EVALUATION OF 2004-2006 EU STRUCTURAL ASSISTANCE IMPACT ON LITHUANIAN TRANSPORT SECTOR

SUMMARY

The first period for the use of EU financial assistance ended in June 2009. During this period, Lithuania was investing Structural Funds' resources and national budget funds under the Single Programming Document 2004–2006 (SPD). The assistance under the SPD was aimed at strengthening preconditions for the development of long-term economic competitiveness in Lithuania.

The economic growth increasing living standards and job creation would be impossible without an effective transport system. The effective transport infrastructure network is essential for the proper existence of the society and economy. It allows free movement of goods, services and persons as well as it promotes regional and inter-regional communication. It also ensures the mobility required for job, studies and leisure. As a result, it is not a surprise that investments into the transport sector became a priority of the EU structural and cohesion policy long ago. Investments into the Lithuanian transport sector received assistance under SPD Measure 1.1 *Improvement of Accessibility and Service Quality of Transport Infrastructure*. The investments were given five tasks to carry out:

- improving traffic conditions on roads and streets, increasing traffic safety and reducing the negative environmental impacts of transport;
- increasing capacity in the railways, promoting the transportation of goods and passengers by railways, improving railway service quality for passengers;
- increasing flows of goods and passengers in Klaipėda State Seaport, creating a single inland waterway system for passenger and freight transportation;
- improving safety and the security of flights into and out of international standard airports in Lithuania and improving passenger service quality;
- developing a multimodal transport network in Lithuania.

In the period 2004–2008, 79 projects were carried out to implement these tasks. They were allocated over LTL 641 million from the European Regional Development Fund (ERDF) and the national budget. This evaluation aims at assessing the scope of the implementation of SPD Measure 1.1 tasks as well as the impact of the ERDF assistance to the transport sector on the Lithuanian economy and different regions.

According to the evaluation report, most project were implemented and funds allocated under Task 1, the objective of which was to improve traffic conditions on roads and streets, to increase traffic safety and to reduce negative environmental impacts of transport. The total amount of LTL 427.47 million was allocated to investments into road and urban transport infrastructure.

61 projects were implemented resulting in building 5.92 km of new roads and reconstructing / paving 515.46 km of the existing ones. The assistance under SPD Measure 1.1 made a significant contribution in reducing the number of gravel roads among the roads of national importance: 259.8 km of gravel roads were paved when implementing projects of the Lithuanian Road Administration under the Ministry of Transport and Communications (i.e. Gravel Road Paving Programme 2004–2005, Gravel Road Paving Programme 2006–2008 – Package 6). The evaluation of traffic safety projects shows that the project *the Implementation of Traffic Safety and Environmental Actions 2004–2006* implemented by the Lithuanian Road Administration under the Ministry of Transport and Communications had the greatest impact on the reduction of the accident rate. This project reduced the number of accidents and persons killed in accidents. In 2008, the number of persons killed in accidents decreased by 30% in comparison with 2007.

One fifth of the assistance under SPD Measure 1.1 (LTL 140.46 million) was allocated to the railway transport infrastructure. These investments were used to build 4.52 km of new railroads and to reconstruct 22.85 km of the existing ones, to implement safety measures, to reconstruct Vilnius and Kaunas railway stations. A few good practice examples have been identified in terms of utility. *The Development of IXB Corridor Connection with Klaipėda State Seaport – Klaipėda railway Junction* should be mentioned as the exceptional project which promotes the interaction of different transport branches and increases load capacity in Klaipėda State Seaport.

The projects implemented with SPD Measure 1.1 funds were partially conducive to the implementation of Task 3, i.e. increasing flows of goods and passengers in Klaipėda State Seaport, creating a single inland waterway system for passenger and freight transportation. Merely 4% (LTL 25.35 million) of the total funds of SPD Measure 1.1 were allocated to seaport and inland waterway projects. The funds helped implement the project of the railway reorganisation in the southern part of Klaipėda State Seaport, carry out a feasibility study on the development of the inland waterway in the Nemunas River, and complete the major works. However, the development of infrastructure for the cruise terminal was not implemented, therefore SPD Measure 1.1 did not increase the growth in the carriage of passengers by sea transport.

Air transport development projects were allocated 8% (LTL 48.16 million) of SPD Measure 1.1 funds, and all investments were directed to improving safety: new perimeter fencing were implemented, the runway modernised and aviation safety measures installed in Vilnius Airport and Palanga Airport. The investments contributed to the expansion of the Lithuanian transport sector in 2004–2008. During this period, the flow of passengers in Lithuanian airports went up from 1.1 million of passengers in 2004 to 2.5 million in 2008. The carriage of cargo by air transport increased from 9.2 thousand tones in 2004 to 10.9 thousand tones in 2008.

