Case study

Topic 02: Financial Instruments

Lithuania

EUROPEAN UNION
Cohesion Fund
Operational Programme Technical Assistance

MINISTRY
OF REGIONAL
DEVELOPMENT CZ

EY Building a better working world

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List of abbreviations

CF	Cohesion Fund
EAFRD	European Agricultural Fund for Rural Development
ECA	External Certification Authority
EFSI	European Fund for Strategic Investments
EIB	European Investment Bank
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
EUR	Euro
EY	Ernst & Young
FI	Financial Instruments
IB	Intermediate Body
INVEGA	Investment and Business Guarantees
MA	Managing Authority
OP	Operational Programme
ROP	Regional Operational Programme
SME	Small and medium enterprises
VIPA	Public Investment Development Agency
YEI	Youth Employment Initiative

Lithuania
Financial instruments

The most used scheme in Lithuania is the use of funds and managers / intermediaries from private financial institutions. Implementation of FI takes place through two state-owned financial institutions (INVEGA a VIPA) and EIB. Fund managers were selected on the basis of an exception to the Public Procurement Act. Managers of individual financial instruments (mostly from the private sector) were then selected through public contracts. Financial instruments are used in the following areas: 1) support for research, development and innovation, 2) support for small and medium-sized enterprises, 3) support for low-carbon economy, the environment and energy efficiency.

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Positive aspects	Negative aspects
► Market-specific FI settings ► Involvement of private investors ► Clear and understandable implementation rules from the beginning ► Attempts to change the mentality of being used to subsidies	► Excessive control system setup ► The complexity of the process of implementing financial instruments ► The use of financial instruments by public institutions under EUROSTAT rules counts into national (public) debt ► Combining financial instruments and subsidies

Key aspects of the financial instruments

1 FI settings with regard to market

FI found a hole in the market (i.e. they were not competition to commercial instruments where the market works). FI are designed not to be different from other market instruments. Attempts to choose the right tool (loans, guarantees, capital inputs) for the specific sector.

2 Methodological environment

The Ministry of Finance issues, as the MA, the binding guidelines for Intermediate and Implementing Bodies. Line ministries as IBs are obligatorily creating a methodology for project selection criteria and elaborate in detail the Regulations and Guidelines of the MF.

3 The FI implementation process

In the case of smaller projects, the implementation is not worth it – due to the difficulty of preparing the application and the subsequent implementation. Sometimes it is easier to implement a grant project. Excessive control system setup.

4 Financial instruments and subsidies

If subsidies are available in the area of support, the interest in financial instruments falls significantly. A major problem is, however, also the administration of projects in which funding from subsidies and financial instruments is mixed.

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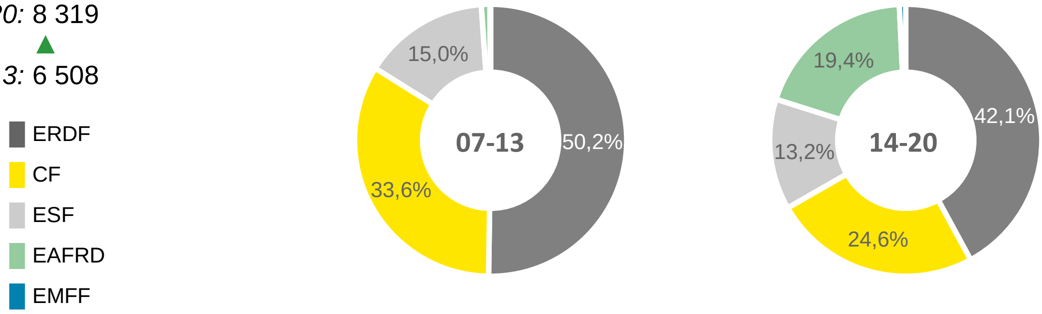
1. Basic characteristics of the ESIF system

Number of operational programs (OP/ROP)	Number of territorial units (NUTS1/NUTS2/NUTS3)
3 (3/0)	1/1/10

Total allocation planned (according to the programming period and according to the fund)

