

SUMMARY OF THE ASSESSMENT OF THE IMPACT OF 2014-2020 EU FUNDS ON THE GROWTH AND DEVELOPMENT OF THE LITHUANIAN TOURISM SECTOR

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Kuriame
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The aim and objectives of the evaluation

The aim of the evaluation is to identify the impact of the 2014-2020 EU funds' investments in Lithuanian tourism and the investment priorities for the 2021-2027 funding period. To achieve this, the evaluation has two objectives:

- 1) To assess the effectiveness, efficiency and impact of the 2014-2020 EU Funds' investments on the growth of Lithuanian tourism and the impact of the COVID-19 pandemic on the tourism sector and on the implementation of the Operational Programme for EU Structural Funds Investments for 2014-2020 (hereinafter – OP);
- 2) To assess the contribution of OP Priority 5 to the Europe 2020 strategy and to propose scenarios for the development and financing of the Lithuanian tourism sector after 2022, taking into account the effects of the COVID-19 pandemic.

The evaluation covered 18 OP measures implemented under the four (1, 3, 5 and 13) priorities and their specific objectives. In order to answer evaluation questions a combination of primary and secondary sources, quantitative and qualitative data analysis was used. Given the object of evaluation and the evaluation questions, one of the most important methods was expert evaluation, which complemented the results obtained through statistical analysis, comparative analysis and other methods. The evaluation also involved key stakeholders: tourism policy makers and implementers and EU fund administrators, project promoters and socio-economic partners. Stakeholders were involved through interviews, a focus group discussion and a survey of project promoters.

Operational Programme for EU Structural Funds Investments for 2014-2020 implementation environment: trends in the Lithuanian tourism sector 2014-2022

The development of Lithuania's tourism sector in the period 2014-2022 was uneven. Until 2019, there has been a steady increase in the key indicators (number of overnight stays in accommodation establishments, expenditure of tourists, etc.) of all tourism segments (inbound, outbound and domestic tourism). The growth in the tourism sector indicators has been driven by economic growth leading to more travel and a significant increase in the number of tourists worldwide and in Lithuania. Important factors are also the increase in the opportunities of Lithuania's tourism competitiveness in the regions, active work with target inbound markets. However, the situation has changed dramatically since 2020, when the performance of the tourism sector has been severely affected by external factors, such as the COVID-19 pandemic and the constraints it brought. In 2020, the number of foreign tourists in Lithuania dropped by 70% compared to the situation before the COVID-19 pandemic and was above the EU-27 average. According to the State Data Agency, the value added generated in the Lithuanian tourism sector fell by 43% in 2020, with the share of tourism production falling from 2.9% to 1.69%.

In 2021-2022, growth in the main indicators of the tourism sector is again observed, but the 2019 level, especially for inbound tourism, has not yet been reached. Lithuania's tourism recovery is slower than in other EU countries, as inbound tourism is negatively affected by the war in Ukraine, which started in February 2022. There are many cancellations from Germany, France, Italy and Sweden, as the geographical proximity to Ukraine and foreign policy communication (escalating the issue of (in)security of Lithuania and the Baltic States) are creating an image of Lithuania as an unsafe country to travel.

According to the latest statistical data, the contribution of Lithuania's tourism sector to GDP in 2022 was 3.3%, which is still lower than before the COVID-19 pandemic, when it was 5%. At the beginning of 2023, there were 4,061 enterprises providing accommodation (513 enterprises) and catering (3,548 enterprises), which accounted for 4% of the total number of enterprises operating in Lithuania. 98% of these enterprises are classified as micro, small and medium-sized enterprises in terms of number of employees. The main production generating activities of the Lithuanian tourism sector (accommodation and catering) are by their economic nature less productive and their competitive strategies are often based on price, which means that there are limited opportunities for sales and profits. In order to increase the competitiveness of the tourism sector and the added value it generates, notwithstanding external constraints (such as the unfavourable geopolitical situation due to the ongoing war in Ukraine), it is necessary to innovate tourism sector by creating new and improving existing tourism products and services.

Evaluating the relevance of the OP measures in the tourism sector

Under the OP, funding for tourism and tourism-related projects was provided under Priorities 1, 3, 5 and 13. Priority 5 measures supported activities that directly contributed to the development of the tourism sector: investments in tourism infrastructure, relevant marketing tools, upgrading of cultural heritage, promotion of cultural-recreational tourism, and development of nature tourism (management of protected areas, including cultural and natural heritage sites, adaptation to visitation, construction, installation and/or renovation of environmental-recreational facilities, and public information activities). According to SFMIS data, 189 projects were financed under these measures, with ERDF and co-financing totalling over €201.5 million. Almost half of the total investment (47.4%; €95.62 million) went to projects for the upgrading of cultural heritage and its adaptation to public needs, a similar share (40.4%; €81.4 million) went to projects related to the promotion of nature tourism, and a little more than a tenth of the funds (12.2%; €24.5 million) were allocated to the marketing and signposting of tourism objects.

