

Standard Summary Project Fiche
Project Number 2003.004-341.07.01

1. Basic Information

Objective 7 - Private sector, Restructuring, Privatisation, SM

1.1 **CRIS Number:** 2003.004-341.07.01

1.2 **Title:** Druskininkai Urban Development

1.3 **Sector:** Economic and Social Cohesion

1.4 **Location:** Municipality of Druskininkai, Lithuania

2. Objectives

2.1 Overall Objective(s):

The overall objective of this **4.2 MEUR** project with Lithuanian co-financing contribution of **1.05 MEUR** is the development of economic and social cohesion of Lithuania based on urban renovation of Druskininkai and improved public infrastructure.

2.2 Project purpose:

The project purposes are:

- To assist the Municipality of Druskininkai to establish infrastructural potential of the town, which will help to respond to the collapse of traditional markets following Lithuanian independence and subsequent social-economic development problems.
- To renovate the Water Treatment Centre (within the existing Physiotherapy Centre) and thereby lay the basis for improved future investment in the development of Druskininkai as a water/health resort town.
- To contribute to the solution of social-economic problems in the region. This will include direct and indirect creation of employment to reduce high unemployment rate.
- To strengthen the capacity of Druskininkai municipality in the future implementation of their development plans and, in particular, the effective preparation for investments (Structural Funds and private investments) and to provide a basis for using the developed infrastructure as a pilot vehicle for future ESF activity.

2.3. Accession Partnership (AP) and NPAA priority

The project reflects the priorities set in the chapter on economic and social cohesion of the National Programme for the Adoption of the Acquis of May 2000, namely:

- Implement the National Tourism Development Programme (which includes a priority to develop tourism infrastructure):

“Tourism sector is of great growing potential with necessary investment needs. the priorities of tourism development are: to create public tourism infrastructure and improve tourism service quality and variety, develop tourist information and marketing and improve professional training.”

The project also is in line with the Accession Partnership 2001, under Regional Policy and Coordination of Structural Instruments, “development of the technical preparation of projects eligible for Structural and Cohesion Funds assistance ”.

2.4. Contribution to National Development Plan (NDP) and Single Programming Document (SPD)

The National Development Plan 2002-2004, Measure 4. Development of the sector of overseas and local tourism: “... a significant part of tourists’ surplus is expected to be absorbed by developing the labour-intensive sector of tourism.”

Measure 1. Development of Industry and Business: "Tourism should become the development priority of the areas rich with the recreational (natural and cultural) resources. It can be reached only by improving considerably the quality and the variety of services and leisure and also by creating special tourist products.”

Contribution to the SPD. Sector 1.3 Tourism. Measure 3: "Improvement of image of the Unique Druskininkai Health Resort, using natural, cultural, curative factors, based on human values”.

3. Description

3.1 Background and justification:

The proposed project is based on the following arguments:

Traditional markets have collapsed and the town faces major social-economic development problems. In the soviet period, the town’s economy was fundamentally based on being a resort town for the Soviet Union. The resort of Druskininkai, with 9 spa hotels, used to serve large flows of visitors from the Soviet Union - around 400.000 people per year. All resort infrastructure was related to health improvement - the spa hotels provided only curative treatment, based on natural mineral water and curative mud.

However, Lithuanian independence and the transition process has led to a dramatic fall in this traditional market and has produced high levels of urban unemployment and raised a huge need for restructuring. The flow of tourists coming to Druskininkai was reduced to a minimum because of visas for citizens from Russia and Belarus and very little financing for the spa hotels from the state. Due to a complex ownership of the spa hotels (all spa hotels belonged to different ministries of Lithuania, e.g Ministry of Health Care, Ministry of Agriculture, etc., some belonged to Trade Unions)) there was no common strategy developed to adapt to economic changes in the region and no common co-ordination.

The collapse of the traditional market from the Soviet Union as well as the lack of a global strategy to tackle the problem also contributed to reduction of visitors in the spa hotels and closing of some spa hotels. Very large spa hotels (e.g one of them has 1300

* Report on Resorts’ Development Conception of the Republic of Lithuania, Kaunas 2002

places) are not adapted to serve the current demand. Every year around 15 000 people come for curative treatment in the spa hotels, though the resort can accept 150 000 tourists. Consequently, the unemployment rate in the resort grew up to 24.7% (as compared to the whole of Alytus Region – 13.7%, and national unemployment rate in Lithuania – 11.8%) (See Annex 7).

Today the Municipality is responsible for the development of the resort and is trying to obtain ownership of the spa-hotels from different institutions or to find private investors.

The town as a “water and health” resort needs to respond to the arising problems on the basis of its strengths. Druskininkai is the largest Lithuanian health resort. It has more than 150 years experience of curative treatment and old curative traditions. The resort is famous for its curative factors, which form the image of the town: mineral water, curative mud, pine forests, rivers, lakes, fresh air. Druskininkai has to be preserved and developed as a health resort with old treatment traditions; it has no alternative form of sustainable economic development

Resort tourism infrastructure requires up-to-date technologies, which could help to attract tourists from other areas of Lithuania and all over Europe. Druskininkai already receives tourists from Poland, Germany, Belarus, Russia and the Nordic countries. The number of tourists compared to the previous years is slowly increasing: in 2000 there were 39 442 visitors, in 2001 - 44 518. But they require a high quality service, and the existing infrastructure needs to be refurbished to meet these demands. In order to apply services according to the requirements of visitors, it is necessary to combine treatment and recreation, and to establish more places of tourism attraction oriented towards different kinds of recreation and leisure* .

