



PUBLIC PRIVATE
PARTNERSHIP ASSOCIATION
LITHUANIA

Public and Private Partnerships

Lithuania's story

2018

Glossary

CEE	Central and Eastern Europe
CPMA	Central Project Management Agency
EBRD	European Bank for Reconstruction and Development
EE & CIS	Eastern Europe and Commonwealth of Independent States
EIB	European Investment Bank
ENEF	Energy Efficiency Fund
IFI	International Financial Institutions
LRA	Lithuanian Roads Authority
NIB	Nordic Investment Bank
O&M	Operation & Maintenance
PFI	Private Finance Initiative
PPP	Public and Private Partnership
USP	Unsolicited Proposal
VfM	Value for Money
VIPA	Public Investment Development Agency

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When challenges present new opportunities

Widening infrastructure gaps continue to stimulate debate within governments worldwide. It is estimated that €3.0 trillion worldwide needs to be invested in economic infrastructure annually through 2030 to keep pace with projected global growth. However, with investment shortfall evaluated to be in the region of €315 billion each year, it would appear that such levels of investment are currently unsustainable.¹

This is the situation that Lithuania finds itself in currently. There is a strong need to renew outdated infrastructure and to build new efficient public structures that meet contemporary demands for faster connections, higher cost efficiency and the optimization of scarcer resources. However, with the tightening of belts that came as a direct

consequence of the 2008 Financial Crisis, and the gradual reduction and phasing out of EU structural funds, funding such projects has become progressively more burdensome. That is why, since 2008, Public and Private Partnerships (PPPs) have been increasingly used as a tool to close the financing gap.

One of the greatest challenges that lie ahead for Lithuania's economy is the aforementioned upcoming reduction in the EU funding program, which has thus far contributed greatly to Lithuanian infrastructural improvements and boosted economic growth. From 2020, the proportion of EU funds allocated to Lithuania are to be reduced significantly, and the Government will then be required to pay closer attention

to alternative means of financing to close the infrastructure gap. PPPs will inevitably assume higher priority as a tool for delivering infrastructure projects efficiently. By this time, however, Lithuania will have already accumulated sufficient experience to enable it to take the fullest advantage of all the benefits that PPP investments offer.

The PPP model has increasingly become a fixture of Lithuania's public infrastructure projects: 53 PPP contracts in total were concluded before 2017 (most of them municipal concessions), with the total value of private investment exceeding €146 million. Furthermore, at least three new PPP contracts are expected to be signed in the nearest future. Lithuania has created conditions conducive to attracting private capital for the provision of public services. It has managed to put in place a legal environment and institutional framework which has been favorably assessed by numerous international experts. However, going forward, strong and consistent political support, centralized strategic planning for the development and implementation of public infrastructure plans, are vital for further PPP development.

By this time, however, Lithuania will have already accumulated sufficient experience to enable it to take the fullest advantage of all the benefits that PPP investments offer.

Stable political support for PPPs

Although parliamentary elections in recent years have delivered significant swings between the ruling political parties, there has been a consistent consensus of support amongst the ruling coalitions for PPPs.

KEY COUNTRY INFORMATION

Population¹
2.84 million

Official language
Lithuanian

Currency
Euro

Real GDP growth²
2.3% - 2016
2.9% - 2017^f
3.1% - 2018^f

Membership
NATO since 2004
EU since 2004
OECD in 2018³

Capital
Vilnius

Dominant foreign languages
English, Russian, German, Polish

Profit tax
15%

Credit ratings
S&P A-
Moody's A3
Fitch A-

¹ Statistics Lithuania, 2017

² European Commission, April 2017

³ Currently in negotiations with OECD

PPP policy and legal framework in Lithuania

From zero to a strong PPP base

The strengths and weaknesses of a country's regulatory environments play a key role in determining whether or not investors will decide to invest in infrastructure. Invest Lithuania's ongoing communication with international private sector participants reveals that outside of the macro-economic environment, political and regulatory risks are considered key criteria when making an investment decision. With this in mind, Lithuania has carefully drafted its investment legislation to adopt the best foreign practices available.

PPP infrastructure investments in Lithuania are governed by Investment and Concessions laws. Concession procedures were first established in 1996, and have already progressed beyond their twentieth year. Correspondingly, most of Lithuania's implemented PPP projects to date have thus far been concession projects. Public Finance Initiative (PFI) project implementation procedures were only set in place in 2009, following the introduction of Rules for

the Development and Implementation of PPPs. At this time, the Government also initiated 6 pilot PFI type projects, of which 2 are already operational and 1 is in its construction phase (for further statistics please refer to the "What is the PPP experience in Lithuania?" section below). A year later, in 2010, the Lithuanian Government launched a PPP Promotion Program which included the introduction of standard PPP documentation and the appointment of agencies - Invest Lithuanian and the Central Project Management Agency (CPMA) - for the support and promotion of PPP implementation.

It is important to note that the vast majority of public procurements in Lithuania are governed by the Public Procurement Law with only a few exceptions, such as concession projects which are governed by Concessions Law, or national defense or national security sector projects which are governed by special procedures.

Some important amendments have been made to PPP regulations. One recent amendment provides for greater leeway when it comes to the submissions from the private sector of unsolicited proposals to relevant public authorities (for a more detailed description please refer to the "Project identification and initiation" section below). Another notable amendment to Concession Law was approved by Parliament in June 2017 and comes into power as of 1st of January 2018. At its core, this law enables greater flexibility in the transfer of assets to private partners, and removes the current cap on maximum project duration (currently set at 25 years).

Lithuania has with gradual yet confident steps advanced its PPP regulatory framework to the point where today it is recognized favorably by international bodies.

TIMELINE OF THE KEY PPP LEGISLATION EVENTS

Introduction of Public Procurement Law

The majority of public procurements in Lithuania are governed by this law. Concession projects are the exception and are governed by Concessions Law.

Amendment of Investments Law

This amendment introduced the PFI type model for state investments. In general, this Law regulates implementation of various investment type transactions, including PPP, in Lithuania.

Government approved PPP Promotion Programme 2010-2012

This program listed multiple streams of actions for the development of the PPP model in Lithuania, including the drafting standard PPP documentation. The set of key tasks outlined included the preparation of methodological guidelines for PPP implementation and the provision of methodological support to procuring authorities. This task was appointed to the CPMA. Alongside which, the state agency Invest Lithuania was made responsible for the promotion of PPP implementation. This was to be conducted through the provision of technical expertise, encompassing such tasks as the preparation of feasibility studies and procurement documents, as well as the performance of market consultations on projects.

Introduction of Special Airport Concession Legislation

This special law removed any previously present restrictions for the transfer of airport operation functions to private companies and provided more flexibility for airport operators in setting airport fees.

1996 08 1996 09 2009 06 2009 11 2010 04 2015 07 2016 06 2017 06

Introduction of Concessions Law

The introduction of this Law marks the beginning of PPPs in Lithuania. However, initial versions of the Law were very basic and lacked comprehensiveness.

Introduction of Rules for the Development and Implementation of PPPs

The Rules created regulatory grounds for the implementation of PPP projects in Lithuania. 6 pilot PFI type projects were initiated to strengthen public sector competences in delivering PPPs.

Unsolicited proposals allowed

Amended Rules for the development and implementation of PPPs enabled private sector to initiate PPP projects.

Amended Concessions Law*

Major amendments include increased flexibility in the transfer and use of public assets by concessionaires.

* The Law will come into power on 1st January 2018

International assessment of the Lithuanian PPP environment

With the introduction of its PPP framework in 2009, Lithuania placed itself on the map alongside other countries offering PPP investment opportunities. Regulators and independent assessment bodies soon after began to publish ratings and findings, benchmarking it against its regional neighbors and the greater European environment as a whole.

In 2011, the European Bank for Reconstruction and Development conducted an assessment of concession legislation in each of the EBRD countries of operations and benchmarked them to international best practices. The assessment considered the practical issues that present themselves when local PPP laws are applied and how closely these laws followed PFI Guide recommendations².

According to the report, Lithuania, with its highly compliant and effective regulation for concessions, ranks among the leaders in Central and

Eastern Europe³. This outcome was mainly determined by Lithuania's introduction of comprehensive PFI regulation and its PPP promotion program.

The next significant assessment came in 2013, when the Economist Intelligence Unit⁴ evaluated the environment for PPPs in Eastern Europe and the Commonwealth of Independent States (EE & CIS). The study looked into readiness and capacity in several categories, such as regulatory and institutional frameworks, operational maturity, investment climate, and financial facilities.

