

## **ANALYSIS RESULTS OF EUROPEAN UNION FINANCIAL SUPPORT FOR LITHUANIAN BUSINESS**

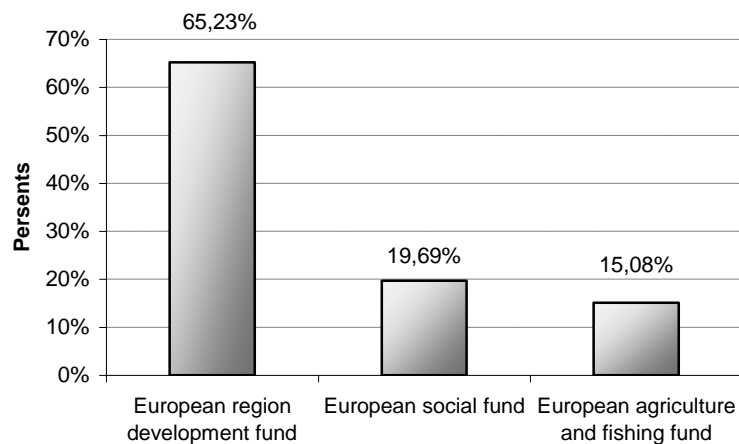
*In article “Analysis results of European Union financial support for Lithuanian business” are analyzing EU Structural funds, which assist the regions undergoing difficulties in adapting to the changing economic and social conditions. Projects financed under the Structural Funds help enterprises undergoing difficulties and their employees take on different, more sustainable activities. There are discussing about the aim of the EU structural funds and general principles of support for Lithuanian.*

**Annotation.** Disparities between the EU regions existed from the very beginning. In order to help the Candidate Countries to prepare for accession three EU Structural funds-type instruments (ISPA, SAPARD and PHARE) were made available for Lithuania in the period 2000-2006. Therefore, Lithuania had a possibility to acquire practical experience of how the EU Structural Funds are managed and prepare for a smooth transfer to the “real” structural funds by creating the necessary structures, legislative basis and developing the required administrative capacity to absorb the EU structural support.

**Introduction.** European Union (EU) is the largest and most powerful trade block that together with the United States and Japan plays the most important role on international stage, and it regularly expands its borders. Most of European and East European countries prefer to be and try to become a part of this Union. In its turn, the EU is interested in expansion of its territory, and therefore it helps perspective states to become its members, i.e. provides support to them through different structural funds (2, p. 119). Due to economic and social differences the EU regions, i.e. states have different possibilities for development. Therefore, there arose an issue for the EU how to reduce those differences. As a response, the EU set itself as an object to reduce the differences of economic and social development in different EU countries and improve the competitiveness of retarded countries, i.e. exercise regional policy (4, p. 194). And this policy is carried out through EU structural funds.

There are four EU structural funds: European region development fund, European social fund, European agriculture and Fishing oriented financial tool. Although one more, the so-called Union fund, is very often named as the fifth informal EU fund.

It is provided for in the EU financial offer regarding support for countries-candidates that Lithuania in 2004-2006 should receive about 1367 million. EURO from the EU structural support funds, it is about 455 million. EURO or 3 % of Lithuanian GDP annually. Major part of the EU structural support – 822.5 million. EURO will be allotted for structural funds support and 543.5 million. EURO for Union fund (6). Split of the EU financial support among 4 structural funds is illustrated in Fig.1 below.



**Fig.1.** Split of the means of EU structural funds

(Source: [http://www.infobalt.lt/docs/FM\\_Krisciunas\\_SFai\\_ABC\\_Mo.ppt](http://www.infobalt.lt/docs/FM_Krisciunas_SFai_ABC_Mo.ppt))

So, as it can be seen from the Fig.1, the greatest part of support will fall to the EU regional development fund (development of economics, infrastructure, manufacturing section), i.e. 65.23% or 536.52 million. EURO.

