

# **Inclusive Entrepreneurship Policies, Country Assessment Notes**

**Lithuania, 2017**

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### Key messages

- The demographic situation in Lithuania continues to be very complicated: the population has been steadily shrinking, from 3.7 million in 1990 to 2.8 million in 2016 due to the negative net international migration and the negative natural population change. This has led to the reduced labour market supply and may threaten, in the long run, the country's fiscal and competitiveness indicators. The employment situation has been progressively improving, including through the proactive labour market policy. However, the unemployment rate (overall and specific segments) remains high, and the self-employment in Lithuania is still behind the EU average.
- Lithuania has lately made great efforts to improve its entrepreneurship promotion policy (remove administrative barriers for starting business, expand preferential financing tools, and improve business awareness), but all the steps have been taken in mainstream policies only. The concept "inclusive entrepreneurship" is still seen as new, the application of its elements is fragmented. There is no institutional mechanism for coordination and monitoring; there is a mandatory regular dialogue with the social partners, which serves as a basis for further adjustment of policies to market demands. For the aforementioned reasons, employment and entrepreneurial potential is not yet fully exploited.
- To strengthen inclusive entrepreneurship policies and programmes in Lithuania, it is advisable to: i) to expand the "inclusive entrepreneurship policy" concept by including new target groups (e.g. emigrants), including by adjusting policy measures to the changing needs of the existing beneficiaries (by providing for new promoting mechanisms); ii), carry out GRL plans to balance business taxation and establish stronger incentives to create new businesses and new jobs for particularly vulnerable groups; iii) improve business environment, also by changing the operation model of business overseeing authorities, while encouraging them to work as business advisers; iv) strengthen social responsibility of the existing and emerging businesses, promote relevant traditions and knowledge by introducing Corporate Social Responsibility in the curricula of schools and universities.

## 1. INCLUSIVE ENTREPRENEURSHIP OBJECTIVES AND TARGETS

The promotion of entrepreneurship and self-employment is an important policy objective in Lithuania. Lithuania's Progress Strategy "Lithuania 2030" approved by the *Seimas* (i.e. Parliament) of the Republic of Lithuania states that in order to reach essential economic changes, it is very important to focus on building a smart economy through the intensive application of scientific knowledge, *stimulation of entrepreneurship* driven by innovations and increased overall national as well as individual sector competitiveness of the country. The Strategy emphasises the need for a business-friendly environment and calls for efforts to simplify business regulations. Being an umbrella type document, it does not provide for special measures to promote the entrepreneurial spirit in the unemployed and key social target groups.

Similarly, the National Progress Programme for 2014-2020 (NPP) approved by the Government of the Republic of Lithuania<sup>1</sup> (GRL) covering key national policy provisions and Europe 2020 targets sets out a priority "Environment favourable for economic growth" with an objective to create conditions favourable for entrepreneurship and sustainable business. Measures foreseen include business-facilitation services (e.g. mentoring teams, incubation services, development of ideas through participation in business accelerators) for business start-ups; ensuring the availability of financial sources for starting and developing business; implementing initiatives that promote entrepreneurship and establishment of new businesses, etc. The NPP highlights the development of entrepreneurial skills in children and youth by supporting integrated programmes to foster entrepreneurial skills, etc. Responsibility for the implementation of the above tasks is vested upon the Ministry of the Economy<sup>2</sup> (MoE), the Ministry of Social Security and Labour<sup>3</sup> (MoSSL), and the Ministry of Education and Science<sup>4</sup> (MoES).

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<sup>1</sup> <http://www.lrv.lt/>

<sup>2</sup> <http://ukmin.lrv.lt/>

<sup>3</sup> <http://www.socmin.lt/en>

<sup>4</sup> <https://www.smm.lt/web/lt/>

Support for SMEs is also foreseen in Law No VIII-935<sup>5</sup> on the Development of Small and Medium Business. The Law provides for the following forms of support for small and medium-size business entities (SMEs): tax credits and tax concessions, financial support (e.g. soft loans, partial compensation of interests, issue of guarantees, export credit insurance), public services for business (e.g. in business incubators, business information centres, science and technology parks), and other forms of support.

The Employment Enhancement Programme for 2014-2020 approved by the GRL provides for the development of entrepreneurship thinking, while supporting business creation initiatives. Relevant measures include facilitation of new businesses and self-employment, consultations for business start-up, improved access to business services and financial resources for persons starting up and developing business activities, mainstreaming entrepreneurial approach in the national education system. The Programme focuses on promoting entrepreneurship in youth, rural territories and regions with high unemployment levels. The wide-ranging employment programme and its specific measures will be implemented by the MoSSL, MoE, MoES, Ministry of Agriculture (MoA) and other ministries.

The Entrepreneurship Action Plan of Lithuania for 2014-2020, approved by the Minister for the Economy<sup>6</sup>, defines actions towards consistent growth in entrepreneurship. The Entrepreneurship Action Plan sets out three tasks focusing on raising the level of entrepreneurship in the country: (1) to establish a consistent and continuous system of entrepreneurship education; (2) to create favourable environment for the start-up and development of business; (3) to promote entrepreneurship by ensuring accessibility of public services to businesses, distinguishing entrepreneurship of target groups (youth, women) and start-ups, as well as social and regional entrepreneurship, and developing a positive public image of the entrepreneurs.

The Lithuanian Innovation Strategy for 2010-2020<sup>7</sup> highlights creativity and *entrepreneurship* of human resources as the main determining factors for innovations and country competitiveness. To achieve the innovative society, the Strategy aims to develop new knowledge and encourage its application and sets the task to promote innovative business start-up by ensuring favourable conditions and regulations, while raising awareness on innovations. The plans are to provide public services for starting innovative business and mentoring services for more than 1000 inhabitants and SMEs.

Support for self-employment of the unemployed is defined in Law No X-694<sup>8</sup> on Support for Employment. Support for self-employment is provided for the unemployed who wish to establish a very small enterprise or become self-employed. They may apply for a subsidy for the establishment of a workplace or for a partial coverage of costs of business certificate for self-employment.

Promotion of entrepreneurship is also reflected in the National Youth Policy Development Programme for 2011-2019 approved by the GRL<sup>9</sup>. With a view to promoting economic and social entrepreneurship in youth, the Action Plan for the implementation of this Programme in 2014-2016 foresees support for entrepreneurship in young people by implementing and funding projects on the development and promotion of youth entrepreneurship. Responsibility for the implementation of this measure is vested upon the MoA<sup>10</sup> and the Department of Youth Affairs under the MoSSL<sup>11</sup> (DYA).

On 16 December 2013, the Minister for Social Security and Labour of the Republic of Lithuania issued Order No A1-692<sup>12</sup> approving the Youth Guarantee Implementation Plan for 2014-2020. The

<sup>5</sup> [http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=454172](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=454172)

<sup>6</sup> Order No 4-282, 30 April 2015

<sup>7</sup> [http://ukmin.lrv.lt/uploads/ukmin/documents/files/Lietuvos%20inovacij%C5%B3%20pl%C4%97tros%20programa\\_patvirtinta%202013%2012%2018\\_EN.pdf](http://ukmin.lrv.lt/uploads/ukmin/documents/files/Lietuvos%20inovacij%C5%B3%20pl%C4%97tros%20programa_patvirtinta%202013%2012%2018_EN.pdf)

<sup>8</sup> [http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=478633](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=478633)

<sup>9</sup> Resolution No 1715, 1 December 2010 <https://www.e-tar.lt/portal/lt/legalAct/TAR.10A2087E3527/xBTThuOxdF>

<sup>10</sup> <http://www.zum.lt/>

<sup>11</sup> <http://www.jrd.lt/>

<sup>12</sup> <https://www.e-tar.lt/portal/lt/legalAct/b4432c10722e11e3bd0ecaffd80c672a/xQojlDJjwE>

Plan provides for the development of entrepreneurial thinking and the promotion of self-employment in youth. The measure “Support for self-employment” scheduled for 2015-2017, has the main objective to assist young people (under 29) in creating self-employment jobs. The implementing authority is the Lithuanian Labour Exchange<sup>13</sup> (LLE). Furthermore, in 2015- 2020 the plans are to create opportunities for students of higher education institutions to acquire as many as possible practical skills and entrepreneurial competencies in real workplaces. The bodies responsible for the implementation of this measure are as follows: the MoES, associated business organisations and sector associations.

