

**NATIONAL STRATEGIC REPORT 2009 OF THE LITHUANIAN  
STRATEGY FOR THE USE OF EUROPEAN UNION STRUCTURAL ASSISTANCE  
FOR 2007–2013**

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## **1. SOCIO-ECONOMIC SITUATION AND TRENDS**

2007–2009 has been an unsettled period: 2007–2008 was characterized by a rapid economic growth, which moved into the economic decline in the second half of 2008 due to the global financial crisis, whereas in 2009 turned into a recession. In essence, since 2007, when the Lithuanian Strategy for the use of European Union Structural Assistance for 2007–2013 (hereinafter referred to as “the Strategy”) and the Operational Programmes for the Development of Human Resources, Economic Growth, Promotion of Cohesion and Technical Assistance (hereinafter referred to as “the Operational Programmes”) were approved, the country has experienced far-reaching social and economic changes that led to the amendment of provisions of respective Operational Programmes in 2009.

The following chapters cover the main changes in socio-economic indicators and trends in the period of 2007–2009.

### *1.1 Inflation*

In the period of 2007–2008 a rapid growth of inflation was seen in the country: the average annual inflation made up 3.8 percent in January 2007, whereas in December 2008 reached 11.1 percent. This rapid increase in inflation was mainly due to rising international energy and food prices and rapidly increasing consumption, prompted by the credit resources. The global financial crisis had an essential impact on the inflation perspectives in 2009: since the beginning of the year the disinflation processes were growing (particularly, in housing rents and housing maintenance and repair groups), when the monthly recorded inflation (deflation) was negative. The average annual inflation, which exceeded the 11 percent threshold in 2008, fell to 6.2 percent in September 2009. Such a rapid slowdown of inflation growth was especially affected by tightened lending conditions and a significant reduction in domestic consumption.

### *1.2 Gross domestic product*

In 2007 Lithuania’s economy had been growing very rapidly, and good trends predominated in the economic cycle. In 2007 the gross domestic product (hereinafter referred to as the “GDP”) grew by 9.8 percent. The main factor for economic development during this period was the rapid growth of domestic demand (rising personal income consistently increased household consumption expenditure, consumer credits expanded) and gross capital formation expenditure. A significant impact on GDP growth in 2007 had a fast-growing Lithuanian export. The Lithuanian economic development in 2008 was variable: at the beginning of the year the country’s economy continued to grow rapidly, but the global financial crisis from the mid-2008 slowed down the country’s economic development. One of the main reasons for this was the cheap credit policy conducted over the last few years, which caused the unduly rapid growth in domestic demand and excessive consumption, accompanied by jump in prices of land and other property, which in turn led to the construction boom. The natural slowdown in

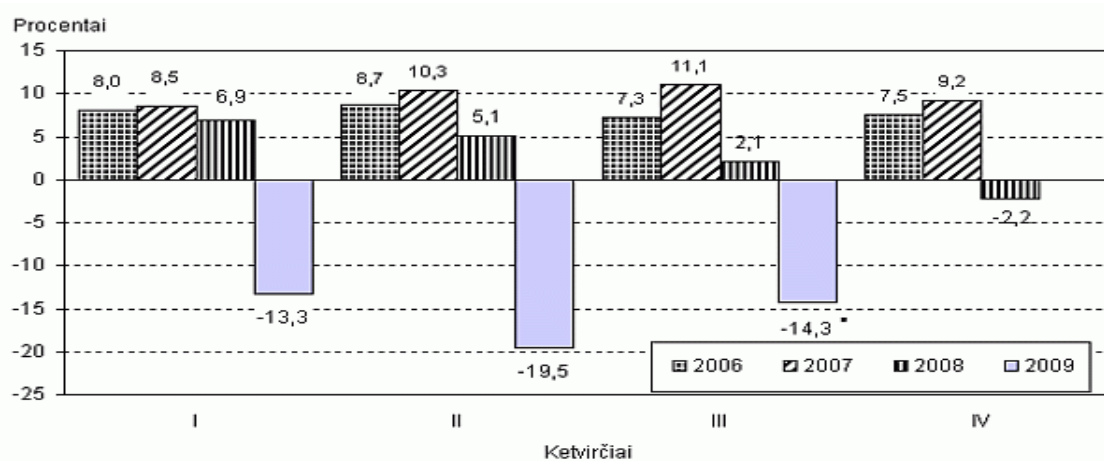
business cycle and the impact of the global financial crisis disrupted the economic balance in the financial, real estate and construction markets, and the change in demand particularly affected the industrial and commercial development. In 2008 the GDP, compared with 2007, fell by 2.2 percent and at the end of the year was 2.8 percent only.

In the second half of 2008 Lithuania’s economy began declining and has turned into a recession in 2009. According to the Department of Statistics to the Government of the Republic of Lithuania (hereinafter referred to as “the Department of Statistics”), the GDP amounted to EUR 6867.8 million in the third quarter of 2009 (LTL 23713.3 million) at current prices and, in comparison with the third quarter of 2008, fell by 14.3 percent. The amount of EUR 14806 million (LTL 51122.2 million) of GDP, or 15.7 percent less than a year ago, was created within 9 months of this year. Lithuania’s economy is currently experiencing the impacts of “economic overheating”, which prevailed over recent years, and the impacts of intensified global financial crisis on real economy, which manifested by a sudden deceleration in borrowed money demand and supply, decrease in domestic trade and manufacturing, declining investment in tangible fixed assets and foreign investments, and housing market correction.

In the second quarter of 2009 the negative results in all business activities and non-market services were recorded. The most rapid decline in added value was recorded in the construction (46.1 percent), industrial and energy companies (25.3 percent), trade, transport and communication services group (21.4 percent), financial intermediation, real estate and other business services (17, 8 percent). The more slowly decline in added value was recorded in the agricultural and fishery enterprises (4.9 percent) and companies engaged in rendering other public, social and personal services (0.7 percent).

**Picture 1. Changes in gross domestic product, compared with the corresponding period of previous year**

Percents



Quarters

\*Source: The Department of Statistics to the Government of the Republic of Lithuania.

### *1.3 Investment in tangible fixed assets*

Investments are highly and rapidly responsive to the changes in economic conditions. During the period of economic upturn, the investment share in the structure of GDP rose up to 30.9 percent in 2007 due to exceptionally optimistic expectations and favourable lending conditions, and in 2007 the investments in tangible fixed assets were in a consistent quarterly growth and at the end of the year amounted to more than EUR 588 million (LTL 2031 million). Much of these investments went to real estate and related sectors. In 2008 the investments continued to grow rapidly (only the first quarter of 2008 was marked by a slight decrease). At the beginning of 2009 the trend for investment growth changed essentially, and the investments started to decline rapidly: in the fourth quarter of 2008 the investments in tangible fixed assets still reached EUR 2014.8 million (LTL 6957 million), but in the first quarter of 2009 amounted just EUR 701 million (LTL 2422 million). According to the Department of Statistics, the investments in tangible fixed assets amounted to EUR 1542 million (LTL 5325 million) in the first half of 2009, while during the same period in 2008 – EUR 2636.9 million (LTL 9105 million), and in 2007 – EUR 2369 million (LTL 8180 million). Such a sharp decrease of investments in tangible fixed assets in 2009 is related to the companies' refusal to implement the investment projects or the suspension of these projects for an indefinite period due to tightened lending conditions and the apparent decline in domestic demand. According to the prognosis, the investments will decrease by 60 percent in 2009 compared to the previous years, and the investment share in the GDP structure will fall to 11.3 percent.

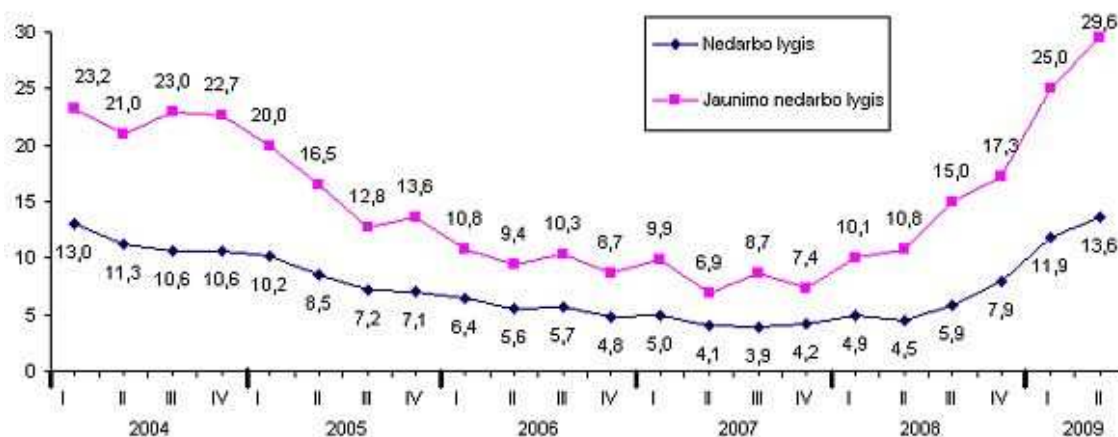
### *1.4 Labour market*

In 2007 the country's economy continued to grow rapidly and the emigration continued, thus creating the prerequisites for employment to increase and unemployment to fall. In 2007 Lithuania had 1 million 534 thousand of working population, or 35 thousand (2.3 percent) more than in 2006. The growing number of employed population increased the population employment rates: in the last quarter of 2007 the employment rate of the population aged 15–64 was 64.4 percent, i.e. almost two-thirds of working-age population was occupied. This index is very close to the EU average rate. The unemployment rate in 2007 was 4.3 percent and, compared to 2001, when the highest unemployment rate was recorded (17.4 percent), fell almost 4 times. However, in the second half of 2008 when began the global economic recession, the deterioration of country's financial condition and increasing number of business bankruptcies (especially in construction and industrial sectors) have fundamentally altered the situation in labour market – the employment rate began to decline, while unemployment was growing rapidly. The Department of Statistics estimated that the number of unemployed in the fourth quarter of 2008 rose to 130 thousand and within a year the number increased by 25 thousand, or by 37 percent – from 69 thousand in 2007 to 94 thousand in 2008. In the fourth quarter of 2008 the unemployment rate was 7.9 percent and was almost twice higher than in the fourth quarter of 2007 (4.2 percent). Meanwhile, the population employment rate in 2008, compared to 2007 (64.9 percent), remained almost unchanged and amounted

to 64.3 percent. In 2009, with the persistence of economic downturn and rapidly decreasing number of vacancies, unemployment in the country continued to grow. According to the Employment Survey, in the second quarter of 2009 there were 223 thousand of unemployed and the unemployment rate was 13.6 percent. The number of unemployed persons and the unemployment rate continued to rise, but far slower. In the second quarter of 2009 the unemployment rate rose by 1.7 percent, whereas during the first quarter, compared to the fourth quarter of 2008, it increased 1.5 times. It should be noted that in the first half of 2009 the major part of the unemployed was the persons who had lost their jobs over the preceding 6 months. The number of such persons was 121 thousand in the first quarter of 2009, or 62 percent of the total number of the unemployed, while in the previous year – 51 thousand.

After the increase in unemployment, the number of employed population has reduced in the country: in the second quarter of 2009 the country's occupied population, compared to the second quarter of 2008, decreased by 103 thousand, or nearly 7 percent. With the reduction in the number of employed population, the employment rate also fell: in the second quarter of 2009 the employment rate was 60.3 percent and 4.3 percent less than a year ago.

**Picture 2. Unemployment rate in 2004–2009, percents.**



Unemployment rate

Youth unemployment rate

\*Source: The Department of Statistics to the Government of the Republic of Lithuania.

It is worth to note that one of the highlighted changes in the labour market for the period 2007–2009 was the especially increased male unemployment rate in 2009, which in the second quarter of 2009 was 16.7 percent, whereas in the second quarter of 2008 quarter – 5.1 percent., or 3.3 times less. This was led by a particularly marked decrease in the number of workers in construction and industry enterprises, where the work is mainly performed by men. After the increase in male unemployment and a significant decrease in their level of employment, the men's and women's employment rates have tended to converge: in the second quarter of 2009 male employment was 60.3 percent, women employment – 60.4 percent. During the economic downturn the level of youth unemployment also significantly increased, which in the second quarter of 2009 reached 29.6 percent,

and, compared to the same quarter of 2007, grew more than 4 times (in 2007 was 6.9 percent). Finally, in the mid-2008 the number of construction and agricultural workers has declined significantly.

It should be noted that, in response to the changes in the labour market in 2008–2009, the relevant problems were resolved by using the European Social Fund to implement the most relevant recruitment measures (employment subsidies, job skills promotion, and public works) (for more information see Chapter 2.3).

### *1.5 Business environment*

According to the Global Competitiveness Index annually published by the World Economic Forum, Lithuania collected 4.3 points from a maximum of 7 in 2009 and was 53rd from 133 countries (in 2008 – 44th, in 2007 – 38th). The key issues laid out in a report published in 2009 to develop business in Lithuania were the access to financing, tax rates, inefficient government bureaucracy, tax regulations, inflation and corruption. Compared with the data of previous years, the main problems for business development remain almost the same, only in 2009, in contrast to 2008, the major problem to develop business is obtaining financing. This change is mainly due to tightened conditions for granting loans and reduced opportunities for businesses to borrow.