Druskininkai has a very good geographical position for the development of tourism services (including the Aqua Park). The resort of Druskininkai is situated in the very south of Lithuania. Within the radius of 120 km to the north largest Lithuanian cities – Vilnius and Kaunas, and regional centre Alytus - are situated. Almost half of the total Lithuanian population, and the part with the strongest purchasing power live in this part of the country. On the west Druskininkai borders Poland (20km), on the east – Belarus (8km) (See map in the Annex 10). In this way the implemented Aqua Park project would reach thousands of visitors.

The response to the problems being faced includes physical infrastructure. The “rebuilding” of the town’s position involves many aspects, but includes the need to physically develop the existing tourist infrastructure to meet the requirements of the new markets. The resort has a great potential of tourism infrastructure. But the buildings are old and need renovation. The physical infrastructure includes the buildings of 9 spa hotels, Physiotherapy Centre (including the Water Treatment Centre), airport, recreational park, bicycle and walking paths, sports halls.

The choice to develop in this project the existing Physiotherapy Centre, and in particular the renovation of the Water Treatment Centre as an Aqua Park is based on several detailed feasibility studies and strategic plans:

- “The Global Druskininkai Development” prepared by a group of Swiss experts “Thermalisme” (see Annex 4). It was stated in the study that the start of Druskininkai revival is related to the development of Physiotherapy Centre (incl. Water treatment centre). Based on the suggestions, preliminary calculations for the economic information have been made (see Annex 101). The calculations include possible numbers of visitors, minimum income, preliminary expenditure and pay-back period of the aqua park project.
- Later Druskininkai Resort Development Programme (Head R.Bagdzeviciene, Kaunas University of Technology) and Economic Calculations for the Reconstruction of Physiotherapy Centre have proved the idea of “Thermalisme” group that the whole Physiotherapy Centre requires modernization.
- The municipality’s strategic plans for the development of Druskininkai. This sets out that the economic development of the town will be driven by the creation of tourism, sports, treatment and leisure industry. The Municipality has approved the strategy to adapt to the changes in the tourism market (see Annex 8).

Moreover, as regards the renovation of the Water Treatment Centre (see Annex 8), there is a need for immediate action as the particular building will deteriorate quickly if renovation is not done in the next 2-3 years and then it would need to be completely demolished at much higher cost.

There were efforts made by the municipality to seek alternative funding, but:

- private investors do not invest and commercial banks do not co-finance the project due to a very long pay-back period – 25,9 years (see Annex 11);
- European Investment bank already gives support for the municipality in the Druskininkai Waste Water System Upgrading and Extension project (total project value –5,5 MEUR, EIB loan – 0,825 MEUR).

Therefore, assistance from Phare is requested for implementation of the project, which will further stimulate investments in the resort.

The proposed project will be the key catalyst for integrated development and future Structural Funds activities. The project will focus on the physical development of one part of the building within the Water Treatment Centre (see Annex 8), but will also lay the basis for the future integrated development of the whole site via public and private finance, and for the promotion of European Structural Funds activities. This first stage intervention will act as catalyst for this wider revival of the tourist infrastructure. The renovated building will be used for establishment of an Aqua Park. The Phare ESC support is requested for the refurbishment of the building and the related technical assistance, while the required equipment and facilities will be financed by the Municipality. In addition, there will be technical assistance in the project to support Druskininkai in the development of a Structural Funds pipeline as well as for maximising the use of the developed infrastructure for future ESF activities (training, employment creation and support, etc.).

The establishment of the Aqua Park will have a direct impact on the further development of the tourism industry in the town of Druskininkai. Improved conditions will bring in tourists and encourage the creation of new services and jobs. The established Aqua Park will bring a demand for food, accommodation and services, such as hotels, restaurants, bars, laundries, souvenir shops, bicycle rent, etc. The Aqua Park will be the object of tourism attraction of the whole region and will encourage the development of other services and reduction of unemployment. The benefits to be provided by the Aqua Park can be summarised as follows.

Modern aqua Park which will be based in the renovated facilities will become the most exceptional and attractive object of the resort, which will:

- bring further private investments and develop tourism and leisure industry;
- extend tourism season;
- solve social-economic problems in the resort and the whole region;
- create new work places;
- create conditions for the development of tourism and business service;
- encourage the creation of new tourists and business products: hotels, cafes, bicycle rent, etc. in the resort. (using future ESF/ERDF funds).

There is a broader plan for the town which sets priorities and which is already being implemented on the basis of the initiative of Druskininkai Municipality using own funds, state investments and private investments. The municipality is ready to finance many parts of the future public facilities (equipment, development of services, operation costs, etc.) but cannot proceed without assistance in the improvement of the basic infrastructure.

After the transition period, which led to a big unemployment rate, the Municipality started implementing several projects to stimulate investments in the resort. Using the municipality's own budget and state investment funds, several projects with the total value of 10 949 709 LTL (approx 3.2 MEUR) have been successfully implemented during the period of 1999-2001. The Municipality of Druskininkai alone cannot finance all the costs for the improvement of the whole tourism infrastructure. It can only take the initiative to stimulate other kinds of investments. At present tourism infrastructure in the resort is in a closed circle:

? Private investors do not invest into tourism infrastructure because there are not so many tourists coming to the region ? tourists do not come because of lack of tourism attractions ? there are no tourism attractions because there are no investors?