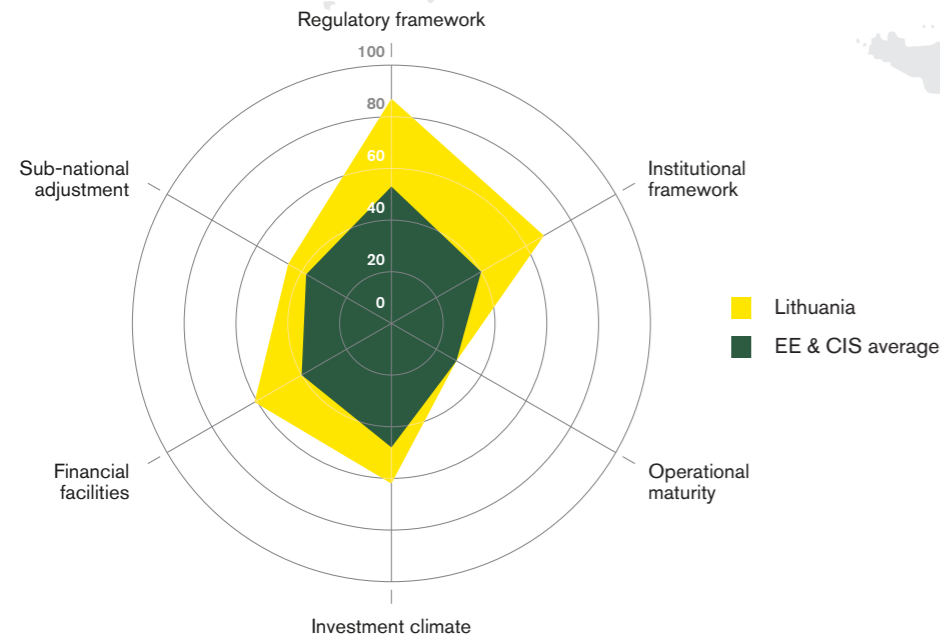
It was Lithuania's comprehensive regulation and clearly defined institutional roles that distinguished it from its peers. While the broad political support enjoyed by PPPs and the existence of multisector PPP project pipeline also came into focus.

EBRD CONCESSIONS SECTOR ASSESSMENT IN CEE

- High Compliance/Effectiveness
- Medium Compliance/Effectiveness
- Low Compliance/Effectiveness

Lithuania
Croatia
Albania

LITHUANIAN PPP SYSTEM RANKING VS EE & CIS AVERAGE

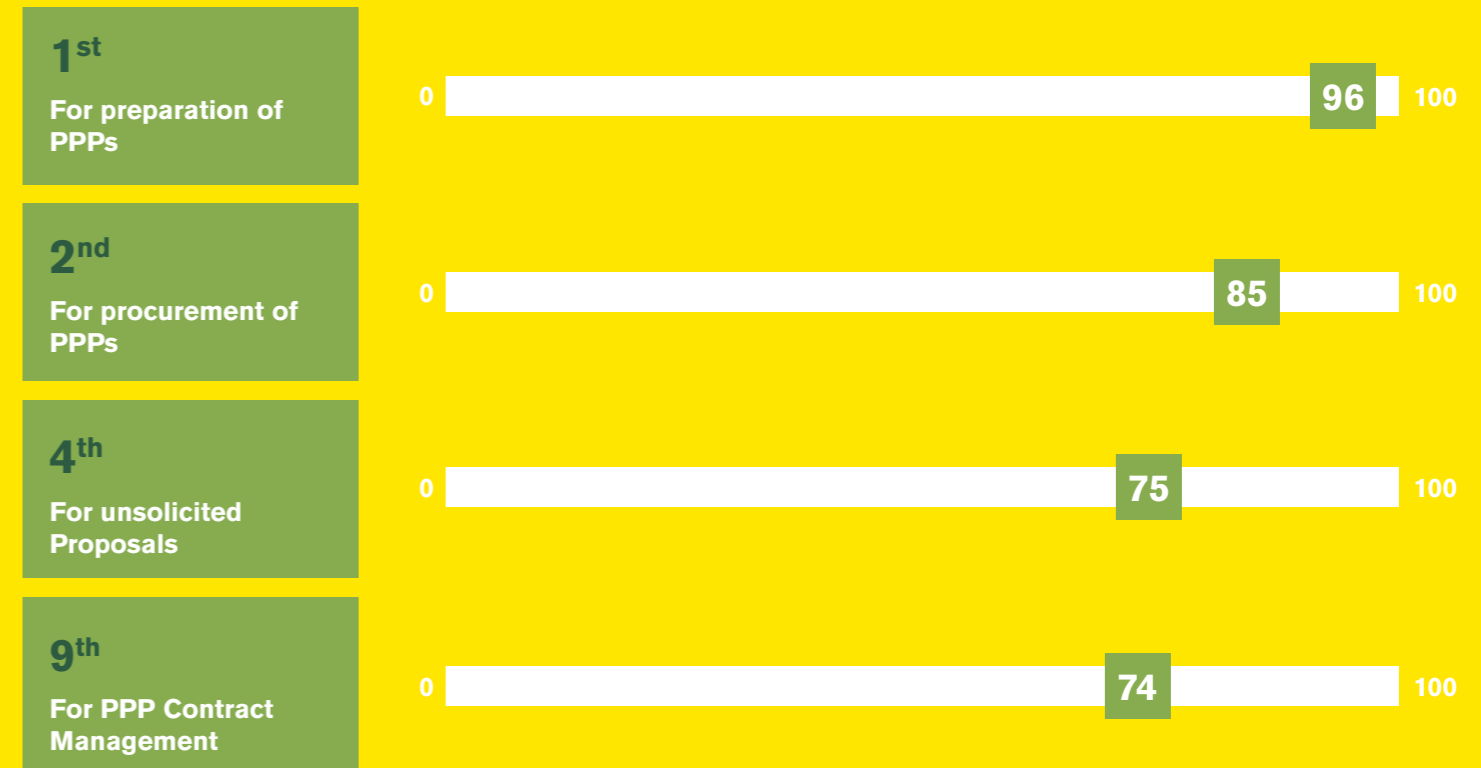


Most recently, in 2016, the World Bank included Lithuania among most advanced PPP countries in its PPP Benchmark⁵. The report targets elements aggregated into four areas that cover the main stages of the PPP project cycle: preparation, procurement, and contract management of PPPs, and management of unsolicited proposals (USPs).

Lithuania ranked particularly high in project preparation and procurement procedures, and shares top positions with other leading countries. The report assigns favorable evaluations to countries that follow good practices. The term good practices is broadly determined as relating to processes

where in the preparation stage projects are assessed, prioritized and approved in the context of national public investment plans; where the selection of the PPP model is well justified; where standardized procurement documents exist, and where a draft contract is presented in requests for proposal. While in the later procurement stage good practice is defined as relating to processes in which participants are provided with clear, fair and transparent details on procurement and given reasonable time to submit proposals. Lithuania was seen to be highly compliant in all these regards, thus justifying its inclusion within the expanded benchmark.

THE WORLD BANK'S GLOBAL PPP PROCUREMENT BENCHMARK



² UNCITRAL Legislative Guide on Privately Financed Infrastructure Projects, 2001

³ Concession/PPP Laws Assessment 2011, Cover Analysis Report, EBRD, 2012

⁴ Evaluating the environment for public-private partnerships in Eastern Europe and the Commonwealth of Independent States, The Economist Intelligence Unit, 2013

⁵ Benchmarking Public Procurement, World Bank, 2016

To PPP or not PPP?

Good global practices, as discussed in the previous section, suggest that the decision to apply the PPP model should not be made without first conducting an in-depth assessment of the model's suitability for particular projects, given their broader context. In adherence to such practices the procuring authorities in Lithuania conduct a thorough evaluation of the suitability of PPP for investment projects. This entails the strict observation of PPP methodological recommendations and the following of a regulated process which involves both internal and external approval stages (for a detailed description of this process see section "Project preparation and approval").

In general, PPPs in Lithuania are deemed to be an effective model when they can deliver the efficient implementation of governmental and municipal functions, and the satisfaction of public needs. Risk allocation and Value for Money (VfM), are also key quantifiable measures that are utilized to justify the PPP model's advantage over other alternatives. Prior to deciding whether to implement a project using the PPP model, the procuring authorities must secure guarantees that a significant amount of the project's risks can be managed by a private entity more effectively than by the public sector, and consequently be transferred to a private partner. However, the procuring authority must

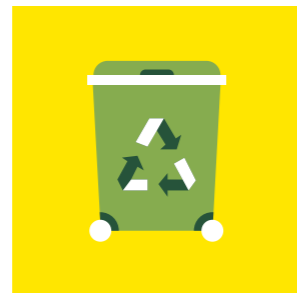
be in a position to discharge all of its projected financial obligations for the project before financing for the project can be closed.