The National Programme on Equal Opportunities for Women and Men 2015-2021, approved by the GRL<sup>14</sup>, points out that one of the tasks in pursuit of the Programme’s objective to promote equal employment opportunities for women and men, to enhance opportunities to start and develop business for women, especially those living in rural territories. Many initiatives have been planned for 2015-2017 to strengthen women entrepreneurial and to improve their financial literacy and other competencies: organising events, holding dedicated consultations and seminars, supporting projects promoting diversification of economic activities for women and men and small non-agricultural businesses in rural areas.

The National Programme for Social Integration of Persons with Disabilities for 2013-2019 approved by the GRL<sup>15</sup>, provides for increased employment opportunities for adults with disabilities who have lost professional competencies, in addition to other measures such as ALMP, with a view to promoting occupational mobility and entrepreneurship of persons with disabilities.

Aspirations to rise the entrepreneurship of the population also reflect in the use of European Union (EU) Funds. The Partnership Agreement for Lithuania, 2014-2020 (PA), covers five EU funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF), jointly known as the European Structural and Investment Funds (ESIF). These funds are indispensable for the implementation of Lithuania’s medium and long-term development strategy. They will mobilize additional public national and private funding for growth and jobs and will reduce territorial disparities in Lithuania. Substantial resources in PA have been put in place for the promotion of employment through support to active labour market policy measures, especially for long term unemployed, low skilled and senior workers, and promotion of entrepreneurship. The Youth Guarantee specifically targeting young people will be supported through the ESF and the Youth Employment Initiative (YEI).

The Operational Programme for the EU Structural Funds’ Investments in 2014-2020 (OP) sets several objectives related to the promotion of entrepreneurship: increasing the level of entrepreneurship; increasing labour demand by promoting entrepreneurship in the population, those who face difficulties on the labour market, in particular, and promoting the emergence of initiatives enhancing social entrepreneurship and social responsibility.

The 2014-2020 Rural Development OP focuses on increasing the competitiveness of the Lithuanian food and forestry sector as well as on sustainable management of natural resources, biodiversity and climate. Support for local development, social inclusion and diversification of economic activity will result in more jobs and less poverty in the Lithuanian rural areas.

As for fisheries and aquaculture, the Lithuanian Fisheries Sector Operational Programme 2014-2020 focuses on the sustainability and competitiveness of the sectors and on the long-term strategic objectives of the Common Fisheries Policy. Support is also ensured to the local development of the fisheries areas aiming at diversification inside and outside commercial fisheries and aquaculture, lifelong learning and promoting social well-being.

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<sup>13</sup> <http://www.ldb.lt/>

<sup>14</sup> Resolution No 112, 4 February 2015; <https://www.e-tar.lt/portal/lt/legalAct/dc012450b1ca11e48296d11f563abfb0>

<sup>15</sup> Resolution No 1408, 21 November 2012; <https://www.e-tar.lt/portal/lt/legalAct/TAR.46B1FA2B9435>

The National Reform Programme (NRP) sets different employment targets for different population groups. According to the NRP, by the end of 2020, the employment level is expected to reach 72.8 % among the population aged 20-64 (for women – 69.5%; men – 76.5%; seniors (55-64) – 53.4%). This will be done through increased employment among women, men, the youth, elderly people, and by facilitating the integration of the long-term unemployed, persons with disabilities, and people with young children or taking care of sick family members and other individuals in the labour market.

Even though the promotion of entrepreneurship is mainstreamed across many national strategic documents, their action plans often contain nothing more but formulations of general character (like "organizing information events", "implementing entrepreneurship initiatives"). This shows a disproportionately high attention paid to strategic planning process, while leaving aside the implementation mechanisms, which call for new ideas and assessment of the current situation. As regards the objectives and tasks of the programmes for the promotion of entrepreneurship and self-employment, young people and women happen to be among the most commonly identified social target groups. Entrepreneurship promotion measures for the unemployed and people with disabilities have also been envisaged. There are no practically appropriate entrepreneurial policies or programmes for such social target groups as seniors, immigrants or ethnic minorities. Finally, the strategic documents lack systematic approach to the promotion and development of entrepreneurial thinking.

## **2. KEY INCLUSIVE ENTREPRENEURSHIP INDICATORS**

The demographic situation in Lithuania continues to be very complicated: the population has been steadily shrinking, from 3.7 million in 1990 to 2.8 million in 2016. Over the last 15 years, Lithuania has been leading the EU in emigration. In 2016, the emigration figure in Lithuania was 50.3 thousand, which was 5.8 thousand more than in 2015 and 13.7 thousand more than in 2014. The scope of emigration in 2016 was close to that in the times of economic recession (53.9 thousand people emigrated from Lithuania in 2011). The high rate of emigration threatens the prospects for economic growth – over the last two years, every third emigrant was aged between 20 and 29, every fourth – between 30 and 39. In the future, with the decreasing number of able-bodied people and increasing number of the elderly, Lithuania may face challenges in financing pensions, health care and education. The population number in Lithuania has been declining basically due to the negative net international migration and the negative natural population change.

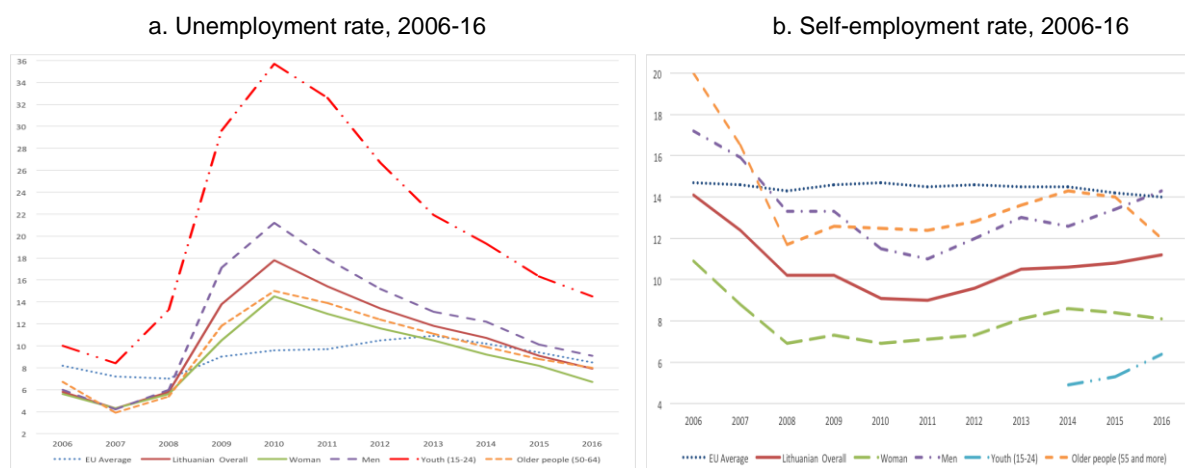
The labour market in Lithuania in 2016 was dominated by the growth of employment across all age groups, while the unemployment trend was declining. According to the data of the Lithuanian Department of Statistics (LDS), in 2016, the country had 1.361 thousand employed population and 116.2 thousand the unemployed. Over the year, the number of the employed has gone up by 2%, while that of the unemployed has come down by 13.3%.

