



# Lithuanian Regional Policy

## WHITE PAPER

for harmonious and sustainable development

2017–2030

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## INTRODUCTION

Lithuania meets its centenary of the state by addressing a threatening existential dilemma – social exclusion is impacting the population decline, which in turn is creating barriers to economic growth. We are losing more than one per cent of the population per year, so the projection for the country over the next century seems daunting.

Only Vilnius County is maintaining a relatively stable population, but this is, for the most part, due to internal migration from other regions of Lithuania.

The 17<sup>th</sup> Government, local governing bodies and economic and social partners are undertaking a review of regional policy, convinced that an effective regional policy can guarantee harmonious and sustainable growth and ensure quality of life throughout Lithuania. This may contribute to the resolution of demographic problems.

Regional policy is a multi-layered policy area. It can only be effective if there is concord between all of the policy areas it requires and the entities that shape them. The White Paper on Lithuanian Regional Policy (hereinafter – ‘the White Paper’) therefore aims to formulate guidelines for a harmonious regional policy that, rather than reflecting the goals and ideas of individual entities, would become a coherent vision, with institutions of national and local government as well as social and economic partners working together.

The essence of regional policy is best described by the objective of territorial cohesion – ensuring that everyone is able to make the best of the opportunities offered by their place of residence, their country, the European Union and the global world, while also contributing to the sustainable and equitable development of their state.

*The White Paper on Lithuanian Regional Policy was designed to coordinate the visions on territorial cohesion of institutions of national and local government and social and economic partners, as well as the actions necessary to achieve them.*

### **The principles of regional policy are:**

- **Consistency:** regional policy instruments are used to address long-term structural problems. In order to move from a reactive regional policy to one that shapes changes, long-term directions must be agreed upon and adhered to consistently (without excluding the need to adapt to new circumstances and the right of politicians to make political decisions).

- **Broad consensus:** the regional policy actors – the Government, the Seimas, municipalities, and social and economic partners – are not subordinate to each other. And when the partners are equal, policy is of a coordinating nature, where it is important to understand and align the economic, political and psychological motives of all of the partners.
- **Evidence-based management:** regional policy must be implemented in accordance with objective, reliable statistics and spatial and big data analysis, accurately identifying needs and opportunities; planned reforms must be tested first and foremost by ensuring the soundness of the assumptions and carrying out pilot projects, based on examples of international best practice.

*The objective of the Lithuanian regional policy is to create preconditions for a dignified, active, safe, healthy and attractive life throughout Lithuania.*

This goal fundamentally changes the logic of regional policy in Lithuania by raising problems from the bottom (the specific needs of a concrete person, village, city or region), and then employing state, regional or local government instruments to meet those needs. Regional policy sets out to resolve the challenges of each municipality and region by coordinating financial, economic, educational, scientific, cultural and other instruments. For example, by concentrating all preconditions for a private investor who wants to build a factory in a specific municipality, or by creating all of the necessary incentives for teachers or doctors to work in places where there is a shortage of them.

The Lithuanian regional policy review should create preconditions for an effective regional policy by reinforcing responsible self-governance focused on economic development, empowering Lithuania's regions and developing them in a targeted manner, and ensuring coherent and consistent local, regional and state development. Its ambition is to create an effective mechanism for sustainable development that would be adapted to the specifics of each region of Lithuania and contribute effectively to increased economic development and improvement of the living environment throughout the country.

*Responsible self-governance focused on economic development is the first pillar of the Lithuanian regional policy.*

Despite technological progress and the accelerating pace, every Lithuanian resident is settled in a specific place, studying, working and using the public services first and foremost of the municipality (or several municipalities). It is at the municipality that we learn our first lessons in democracy, feel the relationship with the state (through institutions of self-governance and municipal services: kindergartens, schools, clinics, libraries), establish a rapport with our first business partners and clients, and perceive the benefits of community.

The goal is to help municipalities plan and perform their functions better, extend their financial independence, increase incentives to reduce inequality by developing educational opportunities, attract investments, effectively manage services and the infrastructure and provide all of the tools necessary for this – investment aid and fast and efficient management and provision of information about land plots, buildings, services and employees – and liberalise the rules for the lease of state-owned land for investment projects.

*Engaged, empowered and competent regions are the second pillar of the Lithuanian regional policy.*

Worldwide, Lithuania ranks 138<sup>th</sup> in terms of population and 161<sup>st</sup> in terms of population density. Given the size of the state, and the low population density in particular, each additional level of administration or operational organisation in Lithuania must be clearly justified. Accordingly, Lithuania only needs strong regions that are responsible for their development and that could be given more development planning and management power – the implementation of investment policy, partial management of public services, and greater independence in the use of financial resources.

*A harmonised regional dimension in public policy and coordinated local, regional and state development is the third pillar of the Lithuanian regional policy.*

Regional policy involves an extensive number of actors: EU institutions, bodies and institutions of central government (legislative and executive) and self-governance, small, medium and large businesses from Lithuania and abroad, the academic community, urban and rural non-governmental organisations, and every active member of society. Each of us can help or hinder the harmonious and sustainable development of the regions.

The effectiveness of regional policy depends on the effectiveness of cooperation, and on how the system of cooperation at the national, local and regional level (Annex 2) will work in areas such as public and private investment attraction and economic development, among others. Regional policy can also contribute to better state management and service provision by addressing the development of newly established or reorganised state institutions and enterprises in the regions, the consolidation of services on the inter-municipal or inter-sectoral principal, spatial modelling of public service reforms, performance evaluation, and other tasks that help to reduce the cost of providing public services and improve the quality of services. A gradual transition must be made from sectoral (departmental) development planning to the principles of balanced regional development through the implementation of a horizontally coordinated regional policy. This calls for a change team – a permanent body that can operatively resolve regional problems that require the contribution of more than one ministry.

*Every resident of Lithuania, regardless of where he or she is located, should be able to work or engage in business with a commute of one hour or less.*

For each of us, it is at the municipality that the development of the state and economic growth or decline begin. Lithuanian regional policy must therefore create the best conditions for municipalities to improve their economic environment. We are participating in a global 21<sup>st</sup> century race, competing for people and investors. There is competition between settlements, cities, regions and states of various sizes. What matters is not how a region is named, but what opportunities it provides for its residents. The daily commutes of working people often go beyond the boundaries of municipalities, so it is important for the region's cities and companies to 'catch' these people by offering jobs that are worth travelling for. If we want all of Lithuania's regions to be viable, we must secure a long-term and sufficient number of competitive jobs and educated, intelligent and creative working people, as well as their relations. The alternative to this mission is a stagnant void whose inhabitants either leave or become dependants.

The specificity of the regions of Lithuania must be identified and their strengths must be revealed by supporting improvement initiatives in vocational training and higher education, business development measures and other tools; the region's identity must be shaped with the help of creative placemaking, and the best possible conditions must be created for municipalities to improve their economic environment.

*All residents of Lithuania, regardless of where they are based, must have the opportunity to live in a quality environment and receive adequate public services not more than half an hour away.*

The living environment throughout Lithuania must be improved by ensuring adequate investment in public services for municipalities where jobs and private investments are growing; universal access to education, health, social and cultural services and a response to the changing composition and needs of the population must be ensured, and service delivery models and quality standards that correspond to the spirit of the 21<sup>st</sup> century must be introduced.