The municipality is already making many efforts to stimulate investments in the resort. (Please, also see the Section 3.2.; Annex 9) However, the budget of the Municipality is around 28 MLTL (approx 8 MEUR), therefore additional assistance from Phare is required for implementation of the project which will further stimulate investments in the resort.

3.2 Linked activities

The renovation of the Water treatment centre is linked to actions by the Municipality of Druskininkai to promote the development of the resort in an integrated approach. The Municipal Council has approved the following priorities for the development of Druskininkai for 2000- 2005 m.(Decision of the Council 29 February, 2000):

- Development of resort industry
- Improvement of Environmental Quality
- Establishment of Resort Image
- Education

There are several projects that have been implemented recently, are ongoing or are planned:

Using National funds and Municipality budget:

- “Reconstruction and Renovation Project of Druskininkai Curative Mud Treatment Centre” (refurbishment of the building for better treatment of mineral water and curative mud to meet European standards) is being implemented;
- Sports Centre and Cultural Events Centre have already been established.

An extensive list of projects that have been, are being implemented or are planned is given in Annex 9.

Using ISPA fund:

- Soon “Druskininkai Waste Water System Upgrading and Extension” project of 5,5 MEUR according to ISPA programme will be started. Natural gas network from Belarus is being built by private means.

The implementation of the proposed project, hence, is a part of a wider strategic plan. The municipality is committing resources and has an integrated vision for future projects, which will be developed after the implementation of the subject project.

3.3 Results:

The project will achieve the following results:

- Fully renovated and refurbished water treatment centre and related infrastructure, with building fully operational as a major tourism facility – the Aqua Park. The building is owned and will be owned by the Municipality (Annex 8)
- Public-private partnership, involving the municipality-owned public enterprise set up to manage and operate the facility, and all key staff trained and a full business plan developed.
- Strategy for future investment developments created, and improved capacity of the Municipality to absorb future Structural Funds (ERDF and ESF) and to stimulate related private investment. Structural Fund project pipeline created as well as clear plan for development of ESF activity.
- Around 50 new jobs created directly within the Aqua Park.

3.4 Activities:

The project will be executed through Works, and Technical Assistance components. There will be a supply component fully financed by the Municipality integrated into the project. Indicative budget breakdown for the works and supply component is given in Annexes 5 and 6, respectively.

The Works contract will be used to reconstruct one part of the Water Treatment Centre (a building of original architecture) and to adapt the building for the Aqua Park activities (namely, the main hall, main pavilion and water tower, see Annex 8). It will also include the provision of essential services (heating/ventilation) for all parts of the water treatment centre. The works contract will be carried out through local open tender in accordance with the Practical Guide to Phare, ISPA, and SAPARD (PRAG).

The Service Contract will support the municipality in the following areas:

- Development of a full marketing strategy and development plan for the aqua park. Preparation of specific marketing materials and campaign.
- Specification of full job profiles for the staff required for the management and operation of the aqua park. Design and delivery of a full staff training programme.
- Drafting of strategy for future integrated investment in Druskininkai to support wider social/economic development. This will include a strategy for effective utilisation of Structural Funds, National Funds, Municipal Funds, and Private Investment. Training of municipal staff and other relevant stakeholders in the issues related to promotion/development of investments.
- Development of a pipeline of projects in Druskininkai municipality for full exploitation of the aqua park complex and also other activities within the district related to its position as a water-health resort town.
- Developing an action plan for the maximising the use of the renovated centre as a vehicle for ESF activities in the future.
- Advising the municipality on the implementation of a specific form of private involvement within a public-private partnership for the management and operation of the Aqua Park.

Tender dossiers for the works contracts including full tender documentation, technical specifications and other related documentation will all be prepared in advance of the project within the Phare Project Preparation Facility (PPF, LI01.15.01). This will include as a part of the full feasibility study an assessment of the options for private involvement in the management and operation of the Aqua Park.

3.5 Lessons learnt:

The Municipality, having inherited old resort infrastructure from the Soviet period, has experienced the negative impact of Soviet market: all the spa hotels provided only curative treatment and were destined to serve large amounts of tourists coming for

treatment. No market strategy was developed. After the collapse of the Soviet period everything was planned in a disorganized way: each hotel and existing facilities had their own plans without a strategy from the local government. There was no global vision of the whole tourism infrastructure. This led to a real catastrophe of the town as unemployment rate due to the closing of spa hotels grew up to 24.7% (Alytus Region – 13.7%, national unemployment rate in Lithuania – 11.8%; see Annex 7). From the year 2000 the Municipality is very active in co-ordinating and promoting the development of the resort within an integrated approach. (See Annex 10).

The Municipality started to participate in different projects, and in this way stimulate investments in the municipality. The municipality has taken over ownership of several properties (spa hotels, different unfinished buildings), which during the soviet times belonged to different ministries and is starting renovation of the buildings and co-ordination of activities. With the strategy from the local government private investments are stimulated. From the year 2000 investments in the municipal infrastructure began to increase. This resulted in the decrease of unemployment rate (See Annex 7).

The municipality also has gained experience in the set-up and operation of a Public Municipal enterprise, having already done this for the Mud Treatment Centre, being renovated by the State Investment Fund. This experience will help to ensure the effective operation of the Aqua Park and to lay basis for an effective public-private partnership in relation to the future.

4. Institutional Framework

The Implementing Agency for the Phare Economic and Social Cohesion Programme in Lithuania is the CFCU, and it should be noted that after accession the CFCU will be responsible for the Urban renovation and urban infrastructure measure in the SPD.