The employment rate among those aged 15-64 in 2016 accounted for 69.4 %, and increased by 2.2 percentage points (p.p.) over the year. The employment rate of men aged 15-64 increased by 2 p.p. in 2016 to 70% while the female employment rate increased by 2.3 p.p. over the year and amounted to 68.8%. The employment rate for people aged 55-64 in 2016 increased by 4.2 p.p. and amounted to 64.6%.

The unemployment rate in 2016 accounted for 7.9 % and was 1.2 p.p. lower than in 2015. Over 2016, the male unemployment rate dropped by 1 p.p. to 9.1%, while the female unemployment rate dropped by 1.5 p.p. to 6.7%. Youth unemployment rate (15-24 year olds) in 2016 decreased by 1.8 p.p. and amounted to 14.5% (Figure 1a).

The self-employment rate in Lithuania is lower the EU average; the lowest self-employment rate is recorded among youth (Figure 1b); the female self-employment rate is also well below the EU average, whereas self-employment rates for men and seniors are above the EU average (Figure 1b).

## 1. Key entrepreneurship indicators



Source: Panels a and b contain unemployment data from Eurostat (2016).

What mattered most vis-a-vis the improvement of employment and unemployment rates, was not only the growing economy but also the active labour market policy measures undertaken by the GRL. The implementation of the Employment Enhancement Programme for 2014-2020 has provided over 17 thousand unemployed and those with dismissal notifications with a possibility of gaining a new or improving the existing professional qualification, while 3.2 thousand unemployed have acquired the lacking skills at the workplace. The employment of 7.1 thousand was based on subsidies (including 26.8% of long-term unemployed). The active labour market policy measures have helped to employ 55.4 thousand of the unemployed and job seekers. 18.2 thousand of the unemployed have been involved in municipality organised community service; thanks to the local employment initiatives the high unemployment areas saw the creation of 465 new jobs.

In 2016, 212 jobs were set up, including: 210 self-employed (12 persons with disabilities up to 40% working capacity, 198 young individuals aged under 29 and 2 in the places of previous employment) and 5228 unemployed individuals operating under business licenses (including 43.9% women, 21.0% long-term unemployed, 3.0% persons with disabilities and 30.3% young people aged under 29).

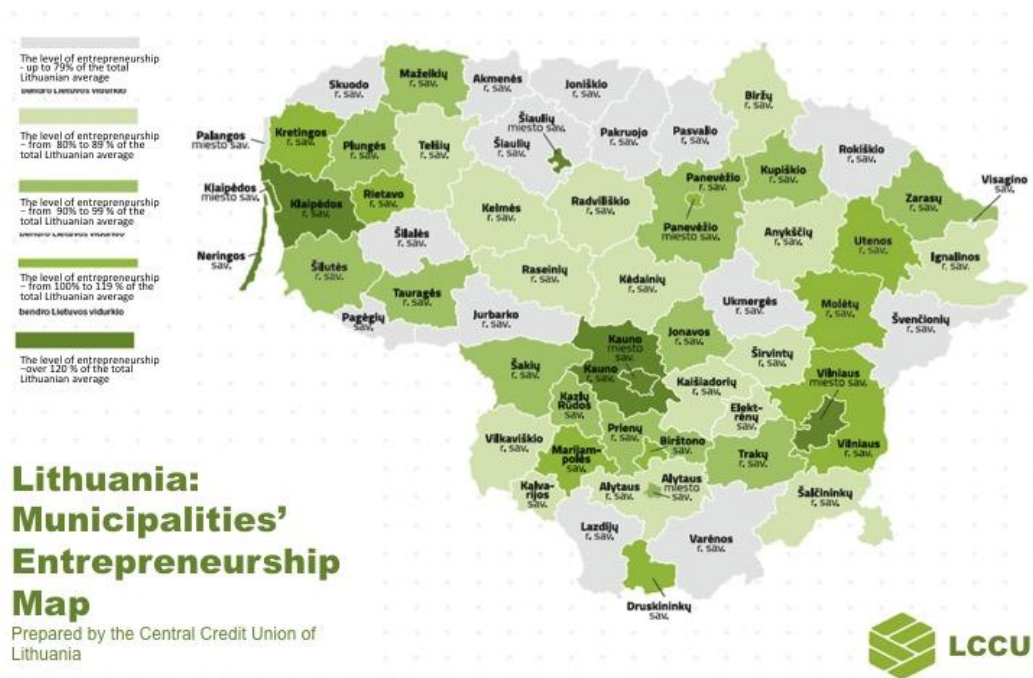
At the end of 2016, 172 social enterprises were put to operation, including 64 for persons with disabilities. In 2016, 3434 individuals from target groups were newly employed in social enterprises. State aid granted to social enterprises in 2016 helped to maintain jobs for 6643 individuals from target groups, including 6444 persons with disabilities. The compensation of part of the costs of an assistant (sign language interpreter), 91 assistants (sign language interpreters) working in 19 social enterprises for persons with disabilities has helped to perform the working functions to 263 persons with disabilities.

Significant results were achieved through the implementation of EU funds projects in 2016: 1284 unemployed (including long-term unemployed) and 617 employed (including self-employed), participated in ESF activities; 7441 social enterprises' employees from target groups received ESF subsidies.

The main obstacles to business development in Lithuania, highlighted by the results of various surveys, are as follows: complicated bureaucratic procedures for those willing to start business; unfavourable business environment; unsuccessful search for foreign business partners and difficulties in selling products in international markets; poorly developed public services for businesses, lack of financial resources, particularly as regards the financing of start-up capital and business development; inefficient and fragmented information and consultations on specific business issues; insufficient business skills; uneven regional business development.

The level of entrepreneurship varies across the municipalities (Figure 2). The level of entrepreneurship in Neringa and Vilnius city municipalities is respectively 3.5 and 2.7 times higher than the total national average. They are followed by the Kaunas district municipality (177% of the country average), Kaunas city (165%), Vilnius district (157%), Palanga (153%) and Klaipėda city municipality (147%). Ten leading entrepreneurs are based in the Panevėžys district, Šiauliai city and Klaipėda district municipalities. Lazdijai and Kalvarija municipalities with half the average of the country are at the bottom of the list. The level of entrepreneurship in Vilkaviškis is 51%, in Birštonas, Švenčionys and Visaginas municipalities – 53% of the country average<sup>16</sup>.

## 2. Entrepreneurship level in Lithuania municipalities



The level of entrepreneurship varies across the municipalities (Figure 2). The level of entrepreneurship in Neringa and Vilnius city municipalities is respectively 3.5 and 2.7 times higher than the total national average. They are followed by the Kaunas district municipality (177% of the country average), Kaunas city (165%), Vilnius district (157%), Palanga (153%) and Klaipėda city municipality (147%). Ten leading entrepreneurs are based in the Panevėžys district, Šiauliai city and Klaipėda district municipalities. Lazdijai and Kalvarija municipalities with half the average of the country are at the bottom of the list. The level of entrepreneurship in Vilkaviškis is 51%, in Birštonas, Švenčionys and Visaginas municipalities – 53% of the country average<sup>17</sup>.