*Living in various regions of Lithuania must become popular.*

We need to change the image of living, studying, working, and bringing up children in the regions of Lithuania by providing objective comparative information about job opportunities, the cost of living, and services in all localities.

*The White Paper on Lithuanian Regional Policy covers the period from 2017 to 2030.*

Regional policy is characterised by a long cycle during which the coherence and sustainability of the actions of all the partners must be ensured. The aim of the White Paper is to draw a long-term perspective for regional development that would continue for at least a few political cycles and would be consistent with the EU's long-term financial perspective.

## CONCEPTS

**Region** – a territory distinguished by geographical, social and economic integrity or by principles of government which set it apart from other territories. In applying different definition criteria, different types of regions may be named. In the White Paper, the concept of the region is used in identifying the regions allocated to public administration with the institutions, functions and budget characteristic thereof (administrative regions), natural systems of economic development, movement of workers, and urban and rural locality interaction (functional regions), and regions used for the preparation of coordinated statistics and development planning (statistical regions).

**Administrative region** – a precisely defined territory with boundaries in which public administration activities are carried out: administrative decision making, control over the implementation of decisions, provision of administrative services, and administration of public service provision.

**Functional region** – a system of economic development, movement of workers, and urban and rural locality interaction using the common infrastructure and the transport and service network which disregards the administrative division of Lithuania and is supported by regional policy instruments.

**Statistical region** – a territorial unit with precisely defined boundaries assigned to the appropriate level of the Nomenclature of Territorial Units (NUTS), according to which coordinated regional statistics are collected, prepared and disseminated within the European Union.

**Regional specialisation** – the entirety of regional development priorities and their implementing measures, concentrating human and financial capital into the most productive and promising areas of economic development of a specific functional region. The implementation of regional specialisation includes specialised infrastructure, research, education and training programmes, information dissemination, marketing and attracting private investment, and supporting business initiatives.

**Regional Competency Office** – a network of competent organisations implementing regional policy in a specific region, consisting of a coordinator who administers and develops internal and external communication activities and represents the interests of the region, as well as experts from public and private sector institutions and organisations participating in this network who provide assistance in developing and implementing high-quality and well-grounded regional and local development strategies, investment projects and other projects.

# REGIONAL POLICY STATUS QUO

## Legal regulation and system

The Constitution of the Republic of Lithuania establishes the functioning of local self-government in Lithuania (60 municipalities), while governing within higher-level administrative units is organised by the Government.<sup>1</sup> Since 1994, Lithuania has been divided into 10 administrative counties (administrative regions) classified as NUTS 3 (statistical regions). Regional development councils are formed therein which consist of mayors, delegated municipal council members and socio-economic partners.

The Law on Regional Development defines a region as a county (administrative region) or any other Government-designated territory of several counties or municipalities with common borders in which the national regional policy is implemented. In 2016, the Government formed two larger non-administrative regions corresponding to NUTS 2 (the Capital Region and the Central-Western Lithuania Region). This was done in order to avoid losing certain EU financial assistance in the upcoming EU financial perspective (since due to the economy of Vilnius County, Lithuania would exceed 75 per cent of the EU average GDP per capita, thus losing EU funding for lagging regions). The Capital Region and the Central-Western Lithuania Region have no governing bodies or powers, and EU financial assistance (if said is still planned according to NUTS 2 regions) would in any case be managed using a centralised national system. The Government has also formed a target region for the Ignalina Nuclear Power Plant, for which specific measures related to decommissioning of the Ignalina NPP have been applied.

The Law on Regional Development<sup>2</sup> defines the entities that shape and implement regional policy: the Seimas carries out the functions of legislation and parliamentary control, the Government adopts strategic decisions, the Ministry of the Interior forms and coordinates regional policy, and the other ministries are responsible for implementation of the individual regional policy instruments within their respective competences. The National Regional Development Council carries out the function of coordinating strategic decisions between institutions and social partners at the national, regional and local level; at the county level, there are regional development councils whose secretarial functions are performed by the Regional

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<sup>1</sup>Chapter X, Constitution of the Republic of Lithuania, fourth edition, Vilnius, 2014 (accessed: 09-Nov-2017) <<http://www.tm.lt/dok/LR%20KONSTITUCIJA.pdf>>.

<sup>2</sup> Republic of Lithuania, Law on Regional Development, 20 July 2000, No VIII-1889, consolidated version 01-Oct-2017, Official Gazette, 4 August 2000, No 66-1987.

Development Department under the Ministry of the Interior, and municipalities are involved in the preparation and implementation of planning documents.

The Law on Regional Development establishes the goal of regional policy: to reduce social and economic disparities between regions and within the regions themselves, and to promote balanced and sustainable development throughout the country.<sup>3</sup>

It must be conceded that despite the millions in EU funding that have been invested in the 60 municipalities of Lithuania, the disparities between cities and rural areas as well as between the counties in terms of economic development, the living environment, and the quality of services provided has not decreased. These are the main challenges for the Lithuanian regional policy.

## Challenges

### Geographically balanced, harmonious and sustainable economic growth

The counties of Lithuania that were formed in 1994<sup>4</sup> on the basis of the service zones for centres of traditional industry developed during the Soviet era<sup>5</sup> reached different levels of economic development due to their different geographic locations and infrastructure availability.

The employment level and income of the residents of many counties only allows them to meet their basic needs of survival (see Chart 1).<sup>6</sup> Not only is it significant that there is regional disparity, but also that the income level in many counties (6 out of 10) is below the (average) amount specified by the residents themselves that they require to meet their normal needs.

It is clear that the regional policy can no longer be based solely on reallocating resources – it must contribute to income growth.

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<sup>3</sup> Article 3, Republic of Lithuania, Law on Regional Development.

<sup>4</sup> Republic of Lithuania, Law on the Territorial Administrative Units and Their Boundaries.

<sup>5</sup> In 1964, development of 10 (differently ranked) cities and regions thereof was carried out on the basis of the Lithuanian SSR urban development and industrial layout plan. This zoning became the basis for defining county boundaries.

<sup>6</sup> EUR 361 per household member per month, Survey of Income and Living Conditions, Statistics Lithuania, 2016.

