

Coordination of public interventions and the Exit strategy: preparation experience for 2021+ perspective in Lithuania

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Task, client, and executors of the evaluation

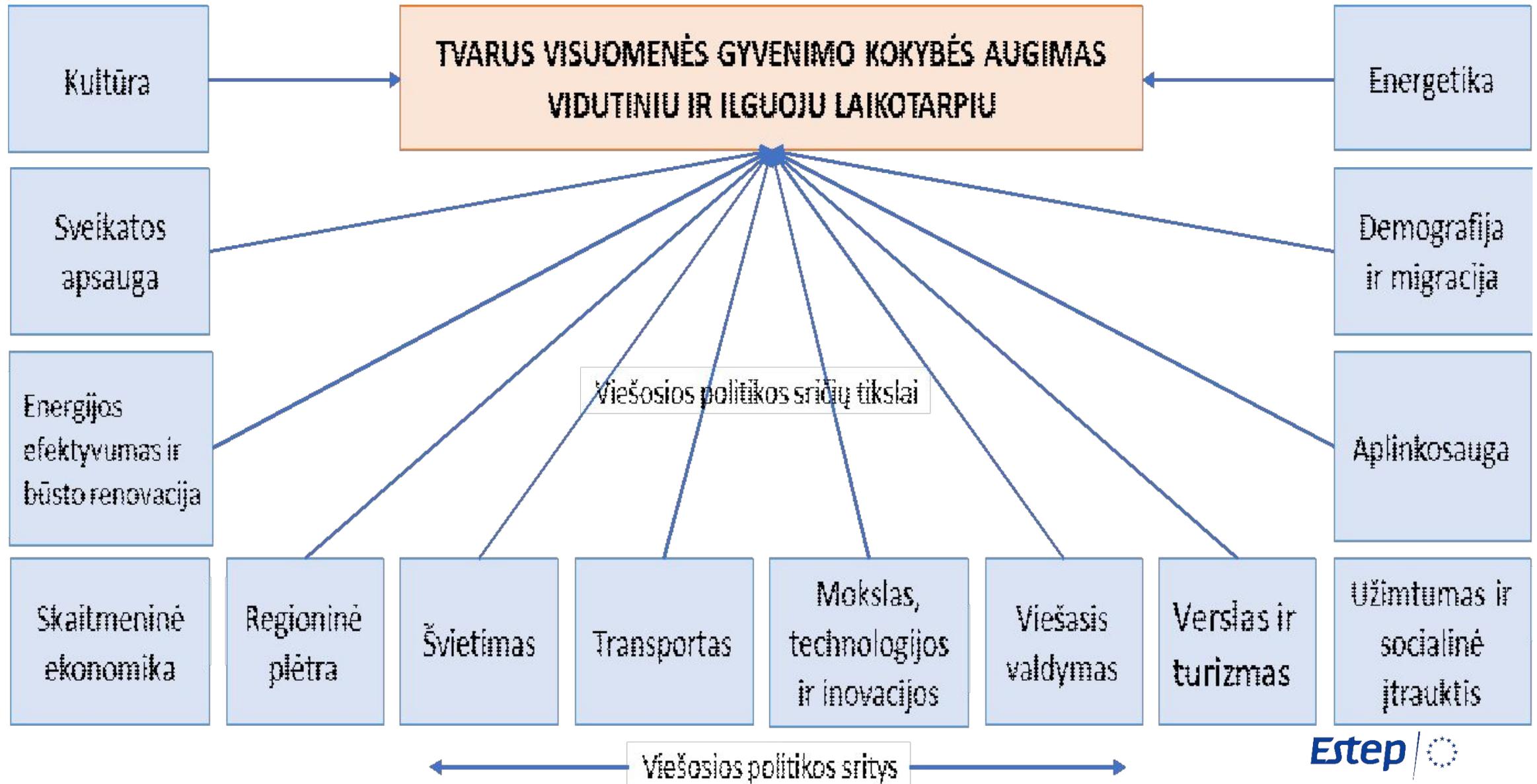
Evaluation of the financing of Lithuanian economic sectors post 2020. Commissioned by the Ministry of Finance. Carried out by ESTEP and PwC.

The goal – to optimise state interventions in various public policy areas, in order to ensure sustainable growth of the society's quality of life in medium and long term.

Three **tasks** were set in technical specification in order to achieve the goal:

1. To identify the structure and the extent of public interventions in the aforementioned public policy areas by type of intervention (regulation, financing, production, income support) and funding sources (state and municipal budgets, EU or other support funds) and to evaluate the relevance, sufficiency, coherence, and effectiveness of all types of interventions in achieving the public policy objectives.
2. To examine the coherence and relevance of the public interventions for achieving sustainable growth in quality of life in the medium and long term.
3. To identify the potential directions for decreasing the dependency on the EU Structural Funds (EU SF) in 2021-2027 and to assess the possibilities of replacing the EU SF investments with non-financial interventions by the state or private funds in order sustain economic development and social welfare.