<sup>16</sup> The survey of the level of entrepreneurship in Lithuanian municipalities, initiated by the Central Credit Union (LCCU), <http://lku.lt/blog/2015/12/18/lietuvos-regionu-verslumo-zemelapis-pirmauja-didmiesciai-ir-pajurio-kurortai/>

<sup>17</sup> The survey of the level of entrepreneurship in Lithuanian municipalities, initiated by the Central Credit Union (LCCU), <http://lku.lt/blog/2015/12/18/lietuvos-regionu-verslumo-zemelapis-pirmauja-didmiesciai-ir-pajurio-kurortai/>



According to the LDS 82,9 thousand SMEs were operating in Lithuania at the beginning of 2017. On average, there were 29 enterprises per 1000 inhabitants. The concentration of SMEs in Neringa is twice as high as the average – 62 enterprises per 1000 inhabitants. In Vilnius, there are 56 enterprises per 1000 inhabitants, 38 in Palanga, 39 in Kaunas, 36 in Klaipėda, 30 in Šiauliai, and 29 in Panevėžys. The seaside resorts and major cities and their districts have the most favourable conditions for starting and developing small businesses, primarily due to higher demand for goods and services, driven by higher living standards, and flows of foreign and local tourists. Meanwhile, the lowest level of entrepreneurship is observed in many border regions of Lithuania, as well as in agriculture areas.

The number of SMEs has increased by 3 396 in 2016, half of the figure in 2015. Due to the GRL regional policy, fewer SMEs appear in the capital (more than half of SMEs opened up in the city of Vilnius in 2015 and only 25% in 2016). The number of SMEs in Lithuania has been growing for several years already. This happens because of the simplified business start-up procedures, the conditions for business start-ups to use free consultations as well as preferential business start-up credits.

According to the State Tax Inspectorate, in 2016 (January-December) the economic activity in the country was carried out by 101.8 thousand residents, who have business certificate (including lawyers and their assistants, bailiffs, notaries, etc.) and 93.2 thousand residents, who have chosen self-employment. On average, there were 97.54 persons per 1000 inhabitants, carrying out individual economic activity.

The business environment remains conducive to starting and running an enterprise. The World Bank's Doing Business 2017 report ranks Lithuania 21<sup>st</sup> globally (from 190 countries) and 10<sup>th</sup> in the EU, thus overtaking such countries as Poland, Holland, France, Belgium. The country scores relatively well in the registering property category as well as enforcing contracts, at second and sixth place, respectively. At the same time, despite some improvements relative to the previous edition of the survey, resolving insolvency remains a key obstacle for doing business in Lithuania, the lowest such position among the central Europe and the Baltic countries, followed by Hungary and Croatia.

Innovation and entrepreneurship are closely connected concepts. Innovation capabilities are important to economies' ability to become competitive, particularly in higher-productivity sectors. On the other hand, it seems that more positive general attitude towards innovations means also widening entrepreneurship base and its growing potential for creating sustainable business. Across the EU, the absolute majority of companies in each country have introduced at least one innovation from 2013 till 2016<sup>18</sup>. Since the last survey, EU companies in general (67%, - 5 p.p.) and in 21 member states, including Lithuania (58%, -5 p.p.) there has been a decrease in the proportion of companies introducing at least one innovation Lithuania shows the most positive intention concerning future planned investment in innovation: amongst the EU countries, businesses in Lithuania (42%; +16 p.p.) are more likely to increase the percentage of investment dedicated to innovation, while only (28%; +1 p.p.) for EU businesses on average.

More than half of EU companies say the cost or complexity of meeting regulations or standards (57%) is a problem when trying to commercialize their company's innovative goods or services since January 2013. There has been no change since the last survey in 2015. Only one third or less of businesses in Lithuania (29%) considers this to be a problem, although the trend since January 2013 was positive (-8 p.p.). More than half of EU companies consider lack of financial resources (58%) to be a problem when commercializing innovative goods or services. This is slightly fewer compared to the last survey in 2015 (-2 p.p.). Looking at evolutions since 2015, businesses in Lithuania (56%; -10 p.p.), are now less likely to see it as a problem than in 2015.

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<sup>18</sup> Innobarometer 2016 – EU business innovation trends.

<http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Survey/getSurveyDetail/yearFrom/1974/yearTo/2016/surveyKy/2064>

Creativity, inventiveness and experimentation are the key skills capable of improving/kick-starting company's innovation activities in the next two years in Lithuania (25%), although Lithuanian businesses tend to invest much less into staff training: only 46% as a proportion of turnover compare with the leading countries like Germany (73%), Austria (71%), Ireland (71%) and Slovenia (71%). That shows great possibilities to facilitate innovation in the future.

According to the European Innovation Scoreboard 2017<sup>19</sup>, Lithuania has risen from 24<sup>th</sup> place (2016) to the 16<sup>th</sup> among the 28 EU countries and has overtaken Poland, Latvia, Spain, Malta, Italy, Slovakia, Greece, Hungary, Cyprus and reached Estonia at 15<sup>th</sup> place. The growth of Lithuanian innovation activity in 2016 compared to 2010 was the fastest and stood at 21%. The innovation policy implemented by the Ministry of Finance (MoF) has contributed significantly to the positive change of the European Innovation Scoreboard in 2017. Lithuania is overtaking the EU average by 2.5 times by the number of SMEs cooperating with other companies or institutions of science and studies.

### **3. ASSESSMENT OF CURRENT AND PLANNED INCLUSIVE ENTREPRENEURSHIP POLICIES AND PROGRAMMES**

#### **3.1. Policy framework**

There is no separate entrepreneurship strategy or action plan for the promotion and support of entrepreneurship in under-represented and disadvantaged groups. The Entrepreneurship Action Plan of Lithuania for 2014-2020 is a general strategy for supporting entrepreneurship, which contains a chapter that emphasising the need of public entrepreneurship support to youth and women.

In general initiatives promoting entrepreneurship fall within the remit of the MoE, while actions to support the social integration of under-represented and disadvantaged groups is covered by the MoSSL. The MoSSL designs measures and strategies oriented towards labour market integration of these groups and reduction of poverty/social exclusion without singling out entrepreneurship as a separate or, even more so, the most important component thereof. On the other hand, the MoSSL has in place individual strategies and policies for different target groups – youth, unemployed persons, seniors and people with disabilities. Some measures identified as relevant for certain groups (e.g. youth, unemployed) place adequate focus on entrepreneurship development.

The greatest challenge in developing a more supportive policy framework for inclusive entrepreneurship is that the leadership and administrative capacities in the MoSSL are rather limited due to the lack of experience in developing policies in this area. Moreover, there are no clear mechanisms for co-ordinating inclusive entrepreneurship policy actions across relevant national ministries, and with regional and local governments and civil society organisations. However, some inter-related activities such as the implementation of the Youth Guarantee Implementation are providing opportunities to build capacities within the ministries and to strengthen linkages across the various actors involved in designing and delivering inclusive entrepreneurship support.

In 2016 the MoSSL started two innovative measures that are designed to provide integrated services to people with disabilities by providing integrated care at home, as well as integrated family services. The MoSSL seeks to ensure that both mobile teams providing services for the people with disabilities in their living environment as well as the integrated services for families are accessible throughout the country. One of the main assumptions underlying these interventions is that following

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<sup>19</sup> [http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards\\_en](http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en)

the completion of the EU funding, the provision of these services would be taken over by municipal administrations. Therefore, it is important not only to ensure adequate financing of the continuity of such services but also to model the services provided, to prove their benefits and necessity to the target groups.