The State Tourism Department will be responsible for overall coordination of the project. The contact person is Rasa Liubinaite-Budilovskiene, chief specialist of the Tourism Services Development Division, Tourism Department, ph. +370 5 312094, e-mail rliu@tourism.lt.

The operational implementation of the project will be the responsibility of the Municipality of Druskininkai. In the municipality a special project unit is being established under the chairmanship of the Mayor, and will be led by the Department of Investment and Property Management. The contact person is Algirdas Svirskas, Head, Investment and Property Management Division, ph. +370 313 52676.

A project steering committee will be established, chaired by the Druskininkai Municipality and involving the Ministry of Interior, the Ministry of Economy, the State Tourism Department, Alytus County Administration, and the Ministry of Finance. In addition, the project co-ordinator will be part of the Horizontal Steering Committee established for all Phare 2003 ESC projects, chaired by the Ministry of Finance.

TCurrently the Water Treatment Centre building belongs to the Municipality of Druskininkai. Therefore, the municipality is responsible for the refurbishment of the building. If the problem of Water Treatment Centre building will not be solved in the next 2-3 years, it will deteriorate and then it would need to be completely demolished at much higher cost. As a result of this ESC project, one part of the Water Treatment Centre building will be renovated. . In the future the whole facility will be run by the municipality. All infrastructure and facilities developed will be owned by the Municipality of Druskininkai. The Municipality will establish a non-profit public whichenterprise, which will operate and manage the Aqua Ppark at least for an initial period. However, with regard to the long term management and operation the specific form of public-private partnership may be introduced, which will be defined during the course of the project. In any case the ownership of the developed facilities will remain with the Municipality of Druskininkai.

The continuation of this ESC project will be the refurbishment of other two parts of the Water Treatment Centre building for the successful operation of aqua park activities. For this reason, the municipality will apply for the Structural Funds funding.

The municipality will not sell the facility for a profit as municipalities, according to the law cannot be profit making institutions (Law on Local Self-government of the Republic of Lithuania, 27 October, 2000). The Municipality of Druskininkai through the aqua park project indirectly seeks social-economic improvement for the region (the renovated facilities of the Water Treatment Centre building will become the most exceptional and attractive object of the resort, etc. see pages 4-5 of the fiche) and. therefore will not sell the facility for a profit.

There were efforts made by the municipality to seek alternative funding, but:

- private investors do not invest of a very long pay-back period – 25,9 years (see Annex 10);
- European Investment bank already gives support for the municipality in the Druskininkai Waste Water System Upgrading and Extension project (total project value –5,5 MEUR, EIB loan – 0,825 MEUR).

Therefore, assistance from Phare is requested for implementation of the project, which will further stimulate investments in the resort.

5. Detailed Budget (MEUR)

Contract	Phare Support			National Co-financing	IFI	TOTAL
	Investment Support	Institution Building	Total Phare			
TA	0.3		0.3	0.1		0.4
Works	2.85		2.85	0.95		3.8
Supply*				1.8*		1.8*
Total	3.15		3.15	1.05		4.2

* The supply component including the equipment required for the full operation of the Aqua Park will be financed by the Druskininkai Municipality. The budget of the supply component is not added to the total budget of this project and is given for information purposes.

The Phare amount is binding as a maximum amount available for the project. The ratio between the Phare and national co-financing is also binding and has to be applied to the final contract price. The national co-financing amount is a tax-excluded net amount.

6. Implementation Arrangements

6.1. Implementing Agency

The CFCU will be the Implementing agency and will be responsible for the contracting and overall financial management of the project. Specific implementation tasks will be delegated to Druskininkai Municipality. From approximately October 2003 the CFCU will implement the project under Extended Decentralised Implementation System (EDIS). The PAO will be Mr. Z.Pajarskas, Director of CFCU, J.Tumo-Vaizganto 8a, 2600 Vilnius: telephone +370 2 225335 and e-mail cfcu@takas.lt

6.2. Twinning : n/a.

6.3. Non-standard aspects:

There are no non-standard aspects. DIS/EDIS rules will be applied fully.

6.4. Contracts

Technical assistance contract, totalling 0.4 million Euros (incl. national co-financing of 0.1 million euro).

Works contract, totalling 3.8 million Euros (including national co-financing of 0.95 million Euros)

In addition there will be supply component contract operation, totalling 1.8 million Euros fully financed by the Druskininkai Municipality.

7. Implementation Schedule

Component	Start of Tendering	Start of Project activity	Project Completion
Works	2 nd quarter 2003	1 st quarter 2004	2 nd quarter 2005
TA	2 nd quarter 2003	4 th quarter 2003	2 nd quarter 2005

8. Equal Opportunity

The project will provide equal opportunity for all citizens regardless of gender, age and geographical location. The design of the aqua park will ensure that there is suitable physical access for all groups, and in the business plan there will be emphasis on ensuring equal access to the facilities.

9. Environment

A full Environmental Impact Assessment will be carried out during the preparation phase, using resources allocated from the Project Preparation Facility.

10. Rates of return

The feasibility study will be prepared by PPF and will provide a full forecast of revenues for the next 7 years. This will be completed by the end of the Q II, 2003.

11. Investment criteria

11.1. Catalytic effect:

This project includes Phare support which catalyses a priority, accession driven action which would otherwise not have taken place or which would have taken place at a later date. Phare investment support to the Project has a catalytic effect, because otherwise Druskininkai Municipality would have no financial and technical possibility to undertake a key element of the urban renovation plan to deal with major social and economic issues.