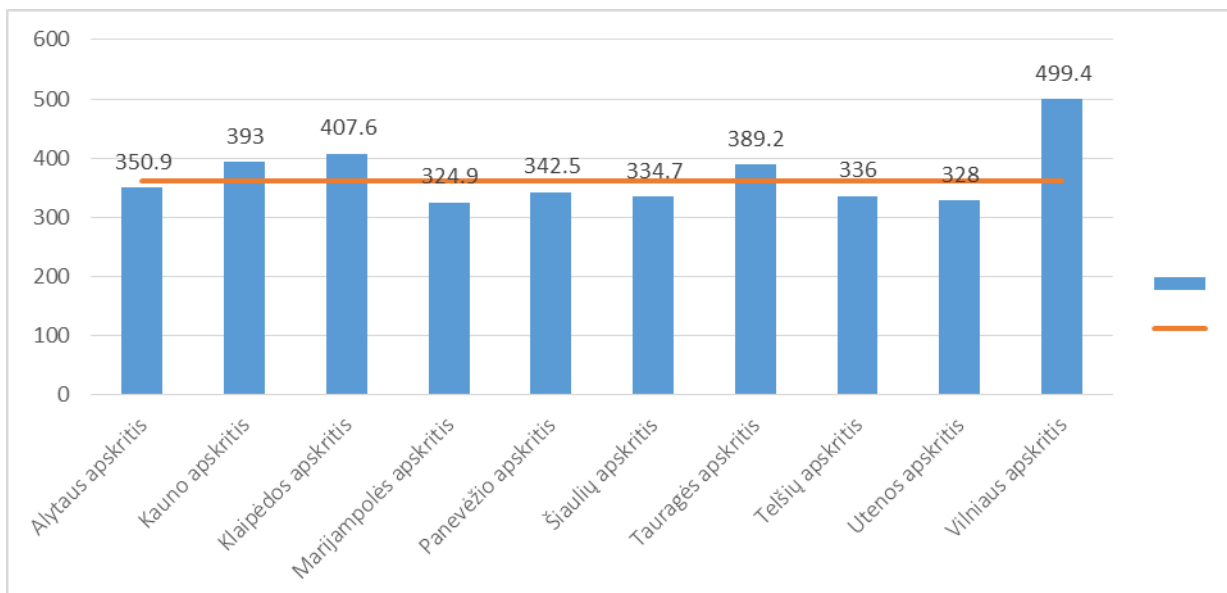


Chart 2 Household income by region.<sup>7</sup>

There is considerable variance in the indicators that reflect well-being, such as the unemployment rate (from 5.1 per cent in Klaipėda County to 13.7 per cent in Utena County)<sup>8</sup> and median disposable household income per household member (from EUR 324.90 per month in Marijampolė County to EUR 499.40 per month in Vilnius County). There are also noticeable differences between the employment rate indicators, ranging from 62.6 per cent in Marijampolė County to 74.7 per cent in Vilnius County for the population group aged 15–64.<sup>9</sup>

The differences in the level of well-being are even greater when comparing individual municipalities. In 2016, the average gross wage in the country (including sole proprietorships) amounted to EUR 774 (EUR 602.30 net), while the gross wage in individual municipalities ranged from EUR 890.40 (Vilnius City), EUR 818.20 (Klaipėda City) and EUR 792.90 (Visaginas) to EUR 568.20 (Lazdijai District), EUR 566.70 (Kalvarija) and EUR 560.70 (Šalčininkai District).<sup>10</sup> Thus, employment income in the richest municipality is 1.6 times that of the poorest.

The external factors that will determine the long-term trends of the regions of Lithuania must also be taken into account:

<sup>7</sup> Statistical information on the median disposable household income per household member per month by county, and public opinion on the minimum amount of money needed per household member to satisfy usual needs. Survey of Income and Living Conditions, Statistics Lithuania, 2016.

<sup>8</sup> 2016 Employment and Unemployment, Statistics Lithuania.

<sup>9</sup> Official Statistics Portal Database of Indicators (Population and social statistics > Employment and unemployment, 2016).

<sup>10</sup> 2016 Earnings in Counties and Municipalities, Statistics Lithuania.

- globalisation creates opportunities for developing export and attracting investment, but it also requires an increase in the competitiveness of the country and its regions;
- the fourth industrial revolution creates opportunities for increasing productivity, but threatens a decline in employment in traditional industries and requires more qualified workers;
- freedom of movement within the EU creates opportunities for young people to acquire additional knowledge and skills, but also requires improvement of the quality of education in Lithuania so that we can compete with the best European schools, eliminate educational imbalances in the regions, and create conditions for those who intend to return to Lithuania to work once they complete their studies;
- the prospect of further EU development raises questions about the size and structure of the EU budget as well as investment policy tools;
- the changing migration trends and the geopolitical situation of the region allow Lithuania to become an immigration destination country.

*The regional policy is not directly responsible for Lithuania's economic situation (that is an area of the national economic policy), but it can create conditions for municipalities and regions to achieve economic growth by exploiting their unique potential and combining development with national sectoral policies.*

## Quality living conditions throughout Lithuania

One of the reasons why people migrate from smaller towns to major cities, and from there – to other countries, is a living environment that does not meet their needs, and a lack of quality services. Therefore, this document sets out the principles of service planning and governance for ensuring a sufficient level of public services and incentives to live, work, study and raise children in all regions of Lithuania.

The network of public service providers is naturally denser in the major cities, with corresponding spatial accessibility (30 minutes) by which residents of the major cities or their surrounding areas can reach from 100 to 300 local institutions such as schools or kindergartens (Chart 3), around a dozen specialised hospitals and libraries, and many central offices of state institutions and bodies. At the same time, urban and suburban areas are also characterised by a high demand for services (for example, in the Vilnius or Kaunas metropolitan areas, there are 20–30 children living in the area for every school faculty member, while in more remote regions,

and especially in border regions, there are 6–8). That is, conditions exist in densely populated areas for institutions to compete for service recipients who are looking for the best services. Accordingly, institutions serving a larger number of residents are able to compete both in terms of wages and the quality of life offered, and a further concentration of institutions in demographically promising areas is taking place (for example, in 2017, 44 per cent of the people working in the public sector and for public service providers were at institutions operating in Vilnius County).

Remuneration among employees who provide public services varies accordingly – the trends in the state sector basically correspond to those in private organisations. In Vilnius County (according to SoDra data), public service providers paid an average gross monthly wage of approximately EUR 875 (113 per cent of the median), compared to Marijampolė County, where the average was EUR 630 (80 per cent of the median).

