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**ANALYSIS OF FINANCIAL SUPPORT  
FROM EUROPEAN STRUCTURAL FUNDS  
FOR DEVELOPMENT OF LITHUANIAN SMALL-  
AND MEDIUM-SIZE BUSINESS**

**1. 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. 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. Small- and medium-size business development effects significantly competitiveness and growth of market economics. After joining the EU, the role of small- and medium-size business enterprises of Lithuania will become more significant. Employees of the small- and medium-size business enterprises make up more than a half (about 66%) of the total number of employees in the EU countries, and produce 75% of GNP, meanwhile Lithuanian small- and medium-size business enterprises employ approximately 68% of the total amount of Lithuanian working people; however they produce only 58% of GNP. Therefore support to small- and medium-size business enterprises should become one of the priorities in our country and EU.

**Aim of this work** was to analyse the influence of financial support for the development of small- and medium-size business in Lithuania.

**The main tasks are:**

- Review the situation of Lithuanian small- and medium-size business in the context of the European Union;
- Discuss the tendencies of the financial support of the European Union Structural Funds;
- Perform SWOT analysis of the financial support for the development of Lithuanian small- and medium-size business.

## 2. Situation of Lithuanian small- and medium-size business in the context of the European Union

Development of small- and medium-size business is a very important factor when inducing the competitiveness and business engagement.

Small- and medium-size enterprises (SMSE) are one of the most important components in the EU economics. They employ 66% of the total amount of working people in the EU and create 50% of new working places. Micro-enterprises (up to 10 employees) create one third of the total number of working places in the EU. In 2006, the number of employees of the small- and medium-size enterprises made up 68.8% of the total amount of working people in Lithuania.

Enterprises with the employee number up to 50 make up almost 98.2% of all the enterprises in the EU countries. Those enterprises have employed 66% of the total amount of working people in the EU. Speaking about the number of employees, the structure of Lithuanian enterprises is very similar to that of the EU. Such Lithuanian enterprises having their staff up to 50 people make up 95.7% on the map of the country, however only 31.6% of the total amount of working people is employed there.

Table 1. Comparison of the main indices of small- and medium-size business sectors in Lithuania and the EU

Index	Lithuania	EU	Comparison of Lithuanian and EU sectors
GDP part produced by SMSE, %	58,2	75	Falls behind the EU average
Working places created by SMSE, %	68	66	Outrepassés EU average
SMSE part in the total number of enterprises, %	99,4	99,8	Close to ES average
SMSE part falling to 1000 residents	15	55	SMSE density is 3.6 times less than in EU
Average turnover of SMSE, in mln. EUR	0.3	0.6	Income of Lithuanian SMSE is twice less than in the EU
SMSE VAT/1 employee in thousand EUR	5.1	13	VAT/1 employee in Lithuania is twice less than in the EU

Source: owner source.

The data in The Table 1 show that the situation of Lithuanian small- and medium-size business sector is worse than that in the EU countries. Despite the fact that the indices of SMSE part in the total number of enterprises and the number of created working places are close to those of the EU, Lithuanian small- and medium-size business sector falls behind from the other members of the EU.

The main indices defining the small- and medium-size business sector in Lithuania are lower than the EU average, and therefore the support for the development of Lithuanian small- and medium-size business is especially important now, when

Lithuanian became the member of the EU. Small- and medium-size enterprises having received greater support would be able to better compete in the market of the EU and outside.

### **3. Tendencies of the Financial Support of the EU Structural Funds**

Structural Funds make a tool of a regional policy of the EU. The regional policy of the EU is seeking to consecutively reduce social and economic differences of the regions and induce equal development of the entire EU.

There are lots of economic and cultural differences existing within the EU. However, it is observed uneven development of separate regions and this is happening due to different reasons. There are differences in income or countries encounter with different difficulties due to unemployment. All these inequalities raise a problem of unity and solidarity for the countries-members of the EU. To solve above mentioned problems Structural Funds have been established the activities of which are supplemented by the so-called Union initiatives. The purpose of the Structural Funds is to coordinate regional inequalities while influencing the crucial economic and social factors. In other words, trying to help poor regions in their development and increase the living standards of the residents of those regions seeking alongside to assure social and economic linking within the EU.

