



EUROPEAN UNION

## **SUMMARY OF THE FINAL REPORT ON**

**THE EVALUATION OF THE EFFECTIVENESS OF THE EUROPEAN UNION'S  
STRUCTURAL ASSISTANCE ADMINISTERED BY THE MINISTRY OF  
ECONOMY OF THE REPUBLIC OF LITHUANIA IN THE PROGRAMMING  
PERIOD OF 2004-2006 AND RECOMMENDATIONS ON THE INCREASE IN  
THE EFFECTIVENESS OF THE EUROPEAN UNION'S STRUCTURAL  
ASSISTANCE IN THE PROGRAMMING PERIOD OF 2007-2013**

The evaluation conducted by  
Public Company "**Europos socialiniai, teisiniai ir ekonominiai projektai**"

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## SUMMARY

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In 2004-2006 the EU Structural Funds assistance for Lithuania was provided according to the Single Programming Document (SPD) 2004-2006. The Ministry of Economy (MoE) was appointed to be an Intermediary Body, which together with the implementing agency Lithuanian Business Support Agency (LBSA) was authorised to administer support in business, energy and tourism areas under four measures of the Lithuanian SPD 2004-2006. In the course of the programming period of 2004-2006 LTL 1.13 billion of the SPD support was allocated to solve specific eco-social issues in these areas by subsidising the implementation of 333 projects.

The evaluation aimed at assessing the effectiveness of the use of the SPD assistance administered by the Ministry of Economy in 2004-2006 and providing recommendations on the increase in effectiveness of the use of the EU structural support in the programming period of 2007-2013. The Terms of Reference formulated three evaluation questions for the evaluators:

- (1) assessing peculiarities of the use of the SPD assistance administered by the Ministry of Economy in the programming period of 2004-2006;
- (2) analysing and assessing the factors (dependent or independent on project managers) influencing the successful/unsuccessful project implementation under the SPD measures administered by the Ministry of Economy in the programming period of 2004-2006;
- (3) estimating the eco-social impact of the assistance provided under the SPD measures administered by the Ministry of Economy in the programming period of 2004-2006.

The evaluation was conducted at levels of the SPD measures and projects. When carrying out the evaluation at the measure level and considering evaluation tasks, the implementation of the SPD measures 1.2, 3.1, 3.2 and 3.4 administered by the Ministry of Economy was analysed by three criteria recommended by the European Commission, i.e. by relevance, efficiency and impact. Given the evaluation questions, the relevance analysis was based mostly on the bottom – up approach (interviews, surveys, information on the project level) and qualitative methods of the analysis. The analysis of efficiency and impact additionally covered the assessment of bottom – up (analysis of statistical data, econometric modelling) and qualitative methods of the analysis.

When evaluating peculiarities of the use of the SPD assistance administered by the Ministry of Economy, firstly, the **relevance** of support conditions and mechanisms to achieve the assistance objectives and tasks as well as the compliance with needs of target groups were examined. It was established that most project selection principles were precisely defined taking into account objectives and tasks of the respective SPD measure and special objectives and priorities of groups of activities, however, a few drawbacks of the specific project selection criteria were noticed. *First of all*, a special objective of the SPD group of activities 3.1.1 “The Modernisation of Enterprises and Introduction of Innovations” was identified – the increase in the value added created by high and medium-high technology (HMHT) companies. However, specifically this task was not transferred to the level of special selection criteria (priorities). Most of the support provided under this group of activities (57% or more than LTL 145 million) was allocated to companies from a traditional, steadily growing sector. *Secondly*, the transfer of one task of the SPD measure 3.1 – the promotion of company entrepreneurship and establishment – to special objectives and project selection criteria was missing. Respectively, direct support for business in the 2004-2006 period had only a limited impact on the promotion of business start-ups (13 enterprises of this type were

supported in total) and no impact on the incorporation of new establishments. *Thirdly*, even though a selection criterion identified regarding the jobs created or preserved by the project in the SPD groups of activities 1.2.1, 1.2.2 and 3.1.1 reflected the overall objective of the SPD strategy, it was not relevant taking into account special objectives of these measures.

