

Standard Summary Project Fiche
Project Number 2003.004-341.07.02

1. Basic Information

Objective 7 - Private sector, Restructuring, Privatisation, SM

1.1 CRIS Number: 2003.004-341.07.02

1.2 Title: **Support to Development of Greenfield Investments in Lithuania**

1.3 Sector: Economic and Social Cohesion

1.4 Location: Lithuania

2. Objectives

2.1 Overall Objective:

The overall objective of this 1.6 MEUR project, from which 0.4 MEUR are provided from national co-financing is to improve the business environment through creating attractive conditions for public and private investments (especially FDI) in green field areas in Lithuania.

2.2 Project purpose:

- Support greenfield area development and facilitate investment attraction to Lithuania;
- Increase the capacity of the Ministry of Economy as well as other stakeholders, including the Lithuanian Development Agency (LDA), county administrations and municipalities, to deal with the development and promotion of greenfield investments,
- Prepare a project pipeline for the future Structural Funds interventions and/or other public and/or private investments

2.3 Accession Partnership and NPAA priority

➤ Accession Partnership 2001

Under Economic Criteria, “improving the business environment with a view to attract green-field investments” is identified as a priority and intermediate objective, also emphasising “continuation of improvement of business support infrastructure”.

Under Regional Policy and Co-ordination of Structural Instruments, “development of the technical preparation of projects eligible for Structural and Cohesion Funds assistance (project pipeline)” is also stipulated as an important priority.

➤ NPAA 2002-2003

The NPAA 2002-2003 Industrial Policy Section states that “Creation of legal, institutional and financial conditions for regional industrial development by creating favourable conditions for foreign direct investments into problematic regions as well as for rational use of local and national resources and of structural funds” is among the priorities of Lithuanian Industrial Policy (p. 332).

2.4 Contribution to National Development Plan

Industry and Business Development Strategy section of the NDP 2002-2003 emphasises the promotion of FDI opportunities. It reads that “There is an obvious lack of private investments

and even local potential to invest, thus perspectives of the Lithuanian economic development in dealing with the problem of compatibility are to a big extent dependent upon the attracted FDI. The latter are of crucial importance for integrating domestic production capacities into global networks of production and distribution. In addition, FDI serve as a means for transfer of both technology/know-how and corporate governance from the international environment. Therefore, it is important to create a functioning FDI environment on the local scale, where all the necessary information and business advisory services would be supplied and the promotion of Lithuania and of the potential of Lithuanian economy would be properly organised in the business-related events abroad". To this aim, the NDP foresees investments under Measure 2 ("Development of the network of co-operation and co-operatives of industrial enterprises") for establishment of industrial and technology parks.. Therefore this project would be in line with the guidelines set out in the National Development Plan. The Lithuanian Development Agency is identified as a key institution for implementation of this measure.

2.5. Contribution to the Single Programming Document

The draft SPD for Objective 1 envisages support to industry and business development through 2 ERDF measures. The activities of the proposed project will be linked with 2 types of eligible activities included under these SPD measures: "Developing industrial parks, old industrial zones, adjustment of such zones to new business activities" under Measure 2 ("Improving Industry and Business Operating Environment") and "Transferring (re-locating) industrial enterprises into new sites, which fully meet environmental requirements" under Measure 1 ("Promoting Industry and Business").

2.6. Cross Border Impact: n/a.

3. Description

3.1 Background and justification:

The **overall investment policy** pursued by the Lithuanian Government focuses on providing a favourable environment for business and investors in order to attract domestic and foreign investments. Proposed amendments, which are still under discussion, to such key documents as the national Law on Investments clearly state that FDI is among Government priorities and that State support should therefore be provided for its attraction (See Annex 4).