Differences among the EU regions existed from the very beginning (the most remarkable example could be lagging regions of Italian South). Those differences became even more noticeable when such countries like Ireland, Greece, Spain and Portugal joined the EU. The difference in GDP of some regions makes up 3.5 times, and indices of unemployment – up to 7 times. Reduction of social and economic differences of such regions and inducement of even development of the entire EU is the objective of the regional policy of the EU [EU Financial...].

The regional policy of the EU may be considered as a component of the structural policy that is implemented with the help of the EU Structural Funds and Union Fund.

Structural policy funds, first of all, seek to help the regions encountering with some difficulties while trying to adapt themselves to the conditions of changing economy and social life. Structural Funds are used for financing projects related with poorly coping enterprises and employees to help them start a more favourable activity.

The other possibility – to increase the efficiency of the branches of economy suffering from crisis and help them to survive under pressure of competition. For instance, unemployed may learn in order to obtain knowledge of more perspective specialities. However, Structural Funds do not finance the means of passive social policy (unemployment benefits, etc.)

- **European Regional Development Fund (ERDF).** Its task is to equalize regional differences within the EU, improve social and economic cohesion while correcting regional unevenness and rendering help to regional development. The means of this Fund make up about half of the budget of all the Structural Funds [Baršauskas 2002, p. 18].
- **European Social Fund (ESF).** It's task is to reduce the level of unemployment, increase human resources and induce professional integration. This Fund is also seeking to induce high-level professionalism, men and women's equality, balanced development and economic as well as social cohesion. ESF supports projects solving social problems, first of all that of employment.
- **European Agricultural Guidance and Guarantee Fund (EAGGF).** This is a financial lever of countryside policy development. The Fund is divided to two sections: Department of Guarantee s and that of Orientation. Only Orientation Department is a structural fund. EAGGF Orientation Department is regarded a part of the EU structural (not general agricultural) policy because it provides support to implementation of new management methods, development of alternative economic activities in the countryside (e.g. country tourism).
- **Financial Instrument for Fisheries Guidance (FIFG).** The task of this Fund is to seek for balanced management of resources while supporting the re-orientation of economic activities in the areas engaged in fishery.  
The amount of monetary means id determined basing on the following criteria:
  - country's population
  - area of the country
  - GDP/resident
  - Social and economic factors, e.g. inequality of transport infrastructure.

On January 31, 2003, Lithuanian Government approved document on General Programming of Lithuania. This document serves as a legal basis for the EU granting the financial support to Lithuania.

Seeking to put into practice the raised tasks, the priorities were anticipated one of them was development of production sector. One of the aims of the development of the production sector was to increase the competitiveness of industry and business. This task will be implemented with the help of a few means that were anticipated in the General programming document.

#### **4. SWOT analysis of the support to small- and medium-size business in Lithuania**

Seeking to thoroughly analyse the level of support for small- and medium-size business development we used the SWOT method. This is a universal and effective method of performing the researches [Christauskas i in. 2002, p. 67]. Strong sides of the support to Lithuania are as follows:

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- *Economical stability.* Regular growth of GDP is reached, assured insignificant rates of inflation. These factors allow providing support for the development of small- and medium-size business in Lithuania.
  - *Existing legal basis.* Legal control of business is performed taking into consideration the jurisdiction of the EU and approved strategic trends of Lithuanian economy and programs. The support for the development of small- and medium-size business is regulated by legal and standard basis as well as approved legal acts complying with the EU requirements. Support provided by the Lithuanian Government to small- and medium-size business is regulated by the Law of alteration No. IX-1142 of the Law on Small- and Medium-size Business Development of the Republic of Lithuania issued on October 22, 2002 (Valstybės žinios 2002, nr. 105-4689), and General Programming document and other legal documents allow Lithuanian small- and medium-size enterprises to receive the support from the EU Structural Funds.
  - *System of Lithuanian Institutions providing support to small- and medium-size business.* In Lithuania there is established and developed the network of institutions providing support to small- and medium-size business. These are: Agency of Lithuanian small- and medium-size business, 32 business information centres and 7 business incubators. These institutions provide free business information, render training and consultation services to small- and medium-size businessmen; lease premises on benevolent conditions; render office and business management services; intermediate in applying for financial support; assist in implementing new technologies and science novelties. Guarantee institution Close joint stock company “Investicijų ir verslo garantijos” (investment and business guarantees) that provides business loans guarantees for the banks crediting small- and medium-size enterprises also partially covers interests of the loans. Close joint stock company “Lietuvos eksporto ir importo draudimas” (Import-Export Insurance of Lithuania) induce export of Lithuanian enterprise production insuring goods risk and credits given for their production. It also supports small- and medium-size enterprises insuring their long-term credits for implementation of investment projects.
  - *Benefits granted by the Lithuanian Government to small- and medium-size enterprises.* Entities of Lithuanian small- and medium-size business while carrying out their activities may use tax and other benefits.
  - *Support provided by the Lithuania Government to small- and medium-size enterprises.* Lithuanian Government support creation of new working places from the Fund of Employment as well as inducing local engagement initiatives. While executing these programs, small- and medium-size enterprises having created new working places meeting the requirements of Employment Fund, receive financial support from the state. Through the Special Program of implementation of the strategy of small- and medium-size business development

and inducement the means for improvement of legal and economic environment of small- and medium-size enterprises are allotted.

- *Preparation for the receipt of support from the EU Structural Funds.* Seeking to help the states-candidates to prepare for joining the EU, some means of structural support such like ISPA, SAPARD ir PHARE have been established for the period of 2000-2006. Lithuania as one of the candidates has an opportunity to familiarize with the possibilities to use the EU Structural Funds and prepare for transition to administration of “true” structural funds, create required administrative structures and legal basis as well as develop appropriate capabilities of administration for usage of the EU structural support.
- *Financial support provided by the EU Structural Funds.* 1.37 billion EUR will be allotted to Lithuania in 2004-2006 from the EU Structural Funds of which 203.8 mln. EUR will be allotted for the development of production sector (industry, small-and medium-size business development, agriculture, country-side development, tourism) in 2004-2006. That makes up 25.7% of the means granted by the EU Structural Funds to Lithuania.

Weak points of the support to the development of small-and medium-size business in Lithuania:

- *Lack of experience while preparing projects to get the support from the EU Structural Funds.* Many of small- and medium-size enterprises do not have sufficient experience and possibilities how to prepare qualified projects to get support from the EU Structural Funds. Therefore they must apply to the private companies and consultative firms the are capable to create business plans and whose services are paid regardless from the results.
- *Lack of Governmental financial means applied to the beginners and those that are developing small- and medium-size business.*
- *Burden of administrative functions for small- and medium-size enterprises.* Not only businessmen, but also state institutions recognize that lots of bureaucratic restraints for business exist. Different commissions and working groups were formed to reduce the restraints for business, unfortunately the results didn't bring expected results. At present, lots of control and verifying state institutions exist that are issuing the rules for control of the institutions themselves and that economic entities are made to observe, too. This requires additional investments in order to assure observance of these rules and make preconditions for corruption.

Possibilities of Lithuanian support for the development of small-and medium-size business:

- *Establishment of new small- and medium-size enterprises.* After joining the EU, Lithuanian institutional system of providing support to business was supplemented by the support of the EU Structural Funds. This support induce businessmen to start new business, and already functioning entities of small- and medium-size business are encouraged to present new business ideas and establish new enterprises.

