EVALUATION OF THE IMPACT OF THE EUROPEAN UNION STRUCTURAL ASSISTANCE ON THE SMALL AND MEDIUM SIZED BUSINESS ENTITIES

Summary of Evaluation Report

Commissioned by the Ministry of Economy of the Republic of Lithuania

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Evaluators: BGI Consulting, Ltd.

BG Consulting

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Objectives and Tasks of the Evaluation

In accordance with the agreement, valid from 6 September, 2013, signed between the Ministry of Economy of the Republic of Lithuania and BGI Consulting, Ltd., an evaluation of the impact of the European Union (EU) structural assistance on the small and medium sized business (SMB) enitities has been performed. The overall objective of evaluation – to improve the use of the EU structural assistance for SMB by evaluating subsidy and financial engineering measures for SMB, applied in the 2007-2013 programming period, administered by the Ministry of Economy. Recommendations resulting from this evaluation are aimed at preparing for the planning of assistance measures for SMB in the 2014-2020 programming period.

The tasks of evaluation, formulated in the terms of reference of the evaluation, are the following:

- To evaluate the relevance of the EU structural assistance measures for SMB, administered by the Ministry of Economy, namely "Leader LT", "E-business", "Process LT", "New Opportunities", "Invest LT+", "Invest LT-2", "Assistant-1", "Assistant-2", "Assistant-3", "Invest LT", "Provision of Small Credits – Stage II", "Open Credits Fund", "Risk-Sharing Credits", "Venture Capital Funds", "Co-investments Fund ("Business Angels"), "Seed Capital and Venture Capital Funds", "Guarantee Fund", "Portfolio Guarantees", "Portfolio Guarantees for Leasing", "Partial Compensation of Credit Interest", as well as to identify problems in implementing these measures.
- To evaluate effectiveness, efficiency and impact (influence) of the EU structural assistance for SMB entities (by separately evaluating subsidy measures and financial engineering measures).
- To evaluate impact of financial engineering measures on Lithuania's economy.
- To provide recommendations on the implementation of particular measures of the EU structural assistance for particular SME sectors, and on the most effective forms of assistance in the 2014-2020 programming period. Experts are expected to provide a definition of "effectiveness" and to specify indicators for measuring it.

Scope of the Evaluation

The implementation of the above mentioned measures were financed under the 2nd priority of the Operational Programme for Economic Growth for 2007-2013, namely "To increase business productivity, especially by creating favourable environment for innovations and SMEs". These measures are included in the following tasks of this priority:

1. To increase business productivity;
2. To increase viability of businesses and promote entrepreneurship;
3. To improve access to financing sources for SMEs;
4. To adapt public territories for investment attraction purposes.

The amount of funding for measures under evaluation, foreseen in the Operational Programme for Economic Growth for 2007-2013, exceeds 2.1 billion LTL. EU funds constitute 95.1 per cent of the total funding. All the measures under evaluation might be divided into two groups, namely subsidy measures, and financial engineering and related measures. Due to specific nature of financial engineering measures, the amount of structural assistance funds coming to business exceeded that foreseen in the Operational Programme for Economic Growth for 2007-2013. Until 2013, the amount foreseen in the signed agreements for subsidies constituted LTL 1.153 million, while amounts already disbursed reached LTL 671 million. With regard to financial engineering credit measures, EU funds, contracted until the end of 2013, constituted LTL 549.5 million, guarantees (including portfolio guarantees) – LTL 813.5 million, partially compensated credit interest – LTL 44.9 million, investments from venture capital fund and “Business Angels” fund – LTL 59.4 million.

During the evaluation, significant attention was attributed to the comparison of the different forms of assistance, namely subsidy measures, financial engineering and related measures.

Methodology of the Evaluation

Evaluation of Relevance

In order to evaluate the relevance of the measures and their correspondence with SMB needs, two kinds of relevance might be distinguished, namely general and specific relevance.