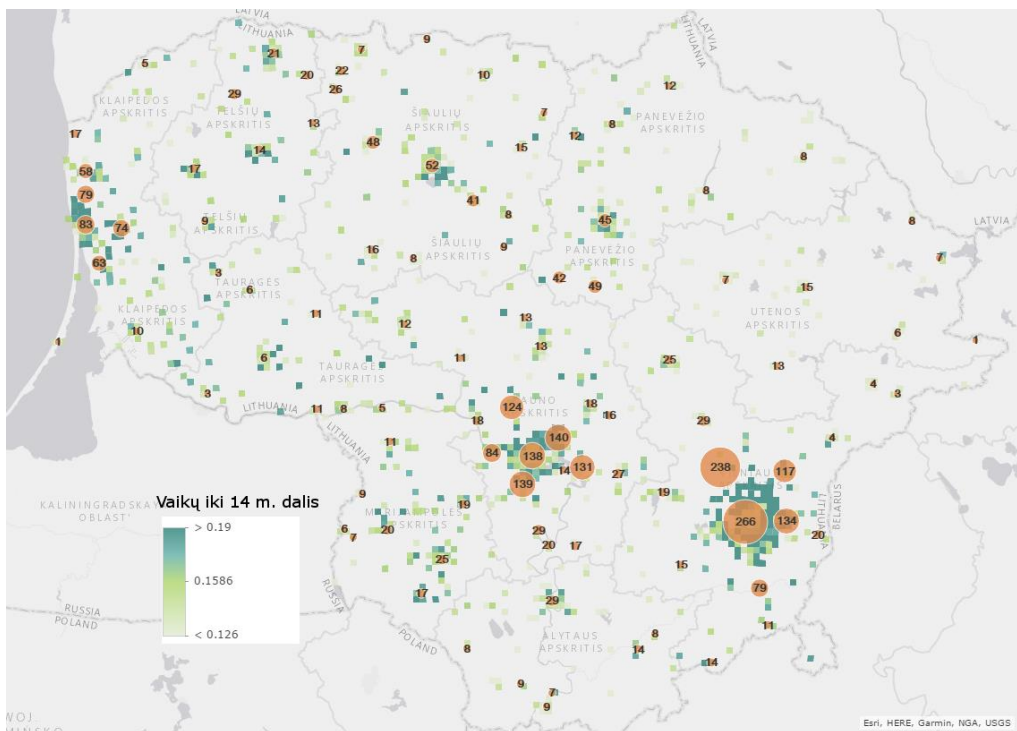


Chart 3 Number of pre-school educational establishments within 30 minutes

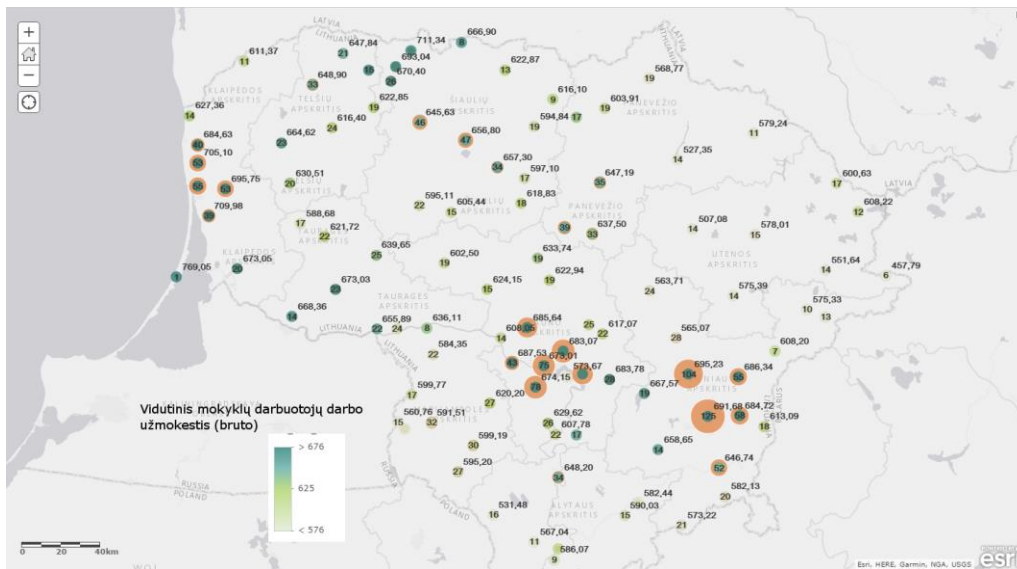


Chart 4 Number of schools (basic, pre-gymnasiums, gymnasiums) within 30 minutes and average gross monthly wage of their employees.

The fewer people who can take advantage of the state's investment in territorial cohesion, the more expensive it is (fewer taxpayers bear the cost). With the ever-decreasing population, the existing level of service and infrastructure quality is possible as long as the population's real income growth exceeds the population decline. Otherwise, we are faced with a vicious circle where a large part of the territory is only maintained by external support (investment in the physical infrastructure), and public service providers are interested not in the improvement of service quality, but in survival. That is precisely why the regional policy must not only adapt, but also contribute to the balancing of demographic and migratory processes – attracting new people to the regions and applying the provision of high-quality public services and development of the social infrastructure.

*The regional policy is faced with the challenge of harmonising the national policies for education, social security, health, culture, and other fields in order to improve the living environment throughout Lithuania, and ensuring a network of high-quality, easily accessible services at a rational price.*

# THE REGIONAL POLICY STRATEGY

**The long-term objective of the Lithuanian regional policy** is to create preconditions for a dignified, active, safe, healthy and attractive life throughout Lithuania.

## **Challenges:**

1. Geographically balanced, harmonious and sustainable economic growth.
2. Quality living conditions throughout Lithuania.

## **Regional policy goals:**

1. Creating an effective regional policy system.
2. Ensuring that harmonious and sustainable economic growth is geographically balanced.
3. Creating quality living conditions throughout Lithuania.
4. Improving the image of the regions.

*The first task is to create an effective regional policy system.*

As many residents and economic and social partners as possible must be involved in solving issues of importance to self-government and the regions. Local self-government must be assigned the function of improving the economic environment and be ensured the necessary tools. Municipalities must be given financial motivation for the emergence of new jobs and an increase in the number of residents. Expert cooperation platforms must be formed in every county to advise regional development councils and municipalities on issues such as development planning, attracting private investment, and marketing, among others. The regional development councils must become real leaders in the development of their regions, taking on more powers and looking for the most effective methods of development. In maintaining the administrative division of Lithuania into counties in the near term, we must ensure that this does not limit economic development or the optimal provision of services. All national public policies must have a regional dimension and include an operational platform for cooperation between local, regional and central governments. Harmonious and sustainable regional development must be carried out on the basis of objective data and forecasts, and guaranteed by the long-term state obligations entrenched in the Master Plan of the Territory of the Republic of Lithuania.

## ACTIONS<sup>11</sup>

1. **Ongoing improvement of the mechanism for self-government consultation with the population.** Municipalities are applying citizen charters more broadly, i.e., providing public consultations for residents on key issues. Municipalities are using various methods of consultation, taking local specifics into account: from modern billboards to electronic consultation. Community engagement tools are being employed, such as interactive games (such as Urban Toolbox), creative workshops, and so on. Effective feedback is being secured in order to find out how specific proposals were implemented and what results were achieved.
2. **Assigning an independent function of improving the economic environment to municipalities and continually improving the conditions to carry out this function.** A system of economic and social achievement indicators for municipalities is being created according to which EU funds, state investment and state budget grant allocations are planned for municipalities. In line with the criteria for the creation of jobs and the promotion of business and investment, part of the personal income tax allocated to level out municipal budget revenue is also being reallocated. A review of the borrowing and debt restructuring mechanisms is being carried out. The new model for strategic planning documents that is being implemented is harmonising regional- and municipal-level strategic and territorial planning documents.
3. **Creation of the Local Development Fund, which enables municipalities to take advantage of additional financial opportunities for harmonious and sustainable development.** This financial mechanism combines subsidies with more favourable credit conditions, private sector, foreign investment and development schemes, and innovative financial instruments. A pilot project is being launched in 2018.
4. **Inclusion of a wide circle of economic and social partners in the decision-making processes and activities of the regional development councils.** As of 2017, at least one third of the members of a regional development council must be made up of economic and social partners appointed in accordance with the procedure established by the Government. The active involvement of economic and social partners in regional processes contributes to creative, effective and responsible solutions that bring benefits to the entire region. Motivation for economic and social partners to participate in the development of the region is also increased.