- *Increased competitiveness of functioning small-and medium-size enterprises.* Lithuania being a state-member of the EU, the financial support provided by the Lithuanian Government as well as Structural Funds of the EU will increase the competitiveness of small- and medium-size enterprises within Lithuania, the EU and outside.  
Possible dangers of support to Lithuanian small- and medium-size business:
- *Lack of experience in administration of the means received from the EU Structural Funds.* Although Lithuania had the possibility to prepare for the administration of the EU Structural Funds according to the requirements of ISPA, SAPARD and PHARE, the experience of state-members of the EU shows that even such rich countries having qualified administration like Finland, Sweden and Austria encountered with great problems of assimilation of the EU support during the first few years of their membership.
- *Passive attitude of the businessmen when submitting projects to get the EU support.* Not all potential recipients of the EU Structural Funds support will submit projects to get that support. It can happen that Structural Funds will not receive sufficient number of qualified projects, but also there will be felt lack of simple ideas how to assimilate those funds.
- *Financial support of the EU Structural Funds will not reach those who badly need it.* Stronger small- and medium-size enterprises will take the support that have sufficient means to cover the expenses related with the project or those that are capable of preparing good business plans and get loans in the banks.
- *Non-compliance of the projects to the requirements.* Even those small- and medium-size enterprises that prepared projects or paid for qualified preparation cannot be sure that their project would be approved by the EU Structural Funds institutions administering financial support and that the required financing would be received.
- *Insufficient qualification of state employees.* Presentation of the projects that can pretend to the EU support sometimes delay due to insufficient qualification of the employees of Lithuanian ministries and therefore small- and medium-size enterprises lose their possibility to get the means of the EU Structural Funds as the contractors (subcontractors) of public contracts.
- *Separate cases of corruption while distributing the means of the EU Structural Funds are possible.* Cases of corruption and negligence of the employees of the ministries when distributing the means of PHARE occurred.

It is always possible to improve the weak and strong sides that reflect the situation related with the development of small-and medium-size business in Lithuania and that create background for the future. The main indices of Lithuania economics, i.e. GDP, GDP for one resident of the country constantly grow and this grants increasing support of the Lithuanian Government to small- and medium-size business. The structure of Lithuanian institutions providing support to the development

of small- and medium-size business is also growing. The support of these institutions will compensate the lack of experience of preparing the projects to get the support from the EU Structural Funds.

#### 4. Conclusions

The GDP part produced by the small- and medium-size enterprises is less than that of the EU countries that produce about 75% of GDP. Therefore, seeking to reach true prosperity of economics it is very important to further improve small- and medium-size business environment and increase support to the development of Lithuanian small- and medium-size business and try to reach the level of other EU states-members.

Official statistics on the Implementation of Single Programming Document (SPD) dated 31<sup>st</sup> July 2005 reveal the following:

- From more than four billion Lt of EU and national funds allocated for all five SPD priorities for the period 2004-2006, only 3% was absorbed and declared to the European Commission. The highest level of absorption was for the first priority "Development of social and economic infrastructure" (7%) and the lowest for the second priority "Human resources development" (0%). The third priority "Development of productive sector" was able to utilize and declare 0.34% of total SPD allocation to this priority.
- Absorption of SPD funds by priority does not depend on the number of applications. The greatest number of applications was received for the third priority "Development of productive sector" – 604 applications for total sum of 238% of SPD allocation for this priority. However of this numerous applications only 48 contracts were signed for 29% of total allocation. For the priority Human Resources Development 404 applications were submitted (69% of total allocation for this priority) of which 163 contracts have been signed (34% of total allocation). Such a high proportion of rejected applications may be related to three main reasons – applications do not meet requirements, requirements and assessment rules are too contradictory and complicated and give room for arbitrary decisions, the national capacity is insufficient to evaluate applications and manage allocation and utilization of EU Structural Funds at large.
- The gap in the number of applications and pace of absorption of Structural Funds between the counties is enormous. Vast majority of applications comes from the only Vilnius county. On average the difference between the Vilnius county and the most advanced Klaipėda and Kaunas county is tenfold. Given the immense importance of competence and skills for territorial cohesion we examined the process of SPD implementation for Human Resources Development priority by county. The majority of backward counties that, according to their plans, experience sharp need in competent labor force, have submitted one-two applications of which often not a single application was approved and



financed. The reason for insufficient utilization of Structural funds in counties may be related to lack of competence to apply for funding at the local level as well as to faults in the national system of SPD implementation or to both.

County development plans to a large extent reflect Lithuania's capacity and vision of how it intends to implement Lisbon strategy. In this context it is important to assess whether county plans address challenges that faces Lithuanian society and set out a broad socio-economic context conducive to the implementation of key national priorities – growing knowledge economy, highly paid full employment and socio-economic cohesion

Conceptually the majority of county plans are more look like the sum of municipal plans rather than a higher level strategy aimed at mobilizing local resources. Priorities and goals proclaimed in all ten county strategic plans are generally consistent with the national development priorities in line with Lisbon strategy.

