basis to perform routine maintenance and toll collection activities for both the HAC and ARZ motorway sections. The relationships between HAC-ONC and HAC and ARZ are determined by a four-year contract expiring in 2018.

Passenger marine transport. Public coastal transport is important for the sustainable development of inhabited islands and is characterized as non-profit public service. Main regulatory body is the Agency for Coastal Line Transport, whose main duty is to plan and implement public service, which is entrusted to economic operators via public tendering. The Agency signs PSO contracts with concessionaires and oversees the expenditure and quality of service. The market is dominated by state-owned entity (Jadrolinija Ltd), even though since the 1 January 2017 the market is open to carriers from all European Union countries.

City transportation. Pursuant to the Utility Law, city transportation is the responsibility of local government. Conditions and manner of carrying out passenger transport are set up by City Council Decision and the service is provided on the basis of a concession contract. Certain municipalities have inherited infrastructural capacities (tram lines in Zagreb and Osijek, buses) and in these cases the service is usually provided by public companies, which dominate the market even though it is open to private bus companies.

TABLE 203. CONCLUSIONS ON THE GOVERNMENT INTERVENTIONS IN THE TRANSPORT AND COMMUNICATION SECTOR IN CROATIA

Name of the service	Planning of the service	Planning of all related interventions is GOOD or AVERAGE	Efficiency of the service provision	All related interventions have impact on the efficiency of the service	The service has positive impact on the target group	All related interventions have positive impact on the target group	The impact of the service on countries' economy is positive	There are no negative side-effects of service implementation	All related interventions have positive or do not have side-effects	The service is affordable to all income groups	There are no service related interventions that contradict or replace each other
Access to the roads network	AVERAGE	YES	MEDIUM	NO	YES	NO	YES	NO	NO	YES	YES
Passenger carriage public services by railway	POOR	YES	LOW	YES	YES	YES	YES	YES	YES	YES	YES
Coastal maritime traffic of passengers	AVERAGE	YES	MEDIUM	YES	YES	YES	YES	NO	NO	YES	YES
City public transportation services	AVERAGE	YES	MEDIUM	YES	YES	YES	YES	NO	YES	YES	YES

Source: BGI Consulting et al, 2017.

Railway. Restructuring of railway sector that is carried out since 2012 has not been successful, and financial sustainability and efficiency of public companies that dominate the market (HŽ Cargo, HŽ Infrastruktura and HŽ Putnički prijevoz) is even worse, with the state covering billions of losses. Railways sector is, after shipyards and roads, the third largest user of the state aid, which amounts to EUR 1.16 billion in 2006 – 2015 period. During the past 10 years cargo transport is reduced by 39 percent and only in 3 years time, from 2010-2012, the number of passengers dropped by 40 percent.

Roads. Croatia tops the list of countries in South-Eastern Europe by density of motorways (22.79 km of network /1000 km² land area). In part this outcome was due to a large road network expansion during 2001-2008, when investments in motorways were aimed at fully integrating the Croatian territory after the 1990's war. As a result 660 km of motorways were built through two four-year Public Road Construction and Maintenance Programs. Use of all roads apart from motorways is free of charge, i.e. financed through county and local taxes and exercise duty on gasoline.

Public companies are highly financially unsustainable (in 2015, debt to EBITDA ratio of HAC was 25,6) and HAC debt is accounted as public debt. The issue of road privatization is frequently raised and abolished by different governments. In 2017, the government signed a EUR 22 million loan contract with the World Bank, for large restructuring and modernization of the road sector. Project aims to provide a comprehensive solution that will respond to institutional, business and financial issues and support reforms in governance, restructuring, planning and monitoring of business, which will make state-owned enterprises in the transport sector more effective and efficient.

Passenger marine transport. Public service entails regular liner shipping between Croatian islands (73 island ports) and land coast (22 land ports). PSO agreements cover the real costs of the service and the amount of subsidies has been decreasing steadily in past 10 years – from EUR 51 million in 2008 to EUR 36 million in 2017.

City transportation. Public transportation exists in larger cities such as Zagreb, Rijeka, Osijek, Split (and their agglomerations), as well as in Varaždin, Karlovac, Zadar and Pula. In Zagreb the service is provided by main municipal utility company - Zagrebački holding Ltd (Branch ZET) – which manages 129 bus and 15 tram lines with 2.171 stops. Promet Ltd from Split has 41 bus lines in Split agglomeration, with about 1.717 stops. Rijeka has 81 bus lines managed by Autotrolej Ltd. Osijek utility company for transport - GPP Osijek Ltd – maintains 15 bus and 2 tram lines. Trams in Zagreb transport about 204 million passengers a year. The same number for Osijek is about 11 million passengers.

Railway. Sector has been generously subsidized in the past decade, yet government interventions have not yielded the results. Rather, the infrastructure has deteriorated and the level of service is far below pre-war times. Experts point out to the need for the revision of management practices (especially employment and salary policies), restructuring of companies and linked entities, including their privatization.

Roads. Major inconsistency in road sector seems to be the lack of political foresight with respect to the desired model of the development, which is a motive for yet another, the most recent, restructuring project, results of which will be known in a year at the earliest.

Passenger marine transport. Major (in)consistencies with respect to passenger marine transport are trans-sector and relate to the need for better coordination with local (road) transportation (including smart solutions like “park and ride”). Also, outdated port infrastructure is putting at risk the reliability of the service in case of bad weather. Both of these are targeted through other governmental interventions.

It should also be noted that the fleet of major service provider (publicly-owned Jadrolinija) is close to the end of its economic life, which implies that the government will need to make strategic decisions in the near future.

City transportation. Public transportation within cities is under (almost exclusive) authority of local governments and so far there has not been a centralized policy (or targeted state aid) in the sector. There is a possibility for this situation to change, due to planned Specific objective of the Operational Programme SC 7ii2 – “Increasing the number of transported passengers in urban public transport through a set of actions to be detailed through Sustainable Urban Mobility Plans”. The type of interventions under this SC are yet to be defined, depending on the so-called Urban Mobility Plans, which should be tailored to a specific situation in each agglomeration.

2.14.4 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

2.14.4.1 ACCESS TO THE ROADS NETWORK

TABLE 204. POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN PROVIDING ACCESS TO THE ROAD NETWORKS

Criteria	FI potential
Pricing system	Free of charge
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market); changes to funding mechanisms
Market potential	Potential for efficiency improvement
Accountability	Partial performance framework
Capacity	Transfer of parts of service (at policy-level plan) / Quality issues

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service is free of charge, except for motorways, in which consumer payment covers a share up to 25 percent of total annual costs. Revenue is generated through rent of infrastructure to external operators, covering another small share of service costs, between 0 and 25 percent (i.e. all roads are owned by the state, but two highways are ‘rented’ to private concessionaires). Land along the roads can be used for the purpose of performing accompanying activities (restaurant, store, gas stations)³⁶⁸.

Price increase of the service, together with improvement of its quality, could be applied with same levels of consumption among all income groups.

³⁶⁸ Act on Roads(<https://www.zakon.hr/z/244/Zakon-o-cestama>)

REGULATORY AND GOVERNANCE FRAMEWORK

Service is provided mainly by government-owned entities, with private entities present in concessions. Highway network is operated by public-owned *Hrvatske autoceste d.o.o.* (HAC) and 3 concessionaires: public-owned *Autocesta Rijeka – Zagreb d.d.* (ARZ), private company *BINA-ISTRA d.d.* and private company *Autocesta Zagreb – Macelj d.o.o.* (AZM); State road network is operated by public owned *Hrvatske ceste d.o.o.* (HC), and county and local roads are operated by County Road Authorities (ŽUC). Market share of public operators is above 66 percent.

The major obstacles to enter the market for private companies are the market size (i.e. there is no need for additional highways, therefore private companies could enter the market only if the state decides to give all existing highways in concession/privatise HAC), and the legal/administrative restrictions imposed by state/municipal body.

The fact is that the HAC has debt to EBITDA ratio of 25.6 has promoted the government to initiate project of 'business and financial restructuring of road sector'. The activities have only been initiated in the summer of 2017 and alternatives are not yet formulated.

MARKET POTENTIAL

All population is targeted by the service (road network in Croatia is 26 953 km long; the number of registered vehicles in 2016 is 2 035 350). There is a potential to generate additional revenue via introduction or increase of the tariff for the main service, introduction of paid auxiliary services and reduction of costs. Improvements of public companies in terms of management, assets management and investment planning are possible (some studies suggest the number of employees in public firms could be cut in half through better organisation, automatization of toll collection, among other possibilities).

ACCOUNTABILITY

Information is available on the context of the intervention. However, objectives are not clearly defined and target values not available. Short-term and long-term objectives are consistent.

CAPACITY

Service provision meets the overall demand and comply with the qualitative standards. However, factors as poor investment planning and ineffective assets management have an impact on the quality of service provision.

There are currently considerations to transfer parts of the service, specifically operation and maintenance of certain parts of highway network, to private partners. Such transfer is still only at policy-level plan.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Service is free of charge, except for motorways. There is potential for generation of revenue through reduction of costs, mainly with improvement of efficiency in the service provision, as well as introduction of paid auxiliary services. Space for introduction of FIs is currently limited by lack of capacity for revenue generation.

2.14.4.2 CARRIAGE OF RAIL PASSENGERS

TABLE 205. POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN CROATIA CARRIAGE OF RAIL PASSENGERS SERVICE

Criteria	FI potential
Pricing system	Consumer-paid (covering up to 50% of total costs)
Regulatory/governance Framework	Public domain, under liberalisation
Market potential	Potential for cost reduction / increase of scope of services
Accountability	Partial performance framework
Capacity	Transfer of parts of service (at policy-level plan) / Quality issues

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is available but non-regulated. Consumer payment covers a share between 25 and 50 percent of the total annual costs of service provision. Additional revenue is created to a small extent through subsidiary services. Price increase of the service together with improvement of its quality, could be applied with partially same levels of consumption among all income groups.

REGULATORY AND GOVERNANCE FRAMEWORK

Service is provided exclusively by one public provider, government-owned entity *HŽ Putnički prijevoz d.o.o.* There are no private entities providing the same service, due to legal/administrative restrictions imposed by state/municipal body, market size and fragmentation of the market.

There are currently considerations about changing the mechanism of funding for the service. Government is analysing models for financial and business restructuring of railway sector and preparatory activities are already taking place for liberalisation of the market by 2019.

MARKET POTENTIAL

All population is targeted by the service and market is currently exclusively publicly operated. There is a potential for additional revenue generation through reductions of costs, improvement of operational efficiency and financial management of the operator company. Introduction or increase of tariffs, introduction of paid auxiliary services and increase of scope of activities are also possible. Liberalisation currently under consideration may also represent market potential, since private participation will become possible.

Number of railway passengers in Croatia is constantly dropping since 2009 (from about 74 million to about 22 million passengers annually in 2015). According to Transport Development Strategy 2017-2030, there is a potential for use of rail infrastructure within Zagreb agglomeration and perhaps other larger cities (Osijek, Split, Varaždin), provided that inter-modality is developed. Passenger transport in international rail traffic is mainly conducted on the corridor RH1 (Slovenia and Serbia, direction east-west), but there is an issue with interoperability of the Croatian railway network and railway systems of all neighbouring countries. Croatia has on the one hand, a dense and relatively new road network, and very outdated and derelict railway infrastructure which imposes traffic constraints on the other, and this combined with a low

level of safety at the stations in rural areas and lack of intermodal systems, further discourages passengers from using the railway.

It is worth noting, though, that the sector is mainly capital intensive and requires significant investments (in capital and equipment) to deliver high quality standard services.

ACCOUNTABILITY

Information is available on the context of the intervention. However, policy objectives of the service are not clearly defined and targets not available. In the operational scale, objectives are not set.

CAPACITY

Quality of the service cannot be evaluated against standards, since those are not available for the service. However, certain factors are identified as impacting on quality of the service, linked to poor infrastructure and maintenance, old technology, ineffective assets management and lack of expertise.

There are currently considerations about transferring operation and maintenance of certain parts of network/provision of service on certain routes to private entities. Such transfer is currently still on policy-level plan.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Service is consumer-paid, but shows small capacity for costs covering. There is potential for generation of revenue through reduction of costs, mainly with improvement of efficiency in service provision, as well as introduction of paid auxiliary services.

The EC Country Report of 2017³⁶⁹ highlights the dominance of the market under the three rail companies, which prevents the development of private entities in the rail transport in Croatia. Therefore, the liberalisation currently under consideration can enable diversification of the market, increase efficiency of service delivery and revenues. Yet, space for introduction of FIs remain small until change of the baseline situation enhance the possibility for FIs application.

Upon such change, international experiences can illustrate successful use of FIs in the railway transport systems, often connected with infrastructure and equipment improvement, generating more efficient delivery of the service (i.e. savings or increase of carrying capacity and, thus, revenue generation). The box below presents one example of such application.

³⁶⁹ European Commission (2017), *Commission Staff Working Document, Country Report Croatia 2017, Including an In-Depth Review on the prevention and correction of macroeconomic imbalances*, SWD (2017) 76 final

The European Investment Bank has continued its support to the Lithuanian railway sector, with a EUR 68 million loan signed in the end of 2015 to the company AB Lietuvos Geležinkeliai. The project is focused on several railway infrastructures upgrading, as well as renewal of the rolling stock for passenger services.

More precisely, the infrastructure works involve track duplication, renewal and electrification of sections, including the reconstruction of Klaipeda railway hub, traffic safety and noise mitigation measures.

The total cost for the projects is expected in EUR 430 million. The works are expected to improve commercial attractiveness (through the replacement of obsolete rolling stock), with a consequent slight modal shift to increased rail-based mobility; increasing capacity of lines and reduction of greenhouse gas emission.

2.14.4.3 COASTAL MARITIME TRAFFIC OF PASSENGERS

TABLE 206. POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN CROATIA COASTAL MARITIME TRAFFIC OF PASSENGERS SERVICE

Criteria	FI potential
Pricing system	Consumer-paid, regulated (covering up to 75% of total costs)
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)
Market potential	Market barriers (Capital-intensive, input price volatility, seasonality)
Accountability	Partial performance framework
Capacity	Qualitative standards are met

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by relevant authorities. Consumer payment covers a share between 50 and 75 percent of the total annual costs of service provision. Additional revenue is generated through subsidiary services (a share up to 25 percent of annual costs). Price increase of the service, together with improvement of its quality, could be applied with same levels of service consumption among all income groups.

REGULATORY AND GOVERNANCE FRAMEWORK

Service provision is dominated by one state-owned company *Jadrolinija d.o.o* (operating 36 out of 53 lines, covering 84.9 percent of passengers), and market share of public operators is above 66 percent. Private companies cover the rest of the market, providing the same service at similar costs.

Each service provider is granted a right to operate a certain route, based on public competition and PSO contract with the Agency for Coastal Maritime Traffic. There are no multiple service providers on any given route (line).

MARKET POTENTIAL

All population is targeted by this service, specifically inhabitants of the islands (approximately 125 thousand people in 47 islands, in 2011). Major obstacles to enter the market for private entities are the high fixed costs, the service delivery places (e.g. dispersion) and market size. Possibilities for increasing revenues depend on business policy of each service provider. High capital investment needs (e.g. old ship fleet), high share of fuel prices in total transport costs, as well as significant seasonal oscillations are the biggest challenges for shipping carriers in providing regular maritime transport services.

ACCOUNTABILITY

Information is available on the context of intervention; recent trends are monitored based on national and international data sources (Eurostat). However, objectives are not clearly defined and targets not available. Additionally, short-term and long-term objectives are consistent.

CAPACITY

Service complies with qualitative standards, but is affected by old technology (i.e. outdated ships fleet). There are currently no considerations about transferring provision of the service, since market is already open to private companies.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Service pricing is regulated and consumer-paid. The payments cover up to 75 percent of total costs of the service provision. Additional revenue is generated through subsidiary services. Although this shows some space for FIs introduction, such use depends on the availability of adequate projects and entities interest, with capacity for revenue generation.

2.14.4.4 CITY PUBLIC TRANSPORTATION SERVICES

TABLE 207. POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS IN CROATIA CITY PUBLIC TRANSPORTATION SERVICES

Criteria	FI potential
Pricing system	Consumer-paid (Low cost coverage, affordability concerns)
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)
Market potential	Potential for cost reduction/development of (more) paid services
Accountability	Partial performance framework
Capacity	Quality issues

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is available but non-regulated and consumer payment covers a share between 0 and 25 percent of total annual costs for service provision. Additional revenue is generated through subsidiary services and its share largely depends on organisation and business model of each service provider. Price

increase, together with improvement of its quality, is possible with partially the same levels of consumption among all income groups.

REGULATORY AND GOVERNANCE FRAMEWORK

Service is delivered mainly by local government-owned companies (operators are mostly concentrated in the urban centres). Private companies are present (under concessions for public service on a given territory by respective local government), offering public transport services in smaller urban centres at similar costs.

Major obstacles to enter the market for private entities are the market size and service delivery places (e.g. dispersion).

Currently only the contract with Osijek service provider is in accordance with Regulation 1370/2007 and all others will have to be aligned by 2019.

MARKET POTENTIAL

Service provision targets households and private companies of specific areas (about 398 million passengers annually by 2015). Market share of public providers is above 66 percent. There is a potential for generation of additional revenue through introduction of paid auxiliary services and reduction of costs.

ACCOUNTABILITY

Information is available on the context of the intervention. However, objectives are not clearly defined and target values are not available. Short-term and long-term objectives are consistent.

CAPACITY

Service complies with qualitative standards, but is affected by factors as poor infrastructure and maintenance, old technology and ineffective assets management.

There are currently no considerations about transferring provision of the service, since market is already open to private companies.

CONCLUSION ON POTENTIAL OF INTRODUCTION OF FIs

Service is consumer-paid, but payments cover a small share of total annual costs. There is a potential for generation of additional revenue through introduction of paid auxiliary services and reduction of costs.

The EC Country Report of 2017³⁷⁰ reveals the necessity of advancing further on sustainable transport in Croatia. However, the services in this area have shown small capacity for revenue generation, which limits the applicability of FIs.

³⁷⁰ European Commission (2017), *Commission Staff Working Document, Country Report Croatia 2017, Including an In-Depth Review on the prevention and correction of macroeconomic imbalances*, SWD (2017) 76 final

Upon changes on the baseline, and with availability of adequate projects, FIs application is seen as possibility of investing in urban transport management systems, sustainability and improvement of efficiency. The following box illustrates an international experience of FIs introduction in the service.

The use of FIs in the modernization of transport systems is found in the Region of Attica, Greece. A project has focused in providing 1 000 “smart” bus and trolley tram stops in Athens, offering real time information on timetables and routes of 2 000 vehicles, as well as fleet management systems. The works are delivered by a PPP.

The project is expected to facilitate the use of urban transportation and improve the passenger experience for 4.5 million inhabitants, thus increasing the usage of public transport and reducing traffic, fuel consumption and air pollution.

Such project is considered highly innovative, being the first ICT project at EU level to blend EU grants, JESSICA loan and Equity / Commercial banks. The total budget of the project is approximately EUR 19 million, with a JESSICA loan of approximately EUR 4 million, plus a senior and a VAT loans from the National Bank of Greece (NGB), a grant from Structural Funds and equity.

2.15 LITHUANIA: ENERGETICS AND ENERGY EFFICIENCY

2.15.1 GENERAL OVERVIEW OF THE SERVICES IN THE SECTOR

This chapter provides an overview of all public services identified in Lithuanian Energetics and energy efficiency sector. The rationale for introduction of each public service and the number of service related interventions are identified. Furthermore, the relative position of each public service on liberalisation – centralisation axis is presented.

Six public services related with the main policy areas were identified in the Energetics and energy efficiency sector in Lithuania. The list of all the services in the sector and their respective aims is provided in the table below.

TABLE 208. LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR'S SERVICES AND THEIR AIMS

Service title	Aim of the service
Gas transmission and distribution	To transmit and distribute gas through the state-owned gas transmission and distribution operators
Electricity transmission and distribution	To transmit and distribute electricity through the state-owned gas transmission and distribution operators
Reserve electricity production	To produce electricity when this is needed to ensure uninterrupted energy supply
Centralised heating services (including supply of hot water)	To provide heating and hot water
Energy efficiency improvement at consumer level in the public sector	To reduce energy consumption at different consumer levels
Energy efficiency improvement at consumer level in the private sector	To reduce energy consumption at different consumer levels

Source: BGI Consulting et al, 2017.

Longlisted public services represent production, supply / distribution and consumption of various types of energy.

2.15.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

There are four rationales for the provision of public services in the Energetics and energy efficiency sector in Lithuania. Two services are introduced due to the *lack of incentives to reduce production/consumption of de-merit goods*, another two are necessary because of *monopolistic, non-competitive market*. One service is

provided due to *lack of incentives to produce merit goods* and there is also one service, which is *not targeted at a market failure*. In terms of body responsible for service provision, in the Energetics and energy efficiency sector responsibility for the most of the services lies under the central government.

In case of reserve energy production, it is aimed to ensure safe and reliable functioning of electricity energetics system, production, transmission, distribution and supply of electricity.

The centralised heating service does not respond to any kind of market failure, because heating is widely needed so the market would find out the other way how to organise it, though, most probably less efficient and at a much higher cost. Consequently, the main reason of the intervention is a long-standing inherited central type infrastructure stemming from the times of the planned economy. Existing organisational system and infrastructure led to further development of centralised heat supply without major initial investment costs³⁷¹.

The energy efficiency measures introduced are based on the rationale of the lack of incentives to reduce production/consumption of de-merit goods, which translates into the lack of incentives to invest into energy efficiency of currently owned infrastructure and to conserve energy used for heating of the premises. This is due to the fact that high investments into energy saving measures are required and both managers of publicly owned buildings and households are not in a possession of that kind of assets. In case of the street lighting systems, the notion of provision of public good could be also alleged.

In terms of rationale of the analysed interventions related to the aforementioned services, nearly two-thirds of analysed interventions provides service providers with necessary financial resources, either in form of ESIF subsidies or in form of financial instruments financed by ESIF. More than one third of analysed interventions provide consumers with necessary financial resources, and one more third – with necessary services.

The scheme below disassembles the logic of the overall governmental interventions in the Energetics and energy efficiency sector in Lithuania. It starts with the rationale of the provision of the services by the public sector, then indicates services corresponding to that particular rationale. Services are classified not only by the rationale they correspond to, but also by a body, which is responsible for the provision of them. Other governmental interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

371 Heat Law, No. IX-1565 dated 20 May 2003; New edition of heat law No. X-1329 dated 20 November 2007.



Source: BGI Consulting et al, 2017

2.15.1.2 LEVEL OF LIBERALIZATION OF THE SERVICES PROVISION

The public services in the Lithuanian Energetics and energy efficiency sector were ranked according to the level of liberalisation in their provision in the figure below. The criteria used for ranking the sector's services according to the level of liberalisation in their provision are – the main provider of the service (the most centralised provider is a government / municipal institution (directly), the most liberalised provider is the market entity (operator)); the most common public service delivery mode (the most centralised delivery mode – direct provision by the governmental / municipal body, the most liberalised – provision by market entity (operator)); consumer pricing of the service (whether the service is free of charge, its pricing is available but non-regulated or its pricing is regulated and set by relevant authorities); market share of the public operators (100, >66, 34-66, <34 percent).

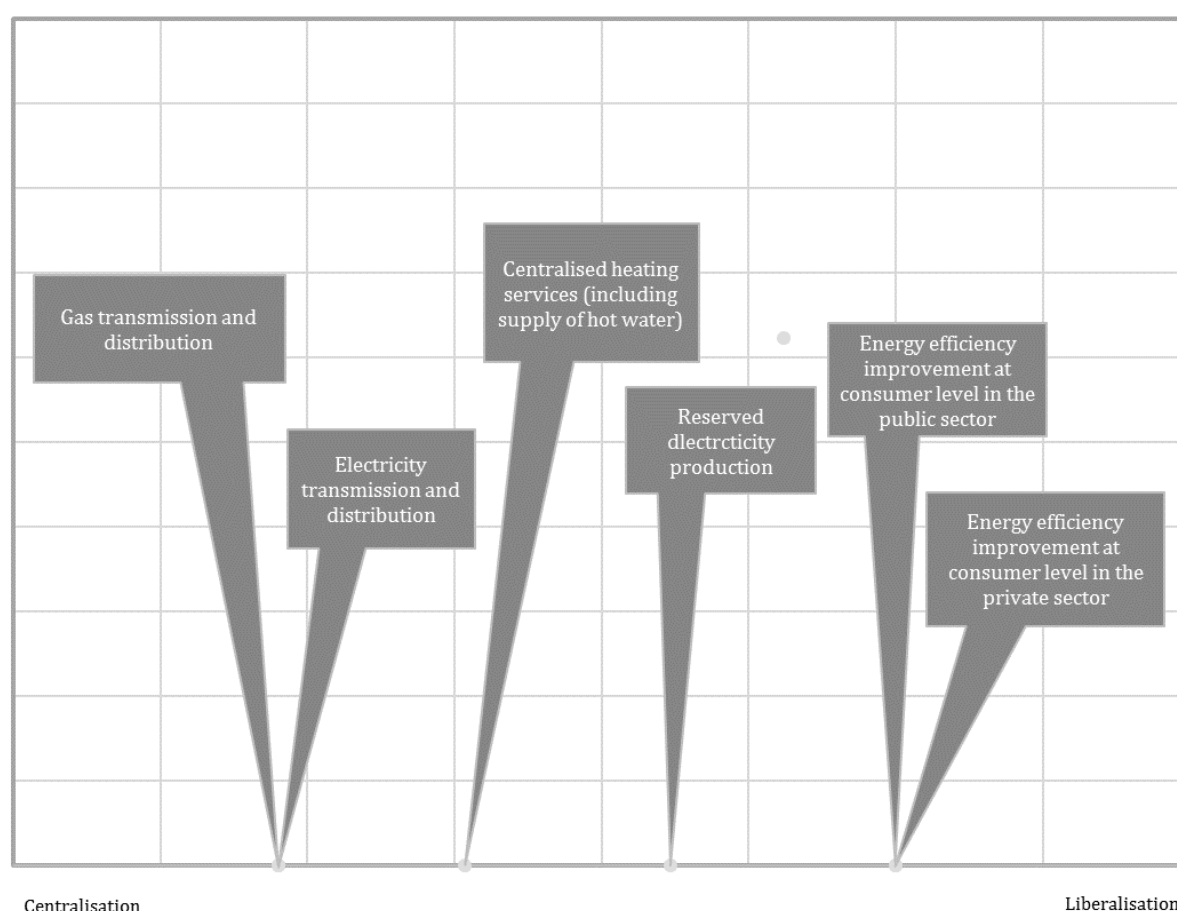


FIGURE 71. SUPPLY SIDE OF THE LITHUANIAN ENERGY AND ENERGY EFFICIENCY SECTOR SERVICES

Source: BGI Consulting et al, 2017.

Two services, which are provided in the most liberal way in this sector, are energy efficiency improvement at consumer level in the public sector and energy efficiency improvement at consumer level in the private sector. This is mainly because the public actors are responsible for promoting and financing the service, while the modernisation / renovation is carried out by the private service providers - private firms acting in building and construction sector.

The service of reserve electricity production turns out to be the service of the medium level of liberalisation in the context of Energetics and energy efficiency sector. This was influenced by the fact that the pricing of

the service in principle reflects the costs incurred and that recently the private operators have joined the service provision. However, it should be also noted, that the reserve electricity production is a situational intervention of the government aimed at artificial regulation of electricity supply and pricing in the circumstances, which are benefitfull for businesses and residents.

Centralised heating services (including the supply of hot water) is also of the medium level of liberalisation in the context of Energetics and energy efficiency sector. One of the most common delivery modes of service is privatisation with liberalisation, which is the most liberal possible delivery mode of the public service. However, public operators occupy the majority of the market in the service.

Two services, which are provided in the least liberal way in this sector, are gas transmission and distribution, and electricity transmission and distribution. Public operators have 100 percent of the market share in all of these services.

Due to existing constrains, the further in-depth analysis of all services identified in Lithuanian Energetics and energy efficiency sector would not be possible. Since the aim of the study is to identify possibilities to introduce financial instruments or involve private sector service providers more actively, two interventions currently provided at the most liberal mode – energy efficiency improvement at consumer level (public sector) and energy efficiency improvement at consumer level (private sector) – as well as two services provided at a relatively centralised mode, but having the most perspectives to attract more private providers – reserve electricity production and centralized heating services³⁷² (including supply of hot water) – were selected for further analysis.

2.15.2 PRESENTATION OF SERVICES AND RELATED INTERVENTIONS SELECTED FOR FURTHER ANALYSIS

This chapter presents the services and related interventions, selected for further analysis. Four services in Lithuanian Energetics and energy efficiency sector were selected for further in-depth analysis. These services are:

- Reserve electricity production;
- Centralized heating services (including supply of hot water);
- Energy efficiency improvement at consumer level (public sector);
- Energy efficiency improvement at consumer level (private sector).

The main policy goals, modes of provision and interventions related to the abovementioned services are presented in this chapter.

2.15.2.1 MAIN POLICY GOALS OF SERVICES SELECTED FOR FURTHER ANALYSIS

The energy policy areas, represented by the services selected for further analysis, include reserve electricity production, centralised heating services and energy efficiency increase in both public and private sectors. Among the main policy goals in these areas, ensuring of the proper functioning of the electricity market, provision of the proper quality heating (including hot tap water) to the citizens with the lowest cost and impact on the environment, securing the reliable heat supply as well as reduction of energy

³⁷² In terms of increasing market share of independent heat producers.

consumption can be mentioned. More general goals related to decreasing emissions of greenhouse gas and pollutants as well as transition to a recourse-efficient economy are also important in this context.

In order to attain these long-term policy objectives, certain short-term operational objectives are foreseen. For example, in order to ensure the proper quality heating (including hot tap water) to the citizens with the lowest cost and impact on the environment as well as to secure the reliable heat supply, encouragement of the competition in heat production, use of local and renewable fuel and increase of heat production and supply efficiency are foreseen. Among the main targets related with these objectives increase of use of renewable energy resources (biomass) in heating sector up to 70 percent by 2020 and up to 100 percent by 2050³⁷³ can be mentioned.

Operational objectives related with the reduction of energy consumption are increase of energy efficiency in the state-owned and municipal-owned buildings by renovation, renovation of residential buildings and encouragement of execution of the energy audits and energy efficiency measures in industrial enterprises. Among the main indicators related with the energy consumption reduction, the Operational Programme³⁷⁴ mentions the targeted economic energy saving potential of 5.2TWh in residential buildings and their engineering systems and of 2.5TWh in public buildings and their engineering systems. In addition, it is expected that successful implementation of envisaged street lighting modernisation projects would allow saving up to 50% of energy and reduce maintenance costs by 60%³⁷⁵. Furthermore, in case of households that are not connected to the district heating system, it is expected that replacing old boilers with personal new ones would reduce the current biofuel consumption by households with individual heating by 40%³⁷⁶ (it is expected that foreseen investments will allow saving at least 209.34 GWh or 108,000 cubic meters of wood annually and reduce emissions of at least 2795 t CO₂ equivalents³⁷⁷). Finally, it is expected that energy efficiency measures implemented at consumer level by state owned electricity and gas transmission and distribution operators will allow saving 3 TWh of energy through the country.

2.15.2.2 THE STRUCTURE OF PROVISION AND FINANCING OF SERVICES SELECTED FOR FURTHER ANALYSIS

Figures provided below depict the structure of each service selected for further analysis. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision identified. Graphs in light red indicate service providers and group(s) the service is targeted at.

³⁷³ Draft national energy strategy (Nutarimo dėl Lietuvos Respublikos Seimo 2012 m. birželio 26 d. nutarimo Nr. XI-2133 „Dėl Nacionalinės energetinės nepriklausomybės strategijos patvirtinimo“ pakeitimo projektas).

³⁷⁴ Operational Programme for the European Union Funds' Investments in 2014-2020.

³⁷⁵ Operational Programme for the European Union Funds' Investments in 2014-2020.

³⁷⁶ Operational Programme for the European Union Funds' Investments in 2014-2020.

³⁷⁷ Lithuanian energy efficiency action plan for 2017-2019.

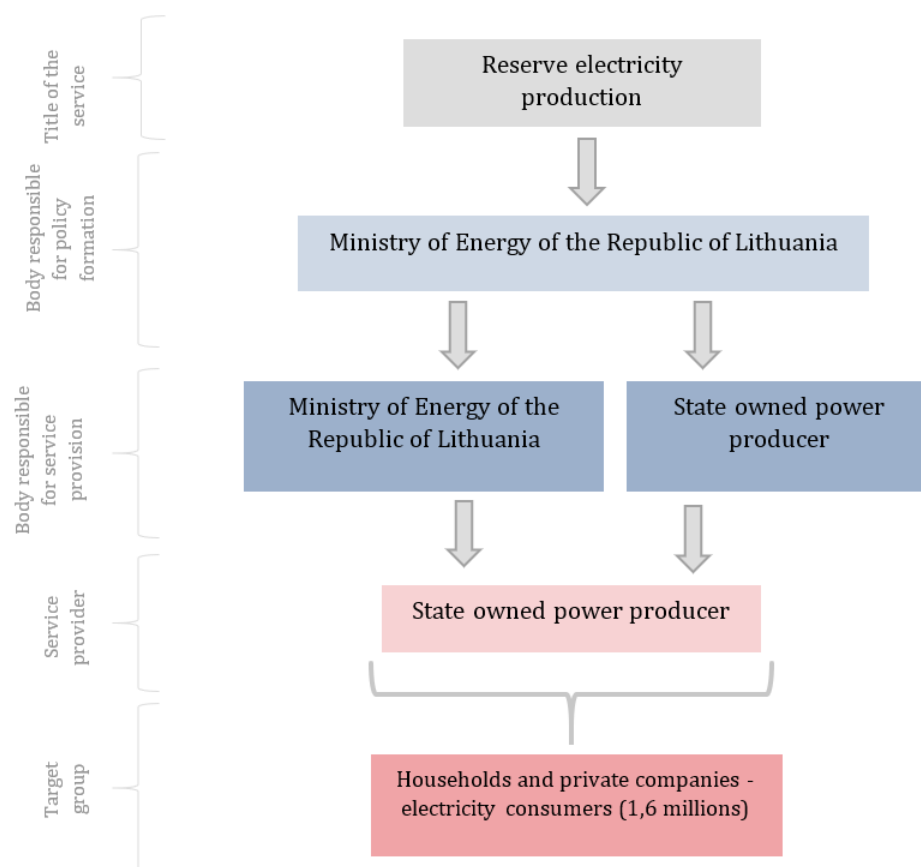


FIGURE 72. RESERVE ELECTRICITY PRODUCTION SERVICES PROVISION MECHANISMS IN ENERGETICS AND ENERGY EFFICIENCY SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

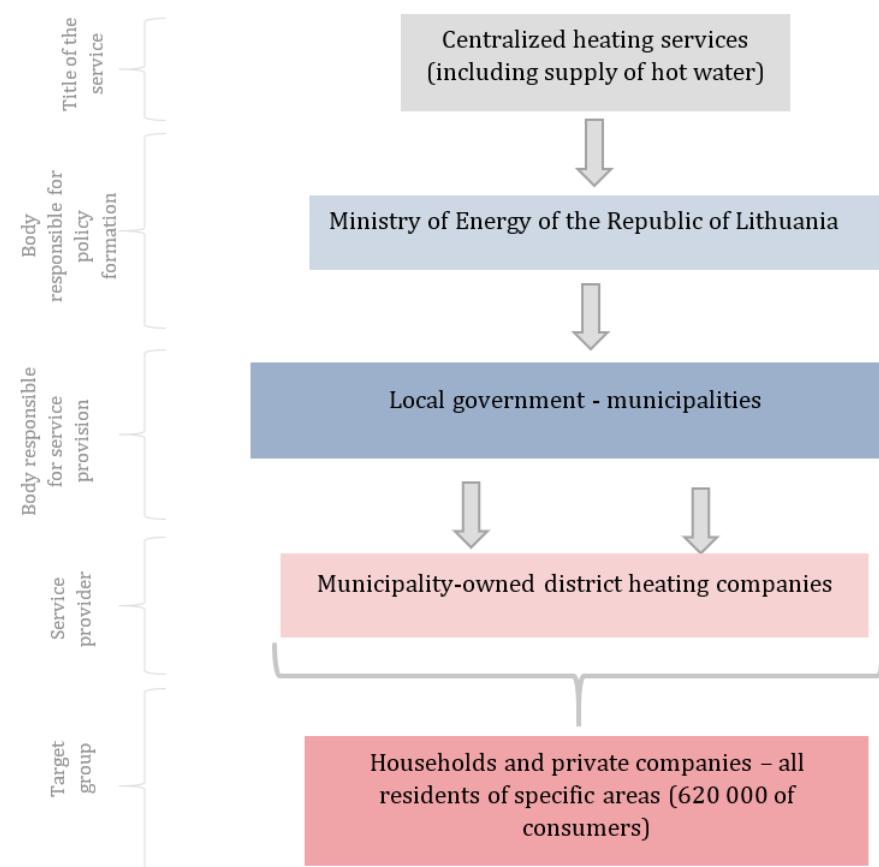


FIGURE 73. CENTRALIZED HEATING SERVICES PROVISION MECHANISMS IN ENERGETICS AND ENERGY EFFICIENCY SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

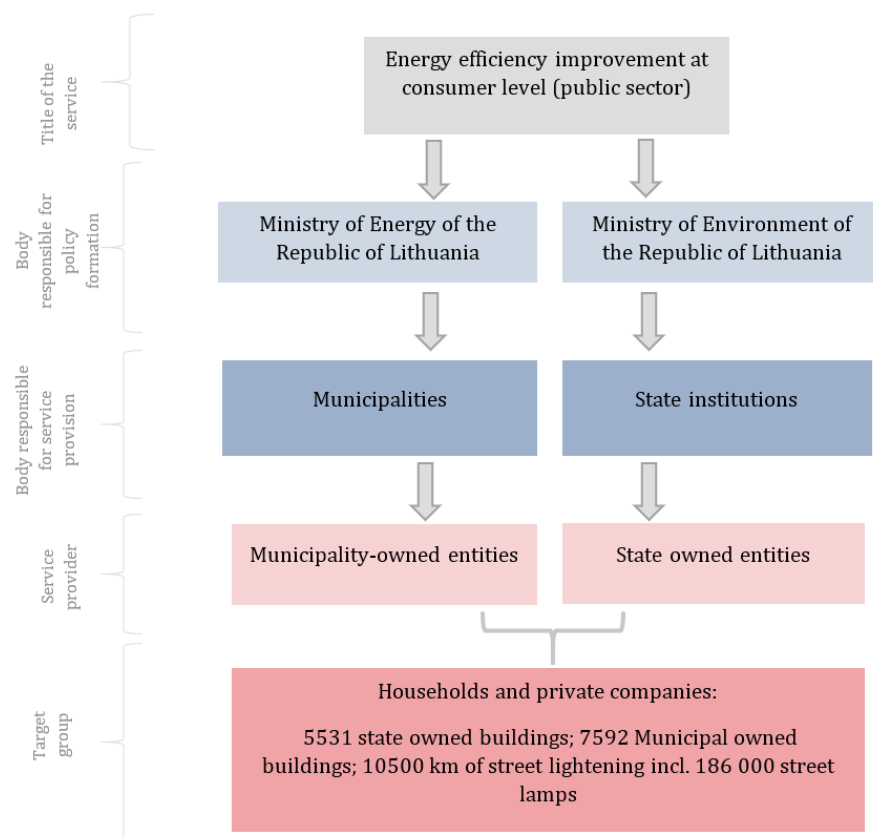


FIGURE 74. ENERGY EFFICIENCY IMROVEMENT AT CONSUMER LEVEL (PUBLIC SECTOR) SERVICE PROVISION MECHANISMS IN ENERGETICS AND ENERGY EFFICIENCY SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

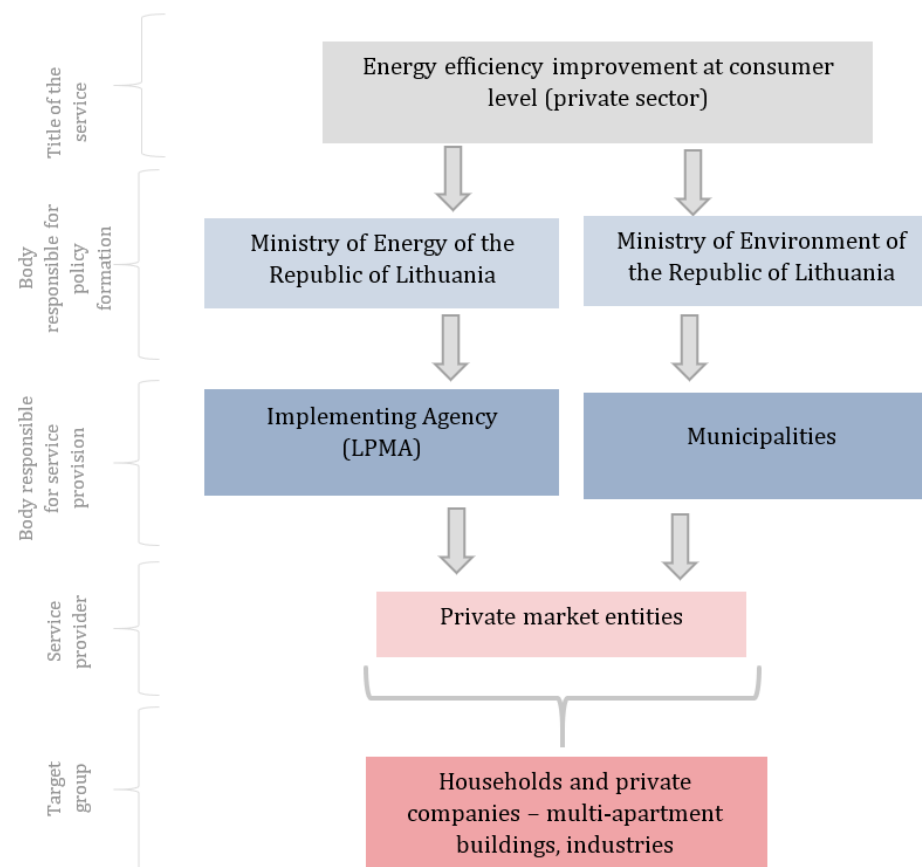


FIGURE 75. ENERGY EFFICIENCY IMROVEMENT AT CONSUMER LEVEL (PRIVATE SECTOR) SERVICE PROVISION MECHANISMS IN ENERGETICS AND ENERGY EFFICIENCY SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017

The overall annual amount of funding for the reserve electricity production totals to approximately EUR 24 million³⁷⁸. The service of reserve electricity production is financed by employing public interest obligation fee (as component of electricity tariff) which was selected as an intervention for further analysis.

The centralized heating services (including supply of hot water), having the calculations of the overall heat consumption (approximately 9.6 TWh), amounts to around EUR 500 million of expenditure³⁷⁹. In terms of service related interventions, ESIF subsidies for biomass heat only boilers (HOB) and combined heat and power plants (CHP) installation and for district heating network renovation amount to EUR 110 million from EU funds³⁸⁰, while ESIF subsidies for Vilnius biomass and waste to energy (WtE) combined heat and power plant (CHP) amount to EUR 95 million³⁸¹. In addition, compensation for heat and hot water for vulnerable consumers compensations costs the municipal budgets³⁸² around EUR 12 million. Analysis of interventions also includes reduced VAT for heating energy and hot water consumed in residential buildings, and regulation of tariffs of centralized heating services (including supply of hot water).

Within energy efficiency improvement at consumer level (public sector) service, the largest amount is designated for financial instruments (loans) for investments in renovation of state-owned and municipality-owned buildings with the purpose to increase energy efficiency (around EUR 65 million and EUR 17 million accordingly). Meanwhile, subsidy for delivery of street lightening constitutes approximately EUR 4 million nationwide, as the service provision requires around 100 GWh of electricity annually³⁸³, and additional EUR 14,5 million are designated for guarantees for loans granted by commercial banks for street lighting modernization projects. Analysis of interventions also includes ESIF subsidies for promotion of municipality-owned and residential building renovation, and regulation establishing obligation for state owned electricity and gas transmission and distribution operators to finance energy efficiency measures at consumer level (which will allow saving 3 TWh of energy through the country).

Within energy efficiency improvement at consumer level (private sector) service, the current extent of energy consumption at old multi-apartment buildings constitutes approximately 5,000 GWh per annum³⁸⁴, and with an aim to reduce this consumption EUR 314 million is designated for financial instrument (loans) for renovation of residential buildings. Analysis of interventions also includes ESIF subsidies for performance of energy audit and / or investment into energy production from renewable energy sources (EUR 20 million for renewable energy sources at industry and EUR 0.9 million for energy audits at small and medium enterprises), ESIF subsidies for promotion of municipality-owned and residential building renovation, and regulation establishing obligation for state owned electricity and gas transmission and distribution operators to finance energy efficiency measures at consumer level (which will allow saving 3 TWh of energy through the country).

³⁷⁸ Source: www.regula.lt; 2016.11.19 NCC meeting documentation

³⁷⁹ Source: http://www.lsta.lt/files/statistika/2016_LSTA_ukines_veiklos_apzvalga.pdf; figure 19

³⁸⁰ 17,04 mill EUR (biofuel HOB's - measure No. 04.1.1 - LVPA-K-109); 69,509 mill EUR (renovation of network - measure No.04.3.2 - LVPA-K-102); 10,0 mill EUR (modernisation of biofuel unit - measure 04.1.1 - LVPA-K-112); 12,0 mill EUR (small scale biofuel CHP - measure 04.1.1 - LVPA-K-110)

³⁸¹ Measure No. 04.1.1-LVPA-V-108

³⁸² Source: www.lsta.lt

³⁸³ http://admin.vipa.lt/www/UserFiles/Energijos_efektyvumo_ex_ante%20-%20Copy%201.pdf

³⁸⁴ Lithuanian energy efficiency action plan for 2017-2019.

2.15.2.3 INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Each of the service selected for further analysis has related interventions, enabling the provision of the service. All the interventions, related to reserve electricity production, centralized heating services (including supply of hot water), energy efficiency improvement at consumer level (public sector) and energy efficiency improvement at consumer level (private sector) are presented in the table below.

TABLE 209. INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Name of the service	Type of the service related intervention	Name of the service related intervention	Fiche No.
Reserve electricity production	Taxes	Public interest obligation fee (as component of electricity tariff)	1
Centralized heating services (including supply of hot water)	Subsidy for improving performance of the public service	ESIF subsidies for biomass heat only boilers (HOB) and combined heat and power plants (CHP) installation and for district heating network renovation	2
	Subsidy for improving performance of the public service	ESIF subsidies for Vilnius and Kaunas biomass and waste to energy (WtE) combined heat and power plants (CHP)	3
	Customer support through discounts or tariff compensations	Compensation for heat and hot water for vulnerable consumers	4
	Reduced taxes/tax exemptions	Reduced VAT for heating energy and hot water consumed in residential buildings	5
	Regulation	Regulation of tariffs of centralized heating services (including supply of hot water)	6
Energy efficiency improvement at consumer level (public sector) Street lightening / Municipal budget assignation	Regular subsidy for public service delivery (budgetary financing)	Subsidy for delivery of street lightening	7
	Subsidy for improving performance of the public service	ESIF subsidies for promotion of municipality-owned and residential building renovation	8
	Financial instruments for public service provision	Financial instrument (loans) for renovation of publicly-owned buildings	9
	Financial instruments for public service provision	Financial instrument (loans) for renovation of municipality-owned buildings	10
	Financial instruments for public service provision	Financial instrument (guarantees for loans) for street lighting modernisation	11
	Regulation	Regulation establishing obligation for state owned electricity and gas transmission and distribution operators to finance energy efficiency measures at consumer level	12
Energy efficiency improvement at consumer level (private sector)	Subsidy for improving performance of the public service	ESIF subsidies for promotion of municipality-owned and residential building renovation	8
	Subsidy for improving performance of the public service	ESIF subsidies for performance of energy audit and / or investment into energy production from renewable energy sources	13
	Financial instruments for public service provision	Financial instrument (loans) for renovation of residential buildings	14
	Regulation	Regulation establishing obligation for state owned electricity and gas transmission and distribution operators to finance energy efficiency measures at consumer level	12

Source: BGI Consulting et al, 2017.

Further in this study the information is provided not on services as a whole, but only on service related interventions.

2.15.3 DATA ON SELECTED GOVERNMENT INTERVENTIONS IN LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR

This chapter provides portrayal and analysis of the government interventions shortlisted for the in-depth assessment. In the chapter separate fiches for each government intervention, analysis of interventions regarding each of the methodological research criteria are presented.

The fiches for each government intervention below provides the main data on each government intervention, which can be read as a self-standing analysis and is also used in later parts of the study as a basis for the meta-analysis of interventions according to different criteria.

TABLE 210. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR (1)

Title of the intervention	Public interest obligation fee (as component of electricity tariff)
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Taxes
Short description of the intervention	In the context of reserved electricity production service, the fee (as component of electricity tariff) serves as a source for financing reserved electricity production.
Year of the introduction and end, stability of the intervention	2004 - up to now. There were fluctuations in the share of the fee in the electricity tariff - from introduction in 2004 the fee share in the tariff was increasing, however, from 2013 started decreasing.
The broader policy objective to which intervention contributes	To ensure safe and reliable functioning of electricity energetics system, production, transmission, distribution and supply of electricity.
Legal background for the establishment of the intervention	Law on electricity energetics, 20 July 2000, No. VIII-1881 (LR elektros energetikos įstatymas).
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure reserves of electricity energetics system in defined power plants.
The objective of the intervention and legal background	To collect funds via tariff paid by the consumers with an aim to finance reserved electricity production in defined power plants. Resolution of the Government of the Republic of Lithuania on the procedure for the provision of services related to public interest in electricity sector, 18 July 2012, No. 916 (LR Vyriausybės nutarimas dėl viešuosius interesus atitinkančių paslaugų elektros energetikos sektoriuje teikimo tvarkos aprašo patvirtinimo).
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level

Name of the body responsible for implementation (administration) of intervention	JSC "Baltpool" (BALTPOL UAB)
The main source of financing the intervention	Private funds
Additional sources of financing the intervention	Private funds
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Consumers of electricity (and as the intermediaries - electricity suppliers).
The type of impact of intervention for subjects of the regulation/tax/tax exemption	On the one hand, the intervention imposes charges on subjects, but on the other hand, the intervention provides subjects with necessary services.
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups indirectly benefiting from the regulation/tax/tax exemption	All electricity consumers (1,6 millions)
The type of impact of intervention for beneficiaries	On the one hand, the intervention imposes charges on consumers, but on the other hand, the intervention provides consumers with necessary services.
Impact of the intervention	In the context of reserved electricity production service, the fee (as component of electricity tariff) serves as a source for financing reserved electricity production. In this regard, the fee serves as a means to ensure electricity supply, and this is the main positive impact of intervention.
Unintended impact of the intervention	Those industrial companies that are producing electricity for their purposes, also are obliged to pay the fee (charged on electricity produced by such companies for own purposes). There are opinions that such obligation is excessive. On the other hand, such industrial companies in some instances also need external electricity, and this means they should pay for ability to use external electricity at any time of moment.
Main issues related to the implementation of the intervention	No noticeable issues were identified.
Consistency with other related interventions	No noticeable inconsistencies were identified.
Possibilities to replace/withdraw the intervention	Intervention is crucial in ensuring electricity supply, thus it cannot be withdrawn.

Source: BGI Consulting et al, 2017.

TABLE 211. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR (2)

Title of the intervention	ESIF subsidies for biomass heat only boilers (HOB) and combined heat and power plants (CHP) installation and for district heating network renovation
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	ESIF subsidies are provided to finance installation of biomass HOB's (heat only boilers) and CHP's (Combined Heat and Power Plants) to be used in district heating networks, as well as renovation of the district heating networks
Year of the introduction and end, stability of the intervention	2014-2023

	The implementation of the intervention depends on ESIF allocations
The broader policy objective to which intervention contributes and legal background	To ensure heat and water supply.
Legal background for the establishment of the intervention	Law on Local Self-government, 7 July 1994, No. I-533 (LR vietos savivaldos įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To install biomass HOB's (heat only boilers) and CHP's (Combined Heat and Power Plants) to be used in district heating networks, and to renovate the district heating networks.
The objective of the intervention and legal background	To finance installation of biomass HOB's (heat only boilers) and CHP's (Combined Heat and Power Plants) to be used in district heating networks, as well as renovation of the district heating networks. Orders of the Minister of Energy on terms of project financing (measures No. 04.1.1 - LVPA-K-109; 04.3.2 - LVPA-K-102; 04.1.1 - LVPA-K-112; 04.1.1 - LVPA-K-110)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Public Institution Lithuanian Business Support Agency
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	Private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	Project contest
Types of private providers eligible to receive the intervention	Private for-profit entities
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Households and private companies (that use heat produced and / or supplied by the intervened services providers).
Impact of the intervention	In terms of district heating network renovation, the subsidies play a crucial role, as they allowed (starting from previous programming period) to improve the network to an acceptable state ³⁸⁵ , not only in terms of decreasing energy losses, but also in terms of reliability (i.e. avoiding incidents leaving neighbourhoods without heating during winter time). Thus, intervention makes noticeable positive impact.

³⁸⁵ Based on the information gathered during expert interviews.

	In terms of heat production capacities, subsidising of new capacities will help to reduce price of heat, as, firstly, more expensive gas will be replaced by cheaper biofuel, and, secondly, higher competition will force heat producers to reduce prices. In addition, new capacities will decrease GHG emissions (as biofuel is treated as having 0 emissions) and dependence on imports of gas.
Unintended impact of the intervention	No noticeable unintended impact was identified.
Main issues related to the implementation of the intervention	It is argued that the impact of network renovation would be noticeably higher having also modernised the heating units within residential buildings. According to the current regulation, the heating units within residential buildings do not fall under responsibility of heat providers, while the owners of apartments of residential buildings are not capable to organise and finance modernisation of the heating units. Modernisation of the heating units is even more important in case of historical down town, where renovation of buildings is subject to heritage related requirements, and wasting of energy could be reduced mainly via modernisation of the heating units within the buildings.
Consistency with other related interventions	In terms of district heating network renovation, consistency could be improved by supplementing such renovation with modernisation of the heating units within residential buildings. In general, it is very important to coordinate the plans for production, supply and consumption of energy. I.e. the planned renovation of residential and public buildings highly influences needed technical characteristics of the heat supply network, and in turn, necessary heat production capacities.
Possibilities to replace/withdraw the intervention	In terms of district heating network renovation, possibilities to replace the subsidies with financial instruments are limited because this would lead to increase of heating price paid by residents (what is very sensitive in Lithuania). In terms of heat production capacities, possibilities to replace the subsidies with financial instruments are also limited, as production of energy from renewable sources does not have high financial viability.

Source: BGI Consulting et al, 2017.

TABLE 212. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR (3)

Title of the intervention	ESIF subsidies for Vilnius and Kaunas biomass and waste to energy (WtE) combined heat and power plants (CHP)
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	OP foresees modernisation of the district heating sector of Vilnius and Kaunas by constructing and/or modernising cogeneration power plants that use local and renewable energy sources.
Year of the introduction and end, stability of the intervention	2014-2023 The implementation of the intervention depends on ESIF allocations
The broader policy objective to which intervention contributes	To promote the production and distribution of energy derived from renewable sources.
Legal background for the establishment of the intervention	Operational Programme for the European Union Funds' Investments in 2014-2020
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To modernise the district heating sector of Vilnius and Kaunas by constructing and/or modernising cogeneration power plants that use local and renewable energy sources.

The objective of the intervention and legal background	To finance construction and/or modernisation of cogeneration power plants that use local and renewable energy sources. Order of the Minister of Energy on terms of project financing (measure No. 04.1.1-LVPA-V-108)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Public Institution Lithuanian Business Support Agency
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	Private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	State planning
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Households and private companies (that use heat produced by the intervened services providers).
Impact of the intervention	Intervention is seen as a means to increase share of RES in the heating fuel balance, ensure cheaper heat for centralised heat supply networks, increase national energy production capacities as well as solve waste treatment problems. Thus, intervention is seen as making noticeable impact.
Unintended impact of the intervention	New biomass and waste to energy (WtE) combined heat and power plant (CHP) will have noticeable negative impact on current small independent heat producers, by decreasing amount of heat they can sell to centralised heating network operator (thus, decreasing revenues of current small independent heat producers or even causing some bankruptcies).
Main issues related to the implementation of the intervention	There was discussion whether these plants should be subsidised by the ESIF ³⁸⁶ . The argument is that similar plant in Klaipėda (the third biggest town of Lithuania after Vilnius and Kaunas) was built without subsidies. In addition, possession of three aforementioned plants may lead to shortage of waste to be burned ³⁸⁷ (although currently a significant excess of waste exists). Such shortage of waste might be related to the size of infrastructure planned to be built. As a result, ESIF subsidy was provided only to Vilnius plant (i.e. no ESIF support will be provided for Kaunas plant). Notwithstanding the fact, Kaunas plant is going to be built by private actor.
Consistency with other related interventions	There is some inconsistency between the analysed intervention and the mechanical and biological treatment plants recently build in Lithuania, in terms operators of treatment plants are willing to sort out more waste that could

³⁸⁶ Based on the information gathered during expert interviews.³⁸⁷ European Commission (2017), *Commission Staff Working Document, Country Report Lithuania 2017*, SWD (2017) 80 final

	be sold, while plant operator will be willing to burn even unsorted waste. As pointed by the EC Country Report of 2017³⁸⁸, the two waste incineration projects, planned to be operating by 2020, are likely to exceed the demand for incineration and that can result in further difficulties for Lithuania to achieve its target of 50% recycling (i.e. prioritization of incineration in relation to recycling).
Possibilities to replace/withdraw the intervention	Intervention is not repetitive, and support is already approved, thus possibilities to replace/withdraw the intervention are limited. Burning is integral part of waste management system and consequently should exist. For example, in Switzerland, around 50 percent of waste is burned and 50 percent sorted. However, burning capacities should be limited in order to reach better consistency with other interventions.

Source: BGI Consulting et al, 2017.

TABLE 213. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR (4)

Title of the intervention	Compensation for heat and hot water for vulnerable consumers
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Customer support through discounts or tariff compensations
Short description of the intervention	Vulnerable consumers are eligible to receive compensation for heat and electricity.
Year of the introduction and end, stability of the intervention	2003 - up to now There were fluctuations in the number of recipients and the total amount of compensations, what was caused by the changes in heat prices and by the economic cycles, i.e. changes in income levels of residents.
The broader policy objective to which intervention contributes	To provide support for residents that are in need of such support, to help residents to avoid poverty trap.
Legal background for the establishment of the intervention	Law on financial support for vulnerable residents, 1 July 2003, No. IX-1675 (LR piniginės socialinės paramos nepasiturintiems gyventojams įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To decrease expenditure incurred by the vulnerable residents for heat and hot water to defined fraction of personal income.
The objective of the intervention and legal background	To provide financial support for vulnerable residents by compensating expenditure incurred for heat and hot water above the defined fraction of personal income. Decisions of the councils of municipalities regarding the provision of financial support for vulnerable residents (Savivaldybių tarybų sprendimai dėl piniginės socialinės paramos nepasiturintiems gyventojams teikimo tvarkos aprašų tvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Administrations of municipalities

³⁸⁸ European Commission (2017), *Commission Staff Working Document, Country Report Lithuania 2017*, SWD (2017) 80 final

The main source of financing the intervention	State budget
Additional sources of financing the intervention	Municipal budget
Market side the intervention is targeted at	Demand
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	Agreements with licenced providers based on quantitate indicators
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the sum of individual compensations deducted from individual bills.
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Residents from lower-income groups, 98.6 thousand persons (Ministry of Social Security and Labour, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with necessary financial resources and / or necessary services.
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised) Income and capital.
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the means-tested approach
Impact of the intervention	Intervention allows vulnerable persons to consume heat and hot water without creating financial burden.
Unintended impact of the intervention	Intervention reduces incentives to renovate multi-apartment buildings. However, existing regulation does not allow the target group of the intervention to block renovation. Another unintended impact is that the intervention reduces incentives to look for a job and to work, because even the lowest salary may make the recipient of the compensation no longer eligible for receiving such compensation and other bonuses.
Main issues related to the implementation of the intervention	Due to high shadow in the economy there may be a noticeable number of recipients who have sufficient undeclared income and, in reality, are not in the necessity of the aforementioned compensation and other bonuses. No other noticeable issues were identified.
Consistency with other related interventions	Compensations are duplicating another intervention - reduced VAT for heating energy and hot water consumed in residential buildings. Compensations are seen as better government intervention, thus, it would be expedient to gradually withdraw the aforementioned VAT relief. No other noticeable inconsistencies were identified.
Possibilities to replace/withdraw the intervention	No possibilities to replace/withdraw the intervention were identified.

Source: BGI Consulting et al, 2017.

TABLE 214. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR (5)

Title of the intervention		Reduced VAT for heating energy and hot water consumed in residential buildings
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Reduced taxes/tax exemptions	
Short description of the intervention	Reduced VAT tariff is applied for heating energy and hot water supplied to residential buildings.	
Year of the introduction and end, stability of the intervention	2002 - up to now The implementation of intervention was more or less stable, despite the repetitive attempts to stop the implementation.	
The broader policy objective to which intervention contributes	To make heating and hot water supply services more affordable.	
Legal background for the establishment of the intervention	Law on VAT, 5 March 2002, No. IX-751 (LR pridėtinės vertės mokesčio įstatymas)	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To reduce the price of heating and hot water supplied to residential buildings.	
The objective of the intervention and legal background	To apply reduced VAT tariff for heating energy and hot water supplied to residential buildings. Law on VAT, 5 March 2002, No. IX-751 (LR pridėtinės vertės mokesčio įstatymas)	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	National level	
Name of the body responsible for implementation (administration) of intervention	State tax inspectorate	
The main source of financing the intervention	State budget	
Market side the intervention is targeted at	Demand	
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Subjects of the regulation/tax/tax exemption	Heat and hot water suppliers that include reduced VAT into heat and hot water bills.	
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides subjects with information (which VAT tariff to include into the bills issued)	
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects	
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)	
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Impact of the intervention	The main impact of intervention is that it allows to increase affordability of heating and hot water and to decrease number of persons receiving compensation for heat and hot water.	
Unintended impact of the intervention	Unintended impact of the intervention is that it reduces incentives to renovate multi-apartment buildings ³⁸⁹ .	
Main issues related to the implementation of the intervention	One of the issues is that intervention is also targeting residents for whom VAT relief is not crucial (i.e. these residents are able to pay full VAT tariff).	

³⁸⁹ Based on the information gathered during expert interviews.

	Another issue is that this intervention is not targeting residents that are not using centralised heating (selectivity issue).
Consistency with other related interventions	As mentioned above, this tax exemption reduces incentives to renovate multi-apartment buildings. On the other hand, this tax exemption also reduces number of persons receiving compensation for heat and hot water, thus reducing compensation administration cost.
Possibilities to replace/withdraw the intervention	Tax exemption in principle could be withdrawn. Renovation of multi-apartment buildings as well as expected decrease of heat production costs (due to further conversion from natural gas to biofuel and construction of waste-to-energy plants in Vilnius and Kaunas) should further increase possibilities to withdraw tax exemption. However, such withdraw of intervention should be gradual, with an aim to get well prepared for administration of increased number of compensations for heat and hot water.

Source: BGI Consulting et al, 2017.

TABLE 215. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR (6)

Title of the intervention	Regulation of tariffs of centralized heating services (including supply of hot water)
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	Tariffs of centralized heating services (including supply of hot water) are regulated by the National Commission of Energy Control
Year of the introduction and end, stability of the intervention	2003 - up to now The implementation of intervention was stable, noticeable changes were not identified.
The broader policy objective to which intervention contributes	To ensure reliable and quality heat supply to heat users at lowest costs.
Legal background for the establishment of the intervention	Law on heating, 20 May 2003, No. IX-1565 (LR šilumos ūkio įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To increase transparency of heat and hot water pricing, to ensure reliable and quality heat supply to heat users at lowest costs. Law on heating, 20 May 2003, No. IX-1565 (LR šilumos ūkio įstatymas)
The objective of the intervention and legal background	To ensure fair price of heat and hot water supplied to consumers.
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	National Commission of Energy Control
Market side the intervention is targeted at	Both
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	Price suggested by service provider has to be approved (with or without adjustments) by the National Commission of Energy Control.