General relevance determines whether objectives of interventions are compatible and correspond with identified needs of SMB entities. In order to evaluate the general relevance of the measures, multi-stage analysis has been applied. An analysis of compatibility of the most relevant barriers hindering the growth of SMB and the measures applied by the Ministry of Economy has been performed.

Specific relevance is related to evaluation of the measures in the changing economic situation. The target of such evaluation encompasses not only the measures themselves, together with their intervention logic, but the timing and conditions of their implementation, as well. Specific relevance has been evaluated taking into account changes during the assessed period (2007-2013) in macroeconomic conditions, business trends, SMB situation and financial markets.

Identification of problems in implementing the measures is also part of the relevance criteria. Analysis of implementation problems was based on the survey of project beneficiaries, interviews with representatives of management and implementation systems, representatives of banks and fund managers, conducted during the evaluation. Results of other relevant studies and evaluations were also taken into account.

The results of the survey of project beneficiaries, conducted during the evaluation, provided the basis in evaluating the relevance of implementation, impact of the measures, and degree of fulfilment of the objectives. Questionnaires had been submitted to more than 400 project managers, while 70 of the latter provided answers.

Evaluation of Effectiveness

Effectiveness criteria were applied in order to evaluate the degree of fulfilment of the measures objectives. The terms of reference required to use different than usual method for evaluation of the degree of fulfilment of the objectives, i.e. not to assess the degree of achievement of indicators. In conformity with this requirement, experts applied particular methodology, according to which, the degree of fulfilment of the objectives was evaluated taking into account the following criteria: nature of intervention, scope of intervention, impact of intervention on the economy. While applying these criteria, the results of counterfactual impact evaluation and relevance evaluation, as well as economic context and the results of the survey of enterprises, were taken into consideration.

Impact Evaluation

For evaluation of the impact, methods of counterfactual impact evaluation are mostly used. These methods allow, by using statistical and econometric techniques, to compare two similar samples of enterprises, of which only one is affected by the intervention, and to make conclusions on the impact of the particular intervention. Recently, application of methods of counterfactual impact evaluation has been especially recommended by the European Commission.

In compliance with the requirements of the terms of reference, counterfactual impact evaluation was applied to 4 measures, namely “Leader LT”, “New Opportunities”, “Provision of Small Credits – Stage II” and “Guarantee Fund”. For evaluation of impact in case of each measure, treated and control groups were formed. Assessment was made of the changes in performance indicators of enterprises in the treated group, in comparison with performance indicators of enterprises in the control group.

Treated group was comprised of the enterprises that were affected by the intervention (received subsidies or used financial engineering and related measures). Even though only 4 measures were assessed, in order to form treated and control groups correctly, all the assistance for enterprises was reviewed.

Control group was comprised of the enterprises that have very similar characteristics to those of the enterprises in the treated group but were not affected by the intervention. In order to form the control group, there was a possibility to randomly choose both selected SMB entities from the Lithuania‘s list of enterprises, and those SMB entities which had applied for the assistance but did not get it. The similarity of enterprises from the control group to those from the treated group was verified using the propensity score. As it is recommended in the latest methodological document by the European Commission[1], for determining the propensity score, PROBIT model was created, which calculates the estimated probability of enterprise being a beneficiary, given observable characteristics of the particular enterprise.

Data on enterprises was collected from the Creditinfo database. Collected data included 1020 SMB entities and encompassed the annual data of 2007-2012. Data on the EU structural assistance received by enterprises was collected from the Ministry of Economy and the Ministry of Finance.

Following the analysis of the intervention logic and taking into account the available data, impact of the interventions was assessed on the basis of the following indicators: turnover, number of employees, net profit.

For evaluation of impact, the survey of project beneficiaries, as well as evaluations and studies conducted abroad, were also taken into consideration. Information from these sources were

[1] http://ec.europa.eu/regional_policy/sources/docgener/evaluation/guide/evaluation_sourcebook.doc

supplemented by interviews with the representatives of the management and implementation systems, representatives of banks and fund managers.