The MoSSL is making efforts on use of the social capital of the older population. One of the measures that was actively developed in 2016 and will be launched in 2017 is specifically aimed at involving people over the age of 54 in active aging activities, thus not only encouraging the activities of non-governmental organizations whose projects will receive funding.

### 3.2. Government Programme

In line with its' political program for the period from 2016-2020<sup>20</sup>, the XVII Government approved by Resolution No 167 of 13 March 2017 an implementation plan, which defines necessary changes to the state and sets up the relevant indicators to monitor the progress of aforementioned measures (Figure 3).

**Figure 3. GRL Programme goals for 2016-2020**

Indicator	scale	2016	2020
The employment rate (of the population aged 15-64)	%	69.3	72
The level of activity in the labour force (of the population aged 15-64)	%	75.2	77
Unemployment rate	%	7.7	5,4
Long-term unemployment rate	%	3.9 <sup>21</sup>	3,2
People at risk of poverty or social exclusion	share	29.3 <sup>26</sup>	24
Global Innovation Index (overall)	position	36	28
Global Innovation Index (position by knowledge and technology results)	position	60	40
Doing Business rating (overall)	position	21	15
Doing Business rating (position by Business Start Indicator)	position	29	19
Start-ups (operating for more than 3 years)	number	315	720
New start-ups	number	43	140
Investment attracted by start-ups	Euro million	16	36
Social business established	number	30	150

One of the most important GRL priorities is the promotion of an attractive investment environment, a business-friendly eco-system for regional development and innovation. In this context, the so-called Start-up Visa project launched at the beginning of 2017 will be implemented: starting from 2017, with the entry into force of the Amendments to the Law on the Status of Aliens, aliens who intend to engage in the introduction of new technologies or other significant innovations in Lithuania's economy may obtain start-up visas. The GRL will pursue an active policy of attracting talents by opening up a talent recruitment agency and creating a special incentive system.

The innovative start-ups will be able to start their work much easier: The GRL intends to establish a venture capital fund by 2018, which will invest in new viable ideas. It is also planned to set up acceleration, training and refresher programmes for start-ups students. All those measures are expected to increase the number of start-ups from 315 (2016) to 720 (2020), which would attract up to EUR 26 million investment by 2020.

There are plans to prepare a Law on Social Business, which would help to balance the distorted situation of social enterprises as social business and to fully regulate the legal status of social

<sup>20</sup> Approved by Resolution No XIII-82 of the Parliament of 13 December 2016.

<sup>21</sup> 2015

business, and to establish forms of support for the promotion of social business. It is expected, by 2020, to have about 150 social businesses in Lithuania.

In order to develop a sustainable economy, the GRL gives priority to investments in new jobs in the regions, which will reduce unemployment to 5% in 2020. Regional development measures are directly linked to strengthening regions' economy, which will be supported by offering clear financial incentives to the municipal authorities that try increasing entrepreneurship in the regions, linking the principles of municipal budget formation with their efforts.

In pursuit of the objective of maintaining viable rural areas, the GRL will promote the development of non-agricultural businesses in the countryside, with particular emphasis on support measures promoting youth entrepreneurship initiatives, involving young people in public life, giving priority to promoting re-emigration and increasing the attractiveness of rural areas.

The GRL sees it as a clear priority the employment of long-term unemployed, young people, women, the elderly, people from different regions, people with disabilities, and people from different social groups. Innovation in education, culture and creativity, health, social protection should ensure equal opportunities for a better quality of life, and the reduced exclusion of socially disadvantaged groups.

The GRL programme explicitly outlines the attitude towards the involvement of older people, including those who have completed their active career, as a valuable intangible capital, which can be successfully exploited both for colleagues who start their careers and for the creation of new businesses. It is planned to create a complex system for promoting the employment of elderly people, integrating them into the labour market, including obligations for the LLE to provide refresher services not only for the people of working age, but also for the retired. The GRL sets an ambition goal to reach the EU average as regards the participation of the retired population in the labour market by 2020. At the same time, efforts will be made to take care about the youth in terms of their employment guarantees, including employment promotion, training, etc.

Some actions are in the competence of municipalities and they are invited to support government measures and contribute to reforms, stimulating economic change and support business creation among under-represented and disadvantaged groups. Recent developments in the regulatory environment have been related to the fee for business certificates set by local authorities (municipalities). For example, in 2016, Vilnius City Municipality reduced it by 70% for students and 50% for retired people, people with disabilities, registered unemployed and families with children.

The GRL launched recently<sup>22</sup> a public consultation on the package of measures for taxation and social system reform, which aims at poverty reduction and support for families; entrepreneurship promotion keeping social justice and simplicity and generating more investment and jobs.

In order to evenly distribute the tax burden among small business/individual activity the GRL proposes:

- to link taxation of individual activities exclusively to actual annual profits (and not to the type of a professional activity) and allow it to be regulated individually by reducing the calculated liability, i.e. actually introducing *the tax credit*;
- to review the list of business certified activities (by abandoning the construction, car repair activities, etc., where there should be a shift from fixed payment to taxation of real profits, thereby reducing the risk of shady business) and eliminate the "floor" of a fixed income tax payable when acquiring a business license<sup>23</sup> leaving all the rights to determine the amount of the fixed fee to the municipalities, thereby *increasing their financial autonomy*;
- *to make uniform social insurance contributions* for all categories of self-employed persons, setting for it's amount to be calculated from the half of the tax revenue received with unified

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<sup>22</sup> On June 2017

<sup>23</sup> Currently EUR 684 per year

ceiling and so to eliminate all current privileges which have not proved their efficiency and social correctness.

By experts' estimation, the proposed reform would lead to a lower tax burden for about 30% of the population, leaving about 64% in the unchanged financial situation.

In the promotion of entrepreneurship, the GRL seeks to help start-ups to solve the shortage of working capital. To this end, a *one-year profit tax "vacation"* for SMEs start-ups and a *one-year social contribution payment "vacation"* for first time self-employed start-ups have been established.

Then, to encourage business to create new skilled jobs, to attract investment from abroad, to motivate to invest more in new technologies and innovations, the GRL proposed:

- to apply a 5% profit tax (instead of 15%) to the commercialization of inventions;
- to set a 100% profit tax relief (instead of 50%) to invest in technological renewal;
- to introduce social contribution ceiling (of 120 average wages) for employed persons.

Having taken into consideration the opinion of socio-economic partners, the GRL will transpose the adjusted reform package into a legal proposal and pass to the Parliament. The GRL initiative is seen as a significant step forward towards the political goals with the policy tools that the government has at its disposal.

### 3.3. Financing entrepreneurship

Financing remains one of the main challenges for all the start-ups. Every second SME tends to finance business development solely by internal resources, while 38% would take out a loan from credit institutions. Meanwhile, 9% SMEs intend to participate in the start-up business financing programme according to the survey<sup>24</sup> of more than 500 SMEs. The survey also shows, that 18% of SMEs would borrow for business from EUR 20 thousand to EUR 50 thousand, 15% of SME – from EUR 50 thousand to EUR 100 thousand, 12% of SMEs – from EUR 10 thousand to EUR 20 thousand.

As a result, the GRL has launched several actions to increase access to financial resources in the 2014-2020. Two business-financing funds were set up in 2016 as platforms of financial instruments facilitating the entrepreneurship and business development: Entrepreneurship Promotion Fund-2 supported from ESF (EPF-2) and Business Financing Fund (BFF) supported by the ERDF.