Summing up the analysis of the SPD Measure 1.1 results, it may be concluded that most of the funds (88%) went to the land transport: the infrastructure of roads, railway and urban transport. When implementing this measure, the reconstruction of the existing transport infrastructure (approx. 80% of the funds) and the installation of traffic safety measures received the most investments, while the infrastructure development (the missing links, capacity growth), the interaction of different means of transport (multimodal transport), and the development of some types of transport (especially water transport) received very small investments. In the programming period 2007–2013, it is essential to continue investments into the development of road infrastructure, especially in cities, and to support the modernisation of railway routes belonging or relating to the trans-European transport network (TEN-T) in order to increase travel safety and reduce negative impacts of growing transport flows. Moreover, greater investments are necessary for the development of multimodal transport, the expansion of air transport (strengthening competitiveness among airports) and sea transport (building competitiveness of Klaipėda State Seaport in the region).

The general completion rate of the indicators established for SPD Measure 1.1 is high, except for the indicators set for the investments into the railway infrastructure. The completion rate of monitoring indicators has been reduced by project-level issues (especially in public procurement) and exogenous factors (construction work prices escalated by approx. 9% per year, prices of building materials also went up (e.g. steel prices rose by 60% during the SPD period)). It should be noted that monitoring indicators of higher level (result and impact) were not sufficient to measure the direct outcomes and impacts of the EU structural assistance on the transport sector. At the result level, it would have been useful to monitor such indicators as the building of the missing junctions with the TEN-T network elements, the increase in the number of passengers carried by railway transport. At the impact level, given considerable investments of SPD Measure 1.1 into traffic safety, it would have been useful to monitor the decline of the accident rate and the number of person killed in accidents.

The evaluation conclusions on the impact of SPS Measure 1.1 are highly important. According to the calculations made, the investments into the transport sector have already paid back. Macroeconomic modelling calculations show that within 2004–2008 SPD Measure 1.1 investments, amounting to LTL 567.93 million, into the land transport sector additionally created the value added of LTL 882 million in the transport sector. It means that every Litas invested into the transport infrastructure within the five years has already brought the return of LTL 1.5. The investments have a long-term impact on the transport sector, therefore, if the monitoring of the assistance impact continues up to 2011, the total assistance effect will be over LTL 1.7 billion, i.e. investments made during 2004–2011 will create three-times bigger value-added increase of the transport activity than the amount of the funds invested.

The investments into the transport sector have been also conducive to the increase in employment. The projects financed under SPD Measure 1.1 created 3,260 jobs. Moreover, the macroeconomic modelling results show that the projects created additional jobs in the related sectors, too. It has been calculated that SPD Measure 1.1 investments created 3.4 thousand additional jobs within 2004–2008. The costs were approx. LTL 90 thousand per one average job created (direct and additional job), which is two times less than in other EU Member States implementing infrastructural projects with the ERDF funds.

The positive impact of the investments into the transport sector on the national economy is not limited to the expansion of the transport sector or to the effect on the economic through the export promotion. These investments reduce the exclusion of peripheral regions, promote optimal use of the available resources and build their competitiveness. Most of the SPS Measure 1.1 funds were allocated to the Counties of Vilnius, Kaunas and Klaipėda. This is conditioned by the fact that cities have greater demand for investments as they need to tackle the growing number of vehicles, traffic jams and too heavy load on streets. Another reason why these counties received more investments of SPS Measure 1.1 is that they were implementing projects related to the modernisation of airports, Klaipėda State Seaport, and railway junctions. The Vilnius County was allocated LTL 162.54 million (25% of the total assistance allocated to the transport sector), the Klaipėda County LTL 134.15 million (21%) and the Kaunas County LTL 105.26 million (16%). However, calculations of the assistance distribution by population in the said counties reveal that the assistance distribution was rather equal. Greater deviations are seen only in Counties of Klaipėda, Utena and Šiauliai. During the evaluation, an empirical econometric model of Lithuanian counties (ALEM) was drawn up in order to calculate direct and indirect impacts of SPD Measure 1.1 on the GDP growth in counties in the period 2004–2008. The results prove the investments to be highly beneficial to regions – the investment of LTL 1 averagely generated the return of LTL 3.5. The Counties of Kaunas, Marijampolė, Panevėžys and Utena have the greatest positive effect of the investments. The evaluation report includes recommendations for the period 2007–2013: more investments should be

made into the road transport infrastructure of counties, where the insufficiently developed network of local roads limits the expansion of counties, i.e. Counties of Vilnius, Marijampolė and Šiauliai.

Eventually, every Lithuanian resident will feel the utility of SPD Measure 1.1 investments into the transport sector as the projects implemented ensure:

- faster, more direct and convenient travelling between cities, towns, villages, settlements, tourist centres;
- faster travelling to workplaces, health care, education and other establishments as a result of a more advanced network of streets;
- more convenient cycling and walking as cyclists and pedestrians can use the infrastructure designed specially for them;
- safer travelling as a result of traffic safety measures implemented on roads, railway, airports.
- improved quality of the urban environment by tackling of urban transport problems, reducing traffic jams.
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According to the results of the public opinion research commissioned by the Ministry of Finance in December 2008, even 50% of the inhabitants feel personal benefits of the EU structural assistance allocated to the transport sector.