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<sup>11</sup> The actions of this and other tasks include the Programme of the 17th Government, the plan for the implementation of its measures, and the information gathered in drawing up the White Paper.

5. **The creation of regional competency offices – expert advisory teams in the regions.**  
The competencies of the territorial divisions of the Regional Development Department under the Ministry of the Interior, Enterprise Lithuania, Invest Lithuania, the Agency for Science, Innovation and Technology (MITA), the Lithuanian Innovation Centre (LIC), INVEGA, CPVA, the Employment Service and other agencies are being brought together. The regional competency offices act as think tanks for the regional development councils. They assist the regional development councils in creating development strategies, attracting public and private investment, doing the homework required to attract investment, improving the region's communication and image, and so on. The regional competency office also regularly advises the municipalities within the region.
6. **Expansion of the powers of the regional development councils in order to enable the regions.** The regional development councils are becoming responsible for the harmonious and sustainable development of their regions. This development involves not only investing EU funds, but also making use of state investment programme funds, attracting private investments, planning and coordinating the provision of regional services, and marketing the region. The aim is for the regional development councils to embody regions operating on the basis of municipal cooperation and to become regional managers possessing legal status and real powers along with the regional competency offices (development agencies) or regional service centres subordinate to them. The activities of the regional development councils and their subordinate institutions can be financed in equal parts by the municipalities, the state, and the economic partners involved in decision-making. The logic behind the investment of state funds in the regions is being changed, abandoning the departmental, sectoral approach and giving municipalities and regional development councils greater powers to make decisions on ensuring integrated territorial development.
7. **Agreement that the existing 10 counties are necessary for uniform employment of the country's entire population and accessible services within a reasonable period of time, but that the boundaries of the counties cannot create obstacles for fast and successful regional development and cooperation initiatives.** Changes are being introduced to the Lithuanian regional policy based on international best practice:
  - **FUNCTIONAL REGIONS.** Opportunities for regional development without regard to the boundaries of administrative districts and municipalities are being opened. Opportunities are being created for the municipalities and regions themselves to voluntarily cluster together into regions based on real cooperation needs and take advantage of state support (in coordination with the Government) and innovative

financial instruments (Local Development Fund) for the effective development of these regions.

- REGIONAL CENTRE RANKING is necessary in order to model effective economic development and ensure the availability of quality public services within a reasonable time (see Annex 1 for more detail). This instrument makes it possible to focus capabilities on the concentrated development of economic centres and ensure a uniform territorial network of public services. The regional centres being formed are:
  - Three major centres, which form the functional regions of cities of European significance (Vilnius, Kaunas, Klaipėda). These have a concentration of top-level services and specialised infrastructure (universities, R&D infrastructure, level 3 health care institutions), and support is provided for the development of high value-added services.
  - Two intermediate centres (Šiauliai, Panevėžys), which form the functional regions of cities of national significance and which concentrate university branches and faculties, as well as state-controlled companies and institutions which correspond to the regional specifics, and where support is provided for the development of high value-added services and production.
  - Five regional centres (Alytus, Marijampolė, Tauragė, Telšiai, Utena), and their regions. These centres (and the regions of cities of national significance) concentrate vocational training (multi-profile regional centres), colleges (or branches), and territorial subdivisions of establishments that provide services to businesses; they are also where headquarters of state enterprises are moved according to regional specialisation, level 2 health care is consolidated, and support is provided for the development of high and average value-added production.
  - In implementing regional specialisation or optimising a higher-level service network, additional growth centres which do not form a separate region, but which ensure specific important services for the region or business development initiatives, may be designated.

8. **Creation of a coordinated and expeditious system of horizontal and vertical cooperation for regional development which involves a large circle of participants.** This system is made up of key public authorities and social and economic partners. Its coordinated actions and prompt problem solving are ensured by the National Regional Development Council, the Bilateral Council (of the Government and the Association of Local Authorities in Lithuania), the regional development councils, the regional

competency offices, and the Vice-Minister Regional Change Team (see Annex 2). The international Spring Regional Policy Forum that is held every year in a different part of the country brings together all regional policy actors and experts, inviting them to share best practice, generate new ideas, and measure progress.

9. **The Smart Regions GIS tool for ongoing self-government, regional and state action planning and impact assessment based on objective data and future trends.** After integrating the Smart Regions tool into the strategic planning and monitoring system, local, regional and central governments use it in planning their development, investments or provision of services. Smart Regions allows for the compatibility of the network of public services with the Lithuanian population distribution and geographical conditions to be assessed. Smart Regions makes it possible to carry out and coordinate the regional dimension of public policies (economic, educational, cultural, social, etc.) and look for the most effective ways of providing self-government, regional and state services.
10. **Consolidation of an effectively coordinated territorial component of all state development strategies in the new Master Plan of the Territory of the Republic of Lithuania (2020).**

*The second task is to ensure that the harmonious and sustainable economic growth is geographically balanced.*

Incentives for municipalities to improve the economic environment must constantly be increased, and cooperation between municipalities in this area must be encouraged. Regions must become leaders in a clearly defined economic specialisation, strengthened by concentrated financial, economic, educational and cultural measures. The state must promote the initiative to invest, create jobs and work outside of the major cities. New forms of work must emerge and information about favourable opportunities in the regions must be disseminated through the network of Lithuanian diplomatic representations. As one of the largest employers in the regions, the state must also retain and create jobs outside of Vilnius and Kaunas.

#### **ACTIONS:**

1. **A constant increase of incentives for municipalities to improve the economic environment.** As of 2018, the general budget grant will not be reduced for municipalities if they manage to collect personal income tax revenue over and above the plan. After creating a mechanism to incentivise municipalities for economic growth, they are more efficiently using the land and property tax incentives that are at their disposal to attract businesses.

2. **Simplification and acceleration of the procedures for the use of state-owned land for investment projects.** The period over which municipalities can obtain state land trusts to attract private investment is being shortened to six weeks. Once the regional development council confirms that an investment project is of regional significance, the municipality can lease the plot to the potential investor without an auction (thus avoiding the risk of land speculators participating in the auction). In order to accelerate private investment, the procedure and criteria for awarding a project regional significance status are being simplified. Once the land reform is over, the transfer of vacant plots of state land to municipalities is being considered in order to increase their autonomy by attracting private investment.
3. **Liberalisation of the conditions for FEZ activity.** In shaping and supporting the FEZ network, conditions are being created for the quick and simple inclusion of new territories and the elimination of uncompetitive territories. In consolidating financial resources, additional support measures are being created for the FEZ and industrial park engineering infrastructure (roads and water, sewage and other engineering networks) and to equip industrial buildings that are ready for use. The legal and financial possibilities for co-use of state and municipal funds for investments in FEZ territories are being reviewed.
4. **Continual improvement of the incentive system for investing and starting businesses in the regions of Lithuania.** As of 2018, municipalities can receive EU funds to improve the business infrastructure, under the condition that once the projects are over, they will sign investment agreements with private investors. Under the Regio Potential LT measure, financing is being provided for the implementation of modern technologies to enterprises operating in places other than Vilnius, Kaunas and Klaipėda. Regional invitations are beginning to be used, when companies compete on the scale of each individual region of Lithuania. Under the Partial Compensation of Interest measure, companies operating in smaller municipalities can receive up to 45 per cent higher interest compensation pay-outs than in major cities. The Co-Investment Fund measure also provides for more favourable conditions for companies in regions. In order to promote regional business, efforts are being made in low-value procurements to give the contracting organisations the opportunity to reserve procurements for business entities operating in that region. Enterprise Lithuania and Invest Lithuania are expanding their activities throughout Lithuania.
5. **Focus of each region on a few of its strongest areas of economic specialisation in order to strengthen them by concentrating financial, economic development, education, science, technology, innovation and other measures.** Several trial regional economic

specialisation initiatives are being implemented in 2018: the development (change) of vocational and higher education programmes, investment in a specialised business environment infrastructure, and targeted EU financial assistance calls for companies from specific regions and economic sectors. If these initiatives demonstrate clear added value for regional development, economic specialisation will be implemented for all regions of Lithuania (Annex 3, which will be presented after specifying the specialisation of each region).