The proposed project is designed to contribute to the achievement of the above policy goals through support to identification and development of greenfield sites and the strengthening of the capacity of institutions involved in this process. This particular focus has been chosen on the following grounds:

- A major constraint in the development of new industrial operations in Lithuania is the lack of appropriate industrial property. Those investment areas that exist in cities or municipalities are generally poorly located or poorly serviced, both in terms of infrastructure and utilities. In practice there are no areas of sufficient quality to attract major greenfield investments. Especially industrial cities in the less advantaged regions of the country are at a significant competitive disadvantage despite potentially strong and cost effective labour availability and other strong factors such as location, municipal incentives etc.
- While most cities/municipalities have recognised the lack of property provision as a constraint on local economic development and attraction of investments, there is little they can do to alleviate the problem as they do not have skills to develop and implement their

strategies and methodologies. The involvement of county administrations is equally important as they own most of the State land which could be used for development of investment areas in Lithuania.

- Since the existing brownfield industrial areas (brownfield sites) in most cases are not suitable for the establishment of modern operations the aim of providing industrial property sites is best achieved in the short- to medium-term through the development of greenfield projects.

Taking into consideration the purposes and the objective of the proposed project, there will be several stakeholders involved.

The key institution in Lithuania which is responsible for economic development policy and long-term strategy, as well as for business development within Structural Funds, is the **Ministry of Economy**. The main departments of the Ministry dealing with the issues of concern to the proposed project are the Industry and Business Department, Investment Policy Division of the Economic Strategy Department and the Structural Funds Management Division.

The **Lithuanian Economic Development Agency (LDA)** is a public institution which is charged with the promotion of Lithuania as a location for foreign direct investment and the management of investment projects coming from foreign or domestic investors, including *inter alia* the search and identification of appropriate sites and buildings. In addition to its head office in Vilnius the Agency has two offices in Germany. The LDA, on the basis of its experience and knowledge of the issues related to greenfield site development in Lithuania and the market for FDI, will provide key input to the Ministry of Economy in the implementation of the project and will also receive support in the development of its own capacity in relation to these issues.

In the course of the project there will also be strong input of, and cooperation with, relevant county administrations and municipalities, as the owners of the land which may be used for the development of potential greenfield sites.

Implementation of this project would help the Ministry of Economy as well as other stakeholders, including economic departments of counties and municipalities and the Lithuanian Development Agency, to develop their capacity and gain the necessary experience in the development and promotion of greenfield sites.

Strengthening of the capacity of these authorities for development of fundable industrial property development projects will *inter alia* help to fill in the gap of absorption capacity for the forthcoming Structural Funds. It will also increase the LDA's ability in the support of industrial greenfield development in Lithuania (i.e. in developing fundable projects pipeline and attracting investors) and strengthen institutional relationships between the Ministry of Economy, the LDA, Counties and Municipalities.

➤ Link to EU Structural Funds

The Ministry of Economy is one of the key ministries closely involved in the programming and management of pre-accession funds for structural support (Phare ESC) and later the EU Structural Funds. By Government Resolutions (No.953 of 31 July 2001 and No. 649 of 31 May 2001), the Ministry of Economy was assigned the responsibility for the administration of support to business development from Phare Economic and Social Cohesion and, upon EU accession, from the ERDF (under the overall responsibility of the Ministry of Finance and Managing and Paying Authority for ERDF).

This project will identify a pipeline of industrial property development projects that will be fundable by the Structural Funds (including in partnership with private and/or public investors) and be ready for implementation in the greenfield investment areas to be identified.

3.2 Linked activities:

➤ Phare LI9913.01 Lithuanian Property Development Fund

In 2001, under 1999 PHARE Pre-Ins facility, the Lithuanian Development Agency has founded the Lithuanian Property Development Fund with the aim to support regional development of industrial and commercial property in Lithuania. Support of property development is aimed at provision of finance by way of loans and equity to development companies established jointly by the Fund with cities and municipalities.

The proposed project will be complementary to this 1999 project and will not overlap with the objectives pursued by the LPDF. The two projects have a different focus: the 1999 LPDF Project aims at provision of finance for development of specific infrastructure while the proposed project focuses on establishment of the methodology and the strategy for dealing with greenfield investment, in particular industrial property development. Moreover, the LPDF is developing skills and expertise in the assessment and evaluation of investment projects and in issues related to local/regional development of such projects, and this knowledge will be utilised by the MoE in the implementation of this project.