Types of private providers eligible to receive the intervention	Private for-profit entities
Dominant mean of receiving the intervention for private providers	Price suggested by service provider has to be approved (with or without adjustments) by the National Commission of Energy Control.
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	Regulation of tariffs of centralized heating services seeks to ensure reliable and high-quality heat supply to heat users at lowest costs. It may have some positive impact in terms the users pay fairer price for the service. However, this positive impact is limited, in terms all costs incurred by inefficient service providers are usually included into the regulated tariff.
Unintended impact of the intervention	No noticeable unintended impact was identified.
Main issues related to the implementation of the intervention	No noticeable issues were identified.
Consistency with other related interventions	No noticeable inconsistencies were identified.
Possibilities to replace/withdraw the intervention	Some service providers are able to provide the service efficiently. In case of such service providers, regulation of tariffs can be treated as unnecessary and could be withdrawn.

Source: BGI Consulting et al, 2017.

TABLE 216. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR (7)

Title of the intervention	Subsidy for delivery of street lightening
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Municipalities are responsible for providing and financing street lightening
Year of the introduction and end, stability of the intervention	1994 - up to now The implementation of the intervention was relatively stable. Changes in implementation were related to economic crises during which only part of street lights were used (with an aim to save energy / reduce lightening costs).
The broader policy objective to which intervention contributes	To maintain streets of local significance, to organise traffic safety, to ensure public order.
Legal background for the establishment of the intervention	Law on Local Self-government, 7 July 1994, No. I-533 (LR vietos savivaldos įstatymas).
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure provision of street lightening service.
The objective of the intervention and legal background	To provide financing for provision of street lightening service. Charters of administrations of municipalities; decisions of municipalities councils on municipal budget approval.
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Administrations of municipalities
The main source of financing the intervention	Municipal budget
Market side the intervention is targeted at	Supply

SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Publicly-owned for profit entity
Dominant mean of receiving the intervention for public providers	Annual budgetary financing
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the need of financing for covering the running costs of the institution
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Residents and guests of the municipalities, and drivers crossing the settlements.
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is compulsory for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	The intervention provides necessary financial resources to ensure provision of street lightening service. This is the main positive impact of the intervention.
Unintended impact of the intervention	No noticeable unintended impact was identified.
Main issues related to the implementation of the intervention	Street lightening infrastructure was lacking modernisation and is quite inefficient. The subsidy is not sufficient to modernise the lightening infrastructure, but, on the other hand, this means that the subsidy is used to finance high operational expenses of inefficient infrastructure.
Consistency with other related interventions	No noticeable inconsistencies were identified.
Possibilities to replace/withdraw the intervention	Street lightening is treated as public good, thus there is no possibilities to withdraw the intervention. However, financial instruments can be used and are used with an aim to finance replacement of inefficient lightening infrastructure and to make the street lightening service more efficient.

Source: BGI Consulting et al, 2017.

TABLE 217. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR (8)

Title of the intervention	
ESIF subsidies for promotion of municipality-owned and residential building renovation	
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	ESIF subsidies are foreseen to finance promotion of municipality-owned and residential building renovation, including related technical assistance
Year of the introduction and end, stability of the intervention	2014-2023 The implementation of the intervention depends on ESIF allocations
The broader policy objective to which intervention contributes	To reduce energy consumption in public infrastructures and multi-apartment houses.
Legal background for the establishment of the intervention	Operational Programme for the European Union Funds' Investments in 2014-2020.

The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To promote and supervise renovation of public buildings and multi-apartment buildings. Operational Programme for the European Union Funds' Investments in 2014-2020
The objective of the intervention and legal background	To finance promotion and supervision of renovation of public buildings and multi-apartment buildings. Order of the Minister of Environment on terms of project financing (measure No. 04.3.1-APVA-V-003)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	The Environmental Project Management Agency under the Ministry of Environment of the Republic of Lithuanian
The main source of financing the intervention	ESIF funds
Market side the intervention is targeted at	Demand
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Budgetary institutions
Dominant mean of receiving the intervention for public providers	State planning
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Managers of public buildings and owners of multi-apartment buildings
The type of impact of intervention for consumers	The intervention provides consumers with necessary services and information.
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	Intervention is seen as having positive impact as it creates preconditions for actual renovation.
Unintended impact of the intervention	No noticeable unintended impact was identified.
Main issues related to the implementation of the intervention	No noticeable issues were identified.
Consistency with other related interventions	No noticeable inconsistencies were identified.
Possibilities to replace/withdraw the intervention	It is of course possible to withdraw the intervention, however, majority of buildings are still not renovated, thus it would be expedient to continue this intervention.

Source: BGI Consulting et al, 2017.

TABLE 218. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR (9)

Title of the intervention		Financial instrument (loans) for renovation of publicly-owned buildings
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Financial instruments for public service provision	
Short description of the intervention	ESIF funds are used to provide loans and repayable assistance for renovation of publicly-owned buildings	
Year of the introduction and end, stability of the intervention	2014-2023 and later (due to revolving nature) The initiation of the intervention depended on ESIF allocations, however, the revolving nature of it allows to continue the implementation of the intervention far beyond the 2014-2023 programming period	
The broader policy objective to which intervention	To reduce energy consumption in public infrastructures.	
Legal background for the establishment of the intervention	Operational Programme for the European Union Funds' Investments in 2014-2020	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To renovate state-owned buildings with an aim to increase energy efficiency.	
The objective of the intervention and legal background	To finance renovation of state-owned buildings with an aim to increase energy efficiency. Orders of the Minister of Energy on measures implementation plan (measures No. 04.3.1-VIPA-V-101; 04.3.1-FM-F-105)	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	National level	
Name of the body responsible for implementation (administration) of intervention	Public Investment Development Agency	
The main source of financing the intervention	ESIF funds	
Additional sources of financing the intervention	Private funds	
Market side the intervention is targeted at	Demand	
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention	Private (in terms private building and construction companies are providing renovation service)	
Types of private providers eligible to receive the intervention	Private for-profit entities	
Dominant mean of receiving the intervention for private providers	Public procurement	
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers	
The share of the funds of the intervention that is attributed to public providers	0%	
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Consumers of the intervention	Managers of public buildings which are included into a list approved by the Ministry of Energy.	
The type of impact of intervention for consumers	The intervention provides consumers with necessary financial resources	
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers.	
Consumers' selection criteria	Precise (particularised) Energy efficiency of building.	

Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the means-tested approach
Impact of the intervention	Intervention provides necessary financial resources for renovation of publicly-owned buildings, and, in comparison to subsidies, is more efficient way of financing. Impact of intervention is realised in decreased energy consumption, improved aesthetics of the renovated buildings as well as increased value of real estate.
Unintended impact of the intervention	Intervention also leads to decrease of GHG emissions, and creation of jobs in SME's that provide renovation services.
Main issues related to the implementation of the intervention	The main issue is related to low demand for financing provided by the intervention. Firstly, the managers of state-owned buildings do not have incentives to make renovation, because renovation would not lead to the financial benefit for the manager (lower energy costs would lead to lower assignments)³⁹⁰. Thus, changes in regulation are needed, either making renovation obligatory or foreseeing some bonuses for renovation or some penalties for not making renovation. Another option would be to hand over the management of state-owned buildings to some centralised manager who would have incentives to minimise maintenance costs. One more issue is that recent decrease in energy prices led to reduction of financial rate of return of renovation. Thus, a lot of buildings require additional component of subsidy to make renovation financially attractive. In addition, there are some issues with ESCO (Energy Service Company) model. Energy service providers appear to be unwilling to invest for longer term, and this leads to increase of costs for building managers during the service duration. In addition, service providers are willing to receive high risk premium which significantly increase the price of the service.
Consistency with other related interventions	Intervention is inconsistent with the current model of financing of maintenance of publicly-owned buildings, as this model creates insufficient incentives for renovation. Changes in regulation are needed to create the aforementioned incentives.
Possibilities to replace/withdraw the intervention	Intervention is implemented as financial instrument which is treated as more efficient than subsidies (in terms the same amount of public funds allows renovating more buildings). However, low demand for loans and insufficient rate of financial return may require to add a subsidy component ³⁹¹ .

Source: BGI Consulting et al, 2017.

TABLE 219. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR (10)

Title of the intervention	Financial instrument (loans) for renovation of municipality-owned buildings
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Financial instruments for public service provision
Short description of the intervention	ESIF funds are used to provide loans for renovation of municipality-owned buildings
Year of the introduction and end, stability of the intervention	2014-2023 and later (due to revolving nature)

³⁹⁰ Based on the information gathered during expert interviews.

³⁹¹ Based on the information gathered during expert interviews.

	The initiation of the intervention depended on ESIF allocations, however, the revolving nature of it allows to continue the implementation of the intervention far beyond the 2014-2023 programming period
The broader policy objective to which intervention contributes	To reduce energy consumption in public infrastructures.
Legal background for the establishment of the intervention	Operational Programme for the European Union Funds' Investments in 2014-2020
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To renovate municipality-owned buildings with an aim to increase energy efficiency. Operational Programme for the European Union Funds' Investments in 2014-2020
The objective of the intervention and legal background	To finance renovation of municipality-owned buildings with an aim to increase energy efficiency. Order of the Minister of Environment on measures implementation plan (measure No. 04.3.1-FM-F-002)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Public Investment Development Agency
The main source of financing the intervention	ESIF funds
Market side the intervention is targeted at	Demand
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Private (in terms private building and construction companies are providing renovation service)
Types of private providers eligible to receive the intervention	Private for-profit entities
Dominant mean of receiving the intervention for private providers	Public procurement
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	0%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Managers of municipality-owned buildings.
The type of impact of intervention for consumers	The intervention provides consumers with necessary financial resources
Level of coercion at consumers' level	The use of intervention is compulsory for the consumers (for those whose buildings are selected by administrations of municipalities).
Consumers' selection criteria	Precise (particularised) Energy efficiency of building.
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the means-tested approach
Impact of the intervention	Intervention provides necessary financial resources for renovation of municipality-owned buildings, and, in comparison to subsidies, is more efficient way of financing. Impact of intervention is realised in decreased energy consumption, improved aesthetics of the renovated buildings as well as increased value of real estate.

	In addition, ESCO (Energy Service Company) model allows to implement the projects in case the loan for renovation cannot be obtained due to the debt limits of municipality.
Unintended impact of the intervention	Intervention also leads to decrease of GHG emissions, and creation of jobs in SME's that provide renovation services.
Main issues related to the implementation of the intervention	An issue is that recent decrease in energy prices led to reduction of financial rate of return of renovation. Thus, a lot of buildings require additional component of subsidy to make renovation financially attractive. In addition, there are some issues with ESCO (Energy Service Company) model. Energy service providers appear to be unwilling to invest for longer term, and this leads to increase of costs for building managers during the service duration. In addition, service providers are willing to receive high risk premium which significantly increase the price of the service.
Consistency with other related interventions	Intervention may need to be supplemented with changes in regulation with an aim to create incentives for renovation.
Possibilities to replace/withdraw the intervention	Intervention is implemented as financial instrument which is treated as more efficient than subsidies (in terms the same amount of public funds allows renovating more buildings). However, with an aim to increase demand for funding, additional subsidy component may be needed.

Source: BGI Consulting et al, 2017.

TABLE 220. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR (11)

Title of the intervention	Financial instrument (guarantees for loans) for street lighting modernisation
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Financial instruments for public service provision
Short description of the intervention	ESIF funds are used to provide guarantees for loans taken for street lighting modernisation.
Year of the introduction and end, stability of the intervention	2014-2023 and later (due to revolving nature) The initiation of the intervention depended on ESIF allocations, however, the revolving nature of it allows to continue the implementation of the intervention far beyond the 2014-2023 programming period
The broader policy objective to which intervention contributes	To maintain streets of local significance, to organise traffic safety, to ensure public order.
Legal background for the establishment of the intervention	Law on Local Self-government, 7 July 1994, No. I-533 (LR vietos savivaldos įstatymas).
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To carry out modernisation of street lighting.
The objective of the intervention and legal background	To provide guarantees for loans taken for street lighting modernisation. Order of Public Investment Development Agency on description of procedures for providing of guarantees, 22 May 2015, No. 2015/9-16 (Garantijų teikimo miestų gatvių apšvietimo sistemų modernizavimui tvarkos aprašas)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Public Investment Development Agency
The main source of financing the intervention	ESIF funds

Market side the intervention is targeted at	Demand
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Private (in terms private building and construction companies are providing modernisation service)
Types of private providers eligible to receive the intervention	Private for-profit entities
Dominant mean of receiving the intervention for private providers	Public procurement
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	0%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Municipalities or their companies that implement street lighting modernisation projects.
The type of impact of intervention for consumers	The intervention provides consumers with necessary financial resources
Level of coercion at consumers' level	The use of intervention is voluntary for the beneficiaries
Consumers' selection criteria	Precise (particularised) Conformity with the defined criteria.
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the means-tested approach
Impact of the intervention	Intervention provides possibilities to obtain loans needed to finance replacement of inefficient lightening infrastructure and to make the street lightening service more efficient (in terms of energy consumption). In addition, quality and aesthetics of streets lightening will also be improved.
Unintended impact of the intervention	Intervention also leads to decrease of GHG emissions, and creation of jobs in SME's acting in building and construction service.
Main issues related to the implementation of the intervention	Modernisation of street lighting modernisation using the guarantees hasn't started yet, partially due to low demand for such guarantees. There is also an issue of lower than estimated financial rate of return, as currently not all lamps are turned on in many cases, thus in reality less energy is consumed than was included in calculations. In addition, some municipalities are trying to modernise some segments of street lightening under ESIF measures designated for regional development, which further reduces demand for the guarantees.
Consistency with other related interventions	Intervention is inconsistent with ESIF measures designated for regional development, as the latter measures create possibilities to receive subsidies for modernisation of some segments of street lightening, thus reducing demand for guarantees.
Possibilities to replace/withdraw the intervention	Intervention is implemented as financial instrument which is treated as more efficient than subsidies (in terms the same amount of public funds allows modernising more infrastructure). However, with an aim to increase demand for guarantees, additional subsidy component may be needed.

Source: BGI Consulting et al, 2017.

TABLE 221. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR (12)

Title of the intervention	Regulation establishing obligation for state owned electricity and gas transmission and distribution operators to finance energy efficiency measures at consumer level
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	State owned electricity and gas transmission and distribution operators shall finance energy efficiency measures at consumer level.
Year of the introduction and end, stability of the intervention	Intervention is not in force yet.
The broader policy objective to which intervention contributes	To ensure savings in energy consumption.
Legal background for the establishment of the intervention	Law on increase of energy consumption efficiency, 3 November 2016, No. XII-2702 (LR energijos vartojimo efektyvumo didinimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To implement energy efficiency measures at consumer level.
The objective of the intervention and legal background	To establish obligation for state owned electricity and gas transmission and distribution operators to finance energy efficiency measures at consumer level. Draft law on increase of energy consumption efficiency (LR energijos vartojimo efektyvumo didinimo įstatymo projektas)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Ministry of Energy
The main source of financing the intervention	Private funds
Market side the intervention is targeted at	Both
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	State owned electricity and gas transmission and distribution operators
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention requires certain actions from subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Impact of the intervention	The main impact of intervention is that energy efficiency measures will allow saving 3 TWh of energy through the country. This would lead to lower energy costs for consumers.
Unintended impact of the intervention	Anticipated energy savings would also lead to decrease of GHG emissions and reduction of dependence on imported energy.
Main issues related to the implementation of the intervention	Some experts argue that electricity and gas transmission and distribution operators have limited measures for improving energy efficiency in residential buildings as they do not have access to this level. Thus, intervention is more suitable in case of industry consumers that better understand the benefits of energy efficiency measures. Still, such measures are smart

	electrical counters could also help to reduce energy consumption even in residential buildings.
Consistency with other related interventions	No noticeable inconsistencies were identified.
Possibilities to replace/withdraw the intervention	Energy savings targets were defined by the EU Directive, thus these targets cannot be ignored. However, these targets can be achieved by employing different interventions, thus there is space for replacements.

Source: BGI Consulting et al, 2017.

TABLE 222. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR (13)

Title of the intervention	ESIF subsidies for performance of energy audit and / or investment into energy production from renewable energy sources
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	ESIF subsidies are foreseen for performance of energy audit and / or investment into energy production from renewable energy sources
Year of the introduction and end, stability of the intervention	2014-2023 The implementation of the intervention depends on ESIF allocations
The broader policy objective to which intervention contributes	Reduce intensity of energy consumption in industrial enterprises.
Legal background for the establishment of the intervention	Operational Programme for the European Union Funds' Investments in 2014-2020
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To decrease energy consumption and to increase use of renewable energy sources in industrial enterprises. Operational Programme for the European Union Funds' Investments in 2014-2020
The objective of the intervention and legal background	To finance investments aimed at decreasing energy consumption and increasing use of renewable energy sources in industrial enterprises. Orders of the Minister of Economy on terms of project financing (measures No. 04.2.1-LVPA-K-836; 04.2.1-LVPA-K-804)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Public Institution Lithuanian Business Support Agency
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	Private funds
Market side the intervention is targeted at	Demand
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	n/a
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Industrial enterprises
The type of impact of intervention for consumers	The intervention provides consumers with necessary financial resources

Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised) Conformity with the defined criteria.
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the means-tested approach
Impact of the intervention	Analysed support measures will have a positive impact in terms of improved energy efficiency and increased renewable energy production capacity. Although total amount of subsidies is relatively modest, intervention will help the recipients of the subsidy to solve their energy efficiency related problems.
Unintended impact of the intervention	Intervention will also contribute to decrease of GHG emissions and reduction of dependence on imported energy.
Main issues related to the implementation of the intervention	Implementation of the intervention once again confirmed existence of the group of companies dependant on ESIF subsidies, as many of applicants previously also received a number of subsidies under other support measures. No other noticeable issues identified.
Consistency with other related interventions	No noticeable inconsistencies were identified.
Possibilities to replace/withdraw the intervention	Energy audits are not very costly, thus, having created some progress during the current programming period, this intervention could be withdrawn. Subsidies for energy efficiency measures and development of renewable energy production capacities will likely be replaced by financial instruments in next programming period.

Source: BGI Consulting et al, 2017.

TABLE 223. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR (14)

Title of the intervention	Financial instrument (loans) for renovation of residential buildings
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Financial instruments for public service provision
Short description of the intervention	ESIF funds are used to provide loans for renovation of residential buildings
Year of the introduction and end, stability of the intervention	2014-2023 and later (due to revolving nature) The initiation of the intervention depended on ESIF allocations, however, the revolving nature of it allows to continue the implementation of the intervention far beyond the 2014-2023 programming period
The broader policy objective to which intervention contributes	To reduce energy consumption in multi-apartment houses.
Legal background for the establishment of the intervention	Operational Programme for the European Union Funds' Investments in 2014-2020
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To renovate multi-apartment houses with an aim to increase energy efficiency. Operational Programme for the European Union Funds' Investments in 2014-2020
The objective of the intervention and legal background	To finance renovation of multi-apartment houses with an aim to increase energy efficiency. Order of the Minister of Energy on measures implementation plan (measure No. 04.3.1-FM-F-001)
Level of body responsible for policy formation	National level

Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Public Company Housing Advisory Agency
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	Private funds
Market side the intervention is targeted at	Demand
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Private (in terms private building and construction companies are providing renovation service)
Types of private providers eligible to receive the intervention	Private for-profit entities
Dominant mean of receiving the intervention for private providers	Public procurement
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	0%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Owners of multi-apartment buildings
The type of impact of intervention for consumers	The intervention provides consumers with necessary financial resources
Level of coercion at consumers' level	The use of intervention is voluntary for the beneficiaries
Consumers' selection criteria	Precise (particularised) Conformity with the defined criteria.
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the means-tested approach
Impact of the intervention	Intervention provides necessary financial resources for renovation of residential buildings, and, in comparison to subsidies, is more efficient way of financing. Impact of intervention is realised in decreased energy consumption and improved aesthetics of the renovated buildings.
Unintended impact of the intervention	Intervention leads to increase of prices of apartments in the renovated residential buildings (in addition, it becomes more difficult to sell apartments in neighbouring unrenovated residential buildings). Intervention also leads to decrease of GHG emissions, and creation of jobs in SME's acting in building and construction service.
Main issues related to the implementation of the intervention	Implementation of intervention faced a number of issues. Firstly, as individual apartments belong to natural persons (who either live in their apartment or rent it to other natural persons), it is quite difficult to reach a consensus on the need of renovation. Lack of information, fear to accept responsibility for results of renovation, need of support could be also named as obstacles. In addition, loans alone are not sufficient to create incentives for renovation – higher role is played by subsidies that are combined with the loans ³⁹² . Furthermore, some experts argue that more cost-efficient solution would be to renovate the heating units within

³⁹² Based on the information gathered during expert interviews.

	residential buildings, and only then it is worth to proceed with renovation of facades of the buildings. Counterargument is that renovation of the heating units would noticeably reduce energy consumption and decrease incentives for facade renovation, the latter being very important due to the age of the buildings and the declared need for integrated renovation.
Consistency with other related interventions	Intervention is inconsistent with reduced VAT for centrally supplied heating energy, in terms VAT reduction reduces incentives to renovate multi-apartment buildings. In addition, some renovation projects include installation of alternative heat generation capacities, such as heat pumps. As generation of energy using such capacities is not eligible for reduced VAT tariff, this further reduces incentives for innovative renovation solutions. In terms of good practice, loans are combined with subsidy component, the latter being an important factor in creating incentives for renovation³⁹³.
Possibilities to replace/withdraw the intervention	Intervention is implemented as financial instrument, i.e. is more efficient than subsidies, thus there is no substantiation for replacing/withdrawing this intervention.

Source: BGI Consulting et al, 2017.

2.15.3.1 SUPPLY SIDE: QUALITY OF PLANNING OF SELECTED INTERVENTIONS

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

The results of the evaluation demonstrated that planning performance at the government intervention level varies mostly from good to average. The deviation is noted at reserve electricity production service level, where the only government intervention facilitating the service – taxes, is not characterised by compliance with any criteria indicating good planning practice. This could be also said in respect to other government intervention, which has analogous legislative nature – the compensation mechanism in the central heating delivery mechanism. On the other hand, such government interventions as ESIF subsidies for improving performance of the public service in the domain of centralised heating provision are assessed as good in terms of planning. In these cases, all the requirements for good planning starting from the definition of the period of implementation of the intervention, types and amounts of costs, revenue, standards, definition of results and ending with the demand assessment are met.

³⁹³ Based on the information gathered during expert interviews.

TABLE 224. QUALITY OF THE PLANNING OF THE ENERGY AND ENERGY EFFICIENCY SECTOR SERVICES RELATED INTERVENTIONS IN LITHUANIA

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Reserve electricity production	Taxes ³⁹⁴	x	x	x	x	x	x	POOR
Centralized heating services (including supply of hot water)	ESIF subsidies for improving performance of the public service (heat production and supply)	√	√	√	√	√	√	GOOD
	ESIF subsidies for improving performance of the public service (waste to energy plants)	√	√	√	√	√	√	GOOD
	Compensation	x	x	x	x	x	x	POOR
	Reduced VAT for heating	x	x	N/A	√	x	√	AVERAGE
	Regulated heat tariffs	x	√	√	√	√	x	AVERAGE
Energy efficiency improvement at consumer level (public sector)	Street lightening / Municipal budget assignation	x	√	x	√	√	√	AVERAGE
	ESIF subsidies for promotion of renovation	√	√	x	√	√	√	GOOD
	Preferential loans renovation of publicly-owned buildings	√	√	x	√	√	√	GOOD

³⁹⁴ Reserve production is financed by Public interest obligation part included into electricity tariff as specific component

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
	Preferential loans for renovation of municipality-owned buildings	√	√	×	√	√	×	AVERAGE
	Guarantees for loans for street lighting modernisation	√	√	×	√	√	×	AVERAGE
	Regulation establishing obligation to finance energy efficiency measures at consumer level	√	×	×	×	√	√	AVERAGE
Energy efficiency improvement at consumer level (private sector)	ESIF subsidies for promotion of renovation	√	√	×	√	√	√	GOOD
	ESIF subsidies for energy efficiency measures at industrial enterprises	√	√	×	√	√	×	AVERAGE
	Financial instruments (renovation of residential building)	√	√	√	√	√	√	GOOD
	Regulation establishing obligation to finance energy efficiency measures at consumer level	√	×	×	×	√	√	AVERAGE

Source: BGI Consulting et al, 2017.

Worth mentioning is also reduced VAT for centralized heating services (including supply of hot water). Despite the repetitive attempts to stop the implementation, this intervention is still in place, however, it is not clear what results are intended to achieve. The intervention, among other target groups, is also targeting residents that do not need it, i.e. are able to pay full VAT tariff. Meanwhile, it is not targeting residents that are not using centralised heating service (selectivity issue). The implicit benefit of the intervention could be that it reduces number of persons receiving compensation for heat and hot water, thus reducing compensation administration cost.

To summarise, the best quality of planning among all energetics and energy efficiency services related interventions is attributed to the interventions financed by ESI funds. The documents related to the ESI funds lay down clearly the formal requirements for allocation of funds, including period of implementation of the intervention, eligible cost, output and outcome indicators, etc.

2.15.3.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF SELECTED INTERVENTIONS

Efficiency analysis of selected interventions has shown that taxes, assuring reserve electricity production, do not affect any qualitative or quantitative parameters of the efficiency of the service.

In case of interventions related to the centralised heating provision, regulated heat tariffs are an essential element of the delivery of the service as they cover the bulk of the costs. The regulation of the tariffs is also a key precondition to keep the prices at a certain level, which, if regulated transparently, brings a needed cost efficiency control mechanism. The ESIF subsidies for development of heat production capacities and renovation of heating network naturally enhance heat supply and production efficiency leading to less heat losses in the network and the overall more efficient heat production.

In case of interventions related to energy efficiency improvement at consumer level (both public and private sector), employed financial instruments face low demand issues. It seems, that managers of state-owned buildings do not have incentives to make renovation, because renovation would not lead to the financial benefit for the manager (lower energy costs would lead to lower assignments)³⁹⁵. Thus, changes in regulation are needed, either making renovation obligatory or foreseeing some bonuses for renovation or some penalties for not making renovation. One more issue is that recent decrease in energy prices led to reduction of financial rate of return of renovation. Thus, a lot of state-owned and municipal owned buildings may require additional component of subsidy to make renovation financially attractive. In addition, there are some issues with ESCO (Energy Service Company) model. Energy service providers appear to be unwilling to invest for longer term, and this leads to increase of costs for building managers during the service duration. In addition, service providers are willing to receive high risk premium which significantly increase the price of the service.

In terms of interventions related to energy efficiency improvement at consumer level (private sector), the majority of residential buildings are still not renovated (while the situation is improving), and it seems that the financial instrument (loans) alone does not create sufficient incentives, and here higher role is played by subsidies that are combined with the loans.

Having the notion that participation of private entities in the service delivery mechanism has the potential to bring effectiveness and efficiency in mind, the assessment of the possibilities to increase competitiveness of the sector and the specific services was conducted. Energy efficiency improvement at consumer level can be treated as provided by private entities, as renovation is carried out by private actors – building and constructing companies. However, in case of publicly owned buildings, the efficiency is hindered by the fact that managers of these buildings lack incentives for decrease of energy costs. Thus, centralisation of management function, or even transfer of operation of public buildings to private actors could be considered.

³⁹⁵ Based on the information gathered during expert interviews.

Remaining two services could also, at least partly, be provided by the private entities. The heat production and operation of the heat supply network already has some examples of delivery by the private sector. The service of reserve electricity production has also recently attracted some private electricity producers.

2.15.3.3 SUPPLY SIDE: ADDITIONALITY OF SELECTED INTERVENTIONS

Additionality analysis of selected interventions has shown that taxes, assuring reserve electricity production (i.e. public interest obligation part included into electricity tariff as a specific component) provide financing needed to ensure electricity market functionality and to counteract the severe fluctuations of the electricity prices. Therefore, it has some impact on the target groups - households and enterprises, however the impact is insignificant due to the relatively efficient ongoing production and/or trade in current electricity market. Accordingly, it would be difficult to trace any noticeable effects in respect to productivity, employment or capital investment changes at the level of private companies or the economy as such. The economic impacts are to some extent limited to the short-term implementation effects and equal to the financial volume of the intervention.

The interventions facilitating the centralized heating services (including supply of hot water) have a varying impact on the target group. Interventions such as regulated heat tariffs and ESIF subsidies are assumed to have significant positive effects. ESIF subsidies not only allow to increase heat supply reliability and decrease energy losses, but also lead to lower amount of greenhouse gas emissions and lower heat price to consumers. In addition, ESIF subsidies make a substantial contribution to the production side of the economy as financed activities are labour and capital intensive. Meanwhile, the compensational measures³⁹⁶ and VAT exemption have some negative effects, since they reduce the willingness of consumers to reduce their heat consumption by renovating buildings.

The interventions related to energy efficiency improvement at consumer level (public sector) make a significant positive impact on the direct target group. The impact is generally manifested by reduced utilities' costs and improved aesthetical and public security parameters of the intervention objects and areas. However, the interventions are not aimed at improving productivity of businesses and cause only marginal changes there. On the other hand, the interventions do increase jobs and capital investments, but that is rather implementation impacts equal to the volume of expenditure. In addition, interventions related to street lightning provide long standing public safety and maintenance efficiency preconditions.

Meanwhile, interventions related to energy efficiency improvement in private sector entities have a significant positive impact on business' productivity as they finance the required means of more efficient energy production and usage. This, however, might push the employment towards negative direction, but to a very limited, beneficiary level, extent. The capital investment is affected by implementation impacts equal to the volume of expenditure.

2.15.3.4 SUPPLY SIDE: SIDE-EFFECTS OF SELECTED INTERVENTIONS

Side-effects analysis of taxes, assuring reserve electricity production (i.e. public interest obligation part included into electricity tariff as a specific component) did not bring any substantial insights regarding unintended behavioural or other impacts. This intervention provides financing needed to ensure electricity market functionality, including reduction of the electricity prices peaks. It could be speculated that the

³⁹⁶ Where state compensates heating bills to the households whose heating bills are higher than 10 percent of the income.

market entities producing electricity are aware of the regulatory mechanism, therefore it slightly affects their internal pricing policies. However, having the electricity market operating at a regional level in mind, the intervention's side-effects are negligible.

The interventions facilitating the centralized heating services (including supply of hot water) have varying side-effects. ESIF subsidies are assumed to have significant positive effects, as they not only contribute to the lower amount of greenhouse gas emissions, but also have such positive side-effects as fostering of local economies by increased use of local fuel (biomass) or decreased country dependence on fuel import. However, the compensational interventions aimed at the delivery of the centralized heating services, and the VAT exemption for centrally supplied heat have the opposite side-effects as these interventions reduce the willingness to increase heating efficiency resulting in diminished positive side effects.

The energy efficiency improvement at consumer level (public and private sectors) related government interventions manifests significant positive effects on the target group, as they provide long standing public safety (in case of lightning) and maintenance efficiency (in case of renovation) precondition. It could also be presumed that such positive side-effects as reduced crime and reduced traffic accidents occur in case of street lightning related interventions. Whereas, the savings gained due to efficiency of maintaining of public and private buildings might be translated into increased habitation comfort and decreased sickness rate for the inhabitants. And finally, renovation of residential buildings leads to increase of prices of apartments in the renovated residential buildings (on the other hand, it becomes more difficult to sell apartments in neighbouring unrenovated residential buildings).

2.15.3.5 DEMAND SIDE: IMPACT OF SELECTED INTERVENTIONS ON AFFORDABILITY OF THE SERVICE

As the key function of the reserve electricity production service is to ensure electricity market functionality and to deal with fluctuations of electricity prices, it is assessed that the service related intervention (i.e. public interest obligation part included into electricity tariff as a specific component) is aimed at increasing affordability to pay for the electricity. As the service is aimed at the overall electricity market, all the groups using the utility benefits from the intervention.

In case of interventions related to centralized heating services (including supply of hot water), it is worth mentioning that the service is delivered equally to all households connected to the central heating networks. As the service is delivered centrally, there is not much room for altering volume and period of consumption. However, despite the fact that different income groups are provided with the service equally, the affordability rate varies due to the uneven income distribution of the consumers. Therefore, the municipal and state compensational interventions are introduced to reduce the burden of central heating expenditure for most vulnerable groups in terms of income. Affordability of the service is further improved by reduced VAT tariff for centralized heating services. However, this intervention is also targeting residents that are able to pay full VAT tariff.

In case of interventions related to energy efficiency improvement at consumer level (public and private sectors), the investments into the street lighting, public building renovation, energy efficiency projects are non-discriminatory in respect to the characteristics of target group. However, it is worth noticing that the energy efficiency improvement interventions are limited to their financial capacity to respond to the overall needs to replace and renovate the outdated public infrastructure and contribute to the private energy efficiency improvement measures in the private sector. In addition, it seems that financial instruments (loans) alone do not create sufficient incentives for renovation of publicly owned and residential buildings.

2.15.3.6 CONSISTENCY OF SELECTED INTERVENTIONS

The energy and energy efficiency analysis was grounded on the four selected services of the sector. The reserve electricity production service is generally implemented by a single intervention, so there were no deviances noticed.

In case of centralized heating services, there is lack of a supplementing intervention, as it is argued that the impact of heat supply network renovation would be noticeably higher having also modernised the heating units within residential buildings. In addition, there are inconsistencies between service related interventions and interventions related to other services. Firstly, reduced VAT for heating energy and hot water consumed in residential buildings is duplicating another intervention - compensation for heat and hot water for vulnerable consumers. Furthermore, both reduced VAT for heating energy and hot water and compensation for heat and hot water reduce incentives to renovate multi-apartment buildings (fortunately, existing regulation does not allow the target group of the compensations to block renovation). As regards ESIF subsidies for waste to energy plants (as heat production capacities), this intervention may be inconsistent with interventions implemented within waste management sector. Namely, the two waste incineration projects, planned to be operating by 2020, are likely to exceed the demand for incineration and that can result in further difficulties for Lithuania to achieve its target of 50 percent recycling (i.e. prioritization of incineration in relation to recycling)³⁹⁷.

In terms of energy efficiency improvement at consumer level (public sector), it seems, that managers of state-owned buildings do not have incentives to make renovation, because renovation would not lead to the financial benefit for the manager (lower energy costs would lead to lower assignments). Thus, changes in regulation are needed to eliminate this inconsistency, either making renovation obligatory or foreseeing some bonuses for renovation or some penalties for not making renovation. One more issue is that recent decrease in energy prices led to reduction of financial rate of return of renovation. Thus, a lot of state-owned and municipal owned buildings may require additional component of subsidy to make renovation financially attractive.

In terms of financial instrument (guarantees for loans) for street lighting modernisation, modernisation using the guarantees hasn't started yet, and it seems that some municipalities are trying to modernise some segments of street lightening under ESIF measures designated for regional development, which reduces demand for the guarantees (duplication of interventions).

In terms of energy efficiency improvement at consumer level (private sector), it seems that financial instrument (loans) alone does not create sufficient incentives for renovation of residential buildings, and here higher role is played by subsidies that are combined with the loans³⁹⁸. There is also space for increasing of incentives by withdrawing inconsistent intervention - VAT reduction for centrally supplied heating energy.

In terms of ESIF subsidies for industrial companies (for performance of energy audit and / or investment into energy production from renewable energy sources), implementation of the intervention once again confirmed existence of the group of companies dependant on ESIF subsidies, as many of applicants previously also received a number of subsidies under other support measures.

³⁹⁷ European Commission (2017), *Commission Staff Working Document, Country Report Lithuania 2017*, SWD (2017) 80 final

³⁹⁸ Based on the information gathered during expert interviews.

2.15.4 CONCLUSIONS AND RECOMMENDATIONS ON THE GOVERNMENT INTERVENTIONS IN THE LITHUANIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR

The analysis reveals some efficiency gaps and other issues in delivery of interventions selected for deeper analysis.

In case of **interventions related to centralized heating services** (including supply of hot water), the impact of heat supply network renovation would be noticeably higher having also modernised the heating units within residential buildings (however, according to the current regulation, the heating units within residential buildings do not fall under responsibility of heat providers, while the owners of apartments of residential buildings are not capable to organise and finance modernisation of the heating units³⁹⁹).

In addition, there are inconsistencies between interventions. Firstly, reduced VAT for heating energy and hot water consumed in residential buildings is duplicating another intervention - compensation for heat and hot water for vulnerable consumers. Thus, it is recommended to discuss withdrawal of the aforementioned VAT exemption (due to the targeting issues). However, such withdrawal of intervention should be gradual, with an aim to get well prepared for administration of increased number of compensations for heat and hot water.

Furthermore, both reduced VAT for heating energy and hot water and compensation for heat and hot water reduce incentives to renovate multi-apartment buildings (see interventions related to energy efficiency improvement at consumer level (private sector)). Fortunately, existing regulation foresees reduction of compensation in case the recipient blocks the decision to start renovation. Meanwhile, withdrawal of the VAT exemption should be discussed (as mentioned above).

As regards ESIF subsidies for waste to energy plants (as heat production capacities), this intervention may be inconsistent with interventions implemented within waste management sector. Namely, the two waste incineration projects, planned to be operating by 2020, are likely to exceed the demand for incineration and that can result in further difficulties for Lithuania to achieve its target of 50 percent recycling (i.e. prioritization of incineration in relation to recycling)⁴⁰⁰. However, intervention is not repetitive, and support is already approved, thus possibilities to replace/withdraw the intervention are limited.

In case of **interventions related to energy efficiency improvement at consumer level (public sector)**, employed financial instruments face low demand issues. It seems, that managers of state-owned buildings do not have incentives to make renovation, because renovation would not lead to the financial benefit for the manager (lower energy costs would lead to lower assignments). Thus, changes in regulation are needed, either making renovation obligatory or foreseeing some bonuses for renovation or some penalties for not making renovation⁴⁰¹. Another option would be to hand over the management of state-owned buildings to some centralised manager who would have incentives to minimise maintenance costs. One more issue is that recent decrease in energy prices led to reduction of financial rate of return of renovation. Thus, a lot of state-owned and municipal owned buildings may require additional component of subsidy to make renovation financially attractive. To summarise, it is recommended to discuss the possibilities to strengthen incentives for renovation of the state-owned and municipal owned buildings.

³⁹⁹ Based on presentation presented at international energy conference „Energy efficiency and innovations in the heat sector. Lithuanian and European experience“ held on 4 December 2017 in the Parliament of the Republic of Lithuania.

⁴⁰⁰ European Commission (2017), *Commission Staff Working Document, Country Report Lithuania 2017*, SWD (2017) 80 final

⁴⁰¹ Based on the information gathered during expert interviews.

In addition, there are some issues with ESCO (Energy Service Company) model. Energy service providers appear to be unwilling to invest for longer term, and this leads to increase of costs for building managers during the service duration. In addition, service providers are willing to receive high risk premium which significantly increase the price of the service. Thus, again, it is recommended to discuss the possibilities to make ESCO model more attractive for the managers of the publicly-owned buildings.

In case of financial instrument (guarantees for loans) for street lighting modernisation, modernisation using the guarantees hasn't started yet, partially due to low demand for such guarantees. There is also an issue of lower than estimated financial rate of return, as currently not all lamps are turned on in many cases, thus in reality less energy is consumed than was included in calculations. In addition, some municipalities are trying to modernise some segments of street lightening under ESIF measures designated for regional development, which further reduces demand for the guarantees. Thus, it is recommended to discuss the possibilities to strengthen incentives for use of guarantees for street lighting modernisation.

In case of **interventions related to energy efficiency improvement at consumer level (private sector)**, the progress in renovation of residential buildings is still not acceptable, but the situation is improving. It seems that financial instrument (loans) alone does not create sufficient incentives, and here higher role is played by subsidies that are combined with the loans. Furthermore, some experts argue that more cost-efficient solution would be to renovate the heating units within residential buildings, and only then it is worth to proceed with renovation of facades of the buildings. Counterargument is that renovation of the heating units would noticeably reduce energy consumption and decrease incentives for facade renovation, the latter being very important due to the age of the buildings and the declared need for integrated renovation. There is space for increasing of incentives by withdrawing inconsistent intervention - VAT reduction for centrally supplied heating energy (as mentioned above).

In case of ESIF subsidies for industrial companies, this intervention, although being relatively modest in financial terms, will help the recipients of the subsidy to solve their energy efficiency related problems. However, implementation of the intervention once again confirmed existence of the group of companies dependant on ESIF subsidies, as many of applicants previously also received a number of subsidies under other support measures. Regarding continuation of current interventions for industrial companies, energy audits are not very costly, thus, having covered certain number of companies during the current programming period, this intervention could be withdrawn. Subsidies for energy efficiency measures and development of renewable energy production capacities will likely be replaced by financial instruments in the next programming period.

In case of public interest obligation fee (as component of electricity tariff) which is used to finance **reserve electricity production**, some experts emphasise the shortcoming of the intervention, related to the fact that those industrial companies that are producing electricity for their purposes, also are obliged to pay the fee (charged on electricity produced by such companies for own purposes). On the other hand, such industrial companies in some instances also need external electricity, and this means they should pay for ability to use external electricity at any time of moment. In general, intervention is crucial in ensuring electricity supply, thus it cannot be withdrawn.

2.15.5 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

This chapter presents the analysis of the potential for the implementation of financial instruments in the three Lithuanian Energetics and energy efficiency sector's services:

- Centralized heating services (including supply of hot water);
- Energy efficiency improvement at consumer level (public sector);
- Energy efficiency improvement at consumer level (private sector).

2.15.5.1 CENTRALISED HEATING SERVICES (INCLUDING SUPPLY OF HOT WATER)

TABLE 225. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN CENTRALISED HEATING SERVICES

Criteria	FI potential
Pricing system	Tariff allows to cover total costs
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)
Market potential	Potential development of (more) paid services
Accountability	Performance framework
Capacity	Transfer of parts of service (ongoing) – no lack of resources for transition

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

The pricing is regulated and set by relevant authorities. Consumer paid fees cover 100 percent of the total annual cost of service provision (including infrastructure and equipment), i.e. existing regulation of tariffs allows to cover total costs. There is room for a slight increase of prices, provided that quality of the service increases at the same time (such increase is limited, as residents will have to pay also for loan instalments related to renovation). Other revenues related to electricity production and treatment of municipal wastes are generated, to a limited extent, using the same infrastructures (only in the bigger cities).

REGULATORY AND GOVERNANCE FRAMEWORK

The local government is responsible for the provision of the service; centralised heating network operators are usually public owned entities and, in some cases, private operator is selected by municipality. Network operator produces heat itself or buys it from independent private producers, in case the latter can offer heat prices lower than production costs incurred by the operator. ESIF subsidies for biomass heat only boilers (HOB) and combined heat and power plants (CHP) installation can be treated as having a positive stimulus for independent private heat producers.

MARKET POTENTIAL

More than 70 percent of residential areas are connected to a district heating system, corresponding to 620 000 consumers, among residential buildings and industry. ESIF subsidies for district heating network renovation have only minor impact on connecting new users to the network.

The major barriers to enter the market for private entities are linked to high fixed costs of investment, geographical dispersion of the service and a certain public monopoly of heat distribution networks (i.e. if a company can achieve production capacities and offer heat at lower prices, it can enter the market and sell it to the heat network operator; to become network operator, such company depends on availability of tenders from municipality). Note that private entities are a minority in supplying heat, but they are in general more cost-effective.

There is some potential for further revenue generation through development of subsidiary services (e.g. electricity, in case of which ESIF subsidies for combined heat and power plants (CHP) installation create a positive stimulus). More importantly, potential relies in increasing the number of buildings renovated, thus creating more savings on heat consumption. In this sense, although transportation of one unit of heat will become more expensive, consumption is reduced (savings), which also may create space for increasing tariff (considering its limits, as cited in the pricing system evaluation above).

ACCOUNTABILITY

Objectives of the service are clearly defined in related documents and target values are available. Short-term and long-term objectives are consistent. Regulation of tariffs of the services also contributes to accountability as costs of the service have to be disclosed to the regulator.

CAPACITY

There is, in some cases, insufficiency in quality of the service delivery, linked to poor investment planning, insufficient investments, old technology and poor maintenance. For this reason, there are considerations about transferring heat production to private partners in order to increase cost-effectiveness.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Consumer paid fees cover the total annual cost of service provision. There is some potential to increase revenues through a slight price increase or subsidiary services (e.g. electricity, in case of which ESIF subsidies for combined heat and power plants (CHP) installation create a positive stimulus).

More importantly, the main potential relies on increasing the savings on heat consumption, through renovation of the district heating system. In this aspect, there is space for FIs introduction (substituting subsidies) as means of funding network operators. However, as this could lead to increase of the tariffs to final consumers, which constitutes a great concern in the country, such introduction could be considered exclusively for highly financially viable cases. Under this condition, international experiences can be drawn upon, as the example below illustrates.

The London Energy Efficiency Fund (LEEF), started in 2011, aims to be the cheapest finance option to support projects of energy efficiency, directed to the region of London. The fund addresses to challenges of the sector such as a lack of investment on areas of retrofit or decentralised energy projects, as well as the high risk and small scale of projects in this field, which result in difficulties to access finance.

LEEF targets both public, private and voluntary sectors, with projects that propose clear benefits for London (in terms of energy savings, CO₂ reduction, employment), which cannot raise the whole necessary financing. The fund provides investments between one and 20 million pounds, through debt, mezzanine and equity, with competitive terms. Additionally, it offers complementarity with other sources of funding and hands-on expertise.

The fund has supported seven high impact projects in carbon reduction, investing 67 million pounds and attracting 350 million pounds in external investment, saving 20 million kWh of energy.

2.15.5.2 PROVIDING FINANCING FOR ENERGY EFFICIENCY IMPROVEMENT AT CONSUMER LEVEL (PUBLIC SECTOR)

TABLE 226. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN PROVIDING FINANCING FOR ENERGY EFFICIENCY IMPROVEMENT AT CONSUMER LEVEL (PUBLIC SECTOR) SERVICES

Criteria	FI potential
Pricing system	Free of charge (the financial service - instruments - are free of charge to final consumers); Consumer-paid (energy is paid by consumers; price covers 100 percent of the total annual cost)
Regulatory/governance Framework	Public domain, legal and administrative restrictions
Market potential	Potential energy saving (efficiency)
Accountability	Performance framework
Capacity	Transfer of parts of service (ongoing) – Lack of funding and training

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

The financing service (financial instruments) provided by the government is free of charge for the final consumer (with an exception of interest). Considering the pricing system of the energy service itself, the service is consumer-paid, covering 100 percent of the total annual cost of centralised heating service provision.

REGULATORY AND GOVERNANCE FRAMEWORK

The institution responsible for the provision of the financing services (financial instruments) is a public entity - Public Investment Development Agency. The target group (managers of public buildings and street lightening infrastructure) theoretically could also receive financing from private banks, however, in most cases they are not attractive customers for the banks.

MARKET POTENTIAL

Target groups of the service (final consumers) are mainly the 5 531 state-owned buildings, as well as the 7 592 municipal-owned buildings and the street lighting with 10 500 km length of lines (corresponding to 186 000 street lamps). Possibility to generating future revenues mainly lays in energy savings.

ACCOUNTABILITY

Context indicators are provided. General and operational objectives are not always well defined, but are consistent.

CAPACITY

The street lightening service (modernisation of which is financed with the help of the analysed financial instrument (guarantees for loans)) complies partially with the qualitative standards (some municipalities do not deliver the lighting service as expected); main causes of inefficiency are the poor investment planning and poor maintenance. There are some considerations about transferring provision of part of the service to private entities. However, the lack of funding and training is hindering the process.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

The service evaluated has different dimensions – the energy efficiency itself and the financing of refurbishments directed to improve energy efficiency. The target groups buy a private service – renovation services (civil works), and the distinguished service is rather financing service.

Revenue generating potential lays on energy savings. Thus, financing of energy efficiency improvement is already provided via financial instruments. It has been detected, however, a low demand for these instruments and insufficient rate of financial return in some cases, which points out to the possibility of adding a subsidy component, in order to stimulate adherence to renovation projects.

2.15.5.3 PROVIDING FINANCING FOR ENERGY EFFICIENCY IMPROVEMENT AT CONSUMER LEVEL (MULTI-APARTMENT BUILDINGS)

TABLE 227. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN PROVIDING FINANCING FOR ENERGY EFFICIENCY IMPROVEMENT AT CONSUMER LEVEL (MULTI-APARTMENT BUILDINGS) SERVICES

Criteria	FI potential
Pricing system	Free of charge (the financial service - instruments - are free of charge to final consumers); Consumer-paid (energy is paid by consumers; price covers 100 percent of the total annual cost)
Regulatory/governance Framework	Not available
Market potential	Potential for energy savings (efficiency)
Accountability	Objectives not always well defined
Capacity	Not applicable

Source: BGI Consulting et al, 2017

PRICING SYSTEM

The financing service (financial instruments) provided by the government is free of charge for the final consumer (with an exception of interest). Additionally, considering the pricing system of energy, such is consumer-paid, covering 100 percent of the total annual costs of centralised heating service provision.

REGULATORY AND GOVERNANCE FRAMEWORK

There are no significant regulation that influences the regulatory and governance framework.

MARKET POTENTIAL

The market potential is represented by around 40 thousand residential multi-apartment buildings (for energy refurbishments).

ACCOUNTABILITY

Context indicators are provided. General and operational objectives are not always well defined; but are consistent.

CAPACITY

Qualitative standards are met and service meets the overall demand.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIS

The service evaluated has different dimensions – the energy efficiency itself and the financing of refurbishments directed to improve energy efficiency. The target groups buy a private service – renovation services (civil works), and the distinguished service is rather financing service.

Revenue generating potential lays on energy savings. Thus, financing for energy efficiency improvement in residential multi-apartment buildings is already provided via financial instruments (in combination with subsidies).

2.16 CROATIA: ENERGETICS AND ENERGY EFFICIENCY

2.16.1 GENERAL OVERVIEW OF THE GOVERNMENT INTERVENTIONS IN THE SECTOR

The chapter covers such main areas of energetics and energy efficiency policy in Croatia as electricity transmission and distribution, gas transmission and distribution, centralised heating services and energy efficiency improvement. Among the main policy objectives in these areas increase of energy efficiency, economic efficiency and the quality of centralised heating services as well as assurance of environmental and economic efficiency and sustainability of street lightning services can be mentioned.⁴⁰² Target values of the indicators, reflecting these services are also available. Regarding the centralised heating service it is expected to attain at least 54 250 PJ energy savings by 2020 (compared to the baseline year 2014)⁴⁰³. The targets related to the street lightning services are reduction of energy consumption by 30GWH and modernisation of over 50 percent of public lighting systems.⁴⁰⁴

The list of all the services in the sector and their respective aims is provided in the table below.

TABLE 228. CROATIAN ENERGETICS AND ENERGY SECTOR'S SERVICES AND THEIR OBJECTIVES

Service title	Aim of the service
Electricity transmission and distribution	To assure supply, transmission and distribution of the electricity.
Gas transmission and distribution	To assure wholesale supply of the gas to the public service providers of the gas and household customers
Centralised heating services (including supply of hot water)	To provide heating and hot water
Energy efficiency improvement at consumer level (street lighting)	To reduce energy consumption and provide a lighting of city streets

Source: BGI Consulting et al, 2017.

2.16.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

The scheme below disassembles the logic of the overall governmental interventions in the Energetics and energy efficiency sector in Croatia. It starts with the rationale of the provision of the services by the public sector, then indicates services corresponding to that particular rationale. Services are classified not only by

⁴⁰² Operational Programme Competitiveness and Cohesion

(http://www.strukturnifondovi.hr/UserDocsImages/Novosti/Programme_2014HR16M10P001_1_2_en.pdf)

⁴⁰³ National action plan for energy efficiency for period 2014-2016

(https://www.mingo.hr/public/3%20Nacionalni_akcijski_plan.pdf)

⁴⁰⁴ National action plan for energy efficiency for period 2014-2016

(https://www.mingo.hr/public/3%20Nacionalni_akcijski_plan.pdf)

the rationale they correspond to, but also by a body, which is responsible for the provision of them. Other governmental interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

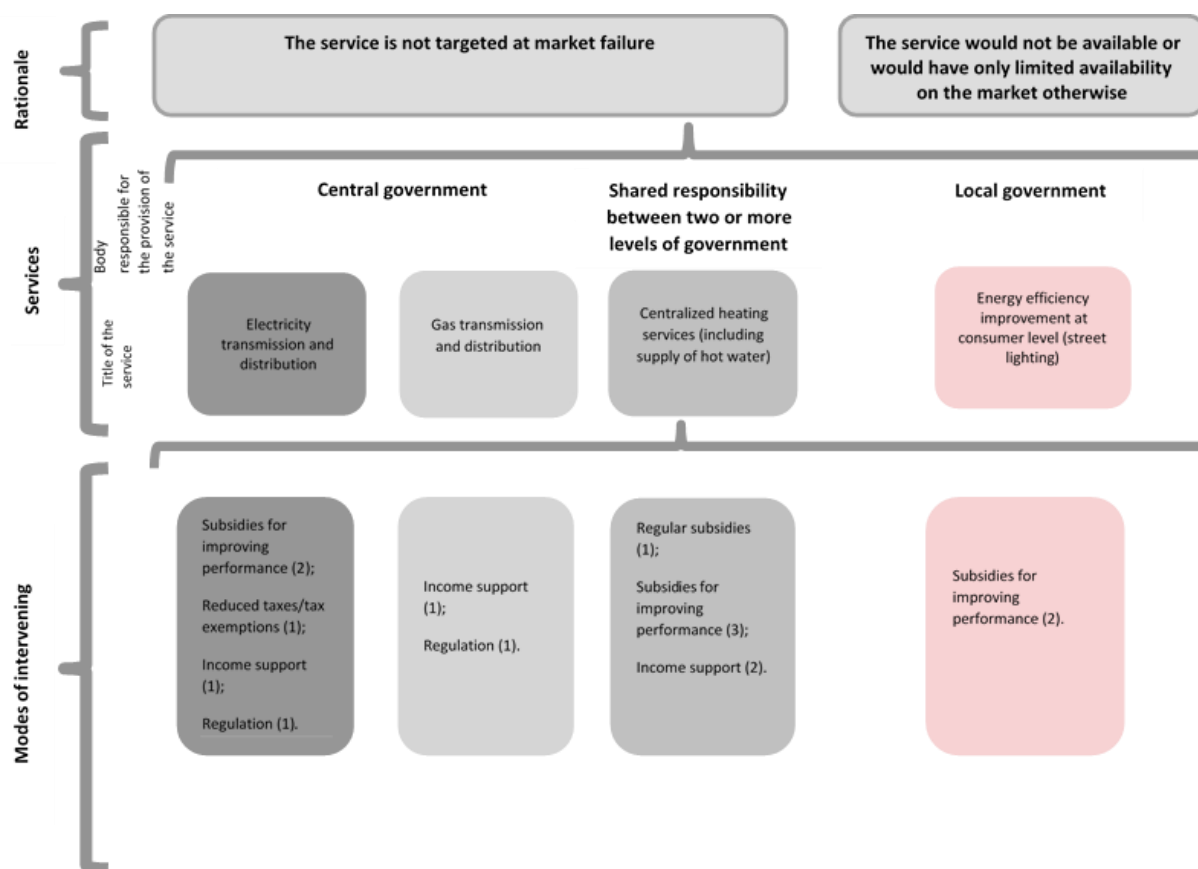


FIGURE 76. LOGIC OF INTERVENTIONS IN THE CROATIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR

Source: BGI Consulting et al, 2017.

here are two rationales for provision of services by the public sector in the Energetics and energy efficiency sector. Firstly, all electricity transmission and distribution, gas transmission and distribution and centralized heating services (including supply of hot water) *does not fall into a category of market failure related rationale*. Rather these services are provided and interventions are made due to the political, social and administrative inertia and reasons. Whereas the energy efficiency improvement at consumer level (street lighting) service, due to its inner characteristics, *would not be available or would have only limited availability on the market* as it is supposed to be a public good.

2.16.1.2 LEVEL OF LIBERALIZATION OF THE SERVICES PROVISION

The public services in the energy and energetics sector were ranked according to the level of liberalisation in their provision in the figure below.

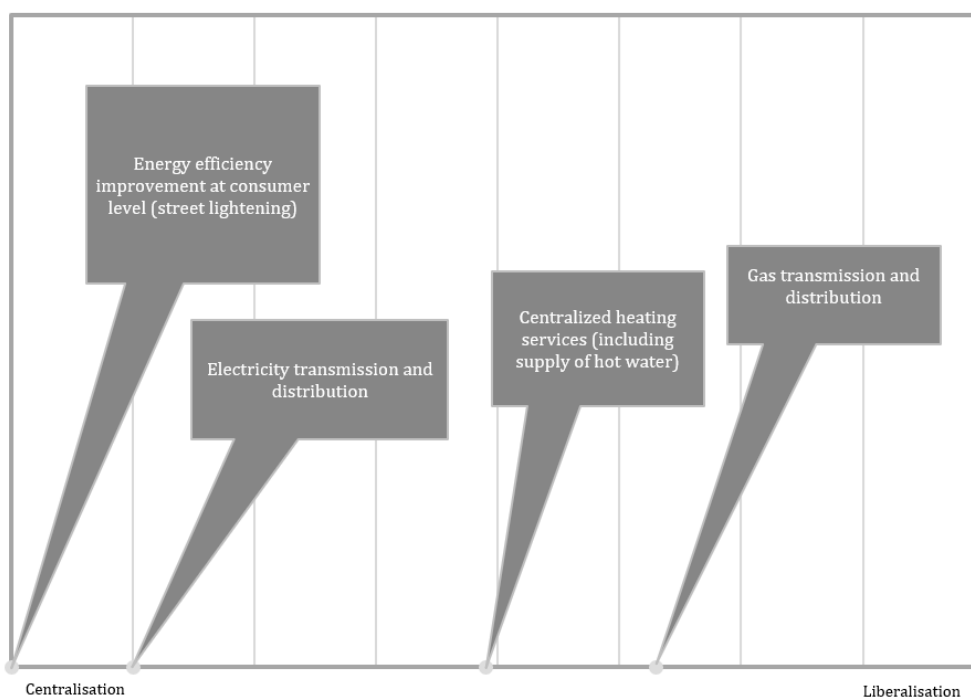


FIGURE 77. SUPPLY SIDE OF CROATIAN ENERGETICS AND ENERGY EFFICIENCY SECTOR SERVICES

Source: BGI Consulting et al, 2017.

Energy efficiency improvement at consumer level (street lightening) was identified to be the most centrally provided service in the Energetics and energy efficiency sector in Croatia. It is direct responsibility of local governments (defined as public service by the Act on Communal Services), provided either by the public utility company, or by private entity through concession. In later case, the service is paid by local government, while for the final consumer (citizens) the service is 'free of charge' insofar they finance it indirectly through local taxes. All 556 local governments freely decide on the mode of the provision of services, so assessment of supply side in terms of number of private/public providers requires more in depth analysis. In the four largest cities, providers are: Zagreb-HEP Elektra (public), Osijek - Parangal d.o.o. (private), Rijeka- Energo d.o.o. (public-private), Split – SEM 1986 d.d. (private).

Gas transmission and distribution is relatively more liberalised service according to the criteria set by the study, however it's full capacity will be released abolishing monopolistic preconditions by the beginning of 2018. It is delivered by market entities (firms), which currently is the most common delivery mode of the service. Private firms occupy 34 to 66 percent of the market, however the price rate they provide the gas at, is regulated by relevant authorities and can not fluctuate according to the free market forces.

By deciding on the determination of suppliers in the wholesale market, the Government entrusted this role to a state-owned company – HEP d.d. (parent company of HEP Group). HEP is obliged to sell gas to public service providers for household purposes under regulated conditions and to ensure reliable and secure supply, including gas imports into the Republic of Croatia. By the government decision, entry of other participants in the market is limited and the monopoly of HEP is confirmed on the wholesale gas market. The Government issues a Decision on the price of gas to which the producer of natural gas in the Republic of Croatia is obliged to sell to the wholesale gas market. The decision also regulates the gas price at which

the wholesale market supplier is obliged to sell the gas to the suppliers in the public service of gas supply for households.⁴⁰⁵

2.16.2 ANALYSIS OF SELECTED INTERVENTIONS

The figures provided below depicts the structure of each service selected for further analysis. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision identified. Graphs in light red indicate service providers and group(s) the service is targeted at.

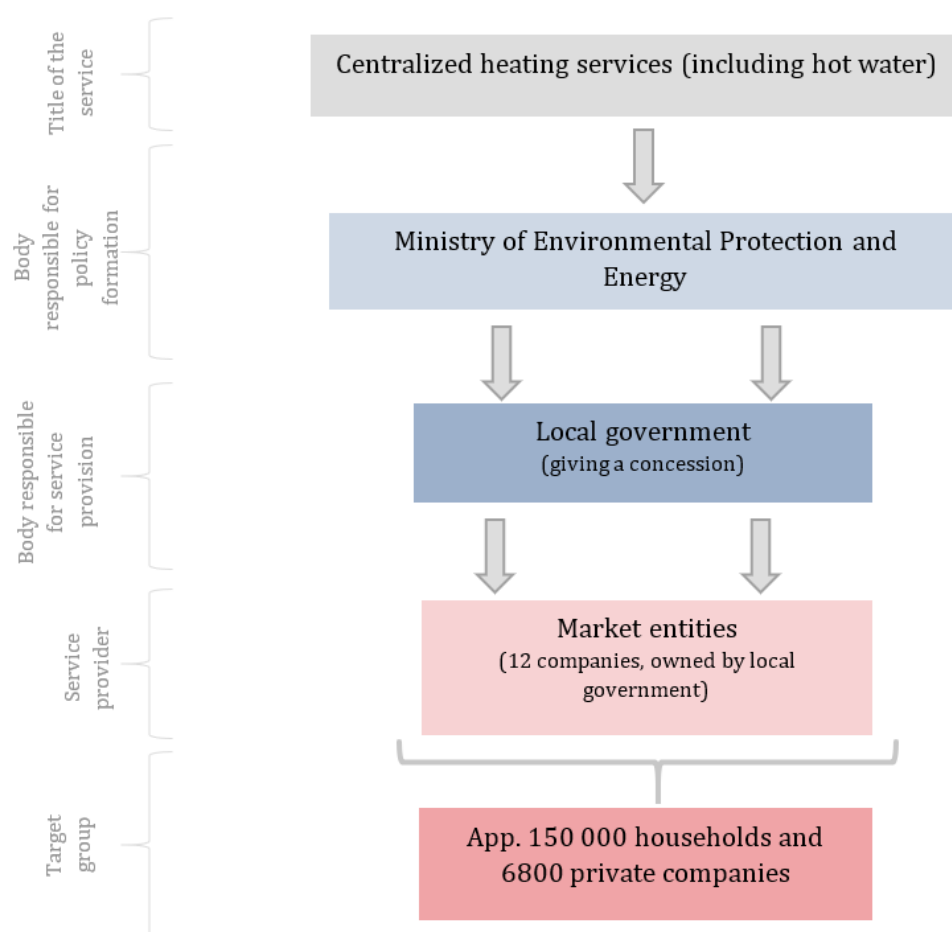


FIGURE 78. CENTRALIZED HEATING SERVICES (INCLUDING HOT WATER) PROVISION MECHANISMS IN ENERGETICS AND ENERGY EFFICIENCY SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

⁴⁰⁵ Institute of Public Finance (<http://www.ijf.hr/upload/files/31.pdf>)

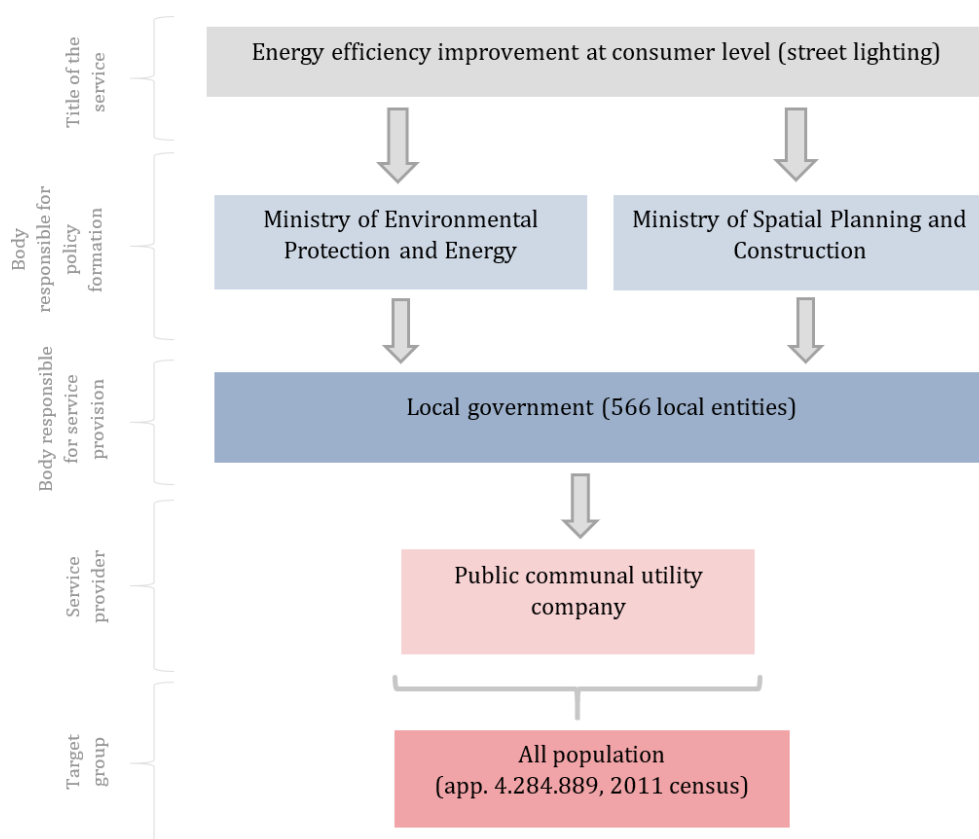


FIGURE 79. ENERGY EFFICIENCY IMPROVEMENT AT CONSUMER LEVEL (STREET LIGHTING) SERVICE PROVISION MECHANISMS IN ENERGETICS AND ENERGY EFFICIENCY SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

In respect to the services selected for further analysis, it is worth mentioning that the overall annual amount of funding of the centralized heating services (including the supply of hot water) approximates to around EUR 137 million, taking the annual expenditure in 2016 of the 5 biggest service providers⁴⁰⁶ as a basis for the calculations. The government interventions at the level of the service amounts to EUR 26 million⁴⁰⁷ in case of compensation for energy bill for disadvantaged people; EUR 30 million⁴⁰⁸ in case of regular subsidy for public service delivery by feed-in tariff system for production of electricity from RES (subsidies for production of energy from renewable sources in a form of higher purchase price); EUR 80 million from ESI funds support for improving the efficiency of district heating system in local governments for a 7-year period⁴⁰⁹; EUR 211,8 million ESI funds support for increasing energy efficiency of buildings in public sector for a 7-year period⁴¹⁰; and EUR 100 million ESI funds support to residents for increasing energy efficiency in residential buildings a 7-year period⁴¹¹.