According to Investment Law, a private entity may be granted the right to carry out activities related to the design, construction, reconstruction, repair, renewal, management and maintenance of infrastructure. Such activities also extend to new property or the governmental or municipal property assigned to the private entity for management or use, and to the provision of public services. PPPs in Lithuania can be implemented without interference in nearly every sector and in special cases permitted upon government approval.

POSSIBLE PPP AREAS IN LITHUANIA



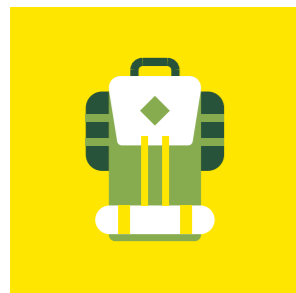
Justice



Waste management



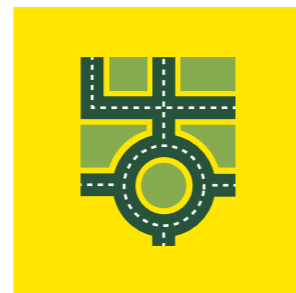
Education



Tourism and leisure



Energy



Transport infrastructure

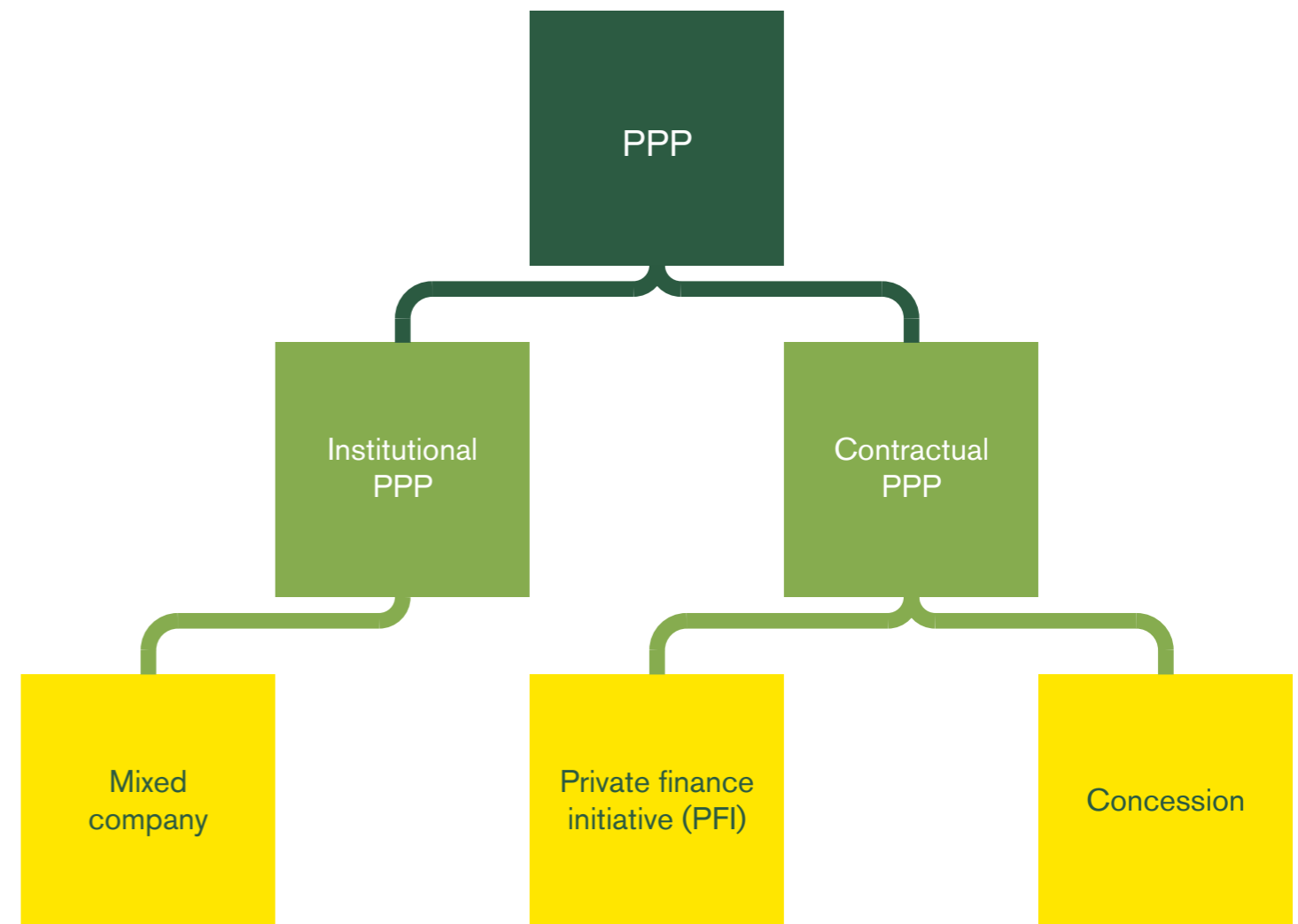
Applicable PPP schemes

The schemes of public private partnerships are established by the Concessions Law, and the Investment Law.

In addition to traditional – Contractual PPPs, there are also legal grounds to

implement less common Institutional PPPs, where public partner invests equity alongside private partner. Nonetheless, in Lithuania, contractual concessions and PFI type projects are the preferred methods among private and public sector participants.

PPP SCHEMES ACCORDING TO LEGAL ACTS



Public institutions and PPP support structures

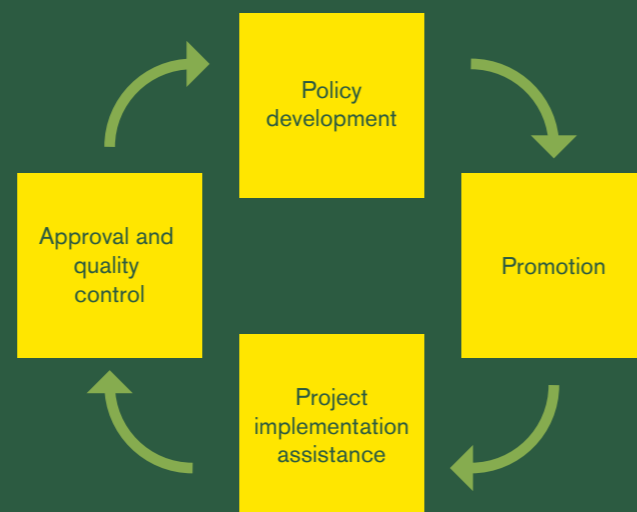
Lithuanian PPP policy formation and supervision falls under the responsibility of the Ministry of Finance. Approval and quality control, however, are dealt with through its established public agency Central Project Management Agency.

The Ministry of Economy, meanwhile, is focused on improving the investment environment, and through its public agency Invest Lithuania, it promotes and facilitates PPP usage.

Project initiation and implementation is not centralized under any single PPP unit, but rather left to the procuring authorities to manage.

Below are brief descriptions of the key institutions / agencies involved in PPP projects in Lithuania.

PPP IMPLEMENTATION SUPPORT CYCLE



Invest Lithuania is an investment promotion public agency under the Ministry of Economy, which also consults public sector on PPP project preparation and advises investors on PPP project participation. Invest Lithuania acts as a facilitator and promoter of the PPP model, providing technical support to the project owners and potential bidders prior to the bidding process, as well as technical support to the procuring authority during the bidding process.



<https://investlithuania.com/investment-locations/strategic-and-ppp-projects>

Central Project Management Agency is a public agency under the Ministry of Finance that is responsible for management, implementation and administration of various European Union and other international donors' programmes in Lithuania.

CPMA also provides advisory services related to the methodological implementation of PPP projects for the public sector and it is responsible for the evaluation of PPP feasibility studies - assessing whether they comply with approved methodologies and requirements.



<http://www.ppplietuva.lt>

Ministry of Finance acts as the main gatekeeper for PPPs. Its key task is to ensure that state liabilities resulting from PPPs are manageable for the State and that the projects are in line with budgetary policies. The Ministry must review PPP contracts and grant its approval for projects in order for them to be implemented.



<http://finmin.lrv.lt/en>

Ministry of Economy's key role related to PPPs involves drafting and proposing legislative amendments that aim to improve the investment environment and increase the country's international competitiveness.



<http://ukmin.lrv.lt/en>

What does a project cycle look like?

Project identification and initiation

Public investment needs in Lithuania are normally determined by the procuring authorities themselves (e.g. line ministries, state departments, local authorities, universities). Such investments, however, should be in line with government programs and/or guidelines. Once the need for investment has been determined, it is the responsibility of procuring authority to analyze and select the most suitable implementation alternative for the investment project and to perform an evaluation of its socio-economic usefulness.