Analysis of measures of county plans features:

- The majority of county plans are 'infrastructure' biased. In other words, county administrations often try to solve crucial development problems by investing in physical infrastructure, underestimating the 'software' aspect of problem solution. Most indicative in this respect is human resource development. Often access to marketable skills and life long learning is more related to renovation of buildings and purchase of equipment than to formulation of adequate curricula, flexible training programmes and empowering teaching methods. Commitment to Lisbon strategy in building knowledge economy has inspired a shift from investing in 'means of production' towards investing in people and their creativity. The ongoing qualitative change in economic thinking, however, has not yet fully overcome the influence of inherited from the past 'extensive' approaches to economic development. In a knowledge economy investment in physical infrastructure should be adequately combined with interventions to promote life-long learning.
- In all county plans the priority of socio-economic cohesion is underrepresented and its impact on county development is obviously underestimated. Plans lack measures aimed at bridging gaps in territorial development within the county. For example, according to the Master Plan of the Territory of the Republic of Lithuania economically advanced territories in Alytus, Marijampolė, Utena, Tauragė and Telšiai counties should become regional growth centres and give impulse to socio-economic development of surrounding territories at a range of 50-70 km. Respective county plans, however, do not offer appropriate measures in this context. No county administration has mapped out deprived areas and proposed feasible measures/projects for their regeneration. In many county plans important factor of territorial cohesion – mobility of county inhabitants is mostly addressed by improving roads than by developing network of accessible and affordable public transport.

- The counties, that presented budgets in their plans, indicated that, on average, they need to attract almost 50% of total budget from EU funds and other foreign donors for the plan implementation. Although all county administrations acknowledged that they lack competence necessary for the formulation of feasible territorial projects and preparation of project documentation, few of them have a separate goal backed up by system of measures aimed at building local capacity to attract and effectively utilize EU structural funds and other foreign assistance.

The EU Structural support to Lithuania in 2004-2006 will make up about 1.37 billion EUR from which 203.8 mln. EUR will fall to the development of the production sector (25.7% of the means of all the EU Structural Funds).

Strong sides of the support to the development of small- and medium-size business in Lithuania are laid in existing legal basis that regulates provision of support to the development of small- and medium-size business; rapidly expanding the network of the institutions providing support to small- and medium-size business; and financial support of the EU Structural Funds.

The main weak points are as follows: lack of experience of the small- and medium-size enterprises when preparing the projects to get the support from the EU Structural Funds; insignificant financial support from the side of the Lithuanian Government to small- and medium-size enterprises.

Support provided to the development of small- and medium-size business in Lithuania makes it possible to establish new small- and medium-size enterprises and compete in the market of the EU and the world.

Dangers expecting in the way of the development of small- and medium-size business: lack of experience in administration of the EU Structural Funds means; possibility that financial support of the Funds will not reach those that badly need it, it means that it can occur stronger small- and medium-size enterprises will get it leaving aside weaker ones; and possible corruption and negligence when distributing the means of the EU Structural Funds.

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## ANALIZA WPŁYWU FINANSOWEJ POMOCY POCHODZĄCEJ Z EUROPEJSKICH FUNDUSZY STRUKTURALNYCH NA ROZWÓJ MAŁEJ I ŚREDNIEJ PRZEDSIĘBIORCZOŚCI NA LITWIE

### Streszczenie

Mała i średnia przedsiębiorczość (MŚP) stanowi bardzo ważną część gospodarki Unii Europejskiej. Wsparcie dla małych i średnich przedsiębiorstw stanowi podstawę budowania silnej gospodarki na Litwie. Strategia rozwoju MŚP jest wdrażana etapami obejmującymi okres przedakcesyjny i wejście Litwy do Unii Europejskiej. Dziesięć strategicznych programów rozwoju małych i średnich przedsiębiorstw do 2004 r. i osiem do 2015 r. dotyczy następujących obszarów: zakładanie nowych średnich i małych przedsiębiorstw, działalność przedsiębiorstw, regionalny rozwój małych i średnich przedsiębiorstw, szukanie równowagi między rozwojem narodowej gospodarki a sferą socjalną, wzmacnianie kwalifikacji pracowników.

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