Object of the evaluation – public policy areas



APPROACH AND METHODS

- ⦿ The analysis of each public policy area is presented in individual sectoral evaluation (14 evaluations + summary) – basically an assessment of objectives and intervention of individual public policies
- ⦿ **Methods:**
 - Analysis of strategic documents and secondary sources (researches and evaluations);
 - Interventions labs and focus groups (14+14+additional), supported by individual interviews.
- ⦿ **Approach:** interventions replaceability theory, growth diagnostics, challenges-goals-interventions-exit hierarchy.

Results

THORETICAL BASIS

Economic growth and public sector literature

- Identifies 5 main growth factors:
 - Physical ,
 - Human capital,
 - Technological progress,
 - Social capital,
 - Institutions.
- Justifies the interchangeability of individual interventions and links them to the policy objectives and conditions (Tanzi, 2011).

Growth diagnostics method (Hausmann, Rodrik, Velasco, 2005)

- Offers a systemic way of analysis – “decision tree” – which:
 - Allows to look for the most suitable decisions in a specific context;
 - Helps to identify, which of the factors are the most restrictive: what to „fix“ first?
 - Specifies directions for reforms.

Middle income trap theory

- Offers assumptions for the most suitable economic growth strategy.

Evaluation context

- A number of evaluations, mainly done by ESTEP (poverty, waste, territorial cohesion, competitiveness), showed that EU SF investments results are highly dependent on the conditions of an intervention.
- Intervention conditions can be attributed to external factors and other internal policy instruments.
- Proper use of other political objectives/interventions and their combinations is the best way to achieve goals (residential renovation example).
- Coordination of interventions evaluation commissioned by CPMA, executed by BGI.
- Group discussions method was successfully applied in preparation for 2014-2020 financial perspective.

Political context

- Highly escalated perspective that the EU SF will end and the investments will need to be replaced.
- European Commission's suggestion to reduce the EU SF funding for Central European countries.