According to CPMA's investment project preparation methodology, the PPP model for project implementation should only be considered if at least one of these project criteria is met: 1) Large investment size; 2) Possibility to transfer risks; 3) Significant longevity; 4) Significant complexity.

There are two approaches for project initiation in Lithuania, Standard and Unsolicited proposals, as described below.

Standard initiation approach

There is no single PPP procuring authority in Lithuania. PPP projects can be initiated by central government or related entities (ministries, departments etc.) as well as local governments.

Normally, the procuring authority manages the projects itself. In some cases, however, the procuring authority may act as a key project stakeholder. In such cases, actual responsibility for project management is delegated to the relevant subordinated entity (e.g. the Ministry of Transport and Communications may be a procuring authority for an inland water port PPP project, but in practice, the project could be managed by Inland Waterways Authority)

Unsolicited proposals

Lithuanian PPP legislation allows private sector to initiate project preparation and tender procedures through the submission of an unsolicited proposal. A project initiation form should be completed and submitted to the relevant public institution. If the procuring authority approves the proposal, it may begin preparing the investment project (feasibility study) and in turn start the tendering procedures.

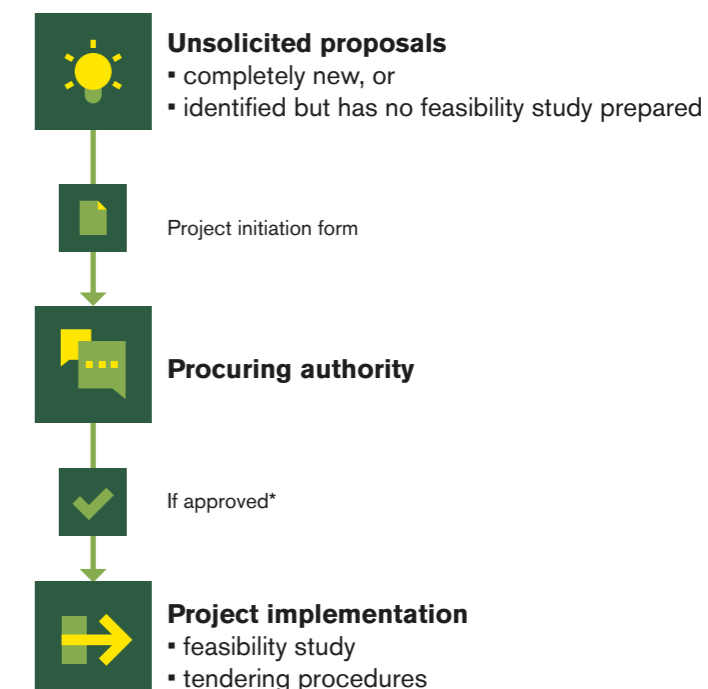
It is important to note, however, that proposals by private companies can be submitted only for projects that are completely new or which have been identified, but for which no feasibility study has thus far been prepared.

Lessons learned

To date, the Police Department and the Ministry of Transport and Communications are the most active central government institutions when it comes to initiating PPPs. Each institution has completed 1 project and at least 2 currently launched or expected to be launched soon.

In part, this is a result of the successful completion of PPP pilot projects, which has allowed these institutions to gain the relevant know how, and apply it when initiating new projects.

UNSOLICITED PROPOSAL SUBMISSION PROCESS



* If project is declined: Official response explaining grounds for the decision

Project preparation and approval

In Lithuania, investment projects (feasibility studies) must be prepared for all public projects that involve capital investments. Internationally, it is a common practice to prepare feasibility studies, which not only determine optimal alternative of delivering project, but also optimal financing option, such as PPPs, state funding or other viable possibilities. Lithuania has slightly different approach, although very similar in its essence. In accordance with current PPP methodologies, investment projects should be prepared based on the assumption that the project will be financed by the state, that is, different implementation models and financing measures are not evaluated in investment projects. Instead, an optimal project implementation model is determined in the second stage through the performance of a separate analysis.

The Rules for the Preparation and Implementation of the Public and Private Sector Partnerships regulate the course of the preparation and approval of PPP projects. These rules define clear stages for the preparation and approval of the projects; divide which procedures are to be initiated by the central and which by the local public authorities; and outline the specific terms needed to pass decisions for approving / controlling authorities. The relevance and compliance of the projects are assessed throughout the entire PPP project approval cycle.

If the procuring authority decides to proceed with the PPP model, it has to complete and submit a PPP questionnaire to the CPMA, together with an investment project. The CPMA will then provide its opinion on whether the investment project is in line with the required methodologies, and whether PPP is a suitable model for the given project.

If it is a central government project, the second approval stage involves the submission of the investment project to the Government via the Ministry of Finance, which in turn grants final approval. In cases where the state liabilities of a project exceed €58 million, additional approval from Parliament is required. For local government projects, in addition to the CPMA's opinion, the approval of the Municipal Controller and Municipal Council are required to greenlight the project.

Prior to the launch of the tender, the CPMA is required to review the procurement documents and give its opinion. For local government projects, documentation must also be approved by the Municipal Council.

Finally, the Ministry of Finance will then review the partnership contract, and either approve it or return it to the procuring authority to correct any issues that exist. In addition, the approval of the Municipal controller and Municipal Council are required for local government projects.

Lessons learned

Some of the early attempts to implement PPP projects, (mainly smaller size, municipal level, concession type, two-stage projects that involved funding from the EU) suffered from a lack of long term planning. Project owners tended to decide project scope and characteristics without having first consulted the private market to which the object was intended to be transferred. In many cases this resulted in the creation of albeit eye-catching, sub-optimal and commercially unattractive infrastructure which led to several unsuccessful tenders.

To avoid the repetition of such outcomes in larger scale future PPP projects, the lessons learned from these small-scale project mistakes were thoroughly reviewed. As a result, the CPMA released methodological recommendations for procuring authorities on how to perform market consultations prior to setting a project's scope and launching the procurement.

CENTRAL GOVERNMENT PROJECTS

PPP projects implemented by central government institutions follow the approval stages illustrated below. Parliamentary approval is required only if State liabilities exceed €58 million, while all other approval stages are mandatory and normally take up to one month each.



Parliament²
(Special cases)



Central Project Management Agency



Government¹

Investment Project Approval Process



Central Project Management Agency

Procurement Documentation Approval



Ministry of Finance

Final Contract Approval



Contract award

LOCAL AUTHORITY PROJECTS

PPP projects implemented by local government institutions follow the approval stages illustrated below. Investment projects and the final contract is also reviewed by the Municipal Controller. The Municipal council, however, has the last word in each approval stage.



Central Project Management Agency



Municipal Controller



Municipal Council



Central Project Management Agency



Municipal Council



Ministry of Finance



Municipal Controller



Municipal Council



Contract award

¹ Through the Ministry of Finance of the Republic of Lithuania

² Required if State liabilities are above €58 million

Procurement and investor selection

Once all the approvals have been secured, the procuring authority puts together a project team and project procurement commission. The commission normally consists of members from different institutions (i.e. procuring authority as well as its or project related agencies), specialists and external experts. Typically, external consultants are appointed by the procuring authority to prepare procurement documentation and to advise during the procurement phase.

Invest Lithuania provides financial and strategic consultations on PPP projects to public authorities free of charge (this role was assigned in 2010-2012 PPP Promotion Programme). Given that Invest Lithuania has a wealth of experience and know-how in all PPP matters, and that its advice is free, a number of public authorities make extensive use of its services. In other projects Invest Lithuania is invited to delegate its experts to project steering committee and procurement commissions.

Selection process could take as little as 6 months for standardized projects, although in practice more common expected duration is 1.5 to 2 years.