11.2. Co-financing:

Phare must use its grants to attract as much co-financing as possible from all sources. Co-financing of the project has been secured by the State Tourism Department. Co-financing will be provided from the national budget (25%) and in addition there will be 1,8 MEUR financing from the municipality budget.

11.2. Additionality:

Phare investment support will be additional, because the nature of the project means no other public or private resources would be able to invest in the short- or medium term. Phare funds will not displace other financiers especially from the private sector or IFI's.

On the contrary, it is expected that the infrastructure project will foster private sector investment in the tourism sector.

11.3. Project readiness and size:

The size of the project exceeds 2 MEUR. The project is ready for implementation and there are no barriers to prevent this. Preparation of full technical documentation is underway and will be ready by no later than the second quarter of 2003.

11.4. Sustainability:

The investment will be sustainable in the long term, i.e. beyond the date of accession. Therefore they comply with EU norms and standards and are in line with EU sector policy Acquis. They will not have adverse effects on the environment and will be financially sustainable.

Work done to date by the Municipality indicates that the reconstruction of Water Treatment Centre is clearly sustainable and that the creation of Aqua Park will directly stimulate economic activities which will ensure sustainability.

With regard to the sustainability of the Public Enterprise of Aqua Park, TA support will assist in the development of a clear plan for self-sustainability and for public private partnership.

The investment is sustainable in the long-term and complies with all EU norms and standards. There are no adverse effects on the environment and the operating arrangements are a clear basis for financial sustainability.

11.5. Compliance with state aids provisions

The investment is supporting public infrastructure and is in line with all state aids provisions.

11.6. Contribution to NDP and/or Structural Funds Development Plan/SPD

The project is a feasible part of an overall regional development strategy, as defined in the NDP:

National Development Plan, Measure 1. Development of Industry and Business.
Contribution to the Regional Development Plan. Sector 1.3 Tourism. Measure 3

12. Conditionality and sequencing

The following assumptions will apply:

- All the technical design and tender dossiers are prepared and approved before the project starts.
- All co-financing is confirmed.

- The financing and the basic office facilities of the Public Enterprise of Aqua Park is provided directly by founding members for a minimum of 3 years.

The following conditionalities apply to the project:

- Availability of sufficient Lithuanian national co-financing.
- Availability of Lithuanian financing to purchase essential aqua park equipment not covered in this project.

With regard to sequencing, all works activities must be completed, and equipment provided by the municipality, before the Technical Assistance can complete its work on the preparation of staff and the initial implementation of the marketing strategy.

ANNEXES TO PROJECT FICHE

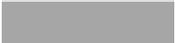
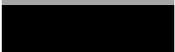
1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme (including disbursement period)
4. Reference to feasibility/pre-feasibility studies.
5. Indicative budget breakdown for the Works component.
6. Indicative budget breakdown for the Supply component.
7. Unemployment rate and investment situation in Druskininkai Municipality.
8. The Water Treatment centre to be renovated
9. List of projects
10. Map of Lithuania
11. Terms of Reference for PPF support

Annex 1 - Logical framework matrix

LOGFRAME PLANNING MATRIX FOR Project: Druskininkai Urban Renovation		Programme Name and Number:	
		Contracting Period Expires:4Q/2005	Disbursement Period Expires:4Q/2006
		Total Budget: 4.2 MEUR	Phare Budget: 3.15 MEUR
Overall Objective Development of economic and social cohesion of Lithuania based on urban renovation of Druskininkai and improved public infrastructure.	Objectively Verifiable Indicators Increased economic growth (30% from 2002 levels by 2008); Increased income from tourism services (30% increase from 2002 levels by 2008); Unemployment rate reduced by 5% to below 20% by 2008;	Source of Verification National and regional data; Economic and financial reports.	
Project Purpose -To assist Druskininkai to respond to the collapse of traditional markets following Lithuanian independence and subsequent social-economic development problems. -To improve the quality of specific public infrastructure and hereby lay the basis for improved future investment in the development of Druskininkai as a water/health resort town. -To contribute to the solution of social-economic problems in the region. This will include direct and indirect creation of employment to reduce high unemployment rate. -To strengthen the capacity of Druskininkai municipality in the future implementation of their development plans and in particular the effective preparation for investments (Structural Funds and private investments) and to provide a basis for using the developed infrastructure as a pilot vehicle for future ESF activity.	Objectively Verifiable Indicators Tourist and holiday-makers numbers increased by additional 30% (up by 15,000 to 60,000 per annum by 2008); Unified marketing information system created by 4Q 2006. Pipeline of future SF projects prepared Plan on absorption of SF and private investments by the start of 2004.	Source of Verification Regional data; Regional surveys; Media.	Assumptions Stable regional development policy; National/municipal co-financing available
Results - Fully renovated and refurbished water treatment center and related infrastructure, with building fully operational as a major tourism facility – aqua park - Public private partnership involving the Municipality owned public enterprise set up to manage and operate the facility, and all key staff trained and a full business plan developed. New jobs directly created within the enterprise. - Strategy for future investment developments created, and improved capacity of municipality to absorb future Structural Funds (ERDF and ESF) and to stimulate related private investment.	Objectively Verifiable Indicators Aqua park opened by 4Q, 2005 50 new jobs created in the park by 4Q 2005. Pipeline of future projects prepared by the start of 2004. Marketing campaign completed by 2005 Training courses for 4 lifeguards and operation managers, 35 members of staff	Source of Verification Regional and local data; Commission’s Regular reports; Local tourism data	Assumptions Successful co-operation between local and regional bodies; Qualified staff
Activities - to renovate and develop main parts of an existing Water treatment centre to provide infrastructure for an “aqua park”, and provide basic services (heating/ventilation, etc) for the building - to acquire the equipment, using the municipality’s own funds, for the full operation of an aqua park and ensure proper installation thereof within the renovated facilities - to establish a public enterprise for operation of the aqua park, including staffing thereof - to develop marketing strategy and a development plan for the aqua park and to launch a marketing campaign - to draft a strategy for future integrated investments in Druskininkai region - to train municipal staff and other relevant stakeholders in the issues related to promotion/development of investments - to develop pipeline of projects in Druskininkai municipality for full exploitation of the aqua park complex - To develop action plan for ESF project activity	Means Works contracts Technical Assistance contract Supply contract(s) using own funds	Source of Verification Reports of the Project Monitoring Committee; Local data; Experts’ reports; Engineers’ reports Management reports.	Assumptions Adequate planning, implementation and monitoring of the project; All tender documents prepared under the PPF; High-quality project management Availability of municipal funding for equipment