Structural funds provide financial support to the projects initiated by enterprises that encounter with certain difficulties as well as to the employees to undertake other more perspective activities. The regulations of EU provide for the possibility to each structural fund to provide financial support to certain measures taken for implementation of some projects. At present there are set 3 priority targets for investment of structural means:

1. Stimulation of retarded region development and their adaptation to economic changes. Support is provided to the regions the GDP of which is lower than 75% than that average one in the EU, as well as to the regions with particularly low density of population (support for the latter ones is provided seeking to avoid migration and further decrease in number of population). The whole territory of Lithuania is attached exactly to such target of support.

2. Support to industrial regions experiencing crisis in order they could turn to other fields of economy. Regions where industry makes the economic background and that encounter with long-term unemployment. Development and adaptation to economic changes in country-side also received support.

3. Support to education, improvement of qualification and training for new professions. Basic measures for that are professional training and training for new professions as well as development of labor stock institutions. These measures will be financed from the EU Social fund (3, p.190).

The following principles are observed seeking to increase the efficiency of the support provided by structural funds.

- **Concentration.** Exactly after the reform of structural funds the priority targets and special purpose regions were distinguished for provision of support.

- **Programming.** The guides-lines of structural fund activities are based on long-term planning. There are several stages of programmed planning in the way that ends in implementation of specific projects.

- **Partnership.** Close co-operation among EU Commission structures as well as national, regional and local institutions of the states is being developed when preparing above program documents and administrating structural funds.

- **Supplementation.** Support of the structural funds is provided not for replacement of the expenses those countries have in certain fields, but for supplementing them. When support is provided to specific economic sectors, the national states are requested not to use this support for covering the state's expenses related with other fields of economy. Following this principle, the EU Commission insures more efficient control of the results of its policy. Actually, the principle of supplementation usually means common financing of the projects by EU members. Lithuanian industry and business take step by step adaptation to competition in the EU and international markets where competition constantly grows. However, the competitiveness of Lithuanian enterprises and speed of industrial development is still insufficient. Development of business is hindered by low level of business activity and insufficient growth of business competitiveness. Goals of the development of the priorities of industrial sector will be implemented with the help of four basic measures that are provided for in the General Programming document :

1. Direct support to business;
2. Improvement of business environment;
3. Development of IT services and infrastructure;
4. Public infrastructure and services of tourism.

**Analysis of basic measures in the General Programming document.** The purpose of direct support to business is to increase of competitiveness of enterprises and business activity level as well as balance of equal business possibilities and increase of science potential in business.

Support to business is directed to specific fields of activities that are especially important to Lithuania. Thus, direct support to business will be provided to the following activities:

➤ Creation and development of new products and services; introduction of new technologies and innovations will help to achieve preferable growth of enterprise competitiveness. These processes will be speeded-up by implementation of modern IT, development of electronic business, creation of informational systems and data bases and their introduction;

➤ Impact of scientific researches to industry and business, establishment of relationship among industry and business objects and scientific research institutions. Priority will be granted to projects related with more than just one enterprise;

➤ Introduction of control management systems and new quality improving methods helping to advance the level of competitiveness of enterprises;

➤ Stimulation of internationalization of enterprises and improvement of the access to world's markets; creation of business and industry co-operation networks and clusters;

➤ Measures of environmental protection in the enterprises. Introduction of the systems and means of environmental protection in the enterprises as well as development and introduction of environment friendly technologies will reduce unfavorable impact to nature and environment (1, p. 222-223).