For evaluation of the impact of financial engineering measures on the economy, the following criteria and indicators were applied: improvement of accessibility to the financing sources, reduction of credit costs, impact on the economy due to improved performance indicators of enterprises (according to the indicators of turnover, number of employees and net profit).

Evaluation of Efficiency

In order to compare the measures with each other, the homogeneous results of the different forms of assistance measures were identified. In the evaluation efficiency criteria is determined as a complex evaluation of investments according to the following indicators:

- The ratio of assistance (EU and national co-funding) funds to attracted private funds;
- The ratio of assistance funds to generated change in turnover (i.e. how many LTL of subsidy or credit funds were on average invested in order to generate 1 additional LTL of annual turnover);
- The ratio of assistance funds to created (maintained) jobs (i.e. how much did one created / maintained job cost?;
- The ratio of assistance funds to generated change in profit before taxes (i.e. how many LTL of subsidy or credit funds were on average invested in order to generate 1 additional LTL of profit);
- The ratio of administrative costs of enterprises to volume of investments.

Findings of the Evaluation

Relevance of the Measures to the Needs of the SMB Entities

Following the analysis of the objectives, indicators and separate projects of the measures, these primary needs of the SMB entities and aims of the business measures of the Ministry of Economy were identified: increasing export volumes by boosting productivity, increasing export volumes by expanding into new markets, investment attraction and jobs creation, creation of new enterprises, better access to the financing sources.

It was concluded that the measures of the analysed period were relevant and contributed to the reduction of the barriers to the export development. The principal focus of these measures was on the investments for boosting productivity and activities aimed at searching for new markets. Since measures of boosting productivity, in this case, are related to the investments (usually large) of particular enterprises, limited volume of the EU structural assistance naturally results in the limited number of the SMB entities which benefited. Therefore, with the aim of improving the general export capacities of the country, export promotion initiatives, implemented by national or regional organizations under the measures „Assistant-1“, „Assistant-3“, are more beneficial, since their benefits might be experienced by the larger number of the SMB entities. Furthermore, there is lack of investments aimed at not only addressing the challenges of export initiation and development, related to identifying export markets and establishing contacts, but at the development of human resources as well, since insufficient human resources are currently identified as one of the obstacles to the increase in export volumes.

The analysed measures of attracting foreign direct investment are consistent with the provisions of the country‘s strategic documents and best practices. As a particularly positive development might be singled out the fact that the EU assistance funds of the 2007-2013 programming period were used in carrying out investment attraction activities, related to active communication with potential investors and application of individualized incentives.

Financial engineering measures were employed timely in reaction to the changing economic situation and the changing needs of the SMB entities. Credits, guarantees and partial compensation of credit interest, financed by the EU funds, properly contributed to the changed needs of the enterprises in the context of the worsened economic situation. At the same time, it was an adequate reaction to the changes in the banking policy. Application of credit measures and guarantees was consistent with the international best practice, identified in OECD countries. As a positive development might be distinguished the fact that at the time of implementation of these measures funding for financial engineering and related measures was increasing, and conditions for absorption of these resources were improving.

In 2008, first agreements under the most financially solid measure „Leader LT“ were signed. That helped increase the competitiveness of the SMB entities and react to the economic downturn. However, more appropriate reaction to the worsening economic situation from 2008 would have been an earlier start of other (besides „Leader LT“) subsidy measures.

Even in the period of economic growth, there still is a significant part of enterprises (e.g. technology start-ups) which are important for the country‘s economy, however, irrespective of the economic cycle, banks finance them reluctantly or do not finance at all. Certain opportunities for such enterprises exist in the private and venture capital markets. Nevertheless, even in the latter only a small part of enterprises (meeting the requirements for expected returns, etc., set by private and venture capital investors) might receive financing. Therefore, there still remains a demand for measures encouraging banks to finance SMB entities that are less attractive, due to their credit risk, but are important for the economic development of the country.