➤ Phare ESC 2000 Identification of investment sites in Klaipeda - Taurage region

The project is a part of the Phare 2000 Programme on Economic and Social Cohesion. The project is being implemented as a part of the Business Development Fund measures directed to improvement of business and investment related infrastructure and environment and will focus on identification, marketing and promotion of investment sites in one region of Lithuania (Klaipeda-Taurage), while the proposed project will cover all territory of Lithuania and will have a broader scope including such measures as analysis of the legal framework, study of the best practice of EU member states, etc. The proposed project can be regarded as a follow-up of the 2000 ESC project extending similar activities to other regions of Lithuania.

➤ Phare ESC 2002 Support to Business Development

The purpose of this project is to pilot-test the capacity of the existing Lithuanian business support institutions (SMEDA, LIC, State Tourism Department under the MoE, and Information Society Development Committee) to manage and of the Lithuanian businesses to absorb EU funding (4 grant schemes in total, 2 for business, 2 for tourism development).

This project will have one TA and numerous grant contracts, while current project will only be based on TA which will include a different focus.

➤ LI 01.09.02 SPPII– Special Preparatory Program for the Structural Funds in Lithuania II.

The Twinning component of this project provides assistance for 1) Finalisation and implementation of the legislative framework and starting of preparation of the Objective I Single Programming Document; and for 2) Optimisation of institutional arrangement and strengthening of the future Managing and Paying Authorities, through assistance to drafting of national legislation to fulfil EU requirements for the EU Structural Funds and Cohesion Fund

management, setting up the mechanism for information exchange and data collection for monitoring and evaluation purposes; 3) On-the-job advice and training to the implementing agencies / future Paying Authorities, and other ministries and bodies on national level, who will take part in day-to-day administration of EU Structural Funds.

The capacity building envisaged within this Phare 2002 project is focused on ministries and deals with Structural Fund issues, whereas the proposed Phare 2003 project will cover capacity-issues related to wider questions of industrial property development and will also provide capacity-building support for institutions not involved in day-to-day administration of SFs (LDA and local/regional authorities).

- LI2002-X-XX Preparation for the Community Initiative Programmes and increasing the absorption capacity for Structural Funds in Lithuania (SPPIII)

This Project has two purposes: 1) to develop the administrative set-up and capacity to manage the Community initiatives programs, including preparation of single programming documents for INTERREG III and EQUAL (measure 1); and 2) to build up the capacity of intermediate bodies and final beneficiaries to provide information, training and advisory services for final recipients (potential project promoters and applicants) about Objective 1 and Community Initiatives financial support and to further develop the effective technical preparation of projects (project pipeline) ready to absorb Objective 1 and Community Initiatives programmes assistance upon accession (measure 2).

3.3 Results:

- Legal and administrative gaps for the development of greenfield investment areas in Lithuania identified and recommendations provided;
- Best practices of EU countries and other candidate countries identified;
- Greenfield investments development methodology (guide), including the strategy for marketing/promotion of the greenfield sites produced;
- Criteria for industrial property development projects pipeline established
- Capacity of the MoE, LDA and priority counties in the development of greenfield investment areas and their marketing strengthened;
- A priority list of potential greenfield investment sites for development drawn up
- Feasibility studies and full technical documentation for approximately 3-4 priority greenfield areas prepared; projects ready for funding.

3.4 Activities:

A single service contract for technical assistance will be issued via international restricted tender in accordance with PRAG. All tender documentation is being prepared in advance of the project within the Phare Preparation Facility (PPF). The service contract will cover the following activities:

- Assistance to the Ministry of Economy and the LDA in the analysis of the specific legal & administrative environment and gaps related to the identification, development, and marketing of greenfield sites. This will include an integrated analysis which will draw together existing work in different areas.

