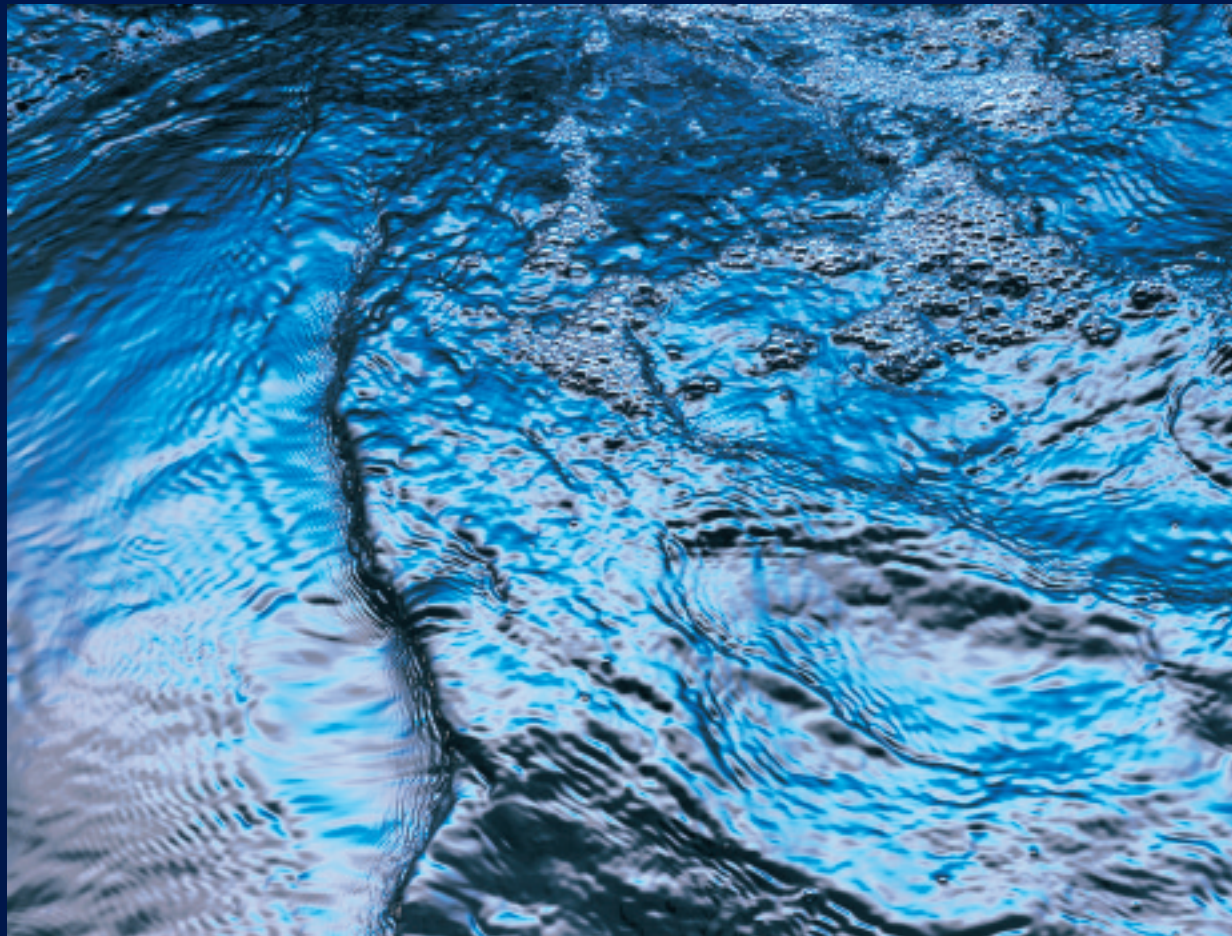




Lithuania

Environmental Financing Strategy



DEPA/DANCEE

Danish Environmental Protection Agency
Danish Cooperation for Environment in Eastern Europe

This report has been prepared by Milieu, Environmental Law Consultants (Belgium) and Aplinkos Apsaugos Politikos Certas (Lithuania).