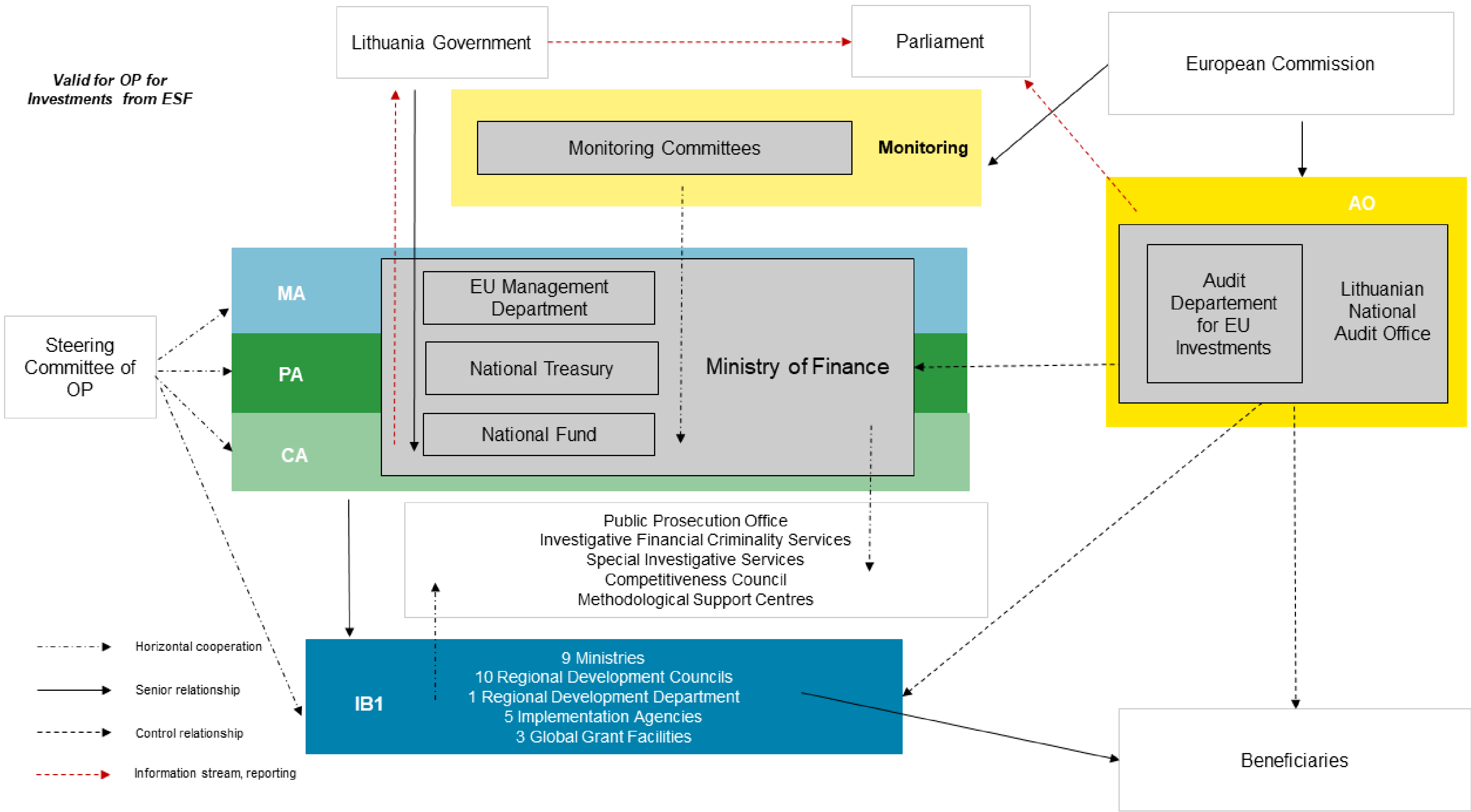
Total allocation (mil. EUR)

14-20: 8 319
▲
07-13: 6 508



2. Simplified scheme of the implementation structure

Scheme 1: Simplified scheme of the implementation structure

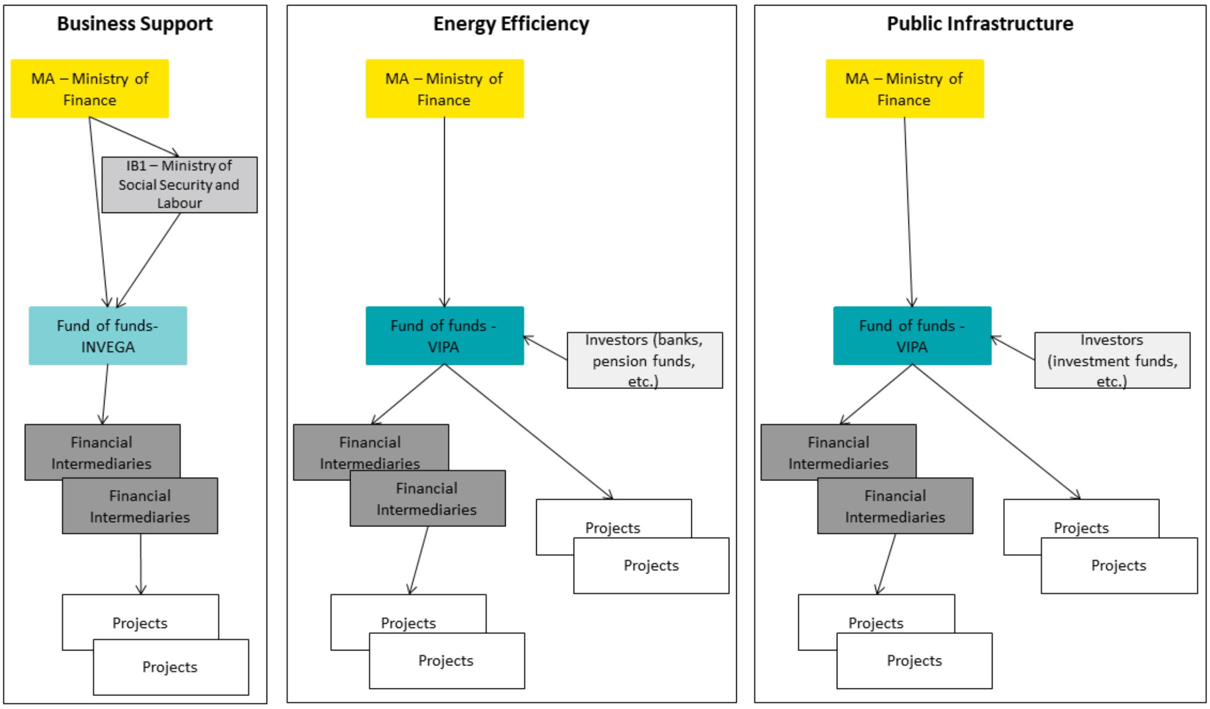


3. Answers to the evaluation questions

3.1. What are the most used FI implementation structures? What bodies or actors are involved in the FI implementation? What are the risks and benefits of these implementation structures? Is there a central coordinating body that coordinates only the FI implementation? Are the FI part of the coordinated investment policy of a given country? What is the role of the national development banks?