Morover, it should be noted that public economic policy, first and foremost, should ensure sufficient attention and financing for improving general business environment and provide opportunities for enterprises to effectively use their resources (reduction of administrative burden, simplification of legal regulation, provision of equal conditions of competition, promotion of the demand for innovative products, etc.). This is important direction irrespective of the phase of the economic cycle.

Measures Implementation Problems

One of the principal challenges in the implementation of the measures was caused by significant changes in economic conditions. Analysed measures were programmed for the conditions of economic growth, thus, in the event of economic crisis the portfolio of measures had to be revised. In order to mitigate the consequences of the crisis, greater financial significance was put to the financial engineering measures.

Experience in implementing subsidy measures, acquired during the period of 2004-2006, had positive influence on the maturity of management and implementation system in the period of 2007-2013. However, more uncertainties and challenges occurred while implementation of financial engineering measures. Implementation of the part of these measures, e. g. guarantees, had been financed from the national funds until 2007. Other measures, e.g. venture capital funds, were formed in Lithuania for the first time. The implementation of financial engineering measures was aggravated by the fact that the EC regulation in the field of financial engineering was not specific and timely enough.

When comparing the implementation of subsidy measures and credits, as well as financial engineering measures related to credits, it was concluded that, from the perspective of enterprises and other applicants, implementation of credit measures was smoother and caused less difficulties for enterprises and other applicants than that of subsidy measures. The main difficulties faced by the beneficiaries of the subsidy projects, were related with the organization of the procurement, achieving of performance indicators, coordination of changes in project activities and budget. These problems were not experienced by the recipients of financial engineering credits. The main challenge recognized by the recipients of credits was fulfilment of mortgage requirements.

Difficulties faced by the beneficiaries of the subsidy projects negatively affected deadlines and scope of the implemented projects. 25 per cent of the beneficiaries of the subsidy projects were late in implementing project activities. 10 per cent of the beneficiaries due to various difficulties implemented certain project activities not in full scale. More than 3/5 of beneficiaries of the subsidy projects did not experience any difficulties or experienced difficulties that did not have significant influence.

The process of provision and utilisation of financial engineering credits was relatively smooth. Recipients of these credits considered the requirements set by banks as clear and understandable. Furthermore, it was concluded that competences of the employees of enterprises (including accounting services often purchased by enterprises from service providers in the market) were generally sufficient for preparing the documents required for receiving credits.

Process of partial compensation of credit interest was smoother than the process of receiving guarantee. Approximately half of the enterprises which used guarantee provided by Invega foundation did not face any difficulties regarding this process, while another half encountered minor difficulties. 75 per cent of the enterprises which had received partial compensation of credit interest did not face any difficulties, while 25 per cent experienced minor difficulties.

Implementation of private and venture capital measures was aggravated by limitations on activities of funds regarding the volume of invested funds in terms of time, imposed by regulations. Moreover, willingness of investors to invest in Lithuania was reduced by the unstable tax environment. Relatively frequent changes in tax laws limit the possibilities of long-term planning of investments.

The Degree of Fulfilment of the Objectives of the Measures

The evaluation revealed that the Ministry of Economy and other relevant institutions were generally successful in achieving the objectives of the measures, foreseen in the Operational Programme for Economic Growth for 2007-2013. 14 measures might be characterized by the high degree of fulfilment of the objectives, 4 measures – higher than average degree, and 2 measures – average degree.