⁴⁰⁶ Five biggest service providers (serving 97% of customers)- HEP Grupa (Zagreb, Sisak, Osijek), Brod plin d.o.o. (Slavonski Brod), Energo d.o.o. (Rijeka), Toplana Karlovac d.o.o. (Karlovac), Tehnostan d.o.o. (Vukovar).

⁴⁰⁷ This is the amount collected annually on the basis of so-called solidarity fee paid by all consumers; calculation is as follows: annual household energy consumption x solidarity fee (6.500.000.000 kW x 'solidarity fee' of 0.03 HRK per kW).

⁴⁰⁸ Amount collected annually on the basis of fee included in kW: annual household energy consumption (6.500.000.000 kW) x 0.035 HRK per kW

⁴⁰⁹ Operational Programme Competitiveness and Cohesion 2014-2020, SO 4c3 Improving Efficiency of District Heating Systems

⁴¹⁰ Operational Programme Competitiveness and Cohesion 2014-2020, SO 4c1 Reducing Energy Consumption in Public Buildings

⁴¹¹ Operational Programme Competitiveness and Cohesion 2014-2020, SO 4c2 Reducing Energy Consumption in Residential Buildings

The total amount of the annual costs of provision of street lighting, aimed at energy efficiency improvement at consumer level is around EUR 66,6 million⁴¹². The government interventions through Programme for Efficient Public Lighting implemented by Environmental Protection and Energy Efficiency Fund amounts to EUR 21,4 million for period 2014-2016⁴¹³, and the same measure shall be financed from ESI in period 2014-2020 in a form of financial instruments worth 20 mil⁴¹⁴

2.16.2.1 SUPPLY SIDE: QUALITY OF PLANNING OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Quality of planning of the services was evaluated by examining how clearly the long-term (i.e. policy) and the short-term (i.e. operational) objectives of the services were defined and how compatible they are among themselves. The overall assessment of the quality of planning of the services demonstrated average performance in case of the centralized heating services (including supply of hot water) planning and poor performance in the area of energy efficiency improvement at consumer level (street lighting). This is basically due to the insufficiencies regarding the definition and setting of the short-term operational objective.

TABLE 229. QUALITY OF THE PLANNING OF THE ENERGY AND ENERGY EFFICIENCY SECTOR SERVICES RELATED INTERVENTIONS IN CROATIA

Name of the service	The long-term policy objectives are clearly defined	The short-term operational objectives are clearly defined	The long-term and short-term objectives are non-contradictory	Quality of planning of the service
Centralised heating services (including supply of hot water)	√	×	√	AVERAGE
Energy efficiency improvement at consumer level (street lighting)	×	×	n.d.	POOR

Source: BGI Consulting et al, 2017.

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

The results of the evaluation demonstrated the overall good planning performance at the government intervention level. The deviation is noted in case of income support intervention, which aims to compensate acquisition of firewood for home heating purposes. This intervention essentially lacks all the attributes of the quality planning. The other two cases where the planning quality is assessed as average or poor are related to the services of energy efficiency improvement at consumer level (street lighting). Both of the government interventions aimed at the aforementioned service lacks certainty in respect to revenue

⁴¹² Financial Agency (FINA), realisation of local budgets for 2014-2016 (functional classification of the budget, item 64. Public Lighting), <http://www.mfin.hr/hr/lokalni-proracun-arhiva>

⁴¹³ ⁴¹³ Fourth National Energy Efficiency Action Plan 2017.-2019, pg. 21.

⁴¹⁴ Fourth National Energy Efficiency Action Plan 2017.-2019, https://ec.europa.eu/energy/sites/ener/files/documents/hr_neeap_2017_hr.pdf, pg 84.

foreseen and estimation of the demand side of the service. Despite the small number of interventions analysed, it can be concluded that the interventions planned under the system of ESIF funds demonstrated better qualitative characteristics of planning, than those financed by national or municipal budgets.

TABLE 230. QUALITY OF THE PLANNING OF THE ENERGY AND ENERGY EFFICIENCY SECTOR SERVICES RELATED INTERVENTIONS IN CROATIA

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Centralised heating services (including supply of hot water)	Income support (social benefits for disadvantaged)	√	√	√	√	×	√	GOOD
	Regular subsidy for public service delivery	√	√	√	√	√	√	GOOD
	Income support (compensation for firewood)	√	×	×	×	×	×	POOR
	Subsidy for improving performance (heating systems)	√	√	×	√	√	√	GOOD
	Subsidy for improving performance (public buildings)	√	√	×	√	√	√	GOOD
	Subsidy for improving performance (residential buildings)	√	√	×	√	√	√	GOOD
Energy efficiency improvement at consumer level (street lighting)	Subsidy for improving performance (ESI funds)	√	√	×	√	√	×	AVERAGE
	Subsidy for improving performance (budgetary funding)	√	×	×	√	√	×	POOR

Source: BGI Consulting et al, 2017.

2.16.2.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Efficiency of delivery of the services was evaluated on the basis of five key criteria: how well the overall demand of the service is met by the overall supply; how well the public service complies with the qualitative standards; the existence of private entities providing similar services in the market; the market share of the private entities in the service provision market; whether the private entities providing similar services in the market can compete on equal terms with public providers.

The aspect that the overall demand of the service is met by the overall supply informs that the sector is strongly based on government's central planning and interventions allowing to achieve the delivery of the services. However, the efficiency of the services is hindered by the lack of qualitative standards of the service delivery and non-existent participation of private entities in the delivery of the service.

The state-owned (controlled) entities dominate the market and due to initial costs, infrastructural, spatial and administrative preconditions, the private entities are generally restricted from entering the market. In case of the central heating switching costs related to shifting from a state-owned to a private service provider are also identified as the obstacle for the liberalisation.

As mentioned before, HEP d.d. is the parent company of HEP Group, wholly owned by the state. Companies owned by HEP d.d. dominate the market of electricity, heat energy, natural gas, energy efficiency and others.⁴¹⁵

TABLE 231. EFFICIENCY OF THE DELIVERY OF THE ENERGY AND ENERGY EFFICIENCY SECTOR SERVICES IN CROATIA

Name of the service	The overall demand of the service is met by the overall supply	The public service complies with the qualitative standards	There are existing private entities providing similar services in the market	Private entities occupy 34 percent or more of the service provision market	Private entities providing similar services in the market can compete on equal terms with the public providers	Efficiency of the delivery of the service
Centralised heating services (including supply of hot water)	√	×	√	×	×	LOW
Energy efficiency improvement at consumer level (street lighting)	√	×	×	×	×	LOW

Source: BGI Consulting et al, 2017.

A half of interventions facilitating centralized heating services (including the supply of hot water) are aimed at maintaining the services, covering their operational costs, whereas the interventions for improving performance of the public services (based on the ESI funding) contribute to the increase of quantity of the

⁴¹⁵ HEP (<http://www.hep.hr/hep-group-companies-2506/2506>)

services delivered and the enhancement of the efficiency of the services. ESI funds support for the improvement of the efficiency of district heating system in local governments is programmed to cover about 80 per cent estimated need (EUR 100 million) for the capital investment⁴¹⁶. ESI fund interventions aimed at the heating systems, public buildings and residential estate enhances efficiency at the production and consumption sides of the service by reducing heat losses and improving energy management.

Energy efficiency improvement at consumer level (street lighting) interventions are aimed at the extension and improvement of the efficiency of the lighting network.

Having the notion that participation of private entities in the service delivery mechanism has a potential to bring the effectiveness and efficiency of the service provision in mind, the assessment of the possibilities to increase the competitiveness of the sector and the specific services was conducted⁴¹⁷. Firstly, assessment of the considerations about transferring the provision of the service or its part to private entities showed that there are considerations about transferring provision of the service or its part to private partners in case of centralized heating services. The considerations cover two-fold actions – to transfer separate parts of the services and the whole service, where possible. Different business models are being considered for each DHS (district heating system) - management agreements, leasing, concession agreements, privatisation, heat entrepreneurship and ESCOs (energy service company). However, the considerations and a policy-level plan is to be further developed through examination of projects on a case to case basis (development of feasibility studies and programme complement for SC 4c1).

In case of energy efficiency improvement at consumer level (street lighting) service the considerations vary depending on municipal specificities in relation to budgetary planning. On a national level, a detailed programme for public lighting energy efficiency is being developed and should be adopted by the end of 2017⁴¹⁸. The programme will foresee different financial models: ESCO model, PPP model, project scoping and planning for the use of ESI funds, 'guarantee fund' for ESCO projects, etc.

2.16.2.3 SUPPLY SIDE: ADDITIONALITY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Centralized heating services (including the supply of hot water) is a substantial economic activity and covers a large target group comprised of approximately 155 500 consumers⁴¹⁹. Apart from the significant positive effect the service brings to its final users in terms of heat, the centralised nature of the service provision and infrastructural capacities, may, in some cases, bring positive impacts to the environment due to comparatively lower greenhouse gas emissions (highly efficient co-generation plants). Taking into account existing technologies, locations and forecasted demand, studies suggest 6 locations with a potential for highly efficient co-generation, with potential energy saving of 4.849.053 GJ up to 2030.⁴²⁰ However, there is no evidence on the direct service relation to the productivity of firms, as it is presumed that one would substitute the central heating with its own means having the final unit costs similar. In terms of

⁴¹⁶ Operational Programme Competitiveness and Cohesion 2014- 2020, SC 4c1 Increasing Efficiency of District Heating Systems, pg 92

⁴¹⁷ World Bank, Unlocking Potential for Private Sector participation in District Heating, <http://documents.worldbank.org/curated/en/270421468187730327/Unlocking-the-potential-for-private-sector-participation-in-district-heating>

⁴¹⁸ The fourth national energy efficiency action plan for the Republic of Croatia for the period 2017 - 2019. (https://ec.europa.eu/energy/sites/ener/files/documents/hr_neeap_2017_hr.pdf), pg 84.

⁴¹⁹ Government Programme for Efficiency in Heating/Cooling 2016-2030, Energy Institute Hrvoje Požar, final report November 2015, https://ec.europa.eu/energy/sites/ener/files/documents/DOC_88244.pdf

⁴²⁰ Government Programme for Efficiency in Heating/Cooling 2016-2030, Energy Institute Hrvoje Požar, final report November 2015, Pg 207

employment and capital investments, it was assessed that the centralised heating activity makes a substantial contribution to the production side of the economy as the service related activities are labour and capital intensive. The interventions related to the service, apart from the ones falling into compensation and income support groups, have some minor positive effects on businesses and business environment. The interventions facilitating the service has a varying impact on the direct target group. Four out of six interventions have a significant positive effect on the target group, whereas the remaining affect the consumers positively but to a lesser extent. The effects stems from the transfers to social welfare recipients. Impact on businesses is quite fragmented as only two interventions were assessed as having positive effects on enterprises.

Energy efficiency improvement at consumer level (street lighting) investments make a significant positive impact on their target group. That is generally manifested by reduced utilities' costs and improved aesthetical and public security parameters of the intervention objects and areas. In other words, the interventions contribute to the overall increase of life quality in the urban areas of treatment. However, the interventions are not aimed at improving the productivity of businesses and impose only marginal changes there.

2.16.2.4 SUPPLY SIDE: SIDE-EFFECTS OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Neither of the services has any impact on businesses or business environment. Liberalisation of centralised heating services stagnate due to social concerns that continue to be a factor in the heat energy tariff determination⁴²¹. Street lightening is a pure public good and also has no side-effects on business environment.

Services are different in terms of the encouragement of the unforeseen beneficiaries' behaviour. The common practice shows that the pricing of the centralised heating services is below the market equilibrium, which leads the consumers to overconsumption and waste of resources. Street lightening services are pure public goods and have no unintended impact on the beneficiaries' behaviour.

Services under analysis also have different effects with regard to the overall society. Low prices of the centralised heating services have helped to reduce negative social impacts of the rapid liberalisation of energy markets. There is no unintended impact for the overall society with regards to lightening of the streets.

Neither of services in Croatian Energetics and energy efficiency sector has unintended impacts for the natural environment.

Most of the service related interventions were determined to have a positive side-effects on businesses and business environment. For example, ESI support for increasing energy efficiency with the purpose to reduce energy consumption create incentives for renovation in which businesses of construction sector can participate. In addition, ESI investments reduce households' spending on energy and increase the demand for goods and services provided by other sectors. However, compensation of the heating bills for disadvantaged people have negative business-related side-effects as it reduces incentives for building renovation – a source of profit for private businesses.

⁴²¹ Conclusion of the expert, based on the fact that liberalisation of energy markets has been introduced slowly and gradually. Obviously the DH is left to be the last and it's not surprising, considering that in this case consumers are in a hostage situation – you cannot choose not to use DH in an apartment without substantial investment.

None of the service-related interventions encourage the unforeseen behaviour of the target groups. They also have no side-effects on the overall society and natural environment.

To sum up, centralised heating services encourage negative beneficiaries' behaviour in the form of overconsumption, however the service has a positive side-effect for the overall society as it helps to reduce the negative social impact of the rapid liberalisation of energy markets. Service related interventions mostly have positive impact on businesses and business environment, however effects on the unforeseen target groups behaviour, overall society and natural environment are non-existent.

2.16.2.5 DEMAND SIDE: AFFORDABILITY OF THE SERVICES AND IMPACT ON AFFORDABILITY OF THE SERVICE RELATED INTERVENTIONS

Provision of centralised heating services aims at natural persons as well as legal persons. State compensations guarantee affordability of the service to all income groups. The street lightening services are provided at no cost and as public goods are non-excludable which makes them affordable to all income groups. The major obstacle to use both services is the ability to use them only in specific locations. Services analysed are able to meet the aggregate demand.

Roughly, half of the interventions analysed do not help to meet the demand of the service quantity-wise i.e. number of beneficiaries does not increase due to the implementation of most of the interventions. However, interventions related to ESI funding increase the number of households that have their energy consumption reduced. Energy bills' compensations for disadvantaged people also increase the number of beneficiaries as they would not be able to consume the heating services otherwise.

Streets lightening service related interventions can be used by everyone. With regards to compensation for energy bills for disadvantaged people, it is used only by separate groups of consumers which are defined by income. ESI funds support to citizens, for increasing energy efficiency and reduction of energy consumption applies to all consumers. The remaining interventions are not applied to natural persons as opposed to legal entities.

To sum up, both sector's services are affordable to the consumers. The major obstacle to use both services is the ability to use them only in specific locations. Around half of the service related interventions help to increase the number of beneficiaries, around half of the services can be used by natural persons as well as legal entities.

2.16.2.6 CONSISTENCY OF SERVICE RELATED INTERVENTIONS

The energy and energy efficiency sector analysis was grounded on two selected services of the sector. In case of centralized heating services, three interventions have interrelated supplementation effects, one is regarded to be more neutral and one contradictory. The case of contradiction comes from the inflator feed-in tariff system for the production of electricity from RES where subsidies for production of energy from renewable sources are received and the compensational mechanism for disadvantaged people for the prices of central heating are being applied. Energy efficiency improvement at consumer level (street lighting) service is facilitated by two interventions, which are supplementing each other.

2.16.3 CONCLUSIONS AND RECOMMENDATIONS

Restructuring of energy sector, by distinguishing public and market based operations, has undergone completion phase during the past 5 years. In case of electric and gas energy markets, production and trade are market activities, whilst transmission and distribution are public. Supply of consumers is 'semi-public' (public service obligation).

Adopted model is that of Transmission System Operator (TSO), an entity operating independently from the other electricity market players and responsible for the bulk transmission of electric power on the main high voltage electric networks, providing grid access to the electricity market players, guaranteeing the safe operation and maintenance of the system. In case of Croatia, the TSO – (HEP-Operator of Transmission System, HOPS) - is also in charge of maintenance and the development of the grid infrastructure. Plinacro Ltd. is public operator for gas transport, access to network, operation and development of system. HROTE (Croatian Operator of Energy Market) is responsible for organising the markets, supervised by HERA, Croatian Energy Regulation Agency. In case of heat energy, the regulatory system is also established in 2013 (Act on Heat Energy Market and subsequent bylaws ever since), but in effect it does not exist.

2.16.3.1 CONCLUSIONS ON THE GOVERNMENT INTERVENTIONS IN THE ENERGETICS AND ENERGY EFFICIENCY SECTOR IN CROATIA

TABLE 232. CONCLUSIONS ON THE GOVERNMENT INTERVENTIONS IN THE ENERGETICS AND ENERGY EFFICIENCY IN CROATIA

Name of the service	Planning of the service	Planning of all related interventions is GOOD or AVERAGE	Efficiency of the service provision	All related interventions have impact on the efficiency of the service	The service has positive impact on the target group	All related interventions have positive impact on the target group	The impact of the service on countries' economy is positive	There are no negative side-effects of service implementation	All related interventions have positive or do not have side-effects	The service is affordable to all income groups	There are no service related interventions that contradict or replace each other
Centralised heating services (including supply of hot water)	AVERAGE	NO	LOW	NO	YES	NO	YES	NO	NO	YES	NO
Energy efficiency improvement at consumer level (street lighting)	POOR	NO	LOW	YES	YES	YES	YES	YES	YES	YES	YES

Source: BGI Consulting et al, 2017.

In the Republic of Croatia, twelve companies in 17 towns were engaged in activities of production, distribution and supply of heat for tariff customers in 2015. The companies provided the service of space heating and domestic hot water preparation for more than 154 000 customers in the larger cities of Continental Croatia, as well as in Rijeka. In past 5 years heat energy market has been steadily shrinking in terms of number of systems, customers and energy delivered. The structure of the market has also changed; in 2013 households accounted for about 60% of the market, while this share is more than 96 percent in 2015. The market is dominated by state owned HEP Toplinarstvo, which supplies about 80% of customers and has 70% of installed capacities. Improving efficiency of district heating requires large capital investments in increasing energy efficiency of production units, network and final consumers' equipment, modernization of technology and demand side management.

Changes of the Act on Heat Energy Market, aiming to address inconsistencies that arose from measures introduced back in 2014, are expected at the beginning of 2018. These measures were related to the methodology for measurement and pricing of the service, introducing the obligation for final consumers to install measurement devices. This measure failed to increase the efficiency of district heating as it was intended; recent studies suggest that savings were from 21% to 35% (depending on the technology and supplier) and that investments were generally not economically viable (for Zagreb, Osijek and Sisak which account for 80% consumers and are supplied by HEP Toplinarstvo savings do not cover 33% of the investment in 10 year period). In addition, the measure unjustifiably transferred economic burden and responsibility exclusively to consumers.

2.16.4 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

2.16.4.1 CENTRALISED HEATING SERVICES (INCLUDING SUPPLY OF HOT WATER)

TABLE 233. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN CENTRALISED HEATING SERVICES (INCLUDING HOT WATER)

Criteria	FI potential
Pricing system	Consumer-paid, partially regulated-usually based on surface (covering above 75% of total costs)
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market); improvement of funding mechanisms
Market potential	Potential for cost reduction/Key market player
Accountability	Partial performance framework
Capacity	Transfer of parts of service (at policy-level plan) / Quality issues

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by local governments, based on proposal from their own utility company, and approved by Croatian Energy Regulation Agency (HERA). Its formation is based on the Heat Energy Market Act (NN 80/13, 14/14) and rules made by HERA.

The price of heat energy depends (even in a case of single supplier) on the following: the category of consumer (household/industry), the technology (central, closed, independent system), location (distribution network), and the scope of service (heating or heating and water). In district heating systems (for households), part of the heat price is regulated and part is freely negotiated; while for commercial consumers, all tariff items are freely contracted.

Payments for the service should cover the whole costs of service provisions, in theory. In practice, pricing is generally based on household surface (m²) because of technical reasons – buildings have single meters, and then distribute the cost among many users.

Service providers usually generate other revenues based on provision of additional/complementary services (e.g. gas distribution).

REGULATORY AND GOVERNANCE FRAMEWORK

The most common delivery mechanism is private public partnership. The local government gives the service in concession to a district heating distributor. The major obstacles to enter the market for private entities are linked to legal/administrative restrictions imposed by public body and low heat energy tariffs which limit net revenue generation.

In terms of distribution and consequent pricing, legislation was recently passed obliging households to invest in their own meters and the rules for pricing were changed, but it is partly implemented.

Thus, there are currently considerations about changing the mechanism for funding the service; i.e. adopting new management agreements, such as leasing, and/or promote the ESCO approach.

MARKET POTENTIAL

Market is dominated by public entities, i.e. 10 companies owned by local governments. One of them (HEP Toplinarstvo) accounts for 70,2 percent⁴²² of the market and is owned by the central government. Supply covers the demand, but the majority of district heating systems requires substantial capital investments in modernisation. There is some potential for increasing revenues, specifically through cost reduction interventions, i.e. reducing losses in energy distribution systems and improving energy efficiency in buildings.

ACCOUNTABILITY

Information is available on the context of intervention and the strategic objectives are clearly defined. Even though operational objectives are not always defined and targets available at territorial level, short-term and long-term objectives are consistent.

CAPACITY

The public service does comply with the qualitative standards, however the planning documents reveal that the service has issues of energy inefficiency. Reported inefficiencies mainly arise from the existence of poor infrastructures and old technologies. Thus, there are currently considerations about transferring partly or in total the provision of the service to private entities.

⁴²² Energy efficiency and cooling efficiency program for the period 2016-2030.
(https://ec.europa.eu/energy/sites/ener/files/documents/croatia_report_eed_art_141update_hr.pdf)

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Affordability issues and administrative barriers in this service currently limit the potential for FIs introduction. Changes on the baseline are possible in order to enhance FIs introduction potential. Considerations are already in place in terms of funding mechanisms, which can help changing the baseline situation. Upon such changes, the potential for energy savings show space for introduction of FIs.

International experiences demonstrate such application based on potential for savings generation.

2.16.4.2 MAINTAINING STREET LIGHTING

TABLE 234. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN MAINTAINING STREET LIGHTING

Criteria	FI potential
Pricing system	Free of charge (for the consumer)
Regulatory/governance Framework	Public domain
Market potential	Potential for cost reduction
Accountability	Partial performance framework
Capacity	No clear qualitative standards/Quality issues

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

The service is free of charge. Since the service is a public good which consumption is non-excludable, the charge in the price would not affect the consumption of it. Street lighting is usually owned by local units and its maintenance or upgrading is funded by the local budget (thus, indirectly it is paid by consumers through taxes).

REGULATORY AND GOVERNANCE FRAMEWORK

Local governments (i.e. 566 local self-governments) are responsible for provision of service which is defined as public service by the Act on Communal Services. It is provided either by the public utility company, or by private entity through concession.

Changes to the funding mechanism are being considered⁴²³.

MARKET POTENTIAL

There is some potential for increasing revenues, reducing the costs of service delivery by improving the technology used (i.e. more energy efficient) and/or via a better planning and service management.

⁴²³ The Fourth National Energy Efficiency Action Plan for the Republic of Croatia for the period 2017-2019. (https://ec.europa.eu/energy/sites/ener/files/documents/hr_neeap_2017_hr.pdf), p. 84

ACCOUNTABILITY

The service is carried out at local level and operational objectives are defined based on the business model of each service provider. General objectives of the service are not currently defined in related documents, specific target values are lacking. However, short-term and long-term objectives are consistent.

CAPACITY

There is no clear standard for the service delivery. Inefficiency is reported mainly due to the use of old technologies for lighting. There are no considerations about transferring the service provision to private entities to date. Different management models are under review (e.g. ESCO model, public private partnership model as well as use of financial instruments, as guarantee schemes).

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

This service provides a potential for reducing the costs of the service delivery by improving the technology used (i.e. making it more energy efficient) and/or via a better planning and service management. Management model is under revision in order to increase efficiency. More specifically, a programme for energy restructuring of public lighting is currently under preparation by the Fund for Environmental Protection and Energy Efficiency, who is considering different financial models: ESCO, PPP, guarantee funds, etc⁴²⁴.

Therefore, upon change on the baseline situation (i.e. setting of clear standards, and revision of management models), there can be space for introduction of FIs. Such application draws on the possibility of generating savings from increasing energy efficiency. Various international experiences illustrate application of FIs for this service, often as part of larger projects of energy efficiency refurbishment for the public sector.

Regarding the energy sector, the applicability of financial instruments can be seen in Italy through various programs, such as the JESSICA Holding Fund of Sardinia region. With a total of 148 million euros available, distributed through two UDFs (Urban Development and Energy Efficiency funds), the instrument was set up in 2011, providing financing through debt and equity. 37 projects were targeted and 100% of the funds were allocated, with a significant employment impact.

The energy UDF specifically funded 28 projects, managed by Equiter (Intesa Sanpaolo Group), with all resources allocated by 2015. The final recipients are usually Local Authorities, and projects are of small amounts but various. The first repayments were already received by 2016. The leverage effect on EU contribution was of around 8 times.

Among the projects financed are a series of photovoltaic systems installations on public buildings, requalification of public lightning and energy efficiency retrofit in public buildings. Larger impact projects are also in the portfolio of The Energy UDF in Sardinia, such as the construction of two biomass boilers for a wooden biomass power plant, building a heating network capable of supplying energy to the schools and municipal gym in the surrounding area, substituting old polluting oil-fed boilers.

⁴²⁴ The Fourth National Energy Efficiency Action Plan for the Republic of Croatia for the period 2017-2019. (https://ec.europa.eu/energy/sites/ener/files/documents/hr_neeap_2017_hr.pdf), p. 84

2.17 LITHUANIA: SOCIAL CARE

2.17.1 GENERAL OVERVIEW OF THE SERVICES IN THE SECTOR

This chapter provides an overview of all public services identified in Lithuanian Social care sector. The rationale for introduction of each public service and the number of service related interventions are identified. Furthermore, the relative position of each public service on liberalisation – centralisation axis is presented.

Social care sector in Lithuania is defined wider than solely social care services, including different forms of social support provided under the regulation of Ministry of Social Security and Labour as part of the national social security policy. The main funding source of social services is the public sector as a share of the service price paid by customers is usually small. Both public and private entities participate in the provision of subsidised social services, though public providers still dominate the market in terms of number of served customers. Five main public services were identified in the Social care sector in Lithuania. The list of all sector's services and their respective aims is provided in the table below.

TABLE 235. LITHUANIAN SOCIAL CARE SECTOR'S SERVICES AND THEIR AIMS

Service title	Aim of the service
Provision of general social services⁴²⁵	The aim of the general social services (consultations, transportation, food assistance, help with daily tasks among others) is to enhance the capacity of individuals to cope independently and to participate in society.
Provision of social support services⁴²⁶	To provide persons, who face difficulties to cope independently, but still do not need permanent assistance, with complex care.
Provision of social care services⁴²⁷	To ensure that all personal/social/care needs of people who cannot take care of themselves are met. Social care is provided at social care institution or at person's home for persons who need permanent assistance.
Provision of housing assistance	To address housing issues faced by low income persons (families) who do not possess private housing or the housing condition is very poor.
Provision of financial assistance	To provide financial assistance for the needs that arise from certain events or circumstances, for example, unemployment, retirement, disability or family circumstances. Financial assistance includes both social security benefits and social benefits for vulnerable groups.

Source: BGI Consulting et al, 2017.

Five identified services provide different forms of social assistance for different target groups in Lithuania. Out of the five services in the sector, three are aimed at ensuring the general daily and care needs of people facing disability or age-related difficulties, drug or alcohol addiction as well as at-risk families and their children, children deprived of parental care, other vulnerable groups (general social services, social

⁴²⁵ lt. *Bendrosios socialinės paslaugos*

⁴²⁶ lt. *Socialinės priežiūros paslaugos*

⁴²⁷ lt. *Socialinės globos paslaugos*

support services, social care services). Other services are aimed at satisfying the particular situation-based needs (housing, financial assistance).

2.17.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

Main rationales for provision of services by the public sector in the Social care sector are lack of incentives to produce/consume merit goods and inequitable distribution of income and wealth. Daily social support at care institutions or person's home is considered as a merit good firstly because part of the target group not necessarily know the specific private benefit to them of getting support and social integration services, for example, children with disabilities or children from dysfunctional families cannot yet understand advantages of social integration) Secondly, consumption of some social services generates an external benefits to others, namely family members and society at large, for example, every member of society benefits from the services aimed at addicted persons in terms of reduced crime. Inequitable distribution of income and wealth causes the need of social benefits, or housing assistance.

Greatest part of the funds is allocated to regular public services delivery, as all social care services in question are fully or partly subsidised from the budget. It is a measure to ensure equal access to the services regardless person's (family) incomes.

The scheme below disassembles the logic of the overall governmental interventions in the Social care sector in Lithuania. It starts with the rationale of the provision of the services by the public sector, then indicates services corresponding to that particular rationale. Services are classified not only by the rationale they correspond, but also by a body, which is responsible for the provision of them. Other governmental interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

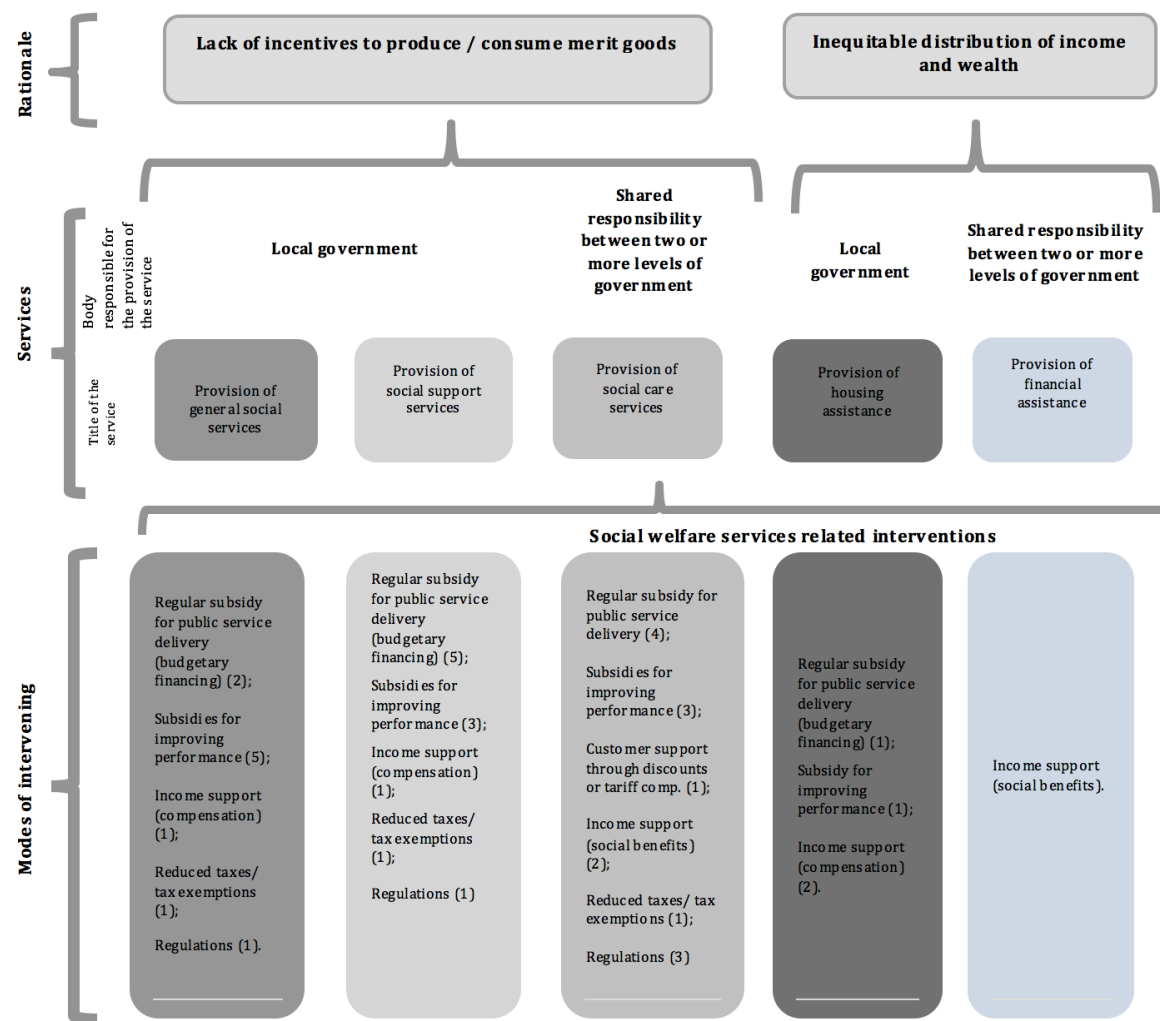


FIGURE 80. LOGIC OF INTERVENTIONS IN THE LITHUANIAN SOCIAL CARE SECTOR

Source: BGI Consulting et al, 2017

2.17.1.2 LEVEL OF LIBERALIZATION OF THE SERVICES PROVISION

The public services in the Lithuanian Social care sector were ranked according to the level of liberalisation in their provision in the figure below. The criteria used for ranking the sector's services according to the level of liberalisation in their provision are – the main provider of the service (the most centralised provider is a government / municipal institution (directly), the most liberalised provider is the market entity (operator)); the most common public service delivery mode (the most centralised delivery mode – direct provision by the governmental / municipal body); consumer pricing of the service (whether the service is free of charge, its pricing is available but non-regulated or its pricing is regulated and set by relevant authorities); market share of the public operators (100, >66, 34-66, <34 percent).

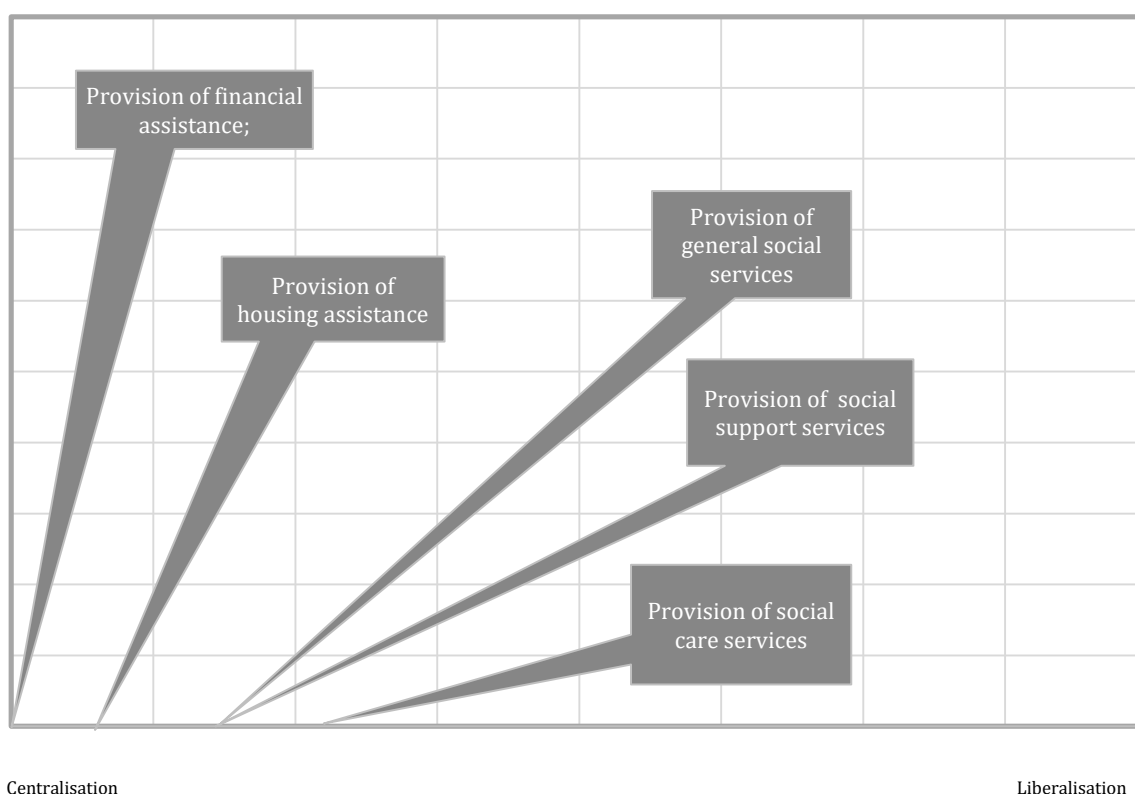


FIGURE 81. PLACEMENT OF THE PUBLIC SERVICES IN THE LITHUANIAN SOCIAL CARE SECTOR ON LIBERALIZATION-CENTRALIZATION AXIS

Source: BGI Consulting et al, 2017.

Provision of social care services turn out to be Social care sector's service provided at the most liberal mode. Even though the pricing for customers is regulated, both governmental bodies and private entities participate in the service provision market, public operators occupy less than 66 percent of the market⁴²⁸.

⁴²⁸ According to Statistics Lithuania, in 2016, 4131 children were living in public care institutions and 6421 children - in private care institutions/family houses/families; 2681 elderly persons were living in public care institutions and 2041 elderly persons - in private care institutions; 6389 persons with disabilities were living in public care institutions and 296 persons with disabilities - in private care institutions

Housing assistance is still provided at quite centralised mode. Currently, provision with social housing remains the main intervention managed by municipalities, even though the share of the housing rented in the market is slowly growing. Therefore, public operators occupy still significant share of the service provision market. Pricing for the housing assistance service is regulated and set by relevant authorities.

Overall, the provision of social services is very centralised although participation of private entities in the sector is growing⁴²⁹.

Due to a high number of services identified in Lithuanian Social care sector, the further in-depth analysis of all of them would not be possible. Since the aim of the study is to identify possibilities to introduce financial instruments or involve private sector service providers more actively, three interventions currently provided at the most liberal mode – general social services, social support services, and social care services – as well as housing assistance service provided at a relatively centralised mode, but having the most perspectives to attract more private providers, were selected for further analysis.

2.17.1.3 PRESENTATION OF SERVICES AND RELATED INTERVENTIONS SELECTED FOR FURTHER ANALYSIS

This chapter presents the services and related interventions, selected for further analysis. Four services in Lithuanian Social care sector were selected for further in-depth analysis. These services are:

- General social services;
- Social support services;
- Social care services;
- Housing assistance.

The main policy goals, modes of provision and interventions related to the abovementioned services are presented in this chapter.

2.17.1.4 MAIN POLICY GOALS OF SERVICES SELECTED FOR FURTHER ANALYSIS

Services attributed to Social care sector in Lithuania are expected to contribute to the increase in quality of life and reducing social exclusion. Although the quality of life depends on many factors and it is in focus of most public policies, social care sector plays an important role addressing the needs of people at risk of social exclusion and, hopefully, helping them to overcome difficult situations. In 2016, over 30 percent of the Lithuanian population was at risk of poverty or social exclusion⁴³⁰. Despite some fluctuations, this share remains constant even though the total number of people at risk of poverty is decreasing⁴³¹ due to shrinking population.

The main objective of social services is to promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion⁴³². The National Progress Programme for 2014-2020⁴³³ emphasizes the main social groups that need more attention and better services in order to

⁴²⁹ According to the Statistics Lithuania and plans for social services approved by municipal councils

⁴³⁰ Eurostat, 2016 (Code: t2020_50)

⁴³¹ Eurostat, 2016 (Code: t2020_50)

⁴³² Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)

⁴³³ Resolution of the Government of the Republic of Lithuania on National Progress Programme for 2014-2020, 28 November 2012, No. 1482 (LR Vyriausybės nutarimas dėl 2014-2020 m. nacionalinės pažangos programos patvirtinimo)

strengthen social inclusion, namely children, elderly people, adults with disabilities and at-risk people or at-risk families. In recent years, there can be noticed also growing focus on all families, especially young one, considering challenges in terms of child care and housing issues. Currently, the system of social care services is undergoing gradual changes with the aim to reduce dependency on institutional social care and to partially replace it with the community-based or home-based social support services that help to promote and maintain independence for elderly persons and persons with disabilities as well as to provide children deprived from parental care with the family-based care⁴³⁴.

2.17.1.5 THE STRUCTURE OF PROVISION AND FINANCING OF SERVICES SELECTED FOR FURTHER ANALYSIS

The figures provided below depicts the structure of each service selected for further analysis. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision identified. Graphs in light red indicate service providers and group(s) the service is targeted at.

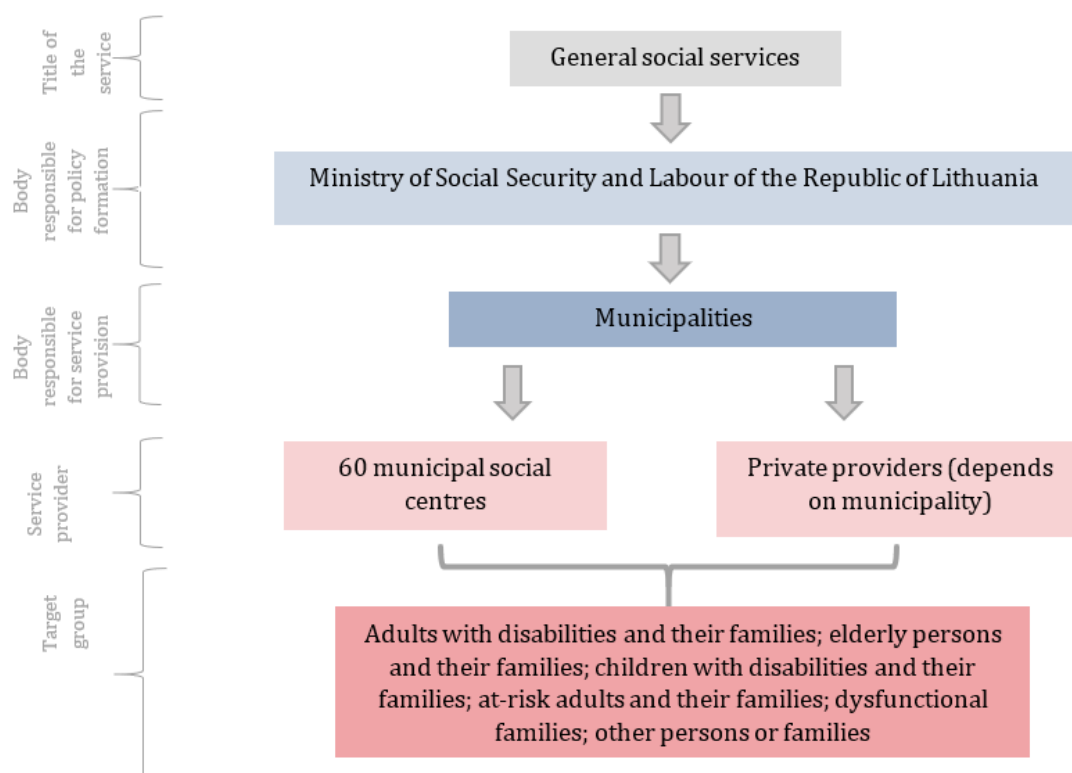


FIGURE 82. GENERAL SOCIAL SERVICES PROVISION MECHANISMS IN SOCIAL CARE SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

⁴³⁴ Order of the Minister of Social Security and Labour on the institutional care reform, 14 February 2014, No. A1-83 (LR socialinės apsaugos ir darbo ministro įsakymas dėl perėjimo nuo institucinės globos prie šeimoje ir bendruomenėje teikiamų paslaugų neįgaliesiems ir likusiems be tėvų globos vaikams 2014–2020 metų veiksmų plano patvirtinimo); Resolution of the Government of the Republic of Lithuania on the National programme for social integration of people with disabilities 2013-2019, 21 November 2012, No.1408 (LT Vyriausybės nutarimas dėl Nacionalinės neįgaliųjų socialinės integracijos 2013-2019 m. programos patvirtinimo)

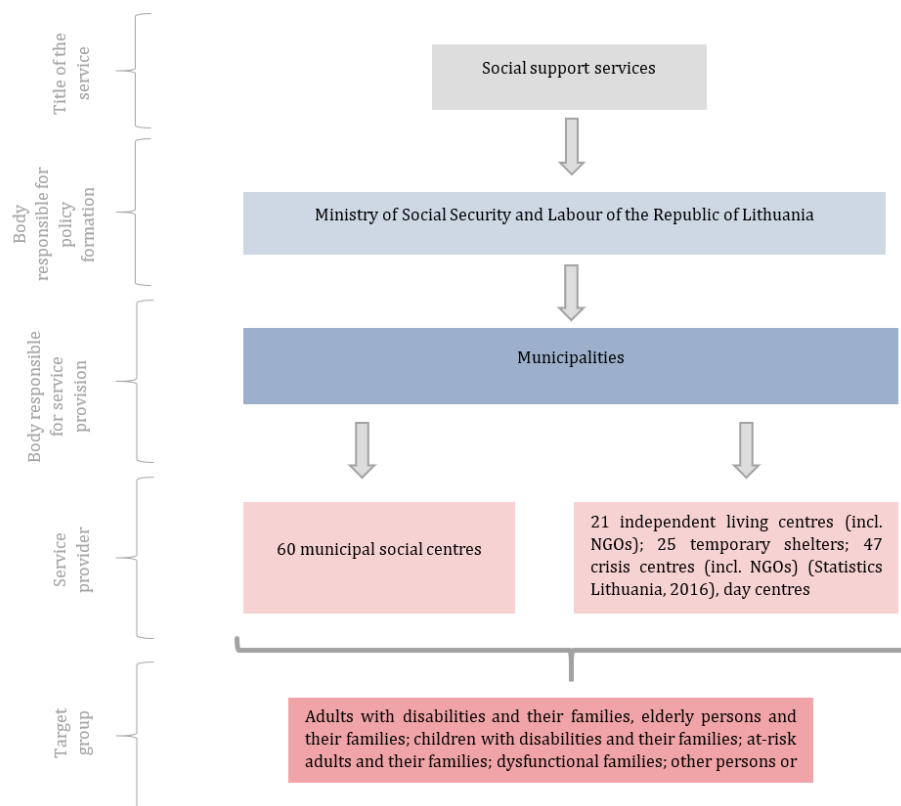


FIGURE 83. SOCIAL SUPPORT SERVICES PROVISION MECHANISMS IN SOCIAL CARE SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

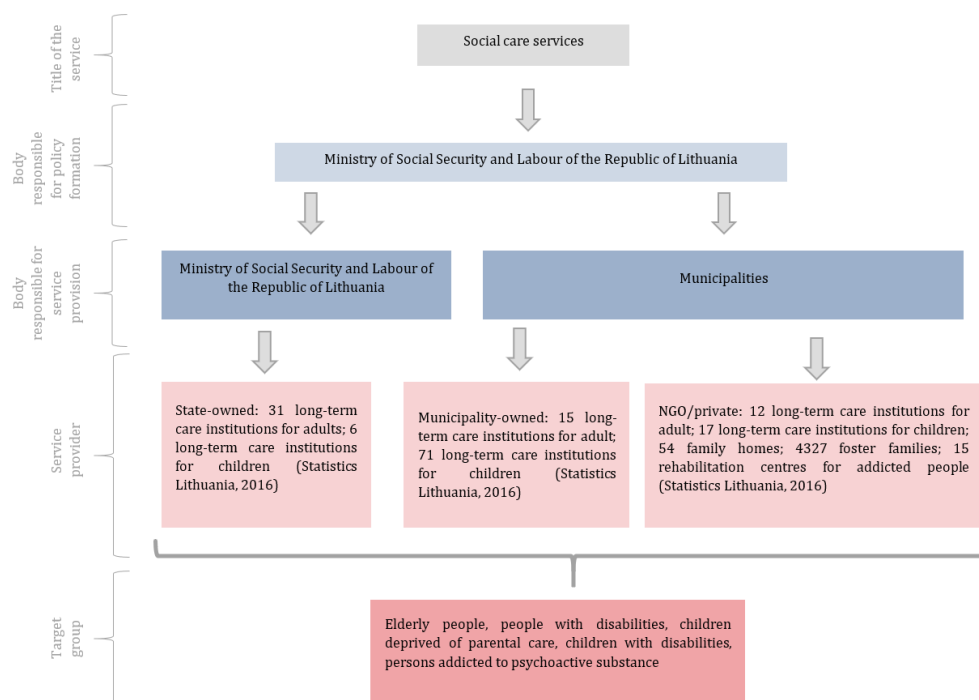


FIGURE 84. SOCIAL CARE SERVICES PROVISION MECHANISMS IN SOCIAL CARE SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

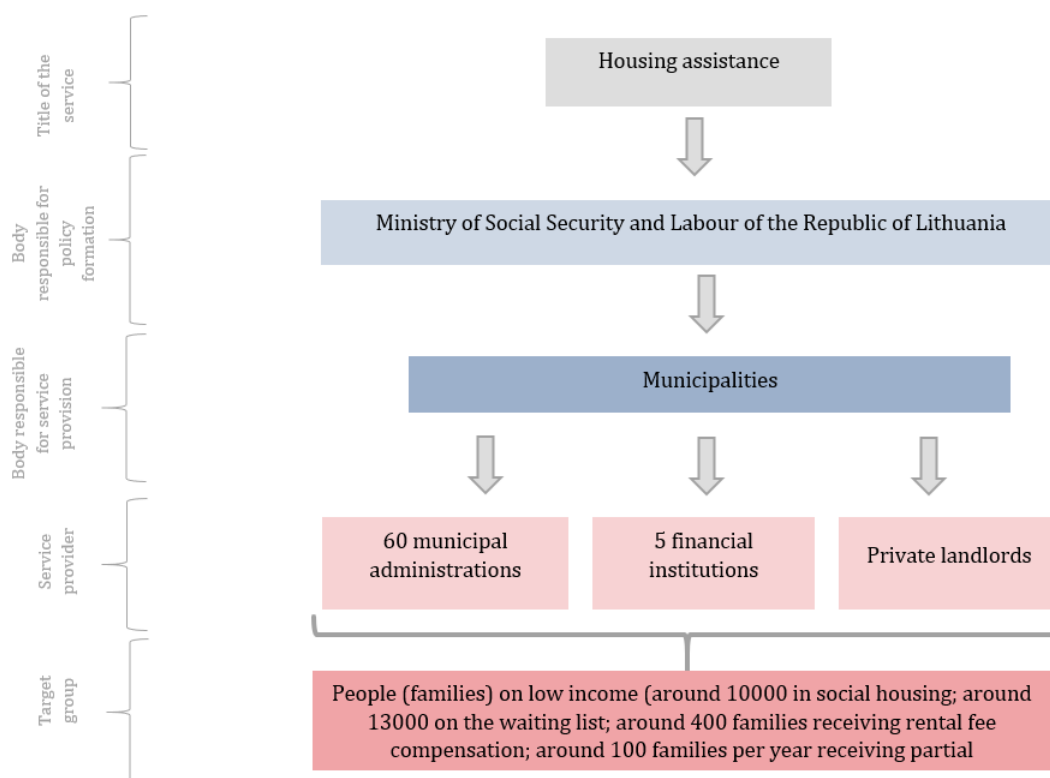


FIGURE 85. HOUSING ASSISTANCE SERVICE PROVISION MECHANISMS IN SOCIAL CARE SECTOR IN LITHUANIA

Source: BGI Consulting et al, 2017.

In terms of financing, social care services are the largest among the services selected for further analysis in Social care sector in Lithuania. The annual public expenditure on analysed social care services is around EUR 150 million⁴³⁵ (not including part of the service price paid by customers directly). The largest part of the funds goes on institutional long-term care for elderly people, people with disabilities and children deprived of parental care. The main sources of social care financing are municipal and state budget.

2.17.1.6 INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Each of the service selected for further analysis has related interventions, enabling the provision of the service. All the interventions, related to general social services, social support services, social care services and housing assistance are presented in the table below.

⁴³⁵ BGI Consulting calculations based on municipal plans for social services, ESIF funding documents and state programmes information

TABLE 236. INTERVENTIONS RELATED TO SERVICES SELECTED FOR FURTHER ANALYSIS

Name of the service	Type of the service related intervention	Name of the service related intervention	Fiche No.
General social services	Regular subsidy for public service delivery (budgetary financing)	Subsidy for provision of general social services (at social service centres or similar institutions)	1
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for the provision of daily meals for schoolchildren from families on a low income	2
	Subsidy for improving performance of the public service	Subsidy for food assistance (Fund for European Aid to the Most Deprived)	3
	Subsidy for improving performance of the public service	Subsidy for NGOs for provision of general and social support services (municipal budget)	4
	Subsidy for improving performance of the public service	Subsidy for NGOs for provision of general and social support services (state budget)	5
	Subsidy for improving performance of the public service	ESIF subsidies for work with families	6
	Subsidy for improving performance of the public service	ESIF subsidies for development of social services infrastructure	7
	Income support (compensation)	Compensation of unavailable social services	8
	Reduced taxes/tax exemptions	VAT exemption for social services	9
	Regulation	Regulation regarding a maximum price paid by customer receiving subsidised social services	10
Social support services	Regular subsidy for public service delivery (budgetary financing)	Subsidy for the provision of services at day centres	11
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for the provision of home-based help services	12
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for social support services for dysfunctional families	13
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for the service at independent living home	14
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for provision of services at temporary shelters	15
	Subsidy for improving performance of the public service	Subsidy for NGOs for provision of general and social support services (municipal budget)	4
	Subsidy for improving performance of the public service	Subsidy for NGOs for provision of general and social support services (state budget)	5
	Subsidy for improving performance of the public service	ESIF subsidies for development of social services infrastructure	7
	Income support (compensation)	Compensation of unavailable social services	8
	Reduced taxes/tax exemptions	VAT exemption for social services	9
	Regulation	Regulation regarding a maximum price paid by customer receiving subsidised social services	10
Social care services	Regular subsidy for public service delivery (budgetary financing)	Subsidy for the provision of home-based day social care services	16
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for the provision of services at day social care institutions	17

Name of the service	Type of the service related intervention	Name of the service related intervention	Fiche No.
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for the service at long-term / short-term care institutions for elderly persons and adults with disabilities	18
	Regular subsidy for public service delivery (budgetary financing)	Subsidy for provision of care services at short-term and long-term care institutions for children	19
	Subsidy for improving performance of the public service	ESIF subsidies for provision of integral assistance services at the person's home	20
	Subsidy for improving performance of the public service	ESIF subsidies for development of social services infrastructure	7
	Subsidy for improving performance of the public service	ESIF subsidies for provision of short-term social care and rehabilitation services for persons addicted to psychoactive substance.	21
	Income support (social benefits)	Monthly allowance for foster families	22
	Income support (social benefits)	Monthly allowance for foster families (additional financial assistance)	23
	Customer support through discounts or tariff compensations	Compensation of fees for the service at long-term / short-term care institutions for elderly persons and adults with disabilities	24
	Reduced taxes/tax exemptions	VAT exemption for social services	9
	Regulation	Regulation regarding licencing for social care institutions	25
	Regulation	Regulation regarding a maximal subsidised price of short term / long term social care services	26
	Regulation	Regulation regarding a maximum price paid by customer receiving subsidised social services	10
Housing assistance	Regular subsidy for public service delivery (budgetary financing)	Subsidy for development of social housing stock	27
	Subsidy for improving performance of the public service	ESIF subsidies for development of social housing stock	28
	Income support (compensation)	Partial reimbursement of the mortgage loan	29
	Income support (compensation)	Partial reimbursement of the housing rental fee	30

Source: BGI Consulting et al, 2017.

Further in this study the information is provided not on services as a whole, but only on service related interventions.

2.17.2 DATA ON SELECTED GOVERNMENT INTERVENTIONS IN LITHUANIAN SOCIAL CARE SECTOR

This chapter provides portrayal and analysis of the government interventions shortlisted for the in-depth assessment. In the chapter separate fiches for each government intervention, analysis of interventions regarding each of the methodological research criteria are presented.

The fiches for each government intervention bellow provides the main data on each government intervention, which can be read as a self-standing analysis and is also used in later parts of the study as a basis for the meta-analysis of interventions according to different criteria.

TABLE 237. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (1)

Title of the intervention	Subsidy for provision of general social services (at social service centres or similar institutions)
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Municipal social centres and similar institutions provide target groups with information, consultation, mediation, organisation of transport and similar services. The same services can be integral part of other interventions (day centres, temporary shelters, etc.) as well. The latter interventions are analysed separately. (liet. <i>bendrosios socialinės paslaugos</i>)
Year of the introduction and end, stability of the intervention	1996 - up to now Implementation of the intervention is stable
The broader policy objective to which intervention contributes	To promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion
Legal background for the establishment of the intervention	Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To provide target groups with relevant information; to help analyse problems; to provide target groups with legal, organisational and similar assistance; to provide people with reduced mobility with transportation services; others
The objective of the intervention and legal background	To finance provision of general social services Order of the Minister of Social Security and Labour on catalogue of social services, 5 April 2006, No. A1-93 (LR socialinės apsaugos ir darbo ministro įsakymas dėl socialinių paslaugų katalogo patvirtinimo) Resolution of the Government of the Republic of Lithuania on the methodology for financial allocations for social services, 10 October 2006, No. 978 (LR Vyriausybės nutarimas dėl socialinių paslaugų finansavimo ir lėšų apskaičiavimo metodikos patvirtinimo) Municipal level documents approved by local councils
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level

Name of the body responsible for implementation (administration) of intervention	Municipalities
The main source of financing the intervention	Municipal budget
Additional sources of financing the intervention	Private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Public administration institution (-s) Budgetary institution (-s) Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Annual budgetary financing
Types of private providers eligible to receive the intervention	Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers	Public procurement
Other means of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the need of financing for covering the running costs of the institution (for public providers); The size of the financial transfer is calculated based on the number of services provided applying a fixed rate (for private providers)
The share of the funds of the intervention that is attributed to public providers	34-66%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Adults with disabilities and their families; Elderly persons and their families; Children with disabilities and their families; At-risk adults and their families; Dysfunctional families; Other persons or families.
The type of impact of intervention for consumers	The intervention provides consumers with necessary services and information
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised) Individual approach is applied. Income, social status or health condition can be taken into account.
Impact of the intervention	The intervention has a positive impact on its consumers since it ensures equal access to general social services regardless of income. General social services provide customers with basic help and information and often is a part of more extensive social services as social assistance or social care.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	The implementation mode of general social services (provided as separate service, not included into other service) varies among municipalities. Part of the municipalities relies mainly on its own resources (budgetary institutions or non-profit organisations established by municipality) in general social services provision, while others buy part of the services in the

	market. The main concern regarding the first group of municipalities is relatively high cost of maintaining budgetary institutions which are less flexible in comparison to smaller, customer-oriented providers. On the other hand, even though purchase of general services enables municipalities to better respond to changing customer's preferences, private providers may lack stability in their organisational resources. It can be a concern especially for smaller municipalities with small market of alternative service suppliers. Moreover, some long-lasting private service providers develop with the time kind of dependency on public funds and becomes as inflexible and expensive as their public counterparts.⁴³⁶ Purchase of general social services from private providers should be carried out in accordance with public procurement law. Most often, municipalities provide potential suppliers with rigorous terms of reference and select the provider based on the lowest price proposal. This mode limits possibilities to finance alternative, innovative services that could be suggested by private providers and to contribute to better achievement of social inclusion goals.
Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	Even though some shortcomings of the implementation of the intervention are visible there are no considerations or need to replace or withdraw the intervention

Source: BGI Consulting et al, 2017.

TABLE 238. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (2)

Title of the intervention	Subsidy for the provision of daily meals for schoolchildren from families on a low income
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Schoolchildren from families on a low income receive free daily meals at school.
Year of the introduction and end, stability of the intervention	2006 - up to now Although there have been some initiatives to increase list of beneficiaries eligible for the intervention, the implementation of the intervention remains stable at the moment
The broader policy objective to which intervention contributes	To provide support for children from families on low income
Legal background for the establishment of the intervention	Law on social support for schoolchildren, 13 June 2006, No. X-686 (LR socialinės paramos mokiniams įstatymas) Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To provide schoolchildren with daily meals
The objective of the intervention and legal background	To finance the purchase of ingredients and preparation of meal Resolution of the Government of the Republic of Lithuania on the provision of free meals for schoolchildren, 19 February 2014, No. 171 (LR Vyriausybės nutarimas dėl LRV 2009 m. gruodžio 23 d. nutarimo Nr. 1770 "Dėl mokinių nemokamo maitinimo mokyklose tvarkos aprašo patvirtinimo")

⁴³⁶ Based on the information gathered during expert interviews

	pakeitimo) Order of the Minister of Social Security and Labour on special allocations assigned to municipal budgets, 13 July 2006, No. A1-193 (LR socialinės apsaugos ir darbo ministro įsakymas dėl Specialių tikslinių dotacijų savivaldybių biudžetams lėšų apskaičiavimo metodikos patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level Local level
Name of the body responsible for implementation (administration) of intervention	Ministry of the Education and Science Municipalities
The main source of financing the intervention	State budget
Additional sources of financing the intervention	Municipal budget Private funds
Market side the intervention is targeted at	Demand and supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s) Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Annual budgetary financing
Types of private providers eligible to receive the intervention	Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers	Annual budgetary financing
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of beneficiaries
The share of the funds of the intervention that is attributed to public providers	<34%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Schoolchildren from families on low income, 63550 persons (Statistics Lithuania, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	The intervention has a positive impact on its consumers since it ensures access to proper nutrition during the day regardless of family income.
Unintended impact of the intervention	Intervention may carry a stigma and be demeaning. Target group of the intervention is schoolchildren who are more exposed to bullying. Income-based grouping of children at school can be offensive to some children and to impel them to refuse support.
Main issues related to the implementation of the intervention	There are no major issues associated with the implementation of the intervention. Although there were some initiatives to increase list of beneficiaries eligible for the intervention, the implementation of the intervention remains stable.
Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention

Source: BGI Consulting et al, 2017.

TABLE 239. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (3)

Title of the intervention	Subsidy for food assistance
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Provision of food for the most deprived (Fund for European Aid to the Most Deprived)
Year of the introduction and end, stability of the intervention	2014 – 2023 The implementation of the intervention depends on EU allocations.
The broader policy objective to which intervention contributes	To provide material assistance to the most deprived
Legal background for the establishment of the intervention	Food and/or basic material assistance operational programme for the Fund for European Aid to the Most Deprived for 2014-2020 (Pagalbos maistu ir (arba) pagrindinės materialinės pagalbos veiksmų programą dėl paramos iš Europos pagalbos labiausiai skurstantiems asmenims fondo Lietuvoje)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To provide food assistance for the most deprived
The objective of the intervention and legal background	To finance the obtainment and distribution of food Orders of the Minister of the Ministry of Social Security and Labour of the Republic of Lithuania on terms of project financing from the Fund for European Aid to the Most Deprived
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	European Social Fund Agency
The main source of financing the intervention	EU funds
Additional sources of financing the intervention	State budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Public administration institution
Dominant mean of receiving the intervention for public providers	State planning
Types of private providers eligible to receive the intervention	Private NGOs
Dominant mean of receiving the intervention for private providers	State planning
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	People on low income, around 280 thousand persons (Programme data)
The type of impact of intervention for consumers	The intervention provides consumers with necessary resources
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)

Impact of the intervention	The intervention has a positive impact on the target group since it provides them with basic food help. Provision of food rather than financial support for target group helps to ensure that public funds is used for the initial purpose of the assistance. On the other hand, the intervention does not address social exclusion of the target group since it is aimed at satisfaction of present basic needs rather than long-lasting solution.
Unintended impact of the intervention	The intervention may lead to target group's dependency on social assistance
Main issues related to the implementation of the intervention	In the past, the implementation of the intervention faced some problems associated with inefficient use of the funds. After certain institutional changes in programme implementation system, aforementioned issues seem to be solved.
Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	There are no considerations to replace or withdraw the intervention

Source: BGI Consulting et al, 2017.