When analysing the supply (forms, conditions of assistance) and demand (the activity of beneficiaries) sides of the SPD support administered by the MoE, it was established that a great project pipeline for the implementation of investment projects in 2004-2006 was ensured due to attractive support conditions, active raising awareness about the support and limited financial resources of potential applicants. The most requested support was under traditional activities carried out by applicants, orientated to the modernisation of the activity performed as well as under the solution of the most sore issues, meanwhile the assistance directed to the promotion of higher standards (e.g. quality standards, cleaner production) was not popular among potential applicants. In case of private applicants, the differentiation of the assistance intensity among different groups of activities by determining lower assistance intensity for modernisation projects and proposing more attractive support conditions for other groups of activities might have been a proper solution to have a more balanced flow of applications submitted under different groups of activities. Taking into account a rapid economic growth phase and total material investments of companies in 2004-2006 as well as results of the survey of beneficiaries, in 2004-2006 lower support intensity for projects of groups of activities 3.1.1 and 3.1.6 would not have significantly reduced a demand of private economic entities for this support, however, it should have allowed the implementation of more projects with the same volume of support and the attraction of higher flows of private capital for the solution of the issues specified in the SPD strategy.

The support conditions established are also related to one of the aspects of the **efficiency** evaluation – a degree of deadweight. In the course of the evaluation it was determined that in the SPD measures administered by the Ministry of Economy in 2004-2006 the value added for money did not appear in case of only 8% of the supported projects on average, therefore, in most cases the SPD strategy had identified the market deficiencies correctly. A low deadweight is also noticed in case of direct support for business – 12% of the supported projects indicated that they would have implemented the project in the same scope even without the ERDF assistance. Nevertheless, when having separated the support for SMEs and big economic entities, in case of the latter, a deadweight reaches even 50%. As a result, the market failures of the programming period were identified incorrectly in respect of big economic entities. To reduce a possibility of the deadweight effect in the programming period of 2007-2013, proper changes have been already foreseen under the measures administrated by the Ministry of Economy: a greater share of support to SME entities, lower assistance intensity for big companies than in the programming period of 2004-2006. In line with these measures the evaluation recommendations propose to introduce additional requirements for concrete project results of projects of big economic entities (e.g. a requirement to create at least 50 new jobs, implement a project in a problem territory, attract a flow of direct foreign investments of at least LTL 5 million into the investment project, etc.).

The evaluation report also investigates the regional aspect of the use of the support administered by the Ministry of Economy. It was established that regional support distribution was in compliance with the economic activity of different districts of Lithuania (by the GDP created and a number of active entities), therefore, when programming documents for 2007-2013 include a certain transition from a horizontal to sectoral use of the ERDF assistance (e.g. a clear objective is to direct more structural support to SMEs), it is not expedient to reduce the intensity of the assistance by 5% for the Lithuanian regions with the greatest potential in these area – Vilnius, Kaunas, Klaipėda Counties. The evaluation recommendations suggest refusing this decision.

This report compared the effectiveness of financial support in different districts of Lithuania by support leverage, multiplier and synergy effects:

- (a) The biggest impact of the leverage effect under the SPD measure 3.1 is seen in Counties of Marijampolė, Panevėžys, Vilnius and Šiauliai, where subsidies of LTL 1 attracted averagely LTL 2.5 and more; the lowest support effectiveness under this aspect is noticed in Tauragė County, where the leverage indicator does not reach a ratio of 1:2.
- (b) Due to the nature of the projects supported by the SPD subsidies in different counties, a positive multiplier effect of the SPD support administered by the MoE in 2004-2006 will be mostly felt in Alytus County (Druskininkai Municipality), Klaipėda County (Klaipėda City Municipality), Šiauliai County (Šiauliai City Municipality), Panevėžys County (Panevėžys City Municipality) and Vilnius County (Vilnius City Municipality) by attracting additional private investments into the territory of the project implementation;
- (c) The net synergy effect among different SPD measures administered by the MoE was not noticed in any counties selected for a more detailed analysis due to several reasons: short programming period (however, a synergy effect is probable among programmes of different generations) and no additional priority scores in the project evaluation and selection system. On the other hand, in a broad sense, good examples of synergy may be noticed in a positive impact of the projects financed by the same SPD measure (the instance of Šiauliai County) and the projects financed by funds of different SPD measures on the achievement of strategic national or regional/city's objectives (instances of the region of Ignalina nuclear power station and Vilnius City).