Annex 2 - Detailed Implementation Chart for the Project

Year	2003												2004												2005											
Month	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12
Works																																				
TA																																				

	d e s i g n
	t e n d e r i n g
	i m p l e m e n t a t i o n

Annex 3 - Cumulative Contracting and Disbursement Schedule for the Project – Phare Contribution (€2.94 Million)

	Date											
	2003				2004				2005			
	31/03	30/06	30/09	31/12	31/03	30/06	30/09	31/12	31/03	30/06	30/09	31/12
<i>Contracting</i>												
• Works					2.85							
• Technical Assistance				0.3								
Total contracting (cumulative)				0.3	3.15							
<i>Disbursement</i>												
• Works					0.285	0.79	1.3	1.81	2.13	2.56	2.85	
• Technical Assistance				0.12		0.18		0.22		0.27	0.3	
Total disbursement (cumulative)				0.45	0.405	0.97	1.48	2.03	2.35	2.83	3.15	

Annex 4 - Reference to pre-feasibility study

In December, 1998, a study “The Global Druskininkai Development” was carried out. The study was conducted under the initiative of the Municipality of Druskininkai in order to evaluate the present situation and suggest possible ways of future Druskininkai development. The study was conducted by a Swiss company "Group Thermalisme":

Project leader – A.Cantin

P.L.Babel, EAUG SIA architect

D.Golarza, EAUG SIA urban planner

R.Fauchere, University of Geneva, geologist

The study identifies the weaknesses and reflects the strengths for the future successful development of Druskininkai. The development is to be based on:

- natural resources;
- development of sports initiatives;
- development of Physiotherapy Centre, including the Water Treatment centre;
- refurbishment of spa-hotels;
- creation of places for leisure activities;
- creation of places for cultural activities.

Annex 5 - Indicative budget breakdown for the Works component.

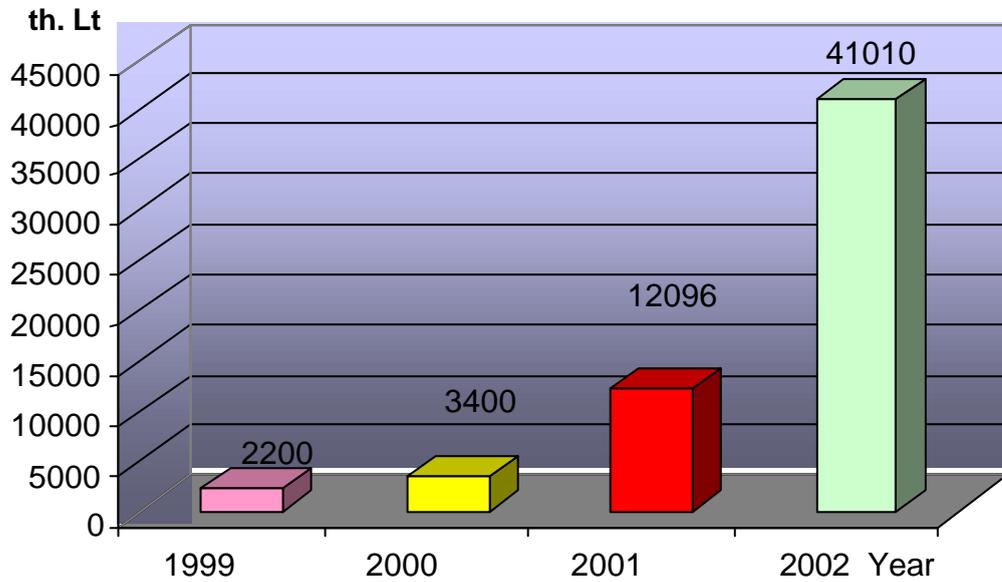
No	Works	Measure unit LTL/m2	Volume m2	Price, Lt	Price EUR
1.	Engineering networks		1	117 797	34 144
1.1.	Sewerage	1	1	21 186	6 141
1.2.	Rainwater management system	1	1	63 559	18 423
1.3.	Electricity network	1	1	12 712	3 685
1.4.	Water supply network	1	1	20 339	5 895
2.	Entrance to the main pavilion		1	1 281 483	371 445
2.1.	Reconstruction works	1	34 152	28 942	8 389
2.2.	Heating	30	2 250	57 203	16 581
2.3.	Ventilation	40	2 250	76 271	22 108
2.4.	Water supply, sewerage network	10	3 350	28 390	8 229
2.5.	Electrotechnical part	30	3 350	85 169	24 687
2.6.	Low ampere current	10	3 350	28 390	8 229
2.7.	Fire and security system	10	3 350	28 390	8 229
2.8.	General construction works (decoration, entrances, etc.)	422,17	2 250	804 985	233 329
2.9.	Roof renovation	1	169 616	143 742	41 664
3.	Reconstruction works and establishment of aqua park pavilion		1	11 600695	3 362 520
3.1.	Reconstruction works (reconstructing part of the building)	1	800 055	678 013	196 526
3.2.	Water supply, rainwater management system	20	7 500	127 119	36 846
3.3.	Heating	40	7 500	254 237	73 692
3.4.	Ventilation	100	7 500	635 593	184 230
3.5.	Pumping station, boiler house and heating station	50	7 500	317 797	92 115
3.6.	Electrotechnical part	53	7 500	336 864	97 642
3.7.	Automatics	12	7 500	76 271	22 108
3.8.	Fire and security system	10	7 500	63 559	18 423
3.9.	Video system	15	7 500	95 339	27 634
3.10.	Management and accounting of technological processes	30	7 500	190 678	55 269
3.11.	Foundation, metal frame, concrete base	1	2 440 337	2 068 082	599 444
3.12.	Roof renovation and pavilion roof installation	1	1 986 007	1 683 057	487 842
3.13.	Glass facade (facades)	1	2 428 617	2 058 150	596 565
3.14.	General construction works (decoration, etc.)	1	1 500 652	1 271 739	368 620
3.15.	Floor	1	1 550 920	1 314 339	380 968
3.16.	Ceiling	1	281 034	238 164	69 033
3.17.	Construction of partition walls	2	26 000	44 068	12 773
3.18.	Staircases Details of this supply component to be provided in Annex 8.	3	58 066	147 625	42 790
	TOTAL :			12 999975	3 768 109

