Investment Platform for Financing Road Infrastructure – Experience of Lithuania

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IMPORTANCE OF EU FUNDS IN STATE INVESTMENT PROGRAMME

State investment programme

EU and other international support
EU funds allocations to transport sector in Lithuania

2007-2013
1 550 M EUR
23%

2014-2020
1 101 M EUR
16%
Ex-ante Assessment of Market Needs to Invest by Financial Instruments in 2014-2020

**JESSICA**

Jessica pilot feasibility study 2014–2020 EIB
- completed
- May 2014

**Energy efficiency**
- completed
- November 2014
- Identified market failure: 1 055 mln. EUR

**Public infrastructure**
- completed
- March 2015
- identified market failure: 8 246 mln. EUR

**JEREMIE**

Business support
- completed
- January 2015
- Identified market failure: 406 mln. EUR

- Renovation of public buildings
- Renovation of multi apartments
- Street lightening

- Energy
- Water
- Waste management
- Education and Science infr.
- Social infr.
- Health infr.
- Transport infr.
- Culture infr.
- Internal affairs infr.
RESULTS OF PUBLIC INFRASTRUCTURE EX-ANTE ASSESSMENT - TRANSPORT

- **EU regulations** – ex ante assessment must be performed in order to set up a financial instrument

- Public infrastructure ex ante assessment encompassed initial analysis of **9 infrastructure sectors in LT**

  - **ENERGY**
  - **WASTE**
  - **EDUCATION**
  - **TRANSPORT**
    - Roads, railways, airports, harbors, public transport
  - **ICT**
  - **WATER**
  - **CULTURAL HERITAGE**
  - **SOCIAL**
  - **HEALTHCARE**

- Ex ante assessment was **carried on for 3 sectors**:  
  1. Water treatment and wastewater  
  2. Cultural heritage for economic activities  
  3. Road infrastructure
<table>
<thead>
<tr>
<th>Sector</th>
<th>Financing gap (million €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewable energy</td>
<td>355</td>
</tr>
<tr>
<td>Energy infrastructure</td>
<td>175</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>1.055</td>
</tr>
<tr>
<td><strong>Transport</strong></td>
<td><strong>2437</strong></td>
</tr>
<tr>
<td>Healthcare</td>
<td>390</td>
</tr>
<tr>
<td>Cultural heritage and culture infrastructure</td>
<td>306</td>
</tr>
<tr>
<td>ICT infrastructure</td>
<td>50</td>
</tr>
<tr>
<td>Social infrastructure</td>
<td>203</td>
</tr>
<tr>
<td>Education and science infrastructure</td>
<td>43</td>
</tr>
<tr>
<td>Wastewater and water management infrastructure</td>
<td>3.232</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>8.246</strong></td>
</tr>
</tbody>
</table>
## INVESTMENT GAP AND VIABILITY ASSESSMENT IN TRANSPORT

<table>
<thead>
<tr>
<th>Investment type</th>
<th>Revenue sources</th>
<th>Possibility to attract private financing</th>
<th>Possibilities for project replication</th>
<th>Overall investment viability potential</th>
<th>Investment demand mln. Eur</th>
<th>Investment supply mln. Eur</th>
<th>Investment gap mln. Eur</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roads</td>
<td>KPPP</td>
<td>Average</td>
<td>Low</td>
<td>Average</td>
<td>1448</td>
<td>886</td>
<td>562</td>
</tr>
<tr>
<td>Railways</td>
<td>Tariffs, budget, subsidies</td>
<td>High</td>
<td>Average</td>
<td>Average</td>
<td>2643</td>
<td>923</td>
<td>1720</td>
</tr>
<tr>
<td>Airports</td>
<td>Tariffs</td>
<td>Low</td>
<td>Average</td>
<td>Low</td>
<td>120</td>
<td>110</td>
<td>10</td>
</tr>
<tr>
<td>Water transport</td>
<td>Tariffs</td>
<td>Average</td>
<td>Low</td>
<td>Low</td>
<td>341</td>
<td>211</td>
<td>130</td>
</tr>
<tr>
<td>Public transport</td>
<td>Tariffs</td>
<td>Average</td>
<td>High</td>
<td>Average</td>
<td>301</td>
<td>268</td>
<td>33</td>
</tr>
<tr>
<td><strong>Transport in total:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>4853</strong></td>
<td><strong>2398</strong></td>
<td><strong>2437</strong></td>
</tr>
</tbody>
</table>
MAIN MARKET INEFFICIENCIES IN ROAD SECTOR