Entrepreneurship promotion for the under-represented and disadvantaged target groups to be done largely through the EPF-2 scheme. This scheme aimed, *inter alia*, at creating conditions for natural persons or micro and small enterprises to start or expand their activities using financial engineering instruments (e.g. loans up to EUR 25 thousand) in combination with training and free counselling. The Central Credit Union of Lithuania (LCCU), which represents consortium of 42 credit unions around the country, has provided loans since December 2016. The overall sum allocated to the EPF for 2014-2020 is EUR 24.5 million.

Additional incentives are envisaged for people with difficulties in the labour market or in the organization of their own business (unemployed; people with disability; persons under the age of 29; people over the age of 54; women and those who create and/or intend to create green jobs<sup>25</sup>. Introduction of privileges (e.g. issuing interest-free loans or subsidies) for the mentioned groups under EPF scheme in 2014-2020 reflects the recommendation from 2007-2013 evaluations<sup>26</sup> on how

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<sup>24</sup> Executed by the Market Research Centre at the request of the LCCU.

<sup>25</sup> In this case the loan shall be used to invest in equipment, production processes and/or production of safe and environmentally friendly products that have a direct impact on energy savings, use of renewable energy sources, storage of resources and ecosystems, avoidance of pollution and waste, etc.)

<sup>26</sup> Assessment of the preparation of the situation analysis and outlook for 2014-2020 in the Areas of Human Resources Development and Social Cohesion. Final report. PPMI Group, October, 2013

to make the scheme more attractive for unemployed and other persons without regular income or savings.

Open credit fund 2 (OCF-2) that offers soft loans for SMEs of up to EUR 600 thousand for the needs of investment and for needs of working capital (provided through private banks *Citadele* and *Medicinos bankas*) is another ESIF financial measure supporting entrepreneurship process in the country. Obviously, with the current absence of any in-built additional incentives, those loans are less affordable for the disadvantaged groups.

To facilitate employment of the group of population, who face difficulties on the labour market, EUR 40.55 million has been allocated from the ESF. The relevant measure LTD “Investment and business guarantees” (*Invega*) offers the provision of financial incentives (partial compensation of labour costs of employees) to employers that hire first-time employees between 18 and 29 years of age (a period of 12 calendar months) and employees above 54 years of age (a period of 24 calendar months). Public or private legal persons (except for budgetary institutions), branches or representative offices of legal persons as well as natural persons engaged in business-commercial activities may apply for support in this framework.

In 2013, to address the issue of young people that are not in education, employment or training (NEETs), the European Council decided to begin the implementation of the YEI. Under this initiative, 20 EU Member States with the unemployment rate of the youth aged 15-24 exceeded 25%, received EUR 6.4 billion in 2012 for the implementation of additional measures to increase youth employment by the year 2018. Lithuania was one of these countries and received over EUR 69 million for YEI funding. Lithuania included the YEI in the OP for the EU Funds’ Investments in 2014-2020; its implementation was assigned to specific objective “Reduce the number of young people between 15 and 29 years of age not in employment, education or training” of Priority “Promoting Quality Employment and Participation in the Labour Market”. This specific objective includes two YEI-supported projects, which will provide assistance to 35 thousand young people aged 15-29, who are not in employment, education or training until 2018.

The primary intervention project *Discover Yourself (Atrask save)* is implemented between LLE, acting as a leading partner, and the DYA. Each institution coordinates a separate strand of the project targeting different NEET groups. LLE’s programme is designed for active NEETs who are officially registered with LLE as unemployed whereas DYA targets inactive NEETs. The project will offer early intervention services that will focus on the development of motivational, social and labour market skills through engaging NEETs in voluntary activities, various trainings, traineeship and apprenticeship experiences as well as providing them with psychological counselling, skills’ assessment and other measures to enhance their motivation for work.

The project *Discover Yourself* was launched in 2016. About 8.7 thousand NEETs got a support during the first year of implementation; 3.3 thousand NEETs successfully integrated into the labour market, started studies or acquired qualifications, of which 328 were inactive young people. It is planned that 23 thousand unemployed NEETs and 12 thousand inactive NEETs will participate in the project in total.

Those participants of the project *Discover Yourself* who do not receive unsubsidised job offer will be involved in the secondary intervention project *New Start (Naujas startas)*. The YEI-supported project, which will be carried out only by the LLE, plans to involve the total of 11 thousand unique NEETs in various active labour market measures. Most of the participants of this project will be involved in vocational training (around 9 thousand people). Other participants will receive subsidised jobs or a package of several services (for example, vocational training and subsidised job) depending on their needs. The project *New Start* will provide an opportunity to support the most disadvantaged participants of the first YEI project for a longer period than just 4 months.

Under the *New Start* project, 49.8 thousand young unemployed were employed; 2.2 thousand received support for setting up a job; 13 thousand young people started their business under the business license; 200 young unemployed signed bilateral contracts for the acquisition of work skills

at the work place, 7.7 thousand young people participated in vocational training, 5.5 thousand participated in the supported recruitment activities in 2016.

An important factor for the success of YEI is the combination of training, consultations and financial assistance. However, the evaluation<sup>27</sup> conducted just prior to the start of implementation has ascertained the risks associated with an efficient and effective implementation of YEI interventions especially at a local municipal level. Identifying inactive NEET youth and providing them with personalized and high quality services remains one of the most important problems that is addressed through closer cooperation with municipal administrations, local community, increased involvement of social workers, improved capabilities of the LLE and DYA coordinators to motivate the NEET youth.

Support schemes for other target groups have also demonstrated positive results<sup>28</sup> but some measures did not do enough to account for the specific needs of youth.<sup>29</sup> For example, the loans issued under some measures were not adapted to technology start-ups that are very popular among youth for the lack of guarantees to cover wage costs, which were not eligible for funding from the loans. In the case of technology start-ups, wage costs often account for the majority of costs.

Currently, the financial measures to support R&D activities are mainly aimed at experienced innovators – companies that already have innovative experience, therefore EU investments only cover the costs of enterprises, but do not motivate to start R&D activities. Such an investment model does not encourage a re-orientation of the economy into an innovation-driven growth. Evaluators<sup>30</sup> state that the combination of business R&D measures lacks ambition to promote high-potential innovative start-ups that are not competitive, often lack the complex development tools, and the toolbox lacks a systematic approach to promoting the transformation of potential innovators. There is a lack of both aid for the development of ideas, both intermediary services, both facilitating and mediating, and easy-to-use, simple tools and tools, interconnections (or phase-in tools) that ensure integrated development and enable the company to consistently move the innovation cycle from concept to product.

Very small, small (especially newly established in the innovative fields) and medium-sized non-listed companies often find it difficult to borrow from the sources of financing as venture capital, business angel investments can help to grow and expand. The Lithuanian market for risk and private equity has been well revived by the EU Structural Funds, but it is still in an early stage of development. By the risk and private equity index, Lithuania ranks 40<sup>th</sup> (2016) among the countries of the world. The development of risk capital and business angels is to a large extent hampered by unclear legal regulation, and the tax environment could further contribute to smooth enlargement. The EU is increasingly debating the sources of sustainable financing for the economy and the benefits of this instrument are being discussed more and more. This long-term financing method can also be useful in Lithuania, but the legal basis for this is not favourable enough.