From the end of 2008 the upward trend in bankruptcies starts to emerge: in 2007 the bankrupt was initiated against 606 companies, while in 2008 this number increased by more than 50 percent – in 2008 the bankrupt was initiated against 928 companies. Comparing the bankruptcy proceedings data of 2008 to 2007, almost all activities marked an increase in the number of bankruptcy proceedings, except agriculture, hunting and forestry companies, whose bankruptcy number has fallen (16.7 percent). In 2008 the increase in the number of bankruptcies was more than twice in the enterprises engaged in real estate, renting and other business activities, construction, hotels and restaurants, transport, storage and communications activities. The bankruptcies in manufacturing companies increased by 42.8 percent, while the change in the number of bankruptcies in trading enterprises was sufficiently slight (14 percent). In 2009 the number of companies with initiated bankruptcy proceedings was increasing: in the first half of 2009 the bankruptcy proceedings were initiated against 984 companies, i.e. 2.3 times more than within the same period in 2008. In the first half of 2009 the largest number of bankruptcies was in construction companies – 234 (23.8 percent), trade companies – 210 (21.3 percent) and manufacturing companies – 198 (20.1 percent).

It should be noted that, in order to promote entrepreneurship and improve the business environment in the country, the EU structural assistance has been launched to implement the financial engineering measures seeking to improve access to financing for micro and small enterprises, small and medium businesses. These measures are covered in subsequent chapters (for more information see Annex IV, Part I).

*In summary, the socio-economic situation in Lithuania has significantly changed since the second half of 2008: the main macroeconomic indicators (GDP, investments in tangible fixed assets, etc.), which were steadily*

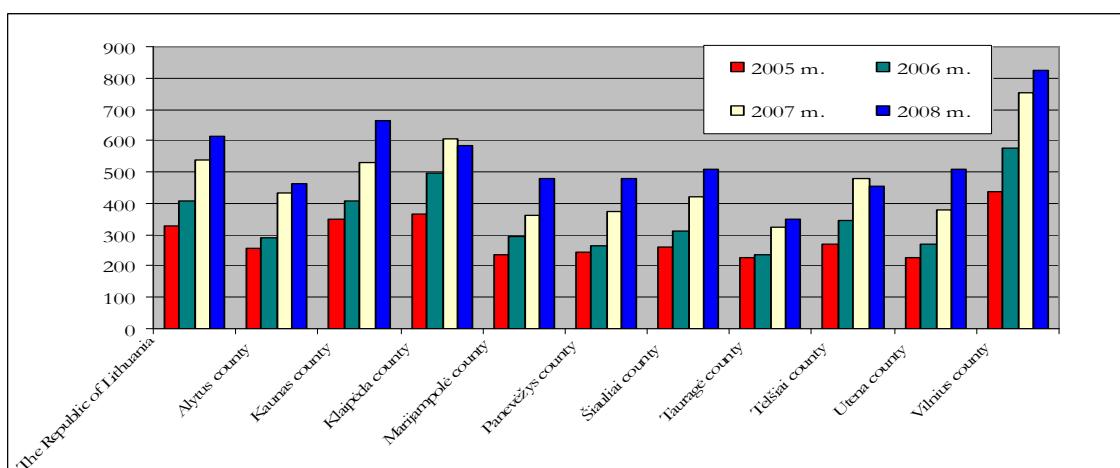
*improving due to the growth of the economy, start to deteriorate as a result of the global economic downturn; there is an increase in unemployment, a fall in employment and worsened conditions for business development.*

### *1.6 Regional disparities*

In order to reduce the disparities in quality of life in the country, to increase the integration of major cities and surrounding areas and at the same time to increase the territorial cohesion within the country, *The Strategy of the Lithuanian Regional Policy until 2013* (Official Gazette, No. 66-2370) approved by Lithuanian Government's Resolution No. 575 on 23 May 2005 is being implemented. According to the strategy, the main objective of the Lithuanian regional policy is the intention to increase the social and economic cohesion in the country, i.e. to ensure that the average standard of living, calculated according to the wage-work income per household member per year, in any of the Lithuanian county would not fall below *75 percent* of the wage-work income per household member per year in the country, and the unemployment rate in corresponding county of the country would not be more than *35 percent* higher than the average unemployment rate in the country.

In order to assess the economic and social cohesion (or incohesion) in the country, the territorial disparities of its key components – the wage-work income per household member per year and the average annual unemployment rate – are assessed within the country. Socio-economic cohesion is assessed by comparing the data from each of the 10 counties in the country and local governments, which are counties centres. According to the wage-work income per household member per year (hereinafter referred to as the “WWI”), compared with the national average, the estimated mean linear deviation of counties social cohesion indicator (the estimated average deviation of counties WWI from the national average) increased in 2005–2006, but from 2007 this trend changed and the disparities among regions according to this figure fell slightly: in 2005 the counties WWI rate differed from the national average by 22.7 percent on average, in 2006 – 27.0 percent, and in 2007 – 23.9 percent. The social disparities among regions, estimated in accordance with the WWI rate, have slightly decreased in recent years. As shown by statistics, in 2007 even 8 out of 10 counties had the WWI lower than the national average. Only Vilnius and Klaipėda counties had the WWI above the national average (140 and 113.3 percent of the national average, respectively). The lowest WWI, compared to the national average, was in Tauragė county (60.5 percent). In four counties of the country (Marijampolė, Panevėžys, Tauragė and Utena) the WWI was below 75 percent of the national average. Cohesion under the WWI grew also in 2008, when the WWI was below 75 percent of the national average only in two counties – Tauragė (56.4 percent of the national average) and Telšiai (74.2 percent of the national average). In 2008 the average difference from the national average dropped to 21.9 percent.

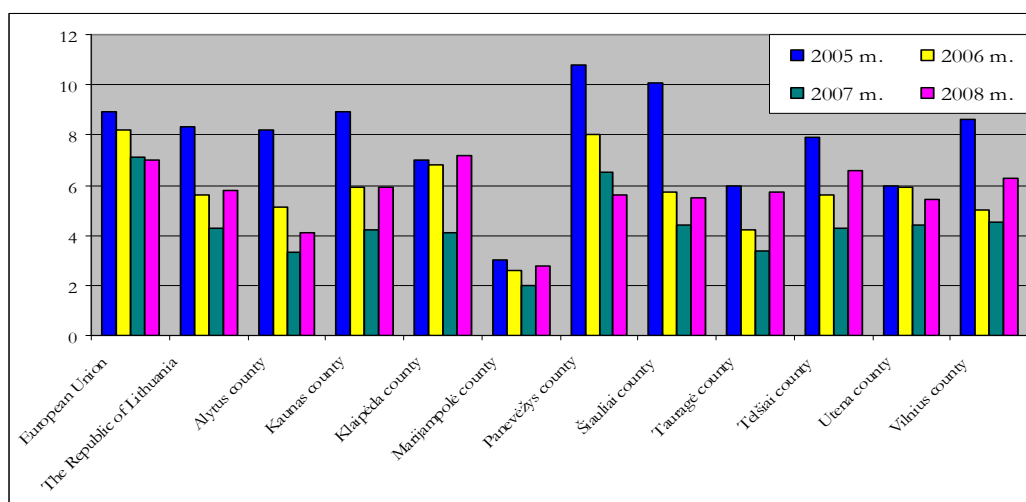
**Picture 4. The WWI per household member per month (LTL)**



\*Source: The Department of Statistics to the Government of the Republic of Lithuania.

With the growing economy and rising emigration the unemployment has been decreasing since 2005, and the territorial disparities in unemployment rates have also declined. According to the annual average unemployment rate (hereinafter referred to as the “AAUR”), compared with the national average (calculated on the basis of research findings), the estimated mean linear deviation of counties social cohesion indicator (the estimated average deviation of counties AAUR from the national average) decreased till 2007: in 2005 the counties AAUR rate differed from the national average by 20.4 percent on average, in 2006 – 17.5 percent, in 2007 – 16.5 percent. However, in the second half of 2008 the start of the country’s economic slowdown and the increase in unemployment significantly increased territorial disparities in unemployment rates: in 2008 the AAUR was already 7.2 percent in Klaipėda county (167 percent of the national average), in Telšiai county – 6.6 percent. It should be noted that in Lithuania the AAUR was lower than the EU average until 2008, whereas in 2008 the EU average was exceeded only in one of ten counties of the country – Klaipėda.

**Picture 5. The annual average unemployment rate by counties, percents.**



\*Source: The Department of Statistics to the Government of the Republic of Lithuania, Eurostat.

To assess the economic cohesion within the country, the integrated rate of counties GDP per capita (hereinafter referred to as the “GDP/capita”) is used. According to this index, compared with the national average, the estimated mean linear deviation of economic cohesion indicator of all counties increased from 2005 to 2007: in 2005 the counties GDP/capita rate differed from the national average rate by 25.5 percent on average, in 2006 – 27.9 percent, and in 2007 – 28.4 percent. The growing mean linear deviation of economic cohesion indicator also caused the negative values of cohesion indicator (the average change in the economic disparities, compared to 2005) for the period 2005–2007. In 2006 the economic cohesion rate (compared to 2005) was 2.4 percent, whereas in 2007 this indicator slightly improved (regional economic disparities increased more slowly), but remained negative (–1.5 percent). The GDP/capita, expressed in purchasing power standards, in 2008 was 61.1 percent of the EU average in Lithuania, and the threshold of the EU average of 75 percent was exceeded only in Vilnius county (92.6 percent in 2008).

*In summary, not all ten counties of the country are developing evenly: social disparities among corresponding counties in the country are decreasing, while the regional economic disparities in terms of GDP/capita continue to rise. The country is still not capable to sufficiently exploit economically weaker regions and economic potential of their centres, and the highest added-value creating enterprises are still concentrated in large cities of the country and economically strongest regions. Due to the lack of using the inner development potential, the economically weaker regions are becoming more vulnerable to the country’s economic downturn, and this is reflected by the fact that after the decline in the country’s economy in 2008, the social disparities among the regions slowly started to increase, while the territorial cohesion was decreasing. These negative trends are being corrected with the EU structural assistance by promoting investment in the problematic areas having the lower economic growth potential and by implementing individual measures for regional development.*

## 2. ACHIEVEMENTS AND FUTURE PROSPECTS

The three basic priority areas set out in the Strategy (1. “*Productive Human Resources for the Knowledge Society*”, 2. “*Competitive Economy*” and 3. “*Life Quality and Cohesion*”) are implemented by operational programmes. Taking into account that the Strategy is an integral document, the implementation of each Operational Programme to some extent contributes to the implementation of all three priorities. It should be noted that the priorities of the Operational Programme for the Development of Human Resources mainly corresponds to the first priority area of the Strategy “*Productive Human Resources for the Knowledge Society*”, which seeks to attract and retain people in the labour market, encourage more active lifelong learning and improve public administration. The implementation of the Operational Programme for Economic Growth mainly contributes to the implementation of the second priority area of the Strategy “*Competitive Economy*”, which seeks to increase the comparative share of high added value business proportion in Lithuania’s economy by creating a favourable environment for small and medium business and innovations as well as by creating more effective economic infrastructure. The third priority area of the Strategy “*Life Quality and Cohesion*” is mainly implemented by the Operational Programme for Promotion of Cohesion, which seeks to make better use of local capacities, to provide high quality and accessible public services, to protect and improve the quality of the environment.

Analyzing the value-added of the Strategy implementation, the results of the evaluation “*The EU Structural Funds impact on gross domestic product*” should be noted, which showed the main trends of the EU structural assistance impact on Lithuania’s GDP. The evaluation showed that the structure of the impact of Operational Programmes for 2007–2013 on the GDP is similar to the structure of the impact of the Single Programming Document 2004–2006 (hereinafter referred to as the “SPD”), but the impact of Operational Programmes for 2007–2013, even taking into account the impact of the current economic and financial crisis, is much bigger due to the increased investment in this period. The maximum impact of the Operational Programmes for 2004–2006 and 2007–2013 on the level of GDP is forecasted in 2012, when the level of GDP is likely to increase by almost 9 percent due to structural investments. It is assumed that this rate would fall to 5.7 percent during the last year (2015) of implementation of the programme for 2007–2013, and then significant long-term effects would remain, compared with the scenario of “no structural investments”, which will decrease over time due to the investment “depreciation”. The impact on the value created by respective sectors, when after the investments of 2004–2006 the investments of 2007–2013 are implemented, is much bigger than in the case of just one program and varies depending on the area (for example, it is estimated that the largest effect on the market services sector will occur in 2012 and will create an increase of about 10 percent., while the impact on the industrial sector will reach a peak in 2015, when the likely impact will be 5.2 percent.).

It should be noted that the implementation of the Strategy and Operational Programmes began a little later than expected. The main reasons were the delay in the approval of the regulations and national legislation. However, despite the fact that the implementation of the Operational Programmes began only in 2008, on 15

December 2009 the part of the planned programmes indicators have already been achieved or the percentage of achievement amounts more than 50 percent of the planned rate to be reached. These results presume the successful achievement of the programmes indicators.