6. **The implementation of additional development projects, taking the geographical, economic and cultural specifics of the regions into account:** organic food (supply) chains, creative placemaking (by initiating creative partnerships, promoting local entrepreneurship, and making heritage pertinent and encouraging its inclusion in the local cultural life), regional cultural innovation partnerships (sociocultural clusters, incubators and residences), and so on.
7. **Adaptation of the vocational training and higher education system to the social and economic needs of the region.** Investors name a sufficient number of skilled workers as the most important factor when choosing the place to invest in, so vocational training and higher education play an extraordinary role in terms of economic recovery.
8. **Opportunities for the development of social business.** Upon adoption of the Law on Social Business Development, communities, social innovation start-ups and other entities that meet the social business criteria can more actively contribute to the promotion of entrepreneurship and employment in the regions of Lithuania. Public services are gradually being transferred to social business entities in the regions through individual partnership measures: public procurements, concessions, and public-private partnerships.
9. **Improved communications between employees and workplaces.** A system for coordinating passenger roads and rail transport routes is being created, and combined route and combined ticket systems are being introduced. Regional public transport systems are being created, making it possible to organise communications between urban, suburban and regional cities, going beyond the administrative boundaries of municipalities (in functional regions). A transport sharing economy for remote localities is being encouraged by creating a billing system and getting communities and individuals involved in ride sharing. In order to improve conditions for parents who work farther away from their children, kindergarten working hours are being extended.
10. **Representation of municipal and regional business, tourism and other interests through the Lithuanian diplomatic network.** The Ministry of Foreign Affairs has

appointed an ambassador-at-large for work with Lithuanian municipalities who helps the municipalities in interacting with potential foreign investors and Lithuanian citizens who have moved abroad from the respective municipalities.

11. **Assessment of the place of operation of newly established or reorganised state institutions and enterprises based on the impact on the regions, their labour market and economy, and customer needs.** The Smart Regions tool enables decisions to be made on the creation of state-financed jobs in the regions based on objective data and taking the region's labour market and economic characteristics as well as customer needs into account.

*The third task is to create quality living conditions throughout Lithuania.*

Public services of sufficient quality must be accessible within a reasonable period of time to residents throughout Lithuania. The quality and accessibility of services should not be restricted by the administrative boundaries of municipalities. After carrying out an audit of all state and municipal services, the optimal territorial level and scope of their provision must be determined. In order for it to be effective, social and economic partners must be involved in the provision of public services. For the available infrastructure and human capital to be used wisely, single ineffective institutions must be replaced by modern multifunctional centres that would make it possible to get rid of surplus buildings and allocate more resources for remuneration and motivation. Incentives must emerge to live, study and work in areas other than the major cities and suburbs. Residents of all municipalities must be ensured health, psychological, social, educational, cultural and other services that meet 21<sup>st</sup> century expectations.

#### **ACTIONS:**

1. **Assurance of adequate public service quality for all residents of Lithuania, regardless of where they live.** A thorough audit of public services provided at the local, regional and state level is being carried out, identifying the differences between municipalities and determining the optimal territorial level and scope of the provision of public services. A public service quality standard is being established, which ensures that the quality of services fully meets the needs of the modern population, regardless of which municipality they live in and to whom the service provider is subordinate. Modern multifunctional centres are being created in municipalities and regions, in already existing buildings that house educational, cultural, social or other service providers. Surplus buildings are being demolished or privatised, thus saving on the cost of their maintenance. The procedure for

public service financing and payment for services that the institutions or companies of one municipality provide to the residents of another municipality is being reviewed, and obstacles to the general provision of municipal services in a region are being eliminated.

2. **A coordinated service accessibility standard throughout Lithuania.** The Smart Regions GIS tool continually monitors benchmarks such as population movement, age, sex, and education, and facilitates decisions on the location of municipal, regional and state institutions and the selection of services provided by them. The network of all basic public services is being reorganised in such a way to ensure that public services are accessible, at the lowest cost possible, to every resident of Lithuania within established travel times:
  - 30 minutes by public transport/foot for libraries and public internet access points, pre-school education, primary school education, and minimum primary health care services (community nurse, general practitioner) at specialised or multifunctional service provision locations;
  - 30 minutes by car for general education, non-formal education and specialised medical services, social services provided at day centres, and sports, cultural and leisure event venues – in all cases, these service provision locations must also be easily accessible by public transport, or ride services must be ensured;
  - 60 minutes by car for regional level consolidated services: vocational schools and colleges, administrative service centres for state institutions, business incubators and infrastructure, and hospitals, regional libraries and cultural centres;
  - furthermore, mobile teams of specialists who provide social services on the street or at home must be accessible to 100 per cent of the population.
3. **The gradual transfer of public services to social business entities in the regions.** Public procurements, concessions, and public-private partnerships are being used to this end. In order to improve the quality and accessibility of public services, municipalities are encouraged to cooperate more actively with businesses and to look for the optimal ways of providing education, communications, health care, cultural or social welfare services. An incentive system is being created to ensure improvement of the quality of services provided by non-governmental organisations and communities, as well as efficient distribution of public resources for service provision. Services provided by NGOs must make up at least 15 per cent of the scope of public services provided by municipalities.
4. **Improvement of the living environment throughout Lithuania.** A mechanism for the optimisation and balanced development of the municipal infrastructure is being created. The principles of municipal responsibility and accountability for the efficient use of

resources (funds, land, infrastructure) are being established. New financial instruments are being created to finance the infrastructure of municipal public buildings, cultural heritage, water management and transport.