Impact of the Measures on the SMB Entities

Method of the counterfactual impact evaluation revealed that added value of the EU assistance funds for SMB, first of all, manifests as a positive impact on the turnover. Evaluation of the changes in the situation of SMB shows that the impact of the measures, supporting investments of enterprises, such as "Leader LT", becomes visible only after completion of investment acitivities. Results of the counterfactual impact evaluation reveals that positive impact of the support under the measure "Leader LT" on the increase in turnover in the medium-term, even with smaller than usual statistical significance, makes up 12 per cent points. Furthermore, in case the treated group is comprised only of those enterprises which had received significant amount of the support under the measure, this impact reaches even 21 per cent points. Taking into account the infrastructure nature of the project activities under the measure, it seems likely that the treated group will show better results in the subsequent years, too. On the other hand, it is important to note that large amounts of the assistance funds were invested into capacities of enterprises that allowed achieving such results. In addition, majority of recipients of the support under this measure had also received support from other measures, which contributed to the strengthened competitiveness, reflected in the increase in turnover (up to 30 per cent of the idientified impact might be attributed to the impact of other support measures).

Support under the measure "New Opportunities" might be characterized by the impact visible at the time of its implementation: impact on the increase in turnover makes up 15 per cent points in the years of implementation of project activities. It could be explained by the fact that in the years when the project activities under the measure were being implemented new export agreements, contributing to the increase in turnover, were being concluded, while after completion of the projects there were no more preconditions for new agreements, thus, no further growth in turnover. It is important to note that the increase in turnover, generated in the years 2010-2011, did not go away, i.e. even though in 2012 the growth in turnover of the treated group was poorer than that of the control group, the increase in turnover generated in 2010-2011 had remained and might be considered as a long-term impact. However, similarly as in the case of the measure "Leader LT", part of the treated group had received the support under financial engineering measures, therefore, approximately one third of the identified impact might be attributed to the impact of other support measures.

Method of counterfactual impact evaluation was also applied to evaluation of impact of the measures "Guarantee Fund" and "Provision of Small Credits – Stage II". Due to economic situation, in the beginning of implementation of these measures working capital credits were dominant, therefore, the results of the counterfactual impact evaluation reflect in larger part the impact of working capital credits and guarantees provided for working capital credits. Counterfactual impact evaluation did not reveal positive impact of these credits and guarantees on turnover in the long-term, however, in the short-term slight (but statistically insignificant) positive impact on the rates of turnover growth was identified. Nevertheless, the volume of the investment credits increased following the improvement in the economic situation. After additional evaluation, by applying counterfactual method, of the impact of solely investment credits under the measure "Provision of Small Credits – Stage II" positive impact of 16 per cent points on the turnover was identified. Impact of a similar scope is likely also in the case of the guanrantees provided for investment credits. The revolving nature of financial engineering measures even more increases general impact of such measures in the long-term.

Besides turnover, social-economic impact of the measures is reflected in the change in the number of employees. Counterfactual impact evaluation confirms that the number of employees in the enterprises which received assistance would be smaller provided that the assistance was not received. Positive impact of the support under the measure “Leader LT” on the growth in the number of employees in the medium-term, even with smaller than usual statistical significance, makes up 11 per cent points. Positive social-economic impact of the measure “New Opportunities” on the number of employees manifests in the years of implementation of the projects (the rate of growth in the number of employees would be 5 per cent points lower provided that the support was not received), while the increase in the number of employees generated during the period of 2010-2011 had not gone away in 2012 and is considered as a long-term impact. General counterfactual impact evaluation of the measure “Provision of Small Credits – Stage II”, in which working capital credits were dominant, did not reveal positive impact on the number of employees in the long-term, however, in the short-term positive (but statistically insignificant) impact was identified (the rate of growth in the number of employees would be 4 per cent points lower provided that the credits were not provided). In this context, the measure “Guarantee Fund” is exceptional, since in its case positive impact on the growth in the number of employees was not identified in both short- and long-term. It means that no additional employees were required for short-term increase in turnover, caused due to guaranteed credits. After additional evaluation of the impact of solely investment credits under the measure “Provision of Small Credits – Stage II”, statistically significant positive impact (21 per cent points) on the increase in the number of employees was identified. It means that, due to received investment credits, average annual growth in the number of employees in the period of 2010-2012 was 21 per cent points higher that it would have been in the absence of these credits. Accordingly, the similar impact of the guarantees, provided for investment credits, is likely.