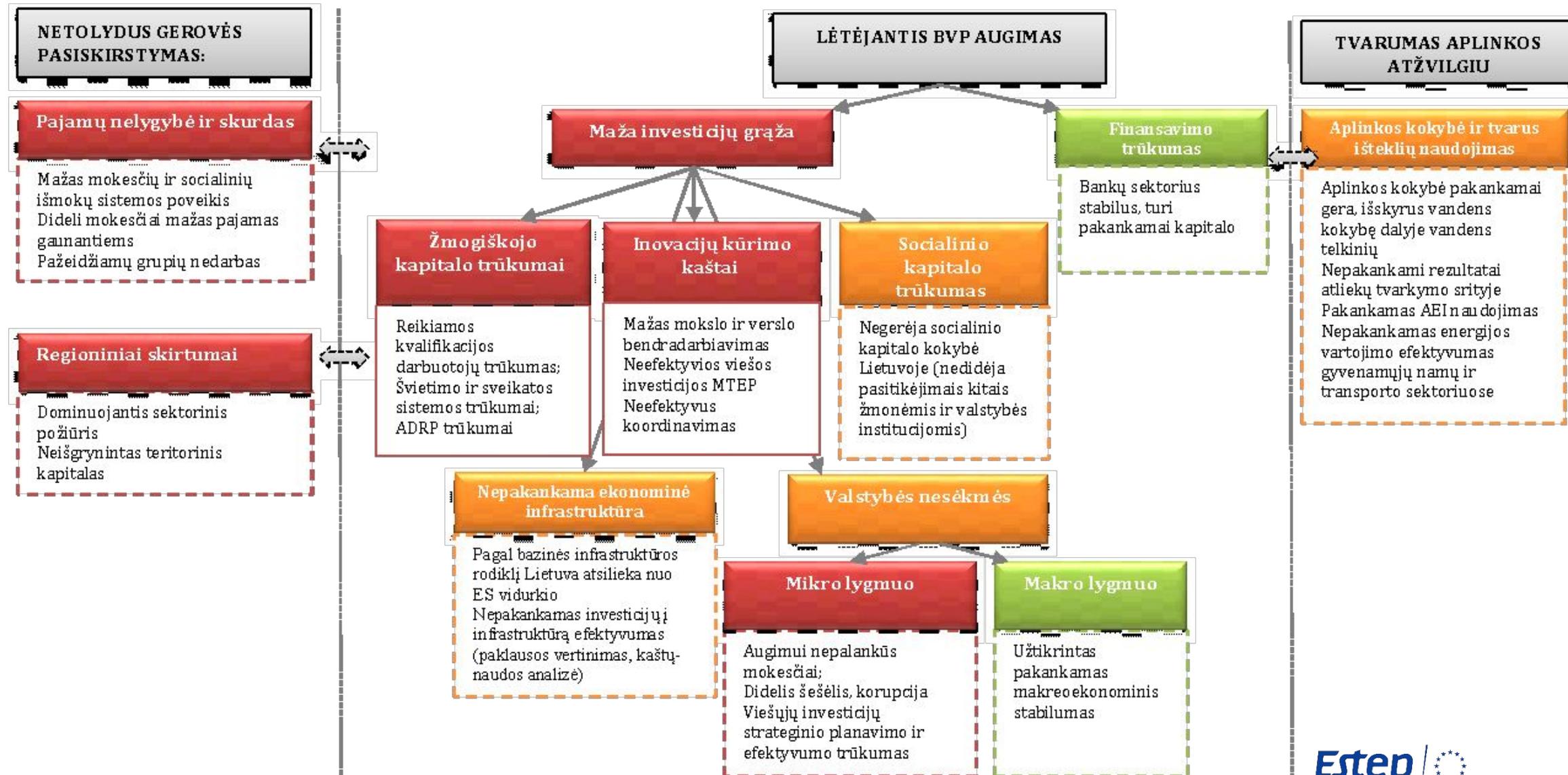
Results: challenges

CHALLENGES FOR LITHUANIAN GROWTH: the starting point

- ⦿ **Slowing economic growth** due to „middle income trap“:
 - ⦿ Lithuania has already exhausted the potential for cheap labour force and resources redistribution between sectors-based growth.
 - ⦿ Transition to increasing productivity, innovations-based, and high added-value-oriented growth is needed.
- ⦿ **Uneven growth and distribution of wealth** – income inequality and regional differences.