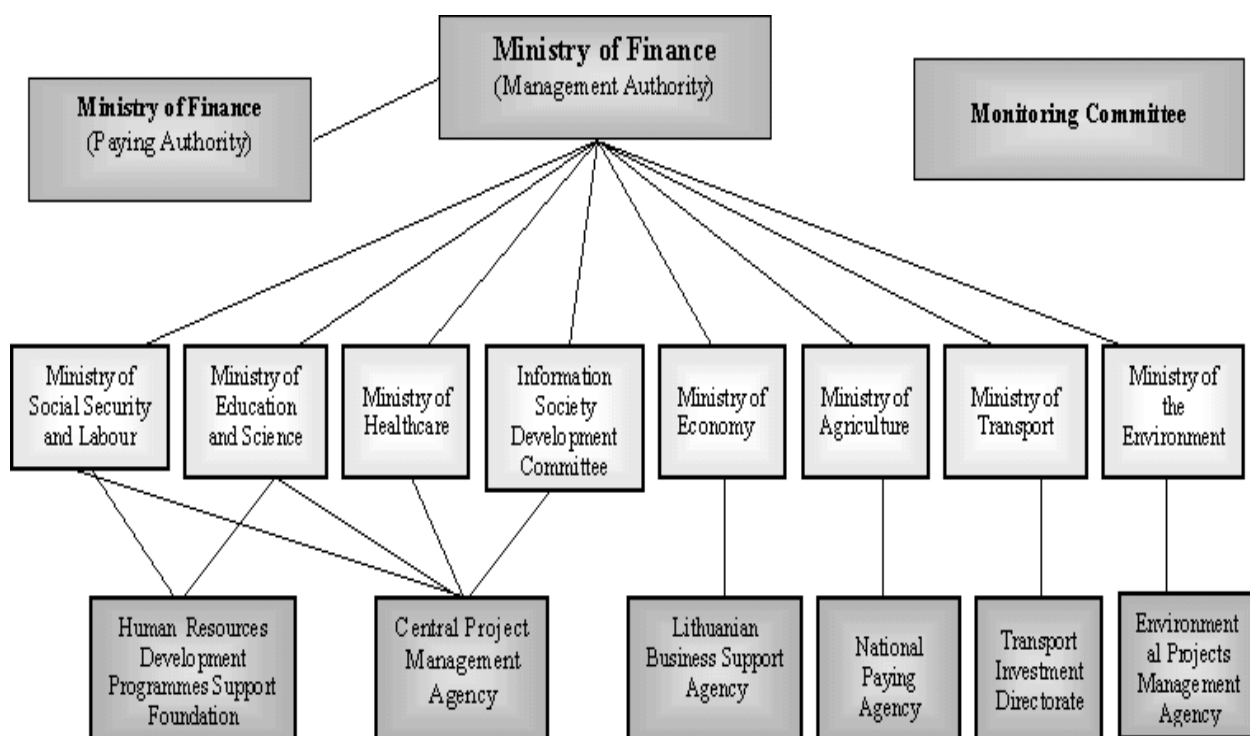
Improvement of business environment is the second measure for implementation of priority goals when developing industrial sector. The purpose of this measure is to improve business environment creating the structure for business services, improving their quality, insuring provision of services and possibilities to use them when developing physical business infrastructure.

When implementing this measure, the support will be provided to public institutions, associations and organizations rendering public services as well as creation and development of physical infrastructure business. Especially great support will be provided to co-operation networks while stimulating mutual relationship among already existing ones such like small and medium sized business support networks that comprises small- and mediocre-scale business development agency of Lithuania, business information/consultation centers, business incubators, Chamber of Commerce, Industry and Trade as well as other institutions rendering services to business (1, p. 224).

Development of services and infrastructure is the third measure that will be applied to two basic fields of activities e-infrastructure and e-services. Support will be provided to preparation of project documentation (specifications, feasibility and suitability studies and researches, preparation of documents for tenders) and works related with information presentation on society development to individual and business objects.(1, p. 227-228).

The support to public infrastructure and services of tourism will be provided to governmental, municipal and public institutions developing public tourism infrastructure, and the providers of private tourism may expect to get support from industry sector development, i.e. direct support to business.

The rules of EU Structural Funds Projects Administration and Financing were approved by the Minister of Finance.



*Fig.2. Management of EU structural funds in Lithuania*

(Source: **Fig.2.** <http://www.LRV.lt>)

In addition to the creation of the administrative structure, a lot of attention is given to the improvement of the administrative capacity to administer, programme and evaluate programmes financed by the Structural Funds. A number of PHARE and bilateral projects are providing assistance to Lithuanian institutions in their preparation to manage the EU Structural Funds. A big contribution was made by the Special Preparatory Programmes for the management of Structural Funds (SPP I, SPP II and SPP III) financed by PHARE. Moreover, [Lithuanian Institute of Public Administration](http://www.litpubad.lt) is providing training courses covering various aspects of the EU structural policy and Structural Funds.