TABLE 240. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (4)

Title of the intervention	Subsidy for NGOs for provision of general and social support services (municipal budget)
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Most municipalities additionally finance various NGOs activities aimed at relevant social problems, including day centres for children, day centres for elderly, work with at-risk families and other. Funds are allocated via project contest.
Year of the introduction and end, stability of the intervention	Depends on particular programme. There are fluctuations in the amount of funding provided for implementation from year to year.
The broader policy objective to which intervention contributes	Depends on particular programme
Legal background for the establishment of the intervention	Law on non-governmental organisations, 19 December 2013, No. XII-717 (LR nevyriausybių organizacijų plėtros įstatymas) Programmes documents
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To enhance NGOs participation and to develop social services
The objective of the intervention and legal background	To finance NGO's projects aimed at particular social issues (clarified in project contest documents) Municipal level documents approved by local councils/ municipal administrations on project contests for NGO's projects.
Level of body responsible for policy formation	Local level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities
The main source of financing the intervention	Municipal budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Private

Types of private providers eligible to receive the intervention	Private NGOs
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	0%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Various groups, eligible for social services
The type of impact of intervention for consumers	Depends on the project
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Depends on the project
Impact of the intervention	The intervention helps to maintain social services provided by NGOs. Generally, public financing via project contests (rather than public procurement) allows NGO's to implement innovative, consumer-oriented projects. On the other hand, the impact of intervention is limited due to low budget of the programmes.
Unintended impact of the intervention	Taking into account that certain amount of municipal funds is distributed among private social service providers every year, some organisations can interpret it as a promise of annual financing for their activities. Such approach can negatively affect quality and efficiency of the services. ⁴³⁷
Main issues related to the implementation of the intervention	Even though municipalities organise NGO's project support contests every year, the eligibility criteria for services providers, target group of the projects, financed activities can vary. It may trigger instability of NGOs that activities are year after year dependent on municipal funding. The municipal funds can be used based on political preferences rather than actual demand for social services.
Consistency with other related interventions	The intervention is expected to supplement other interventions providing regular budgetary subsidy for the provision of various social services. Normally, each municipality finances NGO's projects which help to increase supply of the relevant services not covered by public services providers or private providers that are selected based on public procurement requirements.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention

Source: BGI Consulting et al, 2017.

⁴³⁷ Based on the information gathered during expert interviews

TABLE 241. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (5)

Title of the intervention		Subsidy for NGOs for provision of general and social support services (state budget)
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Subsidy for improving performance of the public service	
Short description of the intervention	The ministry of Social Security and Labour administers various programmes addressing affordability and quality issues of social services, including financing of day centres for children, social integration services for people with disabilities, specialised support centres for victims of violence among others. The programmes can be seen as supplement to the municipal initiatives in provision of general and social support services. Most of the Ministry's programmes are aimed at social services provided by NGOs, however in some cases, municipal institutions are eligible for state support as well.	
Year of the introduction and end, stability of the intervention	Stability of the implementation varies depending on the particular programme and actual needs. Implementation of some programmes is stable over more than 10 years, e.g. annual allocations for day centres for children, social integration services for people with disabilities.	
The broader policy objective to which intervention contributes	Vary depending on the particular programme	
Legal background for the establishment of the intervention	Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas); Programme specific documents approved by the Minister of Social Security and Labour	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	Vary depending on the particular programme	
The objective of the intervention and legal background	To finance projects aimed at particular social issues (clarified in project contest documents) Order of the Minister of Social Security and Labour on catalogue of social services, 5 April 2006, No. A1-93 (LR socialinės apsaugos ir darbo ministro įsakymas dėl socialinių paslaugų katalogo patvirtinimo); Programme specific documents approved by the Minister of Social Security and Labour	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	National level; Local level	
Name of the body responsible for implementation (administration) of intervention	Ministry of the Social Security and Labour; Municipalities	
The main source of financing the intervention	State budget	
Additional sources of financing the intervention	Municipal budget Private funds	
Market side the intervention is targeted at	Supply	
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention	Public and private	
Types of public providers eligible to receive the intervention	Budgetary institution (-s) Non-profit organisation (-s) established by state/municipality	
Dominant mean of receiving the intervention for public providers	Project contest	

Types of private providers eligible to receive the intervention	Private NGOs
Dominant mean of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	<34%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Elderly people and their families; People with disabilities and their families; Children from dysfunctional families and their families; Children from low income families and their families; Other children and their families; At-risk persons and their families; Victims of violence and their families; Other groups.
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Depends on the programme and the project
Impact of the intervention	The intervention helps to maintain social services provided by NGOs. Generally, public financing via project contests (rather than public procurement requirements) allows NGOs to implement innovative, consumer-oriented projects. On the other hand, the impact of intervention is limited due to low budget of the programmes.
Unintended impact of the intervention	Taking into account that certain amount of state funds is distributed among private providers of social services every year, some organisations can see it as a promise of annual financing for their activities. Such approach can negatively affect quality and efficiency of the services.
Main issues related to the implementation of the intervention	Some of the programmes are implemented in order to ensure continuous provision of particular services rather than to facilitate increase in service quality or development of innovative solutions. For example, programme for children day centres managed by Ministry of Social Security and Labour finances public and private children day centres year after year. Thus, the support helps simply to maintain activities of particular organisations. There is no doubt that children, especially those from at-risk families, needs day services, however the question is why service providers are selected and financed by the state institution. Children related services are under responsibility of municipalities, municipalities organise and finance some service providers. At the same time, state support to the organisations located in particular municipality comes directly, without deeper consideration of particular context. That can lead to inefficient use of the resources since there is lack of consistency among different sources of financing. Moreover, there is a tendency to reduce municipal spending on children day centres knowing that basic support will be provided by the state anyway. ⁴³⁸
Consistency with other related interventions	The intervention is expected to supplement other interventions providing regular budgetary subsidy for the provision of various social services.
Possibilities to replace/withdraw the intervention	Depends on the programme.

Source: BGI Consulting et al, 2017.

⁴³⁸ Based on the information gathered during expert interviews

TABLE 242. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (6)

Title of the intervention		ESIF subsidies for work with families
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Subsidy for improving performance of the public service	
Short description of the intervention	ESIF funded measure aimed at work with families	
Year of the introduction and end, stability of the intervention	2014 – 2023 The implementation of the intervention depends on ESIF allocations.	
The broader policy objective to which intervention contributes	To enhance access to affordable, sustainable and high-quality services, including health care and social services of general interest	
Legal background for the establishment of the intervention	Republic of Lithuania Operational programme for the European Union funds’ investments in 2014-2020	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To provide families with complex support services during the crisis situations and to help balancing work and family life	
The objective of the intervention and legal background	To finance provision of complex support to families Orders of the Minister of the Ministry of Social Security and Labour of the Republic of Lithuania on terms of project financing (measure No. 08.4.1-ESFA-V-416)	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	National level	
Name of the body responsible for implementation (administration) of intervention	European Social Fund Agency	
The main source of financing the intervention	ESIF funds	
Additional sources of financing the intervention	State budget	
Market side the intervention is targeted at	Supply	
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention	Public and private	
Types of public providers eligible to receive the intervention	Public administration institution (-s) Budgetary institution (-s) Non-profit organisation (-s) established by state/municipality	
Dominant mean of receiving the intervention for public providers	State planning	
Types of private providers eligible to receive the intervention	Eligible as project partners: Private for-profit entities; Private NGOs; Private persons.	
Dominant mean of receiving the intervention for private providers	State planning	
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers	
The share of the funds of the intervention that is attributed to public providers	34-66%	
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Consumers of the intervention	Families	

The type of impact of intervention for consumers	The intervention provides consumers with necessary services, skills, information.
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Depends on the project
Impact of the intervention	The impact is unknown, as the implementation of the intervention has started recently. It is expected that the intervention will help families to cope with family crisis and to better balance family and work responsibilities.
Unintended impact of the intervention	n/a
Main issues related to the implementation of the intervention	The main issue related with the intervention is that its implementation depends on availability of ESI funds and, therefore, is not stable. Currently there are no considerations of changing these interventions by interventions funded from national funds and it is not clear whether there will be allocations from ESIF funds for interventions aimed at support for families after the 2020.
Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	The intervention could be replaced by similar interventions funded by national funds. However, currently there are no clear plans.

Source: BGI Consulting et al, 2017.

TABLE 243. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (7)

Title of the intervention	ESIF subsidies for development of social services infrastructure
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	ESIF funded measure aimed at development of social service infrastructure
Year of the introduction and end, stability of the intervention	2014 – 2023 The implementation of the intervention depends on ESIF allocations.
The broader policy objective to which intervention contributes	To promote social inclusion through improved access to social, cultural and recreational services by investing in infrastructure
Legal background for the establishment of the intervention	Republic of Lithuania Operational programme for the European Union funds' investments in 2014-2020
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To improve access to community-based social services and to reduce regional disparities
The objective of the intervention and legal background	To finance development of the infrastructure of social care institutions for elderly people, independent living home, day centres, social rehabilitation centres and similar institutions Orders of the Minister of the Ministry of Social Security and Labour of the Republic of Lithuania on terms of project financing (measure No. 08.1.1-CPVA-R-407)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Central Project Management Agency
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	State budget;

	Municipal budget.
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Public administration institution (-s) Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	Regional planning
Types of private providers eligible to receive the intervention	Private NGOs
Dominant mean of receiving the intervention for private providers	Regional planning
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Elderly persons; Persons with disabilities (except persons with mental illnesses); At-risk persons and their families.
The type of impact of intervention for consumers	The intervention provides consumers with necessary infrastructure
Impact of the intervention	The intervention has a positive impact on increased accessibility to social services, as it promotes the development of community-based services among others.
Unintended impact of the intervention	All projects are developed and implemented according to the terms of project financing approved by Ministry of Social Security and Labour. However, the detail requirements (regarding eligible target groups, number of service recipients, type of the services) accepted by social service providers in the project implementation agreement may have some negative effect on project success after the investment is done. For example, service providers wishing to receive intervention may provide over-optimistic calculations on intended demand for the services in upgraded infrastructure, that become part of the contract and have to be kept unchanged for 5 years after the project implementation is finished. Lack of flexibility in terms of eligible customers and services means that institution cannot appropriately react to the changing circumstances and to use resources in the most efficient way. ⁴³⁹
Main issues related to the implementation of the intervention	The main issue related with the intervention is that its implementation depends on availability of ESIF funds and, therefore, is not stable. Currently there are no considerations of changing these interventions by interventions funded from national funds and it is not clear what type of social infrastructure will be financed by ESIF funds after the 2020. Even though since 2004 ESIF funds have reached most of the main social service providers, growing demand for community-based, new type social services is requiring further investment. ⁴⁴⁰
Consistency with other related interventions	The intervention is consistent with other related interventions

⁴³⁹ Based on the information gathered during expert interviews

⁴⁴⁰ Based on the information gathered during expert interviews

Possibilities to replace/withdraw the intervention	The intervention could be replaced by similar interventions funded by national funds. However, currently there are no clear plans.

Source: BGI Consulting et al, 2017.

TABLE 244. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (8)

Title of the intervention	Compensation of unavailable social services
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Income support (compensation)
Short description of the intervention	If elderly person or person with disability cannot receive necessary assistance due to unavailability of appropriate general or social support services family carers can receive monthly allowances and organise care independently (lt. <i>pagalbos pinigai</i>)
Year of the introduction and end, stability of the intervention	2006 - up to now There is decrease in the number of beneficiaries every year since the general policy aim is to increase availability and accessibility of social services and to use financial substitution as a last-resort measure
The broader policy objective to which intervention contributes	To promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion.
Legal background for the establishment of the intervention	Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To provide financial assistance to person (family) then it is more efficient than provision of general or social support services. Financial assistance should be used to obtain equal social services.
The objective of the intervention and legal background	To disburse monthly allowance Order of the Minister of Social Security and Labour on payment for social services, 14 June 2008, No. 583 (LR socialinės apsaugos ir darbo ministro įsakymas dėl mokėjimo už socialines paslaugas tvarkos aprašo patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities
The main source of financing the intervention	Municipal budget
Market side the intervention is targeted at	Demand
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Target groups eligible for general social services and social support services
The type of impact of intervention for consumers	The intervention provides consumers with necessary financial resources
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised): Available only if person (family) cannot receive services managed/provided by the municipality, 111 persons (Statistics Lithuania, 2016)
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The size of intervention for individual beneficiary is calculated based on particular social services which unavailability is compensated by providing financial assistance

Impact of the intervention	The intervention is intended to ensure social services for those people who cannot access service providers financed from municipal budget. It depends on the particular case, but often it can be difficult to receive proper services in the market since the financial transfer is very low. Thus, the impact on the target group is limited and there is clear intention with the time to withdraw the intervention completely.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	The intervention is aimed at social services provision for people who for that or another reason cannot receive equal services from providers financed from municipal budget. It is required that subsidy was used by recipient for acquisition of similar social services from other providers. However, it is very complicated to ensure that the requirements are met. Moreover, it could be impossible to obtain proper services with the amount of funds provided to recipient.
Consistency with other related interventions	The intervention is supposed to replace other interventions targeted at general and social support services (for limited number of consumers)
Possibilities to replace/withdraw the intervention	There is decrease in the number of beneficiaries every year since the general policy aim is to increase availability and accessibility of social services and to use financial substitution as a last-resort measure. ⁴⁴¹

Source: BGI Consulting et al, 2017.

TABLE 245. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (9)

Title of the intervention	VAT exemption for social services
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Reduced taxes/tax exemptions
Short description of the intervention	Social services provided by non-profit organisations are exempt from Value Added Tax
Year of the introduction and end, stability of the intervention	1996 - up to now Since 2002, the list of the subjects which services are eligible to VAT exemption has been extended. There are no other significant changes in the implementation of the intervention.
The broader policy objective to which intervention contributes	The main objective of social services is to promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion
Legal background for the establishment of the intervention	Law on value added tax, 5 March 2002, No. IX-751 (LR pridėtinės vertės mokesčio įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To increase affordability of social services
The objective of the intervention and legal background	To exempt from VAT social services provided by children and youth care institutions, elderly and people with disabilities care institutions and other non-profit organisations Law on value added tax, 5 March 2002, No. IX-751 (LR pridėtinės vertės mokesčio įstatymas)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level

⁴⁴¹ Based on the information gathered during expert interviews

Name of the body responsible for implementation (administration) of intervention	State Tax Inspectorate under the Ministry of Finance
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Demand and supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Non-profit social service providers
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the inducement for subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
Impact of the intervention	The intervention has a positive impact on its consumers, since it increases the accessibility to social services for all society groups (municipalities can provide more services with the same financial resources). The intervention's impact on service affordability for customers is less significant, since consumers pay for the majority of the social services according to their income regardless the final price of service (except for the social services provided and obtained outside the municipal/state system)
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	There are no significant issues related to the implementation of the intervention
Consistency with other related interventions	Since the implementation of the intervention causes the decrease of revenue of the national budget, it could contradict the other interventions financing provision of social services, since some of these interventions are financed from the national budget. However, this relation between the interventions is not direct.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. On the other hand, the dilemma of VAT exemptions and its effect on the service providers and its competitiveness is discussed at the EU level ⁴⁴² and might have some implications in the future.

Source: BGI Consulting et al, 2017.

TABLE 246. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (10)

Title of the intervention	Regulation regarding a maximum price paid by customer receiving subsidised social services
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	The price of particular social service paid by individual customer depends on the amount of customer income (for social support services, day social care, short-term social care) or income and assets (for long-term social care). The maximum percentage of income that could be spent on social services vary depending on particular social service.

⁴⁴²For example, European Commission. (2011). *Consultation Paper – Review of existing VAT legislation on public bodies and tax exemptions in the public interest*, COM(2011)851 final.

Year of the introduction and end, stability of the intervention	2006 - up to now No significant changes
The broader policy objective to which intervention contributes	To promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion
Legal background for the establishment of the intervention	Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To provide relevant social services regardless of individual (family) incomes or wealth
The objective of the intervention and legal background	To define the maximum percentage of individual (family) income that could be spent on particular social services Resolution of the Government of the Republic of Lithuania on payment for social services, 14 June 2006, No. 583 (LR Vyriausybės nutarimas dėl mokėjimo už socialines paslaugas tvarkos aprašo patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities
Market side the intervention is targeted at	Demand
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Social service recipients
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention provides the subjects with permission
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Precise (particularised): Income and assets
Impact of the intervention	The intervention has a positive impact on its consumers since it increases equal accessibility of social services for various society groups regardless of income.
Unintended impact of the intervention	The pricing system based on the recipient's income can encourage some customers or their family members to conceal part of the income. For example, incomes from the property rent could be undisclosed for the service administrator.
Main issues related to the implementation of the intervention	Means tests increase administrative costs due to the work of verifying that the tests are satisfied. Particularly, it should be considered when the cost of means-testing offsets budget savings due to increased price for customer. For example, assets testing in case of persons receiving long-term social care contributes usually very little to the increase in price paid by customer. ⁴⁴³
Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention.

Source: BGI Consulting et al, 2017.

⁴⁴³ Based on the information gathered during expert interviews

TABLE 247. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (11)

Title of the intervention		Subsidy for the provision of services at day centres
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)	
Short description of the intervention	Annual budgetary financing for day centres (except day social care centres) for children, elderly people, people with disabilities. Day centres are aimed at development and maintenance of social skills of target groups.	
Year of the introduction and end, stability of the intervention	1996 - up to now Implementation of the intervention is stable	
The broader policy objective to which intervention contributes	To promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion	
Legal background for the establishment of the intervention	Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To promote increased capacity and independence for target groups in daily life To promote early intervention approach	
The objective of the intervention and legal background	To finance day centres Order of the Minister of Social Security and Labour on catalogue of social services, 5 April 2006, No. A1-93 (LR socialinės apsaugos ir darbo ministro įsakymas dėl socialinių paslaugų katalogo patvirtinimo) Resolution of the Government of the Republic of Lithuania on the methodology for financial allocations for social services, 10 October 2006, No. 978 (LR Vyriausybės nutarimas dėl socialinių paslaugų finansavimo ir lėšų apskaičiavimo metodikos patvirtinimo) Municipal level documents approved by local councils	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	Local level	
Name of the body responsible for implementation (administration) of intervention	Municipalities	
The main source of financing the intervention	Municipal budget	
Additional sources of financing the intervention	Private funds	
Market side the intervention is targeted at	Supply	
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention	Public and private	
Types of public providers eligible to receive the intervention	Budgetary institution (-s) Publicly-owned for profit entity	
Dominant mean of receiving the intervention for public providers	Annual budgetary financing	
Types of private providers eligible to receive the intervention	Private NGOs	
Dominant mean of receiving the intervention for private providers	Public procurement	
Other means of receiving the intervention for private providers	Project contest	

The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the need of financing for covering the running costs of the institution (for public providers) The size of the financial transfer is calculated based on the own estimates of the service providers (for private providers)
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Elderly persons, n/a Adults with disabilities, n/a Children from dysfunctional families, 8400 persons (Statistics Lithuania, 2016) Children from low income families, n/a Other children, n/a Other groups
The type of impact of intervention for consumers	The intervention provides consumers with necessary services and skills
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	The intervention has a positive impact on its consumers since it ensures access to day activities to the target groups and helps them to socialise and to develop different skills as well as to stay in safe and friendly environment (especially for the children from at-risk families)
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	Implementation of the intervention varies depending to the municipality. The main objective of the intervention is not clearly defined since there are several options for action. Even though municipalities are obliged by law to provide social services aimed at promotion of social skills development and maintenance, there is no clear obligations regarding particular target groups. Thus, municipalities can choose among various alternatives of services and, not surprisingly, have a tendency to provide the services that are more in line with the political aims, are related with more active target group or do not receive support from other sources. For example, generally, municipalities allocate less funds to children day centres as these are in the interest of the Ministry of Social Security and Labour which maintains annual financial programme for both municipal and private children day centres ⁴⁴⁴ .
Consistency with other related interventions	Intervention might have some inconsistencies with other interventions aimed at financing of day centres' activities. Various programmes financed from either municipal or state budget and aimed at support for provision of general and social support services (mainly at NGOs, but a few programmes support public providers as well) provide service suppliers with additional funds. The total financial assistance available for service provision at day centres or similar institutions is not clear. It makes difficult to assess the scope of services and the actual capacities of service providers.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. However, more clarity in terms of liability of municipalities and available financial resources would help to improve quality and coverage of the service.

⁴⁴⁴ Based on the information gathered during expert interviews

Source: BGI Consulting et al, 2017.

TABLE 248. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (12)

Title of the intervention		Subsidy for provision of home-based help services
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention		The intervention is aimed at practical support for the target group with everyday living tasks, such as housework, shopping, laundry, making meals (lt. <i>pagalba į namus</i>)
Year of the introduction and end, stability of the intervention		1996 - up to now Implementation of the intervention is stable
The broader policy objective to which intervention contributes		To promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion
Legal background for the establishment of the intervention		Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background		To provide person (family) with practical support at home in order to facilitate their independent living
The objective of the intervention and legal background		To finance provision of home-based help services Order of the Minister of Social Security and Labour on management and provision of home-based help services, 24 August 2017, No. A1-448 (LR socialinės apsaugos ir darbo ministro įsakymas dėl pagalbos į namus paslaugų organizavimo ir teikimo rekomendacijų patvirtinimo) Resolution of the Government of the Republic of Lithuania on the methodology for financial allocations for social services, 10 October 2006, No. 978 (LR Vyriausybės nutarimas dėl socialinių paslaugų finansavimo ir lėšų apskaičiavimo metodikos patvirtinimo) Municipal level documents approved by local councils
Level of body responsible for policy formation		National level
Level of body responsible for implementation (administration) of intervention		Local level
Name of the body responsible for implementation (administration) of intervention		Municipalities
The main source of financing the intervention		Municipal budget
Additional sources of financing the intervention		Private funds
Market side the intervention is targeted at		Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention		Public and private
Types of public providers eligible to receive the intervention		Budgetary institution (-s) Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers		Annual budgetary financing
Types of private providers eligible to receive the intervention		Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers		Public procurement

Other means of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the need of financing for covering the running costs of the institution (for public providers) The size of the financial transfer is calculated based on the number of services provided applying a fixed rate (for private providers)
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Adults with disabilities and their families; Elderly persons and their families; Children with disabilities and their families; Other persons or families who have lost their independence temporarily According to Statistics Lithuania, there were 18630 recipients receiving home-based services (either home-based help or home-based day social care) in 2016. Based on the data provided by municipalities⁴⁴⁵, around 90 percent of these recipients (totally around 17000 persons) received home-based help services.
The type of impact of intervention for consumers	The intervention provides beneficiaries with necessary services
Level of coercion at consumers' level	The use of intervention is voluntary for the beneficiaries
Consumers' selection criteria	Precise (particularised) Health status
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer related to a particular member of the consumers group is identified using the means-tested approach
Impact of the intervention	The intervention has a positive impact on its consumers since it facilitates their independent living and reduces the need of institutional care. The intervention also releases family members of elderly people of people with disabilities from daily help duties allowing them to remain active in the labour market or with other activities.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	There are some differences among municipalities in terms of the share of the target group receiving home-based help services. Some municipalities rely more on the institution-based services rather than provision of daily support at the person's home. In the European level documents, certain priority is given to the social services that help to maintain particular person as independent as possible. This strategic approach is accepted on the national level in Lithuania as well, however this is not always the case in practice. Insufficient use of home-based help services and too early jump to more sophisticated support causes increase in dependent people and total spending on social services. The accessibility to the home-based services for people living in the remote areas used to be an issue over a long period of time as well. The problem is less severe currently since municipal social centres and similar providers of the services are gradually equipped with transport and other auxiliary

⁴⁴⁵ Plan for social services approved by municipal councils (liet. *Savivaldybių socialinių paslaugų planai*)

	tools. However, the service still can be associated with unused potential.
Consistency with other related interventions	Home-based help services can to some extent successfully replace more sophisticated, and more expensive, social support and social care services provided at institutions.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. Moreover, there is a strategic goal to increase the share of home-based and similar services compared to institutional support and care services.

Source: BGI Consulting et al, 2017.

TABLE 249. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (13)

Title of the intervention	Subsidy for social support services for dysfunctional families
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Intervention is aimed at the development and maintenance of social skills of dysfunctional families. Social services are provided at family home (liet. <i>socialinės rizikos šeimos</i>)
Year of the introduction and end, stability of the intervention	2006 - up to now There were some fluctuations in the amount of funding provided for its implementation from year to year since there were introduced changes in number of dysfunctional families assigned to one social worker. From 2017 the number of dysfunctional families assigned to one full-time social worker cannot exceed 10.
The broader policy objective to which intervention contributes	To promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion
Legal background for the establishment of the intervention	Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To develop and to maintain social skills
The objective of the intervention and legal background	To finance remuneration of social workers working with dysfunctional families Order of the Minister of Social Security and Labour on catalogue of social services, 5 April 2006, No. A1-93 (LR socialinės apsaugos ir darbo ministro įsakymas dėl socialinių paslaugų katalogo patvirtinimo) Resolution of the Government of the Republic of Lithuania on the methodology for financial allocations for social services, 10 October 2006, No. 978 (LR Vyriausybės nutarimas dėl socialinių paslaugų finansavimo ir lėšų apskaičiavimo metodikos patvirtinimo) Order of the Minister of Social Security and Labour on special allocations assigned to municipal budgets, 13 July 2006, No. A1-193 (LR socialinės apsaugos ir darbo ministro įsakymas dėl Specialių tikslinių dotacijų savivaldybių biudžetams lėšų apskaičiavimo metodikos patvirtinimo) Municipal level documents approved by local councils
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities
The main source of financing the intervention	State budget

Additional sources of financing the intervention	Municipal budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s) Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Annual budgetary financing
Other means of receiving the intervention for public providers	n/a
Types of private providers eligible to receive the intervention	Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers	Public procurement
Other means of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	n/a
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Dysfunctional families
The type of impact of intervention for consumers	The intervention provides beneficiaries with necessary services
Level of coercion at consumers' level	The use of intervention is compulsory for the beneficiaries
Consumers' selection criteria	Precise (particularised) Particular type and frequency of the services is defined based on the needs of the family
Impact of the intervention	The intervention has a positive impact on its consumers since it provides families lacking social and daily life skills with the certain support at home. However, since dysfunctional families face multiple issues (also related with alcohol and drug abuse) the regular visits of social worker could be insufficient measure to tackle the essence problem. The intervention is valuable as the preventative measure as well. Regular visits of social workers allow generally to identify on time and to prevent further actions related to child abuse and similar misbehaviour.
Unintended impact of the intervention	Sometimes the service is considered by the target group only as a control measure or free help, thus without leading to any changes. Positive changes could be difficult, even if not impossible, to achieve without auxiliary services aimed at behavioural change of dysfunctional families.
Main issues related to the implementation of the intervention	The long-lasting issue related to the services implementation was uneven distribution of dysfunctional families assigned to one social worker. Some of social workers were responsible for 15 or even more dysfunctional families, meaning they could not to provide quality services. This problem should be less severe in the future taking into account that from 2017 the number of dysfunctional families assigned to one full-time social worker cannot exceed 10. However, the question regarding the service potential to influence positive changes in dysfunctional families remains unanswered. Social workers are working in very difficult condition and with very limited tools.

Consistency with other related interventions	The intervention is consistent with other related interventions. However, the presence of related auxiliary services aimed at behavioural changes of dysfunctional families would help to strengthen positive impact of the intervention in question.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention

Source: BGI Consulting et al, 2017.

TABLE 250. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (14)

Title of the intervention	Subsidy for the service at independent living home
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Intervention is aimed at social support and accommodation services for elderly persons and persons with disabilities who are dependent on help with basic activities of daily living (liet. <i>savarankiško gyvenimo namai; grupinio gyvenimo namai</i>)
Year of the introduction and end, stability of the intervention	2008 - up to now The implementation of the intervention is stable. Since its introduction, the implementation of the intervention has not been substantially changed
The broader policy objective to which intervention contributes	To promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion
Legal background for the establishment of the intervention	Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To provide homelike assisted living accommodation and relevant services for persons (families) who are dependent on help with activities of daily living and to help maintain their independence
The objective of the intervention and legal background	To finance provision of assisted living services Order of the Minister of Social Security and Labour on catalogue of social services, 5 April 2006, No. A1-93 (LR socialinės apsaugos ir darbo ministro įsakymas dėl socialinių paslaugų katalogo patvirtinimo) Municipal level documents approved by local councils
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities
The main source of financing the intervention	Municipal budget
Additional sources of financing the intervention	Private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s) Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Annual budgetary financing

Other means of receiving the intervention for public providers	n/a
Types of private providers eligible to receive the intervention	Private NGOs
Dominant mean of receiving the intervention for private providers	Public procurement Agreements with providers based on quantitative indicators
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the need of financing for covering the running costs of the institution (for public providers) The size of the financial transfer is calculated based on the number of beneficiaries applying a fixed rate (for private providers)
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Adults with disabilities; Elderly persons; At-risk adults and their families; Children deprived of parental care (older than 16 years) and adults (younger than 21 years) deprived of parental care who have received institutional care before; Other persons or families. 472 elderly persons and adults with disabilities (Statistics Lithuania, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with necessary infrastructure and services
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised) Health status Social status
Impact of the intervention	The intervention has a positive impact on its consumers since it ensures equal access to supported living facilities for those who cannot cope independently. The intervention helps people who still want and can be independent but already need daily support. Opportunity to live at independent living home prevents target group from early relocation to social care institution (elderly persons, persons with disabilities) as well as help to overcome difficult situations and to better integrate into society (at-risk adults, children deprived of parental care)
Unintended impact of the intervention	Independent living home and similar services helping to organise housing issues and providing target group with daily support may lead to certain dependency on social assistance. Person can see that type of support as permanent rather than temporary solution. This issue is associated with targets groups which are supposed to live independently in the future while using independent living homes as a transitional place (at-risk adults, children deprived of parental care)
Main issues related to the implementation of the intervention	The main issue associated with independent living home is uneven distribution of related services among municipalities. As the independent living home is seen as a substitute for social care services for people with certain level of independency, provision of that type of service is crucial in all municipalities. On the other hand, some independent living homes are still facing issues related to insufficient demand. The situation is often caused by management documents and practices that limits service provision at particular institution to certain target groups. Lack of flexibility in terms of eligible customers

	means that institution cannot appropriately react to the changing circumstances and to use resources in the most efficient way. ⁴⁴⁶
Consistency with other related interventions	Independent living homes can to some extent successfully replace more sophisticated, and more expensive, social care services provided at long-term care institutions. Independent living home is seen as a relevant alternative for people who due to health condition or lack of social skills cannot live fully on their own, but still maintain certain level of independence. Thus, lack of that type of services causes too early relocation to social care institutions or other social problems.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. Moreover, there are intentions to develop the system further.

Source: BGI Consulting et al, 2017.

TABLE 251. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (15)

Title of the intervention	Subsidy for provision of services at temporary shelters
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	The intervention includes accommodation and information, consultation, psychological support, support with daily activities and similar support for at-risk adults or dysfunctional families at shelters, crisis centres or similar institutions. Temporary accommodation services can be provided for up to 6 months; overnight stay for at-risk persons can be provided for up to 3 nights. (lt. <i>nakvynės namai; krizių centrai; laikino apgyvendinimo įstaigos</i>)
Year of the introduction and end, stability of the intervention	1996 - up to now The implementation of the intervention is stable. However, since its introduction, the increase in variety of services and number of institutions is being observed.
The broader policy objective to which intervention contributes	To promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion
Legal background for the establishment of the intervention	Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To provide target groups with temporary accommodation and related services, to develop and maintain their social skills
The objective of the intervention and legal background	To finance temporary accommodation service provision Order of the Minister of Social Security and Labour on temporary accommodation service provision, 10 May 2017, No. A1-234 (LR socialinės apsaugos ir darbo ministro įsakymas dėl apgyvendinimo nakvynės namuose ir laikino apnakvindinimo paslaugų teikimo rekomendacijų patvirtinimo) Resolution of the Government of the Republic of Lithuania on the methodology for financial allocations for social services, 10 October 2006, No. 978 (LR Vyriausybės nutarimas dėl socialinių paslaugų finansavimo ir lėšų apskaičiavimo metodikos patvirtinimo) Municipal level documents approved by local councils
Level of body responsible for policy formation	National level

⁴⁴⁶ Based on the information gathered during expert interviews

Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities
The main source of financing the intervention	Municipal budget
Additional sources of financing the intervention	Private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s) Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Annual budgetary financing
Other means of receiving the intervention for public providers	n/a
Types of private providers eligible to receive the intervention	Private NGOs
Dominant mean of receiving the intervention for private providers	Public procurement
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the need of financing for covering the running costs of the institution (for public providers) The size of the financial transfer is calculated based on the number of services provided (for private providers)
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	At-risk adults Dysfunctional families
The type of impact of intervention for consumers	The intervention provides consumers with necessary infrastructure and services
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised) Social status, family composition, income
Impact of the intervention	The intervention has a positive impact on its consumers since it provides them with accommodation services and additional social support in crisis situations
Unintended impact of the intervention	Temporary shelters and similar institutions helping to organise housing issues and providing target group with daily support may lead to certain dependency on social assistance. Person can consider that type of support as permanent life style rather than temporary solution and to use service repeatedly.
Main issues related to the implementation of the intervention	Running costs of temporary shelters and similar institutions are relatively higher counting per customer in comparison to other social institutions providing accommodation and related services on the long-term basis. Temporary shelters have to maintain staff and infrastructure even though in some periods number of customers can be lower. This can cause inefficient use of the financial and human resources (especially in case of

	small providers that do not provide or provide very limited amount of auxiliary services). ⁴⁴⁷
Consistency with other related interventions	The distinction between temporary shelters and independent living homes is blurry. Both of the interventions are aimed at people who cannot cope independently and need accommodation and social support. In practice, temporary shelters would be more often dedicated to at-risk persons (including mothers with children) and independent living homes are occupied by elderly people and people with disabilities. However, it is not a rule.
Possibilities to replace/withdraw the intervention	There are no considerations or need to withdraw the intervention. However, higher flexibility in terms of services and target groups may be useful.

Source: BGI Consulting et al, 2017.

TABLE 252. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (16)

Title of the intervention	Subsidy for provision of home-based day social care services
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Complex care services at person's home are provided for persons with a serious health condition and their families. Services encompass meal preparation, help with personal hygiene, education among others. Generally, home-based day social care services do not encompass provision of healthcare services (lt. <i>dienos socialinė globa namuose</i>)
Year of the introduction and end, stability of the intervention	1996 - up to now The implementation of the intervention is stable.
The broader policy objective to which intervention contributes	To promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion.
Legal background for the establishment of the intervention	Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To provide person dependent on permanent care with the home-based complex social day care
The objective of the intervention and legal background	To finance provision of home-based day social care services Order of the Minister of Social Security and Labour on catalogue of social services, 5 April 2006, No. A1-93 (LR socialinės apsaugos ir darbo ministro įsakymas dėl socialinių paslaugų katalogo patvirtinimo) Municipal level documents approved by local councils
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities
The main source of financing the intervention	State budget
Additional sources of financing the intervention	Municipal budget

⁴⁴⁷ Based on the information gathered during expert interviews

	Private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s) Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Annual budgetary financing
Types of private providers eligible to receive the intervention	Private for-profit entities Private NGOs
Dominant mean of receiving the intervention for private providers	Public procurement
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the need of financing for covering the running costs of the institution (for public providers) The size of the financial transfer is calculated based on the number of services provided (for private providers)
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Adults with disabilities Elderly persons with disabilities Children with disabilities According to Statistics Lithuania, there were 18630 recipients receiving home-based services (either home-based help or home-based day social care) in 2016. Based on the data provided by municipalities ⁴⁴⁸ , around 10 percent of these recipients (totally around 2000 persons) received home-based social care services.
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised): Health status
Impact of the intervention	The intervention has a positive impact on its consumers since it ensures equal access to home-based complex social care services. The intervention also eases every day responsibilities of family members of elderly people or people with disabilities helping them to remain active with other activities.
Unintended impact of the intervention	There is no unintended impact of the interventio
Main issues related to the implementation of the intervention	People with severe health issues require complex help that encompasses social and healthcare services. At the moment, most municipalities finance from their budget only home-based social care services as integral assistance services (encompassing also home-based healthcare services) are provided mainly only in municipalities that implement ESIF project for integral assistance services which allocates funds for healthcare staff and acquisition of service related equipment.

⁴⁴⁸ Plan for social services approved by municipal councils (liet. *Savivaldybių socialinių paslaugų planai*)

Consistency with other related interventions	The intervention is consistent with other related interventions. Some municipalities provide integrated home-based social care and healthcare service combining municipal funds for social care provision (intervention in question) and ESIF financing for healthcare services.
Possibilities to replace/withdraw the intervention	There are no considerations or need to withdraw the intervention. However, in order to ensure better response to the needs of people with severe health issues and their families, the scope of intervention should be increased by adding healthcare services.

Source: BGI Consulting et al, 2017.

TABLE 253. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (17)

Title of the intervention	Subsidy for provision of services at day social care institutions
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)
Short description of the intervention	Intervention is aimed at institutional care services for children and adult with disabilities during the day.
Year of the introduction and end, stability of the intervention	1996 - up to now The implementation of the intervention is stable. Since its introduction, the implementation of the intervention has not been substantially changed.
The broader policy objective to which intervention contributes	To promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion.
Legal background for the establishment of the intervention	Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To provide target group with the permanent complex care and assistance at the institution during the day
The objective of the intervention and legal background	To finance provision of institutional day social care services Order of the Minister of Social Security and Labour on catalogue of social services, 5 April 2006, No. A1-93 (LR socialinės apsaugos ir darbo ministro įsakymas dėl socialinių paslaugų katalogo patvirtinimo) Resolution of the Government of the Republic of Lithuania on the methodology for financial allocations for social services, 10 October 2006, No. 978 (LR Vyriausybės nutarimas dėl socialinių paslaugų finansavimo ir lėšų apskaičiavimo metodikos patvirtinimo) Order of the Minister of Social Security and Labour on the standards for social care, 20 February 2007, No. A1-46 (LR socialinės apsaugos ir darbo ministro įsakymas dėl socialinės globos normų aprašo patvirtinimo) Municipal level documents approved by local councils
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities
The main source of financing the intervention	State budget
Additional sources of financing the intervention	Municipal budget Private funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	

Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s) Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers	Annual budgetary financing
Types of private providers eligible to receive the intervention	Private NGOs
Dominant mean of receiving the intervention for private providers	Public procurement
Other means of receiving the intervention for private providers	Project contest
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the need of financing for covering the running costs of the institution (for public providers) The size of the financial transfer is calculated based on the number of beneficiaries (for private providers)
The share of the funds of the intervention that is attributed to public providers	34-66%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Children with disabilities, 2582 persons (2016, Statistics Lithuania) Adults with disabilities, 14700 persons (2016, Statistics Lithuania) Elderly persons with disabilities, n/a.
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised): Health status
Impact of the intervention	The intervention has a positive impact on its consumers since it ensures access to day social care services. The intervention also eases every day responsibilities of family members of persons with disabilities helping them to remain active in the labour market or with other activities.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	The day social care services are in short supply. The target group face some accessibility issues as well. The day care centres operate more often in cities or bigger towns that complicates its accessibility for people from remote areas (taking into account their physical or mental state). Even though, governmental programme provides municipalities with specialised vehicles which are used for transportation of target group, the numbers of people attending day centres is increasing slowly.
Consistency with other related interventions	The intervention is consistent with other related interventions. The intervention provides a viable alternate to institutional care interventions. Increased supply, accessibility, and quality of day care centres could reduce to some extent the need for institutional care services for people with disabilities.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention

Source: BGI Consulting et al, 2017.

TABLE 254. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (18)

Title of the intervention		Subsidy for the service at long-term / short-term care institutions for elderly persons and adults with disabilities
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)	
Short description of the intervention	Intervention is aimed at service provision at budgetary long-term / short-term social care institutions for people dependent on permanent care and assistance who entered state owned care institutions before 2007	
Year of the introduction and end, stability of the intervention	1996 - up to now Even though since 2007 there has been attempts to change mode of social care institution financing, running cost based approach remains in place with respect of customers who entered care institutions before 2007	
The broader policy objective to which intervention contributes	To promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion.	
Legal background for the establishment of the intervention	Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To provide target group with the permanent complex care and assistance at the long term / short term care institution	
The objective of the intervention and legal background	To finance long term social care for the persons that entered social care institutions before 2007 (at institutions established by municipalities/ state) Order of the Minister of Social Security and Labour on catalogue of social services, 5 April 2006, No. A1-93 (LR socialinės apsaugos ir darbo ministro įsakymas dėl socialinių paslaugų katalogo patvirtinimo) Resolution of the Government of the Republic of Lithuania on the methodology for financial allocations for social services, 10 October 2006, No. 978 (LR Vyriausybės nutarimas dėl socialinių paslaugų finansavimo ir lėšų apskaičiavimo metodikos patvirtinimo) Order of the Minister of Social Security and Labour on the standards for social care, 20 February 2007, No. A1-46 (LR socialinės apsaugos ir darbo ministro įsakymas dėl socialinės globos normų aprašo patvirtinimo) Municipal level documents approved by local councils	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	National level Local level	
Name of the body responsible for implementation (administration) of intervention	Ministry of Social Security and Labour Municipalities	
The main source of financing the intervention	State budget	
Additional sources of financing the intervention	Municipal budget Private funds	
Market side the intervention is targeted at	Supply	
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention	Public	
Types of public providers eligible to receive the intervention	Budgetary institution (-s)	
Dominant mean of receiving the intervention for public providers	Annual budgetary financing	

The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the need of financing for covering the running costs of the institution
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Elderly persons, totally 2681 persons in municipal/state care institutions (2016, Statistics Lithuania) Adults with disabilities, totally 6389 persons in municipal/state care institutions (2016, Statistics Lithuania) (the number of customers who entered care institutions before 2007 is not available; according to different care institutions they can constitute around 40 percent of all long-term care recipients)
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised): Health status
Impact of the intervention	The intervention has a positive impact on its consumers since it ensures access to long-term social care services. On the other hand, the impact of the intervention might be detrimental to the person's self-sufficiency, especially if person entered long-term care untimely.
Unintended impact of the intervention	The intervention helps to maintain massive, inefficient and inflexible institutions since provides them with the significant additional funds although the declared strategic aim is to provide long-term care services in smaller, community-based institutions.
Main issues related to the implementation of the intervention	Even though, according to the legal documents, budgetary subsidy in question is aimed at financing the care of people who entered care institutions before 2007, in practice it is used also as a means to maintain existing budgetary care institutions. Generally, the funds provided under this intervention is significantly higher counting per customer in comparison to financing for customers who entered care institutions after 2007.
Consistency with other related interventions	At the organisational level, the intervention is combined with the subsidy used to cover part of the social care service price for elderly persons and persons with disabilities who entered care institutions after 2007. Since for most institutions the funds based on the care price (social care price calculated per person and applied for customers who entered care institutions after 2007) would be insufficient, the intervention is question compensates actually part of the care expenses for all customers (not only those who entered care institutions before 2007) ⁴⁴⁹
Possibilities to replace/withdraw the intervention	Even though there are some ongoing discussions about relevance of the intervention, it remains in place. In order to increase efficiency and transparency of social care financing, the intervention could be replaced with similar method of financing which is applied for the care of recipients who entered care institutions after 2007. The specific requirements and conditions should be analysed further.

Source: BGI Consulting et al, 2017.

⁴⁴⁹ Based on the information gathered during expert interviews

TABLE 255. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (19)

Title of the intervention		Subsidy for provision of care services at short-term and long-term care institutions for children
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)	
Short description of the intervention	Intervention is aimed at service provision at institutions providing institutional short term / long term care for children	
Year of the introduction and end, stability of the intervention	1996 - up to now Even though the strategy of deinstitutionalisation promotes reduction in institutional care, long term / short term care institutions are still in place	
The broader policy objective to which intervention contributes	To promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion.	
Legal background for the establishment of the intervention	Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To provide target group with the permanent complex care and assistance at the long term / short term care institution	
The objective of the intervention and legal background	To finance provision of long term / short term care services for children Order of the Minister of Social Security and Labour on catalogue of social services, 5 April 2006, No. A1-93 (LR socialinės apsaugos ir darbo ministro įsakymas dėl socialinių paslaugų katalogo patvirtinimo) Resolution of the Government of the Republic of Lithuania on the methodology for financial allocations for social services, 10 October 2006, No. 978 (LR Vyriausybės nutarimas dėl socialinių paslaugų finansavimo ir lėšų apskaičiavimo metodikos patvirtinimo) Order of the Minister of Social Security and Labour on the standards for social care, 20 February 2007, No. A1-46 (LR socialinės apsaugos ir darbo ministro įsakymas dėl socialinės globos normų aprašo patvirtinimo)	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	National level Local level	
Name of the body responsible for implementation (administration) of intervention	Ministry of Social Security and Labour Municipalities	
The main source of financing the intervention	Municipal budget	
Additional sources of financing the intervention	State budget	
Market side the intervention is targeted at	Supply	
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention	Public and private	
Types of public providers eligible to receive the intervention	Budgetary institution (-s)	
Dominant mean of receiving the intervention for public providers	Annual budgetary financing	
Types of private providers eligible to receive the intervention	Private NGOs	
Dominant mean of receiving the intervention for private providers	Agreements with licenced providers based on quantitative indicators	
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers (for public providers	

	The size of the financial transfer is calculated based on the number of beneficiaries applying a fixed rate (for private providers)
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Children with disabilities and children deprived of parental care in care institutions, 4629 children (Statistics Lithuania, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is compulsory for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	Even though institutional care for children provides target group with accommodation and basic care, the impact of the intervention is not necessarily positive. Institutional care does not adequately provide the level of positive individual attention which is essential for the successful emotional, physical, mental, and social development of child causing long-term issues in individual's development and social integration.
Unintended impact of the intervention	Persons brought up in care institutions may face lack of social skills, personal initiative, they may develop dependence on social help
Main issues related to the implementation of the intervention	The intervention provides with the funds all children long-term care institutions supporting also maintenance of big care institutions that supposed to be closed or transformed into community-based care units.
Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	There is strategic goal to gradually replace the intervention with the community-based or family-based children care services ⁴⁵⁰

Source: BGI Consulting et al, 2017.

TABLE 256. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (20)

Title of the intervention	ESIF subsidies for provision of integral assistance services at the person's home
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	Support for people with high level or intensive care needs including healthcare and social care services. It provides an alternative to living in a nursing home or long-term care facility.
Year of the introduction and end, stability of the intervention	2014 – 2023 The implementation of the intervention depends on ESIF allocations.
The broader policy objective to which intervention contributes	To enhance access to affordable, sustainable and high-quality services, including health care and social services
Legal background for the establishment of the intervention	Republic of Lithuania Operational programme for the European Union funds' investments in 2014-2020

⁴⁵⁰ Order of the Minister of Social Security and Labour on the institutional care reform, 14 February 2014, No. A1-83 (LR socialinės apsaugos ir darbo ministro įsakymas dėl perėjimo nuo institucinės globos prie šeimoje ir bendruomenėje teikiamų paslaugų neįgaliesiems ir likusiems be tėvų globos vaikams 2014–2020 metų veiksmų plano patvirtinimo)

The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To create and develop the system of integral assistance services at the person's home for children with disabilities, adults with disabilities, elderly persons and to provide their family members with relevant information.
The objective of the intervention and legal background	To finance acquisition of equipment for service provision and provision of the integral assistance services. Orders of the Minister of the Ministry of Social Security and Labour of the Republic of Lithuania on terms of project financing (measure No. 08.4.1-ESFA-V-418)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	European Social Fund Agency
The main source of financing the intervention	ESIF funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Public administration institution (-s) Budgetary institution (-s) Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers	State planning
Types of private providers eligible to receive the intervention	Eligible as project partners: Private for-profit entities; Private NGOs.
Dominant mean of receiving the intervention for private providers	State planning
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	67-99%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Children with disabilities and their family members; Adults with disabilities and their family members; Elderly persons and their families.
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised): Health status
Impact of the intervention	The intervention has a positive impact on its consumers and their family members since it ensures access to home-based social care and healthcare services for people with severe health condition. The intervention also eases every day responsibilities of family members of elderly persons or persons with disabilities helping them to remain active with other activities. Absence of the service would cause increased caregiver burden or even relocation of the service recipient to the care institution.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	There are no major issues related to the implementation of the intervention

Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	Currently, part of ESIF funds are allocated to the remuneration of healthcare personnel (salaries of social care personnel are paid from municipal budget). There is lack of clarity whether municipalities will find additional resources to finance healthcare personnel in order to continue provision of the service.

Source: BGI Consulting et al, 2017.

TABLE 257. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (21)

Title of the intervention	ESIF subsidies for provision of short-term social care and rehabilitation services for persons addicted to psychoactive substance.
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	ESIF funded measure aimed at provision of social rehabilitation services at short-term social care institutions for persons addicted to psychoactive substance
Year of the introduction and end, stability of the intervention	2014 – 2023 The implementation of the intervention depends on ESIF allocations.
The broader policy objective to which intervention contributes	To promote active inclusion, including with a view to promoting equal opportunities and active participation, and improving employability
Legal background for the establishment of the intervention	Republic of Lithuania Operational programme for the European Union funds' investments in 2014-2020
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To reduce social exclusion of persons addicted to psychoactive substance by helping to integrate into the labour market
The objective of the intervention and legal background	To finance social and psychological rehabilitation, development of general skills, vocational training Orders of the Minister of the Ministry of Social Security and Labour of the Republic of Lithuania on terms of project financing (measure No. 08.3.1-ESFA-V-411)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	European Social Fund Agency
The main source of financing the intervention	ESIF funds
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public and private
Types of public providers eligible to receive the intervention	Budgetary institution (-s)
Dominant mean of receiving the intervention for public providers	State planning
Types of private providers eligible to receive the intervention	Eligible as project partners: Private for-profit entities; Private NGOs.

Dominant mean of receiving the intervention for private providers	State planning
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	<34%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Persons addicted to psychoactive substance
The type of impact of intervention for consumers	The intervention provides consumers with necessary services and skills
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Inclusive (uniform)
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the uniform size approach
Impact of the intervention	The intervention has a positive impact on its consumers since it ensures equal access to social rehabilitation services.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	The main issue related with the intervention is that its implementation depends on availability of ESIF funds and, therefore, is not stable. Taking into account the intervention is aimed at financing service provision, uninterrupted funding is of a crucial importance. Currently, there are some considerations of changing these interventions by interventions funded from national funds, however no decision has been approved yet. ⁴⁵¹
Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	The intervention could be replaced by similar interventions funded by national funds. Plans are under discussion.

Source: BGI Consulting et al, 2017.

TABLE 258. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (22)

Title of the intervention	Monthly allowance for foster families
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Income support (social benefits)
Short description of the intervention	Foster parent responsible for the child who receives care in foster family is eligible for monthly allowance - a benefit of 4 base social benefit amounts (EUR 152) (child care-related supplement) (liet. <i>globos (rūpybos) išmokos tikslinis priedas</i>)
Year of the introduction and end, stability of the intervention	2016 - up to now There was significant increase in the amount of funding provided for its implementation. Starting from 2017 the size of the monthly allowance for foster parent increased 4 times in comparison with the previous year.

⁴⁵¹ Based on the information gathered during expert interviews

The broader policy objective to which intervention contributes	To ensure the safe environment in which child would grow and develop
Legal background for the establishment of the intervention	Law on children benefits, 3 November 1994, No. I-621 (LR išmokų vaikams įstatymas) The Civil Code of the Republic of Lithuania, 18 July 2000, No. XIII-1864 (LR civilinio kodekso patvirtinimo, įsigaliojimo ir įgyvendinimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To provide foster families with financial assistance
The objective of the intervention and legal background	To disburse monthly allowance Resolution of the Government of the Republic of Lithuania on children benefits, 2004 m. birželio 28 d. Nr. 801 (LR Vyriausybės nutarimas dėl išmokų vaikams skyrimo ir mokėjimo nuostatų patvirtinimo) Resolution of the Government of the Republic of Lithuania on the methodology for financial allocations for social services, 10 October 2006, No. 978 (LR Vyriausybės nutarimas dėl socialinių paslaugų finansavimo ir lėšų apskaičiavimo metodikos patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Private
Types of private providers eligible to receive the intervention	Private persons
Dominant mean of receiving the intervention for private providers	Intervention is applied for all foster families
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of beneficiaries (children in foster care) applying a fixed rate
The share of the funds of the intervention that is attributed to public providers	0%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Children deprived of parental care receiving care in family type houses, 446 children (Statistics Lithuania, 2016) Children deprived of parental care receiving care in families, 5477 children (Statistics Lithuania, 2016)
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Level of coercion at consumers' level	The use of intervention is compulsory for the consumers
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	The intervention has a positive impact on foster families since it provides them with additional financial resources. The intervention might induce some changes in the proportion of children under institutional care and children receiving care in foster families as well. The intervention has a potential to foster the children care deinstitutionalisation process since additional financial benefit should help to reduce number of families that would like to be caregivers for a child (children)

	who lost parental care but haven't enter the care system yet because of the financial burden.
Unintended impact of the intervention	Financial benefits for foster families could increase number of cases when the main motivation for child care is possibility to increase incomes. However, it should not be a common issue taking into account that in order to be recognised as caregiver person (family) should participate in training (for non-family caregivers), and, afterwards, the care is supervised by responsible authorities.
Main issues related to the implementation of the intervention	There are no major issues related to the implementation of the intervention
Consistency with other related interventions	The intervention is consistent with other related interventions. The intervention can help reduce the need of the intervention providing funds for children care institutions.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention

Source: BGI Consulting et al, 2017.

TABLE 259. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (23)

Title of the intervention	Monthly allowance for foster families (additional financial assistance)
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Income support (social benefits)
Short description of the intervention	Municipalities can provide foster families with additional monthly allowances (lt. <i>pagalbos pinigai</i>). The amount of funds and particular requirements depend on the decision of municipal council.
Year of the introduction and end, stability of the intervention	2010 - up to now Depends on the municipality
The broader policy objective to which intervention contributes	To ensure the safe environment in which child would grow and develop
Legal background for the establishment of the intervention	Order of the Minister of Social Security and Labour on payment for social services, 14 June 2008, No. 583 (LR socialinės apsaugos ir darbo ministro įsakymas dėl mokėjimo už socialines paslaugas tvarkos aprašo patvirtinimo) The Civil Code of the Republic of Lithuania, 18 July 2000, No. XIII-1864 (LR civilinio kodekso patvirtinimo, įsigaliojimo ir įgyvendinimo įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To provide foster families with additional financial assistance
The objective of the intervention and legal background	To disburse monthly allowance Order of the Minister of Social Security and Labour on payment for social services, 14 June 2008, No. 583 (LR socialinės apsaugos ir darbo ministro įsakymas dėl mokėjimo už socialines paslaugas tvarkos aprašo patvirtinimo)
Level of body responsible for policy formation	National level Local level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities
The main source of financing the intervention	Municipal budget
Market side the intervention is targeted at	Supply

SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Private
Types of public providers eligible to receive the intervention	n/a
Dominant mean of receiving the intervention for public providers	n/a
Other means of receiving the intervention for public providers	n/a
Types of private providers eligible to receive the intervention	Private persons
Dominant mean of receiving the intervention for private providers	Intervention is applied for all foster families in particular municipalities
Other means of receiving the intervention for private providers	n/a
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of beneficiaries (children in foster care) applying a fixed rate
The share of the funds of the intervention that is attributed to public providers	0%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Children deprived of parental care receiving care in family type houses Children deprived of parental care receiving care in families
The type of impact of intervention for consumers	The intervention provides consumers with necessary services
Consumers' selection criteria	Inclusive (uniform)
Impact of the intervention	The intervention has a positive impact on foster families since it provides them with additional financial resources. The intervention might induce some changes in the proportion of children under institutional care and children receiving care in foster families as well. The intervention has a potential to foster the children care deinstitutionalisation process since additional financial benefit should help to reduce number of families that would like to be caregivers for a child (children) who lost parental care but haven't enter the care system yet because of the financial burden.
Unintended impact of the intervention	Additional financial benefits for foster families could increase number of cases when the main motivation for child care is possibility to increase incomes. However, it should not be a common issue taking into account that in order to be recognised as caregiver person (family) should participate in training (for non-family caregivers), and, afterwards, the care is supervised by responsible authorities.
Main issues related to the implementation of the intervention	There are no major issues related to the implementation of the intervention. The size and the implementation of the intervention depends on each municipality.
Consistency with other related interventions	The intervention is consistent with other related interventions. It is supplementing financial benefits guaranteed by the state for all foster families. The intervention, together with aforementioned state support, can help to reduce the need for the intervention providing funds for children care institutions.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention

Source: BGI Consulting et al, 2017.

TABLE 260. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (24)

Title of the intervention		Compensation of fees for the service at long-term / short-term care institutions for elderly persons and adults with disabilities
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention		Customer support through discounts or tariff compensations
Short description of the intervention		Subsidy is used to cover part of the social care service price for elderly persons and persons with disabilities who's assets are insufficient to pay for the service.
Year of the introduction and end, stability of the intervention		2006 - up to now There is increase in number of institutions financed based on number of beneficiaries rather than based financing on running cost
The broader policy objective to which intervention contributes		To promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion
Legal background for the establishment of the intervention		Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background		To provide target group with the permanent complex care and assistance at the long term / short term care institution
The objective of the intervention and legal background		To compensate part of short term / long term care fee which cannot be covered by customer due to insufficient assets. Order of the Minister of Social Security and Labour on catalogue of social services , 5 April 2006, No. A1-93 (LR socialinės apsaugos ir darbo ministro įsakymas dėl socialinių paslaugų katalogo patvirtinimo) Resolution of the Government of the Republic of Lithuania on the methodology for financial allocations for social services, 10 October 2006, No. 978 (LR Vyriausybės nutarimas dėl socialinių paslaugų finansavimo ir lėšų apskaičiavimo metodikos patvirtinimo) Order of the Minister of Social Security and Labour on payment for social services, 14 June 2008, No. 583 (LR socialinės apsaugos ir darbo ministro įsakymas dėl mokėjimo už socialines paslaugas tvarkos aprašo patvirtinimo)
Level of body responsible for policy formation		National level
Level of body responsible for implementation (administration) of intervention		Local level
Name of the body responsible for implementation (administration) of intervention		Municipalities
The main source of financing the intervention		State budget (for persons with severe disabilities)
Additional sources of financing the intervention		Municipal budget (for other persons)
Market side the intervention is targeted at		Demand
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention		Public and private
Types of public providers eligible to receive the intervention		Budgetary institution (-s) Non-profit organisation (-s) established by state/municipality
Dominant mean of receiving the intervention for public providers		Agreements with licenced providers based on quantitative indicators
Other means of receiving the intervention for public providers		n/a
Types of private providers eligible to receive the intervention		Private NGOs

Dominant mean of receiving the intervention for private providers	Agreements with licenced providers based on quantitative indicators
Other means of receiving the intervention for private providers	n/a
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of beneficiaries applying a fixed rate (proportion of service price covered by the public funds is calculated individually for each consumer)
The share of the funds of the intervention that is attributed to public providers	34-66%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Elderly persons, 5195 persons (Statistics Lithuania, 2016) Adults with disabilities, 6685 persons (Statistics Lithuania, 2016)
The type of impact of intervention for consumers	The intervention provides beneficiaries with necessary financial resources and services
Level of coercion at consumers' level	The use of intervention is voluntary for the beneficiaries
Consumers' selection criteria	Precise (particularised) Income Health status
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The amount of the transfer for a particular member of the consumers group is identified using the means-tested approach
Impact of the intervention	The intervention has a positive impact on its consumers since it ensures access to long-term/short term social care services regardless of income. On the other hand, the impact of the intervention might be detrimental to the person's self-sufficiency, especially if person entered long-term care untimely. The intervention has also a positive impact on competitiveness and service quality since customers have a right to choose the care institution (from the list approved by municipality) and municipalities are obliged to partially finance the care services in selected institution.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	According to the law, recipients of short term/ long term care should not pay more than 80 percent of their income (it can increase to some extent if person own certain assets) for the services. The intervention is designed to cover part of the social care service price for elderly persons and persons with disabilities who's assets are insufficient to pay for the service. In order to maintain social care prices at similar level, each municipality constantly approve maximum subsidised price per capita generally based on the average price of the social care in different institutions throughout the country. However, in the practice, if it were the only source of financing, the average price of the social services would not cover all the expenses of some social care institutions. ⁴⁵² That is, most municipal and state care institutions are additionally financed from state or municipal budget (for example, allocating more funds for the care of people who entered care institutions before 2007)
Consistency with other related interventions	The intervention is consistent with other related interventions. However, more clarity is needed in terms of all interventions related to long-term care.

⁴⁵² Based on the information gathered during expert interviews

Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention

Source: BGI Consulting et al, 2017.

TABLE 261. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (25)

Title of the intervention	Regulation regarding licencing for social care institutions
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	All institutions providing social care services must be licensed
Year of the introduction and end, stability of the intervention	2013 - up to now No significant changes
The broader policy objective to which intervention contributes	To promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion
Legal background for the establishment of the intervention	Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure the quality of social care services provided in social care institutions
The objective of the intervention and legal background	To ensure that social care providers comply with the requirements for the institution staff, equipment, services. Order of the Minister of Social Security and Labour on licencing of social care institutions, 31 December 2014, No. A1-684 (LR socialinės apsaugos ir darbo ministro įsakymas dėl socialinės globos įstaigų licencijavimo taisyklių patvirtinimo) Order of the Minister of Social Security and Labour on the standards for social care, 20 February 2007, No. A1-46 (LR socialinės apsaugos ir darbo ministro įsakymas dėl socialinės globos normų aprašo patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Department of Supervision of Social Services under the Ministry of Social Security and Labour
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Social care service providers
The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention requires certain actions from subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Precise (particularised) Particular requirements depend on the type of the social care services provided by service provider (according to the standards for social care)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups indirectly benefiting from the regulation/tax/tax exemption	Social care recipients
The type of impact of intervention for beneficiaries	Social care recipients are provided with standardized services ensuring service compliance with minimum standards
Impact of the intervention	The intervention has a positive impact on the quality of social care services. The intervention is especially important in terms of suppliers that tend to provide poorer quality services since

	the regulation sets the minimal requirements. Compliance with the standards is under the supervision of the state authorities.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	The control of service quality is not always sufficient. Some existing licenced institutions may do not meet established requirements but still maintain licence. ⁴⁵³
Consistency with other related interventions	The intervention is consistent with other related interventions
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. However, quality control system could be improved.

Source: BGI Consulting et al, 2017.

TABLE 262. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (26)

Title of the intervention	Regulation regarding a maximal subsidised price of short term / long term social care services
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Regulation
Short description of the intervention	Each municipality defines the price ceiling for short term / long term social care services that are subsidised from municipal budget. The price is set according to the average price of similar services.
Year of the introduction and end, stability of the intervention	2006 - up to now No significant changes
The broader policy objective to which intervention contributes	To promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion
Legal background for the establishment of the intervention	Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To ensure efficient use of public funds
The objective of the intervention and legal background	To define the price ceiling for short term / long term social care services Resolution of the Government of the Republic of Lithuania on social services financing, 10 October 2006, No. 978 (LR Vyriausybės nutarimas dėl socialinių paslaugų finansavimo ir lėšų apskaičiavimo metodikos patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities
Market side the intervention is targeted at	Supply
SUPPLY/DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Subjects of the regulation/tax/tax exemption	Short term / long term social care service providers that provide subsidised services

⁴⁵³ Based on the information gathered during expert interviews

The type of impact of intervention for subjects of the regulation/tax/tax exemption	The intervention prohibits certain behaviour of the subjects
Level of coercion at the level of subject of the regulation/tax/tax exemption	The intervention is compulsory for the subjects
Selection criteria of subjects receiving the regulation/tax/tax exemption	Inclusive (uniform)
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Groups indirectly benefiting from the regulation/tax/tax exemption	Municipalities State
Impact of the intervention	Potentially, the intervention allows to reduce public expenses and, therefore, to increase accessibility of social services. However, it is not necessarily the case when service is provided by public institutions. Since specified service price does not cover often all expenses of the service providers, public institutions are subsidised additionally from municipal/state budget. Thus, there is no planned savings.
Unintended impact of the intervention	In order to receive more clients from other municipalities (based on the agreement), some budgetary institutions specify lower price of the services than it would be necessary to maintain institution and level of the services. The service price that does not correspond to the real expenditure push other providers, that do not receive additional budgetary financing, to lower quality of the services. ⁴⁵⁴
Main issues related to the implementation of the intervention	The price of the social care services at particular institution is calculated based on the formula provided by Ministry of Social Security and Labour. However, in practice the price calculated by budgetary services providers (either state or municipal) does not include all expenses of social services, since actual annual expenditure per capita is higher than the specified price for the services. It might be that some budgetary institutions specify lower price in order to be competitive and receive customers financed by other municipalities, at the same time knowing that all expenditure of the institution will be covered from the budget anyway. However, the average price of long-term care institutions is used to determine maximum subsidised price approved by different municipalities. Thus, private services providers have to maintain similar price level in order to receive customers subsidised by municipalities. Taking into account that private providers do not receive additional budgetary funding, often they are pushed to lower quality of the services (for example, to hire less staff).
Consistency with other related interventions	The intervention contradicts with the additional public subsidies for the service at long-term / short-term care institutions, since a maximal subsidised price actually is not a final price paid from the municipalities for municipal budgetary institutions.
Possibilities to replace/withdraw the intervention	The intervention should be revised in order to define the purpose of the intervention and to clarify service price calculation method.