Lithuania has successfully implemented financial instruments under the ESIF since 2008 and has extended its scope further to new sectors/areas in 2014 – 2020 programming period**. The most common** financial instrument (FI) implementation scheme is through **a fund of funds**, using the possibilities under the Article 38(4) of Common provisions. Lithuania has entrusted the FI implementation to the European Investment Bank (EIB) and the national financial institutions (INVEGA and VIPA). The INVEGA is a national investment institution performing a function of national development bank, is fully owned by the state, represented by Ministry of Economy. Similarly, the VIPA is a state-owned and is considered a national development bank. Additionally, a number of private companies are involved in FI implementation as financial intermediaries (including for example Credit Unions)

Scheme 2: Financial instruments implementation structure scheme



Investment and Business Guarantees (INVEGA) was established by Government Resolution No. 887 of 11 July 2001 on the development of small and medium-sized enterprises. The Ministry of Economy has been entrusted with the performance of the founder of the company and the functions of a superior. On October 17, 2018, the government granted INVEGA the status of a National Promotional Institution. INVEGA's mission is to support the growth and competitiveness of Lithuanian enterprises by being an active partner in business finance.

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INVEGA[1]

Strategic orientation

Ensures growth in the range of services provided by the INVEGA through innovative and efficient funding models and tools designed to provide financial and other services to businesses.

INVEGA manages financial instruments designed to help entrepreneurs to set up or expand small and medium-sized enterprises by providing preferential loans, loan and lender guarantees, partial financing of interest on loans and start-up subsidies for business, reimbursement of staff training costs or consultation of services and creation and the management of venture capital instruments.

Managing Preferred Loan Tools

The INVEGA manages financial instruments funded by the European Structural and Investment Funds, which enable small and medium-sized enterprises to start or expand their activities through a soft loan. Different types of loans provided by financial institutions are offered under different conditions. The best way to improve access to finance for SMEs is to select them according to the amount of financial support and payment resources needed.

Soft loans under the Business Support Facility 2014-2020 offer the best conditions for start-ups and young businesses with funding up to EUR 25,000.

Soft loans provided under the Open Loan Fund 2 are intended for business development (both investment and operating capital loans) and offer financing to SMEs up to EUR 600,000.

Instrument Risk-shared loans financed by the European Regional Development Fund provide loans for SMEs up to EUR 4 million.

Credit guarantees

Businesses that ask banks and other credit institutions for loans to start or grow their business activities often face the challenge that collateral is not attractive or sufficient for a bank or credit institution. The INVEGA helps overcome this challenge by offering individual and portfolio guarantees to financial intermediaries covering up to 80% of the loan.

Export credit guarantees issued by the INVEGA help expand export markets in countries with non-marketable risk and increase export volumes by minimizing the potential risks of buyer failure.

Global grants

The INVEGA offers global grants aimed at facilitating the admission and development of small and medium-sized enterprises on the market, especially in the initial phase of self-employment, as well as helping businesses save on daily expenses:

With the INVEGA´s partial loan interest financing instrument, companies provide compensation up to 100% of the interest paid.

Borrowers for soft loans under the Business Finance Facility 2014-2020 are entitled to a refund of up to 75% of the labour costs for each employee working on a start-up business contract.

The partial funding of employee training under Competence Voucher Instrument offers a refund of up to EUR 4,500 for 12-month training.

Companies can get reimbursement for their advisory expenses for export, start-up and business development, or more resource-efficiency and natural resource conservation with Expo Consultant LT, Eco Consultant LT and Business Consultant LT.

[1] Source: http://invega.lt/en/about-invega/purposes-of-activities/, http://invega.lt/en/about-invega/founder/

Venture Capital Funds

The INVEGA strives to grow the Lithuanian venture capital market and extends capital availability for start-ups and growing private Lithuanian companies. Venture capital funds together with private investors provide investment and financial advice.

The Baltic Innovation Fund, launched by the European Investment Fund in close cooperation with Lithuanian, Latvian and Estonian governments, aims to increase investment in small and medium-sized businesses with high growth potential. At present, the Fund has invested in five funds: BaltCap Private Equity Fund, BaltCap Private Equity Fund II, BPM Mezzanine Fund, Livonia Partners Fund, and Karma Ventures Fund I.

The venture capital fund is supposed to support the transfer of ideas stemming from research and higher education institutions to businesses (commercialization) and to ensure greater capital availability for micro, small and medium-sized enterprises developing products in cutting-edge technology sectors, along with expert identification of innovative technology ideas with commercial potential.