According to the data of 15 December 2009, the planned indicator “Number of unemployed and persons whom unemployment threatens and who are involved in supported engagement programmes” of the priority “*High Quality Employment and Social Coverage*” of the Operational Programme for Development of Human Resources has already been achieved and exceeded. The number of such persons was 24 500 (expected 14 000). The higher than planned indicator achievement percentage is mainly related to the increased need for the measures of employment promotion / support and an objective to meet it. It should also be noted that nearly 44 percent of unemployed and persons whom unemployment threatens were involved in professional training and informal education programmes.

High indicator achievement rates are also observed in implementing the task “Increase Businesses Productivity” of the priority “*Increasing Business Productivity and Improving Environment for Business*” of the Operational Programme for Economic Growth, during which 263 projects are being implemented, or nearly 90 percent of the programme indicator value planned to be achieved, and the attracted private investments amount to more than EUR 37 million (LTL 129 million). In implementing the task “Implement engineering measures for traffic safety” of the priority “*Basic Economic Infrastructure*” of the same Operational Programme, 27 traffic safety and environmental measures have been implemented to improve the increased accident risk areas. This represents 77 percent of the programme indicator value planned to be achieved. In implementing the task “Improvement of technical parameters of the transport infrastructure of state and regional significance” of the same priority, 650 km of state roads were built or reconstructed, which made up almost 77 percent of the monitoring indicator value planned to be achieved. In implementing the priority “*Development of Trans-European Transport Networks*”, 4 of 6 international airport infrastructure capacities development projects were implemented, which led to further serve 0.43 million of passengers (nearly 40 percent of the programme indicator value planned to be achieved).

The best results of the Operational Programme for Promotion of Cohesion were achieved by implementing the task “To provide high quality and available health care services” of the priority “*Quality and Availability of Public Services (Health Care, Education, Social)*”. In this case, 46 projects were implemented (61 percent of the programme indicator value planned to be achieved), during which 49 health care institutions received the EU structural assistance, which led to the improvement of health care quality and availability for more than 103 000 patients.

Meanwhile, good results of indicators have been observed by implementing the Operational Programme for Technical Assistance in the publicizing field of the EU structural assistance: almost 40 percent of the value of the

indicator “A number of the implemented information initiatives (information campaigns, conferences, seminar cycles, websites and etc.)” has been achieved.

*In summary, the maximum positive impact of the EU structural assistance on the GDP is expected in 2012, when the investment level of GDP is likely to increase by almost 9 percent due to the EU structural assistance. In assessing the data of Operational Programmes implementation at the end of 2009, it should be noted that the best indicators achievement rates during the implementation of the Operational Programme for Development of Human Resources were achieved by implementing employment promotion projects, during the Operational Programme for Economic Growth – by implementing business promotion and transport infrastructure development projects, during the Operational Programme for Promotion of Cohesion – projects increasing the availability of public services, and during the Operational Programme for Technical Assistance – the EU structural assistance publicizing projects.*

### *2.1 Absorption of the EU structural assistance*

According to the data of the European Commission (hereinafter referred to as the “EC”), on 15 December 2009 Lithuania had a leading position in the EU in view of the EC interim payments to the countries. Of the three funds, i.e. the ESF, the ERDF and the Cohesion Fund, Lithuania has been paid EUR 789.5 million, or 11.7 percent of the EU structural funds for the whole period 2007–2013. The EC data show that Lithuania has been paid EUR 765.4 million (excluding advance payments) until 15 December 2009, or 13.3 percent of the ERDF and the Cohesion Fund for the period 2007–2013. According to these indicators, Lithuania has the leading positions in the EU. By 15 December 2009 Lithuania has been paid EUR 24.1 million (excluding advance payments), or 2.3 percent of the ESF funds for the whole period.

From the beginning of the implementation of Operational Programmes until 15 December 2009, the number of contracts signed reached 1 478. The total eligible expenditure of the signed contracts amounted to EUR 3 261 million (LTL 11 260 million) on 15 December 2009, whereof the EU funds comprised EUR 2 396 million (LTL 8 274 million), accounting for 35.4 percent of the EU funds allocated for the implementation of operational programmes. In implementing the priorities of Operational Programmes such as “*High Quality Employment and Social Coverage*”, “*Increasing Business Productivity and Improving Environment for Business*”, “*Basic Economic Infrastructure*”, “*Local and Urban Development, Preservation of Cultural Heritage and Protection of Nature and its Adaptation to Development of Tourism*”, “*Environment and Sustainable Development*”, the responsible authorities have already signed more than 50 percent of the contracts to be signed. This suggests that the EU structural assistance will be implemented successfully.

Most of the EU funds were absorbed in the Operational Programme for Economic Growth – EUR 580 million (LTL 2 001 million), followed by the Operational Programme for Promotion of Cohesion – EUR 234

million (LTL 807 million), the Operational Programme for Development of Human Resources –EUR 32 million (LTL 111 million) and the Operational Programme for Technical Assistance – EUR 8.4 million (LTL 29 million).

During the implementation of the projects, nearly EUR 966 million (LTL 3 336 million) have been invested, of which nearly EUR 912 million (LTL 3 150 million) comprised the funds paid to the project contractors, service providers and suppliers of goods, interest compensations received by the companies for the loans granted by the banks and contributions to created holding funds that have been declared to the EC. The implementation of 69 projects funded from the EU structural funds for 2007–2013 have already been completed, most of them were the business development, transport (road infrastructure development, paving gravel roads) and public buildings renovation projects. The total cost of completed projects is EUR 276 million (LTL 953 million).

## 2.2 Review of evaluations of the EU structural assistance

During the period 2007–2009, a number of EU structural assistance evaluations were conducted, which demonstrated that *an appropriate direction for the implementation* of the Lithuanian Strategy for the use of European Union Structural Assistance for 2007–2013 and Operational Programmes has been chosen and a successful move towards achieving the selected objectives has been observed. Despite the fact that the object of several evaluations was the period 2004–2006 of structural assistance, but the conclusions and recommendations made by the evaluations are intended to the present programming period 2007–2013. The following paragraphs briefly review the main evaluations and their results.

The objective of the “*Evaluation of the EU Structural Funds impact on gross domestic product*”<sup>1</sup> was to evaluate the EU structural funds impact on the GDP by absorbing EU structural assistance to Lithuania and to draft recommendations regarding the EU structural funds impact on the GDP growth for the programming period of 2007–2013. An econometric Lithuanian macro-model HETLIT has been developed to achieve the evaluation objectives and targets, which is based on the HERMIN model. Based on the results of econometric modelling, the long-term impact of the EU structural assistance on various macroeconomic indicators, i.e. GDP, productivity, employment, individual sectors of the economy, trade balance, general investments, price level, etc. has been measured.

The evaluation results show the trends of the EU structural assistance impact on the GDP and the added value created by appropriate sectors as well as the fact that the EU structural assistance investments has different effects on relevant economic indicators and not in all cases this impact was positive. For example, a positive impact of structural investments is observed on the main economic indicators (GDP, sectoral added value, sectoral productivity), while the impact on the trade balance and budget deficit is, on the contrary, negative. The

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<sup>1</sup> *The Evaluation of the EU Structural Funds impact on gross domestic product:* [http://www.esparama.lt/es\\_parama\\_pletra/failai/fm/failai/Vertinimas\\_ESSP\\_Neringos/Ataskaitos\\_2008MVP/BVP\\_ataskaita.pdf](http://www.esparama.lt/es_parama_pletra/failai/fm/failai/Vertinimas_ESSP_Neringos/Ataskaitos_2008MVP/BVP_ataskaita.pdf)

structural investments will mostly increase the trade balance deficit (about 3.5 percent) in 2011 and this effect will remain negative until the end of the program in 2015.

The objective of the *"Evaluation of the Lithuanian development priorities during the period of using the EU structural assistance of 2014–2020"*<sup>2</sup> was to evaluate the Lithuanian economic development trends until 2020 and to submit proposals for the review of the priorities in using the EU structural assistance. The estimators, shaping the guidelines for the future programming period, analyzed the available data of the period 2007–2013 and found that, despite *the sudden change in Lithuanian and global social and economic development trends, there is no need for the radical corrections of Operational Programmes, priorities and measures of the current period*. However, taking into account the changed economic situation and rising unemployment, a number of proposals for reallocations among appropriate priorities measures have been made, namely – to reallocate the funding intended for the migrant employment of EUR 4.6 million (LTL 16 million), prolongation of the working capacity of EUR 9.8 million (LTL 34 million) and the recruitment of socially vulnerable persons of EUR 59.4 million (LTL 205 million) to resolve the growing unemployment problem, whereas seeking to improve the availability of capital – to direct more funds to the financial engineering instruments. The recent evaluation recommendations were taken into account, and the financing plans of corresponding operational programmes priorities for 2007–2013 were specified.

The objective of the *"Implementation compatibility evaluation of the EU structural funds assistance according to the SPD"*<sup>3</sup> is to evaluate the continuing internal and external implementation compatibility of the EU structural funds assistance according to the SPD. The compatibility in this context includes four aspects: 1) support appropriateness in the context of changing environment, 2) conformity of policy regulations to the EU strategies and policies, 3) coordination of financial instruments, 4) complementarity (synergy).

In the course of the evaluation, the recommendations for ensuring the continuous support compatibility, promotion for greater support synergy and retrospective supplement of the "Compatibility Part" of annual implementation reports of Operational Programmes for 2007–2013, when drafting the reports to the EC, were submitted. The following key measures were identified to better ensure the compatibility: detailed annual implementation reports of Operational Programmes, evaluation reports dealing with the compatibility issues, project selection procedures, project implementation monitoring procedures, monitoring indicators and institutional mechanisms. The evaluation results also showed that well-planned program documents are not enough to ensure the principle of compatibility, and the appropriate implementation mechanisms and monitoring measures are needed that the continuous support compatibility would be maintained in the course of programme

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<sup>2</sup> *The Evaluation of the Lithuanian development priorities during the period of using the EU structural support of 2014-2020:* [http://www.esparama.lt/es\\_parama\\_pletra/failai/fm/failai/Vertinimas\\_ESSP\\_Neringos/Ataskaitos\\_2008MVP/2014-2020\\_ataskaita\\_090428.pdf](http://www.esparama.lt/es_parama_pletra/failai/fm/failai/Vertinimas_ESSP_Neringos/Ataskaitos_2008MVP/2014-2020_ataskaita_090428.pdf)

<sup>3</sup> *The implementation compatibility evaluation of the EU structural funds support according to the SPD:* [http://www.esparama.lt/es\\_parama\\_pletra/failai/fm/failai/Vertinimas\\_ESSP\\_Neringos/Ataskaitos\\_2008MVP/Suderinamumas\\_galutine\\_ataskaita\\_20090918\\_f.pdf](http://www.esparama.lt/es_parama_pletra/failai/fm/failai/Vertinimas_ESSP_Neringos/Ataskaitos_2008MVP/Suderinamumas_galutine_ataskaita_20090918_f.pdf)

implementation. A proposal was submitted to organize on a quarterly basis the discussion on continuous support compatibility issues (ongoing social-economic changes, amendments to the strategic documents, monitoring indicators achievement) and continuous relevance of interventions.

### *2.3 Contribution of the European Social Fund to the implementation of guidelines and recommendations under the European Employment Strategy*

The European Employment Strategy, which is one of the main components of the Lisbon strategy, expresses the common objectives of the EU employment policy and outlines the basic employment guidelines of the Member States of the Community. In order to seek the employment policy objectives, each EU Member State must draw up national reform programs and provide specific measures to ensure the economic growth and job creation over the next 3 years. The first such document in Lithuania is the National Lisbon Strategy Implementation Programme, which was developed in 2005 and envisaged national measures for the period 2005–2007. The National Lisbon Strategy Implementation Programme for 2008–2010, approved by Lithuanian Government's Resolution No. 1047 "Concerning the approval of the National Lisbon Strategy Implementation Programme for 2008–2010" on 1 October 2008, provides for attracting to the labour market and retaining more people (ensuring high quality and secure employment, modernizing the labour market and social protection systems), improving the ability of employees and enterprises to adapt, reducing structural unemployment by investing more in people.

The priority "*High Quality Employment and Social Coverage*" of the Operational Programme for Development of Human Resources funded from the European Social Fund (hereinafter referred to as the "ESF") is closely linked with the provisions of the National Lisbon Strategy Implementation Programme for 2008–2010 and at the same time with the guidelines and recommendations envisaged in the European Employment Strategy. It should be noted that Lithuania has already achieved some of the objectives and standards under the European Employment Strategy; therefore, the main focus of the Strategy is given to the areas, which are lagging behind and which require additional investment, i.e. to the adaptation to the market needs, employment promotion, participation in the labour market and strengthening social coverage.

By responding to the socio-economic changes, the implementation of some measures of the priority "*High Quality Employment and Social Coverage*" of the Operational Programme for Development of Human Resources was significantly accelerated: after the redistribution of funds among the priority measures, the funding has been increased for supported employment measures (employment subsidies, job skills promotion, public works). (The funding for the measure "Jobseekers integration into the labour market" was increased by EUR 28.4 million (LTL 98 million)). Within in the next 2 years under the signed contracts it is planned to involve over 30 thousand persons in the active labour market policy measures, i.e. even 16 thousand more than had been planned under the Operational Programme for Development of Human Resources.