The work has been coordinated by a DEPA Steering Committee also comprising representatives of the beneficiary ministries in Lithuania.

The opinions expressed in the report are those of the consultant. The Danish Ministry of Environment – Danish Environmental Protection Agency (Danish EPA) and the beneficiary ministries may not agree with these opinions.

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Executive Summary

Background

Following the *Environment for Europe* Conference of Environmental Ministers in Lucerne, Switzerland in 1993, many CEE and NIS countries, including Lithuania, formulated environmental strategies or “action plans” at the national, regional or local levels. A major weakness of these action plans has been their failure to assess costs of proposed actions and develop realistic plans for mobilizing and efficiently allocating the financial resources needed to support investments and other activities. Recognizing these shortcomings, the EAP Task Force supported the development of a pilot environmental financing strategy (EFS) in Lithuania in 1997.

An environmental financing strategy is a series of interrelated analyses focused on the costs of environmental actions, the distribution of those costs among stakeholders, and options for financing those costs. Two major goals of an EFS are to determine if funding is adequate to meet anticipated demand and assess the affordability of proposed financing schemes.

In December 1998, the Lithuanian Ministry of Environment indicated its interest in updating the financing strategy and targeting a revised strategy on specific actions needed to meet EU environmental requirements, particularly those for which public financial resources and user fees for water, waste, and energy would be required to cover a significant portion of investment costs. This report, funded by DANCEE, is the outcome of collaboration between the Ministry of Environmental Protection, Milieu Environmental Law Consultancy, Ltd., and the Environmental Policy Center in Vilnius.

Demand for Environmental Financing

In the strategy, expenditures have been assessed, both those that are presently incurred in Lithuania by the private and public sectors, and those that would be required to implement the environmental *acquis*. In terms of total current expenditure for environment as a percentage of GDP, environmental expenditure in Lithuania is quite similar to percentages observed in most CEE and OECD countries. However, in comparison to OECD countries, Lithuania spends only a small fraction of the amounts spent in OECD countries due to the large differences in GDP. Similar patterns are observed for environmental investment expenditures as a percentage of gross fixed capital formation (GFCF).

PAC Expenditures as a Percentage of GDP (selected OECD Countries)

Country	Year	Total Expenditure as % of GDP	Investment Expenditure as % of GDP	Investment Expenditure as % of Gross Fixed Capital Formation
Lithuania	1997	1.13	0.38	2.6
Other CEE countries				
Czech Republic (1)	1994	2.7	-	9.0
Hungary (2)	1995	-	0.6	3.1
Poland (1,2)	1995	1.1	1.0	6.5
Russia (2)	1995	-	0.38	1.6
Slovak Republic (1)	1994	1.3a	-	3.2a
Slovenia (2)	1995	-	0.44	2.1
Selected OECD countries				
Finland (1)	1994	1.1	-	3.0
France (1)	1995	1.4	-	2.0
Germany (1,2)	1994	1.4	0.47	2.8
Netherlands (1,2)	1994	0.6b	0.43	2.2
Portugal (2)	1994	0.7	-	1.7
United States (1)	1994	1.6	-	3.5

Sources: OECD, Pollution Abatement and Control Expenditures in OECD Countries, Summary Table 1, 1998a; OECD, *Environmental Expenditure in Central and Eastern Europe*, Table II.1, 1998b

Notes: ^a Includes only public sector expenditures

^b 1992 expenditures

The Costs of Approximation

For Lithuania, the body of EU environmental legislation provides the basic set of goals for estimating future demand. Estimates of the demand for environmental financing in Lithuania have been prepared for 19 directives and regulations. All costing studies have been coordinated with the Ministry of Environment to ensure that results can be integrated into the Ministry's approximation strategy as it evolves and is refined to reflect new information.

The table below summarizes cumulative investment costs associated with selected EU directives. By 2015, cumulative investment costs to meet EU requirements for the selected directives would reach almost 1.6 billion Euros. The most costly directives in terms of investment costs will be the urban wastewater directive (91/271/EEC) and the combination of landfill and packaging waste directives (99/31/EEC and 94/62/EEC).

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