Venture capital funds set up by the INVEGA together with its subsidiary, Kofinansavimas: Co-Investment Fund for small and small businesses operating for up to 5 years after their registration and having limited access to business finance.

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Another crucial actor is the **Public Investment Development Agency** (VIPA). Established as a joint stock company in 2012, the VIPA is a state-owned institution (the shareholder is the Ministry of Finance of Lithuania). The agency is also considered a national development bank owned by the state.

i VIPA[2]

The purpose of VIPA's activity is to provide financial services, implement and manage financial instruments for public sector investments to improve public infrastructure, public services, and the development of public interest projects. The VIPA provides loans, guarantees for repayable investments, or implements similar measures funded by national programs, European Union programs and other funds or sources of funding (e.g. the European Investment Bank or other international financial institutions). Through its managed funds and financial initiatives, the VIPA contributes successfully to mitigating climate change and increasing energy efficiency in public infrastructures (or in the public interest).

VIPA's vision is to be a national development agency that effectively operates in the capital markets and is a leader in public infrastructure financing. The mission of the VIPA is to improve the conditions for the development of public infrastructure, to support the development of the financial market, to effectively plan, create and manage financial instruments. The goal of the VIPA is to manage financial instruments and to implement financial engineering projects funded by the European Union Structural Funds and other fund managers.

In particular, relevant ministries, fund of funds managers, managers of individual financial instruments (financial intermediaries – mostly private financial institutions, exceptionally the VIPA implements a financial instrument) and final beneficiaries/users of financial instruments were involved in preparation and FI implementation.

Fund of funds managers were selected on the basis of a direct (in-house) assignments, based on the Public Procurement Act exception (this exception was later exempt from the Act, for the upcoming period it will be possible to select a fund of funds manager from state institutions directly which should be

[2] Source: http://www.vipa.lt/apie-vipa/valdymo-organai/

allowed by a newly adopted law on national development agencies in combination with the use of a new direct award procedure resulting from the general regulation in the wording of the omnibus).

Example = Energy Efficiency Fund

The VIPA is the manager of this fund of funds. This fund offers two types of products – loans for renovation of state-owned buildings (central government) and guarantees for street lighting investments. The fund manager was selected directly (in-house assignment basis).

Managers of individual financial instruments (mostly from the private sector) were selected through **public contracts.** In case of equity funds, the selection was not realized under the Public Procurement Act (because the entrance to equity funds is considered to be a purchase of securities) but open tender following the example of European Investment Bank was carried out. The EIB itself then chooses financial intermediaries according to own rules.

Individual financial instruments managers were selected based on the following procedure:

- Defining funding conditions;
- Calls for tender to fund of funds manager (the offers were submitted to Managing Authority) / individual financial instruments (the offers were submitted to fund of funds manager);
- Evaluation of the offers and selection of fund of funds manager / individual financial instruments;
- Establishment of project selection committee – case of several Energy Efficiency Funds and Public Infrastructure Funds (responsibility of Managing Authority); (MA)
- Signing funding agreements, signing of agreements between MA, IB, and fund of funds managers in case of fund of funds.

The main benefit of chosen implementation structure is its flexibility, including the possibility to have a set of financial instruments and ability to flexibly reallocate funds between various types of financial instruments.

Lithuania does not have a national coordinated investment policy. There are, of course, a number of general and sectoral strategic documents (for example National Strategies for Energy Independence, Lithuania's Strategy 2030, etc.) and commitments at the level of the European Union – the INVEGA and the VIPA are developing their own strategies based on these documents. On the other hand, it should be stressed that both institutions only finance areas where market failure has been identified, or where market gaps, or market conditions generally have not been assessed as optimal.

Within the framework of the preparation of financial instruments, investment strategies were developed both at the fund of funds level and for individual financial instruments.

It is also important to note that the Euro is the national Lithuanian currency.

3.2. In which areas are FI primarily used? Are there areas supported exclusively by FI?

Financial Instruments are used in the following areas:

- Research, development, and innovation support,
- Support of small and middle enterprises (support of competitiveness of SMEs in particular),
- Support of low-carbon economy, environment, and energy efficiency (focusing on apartment buildings and public infrastructure).

None of the mentioned areas is supported solely by financial instruments.

The focus of the financial instruments can also be divided according to the thematic areas and the beneficiaries on:

- Support for entrepreneurship,
- Support of energy efficiency (focusing on public building and apartment buildings renovation and public lightning),
- Support of public infrastructure (focusing on energy, water and sanitation, waste management, educational and research infrastructure, social and health infrastructure, transport infrastructure and culture)

3.3. Good/bad practice using FI

According to the representatives of Ministry of Finance, Lithuania is a **proactive supporter of FI** within the ESIF and according to the representatives, they are successful in FI implementation.

Good practice examples (successful investments):

- loans to SME and individuals to support start-ups and their development;
- loans, equity investment guarantees for SME to boost their own R & D activities, supporting their smart specialization, business development and productivity;
- loans for modernization of apartment buildings by increasing their energy efficiency;
- loans for the renovation of state-owned buildings (central state administration) - this activity is only at the beginning.