The implementation of measures under OP priorities 1, 3 and 13 has promoted the innovation and competitiveness of enterprises operating in a wide range of economic sectors, including tourism. Under Priority 1 measures "Intelligence. Joint science-business projects" and "Innovouchers", only 5 projects were implemented whose main economic activity was related to tourism services. Slightly more, 20 projects were funded under Priority 3 measures "New Opportunities LT", "Regio Invest LT+" and "Eco-innovations LT+". SME projects related to the promotion of tourism competitiveness and innovativeness were allocated €0.51 million under Priority 1 measures and €6.66 million under Priority 3 measures. Enterprises active in tourism and related services implemented more projects related with digital, design and marketing innovations under priority 13. Under the measure "Creative Vouchers COVID-19", 61 projects were implemented by enterprises providing tourism, accommodation, event organisation, catering and leisure entertainment services. These enterprises received €3.7 million of EU funds (41% of the total funding provided under the measure). Under the measure "E-commerce model COVID-19", 158 projects related to tourism activities were funded with €5.95 million (13% of the funding allocated under the measure).

The analysis of the relevance of the OP measures shows that most of the measures implemented under Priority 3 and all the measures implemented under Objective 5.4.1 contributed to the implementation of 6 out of the 10 objectives set out in the Lithuanian Tourism Development Programme for 2014-2020 (hereinafter – Tourism Programme) and to the implementation of 10 out of the 18 evaluation criteria of the Tourism Programme assigned to the objectives. The link with 4 objectives ("Develop public and private infrastructure for cultural tourism, business

tourism, health tourism and eco-tourism in priority tourism development regions"; "Develop and promote tourism routes, cultural routes, tourist tracks"; "Encourage the development and implementation of e-marketing projects" and "Carry out integrated marketing in priority inbound tourism markets") is a direct one, i.e., the activities of the measures were in line with the objective(s) of the Tourism Programme, the monitoring indicators measured are similar or identical to the evaluation criteria of the Tourism Programme, or the activities of the projects implemented under the measure related to the tourism sector were in line with the objective(s) of the Tourism Programme.

During the period of implementation of the OP, the measures under Priority 1, 3 and 5 have been modified in response to the needs of the applicants and the general economic situation, but the COVID-19 pandemic and the management of its consequences have been the most significant changes. In response to the decline in the profitability of the country's businesses (all sectors in general), the OP was complemented by new OP priorities to foster sustainable economic development in the aftermath of the COVID-19 pandemic, by targeting investments at innovative and high value-added businesses. For tourism-related businesses measures "Creative Vouchers COVID-19" and "E-Commerce Model COVID-19" under Priority 13 were the most relevant. These measures financed 219 projects where businesses introduced digital, design and marketing innovations to mitigate the negative impact of the COVID-19 pandemic and adapt to new customer needs.

In the programming of EU funds for the 2014-2020 financial period, unlike in previous programming periods, no separate measures have been created to specifically finance tourism SME projects. It was expected that these enterprises, together with industry and other SMEs, would apply for and implement their planned projects under priorities 1 and 3, which aim to strengthen the innovativeness and competitiveness of enterprises. The analysis of the projects carried out during the evaluation shows that this assumption did not prove to be correct, as the interventions implemented under priorities 1 and 3 made a limited contribution to projects related to the development of tourism services or products, or to improving the efficiency of tourism enterprises. In total, 26 tourism-related SME projects, or 0.5% of tourism-related SMEs, received funding under the set of measures evaluated under priorities 1 and 3. They accounted for 0.25% of the total share of EU funds allocated under these two priorities, although tourism-related enterprises represent almost 4% of all SMEs operating in the country.

Evaluating the effectiveness and efficiency of the OP measures in the tourism sector

In accordance with the evaluation service specification, the evaluation analysed the effectiveness and efficiency of the measures implemented under OP Priority 5, Objective 5.4.1. Under this objective 196 tourism projects were financed with €187.1 million of ERDF funds. The set of interventions consisted of 9 measures managed by the Ministry of Culture (4 measures with €90.8 million of ERDF funds), the Ministry of Economy and Innovation (3 measures with €22.6 million of ERDF funds) and the Ministry of Environment (2 measures with €66.7 million of ERDF funds). The largest number of projects were implemented under the measures administered by the Ministry of Culture (92 projects) and the Ministry of Economy and Innovation (82 projects). The smallest but highest value projects were implemented under measures administered by the Ministry of Environment.