5. **The creation of favourable conditions to settle outside of the major cities.** In mid-2018, a support system will be implemented for young families (up to 35 years old, regardless of income) who are buying or building their first home outside of the major cities. Residential development is being regulated by barring dilution of residential areas and ensuring the responsibility of housing developers to install all engineering communications and connect them to the city networks. Legal and financial instruments are being established to permit an increase in population density in built-up areas where there is a centralised heat supply system that functions effectively from an environmental point of view. New heat consumers would be provided with centralised heating or would use electric, solar or geothermal energy for the production of heat.
6. **Assurance of adequate education quality, regardless of where the pupils live.** A system of targeted grants for municipalities is being created which includes measures for teachers and their family members to become settled and integrated in municipalities. Funding for the development and quality of non-formal education for children is being increased in an effort to reduce the differences in non-formal education opportunities between the city and the countryside. STEAM open access centres are being set up in seven county centres. A performance quality assessment model for non-formal adult education and continuing education providers is being tested in at least five municipalities. Distance learning offered by Lithuanian schools for persons who have moved abroad and opportunities for this kind of education are being analysed and developed.
7. **Improvement of the psychological environment in all Lithuanian municipalities.** Conditions are being created for families and individuals to receive complex family skills training, positive parenting training, psychosocial support, childcare, ride services, and mediation services as close as possible to their place of residence. Municipalities are implementing a victim assistance system for people experiencing violence in their immediate environment. Programmes are being implemented in municipalities for the integration of institutionalised groups (children from children's homes, ex-convicts, people with disabilities, people who have gone through rehab, etc.) into society. Conditions for youth work and street-based youth work are being created throughout Lithuania.
8. **Improvement of the quality and accessibility of health services.** A comprehensive health care system specialist planning model is being introduced by addressing the shortage of

specialists, increasing medical staff salaries, evaluating the number of existing specialists, planning health system and demographic changes, and allowing the training of specialists at educational institutions to be planned. A tiered skill assessment system for resident doctors is being created, promoting their further work at regional and municipal institutions. Family doctors are being encouraged to do their last-year residency in regions that have the greatest health imbalances. The provision of secondary health care services is being reorganised, abandoning surplus infrastructure. Third-level competence centres are being strengthened in Vilnius, Kaunas and Klaipėda.

9. **Improvement of the reach of cultural services and level of population engagement.** The cultural and creative activities of traditional ethnic communities and dissemination through the regional centres in municipalities is being encouraged. A model for financing regional cultural projects is being created, and regional projects for social, civic, and cultural heritage awareness, fostering intangible cultural heritage (ethnic culture), and community inclusion are being initiated. A model for professional art group mobility in the country's regions is being tested.

*The fourth task is to improve the image of the regions.*

Living outside of the major cities can become popular, but word must be spread about opportunities to study, work, raise children and have a home in all regions. The benefits of all the regions and objective information that backs them up must be visible to people looking for a job after completing their studies, a better salary, professional challenges, or a better living environment. Information about EU-funded projects in municipalities must be presented in such a way that local residents as well as people interested in changing their place of work or residence can learn about how the situation has improved (how many new jobs and places at educational institutions have emerged, how the safety situation has changed, or what new forms of leisure have been created). Close contact must be maintained with Lithuanian citizens residing abroad, not only at the national level, but also at the municipal or regional level. The residents themselves have to become active representatives of their regions, and opinion makers have to persuade the public that living in the regions is also desirable. The most active participants in successful regional development must be constantly visible and encouraged.

## **ACTIONS:**

- 1. The provision of detailed information about opportunities in the regions for people living both in Lithuanian and abroad.** The municipality quality of life index evaluates the activities of municipalities from the perspective of the inhabitants: according to the number of jobs and salaries, opportunities to get placement at kindergartens and schools, doctor wait times, the availability and quality of other services, traffic, noise and air pollution, housing prices and quality, opportunities for starting a business and incentives for new businesses, distance to recreation areas, the number of food and entertainment venues, access to culture, etc. This encourages people to also consider alternatives outside of the major cities when returning to Lithuania or choosing or changing their place of residence or work. These actions are being combined with initiatives to bring Lithuanians back to Lithuania.
- 2. The use of EU project publicity to improve the image of the regions.** Publicity of EU-funded programmes and projects focuses on disseminating information about the improvement in the quality of life in the regions. Articles, advertisements and reporting on EU projects or programmes answer the question of ‘how have living conditions improved in the respective region?’. Improvement is defined in terms of jobs created, higher pay, reduced commute time, increased safety, and so on.
- 3. Encouraging municipalities and regions to maintain close contact with Lithuanian citizens who have left their areas to move abroad.** With the help of the Ministry of Foreign Affairs and other ministries, the municipalities are developing networks such as Global Tauragė, Alytus Natives of the World, and Anykščiai Ambassadors. The contact information for all former residents of the municipality who have moved abroad is being collected so that it is possible to keep in touch with these people by electronic means of communication, mail, or by organising events and meetings when Lithuanian citizens return home from abroad. Emigrants are encouraged to consider returning to their municipality or working for the benefit of the municipality while living where they are.
- 4. Encouraging residents to share positive news about the area where they live and contribute more actively to the development of their neighbourhoods.** Regional literary, artistic and civic initiative competitions are being organised on a regular basis with the aim of encouraging people to spread the word about their region and become more involved in its development. In developing the Smart Region system, crowdsourcing opportunities are being created by updating and evaluating information about services, locations and their benefits, and the needs of the population.

5. **Formation of a network of regional ambassadors to spread the word about positive opportunities in the regions.** Opinion makers – well-known people or regional press journalists who grew up in small municipalities or moved to them from the major cities – are being recruited to talk about the regional policy and opportunities to live well in smaller municipalities.
6. **Appreciating and encouraging successful local self-government, business and community initiatives.** Awards ceremonies such as the *Auksinē krivūlē* ('Golden Elder's Staff') and *Gazelē* ('Gazelle') are held on a regular basis to recognise regional success stories.

# REGIONAL POLICY REVIEW INDICATORS (EXPECTED OUTCOMES)

## **Challenge 1. Geographically balanced, harmonious and sustainable economic growth:**

1. Cohesion in terms of GDP (decrease in average regional economic imbalances), two per cent in 2020.
2. GDP per capita in all counties of Lithuania (in purchasing power standards) approaching the EU average, at least 10 per cent for 2017–2020.
3. Fixed investment per capita of at least EUR 1,200 in all counties (in 2016, this figure ranged from EUR 859 in Alytus County to EUR 2,824 in Vilnius County).
4. An increase in (net) wage in all counties of at least 15 per cent for 2017–2020.

## **Challenge 2. Quality living conditions throughout Lithuania:**

1. The Republic of Lithuania ranked fifth among the EU countries with the fewest regional employment disparities by 2020 (as opposed to eighth in 2016).
2. Average wage disparities between regions at state and municipal controlled companies and institutions and private public service organisations of no more than five per cent by 2020 (as opposed to 11 per cent in 2017).
3. An employment-to-population ratio of at least 75 per cent in all municipalities.
4. Net negative migration in all municipalities, no more than –0.2 per cent.

# **ADMINISTRATIVE REFORM – ONLY IF THE OBJECTIVES ARE NOT ACHIEVED**

## **Administrative municipal reform**

In terms of their size, Lithuanian municipalities are some of the largest in the European Union. Their sizes also differ considerably (e.g., the population of Vilnius and Neringa, or Kaunas and Rietavas are hardly even comparable). Of the 60 municipalities, six are referred to as ‘ring’ municipalities, because they are located around the major cities, the territorial configuration of which was inherited from the Soviet zoning system. These circumstances raise a number of challenges in coordinating the provision of services to residents and the joint activities of municipalities. In 2017–2020, these challenges will be addressed first and foremost by introducing financial and regulatory incentives aimed at cooperation between municipalities (regional cooperation, inclusion of social business, etc.).