GROWTH-LIMITING FACTORS

GEROVĖS AUGIMAS



Goals and objectives: examples

EMPLOYMENT AND SOCIAL EXCLUSION

Goals

To increase the attractiveness of the labour market

To use the existing workforce potential more effectively

To increase the welfare and social inclusion of the population

Tasks

Decrease the attractiveness of illegal work

Ensure that workforce qualifications meet the needs of the economy

Increase the potential of the economy to generate higher income

Promote job creation in regions with high unemployment

Integrate free labour force into the labour market

Increase the efficiency of redistribution of income by reducing inequality

Create conditions for reconciling work and family responsibilities

Strengthen the communities

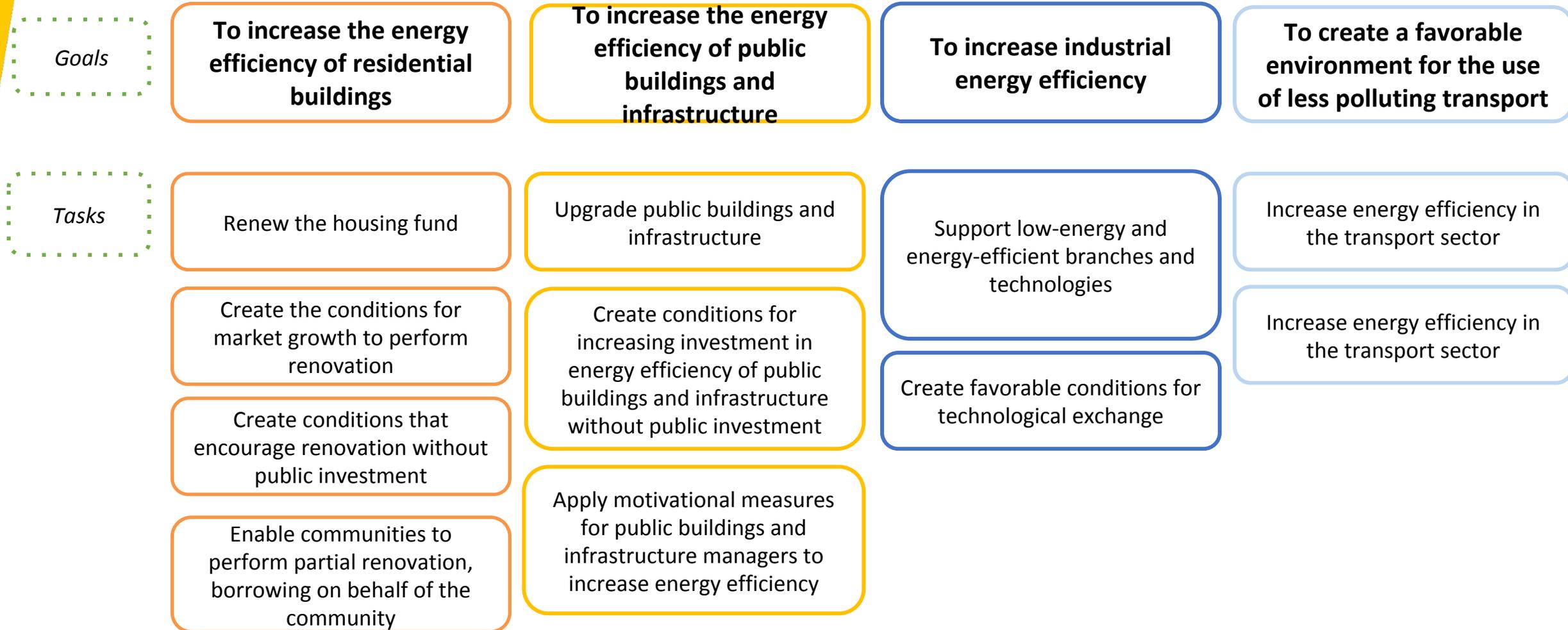
Increase the quality of jobs

Take advantage of active inclusion opportunities

Strengthen social inclusion and responsibility in society

Enhance the effectiveness of security and integration measures for vulnerable groups

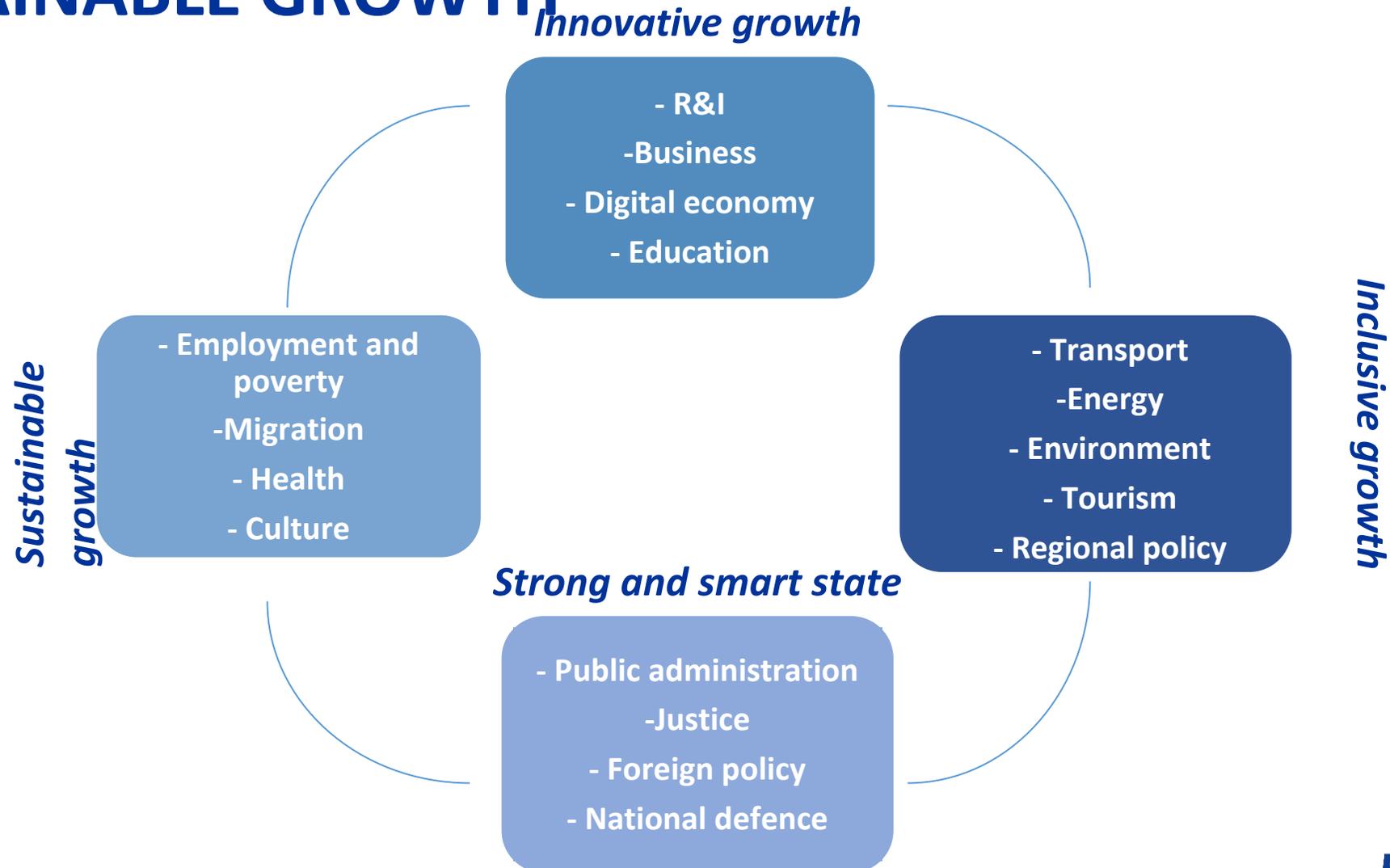
ENERGY EFFICIENCY AND HOUSING RENOVATION