Through 2014-2020 EU funds OP EUR 179.6 million have been allocated for the implementation of the BFF aiming to increase the supply of business financing. The *Invega* will implement BFF measures in co-operation with an international experienced partner, the European Bank for Reconstruction and Development (EBRD). It is planned to implement 4 risk capital financial instruments through selected financial intermediaries, which will include loans, portfolio guarantees for loans and leasing, and risk capital investments. These financial instruments will facilitate access to finance for SMEs, thus promoting business development and the creation of new businesses. It is planned that more than 1400 start-ups, businesses, and individuals will be funded from the BFF and privately funded funds.

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<sup>27</sup> Evaluation of the youth employment initiative in Lithuania, PPMI, November–December 2015

<sup>28</sup> Impact Evaluation of the European Union Structural Support to Lithuania's Competitiveness. Estep, 2015

<sup>29</sup> Assessment of the preparation of the situation analysis and outlook for 2014-2020 in the Areas of Human Resources Development and Social Cohesion. Final report. PPMI Group, October, 2013

<sup>30</sup> Evaluation of financial implementation and progress towards the goals of the Operational Programme for the European Union Funds' Investments in 2014-2020, MoF and PPMI, December 2016

The unemployed can also receive financial support for business creation through active labour market policies. Subsidies for self-employment for registered unemployed or people with disabilities can be provided: a) where disabled persons of working age who are registered at the LLE and whose capacity for work is less than 25% become self-employed for the first time; b) where people with disabilities of working age who are registered at the LLE and whose capacity for work is 30-40% become self-employed for the first time; c) where persons whose dismissal consequences are mitigated from the Globalisation Adjustment Fund (EGF) become self-employed for the first time; d) where former unemployed persons, who start their own business within 30 months from the last day of registration with the labour exchange, establish the first workplace for an unemployed person sent from the LLE. The amount of subsidy for the creation of a self-employed workplace cannot exceed 40 minimum monthly wages<sup>31</sup> and can be used to partially cover income tax payable upon acquisition of business certificates and state obligatory social insurance contributions. Overall, these measures made a small contribution to boosting self-employment among the unemployed, as the number of unemployed beneficiaries is quite small. According to LLE data, nearly 10,0 thousand subsidies are provided annually but the number of people with disabilities who created jobs for themselves is less than 50 per year and the number of former unemployed persons who create jobs for other unemployed persons sent from the LLE is less than 20 per year.

Unemployed persons registered with the LLE have also the opportunity to acquire business certificates at a reduced rate. Statistically, this measure seems to be popular (85.4 thousand unemployed applied for the support in the 2016, including 23.6 thousand over 50 years of age), although economists are quite cautious about assigning this group to the entrepreneurship population. However, it must be acknowledged that the measures offered for the start-up approach are the cheapest and are best suited to disadvantaged groups.

SMEs promotion funds established in municipalities offer financial support for partial compensation of the interests of bank loans and for issue of interest-free loans, partial compensation of business incorporation expenses, business consulting and training, issue of publications on regional SMEs development, compensation of expenses of entrepreneurs' participation in exhibitions, trade fairs, business missions, etc. Sums and conditions of funding are at the discretion of municipalities. Some of them are specially designed to support youth initiatives.<sup>32</sup>

The 2014-2020 Rural Development OP and the Lithuanian Fisheries Sector Operational Programme 2014–2020 contribute to the promotion of the competitiveness of small farms and increase employment in rural areas. Bearing in mind that farmers/natural persons, or very small and small companies operating in rural areas are beneficiaries of those OP, support is provided mainly in grant form unlike business and business support measures in the cities, where a large part of the measures are based on financial engineering principals. However, the Agricultural Loan Guarantee Fund<sup>33</sup> offers a full range of lending opportunities here as well.

The 2014-2020 Rural Development OP cases can be distinguished by a number of specific initiatives, which are viewed as supporting the entrepreneurship of disadvantaged groups (including rural youth, women and older people who are especially vulnerable). First and foremost, extremely popular as of 2007-2013, and in the period 2014-2020, continued measure aimed at promoting the setting up of young farmers (under 40 years of age) shall be mentioned.

When assessing demographic processes in terms of age structure, it is noticeable that in Lithuania, the number of persons under 40 is decreasing in rural areas there were 127.1 thousand farmers to 39 years old in 2003 and only 62.4 thousand farmers in 2010)<sup>34</sup>. At present, only about 4%

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<sup>31</sup> The MMA was € 380 and amounted to 51% of the average monthly net wage in 2016

<sup>32</sup> <http://www.verslilietuva.lt/lt/verslo-pradzia/verslo-pradzia-pirmieji-zingsniai-galimi-finansavimo-saltiniai>

<sup>33</sup> This is a financial institution providing guarantees to lending agencies (banks and credit unions) granting agricultural loans. These loans are issued, inter alia, to farmers who start up or develop their farming activities for the acquisition of immovable property, agricultural machines and agricultural products, as well as for turnover funds. This measure can be identified as contributing to support for disadvantaged groups, as it improves opportunities for rural residents

<sup>34</sup> According to the data of the results of the Census of Agriculture of the Republic of Lithuania



of country is under 39 years old, while the EU average is 7%. Given the decline in the number of youth in the countryside, the focus of support will be on younger farmers who are more entrepreneurial and active, more inclined to innovate and adapt successfully to the development of new technologies, a new, changing environment, and to seek practical and scientific and technical knowledge. Support for the setting up of young farmers contributes to the stabilization of the demographic situation in rural areas and the creation of high-quality jobs in rural areas, the maintenance of existing jobs, the development of the agricultural sector.

The measure supporting investments in creation and development of economic activity in rural areas are desirable. Support for the start-up of new businesses is encouraged by the economic activity of micro, small enterprises, farmers and other natural persons in rural areas, covering various non-agricultural businesses, production, processing, marketing, provision of various services, including agricultural services. This support encourages business initiatives, creates new jobs in the countryside, increases employment of the population; also, increases opportunities for young people to work in the labour market, non-working people, encourages diversification of activities, helps to reduce seasonal employment fluctuations of farmers and other agricultural entities, and so contributes to the stabilization of the demographic situation in the village. It is worth noting that in both measures in the selection of projects priority is given for young people and women.

Today, part of people with disabilities have no access to state support for self-employment, since the Lithuanian legal framework still contains the term “incapacity for work”. Since a work-incapacitated person cannot work, consequently, he/she cannot lose his/her job, which means that the LLE cannot register this person as an unemployed, but only as a job seeker. All the assistance and support through the LLE is available exclusively to the unemployed, and this service is not available to work-incapacitated persons with disabilities. Recent trend shows that the number of persons with disabilities having received the support for self-employment has come down almost 10 times (in 2011, there were 40 beneficiaries, in 2015 – 5, in 2016 – only 3). The underlying reason for this is the strict eligibility criteria for a business plan that have failed to be appropriately adjusted to the specificities of this target group.

The United Nations Convention adopted on the Rights of Persons with Disabilities (2014) whereby parents raising children with disabilities are also attributed to the group of persons with disabilities. When providing for legal and organizational conditions for doing business (for example, small workshops) and supporting the creation of jobs for this target group, the parents of persons with disabilities are allowed to become founders of business and employ the disabled children. Such policy option is not available in case of Lithuania. Persons with intellectual disabilities face particular difficulties in this regard (there is no support for information on self-employment possibilities available for this target group), there are no additional incentive or support measures, thus the self-employment of persons with intellectual or mental disabilities is solely the matter of the initiative of their caretakers or relevant non-governmental organizations. No additional injections have been up to now made for this business segment.