The basis for the successful FI implementation is to set them up so that:

- Completed a suitable place on the market (i.e. not competing with commercial instruments where the market works - based on thorough and well-developed ex-ante analyses and ongoing market evaluation);
- Private financial institutions have been suitably involved, both as financial intermediaries and as co-investors;
- FI were minimally restrictive, especially for individual fund managers and beneficiaries;
- The implementation rules were clear and understandable from the outset.

The key is also to clearly define the objectives and priorities of all stakeholders, and a common understanding of why the financial instruments are being implemented, why they have the form and what they actually have to achieve.

Good practice is also the involvement of private investment within the Business Angels Fund (managed by a subsidiary of the state-owned INVEGA, which is fund of funds manager). Under this fund, only those projects, in which a private investor together with state decide to invest, are supported. In fact, it is guaranteed that the state does not decide on the investment (which is "only" the co-investor), but the private sector helps to select quality projects.

One of the main barriers to the successful and effective implementation of financial instruments is, according to the representatives of the implementation structure, the excessive setting of the system of controls (on the part of the various parts of the ESIF / financial instruments implementation system) in the various processes associated with the implementation of the implementation tools, too many rules, restrictions, and requirements on individual parts of implementation structures (MA, fund of funds managers, financial intermediaries). However, a significant part of these complications is based on the regulation itself and to a certain extent is similar to the complexity and administrative burden associated with the implementation of the ESIF grant schemes. The European Commission is aware of this lack, Lithuania points this out too, and the Lithuanian Ministry of Finance is pushing for the changes and streamlining of the whole system.

Monitoring and reporting within the Entrepreneurship Promotion Fund 2014-2020

The fund of funds Manager (INVEGA) monitors financial intermediaries as well as final beneficiaries. Once a year, the Manager shall carry out on-the-spot visits with financial intermediaries aiming in particular at:

- Assurance that the financial intermediary is in compliance with the defined plan for the implementation of financial instruments;
- The financial intermediary's reports are correct;
- Loans are provided in accordance with the rules.

The financial intermediary shall report to the fund of funds manager on a monthly basis on the performance of indicators, quarterly basis on irregularities and once every half year on the communication activities.

The Fund Manager shall send management and intermediary reports monthly on implementation progress, quarterly reports on compliance with indicators and irregularities, fund's financial statements and income summary, then once a year report on fund implementation, audited financial statement and cash-flow report.

From the point of view of final recipients, the excessive complexity of the whole process of implementing financial instruments leads to the fact that, especially in the case of smaller projects (low-cost projects of small enterprises), the implementation of the project does not pay off either due to the difficulty of preparing the application itself or because of the complexity of the subsequent implementation. For some beneficiaries, it is easier to implement a grant project. According to representatives of the Vilnius Chamber of Commerce, Industry and Handicrafts, financial instruments are functioning relatively well, but they see that the implementation structure has more experience with the drawing of subsidies.

Another barrier is that the use of financial instruments by public institutions in accordance with the EUROSTAT rules **counts as national (public) debt**, making their use politically sensitive.

Another problem was the **underdeveloped market in energy efficiency**, i.e. there was not enough experienced companies to provide their services in this area. The first public contracts in this area did not go well - few bidders and too high prices.

The problem is also **the combination of financial instruments and subsidies** - more in answer to question 3.4.

On the part of some actors, the **whole corporate governance model of the involved state institutions** is perceived as a barrier, as they may not always sufficiently protect the professional leadership of the institution from political influence.

The negative is also that existing legislation, methodologies and procedures are not always sufficiently flexible and appropriate to the market situation on which individual financial instruments operate. The financial instruments in question **are not sufficiently attractive for private capital involvement** (banks, investment companies), thus avoiding the desired leverage effect and increase of the overall amount of funding to fund quality projects and initiatives.

From the point of view of **legislative barriers**, the impossibility of investing public funds in companies located outside of Lithuania is key. This limit originates from the general regulation (Article 70) and from the national rules on the eligibility of expenditure; in the case of financial instruments, it is also transferred to the tender documentations for the selection of financial intermediaries for the relevant financial instruments. The aim of the financial instruments is to have as many investment opportunities as possible, but this barrier limits the number of the quality opportunities.

In Lithuania, according to the comments of the Ministry of Finance, Article 70 of the General Regulation 1303/2013 is followed, which allows a certain amount of support to be invested outside the program area.

Lithuania is a small country and economy, within the European Union and a globalized economy, companies operating on the Lithuanian market can be based virtually anywhere. Large equity funds and large private investors do not want to concentrate their investments in companies registered in Lithuania because they need to diversify their portfolios. Therefore, they do not enter smaller equity funds funded by the ESIF or other public sources.

Other legislative barriers are the above-mentioned problems of combining financial instruments and subsidies and excessive administration, the system of setting up and the complexity of controls (which is, rather, a matter of non-legislative documents modification).

Certain problems are caused by the necessity to comply with both legislation relating to the ESIF, financial instruments and legislation relevant to the area (specifically, for example, in the field of renovation of public buildings, where, besides ESIF legislation, also a special law on public support and subsidies for building renovation - in this particular case, barrier is a combination of European and national legislation relating to ESIF and special legislation relating to the renovation of buildings).

In general, it is also possible to say that legislation on the ESIF and financial instruments is gradually improving, but the logic of subsidies is still more inclined.