GROUPING SECTORAL OBJECTIVES BY CHALLENGES

- ⦿ *RIs, business, digital economy, education* (**structural changes in the economy**): overcoming middle-income traps and further economic growth based on innovation (and resource efficiency).
- ⦿ *Employment and poverty, migration, health, culture* (**people**):
 - to maintain and increase the number of skilled, working / healthy and motivated (happy) people, or
 - to increase Lithuania's population by enabling them to create individual and public well-being.
- ⦿ *Transport, energy, environment, tourism, (culture), regional policy* (**infrastructure and environment**) - create conditions for sustainable and geographically balanced growth.
- ⦿ **Public administration (justice, foreign policy, national defense) – a strong and smart state that guarantees internal and external security.**

PRIORITIES FOR GROWTH IN LIFE QUALITY FOR SUSTAINABLE SOCIETY: INNOVATIVE, INCLUSIVE, AND SUSTAINABLE GROWTH



Compatibility of objectives: overall conclusion

- The objectives and tasks of the Common Strategy Papers (Lithuania 2030, NDP, Government Programme, EU Funds Investment Action Programme 2014-2020) are not in conflict with each other, but their formulation differs - the links between goals and objectives are based on different intervention logics (the same tasks are envisaged as contributing to different goals or priorities), their level of detail and scope varies.

REVEALED LIMITS OF STRATEGIC PLANNING

- ⦿ Too high a focus on goals that may not be achieved.
- ⦿ Too little attention to strategic choices, interventions, constraints, and trends.
- ⦿ The strategy cannot be about all possible goals, it has to offer a choice and discriminate.
- ⦿ The identified challenges for growth and prosperity in Lithuania are structural, i.e. long-term, linked to the way society and the economy function, without clear decisions.
- ⦿ The simple scheme is not applicable for them: a solution to the challenge = funding (proposed by the European Commission).
- ⦿ Examples include investment in R&I, lifelong learning, poverty reduction.
- ⦿ Example – middle income gap.

CLASSICAL DEVELOPMENT DILEMA AND ITS SOLUTIONS: towards balance

- ⦿ **Rapid economic growth:** a priority for innovation and new technologies, quality and concentration of public services (especially education)

or

- ⦿ **Sustainable and inclusive growth:** a priority is given to access to services, territorial balance, income inequality and poverty reduction.
- ⦿ **Possible solutions:** more attention to the different needs of individual territories.

Results: coordination of interventions

SCOPE AND CONTENT OF INTERVENTIONS

- Over the last twenty years, especially in the run-up to EU accession, the scope of Lithuanian public policy has expanded.
- Production interventions have decreased, replaced by regulation, which has been particularly extended by the EU law, and funding that has been significantly increased by the EU Structural Funds.
- The scale of interventions funding, especially for welfare functions, has been limited by the currency board model before accession to the EU, and currently by tax collection and budget deficit constraints.
- Relatively low budget redistribution (typical for the most countries in the world) and low overall investment.
- Relatively large public sector and volume of public services.
- In the context of public sector size constraints within the structure of interventions, we recommended increasing regulatory interventions, strengthening capacities, and gradually increasing the volume of public sector funding through the income from the shadow and weighted and gradual increase in tax bases.