The most common and recommended procurement procedures for PFI type PPPs are:

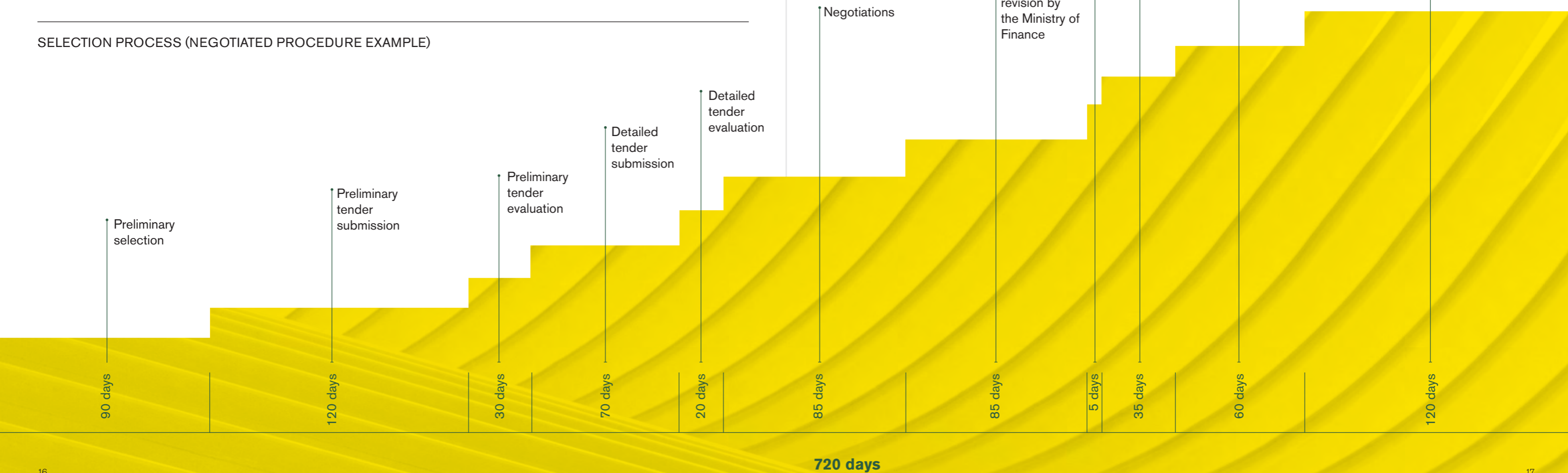
- **Negotiated procedure** – used when output specification is known, but the best technical solution is not clear;
- **Competitive dialogue** – used for large and complex projects where it is difficult to define technical specification requirements objectively in advance.

Concession-type PPP projects follow a single procedure (with rare exceptions):

- **Open tender (for works or services)** – this is a process similar to the Negotiated procedure used for PFI type projects.

Depending on a project's complexity and its number of stages, the selection process can take as little as 6 months for standardized projects, although in practice a duration of 1.5 to 2 years is most common. A procurement process may also take longer if there is a necessity to specify submitted information or if there are appeals from the bidders.

SELECTION PROCESS (NEGOTIATED PROCEDURE EXAMPLE)



Project implementation

After the contract is signed and financing has been secured, it is the full responsibility of the private partner to make sure that construction works are delivered in accordance with all the legal requirements present in the agreement. The main concern of the procuring authority is to ensure that services are provided in accordance with the contract. This determines that the procuring authority's main role

during project implementation entails contract management and project monitoring throughout the operational phase. In practice, the procuring authorities can delegate project monitoring tasks to subordinated public entities that are more closely linked to the supervision of project activities.

While it is not provided for in the legislation, PPP related agencies

may choose to monitor project implementation progress. For example, Invest Lithuania and CPMA may seek to collect information on project implementation and performance details, such as factual terms, expenditure or quality of services. This material can then be used as the basis for guidance for future PPP projects.

PPP project financing options

PPPs in Lithuania can benefit from all the conventional funding sources available, such as commercial banks, international financial institutions (IFI) or investment funds.

All of the major commercial banks that operate in Lithuania can normally offer financing to PPP projects, especially to smaller projects that are less attractive for the international investors. However, there is no obligation to choose local institutions and it is up to the bidders to decide depending on the project structure, which funding

source works best for them. In addition, in the past, financing has also been offered to certain projects by European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), Nordic Investment Bank (NIB) and other IFI's. Broadly speaking, private partners may have a wide range of financing sources to choose from. For some projects, it may even be possible to use EU structural funds (use blending) to fund a portion of the investment

Credit enhancement facilities

In 2015, the Ministry of Finance together with the Ministry of Energy and Public Investment Development Agency (VIPA) established Energy Efficiency Fund (ENEF). The fund is aimed at providing loans for financing the renovation of central government buildings and provides guarantees for loans granted by commercial banks for municipal street lighting modernization projects.

The fund's size is 79 million euros, up to 65 million euros of which will be dedicated to the modernization of central government buildings, and up to 14 million euros of which

will be allocated to guarantees for street lighting modernization projects. Only municipalities and municipal enterprises can apply to receive a guarantee for street lighting projects (4 regional municipalities have applied for these guarantees so far). Qualifying projects should generate at least 40 percent energy savings and the Fund can guarantee up to 80 percent of suitable project costs.

In summary, private partners have significant freedom and flexibility in choosing and combining different sources of financing.



Major commercial banks in Lithuania: Luminor, SEB, Swedbank etc.

Full list: <http://www.lb.lt/en/sfi-financial-market-participants>

Competition and key market players

When launching project tenders, Lithuanian PPP procuring authorities normally aim to attract interest from 3 to 5 candidates in the prequalification stage to ensure that ideally 3 participants will remain after the shortlisting process. Although the Lithuanian PPP market is relatively young, some market participants have already gained PPP experience, if not by winning contracts, then at least by participating in procurement processes.

When it comes to social infrastructure projects, there are at least 4 major local real estate development companies and at least 7 large construction companies that actively screen PPP projects for investment opportunities. Thus, it is generally expected that local companies are capable of raising sufficient competition (directly or through consortiums) in projects that involve various purpose social buildings. Even for projects where local competition is high, the procuring authorities generally aim to translate all procurement documentation into foreign languages (typically English) and this is particularly the case when it comes to larger scale projects.

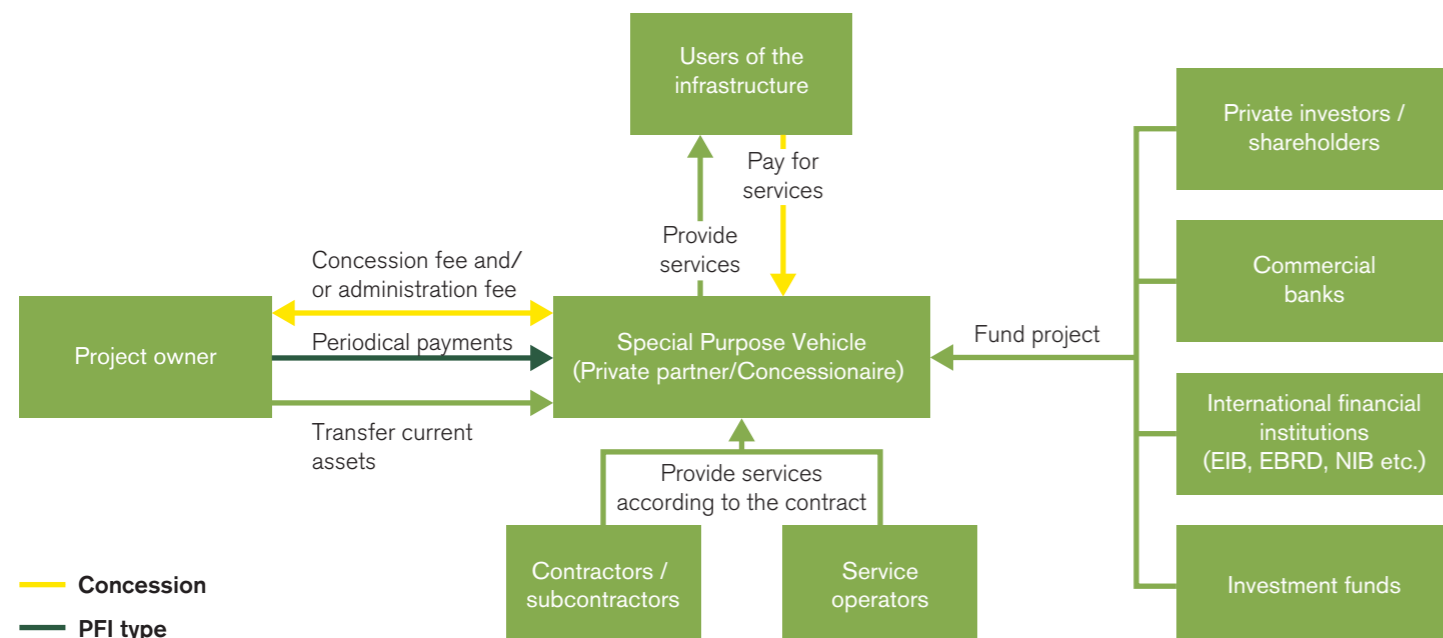
As for transport sector, roads in particular, Lithuanian companies are well qualified to deliver very complicated projects. At least 6 major local road companies participate in standard procurements and show constant interest in PPP opportunities in the region.

Nonetheless, some limitation naturally evolved for private sector to participate in some less common infrastructure sectors. For example, international investors would be particularly welcome to bring their know how in construction, operation and / or maintenance of airports, prisons or stadiums, where Lithuanian companies might still be lacking relevant experience.



<http://www.vipa.lt/en>

STANDARD PPP PROJECT FINANCING STRUCTURE



What is the PPP experience in Lithuania?