When comparing with the subsidies, the exceptional feature of financial engineering measures is revolving use of funds. I.e. even in the case of working capital credits at favourable conditions, when credits have only the ongoing impact on specific subjects, general impact of the measure might be considered as a long-term, since returned funds are utilized for working capital or investment needs of other subjects (i.e. financing needs of the SMB entities are fulfilled through a number of financing cycles, while the funds remain at the disposition of institutions providing support; besides, financing of this kind has smaller negative side effect on the competitors of the SMB entities that had received financing). In addition, the results of the counterfactual impact evaluation reveal that the impact of financial engineering investment credits is not smaller than that of the analysed subsidy measures (“Leader LT” and “New Opportunities”). Furthermore, financial engineering measures have advantage over subsidies, when the support is provided for enterprises, mostly operating in Lithuania and not intending to expand to export markets, since financial engineering measures less distorts the competitiveness in national market, i.e. positive social-economic impact of the support is not diminished by the negative impact of the distortion of competition. However, it would not be reasonable to support SMB by applying only financial engineering measures. From the perspective of enterprises, implementation of investment plans using funds provided under financial engineering measures can be characterized by a larger investment risk, compared to implementation of these plans using funds provided under subsidy measures. Therefore, some share of business investments would not be implemented, provided that financing by subsidies were not available to business. Thus, in some cases (as described in 1-5 recommendations of the evaluation), application of subsidy measures is appropriate.

Impact of the Measures on the Changes in the Legal Base

The analysed measures of the Ministry of Economy did not directly target the spheres of improvement in legislation or public administration. I.e. none of the analysed measures was directly oriented towards changes (improvement) in legal or administrative environment of business. Following the analysis of the information provided by the actors of the management and implementation systems, as well as by financial intermediaries, it was concluded that the changes in legal regulation, related to the development of venture and private capital markets, had occurred. They are attributed to the indirect impact of the JEREMIE initiative. Financing from the JEREMIE holding fund gave an essential stimulus for the development of these markets, providing financial opportunities to set up new funds, which consequently raised questions regarding establishment of funds and legal regulation of their activities. As a result of these processes, in 2012, the new law on partnerships was adopted in Lithuania, providing the legal basis, in line with the global good practice, for realization of freedom to agree on the management and financing of partnerships, profit distribution, as well as to adjust to the requirements of investors.

Impact of the Financial Engineering Measures

Impact of the Venture Capital Funds and the "Business Angels" Fund

JEREMIE initiative, or, in particularly, financed venture capital funds and "Business Angels" fund, provided an essential stimulus for the development of venture capital and business angels' markets in Lithuania. New funds, financed from the EU funds and capital of domestic investors, were established. Small economy of Lithuania is not attractive for large international venture capital funds, therefore, in order to create opportunities to receive financing for enterprises with strong growth potential and risk, growth of domestic market participants is important. JEREMIE initiative strengthened formation of venture capital funds, lead to the establishment of "Business Angels" fund which is the first EIF fund of this kind both in Lithuania and the EU. Venture and business angels' capital is not a substitute for the subsidy measures or credits, as well as for credit-related measures, however, it complements these measures. Subsidy and financial engineering credit measures might be utilized by various enterprises, whilst, venture capital and business angels are oriented towards the particular kinds of enterprises, meeting the requirements set by investors for growth of enterprise, expected returns, management team, strategy, etc. Until the end of 2013, LTL 59.4 million from JEREMIE holding fund, via venture capital funds and "Business Angels" fund, was invested in 55 enterprises.

Even 61.3 per cent of enterprises which attracted investments from venture capital funds and "Business Angels" fund had been operating for less than 24 months before receiving first investments or were established at the same time when agreements on investing were made. Thus, venture capital and "Business Angels" measures provide financing opportunities for young but promising businesses, meeting the requirements set by investors.