STRUCTURE AND COORDINATION OF INTERVENTIONS

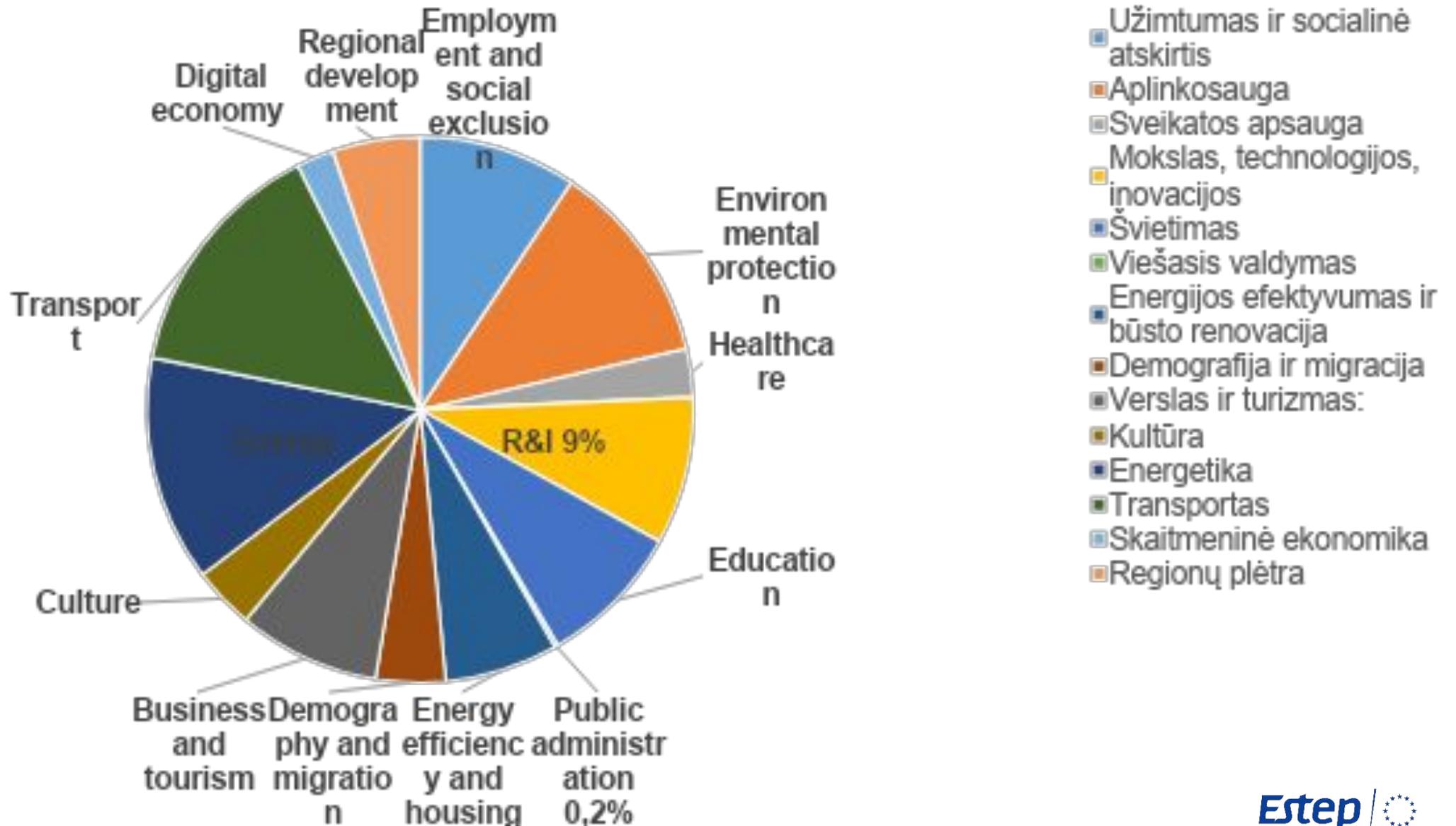
- ⦿ Too little problem and interdependent interventions.
- ⦿ Funding rarely can be the main solution to the problem.
- ⦿ The economic context and other interventions, such as regulation, tax measures are often more important than investments: income inequality and employment are good examples.
- ⦿ Good old examples of coordination include **residential renovation** (regulation, financing, skills, and communication).
- ⦿ New examples of coordination: **communication and funding** (e.g. social housing).
- ⦿ New good ways of coordination organisation: **strategic projects**.
- ⦿ Challenges: **interinstitutional cooperation, optimisation of the infrastructure network**.
- ⦿ Particular importance to the conditions of success - especially institutional capacity.

Coordination of interventions II

- There is a lack of institutional incentives to coordinate interventions, which is also the result of a separate Structural Funds management system.
- More demand, not only supply of interventions, is needed.

Exit strategy

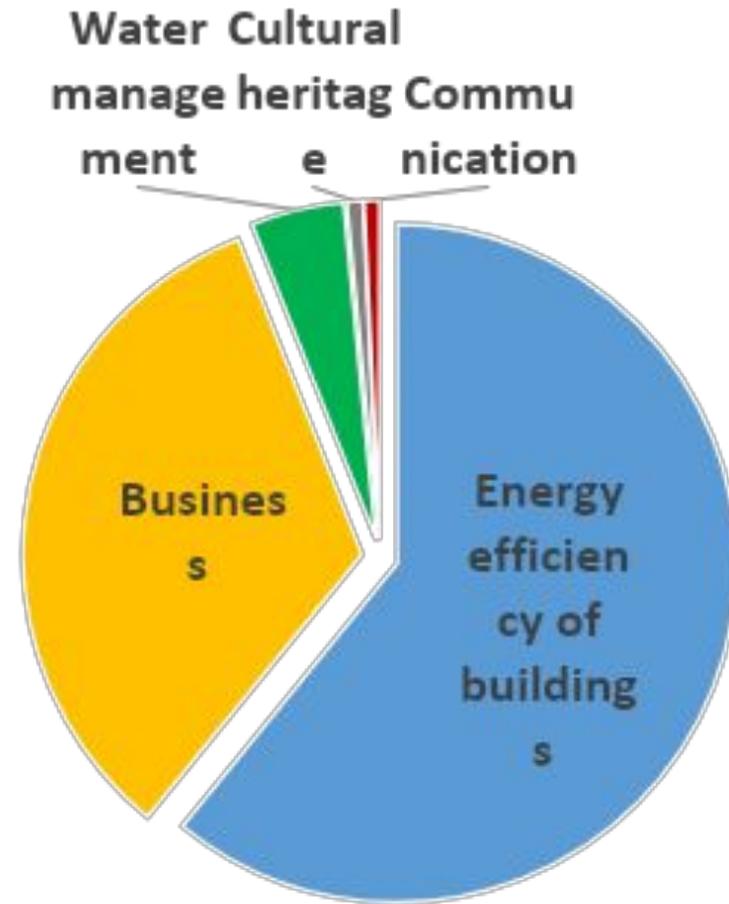
THE SCOPE OF THE EVALUATED PPA FINANCING