Source: BGI Consulting et al, 2017.

⁴⁵⁴ Based on the information gathered during expert interviews

TABLE 263. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (27)

Title of the intervention		Subsidy for development of social housing stock
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Regular subsidy for public service delivery (budgetary financing)	
Short description of the intervention	Intervention is aimed at the increase of municipal social housing stock by purchase, construction or adaptation of dwellings	
Year of the introduction and end, stability of the intervention	1992 - up to now Since the introduction of the intervention, there have been some changes of criteria defining target group eligible for the social housing. The implementation of the intervention depends also on the available funding. The main financial sources for social housing acquisition is national budget and municipality's income from the sale of the certain property (ESIF subsidies for development of social housing stock are identified and described as a separate intervention) . Size of the financial allocation at the municipal level can vary considerably from one year to another.	
The broader policy objective to which intervention contributes	To increase social justice	
Legal background for the establishment of the intervention	Law on State Support for the Acquisition or Rent of Housing, 9 September 2014, No. XII-1215 (LR paramos būstui įsigyti ar išsinuomoti įstatymas)	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To increase municipal social housing stock and to facilitate access to social housing for the most disadvantaged social groups	
The objective of the intervention and legal background	To finance purchase, construction and adaptation of social housing Municipal programmes on development of social housing stock approved by local councils	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	Local level	
Name of the body responsible for implementation (administration) of intervention	Municipalities	
The main source of financing the intervention	State budget	
Additional sources of financing the intervention	Municipal budget	
Market side the intervention is targeted at	Supply	
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention	Public	
Types of public providers eligible to receive the intervention	Public administration institution (-s)	
Dominant mean of receiving the intervention for public providers	Annual budgetary financing	
The share of the funds of the intervention that is attributed to public providers	100%	
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Consumers of the intervention	Persons (families) on low incomes who do not possess accommodation / accommodation is in very poor condition / area (in sq. meters) provided for each family member does not meet requirements	

	Around 10000 families living in the social housing and around 13000 families on the waiting list (according to the information provided by the Ministry of Social Security and Labour on July, 2017)
The type of impact of intervention for consumers	The intervention provides consumers with necessary infrastructure
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised): Income and assets Family size Health status
Impact of the intervention	Intervention is intended to have positive impact on the social justice since it increases supply of social housing for the people on low incomes, young families, etc. However, the impact of the intervention is limited as currently demand is significantly bigger than supply.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	One of the main sources for the implementation of the intervention is considered to be municipality's incomes from the sale of existing municipal dwellings and other property. However, currently the process of selling is slow, the income from sold property is low.
Consistency with other related interventions	The intervention is consistent with other related interventions. The demand for the intervention can be reduced by increasing number of persons (families) receiving partial reimbursement of the housing rental fee.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention. However, the demand for the intervention can be reduced by increasing number of persons (families) receiving partial reimbursement of the housing rental fee.

Source: BGI Consulting et al, 2017.

TABLE 264. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (28)

Title of the intervention	ESIF subsidies for development of social housing stock
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Subsidy for improving performance of the public service
Short description of the intervention	ESIF funded measure aimed at development of social housing stock
Year of the introduction and end, stability of the intervention	2014 – 2023 The implementation of the intervention depends on ESIF allocations.
The broader policy objective to which intervention contributes	To promote social inclusion through improved access to social, cultural and recreational services
Legal background for the establishment of the intervention	Republic of Lithuania Operational programme for the European Union funds' investments in 2014-2020
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To increase municipal social housing stock and to facilitate access to social housing for the most disadvantaged social groups
The objective of the intervention and legal background	To finance purchase, construction and adaptation of social housing Orders of the Minister of the Ministry of Social Security and Labour of the Republic of Lithuania on terms of project financing (measure No. 08.1.2-CPVA-R-408)
Level of body responsible for policy formation	National level

Level of body responsible for implementation (administration) of intervention	National level
Name of the body responsible for implementation (administration) of intervention	Central Project Management Agency
The main source of financing the intervention	ESIF funds
Additional sources of financing the intervention	Municipal budget
Market side the intervention is targeted at	Supply
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Public
Types of public providers eligible to receive the intervention	Public administration institution (-s)
Dominant mean of receiving the intervention for public providers	Regional planning
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the own estimates of the service providers
The share of the funds of the intervention that is attributed to public providers	100%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Persons (families) on low incomes who do not possess accommodation / accommodation is in very poor condition / area (in sq. meters) provided for each family member does not meet requirements Around 10000 families living in the social housing and around 13000 families on the waiting list (according to the information provided by the Ministry of Social Security and Labour on July, 2017)
The type of impact of intervention for consumers	The intervention provides consumers with necessary infrastructure
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised); Income and assets; Family size; Health status
Impact of the intervention	The intervention is expected to have a positive impact on municipal social housing stock and, therefore, to contribute to decrease in unsatisfied demand.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	There is ongoing debate on the most efficient manner to increase social housing stock. Municipalities can buy dwellings in the market, adapt existing property to suit social housing needs, or to initiate new construction. However, it seems that some municipalities did a choice among alternatives without proper cost-benefit analysis and funds are used inefficiently. At the moment, few projects are suspended, as additional cost-benefit analysis is carried out. ⁴⁵⁵
Consistency with other related interventions	The intervention is consistent with other related interventions. The demand for the intervention can be reduced by increasing number of persons (families) receiving partial reimbursement of the housing rental fee.

⁴⁵⁵ Based on the information gathered during expert interviews

Possibilities to replace/withdraw the intervention	The intervention is supplementary measure in order to foster increase in social housing stock. Identical intervention is financed from state/ municipal budget. Also, municipalities own some municipal dwellings that could be sold redirecting funds to the social housing needs ⁴⁵⁶ . The unsatisfied demand for social housing could be partially managed increasing the share of the rented housing as well.

Source: BGI Consulting et al, 2017.

TABLE 265. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (29)

Title of the intervention	Partial reimbursement of the mortgage loan
GENERAL CHARACTERISTICS OF THE INTERVENTION	
Type of the intervention	Income support (compensation)
Short description of the intervention	State subsidies for the compensation of part (10 or 20 percent) of the mortgage loan provided to the target group
Year of the introduction and end, stability of the intervention	2014 - up to now The implementation of the intervention is stable. Since 2015, the mortgage loans eligible for partial compensation can be issued not only by selected banks but also by several credit unions.
The broader policy objective to which intervention contributes	To increase motivation of the target groups to integrate into the labour market and to use available resources efficiently
Legal background for the establishment of the intervention	Law on State Support for the Acquisition or Rent of Housing, 9 September 2014, No. XII-1215 (LR paramos būstui įsigyti ar išsinuomoti įstatymas)
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To facilitate the purchase of the accommodation
The objective of the intervention and legal background	To compensate part of the mortgage loan. Resolution of the Government of the Republic of Lithuania on partial reimbursement of the mortgage loan and rules on selection of credit institutions, 1 April 2015, No. 325 (LR Vyriausybės nutarimas dėl valstybės iš dalies kompensuojamų būsto kreditų teikimo ir subsidijų valstybės iš dalies kompensuojamų būsto kreditų daliai apmokėti teikimo tvarkos aprašo ir bankų ar kitų kredito įstaigų atrankos valstybės iš dalies kompensuojamiems būsto kreditams teikti tvarkos aprašo patvirtinimo)
Level of body responsible for policy formation	National level
Level of body responsible for implementation (administration) of intervention	Local level
Name of the body responsible for implementation (administration) of intervention	Municipalities
The main source of financing the intervention	State budget
Market side the intervention is targeted at	Demand
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION	
Types of service providers eligible to receive the intervention	Private
Types of private providers eligible to receive the intervention	Financial institutions

⁴⁵⁶ Based on the information gathered during expert interviews

Dominant mean of receiving the intervention for private providers	Contest
The share of the funds of the intervention that is attributed to public providers	0%
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION	
Consumers of the intervention	Persons (families) on low incomes who do not possess accommodation / accommodation is in very poor condition / area (in sq. meters) provided for each family member does not meet requirements and who meet one of these criteria: Persons under 35 years who lost parental care and were brought up in social care system; Families with 3 or more children Persons with disabilities and their families Young families with one or more children Families whose one of the parents is dead Around 100 families per year (appr. calculation according to the information provided by the Ministry of Social Security and Labour on July, 2017)
The type of impact of intervention for consumers	The intervention provides the inducement for consumers The intervention provides consumers with necessary financial resources
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised): Income and assets
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	Intervention size (EUR) depends on the size of the particular mortgage loan as the state compensates 10 or 20 percent of the actual expenditure. (depending of the target group). The regulation regarding the maximum size of the mortgage loan applies.
Impact of the intervention	The intervention has a positive impact on its consumers since it eases access to the mortgage loan and facilitates the purchase of accommodation
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	There are no major issues related to the implementation of the intervention.
Consistency with other related interventions	The intervention is consistent with other related interventions. The intervention can reduce unsatisfied demand for a social housing to some extent.
Possibilities to replace/withdraw the intervention	There were some ideas to replace current intervention with the soft loans or similar instruments under consideration. However, that was never implemented arguing that due to long loan repayment period (20 or even 30 years) the administration of such financial instrument would be inappropriate expensive.⁴⁵⁷ Currently, the possibility to expand the scope of the intervention is under discussion. There are considerations to additionally provide with partial compensation of mortgage loan young families that work and reside in the regions.⁴⁵⁸

Source: BGI Consulting et al, 2017.

⁴⁵⁷ Based on the information gathered during expert interviews

⁴⁵⁸ Based on the information gathered during expert interviews

TABLE 266. DATA ON THE GOVERNMENT INTERVENTION IN LITHUANIAN SOCIAL CARE SECTOR (30)

Title of the intervention		Partial reimbursement of the housing rental fee
GENERAL CHARACTERISTICS OF THE INTERVENTION		
Type of the intervention	Income support (compensation)	
Short description of the intervention	Persons (families) eligible for social housing can rent their accommodation in the market and to receive a compensation of a part of the housing rental fee (the size of the government subsidy per 1 sq. metre varies depending on the municipality).	
Year of the introduction and end, stability of the intervention	2015 - up to now Constant changes of the intervention are ongoing, since the intervention is not attractive enough to the target group and still comparatively small numbers of eligible users apply for it. The rate of reimbursement has been increased since 2015.	
The broader policy objective to which intervention contributes	To increase motivation of the target groups to integrate into the labour market and to use available resources efficiently	
Legal background for the establishment of the intervention	Law on State Support for the Acquisition or Rent of Housing, 9 September 2014, No. XII-1215 (LR paramos būstui įsigyti ar išsinuomoti įstatymas)	
The objective of the intervention in relation to the broader policy objective to which the intervention contributes and legal background	To facilitate the rent of the accommodation	
The objective of the intervention and legal background	To compensate part of the rental price Resolution of the Government of the Republic of Lithuania on social housing fees and partial reimbursement of rental price, 23 December 2014, No. 1487 (LR Vyriausybės nutarimas dėl savivaldybės būsto, socialinio būsto nuomos mokesčių ir būsto nuomos ar išperkamosios būsto nuomos mokesčių dalies kompensacijos dydžio apskaičiavimo metodikos ir bazinio būsto nuomos ar išperkamosios būsto nuomos mokesčių dalies kompensacijos dydžio perskaičiavimo koeficiento patvirtinimo)	
Level of body responsible for policy formation	National level	
Level of body responsible for implementation (administration) of intervention	Local level	
Name of the body responsible for implementation (administration) of intervention	Municipalities	
The main source of financing the intervention	State budget	
Market side the intervention is targeted at	Demand	
SUPPLY SIDE CHARACTERISTICS OF THE INTERVENTION		
Types of service providers eligible to receive the intervention	Private	
Types of private providers eligible to receive the intervention	Owners of a property (landlords)	
Dominant mean of receiving the intervention for private providers	Officially registered rental agreement	
The basis for the calculation of intervention size transferred to the service providers	The size of the financial transfer is calculated based on the number of beneficiaries applying a fixed rate (fixed rates vary and depend on municipality). The compensation can be transferred to the beneficiary or directly to the landlord.	
DEMAND SIDE CHARACTERISTICS OF THE INTERVENTION		
Consumers of the intervention	Persons (families) on low incomes who do not possess accommodation / accommodation is in very poor condition / area (in sq. meters) provided for each family member does not	

	meet requirements, around 400 families currently (Ministry of Social Security and Labour)
The type of impact of intervention for consumers	The intervention provides consumers with necessary financial resources
Level of coercion at consumers' level	The use of intervention is voluntary for the consumers
Consumers' selection criteria	Precise (particularised) Income and assets
Criteria defining intervention size for individual consumers (if the intervention is related to the direct or indirect financing of consumers)	The size of intervention for individual beneficiary is calculated based on size of the family (maximum 8 sq. metres per person can be subsidised) and size of the subsidy per 1 sq. metre in particular municipality
Impact of the intervention	The intervention has a positive impact on its consumers since it facilitates the rent of accommodation. The intervention provides the target group with the possibility to get accommodation without spending long years on the waiting list for the social housing.
Unintended impact of the intervention	There is no unintended impact of the intervention
Main issues related to the implementation of the intervention	The implementation of the intervention has not started as smoothly as it was expected. The main issue is landlord's unwillingness to make an official rental agreement and to legalise rent incomes, that is to pay taxes. Moreover, the process of signing the rental agreement is more complicated than usually since there is a legal requirement to register the rental agreement in the official register. Also, landlords not always want to rent their property for persons (families) receiving state support since associate them with addicted persons or similar groups. In order to facilitate the implementation of the intervention various alternatives are under consideration currently. Some of them include possible tax reduction as well as plans to form funds of rented apartments in municipalities (managed by municipal administrations, i.e. landlord signs the rental agreement with the municipality which takes all the responsibility of the rented property) ⁴⁵⁹
Consistency with other related interventions	The intervention is consistent with other related interventions. The intervention can significantly reduce unsatisfied demand for a social housing, since the social housing fund can be expanded by renting apartments available in the market.
Possibilities to replace/withdraw the intervention	There are no considerations or need to replace or withdraw the intervention

Source: BGI Consulting et al, 2017.

2.17.2.1 SUPPLY SIDE: QUALITY OF PLANNING OF SELECTED INTERVENTIONS

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

⁴⁵⁹ Based on the information gathered during expert interviews

TABLE 267. QUALITY OF PLANNING OF SERVICE RELATED INTERVENTIONS IN THE LITHUANIAN SOCIAL CARE SECTOR

Name of the service	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
General social services	Subsidy for provision of general social services (at social service centres or similar institutions)	x	√	x	√	x	√	AVERAGE
	Subsidy for the provision of daily meals for schoolchildren from families on a low income	x	√	n/a	√	√	√	GOOD
	Subsidy for food assistance (Fund for European Aid to the Most Deprived)	√	√	n/a	√	√	√	GOOD
	Subsidy for NGOs for provision of general and social support services (municipal budget)	√	√	n/a	√	x	x	AVERAGE
	Subsidy for NGOs for provision of general and social support services (state budget)	√	√	n/a	√	x	√	AVERAGE
	ESIF subsidies for work with families	√	√	n/a	√	√	√	GOOD
	ESIF subsidies for development of social services infrastructure	√	√	n/a	√	√	x	AVERAGE
	Compensation of unavailable social services	√	√	n/a	√	x	√	AVERAGE
	VAT exemption for social services	x	x	n/a	√	x	n/a	POOR
	Regulation regarding a maximum price paid by	x	x	n/a	√	√	n/a	AVERAGE

	customer receiving subsidised social services							
Social support services	Subsidy for the provision of services at day centres	x	√	x	√	x	√	AVERAGE
	Subsidy for the provision of home-based help services	x	√	x	√	x	√	AVERAGE
	Subsidy for social support services for dysfunctional families	x	√	n/a	√	x	√	AVERAGE
	Subsidy for the service at independent living home	x	√	n/a	√	x	√	GOOD
	Subsidy for provision of services at temporary shelters	x	√	x	√	x	√	AVERAGE
	Subsidy for NGOs for provision of general and social support services (municipal budget)	√	√	n/a	√	x	x	AVERAGE
	Subsidy for NGOs for provision of general and social support services (state budget)	√	√	n/a	√	x	√	AVERAGE
	ESIF subsidies for development of social services infrastructure	√	√	n/a	√	√	√	GOOD
	Compensation of unavailable social services	x	√	n/a	√	x	√	AVERAGE
	VAT exemption for social services	x	x	n/a	√	x	n/a	POOR
	Regulation regarding a maximum price paid by customer receiving subsidised social services	x	x	n/a	√	√	n/a	AVERAGE
Social care	Subsidy for the provision of home-based day social care services	x	√	x	√	x	√	AVERAGE

	Subsidy for the provision of services at day social care institutions	x	√	x	√	x	√	AVERAGE
	Subsidy for the service at long-term / short-term care institutions for elderly persons and adults with disabilities	x	√	√	√	x	x	POOR
	Subsidy for provision of care services at short-term and long-term care institutions for children	x	√	n/a	√	x	√	AVERAGE
	ESIF subsidies for provision of integral assistance services at the person's home	√	√	n/a	√	√	√	GOOD
	ESIF subsidies for development of social services infrastructure	√	√	n/a	√	√	√	GOOD
	ESIF subsidies for provision of short-term social care and rehabilitation services for persons addicted to psychoactive substance.	√	√	n/a	√	√	√	GOOD
	Monthly allowance for foster families	x	√	n/a	√	x	√	AVERAGE
	Monthly allowance for foster families (additional financial assistance)	x	√	n/a	√	x	√	AVERAGE
	Compensation of fees for the service at long-term / short-term care institutions for elderly persons and adults with disabilities	x	√	n/a	√	√	√	GOOD
	VAT exemption for social services	x	x	n/a	√	x	n/a	POOR
	Regulation regarding licencing for social care institutions	x	x	n/a	√	√	√	AVERAGE

	Regulation regarding a maximal subsidised price of short term / long term social care services	x	x	n/a	√	x	n/a	POOR
	Regulation regarding a maximum price paid by customer receiving subsidised social services	x	x	n/a	√	√	n/a	AVERAGE
Housing assistance	Subsidy for development of social housing stock	x	√	x	x	x	√	POOR
	ESIF subsidies for development of social housing stock	√	√	x	√	√	√	GOOD
	Partial reimbursement of the mortgage loan	x	√	n/a	√	x	√	AVERAGE
	Partial reimbursement of the housing rental fee	x	√	n/a	√	x	x	POOR

Source: BGI Consulting et al, 2017.

The planning of the social care interventions is estimated to be good/average. The best quality of planning is attributed firstly to the interventions financed by ESI funds. ESI funds related documents lay down the formal requirements for the allocation of funds, including the period of implementation of the intervention, eligible cost, output and outcome indicators, etc. In situations where estimated results cannot be planned in advance, for example, the amount of total revenue, project beneficiaries are obliged to provide necessary information in their applications and it is recorded in EU funds management database. The demand for the service related to the ESIF interventions is, usually, taken into account while planning the intervention. It does not imply that ESIF investment is sufficient for demand to be met, but demand is taken into consideration as a mean to prioritise social services to be financed by ESIF. However, it should be admitted, that demand is known and ESIF measures are planned accordingly at the national level, while it is not necessarily the case at the local level. That is, ESI funds under the regional planning measures can be distributed amongst the regions and municipalities according to other criteria than the actual demand for particular social services. Since normally municipalities prefer to absorb as much funds as it is possible, sometimes ESI funds can be invested into particular social services without considering actual demand⁴⁶⁰. Aforementioned issue is related, firstly, to the ESIF subsidies for development of social services infrastructure leading to the inefficient use of the infrastructure capacities.

Budgetary financing lacks clarity in comparison to EU funds management. Firstly, revenue generated by the implementation of the intervention is rarely defined. Even though municipal administrations provide

⁴⁶⁰ Based on the information gathered during expert interviews

general information on the total revenue arising from the social services financed by public funds, clear revenue's attribution to the service or related interventions is missing. Secondly, planning of annual budgetary financing lacks outcome indicators. And, finally, medium-term or long-term implementation period of these interventions is not defined, as the subsidy is repeatedly provided on an annual basis. In this regard, however, it should be noted that in most cases, definition of the intervention implementation period is not of the utmost importance, except those situations where lack of information regarding intervention period can cause instability in service provision. Aforementioned issues are attributed to all interventions providing regular subsidy for public service delivery (budgetary financing).

Planning of the intervention aimed at regulation of the social service price paid by customer is of average quality as well. Even though the regulation seems to be clear enough at the consumer level (there is detailed description of the price paid for particular service according to the consumer's assets), there is lack of planning of the amount of the cost of the intervention. Since most of the social service providers are still annually financed from the budget, the actual price of the service and, consequently, the share of the price paid by customers is not known.

Few interventions are estimated to be of poor quality of planning, namely VAT exemption, Subsidy for development of social housing stock, partial reimbursement of the housing rental fee, and regulation regarding a maximal subsidised price of short term / long term social care services.

VAT exemption for social services is introduced by the Law on value added tax of the Republic of Lithuania. Even though the national law does not reveal the aim of the exemption, it could be explained by the EU legislation⁴⁶¹ that introduces VAT exemptions for certain activities in the public interest. However, lack of aim in the national regulation means that results to be achieved are not clear as well. Moreover, national regulation lacks the description of the conditions under which VAT exemption is applied. Firstly, there is no implementation period defined. The transparency in terms of intervention aim and implementation period is an important element of good planning, since any unexpected changes would affect service providers and customers. Although it might be seen as a stable intervention currently, it is not prevented from the changes as any another intervention. For example, since 1996 when VAT exemption for certain social services has been introduced, the list of the subject which services are eligible to VAT exemption has been extended. Secondly, the amount of cost of the intervention implementation is not defined. The application of VAT exemption reduces to some extent income of the national budget which means intervention has its cost. To add, the planning of the intervention has some other shortages as not clearly defined service providers which services are subject to the tax exemption; there are limitations to apply the tax exemption to the social services provided by for-profit organisations.

Partial reimbursement of the rental price is relatively new intervention which was designed in order to better satisfy demand for housing assistance which cannot be met only by public housing stock. It was planned that part of the target group eligible for housing assistance will rent their dwellings from private landlords; and part of the rent price will be covered from municipal budget. However, the planning of the intervention did not take into account the demand for such assistance among the target group as well as private owner willingness to participate in abovementioned scheme. Thus, due to insufficient planning intervention fails to reach its objectives so far, even though the situation seems to improve, since a few new related interventions are discussed currently (including tax reduction for private landlords participating in the scheme and additional guarantees provided by municipalities)⁴⁶².

Regulation regarding a maximal subsidised price of short term / long term social care services is introduced in order to control public expenditure on the social care services. The maximal subsidised price of social

⁴⁶¹ Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax, Official Journal L 347/1

⁴⁶² Based on the information gathered during expert interviews

care services for various target groups is defined by each municipality based on the average prices of certain services, information on which is collected by the Department of Supervision of Social Services under the Ministry of Social Security and Labour. Service price by each service provider should be calculated according the formula which includes various indicators (from administrative personnel remuneration to medical expenses). However, in practice the expenditure of municipal / state-owned social care institutions is higher than declared price, since budgetary providers receive additional direct financing from the municipality or state which exceeds the official service price per customer. Thus, a maximal subsidised price regulation limits public expenditure in general only if social care services are provided by NGO or other privately-owned organisations that are awarded only a fixed price per customer.

2.17.2.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF SELECTED INTERVENTIONS

The most recognisable issue causing possible inefficiencies in Social care sector is the dominance of public providers which, among other reasons, is caused by uneven terms applied for private providers in comparison to municipal/state institutions. Existing interventions do not encourage real competition among providers, since decision either to directly finance budgetary institutions providing social services or to buy services in the market depends on municipality. That is, most of the municipalities prefer to finance existing municipal providers and to maintain long-established institutions alive, as private providers play more supplementary role joining the publicly subsidised market only if municipality is lacking particular capacities and make a decision to buy certain services in the market.

Significant amount of annual funds are allocated to finance running cost of the municipal/state-owned service providers (subsidy for provision of general social services (at social service centres or similar institutions), subsidy for the provision of services at day centres, subsidy for the service at long-term / short-term care institutions for elderly persons and adults with disabilities, subsidy for provision of care services at short-term and long-term care institutions for children, among other interventions). Although private entities (mostly NGOs) are participating in the delivery of the social care services, private providers willing to receive aforementioned interventions face different than public bodies technical requirements. That is, in order to receive public funding private entities should apply to special programmes (for example, subsidy for NGOs for provision of general and social support services is allocated during the project competition) or participate in public tenders while public institutions enjoy regular budgetary subsidy (with rare exceptions in the provision of social care services).

Moreover, annual budgetary financing of public providers is based on institutional needs rather than the number and quality of the services. Even if certain interventions are supposed to be financed according to the number of customers and actual expenditure, namely the compensation of fees for the service at long-term / short-term care institutions for elderly persons and adults with disabilities, usually municipal / state-owned service providers are awarded with more funds via the regular subsidy for the service at long-term / short-term care institutions for elderly persons and adults with disabilities. On the contrary, private providers can receive from municipal / state budget only the compensation of fees for the service at long-term / short-term care institutions for elderly persons and adults with disabilities.

The lack of competitive pressure has supposedly a negative effect on cost spend on the provision of the service, since publicly-owned service providers finally receive more budgetary funds for the same service than their private counterpart which public financing is strictly related to the type of services delivered and the number of customers served.

The situation is due to change to some extent while EU and national level documents promote active community involvement in social care service provision. Some social services are already in the process of transferring the provision of services (part of the services) from public to private providers as certain

financial interventions (for example, compensation of fees for the service at long-term / short-term care institutions for elderly persons and adults with disabilities) are equally available for both public and private suppliers. Current situation was mainly encouraged by the changes in service financing mode which has been changed by the national law from institutional to service approach and is based on agreements between municipality, care provider (either public or private) and client. The number of private providers in social care domain is slowly growing, even if the available public financing is scarce. However, in the areas where state does not impose any requirements for public funding equal availability, the attempt to maintain budgetary institutions dominate the social service provision market at the municipal level.

Another issue causing inefficiency is interventions' inability to meet the quantitative demand for the related services. However, it should be noted that the sufficiency of interventions varies within the service. For example, in terms of social care services, demand for long-term care is partially managed⁴⁶³, though supply of integral assistance as well as day social care should be increased in order to facilitate accessibility to the services for the target groups and their families.

Efficiency of the intervention aimed at the quality control of social care providers (regulation regarding licencing for social care institutions) is seemed to be average. Although all social care institutions have to acquire a licence, compliance with the standards might be only formal in some cases⁴⁶⁴.

Intervention's potential in terms of efficiency enhancement vary. There is lack of interventions aimed directly at the efficiency of current services while most of the funds are allocated to cover running costs of the social service provision. However, some interventions are designed with the same financial resources to service more customers than other interventions. For instance, proper complex care services provided at person's home is reducing to some extent the need of person's transition to social care institution thus increasing efficiency of the intervention by saving costs spend on social care among other advantages.

2.17.2.3 SUPPLY SIDE: ADDITIONALITY OF SELECTED INTERVENTIONS

Government commitment to finance general social services, social support services and social care are estimated to have a significant positive impact on the target group while it provides significant share of people facing difficulties due to a health condition, low incomes, family issues with essential help. Even though abovementioned services have quality related challenges, it addresses the basic needs of the target groups and assist their families in daily tasks.

Most of the interventions tend to have significant positive impact on the target group with only a few exceptions. Firstly, possible detrimental effects of the long-term institutional care on the persons emotional, physical, mental, and social development should be mentioned. For elderly people and adults with disabilities, long-term care intervention is harmful than provided too early. And of course, institutional care negatively affects development of children since it does not adequately provide the level of positive individual attention causing long-term issues in individual's development and social integration. Some interventions, namely subsidy for the service at long-term / short-term care institutions for elderly persons and adults with disabilities and subsidy for provision of care services at short-term and long-term care institutions for children, help to maintain massive inefficient institutions that lack of attention to the person and its particular condition causing the adverse effect on client development. Moreover, different persons with very similar conditions can be provided with different social services since there are no clear criteria

⁴⁶³ According to the municipal plans for social services

⁴⁶⁴ Based on the information gathered during expert interviews

for the selection of suitable service⁴⁶⁵ and municipalities may tend to use existing public providers of long-term social care instead to choose *lighter* forms of social support which are not developed sufficiently yet (for example, ESIF subsidies for provision of integral assistance services at the person's home is insufficient in order to meet actual demand; intervention is limited in time)

Secondly, an attempt to compensate financial unavailability of the proper social services for some people due to their geographical location or specific condition by providing family with additional benefits (compensation of unavailable social services) does not seem to reach its aims; benefits are too small either to acquire service in the market, or to compensate lost income for family carers.

In terms of housing assistance, impact on the target group seems to be only insignificant positive. Despite the fact that provision of social housing or assistance in acquiring private property is of crucial importance for people of low income groups, the significance and scope of positive impact is reduced due to unsatisfied demand for the service. Highest demand is for the intervention aimed at provision of municipal social housing. There are some attempts to reduce this unsatisfied demand and to increase the positive impact on the target group by providing them with an alternative to rent an accommodation in the market and to receive partial reimbursement of the rental price from the budget. However, the intervention (Partial reimbursement of the housing rental fee) is deemed to be unsuccessful so far since the number of customers benefiting from the intervention is much lower than it was expected. Some improvements of the intervention are under discussion currently⁴⁶⁶.

Most of the interventions are designed to achieve other outcomes than increase in productivity of private firms, size of workforce or capital investment. Only a few interventions are estimated to have insignificant positive impact on capital investment due to development of private infrastructure in order to acquire licence for short or long-term care for elderly people, addicted people and other target groups. On the other hand, licencing for social care institutions can have an adverse effect on private providers and prevent them from entering the market since existing requirements for personnel, infrastructure⁴⁶⁷ might be challenging for small entities⁴⁶⁸.

The subsidies for development of social housing stock (both ESIF and municipal/state budget) have a positive impact on the property developers and property owners. ESIF intervention aims at acquisition of the dwellings that number could be considered as noticeable in some smaller local real estate markets. Without ESIF investments, municipal/national expenditure on acquisition of social housing is lower, however insignificant positive impact remains.

The ESIF subsidies allocated to improvement of social services infrastructure also can be considered as public capital investment. However, it is an instantaneous impact.

⁴⁶⁵ Report of the National Audit Office of Lithuania "Do the social services for elderly people respond to the increasing needs?", 30 June 2015, No. VA-P-10-9-10

⁴⁶⁶ Based on the information gathered during expert interviews

⁴⁶⁷ for example, hygiene standards issued by Ministry of the Health set equal requirements for all care institutions not considering their size and specificity (Order of the Minister of the Health on the hygiene standard HN 125:2011, 10 February 2011, No. V-133 (LR sveikatos apsaugos ministro įsakymas dėl Lietuvos higienos normos HN 125:2011 "Suaugusiųjų asmenų stacionarios globos įstaigos: bendrieji sveikatos saugos reikalavimai" patvirtinimo) and other)

⁴⁶⁸ Based on the information gathered during expert interviews

2.17.2.4 SUPPLY SIDE: SIDE-EFFECTS OF SELECTED INTERVENTIONS

The interventions in Social care sector may have side effects on service provider behaviour as well as behaviour of target groups.

The unintended impact on the service providers and, therefore, the whole system is mainly caused by inefficient allocation of public funds. Since the size of the financial transfer under the regular financial interventions for public providers (subsidy for provision of general social services (at social service centres or similar institutions), subsidy for provision of services at temporary shelters, subsidy for the service at long-term / short-term care institutions for elderly persons and adults with disabilities, subsidy for provision of care services at short-term and long-term care institutions for children and similar interventions) is calculated based on the last year expenditure and the own estimates of the service provider, it has negative effect on the competitiveness of private providers the financial transfer for which is basically calculated based on the number of services provided. In some particular cases, it can even cause insufficient financing for private providers. For example, the access to direct budgetary funding and wish to maintain current capacities force public social care providers to officially sell their services cheaper than actual cost, compensating the difference from the subsidy for the service at long-term / short-term care institutions. At the same time, private providers are eligible only to compensation of fees for the service at long-term / short-term care institutions for elderly persons and adults with disabilities which maximal size is defined based on officially announced social care prices at different institutions (even though if announced prices do not include all expenses). Thus, private providers operate with less financial resources (from municipal/state budget) than their public counterparts, although the required standards for service provision are equal.

The lack of financial and infrastructure resources in Social care sector forces municipalities and public providers to use all available means in every occasion. ESIF subsidies for development of social services infrastructure is the main additional source of financing used by all municipalities, however, sometimes not considering the existing demand for particular services in particular location. Since measures under Operational Programme provide exhaustive list of relevant investments and target groups, sometimes municipality just follows the requirements and starts thinking about a necessity and real activities only after the project is implemented. It leads to uneven supply of social services across the country and to some extent underused infrastructure⁴⁶⁹.

The interventions have a number of side-effects on target groups, their families and overall society. The most recognisable positive side-effect due to the provision of interventions related to social support and care services is increased participation in the labour market of family members of disabled or elderly people receiving care. Some interventions, namely subsidy for the service at independent living home, subsidy for the provision of complex services at the person's home, or subsidy for the provision of services at day social care institutions, provide a necessary support for informal carers (mostly family members providing unpaid care) helping them to combine caring responsibilities with paid work. It can be difficult without the intervention for working-age carers to combine paid work with caring duties and they may choose to quit paid works or reduce the working hours.

However, despite their significant positive side-effects some interventions tend to encourage unintended detrimental behaviour of the target group. Some type of interventions can increase "dependency syndrome", that is recipients are becoming permanently dependent on social support. For example, temporary shelters, crisis centres, municipal housing or similar interventions can be considered as a "safe

⁴⁶⁹ Based on the information gathered during expert interviews

escape" by some recipients and they can lose inclination to improve their circumstances. Nevertheless, these negative side-effects raise a question of possible improvements, e.g. paying more attention for development of social integration skills of target groups or promoting *lighter* interventions aimed at support with daily tasks at persons home, rather than question the necessity of the interventions itself.

Another type of intervention that can cause some negative side-effects on target group behaviour is monthly allowance for persons/families who are taking care of incapable family members or children deprived from parental care (namely Monthly allowance for family carers and Monthly allowance for foster families). First intervention is supposed to substitute the lack of available social services with paid home-based care; and second one is designed in order to foster deinstitutionalization of children care considering that institutional care is, in most cases, harmful to children's development. However, some caregivers can be encouraged by the benefit rather than motivation to address the real needs of family member or child under care. It does not seem being a significant issue at the moment, because monthly allowance for family carers are limited and child care process is supervised by responsible institutions, however these possible negative side-effects of interventions should be taken into account during design and implementation phases.

2.17.2.5 DEMAND SIDE: IMPACT OF SELECTED INTERVENTIONS ON AFFORDABILITY OF THE SERVICE

Social care services are designed to ensure decent support for people who cannot take care themselves regardless of income. Moreover, eligibility for some of the interventions is means tested. For example, social housing or free meals supply is available only for persons/families whose assets are under a certain threshold. Most of the services are available for any person from the target groups defined according to their health condition, social status or age while fee paid by customer depends on his/her assets. A maximum price paid by customer receiving subsidised social services is regulated and, most commonly, part of the service price paid by the recipient is directly linked to the person's income. For instance, fee paid by customer for day social care services cannot exceed 20 to 30 percent of recipient's income (depending of family income); fee paid by customer for long-term social care cannot exceed 80 percent of the recipient's income, etc. This regulatory intervention along with existing benefits ensures the possibility for significant part of target group to use necessary social services, although, depending on the individual circumstances, some people still can face difficulties to afford the service or prefer other expenditure over the expenditure on social services.

However, affordability in terms of location may still be an issue. For people living in remote areas it can be difficult to get general social services, they can be prevented from receiving the services provided at day centres. Interventions as subsidy for the provision of home-based help services or subsidy for the provision of home-based day social care services increase accessibility to social services for those who has difficulties to leave home, but again for care personnel can be challenging or even impossible to reach clients in remote areas due to natural barriers (e.g. snow).

Another obstacle for some members of the target group to use the most relevant intervention is lack of information. Basically, information on social services is provided in various sources, but for some target groups it could be difficult to realise all available options of support and make a relevant decision accordingly. Lack of user friendly explanation on available interventions and their affordability prevents

target groups from the benefits of social care system. Especially it is important for elderly people or people with disabilities that are eligible for a wide range of interventions depending on their condition.⁴⁷⁰

2.17.2.6 CONSISTENCY OF SELECTED INTERVENTIONS

Few interventions in social care sector can be seen as contradicting as they undermine the impact of each other. The subsidy for the service at long-term / short-term care institutions for elderly persons and adults with disabilities contradicts to some extent the compensation of fees for the service at long-term / short-term care institutions for elderly persons and adults with disabilities. The maximal size of the compensation of the service fee is applied when municipality buys social care services from other municipalities or private providers. According to the resolution of the government⁴⁷¹, maximal subsidised price should be defined based on the average social care prices. However, social care prices announced and used by public providers usually do not cover all the costs as part of the fee paid by customer and compensation of the remaining part of the fee from municipal/state budget are not the only sources of funding for budgetary providers that receive also regular subsidy for the service at long-term / short-term care institutions for elderly persons and adults with disabilities. Such inconsistency reduces the transparency of the public funding as actual expenditure can greatly vary among different providers; and it reduces the potential of the regulation of the maximal subsidised price to act as a public expenditure planning and control tool.

Various direct subsidies from the state budget to NGOs for provision of general and social support services are intended to supplement municipal interventions aimed at provision of general and social support services for target groups. However, the fact that state will directly finance certain activities (for example, children day centres) prompt some municipalities to reduce subsidy for the provision of services at day centres or to redirect it to other target groups, although dedicated state support is insufficient and could be seen only as complimentary. Moreover, existence of two independent financial sources for the same activity complicates the policy planning and may lead to the overlap in financing or, as it was mentioned above, to leave important services underfinanced.

There are several types of interventions in social care sector that can replace each other. Interventions available to people with a serious health condition encompass home-based care services, day care services at day centres and short/long-term care in care institutions. Any of these interventions can be applied depending on the recipients or family's choice and be sufficient to satisfy daily care needs. Thus, these services can be considered as replacing each other in particular cases and, for instance, some people instead of using the institutional care may use the day care services, etc. This does not mean that one or another service is redundant, however, it suggests that better management of demand can help to increase the efficiency in the service provision, because home care services, for example, are significantly less resource demanding in comparison to institutional care.

Another example of interventions replacing each other is subsidy for the provision of care services at long-term/short-term care institutions for children and monthly allowances for foster families (from state and municipal budgets). Later interventions assist foster families taking care of child/children deprived from parental care and is supposed, together with other supplementing interventions, in medium or long term to replace the institutional care.

⁴⁷⁰ Report of the National Audit Office of Lithuania "Do the social services for elderly people respond to the increasing needs?", 30 June 2015, No. VA-P-10-9-10

⁴⁷¹ Resolution of the Government of the Republic of Lithuania on the methodology for financial allocations for social services, 10 October 2006, No. 978

2.17.3 CONCLUSIONS AND RECOMMENDATIONS ON THE GOVERNMENT INTERVENTIONS IN THE LITHUANIAN SOCIAL CARE SECTOR

The main objective of social services is to promote conditions for person (family) to develop social problem-solving skills and to facilitate social inclusion⁴⁷². The National Progress Programme for 2014-2020⁴⁷³ emphasizes the main social groups that need more attention and better services in order to strengthen social inclusion, namely children, elderly people, adults with disabilities and at-risk people or at-risk families. Social services, among other initiatives in labour market, educational policy, healthcare system, are seen as an important means to increase social inclusion of vulnerable people and to help them to cope independently. However, even though various initiatives have been implemented over the last decade, at risk of poverty of social exclusion rate remains high (30,1 percent)⁴⁷⁴ indicating the constant need for new approaches to social problems.

Social care sector is primarily regulated by the state. Municipal level is basically responsible for the implementation of social services. The social care sector is especially complex with variations in targets groups and organisations providing the services.

The system of the social services, including general services, social support services and social care services, is clearly defined in the national law.

However, despite the fact, that the European level and national strategic level documents emphasise the need to support independent life of vulnerable groups, national policy implementation documents do not indicate clear obligations for the municipalities to avoid too early interventions that could negatively affect individual's abilities. There are no detailed criteria defining social service choice neither in state-, nor in municipal-level documents⁴⁷⁵. Thus, the great proportion of the target groups still receives services at the care institutions or do not participate in the system at all (especially, elderly people and people with disabilities). That is, system seems to balance between the commitment to the existing old-style massive institutions, at the same time understanding that the future lies in the smaller, community-based services. Ongoing positive changes in terms of increasing variety of social services for families, growing numbers of community-based providers, new type of the services could be fostered if the goal to reduce institutional care would be accepted as overarching principle in state- and municipal-level policy documents and existing public funds (not only ESIF) were redirected toward that goal.

Currently, the public interventions are designed to maintain inflexible budgetary long-term care institutions. Budgetary institutions for elderly people and people with disabilities are often provided with better financial condition than their private counterparts. Even though each long-term care institution defines a service price calculated per customer, generally, budgetary care institutions, either established by state or municipalities, are funded additionally from the budget not considering their efficiency and the actual service price per customer.⁴⁷⁶ While at the same time private service providers receive only limited amount of public funds precisely calculated per customer (not exceeding the maximal social care price approved by the municipality). It means, the care services provided in any budgetary institution usually cost for the budget more than acquisition of the same services from the private providers. Certainly, private

⁴⁷² Law on social services, 19 January 2006, No. X-493 (LR socialinių paslaugų įstatymas)

⁴⁷³ Resolution of the Government of the Republic of Lithuania on the National Progress Programme for 2014-2020, 28 November 2012, No. 1482 (LR Vyriausybės nutarimas dėl 2014-2020 m. nacionalinės pažangos programos patvirtinimo)

⁴⁷⁴ Eurostat, 2016

⁴⁷⁵ Report of the National Audit Office of Lithuania "Do the social services for elderly people respond to the increasing needs?", 30 June 2015, No. VA-P-10-9-10

⁴⁷⁶ Based on the analysis of long-term care institutions financial documents and the information gathered during expert interviews

service providers of subsidised care services operate on very low cost and may face difficulties to increase quality of the services, but it shows also that there is still room for increase in efficiency of public expenditure in long-term social care subsector. In order to increase efficiency of long-term social care services and to ensure transparency of funding, public allocations for all licenced institutions, either budgetary or private, should be calculated based on the number of customers applying a fixed rate agreed between municipality and service provider (not exceeding maximal subsidised price defined by each municipality).

Most of the municipalities rely still mostly on its own resources in social service provision. The current situation is determined not only by the natural effort to maintain budgetary institutions, but also by the challenges related to the public procurement procedures. Except for the private long-term care institutions, that can receive compensations for service based on long-term agreements with the municipalities, other social services could be obtained from private organisations either by public procurement or project contests. Depending on the situation, purchase of social services from private providers can be attributed to two-fold problem. On the one hand, public procurement procedure and requirements prevents participation of smaller or new service providers, also almost eliminate the possibilities to propose innovative approach to the problems, since the terms of reference generally is very precise and the service provider is selected based on the cheapest offer. On the other hand, the same private service providers year after year receiving public funds and providing subsidised services become similar to the budgetary institutions losing flexibility, efficiency, and, maybe, even quality.⁴⁷⁷ In order to exploit advantages of NGO sector and to boost variety and quality of social services provided for inhabitants, municipal administrations should think on the new ways to obtain social services in the market. Some of these improvements could be public procurement procedure based on the best quality and price ratio as well as medium-term agreements for the social service provision (covering a period of more than one year) which would let to attract new providers and increase competition in the market.

All of the interventions in the social care sector are designed to contribute to social inclusion goals. Therefore, all of the analysed interventions have a positive impact on the target groups to some extent. However, aforementioned issue of excessive reliance on institutional care causes lower positive effect on the related target groups than it would be possible to achieve providing better adjusted services. In order to increase positive impact on target groups, it is necessary to promote the interventions aimed at social support provision during the day (at home or day institutions). Additional amount of funds for this type of social services can be saved by increasing efficiency of long-term care services (firstly, in terms of budgetary institutions) and reducing the share of the people in the institutional care. Further development of day service provision would cause win-win situation since target group is provided with services that helps to maintain or even increase their independence level and the budget saves funds that, in other case, would be spent on expensive long-term care services. Equally, children care in foster families and related interventions are significantly cheaper in comparison to institutional care. And most importantly, the care in the family allows to avoid institutional care and its detrimental impact on child's development.

Accessibility to social services could be also be fostered by improving consistency among different sources of financing. At the moment, provision of social services is mostly managed by municipalities and publicly financed either direct from municipal budget or using special state subsidy for people with severe disabilities transferred to the municipalities. Additional ESIF funding is provided usually for development of infrastructure or improvement of the service quality and is in line with national funding. However, at the same time there are some state-level programmes aimed at continuous support to certain services that considered to be under the responsibility of municipalities. Direct state support programmes, for example, children day centres programme, bring some new services to the local level without deeper consideration

⁴⁷⁷ Based on the information gathered during expert interviews

of particular context. That can lead to inefficient use of the public resources since there are few sources financing the same activity and lack of coordination. Moreover, there is a tendency to reduce municipal spending on children day centres, knowing that basic support will be provided by the state anyway.⁴⁷⁸ Since provision of social services is function of municipality, it would be logical decision to involve municipal bodies in the process of additional state funds allocation for service providers.

Several initiatives are currently under way to better meet the demand for social housing. The long-lasting reliance on municipality-owned social housing failed to satisfy existing needs. The waiting-lists in municipalities are much longer than the available stock of municipality-owned housing. In order to reduce waiting time and to provide target group with decent housing, few years ago new intervention aimed at partial reimbursement of the housing rental fee was introduced. It might be a good initiative to effectively reduce unsatisfied demand, however the implementation of the intervention has not started as smoothly as it was expected. Among other reasons, significant issue is landlord's unwillingness to legalise incomes, legal requirement to register the rental agreement in the official register, and so on. With some more involvement of municipalities, the number of rental agreements is growing, but still not enough to significantly affect the demand and supply balance of social housing. In order to foster the process, some additional inducement should be considered (including possible tax reductions or formation of municipal funds of rented apartments that are already discussed as possible alternatives).

To sum up, the interventions in social care sector seem to be planned according to the basic needs of the target groups and having in mind the strategic goal to increase variety and supply of community-based, individually oriented services. However, institution-based approach is still dominating the service provision market at the implementation level. Massive service providers, inflexibility in terms of eligible users (one-type target group oriented institutions) hinder efficient use of limited public funds. In response to the growing demand of social services, caused, firstly, by the aging society, the greater emphasis on flexible, customer-oriented interventions is needed.

⁴⁷⁸ Based on the information gathered during expert interviews

2.17.4 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

This chapter presents the analysis of the potential for the implementation of financial instruments in the four Lithuanian Social care sector's services selected for the in-depth analysis:

- General social services;
- Social support services;
- Social care services;
- Housing assistance.

2.17.4.1 GENERAL SOCIAL SERVICES

TABLE 268. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN GENERAL SOCIAL SERVICES

Criteria	FI potential
Pricing system	Consumer-paid, regulated (Low cost coverage, affordability concerns)
Regulatory/governance Framework	Mixed public/private (Public share 34-66% of the market)
Market potential	Potential development of (more) paid services
Accountability	Lack of strategic objectives
Capacity	Transfer of parts of service (ongoing) - no lack of resources for transition

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by relevant authorities. Consumer payments cover a small share of total annual costs for service provision, up to 25 percent (regulation regarding a maximum price paid by customer receiving subsidised social services is applied). Currently, no significant additional revenue is generated.

Although the service is provided to all income groups, considering the objectives of the service (e.g. consultations on social benefits or free meals), the biggest part of consumers is from low-income groups. Middle and high-income groups do not suffer from lack of consumption since most of the services are not relevant for those or are available in the market (e.g. psychologist consultations).

REGULATORY AND GOVERNANCE FRAMEWORK

Service is provided mainly by municipal bodies (each of the 60 municipalities has a social centre, which may have other several distant centres). Provision of the service is financed from municipal budget mainly and funding goes firstly to budgetary institutions. Private entities are also present providing these services in form of 250 centres run by NGOs (especially in the area of child services, as well as psychological support for families).

Major obstacle to enter the market for private entities is linked to the gratuity (or very low prices for consumers) of the service. Therefore, NGOs are used (and financed) only as supplementary providers with few exceptions (services from the NGOs can be obtained by the public tender procedure or NGO's are

eligible for the subsidy for NGOs for provision of general and social support services financed by the state or municipality).

MARKET POTENTIAL

Service provision targets specific groups (e.g. elderly persons, adults with disabilities, children with disabilities, at-risk families, at-risk adults, children who lost parental care). Market share of public providers is 34-66 percent.

Additional revenue could be generated by introduction of paid services, i.e. utilising current infrastructure and human resources for provision of auxiliary services.

ACCOUNTABILITY

In the policy level, there is a lack of general strategic objectives (with minor exceptions regarding separate groups or types of interventions). However, short- and long-term objectives are consistent and operational objectives and targets are clearly defined.

CAPACITY

The service complies with qualitative standards.

There are currently considerations about transferring parts of the service provision to private partners. The process is ongoing and aims at services for groups such as families and at-risk persons, transferring these services to specialised private providers (ESIF subsidies for work with families). However, the degree of liberalisation varies greatly from one municipality to other. Related changes are already in place to perform such transfer and no resources are lacking for carrying a smooth transition.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Although consumer payments cover only a small share of total annual costs for service provision, considering the ongoing process of liberalisation, combined with the international experiences of applicability of FIs in the sector, the service can present some space for introduction of FIs. Development of paid auxiliary services utilising the current infrastructure and human resources could be aimed as means to generate additional revenue and further increase potential for FIs introduction.

The following box presents international experience of financing through FIs, illustrating the possible applications of funding to private providers involved in general social services. Such viability depends on the availability of projects/entities able to provide services and generate sufficient revenue for FIs repayment.

Germany - Mikromezzaninfonds - mezzanine capital through silent partnerships; Targets are enterprises: 1) led by disadvantaged people, women, migrants or unemployed 2) with a social or ecological mission. Main results: 1 781 enterprises have been supported with EUR 74.5 million; 7 775 jobs have been secured; 35% are social enterprises.

Italy - JEREMIE ESF Lombardy region: Microcredit Loan for developing the capital of cooperatives, combining public and private resources. Targets are: health, social and educational services; disadvantaged people in finding jobs. Main results: EUR 31.4 million invested; 7 850 final recipients; 4 291 disadvantaged people; 526 cooperatives capitalised; Leverage 3.9x. Example of project funded: Farsi Prossimo Onlus, a social cooperative that provides health and educational services in the region. 200 000 euros in microloans through JEREMIE ESF were provided, used to support new mothers in disadvantaged conditions with material and psychological services.

2.17.4.2 SOCIAL SUPPORT SERVICES

TABLE 269. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN INTENSIVE SUPPORT SERVICES

Criteria	FI potential
Pricing system	Consumer-paid (Low cost coverage, affordability concerns)
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)
Market potential	Low potential for additional revenue
Accountability	Strategic objectives are defined, however ongoing activities may lack consistency to some extent
Capacity	Transfer of parts of service (ongoing) – Lack of funding and training

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by relevant authorities. Consumer payment covers a small share of total annual costs for service provision, between 0 and 25 percent (regulation regarding a maximum price paid by customer receiving subsidised social services is applied). Currently, no additional revenue is generated.

REGULATORY AND GOVERNANCE FRAMEWORK

Service is provided mainly by the municipal bodies social centres. Provision of the service is financed from municipal budget mainly and funding goes firstly to budgetary institutions. There are 21 independent living homes (incl. NGOs); 25 temporary shelters; 47 crisis centres (incl. NGOs), more than 300 day centres for various target groups (children, elderly people, others). NGOs are present mainly providing services for at-risk families and their children. Major obstacle to enter the market for private entities is linked to the low prices or free provision of the service and limited public financing. Main source of financing is regular subsidies for public service delivery (budgetary financing). The public funds are allocated firstly to public service providers while NGOs and other private providers plays more supplementary role with some exceptions in provision of services in children day centres or similar services (services from the NGO's can be obtained by the public tender procedure or NGOs are eligible for the subsidy for NGOs for provision of general and social support services financed by the state or municipality)

MARKET POTENTIAL

Service provision targets specific groups (e.g. elderly persons, adults with disabilities, at-risk families and their children, at-risk adults, children deprived from parental care). Market share of public providers is above 66 percent. The potential for generation of additional revenue is low (for instance, day centres for children from at-risk families providing general activities, related to out-of-curriculum time, could additionally provide paid services for those non- at-risk families that need child-care services).

ACCOUNTABILITY

In the policy level, the general strategic objective is to increase variety and supply of social support services. Short- and long-term objectives are consistent and operational objectives and targets are clearly defined.

CAPACITY

The service meets basic qualitative standards. However, often due to lack of resources (both insufficient investment and lack of human resources), some of the needs of beneficiaries cannot be met.

There are currently further considerations about transferring parts of service to private partners. National-level strategies encourage broader involvement of community organisations and volunteers in the service provision, especially emphasising home-based help services. Related changes are already taking place to promote such transition, although funding and training resources are lacking in order to promote a smooth process. The high share of funds under such interventions as subsidy for the provision of home-based help services or subsidy for social support services for dysfunctional families is still attributed to the public providers; NGOs are used as supplementary capacity.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

The consumer payments cover only a small share of total annual costs for service provision and participation of private entities in service delivery is moderate (except some particular social support services like children day centres, most of which are run by NGO's). Although transfer of service delivery to private providers is being considered, prior conditions are insufficient (in terms of funding and training). Therefore, space for introduction of FIs is still limited.

Increasing efficiency of service delivery, through regulation, investment and training can be applied in order to achieve revenue generation and, therefore, create/expand potential of FIs introduction:

2.17.4.3 SOCIAL CARE SERVICES

TABLE 270. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN SOCIAL CARE SERVICES

Criteria	FI potential
Pricing system	Consumer-paid, regulated (Low cost coverage, affordability concerns)
Regulatory/governance Framework	Mixed public/private (Public share up to 66% of the market)
Market potential	Low potential for additional revenue
Accountability	Strategic objectives are defined, however ongoing activities may lack consistency to some extent
Capacity	Transfer of parts of service (ongoing) – no lack of resources for transition

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by relevant authorities (regulation regarding a maximal subsidised price of short term / long term social care services is applied). Consumer payment cover a small share of total annual costs for service provision, between 0 and 25 percent (exact percentage vary depending on the particular service, for instance elderly people care is covered by the customers more than 30 percent (depending on institution), on the other hand, care of children deprived from parental care is free of charge at consumer level) (regulation regarding a maximum price paid by customer receiving subsidised social services is applied). Currently, only small additional revenue is generated, basically from the rent of facilities.

REGULATORY AND GOVERNANCE FRAMEWORK

Service is still dominated by state and municipality-owned institutions (70 public care institutions for children, 50 public care institutions for elderly persons, around 40 care institutions for adults with disabilities), even though private providers are playing an important role as well. Private entities are present in the market providing social care services for all target groups (20 NGOs' care institutions for children, 50 NGOs' care institutions for elderly persons; other 20 care institutions for drug/alcohol addicted persons, among NGOs' and public ones).

Major obstacle to enter the market for private entities are the high fixed costs and legal/administrative restrictions imposed by state/municipal body (regulation regarding licencing for social care institutions defining quantitative and qualitative requirements for service providers). Public financing of private service providers (compensation of fees for the service at long-term / short-term care institutions for elderly persons and adults with disabilities) is usually lower than financing of their public counterparts (subsidy for the service at long-term / short-term care institutions for elderly persons and adults with disabilities).

MARKET POTENTIAL

Service provision targets specific groups (e.g. elderly persons, adults and children with disabilities, children deprived from parental care). Market share of public providers is between 34 and 66 percent.

The potential to generate additional revenue is low. The provision of auxiliary services for certain target groups (firstly, elderly people) could be introduced, however, customers capacity to pay additionally is limited.

ACCOUNTABILITY

In the policy level, there is a lack of general strategic objectives (with minor exceptions regarding separate groups or types of interventions). However, short and long-term objectives are consistent and operational objectives and targets are clearly defined.

CAPACITY

There are currently considerations about transferring the whole service provision to private partners, considering that a significant number of private entities already provide social care services. Related changes are already in place (e.g. intends to change allocation of public resources from institution-based to number of costumers -based: regulation regarding a maximal subsidised price of short term / long term social care services). No resources are lacking in order to promote a smooth transition. However, wish to maintain budgetary institutions at any cost impedes the development of more efficient social care system.

The service meets only partially the qualitative standards. Care institutions do not always ensure the basic standards of living environment; in some cases, institutions are lacking resources or willingness to provide customers with proper socio psychological support. Main reasons for partial quality of the service are linked to poor maintenance, lack of human resources and incentives.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Consumer payments cover a small share of total annual costs for service provision and there is currently no foreseen potential for generation of additional revenue or potential is low. Even though a transfer of service delivery to private entities is currently ongoing, there is no foreseen potential to increase revenue generation in the most of the services. Therefore, the potential for introduction of FIs is considered to be low.

FIs application in the area, as demonstrated on the first service evaluated (General social services), is found in international experiences. However, it clearly depends on the capability of generate sufficient returns, not yet foreseen for this service.

2.17.4.4 HOUSING ASSISTANCE

TABLE 271. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN HOUSING ASSISTANCE SERVICES

Criteria	FI potential
Pricing system	Consumer-paid (Low cost coverage, affordability concerns)
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)
Market potential	Potential for cost reduction
Accountability	Performance framework
Capacity	Standards not met

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by relevant authorities. Consumer payments cover a small share of total annual costs for service provision, up to 25 percent (except for the mortgage loan which are paid by the consumer after the public funds cover 10 or 20 percent of the loan). Currently, no additional revenue is generated.

REGULATORY AND GOVERNANCE FRAMEWORK

Service is dominated by municipal institutions due to the high fixed costs, with the minor exception of private owners renting dwellings for the target group (400 families receiving partial reimbursement of the housing rental fee) and financial institutions (5 financial institutions, around 100 mortgage loans per year) issuing mortgage loans for the target group (eligible to the partial reimbursement of the mortgage loan).

MARKET POTENTIAL

Service provision targets specific groups, i.e. persons (families) on low incomes who do not possess accommodation / accommodation is in very poor condition / area (in sq. meters) provided for each family member does not meet requirements (basic requirements; additional requirement apply depending on intervention): around 10000 families living in the social housing and around 13000 families on the waiting list⁴⁷⁹, around 400 families renting housing in the market (with the compensation)⁴⁸⁰, around 100 families per year receiving partial reimbursement of mortgage loan⁴⁸¹.

Public providers represent more than 66 percent of the market.

⁴⁷⁹ According to the information provided by the Ministry of Social Security and Labour on July, 2017

⁴⁸⁰ Based on the information gathered during expert interviews

⁴⁸¹ appr. calculation according to the information provided by the Ministry of Social Security and Labour on July, 2017

Additional revenue can be generated through reducing of costs. Municipal administrations tend to build new blocks of dwellings or renovate old buildings to increase availability of social housing instead of buy ready dwellings in the market. According to the State Control analysis, acquisition of dwellings in the market would save part of the funds which could be then used for acquisition and rental of more dwellings.

ACCOUNTABILITY

Information is available on the context of intervention. Short-term objectives are clearly defined and targets are available.

CAPACITY

There are currently no considerations about transferring provision of social housing to private entities. However, it is growing the share of housing which is rent by the target group in the market from private landlords, as municipalities reimburse part of the rental fee. Responsible bodies face struggles in terms of capacity, related to management of assets and planning for service delivery (regarding to decisions of which are the best methods to acquire and provide properties for social housing).

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Consumer payments cover a small share of total annual costs for service provision and delivery is highly centralized. Thus, potential for introduction of FIs is considered to be low. Reduction of costs through changes in the forms of providing social housing (from building of new housing stock to acquisition of existent dwellings) could generate additional revenue.

Nevertheless, various experiences are found internationally in the applicability of FIs, specifically focused on the retrofit and energy efficiency of dwellings destined to social housing. Such approach can be considered in this specific aspect of the service, as means of energy savings, which on its turn enable viability for FIs.

2.18 CROATIA: SOCIAL CARE

2.18.1 GENERAL OVERVIEW OF THE GOVERNMENT INTERVENTIONS IN THE SECTOR

There are two broad groups of objectives in the Social care sector in Croatia. The first one embraces assurance of social security for the vulnerable adults⁴⁸². Measures include securing infrastructural base as well as assuring quality of the services and expanding the network of social services. The second broad aim is to promote social inclusion of the vulnerable children ⁴⁸³. Therefore, policy is aimed at deinstitutionalisation of children care services and transferring responsibility to non-institutional forms of care.

The scope of the sector amounts to 4 public services identified. The list of all sector's services and their respective aims is provided in the table below.

TABLE 272. CROATIAN SOCIAL CARE SECTOR'S SERVICES AND THEIR OBJECTIVES

Service title	Aim of the service
Institutional social care services for elderly persons and persons with disabilities	To provide institutional social care services for elderly and disabled persons
Home-based help services	To provide home-based assistance to elderly persons and persons with disabilities
Institutional social care services for children	To provide care for children without parental care, children with special needs
Financial assistance	To provide benefits in form of guaranteed minimum contribution for persons and families on low income

Source: BGI Consulting et al, 2017.

Social care sector's services provide different forms of social support for different target groups in Croatia. Out of the four services in the Social care sector, three are aimed at ensuring the general daily and care needs for children and people facing disability as well as age-related difficulties (institutional care and home-based help). While financial assistance is aimed at providing persons and families with minimum incomes.

2.18.1.1 RATIONALE OF THE PUBLIC SERVICE PROVISION IN THE SECTOR

The scheme below disassembles the logic of the overall governmental interventions in the Social care sector in Croatia. It starts with the rationale of the provision of the services by the public sector, then indicates

⁴⁸² Plan of Deinstitutionalization and Transformation of Social Welfare Homes and other Legal Entities which Provide Social Welfare in the RC between 2014 and 2016 (2018) (<http://www.mdomsp.hr/UserDocsImages/djeca%20i%20obitelji/plan-DEINSTITUCIJALIZACIJE.pdf>)

⁴⁸³ Plan of Deinstitutionalization and Transformation of Social Welfare Homes and other Legal Entities which Provide Social Welfare in the RC between 2014 and 2016 (2018) (<http://www.mdomsp.hr/UserDocsImages/djeca%20i%20obitelji/plan-DEINSTITUCIJALIZACIJE.pdf>)

services corresponding to that particular rationale. Services are classified not only by the rationale they correspond to, but also by a body, which is responsible for the provision of them. Other governmental interventions are attributed to services in relation to which they are implemented. The service and its corresponding interventions are painted in the same colour.