Prior to 2017, a total of 53 PPP contracts were concluded, with a total investment value in excess of €146 million⁶. Of all the concluded contracts, 42 are still valid, while 11 have already been completed. The current track record for Lithuanian PPPs reveals certain characteristics and trends:

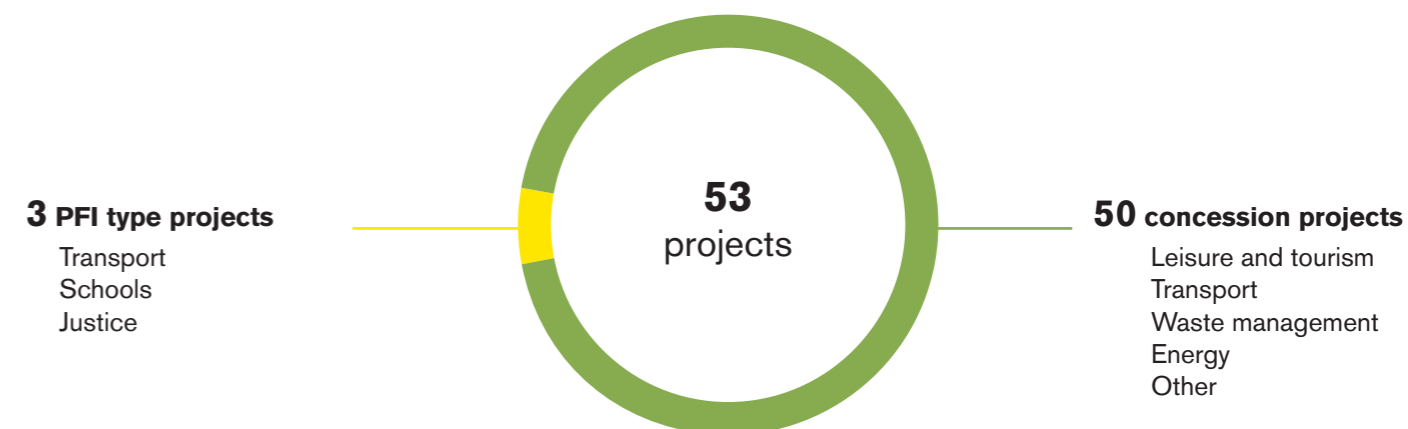
- The vast majority, in fact 50, of all concluded contracts are of the concession type. This disproportion can be attributed to fact that concessions have been in existence for much longer period of time, with the first concession contracts being signed in early 2000s. Meanwhile regulation concerning, PFI type PPP projects was written and came into power relatively recently, only in the beginning of year 2010. All three concluded PFI type contracts are pilot PPP projects that were initiated in 2009 (Vilnius Balsiai school; Palanga bypass road; and Vilnius police station and custody).
- As many as 51 contracts for PPP projects have been implemented by local authorities. So far, the majority of the PPP projects have been smaller in scope and targeted particularly at improving the wellbeing of local communities and attracted only local private partners or quasi-private partners (formed by the municipalities). In many cases, initial project development stages were co-funded by the EU, with the created assets then transferred to private operators (Operation & Maintenance (O&M) type contracts). This, in general, explains why nearly all of the projects implemented by local authorities that reached financial closure are concession type contracts, and only one, the Balsiai school project by Vilnius city municipality, was implemented via a PFI scheme.

- The duration of PPP project contracts normally ranges from 13 to 25 years. The length of the contract depends on project specifics, such as required investment size, asset renewal cycle or general expected payback period. Roads, bridges, education and sports arena projects opted for longer contract periods, with the average settling above 20 years. Meanwhile, the duration of waste management and municipal heating concession were commonly in the region of 15 years. The newly amended Concessions law has removed the previous project duration cap of 25 years. This amendment opens up the potential for larger scope concession projects which otherwise would not have been possible under the previous restrictions.
- So far, the largest number of PPP projects has been implemented in the leisure and tourism sectors (13), as well as in the waste management (12), transport (10) and energy (8) sectors.
 - The number of PPPs in leisure and tourism sector was boosted by construction of various sports facilities (multifunction arenas) across the country. Such activity was partly the consequence of the then upcoming European basketball championship (Eurobasket 2011) which was held in Lithuania.
 - The transport sector exhibits a more balanced portfolio of projects, which includes roads, bridges, public transport and inland waterways objects. Most notable, of course, is the Palanga bypass pilot PFI type project.

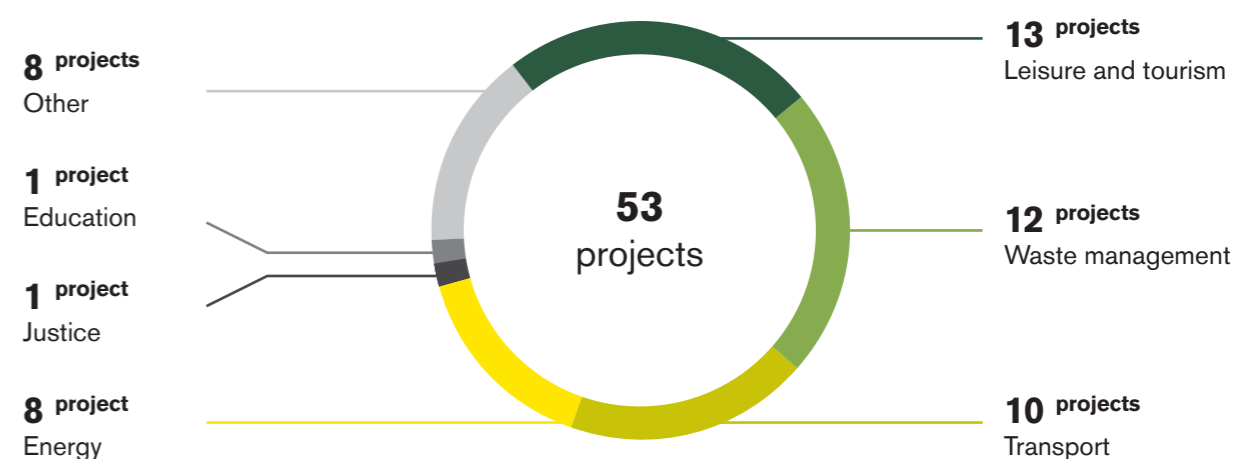
- The relatively large number of waste management projects arises from the decision made by 11 out of total 60 municipalities in Lithuania to transfer waste management operations to private partners.
- A similar case exists within the energy sector, where most concession projects involve the renewal and operation of local central heating in various municipalities.
- The distribution of sectors by investment value largely reflects their distribution by project number. Notable proportion increases appear in the education, transport and public sector and justice sectors. This is a result of the implementation of pilot PFI type projects which carried a considerably larger scope compared to the rest of the projects. In the meantime, 7 PPP projects under the title "Other" did not record any capital investments as most of them were short term, purely O&M type concessions in healthcare sector (pharmacies).

Statistics indicate that the Lithuanian public and private sectors have acquired significant experience in the implementation of PPP projects. Therefore, it is vital that the efficiency of the investment environment is constantly improved upon so that best practices can be guaranteed in the PPP area.

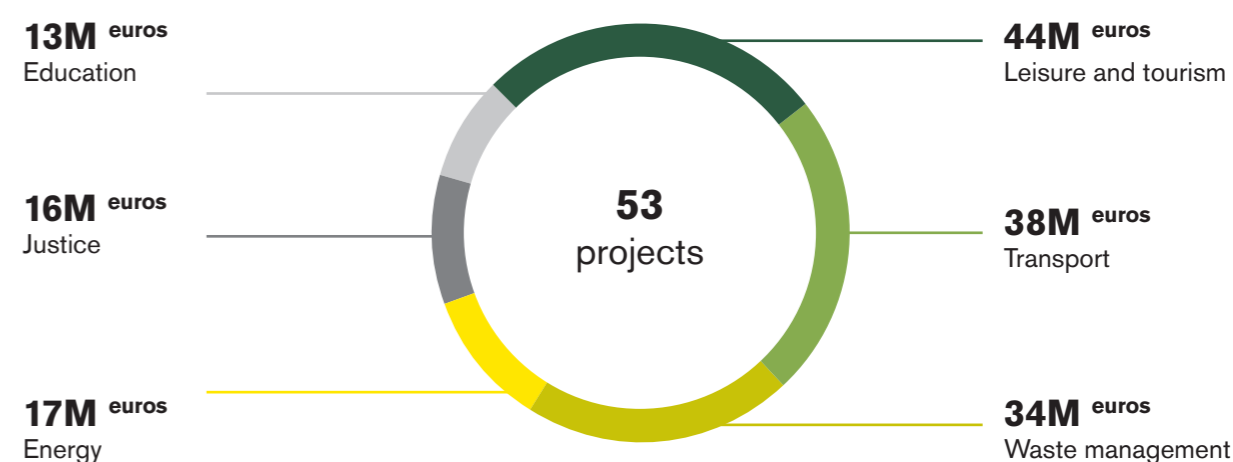
TOTAL NUMBER OF PPP CONTRACTS SIGNED IN LITHUANIA (BY TYPE)



TOTAL NUMBER OF PPP CONTRACTS SIGNED IN LITHUANIA (BY SECTORS)



TOTAL CAPEX OF PPP CONTRACTS SIGNED IN LITHUANIA (IN MILLION EUROS, BY SECTORS)



PPP activity and future pipeline overview by sectors

Whilst PPPs can be implemented in nearly every sector in Lithuania, historical and political developments have made some sectors more

amenable to PPPs than others. Major sectors, their development and potential for future PPPs are briefly discussed below.