In assessing the achieved results, it can be stated that the priority “*High Quality Employment and Social Coverage*” is being implemented fairly successfully. When implementing the task of this priority “Enhance adaptability of employees and companies to the needs of market”, trainings were organized, which, according to the data of 15 December 2009, involved 3779 persons, of whom 1043 received the qualification or non-formal education certificates. The second task of the priority – “Enhance residents’ employment and participation in labour market” – was implemented more successfully. In implementing the latter task, 24 500 unemployed and persons whom unemployment threatens were involved in supported engagement programmes – more than expected during the entire period of the implementation of the Operational Programme. The higher than planned indicator achievement percentage is mainly related to the increased need for the measures of employment promotion / support and an objective to meet it.

Also, in order to attain the objective “Enhance residents’ employment and participation in labour market”, 12 213 unemployed and persons whom unemployment threatens were involved in professional training and informal education programmes, and almost half (5 021) of those people have obtained their professional qualifications, and 231 disabled person participated in professional rehabilitation programs. These results not also indicate that the disabled persons are increasingly involved in the measures of employment promotion and participation in the labour market, but also demonstrate a huge demand for these measures during the current period of economic hardship. In order to attain the objective “Enhance social coverage”, a variety of activities was supported, involving 272 persons who experience social exclusion and belong to social risk group, of which even 159 persons who suffer from addiction to psychoactive substances and 59 persons with disabilities.

#### *2.4 Contribution of the ESF to the relevant objectives and targets of the National Strategy Report on Social Protection and Social Inclusion and to other community priorities and objectives in the field of education and training*

Lithuania has been actively involved in the coordination process of social inclusion and social protection policies at EU-level since joining the EU. In 2004–2006 Lithuania implemented the National Action Plan against Poverty and Social Exclusion. During the period 2006–2008 the National Report on Strategies for Social Protection and Social Inclusion for 2006–2008 (hereinafter referred to as the “National Report”) was drafted and implemented, which linked together the social inclusion, pensions, health and long-term care policies. The National Report for 2008–2010 is based on the experience and lessons of the earlier National Report and the Action Plan for 2004–2006. In order to ensure continuity in the period of 2008–2010 the National Report observes a number of the objectives of earlier documents, but also presents new initiatives. It also takes into account the new economic and social challenges arising from both Lithuania and other EU Member States. In addition, in order to adapt the Lithuanian strategic approach to the common EU social policy principles, the

National Report also refers to the principles set out in the Joint Reports on Social Protection and Social Inclusion Strategies and other documents.

The National Action Plan on Social Inclusion (hereinafter referred to as the “National Action Plan”) presented in the National Report for 2008–2010 sets out the following priority objectives of the social inclusion policy for the period of 2008–2010:

- elimination of child poverty and family strengthening;
- increasing participation in the labour market;
- improving the access to quality services.

The implementation of the Strategy and the ESF financed Operational Programme for Development of Human Resources can best contribute to the second objective of the National Action Plan – *increasing participation in the labour market*, and performance of its tasks – *increasing employment and participation in the labour market and strengthening social coverage*. The tasks and implementation measures of this priority objective are specifically closely related to the measures set out in the first priority of the Operational Programme for Development of Human Resources “*High Quality Employment and Social Coverage*”, which to a large extent are the same. In both cases, the aim is to promote high quality and secure employment, provide employment support services, promote social partnership, develop social dialogue, introduce flexible forms of work organization, reduce discrimination in the labour market, promote the development of family-friendly workplaces, nurture entrepreneurship, promote the return of emigrants, implement vocational rehabilitation programs for people with disabilities, and others. In principle, the implementation of the measures of the priority “*High Quality Employment and Social Coverage*” largely contributes to the implementation of the measures set out in the National Action Plan related to increasing employment, strengthening social coverage, improving the quality of employment and reducing poverty of employed people.

When implementing the priority “*High Quality Employment and Social Coverage*”, 306 projects related to increasing employment and participation in the labour market, strengthening social coverage and workers’ adaptation to labour market needs were in the course of realization on 15 December 2009. The total amount allocated to these projects was more than EUR 270 million (LTL 932.5 million). During the implementation period the trainings were organized, attended by 3 779 persons, of which 1043 received the qualification or non-formal education certificates; and 24 500 unemployed and persons whom unemployment threatens were involved in supported engagement programmes. Also, 12 213 unemployed and persons whom unemployment threatens were involved in professional training and informal education programmes, and almost half (5 021) of those people have obtained their professional qualifications, and 231 disabled person participated in professional rehabilitation programs; 272 persons who experience social exclusion and belong to social risk group, of which even 159 persons who suffer from addiction to psychoactive substances participated in the activities supported by the ESF.

The priorities “*Lifelong Learning*” and “*Enhancement of Researchers’ Capacities*” of the Operational Programme for Development of Human Resources also contribute to the objectives of the National Action Plan, because the inclusion of both the issue of lifelong learning and gender mainstreaming in the formal and non-formal education is identified in the National Action Plan as means contributing to higher population employment and participation in the labour market. In this case, 20 and 10 projects are under implementation with a total value of more than EUR 26.5 million (LTL 91.4 million) and EUR 51.5 million (LTL 178.1 million), respectively. By 15 December 2009 44 scholars (researchers) participated in the non-formal education programs, and the scientific-research activities of 148 students, scholars and other researchers were funded by subsidies.

Regarding other objectives of the National Report, it is worth to note that the implementation of the priority “*High Quality Employment and Social Coverage*”, of the Operational Programme for Development of Human Resources contributes to the key objectives of the National Health Care and Long-term Care and Nursing Policy Strategy referred to in the National Report, such as *ensuring affordable and quality health care services, improving the activities of health care establishments, improving health care safety and quality and ensuring its compliance with EU standards*. This objective is achieved by improving the quality of health care and long-term care services and adaptation of such services to the changing needs and requests of the society and its individual members, creating and developing a network of preventive measures and creating the quality standards of services and their control system. The latter objective is implemented using the measures related to health care workers’ professional improvement under the priority “*High Quality Employment and Social Coverage*”. By mid-December 2009 7 projects were implemented with a total value of more than EUR 17 million (LTL 60 million) to enhance the competence of health professionals.

### *2.5 Contribution of the EU structural assistance to the Lisbon Strategy*

The National Lisbon Strategy Implementation Programme and the documents for the use of EU structural assistance are implemented integrally, thus the use of the EU structural assistance to achieve the objectives of the Lisbon Strategy implementation is highlighted in Annex 2 of the Strategy and Annex 3 of the National Lisbon Strategy Implementation Programme for 2008–2010. More than half of the EU structural assistance for 2007–2013 (54.6 percent) is allocated to the areas related to the main priorities of the renewed Lisbon Strategy.

Compared with the previous programming period of the EU structural assistance, during the period of 2007–2013 the EU structural assistance for development of human resource has been increased more than 2 times, while for the research, technological development and innovation – about 2.7 times. During the current programming period most of the funds have been earmarked for the following priorities of the Lisbon Strategy: research and technological development (hereinafter referred to as the “R&TD”), R&TD infrastructure and centres of competence in a specific technology, measures to stimulate research and innovation and

entrepreneurship in SMEs, trans-European transport networks and energy efficiency, co-generation and energy management.

By 15 December 2009 the share of the EU structural assistance allocated to implement the priorities of the Lisbon Strategy amounted to *EUR 1.573 billion* (more than LTL 5.43 billion) or about *23 percent* of the total EU structural assistance of 2007–2013 for Lithuania. Most of the funding was absorbed during the implementation of the projects aimed at implementing the measures to stimulate research and innovation and entrepreneurship in SMEs (more than EUR 340 million), to improve motorways (TEN-T) infrastructure (more than EUR 235 million), to develop the national road infrastructure (EUR 165 million), to implement active and preventive measures in the labour market (EUR 53 million) and to improve telecommunications infrastructure (including broadband internet networks) (more than EUR 51 million). It should be noted that there has been a recent dramatic increase in investments *in energy projects* (energy efficiency, co-production, energy management and renewable energy sources biomass), *lifelong learning* (preparation of systems and strategies in firms, training and services for employees to increase their ability to adapt to changes; entrepreneurship and innovation promotion) and *measures to stimulate research and innovation and entrepreneurship in SMEs*.

## 2.6 Cohesion policy objectives

Lithuania, as a less developed region in the EU, during the period of 2007–2013 received the EU structural assistance under the Convergence objective. After the assessment of existing regional disparities, the special regional development measures were provided for the current programming period, the implementation of which should help reduce the existing regional disparities in the country, which in turn would increase the cohesion in the country and the EU as well. In the Operational Programmes are foreseen 23 special regional development measures for the period of 2007–2013, to which EUR 725 million (LTL 2.5 billion) or about 12.5 percent of all EU structural assistance is allocated. A particular focus of these measures is given to regional centres for economic growth and problematic areas.

It should be noted that since 2004, when Lithuania began to receive the EU structural assistance, the Lithuanian development lag behind the EU average started to decrease: according to Eurostat, in 2004 the GDP/capita was 50.5 percent of the EU average, whereas in 2008 the GDP/capita was 61.9 percent. Also, assessing the impact of the EU structural assistance on Lithuania's GDP and, respectively, the decline of the lag behind the EU GDP average, the results of the evaluation „*The EU Structural Funds impact on gross domestic product*“ should again be mentioned, for example, that the maximum impact of the programmes of 2004–2006 and 2007–2013 on the level of GDP, even taking into account the current financial crisis, is expected in 2012, when the level of GDP is likely to increase by almost 9 percent due to the structural investments.

The importance of cohesion policy and its benefits become particularly relevant during the economic downturn, when the national budget “contracts” and there is lack of finance for the recovery of economy. In such

cases, the effectively and purposefully used structural assistance can give a great impetus to the country's economic development, or at least slow down the economic downturn. It is important to note that the EU structural assistance received by Lithuania for the period 2007–2013 is the main funding source for the Economy Stimulation Plan to recover the country's economy, approved by the Government of the Republic of Lithuania on 25 February 2009 (for more information see Annex IV, Part I).

### *2.7 Implementation of horizontal priorities*

One of the main aspects linking the priority areas (*“Productive Human Resources for the Knowledge Society”*, *“Competitive Economy”* and *“Life Quality and Cohesion”*) set out in the Strategy is four horizontal priorities: sustainable development, gender equality and non-discrimination, information society and regional development. The Working Group for monitoring and implementation of horizontal priorities (hereinafter referred to as the “Working Group”) was set up to maintain and coordinate the implementation of these priorities by Minister's of Finance Order No. 1K-138 2008 “On the setting up of the working group for the coordination of horizontal priorities implementation” on 15 April 2008. The Working Group, consisting of the representatives of relevant institutions involved in the implementation of Operational Programmes, social and economic partners and regional partners, analyzes the information on the implementation of horizontal priorities set out in the Strategy and Operational Programmes, which is presented in the strategic reports as well as annual and final reports on the implementation of Operational Programmes, submits proposals to the coordinating and managing authorities, the Monitoring Committee and the Management Committees of Operational Programmes on the implementation of horizontal priorities, considers and makes proposals to the coordinating and managing authorities concerning the need for training during the period 2007–2013 for the authorities administering the EU structural assistance regarding the issues of horizontal priorities. The Working Group meets at least twice a year.

In cooperation with the members of the Working Group, *“The Guidelines on the Implementation of Horizontal Priorities in Absorbing the European Union Structural Assistance for 2007–2013”*<sup>4</sup> (hereinafter referred to as “the Guidelines”) were developed and approved at the meeting of the Working Group held on 30 April 2009. The Guidelines, which define the horizontal priorities, their main objectives, target groups, programmes indicators and provide examples of how the project could contribute to the horizontal priorities, are aimed at facilitating the better implementation of horizontal priorities for the authorities administering the EU structural assistance. Also, the Guidelines should be a benchmark for the institutions in drafting the chapters of the reports of Operational Programmes about the horizontal priorities.

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<sup>4</sup> *The Guidelines on the Implementation of Horizontal Priorities in Absorbing the European Union Structural Support for 2007-2013*: [http://www.esparama.lt/es\\_parama\\_pletra/failai/fm/failai/Methodikos/Gaires\\_latest\\_version.doc](http://www.esparama.lt/es_parama_pletra/failai/fm/failai/Methodikos/Gaires_latest_version.doc)

In addition, the publication “*Horizontal priorities: a practical guide for applicants and project promoters*”<sup>5</sup> was presented on 17 December 2009 at the meeting of the Working Group. The publication, whose main target group consists of applicants and project promoters who implement the projects funded by the EU structural funds, concisely and clearly presents the main horizontal priorities set out in the Strategy and Operational Programmes for the period 2007–2013, their concepts, objectives, importance and benefits, provides advice on how each horizontal priority can be implemented in various stages of the project and activities, and highlights the best practice examples that allow the reader to better understand the opportunities and benefits in applying the horizontal priorities.