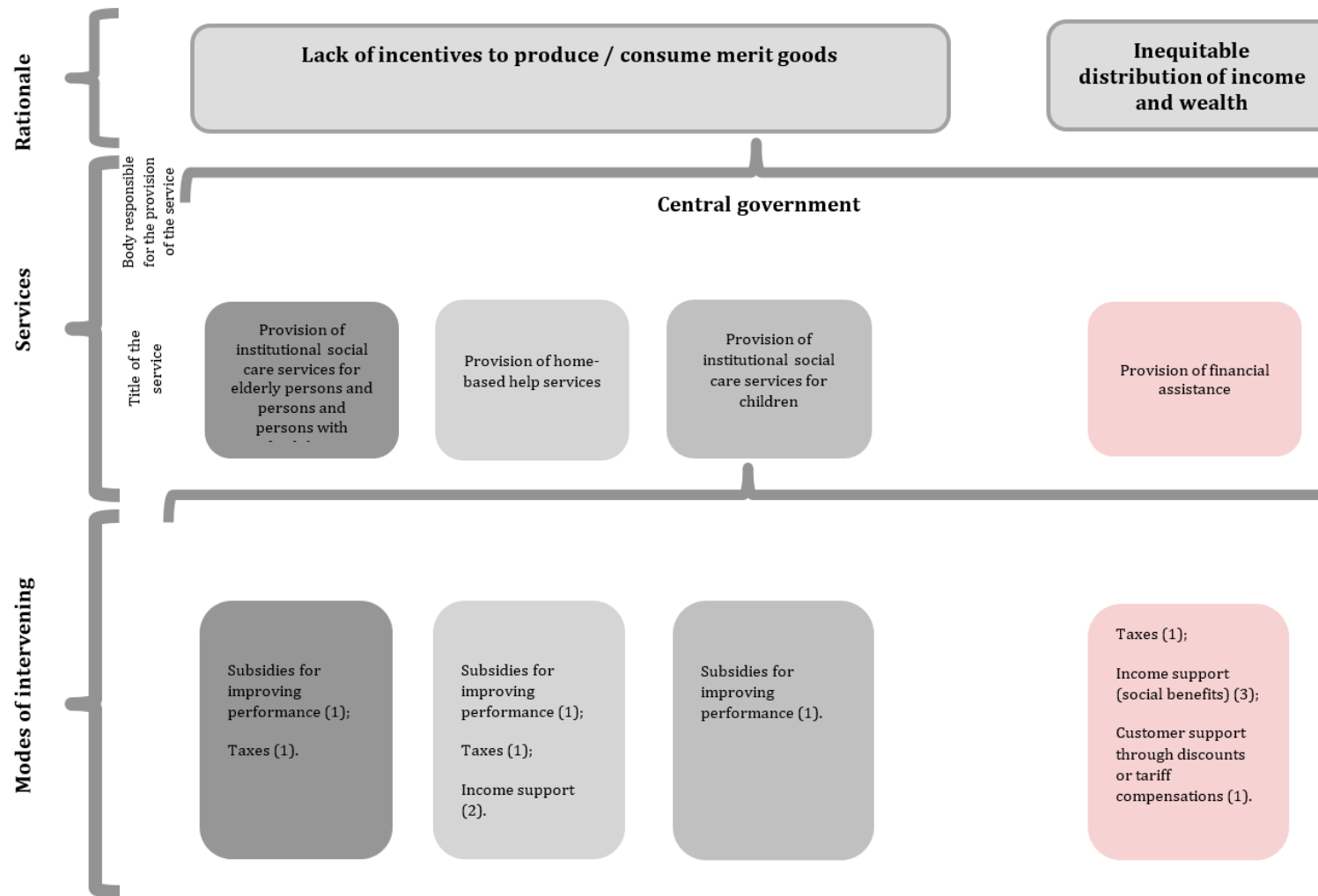


FIGURE 86. LOGIC OF INTERVENTIONS IN THE CROATIAN SOCIAL CARE SECTOR

Source: BGI Consulting et al, 2017

There are two rationales in regard to provision of social care services in Croatia.

Lack of incentives to produce or consume merit goods is behind the provision of institutional social care services for elderly persons and persons with disabilities, institutional social care for children and home-based help. Daily social support at care institutions or person's home is considered as a merit good firstly because part of the target group not necessarily know the specific private benefit to them of getting support and social integration services, thus without government intervention the service would be under consumed. Secondly, consumption of these social services generates external benefits to others, namely family members and society at large.

Inequitable distribution of income and wealth causes the need of social benefits for persons and families on low-incomes or not able to earn an income at all.

2.18.1.2 LEVEL OF LIBERALIZATION OF THE SERVICES PROVISION

The public services in the Social care sector were ranked according to the level of liberalisation in their provision in the figure below.

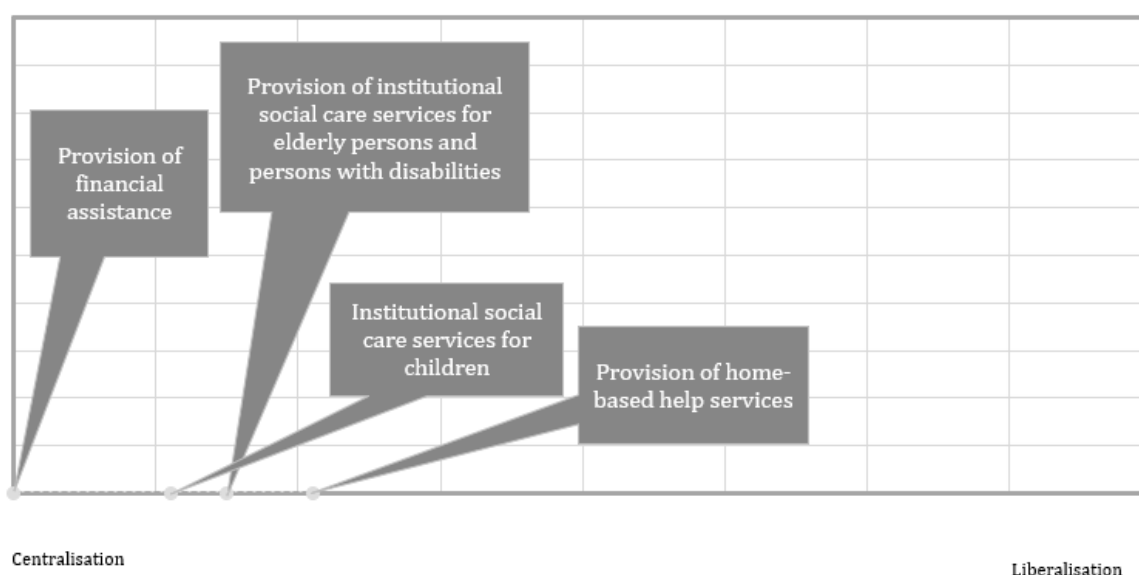


FIGURE 87. SUPPLY SIDE OF THE CROATIAN SOCIAL CARE SECTOR SERVICES

Source: BGI Consulting et al, 2017.

Provision of financial assistance turns out to be the most centralised service in the sector. It is aimed at persons and families with inadequate funds to cover their basic needs. The service is delivered by governmental or municipal institution directly.

Provision of home assistance services are provided at the most liberal mode in the sector. The service is provided by municipalities-owned entities that occupy 1/3 to 2/3 of the market, leaving room for private entities, too.

2.18.2 ANALYSIS OF SELECTED INTERVENTIONS

The figures provided below depict the mechanism for the analysis of each service selected. For each service, there is a name of it provided, body(s) responsible for policy formation and its provision. Graphs in light red indicate service providers and group they are targeted at. Second part of the paragraph provides services' comparison in terms of finances they are provided with.

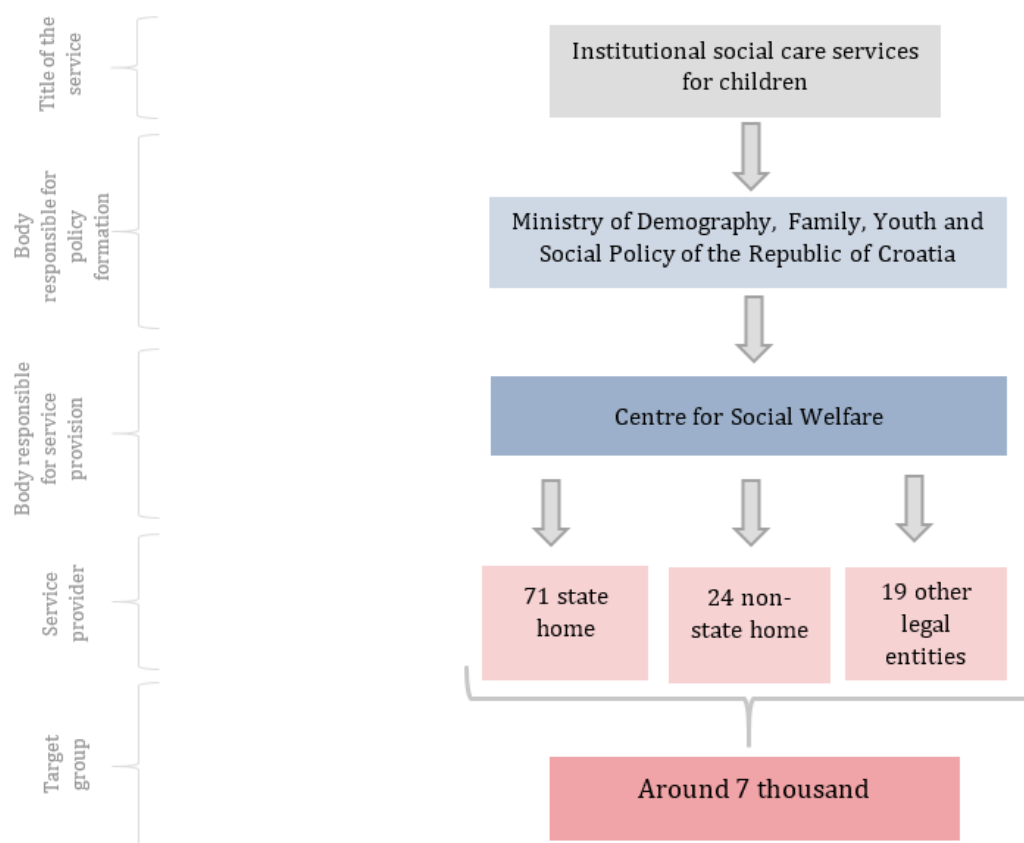


FIGURE 88. INSTITUTIONAL SOCIAL SERVICES FOR CHILDREN PROVISION MECHANISMS IN SOCIAL CARE SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

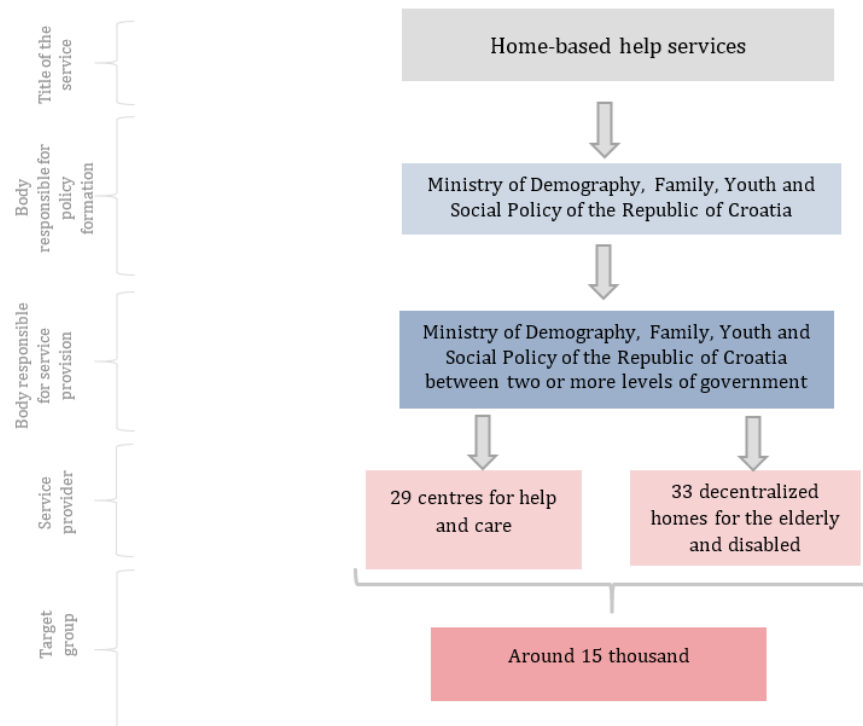


FIGURE 89. HOME-BASED HELP SERVICES PROVISION MECHANISMS IN SOCIAL CARE SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

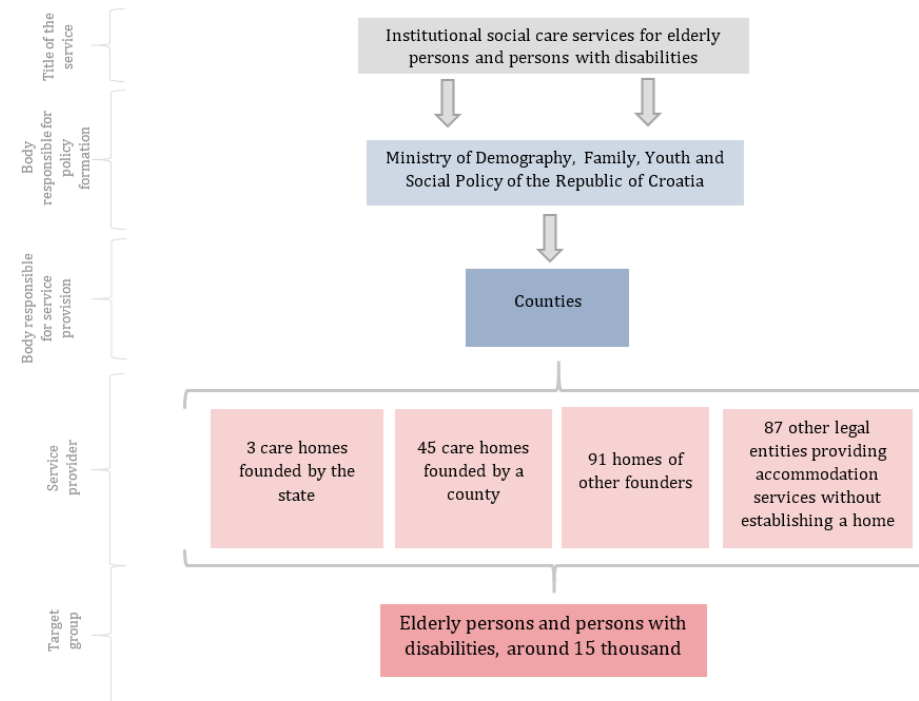


FIGURE 90. INSTITUTIONAL SOCIAL CARE SERVICES FOR ELDERLY PERSONS AND PERSONS WITH DISABILITIES PROVISION MECHANISMS IN SOCIAL CARE SECTOR IN CROATIA

Source: BGI Consulting et al, 2017.

In terms of financing, institutional social care services for children are the largest among the services selected for further analysis in Social care sector in Croatia. The service receives around EUR 85 million annually. Institutional social care services for elderly persons and persons with disability also receives much state's attention in terms of financing amounting to roughly EUR 40 million annually. For home-based help services is allocated roughly EUR 2 million annually.

2.18.2.1 SUPPLY SIDE: QUALITY OF PLANNING OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Quality of planning of the services was evaluated by examining how clearly the long-term (i.e. policy) and the short-term (i.e. operational) objectives of the services were defined and how compatible they are among themselves.

TABLE 273. QUALITY OF THE PLANNING OF THE SOCIAL CARE SECTOR SERVICES IN CROATIA

Name of the service	The long-term policy objectives are clearly defined	The short-term operational objectives are clearly defined	The long-term and short-term objectives are non-contradictory	Quality of planning of the service
Institutional social care services for elderly persons and persons with disabilities	×	×	√	AVERAGE
Home-based help services	×	×	√	AVERAGE
Institutional social care services for children	√	√	√	GOOD

Source: BGI Consulting et al, 2017.

The planning of sector's services selected for further analysis was estimated to be of average/good quality.

In terms of children care services, policy is aimed at deinstitutionalisation of children care services and transferring responsibility to non-institutional forms of care (families). Long-term and short-term objectives are both defined (even though sometimes it lacks clarity) and no contradictions were found between them.

However, long and short-term objectives are not clearly enough defined in cases of home-based help services and institutional social care services for elderly persons and persons with disabilities. Nevertheless, policy directions provided in both strategic and operational level documents do not contradict to each other.

Quality of planning of the service related interventions was evaluated by examining how clearly the implementation period, costs of implementation, foreseen revenue, management and delivery standards and expected results were defined and whether the overall demand for the related service was taken into account when planning the related interventions.

TABLE 274. QUALITY OF THE PLANNING OF THE SOCIAL CARE SECTOR SERVICES RELATED INTERVENTIONS IN CROATIA

Name of the services	Name of the related GI	GI implementation period defined	Types of costs and amount of costs of GI implementation defined	Foreseen amount of revenue of the implementation of the GI defined	Management and delivery standards of GI implementation defined	Results of the implementation of the GI to be achieved defined	The overall size of the demand of the related service is taken into account	Quality of planning of the GI
Institutional social care services for elderly persons and persons with disabilities	Subsidy for the provision of institutional social care for elderly people and people with disabilities	×	√	N/A	√	×	√	AVERAGE
	Tax reductions for persons in employment with adult dependants	×	√	N/A	√	×	√	AVERAGE
Home assistance	Subsidy the provision of home-based help services	×	√	N/A	√	×	√	AVERAGE
	Tax reductions for persons in employment with adult dependants	×	√	N/A	√	×	√	AVERAGE
	Partial reimbursement of the electricity bill	×	√	N/A	√	×	√	AVERAGE
	Monthly allowance for persons with disabilities	×	√	N/A	√	×	√	AVERAGE
Institutional social care services for children	Subsidy for the development of infrastructure of long-term care institutions for children	√	√	N/A	√	√	√	GOOD
	Subsidy for the provision of institutional social care for children	×	√	N/A	√	×	√	AVERAGE

Source: BGI Consulting et al, 2017.

There were 7 service related interventions identified in Social care sector in Croatia. All interventions are substantive and do not relate to all other sector's services. All but one instances, services in the sector are planned similarly; they don't have implementation period defined and usually they are initiated by a law continuity of which depends on a political decision. Interventions do not have results to be achieved defined, however costs of their implementation are clear and size of the demand taken into account.

Only subsidy for development of infrastructure of long-term care institutions for children is planned well. In regard to this intervention all criteria pointed out are defined.

2.18.2.2 SUPPLY SIDE: EFFICIENCY OF THE DELIVERY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

TABLE 275. EFFICIENCY OF THE DELIVERY OF THE SOCIAL CARE SECTOR SERVICES IN CROATIA

Name of the service	The overall demand of the service is met by the overall supply	The public service complies with the qualitative standards	There are existing private entities providing similar services in the market	Private entities occupy 34 percent or more of the service provision market	Private entities providing similar services in the market can compete on equal terms with the public providers	Efficiency of the delivery of the service
Institutional social care services for elderly persons and persons with disabilities	×	√	√	×	×	LOW
Home-based help services	×	√	√	×	×	LOW
Institutional social care services for children	√	√	√	×	×	MEDIUM

Source: BGI Consulting et al, 2017.

Institutional social care services for elderly and disabled as well as home-based care services' efficiency were estimated to be low. The main issue attributed to these services is their incapability to meet the overall demand. Also, the service provision market is dominated by public providers, especially in terms of long-term care services for elderly persons and persons with disabilities. In later case, high fixed costs such as infrastructure or R&D investments comprise the major obstacle for the private entities to enter the market. Moreover, even though private and public entities face the same legal and technical requirements in terms of the service provision, publicly-owned care institutions are subsidised by the state that makes their price significantly lower in comparison to what would the price be on the market. Therefore, it means that customers cannot choose between public and private providers equally.

Efficiency of the provision of institutional social care services for children is estimated to be medium. Contrary to the other two services in Croatian social care sector, long-term children care service meets the overall demand. On the other hand, efficiency of the service can be questioned since service provision market is dominated by state-owned entities, even though there exist also some private providers, such as certain religious organisations. There are two major obstacles for private providers to expand their operation in this market, namely high fixed costs as well as legal and administrative restrictions imposed by the state or municipal body. Moreover, this service is specific in nature and customers i.e. children can't choose between the providers.

There are considerations about deinstitutionalisation of children care and transferring at least part of the service to the private carers. The changes related to the transfer have already taking place, however funding, staff and training are lacking for the transition to be smooth. However, regarding institutional social care services provided for the elderly and home service, there are no considerations about either transferring the service or their parts to private partners or changing the mechanism for funding.

2.18.2.3 SUPPLY SIDE: ADDITIONALITY OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

Social care services have a positive impact on the target groups while it provides significant share of people facing difficulties due to a health condition, low incomes, family issues with essential help. On the other hand, the mode of the service delivery can cause detrimental effects on target group. That is the case of institutional children care that has the negative impact on children's health, development and wellbeing that can be avoided promoting family-based alternative care.

The positive impact on the target groups can be also diminished due to service implementation issues. For example, despite the fact that provision of home-based help and social care services is of crucial importance for elderly persons and persons with disabilities who cannot cope by themselves the significance and scope of positive impact is reduced due to unsatisfied demand for the service.

Most of the services and service related interventions are designed to achieve other outcomes than increase in productivity of private firms, size of workforce or capital investment. Only a few interventions are estimated to have insignificant positive impact on capital investment due to development of social care infrastructure. However, it is a momentous impact associated with project implementation phase.

Services in question have also positive impact on the employment though insignificant. Although social care sector is labour intensive, the service related interventions subsidise workplaces necessary to maintain current level of service provision rather than new services, thus the increase in a number of the jobs in the sector is limited. On the other hand, for example subsidy for the provision of home-based help services is distributed among private providers (NGOs and private entities) and contribute to growth of employment in private sector.

To sum up, outcome additionality for overall economy is insignificant, nearly non-existent. At the same time, outcome additionality for targeted groups is significant as services and service related interventions ease access to the social support for the most vulnerable groups.

2.18.2.4 SUPPLY SIDE: SIDE-EFFECTS OF THE SERVICES AND SERVICE RELATED INTERVENTIONS

The social care services and service related interventions have a number of side-effects on target groups, their families and overall society. The most recognisable positive side-effect due to the provision of home-based help services and care services for elderly persons and persons with disabilities is increased participation in the labour market of family members of disabled or elderly people receiving care. Subsidies for these services provision provide a necessary support for informal carers (mostly family members providing unpaid care) helping them to combine caring responsibilities with paid work. It can be difficult without the intervention for working-age carers to combine paid work with caring duties and they may choose to quit paid works or reduce the working hours which is harmful to the wellbeing and future of the caregiver.

However, despite their significant positive side-effects some interventions tend to encourage unintended detrimental behaviour of the target group. Some type of interventions can increase "dependency syndrome", that is recipients are becoming permanently dependent on social support. This issue is mostly associated with institutional children care which has been shown to be damaging for child development since children living in institutional care often do not develop social networks or skills that are essential in adulthood. Nevertheless, these negative side-effects raise a question of possible improvements in provision of the service, e.g. paying more attention for development of social integration skills of target groups or changing care mode, rather than question the necessity of the intervention as such.

2.18.2.5 DEMAND SIDE: AFFORDABILITY OF THE SERVICES AND IMPACT ON AFFORDABILITY OF THE SERVICE RELATED INTERVENTIONS

All services under analysis are provided directly to individuals. There are no social or income group related obstacles to receive services. However, availability is limited due to the high demand for the services. Except of children care services, publicly funded supply of the social services does not meet demand. It causes differentiation in service consumption among various income groups. Limited availability of public services push customers with higher level of incomes to the private service providers, while people on low incomes wait for the state financed services. Even though increased usage of services provided in the free market can slightly reduce demand for subsidised services, in a long run it can have negative implications on the public service quality failing ensure appropriate social care regardless person's income.

Most of the service related interventions do not help to meet the demand of the service quantity-wise since they only support current capacities of service provision or are aimed at individual's financial assistance rather than improvement of the services, except of the subsidy to home-based help services provided by NGOs and private sector entities which increases the number of beneficiaries receiving the service by approximately 10 percent.

2.18.2.6 CONSISTENCY OF SERVICE RELATED INTERVENTIONS

There are no replacing or contradicting interventions identified.

2.18.3 CONCLUSIONS AND RECOMMENDATIONS

The Social care sector in Croatia consists of two broad groups of objectives. The first one embraces ensurance of social security for the vulnerable adults and the second promotion of social inclusion of the vulnerable children. The scope of the sector amounts to 4 public services identified. Out of the four services in the Social care sector, three are aimed at ensuring the general daily and care needs for children and people facing disability as well as age-related difficulties (institutional care and home-based help). The main issue attributed to Institutional social care services for elderly and disabled as well as home-based care is their incapability to meet the overall demand. Contrary to the other two services in Croatian social care sector, long-term children care service meets the overall demand.

TABLE 276. CONCLUSIONS ON THE GOVERNMENT INTERVENTIONS IN THE SOCIAL CARE SECTOR IN CROATIA

Name of the service	Planning of the service	Planning of all related interventions is GOOD or AVERAGE	Efficiency of the service provision	All related interventions have impact on the efficiency of the service	The service has positive impact on the target group	All related interventions have positive impact on the target group	The impact of the service on countries' economy is positive	There are no negative side-effects of service implementation	All related interventions have positive or do not have side-effects	The service is affordable to all income groups	There are no service related interventions that contradict or replace each other
Institutional social care services for elderly persons and persons with disabilities	AVERAGE	YES	LOW	NO	YES	YES	YES	YES	YES	YES	YES
Home assistance	AVERAGE	YES	LOW	NO	YES	YES	YES	YES	YES	YES	YES
Institutional social care services for children	GOOD	YES	MEDIUM	YES	NO	NO	YES	NO	NO	YES	YES

Source: BGI Consulting et al, 2017.

Quality of planning of the services was evaluated by examining how clearly the long-term and the short-term objectives of the services were defined and how compatible they are among themselves. The planning of sector's services selected for further analysis was estimated to be of average/good quality. Institutional social care services for children planning was estimated to be of a good quality, Home-based help services and Institutional social care services for elderly persons and persons with disabilities were estimated to be planned averagely. Long and short-term objectives are not clearly enough defined in cases of Home-based help services and Institutional social care services for elderly persons and persons with disabilities.

There were 7 service related interventions identified in Social care sector in Croatia. In all but one instance, government interventions in the sector are planned similarly - they do not have implementation period defined and usually they are initiated by a law the continuity of which depends on a political decision. Interventions do not have results to be achieved defined, however the costs of their implementation are clear and the size of the demand is taken into account. Only subsidy for development of infrastructure of long-term care institutions for children is planned well. In regard to this intervention all criteria pointed out are defined.

Institutional social care services for elderly and disabled as well as Home-based care services' efficiency was estimated to be low. The main issue attributed to these services is their incapability to meet the overall demand, even though private and public entities face the same legal and technical requirements in terms of the service provision, publicly-owned care institutions are subsidised by the state that makes their price significantly lower in comparison to what would the price be on the market. Therefore, it means that consumers cannot choose between public and private providers equally. Efficiency of the provision of Institutional social care services for children is estimated to be medium. Contrary to the other two services in Croatian social care sector, long-term children care service meets the overall demand. There are two major obstacles for private providers to expand their operation in this market, namely high fixed costs as well as legal and administrative restrictions imposed by the state or municipal body. Moreover, this service is specific in nature and customers i.e. children cannot choose between the providers.

Planning of the services of Institutional social care for elderly persons and persons with disabilities as well as Home assistance were estimated to be average. Also, the services have positive impact on the target groups, and there are no side-effects of service implementation.

Planning of the service of Institutional social care for children is estimated to be good. This intervention can increase "dependency syndrome", that is recipients are becoming permanently dependent on social support. This issue is mostly associated with institutional children care which has been shown to be damaging for child development since children living in institutional care often do not develop social networks or skills that are essential in adulthood. These negative side-effects raise a question of possible improvements in provision of the service.

All services are affordable to all income groups, and there are no social or income group related obstacles to receive the service.

All services are provided directly to individuals. However, availability is limited due to high demand for the services. Except for children care services, publicly funded supply of the social services does not meet the demand.

The efficiency of the delivery of the services and related interventions is only for one service estimated to be medium and meeting the overall demand. The efficiency of other two social care services were estimated to be low. Despite the significant positive side-effects that some interventions have, there are negative side-effects in one service, and there is a question of possible improvements in provision of this service.

Only subsidy for development of infrastructure of long-term care institutions for children is planned well, and all criteria pointed out are defined. Only a few interventions are estimated to have significant positive impact on capital investments due to the development of social care infrastructure.

Market potential is detected only in the service of Institutional care services for elderly persons and persons with disabilities, as a potential for development of paid auxiliary services. In other two interventions no market potential is detected.

2.18.4 ANALYSIS OF THE POTENTIAL FOR THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS

2.18.4.1 INSTITUTIONAL CARE SERVICES FOR ELDERLY PERSONS AND PERSONS WITH DISABILITIES

TABLE 277. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN INSTITUTIONAL CARE SERVICES FOR ELDERLY PERSONS AND PERSONS WITH DISABILITIES SERVICES

Criteria	FI potential
Pricing system	Consumer-paid, regulated (covering up to 50% of total costs)
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)
Market potential	Potential development of (more) paid services
Accountability	Partial performance framework
Capacity	Quality issues

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service pricing is regulated and set by relevant authorities. Consumer payment covers a share between 25 and 50 percent of the total annual costs for service provision. Additional revenue is generated to a small extent (share between 0 and 25% of service costs) through the auxiliary service of delivery of meals to elderly people living in their own households. Small price increase, together with improvement of its quality, is possible maintaining partially the same levels of consumption among all income groups.

REGULATORY AND GOVERNANCE FRAMEWORK

Service is provided by regional governments through 48 public/state institutions (3 state-founded care homes, 45 counties-founded care homes), 178 non-state institutions (91 homes founded by other organizations and 87 legal entities providing accommodation services in other forms). Private entities are present in the market as care homes and prolonged stationary medical institutions. The major obstacle to enter the market for private companies are the high fixed costs.

MARKET POTENTIAL

Service provision targets specific groups of age and health/disability status (by end of 2012, 15 686 people aged 65 and over were accommodated in care homes). Data collected from homes for elderly and infirm persons whose founder is a county make up 66.5 percent of total accommodation capacity in institutional accommodation.

ACCOUNTABILITY

Information is available on the context of intervention; however, objectives of the service are not clearly defined, targets are not available.

CAPACITY

There are currently no considerations about transferring service provision to private partners.

Although currently it does not meet the overall demand, service provision complies with qualitative standards established by a regulation, meeting minimum requirements of the law. However, quality is not sufficient since various negative factors impact on service quality (poor investment planning, insufficient investment, poor infrastructure, old technology, poor maintenance, ineffective assets management, lack of human resources, lack of expertise and lack of incentives).

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

Service pricing is regulated and shows small capacity of costs covering, limiting the potential for introduction of FIs.

In this line, development of more paid auxiliary services can be applied to generate additional revenue and increase potential for FIs. It is important to notice, though, the necessity to improve quality of the service already provided, in terms of infrastructure, technology, human resources and investments in general.

Experiences of FIs can be found internationally, applied as means of funding enterprises that delivery social services, as illustrated in the box below. It is essential to consider the availability of projects/entities capable of reaching sufficient revenue generation in order to guarantee FIs viability.

Italy - JEREMIE ESF Lombardy region: Microcredit Loan for developing the capital of cooperatives, combining public and private resources. Targets are: health, social and educational services; disadvantaged people in finding jobs. Main results: EUR 31.4 million invested; 7 850 final recipients; 4 291 disadvantaged people; 526 cooperatives capitalised; Leverage 3.9x. Example of project funded: Farsi Prossimo Onlus, a social cooperative that provides health and educational services in the region. 200 000 euros in microloans through JEREMIE ESF were provided, used to support new mothers in disadvantaged conditions with material and psychological services.

2.18.4.2 HOME-BASED HELP SERVICES

TABLE 278. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN HOME-BASED HELP SERVICES

Criteria	FI potential
Pricing system	Consumer-paid (Low cost coverage)
Regulatory/governance Framework	Mixed public/private (Public share up to 66% of the market)
Market potential	No potential for additional revenue
Accountability	Partial performance framework
Capacity	Service does not meet overall demand

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service is co-financed by consumers, whose payment covers a share between 0 and 25 percent of total annual costs of service provision. The price is not available, and service is available for people whose income for single person or income per family member does not exceed the amount of 300 percent of the base (EUR 200). Currently, no additional revenue is generated. Small price increase for the service, together with improvement of its quality, is possible maintaining partially same levels of consumption among all income groups.

REGULATORY AND GOVERNANCE FRAMEWORK

Service is provided by public institutions, through different bodies (29 centres for help and care and 33 decentralized homes for elderly and disabled people). Private entities are present in the market providing catering, home care (nursing, physical therapy) and cleaning services. The major obstacle to enter the market for private entities are the high fixed costs.

MARKET POTENTIAL

Service provision targets specific groups of age, social status and health/disability status (around 15 550 people). Market share of public providers is between 34 and 66 percent.

There is currently no foreseen potential for generation of additional revenue.

ACCOUNTABILITY

Information is available on the context of intervention; however, objectives of the service are not clearly defined, targets are not available.

CAPACITY

There are currently no considerations about transferring service provision to private partners. Although currently it does not meet the overall demand, service provision complies with qualitative standards.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

The service has small capacity of costs covering and limited market potential, limiting the potential for introduction of FIs. It is worth noticing the service in itself does not aim at revenue generation, but rather guarantee provision of a merit good.

Further investments might be necessary in order to increase the efficiency of service delivery and meet the overall demand.

2.18.4.3 INSTITUTIONAL SOCIAL CARE SERVICES FOR CHILDREN

TABLE 279. POTENTIAL FOR INTRODUCTION OF FINANCIAL INSTRUMENTS IN INSTITUTIONAL SOCIAL CARE SERVICES FOR CHILDREN

Criteria	FI potential
Pricing system	Free of charge
Regulatory/governance Framework	Mixed public/private (Public share above 66% of the market)
Market potential	No potential for additional revenue
Accountability	Partial performance framework
Capacity	Transfer of parts of service - Lack of funding, staff and training

Source: BGI Consulting et al, 2017.

PRICING SYSTEM

Service is free of charge, financed from state budget and sometimes from regional budget. Currently, no additional revenue is generated.

REGULATORY AND GOVERNANCE FRAMEWORK

Service delivery is dominated by state-owned institutions: 71 State homes, 24 private and 19 bodies run by other legal entities, like religious communities and associations (also here considered as private⁴⁸⁴).

Major obstacle to enter the market for private entities are the high fixed costs and legal/administrative restrictions imposed by state/municipal body. Additionally, non-public providers of these services (religious organisations) create the service at similar costs, although receive less funding by the State than public providers (the rest is then covered by donations acquired by these institutions).

⁴⁸⁴ Plan of Deinstitutionalization and Transformation of Social Welfare Homes and other Legal Entities which Provide Social Welfare in the RC between 2014 and 2016 (2018) (<http://www.mdomsp.hr/UserDocsImages/djeca%20i%20obitelji/plan-DEINSTITUCIJALIZACIJE.pdf>)

MARKET POTENTIAL

Service provision targets specific groups (around 1200 children without adequate parental care in state and non-state care homes, 450 children with behavioural disorders in the social welfare homes, 3000 children with disabilities in state and non-state homes, 2000 children with disabilities in non-institutional forms of accommodation).

There is currently no foreseen potential for generation of additional revenue.

ACCOUNTABILITY

Information is available on the context of intervention, objectives are clearly defined and targets are available. Additionally, short-term and long-term objectives are consistent.

CAPACITY

There are currently considerations about gradually transferring separate parts of service provision to private partners (family-based care forms). Resources of funding, staff and training are lacking to promote a smooth transition.

Service complies with qualitative standards and provision currently meets the overall demand.

CONCLUSION ON POTENTIAL FOR INTRODUCTION OF FIs

The service does not generate revenue and has limited market potential, which limit potential for FIs. It is worth noticing the service in itself does not aim at revenue generation, but rather guarantee provision of a merit good. Further investments might be necessary in order to increase the efficiency of service delivery.

3. GENERALISATION OF POTENTIAL FOR THE USE OF FINANCIAL INSTRUMENTS

In the study, the concept of financial instrument has to be intended as follows:

- financial measures provided to address one or more specific policy objectives and supporting “investments which are expected to be financially viable and do not give rise to sufficient funding from market sources” (art. 37 of CPR)

Research questions are addressed based on findings from service analysis, the German and Italian experience and a literature review, including the ex-ante assessments and studies carried out in HR and LT under the programming period 2014-2020.

1. ToR question “How the existing forms of interventions (government failures) affect the possibility of the use of financial instruments?”

Government interventions in place could affect the possibility of use of FIs through:

- interventions limiting the capacity of the service provider to freely determine the price for the goods or the service provided:
 - free access to services/goods supplied by the public budget;
 - a regulated tariff system, e.g. capped prices or administrative prices;
- regulatory and governance framework:
 - rules promoting or limiting the entrance of market players, e.g. legal/ administrative restrictions limiting provision of municipal waste management services by private entities Croatia;
 - rules promoting or limiting consumer choice;
 - incentives to target groups which, indirectly, limit or promote the demand for the specific service, e.g. tax relief (reduced VAT) for heating, environmental taxes promoting specific waste management approaches;
 - definition of the services, e.g. no certification or quality standards for service delivery;
 - rules determining administrative competences and responsibilities, e.g. decentralisation of responsibilities can lead to market fragmentation, lack of institutional control mechanisms, financial and managerial autonomy, as well as discretion in decision making, of the responsible organisation(s);
 - long and burdensome administrative procedures, or rules unclear, e.g. lack of property rights or weak law enforcement;
 - changing rules over time, i.e. unstable regulatory framework which not allows for long-term expectations.

There are other aspects that may have a substantial impact on the revenue generating potential of specific services, though not being (or at least not directly) related to government interventions. These may concern

underlying demand features or trends, such as demographic trends⁴⁸⁵ or consumer preferences. There are also purely economic aspects that can improve the viability of specific investments in certain sectors. For example, new fleets can often generate operational savings in terms of reduced fuel consumption and maintenance, as in the case of public road transport in Lithuania. Additionally, even where a potential rationale for FI support exist, further elements need to be considered that concern the implementation of FIs, such as having a sufficient critical mass or the necessary implementation capacity. All these aspects should be taken into account for a sensible assessment of the suitability of FI support, and help clarify the role other government interventions play into it.

2. ToR question “In case government interventions in a particular sector are coherent and achieve the policy objectives, would the replacement of some government interventions by a financial instrument, especially in the long run, be more efficient, achieve more policy objectives or generate positive influence in other areas of public interest? Justify how and in which cases.”

- FIs are a funding intervention, thus they have specific features that make them not directly comparable to other type of interventions in most cases, e.g. regulation; they normally have to be compared to other financing government interventions;
- FIs can attract other public or private resources, potentially increasing the reach of public policy resources, and also depending on the specific financial products being provided, relevant geographies, and other risk factors; this applies not only to general SME support, but to multiple sectors where public support may be required, such as, for instance, R&D support, energy efficiency, social care, as highlighted by the examples gathered by this study;
- FIs can make public support more sustainable, through revolving; although the study did not gather detailed information on the specific point, this is confirmed on a large scale by the recently published data regarding the closure of 2007-2013 operational programmes co-financed by the ERDF and the ESF; in particular, out of EUR 16.4 billion of programme resources paid into FIs, as much as EUR 8.5 billion had already returned up to end of March 2017 for reinvestment;
- FIs could improve efficiency in service delivery, e.g. by enhancing responsibility during project selection and implementation;
- In various cases, even though government interventions are coherent, services do not generate sufficient revenues (cases where those are free of charge, with low tariffs or insufficient demand), therefore limiting the potential of FIs introduction as replacement of subsidies; it is also possible that, for the same reason, FI support can only partially address the investment gap, and should be combined with grant support;
- Learning from experience is of utmost importance when it comes to FI implementation in new areas, thus market tests or piloting schemes are recommended to raise awareness, acquire the necessary knowledge, stimulate demand and overall mitigating risks of failure.

3. ToR question “In case government interventions in a particular sector are not coherent and do not achieve the policy objectives, would the introduction of financial instruments be an

⁴⁸⁵ For instance, decreasing population generally leads to higher per capita maintenance costs of existing infrastructure.

efficient action, especially in the long run, and how the financial instrument should be balanced with other government interventions?"

- FIs are not designed to address alone the malfunctioning or the inefficiency of public interventions; or, from a different perspective, incapacity to achieve policy objectives may sometimes indicate a lack of the efficiency necessary to establish a FI;
- However, FIs can, where applicable, increase efficiency of public financial support and help achieve policy objectives, i.e. in case of shortage in public resources, and a higher economic, i.e. societal benefit, especially where there are unmet policy objectives;
- A pre-condition for FIs is a clear, consistent and predictable normative background;
- Grant support may enhance the suitability of FIs in case of projects that are only partially suitable to this type of support. For example, in the context of urban projects, grants may help overcome development barriers such as site decontamination or the provision of basic infrastructure. They can also be used to fund investments that are needed for the success of the specific project, but which are expected to generate limited or no revenues, e.g. public spaces;
- If instead the term balanced is intended here as mitigating the potential risks of support through FIs⁴⁸⁶, then especially GIs in support of the final recipients are relevant; for example, FIs might not reach the intended target because this is too risky or due to a lack of demand: setting up of proper incentives for the FI and support to the intended target to stimulate demand are possible remedies;
- In the services related to "provide financing for energy efficiency improvement at consumer level" for both public and private sectors in Lithuania, which already make use of financial instruments, it has been detected the possibility of adding a component of subsidies. Such combination could increase the demand for renovation projects generating energy savings, that is still in a low level.

4. ToR question "What is the optimal place and role of financial instruments among other public interventions? Whether the financial instruments, supported by the government, would be more appropriate forms of intervention and why?"

- The role of FIs is primarily established by their nature of funding GIs. Thus FIs have a role as funding GIs and their suitability has normally to be compared with that of other funding GIs;
- The balancing of FIs with GIs is addressed in the previous question; while the identification of the optimal use of FIs is matter of calculation at sector and governance levels, considering the resources available and the policy objective to be achieved;
- Criteria for the appropriateness of FIs are addressed in different section of this report (see also question above); literature identifies spaces for FIs in case of market failures (needs not covered by markets standard financing products) or failures in government interventions (needs insufficiently covered by public intervention);
- Appropriateness of FI support is less obvious in case of public infrastructure delivering basic services (with high investment costs that can only be partially covered by direct payments from the users), or when affordability issues contribute to lower revenues, e.g. in case of services targeting vulnerable group of people at risk of exclusion.

⁴⁸⁶ Another possibility is that the term balanced refers to how the other GIs affect FI potential. The specific point is addressed under question 1.

5. ToR question “What government interventions (including the removal of some particular government interventions) could facilitate more for more efficient application of financial instruments? What government interventions and government failures may influence the inefficient and unbalanced use of financial instruments?”

- Government interventions should ensure clear and stable rules, and allow for long-term expectations to promote a market approach;
- Having in mind sector specificities, some (changes to) government interventions could be considered:
 - ensure an adequate scale of service provision, also by assessing the suitability of consolidation where appropriate; this should address market fragmentation, which was highlighted in multiple services as a factor limiting revenue potential and the interest of potential providers of the service, and contribute to efficient service provision;
 - promote more auxiliary services or increase demand for core services where this is lacking, for instance by providing incentives to increase of numbers of households connected to the water network in Lithuania;
 - review the appropriateness of pricing mechanisms in some sectors, such as for road vignettes in Lithuania;
 - ensure that government interventions provide incentives to take action, e.g. this is not the case for reduced VAT for heating, or for managers of state-owned buildings in Lithuania who do not have incentives to make renovation;
 - remove possible competition from grant support for services that are viable, where subsidies can reduce demand for FIs, such as in the case of street lighting modernisation in Lithuania;
- Grant support can complement FI support and facilitate the adoption and application of FIs in specific cases, e.g. by reducing investment costs or providing technical support to beneficiaries (e.g. training, counselling). Need for combination can also be directly related to existing market conditions. For example, decrease in energy prices in Lithuania is requiring an additional subsidy component to make renovation financially attractive.

6. ToR question “Are there any areas where additional financial instruments could be implemented to deal with market and government failures and create a positive effect?”

See FI potential sub-sections in sector analysis sections.

7. ToR question “What are the main characteristics of the whole system of government interventions which identifies the most suitable circumstances to introduce financial instruments in order to achieve greater results and policy objectives?”

- Conditions for introduction of FIs are defined by their policy and economic rationale, as clarified by the literature and depending on the relevant national policy frameworks. In general terms there is room for FIs, as policy tool, in case market failures do not allow investments that are expected to be financially viable to rise sufficient funding from market sources.
- Under these conditions, FIs can provide an advantage when it comes to the achievement of policy objectives, e.g. increase in employments, a better quality of life, more wellbeing, especially when

public resources are not sufficient to cover the needs (related to services of public nature) in the long-term.

- At sectoral level, the most suitable circumstances to introduce FIs can be analysed through a limited number of key criteria, related to the specific features of the provided services in terms of pricing system, regulatory and governance framework, (long-term) market potential, accountability, awareness of potential benefits from FIs and implementation capacity.

8. ToR question “What shall be done to reach the effective combination of government interventions, which would facilitate the market, change of actual people’s behavior and boost potential of financial instruments i.e. enhance the participation of private entities, improve the financial viability of projects and remove the market failures?”

See previous questions 1, 5 and 7.

9. ToR question “In which sectors there is the greatest potential for application of financial instruments with the least amendments of other government interventions?”

See FI potential sub-sections in sector analysis sections.

It is worth mentioning that, given the overall potential for FIs in a specific sector, suitability for FI support usually varies depending on the specific project being considered. This means that suitable and unsuitable projects to FI support are often to be found within the same sector. Relatedly, potential for FI support can be often enhanced by ensuring that projects that generate revenues are included in the specific initiative being considered. For instance, potential for FI support could be enhanced for regeneration of urban public spaces by taking advantage of the renewed infrastructure to attract more small businesses and initiatives that could rent public infrastructure for their needs, e.g. cafes, local markets, outdoor/indoor events, services for inhabitants and tourists such as

4. CASE STUDIES OF FINANCIAL INSTRUMENT IN GERMANY AND ITALY

4.1 IKK INVESTMENT LOANS FOR MUNICIPALITIES AND IKU INVESTMENT LOANS FOR LOCAL PUBLIC AND SOCIAL ENTERPRISES BY KfW

The IKK Investment loans for municipalities and the IKU Investment loans for local public and social enterprises are managed and distributed by the KfW, a public institution (public bank) in charge for loan provision for the purpose of reconstruction (*Kreditförderanstalt für Wiederaufbau*). The KfW was founded in 1948 for managing and distributing foreign direct investments. It is based on a specific KfW law⁴⁸⁷. Among others, it was in charge of administering the Funds provided in the framework of the Marshall Plan after World War II. In 1953, the ERP special asset (European Recovery Programme) was created to bundle the funds of the Marshall Plan. It is still today one of the primary financial pillars of the KfW managed task of business development. This continued use of revolving funds is an indication for the successful implementation of financial instruments managed by KfW in support of economic, social and environmental living conditions during several decades. Against this background, KfW funding support for municipalities and public and social enterprises was never realised through grants but always used to apply financial instruments.

However, as early as 1949 KfW started to raise money on the capital market by issuing bonds to complement the funds available from the ERP special asset. In 2016, KfW funding amounted to EUR 81 billion. In order to provide sufficient funds KfW refinanced EUR 72.8 billion through the international capital market in 2016⁴⁸⁸.

Since its foundation roughly 70 years ago, KfW has allocated more than one trillion Euros as loans. In contrast to other banks, the focus of the KfW is the support of economic development within Germany, Europe and the world. It acts in line with its tasks and missions as defined by German federal law⁴⁸⁹ and thus has no private customer relations like other banks. It is jointly owned by the federal state (80 percentage) and by the *Länder* (20 percentage). The main tasks of KfW can be summarised as⁴⁹⁰:

- supporting small and medium-sized enterprises as well as entrepreneurs,
- providing venture capital,
- supporting programmes of energy-efficient renovations of residential buildings,
- supporting measures protecting the environment,
- supporting education/formation for private clients,

⁴⁸⁷ Bundesregierung Deutschland, 1948. Gesetz über die Kreditanstalt für Wiederaufbau.

⁴⁸⁸ KfW, 2017. KfW im Überblick - Zahlen und Fakten.

⁴⁸⁹ Bundesregierung Deutschland, 1948. Gesetz über die Kreditanstalt für Wiederaufbau.

⁴⁹⁰ KfW, 2017. KfW im Überblick - Zahlen und Fakten.

- providing financing programmes for municipalities and regional development banks,
- financing projects and exports,
- supporting developing and emerging countries.

Domestic financing programmes comprise, inter alia, support for municipal and social infrastructure. This support shall enhance innovation, growth and prosperity among benefitting municipalities, which in turn contributes to fostering sustainability in Germany. The following chapters focus on two financial instruments that have been implemented in parallel and that aim to support infrastructure investments in German municipalities:

- IKK Investitionskredit Kommunen – Investment loans for municipalities;
- IKU Investitionskredit Kommunale und Soziale Unternehmen – Investment loans for local public and social enterprises.

In the following the rationale for having two instruments, their differences and similarities will be detailed.

4.1.1 OBJECTIVES AND RATIONALE FOR ESTABLISHING THE FIS

Both financial instruments provide investment loans for supporting infrastructure in German municipalities. In order to ensure quality of life, protect the environment, improve economic framework conditions and to provide the local labour market with corresponding stimuli, municipalities must invest in public infrastructure. Thus, both instruments have similar objectives and focus on local infrastructure in general rather than sector specific investment support. For enhancing local infrastructure both instruments offer attractive investment conditions (see chapter 2). The rationale for the establishment of the instrument lies within the legal background of the KfW outlined above. In this sense, supporting municipalities' infrastructure is one of the major tasks of the KfW. IKU and IKK investment loans are thus two types of financial products that have existed ever since the KfW was established in 1948 – even if their names and specific features were slightly changed over time.

Financial support for municipal and social infrastructure in the frame of these two instruments includes for instance for the creation and maintenance of public hospitals, public elderly and retirement homes, public schools and kindergarten and public sport facilities. Also the development of IT infrastructure as well as transport and technical infrastructure can be funded. Although both instruments have the same general focus, their investment support slightly differs as outlined in the following table. These differences result from the differences in typical administrative and governance structures of the various infrastructures under consideration – some are typically managed by municipalities others are typically owned and managed by local public and/or social enterprises. Yet other infrastructures may be managed either way.

TABLE 280. INVESTMENT AREAS OF THE TWO FINANCIAL INSTRUMENTS

IKK Investment loans for municipalities	IKU Investment loans for local public and social enterprises
Kindergarten, schools and sport facilities	
Urban and village development incl. touristic infrastructure	
Hospitals and disabled care homes	Hospitals, elderly and disabled care homes
Broadband networks	ICT (especially broadband)
Adjustment of technical infrastructure such as water supply and waste water disposal	Supply and disposal of public services
Transport infrastructure and waste disposal	Transport infrastructure
	Science, technology and cultural heritage
Refugee homes (special funding line in the programme)	
Site development	

Source: KfW, 2016. Merkblatt - Kommunale und soziale Infrastruktur - IKU - Investitionskredit Kommunale und Soziale Unternehmen. KfW, 2016. Merkblatt - Kommunale und soziale Infrastruktur - IKK - Investitionskredit Kommunen.

This cross-sectoral approach is embedded in a wider strategy for providing support to municipalities and local public and social enterprises. They may receive additional investment support through specific instruments⁴⁹¹ focussing on:

- accessible cities;
- local energy supply;
- energy efficiency in public buildings and housing.

German municipalities typically suffer from low funding availability as a result of high liabilities that have accumulated during the past decades. In turn, this has led to a considerable investment backlog affecting various local infrastructures. Thus, the loans address a central German issue that hampers sustainable growth in many municipalities. Although recently increasing financial surplus and decreasing municipal debt were reported by public administrations, the investment backlog is only dissolving slowly. For 2017, the majority of investment needs was identified for transport infrastructure as well as schools and life-long learning institutions. Municipalities also consider having further investment needs in public administrative buildings and for sport facilities in order to reduce the investment backlog⁴⁹². Against this needs analysis, it may not be surprising that loans for building of schools of public funding bodies are represent a

⁴⁹¹ KfW, 2017. KfW - Bank aus Verantwortung [WWW Document]. URL <https://www.kfw.de/>

⁴⁹² KfW, 2017. Zukunft vor Ort gestalten.

considerable share of the infrastructure support of the two instruments⁴⁹³. The analysis shows that municipalities that have problems to sustain the existing infrastructure, thus to finance the running costs, also feature the highest investment backlogs⁴⁹⁴.

Although own funding (e.g. from local taxes) and direct public allocations account for about 40 percentage of municipal investments, municipalities also require additional funding sources. The IKK Investment loan for municipalities accounts for about 25 percentage of the municipalities' investment volume. It is appreciated for its stability in terms of offers and low costs in a low interest rate environment⁴⁹⁵.

Despite the positive assessment of the KfW loans for municipalities investment backlogs are reduced more slowly than available financial support allows. This is due to reasons linked to administrative capacity and regulation. On the one hand, administrative capacity is lacking after years of reducing staff employed in municipalities, which was required to reduce local public debt burdens. As a result municipalities are sometimes not able to prepare the documents needed for federal or EU funds or are not able to provide their co-financing share. On the other hand, so-called 'gold-plating' or red tape hampers the absorption of the available resources. This results from the increasing need to comply with more and new safeguarding rules⁴⁹⁶. Therefore, the administration of loans provided by the KfW has benefitted as compared to other more complex financial instruments and funding sources. Being non-sector specific approaches, the investment loans IKU and IKK provide municipalities with the possibility to receive funding with very low administrative burdens. Investments under these schemes are only monitored by controls that prove that investments were made for the dedicated purpose.

Key actors differ between the two financial instruments in two perspectives, firstly in terms of the targeted investors and secondly in terms of the allocation of loans. While the principal differentiation of the targeted investors is visible in the financial instruments' names, the specific groups of potential borrowers are detailed in the following table.

TABLE 281. ELIGIBLE TYPES OF BORROWERS OF THE TWO FINANCIAL INSTRUMENTS

IKK Investment loans for municipalities	IKU Investment loans for local public and social enterprises
Municipal authorities	Enterprises owned in majority by municipal authorities
Legally dependent owner-operated municipal enterprises	Non-profit organisations and churches
Associations of local authorities such as municipal joint boards	Within PPP: natural persons and enterprises with a joint maximum turn-over of million 500 Euro

Source: KfW, 2016. Merkblatt - Kommunale und soziale Infrastruktur - IKU - Investitionskredit Kommunale und Soziale Unternehmen. KfW, 2016. Merkblatt - Kommunale und soziale Infrastruktur - IKK - Investitionskredit Kommunen.

⁴⁹³ Seiffert, S., 2017. Interview on "IKK Investment loans for municipalities" and "IKU Investment loans for local public and social enterprises" provided by KfW, interview held on 19.09.2017.

⁴⁹⁴ KfW, 2017. Zukunft vor Ort gestalten.

⁴⁹⁵ KfW, 2017. Zukunft vor Ort gestalten.

⁴⁹⁶ SZ, 2017. In Deutschland gibt es einen gewaltigen Investitionsstau.

These different types of borrowers and their legal form affect the actors involved in delivering the financial instruments. IKK Investment loans for municipalities are directly allocated by the KfW to the applying municipalities. For IKU Investment loans for local public and social enterprises KfW only acts as distributor of funds, whereas the potential borrower applies at local banks⁴⁹⁷ cooperating with the KfW.

Below figure details the funds allocated annually for IKK and IKU investment loans since 2009. Despite the complementing instruments for accessible cities, energy efficiency support etc. these two cross-sectoral investment loans account for the large majority of all IKK and IKU financial instruments. For instance, in 2015, IKK and IKU investment loans accounted for about 93 percentage and 90 percentage respectively of all IKK and IKU loans.

In 2015, EUR 3 billion (3.004) have been safeguarded to municipalities under the IKK investment loan and EUR 1.5 billion (1.547) under the IKU investment loan. Thus, overall lending for local public investment loans peaked in 2015. This is partially due to low interest rate levels, making the loans more affordable for municipalities⁴⁹⁸ but also increasing revenues of municipalities allowing more municipalities to reduce their investment backlog.

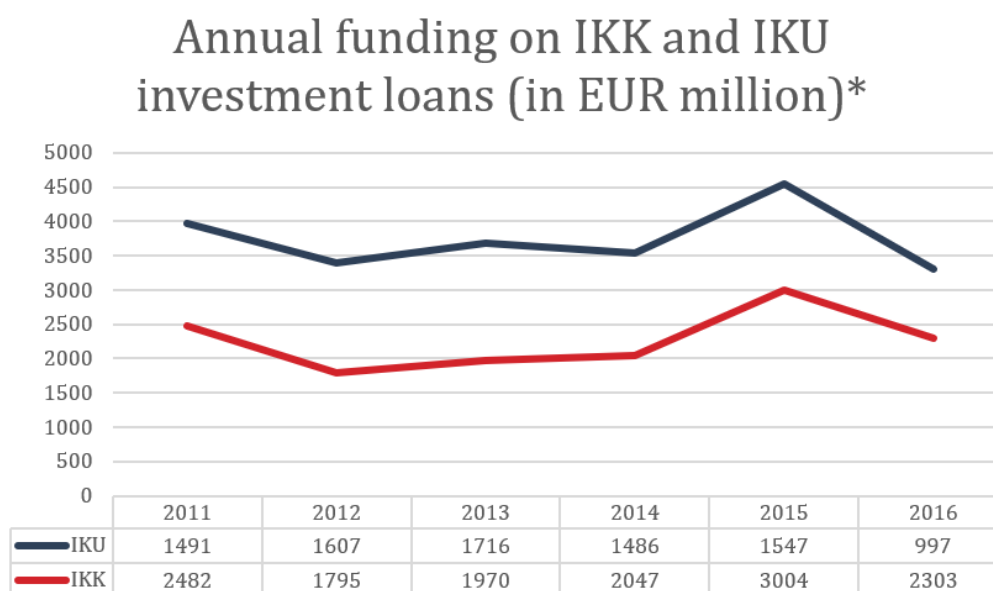


FIGURE 91. DEVELOPMENT OF ANNUAL FUNDING VOLUME OF IKK INVESTMENT LOANS FOR MUNICIPALITIES AND IKU INVESTMENT LOANS FOR LOCAL PUBLIC AND SOCIAL ENTERPRISES SINCE 2009

**Please note: values for 2009 and 2010 correspond to the previous instrument 'Sozial Investieren' (Social investing).*

Source: KfW-Förderreport. KfW, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016.

Starting in 2009, the KfW launched the "infrastructure investment offensive" (*Investmentoffensive Infrastruktur*) that provided EUR 3 billion to municipalities within structurally weak areas⁴⁹⁹ for

⁴⁹⁷ These are often private banks, saving banks, cooperative banks, building societies, insurances and financial intermediaries.

⁴⁹⁸ KfW, 2015. Geschäftsbericht.

⁴⁹⁹ Please see: https://www.kfw.de/KfW-Konzern/Newsroom/Aktuelles/Pressemitteilungen/Pressemitteilungen-Details_9987.html

investments in 2009 and 2010. This investment offensive was part of the federal government's measure "Securing employment through strengthening of growth" (*Beschäftigungssicherung durch Wachstumsstärkung*). The general uptake of IKK and IKU investment loans was thus lower in 2009 as many municipalities have received support through these programmes instead of the two FIs under consideration of this report. For 2015, the values for the IKK investment loans peak because the financing window "protection in refugee homes" was opened under the IKK investment loan programme as a separate financing facility (sub-programme). For 2015, the funds attributed under this facility amount to approximately EUR 1 billion and for 2016 to approximately EUR 0.5 billion⁵⁰⁰⁵⁰¹.

4.1.2 INVESTMENT STRATEGY AND FINANCIAL PRODUCT

Both financial instruments are designed as investment loans. The instruments can be used to acquire financial resources for an investment for which current local resources are insufficient. The loans can be combined with other public funding instruments. There are however some limitations of possible combinations for the IKU investment loan as it may not be combined with certain other KfW financial instruments such as the KfW enterprise loan or certain instruments supporting renewable energy. In any case, combination of different public funding sources may not exceed the total amount of spending for the specific investment.

Any IKK and IKU investment loans may only be acquired for the specific purpose it was authorised for. There is however no detailed investment strategy, the two loans function as generic instruments that can be used for a large spectrum of activities⁵⁰². Since the two financial instruments were designed for different beneficiaries, they come with different sets of lending conditions.

IKK Investment loans for municipalities are allocated directly by the KfW. Loans can be allocated to specific projects that are specified in the investment plan of the authority. Loans may amount to a maximum value of EUR 150 million annually per beneficiary. Municipal and social infrastructure investments can be supported if they have not yet been financed or been realised. The co-financing rate of IKK investment loans varies with the size of the loan. Below the threshold of EUR 2 million loans up to 100 percentage of eligible investment costs can be funded. Above the same threshold only a maximum of 50 percentage of the eligible investment costs may be financed by the loan.

The total loan amount may be paid either completely or may be divided in two tranches. The investment support is fully disbursed after approval and signature of the credit contract to the beneficiary and is available for a period of 12 months without any provision rates. No specific collaterals are necessary beyond the usual pre-conditions for municipal loans⁵⁰³. Thus, loans may be repaid from saved expenses or revenues e.g. from taxes.

Beneficiaries may choose between three different terms of up to ten, 20 and 30 years respectively. Loan repayment is suspended for a maximum of two, three and five years respectively (either immediately after

⁵⁰⁰ KfW, 2016. KfW-Förderreport.

⁵⁰¹ KfW, 2015. KfW-Förderreport.

⁵⁰² Seiffert, S., 2017. Interview on "IKK Investment loans for municipalities" and "IKU Investment loans for local public and social enterprises" provided by KfW, interview held on 19.09.2017.

⁵⁰³ KfW, 2016. Merkblatt - Kommunale und soziale Infrastruktur - IKK - Investitionskredit Kommunen.

the loan is granted or during the repayment period). For all three loan terms interest rates are fixed for ten years.

The interest rate of the instrument depends on market developments and changes on a daily basis. For determining the interest rate applicable, the day of disbursement by the beneficiary is decisive. For the different durations of loan terms, different interest rates apply. The longer the loan period and the grace period the higher is the interest rate applicable. Currently (as of beginning of September 2017), these rates vary between about 0.20 percentage for 10 years loans and 0.66 percentage for loans granted for 30 years.

Within the IKK investment loan for municipalities a specific facility has been introduced to support refugee homes (as mentioned above). This facility addresses a concrete short-termed need. Facilities for such purposes (addressing short-term needs) may be introduced in both types of instruments. This specific support would have usually been provided to actors in the framework of an individual funding programme. As there was an urgent need for action, the specific support for the safety of refugee homes was introduced within a few weeks under the umbrella of the IKK investment loan. Such facilities offer an additional and quickly available financing option to answer unexpected developments⁵⁰⁴. For this facility specific interest rate conditions apply. At the time when this report was written, no interest was calculated for loans within this specific facility. This reduction is compensated by complementary support by the Federal Ministry for Family, Seniors, Women and Youth.

IKU Investment loans for local public and social enterprises are granted by the KfW through financial intermediaries, namely through banks with client-customer relations, as mentioned above. The support is granted only for the project for which the application was submitted.

The maximum creditable amount is EUR 50 million. The IKU investment loan can support eligible project costs up to 100 percentage. The minimum term is four years. The interest rate is calculated individually based on a risk pricing system of KfW. This pricing system includes the assessment of the borrower's bank regarding the borrower's creditability and likelihood of a default risk as well as the share of collaterals. Below table gives an indication of how the different elements are combined into nine different pricing groups. For obtaining these nine classes the categorisation of the borrower's bank assessment and the collateral group are combined.

⁵⁰⁴ Seiffert, S., 2017. Interview on "IKK Investment loans for municipalities" and "IKU Investment loans for local public and social enterprises" provided by KfW, interview held on 19.09.2017.

TABLE 282. CREDIT WORTHINESS ASSESSMENT DECISIVE FOR PRICING GROUP

KfW credit worthiness class	Assessment by borrower's bank		
	Credit worthiness	Risk	1 year default risk
1	excellent	Low	Up to 0,1 %
2	Very good		> 0,1 % to <= 0,4 %
3	Good		> 0,4 % to <= 1,2 %
4	Satisfactory		> 1,2 % to <= 1,8 %
5	Still satisfactory		> 1,8 % to <= 2,8 %
6	Sufficient		> 2,8 % to <= 5,5 %
7	Still sufficient	High	> 5,5 % to <= 10,0 %

Source: <https://www.kfw-formularsammlung.de/KonditionenanzeigerINet/pkBerechnung.jsp>

TABLE 283. COLLATERALS DECISIVE FOR PRICING GROUP

KfW collateralisation class	Identification by borrower's bank
	Collateral share
1	>= 70 %
2	> 40 % and < 70 %
3	<= 40 %

Source: <https://www.kfw-formularsammlung.de/KonditionenanzeigerINet/pkBerechnung.jsp>

For illustration: a borrower who is assessed as having 'still sufficient' credit worthiness has to provide collaterals in the 2nd KfW class (more than 40 percentage) in order to still obtain an IKU investment loan under the most expensive pricing class. Only the two best credit worthiness assessments 1 and 2 would obtain the cheapest interest rates if they provide collaterals of more than 40 or 70 percentage respectively.