Transport

Transport infrastructure projects are in the main very expensive and a real drain on national resources. This makes them ideal subjects for the PPP model. The Ministry of Transport and Communications oversees the various subsections of transport, such as roads, airports, sea port or railways that require heavy investments.

Roads

The Lithuanian Roads Authority (LRA) suffered significant budget cuts during the 2008 global crisis. Nearly a decade after the crisis hit, budget proportion allocated to roads remains relatively small. If this trend continues in the future, it is likely that new road PPPs will emerge for the delivery of large scale projects which will no doubt leverage the LRA's accumulated experience in delivering PPPs.

Railways

Based on current trends, there is little likelihood that the railways sector will supplement the PPP pipeline in the nearest future. Railways are operated by the state enterprise, Lithuanian Railways, which typically uses standard contracting for their projects. Their €2.5 billion mega project "Rail Baltica" is largely being funded by EU funds as it is listed as one of the priority projects of the European Union under Trans-European Transport Networks (TEN-T).

Airports

All three of Lithuania's State owned airports are to be transferred to private operator by way of a single bundled concession project. Parliament has already approved special airport concession law and procurement documentation is being prepared.

Waterways

Lithuania's only seaport is operated by the state enterprise Klaipeda State Seaport Authority which has thus far delivered projects using only a standard contracting approach. However, possible future plans involve the building of an outer deep-sea port. Considering the scope of the project, and the size of the investment involved, it is likely that a concession model would be used to finance it. There also remains the potential for smaller scale projects such as recreational and / or inland harbors to be procured as concessions.

Leisure and tourism

Leisure

Leisure infrastructure in Lithuania has witnessed significant developments in the past decade, particularly in terms of the construction of regional basketball and multifunctional arenas. Most of these constructions were financed with EU funds and then transferred to private operators by way of concessions. Municipalities are currently shifting their focus to the building of multifunctional sport complexes and swimming pools. The largest present multifunctional sports complex project includes at least a 15,000 seater stadium, and is currently being procured by the Vilnius city municipality. As Lithuania is lacking

in high quality football stadiums in general, it is likely that more will be built regionally. However, they will probably be of a smaller size and not necessarily PPPs.

Tourism

The tourism sector is still in its development phase, and is therefore, one of the fastest growing sectors in Lithuania. In line with current trends, most PPP type projects are expected to be implemented by municipalities as concessions, where the project scope would mainly involve operation of facilities in historical sites and the average capex is unlikely to exceed €1 M.

Justice

The justice sector is one of the richest seams for potential PPP projects in Lithuania. With a mixture of widely dispersed and / or inefficient police or court buildings that are inconvenient and expensive to use, and prisons that are in a state of extreme, disrepair, there is much scope for the utilization of PPP projects.

Police stations

Lithuanian Police Department's proactive actions in reforming the police has set a great example through the closing of the police station and custody pilot bundle PPP project in Vilnius. The Department has already launched procurement procedures for Kaunas and Panevezys police infrastructure. The Police Department's experience in PPPs makes it likely that the PPP pipeline might be further expanded with similar projects in the future.

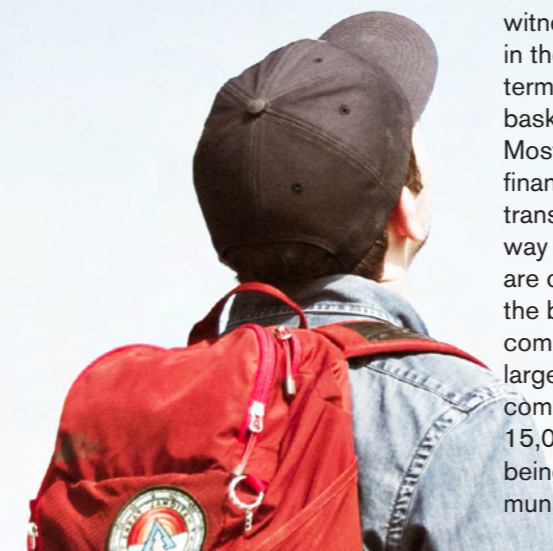
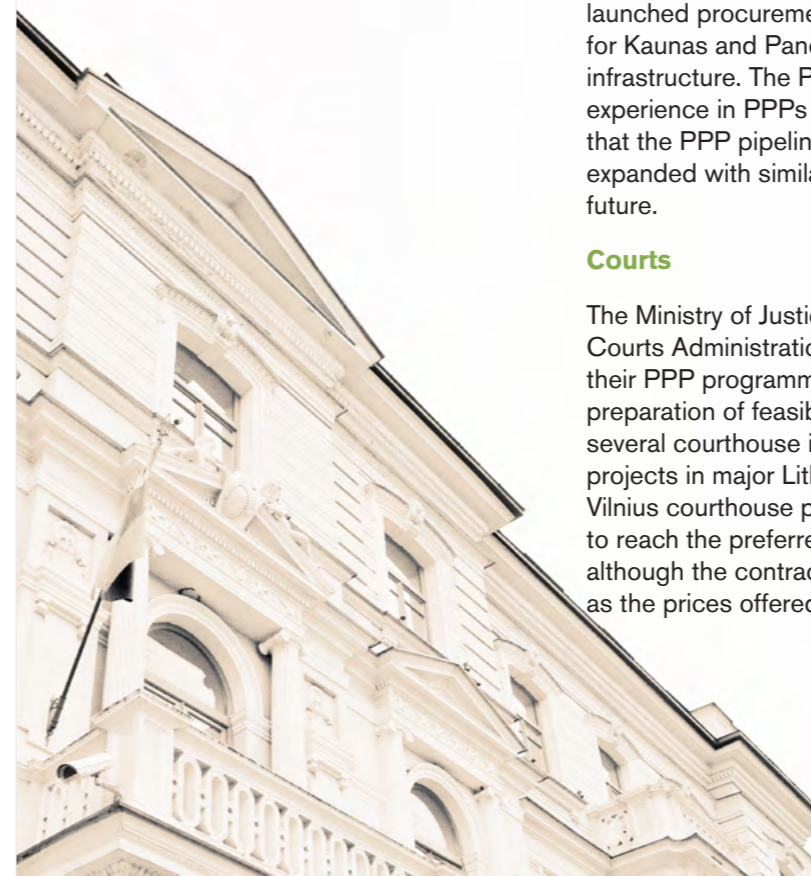
Courts

The Ministry of Justice and National Courts Administration commenced their PPP programme with the preparation of feasibility studies for several courthouse infrastructure projects in major Lithuanian cities. The Vilnius courthouse project managed to reach the preferred bidder stage, although the contract was not signed as the prices offered exceeded the cap

set by the government. Nonetheless, the court infrastructure still needs to be modernized and there is a good chance that at least some of modernization projects will fall into the PPP pipeline.

Prisons and detention facilities

The Ministry of Justice and Prison's Department set the relocation of Lukiskes prison, currently located near the center of Vilnius, as their priority. The first phase, the partial relocation PPP project procurement, was cancelled as the prices offered exceeded the cap set by the government. Consequently, the second phase of the Lukiskes prison relocation project (the construction of a new prison outside Vilnius) has stalled, as have all other projects for the construction of new prisons in other cities. Nonetheless, the critical state of the nation's prisons remains a top priority. These high capital investment projects are likely to be brought back to pipeline in the foreseeable future.



Education

Schools

Although current trends indicate there is a decline in the overall Lithuanian population, urbanization and a greater population drift towards larger towns and cities has created a demand for new schools. The successful example of the Balsiai School PPP may encourage municipalities to employ the PPP model when deciding on funding models for new educational buildings.