Annex 6 - Indicative budget breakdown for the Supply component

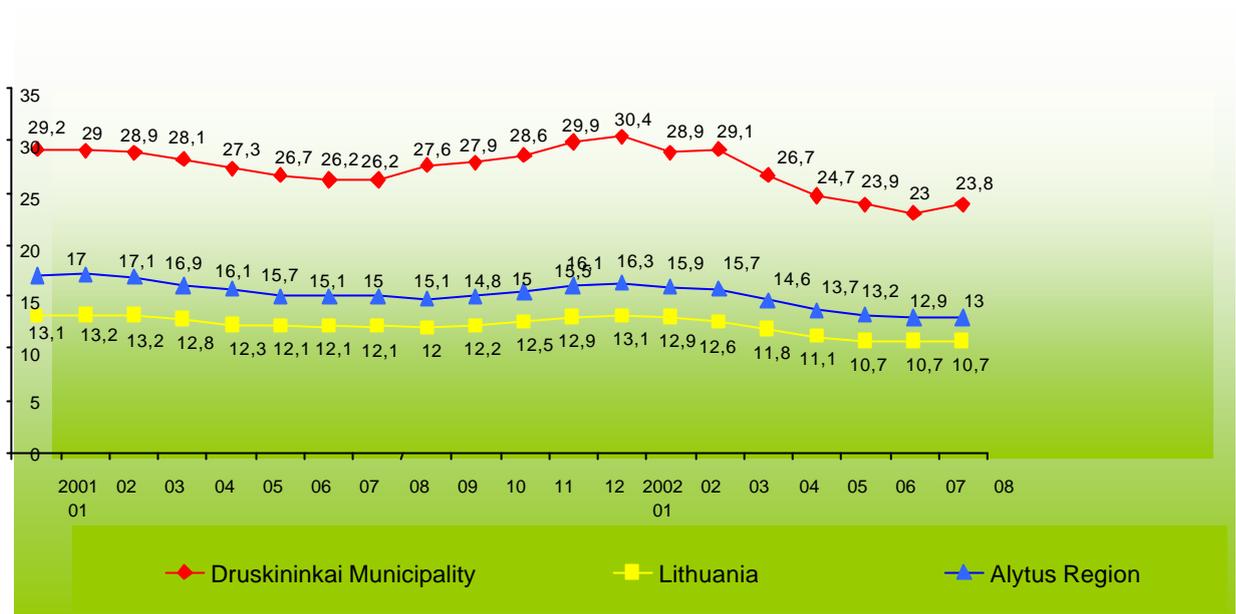
The supply component (total value 1.8 mln. EUR) including the equipment for full operation of the Aqua park **will be financed by the Municipality of Druskininkai.**

Type of Equipment, including:	Total Price 1.8 million EUR, including:
Slides (including: kamikaze, multilane slide, body slide, black holes, mini slide, space bowls, octopus slide)	650 000
Accessories (including:tubes, beach and other accessories)	200 000
Pools (including: kids pool, adults pool with wave pool, water bar, waterfall, jacuzzi)	550 000
Artificial plants	50 000
All Drawings for inside of Aqua park Slides, Pools, Landscaping. Rockwork, Shipwreck, Jacuzzi, Steel support structures, Plant rooms, Balancing tanks, Water bars, Water fall, Changing rooms, Start area, Food area, Bridges, Standing area, Lazy River, Sauna & Steam Rooms, Steel support structures	100 000
All Installations of equipment	250 000

Annex 7 - Investments in Druskininkai Municipality



Unemployment Rate in Druskininkai Municipality, Alytus Region, Lithuania 2000 – 1 September, 2002



Annex 9 - List of linked projects

Implemented projects:

Sports Centre

Total project cost: 677 143 EUR (funding from the Municipality budget)

Date of implementation: December, 2001

Main objectives:

- establish a modern sports centre for national and international sports teams;
- organise sports events and show competitions;
- organise sports camps in Druskininkai.
- create new jobs.