- Identification of best practice examples in other European countries (Member States and accession countries) of industrial property development systems relevant to the Lithuanian situation.
- Preparation of a methodology (a single guidance document) for greenfield area development and investment attraction in Lithuania based on the legal-administrative gap analysis of Lithuanian situation and best practices of other European countries. This document will include issues such as:
 - current availability of such areas;
 - land ownership (including the issue of restitution);
 - planning laws related to area development
 - division of competences between institutions;
 - demand for sites (5-10 year perspectives)
 - availability of financing for greenfield investment area development (commercial, national, EU) and related issues
 - strategy for marketing/ promotion of the greenfield sites
 -
- Administrative capacity-building activities to develop the Ministry of Economy, the LDA and the selected county and municipality administrations. Different programmes of support will be provided at each “level” and will be appropriate to their specific roles in the process but will include concrete activities to develop capacity in relation to both the development of sites for investment, and the marketing/promotion of greenfield sites. Linked to this capacity-building there will be information activities amongst the key target groups to raise the awareness of the importance of industrial property development and also to emphasise the role of both public and private finance in this process. There will be organisation of related training programmes in Lithuania and structured study programmes for staff from the Ministry of Economy, the LDA, and other relevant stakeholders.
- Finalisation of specific technical, financial, commercial and institutional criteria to be used in the development of the industrial property development pipeline which will produce fundable projects by the Structural Funds and/or private and/or public investors.
- Support in the identification, assessment and categorisation of a long-list of potential greenfield sites for development. The contractor will also provide technical support to the prioritisation process, and will prepare practical guidance manuals to be used in the future.
- Preparation of full feasibility studies and technical documentation for a short-list of greenfield investment areas identified as being of high priority for development and funding.

3.5 Lessons learned:

The implementation of the PHARE project LI9913.01 Lithuanian Property Development Fund has revealed a number of legal and administrative stumbling blocks for industrial property development, which the project has not been designed to overcome. For this reason it is necessary to carry out the thorough analysis of the existing gaps and take the necessary steps to remove them. This is the reason why the very first task of this project is related to the analysis of the legal and administrative environment.

In addition, the practical experience of LDA in relation to the market for greenfield sites has demonstrated the importance of this area, and the need to take an integrated approach involving

aspects of policy, Structural Funds, marketing/promotion, and private investment. This project therefore brings together the different elements in terms of the activities and the institutional framework.

4. Institutional Framework

The Ministry of Economy will be responsible for the overall co-ordination of the project. The contact person is Mrs Laima Kalinauskiene, chief economist in the Investments Policy Division of the Ministry of Economy, ph. +370 5 2618955, e-mail: l.kalinauskiene@po.ekm.lt, with involvement from the Structural Funds Management Division (contact person is Mrs Danguole Saldžiuniene, Head, ph. +370 5 2629012, e-mail: d.saldziuniene@po.ekm.lt).

Implementation of the project will involve an active input of the Lithuanian Development Agency, Investment Department, especially in relation to advice concerning the “demand’side” of greenfield sites. The contact person is Mr. Antanas Zivatkauskas, Senior project manager, ph. +370 5 212 08 74, e-mail: antanas@lda.lt.

A project steering committee will be established, chaired by the Ministry of Economy, and involving the Lithuanian Development Agency (Investment division and also the LPDF), the Ministry of Interior, the Ministry of Environment, the Ministry of Transport, 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.

Regional and local authorities will be consulted throughout the process and will be beneficiaries of the project in three main ways:

- Increased absorption capacity in relation to future structural funds for industrial property development
- Greater awareness of issues related to the development and marketing of greenfield sites
- Technical documentation prepared for specific sites.

5. Detailed Budget

	Phare Support					
	Investment Support	Institution Building	Total Phare (=I+IB)	National Cofinancing *	IFI*	TOTAL
TA Contract	-	1.2	1.2	0.4	-	1.6
Total	-	1.2	1.2	0.4	-	1.6

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 Implementing agency will be the CFCU. It will be responsible for all contractual and financial aspects of the implementation of this project. The PAO will be the Director of

the CFCU, Mr Zilvinas Pajarskas, Ministry of Finance J. Tumo-Vaizganto 8a/2-241, 2600 Vilnius; telephone: +370 5 212 66 21, fax: +370 5 212 53 35, e-mail: info@cfcu.lt

6.2 Twining : n/a.

6.3 Non-standard aspects:

EDIS rules and procedures will be applied as appropriate.