## 2.8 The European Territorial Cooperation Programmes

The European Territorial Cooperation objective (hereinafter referred to as the “ETCO”) programmes are implemented under the third objective of the European Territorial Cooperation from the EU Structural Funds, according to which the ERDF assistance is allocated to develop the EU member states regional cooperation across the borders, cross-border cooperation and increase in the effectiveness of regional policy. Lithuania takes part in the implementation of seven ETCO programmes:

1. Lithuania–Poland cross-border cooperation programme (hereinafter referred to as the “Lithuania-Poland programme”) (the programme budget amounts to EUR 71.7 million of the ERDF funds);
2. Latvia–Lithuania cross-border cooperation programme (the programme budget amounts to EUR 63.9 million of the ERDF funds);
3. South Baltic cross-border cooperation programme (the programme budget amounts to EUR 60.7 million of the ERDF funds);
4. The Baltic Sea Region Programme 2007–2013 (the programme budget amounts to EUR 236.6 million of the ERDF, the European Neighbourhood and Partnership Instrument and the Norwegian national funds);
5. The Interregional Cooperation Programme INTERREG IVC (the programme budget amounts to EUR 321.3 million of the ERDF funds);
6. The Operational Programme URBACT II (the urban network development programme) (the programme budget amounts to EUR 66.9 million of the ERDF funds);
7. INTERACT Operational Programme “Good governance of territorial cooperation programmes” (the programme budget amounts to EUR 30.2 million of the ERDF funds).

The total financial contribution of Lithuania, paid to implement the ETCO programmes through the ERDF funds, amounts to more than EUR 81 million. Furthermore, Lithuania pays annual contributions to co-finance the technical assistance of the programmes (national contribution).

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<sup>5</sup> *Horizontal priorities: a practical guide for applicants and project promoters:* [http://www.esparama.lt/es\\_parama\\_pletra/failai/Leidiniai2007-2013/Horizontalieji\\_prioritetai\\_leidinys\\_2009.pdf](http://www.esparama.lt/es_parama_pletra/failai/Leidiniai2007-2013/Horizontalieji_prioritetai_leidinys_2009.pdf)

Lithuania coordinates the implementation of six above mentioned ETCO programmes at the national level and performs the role of managing and auditing authority in the implementation of the Lithuania–Poland cross-border cooperation programme. The general strategic objective of the Lithuania–Poland cross-border cooperation programme (hereinafter referred to as “the Programme”) is to promote sustainable development in the border region by enhancing economic, social and territorial cohesion there. The implementation of the programme attempts to assist the Lithuania–Poland border regions to better integrate into the wider European political and economic space, while preserving national identity and implementing the objectives of the Lisbon and Gothenburg strategies.

The specific objectives of the Programme are the following: to create a region which can compete in the world economy and to seek sustainable development in the region, which is viable and attractive for the quality of life, social equality, environment, and communication channels. To achieve these objectives, the implementation of two main priorities of the Programme is planned, each of which is divided into separate sub-priorities: **Cross-border Competition and Productivity Growth** (sub-priorities: *Modernisation of Small-scale Economic Infrastructure; Business Environment Promotion; Development of Sustainable Cross-border Tourism and Preservation of Cross-border Cultural / Historical Heritage*) and **Cross-border Region Cohesion and Improving Common Cross-border Region Quality** (sub-priorities: *Development of New Social and Cultural Cooperation Networks and Strengthening of Existing Networks; Improving the Residential Environment*).

Taking into account that the Programme was approved by the EC on 20 December 2007, the concrete results have not yet been achieved, and it is difficult to specify the most successful activities. However, the experience in implementing the previous programmes shows that most of the project promoters considered that specific infrastructure activities give many tangible benefits for the border regions: improvement of road infrastructure, tourism, health care, emergency services infrastructure development, etc. In view of this, it may be suggested that during the implementation of this Programme the development of infrastructure, cultural, social and tourism promotion activities will be the most successful activities.

The potentially successful projects that can positively influence the economic or social situation of population in certain areas may be identified by the following projects:

- „*The cooperation of Poland and Lithuania in the environmental field – the reduction of water pollution in the Nemunas River basin*” (The cost of the project is EUR 377,358.00). The project is implemented by the Plaska rural district administration and Lazdijai region municipality administration. The main objective of the project is improving the living environment of the region, increasing social and economic potential, preserving natural resources of Poland and Lithuania, and reducing water pollution in the Nemunas River basin. The main project activities are focused on investments in infrastructure.
- “*Phase IV of the development of the integrated system of population and environmental protection on the Lithuanian–Polish border*” (The cost of the project is EUR 3,305,668.00). The project is implemented by

the Białystok District State Fire Service and Marijampolė and Alytus District Fire and Rescue Boards. The main objectives of the project are strengthening the cooperation between the Polish and Lithuanian Fire and Rescue Services in order to improve the readiness of these services in performing their functions; improving the overall quality of life in the border region, covering the life, welfare and environmental protection, raising the level of security in the border region, i.e. increasing the EU border security.

### *2.9 The EU Strategy for the Baltic Sea Region*

The objective of the EU Strategy for the Baltic Sea Region (hereinafter referred to as the “EU BSRS”) developed by the EC is to coordinate the activities of various institutions and organizations in the region (the Member States, regions, financial institutions, the EU, the Baltic Sea region, non-governmental organizations) thus by working together they would promote a more balanced regional development. The Ministry of Finance coordinates the compliance of priorities for using the EU structural assistance funds, as one of the main EU BSRS funding sources, with the objectives and priority areas of the EU BSRS. Even three of the four EU BSRS priorities (except security) are eligible for financing from the EU structural assistance funds. It should be noted that the Operational Programmes for Economic Growth and Promotion of Cohesion, funded by the ERDF and the Cohesion Fund, include the possibility of cooperation with other Baltic Sea Region countries by implementing joint projects. In addition, the part of a large-scale projects provided in the Operational Programmes are also covered by the EU BSRS Action Plan as priority projects (for example, the Rail Baltica, Via Baltica, etc.). The Ministry of Finance as well as other institutions contribute in shaping the Lithuania’s position in respect of EU BSRS, participate in various events (at national and regional level) concerning the EU BSRS. Also, on 11–12 June 2009 in Visby, Gotland (Sweden) DG REGIO, together with the Ministry of Finance and the Swedish Agency for Economic and Regional Growth (Tillväxtverket), held a conference involving the governing bodies “The Baltic Sea Strategy – Regions and Cohesion Policy in action”, which was dedicated to the discussion on the use of EU structural assistance and the role of managing authorities in implementing the EU BSRS.

It is also important to note that in the first half of 2010, according to the EC practical suggestions to the Operational Programmes on EU BSRS, on the initiative of the Ministry of Finance, it is planned to carry out the “*Evaluation of Implementation of Baltic Sea Strategy in Using EU Structural Assistance for 2007–2013*”, which aims to evaluate the potential of EU structural assistance in implementing the EU BSRS. The evaluation will determine which measures of the Operational Programmes may contribute to the achievement of the objectives of the EU BSRS, which indicators of the Operational Programmes may identify the influence of the implementation of the Operational Programmes on the achievement of the objectives of the EU BSRS, what are available / required amendments to the Operational Programmes, their measures, project selection criteria, etc., that the implementation of the Operational Programmes would also contribute to the implementation of the EU BSRS objectives. In addition, on the initiative of the Ministry of Finance and the Ministry of Foreign Affairs, in the first

half of 2010 it is planned to establish an EU BSRS implementation analysis and monitoring system that will complement the EU BSRS analysis and monitoring system provided by the EC, at the national level.

With regard to the ETCO links with the EU BSRS, it is important to note that all ETCO programmes where Lithuania is involved began before the approval of the EU BSRS. Nevertheless, the implementation of the programme measures will contribute to all the four EU BSRS objectives: to enable a sustainable environment, to enhance the region's prosperity, to increase accessibility and attractiveness and ensure safety and security in the region.

### **3. PROGRESS AND CHALLENGES IN IMPLEMENTATING THE STRATEGY AND AGREED PRIORITIES**

In implementing the Strategy and Operational Programmes, some challenges and problems have been encountered. To deal with all of them and thereby to ensure the smooth absorption of the EU structural assistance, certain measures have been provided for, which will be discussed below.

#### *3.1 The main problems in implementing the Strategy and measures to deal with them:*

Basically, the following major problems encountered in the implementing the Strategy and Operational Programmes and measures to address them may be distinguished:

- *Delay in acceptance the fundamental documents regulating the use of the EU structural assistance.* Delay in drafting the main strategic documents regulating the use of the EU structural assistance for 2007–2013 and thus the relevant national legislation has led to the delay in launching the Strategy and Operational Programmes, which therefore were launched not in 2007, but in 2008. For this reason some priorities measures could not be started to implement on time (or) in full.
- *Failure to draft the strategic documents in time.* The delay in drafting and approval of necessary national strategic documents, which were important to launch the projects realized by way of national and regional planning. E.g., the implementation of the measure “Broadband Electronic Communications Networks” of the priority „*Information Society for All*” was delayed because of the delay in drafting the amendments to the Lithuanian Broadband Communication Infrastructure Development Strategy for 2005–2010. The failure to draft or delay to amend the other national strategic documents (e.g., regional and / or local government development plans, the amendments to the plan of the measures implementing the Public Administration Development Strategy until 2010; e-Safety Strategy, e-Health System Development Programme for 2009–2015 and its implementation plan, etc.) also negatively influenced the implementation of measures of respective priorities.
- *The need for the amendments of the Operational Programmes.* The changes in the economic-social situation affected the allocation of structural assistance and the review of Operational Programmes priorities as well as the funding reallocation among priorities. Therefore, in 2009 the appropriate amendments to the Operational Programmes were submitted to the EC. The EC, having assessed the current situation, responded to these amendments quickly by adopting the decisions regarding the entry into force of these amendments.
- *Lack of national public funding.* Due to the deterioration of the economic situation and less funds collected to the state budget the lack of national public funding was experienced. In order to solve this problem and ensure the source of public national funding and a smooth absorption of the EU structural assistance, on 13 March 2009 the Republic of Lithuania signed an agreement with the European

Investment Bank (hereinafter referred to as the “EIB”) for a long-term loan of EUR 1.132 billion (LTL 3.9 billion), which will be used in conjunction with the EU structural funds to finance the investment projects in transport, energy, environment, innovation and other areas.

- *Difficulties in the co-financing of business projects.* Due to the changes in the socio-economic situation and tightened lending conditions, some applicants refused the EU structural assistance, without being able to ensure their contribution of necessary financing to the project. In view of this, the financing arrangements applied to new calls for proposals were revised (including the intensity of financing). The amendment to “*The Project Administration and Financial Rules*” (2008, No. 23-861; 2009, No. 19-770) has also been initiated, which allowed to apply the method of account payment and advances in financing the projects implemented by the private legal entities.
- *The long-lasting procedure for adopting the decisions on financing.* At the beginning of the implementation of the Strategy and Operational Programmes the legislation regulating the administration of the EU structural assistance has not determined the time-limit for adopting a decision on funding of the project concerned, therefore, often the decision-making on the funding suffered from delays. To speed up the allocation of the EU structural assistance and at the same time to solve this problem, the Lithuanian Government’s Resolution No. 1385 on 28 October 2009 “On the Amendment of the Resolution No. 1443 of the Government of the Republic of Lithuania “Regarding the Approval of the Rules on Project Management and Financing” on 19 December 2007” (Official Gazette, 2009, No. 131-5682) established that a decision on the project financing must be adopted within 10 or 15 working days, depending on whether a Committee for project selection is established.
- *Lack of experience.* In response to the changed socio-economic situation and after specifying the appropriate priorities of the Operational Programmes, the provisions pertaining to financial engineering were included. Given the fact that during the programming period of 2007–2013 the financial engineering instruments were used for the first time, the responsible authorities faced certain difficulties in implementing the mentioned measures for lack of experience.

*In summary, the main difficulties and challenges in implementing the Strategy and Operational Programmes arose from the changes in the economic and social situation (from the deteriorated economic situation in the country) and certain administrative obstacles. In order to solve the problems caused by both external and internal factors and difficulties encountered, various measures have been taken / are taken (from the external assistance to the improvement of legal and administrative base, and the simplification of administrative rules) to ensure a smooth and successful absorption of the EU structural assistance.*

### *3.2 The main changes in the national policy*

The main changes in the national policy are bound up with the new Lithuanian Government appointed at the end of 2008 and the relevant provisions of the new Government's programme. This programme provides for the review and update of a number of national strategies and restructuring of education and health care systems.

In view of the consequences of the global financial crisis on the Lithuanian economy and seeking to give an impetus for the development of the national economy, on 25 February 2009 the Government of Lithuania approved the country's Economy Stimulation Plan, which held the EU structural assistance as the main source of financing. The implementation of the Economy Stimulation Plan is aimed at facilitating business operating conditions, attracting additional financing into the Lithuanian market and facilitating the opportunities for the businesses to borrow, keep jobs, and thus reduce the social tension in the society. This objective is achieved by implementing the energy efficiency projects and accelerating the use of the EU structural assistance funds. The Economy Stimulation Plan consists of five main components: extending business financing options, expanding the building energy efficiency, accelerating the use of the EU structural assistance, improving the business environment ("Saulėtekis"), promoting export and investments (for more information about the Economy Stimulation Plan see Annex IV, Part I).