The vision of the national economy is the generalised understanding and perception what type of Lithuania's economy it is striven to develop in the future. The future image of the national economy is characterised in the vision from two aspects: from the aspect of internal social economy and economic international competition. It

reflects the essential changes in the national economy and the most important factors conditioning those changes. If to consider that maximum efforts to achieve consensus between political parties are expedient as regards the future vision of the national economy, efforts were made when formulating it not to be guided by the political and economic ideology of any of the parties.

The State mission in the economic development describes in a generalised way the main general target provisions of the State and the trends of actions for the specified perspective period; it summarises the arguments substantiating those provisions and trends. It was attempted in the text of the mission formulation to identify the most important provisions of the co-ordination of the market mechanisms and the regulating role of the State.

Strategic goals transform the general provisions of the formulations of the vision and mission into the more precisely specified obligations, which indicate what should be achieved in developing the national economy, when and why. The general strategic goal of the Lithuanian economic growth is formulated as follows: to develop and to use effectively factors ensuring a rapid and stable economic growth, until 2015 creating a firm basis for Lithuania's approaching the average EU level according to the GDP indicator per capita within 30–40 years. High average annual rates of economic growth are foreseen until 2015: 7 percent – optimistic, 6 percent – average, 5 percent – pessimistic. Priority factors for a rapid growth of the national economy are considered to be: political and macroeconomic stability; high-level and information technologies; human capital; private internal and direct foreign investments; orientation of development towards export.

Economic growth and its structural development strategy characterises the main actions of the State and the most important measures, ensuring the implementation of the vision, mission and strategic goals: macroeconomic policy of the State, industrial policy, economic reforms, policy of separate economic areas and sectarian development. It is stressed that detailing of strategic goals, actions and measures is necessary for the implementation of the development strategy of the national policy as well as their concrete specification in national programmes, the Government programmes and action plans, action plans of separate ministries and other State departments. Seeking to ensure the comprehensive development of all direct and indirect economic growth factors and their efficient use, we propose to prepare and implement annual and average duration (3–7 years) programmes for the measures and actions aimed at accelerating the economic growth.

The priorities of Ministry attachés are both new observer status in the European Council of ministers and continuity of the contacts with the European Commission. The most important work embraced Council guidelines in the areas of industry,

encouragement of entrepreneurship and innovation policy, with the Commission getting ready to present respective action plans as well as development of an integrated approach to the increase of economic competitiveness and creation of procedures for analysis of its impact on business, adoption of the directive on official proposals (company management takeover), the beginning negotiations concerning regulation on encouragement of sales and REACH regulation, the so-called draft “nuclear energy package” project, review of trans-European energy network projects and creation of an internal market in the gas sector. Special mention should be made of work such as the inclusion of Lithuanian and Polish electricity transmission lines into the project list of the Quick Start Programme, consulting with the European Commission on the projects to be financed from the Ignalina NNP Decommissioning Fund, the start of negotiations with the European Investment Fund concerning the funding of guarantee schemes for small and medium-sized business under the EU multi-year programme for companies, and consistent consulting with the European Commission on the readiness to implement the *acquit communitarian* in public procurement.

In 2003, the main document needed to claim support of the EU Structural Funds – the draft Single Programming Document of Lithuania 2004-2006 – was finalised. The Ministry participated within its capacity in the negotiations with the European Commission concerning the Single Programming Document.

The Ministry drafted four Single Programming Document measures: measures to increase the competitiveness of Lithuanian companies and provide favourable conditions to business, “Direct Support to Business” and “Improvement of the Business Environment”, the measure intended to encourage tourism, especially incoming tourism, “Public Tourism Infrastructure and Services”, and the measure to modernise the energy supply and distribution network and dependency on energy imports, “Ensuring Energy Supply Stability, Accessibility and Increased Efficiency.” The total budget of all of these measures for 2004-2006 (European Regional Development Fund and state budget money) is as follows: “Direct Support to Business” – 103.103 million euros, “Improvement of the Business Environment” – 44.187 million euros, “Public Tourism Infrastructure and Services” – 90.320 million euros, “Ensuring Energy Supply Stability, Accessibility and Increased Efficiency” – 82.232 million euros.