6.4 Contracts

Technical assistance contract, totalling 1.6 million euro (incl. national co-financing of 0.4 million euro).

7. **Implementation Schedule**

7.1 Start of tendering: 3Q/2003

7.2 Start of project activity: 4Q/2003

7.3 Project Completion: 4Q/2005

8. **Equal Opportunity**

Lithuanian Constitution, the Law on Equal Opportunity between Men and Women, and other legal acts explicitly forbid the discrimination on the basis of sex, nationality, and religion. A Controller on equal opportunities between men and women is appointed by the Seimas (Parliament).

9. **Environment**

This project in itself, as a TA contract, will have no environmental impact. However, feasibility studies for the identified greenfield investment sites will have to include an environmental impact assessment. Environmental criteria will also be a key part of the criteria for the industrial property development projects pipeline.

10. **Rates of return** : n/a.

11. **Investment criteria**

11.1 Catalytic effect:

Phare's support is crucial to implement this project which inter alia draws on experience of other EU member states and candidate countries, as well as to prepare a pipeline of investment projects eligible for SF financing, which would otherwise hardly be carried out or which would take place at a later date.

11.2 Cofinancing:

Co-financing for implementation of the project will be secured by the Ministry of Finance via the Government Investment Programme.

11.3 Additionality:

Phare grants shall not displace other financiers especially from the private sector or IFIs.

11.4 Project readiness and Size:

All tender documentation will be prepared in advance of the project within the Phare Preparation Facility (PPF).

11.5 Sustainability:

Sustainability of current project will be assured via production of a methodology paper which would be a medium-term or long-term guide for greenfield investment development in Lithuania, and via attraction of investments into the identified greenfield investment sites.

11.6 Compliance with state aids provisions

Not applicable

11.7 Contribution to National Development Plan

See section 2.4.

12. Conditionality and sequencing

The only pre-condition for the start of current project is availability of national co-financing.

ANNEXES TO PROJECT FICHE

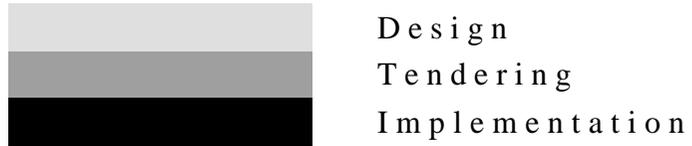
1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme (including disbursement period)
4. List of relevant Laws and Regulations