Financial progress of Objective 5.4.1 is uneven. In terms of funds declared to the European Commission at the end of 2022, the amount declared is €165 million (75% of the funds allocated to the Objective). The slowest rate of implementation is observed in the measures administered

by the Ministry of Environment (69%) and the Ministry of Culture (79%). They have the highest remaining disbursement rate in 2023 and therefore remain at risk of underachieving their target changes (i.e., the monitoring indicators).

The slower implementation of the measures is primarily due to external reasons. According to the survey of project promoters carried out during this evaluation, 45% of the project promoters surveyed indicated that the results of their project(s) had been affected by the COVID-19 pandemic and the quarantine imposed in the country. 38% of project promoters stated that the war in Ukraine had negatively affected the results of their project. The COVID-19 pandemic and the war in Ukraine increased the duration of the projects, led to lower than expected delivery of results, and also reduced the project's economic benefits.

To assess the performance of Objective 5.4.1, the OP established a set of 7 monitoring indicators, consisting of 4 output and 3 outcome indicators. In addition, 6 national product indicators were identified to monitor project implementation. Taking into account that the results achieved by the end of 2022 exceeded the evaluation criteria foreseen in the Tourism Programme, it can be summarised that the investments in the areas for which funding was foreseen were effective and contributed to solving the problems identified at the beginning of the period.

The effectiveness of the measures implemented under Objective 5.4.1 in the field of tourism is illustrated by two indicators R.S.332 "Number of tourist (foreign and domestic) trips in priority tourism development regions" and R.N.072 "Increase in the number of visitors in visitor centres". By the end of 2022, 85% of target for indicator R.S.332 was achieved (3 163 935 visitors against a target of 3 716 859) and 25% for indicator R.N.072 (5% increase against a target of 20%, with a likely upward trend due to the continuation of the implementation of part of the projects under the measure "Management of Protected Areas and Parks of State Importance and Adaptation to Visitor Use").

In order to assess the effectiveness of the implemented measures, the dynamics of indicator R.S.332 was compared with the overall dynamics of the number of tourist (foreign and domestic) trips in all municipalities. According to the State Data Agency, the total number of tourist (foreign and domestic) trips has increased by 82% in the period 2012-2022, while the same indicator in the priority regions for tourism development increased by 74%. However, a comparison of the funds allocated by municipality shows that the majority of the funds for the measures examined (89% of the funds declared to the EC) have been directed to priority regions for tourism development. This leads to the conclusion that the set of measures implemented was not sufficient to strengthen the position and attractiveness of the priority tourism development regions in relation to other municipalities (only measures administered by the Ministry of Economy and Innovation were targeted at priority tourism development regions). In the future, given the horizontal nature of the tourism sector, it is suggested that the Ministry of Economy and Innovation will ensure alignment of priority areas and investment priorities between the different ministries financing tourism-related activities (Ministry of Culture, Ministry of Environment, Ministry of Transport and Communications, Ministry of Interior and Ministry of Agriculture).

Impact assessment of the OP measures in the tourism sector

The impact of the OP measures on the competitiveness of the tourism sector has been assessed according to 5 indicators:

- 1) Value added by the tourism sector. The contribution of OP measures to the growth of value added in the tourism sector is low. It is estimated that the implementation of the analysed

measures will generate around €442.2 million of additional GDP or an average increase of 1 percentage point in the value added of the tourism sector over the period from the start of the investment until 2030.

- 2) Export of tourism services. In terms of changes in tourism service exports, tour operators are among the most important players, as they provide inbound tourism to Lithuania, organise tours for groups and individual travellers, and generate income for accommodation and catering establishments, transport companies, guides and other service providers. The OP measures may have had a low impact on the export of tourism services as only 13% of tour operators and less than 1% of accommodation establishments, which are one of the most important players in the export of tourism services, received funding for the implementation of projects.
- 3) Number of overnight stays in accommodation establishments. The measures implemented have had an impact on the change in the number of overnight stays in accommodation establishments. The direct impact was due to the measure "Regio Invest LT+", which implemented several projects related to the development of health tourism in the municipalities of Druskininkai, Palanga and Neringa, and created new infrastructure for accommodation and health services. All the marketing measures implemented also had a positive indirect impact on the growth of the number of overnight stays.
- 4) Change in tourism-related jobs. According to SFMIS information, 190 new long-term jobs were created in Lithuanian regions thanks to 4 tourism projects financed under measure "Regio Invest LT+". Although this represents only 0.4% of the total number of people employed in tourism in the national context, the number of projects and the result of the new jobs created (48 jobs on average per project) shows that the impact of the projects on job creation in the regions was significant.
- 5) Reduction of seasonality. The implemented OP measures had a positive impact on reducing seasonality by creating new services that are not dependent on the season (e.g., upgrading and adapting cultural sites for tourism, developing health tourism) and by promoting the use of existing tourism resources through marketing measures.