Centre for Cultural events

Total project cost – 228 571 EUR (funding from the Municipality budget)

Date of implementation: June, 2002

Main objectives:

- establish a modern object for cultural events;
- improve organisation of cultural and leisure activities in Druskininkai;
- develop international co-operation by organising international events.

Projects being implemented:

Curative Mud Treatment Centre

Total project cost – 2 142 857 EUR (funding from the State Investment Fund and Municipality budget)

Date of implementation: March, 2003

Main objectives:

- refurbish the old building of Curative Mud Treatment Centre;
- provide high quality treatments of natural curative mud and mineral water for the visitors of the resort of Druskininkai;
- create new jobs.

Projects to be implemented in the future:

Establishment of a tourism information centre and a camping site

Objectives:

- Develop tourism as the most important priority trend for Druskininkai business development, and the main source of income of municipal budget.
- Use the former railway station building and the surroundings for the establishment of a Tourism Information Centre and a camping site.
- Use the object for various recreation forms and different visitors.

- Create conditions for recreation for the people interested in spending holidays at a minimum expenditure.
- Add to the process of development of recreation industry in Alytus county.

Financing - 630 000 EUR

Use the present infrastructure in Druskininkai for the organisation of international conferences and official meetings

Objectives:

- Apply the building for the organization of conferences and official meetings.
- Represent the spa of Druskininkai and the region for the guests from different countries.
- Encourage closer co-operation among the countries of "Neman" Euroregion using the present infrastructure.
- Organise official meetings, conferences, chamber music concerts, exhibitions, etc.
- Use the meetings among the officials to attract more visitors and add to the improvement of the country image.

Financing – 430 000 EUR

Establishment of coaching, recreation and treatment centre

Objectives:

- Establish an up-to-date coaching, recreation and treatment center for national and international sports teams.
- Save present and established new working places in sphere of sport services.
- Renovate unique physical training and climate therapy park in Lithuania.

Financing - 3 145 000 EUR

Renovation of infrastructure of bicycle routes and footpaths, adjustment for disabled people for tourism, recreation and treatment purposes

Objectives:

- Create opportunities to get acquainted with various objects of ethnocultural heritage, study local customs and traditions.
- Renovate and adjust present infrastructure of bicycle paths to disabled people: benches, bowers, sightseeing grounds, etc.)
- Renovate blacktop of bicycle and foot paths.
- Supplement complex of tourism services combining treatment and recreation.
- Improve establishment of recreation and entertainment in the region.
- Stimulate development of small business (rent, food, etc.)
- Improve development of region image.

Financing- 4 300 000 EUR

Improvement of the resort infrastructure

- Improve image of the resort and region.
- Renovate:
 - 1.1. Area of the physiotherapy park, saving historical and aesthetical value;
 - 1.2. Footpaths, benches, sightseeing grounds;
 - 1.3. Infrastructure of river Nemunas and other water sources, etc.

Financing -1 430 000 EUR

Children Centre

Objectives:

- Create conditions for children free time activities in Druskininkai.
- Help to develop recreational tourism and entertainment industry in Druskininkai.
- Guarantee long-term influence of tourism development, according to the needs of the resort visitors, curative factors, recreational industry and cultural traditions.
- Increase the number of the resort visitors by improving the infrastructure and service.

Financing: 350 000 EUR

Hotel and sports centre

Objectives:

- Establish a hotel and sports center for sportsmen.
- Efficiently use of infrastructural objects and natural factors.
- Establish a modern object of resort attraction.

Financing: 1000 000 EUR

Annex 110 - Economic information based on pre-feasibility study

PRELIMINARY MINIMUM NUMBER OF VISITORS

Minimum number of visitors:	
- per day	450
- per month	11.250
- per year	135.000

- *Grutas park is visited by 300.000 people per year
- *resort spa hotels provide treatment for 40.000 tourists per year
- *hotels receive 20.000 tourists per year
- *total number of inhabitants in the municipality - 25.400

PRELIMINARY MINIMUM INCOME

Calculating that in average one visitor will spend 30 Lt	Lt
- per month	337.500
- per year	4.050.000

PRELIMINARY EXPENDITURE

Service cost price : t.sk.	2.432.800
Direct Salary	540.000
Sodra (social insurance)	167.400
Water	155.000
Electricity	230.000
Heating	278.000
Depreciation costs	920.000
Property exploitation	142.400
Total activity expenditure : t.sk.	857.200
Administration Salary	240.000
Sodra (social insurance)	74.400
Telecommunications	84.000
Marketing	176.000
Transport	60.000
Economy, taxes and other activity expenditure	222.800
Total expenditure	3.290.000

PRELIMINARY PAY-BACK PERIOD OF THE PROJECT

Preliminary income	4.050.000 Lt
Preliminary expenditure	3.290.000 Lt
Preliminary profitability of the authorised capital	4 %
Preliminary pay-back	25,9 years