Another key change in the national policy is the reform of territorial administration. The Programme of the Government of the Lithuania approved by the Lithuanian Parliament's Resolution No. XI-52 on 9 December 2008 (Official Gazette, 2008, No. 146-5870) provided for setting up the regions and removing the counties in 2011–2013, and transferring their functions to municipalities or other institutions. The planned amendment contains the risk, because the requirements of Article 57 of the Council Regulation No. 1083/006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation No. 1260/1999 (OJ 2006 L210, P.25) (hereinafter referred to as the "Regulation") of 11 July 2006, which provide that the Member State or managing authority shall ensure that the project retains the contribution from the Funds only if the project does not, within five years from the completion of the project or three years from the completion of the project in Member States which have exercised the option of reducing that time limit for the maintenance of an investment or jobs created by SMEs, undergo a substantial modification.

In this case, it is assumed that the authorities responsible for the EU structural assistance must take certain actions in formulating and implementing, within their competence, the implementation measures introduced in the strategy papers of responsible sectors, which can be financed by the EU funds, as well as in planning the implementation of priorities and measures of Operational Programmes and in case of a reasonable risk for the continuity of projects (e.g. temporarily not to include the applicants, whose activities are undergoing a real risk, to the lists of state and regional projects, which have not yet been approved by the Ministry and (or) by the order of the head of any other institution, to consider the possibility of revising the already approved lists of state and regional projects by extending the deadlines for specific applicants to submit applications to the implementing

body until a concrete decision on their business continuity is adopted, to amend the annex to the Operational Programme and (or) the inventory of appropriate financing conditions by involving the possible additional applicants and (or) partners, who could be handed over the functions of the state authority and body, whose business continuity is under the risk). In this way, without stopping the process of implementing the measures, the authority or body taking over the functions would be able to take over the commitments of the project implementation and continuity without prejudice to the provisions of Article 57 of the Regulation No.1083/2006.

### *3.3 Relevance of the priorities during the period of economic hardship*

With regard to the influence of the changes in the economic-social situation on the identified priorities it should be noted that in many areas (education, environment, health, transport, etc.) the priorities remained relevant during the period of economic hardship. This suggests that the priorities were successfully identified in the Strategy and Operational Programmes, and they are still relevant today, even in the changing socio-economic situation. However, in view of the provisions of the Programme of the Government of Lithuania and the changes in the economic and social situation, certain priorities of using the EU structural assistance were revised and the Operational Programmes for Development of Human Resources, Economic Growth and Promotion of Cohesion were respectively amended in 2009 (Decision No. K(2009)5690 of the EC of 17 July 2009, Decision No. K(2009)5970 of 23 July 2009 and Decision No. K(2009)6206 of 31 July 2009). *The principal amendments adopted pertain to the implementation of the measures for employment support, business promotion and energy efficiency.*

In order to improve the access to financing for micro and small enterprises, the amendment to the Operational Programme for Development of Human Resources has been initiated (Decision No. K(2009)5690 of the EC of 17 July 2009). The amendment adjusted the priority “*High Quality Employment and Social Coverage*”, and extended the employment support measures providing the micro and small enterprises and individuals with a possibility to start their own business, and the social enterprises – to develop their business, with the aid of financial engineering measures. Also, some financial changes were made in the amendment: the funding source for the priority Technical Assistance has been changed and now the priority is funded entirely from the EU funds; in addition, the funding for the priority “*High Quality Employment and Social Coverage*”, was increased.

The amendment of the Operational Programme for Economic Growth (Decision No. K(2009)5970 of the EC of 23 July 2009) provided access to the support of financial engineering instruments for all small and medium business (hereinafter referred to as the “SMB”) operators, not only for small and medium-sized companies, as originally planned. Such adjustments will ensure equal rights and competition in the SMB sector. The amendment will also reallocate the financing, by allocating more of them to the financial engineering instruments. During the period of economic and financial crisis the access to the funding sources for business, particularly SMB operators, new companies, has become even more important and at the same time more complex, as banks have limited their

lending opportunities and increased borrowing costs. Banks are reluctant to provide small loans, as lending costs are high, whereas small businesses need relatively small loans, particularly in the early stages of business development; therefore, using JEREMIE renewable financial resources for SMB financing will at least partially improve the ability of SMBs to receive financing. As part of the loans will be provided at lower than market prices, the cost of borrowing for SMB operators will be more accessible. JEREMIE renewable financial resources will also allow the more efficient use of public funds, since some of them will be returned and can be reused for SMB needs. Taking into account that now in Lithuania there are few venture capital funds, and particularly few subjects are investing relatively small amounts in companies, the funds allocated to venture capital and business angel investments were raised after the JEREMIE holding fund managed by the EIF was increased, in order to encourage the business development. In addition, the amendment to the Operational Programme for Economic Growth allows a flexible response to market needs and the implementation of financial support measures that would mitigate the gaps in the financial market supply and demand.

The amendment of the Operational Programme for Promotion of Cohesion (Decision No. K(2009)6206 of 31 July 2009), which was due not only to the changed socio-economic situation, but also to the amendments of the provisions, relating to the adequacy of the investments in energy efficiency and renewable energy in the housing sector, of the Regulation No. 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund, allowing to allocate additional 4 percent of the ERDF funding to the implementation of energy efficiency measures in residential apartment houses, provides for an extra amount of EUR 140 million to be allocated for the implementation of renovation activities for housing and public buildings (in total, the amount of EUR 147 million (LTL 508 million) was allocated to the implementation of housing measures).

On 15 September 2009 the Strategy and all Operational Programmes were revised again, and it was decided to initiate the amendments of the relevant provisions, which were approved by the Monitoring Committee and submitted for coordination to the EC. In order to provide a possibility for reimbursement of a certain part of interest of the loans for students to pay tuition fees, it was decided to revise the description of the 2<sup>nd</sup> priority “*Lifelong Learning*” of the Operational Programme for Development of Human Resources. A new mechanism for financing the studies could be implemented through a model of student loans (as a measure of financial engineering), and (or) the subsidy scheme for student loan interest. A flexible state-sponsored student loans model will ensure the availability of the system, while creating more favourable conditions for the private sector to be involved in the implementation of educational reform.

The amendment to the Operational Programme for Promotion of Cohesion is aimed at expanding the extents of social services infrastructure funding, providing an opportunity to finance the institutions providing not only non-stationary, but also stationary social services.

## CONCLUSIONS

- 2007–2009 has been an unsettled period: from mid-2008 the positive economic growth, the trends in macroeconomic and social indicators acquired the opposite direction and began to deteriorate. The economic growth was slowing down, the investment in tangible fixed assets were declining, the levels of active population employment were decreasing, and, after tightening the lending conditions, the opportunities for businesses to borrow and develop their activities were getting worse.
- The drafting of the Lithuanian Strategy for the use of EU Structural Assistance for 2007–2013 as an integrated strategic document which clearly sets out the key priorities, the responsibilities and functions of the institutions involved in the administration of the EU structural assistance, made it possible to smoothly implement the objectives of Cohesion policy and to achieve tangible benefits.
- Although the implementation of Operational Programmes began only in 2008, on 15 December 2009 the part of the planned programmes indicators amounted to 50 percent of the planned rate or exceeded this rate. These results presume the successful achievement of programme indicators. The best results in the achievement of implementation indicators were observed in implementing the priorities pertaining to the social sphere, as well as the promotion of business and transport infrastructure and public services.
- In view of the total funds paid by the EC to the EU member states (interim payments), Lithuania has a leading position in the EU. Lithuania has been paid EUR 789.5 million or 11.7 percent of the EU structural funds for the whole period 2007–2013. The EC data shows that Lithuania has been paid EUR 765.4 million (excluding advance payments) until 15 December 2009, or 13.3 percent of the ERDF and the Cohesion Fund for the period 2007–2013. By 15 December 2009 Lithuania has been paid EUR 24.1 million (excluding advance payments), or 2.3 percent of the ESF funds for the entire period.
- The results of the EU structural assistance evaluations conducted during the period 2007–2009 show that an appropriate direction for the implementation of the Lithuanian Strategy for the use of EU Structural Assistance for 2007–2013 and Operational Programmes implementing this Strategy has been chosen and a successful move towards achieving the selected objectives has been observed.
- The implementation of the priority “*High Quality Employment and Social Coverage*” of the Operational Programme for the Development of Human Resources funded from the ESF contributes to the implementation of the guidelines and recommendations envisaged in the European Employment Strategy. The main focus is given to the measures for the adaptation to the market needs, employment promotion, participation in the labour market and strengthening social inclusion. The highest achievements were observed while implementing the task of the said priority “Enhance residents” employment and participation in labour market” when 24 500 unemployed and persons whom unemployment threatens were involved in supported engagement programmes, i.e. more than expected during the entire period of the implementation of the Operational Programmes.

- The implementation of the priorities “*High Quality Employment and Social Coverage*”, “*Lifelong Learning*” and “*Enhancement of Researchers’ Capacities*” mostly contributes to the implementation of the objectives and tasks of the National Social Protection and Social Inclusion Strategy and other Community priorities and objectives in the field of education and training. The major achievements were observed in the implementation of the measures related to the increase in population employment and participation in the labour market, strengthening social coverage and workers’ adaptation to labour market needs.
- The implementation of the priorities of Operational Programmes and structural investments increase the country’s GDP, promote competitiveness and entrepreneurship, as well as contribute to increasing employment and reducing unemployment, promoting knowledge-based society, increasing social coverage and reducing socio-economic disparities, etc. Due to the structural investments in the current economic downturn, the country’s economy experiences a smaller decline than in the absence of these investments. All this confirms that the Cohesion policy stimulates structural reforms, whose implementation will provide an impetus for the country’s economic development and reduce social disparities among the regions of the country.
- The Cohesion policy, particularly in the implementation of regional development measures, rapidly reduces the social and economic disparities among the regions of the country and at the same time allows for a balanced regional development across the country. The greater cohesion of individual regions of the country means a growing cohesion all over the country and, in turn, in the EU.
- Most of the priorities of the Operational Programmes remain relevant during the period of economic hardship. However, in order to better adapt to the changed socio-economic situation, the Operational Programmes for the Development of Human Resources, Economic Growth and Promotion of Cohesion were amended under the decision of the EC, by paying more attention to the measures for business promotion, employment support and energy efficiency. Also, in the third quarter of 2009 the amendments to all Operational Programmes, related to expanding the levels of social services infrastructure and reimbursement of a part of interest for student loans, were initiated.

## ANNEX I. FINANCIAL PROGRESS BY OPERATIONAL PROGRAMMES\*

Country	CCI	OP	Fund type	2. Total volume EU resources 2007-2013 (€)	2 bis. Commitment 2007-2009 (€)	3. Advance payment (€)	4. Column 3 as % of Column 2	5. Allocation to operations selected (€)	6. Column 5 as % of Column 2	7. Expenditure declared to Commission (€) (interim payments claims received)	8. Column 7 as % of Column 2	9. Column 7 as % of Column 2 bis
LT	All OPs	All OPs	All funds	6.775.492.823	2.458.992.697,00	644.372.890,22	9,5%	2.396.316.033	35,4	533.665.920,72	7,9%	21,7%
LT	All OPs	All OPs	CF	2.305.235.743	748.723.267,00	242.049.753,02	10,5%	761.411.029	33,0	95.225.933,79	4,1%	12,7%
LT	All OPs	All OPs	ERDF	3.441.950.353	1.316.850.992,00	309.775.531,77	9,0%	1.304.158.943	37,9	428.917.018,77	12,5%	32,6%
LT	All OPs	All OPs	ESF	1.028.306.727	393.418.438,00	92.547.605,43	9,0%	330.746.600	32,2	9.522.968,16	0,9%	2,4%
LT	2007LT051PO 001	Operational Programme for the Development of Human Resources for 2007–2013	ESF	935.018.009	357.727.237,00	84.151.620,81	9,0%	309.140.408	33,1	9.283.758,89	1,0%	2,6%
LT	2007LT051PO 002	Technical assistance Operational Programme for 2007–2013	ESF	93.288.718	35.691.201,00	8.395.984,62	9,0%	21.489.805	23,0	239.209,27	0,3%	0,7%
LT	2007LT161PO 001	Operational Programme for Promotion of Cohesion for 2007–2013	CF	1.172.944.350	380.963.521,00	123.159.156,75	10,5%	427.343.315	36,4	20.691.005,53	1,8%	5,4%
LT	2007LT161PO 001	Operational Programme for Promotion of Cohesion for 2007–2013	ERDF	1.475.388.221	564.466.725,00	132.784.939,89	9,0%	431.902.514	29,3	25.804.526,32	1,7%	4,6%
LT	2007LT161PO 002	Operational programme for the Economic Growth for 2007–2013	CF	1.132.291.393	367.759.746,00	118.890.596,27	10,5%	334.151.702	29,5	74.534.928,26	6,6%	20,3%
LT	2007LT161PO 002	Operational programme for the Economic Growth for 2007–2013	ERDF	1.966.562.132	752.384.267,00	176.990.591,88	9,0%	872.247.451	44,4	403.112.492,45	20,5%	53,6%

\*Data: 2009–12–15

## ANNEX IV. NATIONAL RESPONSE TO THE EUROPEAN ECONOMIC RECOVERY PLAN

### 1. FINANCING:

*a) Are advances made under Cohesion Policy (2007–2009) being used to pre-finance operations on the ground? To public authorities? To enterprises or other economic operators?*

Lithuania has received EUR 644.4 million of advances from the ESF, ERDF and the Cohesion Fund for the period 2007–2009, including an additional amount of EUR 89.4 million, which was allocated in 2009, after the amendment of the provisions of the Council Regulation No. 1083/2006. Taking into account the prevailing socio-economic situation and the state budget deficit, the advances received, and in particular the additional advances in 2009, helped to relieve the general funding problems and led to the absorption process of structural assistance, as they were used to fund the activities of initiated projects. By 15 December 2009 the project managers of 328 projects were paid in advance according to all Operational Programmes.