A regional analysis of the distribution of the funding allocated to the OP measures and the results achieved was carried out to assess the impact of the OPs on regional development. The regional analysis of the tourism-related measures of the OP shows that the largest share of funding was allocated to Vilnius County, followed by Kaunas and Klaipėda Counties. These counties account for 68% of the country's tourist accommodation and 74% of the tourist overnight stays. In terms of the contribution of the measures to regional development, the measures have mainly contributed to the management and installation of tourism-related infrastructure, tourism marketing and the promotion of individual tourism-related enterprises. The three districts with the highest levels of funding achieved the most results (management of natural and cultural heritage sites, installation of signposting infrastructure, support for enterprises). The impact of EU investment on regional development has been most evident in the positive impact on employment, with 190 new jobs created by the end of 2022. The planned impact on labour productivity and enterprise income growth was not achieved, due to the application of the restrictions related to the COVID-19 pandemic.

Proposals for the development of the tourism sector in the period up to 2030

The EU Council conclusions on the 2030 Agenda for European Tourism call for a strategic approach to tourism at national, regional and local levels to ensure that tourism takes into account

economic, environmental, cultural and social sustainability. The evaluation shows that there is insufficient inter-institutional cooperation in the implementation of tourism policy. For example, although the Lithuanian Tourism Development Programme for 2014-2020 foresaw the promotion of the implementation of public and private infrastructure development projects for cultural, conference, nature and health tourism in priority tourism regions (point 20 of the Programme), the development of these regions was only targeted by the measures of the Ministry of Economy and Innovation, while the concentration of funds in the measures of other institutions under OP Objective 5.4.1, was not ensured. The planning documents for the new period lack an integrated approach to strengthening the competitiveness of Lithuanian tourism. Taking into account the horizontal nature of the tourism sector, the evaluation recommendations suggest to prepare Lithuanian tourism roadmap 2030, setting out the vision, directions and priority actions for the development of Lithuanian tourism in order to implement the National Progress Plan Objective 1.12 "Increase the competitiveness of the Lithuanian tourism sector".

Recommendations from international organisations on the development of the tourism sector in the period up to 2030 and the EU Council Conclusions on the 2030 Agenda for European Tourism highlight four key areas for the future of tourism: sustainability, digitalisation, resilience and strengthening SMEs. The progress measures planned under the 2022-2030 Economic Transformation and Competitiveness Development Programme include activities to digitise tourism and partly to build resilience, but lack activities focused on improving the sustainability of the tourism sector and on strengthening SMEs in tourism. The evaluation report recommends reviewing the activities planned in the progress measure "Accelerate the transformation of the tourism sector" of the Economic Transformation and Competitiveness Development Programme and assessing the possibility of adding new activities aimed at enhancing the sustainability of the tourism sector and strengthening tourism SMEs.

Priority 1 of the Investment Programme "A Smarter Lithuania" for the programming period 2021-2027 continues the same model of financing enterprises as in 2014-2020, i.e., tourism enterprises could be able to compete alongside enterprises from other sectors in some of the progress measures implemented under Priority 1. Given the structural problems of the tourism sector (predominance of SMEs, low level of innovation, lack of workforce and competences), the challenges that the tourism sector has faced in recent years (recovery and the need to transform), and the worsening of credit conditions (rising interest rates, tightening credit policy), it would be appropriate to facilitate the access of tourism businesses to EU funds for the period 2021-2027, promoting the resilience and sustainability of tourism SMEs. During the mid-term review of the Investment Programme it is recommended to revise the set of interventions planned under the Investment Programme Objective 4.6 "Strengthening the role of culture and sustainable tourism in economic development, social inclusion and social innovation (ERDF)" and, if possible, reallocating the ERDF funding to add a new activity - promotion of SME development through sustainable tourism projects. The activities to be funded could include: (1) improving infrastructure and other conditions for the development of sustainable tourism products and/or services; (2) developing social innovations in tourism to have a positive impact on local communities; and (3) developing the competences of the workforce for the digital and green transformation of the tourism sector. The recommended form of support is subsidies, the amount of funding is €10 million, the method of selection of projects - a call for tenders, eligible applicants - SMEs providing tourism, accommodation and catering services, their associations.