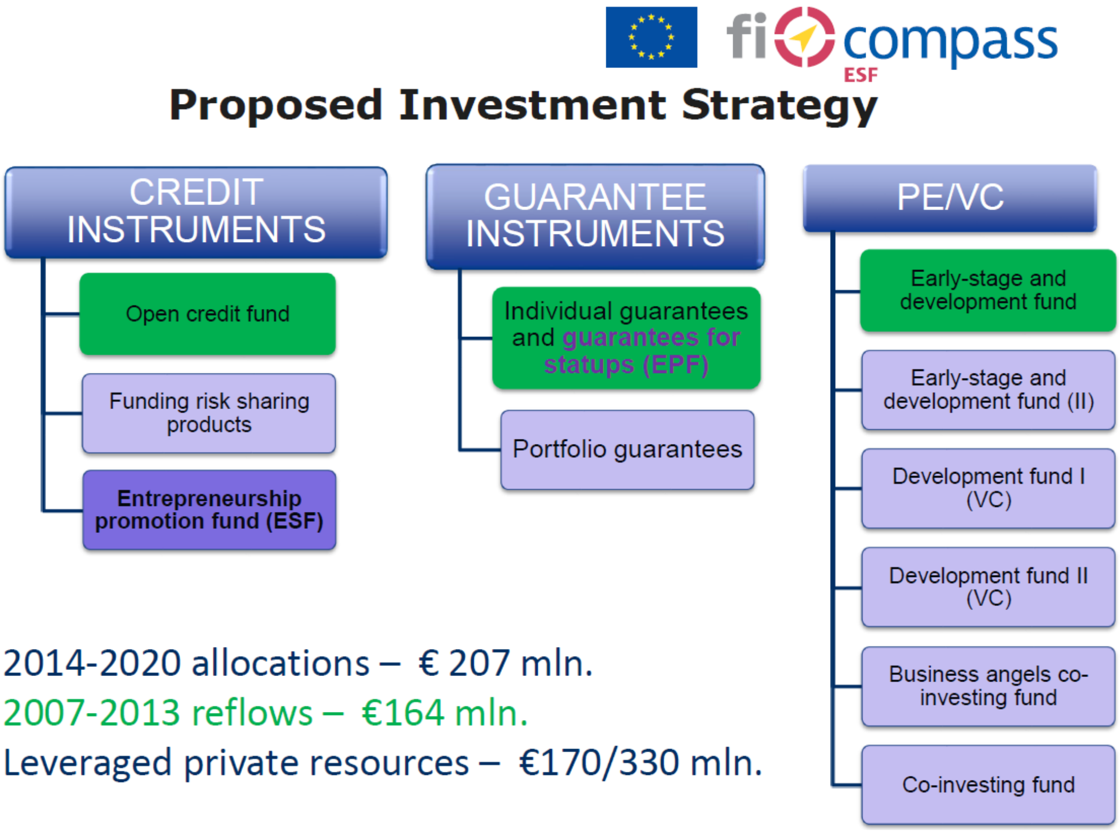
The key to ensuring the attractiveness of financial instruments is to reduce subsidy support. It is also important to adapt financial instruments to market needs and design them so that they are not different from other market instruments. That is why it is seeking a suitable choice of financial instrument (loans, guarantees, and capital inputs) for the sector in Lithuania. The suitability of individual instruments for the sectors concerned has been thoroughly analysed and verified as part of the ex-ante evaluation.

In the area of business support in the form of financial instruments, the following instruments are used in particular:

- individual and portfolio guarantees,
- export guarantees,
- different types of loans,
- co-investment funds,
- seed and venture capital funds.

In the area of R&D support, various equity instruments are used as the form of financial instruments. In the field of the environment, it is mainly loans.

Scheme 3: Proposed Investment Strategy Entrepreneurship Promotion Fund (2016)[3]



The ESIF generally helped to introduce or expand financial instruments in some areas. However, some legislative and other rules for the implementation of the ESIF / financial instruments do not always allow flexible timely responses to changing market demands.

For the attractiveness of financial instruments, there are also limitation rules on cost eligibility, which on the one hand are extensive, on the other hand they often prevent the broader project scope. Specifically, for example, they can only improve their energy efficiency in the case of building renovation, which has caused major problems for universities that needed to renovate and re-equip their student dormitory / accommodation facility.

At the same time, there is an effort to increase the number of instruments and their variability - there are currently more financial instruments available in Lithuania than at any time in the past. Therefore, pilot projects of financial instruments are being implemented in Lithuania, for example in the area of cultural heritage. Based on the success of these pilot projects, they will consider further expansion of financial instruments.

The effort is to change the existing mentality, when everyone wants the subsidy, because in the future there will be a smaller amount of funds for subsidy titles and not all can be supported in the form of subsidies. This mentality also affects public institutions.

To increase the attractiveness of financial instruments, there is also a need to continually improve existing legislation and other rules. It also seeks to attract more financial intermediaries and, more generally, more private equity to increase the leverage.

[3] Source: Presentation Financial Instruments in ESF: Entrepreneurship Promotion Fund, 2. 2. 2016, Lithuanian Ministry of Finance (Rūta Dapkutė-Stankevičienė), page 16.

The attractiveness of individual financial instruments for the final beneficiaries is determined by the FI settings, for example, lower start-up interest rates, know-how, and contacts provided by venture capital managers.