SCOPE OF FINANCIAL INSTRUMENTS

- ⦿ **In 2014-2020 operational programme (OP) financial measures (FM) make up 10% or EUR 0.674 billion.**
- ⦿ Most of the funds (EUR 411 million) allocated to energy efficiency in buildings: loans, guarantees, portfolio guarantees.
- ⦿ Another significant part is business financing (EUR 223.6 million): loans, portfolio guarantees, venture capital investments.
- ⦿ The rest is dedicated to water management (EUR 30 million - loans), transport (EUR 5 million - venture capital investments) and culture (EUR 5.2 million - loans).

STRUCTURE OF FINANCIAL INSTRUMENTS



■ Pastatų energijos efektyvumas ■ Verslas ■ Vandentvarka ■ Kultūros paveldas ■ Susisiekimas

THE SCOPE OF RETURN SUBSIDIES

- ⦿ **2014-2020 OP repayment subsidies amount to 1% or EUR 0.06 billion:**
 - ⦿ In the field of energy efficiency - increase the energy efficiency of state-owned buildings (EUR 29 million), combined with FM:
 - ⦿ FM No. 04.3.1-VIPA-V-101 - 6 out of 8 applications evaluated, 6 contracts signed, 31% of funds allocated.
 - ⦿ FM No. 04.3.1-VIPA-T-113 the 1st contract was signed in March 2019, 6 proposals were rejected for the poor quality of energy audits.
 - ⦿ In the field of environmental protection - for the development of sewage collection networks (EUR 10 million), combined with FM. Recently published invitation, no funding allocated yet.
 - ⦿ In the business field - the implementation of modern technologies for SMEs (EUR 20.3 million), can be combined with FM. *No funding is allocated yet.*

EU SF SHARE IN STATE'S BUDGET 2011-2017

Public policy areas (PPA)	Dependency on EU SF funding		
	Low (0-35%)	Medium (36-60%)	High (61-100%)
Employment and social exclusion	10%		
Environmental protection			68%
Healthcare	6%		
Science, technology, innovations	11%		
Education	12%		
Public administration	3%		
Energy efficiency and housing renovation			97%
Demography and migration	5%		
Business			89%
Tourism			94%
Culture	2%		
Energy			96%
Transport		34%	
Digital economy			84%
Regional development			95%

EU SF ALTERNATIVES

The evaluation used this list of theoretically-based criteria:

1. **The problem**, for which the 2014-2020 funding was allocated to solve, is already **solved or irrelevant** due to external developments;
2. Financed interventions **do not create expected results**, fail;
3. **Financing interventions can be replaced by regulatory** (imposing obligation) **or** encouraging positive change by **communication** measures (which cost but less);
4. It is possible to **create conditions for private financing or replacement by other financial source or form** (e.g. financial measure).

COMMON PROPOSALS 2021-2027 (I)

- ⦿ In certain PPAs (employment and social inclusion, healthcare, education, culture, environmental protection, education, technology and innovations) **decrease the funding to infrastructure.**
- ⦿ In other PPAs, to organise the infrastructure funding by applying the **public-private sectors partnership (PPP) principle or financial measures (FM)** or repayable subsidies (returning funds).
- ⦿ Additional cash flow required for PPP or FM services may be generated **from infrastructure users' funds.** Such opportunities are identified in energy, energy efficiency, environmental protection PPAs.

COMMON PROPOSALS 2021-2027 (II)

- ⦿ **Consider setting up an Urban Development / Public Infrastructure Fund** which would:
 - ⦿ combine FM administration (synergies?) in this field;
 - ⦿ include new FM (social and affordable housing) and PPPs (transport, cultural heritage).
- ⦿ **Expand the list of FM funded activities** (which banks do not provide funding), **such as public buildings, culture.**
- ⦿ Increase the attractiveness of FM to financial intermediaries.

COMMON PROPOSALS 2021-2027 (III)

- ⦿ **Increase the amount of repayable subsidies:**
 - ⦿ Applicable where there are financial and economic returns.
 - ⦿ And elsewhere - as a motivational support scheme to encourage beneficiaries to get the best out of the project and return less (now used for achieving targets in connecting customers to the sewage networks).
- ⦿ **Pilot Social Impact Bonds** - more significant work with investors is needed. Possible areas: employment, homelessness, health, child / family welfare, etc.