Activities of the venture capital funds and "Business Angels" fund provide opportunities for the economy to develop high-value-added economic activities, where higher than the country's average value added is generated, and to install technological and management innovations in new and traditional economic activities. 26 per cent of the enterprises, which until the end of 2013 received investment from venture capital funds and "Business Angels" fund, are engaged in information services, and computer programming and related activities. Enterprises engaged in sales of high-value-added products (for example, laser production, laboratory equipment, etc.) make up 11 per cent of enterprises. Moreover, investments were made in energy, semiconductors and optics technology, chemical industry and other kinds of economic activities.

Impact on the Lithuania economy is made not only via enterprises which utilized the analysed measures but also via other enterprises of the country, whose behaviour is changing due to the development of venture and private capital markets. Formation of the venture capital and “Business Angels” market has positive impact on the general business culture of the country, and adoption of the new attitude by enterprises asserting that it is possible to develop business not only by using own funds or funds from credit institutions, but also by attracting private and venture capital investors.

Performed evaluation revealed that performance indicators of enterprises which had attracted financing from venture capital funds and “Business Angels” fund, improved. In the first year after the attraction of investments, total turnover of the enterprises increased by 42.9 per cent, number of employees in the enterprises increased by 11.7 per cent, while total loss of the enterprises decreased by 71 per cent. The full volume of these changes cannot be attributed to the impact of venture capital funds and “Business Angels” fund. However, enterprises, which had applied for financing, considered this capital and participation of investors in the management of enterprises as vital factors of further growth. Therefore, taking into account this fact, large part of changes that took place, in fact, can by attributed to the impact of venture capital and “Business Angels” funds.

Impact of Credits and Credit-related Measures

Impact of credits and credit-related measures, in improving the access to the financing sources, manifested in several aspects. Additional money, which was especially difficult for enterprises to access during the economic downturn, was infused into credit market. Amount of financial engineering credits, that had reached economy until the end of 2013, made up LTL 831.4 million. Guarantee and portfolio guarantee measures provided opportunities to borrow for those SMB entities which would not have received financing due to inability to meet mortgage requirements or would have gotten smaller financing than necessary. Guarantees, issued until the end of 2013, enabled to provide credits (including leasing) for almost LTL 1.2 billion. Reduced borrowing costs, due to more favourable (by approximately 1 per cent point) credit interest rates and application of partial compensation of credit interest (up to late 2013, LTL 44.9 million of interests was financed), also increased accessibility to financing.

Analysis of the distribution of financial engineering credits by economic activity revealed that credit measures were being implemented from the universal standpoint, i.e. by not applying specific criteria, oriented towards support for enterprises generating higher value added. This kind of implementation mechanism is a result of the aim to ensure the continuous operation of enterprises during the recession. Following the decrease in consumption and the emergence of overwhelming difficulties in getting access to the financing sources, these measures were mostly utilized by retail and wholesale trade (45.3 per cent of credits). Even though, in the case of deep recession, channeling the funds of public intervention towards ensuring working capital of enterprises can partially be justified, in order to achieve long-term economic objectives, financing of investments in the factors of production should be prioritized.

Guarantees more than subsidy measures contribute to the financing of young businesses in the country. This finding is substantiated by the fact that until the end of 2012 16.9 per cent of guarantees were provided for credits for the SMB entities operating for 2 years or less. A share of these enterprises makes up only 3.7 per cent in the case of subsidy measures. Impact of guarantees is related with the purpose of credits. Significant impact of the investment credits, as well as slight impact of the working capital credits on the turnover and the number of employees, was identified.

Efficiency of the Measures

In terms of impact and administrative burden, financial engineering and related measures are more efficient than subsidies. This is due to revolving nature of financial engineering measures. Moreover, significant positive impact of investment credits, sufficient efficiency in attracting private funds of banks, as well as modest administrative costs was identified.

Working capital credits are characterized by low efficiency in generating impact on the turnover, number of employees or profit. However, due to revolving nature, they are efficient in the long-term (multiple small impact).