Given the projects types, the SPD assistance administered by the MoE in 2004-2006 and allocated to the problem territories will mostly have a positive social effect rather than economic effect on the convergence of problem territories (except Druskininkai Municipality and the region of Ignalina nuclear power station). Applicants from Mažeikiai Region, Pasvalys Region, Municipalities of Pagėgiai and Švenčionys Regions used the possibilities provided by the SPD the least. The analysis of causes showed that these problem municipalities were prevailed by illegible areas of economic activities under the measures of the MoE; these municipalities were less attractive for tourism, they had low entrepreneurship and company initiative, insufficient role of the business information centres (BIC). At the beginning of a new programming period it is recommended to initiate a project promoting entrepreneurship of problem territories, select pilot projects (hold "a contest of business ideas"), which would receive a help from the BIC in drafting business plans and applications for the EU Structural Funds support.

When analysing the use of assistance at the project level, two the most important factors determining the success of the project implementation were identified. The first one was the competence of the project administration group (the organisation's experience in the project management, proper and sufficient human resources, competence in compliance with the project particularity). The weakest administration capacities of managers were determined in projects of the SPD measures 1.2 and 3.1, therefore, in case of more than a half of these beneficiaries external consultants were employed for the performance of administrative activities. On the other hand, the beneficiaries, which had bought these services, evaluated them as "partially beneficial" as they did not take over all administrative activities from beneficiaries. It was public beneficiaries – the ones who had the purchase services of external administration services compensated – who worked more with external consultants. According to the findings of the survey, the greatest administrative obstacles in 2004-2006, i.e. drafting project reports and payment requests, verification of public procurement documentation, should be simplified. First of all, it would be beneficial to reduce the volume of administrative responsibility (by determining sparser deadlines for

project implementation reports, providing the implementing agency with the main information on the project progress in payment requests). It is also recommended for the LPMA to carry out systemic surveys of project managers (at least once in a quarter) to find out what knowledge on the project administration issues they are lacking the most and organise trainings according to the needs. During the training more attention should be paid to practical advice, tasks, and examples of the application, submission and examination of rules, the determination of the main mistakes. The implementation of these recommendations could help to reduce external service purchase costs for the project administration, which are included into categories of eligible costs for public beneficiaries (as external consultants provided help mostly in drafting project implementation reports and preparing payment requests).

The second factor – possibilities of the project manager to dispose funds flexibly – is another factor influencing a smooth project implementation. Even though a method of invoice payment was applied to most public projects, a need for additional own financial resources to cover unexpected additional expenses or difference due to rise in prices remained in the programming period of 2004-2006. During the project implementation, where the financial assistance was provided by compensation, private economic entities often had a need to withdraw some cash flows, increase lines of credit in banks. On the other hand, these problems related to a favourable bank crediting policy were rather easily solved in the programming period of 2004-2006. As the economic decrease phase started in 2008 and banks significantly limited the financing of investment projects, in the next few years companies will limit their investment plans even with the allocation of the EU Structural Funds support for their implementation, as they will not be able to borrow funds from banks under favourable conditions or due to a decrease in demand for their production/services in the market. The insufficient flow of good projects increases a risk of ineffective support allocation (where the support may be provided in order not to lose the EU Structural Fund support allocated to Lithuania because of N+3/N+2 rule), therefore, to ensure a pipeline of eligible projects it is recommended: to increase the intensity of the assistance provided to the SME entities by 5-10% in the first half of the 2007-2013 period; to initiate the review of financing rules by foreseeing a possibility of advance payments for projects of private economic entities and to apply this provision during the conclusion of contracts between the Ministry of Economy and beneficiaries; to implement additional credit guaranteeing measures for project of SMEs; if decided to use one of the financial tools – JESSICA – proposed by Regulation No 1083/2006 in Lithuania, to consider a possibility to direct some of the structural assistance foreseen for tourism projects to the Urban Development Fund, which is being developed.