Universities

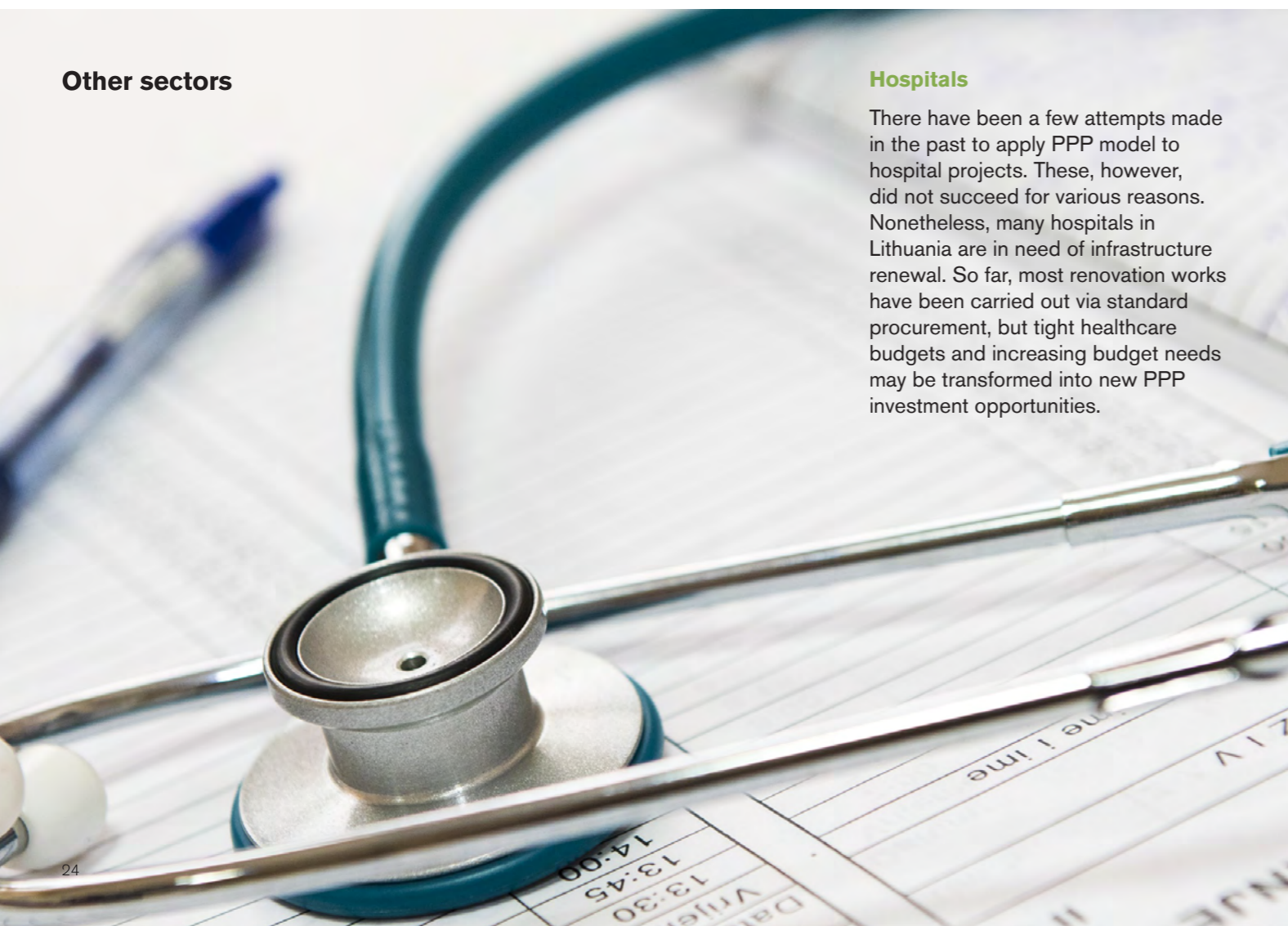
New Concessions Law is expected to foster more PPPs to be released into the pipeline by universities. New amendments will allow universities to become procuring authorities, so it is likely that at least some of them will initiate projects for new dormitories, sports facilities or other campus buildings.



Other sectors

Hospitals

There have been a few attempts made in the past to apply PPP model to hospital projects. These, however, did not succeed for various reasons. Nonetheless, many hospitals in Lithuania are in need of infrastructure renewal. So far, most renovation works have been carried out via standard procurement, but tight healthcare budgets and increasing budget needs may be transformed into new PPP investment opportunities.



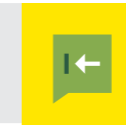
Sector experts: 7 steps to more efficient PPP implementation

Despite the fact that Lithuanian PPP environment has been favorably evaluated by various esteemed international bodies, further improvements are essential so that Lithuania remains in line with leading PPP peer countries. Lithuanian PPP Association together with Invest Lithuania agency have identified 7 steps/actions which are to be taken in order to make PPP implementation in Lithuania more efficient:



1. Refine the long-term sectoral PPP plans

Currently, there are no preliminary sectoral PPP project guidelines in Lithuania. Not only would this benefit the public sector when planning required resources, it would also allow potential investors to better evaluate the long term investment potential in Lithuania.



2. Involve potential investors in the initial stages of project preparation process

Private investors should be able to submit their proposals regarding the concept of the projects, or their scope. Fewer would be the situations where no potential investors apply in response to the PPP project private partner selection. Although this practice is already being adopted more widely than previously, in many cases this is still being treated as a recommendation rather than a mandatory procedure.



3. Encourage following the international standards on PPP

Engagement of external experts in all stages of the project would, alongside the strengthening expertise in particular fields, increase transparency and objectivity of procurement procedures. This would provide additional confidence for private sector participants.

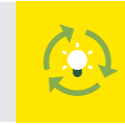
Competition, hence the quality of projects, can be further enhanced by drawing up the tender documentation not only in the Lithuanian, but also in widely used foreign languages.



5. Centralise identification of PPP projects, and implementation of tenders

Identifying the need, initiating projects and carrying out PPP tendering procedures by following the principle of the Central Contracting Authority to allow concentrating expertise and increase quality of project implementation.

Integration of individual local self-governance or central government in project portfolios (project bundling) with a view to ensuring an enhanced attractiveness of the projects, as well as enhanced value for money for the public sector due to economies of scale.



4. Increase efficiency of regulation of a private initiative

The rules on preparation of PPP projects provides for a possibility to initiate a PPP project by a private entity. However, there are no clear guidelines or incentives regarding practical implementation of projects. Such conditions might discourage private companies from investing their resources in preparing of private initiative.



6. Establishment of a State fund co-funding PPP projects

Enhancing guarantees to attract private partners regarding more favourable financing conditions. Additional guarantees could bring more confidence and lower risk for private investors.



7. Further improvement of the legal basis according to the best practice

Use of the best foreign practices in drawing up and implementing PPP projects.

Key lessons learned: What is needed to get the results?

Lithuanian experience of PPPs has identified that certain conditions must be in place for PPP projects to be implemented efficiently and deliver quality public services.

- **Strong political will and support.** All PPPs that have been implemented to date were strongly supported by politicians, while those that have failed received little or no support.
- **Clearly defined PPP application strategy.** When the Government launched its PPP Promotion Program in 2009 it made clear to the public, as well as the private sector, that PPPs were to be the preferred model where applicable. This set clear guidelines to project owners and brought confidence to private market participants.

- **Ensuring financial capacity of the public sector to implement PPP projects.** This would appear to be an obvious condition; however, it is still occasionally overlooked. Long term planning is essential for PPPs. The temptation to follow political cycles by rushing into signing contracts - while at the same time failing to adequately consider the operation and maintenance phase of the project - may destroy a project even before it starts. If proper critical project scrutiny is not performed by the public sector, this will inevitably be done by potential bidders and financiers - but at a much greater cost to the public purse.

- **Efficient institutional, administrative and legal environment.** This is particularly important when attracting foreign investors. Clear, transparent and internationally recognized procedures as well as standard documentation, have been proven time and again to inspire more confidence in potential bidders.
- **Competent public sector.** PPPs are generally large complicated projects that require corresponding skills from the both sides. While some private companies specialize in PPPs and have deep knowledge of the field, this might not be the case for PPP procuring authorities that are launching their first PPP project. Actions resulting from a lack of experience may cause errors, some of which may result in legal appeals or even lawsuits that could in due course lead to project cancellations. Therefore, the assistance of professional consultants is highly recommended whenever the procuring authority has a limited experience of PPPs.



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We are a public institution providing full and comprehensive information, assistance and support required by foreign companies looking for development opportunities, or considering business relocation. Activities of Invest Lithuania related to PPP:

- Advise public sector entities developing PPP projects;
- Consult investors intending to participate in tenders;
- Provide assistance to foreign companies considering a possibility to establish in Lithuania.

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Main objectives of the PPP Association:

- Unite the stakeholders interested in the development of PPPs in Lithuania;
- Initiate maximum favourable conditions for the development of PPP
- Investigate, analyse and address a range of different issues related to the development of PPPs;
- Defend the rights, freedoms and legitimate interests of members of the Association.

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