- Projects do not generate revenue, majority of projects are financed by national program (KPPP) and subsidies

- If EU financing will fall after 2020, sector will face severe challenges with regards to sustainable sector financing model

- Currently available level of funding is insufficient to achieve strategic national goals in road sector

- Sector lacks experience in financial structuring and borrowing for large infrastructure projects

- Currently existing financing gap cannot be fully covered by PPP model (slow model, high administrative costs)
POSSIBLE SOLUTIONS FOR MAIN INEFFICIENCIES IN ROAD SECTOR THAT WOULD ENCOURAGE THE USE OF FI

• Legal changes in order to ensure sufficient cash flow from/for the road construction/reconstruction projects

• Encourage the use of PPP schemes

• Encourage public road maintenance companies to compete with private companies in PPP procurements in order to increase competition

• Establish country and sector specific FI for the road sector, that would ensure wider range of financing sources.
**CHANGES IN PROJECT FINANCING**

Up to now:

- **ESIF subsidy**
- **Co-financing from national program (KPPP)**

**Opportunity to use FI:**

- **FI and commercial financing**
  - Private funds at the level of project
  - Alternative ways to implement the project

**FINANCIERS**

- ESIF financial instruments
- Private funds

**PROJECT**

**REPAYMENTS**

- National program (KPPP)
- Savings after project
- Income after project (e.g. vignettes)
EX-ANTE SUGGESTIONS

• The needs of the projects can be covered by:
  – **Subordinated soft loan up to 30% of project value** – a good practice example, reduces the cost of project
  – Can be combined with **interest rate subsidy** for the commercial financing

• FI targets - big, national strategic projects for road infrastructure development
Second steps

- MoF/MoT/Fund Manager agreement

- 50 - 150 mln. EUR allocations for FI (amount of allocation could be increased gradually, taking into account the project pipeline)
GUARANTEE for street lighting modernization projects

- EUR 15 m allocated to the instrument
- Applications received – 3 (Jonava, Šilutė and Plungė municipalities)
- Project initiation stage - 5
- Documentation preparation – 4 (Vilnius, Jurbarkas, Utena, Akmenė)

1. PROPOSALS
2. CONTRACT
3. GUARANTEE APPLICATION
4. GUARANTEE
5. GUARANTEE FEE
6. GUARANTEE REPAYMENT

Street lighting modernization
• Public green transport – typical area for FI
• Infrastructure development for electric vehicles
• Railways and water transport infrastructure
FI benefits for the transport sector:

- CONTINUITY
- RE-USE OF FUNDS
- MULTIPLIER EFFECT
- "lock funds in" for specific transport infrastructure modernization purposes
- Additional funds for project financing from private sector
- Cheaper PPP financing as compared with only commercial financing
- Socioeconomic benefits due to earlier implementation of infrastructure projects
FINANCIAL INSTRUMENTS ESTABLISHED UNDER THE EU FUNDS

2007–2013 Financial period

Initial contribution 443 MEUR + Private funds 585 MEUR

Initial contribution 443 MEUR

Areas of funding:
- SME
- Energy efficiency
- Water management
- Transport sector
- Other public infrastructure

440 MEUR resources returned from 2007–2013 funding period + 600 MEUR 2014-2020 EU funds + 1000 MEUR Private funds

1040
+ 1000
Coordination with European Fund for Strategic Investments

Fund of Fund

EFSI

FI

Projects
Thank you!