To speed up the absorption of the EU structural assistance, the Resolution No. 101 of the Government of Lithuania of 11 February 2009 “On the Amendment of the Resolution No. 1443 of the Government of the Republic of Lithuania “Regarding the Approval of the Rules on Project Management and Financing” of 19 December 2007” “(Official Gazette, 2009, No. 19-770) established that the project financing and administration contracts may provide for an advance payment to finance the projects not only for the public, but also for private legal entities. This amendment also establishes that private legal entities seeking to receive an advance, along with the request for an advance payment, must submit a financial institution or insurance company guarantee or a surety letter for the amount of the advance, while the public entities must submit a financial institution or insurance company guarantee or a surety letter for the advance amount if the prepayment exceeds EUR 14 481 (LTL 50 000). The Lithuanian Government’s Resolution No. 1385 on 28 October 2009 “On the Amendment of the Resolution No. 1443 of the Government of the Republic of Lithuania “Regarding the Approval of the Rules on Project Management and Financing” of 19 December 2007” “(Official Gazette, 2009, No. 131-5682) also foreshadows that the advance amount is increased to nearly EUR 29 000 (LTL 100 000) for public legal persons, implementing the ESF-funded projects (a requirement to submit a guarantee or a surety letter for the amount of the advance does not apply to budgetary institutions), when it is not required to submit a financial institution or insurance company guarantee or a surety letter for the amount of the advance.

*b) Is expenditure incurred on major projects being declared while submissions to the Commission are pending?*

Given the fact that some applications are currently undergoing the evaluation and the fact that the provisions allowing the EC to declare the costs incurred during the implementation of major projects, if the

project has not yet been approved by the EC, have been transferred to national legislation recently, and the fact that the first financing and administration contract on a large-scale project „Rural Area Information Technology Broadband Network RAIN Development“ was signed on 7 December 2009, the expenditure for the implementation of major projects has not yet been incurred and declared to the EC.

*c) Are advances under state aid schemes to SMEs paid and declared to the Commission for reimbursement?*

The currently existing national legislation in regulation of the use of the EU structural assistance does not provide for the advance declaration under the state aid schemes for small and medium-sized enterprises.

*d) Is frontloading of planned investment over the Period 2007–2013 being implemented?*

The Economy Stimulation Plan approved by the Government of the Republic of Lithuania on 25 February 2009 provides for the more rapid use of the EU structural assistance as one of the factors for the country's economic recovery and promotion. *Firstly, the EU structural assistance funding was meant to be accelerated by increasing the funding with financial engineering (allocating more assistance funds to small and medium-sized enterprises) and energy efficiency improvement measures.*

Two holding funds were established to implement the financial engineering measures:

- **“JEREMIE holding fund”**. On 1 October 2008 a tripartite funding agreement was signed between the Ministry of Economy of the Republic of Lithuania and the Ministry of Finance of the Republic of Lithuania and the European Investment Fund (hereinafter referred to as “the EIF”) regarding the establishment of JEREMIE (Joint European Resources for Micro to Medium Enterprises) holding fund, whose value at the establishment of the fund was up to EUR 80 million (LTL 275 million) (all funds were allocated from the European Regional Development Fund (hereinafter referred to as the “ERDF”). In 2009 this fund was increased to EUR 290 million (LTL 1 billion), of which about EUR 80 million (LTL 275 million) consisted the co-financing funds. The funds were intended for the loans, portfolio guarantees, venture capital funds and joint investment fund “Angel”.
- **“INVEGA fund”**. On 8 April 2009 a tripartite funding agreement was signed between the Ministry of Economy of the Republic of Lithuania and the Ministry of Finance of the Republic of Lithuania and the JSC “Investment and Business Guarantees” (hereinafter referred to as the “INVEGA”), which established the Invega Fund with the value of about EUR 58 million (LTL 200 million). This fund, as the JEREMIE holding fund, is financed by the ERDF. The Invega Fund grants low-interest loans to micro, small and medium-sized enterprises through banks by attracting funds from private banks.

In 2009 a separate measure of financial engineering was launched (without establishing a holding fund) – “The Guarantee Fund”. Based on the common tripartite agreement between the Ministry of Economy of the Republic of Lithuania and the Ministry of Finance of the Republic of Lithuania and INVEGA, the amount of

EUR 37.4 million (LTL 129 million) of the EU Structural Funds administered by INVEGA was allocated to “The Guarantee Fund”. The newly established “The Guarantee Fund” compensates 80 percent of guarantee benefits paid to execute the INVEGA obligations under its guarantees provided to the financial institutions for the loans granted to small and medium-sized enterprises (hereinafter referred to as the “SMEs”). This measure will allow more SMEs to use INVEGA provided guarantees, thus facilitating the access to funding sources.

It should be noted that the financial engineering measures are complemented by measure “Partial compensation of credit interest”. This measure, as well as the measure administered by INVEGA and implemented using the global grant facility, has been allocated EUR 30 million (LTL 104 million) of the EU structural funds, which are used to compensate a part of credit interest on the loans taken by the SMEs from credit institutions.

It should also be noted that until the end of 2009 a tripartite funding agreement between the Ministry of Finance of the Republic of Lithuania and the Ministry of Social Security and Labour of the Republic of Lithuania and INVEGA is planned to be signed on the establishment of the Entrepreneurship Promotion Holding Fund, whose expected value reaches EUR 14.5 million (LTL 50 million). This fund, which aims at improving the access to financing for micro and small enterprises when implementing the measure “Promoting Entrepreneurship” of the priority “*High Quality Employment and Social Coverage*” of the Operational Programme for the Development of Human Resources, will be financed by the ESF. The main activities planned to be financed by the Entrepreneurship Promotion Holding Fund are granting the low-interest loans with the value of up to EUR 25 thousand (LTL 86 thousand) for micro and small enterprises and individuals starting up their business combined with training and consulting activities. In implementing the lending scheme, a possibility to replace up to 30 percent of the loan with a subsidy is provided.

In implementing the energy efficiency measures, on 11 June 2009 a tripartite agreement between the Ministry of Finance of the Republic of Lithuania and the Ministry of Environment of the Republic of Lithuania and the European Investment Bank (hereinafter referred to as “the EIB”) was signed, which established the JESSICA Holding Fund for the modernization of residential apartment houses. The amount of EUR 227.4 million (LTL 785 million) of the EU Structural Funds and national co-financing funds are intended to be transferred to the established fund. The EIB-managed fund will provide the long-term soft loans through financial intermediaries for people seeking to renovate their housing. The contracts with banks, through which the Jessica Holding Fund will grant the loans, are planned to be signed and the projects, implemented through housing measures, to be started at the beginning of 2010. Also, the support for energy efficiency improvement measures is planned to be implemented as a non-repayable subsidy (grant). In total, the amount of EUR 310.2 million (LTL 1 071 million) of non-repayable subsidies (grants) will be allocated for public buildings energy efficiency improvement projects. Currently, there are 231 signed contracts, under which almost EUR 170 million (LTL 585 million) will be allocated to the projects.

*In summary, in response to the substantial changes in the country's socio-economic situation, the investments for the period of 2007–2013 were frontloaded to those areas, where the higher economic growth potential may be expected, i.e. business and energy sectors. In addition, to accelerate the investments, certain administrative changes have been made, which are more discussed in Part 4.*

*e) Is the use of flexibility in the existing programmes to modulate the rate of the EU contribution to projects (up to 100% of the eligible costs) being used?*

Considering the socio-economic situation and the deteriorating economic indicators and seeking to reduce the state budget deficit and avoid the increase in the fiscal deficit to 3 percent of the GDP, the decision was adopted to change the financial plans of Operational Programmes by increasing the intensity of using the EU structural assistance up to the maximum possible extent under the provisions of Paragraph 2 of Article 53 and Paragraph 2 of Article 54 of the Council Regulation No. 1083/2006, i.e. 85 percent at the program and fund level, whereas to apply the intensity of 100 percent to the technical assistance priority.

In addition, when implementing the relevant measures of the priorities of Operational Programmes, there is a funding possibility of 100 percent of the EU structural assistance funds, while maintaining the planned intensity of using the assistance at the level of priorities of Operational Programmes.

The principle of flexibility to modulate the rate of the EU contribution to projects is used in the implementation of the projects of the priority “*Local and Urban Development, Preservation of Cultural Heritage and Protection of Nature and its Adaptation to Development of Tourism*” of the Operational Programme for Promotion of Cohesion and the projects of the priority “*Basic Economic Infrastructure*” and the priority “*Development of Trans-European Transport Networks*” of the Operational Programme for Economic Growth. The possibility of applying the principle of flexibility has been discussed for the implementation of the Programme for Human Resources Development.

*Thus, during the implementation of Operational Programmes for the period of 2007–2013, the intensity of using the EU structural assistance has been increased up to the maximum possible level; also, the opportunity to benefit from the principle of flexibility to fund the projects of some priorities with 100 percent of the EU structural assistance funds has been used.*

## **2. SIMPLIFICATION OF CATEGORIES OF ELIGIBLE EXPENDITURE**

*Are your authorities using or planning to use:*

*a) Indirect costs declared on a flat-rate basis?*

In accordance with Order No. 1K-112 “On the approval of rules on the establishment of indirect project costs and payment on a flat-rate basis” of the Minister of Finance of the Republic of Lithuania of 7 March 2008 (Official Gazette, 2008, No. 37-1348), the indirect costs of the project are fixed and paid on a flat-rate

basis for the implementation of the Operational Programme for the Development of Human Resources, co-financed by the ESF. Taking into account the afore-said, the payment of indirect costs of the project on a flat-rate basis was used exclusively by institutions administering the measures envisaged under the Operational Programme for the Development of Human Resources. It should be noted that currently a study is being conducted (a research) on the payment of indirect costs on a flat-rate basis (up to 20 percent of the direct project costs) in the projects co-financed by the ERDF.

At the end of the third quarter of 2009 the approximate amount of a flat rate paid to the beneficiaries and included in the payment requests sent to the managing authority was about EUR 54 thousand (LTL 187 thousand).

*b) Flat-rate costs calculated by application of standard scales of unit cost?*

Currently, this category of expenditure is not used to implement the Operational Programmes, as the provisions providing such possibility has not yet been transferred to the country's national legislation. It should be noted that currently a study is being conducted (a research) on a flat-rate costs calculated by application of standard scales of unit cost in the projects co-finances by the ERDF and ESF, and after this study it will be decided, in which areas this category of expenditure may be used, and the relevant national legislation will be amended.

*c) Lump sums to cover all or part of the costs of an operation?*

Currently, this category of expenditure is not used to implement the Operational Programmes, as the provisions providing such possibility has not yet been transferred to the country's national legislation. In the short term it is planned to conduct a study in order to identify the actions, to which lump sums may be applied, and after this study it will be decided, in which areas this category of expenditure may be used, and the relevant national legislation will be amended.

### **3. ENLARGING OR ADJUSTING THE PRIORITIES OF OPERATIONAL PROGRAMMES**

*a) What measures under the four priority areas outlined in the Communication of 16 December 2008 to the European Parliament, the Council, the European Economic and Social Committee and Regional Committee – Cohesion policy: investing in real economy KOM(2008)876 (people, business, infrastructure and energy, scientific research and innovation) (hereinafter referred to as “the Communication”) are being accelerated or adjusted? Are other adjustments necessary to the initially planned measures in order to meet new or different needs? What is the likely impact of these actions? Higher numbers of beneficiaries than anticipated? New needs identified?*

In response to the changed socio-economic situation, the relevant priorities of Operational Programmes were reviewed and revised. The main changes made are related to three priority areas *People, Business, Energy and Infrastructure*, outlined in the Communication.

When implementing the recommendations of the priority area *People* “invest in the relevant flexicurity components in particular through reinforced activation schemes to ensure rapid reintegration of redundant workers to the labour market” and “refocus, if needed, ESF programmes for the groups most affected by the crisis”, the implementation of certain measures of the priority “*High Quality Employment and Social Coverage*” of the Operational Programme for the Development of Human Resources was significantly accelerated: after the redistribution of funds among the relevant priorities, the funding for supported employment measures has been increased (employment subsidies, job skills promotion, public works). (The funding for the measure “*Jobseekers’ Integration into the Labour Market*” was increased by EUR 28.4 million (LTL 98 million)). Under the signed contracts, within the next 2 years it is planned to involve over 30 thousand persons in the active labour market policy measures, i.e. even 16 thousand more than had been planned under the Operational Programme for the Development of Human Resources.