The survey carried out in the course of the evaluation revealed that legal acts of the Republic of Lithuania directly not related to the regulation of the EU structural support, however, related to the project implementation had a great importance (usually negative) to the progress of the project implementation. Most administrative difficulties emerged and the project implementation prolonged because of following provisions of legal acts regulating territorial planning, performance of construction and reconstruction works, coordinating public procurement documentation with the LPMA as well as performing the procurements themselves. To ensure the prevention of possible violations of procurement procedures and at the same time to shorten time for proving and corrections in 2007-2013, it is proposed to enhance knowledge of project managers on public procurement by organising training and providing consultancies together with the Public Procurement Office with a special attention paid to more complicated public procurements.

**The impact criterion** helped to analyse long-term direct and indirect consequences of the SPD measures to the national economy and its individual sectors. The findings of macroeconomic modelling revealed that in the short period the greatest impact of the funds of the SPD measures administered by the Ministry of Economy in 2004-

2006 had been felt in 2007-2008. When applying the accumulation principle, due to the SPD assistance allocated within five years more than 2.2 billion of additional GDP (calculating with the current prices) will be created, meanwhile estimating by years, subsidies of the SPD measures analysed will help to generate from 0.08% of additional annual GDP (2005, when the smallest effect is noticed because of little financial injection) to 0.65% of additional annual GDP (2008, when the biggest influence is observed because of the accumulation effect of funds). In fact, during the whole period analysed, the increase in value added encouraged by the said EU support is bigger than inflows by almost 2.4 times. Moreover, the data put into the model showed that during the period of 2005-2009 the support amount paid before the 3<sup>rd</sup> quarter of 2008 ensured additional taxing and social contributions of LTL 650 million to the budget of Lithuania. As a result, national budget funds allocated for co-financing return increasing by 2.6 times.

In the course of the evaluation, when analysing how the assistance provided under the SPD measures contributed to the promotion of entrepreneurship and innovations in Lithuania, a significant direct impact of the SPD measure 3.1 on the increase in the share of funds of business companies in the expenses of the R&D was established. After the assessment of the data provided by the Department of Statistics on companies' investments into the activity of the R&D and the value of the projects supported by the SPD subsidies in 2006-2007, their implementation start and duration, it was calculated that in 2006 the projects subsidised by the SPD amounted to approximately 5.7% and in 2007 they already reached 20% of all investments of Lithuanian companies into the activity of the R&D. A similar contribution of 20% is likely in 2008, too. The report also distinguishes an important influence of the SPD measure 3.2 on the promotion of entrepreneurship and innovations in Lithuania under three groups of activities of this measure: "Science and Technology Parks, Technology Centres", "Industrial Zone, Greenfield Investment Promotion" and "The Improvement of the Image of Lithuanian Products and Services". Although the comparison of effectiveness of the direct and indirect forms of support by applying macroeconomic modelling revealed relatively bigger positive impact of direct support in the short-term period, when assessing from the expert's point of view, a greater benefit would be received in the long-term period by investing more funds into the creation of business infrastructure and improvement of investment environment. The evaluation report also maintains that to enhance the impact of the results of the improvement of investment environment financed by the funds of 2004-2006, it is necessary to ensure further building of administrative capacity of beneficiaries to manage the results created (it is especially relevant for infrastructure projects of industrial zones, science and technology parks). The evaluation recommendations also suggest defining secondary priority criteria for projects, the implementation of which continues the actions funded during the SPD programming period (e.g. the second project stage is being implemented) or beneficially supplements the results created by funds of measures of the SPD or other operational programmes for 2007-2013.

Given the evaluation findings, the report presents recommendations. The attention should be paid to a fact that due to the time of the evaluation (that is the evaluation was carried out and recommendations presented with already present Operational Programmes for a new assistance administration period, their complements, descriptions of project financing conditions), some issues of the SPD period identified during the evaluation have been already solved (e.g. the differentiation of the assistance intensity by different company projects is foreseen as well as assistance mechanisms promoting the incorporation of establishments). On the other hand, in the new period there are additional risks for the effective support administration, which were not faced during the assistance period of 2004-2006.