Ragarding subsidy measures, significantly higher efficiency, in terms of impact, was attributed to "New Opportunities" than "Leader LT". Administration of small subsidy measures can be characterized by relatively higher administrative costs. However, this aspect is less important than efficiency in generating impact.

The highest efficiency in attracting private funds is attributed to guarantee measures. Efficiency, in terms of impact, is similar to that of credits (depending on the purpose of the credit), whilst administrative costs are low. In terms of administrative costs for enterprises, portfolio guarantees are more efficient.

Recommendations of Evaluation

Following the evaluation, the following recommendations have been prepared:

1. To provide subsidies for acquisition and updating of equipment only for the SMB entities and only in the cases, where the use of this equipment is consistent with the European Strategy for the Development of Key Enabling Technologies, or where enterprises operate in the spheres of smart specialization, or where the technological update / expansion (provided that an enterprise would not be able to do this by using own funds) is indispensable for ensuring the continuous export.

2. To provide subsidies for the activities aimed at export promotion or installation of e-solutions only for those SMB entities which, due to the scope of their activities, are not on their own capable of implementing these activities to the desired extent. Assessment of capabilities to make planned investments without the support of EU funds has to be performed at the time of assessment of applications for funding submitted by enterprises. This assessment could be facilitated by the introduction of financial criteria. For example, subsidies for the activities aimed at export promotion and installation of e-solutions could be provided if annual turnover of the SMB entity does not exceed LTL 15 million or other foreseen amount.

3. To support the strengthening of the competences of human capital in enterprises, necessary for initiating and developing export. In the period of 2007-2013, there was lack of interventions, aimed at not only helping the enterprises deal with challenges in export initiation and development, related to

identification of export markets and establishment of contacts, but also at strengthening human capital, identified as one of the obsticles to increasing export volumes.

4. To ensure continuous financing of industrial zones and free economic zones, being developed in the period of 2007-2013, by supporting, in the form of subsidies, the development of infrastructure necessary for attracting new investments, as well as soft measures of attracting investors.

5. To foresee a measure for supporting joint activities of several enterprises in initiating or developing export, in order to promote export via closer cooperation of SMB entities and clusterization.

6. To focus part of financial engineering and related measures (credits, guarantees, partial compensation of credits interest) on the high value added generating (or knowledge-intensive) enterprises (with higher value added per one employee than the country's average), setting for these enterprises especially favourable conditions for using financial engineering and related measures.

7. To maintain the conditions for providing some portion of credits, guarantees and portfolio guarantees the same as in the period of 2007-2013, so that various SMB entities (not only those of high-value-added and other prioritized) would be able to receive financing.

8. To place a higher priority, among financial engineering measures, on investment credits, i.e. strengthening of competitive advantages of enterprises, rather than solving issues caused by the shortage of working capital, in order to achieve long-term economic objectives.

9. To dedicate for venture capital and "Business Angels" measures amounts of funds not smaller than in the period of 2007-2013. Taking into account that previously gained experience will most likely provide an opportunity to launch the funds at the very beginning of the new period, a possibility of increasing volumes of financing should be considered.

10. To ensure the provision of quality business consulting public services, higher awareness of these services and implementation of entrepreneurship initiatives.

11. Providing assistance for increasing business productivity and improving access to the financing sources to support only SMB entities. Evidence from international studies revealed that it is doubtful whether supporting large enterprises have positive impact on the economy. It was concluded that large enterprises would be able to implement their plans without the assistance funds, therefore, support does not generate any additional impact.

12. To announce in advance (for the upcoming period of 12 months) the dates of the planned calls for proposals and information on the requirements for enterprises, projects and documents, in order to provide opportunities for enterprises to prepare technical and other time-consuming documents on time.

For more details on the evaluation do not hesitate to contact Edvinas Bulevicius, the Head of Economic and Finance Department at BGI Consulting, Ltd., e-mail: edvinas@bgiconsulting.lt, tel. +370 5 215 3969.