**What are the purposes of support provision to Lithuania?** It is necessary to induce economic reforms in Lithuania and improve economic and social welfare of population. All the EU countries are closely related among themselves (especially from economic point of view), therefore possible economic crises and lower level of living might have direct impact to other states, EU members. Any negative changes in one country (for instance, high level of unemployment) would terribly reflect in the economy of the other (for instance, by big stream of migrants stipulated by free

population movement). Thus, strengthening Lithuania, the EU countries strengthen themselves, too.

1. Improvement of economic and social situation insures political stability. It is very important to consolidate the democracy in political life of the country as well as democratic institutions, honest and objective courts, eliminate corruption, etc. Europe cannot stay indifferent to processes going on in Lithuania. Democratic authorities and implementation of democratic principles have direct influence to economic reforms and country's welfare.

2. There is an aspiration to create unified Europe where democracy, economic and social welfare would prevail, where countries would live in peace and any war conflicts could happen. The EU states having got good lessons from all-devastating World War 2 realized that these words are not just mere words and that it is always better to act together (7).

3. Since the year 2000, Lithuania could use the means of two EU support tools: ISPA (support to large-scale infrastructure and environmental projects) and SAPARD (support to agriculture and country-side development). Support to Lithuania through these two funds will be provided up to the day of its admission to the EU, later on EU structural funds will replace that support.

4. Till Lithuania's admission to the EU, it is planned to use 45-50 mln. EURO (162-180 mln. Litas) from PHARE, about 50 mln. EURO (180 mln. Litas) from ISPA, and about 29 mln. EURO (140 mln. Litas) from SAPARD.(7).

5. Assimilating the EU support and executing specific works we create new working places. Lithuanian enterprises received and continue receiving orders for building roads, boiler-houses, equipment of dumps, supply of software, rendering consultations. And the EU help provided as training and consultations help to improve the qualification of Lithuanian employees and workers.

**Conclusions.** The results of the researches performed in different countries reflect positive opinion about influence of integration into EU. It is anticipated that after joining the EU, due to support received from Union and other funds, the GDP of the states-candidates should grow till the year 2009 averagely from 2.9% (pessimistic forecast) to 5.6% (optimistic forecast), i.e. by a few percentage points quicker than in present EU countries.

1. Investments to Lithuanian economy during period of 2002-2009 should make up about 23 mln. Litas. It was estimated that the means of the EU structural and Union funds in total investment amount should make up during this period about 9 bil. Litas. State's investments should amount to 4.5 bil. Litas. Other part of investments should be financed by the private sector.

2. Integration to the EU will bring Lithuania direct benefit in the form of payments from the EU budget. It was estimated that the means of the EU Structural and Union funds, direct payments to agriculture and contribution the EU and



countries-donators made (or undertook to make) in the form of non-returned support should reach about 15 bil. Litas within the period of 2002-2009.

3. It is provided for in the EU Commission's financial offer regarding support to states-candidates that Lithuania in 2004-2006 should get about 1,367 mln. EURO from the EU structural support funds, i.e. on the average approximately 455 mln. EURO or 3% of Lithuanian GDP every year. Major part of the EU structural support (in 2004-2006), i.e. 822.5 mln. EURO will be allotted to structural funds support and 543.5 mln. EURO – to the Union fund (7).

4. Duties of the Republic of Lithuania paid to the EU Budget should make up about 1.2% of the GDP annually. Having estimated all payments and duties between the EU and Lithuanian budgets it is possible to make a conclusion that Lithuania will receive more means from the EU than will have to pay duties to the EU budget, and this positive difference within first years of membership will gradually grow. In case the expenses related with closure of Ignalina Atomic power station are not included into this sum, gross positive difference of budget means transferred in 2004 should make up 258 mln. EURO (about 890 mln. Litas), in 2005 – 392 mln. EURO (app.1353 mln.Litas) and in 2006 – 525 millions EURO (1813 mln. Litas).

5. Having analyzed the influence of the EU funds to Lithuanian economy, it could be possible to assert that Lithuanian institutions and economy will be able to assimilate all the support indicated in the obligations. Making assessment of the influence of integration to GDP, Lithuanian integration to the EU is profitable to country's economy.

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