In addition to this risk pricing system the actual interest rates the borrower will get also depends on the term, grace period and period of the fixed interest rate. At the time when the factsheet was written, the interest rates for IKU investments loans ranged between 1.40 percentage (cheapest pricing group, short term) and 9.45 percentage (highest pricing group, long term).⁵⁰⁵

The loan can be disbursed either entirely or in tranches. Repayment of interest rates and redemption is organised quarterly if not specified differently in the loan contract. Beneficiaries have to comply with the individual collateral conditions required by their bank through⁵⁰⁶.

⁵⁰⁵ <https://www.kfw-formularsammlung.de/KonditionenanzeigerINet/KonditionenAnzeiger> with the latest change of interest rates for IKU Investment loans on 14 July 2017.

⁵⁰⁶ KfW, 2016. Merkblatt - Kommunale und soziale Infrastruktur - IKU - Investitionskredit Kommunale und Soziale Unternehmen.

TABLE 284. OVERVIEW OF CONDITIONS OF THE TWO FINANCIAL INSTRUMENTS

Loan characteristics	IKK Investment loans for municipalities	IKU Investment loans for local public and social enterprises
Combination of funding	Possible	Possible with some exceptions
Maximum loan size	Euro 150 million annually per beneficiary	Euro 50 million per investment project
Maximum co-financing through the loan	50 percent above Euro 2 million and 100 percent below Euro 2 million	100 percent
Provisioning time	12 months	12 months, in exceptions up to 36 months but provision rates following the 1 st month after commitment
Loan payment	One or two tranches	One or several tranches
Collaterals	None	To be agreed with borrower's bank
Loan facility enhancement	Possible as long as investment lacks full funding and loan is below maximum loan size	
Loan term	Alternatively 10, 20 or 30 years	Minimum of 4 years and up to 30 years
Grace period	Depending on term period 2, 3 or 5 years	Depending on term period between 1 and 5 years
Interest rates	Fixed rates for 10 years depending on market interest rates on the day of disbursement	Fixed rates for 10 or 20 years; individually agreed interest rate based on credit history and collateral and according to pricing system of KfW ('risk appropriate interest rate system')
Repayment conditions	Quarterly payment of interest and repayment respectively; possibility for unscheduled repayments without penalty	Quarterly payment of interest and repayment respectively; unscheduled repayments only against prepayment penalty
Proof of use	Until 24 months after full disbursement of loan	Until 36 months after full disbursement of loan

Source: KfW, 2016a. Merkblatt - Kommunale und soziale Infrastruktur - IKU - Investitionskredit Kommunale und Soziale Unternehmen. KfW, 2016b. Merkblatt - Kommunale und soziale Infrastruktur - IKK - Investitionskredit Kommunen.

Apart from some specific ERP schemes, KfW does not specifically distinguish the source of funding for loans and venture capital. Nevertheless, taking into account, the large share of capital market refinancing and the fact that there is no explicit link to ERP funding it may be concluded that IKK and IKU investment loans are both sustained from capital market sources raised by KfW. In some cases, respective public authorities can compensate for potential losses in interest rates for the KfW so that significantly lower or no interest rates are applied on a loan. As the example of the refugee home facility shows, also federal government funds can finance the interest rate subsidy.

Because of a decrease of public investments during the past decade, the investment backlog has accumulated and still remains significantly high despite numerous efforts – as outlined above. A significant game-changer can be the local administrative capacity. Efficient local structures guarantee that investments through the KfW provided loans is realised and takes action to efficiently distribute the funds within the delays to where they are most needed⁵⁰⁷. A lack of capacities in planning and implementing investments during recent years has led to the occurrences that many necessary investments were postponed even though financial instruments were available. Simply hiring more personnel is however not considered a solution as this only increases the running costs of municipalities. Streamlining administrative processes and procedures and introducing new forms of governance (eGovernance i.e.) have significantly higher short- and long-termed impacts on the quality of municipal investment absorption capacity than hiring new employees⁵⁰⁸.

4.1.3 GOVERNANCE OF THE FI

The IKU and IKK investment loans are administered by the KfW group. The principal features of the KfW and its purpose are outlined in the introduction. Regarding the governance of the KfW group it is worthwhile to notice that KfW was reorganised stepwise into the KfW Group, which today encompasses several other banks. Below figure illustrates the organisation that differentiates not only between types of recipients and topics but also between domestic and international business.

The investment priorities of the KfW provided instruments are defined at national level. Political decision-making within the responsible ministries and the parliament shape the products of the public bank. The administrative board is formed of representatives from the respective ministries, the parliament, public and private interest organisations and labour unions, ministerial representatives of the *Länder* and public banks. Within the decision-making process, the KfW only exercises a consulting function to the political decision-makers. This can be either done pro-actively by proposing a concrete financial product addressing a concrete political topic or passively by implementing the political decisions by translating a decision into a product. Tasks that are not funded by the federal state but by the own financial resources, the bank has the capacity to decide autonomously on the type and characteristics of products to provide. This is possible as long as the fields of activity defined by the KfW law, are respected⁵⁰⁹.

⁵⁰⁷ KfW, 2017c. Zukunft vor Ort gestalten.

⁵⁰⁸ KfW, 2016e. Erst mehr Geld und jetzt mehr Personal - was benötigen Kommunen für Investitionen?

⁵⁰⁹ Seiffert, S., 2017. Interview on "IKK Investment loans for municipalities" and "IKU Investment loans for local public and social enterprises" provided by KfW, interview held on 19.09.2017.

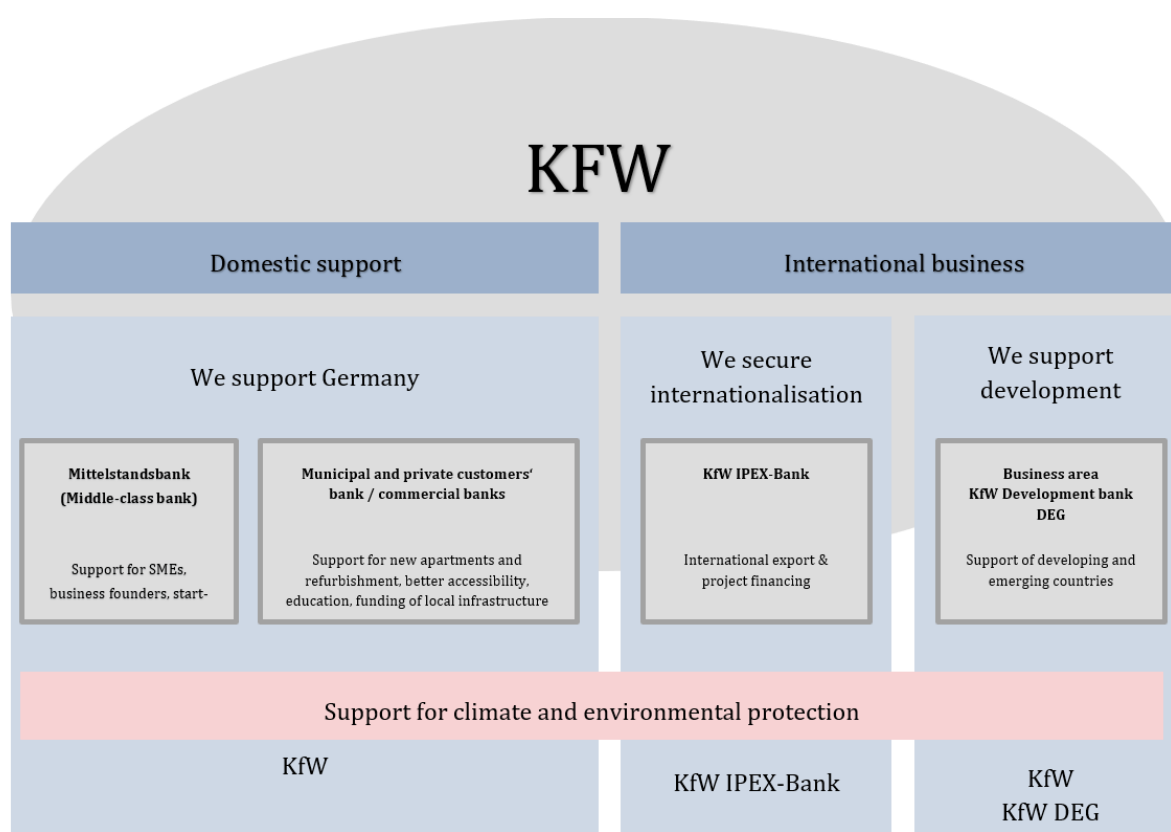


FIGURE 92. TASKS OF KfW GROUP ACCORDING TO DIFERENT KfW GROUP MEMBERS

Source: Translated from KfW, 2017d. *Die KfW stellt sich vor. Struktur und Aufgaben der KfW.*

In cooperation with related ministries, the KfW can also offer investment loans that are tailor-made to a political necessity. In 2016, for example, special IKK loans were provided for energy efficient urban development with a focus on lightning or district embellishment, for energy supply, for accessible cities and others. These loans are usually provided at an even lower interest rate whereas the respective ministry accounts for the losses occurring for the KfW by the reduced interest rate.

In 2008, the instruments preceding the two FIs under consideration in this report, “*KfW-Kommunalkredit*” and “*KfW-Kommunalkredit – Energetische Gebäudesanierung*” were replaced by the IKK investment loan and the so-called IKK-Flex. The new instruments do justice to the more flexible needs of the municipalities by introducing flexible loan terms (loan period, fixed interest rates etc.) as well as flexible redemption and repayment cycles. Different interest rates adjust for the preferred loan terms⁵¹⁰. Regarding their implementation, the KfW did not face particular challenges. This is also due to the non-sectoral approach of the instruments. As they can be used for any type of investment in municipal infrastructures and are thus very generic, proof of payment is the only control mechanism. Within the more concrete financing windows

⁵¹⁰ KfW, 2008. Geschäftsbericht.

IKK – Renewable Energy – Standard for instance, more complex certification mechanisms are required, that lead to a higher administrative cost on the banks and administrative burden on the beneficiary side⁵¹¹.

The IKK investment loan is provided on a direct basis to municipalities. There is no financial intermediary as in the case of this loan one public institution provides direct financial support to another public institution. The generated added value should not be skimmed-off by private actors. By the direct provision from public to public actor, also specific aspects such as liabilities, rather common for loan provisions cease to apply. In this respect it is important to know that municipalities are granted a 'risk weight of zero'⁵¹². In order not to distort competition, other instruments, such as the IKU loans, are provided to municipalities through financial intermediaries⁵¹³. These are banks previously approved to carry out such services.

Generally, the KfW follows the objective of providing a total investment volume annually of around EUR 2 billion within the IKK investment loans and around EUR 1.5 billion for the IKU investment loans. There are however no fixed thresholds that limit the total investment volume. By changing the characteristics of the programmes, the bank can actively influence the uptake (i.e. by increasing the interest rate (price), the uptake reduces). However, for specific facilities answering short-term needs that are provided in cooperation with financial support of the responsible ministries, a maximum threshold applies. This may be defined on a case by case basis when such a facility is implemented. The KfW is aware that it might have a competitive advantage of providing loans at low interest rates and therefore tries to adjust not to exceed dramatically the above volumes. The bank generally only provides investment loans and is not involved in the provision of short-term sector loans ('Kassenkredite') to municipalities. There are also other limiting factors such as limited refinancing assets, capital limits and administrative capacities of the loan department i.e. that apply to all product provided by the KfW⁵¹⁴.

Municipal law in Germany slightly differs between the *Länder*. In any case, if a municipal organ wants to apply for an investment loan, a legal body further up in the administrative hierarchy must approve the decision. For example among the *Länder* that are no city-states, this control is implemented by the legal supervision of municipalities ('Rechtsaufsicht der Gemeinden'), which is located at *Länder*-level. Thus, even though a municipality finds itself in financial trouble, it can acquire a loan from the KfW. This is also dependant on the strategy for debt relief, which is elaborated under a so-called budget consolidation concept ('Haushaltskonsolidierungskonzept'). If a municipality is dependent on investment loans to increase municipal revenues or if a municipality needs resources to sustain critical public infrastructures, the KfW will not refuse to provide a loan. If the budget consolidation concept does not require such investments, the loan may not be approved. Additionally, there's an internal loan threshold for municipalities. A maximum of EUR 750 per inhabitant will be provided to a municipality by the KfW until loans are redeemed (this applies to the sum of all KfW loans to a single municipality)⁵¹⁵.

⁵¹¹ Seiffert, S., 2017. Interview on "IKK Investment loans for municipalities" and "IKU Investment loans for local public and social enterprises" provided by KfW, interview held on 19.09.2017.

⁵¹² Public actors such as Länder, the federal state and municipalities cannot go bankrupt in Germany.

⁵¹³ Seiffert, S., 2017. Interview on "IKK Investment loans for municipalities" and "IKU Investment loans for local public and social enterprises" provided by KfW, interview held on 19.09.2017.

⁵¹⁴ Seiffert, S., 2017. Interview on "IKK Investment loans for municipalities" and "IKU Investment loans for local public and social enterprises" provided by KfW, interview held on 19.09.2017.

⁵¹⁵ Seiffert, S., 2017. Interview on "IKK Investment loans for municipalities" and "IKU Investment loans for local public and social enterprises" provided by KfW, interview held on 19.09.2017.

4.1.4 IMMEDIATE AND LONG TERM IMPACTS OF THE FI

Between 2009 and 2016, the KfW has provided a total of EUR 26 billion to municipal actors of public enterprises in the framework of the two investment loans IKU and IKK.⁵¹⁶ Significantly more IKK investment loans were provided as compared to IKU investment loans, EUR 16 billion and EUR 10 billion respectively. Between 2009 and 2016 a total of about 14,000 investment loans has been approved (~9,500 IKK and 4,500 IKU investment loans). In terms of individual loan provisions, on average each IKK investment loan amounted to EUR ~ 1.7 million and each granted IKU investment loan to EUR ~ 2.2 million (own analysis, based on the annual reports of the KfW).

The instruments provided by the KfW have helped to reduce the investment backlog of the recent years significantly. Between 2016 and 2017, the assumed investment backlog was reduced by 7.4 percentage. The decrease can be explained by the attractive offer of investment loans and increased tax revenues. IKK and IKU investment loans help municipalities to regain a margin of manoeuvre that would not be possible otherwise. Crumbling infrastructures and drops in revenues of municipal enterprises can thus be mitigated in order to avoid that the running costs of the municipal infrastructures paralyse the local budgets⁵¹⁷.

The IKK and IKU investment loans are not monitored explicitly. This is also linked to their generic character and the fact that they are supplied by the in-house means of the KfW. As for the IKU investment loan, as it is provided by a financial intermediary, sometimes checks are conducted to ensure that all necessary documentation was collected. Generally, the higher the loan volume, the more likely it is that a check is conducted. Facilities that address short-term needs and that are supplied with federal support, are checked more frequently.

Due to the lack of impact monitoring, impacts cannot be measured quantitatively. They depend on various factors including the precise purpose of the investment and characteristics of the municipality. Across Germany, IKK and IKU instruments have induced a variety of different investments into municipal infrastructures and enterprises that make it difficult to generalise impacts. Thus, impacts become only visible on a case-by-case description. In the following, two examples illustrate the variety of investments supported and the specific impacts achieved.

An example for one of the products of the IKK is the building of a multiple-purpose sport facility in the municipality of Borsdorf, Saxony. The municipality tried to build a new gym for the past 20 years. The new gym shall not only provide a suitable location for the sport activities of the local high school but shall also offer a new location to local sport associations. The municipality received the approval by the state support in 2015 and the approval for the loan, provided through the IKK in 2016. The *Land* Saxony allocated EUR 1.5 million as grant and the KfW provided EUR 1.86 million as loan to the approximately EUR 3.3 million total costs^{518 519}. Thus, the provision of new attractive sport facilities is important for municipalities raising their attractiveness. The loan may not only be refinanced from the municipality's budget but also from user fees and rents paid by the local associations.⁵²⁰

⁵¹⁶ For 2015 this includes the special facility for refugee homes.

⁵¹⁷ KfW, 2017. Zukunft vor Ort gestalten.

⁵¹⁸ Prenzel, S., 2015. Minister Ulbig bringt Geld für Borsdorfer Mehrzweckhalle. Leipz. Volksztg.

⁵¹⁹ Seiffert, S., 2017. Interview on "IKK Investment loans for municipalities" and "IKU Investment loans for local public and social enterprises" provided by KfW, interview held on 19.09.2017.

⁵²⁰ There is no information on the refinancing of this example. However, according to the knowledge of the national expert (author) fees or rents are collected from associations to contribute to financing and running sports facilities.

Another example is not financed within the general IKK or IKU investment loans but has been funded under a specific IKK product: IKK – Accessibly city (*IKK – Barrierearme Stadt*). The principal idea and structure of the financial instrument is the same as for the IKK investment loan. In the German municipality Kiel, acting as gate to the Baltic Sea, the IKK – Accessible city facility has supported a project for achieving better accessibility of public transport for handicapped passengers. Around 1.4 million persons are transported each year by the public ferry services, making the water transport a central part of the public transport infrastructure. Before the refurbishment, the piers were not accessible to people with limited mobility because of stairs. In the framework of the KfW provided loan, the municipality was granted EUR 4.4 million for the renovation of two piers, to attractive conditions.

4.2 INVESTMENT LOAN INSTRUMENT “RENEWABLE ENERGIES - STANDARD” BY KfW

The programme **Renewable Energies – Standard** is an investment loan instrument managed and distributed by the KfW, a public institution (public bank) in charge for loan provision for the purpose of reconstruction (*Kreditförderanstalt für Wiederaufbau*). For more information on history, objectives and tasks of the KfW please see the description provided in the IKK/IKU investment loans cases.

Domestic financing programmes comprise, inter alia, support for investments to enhance the provision and use of renewable energies. The underlying case study focuses on a specific generic investment instrument, the loan programme **Renewable Energies – Standard**. This is one of several energy related instruments currently implemented by the KfW. These instruments differ in terms of specific focus and target groups (see section 3 below)

4.2.1 OBJECTIVES AND RATIONALE FOR ESTABLISHING THE FI

The KfW instrument **Renewable Energies – Standard** is an investment loan for projects that envisage the exploitation of renewable energies for energy production, for combined heating and electricity generation and for measures integrating renewable energies into the energy system. The instrument is one of the several loans provided by the public bank to support the so-called ‘*Energiewende*’ (energy transition) that was decided in 2010 (TEXT BOX 1). The term energy transition describes the transition from established means of energy production that rely *inter alia* on nuclear and fossil fuels towards means of renewable energy production⁵²¹. Apart from the motivation to tackle climate change challenges, this transition furthermore aims to support the political decision of downscaling and – in the end closing down – nuclear energy production after the nuclear incident in Fukushima in 2010. energy production⁵²². Apart from the motivation to tackle climate change challenges, this transition furthermore aims to support the political decision of downscaling and – in the end closing down – nuclear energy production after the nuclear incident in Fukushima in 2010.

In order to realise this transition, large financial efforts must be undertaken. In 2011, the monitoring board of the KfW estimated that annual investments of around EUR 25 billion are necessary to realise the ambitious political objectives⁵²³.

⁵²¹ KfW, 2011. Was ist die Energiewende [WWW Document]. URL https://www.kfw.de/microsites/Microsite/energiewende.kfw.de/was_ist_energiewende.html

⁵²² KfW, 2011. Was ist die Energiewende [WWW Document]. URL https://www.kfw.de/microsites/Microsite/energiewende.kfw.de/was_ist_energiewende.html

⁵²³ KfW, 2011. Was ist die Energiewende [WWW Document]. URL https://www.kfw.de/microsites/Microsite/energiewende.kfw.de/was_ist_energiewende.html

TEXT BOX 1. MEANING OF THE TERM 'ENERGY TRANSITION'

Energy transition is a political concept that envisages the transition from the use and production of nuclear energy to energy from renewable sources. According to the first pillar the share of renewable energy in the net energy production shall reach 40 to 45 percentage until 2025 and 55 to 60 percentage by 2035. Already today renewables form a backbone of the German energy production with approximately 33 percentage in 2017. The second pillar of the energy transition is energy efficiency. Efficient use of energy avoids unnecessary production and consumption of energy. Potentials for better energy efficiency are seen, for instance, related to housing insulation and mobility⁵²⁴.

Between 2012 and 2016, the KfW has supported the implementation of the energy transition with EUR 103 billion, of which for renewable energies EUR 23 billion and for energy efficiency EUR 80 billion have been lent⁵²⁵. However, instruments also previously managed by the KfW have supported measures in favour of an energy transition prior to the political decision. This loan instrument is one of many instruments at federal and state level aiming at supporting the politically backed energy transition. The instrument **Renewable Energies – Standard** addresses the dimension of energy transition by supporting respective developments within the private sector. Its target group are private and public enterprises within and outside of Germany, bodies of public law, municipal special purpose associations, institutions of public legislation, self-employed persons (doctors, tax advisors, architects, etc.), farmers, natural persons, associations, cooperatives and foundations. The instrument was not designed for public administrations. Thus, the federal state, the *Länder* and their institutions and municipalities, including municipal territorial authorities and municipal non-independent enterprises may not apply for loans under the Renewable Energies – Standard programme⁵²⁶.

The instrument was created in 2009 in the framework of the laws on renewable energies. These are a series of laws that regulate conditions of feeding-in tariffs for decentrally-produced energy into the energy network⁵²⁷. The instrument shall create new incentives to produce more energy through renewable means of production by providing attractive loan conditions to install more private facilities. Thereby, it shall overcome the lack of incentives to use renewable sources for energy production and to reduce the negative externalities of traditional energy production. The need to foster renewable energy production was existent but because of high prices for the required facilities, there was a lack of demand and a lack of tailor-made financial assistance. In addition to the above motivations, the energy transition also aims to reduce the dependency of energy imports by creating more renewable energy production facilities. Furthermore, the renewable energy sector is considered as a new source for employment creation. As early as in 2009 already 340,000 jobs were created through the development of the renewable energy sector in Germany⁵²⁸. With the introduction of the loan and other KfW energy related funding programmes, the KfW continues to be a very important provider of investment loans for the transition to renewable energies in Germany⁵²⁹.

⁵²⁴ Bundesregierung Deutschland, 2016. Energiewende. Energie erzeugen.

⁵²⁵ KfW, 2016. Jahresabschluss und Lagebericht 2016.

⁵²⁶ KfW, 2017. Merkblatt - Erneuerbare Energien.

⁵²⁷ Bundesministerium für Wirtschaft und Energie, 2017. Das Erneuerbare-Energien-Gesetz.

⁵²⁸ KfW, 2010. Geschäftsbericht.

⁵²⁹ KfW, 2009. Geschäftsbericht.

TABLE 285. ELIGIBLE TYPES OF BORROWERS UNDER THE RENEWABLE ENERGIES – STANDARD PROGRAMME

Renewable Energies – Standard	
Private and public enterprises in Germany and abroad ⁵³⁰	
Bodies of public law	
Municipal special purpose associations	
Institutions of public legislation	
Self-employed persons (doctors, tax advisors, architects, etc.)	
Farmers	
Natural persons	These groups have to provide part of their energy production for the energy network or to sell some of the produced heat.
Associations	
Cooperatives	
Foundations	

Source: KfW, 2017. Merkblatt - Erneuerbare Energien. KfW 2017.

For sufficiently supporting the energy transition the programme finances a wide variety of measures and investments within the renewable energy sector. This encompasses financing of facilities needed for the exploitation of different renewable energy sources as well as for improving networks, storage etc. Below table details the corresponding investment areas and indicates the generic approach of the programme.

TABLE 286. INVESTMENT AREAS OF THE FINANCIAL INSTRUMENT

Renewable Energies - Standard
1. Creation, enlargements and acquisition of facilities that fulfil the requirements of the law for the enhancement of renewable energies (Renewable-Energies-Law – EEG 2017), including incidental planning-, project planning- and installation measures: Photovoltaic facilities (roof, façade, open space); Wind power plants and repowering measures; Energy production and CHP (combined heat and power) facilities on the basis of solid biomass; Production and use of biogas (in case of waste as resource basis, it only applies to waste according to the biomass waste regulation); Geothermal electricity generation and CHP facilities; Facilities for the production from water energy up to a size of 20 MW.
2. Facilities, enlargements and acquisition of facilities for pure heat production on the basis of renewable energies (also solar thermal energy). Facilities for the sole purpose of creating heat through solid biomass are supported up to a size of 2MW.
3. Heat-/Cold networks and Heat-/Cold reservoirs that are fuelled by renewable energies.
4. Measures for increasing the flexibility of electricity offer and supply and for the digitalisation of the energy transition with the objective of a system friendly integration of renewable energies into the energy system, also as singular measures or upgrading:

⁵³⁰ Projects under the loan outside of the country can generally be funded if the applicant is either private German enterprise or a subsidiary of a German enterprise in another country, if the applicant is a joint venture with decisive German participation/involvement or if the applicant is a freelancer being economically active in Germany.

Creation, enlargement and acquisition of facilities for the short-and long-termed saving of electricity (also power-to-heat-, power-to-gas-, and power-to-liquid-facilities);

Technical retrofitting of renewable energy facilities towards a more flexible and demand-oriented energy production;

Inter-operational load management: measures of operational and industrial energy end-users to make use of flexible loads on the energy network. Investments in modern measurement-, steering- and process-steering techniques and facilities for the storage of intermediate and final products may be financed;

Installation of modern measurement facilities and intelligent measurement systems and incidental technical equipment and retrofitting measures.

Source: KfW, 2017. Merkblatt - Erneuerbare Energien.

In addition to the measures detailed above, the corresponding infrastructure for supply and feeding into the grid in direct proximity to supported production facilities can also be funded by the programme. Contracting measures can be financed as well, if the contracting-supplier fulfils a number of eligibility criteria. Also, modernisation investments can be financed if they lead to an increase in production/storage capacity of the facility. The purchase of used (second-hand) facilities can only be supported under special circumstances⁵³¹.

Annual new investments allocated within the framework of the loan have peaked in 2012, when approximately EUR 7.6 billion were allocated to beneficiaries. The strong raise after 2010 can be explained through the strong public interest in funding support which was fuelled by the general debate on renewable energies and the energy transition in Germany. In 2012, at the peak of the funding distributed under the investment programme, the law on renewable energies was changed. At this time, more than half of the investments supported installation of photovoltaic facilities. With the modified law, the guaranteed prices for feeding-in renewable energy generated from solar energy into the public electricity network were reduced. This means that the fixed revenues generated from solar energy declined, thus leading to a reduced demand for the investment programme⁵³²⁵³³.

⁵³¹ KfW, 2017b. Merkblatt - Erneuerbare Energien.

⁵³² Bundesrepublik Deutschland, 2012. Gesetz zur Änderung des Rechtsrahmens für Strom aus solarer Strahlungsenergie und zur weiteren Änderungen im Recht der erneuerbaren Energien.

⁵³³ Koschel, H., 2017. Interview on renewable energy loan provided by the KfW number 270.

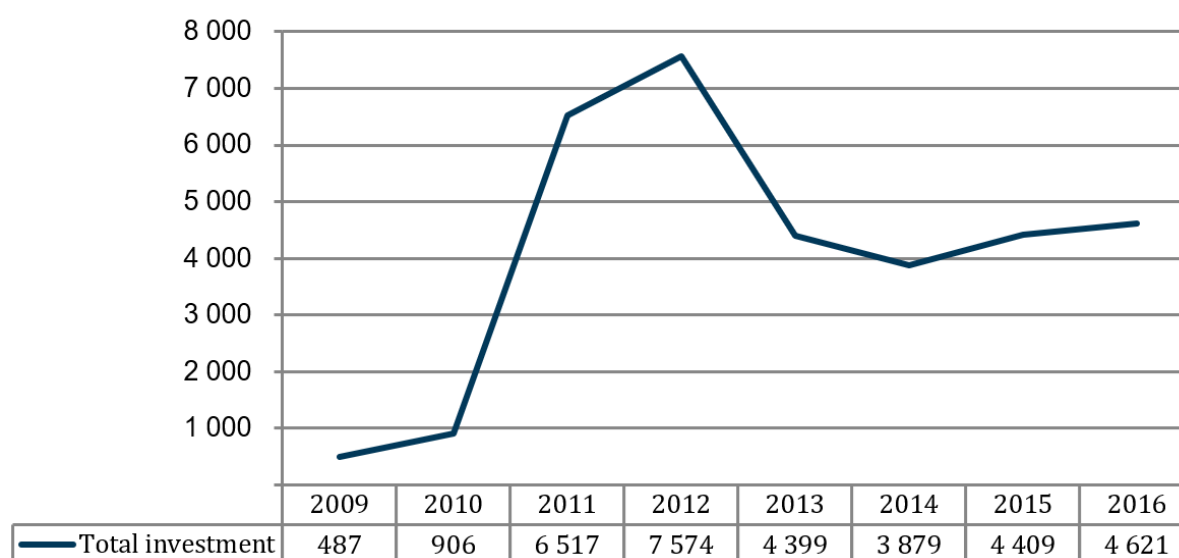
Total investments *Renewable Energies - Standard* (in EUR million)*

FIGURE 93. DEVELOPMENT OF ANNUAL FUNDING VOLUME OF THE INSTRUMENT RENEWABLE ENERGIES - STANDARD SINCE 2009

* Please note: since 2013, the loan facilities of the investment programme Renewable Energies – Storage are included in the total investments of the loan facility Renewable Energies – Standard.

Source: 2012-2016 KfW reports.

In 2015, the most frequently supported facilities of the loan were onshore wind- and photovoltaic facilities⁵³⁴. The total investment allocated between 2009 and 2016 amounts to approximately EUR 33 billion. In 2016 EUR 4.6 billion were allocated, which is similar to the amount allocated in 2015, i.e. EUR 4.4 billion. A total of 121,314 individual measures were supported between 2009 and 2016 with each measure averaging EUR 270,000. However, since 2009, average loan size per action supported has significantly increased and even multiplied, indicating a change of focus and investment size over time.

This is directly linked to the changed law on renewable energies mentioned above. As a result, the demand for investment support for smaller energy production facilities (such as roof top photovoltaic installations) has decreased in favour of larger projects requiring larger investment amounts⁵³⁵. Thus, the changed law contributed to a shift from a large number of small projects to a small number of larger projects that are supported by the instrument.

⁵³⁴ KfW, 2015. Geschäftsbericht.

⁵³⁵ Koschel, H., 2017. Interview on renewable energy loan provided by the KfW number 270.

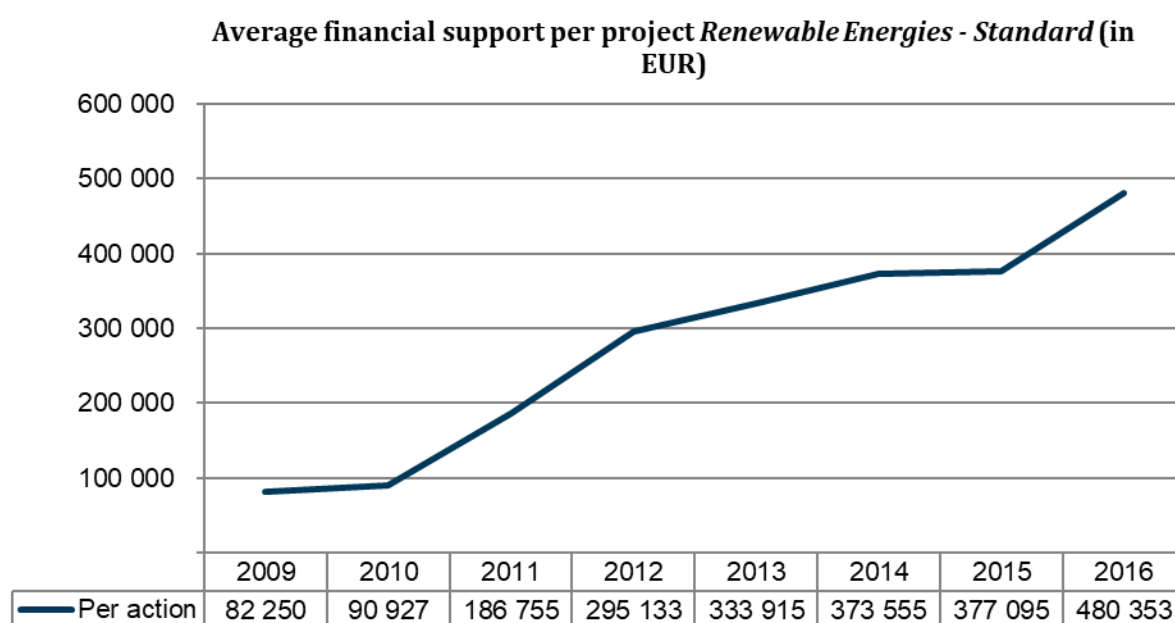


FIGURE 94. AVERAGE INVESTMENT PER PROJECT UNDER THE LOAN RENEWABLE ENERGIES - STANDARD

Source: own analysis based on 2012-2016 KfW reports.

4.2.2 INVESTMENT STRATEGY AND FINANCIAL PRODUCT

The Renewable Energies – Standard facility provides long-lasting financing support at low interest rates. It is especially attractive as it can provide low interest rates even for a long term period⁵³⁶. The investment strategy is illustrated in terms of giving a very detailed specification of the eligible measures in the funding regulation (see table on investment areas above). While the principal areas of investment include a wide variety of renewable energy facility investments, a crucial criterion is that any project eligible under the KfW Renewable Energies – Standard programme should either allow the exploitation of renewable energies or contribute to a more efficient use of renewable energy sources.

The loan is provided through financial intermediaries, namely through banks with client-customer relations. The support is granted only for the project for which the application was submitted. The maximum loan amount is EUR 50 million per specific project and up to 100 percentage of eligible project costs can be covered by the loan. The minimum term is two years; the maximum term is 20 years. A grace period can be agreed. Its maximum term depends on the loan term – the longer the loan term the longer the maximum grace period. The maximum grace period is three years.

The interest rate is calculated individually based on a risk pricing system of KfW. This pricing system includes the assessment of the borrower's bank regarding the borrower's creditability and likelihood of a

⁵³⁶ Koschel, H., 2017. Interview on renewable energy loan provided by the KfW number 270.

default risk as well as the share of collaterals. Below tables give an indication of how the different elements are combined into nine different pricing groups. For obtaining these nine classes the categorisation of the borrower's bank assessment and the collateral group are combined.

TABLE 287. CREDIT WORTHINESS ASSESSMENT DECISIVE FOR PRICING GROUP

KfW worthiness class	Assessment by borrower's bank		
	Credit worthiness	Risk	1 year default risk
1	excellent	Low	Up to 0,1 %
2	Very good		> 0,1 % to <= 0,4 %
3	Good		> 0,4 % to <= 1,2 %
4	Satisfactory		> 1,2 % to <= 1,8 %
5	Still satisfactory		> 1,8 % to <= 2,8 %
6	Sufficient		> 2,8 % to <= 5,5 %
7	Still sufficient	High	> 5,5 % to <= 10,0 %

Source: based on <https://www.kfw-formularsammlung.de/KonditionenanzeigerINet/pkBerechnung.jsp>

TABLE 288. COLLATERALS DECISIVE FOR PRICING GROUP

KfW collateralisation class	Identification by borrower's bank	
	Collateral share	
1	>= 70 %	
2	> 40 % and < 70 %	
3	<= 40 %	

Source: based on <https://www.kfw-formularsammlung.de/KonditionenanzeigerINet/pkBerechnung.jsp>

To give an example: a borrower who is assessed as having 'still sufficient' credit worthiness has to provide collaterals in the 2nd KfW class (more than 40 percentage) in order to still obtain a loan under the most expensive pricing class. Only the two best credit worthiness assessments 1 and 2 would obtain the cheapest interest rates' category if they provide collaterals of more than 40 or 70 percentage respectively.

In addition to this risk pricing system the actual interest rates the borrower will get also depends on the term, grace period and period of the fixed interest rate. At the time when the report was written, the interest rates for Renewable Energies – Standard loans ranged from 1.25 percentage (cheapest pricing group, short term) and 9.35 percentage (highest pricing group, long term).⁵³⁷

Apart from the flexibility in terms of the applied interest rate, this is fixed for the entire loan term if the loan terminates within ten years. For loans with a term between ten and 20 years, the interest rate is fixed for either the first ten years or the whole loan term.

The loan can be disbursed either entirely or in tranches. Repayment of interest rates and redemption is organised quarterly if not specified differently in the loan contract. Beneficiaries have to comply with the

⁵³⁷ <https://www.kfw-formularsammlung.de/KonditionenanzeigerINet/KonditionenAnzeiger> with the latest change of interest rates for Renewable Energy – Standard loans on 13 September 2017

individual collateral conditions required by their bank⁵³⁸. The support can be acquired within 12 months after approval whereas after the first month and two bank working days, a monthly 0.25 percentage commitment fee will be charged⁵³⁹.

In terms of validating the approved payment and their use for their intended purpose, the KfW provides the financial intermediaries different possibilities. The proof can be either undertaken through i) invoices, sending bills and sales contracts, ii) a plausibility check in the form of a lists of expenditures, iii) a certificate in the framework of tax/audit declaration, iv) a plausibility check in the form of a project closure report and v) the control of use through the valid *MaRisk* regulations (minimum requirements for risk management)⁵⁴⁰. This indicates simultaneously a built-in flexibility in the programme, allowing for individual investment adjustments, and allows for a high continuity and stability in the programme's requirements as these proofs have been valid for many years.

TABLE 289. OVERVIEW OF CONDITIONS OF THE TWO FINANCIAL INSTRUMENTS

Loan characteristics	Renewable Energies – Standard
Combination of funding	Possible (with other non-State Aid support)
Maximum loan size	EUR 50 million per project
Maximum co-financing through the loan	100 % of net eligible project costs
Provisioning time	12 months
Loan payment	Single or multiple tranches
Collaterals	To be agreed with borrower's bank
Loan term	Minimum of 2 years and up to 20 years
Grace period	Depending on term period 1, 2, 3 or 3 years
Interest rates	Fixed rates for entire loan term or 10 years; individually agreed interest rate based on credit history and collateral and according to pricing system of KfW ('risk appropriate interest rate system')
Repayment conditions	Quarterly payment of interest and repayment respectively; unscheduled repayments only possible under penalty
Proof of use	The financial intermediary can decide between five options to ask for proof by the beneficiary that the loans were used for the intended purpose (see above)

Source: based on KfW, 2017. Merkblatt - Erneuerbare Energien. KfW, 2013. Mittelverwendungskontrolle in den bankdurchgeleiteten Förderprogrammen der KfW.

Apart from some specific ERP schemes, KfW usually does not specifically distinguish the source of funding for loans and venture capital. However, this is somewhat different for the Renewable Energies – Standard facility. This is directly linked with a specific KfW refinancing instrument. KfW issues so-called 'Green Bonds – Made by KfW'. They are used to refinance loans under the Renewable Energies – Standard facility. If issued Green Bonds are not sufficient to meet the demand for Renewable Energies – Standard loans, other KfW resources may be used (e.g. other capital market investment, reflows from previous loans). Investors buying these 'Green Bond' directly link their investment with KfW investments in renewable energy projects. By

⁵³⁸ KfW, 2016. Merkblatt - Kommunale und soziale Infrastruktur - IKU - Investitionskredit Kommunale und Soziale Unternehmen.

⁵³⁹ KfW, 2017. Merkblatt - Erneuerbare Energien.

⁵⁴⁰ KfW, 2013. Mittelverwendungskontrolle in den bankdurchgeleiteten Förderprogrammen der KfW.

investing EUR 1 million in KfW Green Bonds, annually 800 tons CO₂ equivalents are being saved⁵⁴¹. The loan provides investors the possibility to influence and monitor the use of their invested means as well as the area of use. In 2015, the programme managed to refinance 88 percentage of the requested loans under the Renewable Energies – Standard facility from Green Bonds. Experience shows that traditional investors as well as investors interested in sustainability are interested in Green Bonds. This interest is raised through high standards regarding transparency and impact measures of these bonds⁵⁴².

4.2.3 GOVERNANCE OF THE FI

The loan **Renewable Energies – Standard** is administered by the KfW group. The principal features of the KfW and its purpose are outlined in the introduction. For more information on the governance of the KfW group please see the description provided in the IKK/IKU investment loans cases.

Regarding the underlying loan facility, the bank did not encounter special problems when implementing the loan in 2009. The KfW offers a variety of other products with the same organisational structure. The model of the loan Renewable Energies – Standard is similar to others where a financial intermediary is in charge of providing the loan. There were no difficulties reported during the implementation⁵⁴³.

In cooperation with related ministries, the KfW can also offer investment loans that are tailor-made to a political necessity. In this context, the precise formulation of energy related instruments offered by the KfW has changed over time. The following table (TABLE 290) gives an overview of the current differentiation of KfW loan facilities in support of renewable energies and energy efficiency. The loans are offered by the KfW through public assignment by the federal state. This means that all conditions were coordinated with the relevant ministries.

⁵⁴¹ KfW, 2015. Geschäftsbericht.

⁵⁴² KfW, 2015. Geschäftsbericht.

⁵⁴³ Koschel, H., 2017. Interview on renewable energy loan provided by the KfW number 270.

TABLE 290. OVERVIEW OF ENERGY RELATED LOANS OFFERED BY THE KFW FOR ENTERPRISES IN 2016

	KfW energy efficiency programme - energy efficiently built and renovate (176...)*	KfW energy efficiency programme - production facilities and processes (292/293)*	KfW energy efficiency programme - lost exhaust heat (294)*	ERP innovation programme (180...)*	Renewable energies - standard (270/274)*	Renewable energies - premium (271)*	Renewable energies - storage (275)*	KfW environment programme (240/241)*	KfW entrepreneur loan (037/047)*
What do we support?	Built or renovate buildings energy efficiently	Machines, facilities and technique with low energy consumption Modernisation and new purchases	Modernisation, enlargement or new construction of facilities for the use or for the prevention of exhaust heat	Research activities close to market needs Newly develop or products, production processes and services	Generate electricity from sun, wind and water	Collect, store and distribute heat from renewable energies	New installation of stationary battery collection systems	Enterprise related environment protection measures within and outside of the country	Finance investments Finance operation facilities
Whom do we support?	All enterprises All entrepreneurs	All enterprises All entrepreneurs	All enterprises All entrepreneurs	Enterprises up to EUR 500 million group balance Entrepreneurs Each must provide at least 2 years of relevant market experience	All enterprises All entrepreneurs Farmers	All enterprises All entrepreneurs Farmers Municipalities	All enterprises All entrepreneurs Private individuals Persons of public interest	All enterprises All entrepreneurs Public-Private-Partnerships	Enterprises up to EUR 500 million group balance providing at least 5 years of relevant market experience Entrepreneurs
Advantages	Fixed interest rates possible for up to 10 years	Fixed interest rates possible for up to 20 years For Investments inside and outside of the country	Fixed interest rates possible for up to 20 years Up to 50 % repayment bonus	For measures that are innovative for your enterprise Easier loan access through subordinate capital	Fixed interest rates possible for up to 20 years For Investments inside and outside of the country	Up to 50 % repayment bonus Fixed interest rates possible for up to 10 years	Fixed interest rates possible for up to 10 years Up to 25 % repayment bonus For Investments inside and outside of the country	Suitable for a broad spectrum of measures Fixed interest rates possible for up to 20 years	Cheap loan for enterprise related measures Easy access possible through exemption from liability Fixed interest rates possible for up to 20 years
Maximum loan	Usually EUR 25 million	Usually EUR 25 million	Usually EUR 25 million	EUR 5 million	EUR 50 million	EUR 10 million	No maximum size	Usually EUR 10 million	EUR 25 million

Loan term	Up to 10 years	5 to 20 years	Up to 20 years	10 years	Up to 20 years	5 to 20 years	Up to 20 years	5 to 20 years	2 to 20 years
Grace period	Up to 3 years	Up to 3 years	Up to 3 years	Up to 2 or 7 years respectively	Up to 3 years	1 to 3 years	Up to 3 years	1 to 3 years	1 to 3 years
Further	www.kfw.de/276	www.kfw.de/292	www.kfw.de/294	www.kfw.de/180	www.kfw.de/270	www.kfw.de/271	www.kfw.de/275	www.kfw.de/240	www.kfw.de/037

* Numbers in brackets indicate the formal code of the respective instrument within the KfW programmes.

Source: KfW, 2016. *Die KfW-Förderung für Ihr Unternehmen. Jetzt investieren und nachhaltig profitieren.*

In its current and comprehensive form, the loan instrument (no. 270) was introduced in 2009. This is a result of the KfW's restructuring of different instruments in favour of supporting the transition towards renewable energies. Initially, the loan instrument was designed to be a 'one-stop-shop', which meant that a variety of measures to support renewable energies were supported in the frame of one investment programme⁵⁴⁴. However, over the following years more programmes related to renewable energy and energy efficiency were introduced incrementally to address new investment needs. This was the case for instance for the facility 'photovoltaic loan'⁵⁴⁵ that was especially dedicated for the creation of photovoltaic facilities.

In 2016, a modification to the loan was introduced. Because of political decisions, the 'photovoltaic loan' was merged into the Renewable Energies – Standard loan. Initially, the former photovoltaic loan provided financial support for the energy generation through photovoltaic installations only. In order to compensate for the ceasing instrument, as outlined above, and its funding characteristics, the funding programme Renewable Energies – Standard was adjusted in terms of the repayment schedule of the instrument. The energy transition in Germany has reached a new stage that requires adjustments of the funding instruments with a stronger focus on the network and grid connections rather than energy production facilities. Ceasing of the 'photovoltaic loan' and amending of the Renewable Energies – Standard loan aims to support investments that enhance facilities for flexibly feeding-in electricity into the network that is generated from the facilities that were created within the framework of the photovoltaic loan⁵⁴⁶.

The broad offer of investment programmes and funding opportunities differentiating between target groups and investment priorities in the field of renewable energy is unique for Germany. The offer is only profitable because of economies of scale – the market is sufficiently large to support a differentiated system of investment programmes. Thus, in smaller markets a less differentiated system may be more appropriate.

⁵⁴⁴ KfW, 2008. Geschäftsbericht.

⁵⁴⁵ Loan number 274

⁵⁴⁶ KfW, 2016. KfW-Information für Multiplikatoren.

4.2.4 IMMEDIATE AND LONG TERM IMPACTS OF THE FI

The loan instrument helps to establish the relatively young renewable energy sector within Germany. The investment support stimulates the demand for renewable energy production facilities and thus makes investments possible (profitable) that would not be made otherwise because of relatively high investment costs at early stages of market entry, for instance⁵⁴⁷.

Between 2009 and 2016, the loan **Renewable Energies – Standard** has provided a total of EUR 32.8 billion in projects. During this period 121,314 projects were funded. The offer of the KfW has helped to significantly thrive forward the political objective of energy transition in Germany⁵⁴⁸. In 2015, the share of renewable energies in the generated gross electricity was 32.6 percentage⁵⁴⁹. The success is however not fully effective due to lagging investments in the energy network infrastructure that hampers the full use of the electricity produced decentrally⁵⁵⁰. This may also explain the changing focus in the Renewable Energies – Standard loan facility.

There is no maximum threshold for funding provision that limits the attributed support. There are however other limiting factors that apply to all funding programmes offered by the KfW such as limited refinancing assets, capital limits and administrative capacities of the loan department⁵⁵¹. The results of the programme are measured internally through its share in financing the newly installed renewable energy electricity generating capacity within Germany and through the investments induced through the loan. In 2013 the KfW has co-financed approximately 90 percentage of the newly installed renewable energy production capacity in Germany. Between 2010 and 2016, the KfW share amounted in average to approximately two thirds of the total capacity^{552 553 554}.

In the framework of the programme's evaluation, several aspects are annually evaluated. The evaluation is undertaken by an external evaluation provider that examines i) the newly installed capacity, ii) the induced investments, iii) the achieved CO₂ reductions and iv) the saved imports of fossil energy sources⁵⁵⁵. While these overall assessments show the logic of the evaluation approach, individual examples are more appropriate to highlight the actual impacts of the investments at local scale.

In 2014, the investment loan has supported the construction of a wind farm in the village of Bendorf – Oersdorf in Schleswig-Holstein. The project was complete in 2014 and the investment programme Renewable Energies – Standard has contributed EUR 21 million of the EUR 27.9 million total costs. The farm annually produces approximately 39 million kWh of renewable electricity and thus saves a total of more than 32 thousand GHG emissions per year. The installed facilities provide clean electricity to about 11,000 households⁵⁵⁶.

⁵⁴⁷ KfW, 2010. Geschäftsbericht.

⁵⁴⁸ KfW, 2010. Geschäftsbericht.

⁵⁴⁹ KfW, 2016. Die KfW-Förderung für Ihr Unternehmen. Jetzt investieren und nachhaltig profitieren.

⁵⁵⁰ Bundesnetzagentur, 2015. Bedarfsermittlung 2024. Zusammenfassung der Konsultationsergebnisse.

⁵⁵¹ Seiffert, S., 2017. Interview on "IKK Investment loans for municipalities" and "IKU Investment loans for local public and social enterprises" provided by KfW, interview held on 19.09.2017.

⁵⁵² Koschel, H., 2017. Interview on renewable energy loan provided by the KfW number 270.

⁵⁵³ Zentrum für Sonnenenergie- und Wasserstoff-Forschung, 2015. Evaluierung der inländischen KfW-Programme zur Förderung Erneuerbarer Energien in den Jahren 2013 und 2014.

⁵⁵⁴ Zentrum für Sonnenenergie- und Wasserstoff-Forschung, 2016. Assessment of environmental and social impacts of the "KfW Renewable Energies Programme - Standard" for the year 2014.

⁵⁵⁵ Koschel, H., 2017. Interview on renewable energy loan provided by the KfW number 270.

⁵⁵⁶ KfW, 2017. Invest in the everlasting. Green Bonds - Made by KfW.

FIGURE 95. WIND FARM SUPPORTED BY THE KfW IN BENDORF - OERSDORF



Source: KfW, 2017. Invest in the everlasting. Green Bonds - Made by KfW.

For the purpose of generating electric energy from photovoltaic facilities, the KfW supported a project investment in 2014 in Bavaria, in the municipality of Raitenbuch. On the roof of the enterprise HP-T (Höglmeier Polymer-Tech GmbH), photovoltaic facilities with a total capacity of about 945 kWh per year were installed and co-funded with the investment loan Renewable Energies – Standard. The total costs of EUR 420,000 were co-funded to a large degree (EUR 400,000) by the investment programme and thus have made possible to save up to about 127 tons of GHG emissions per year⁵⁵⁷.

FIGURE 96. PHOTOVOLTAIC INSTALLATIONS ON THE ROOF OF THE HP-T HÖGLMEIER POLYMER-TECH GMBH IN BAVARIA



Source: KfW, 2017d. Invest in the everlasting. Green Bonds - Made by KfW.

⁵⁵⁷ KfW, 2017. Invest in the everlasting. Green Bonds - Made by KfW.

4.3 BRANDENBURG LOAN FOR MUNICIPALITIES (BKK) - MODERN SCHOOLS

The **Brandenburg loan for municipalities – Modern schools** (*Brandenburg-Kredit für Kommunen – Moderne Schule – BKK – Modern Schools*) is an investment loan, which is managed and distributed by the Investment Bank of the Land Brandenburg (ILB – *Investitionsbank des Landes Brandenburg*), a public institution (public bank). The bank represents a public actor that was founded in 1992 with the objective of supporting public authorities in Brandenburg in the fulfilment of their delegated tasks. The institution exercises the function of providing funding for public and private investments in the fields of the economy, infrastructure and housing⁵⁵⁸. It is supervised by the Brandenburg Ministry of Finance⁵⁵⁹.

The bank is a public enterprise, governed by public law. The Land Brandenburg can provide a minimum of 25 percent of the capital share, the public North Rhine-Westphalian NRW.BANK can hold up to 50 percent and 25 percent can be provided by other juridical persons of public law⁵⁶⁰. The capital stock amounts to EUR 110 million, which is usually divided to equal shares between the two owners (Land Brandenburg and NRW.BANK) if no third party becomes involved (juridical persons of public law)⁵⁶¹. The current ownership structure exists since the foundation of the ILB back in 1992 after the reunification⁵⁶². Because of the fact that the ILB is a public bank, the state bears full liability for its actions⁵⁶³.

The ILB has a similar functioning as its federal counterpart, the KfW⁵⁶⁴ (*Kreditanstalt für Wiederaufbau* – Loan institution for reconstruction) that was created already in 1948. However, with there are differences, for instance with respect to the refinancing of the resources needed to realise the ILB's principal tasks. The ILB realises its refinancing mainly through the European Investment Bank (EIB), the Agricultural Mortgage bank (Landwirtschaftliche Rentenbank – LR), the KfW group, the Council of Europe Development Bank (CEB as well as by issuing own bonds⁵⁶⁵. In accordance with state aid regulations of the EU, the bank can fulfil the following tasks, as outlined in the law about the ILB (§ 4 ILB law):

- 1) Provision of public financing support especially in the fields of
 - a. Housing, settlement development and town planning,
 - b. Commercial support, especially investment support for SMEs, provision of venture capital and technology-, innovation- and media financing support,
 - c. Infrastructure,
 - d. Agriculture and forestry,
 - e. Environmental protection,
 - f. Labour promotion,
 - g. Social tasks, health and family,
 - h. Education, youth and sport,
 - i. Research & development and culture, and

⁵⁵⁸ ILB, 2017. Wir über uns.

⁵⁵⁹ Official Journal C 100, 2003. OJ C 100, 26.4.2003: State aid — Germany — Aid C 16/03 (ex NN 89/02) and (ex CP 49/02) — Rescue aid in favour of Herlitz AG — Invitation to submit comments pursuant to Article 88(2) of the EC Treaty (Text with EEA relevance).

⁵⁶⁰ ILB, 2017. Gesetz über die Investitionsbank des Landes Brandenburg.

⁵⁶¹ ILB, 2015. Satzung der Investitionsbank des Landes Brandenburg in der Fassung vom 13. Mai 2015.

⁵⁶² Potsdamer Neuste Nachrichten, 2012. ILB: Stenger wird Lichts Nachfolger.

⁵⁶³ ILB, 2017. Gesetz über die Investitionsbank des Landes Brandenburg.

⁵⁶⁴ See: <https://www.kfw.de/kfw.de-2.html> as well as the case study reports provided in this volume on KfW loan instruments.

⁵⁶⁵ ILB, 2015. Geschäftsbericht 2015.

- j. Consumer protection.
- 2) Participation in projects of general public interest that are supported through the European Investment Bank (EIB) or similar European financing institutions.
- 3) Provision of loans and other financial support to local authorities, associations of local authorities and municipal institutions.
- 4) Measures of entirely social origin, especially
 - a. Provision of loans in the framework of the federal housing support for households that have financial difficulties of sustaining appropriate housing,
 - b. Financing of social institutions that provide services for persons who fulfil specific social criteria, defined by law,
 - c. Financing to persons that fulfil specific social criteria, defined by law,
- 5) For the implementation of above tasks, labour market policy needs must be respected⁵⁶⁶.

Based on these five tasks, the ILB differentiates financial support schemes along four principal fields of activities: economy, infrastructure, housing construction and labour. Within each of these fields, the bank provides grants and/or investment loans and in some areas also venture capital or guarantees are offered. Within the infrastructure support field, the ILB offers seven loans, among others the **Brandenburg loan for municipalities – Modern schools** (BKK – Modern schools).

The tasks of the banks at the *Länder* level differ from that of the federal KfW. Apart from the provision of loans, they are also in charge of providing grants and channelling and administering investments through ESI funds in the specific *Land*.⁵⁶⁷ For instance, the ILB is the central awarding authority for ERDF, ESF and EAFRD funds in Brandenburg⁵⁶⁸. Thus, the investment banks of the *Länder* do not only provide funding from their regional resources or their capital market activities but bundle different funding resources from regional, national and international sources. In addition, as a result of the federal structure and the different responsibilities, some types of support may mainly be provided through the *Länder* level rather than the federal level. Funding for education is one such example, where the main responsibilities are below the federal level⁵⁶⁹.

4.3.1 OBJECTIVES AND RATIONALE FOR ESTABLISHING THE FI

In order to ensure a high level of quality of life, to protect the environment, to improve economic framework conditions and to provide the local labour market with corresponding economic stimulus, municipalities must invest in their infrastructure. In many cases, municipal actors do not have enough financial resources available to realise the necessary infrastructure investments. This is mirrored, for instance, in the frequently quoted 'investment backlog' of German municipalities⁵⁷⁰. For realising such investments, municipalities may have to apply for a loan if they cannot obtain a grant or have sufficient budgetary resources. Private loans however usually have high interest rates, making it rather expensive for municipalities and leading to a long-term financial burden for the municipalities. In order to tackle this

⁵⁶⁶ ILB, 2017. Gesetz über die Investitionsbank des Landes Brandenburg.

⁵⁶⁷ For further tasks in the fields of public trust businesses see e.g. (ILB, 2015b, p. 3)

⁵⁶⁸ ILB, 2017. EU-Fonds in Brandenburg.

⁵⁶⁹ BMBF, 2016. Föderalismus in Bildung und Wissenschaft.

⁵⁷⁰ KfW, 2017. Zukunft vor Ort gestalten.

market failure, the ILB offers better conditions as compared to private banks that make the necessary investments feasible for municipalities. The BKK – Modern schools loan is one such instrument.

Within the area of ‘infrastructure’ investments, the ILB has provided a total of EUR 1.23 billion in funding commitments in 2016. In 2016, the number of funded projects has increased by 19 percent to 464 projects in total as compared to the previous year⁵⁷¹. The BKK – Modern schools loan facility was relaunched in its current form in 2015. During the first year of activity in 2016, it has funded two projects of a total of EUR 9.5 million.

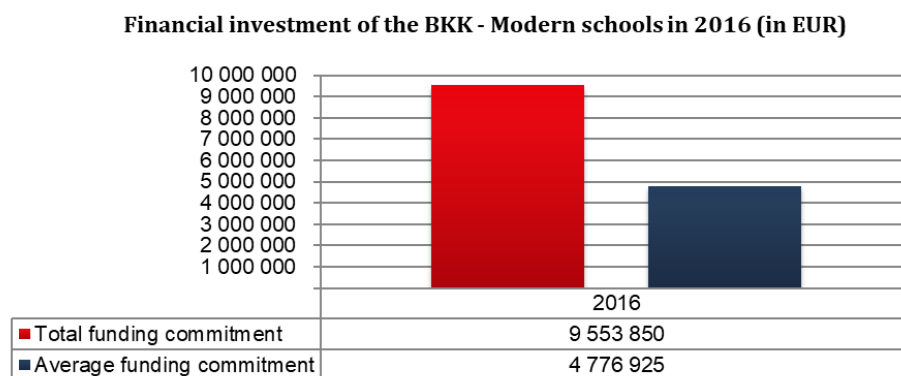


FIGURE 97. TOTAL AND AVERAGE PER PROJECT FINANCIAL INVESTMENT UNDER THE LOAN BKK – MODERN SCHOOLS

Source: ILB, 2016. Geschäftsbericht 2016.

With the BKK – Modern schools facility, the *Land* offers financing support for municipal school authorities and municipal school administration in Brandenburg. The instrument is targeted at construction, modernisation and equipment of schools. This includes the acquisition of building land as well as technical equipment⁵⁷². Thus, the instrument functions as a standardised investment programme for all investments that are required in the framework of creating and maintaining education infrastructure. Similar to other public infrastructure public schools are financed from the local public budget of the municipality or district. Public schools are free of charge in Germany, thus parents only pay for additional services (e.g. sometimes for books, lunch, special visits etc.) while the principal teaching service has to be provided from public budgets. The budget of local authorities is based on several sources, including e.g. a share from income tax and they have the right to claim some specific local taxes (e.g. on business or on land use). Together with transfers from higher administrative levels these taxes contribute to the local authority's budget that is available not only for providing services etc. (such as the maintenance of school services) but may also be used to refinance an investment by distributing the investment costs over many years.

⁵⁷¹ ILB, 2016. Geschäftsbericht 2016.

⁵⁷² ILB, 2017d. Brandenburg-Kredit für Kommunen - Moderne Schule.

TABLE 291. TYPES OF BORROWERS ELIGIBLE FOR THE FINANCIAL INSTRUMENT

Brandenburg loan for municipalities: BKK – Modern schools
Municipal school operators in Brandenburg
Municipal school associations in Brandenburg

Source: ILB, 2017d. *Brandenburg-Kredit für Kommunen - Moderne Schule*.

The loan instrument was designed exclusively for investments in schools. The provision of loans is thus linked to the use for the dedicated purpose. Already finalised or financed school infrastructure projects as well as debt restructuring for finalised projects cannot be funded. The instrument shall not be used as liquidity loan. And activities that are likely to influence free competition cannot be supported either⁵⁷³.

Regarding the overall volume, loans can amount up to EUR 10 million per year per beneficiary. Below total investments volumes of EUR 2 million, the investment support can be up to 100 percent whereas it can amount up to 50 percent if the investment is above the EUR 2 million threshold. The other 50 percent may be financed from a loan under the Brandenburg loans for municipalities – a different loan facility of the ILB⁵⁷⁴.

TABLE 292. INVESTMENT AREAS OF THE FINANCIAL INSTRUMENT

Brandenburg loan for municipalities: BKK – Modern schools
Investments in acquisition of land dedicated for schools
Investments in school buildings
Investments in renovation of public school buildings
Investments in equipment of school buildings

Source: ILB, 2017. *Merkblatt Infrastruktur - Brandenburg-Kredit für Kommunen - Moderne Schule*.

4.3.2 INVESTMENT STRATEGY AND FINANCIAL PRODUCT

The BKK – Modern schools facility is funded from ILB and KfW resources. The cooperation of the federal and the *Länder* level bank, provides the possibility to offer the loan at even better conditions, since the KfW due to its size and capital market standing has very favourable possibilities for obtaining refinancing resources⁵⁷⁵. ILB uses especially the IKK investment loan for municipalities by the KfW for refinancing of the BKK – Modern school loans. By feeding the investment programme with financial resources of the KfW and ILB, it is possible for the regional authorities to include political objectives in the design of the investment loan⁵⁷⁶. This organisational structure is useful to support investments in areas that are usually under the political responsibility of the *Länder*.

The loan addresses one of the main investment backlogs in Germany. Many public school buildings suffer from a lack of investments during past years⁵⁷⁷. German municipalities typically suffer from low funding

⁵⁷³ ILB, 2017e. *Merkblatt Infrastruktur - Brandenburg-Kredit für Kommunen - Moderne Schule*.

⁵⁷⁴ ILB, 2017e. *Merkblatt Infrastruktur - Brandenburg-Kredit für Kommunen - Moderne Schule*.

⁵⁷⁵ KfW, 2017. KfW presents itself- Structure and mission of KfW.

⁵⁷⁶ KfW, 2017. Enge Zusammenarbeit mit den Landesförderbanken.

⁵⁷⁷ SZ, 2017. In Deutschland gibt es einen gewaltigen Investitionsstau.

availability as a result of high liabilities that were accumulated during the past decades. In turn, this has led to a considerable investment backlog affecting various local infrastructures, and schools are typically among these neglected infrastructures. Thus, the loan instrument addresses a central German issue that hampers sustainable growth in many municipalities. Although recently increasing financial surplus and decreasing municipal debt were reported by public administrations, the investment backlog is only dissolving slowly. For 2017, the majority of investment needs was identified for transport infrastructure as well as schools and life-long learning institutions. Municipalities also consider having further investment needs in public administrative buildings and for sport facilities in order to reduce the investment backlog⁵⁷⁸. The analysis shows that municipalities that have problems to sustain the existing infrastructure, i.e. to finance the running costs, also feature the highest investment backlogs⁵⁷⁹.

Based on the refinancing through the corresponding KfW loan facility (IKK investment loans), ILB grants very favourable conditions that are even better than the ones offered by KfW^{580 581}.

The BKK – Modern schools loan facility was introduced in its current form during 2015 and firstly used in 2016⁵⁸². Actors apply for the loan directly at the ILB where the loan is also administered. Even though the loan is partly refinanced with KfW resources, beneficiaries only need to interact with the ILB as single institution who acts as funding body. If the investment is made in multiple years, the application for an investment loan has to be made in tranches for each respective year.

TABLE 293. OVERVIEW OF CONDITIONS OF THE LOAN FINANCIAL INSTRUMENT

Loan characteristics	Brandenburg loan for municipalities: BKK – Modern schools
Combination of funding	Possible
Maximum loan size	EUR 10 million per year, per beneficiary
Maximum co-financing through the loan	100 % below EUR 2 million, 50 % above EUR 2 million
Provisioning time	12 months
Loan payment	Single (per year)
Collaterals	Must fulfil standard requirements for municipal loans
Loan facility enhancement through other loans	Possible as long as investment lacks full funding and own contribution is at least at 15 % of the total project volume
Loan term	Alternatively 10, 20 or 30 years
Grace period	Depending on term period a maximum of 2, 3 and 5 years respectively
Interest rates	Fixed rates for 10 years depending on market interest rates on the day of disbursement
Repayment conditions	Quarterly payment of interest and repayment respectively, unscheduled repayments only possible under penalty
Proof of use	The beneficiary must guarantee that the loan was used for the declared purpose. This is done through a declaration acting as a proof of use. ⁵⁸³

Source: ILB, 2017. Merkblatt Infrastruktur - Brandenburg-Kredit für Kommunen - Moderne Schule.