To build sufficient absorption capacity, besides the proper setting of individual financial instruments, it is also necessary to create a sufficient supply of projects. This applies in particular to instruments used by the public sector. For example, it may be that although ex-ante evaluations show sufficient demand-side potential, there is not enough suitable and high-quality projects, for example because final beneficiaries are still more likely to get a grant or because their projects are not adequately prepared (e.g. in the case of preparation for the renovation of buildings).

In some sectors, there is insufficient absorption capacity because many companies are not in adequate condition (even financial) to apply for financial instruments (such as water companies).

The overlapping of support with other financial instruments (from national or European sources), there is an attempt to concentrate these different instruments on one institution - the national development bank INVEGA. Concentration will make it easier to manage overlap risks. From this point of view, high-quality ex-ante evaluation of the upcoming financial instruments is also important.

The Ministry of Finance and the INVEGA perceive that overlaps between the ESIF and EFSI financial instruments cannot be avoided in a small country of the type of Lithuania. However, Lithuania is trying to implement its financial instruments (both national and ESIF-financed) in a way that is more attractive than the European ones (for example, in case of business support, ESIF provides an 80% guarantee over 50% of the guarantee provided by the EFSI).

However, the intention remains that national and European instruments are complementary to each other. But this also requires efforts and action by the European Commission, including greater involvement of national development banks in the preparation of European financial instruments. From the point of view of Lithuania, the EFSI instruments are more suitable for larger member countries with larger markets.

Overlaps between European and the ESIF financial instruments are criticized as they lead to inefficient use of funds at both levels. Nonetheless, efforts are being made to improve the current situation and to develop such instruments that will work even in potential competition with European instruments. Therefore, the state needs to set its strategy and decide what tools it will support. This has been achieved to a certain extent in Lithuania, but this task will remain in the future.

3.4. How to set up the FI most effectively to avoid unnecessary administrative burdens on the actors of the implementation structure or the beneficiaries and the use of FI was transparent?

From the point of view of Lithuania, it is crucial to maintain existing good practice at Member State level and work to further improve the implementation of financial instruments, in particular through:

- adopting a set of measures to simplify individual processes and procedures;
- simplification of European legislation on financial instruments / ESIF implementation;
- accelerating the decision-making processes associated with the implementation of financial instruments to ensure their greater flexibility and accelerating response to the needs of changing markets;
- optimizing the number of financial instruments (based on actual future needs and with regard to financial instruments at European level);
- greater complementarity between national and European financial instruments (as opposed to the current 'rivalry');
- abandoning the European one-size-fits-all principle and allowing for greater variability across Member States.

To effectively set up financial instruments, processes and **structures need to be as close as possible to market processes and structures**. Too many obligations and rules over common (i.e. market) procedures increase the administrative burden, complicate the implementation of financial instruments and reduce their attractiveness. Financial instruments must also be attractive for final recipients, but also for financial intermediaries.

The promotion of financial instruments is implemented by all relevant actors - ministries, fund managers and individual financial intermediaries, as well as through all possible channels (TV, radio, Internet, etc.). In particular, the INVEGA and the VIPA also carry out awareness-raising events (conferences, seminars, trainings).

The combination of financial instruments and subsidies is allowed under the Energy Efficiency Fund. These tools are set in such a way that there can be no double financing of the individual eligible costs. The subsidy is mainly provided to cover the unprofitable part of the project, interest rates, and technical support.

However, combining financial instruments and subsidies entails a number of problems. If subsidies are available in a given area of support, the interest in financial instruments is significantly or completely declining. A major problem is, however, also the administration of projects in which funding from subsidies and financial instruments is mixed. Administration of such projects is very expensive and inefficient. For example, it is difficult to divide individual project costs into the relevant items (categories). Guidance in this area is not helpful enough. As a result, combining the funding of one project with financial instruments and subsidies under one fund is very difficult.

Ideal would be to set up a one-stop-shop in order to implement the relevant processes efficiently and, if possible, in parallel (i.e. not separately for the subsidy and for the financial instrument). However, this objective is virtually unrealistic under the existing rules and procedures.

Specific **conditions for obtaining financial support through financial instruments** vary according to individual funds and individual instruments. The whole process is as demanding as the grant, but it should be considerably simplified for financial instruments (one of the objectives for the future programming period).

Fund of funds managers (INVEGA, VIPA), according to their own words, try not to interfere too much with the processes of individual financial intermediaries, and, beyond their own procedures, require only as few other procedures as possible.

Part of the support is, in particular in the case of equity funds, coaching and mentoring of beneficiaries. Similarly, efforts are also being made to provide micro-loans for small and medium-sized enterprises. The INVEGA and the VIPA then carry out a number of seminars, and specifically the VIPA also provides advice to public sector institutions.

3.5. Further information

3.5.1. Cooperation with Credit Unions

Credit Unions are involved as a financial intermediary in the so-called Entrepreneurship promotion fund.

According to the INVEGA, the involvement of Credit Unions is a good practice or a positive aspect of the implementation of financial instruments. They managed to get involved and, thanks to this involvement, the Unions began to become more orientated in the start-up environment. The regulation of the Unions underwent changes and their involvement in the implementation of financial instruments also helped them find their place on the market.