1. THE PROBLEM IS SOLVED OR IRRELEVANT

- ⦿ Employment: reducing funding for active labor market policies (ALMPs); to reduce funding for NEETs to promote youth employment.
- ⦿ Business: not encouraging the growth of the overall level of entrepreneurship (promoting SMEs with the greatest growth potential in international markets and entrepreneurship in the regions).
- ⦿ Culture: reducing funding for the modernization of national cultural infrastructure.
- ⦿ Education, healthcare, environmental protection, R&I: reducing infrastructure funding.
- ⦿ It is likely that infrastructure related to airports, waste disposal and treatment and fossil fuels will no longer be financed by EU SFs.
- ⦿ Financing waterborne transport and civil aviation from national funds, as no essential improvement is required in the area.

2. INTERVENTIONS DO NOT CREATE THE EXPECTED OUTCOME

It is proposed to analyse the possibilities of using EU SF to complement or pilot interventions in these areas:

- ⦿ R&I - the impact of EU investment needs to be strengthened through regulatory and systemic changes.
- ⦿ Lifelong learning - it is necessary to expand the geographic availability of these services, increase the flexibility of the lifelong learning system (forms of learning, duration, content, variety of methods, attractiveness of solutions for the consumer), quality.

3. FINANCING CAN BE REPLACED BY REGULATION OR COMMUNICATION: sectoral examples (I)

Employment and social exclusion:

- ⦿ the requirement of social responsibility principles (prioritization) in public procurement, as well as the integration of the training of social responsibility principles in the education, vocational training system;
- ⦿ the application of a quotas system for disabled people to public sector organisations (and later to the private sector), but additional measures are needed to increase the capacity of people with disabilities, such as obtaining skills, education that are required in the labor market.

Energy efficiency:

- ⦿ introduction of energy or inefficient energy consumption taxes (abolition of VAT tax relief for heating) and reduction of taxes for energy efficiency improvement measures;
- ⦿ forming quarterly renovation plans;
- ⦿ management of land ownership documents for apartment buildings;
- ⦿ the exemption of energy-intensive industrial enterprises from part of the PSO (public service) tariff in exchange for the introduction of energy efficiency measures. To educate the public and create demand for energy-efficient and / or green energy-consuming products;
- ⦿ regulatory (and economic) incentives to replace cars and heating systems as major sources of pollution with less polluting solutions.

3. FINANCING CAN BE REPLACED BY REGULATION OR COMMUNICATION: sectoral examples (II)

Communications:

- ⦿ For climate change and air quality management: areas without cars; restrictions on diesel and / or old EURO standard cars, taxation of polluting cars, balancing of excise duty on diesel and petrol, assessment of the impact of major transport infrastructure projects on climate change (GHG) and ambient air quality.
- ⦿ Changing the taxing base for freight road transport (not by time, but by mileage).

Environmental protection:

- ⦿ It is recommended to implement public education initiatives in the area of natural landscape and biodiversity conservation and restoration of ecosystems and their functions.

Tourism:

- ⦿ Increase resort fees or local entrance fees - transfer of funding burden to tourists (Lithuania is the world leader in price competitiveness).

4. CHANGE TO PRIVATE FINANCING OR OTHER FINANCING SOURCES OR FORM: examples

Business:

- Use FM for all business interventions that support equipment acquisition, upgrades, and other business improvements (except interest compensation subsidies).

Employment and social inclusion:

- Increasing the competitiveness of workers (training) is left to the companies themselves (especially medium and large). However, taking into account the inability of the labor force qualifications to meet the economic needs, the lack of highly qualified IT professionals, public policy action is needed in this area, in particular by investing in the strengthening of the vocational guidance system (which will only produce results in the long term), as well as providing opportunities for employees themselves raise / change their qualifications, but reviewing the way in which measures are implemented, for example, funding directly the employee and not to the companies.
- To finance the development of social and affordable housing through FMs, attracting institutional investors, for example, CEB.

Methodological challenges and lessons from the evaluation

Scope and subject of evaluation

- One of the most interesting, widest and most ambitious assessments, which is interesting not only in Lithuania, but also in the EU, and globally.
- One of the reasons for this is that the theoretical access to interventions is not developed. Public sector political economy focuses on the interchangeability of interventions and on the conditions for selecting appropriate interventions.
- Extensive scope of assessment and attempts to limit it: secondary sources and expectations management.
- The analysis of secondary sources did not fully meet the expectations of the clients, as there are too few micro-level (measure level) assessments in Lithuania. Without them, it is not possible to answer what works and what does not.
- Although the evaluators suggested choosing public policy areas that could be assessed more deeply, expectations in all areas were similar.
- Discussion lessons: more successful where the phase of preparation of sectoral strategies has already been accelerated or even completed.