Annex 1 - Logical framework matrix

LOGFRAME PLANNING MATRIX FOR PROJECT Support to development of greenfield investments in Lithuania		Programme Name and Number:	
		Contracting Period Expires: 4Q/2005	Disbursement Period Expires: 4Q/2006
		Total Budget: 1.6 MEUR	Phare Budget: 1.2 MEUR
Overall Objective Improve business environment through creating attractive conditions for public and private investments (especially FDI) in Greenfield areas in Lithuania	Objectively Verifiable Indicators Increased investments (especially FDI) in Lithuania in Greenfield sites by at least 5 % from 2002 levels by 2008	Source of Verification Reports, National and regional statistics	
Project Purpose <ul style="list-style-type: none"> - Support greenfield area development and facilitate investment attraction to Lithuania - Increase the capacity of the Ministry of Economy as well as other stakeholders, including the Lithuanian Development Agency (LDA), county administrations and municipalities, to deal with the development and promotion of greenfield investments - Prepare a project pipeline for the future Structural Funds interventions and/or other public and/or private investments. 	Objectively Verifiable Indicators <ul style="list-style-type: none"> - General and specialised training programmes and materials produced and delivered to all the 10 county administrations, the MoE and the LDA by the end of the project (at least 3 people in the MoE, 3 in LDA, 5 people from each of the county administration); - A pipeline of SF projects available from 2005. - At least 3 full projects funded and implemented by end of 2006 - Increase of 20% from 2002 levels of local/regional authorities developing greenfield projects 	Source of Verification Available documentation at Lithuanian Development Agency and Counties/Municipalities	Assumptions Trained staff retained
Results <ul style="list-style-type: none"> - Legal and administrative gaps for development of greenfield areas in Lithuania identified and recommendations provided; - Best practices of EU member states and other candidate countries identified; - Greenfield investments development methodology (guide), including marketing/promotion strategy, produced; - Criteria for industrial property development projects pipeline established - Capacity of the MoE, LDA and selected counties in development and marketing of greenfield investment areas strengthened; - A long list of potential greenfield investment sites for development drawn up; - Feasibility studies and technical documentation for development of a short-list of priority greenfield areas prepared 	Objectively Verifiable Indicators <ul style="list-style-type: none"> - Legal and administrative gap analysis with recommendations provided to the Project Steering Committee by mid 2004 - 4-6 best practices of EU and candidate countries analysed and compared; - The methodology for dealing with greenfield investments is available by end of 2004; - A set of criteria for industrial property development projects developed by end of 2004; - Full feasibility studies and technical documentation prepared for at least 4 identified greenfield investment areas by the end of 2005. 	Source of Verification Project progress and monitoring reports Other related documentation available at the MoE, the LDA and Municipalities	Assumptions Good co-ordination between the MoE, LDA and local authorities
Activities <ul style="list-style-type: none"> - To analyse legal and administrative environment for investments (especially FDI); - To identify best practices in the EU member states and other candidate countries; - To develop a methodology for development of greenfield investments, including a marketing/promotion strategy, in Lithuania; - To establish criteria for a pipeline of industrial property development projects; - To organise training for the purpose of administrative capacity building for the MoE, LDA and selected counties/municipalities in development and marketing of greenfield investment areas; - To identify a long-list of potential greenfield areas for development and their prioritisation; - To prepare full feasibility studies and technical documentation for a pipeline of selected priority greenfield sites 	Means TA contract	Source of Verification Project Monitoring Reports Quarterly Project Reports Training materials A number of feasibility studies and technical documentation	Assumptions Qualified experts available
			Preconditions National co-financing available

Annex 2 - Detailed Implementation Chart for the Project

Year	2003												2004												2005												2006							
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	1	2	3	4	5	6	7	8
TA																																												



Annex 3 - Cumulative contracting and disbursement schedule (Phare Contribution only - €Million)

	Date													
	2003			2004				2005				2006		
	30/06	30/09	31/12	31/03	30/06	30/09	31/12	31/03	30/06	30/09	31/12	31/03	30/06	30/08
<i>Contracting</i>														
• TA				1.2										
Total contracting (cumulative)				1.2										
<i>Disbursement</i>														
• TA				0.36		0.6		0.84		1.08		1.2		
Total disbursement (cumulative)				0.36	0.36	0.6	0.6	0.84	0.84	1.08	1.08	1.2		

Annex 4 - List of relevant laws, strategies and regulations

The **Lithuanian Investment Law** sets forth terms and conditions, methods and areas of investment in the Republic of Lithuania, the rights of investors, and investment protection measures for all types of investments. According to the Law, the State shall provide favorable conditions for private investment and ensure efficient use of State funds earmarked for investment in order to promote its economic and social development. The State shall support investment intended for State priorities, improvement of the ecological situation, upgrading of technology of prospective industries, development of small and medium -sized business and satisfaction of the basic social needs of the public.

This Law is currently being revised. The draft version includes new provisions emphasizing that green field investments are among Government priorities and should therefore be supported by the State in various forms such as loan guarantees, training subsidies etc.

The Long-term Economic Development Strategy of Lithuania until 2015 points out that in the sphere of balanced development of industry one of the priority areas is insurance of favorable environment for industry development especially in the regions of increased unemployment. It emphasizes the importance of creation of favorable and attractive environment for investments. The Law also indicates that in order to increase competitive ability of the Lithuanian industry, the priority areas for investments shall be development of business IT infrastructure, higher value added production sectors, introduction of innovation, high technologies and quality systems, search for new markets, active entry into new markets etc.

The Medium-term Industrial Development Policy and its Implementation Strategy also indicates encouraging investment (public and private) into modern technologies and knowledge-intensive activities (primarily joining international clusters).

Lithuanian Government Action Programme identifies improvement of business environment as one of key trends for strengthening the economic development which includes support for introduction of modern technologies.