According to representatives of the Ministry of Finance and the INVEGA, the Credit Unions had a lot of work to do at the beginning of implementation, they had to be properly trained in all processes (reporting, collecting and working with documents, etc.), but they are now performing much better.

Criticism of involvement and functioning, however, came from the Vilnius Chamber of Commerce, Industry and Handicrafts. From their point of view, the interest in involvement in the implementation of financial instruments by individual Credit Unions was considerable. However, only a small number of the Unions have been involved after identifying the process difficulties and the costs involved, which in addition do not allocate sufficient staff to the financial instruments. This then causes long deadlines. Credit Unions by representatives of the Chamber are generally not motivated enough to work better with financial instruments.

Also, the implementation of micro-loans for newly created SMEs is not set perfectly. It has to implement a project of about 2.5 thousand EUR in half a year, but this is too short period.

Generally, the Chamber perceives as an optimal model when the applicant/final beneficiary does not even know that it is a financial instrument supported by the ESIF (e.g. a company will come to a bank with a loan application, a commercial product will not reach for a variety of reasons, but the bank will automatically offer him a product financed by the ESIF).

3.5.2. Controlling of individual projects

In general, projects are controlled by financial intermediaries. For example, in the case of ESIF-funded portfolio guarantees, the financial intermediary performs all necessary controls. In any case, however, on-site checks and audits are carried out by the fund of funds manager and the MA on the sample of projects.

3.5.3. Political support for financial instruments

According to one of our respondents, political support for financial instruments was very strong over the period 2007-2013, which also allowed for the emergence of the Baltic Fund of funds (involving Lithuania, Latvia, Estonia and the EIB). Based on good experience with this fund and other tools, it was relatively easy to continue the set trend and to push for a larger range of financial instruments in the 2014-2020 period.

3.5.4. The question of competition to commercial banks

According to the INVEG, it is crucial to carry out an ex-ante evaluation to select the right financial instruments that do not harm the existing market. Financial instruments financed by the ESIF should not "cannibalize" the market. This was one of the main principles of the preparation of the current programming period. For example, thanks to the guarantees provided by the INVEGA, it is now possible to provide credit to start-up entrepreneurs (formerly loans normally provided to companies with a minimum of two years of history), thus completing the gap in the market.

In Lithuania, most financial instruments are implemented through financial intermediaries - private financial institutions. Their successful involvement is evidence of the appropriate setting of financial instruments - if they distort the market, private institutions would not become involved in the implementation of ESIF financial instruments.

According to the Ministry of Finance, the Lithuanian Banking Association was included in the working groups that participated in the ex-ante evaluation of the financial instruments for the business sphere. However, the Banking Association is not anymore formally involved in the implementation process.

3.5.5. New INVEST EU tool

According to the representative of the INVEGA, this instrument will help the European Commission better understand how much European-level financial instruments "cannibalize" national tools and learn from it. And thanks to the fact that everything will be in one place, more DGs will be involved in the tool and will provide a better overview of the implementation of these financial instruments.

3.5.6. Separate operational program of financial instruments

According to the INVEGA, the question of a separate financial instrument is not the most important thing, it is only a technical question. Far more important is setting the financial instruments and how they work. Financial instruments should be set up to connect/mix multiple different financial resources (private, various operational programs, etc.).

3.5.7. Setting the exact (minimum) allocation to financial instruments

The INVEGA as a fund of funds manager would be for determining the minimum allocation at the beginning of the implementation. On the other hand, however, it perceives that financial instruments operate even with a relatively small amount of finance. The INVEGA sees the setting of an appropriate strategy that will also allow for the involvement of other sources (leverage) more important - for example, the central government can be set up so that if local government invests in a particular sector, the state will provide additional resources. Similarly, it can work with private investors.

4. Project activity review

The total number of surveyed institutions

- 6

List of surveyed institutions

- Ministry of Finance (2 respondents)
- INVEGA (Investment and Business Guarantees)
- VIPA (Public Investment Development Agency)
- former INVEGA senior manager
- Vilnius Chamber of Commerce, Industry and Crafts

List of sources and used materials

- Presentation Enterpreneurship Promotion Fund 2014-2020, Lithuania, undated, Lithuanian Ministry of Finance (Rūta Dapkutė)
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- Presentation Financial Instruments in ESF: Enterpreneurship Promotion Fund, 2. 2. 2016, Lithuanian Ministry of Finance (Rūta Dapkutė-Stankevičienė)
- Presentation Case study Self-employment and Entrepreneurship: 'Entrepreneurship Promotion Fund 2014-2020, Lithuania', undated, Lithuanian Ministry of Finance (Rūta Dapkutė-Stankevičienė) and INVEGA (Inga Beiliuniene)
- Presentation Financial instruments for energy efficiency in the programming period 2014-2020, undated, Lithuanian Ministry of Finance (Agné Kazlauskaite) and EIB (Junona Bumelyté)
- Presentation Financial instruments in Lithuania (ESIF): lessons learned, 10. 1. 2017, Lithuanian Ministry of Finance (Rūta Dapkutė-Stankevičienė)
- Presentation Lithuanian experience on financing instruments for energy efficiency, 27. 4. 2017, VIPA (Vaida Lauruseviciene)