Tourism projects under Objectives 5.1 and 5.2 of the Investment Programme will be financed from ERDF in the framework of the progress measures of the Regional Development Programme. The Regional Development Plans for 2022-2030 currently have planned objectives and indicators related to tourism development, but until June 2023, progress measures were planned only in 5 regions - Vilnius, Kaunas, Šiauliai, Panevėžys and Tauragė. The specific progress measures for tourism-oriented development in the development plans of these regions are planned to cost

€150.3 million, including €103.8 million of EU funds. It can be predicted that the implementation of the Regional Development Plans for the period 2021-2027 will generate around €200 million of EU funds for tourism promotion. In order to ensure that regional tourism investments are consistent with the overall vision of Lithuania's tourism development, addressing not only local regional development problems but also contributing to the overall strengthening of the country's tourism competitiveness, it would be appropriate to involve regional development councils in the preparation of the process of the Lithuanian Tourism Roadmap. If possible, after the adoption of the Roadmap, to complement the regional guidelines for the financing of progress measures by recommending that projects implemented in the field of tourism should be in line with the provisions of the Roadmap. It is also recommended to provide expert assistance to potential regional project promoters on the planning and implementation of investments in the tourism sector.

The lack of infrastructure for tourism is also an important factor limiting the sector's competitiveness. The report identifies the following as the most important infrastructural constraints to the development of tourism: the limited accessibility of Lithuania by air, the absence of critical tourism infrastructure facilities for priority types of tourism, and the pronounced spatial unevenness in the distribution of tourism infrastructure and tourists. Both poor accessibility by air and inadequate infrastructure means that the potential of conference tourism in Lithuania is not exploited. The evaluation report recommends promoting the development of the Lithuanian conference tourism ecosystem in order to reduce the seasonality of tourism in Lithuania, to ensure the creation of high value-added products and to ensure the growth of the added value of the tourism sector. In order to achieve this, it is recommended to accelerate the implementation of the National Tourism Conference Centre project, to allocate funding for the implementation of the long-term business plan for the implementation of flights in the strategic directions, which were introduced in 2022, and to strengthen the marketing of Lithuania as a conference destination.

Insufficient marketing of Lithuania as an attractive country for tourism abroad is also highlighted as a factor reducing the competitiveness of Lithuanian tourism. According to the 2023 Country Brand Ranking, Tourism Edition, Lithuania ranks 39 out of 42 among European countries, behind both Estonia and Latvia. The case studies of good practices in EU countries presented in the evaluation report show that effective tourism marketing and funding are key elements in the development of the tourism sector. It is therefore recommended that Lithuania's tourism marketing in priority markets should be strengthened and that stable and sufficient funding for marketing should be ensured. In addition to the marketing activities planned under the progress measure "Develop tourism infrastructure and marketing tools", it is suggested continuing working with foreign tour operators and media representatives to organise sightseeing tours and other ways of presenting Lithuania's tourist resources; to increase the amount of direct B2C advertising in priority markets; building the country's brand as a high-value brand; promoting integration into regional service supply chains and to consistently developing marketing related to Lithuania's balneological resorts to increase their competitiveness in relation to other resorts of a similar type in Central Europe.

The State can support the development of the tourism sector not only by providing direct funding, but also by improving the access of private business to external funding (loans from credit institutions), by sharing the risk with a private investor or by participating in joint tourism development projects through public private partnership (thereinafter – PPP) mechanisms. Taking into account the specificities of the activities of tourism enterprises (seasonality impact on income, lack of adequate collateral) and in order to improve the access of tourism enterprises to external sources of finance, it is recommended that, when updating the ex-ante assessment of business financing, an assessment be made of the most appropriate type of financial product (including a combination of a subsidy element) in order to alleviate the constraints on the financing of tourism SMEs. It is recommended to take into account the Austrian example presented

in Table 18 of the report on the combination of investment loans for tourism with a sustainability subsidy.

Private funds and expertise needed for the development of the tourism sector should be attracted more widely through PPP mechanisms, by financing key projects for the construction, maintenance and management of tourism infrastructure in Lithuania or in individual regions, in particular by attracting a private investor in the development of a new national conference centre in Vilnius, in order to strengthen the position of Lithuania in the international market as a conference and event destination. The preparation of Lithuanian Tourism Roadmap to strengthen the competitiveness of Lithuanian tourism, identifying strategic development directions, with integral planning of progress measures for tourism development and investment by all participants in the strategic management system, would mobilise market players and encourage private investment.