If, after evaluating the achievements of the revised regional policy in 2021, it is concluded that the mechanisms for municipal cooperation that were introduced were not sufficiently effective and that achieving more is being impeded by the existing administrative boundaries of the municipalities, reform of the municipal administrative boundaries will be considered before the 2023 municipal council elections.

This can only be done after analysing and evaluating the well-established links between life, work and learning, carrying out a thorough analysis of the economic and social indicators of the municipalities, and mandatorily heeding the opinion of residents and municipal councils.

## **Administrative regional reform**

Administrative reform of the regions involving modification of the existing regional boundaries or identifying administrative regions that should be classified as NUTS 2 will be initiated if the necessity thereof is substantiated by the results of the pilot initiatives carried out in 2017–2020 and achievement of the evaluation indicators specified in the White Paper.

A review of the results of the White Paper reforms is planned for 2021 (according to the results achieved in 2020). Territorial administrative reform (regional and municipal) scenarios will accordingly depend on the achievements of the revised regional policy and can be carried

through (if needed) before the 2023 municipal council elections and formation of the regional development councils for the corresponding terms of office. The administrative division of the territory of Lithuania may be changed under one of the following conditions:

1. In the presence of a justified need and effective cooperation initiatives taking place in functional regions larger than counties (corresponding to NUTS 2 in terms of population), these regions could be formalised by increasing the powers of these regions in administering EU and public investment. Further discussion should take place in weighing the possibility of level-2 (regional) self-government in these regions.

2. If it becomes clear that the initiatives based on volunteering and inclusion (regional specialisation, cooperation in functional regions, etc.) are ineffective and the economic and social evaluation indicators are not achievable, and that the regional centres that have been designated are not capable of performing the functions of growth centres. In this case, central government intervention may be initiated and regional (county) borders and resources may be changed, concentrating on a smaller number of regions and their growth centres.

Potential options for reform:

- A. The creation of Nuts 2 Eastern Lithuania (Vilnius), Central Lithuania (Kaunas) and Western Lithuania (Klaipėda) regions, increasing the financial powers of these regions and considering the possibility of level-2 (regional) self-government with corresponding regional budgets, services, etc.
- B. Review of regional (county) boundaries in an effort to ensure more effective development and better opportunities and services for the population.

## ANNEXES

1. The principles of country regionalisation.
2. The structural system of regional policy.

## Annex 1. The principles of country regionalisation

### THE SYSTEM OF REGIONS (3 + 2 + 5)

The principle is that 10 regions with three hierarchical centres are formed: the three largest cities (Vilnius, Kaunas, Klaipėda), two intermediate centres (Šiauliai, Panevėžys), and five regional centres (Alytus, Marijampolė, Tauragė, Telšiai, Utena).

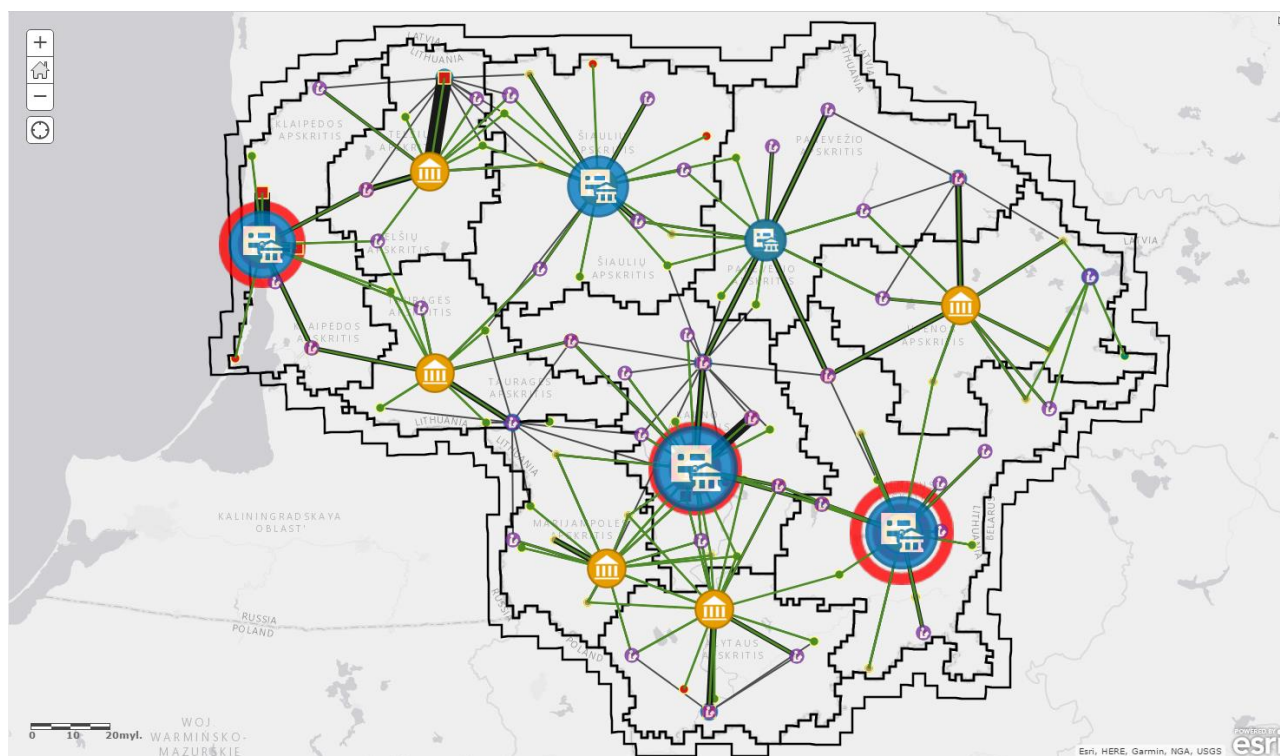


Chart 1 The system of regions and their centres (3 + 2 + 5)

**All of the centres + additional centres** (service locations) are arranged according to the specifics of the concrete localities (there is no need to change the boundaries of the regions):

- business incubation services (incubators, industrial parks) and remote labour exchange locations;
- specialised vocational training institutions (e.g., energy, agriculture) are supported, and industrial areas, industrial parks and/or other business infrastructures are developed according to the specialisation of the region (e.g., resort infrastructure);
- investment support is provided to attract investment (ad hoc);
- non-formal education (art, music, sports, etc.) and cultural institutions (accessible within 30 minutes) are consolidated.

**All regional centres (minus the additional centres)**

- Vocational training (multi-profile regional centres), colleges (or branches), customer service departments for the State Tax Inspectorate, SoDra, the National Land Service, and the State Food and Veterinary Service, and territorial subdivisions of other institutions providing business services (maintenance, certification) are concentrated. The headquarters of state enterprises are moved according to regional specialisation.

- Consolidation of the secondary level – health care level, specialised social services.

**Two cities (with the nearest suburbs of +100,000 population)**

- University branches
- Central departments of state institutions (according to the specialisation of the region)
- Tertiary health care

**Three major cities and their counties**

- Universities
- R&D infrastructure
- Central departments of state institutions
- Tertiary health care

Annex 2. The structural system of regional policy