In order to implement the recommendation of the priority area *Business* “improve the national environments to allow the development of micro credit initiatives and take advantage of the technical assistance support offered for micro credit initiatives through the JASMINE facility” the priority “*High Quality Employment and Social Coverage*” of the Operational Programme for the Development of Human Resources has been amended by extending the employment support measures providing the micro and small enterprises and individuals with a possibility to start their own business, and the social enterprises – to develop their business, with the aid of financial engineering measures.

The revision of the Task 3 “*Improve access to financing sources for SMEs*” of the priority “*Increasing Business Productivity and Improving Environment for Business*” of the Operational Programme for Economic Growth gave the opportunity for all small and medium business operators (not only for small and medium-sized companies) to benefit from the support of financial engineering instruments. By extending the list of possible beneficiaries, the funds for financial engineering instruments implemented by means of holding funds have also been increased from EUR 80 million (LTL 275 million) to EUR 348 million (LTL 1200 million), and the JEREMIE Holding Fund and INVEGA Fund were established, which will provide financial support to small and medium businesses through financial intermediaries. These adjustments have contributed to the implementation of the recommendations of the priority *Business* “seek to secure investments in the long term competitiveness of enterprises, particularly SMEs, and accelerate such investments where possible” and “quickly increase recourse to the JEREMIE initiative and accelerate its implementation by signing holding fund agreements with the EIF and / or other financial institutions”.

Also, taking into account the economic situation and potential new business activities, the amendments to the measures (Inoklaster LT and LT + Inoklaster) of the priority *“Research and Development for Competitiveness and Growth of the Economy”* are planned to be made, which will expand the range of eligible areas by including new business areas such as creative industry, prosperity, polygraphy, and *“Eco Dimension”*.

In the implementation of the recommendation *“maximise the use of national and regional programmes to ensure a high degree of energy efficiency is designed into new buildings and implemented into the existing building stock (“retrofitting”), including in the case of low-income households”* of the priority area *“Energy and Infrastructure”*, Task 1 *“Housing Modernization in order to Increase the Energy Efficiency”* of the priority *“Local and Urban Development, Preservation of Cultural Heritage and Protection of Nature and its Adaptation to Development of Tourism”* of the Operational Programme for Promotion of Cohesion has been amended. The amendment of this task gave the opportunity to allocate the resources for the modernization of the housing in order to increase the energy efficiency not only in problematic areas, but also throughout the country. The latter amendment, which essentially was due to the amendment of the provisions, related to the eligibility of investments in energy efficiency and renewable energies in housing, of the Regulation No. 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund, allowing to allocate additional 4 percent of the ERDF funding to the implementation of energy efficiency measures in residential apartment houses, determined the reallocation of more funds to the implementation of energy efficiency measures (an extra amount of EUR 147 million (LTL 508 million)).

Considering the relevance of the use of renewable energy sources and energy saving, the funds were reallocated among the measures of the priority *“Environment and Sustainable Development”* by increasing the funding for the measures pertaining to the use of renewable resources for energy production and energy saving, and more efficient use of energy resources. It should be noted that in the implementation of some measures related to the priority area *“Energy and Infrastructure”*, the services of JASPERS experts have been intensively used, and the JESSICA holding fund for the modernization of residential apartment houses was established. All these changes were related to the measures of the Energy and Infrastructure areas: *“make full use of the JASPERS facility to prepare strategic infrastructures and make the best use of Cohesion Policy assistance in favour of major projects”* and *“take full advantage of the possibilities offered by JESSICA in relation to integrated urban development funding”*.

In the infrastructure, the main focus was given to the measure *“High-speed Internet for all EU citizens”*. In implementation of this measure, the resources were reallocated among the measures of the priority *“Information Society for All”* and for the measures related to the high-speed internet and the creation of broadband electronic communications network infrastructure, and the funding was increased by about EUR 9

million (LTL 30 million) – from EUR 50.7 million (LTL 175 million) to EUR 60.2 million (LTL 208 million), which accounted for 21.4 percent of all funds allocated to this priority.

In summary, the implementation of the priority measures outlined in the Communication was mostly promoted by increasing the funding for appropriate measures or expanding the list of beneficiaries, and when implementing the priority *People*, the main focus was given to the supported employment measures, the priority *Business* – to small and medium business subjects in order to facilitate their borrowing capacity, and the priority *Energy and Infrastructure* – to energy efficiency measures, mainly the modernization of apartment houses. It is likely that after the implementation of the amendments to certain priorities, the number of beneficiaries of the EU structural assistance will be increased. In the future, responding to economic development trends, and, where necessary, seeking the more efficient and faster use of the EU structural assistance, the appropriate amendments to certain priorities may be made (such as the funding reallocation, expanding the list of potential beneficiaries or eligible activities).

*b) Are OPs being amended to open the scope of actions to energy efficiency and renewable energies in housing? If yes, what amount has been (will be) allocated to these measures? What kinds of operations are concerned?*

Taking into account the amendment of the provisions, related to the eligibility of investments in energy efficiency and renewable energies in housing, of the Regulation No. 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund, allowing to allocate additional 4 percent of the ERDF funding to the implementation of energy efficiency measures in residential apartment houses, the relevant amendment was made to the Operational Programme for Promotion of Cohesion, approved by Decision No. K(2009)6206 of the EC of 31 July 2009. This amendment provided for an additional amount of almost EUR 147 million (a total of LTL 508 million) to be allocated for the implementation of the housing renovation activities. Currently, in implementation of the energy efficiency measures for public buildings, 231 contracts have already been signed, under which the amount of EUR 170 million (LTL 585 million) of non-repayable subsidies will be allocated for the projects. In addition, when implementing the measures pertaining to the energy efficiency in housing, the JESSICA holding fund was established to grant long-term soft loans through financial intermediaries to the residents for the renovation of their housing.

*c) Are JEREMIE-type access to finance instruments to benefit SMEs being accelerated or expanded? What is the expected total financial volume? And the EU co-financing?*

In implementation of the Operational Programme for the Development of Human Resources, the initiative of JEREMIE was used in order to improve the access to finance for micro and small enterprises. It

was decided to use financial engineering for the implementation of the measure “Entrepreneurship Promotion” of Priority 1 “*High Quality Employment and Social Coverage*” of the Operational Programme for the Development of Human Resources, funded by the ESF. The main activities planned to be financed by this measure are granting the low-interest loans with the value of up to EUR 25 thousand (LTL 86 thousand) for micro and small enterprises and individuals starting up their business, combined with training and consulting activities. In implementing the lending scheme, a possibility to replace up to 30 percent of the loan with a subsidy is provided. The measure will be implemented by establishing a holding fund managed by JSC “Investment and Business Guarantees”, whose loan portfolio amounts to EUR 14.5 million (LTL 50 million), i.e. 100 percent of the funds allocated to this measure are financed by the ESF. The responsibility for the implementation of the lending scheme will be entrusted to the financial intermediary selected by the holding fund manager. The selected financial intermediary will have to finance at least 10 percent of the granted low-interest loan. The outcomes planned to be achieved during the implementation of the measure are the preferential loans granted to about 1200 persons / companies, 1000 new jobs created, 5000 persons attracted to training, at least 1000 persons whereof will successfully complete the trainings.

In implementation of the Operational Programme for Economic Growth, the initiative of JEREMIE was used in order to adapt to the changing market needs. In 2009, the JEREMIE holding fund managed by the EIF was increased from EUR 80 million (LTL 275 million) of the EU funds to almost EUR 290 million (LTL 1 billion) – an additional amount of EUR 80 million (LTL 275 million) of co-financing and EUR 130 million (LTL 450 million) of the EU structural funds. Also, the INVEGA fund managed by JSC “Investment and Business Guarantees” was set up on 7 April 2009, whose value was almost EUR 58 million (LTL 200 million).

*d) Have capacity building priorities to reinforce within public authorities their ability to plan, implement, monitor and control OPs been modified or reinforced?*

Priority 4 of the Operational Programme for the Development of Human Resources (foreseen 14 measures) is intended for the administrative capacity building and improving public administration efficiency. The planning and management of the EU structural assistance will be improved following the two main directions: improving strategic planning and investment planning skills.

In addition, the Operational Programme for Technical Assistance provides for the active participation of public administration institutions in the planning, publicity and evaluation activities of the EU structural assistance. In the short run, a coherent education and training system will be developed to ensure the compliance of staff qualifications to the ascribed functions and the delivery of existing knowledge and experience to the largest possible number of employees. Also, a strategy for ensuring the qualification of employees working in the institutions administering the EU structural assistance will be prepared, and the

centralized trainings will be conducted for all staff members working in the institutions administering the EU structural assistance.

#### **4. SIMPLIFYING THE IMPLEMENTATION MECHANISMS**

*a) What national measures have been taken to accelerate the implementation of OPs? Clarifying procedures? Revised guidance or national legislation? Simplified procedures?*

In order to simplify the administration of the EU structural assistance and accelerate the absorption of the EU structural assistance, the amendments to “*The Rules on Project Management and Financing*” were made (11 February 2009, 28 October 2009), which:

- reduced the eventual errors (automatic logical correction of errors) and speeded up the procedures after the introduction of various electronic means (e-application, e-payment request, data exchange website);
- reduced the payment requests revision period from 60 to 30 days;
- provided a possibility for private legal entities to use an advance and account payment method;
- provided a possibility to submit declarations of expenditure to the EC for the costs incurred in the implementation of large projects, where the project has not yet been approved by the EC;
- shortened the period for the evaluation of applications from 4 to 3 months in the competitive procedure;
- set the time limit (10 or 15 working days, if the project selection committee is established), during which the decision on the financing of the project must be adopted (to this day, the period within which the responsible authority had to decide on the financing of the project has not been established);
- provided a possibility to reverse the order of assessment phases or combine them;
- introduced the electronic submission of applications for the appropriation managers – through the computerized management information and monitoring system of the EU structural assistance (CMIMS).

Also, in order to speed up the implementation of Operational Programmes, the following measures were envisaged:

- the descriptions of project financing conditions provided for the possibility to prepare technical documentation and to launch the procurement procedures before the signing of a contract on funding and administration of the project;
- the intensity of assistances was increased for business measures;
- the use of the services rendered by the central purchasing authority was promoted;
- the JASPERS experts were involved in the preparation of applications for large-scale projects;

- the portion of the EU structural assistance was increased up to 85 percent (to the maximum level allowed by the EU regulations) for the Operational Programmes for the Development of Human Resources, Economic Growth and Promotion of Cohesion, whereas the funding of the priorities of Technical Assistance from the EU structural assistance funds was increased by 100 percent.

In addition, seeking to ensure the source of public national funding and a smooth absorption of the EU structural assistance, on 13 March 2009 the Republic of Lithuania signed an agreement with the EIB for a long-term loan of EUR 1.132 billion (LTL 3.9 billion) to cover co-financing for the investment projects in transport, energy, environment, innovation and other areas.

*b) Is it necessary to simplify provisions in the adopted programmes through formal modification to speed up deliver mechanisms?*

The implementation provisions of the Operational Programmes are laid down in the national legislation, which is updated and revised according to the amendments of the EU legislation. In this context, in order to speed up the implementation of the Operational Programmes through formal modification of their provisions, it is sufficient to amend the relevant national legislation, without modifying the Operational Programmes.

## **5. USE OF POSSIBILITIES UNDER THE TEMPORARY STATE AID FRAMEWORK**

*Is it planned to use the EU structural support funds to finance:*

*a) schemes implementing the “Compatible limited amount of aid” up to € 500 000 following the European Commission state aid approval?*

In the meantime, the authorities responsible for the EU structural assistance have not used the available opportunities of the Communication from the Commission “*Temporary Community framework for State aid measures to support access to finance in the current financial and economic crisis*” (2009/C 83/01).

*b) state guarantees for loans at a reduced premium?*

In the meantime, the authorities responsible for the EU structural assistance have not used the available opportunities of the Communication from the Commission “*Temporary Community framework for State aid measures to support access to finance in the current financial and economic crisis*” (2009/C 83/01).

*c) loans interest subsidies, in particular for the production of green products (meeting environmental protection standards early or going beyond such standards)?*

On the basis of currently existing national legislation the loans interest subsidies are granted to all enterprises, including the companies engaged in the production of green products, under the common procedure.

## **6. PUBLIC PROCUREMENT**

*Is the use of accelerated public procurement procedures, reducing the overall time limit of the procedure from 87 days to 30 days, being used under the Operational Programmes?*

In accordance with the Statement No. IP/08/2040 of the Commission of 19 December 2008 “On the possibility to reduce the time limits for the submission of proposals and applications during the restricted and negotiated procedures for the major public projects implemented in times of economic crisis” in response to the period of economic hardship, the overall time limit for the submission of applications and proposals during the public procurement procedures (restricted and negotiated procedures) in the period of 2009–2010 may be reduced from 87 to 30 days by the purchasing authorities, when implementing the major public projects, which have been recognized as such in the procedure established by the Government of the Republic of Lithuania. So far, this option has not been used in implementing the Strategy and priorities outlined in the Operational Programmes. However, it should be noted that the purchasing authorities are accelerating the public procurement in other ways, namely by announcing the calls for tenders, launching the major public procurement procedures prior to signing a contract on project financing and administration, posting pre-announcements of the restricted procedures, which make it possible to shorten the deadline for the submission of proposals from 52 to 36 days.