⁵⁷⁸ KfW, 2017. Zukunft vor Ort gestalten.

⁵⁷⁹ KfW, 2017. Zukunft vor Ort gestalten.

⁵⁸⁰ See also below in – Governance.

⁵⁸¹ ILB, 2017. Merkblatt Infrastruktur - Brandenburg-Kredit für Kommunen - Moderne Schule.

⁵⁸² ILB, 2016. Förderangebote für öffentliche und soziale Projekte. Kommunale Herausforderungen wachsender Kommunen finanzierend begleiten.

⁵⁸³ See: https://www.ilb.de/media/dokumente/dokumente_fuer_programme/dokumente_mit_programmzuordnung/infrastruktur/01_darlehen_1/brandenburg_kredit_fuer_kommunen_fluechtlingseinrichtungen/kk1509160611_-_VN_-_BKK_ModerneSchule_Fluechtlingseinrichtungen.pdf

4.3.3 GOVERNANCE OF THE FI

The BKK – Modern Schools is an instrument that funds projects under the genuine task of public investment banks, which is the infrastructure support. The tasks of these banks are defined by federal and *Länder* law. In order to fulfil their responsibility in providing the corresponding services of general economic interest, these banks rely on established business models, such as the infrastructure investment support. The results are specific products such as the BKK – Modern schools loans that address a concrete issue or a funding gap where investments are needed. The political priorities therefore are defined at the respective level⁵⁸⁴, which in this case is the *Länder* level.

In the framework of infrastructure funding provision, the ILB sets new priorities with the BKK – Modern schools facility. Complementing the existing funding programmes, the specific support for schools is a new focus area in infrastructure support of the ILB⁵⁸⁵. The instrument was implemented in 2016 (after the political decision in 2015) and is currently administered by two desk officers at the bank.

Through the cooperation of the KfW and the ILB, the bank on the *Länder* level provides an additional contribution from its own means and thus makes the loans cheaper as compared to a sole funding from one of the two sources⁵⁸⁶. This also implies that the *Länder* thereby have the possibility to either engage in a cooperation or not, depending on their political priorities.

The BKK – Modern schools investment loan can be combined with other loans of its type. It is flexible and provides municipalities the possibility to acquire funding from different public sources. As an example, BKK – Modern schools loans can be combined with the KfW programme IKK – investment loans municipalities as long as the own financial contribution of the municipality does not fall below 15 percent⁵⁸⁷.

The application process comprises to fill in a form of five pages only⁵⁸⁸. The form is standardised and can be applied for different specific facilities within the main BKK loans for municipalities. This form is accompanied by a project description summary and some formal information on the applying recipient (e.g. statutes of municipal school association, membership structure of such associations).

The proof of use consists of a page form only in which the recipient confirms the appropriate use and amount of the funding. Thus, the instrument requires a low administrative effort for the municipalities that intend to use the BKK – Modern schools loan.

4.3.4 IMMEDIATE AND LONG TERM IMPACTS OF THE FI

In 2016, two project applications with a total budget of approximately EUR 9.5 million have been approved. By this, total investments of EUR 15.8 million were induced⁵⁸⁹. These result in an approximate of EUR 7.9 million induced per total project investments.

⁵⁸⁴ Börsen-Zeitung Nr. 61, 2015. Förderbanken.

⁵⁸⁵ ILB, 2016. Geschäftsbericht 2016.

⁵⁸⁶ KfW, 2017. Enge Zusammenarbeit mit den Landesförderbanken.

⁵⁸⁷ KfW, 2016. Energetische Stadtsanierung - Förderprogramme der KfW für Kommunen.

⁵⁸⁸ See: https://www.ilb.de/media/dokumente/dokumente_fuer_programme/dokumente_mit_programmzuordnung/infrastruktur/01_darlehen_1/brandenburg_kredit_fuer_kommunen__fluechtlingseinrichtungen/ILB_brandenburg_kredit_fuer_kommunen_Antrag_kk1505181551.pdf

⁵⁸⁹ ILB, 2016a. Geschäftsbericht 2016.

The instrument itself is apparently well perceived by the municipal authorities. Several municipalities consider the use of the instrument to construct or refurbish their municipal schools⁵⁹⁰ during the planning phases. This illustrates that the programme is perceived as serious alternative to federal or private funding programmes when investing in public school infrastructure.

⁵⁹⁰ See: http://www.doppeldorf.de/cms/upload/pdf/Satzungsniederschriften/Finanzausschuss/2016-01-12_Entwurf_Niederschrift_15_Sitzung_FVKA.pdf and https://daten2.verwaltungsportal.de/dateien/seitengenerator/isep_oranienburg_2015_kurzfassung.pdf

4.4 JESSICA IN ITALY

4.4.1 OBJECTIVES AND RATIONALE FOR ESTABLISHING THE FIS

In the last decade, Italian municipalities have experienced a strong restriction of the funding availability. The financial constraints, plaguing most dramatically south municipalities, can be understood as the combined result of the general economic slowdown and the fact that Italian cities were asked to respect public budget targets according to the Internal Stability Pacts. The last aim of the Internal Stability Pacts was to translate at lower government levels the same type of fiscal rigor which is requested to the country by supranational fiscal rules. This has led, in turn, to a substantial slowdown of the investment in local infrastructures (see e.g. Sose, 2017).

In order to oppose this diffused (in Europe) slowdown of local government investment the European Commission (EC) jointly with the European Investment Bank (EIB) and in collaboration with the Council of Europe Development Bank (CEB) introduced for the first time during the 2007-2013 programming period the financial instrument JESSICA (Joint European Support for Sustainable Investment in City Areas) as a more efficient alternative to European Investment Funds.

JESSICA aims to support sustainable urban development and regeneration through financial instruments, which combine European Structural Fund resources (most frequently ERDF) with other public and private sources of finance to create revolving investment funds such as Urban Development Funds (UDFs) to invest PPPs and other projects included in Integrated Plans for Sustainable Urban Development.

A first specific characteristic of JESSICA is the capacity of the financial instrument to generate additional flows of money – either through repayments (saving or new entries) or through the realisation of investments – with the objective of further reutilisation. This *revolving* nature allows public authorities to benefit from increased resources.

A second specific characteristic of JESSICA lays in the fact that it can attract additional resources, both public and private. This is called the *leverage* effect and it can be calculated as the sum of the amount of ESIF funding and of the additional public and private resources raised divided by the nominal amount of the ESI Funds contribution.

During the 2007-2013 programming period, the JESSICA initiative was implemented in three Italian regions (Sardinia, Sicily and Campania) for a total amount of EUR 328 million of JESSICA Funds in Italy. Three JESSICA Holding Funds and six JESSICA Urban Development Funds (UDFs) – of which 2 focused on Energy Efficiency – have been established.

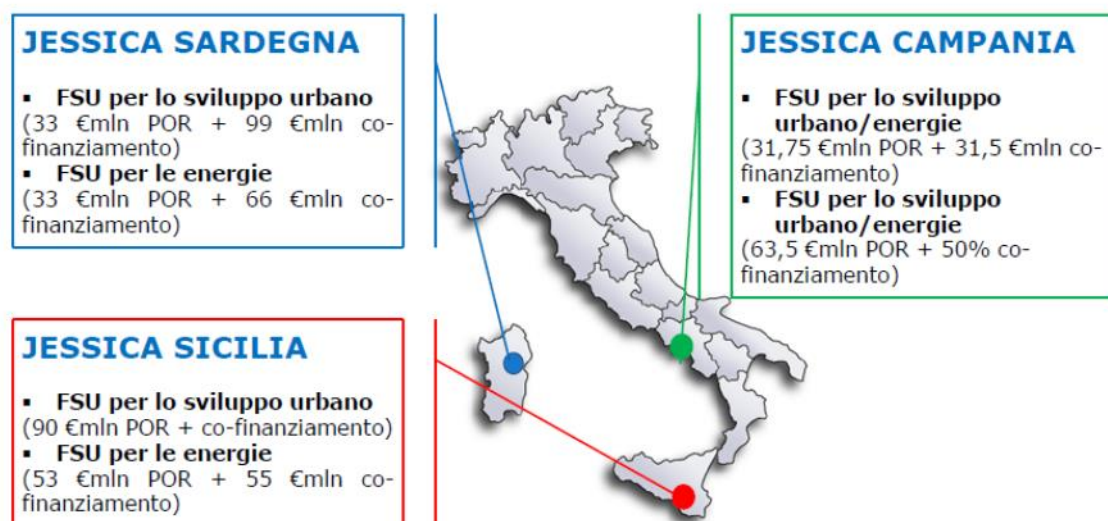


FIGURE 98. JESSICA IMPLEMENTATION IN THREE ITALIAN REGION

Source: Ficompass, "JESSICA initiative in Italy", 2016

Two funds for Urban Regeneration and Energy efficiency implemented in Sicily and two funds in Sardinia are presented in the following sections.

4.4.2 JESSICA IN SICILY

Being in the framework of a Convergence Objective Region, Sicily had the opportunity to combine both grant and revolving funds in JESSICA, that's why in November 2009 Sicily was the first Italian region to join the Jessica Program. Within the scope of the Regional Operative Program (ROP) 2007-2013 the region has signed an agreement with EIB for the creation of two funds for Urban Regeneration and Energy efficiency.

In 2011, Equiter, the frontrunner of the Intesa Sanpaolo Group, won – through a European public tender – the management of the Urban Development Fund JESSICA Sicily (Fondo di Rigenerazione Urbana Sicilia), dedicated to the implementation of projects underpinned by an urban socio-economic impact and relevant employment prospects. The management of the fund for Energy efficiency was instead awarded to Iccrea BancaImpresa S.p.A.

4.4.2.1 JESSICA IN SICILY: THE FUND FOR URBAN REGENERATION

The process of selection of the projects implemented by Equiter at the end of 2011 – that is at only two years from the end of the programming period 2007-2013 – followed a double-sided approach: a "top-down" approach, who concerned the analysis of about 100 urban projects proposed by the Sicilian municipalities to the Region. These projects presented however several critical items, such as the insufficient quality of the project design and the absolute inexistence of the financial sustainability; a "bottom-up" approach, seeing Equiter and the Intesa San paolo Group, committed to conducting an intense

scouting activity on the territory with the aim of identifying new projects of urban development, suitable for the financing with JESSICA funds.

The 5 selected Projects allowed to allocate all JESSICA resources (EUR 81 million coming from EFRD) and arrange co-financing for more than EUR 200 million.

TABLE 294. PROJECTS SELECTED TO BE FINANCED FROM THE FUND FOR URBAN REGENERATION (JESSICA IN SICILY)

	JESSICA Final Recipient	Project	Municipality	2007-2013 ERDF OP Sicily Axis
1	Ri. MED Foundation	Biomedical Research and Biotechnology Centre	Carini (Palermo)	Axis VI
2	Porto turistico di Capo d'Orlando S.p.A. – PTCPO	Touristic harbour	Capo d'Orlando (Messina)	Axis III
3	KORE University	Research centre and library for students	Enna	Axis VI
4	SAC S.p.A. – Catania Airport manager	Car parking at Catania Airport	Catania	Axis I
5	Gratteri Municipality	Retirement home	Gratteri (Palermo)	Axis VI

Source: Ficompass, "JESSICA initiative in Italy", 2016

4.4.2.2 INVESTMENT STRATEGY AND FINANCIAL PRODUCTS

The strategy for this JESSICA fund is to finance urban regeneration projects promoted by the public sector and PPPs. Following the operational agreement between Equiter and EIB, signed in November 2011, the company Fondo Rigenerazione Urbana Sicilia S.r.l. (FRUS) has been formed, and all JESSICA resources have been allocated in the five local urban development projects. All financial instruments in the case of JESSICA Sicily are designed as loans to the local public administrations.

The instruments can be used to acquire financial resources for an investment for which current local resources are insufficient. The loans can be combined with other public funding instruments and may be granted to local administrations (municipalities), concessionaires (e.g. company owning a public concession) and project company (e.g. company built ad hoc for the realization of a project). In the case of JESSICA Sicily, all of these three strategies have been utilized, each presenting different advantages. The following table summarizes the conditions, requirements and advantages of the three financing strategies.

TABLE 295. FINANCING STRATEGIES OF JESSICA SICILY

FRUS "Fondo di Rigenerazione Urbana Sicilia S.r.l.	
Financing local administrations	Local administrations can be financed through the grant of a loan as per "Testo Unico Enti Locali" (TUEL) art. 202 ff.
Conditions	• Duration: up to 20 years • Payback: half-yearly postponed instalments • Interest rate: 0%, in compliance with the regulations on State aids • Minimum amount of the loan: undefined • Maximum amount of the loan: up to 100% of the project eligible expenditure. In any case, the amount shall be proportional to the Administration's ability to pay back. • Requested guarantees: power of attorney to carry out payments

Minimum requirements	Local Administrations will have access to the JESSICA loan provided that they are compliant with the regulations on the assumption of debts: • Respect of borrowing limits as per TUEL • Respect of the Stability Pact • Solid financial status • The final project must have obtained approval
Advantages	• Access to 0% interest rate • Stability Pact: (with ref to investments until 2015): only the non-community quota of the JESSICA funds will affect the Stability Pact. • Coverage up to 100% of the project eligible expenditure. • Complementarity with other financing sources, including non-returnable aids, provided that they are not related to the same expenses; the JESSICA loan may be used to cover the costs remaining at the charge of the local administration within projects that are partially financed with non-returnable aids
Financing to concessionaires	Concessionaires, i.e. companies owning a public concession, can be financed through loans
Conditions	• Duration: up to 20 years • Minimum return on investment of the JESSICA funds, in compliance with EU regulations on State aids • Minimum amount of the loan: undefined • Maximum amount of the loan: up to 50% of the project expenditure. In any case, the amount shall be proportional to the Company's ability to pay back.
Minimum requirements	Concessionaires will have access to the JESSICA loan provided they meet the following requirements: • Being the winner of a public tender • Not being involved in bankrupt or other analogous proceedings
Advantages	• Flexibility: payback and type of intervention adapted to the beneficiary's economic capacity • Possibility to attract more resources: the presence of JESSICA funds will support the acquisition of further private financing sources • Additionality: the JESSICA funds can be complementary to non-returnable public resources
Financing for project companies	Project companies, i.e. companies established <i>ad hoc</i> for the implementation of a project, can be financed through several financial instruments: • Loan • By participating in the risk capital • Subordinated loans • Other instruments (e.g. debenture loans...)
Conditions	• Duration: up to 20 years • Minimum return on investment of the JESSICA funds, in compliance with EU regulations on State aids • Minimum amount of the project: indicatively 10 million EUR • Maximum amount of JESSICA funds: up to 50% of the project expenditure.
Minimum requirements	Project companies will be entitled to apply to receive the JESSICA loan provided that they meet the following requirements: • Being the winner of a public tender (e.g. promoter as per Merloni Law) • Adequate rating • Subscription of appropriate contract for the project financing (construction and management)
Advantages	• Flexibility: payback and type of intervention adapted to the project economic capacity • Possibility to attract more resources: the presence of JESSICA funds will support the acquisition of further private financing sources • Additionality: the JESSICA funds can be complementary to non-returnable public resources

Source: <http://www.equiterpa.com/advisory/jessica-sicilia/>

4.4.2.3 JESSICA IN SICILY: THE FUND FOR ENERGY EFFICIENCY

The Fund for Energy Efficiency in Sicily was created at the bank Iccrea BancaImpresa S.p.A., the corporate bank of Credito Cooperativo, controlled by Iccrea Holding S.p.A., with a capital of EUR 52.7 million within AXIS II – Energy of POR FESR (ERDF - European Regional Development Fund) Sicily 2007 – 2013. The fund was created in collaboration with strategic partners: Sinloc – Sistema Iniziative Locali S.p.A., operating at national-level, expert in strategic planning processes, in decision-making processes and in the analysis of investments structuring involving partnerships between public and private bodies within urban development initiatives; BIT S.p.A – a provider of services related to local investments, operating in the area of co-operative credit providing consulting on the rational use of energy and of renewable energy sources.

4.4.2.3.1 INVESTMENT STRATEGY AND FINANCIAL PRODUCTS

Here too the strategy is that of financing eligible expenditure as per the planning described in EFDR 2007-2013 (ERDF - European Regional Development Fund) for investments aimed at improving energy efficiency and at increasing the production of energy from renewable sources.

The beneficiaries are: Regional Administrative Bodies, Municipalities, Provinces, Universities, Hospitals, Public Healthcare Agencies, public food and agriculture markets, logistic centres, Trade Centres, Local Healthcare Agencies, Public Companies and Organisations, also in a consortium form with companies and institutions that depend on or are controlled by the municipal/regional administration, public-private joint enterprises, concessionaires or contractors of services also in the form of Energy Service Companies (“ESCo”) aimed at managing activities of energy production and/or rationalisation.

This Fund prioritises quick-start on-site projects. The types of projects that can be financed include but are not limited to: renewable energy; power generation from solar energy, wind, biomass and biogas, also from organic solid waste; cogeneration and trigeneration plants, including gas-powered high yielding plants for the supply of electricity, thermal and refrigerating energy; Network for the municipal public lighting; Efficiency in the use of energy; Actions to reduce energy consumption and improve efficiency in end-user energy-related practices; Transport; Methanisation of the fleet of public cars; Electric vehicles and transport systems.

Financing arrangements include: medium-to-long term loan, including subordinated loans, secured when necessary through guarantees to be defined from case to case; single payment or partial progress payments (Stato Avanzamento Lavori - SAL reports); payback through quarterly or half-yearly instalments, postponed; duration aligned with the operating life of the investment, it may include a grace period where needed; fixed interest rate, in compliance with the regulations on State aids.

The opportunity exists to increase the funding with additional private resources from Iccrea BancaImpresa up to EUR 40 million and from Credito Cooperativo Siciliano up to further EUR 40 million.

The structure and conditions of the co-financing operation (rates, guarantees, durations etc.) shall be aligned with the market best practices.

4.4.3 GOVERNANCE ON FIS

The Sicilian managing authority decided to implement the financial instruments in two stages through a fund of funds as well as financial intermediaries. As we have seen, in the case of JESSICA Sicily the two financial intermediaries were Equiter for the Urban Regeneration fund and Iccrea Bancaimpresa for the Energy Efficiency Fund.

In order to create a sound governance and management structure, as well as reporting and accounting systems Equiter and Iccrea Bancaimpresa sets up the operational structure and develops the capabilities needed to ensure efficient channelling and adequate promotion of the financial instrument.

The mechanism of monitoring, control and reporting activities were established in the funding agreement. Here the financial intermediary reports regularly to the managing authority the support paid to final recipients, management costs and fees, the value of investments, the results of internal controls and monitoring, as well as information on output and result indicators directly from the final recipient.

4.4.4 JESSICA INS SARDINIA

4.4.4.1 OBJECTIVES AND RATIONALE FOR ESTABLISHING THE FIS

The main objective of the Autonomous Region of Sardinia (ARS), through the activation of the instrument JESSICA, has been to improve the ability to structure operations of urban regeneration and sustainable energy efficiency in the medium-long term and promote the sustainable use of renewable energy sources.

To this purpose, the Managing Authority (MA) has made the Local Government, other regional authorities and private investors aware of it, so that it would be possible to plan operations capable of guaranteeing, on the one hand, economic, social and environmental effects lasting over time and, on the other hand, capable of being self-sustaining from a financial point of view.

TABLE 296. JESSICA IN SARDINIA – MAIN CHARACTERISTICS

Year of activation of the JESSICA 2001 Sardegna Participation Fund	
Total available resources from OP FPJS 2007-2013	EUR 80,1 million of which EUR 76,1 million for the funding of the two FSU projects and EUR 4 million used to support the related management costs
Total resources available for FSUs from OP ERDF 2007-2013	EUR 36,7million for energy efficiency and renewable energies (Axis III) and EUR 39,4 million for urban regeneration (Axis V)
Additional Resources	About two times the financing granted through JESSICA for FSU Energy up to EUR 99 million for the FSU for urban requalification
Management costs	EUR 4 million for the management of the Participation Fund and for the two FSUs
Investment strategy	Requalification projects and urban transformation to promote energy efficiency and the use of renewable energy sources promoted by local administrations and through public-private partnerships
Financial products	Direct loans (senior, mezzanine and junior debts) and investments in risk capital (equity)

Source: CRP.

4.4.4.2 INVESTMENT STRATEGY AND FINANCIAL PRODUCTS

In July 2011, the Autonomous Region of Sardinia activated the JESSICA Sardegna Participation Fund (Fondo di Partecipazione JESSICA Sardegna, or FPJS) with the objective of supporting, through a financial instrument devoted to urban development, public private partnerships in urban areas and initiatives to reduce energy consumption and related effects on the environment in line with the policy objectives set out in Axis 5 - Urban Development and Axis 3 - Energy of POR Sardinia 2007-2013. The ARS entrusted the management of the fund to the European Investment Bank following the conclusion of a specific Financing Agreement (FA) between the Managing Authority and the EIB. The Participation Fund consists of two specific Urban Development Funds.

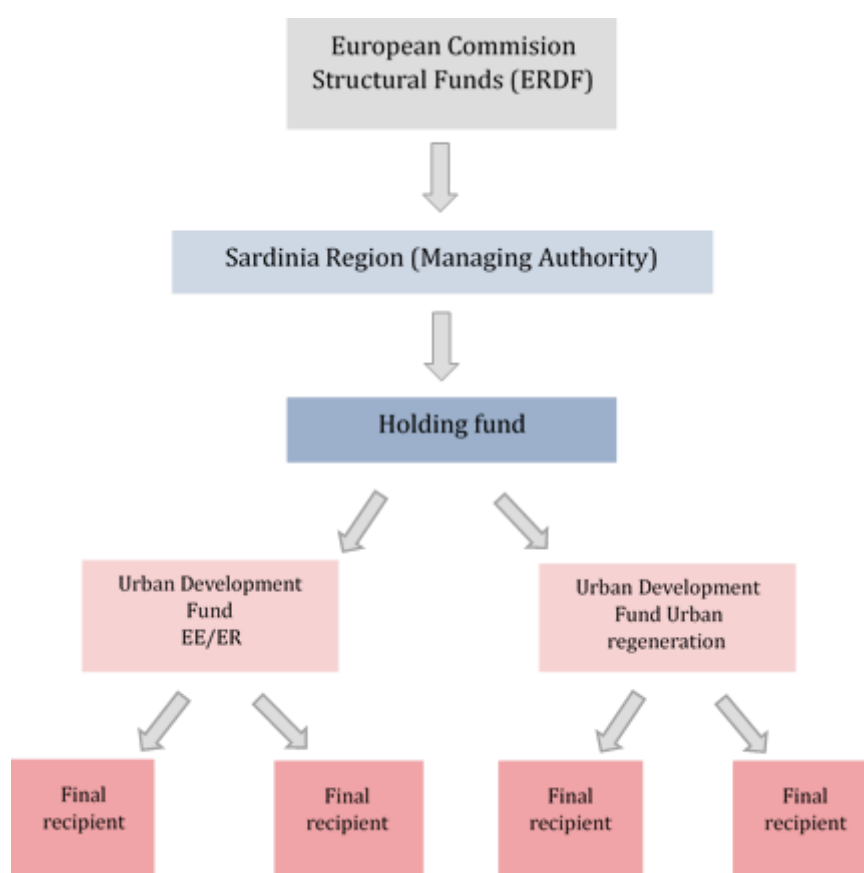


FIGURE 99. STRUCTURE OF THE JESSICA HF SARDINIA

Source: BGI Consulting et al, 2017.

The EIB, in collaboration with the Regional Programming Centre of the Sardinia Region has developed the document "Investment Strategy and Planning", outlining a specific investment strategy to: a) ensure the rapid absorption of resources allocated by the Region to the Participation Fund and the ability to attract additional resources from the market, and b) allow the creation of a flexible and revolving tool to ensure further investment to be activated in future programming periods.

In the Investment Strategy and Planning were also indicated: the total resources made available to UDF from Axis 3 - Energy and on Axis 5 - Urban Development of OP ERDF 2007-2013; the purposes and modes of operation and intervention of FSUs; the procedural means to be used for the establishment of the two FSUs and for the selection of the relevant management entities; the local systems and the themes of priority

of the investments; the eligibility criteria for the project proposals to be financed, in full compliance with the eligibility criteria for the operations provided for by the ERDF 2007-2013.

The FSUs were entrusted to two credit and financial institutions, following a public selection procedure, and with each of them the EIB signed a specific Operational Agreement (OA), to promote: partnership investments between public sector (local authorities) and the private sector (enterprises) or projects envisaged in integrated sustainable urban development plans; interventions for energy efficiency and the use of renewable energy in buildings, included in Sustainable Energy Action Plans (SEAP) or Integrated Plans.

The UDF for Urban Requalification was constituted in the form of separate capital with a financial institution (Banco di Sardegna Spa) to support the development and implementation of Urban Projects. The UDF Energy, instead, was created through the creation of a new vehicle (Fondo Sardegna Energia srl), specially introduced for investments in Energy Efficiency urban projects, controlled by Equiter Spa (a company controlled by Intesa Sanpaolo Spa).

EIB and the two UDFs played the role of intermediary and co-financiers in the implementation phase of the above-mentioned activity lines. The total allocation of the JESSICA Sardinia Participation Fund has reached EUR 80.1 million (of which 76 million are for financing the projects and 4,1 for the managing expenses), with an initial payment at the time of its constitution (2011) of EUR 70 million and with an additional payment of 10.1 million euro carried out in December 2015.

The Energy UDF in Sardinia projects involve such projects as photovoltaic systems on public buildings; energy efficiency of the school; cogeneration plant, wind power plant, PV plans on public buildings; requalification of public lighting system; geothermal system for heating public buildings, etc.

4.4.4.3 THE GOVERNANCE MODEL OF THE JESSICA INITIATIVE IN SARDINIA

The governance model adopted in the process of managing and implementing the JESSICA initiative in Sardinia has involved the following main players with the following main responsibilities.

The MA is in charge of the management of the OP ERDF 2007 -2013, through the coordination of the actuator subjects. The responsibilities of the MA concern the general coordination of the management system and control (SIGECO) of the POR ERDF. The MA allocates part of the resources referred to in the POR ERDF to the establishment of the FPJS (*The Participation Fund JESSICA Sardegna*) and identifies the EIB as its manager. The MA contributes to defining the investment strategy of the FPJS and is in charge of the verification process of projects in terms of eligibility for the funding through JESSICA.

The Participation Fund JESSICA Sardegna (FPJS) and European Investment Bank (EIB). FPJS is the structure that has the task of selecting the UDFs (on behalf of the MA) and to invest the resources from the POR ERDF 2007-2013 intended for the implementation of the JESSICA initiative. The assignment has been placed through the stipulation of a Financing Agreement (FA) between the MA and EIB as managing subject.

Urban Development Fund. The Urban Development Fund is the main financial engineering tool of JESSICA, which invests in urban projects and / or EE / ER urban projects through capital and loans. Its strategy is regulated by the Operational Agreement, signed by UDF and EIB, as manager of FPJS. The UDF delivers the resources from JESSICA acting as lender (lending resources that the beneficiaries shall return) or acting as a shareholder (investing in projects as equity and receiving dividends and / or capital gain in exchange)

Public administrations. The Public Administrations of Sardinia were involved in the design and implementation of EE / ER Urban Projects or Urban Projects finalized to the requalification and regeneration of urban areas.

Investment Committee (IC). The IC is the commission in charge of taking strategic decisions that affect the FPJS. The FPJS Investment Committee consists of 5 components: MA of the POR ERDF 2007-2013 (as President); the Director General of Urban Planning and Building Supervision; the General Manager of Public Works; the General Director of Industry and the General Manager of Financial Services.

Public/Private Investors. The JESSICA tool allows to attract private investors and investors from other entities (state, provinces, municipalities) into the process of investment, thus developing partnerships between public and private bodies.

Furthermore, in order to support local administrations that have been identified in the financial tool JESSICA, a useful alternative for the financing of urban development projects and energy efficiency with grant funds, the MA has made available a dedicated service of technical-financial-administrative assistance, by creating a special regional financial company (*SFIRS SpA*) who has economical-financial and legal-administrative expertise for the evaluation of economic and financial sustainability of the projects of investment submitted by the Municipalities.

Also, *ATI Assistenza Tecnica* provides technical and administrative expertise to assist in the creation and implementation of the projects and in the assessment of the consistency and eligibility of project proposals in relation to POR ERDF 2007-2013, while *Sardinia Ricerche* (Agency for Technological Research and Development in Sardinia) provides technical-scientific expertise for the review or editing of EE / RE selected projects (this role is complementary to the activity started within the initiative Sardegna CO2.0 and Smart City).

4.4.5 IMMEDIATE AND LONG-TERM IMPACTS OF THE FIS

From the perspective of the use of public resources, the path initiated by JESSICA initially had a real "pedagogical" function, that was to make it clear to the local administrations that on the one hand public works must be realized at 100 percent with grant (non-returnable) funds only in certain cases (cold works), and on the other hand, that they should find adequate financial instruments to obtain the resources to invest in generating profitable projects (hot works), addressing the issues related to their management. More than a year was necessary, in fact, to promote the tool through local initiatives aimed at involving local administrations.

Several lessons are learned that will impact the design of future FIs. In the case of JESSICA in Sicily, the lessons learned and key success factors concern the need for the implementation of FIs since the beginning of the programming period; stakeholders ask for more flexible investment strategy; appropriate governance structure – driven by the objective of the fund; more technical assistance for project preparation; more cooperation with private sector (e.g. PPPs, eligibility of private final recipients) and simpler and swift procedures.

As far as projects promoted by local authorities are concerned: lack of JESSICA eligibility requirements, as many investments presumed to involve grants, without a previous assessment of project financial repayability; inadequate project quality and implementation level due to lack of technical assistance.

In case of JESSICA in Sardinia, the main achievements and key success factors were: the construction of a revolving financial structure, which has allowed the public sector to promote profitable investments by going beyond the initial logic of non-returnable funds (programming and financing of public works capable of generating value, of being useful to the community and positively affecting its social life); the definition of a significant set of projects with a high degree of economic-financial sustainability (knowing that the financed projects must be able to repay the resources received); a specific policy evaluation accompanied

by an evaluation of economic-financial sustainability (ability to propose profitable and sustainable projects); diversification of the funding methods and instruments used for the projects; Increased and more rigorous programming capability on a continuous basis in the regional administration; improvements in project skills and competences of public administrations; an increased involvement of the private sector so as to increase the number of projects a municipality can implement; support for the implementation of urban requalification within the European Union's cohesion policy; the contribution to achieving the goals set by the European Union in terms of reducing CO2 emissions and promoting energy efficiency; achieving a leverage on EU contribution of ca. 8x; the contribution to the creation of new employment; the introduction of a specific technical assistance structure to support the local bodies in the design phase.

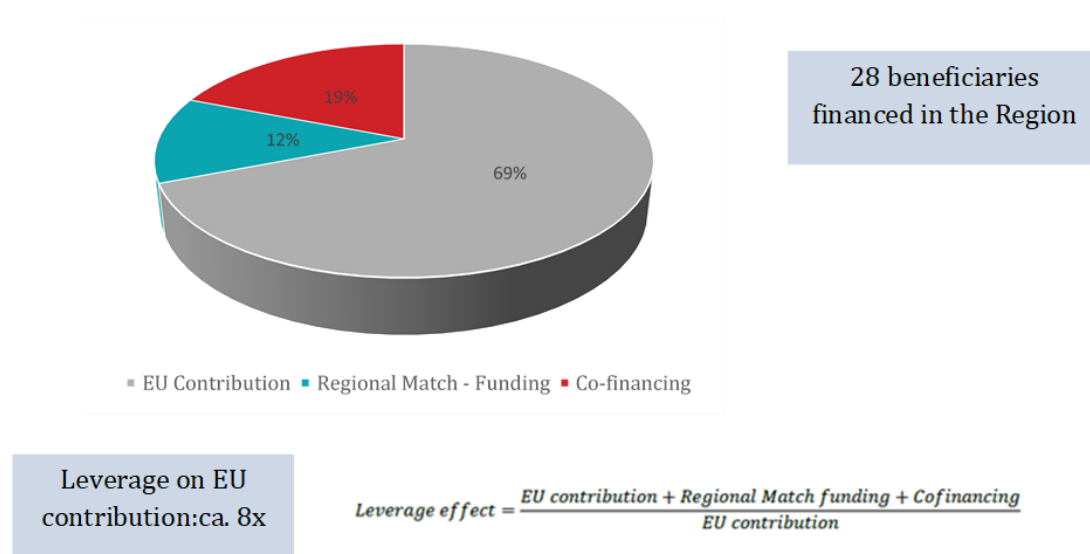


FIGURE 100. THE ENERGY UDF IN SARDINIA - LEVERAGE EFFECT.

Source: Ficompas, "JESSICA initiative in Italy", 2016

The main criticalities can be summarized as follows:

- in some cases, the technical capacity of promoters was not effective enough in the development phase of project proposals and the UDFs had to intervene both during the drafting phase and in their implementation (barrier to obtaining funding);
- limited size of some of the projects developed;
- inadequacy of feasibility studies;
- limited experience of local administrations in the mechanisms of public/private partnerships;
- the deadline for the implementation of the evaluated projects was not always compatible with the deadlines set by the operating agreements and by EU regulations on the use of EIF;
- the limits of indebtedness imposed to municipalities by the Stability Pact for the containment of public debt and the related uncertainty about the incidence of JESSICA resources were evident.

4.5 SOCIAL HOUSING FUND MANAGED BY CDP

4.5.1 GENERAL PRESENTATION OF THE BANK “CASSA DEPOSITI AND PRESTITI”

Cassa Depositi e Prestiti S.p.A. (CDP) is an Italian investment bank founded in 1850 in Turin. After the unification of Italy, in 1863 it was restructured and the headquarters moved to Rome; it was constituted in its current form as a joint-stock company on 12 December 2003. 83 percent of the share capital is owned by the Italian Ministry of Economy and Finance, the 16 percent is held by various banking foundations, while the remaining 1 percent in treasury shares.

CDP is today the third largest Italian bank according to the value of the total assets owned by the group (around EUR 410 billion in 2016), after the banks UniCredit and Intesa Sanpaolo. CDP manages the entire Italian Postal savings that represent its first source of financial resources. These resources are used by the bank to lend money to the Italian State or local governments, acquire strategic equities and invest in financial, infrastructural and economical projects considered strategic for the development of the Italian economy. CDP owns today several stocks of companies listed in the Italian stock market such as Fincantieri, Eni, Poste Italiane and Terna.

In the last years the role of CDP inside the Italian economy has grown deeply. The company has started operating more as an investment bank, increasing its portfolio of listed companies and its activities related to the funding of Italian companies, making the financing of public bodies, its historical business, less relevant than in the past.

In 2009, Caisse des Dépôts, Cassa Depositi e Prestiti, KfW and European Investment Bank founded the Long-Term Investors Club () with the aim of bringing together major worldwide institutions to emphasize common identity as long-term investors, to encourage cooperation and to foster the right conditions for long-term investments in promoting growth.⁵⁹¹

The activities of the CDF are divided into two distinct branches of business. The first, called "separate management", manages the financing of investment and other public bodies, such as regions, other local bodies and structures relating to the State, using postal savings deposits as the main source of funds. The second, called "ordinary management", deals with the financing of works, plants, networks and equipment intended for the supply of public services and redevelopment. It has EUR 17.5 bln assets. The activity of the company is subject to monitoring by a Parliamentary committee.

⁵⁹¹ <http://www.ltic.org/index.php/2014-07-27-14-13-43/message>

4.5.1.1 OBJECTIVES AND RATIONALE FOR ESTABLISHING THE FIS⁵⁹²

The "real estate market" is an example of how the free market approach, sometimes, fails to meet acceptable standard of living for the real society. In cities like London or New York - typically non-socialist cities - the public administration manages directly municipal houses that host daily thousands of people. Those who stay there have a job (but an insufficient income for buying or renting a house), and more than half of them are families with children.

Many Italian cities are experiencing a "housing crisis", showing an increase in the value of buildings in the relatively central areas of the city and a progressive decline in the availability of "stabilized rent" housing. Due primarily to the generalized and strong trend of unequal income distribution in west countries, the prices of houses have become too high compared with the financial availabilities of mid-low income workers. The rationale for establishing the FI "Fondo Investimenti per l'Abitare (FIA)", stem from the shared value that giving the opportunity to buy or rent a house even to mid-low income citizen and families, is worth of public intervention.

In particular in Italy, traditionally characterised by a level of property ownership that is among the highest in Europe (close to 70 percent) and an illiquid and slow-moving rental market, the continuing economic and financial crisis and the consequent impact on household disposable income have led to an increasing focus on home ownership and the sustainability of the social development model.

A large number of households show signs of housing difficulties:

- about 10 percent have difficulty paying utility bills, rent or mortgage payments
- over 20 percent live in homes with damaged structures or inadequate heating
- almost 60 percent consider home expenses to be a heavy burden (the percentage of these households has increased by almost 7 percent in less than ten years).

Nowadays, housing problems are not exclusively focused on the most vulnerable sections of the population, but also on a wider pool of people who, although they can rely on an income and relatively stable conditions, have significant difficulty in accessing the housing market. But while people in situations of economic "precariousness" can usually access public residential housing, people in situations of "distress" that do not fall within the economic poverty brackets required for public housing, and are unable to find housing at market conditions, can find support from social housing.

As regards the sustainability of the social development model, the Italian housing market is highly inflexible, which risks undermining the ability to provide an adequate response to the needs of society, mainly because of poor liquidity in the rental segment and the fact that prices no longer represent the crossover between supply and demand. In this context, the housing issue has an ever more important effect on urban structures.

The burden of housing costs – both in terms of buying and renting – leads to a progressive displacement of the population towards towns on the outskirts of major urban areas, generating new problems related to:

- the "consumption of the city" and the adequacy of transport infrastructure
- and the social infrastructure of neighboring towns.

⁵⁹² The case study is mostly based on the following source: Livio Casoli, FIA – Fondo Investimenti per l'Abitare – L'esperienza concreta di un fondo di fondi immobiliare – CdP Investimenti sgr, 2017. <http://www.cdpsgr.it/social-housing/FIA/caratteristiche-fondo/index.html>. In addition an interview with Livio Cassoli, Responsible Management FIA in Investments SGR S.p.A., was performed.

This process conflicts both with the existence of a “hidden” urban residential availability (unused or used through black-market renting) and with the potential availability of new housing arising from the transformation and renovation of existing publicly-owned buildings.

4.5.1.2 INVESTMENT STRATEGY AND FINANCIAL PRODUCT

The FIA is a closed-end real estate investment fund reserved for qualified investors. It has been instituted by CDP in 2009. Its management regulation was approved by the Bank of Italy in 2010.

The FIA is managed by CDP and invests in 32 real estate funds run by 9 savings management companies (sgr). This initiative aims at the realization of 20,000 housing by 2017, of which about 6,000 are already done or under construction. Compared to the Public Residential Building (ERP in Italian), necessarily implemented with public funding, the social housing developed by the FIA is characterized by the use of private capital, in partnership with public capital, for targeting a category of users not covered by ERP and for the possibility of different mixes of final destinations (In order to supply a frame of reference to understand the relative relevance of the social housing program in Italy it is worth to say that the first is responsible for the creation of about 25.000 houses, while the whole Public Residential Building asset count on about 140.000 public houses).

Its mission is to invest in the private social housing sector to increase the supply in Italy of social housing to rent at regulated canons and to sale at discounted prices. Social houses built by the CDP are sold and rented with a discount of around 30 percent with respect to the local market prices. The goal is to provide affordable housing for families unable to meet their housing needs on the market, but with higher incomes than those eligible for ERP allocations (the so-called “gray band”).

The total amount of the fund is EUR 2 billion and 28 million, of which 1 billion are subscribed by CDP, 140 million from the Ministry of Infrastructure and Transport and 888 million by banking and insurance groups and private pension funds.

The FIA invests its assets principally in shares of real estate investment funds operating locally and managed by other savings management companies, through holdings of up to 80 percent. This limit is aimed at soliciting the investment of resources by third parties, while at the same time allowing the FIA to maintain a significant presence in the initiatives.

Through the experiences of the recent years, it has been seen that a higher share of public capital allows a higher final multiplier of the private capital, fundamentally through higher success rates. This led over time to a gradual increase in the percentage of public capital admitted in the local investment fund.

The maximum duration of the investments is of 35 years. The target yield is about 3 percent over inflation.

4.5.1.3 GOVERNANCE OF THE FIA

The FIA adopts a management structure of holding fund, which entails two levels of investment: investment in the local-regional funds from the holding fund FIA (up to 80 percent of the resources invested in equity) and investment in local housing initiatives and projects from the local funds (with a minimum of 20 percent of co-investment)⁵⁹³.

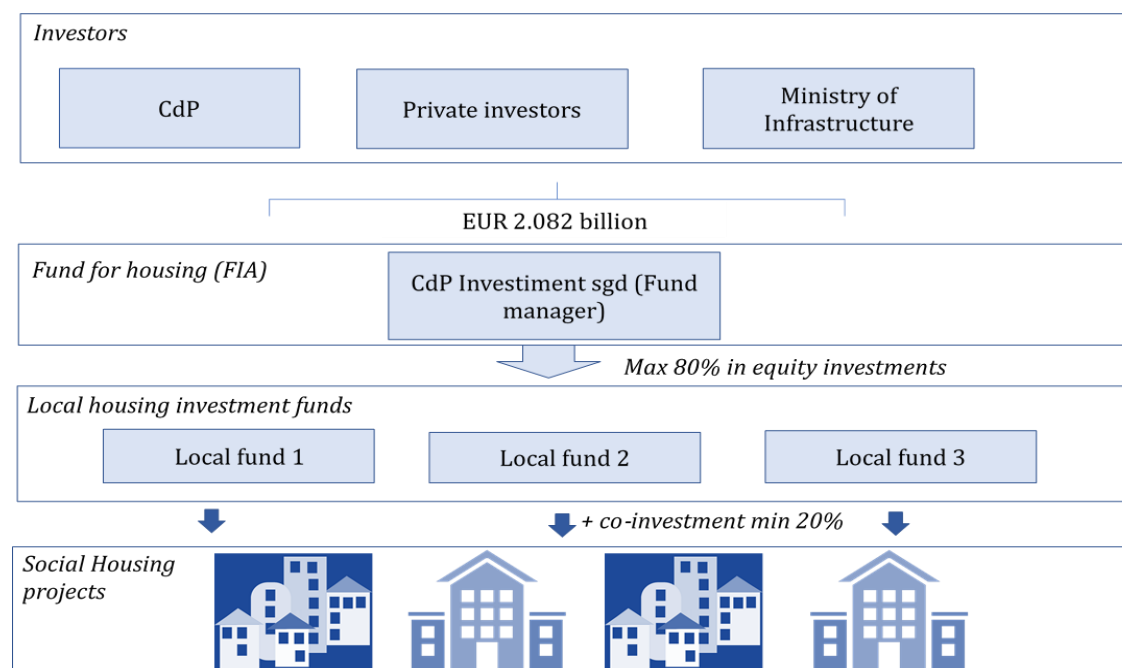


FIGURE 101. MANAGEMENT STRUCTURE OF FIA

Source: t33.

Each decision on FIA's investment operations is taken over by CDP on the basis of a detailed inquiry which, verifying the compatibility of the initiatives with the aim of increasing the social housing of the FIA and the returns expected from the Fund, focuses on the following themes:

- integration of the FIA initiatives with other local housing policies,
- governance requirements of local funds,
- validity of the proposals of management of the social aspects of the initiatives,
- economic-financial, social, urban and environmental sustainability of the projects.

The criteria followed by CDP to verify the compliance of proposals received with FIA's investment policies relate fundamentally to: a) the local fund; b) the real estate transaction; c) the promoter. In the following, some of the most relevant criteria concerning these three points are illustrated.

- Criteria relating to the purpose, performance and governance of local real estate funds
 - Compatibility of the local fund's investment strategy with FIA's investment objectives.
 - Targeted minimum fund yields in the order of 3 percent over inflation.
 - Consistency of the diversification and mitigation of local fund risks with CDP risk management procedures. In the risk assessment, diversification and plurality of project types will be taken into

⁵⁹³ List of investments: <http://www.cdpsgr.it/social-housing/FIA/investimenti-deliberati-fondi-locali/index.html>

account.

- b) Criteria relating to the real estate transaction
 - Economic and financial sustainability. The audit is based on the business plan, on investment, disinvestment and annual enhancement plan, on the historical and / or expected cash flows of the local fund, on the sustainability of stress tests and of pessimistic scenarios.
 - Effectiveness of project response strategy to local housing needs. The audit is based on the analysis of the housing market and local housing requirements.
 - Realization of sustainable interventions in economic, social, environmental and energy perspectives.
 - Consistency and integration of the operation with local public policies and possible involvement of several local communities.
- c) Criteria concerning the promoter
 - Experience in the social housing sector of the subjects to whom investment management is delegated. The audits cover the track record of promoters and Sgr at all stages of the initiative: development, construction, management and disposal.

As a whole, the selection of investment opportunities held by CDP activity is geared to ensure adequate geographical diversification of investments, thereby ensuring a greater dissemination of the same throughout the country.

Finally, the CDP can modulate FIA participation to incremental initiatives up to a maximum of 80 percent, in equity investments according with the increase of the following factors:

- Significance of the social housing component for long-term lease.
- Re-use of existing buildings, redevelopment of abandoned areas and use of urbanized areas.
- Localization of intervention in the regions of southern Italy.
- The capacity of the initiative to integrate into more extensive urban regeneration contexts and to generate additional opportunities for intervention in the area, in coordination with local housing policies.

4.5.1.4 IMMEDIATE AND LONG-TERM IMPACTS OF THE FI

The background illustrated above reveals a profound need to rethink the residential market as a whole, via a true paradigm shift whereby home ownership regains a key role in societal development and solutions are developed that – without infringing on public finance requirements – are available to a wide spectrum of people, including those facing housing problems. Social housing presents an opportunity against the background of a public residential housing supply characterized by a progressive decline in state resources, the abandonment of structural policies in favour of one-off interventions and the transfer of implementing powers to the regions.

The “National Housing Plan” marked an initial turning point, at least in terms of approach: central appropriations and a new paradigm for scheme selection have incentivized the involvement of private investors and the mobilization of various levels of government, in a public-private partnership approach for building social housing. At the same time, the social housing option began to emerge.

Despite the emergency situation, however, the Italian Audit Court has found that the actual implementation of the 2008-2009 plan has been anything but quick: the slowness of administrative processes, the extreme regional disparities in the implementation of national legislation and lack of central direction have prevented even a minimum of commonality in the planning and economic-financial aspects of the schemes, slowing implementation.

In recent years, with the approval of the final rankings of the proposals and the launch of the FIA, there has, however, been a more complete definition of the investment commitments, project identification and, at least in part, housing construction, as it can be noted from the figure below.



FIGURE 102. GEOGRAPHICAL COVERAGE OF THE INVESTMENTS

Source: t33.

4.6 SCHOOL BUILDING FUND (EIB) MANAGED BY CDP

4.6.1 OBJECTIVES AND RATIONALE FOR ESTABLISHING THE FIS

In Italy, six schools out of ten are more than forty years old⁵⁹⁴. More than four Italian schools out of ten are in regions subject to “strong” or “very strong” heart quake. 86 percent of these schools, 13,054 out of 15,055, do not follow the anti-seismic rules. 43 percent of total institutes in the first two risk bands (out of four) were built before 1976, the year of entry into force of the legislation. In Zone 1 there are 34.4 percent of total structures (866 of 2.514).

Even if it was possible to register a weak growth in the securing process of the buildings for the period 2012 – 2016, data remain negative: one school of two of the provincial capitals does not have the certificate of static suitability, static testing or the fire prevention certificate.

Before 2013 the normative background related to school buildings was quite confused in the country, with many different ministries involved (infrastructures, education and economy) and different objectives pursued (energy efficiency in buildings, earth quake prevention activities, investment in new buildings, etc.). From 2013 onwards (with decree D.L. n.104, 12 settembre 2013), the normative related to the “good school” have streamlined the interventions in school buildings, introducing simplification in the decision-making process. i.e. at the heart of the system stands the ministry of education, and regions are considered in a role of intermediate bodies (in redistributing funds at local level)⁵⁹⁵.

4.6.1.1 INVESTMENT STRATEGY AND FINANCIAL PRODUCT

The “Mutui BEI” operation provides for thirty-year loans that are totally at the charge of the Government and subscribed by the Regions through CDP⁵⁹⁶ - with the European Investment Bank and other lenders. The applied interest rate is favourable for borrowers, i.e. corresponding to the banking prime rate plus a spread of 0.36. Local administrations can thus count on EUR 905 million from EIB – which will not have any impact on the Stability Pact⁵⁹⁷ – to fund school requalification and security works as well as the construction of new school buildings.

This financing instrument is part (see “Decreto Mutui BEI” in the figure) of other sources for financing the requalification of the Italian schools (see Fig. 1).

⁵⁹⁴ Most of the information in this section IS taken from the report “Ecosistema Scuola 2017” (<https://www.legambiente.it/contenuti/dossier/ecosistema-scuola-2017>). The information in this report regard about the 85% of the Italian school heritage, which are those contained in the Ministerial database (MIUR). Year of reference is 2016. In addition an interview with Paola Bacchetta and Stefano Marzulli, Department Public Bodies CDP, was performed.

⁵⁹⁵ For a view of the normative background see: <https://www.cdp.it/clienti/government-pa/finanziamenti-pubblici/edilizia-scolastica---provvista-bei/normativa-edilizia-scolastica-regioni---provvista-bei.kl>

⁵⁹⁶ For general information about CDP please refer to the case study “Social housing fund managed by CDP”

⁵⁹⁷ Stability Pact is the set of rules, set at government level, which limits indebtedness of public bodies.

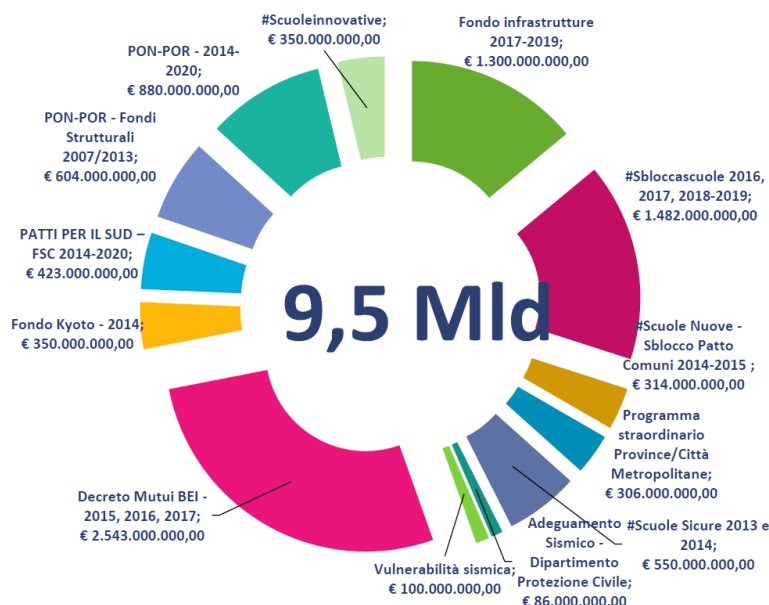


FIGURE 103. THE TOTAL FINANCING FRAME FOR THE RENOVATION OF THE SCHOOL BUILDING HERITAGE

Source: Legambiente - "Ecosistema Scuola 2017"

The loans can be drawn on the basis of cost-effectiveness and expense-containment criteria with the European Investment Bank, the Council of Europe Development Bank, the CDP and with subjects authorized to deliver banking services.

4.6.1.2 GOVERNANCE OF THE FI

The governance system of the FI involves (see the flowchart below on financial flows): the European Investment Bank (which allocate resources through a loan), Cassa Depositi e Prestiti (the Fund manager) and the ministry of education 'MIUR' (which co-finances the fund). Based on requests expressed through tendering, corresponding to investment plans at local level, CdP transfers the funds, in a form of loan, to beneficiaries. The MIUR is responsible for the reimbursement of the EIB loan, while beneficiaries are involved in the monitoring and reporting of the state of play of works.

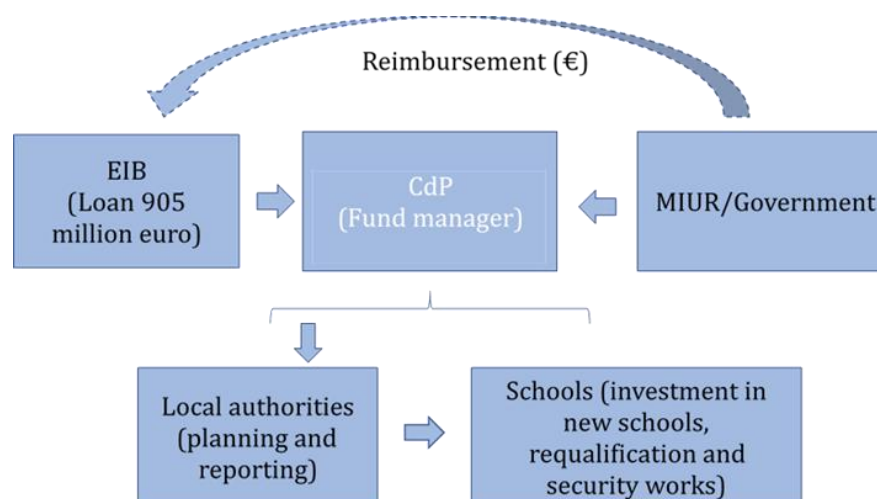


FIGURE 104. THE GOVERNANCE SYSTEM OF SCHOOL BUILDING FUND.

Source: t33.

The steps in setting and allocating the funds are the following:

- The operation started with an inter-ministerial decree in 2015, signed by MIUR, MEF (Ministry of economy) and MIT (Ministry of infrastructures), thus implementing Article 10 of the D.L. n.104 / 2013. The inter-ministerial decree laid down the guidelines for the preparation of the three-year national planning program in the field of school building: each Region, following the guidelines set out in the decree, has then started its own programming.
- By ministerial decree of March 16th, 2015, MIUR allocated the Government's contribution that the Regions have been able to use to enter into loans with the European Investment Bank.
- By ministerial decree of May 29th, 2015, MIUR formalized the outcome of regional programming, unifying the programming at national level. Regional plans are subject to confirmation of the timeliness of the interventions for the years 2016 and 2017 or of updates. By March 31st, 2016 (then extended until April 15th, 2016), the Regions have thus updated their plans. For the year 2017, the deadline for confirming the timeliness of such interventions is March 31st, 2017.
- The EIB, the Presidency of the Council of Ministers and the MIUR signed a Memorandum of Understanding on July 29th, 2015, engaging in the monitoring and reporting arrangements for investments. Note that the MIUR has made an online computer system available for Local Administrations and Regions for the work progress reporting: the delivery of contributions shall be authorised through such tool, so that the physical progress of the work coincides with its financial progress.
- In 2015 a first tranche of funding was allocated, a second one is planned by the end of the year 2017.

As pointed out from interview to CdP, difficulties raised from local authorities (regions) and schools in preparing and monitoring the investments, as the requirements based on EIB rules for application and follow-up of interventions was demanding and new for most of them (e.g. regions are not used to report on the state of play of works during implementation). In general, the EIB intervention helped to improve capacity within local and regional authorities in programming and monitoring the investments.

4.6.1.3 IMMEDIATE AND LONG TERM IMPACTS OF THE FI

In general, Regions declared to be very satisfied by the support provided by the FI. For the EIB the solution was also preferable as the contract with Italian institutions was unique and has permitted to support directly, through CdP and MIUR, many local administrations and schools all across the country.

For the three-year period 2015-2017, 6,300 interventions were received for a total value of EUR 3,660,521,946. For the first year, local administrations reported 1,215 interventions already funded. During the summer of 2016, about 80 percent of the work was started.

According to the "Ecosistema Scuola 2017" report by Legambiente there is still a widespread lack in the development of security criteria due to an inefficient use of the funds. Of the EUR 9.5 billion available for schools renovation since 2014, only 4.1 have been spent, for 12,000 interventions. Of these, only 550 involved the adaptation to seismic standards, over three years. The same number of schools that was built ex novo. 83 percent of the money invested was listed in the expenses as "other interventions".

ANNEXES

TABLE 297. LIST OF INTERVIEWS IN CROATIA AND LITHUANIA

Country	Name of the interviewed	Ministry or position	Date of the interview
Croatia	Anastazija Magaš Mesić	Ministry of Culture	11.09.2017
Croatia	Natalija Haviđić	Ministry of Tourism, advisor to the minister	29.08.2017
Croatia	Katarina Grgec	Ministry of Science and education	02.10.2017
Croatia	Kristina Ferara Blašković	Ministry of Science and education	27.09.2017
Croatia	Miljenka Kuhar	Ministry of Science and education	02.10.2017
Croatia	Igor Ljubi	Croatian Institute for Health Insurance	11.09.2017
Croatia	Lorena Brkić	Croatian Red Cross	-
Croatia	Kornelija Mlinarević	Head of department of EU funds and economy, City of Osijek	-
Croatia	Mira Medić	Ministry of Environment and energy, head of independent sector for EU projects	-
Lithuania	Sandra Leknickienė	Martynas Mažvydas National Library of Lithuania, deputy director general	26.08.2017
Lithuania	Elė Ona Vilkienė	Ministry of Culture, Head of Professional Arts Division	05.09.2017
Lithuania	Dalia Babickaitė	Ministry of Culture, Chief specialist of Financial Division, Strategic Planning and Control Department	07.09.2017
Lithuania	Rūta Kapačinskaitė	President of Lithuanian Tourism Information Centres' Association	20.09.2017
Lithuania	Justas Dirginčius	Lithuanian Tourism Department, Local Tourism Division, Senior specialist	20.09.2017
Lithuania	Darius Biekša	Member of National Commission of Energy control and prices	-
Lithuania	Laima Vaičiulienė	Ministry of Health, Head of Health Insurance Division	-
Lithuania	Gintaras Kacevičius	National Health Insurance Fund, director of department of Prices and Classification	-
Lithuania	Inga Muliuolė	JSC Ekokonsultacijos, Waste management Expert	15.09.2017
Lithuania	Darius Krinickas	Ministry of Environment, Director of Waste Department	07.06.2017

Lithuania	Jurgita Gaižiūnienė	Ministry of Environment, Chief of Waste Prevention and Management Strategy Division	07.06.2017
Lithuania	Irmantas Valūnas	Ministry of Environment, Manager of Water Politics section	07.06.2017
Lithuania	Rimgaudas Špokas	Ministry of Energy, Former Minister	11.29.2017
Lithuania	Laura Pušinskaitė	Ministry of Energy, EU Assistance Division, Chief Specialist	12.12.2017
Lithuania	Inesis Kiškis	Ministry of Environment, Director of European Union Assistance Management Department	01.12.2017
Lithuania	Rasa Uselytė	Ministry of Environment, Chief Specialist of European Union Funds Management Division at European Union Assistance Management Department	01.12.2017
Lithuania	Vilma Slavinskienė	Ministry of Environment, European Union Assistance Management Department, Head of European Union Funds Management Division	01.12.2017
Lithuania	Lina Šleinotaitė – Budrienė	JSC Ekokonsultacijos, Waste management Expert	28.11.2017
Lithuania	Vaclovas Miškinis	Lithuanian Energy Institute, Chief research associate	30.11.2017
Lithuania	Dovilė Kapačinskaitė	Ministry of Energy, Head of Heat and Energy Efficiency Division	05.12.2017
Lithuania	Audronė Vareikytė	Association of Local Authorities, Adviser on Social Issues	05.12.2017
Lithuania	Raimonda Selenienė	Ministry of Social Security and Labour, Adviser of Structural Support Policy Division	05.12.2017
Lithuania	Daiva Buivydaitė-Garbštienė	Ministry of Social Security and Labour, Head of Social Services Division	05.12.2017
Lithuania	Aloyzas Stapulionis	Ministry of Social Security and Labour, Head of Social Lodgment Division	05.12.2017
Lithuania	Alena Daujotienė	Ministry of Social Security and Labour, Chief Specialist of Social Lodgment Division	05.12.2017
Lithuania	Justina Jakštienė	Central Project Management Agency, Head of Social Care Project Division	11.12.2017
Lithuania	Laimutė Jankauskienė	Ministry of Science and Education, Head of Prie-primary and Primary Education Department	07.12.2017
Lithuania	Saulius Samulevičius	Director of Qualifications and Vocational Education and Training Development Centre	05.12.2017
Lithuania	Arūnas Bėkšta	Ministry of Culture, Former Minister;	01.12.2017

		Management consultant and trainer, Adult education expert	
Lithuania	Daiva Nazarovienė	Ministry of Culture, Head of European Union Support Division at Strategic Planning and Supervision Department	29.11.2017
Lithuania	Dovilė Maliauskienė	Ministry of Culture, Senior specialist at European Union Support Division at Strategic Planning and Supervision Department	29.11.2017
Lithuania	Andrius Jautakis	Ministry of Culture, Senior specialist at European Union Support Division at Strategic Planning and Supervision Department	29.11.2017
Lithuania	Andrius Šniuolis	Ministry of Transport and Communications, Director of Water and Railways Transport Policy Department	23.11.2017
Lithuania	Vidmantas Tamulis	Ministry of Transport and Communications, Deputy Director of Water and Railways Transport Policy Department	23.11.2017
Lithuania	Jurgita Norkienė	Ministry of Transport and Communications, Head of Railway Transport Division at Water and Railways Transport Policy Department	23.11.2017
Lithuania	Vladislav Kondratovič	Ministry of Transport and Communications, Director of Road Transport and Civil Aviation Policy Department	06.12.2017
Lithuania	Aivaras Vilkelis	Road and Transport Research institute, Head of Strategy Research Division	29.11.2017
Lithuania	Agnius Stonys	Road and Transport Research institute, Project Manager of Strategy Research Division	29.11.2017
Lithuania	Romualdas Buivydas	Director of Health Economy Centre	06.12.2017
Lithuania	Rima Vaitkienė	Ministry of Health, Head of Health Strategic Development Division	27.11.2017
Lithuania	Dalia Bardauskienė	Mayor's advisor, Vilnius City Municipality	10.12.2017

Source: BGI Consulting et al, 2017.

TABLE 298. LIST OF CONSULTATIONS IN LITHUANIA

Country	Name of the interviewed	Ministry or position	Date of the interview
Lithuania	Jovita Germanovič	Vilnius City Municipal Administration, Chief specialist of Social Support Division	21.11.2017
Lithuania	Daina Urbonaitienė	Ministry of Social Security and Labour, Director of Family and Communities Department	06.12.2017
Lithuania	Neringa Aukštuolienė	Special Social Care Home "Tremtinių namai", Chief Accountant	11.12.2017
Lithuania	Edvardas Naujalis	Budgetary institution "Valakampių socialinių paslaugų namai", Accountant	11.12.2017
Lithuania	Brigita Baronaitė	"Šv. Juozapo globos namai", Chief Accountant	14.12.2017
Lithuania	Daiva Sandaitė	Chairwoman of Law department, Vilnius regional waste management centre	24.11.2017
Lithuania	Rosita Deveikienė	Chairwoman of Environmental and Civil Protection Division, Utena region municipality	24.11.2017
Lithuania	Rasa Brūzgė	Senior specialist, Department of the Registry of Insured by Compulsory Health Insurance, National Health Insurance Fund under the Ministry of Health	28.11.2017
Lithuania	Aušra Birietienė	Senior specialist, Non-formal Education Division, Ministry of Education and Science of the Republic of Lithuania	28.11.2017
Lithuania	Raja Krupenina	Chairwoman of the Commission of the Švenčionys Region Municipal Council	12.12.2017
Lithuania	Dalia Filipavičiūtė	Chairwoman of Social Benefits department, Vilnius city municipality	07.12.2017
Lithuania	Vytautas Bernadišius	Chairman of Lithuanian Environmental Investment Fund Products and Packaging Waste Management Program Projects Division	04.12.2017
Lithuania	Rimantas Tenenė	Director of JSC Fortum Ekošiluma	08.12.2017
Lithuania	Teresė Kirejeva	Chairwoman of Finances department, Vilnius regional waste management centre	08.12.2017
Lithuania	Ilona Javičienė	Senior specialist, rural development department, Ministry of Agriculture of the Republic of Lithuania	18.12.2017
Lithuania	Algirdas Špučys	Production director at Klaipėdos Water (Klaipėdos vanduo) company	18.12.2017
Lithuania	Indrė Musvicienė	Chairwoman of Water division, National Commission for Energy Control and Prices	18.12.2017

Source: BGI Consulting et al, 2017