The concept “social business” is still under heavy debate in the country. The proposals are to replace currently used “social enterprises” concept, which marked entities employing persons with disabilities. Over the past decade, state support for such enterprises has seen a significant increase (from EUR 0.5 million in 2004 to EUR 30 million in 2016), while progress towards better self-employment of persons with disabilities has been slow. Furthermore, “social enterprises” have had all the possible benefits, including non-payment of corporate tax, and the right to pre-emption in public procurement, which has not been made available for any self-employed persons with disabilities. The transition to a “social business” concept whose effectiveness would be measured by the social impact achieved – would also mean the rectification of the status of the associations and non-governmental organizations, which until now have failed to be treated as small business enterprises, and thus were ineligible for any state subsidy or support schemes related to small business.

Persons with disabilities still face segregated treatment in terms of education, training and development in Lithuania, and obviously, the education system itself does not encourage entrepreneurship among persons with disabilities, instead creating inappropriate incentives. Only 1000 persons with disabilities are in higher education (students with disabilities are beneficiaries of additional scholarships on the grounds of their disability). Students with disabilities have become in a way scholarship hunters, and their aim is often not graduation but staying in school as long as possible for the state scholarship, seeing it as a source of livelihood.

### 3.4. Entrepreneurship skills and culture

As the situation is assessed in the OP for the EU Structural Funds' Investments in 2014-2020<sup>35</sup>, due to the limited financial capacity, natural persons willing to start their own business and SMEs operating for less than 5 years often fail to obtain the required information, advisory, methodological and other support on starting a business, funding, searching for potential markets, introduction of new technologies and other issues related to business. To increase the accessibility and supply of services for business, the National Register of Consultants has been created. The Consultants are selected by the [Enterprise Lithuania](#)<sup>36</sup>, responsible for the creation of the Network. Then, in June 2016 MoE opened calls for SMEs to express an interest of receiving high quality advisory services (from consultancies listed in the Register)<sup>37</sup>. New SMEs need different business services; therefore, services will be grouped by target groups (entities operating for less than 1 year; entities in operation for 1-3 years; entities operating for 3-5 years). Information/advisory services will be provided in the form of a voucher (up to EUR 6.5 thousand). The introduction of such measure under the 2014-2020 OP responds to the conclusion on the lack of the focus by the EU funds on high quality consultation services for start-ups that have an extremely great need for such services<sup>38</sup>.

According to other experts<sup>39</sup> assessing the EPF project, more individualised, integrated and longer training would provide valuable additional knowledge that would effectively contribute to the successful activities of new businesses. Training is needed not only at the pre-loan stage (when considering setting up of a business, preparing business plans), but also at the post-loan stage. That was considered when designed interventions for the period 2014-2020: an opportunity to have mentors (advisers) for educating young businesses and delivering practical assistance is offered for EPF loan recipients.

Moreover, some groups of SME entities during the first 5 years of operation need constant comprehensive support rather than one-off services (e.g. representatives of creative industries have a large potential to create high and unique value-added, but their efforts are limited due to very poor entrepreneurship and management skills, etc.), therefore it is important to have a business service provider, who could use the available infrastructure (premises, equipment, etc.) for bringing together people eager to start business (incubator), thus helping them in the initial and later stages of business<sup>40</sup>.

In 2007-2013, the MoE implemented a number of initiatives to promote entrepreneurship, but most of them were of a general nature. With regard to measures tailored to target groups, youth in particular, a first business year baskets (vouchers) could be mentioned. It is an entrepreneurship

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<sup>35</sup> Operational Programme for the European Union Structural Funds' Investments in 2014-2020. Lithuania, 2014

<sup>36</sup> The procedure was established by MoE Order No 4-558, 04 September 2015; <https://www.e-tar.lt/portal/lt/legalAct/9e586a4052de11e5b0f2b883009b2d06>

<sup>37</sup> OP for EU Funds' Investments in 2014-2020 measure No. 03.1.1-IVG-T-819 "Business Consultant LT"

<sup>38</sup> Impact Evaluation of the European Union Structural Support to Lithuania's Competitiveness. Estep, 2015

<sup>39</sup> Assessment of the preparation of the situation analysis and outlook for 2014-2020 in the Areas of Human Resources Development and Social Cohesion. Final report. PPMI Group, October, 2013

<sup>40</sup> These activities will be supported through the OP for EU Funds' Investments in 2014-2020 measure No. 03.1.1-LVPA-K-839 "Incubators LT +"

promotion programme offering young people eager to start up business a special package of free-of-charge services. Young people who attend entrepreneurship *Enterprise Lithuania* promotion [events](#) organised by can receive a voucher for a special package of free services: professional consultations on various incorporation and management issues, as well as different training courses during the first 12 months following business registration. In addition, voucher holders are entitled to the so-called on-line (virtual) office services: mailing address, printing and scanning services, access to the Internet, etc. According to the information provided by *Enterprise Lithuania*, 98.9% of businesses that started up with a help of vouchers successfully survived for the period longer than one year.

Similar measures will receive funding in Lithuania in 2014-2020, but following the recommendations a greater focus will be on less advantaged groups: young people, women, persons with disabilities, the elderly, emigrants, family business for SMEs operating for up to 5 years, promoting entrepreneurship in the regions. The *Enterprise Lithuania* will support cooperation between micro, small and medium-sized enterprises (networking activities); collaboration centre activities; promotion of business for creative and cultural industries; business development (social business counselling, second chance, business transfer) and digital business (promoting innovative start-ups). At least 50% consultations will be provided to SMEs operating in the territory other than municipalities of biggest Lithuanian cities (Vilnius, Kaunas and Klaipėda)<sup>41</sup>.

It should be noted that apart from the aforementioned major measures for improving entrepreneurship skills, Lithuania has a number of smaller measures that contribute to the improvement of skills across various target groups. Many of these initiatives are funded from various EU programmes; some of them are non-governmental initiatives closely related with the relevant ministries<sup>42</sup>.

One of the latest initiatives is *Futurepreneurs*<sup>43</sup> – a project initiated by the Sunrise Valley Science and Technology Park and funded by the EU ERASMUS + that is designed to promote entrepreneurship among the youth under 29. It offers a free training programme, a consulting opportunity with experienced mentors (top-managers and other professionals); an opportunity to be awarded for the best start-up. The hopes are to bring up in 3 months at least one start-up from over 200 programme participants.

The development of the Lithuanian start-up ecosystem has been recently gaining momentum: a number of events for start-up entrepreneurs, starter accelerator and incubator programmes, fast-track teams that generate real products and qualify for funding. As a result, the number of start-ups has gone up in Lithuania three times over the last five years. The competent institutions place more emphasis on entrepreneurship training, dedicate more efforts to standardize information for those willing to start their business. For example, business information is now concentrated in one easy-to-use *Enterprise Lithuania* website [www.verslovartai.lt](http://www.verslovartai.lt). However, there are other similar portals that are not part of the same unified network. For the moment, there is no uniform information system to be consulted by those willing to develop their entrepreneurial skills and get guidance on necessary training.

#### 4. POLICY RECOMMENDATIONS

1. The Lithuanian strategic documents consider the task of entrepreneurship promotion differently, depending on the general objective pursued. It is seen as a way to increase economic competitiveness or to improve the employment situation. Strengthen leadership skills and ensuring people self-confidence are certain positive externalities of entrepreneurship promotion, which has not as yet been included in strategic documents. Unified strategy/programme for promoting entrepreneurship may be difficult to have, but it is important to structure properly the incentives for entrepreneurship, to coordinate better ministerial actions, to analyse and share best practices, lessons

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<sup>41</sup> OP for EU Funds' Investments in 2014-2020 measure No. 03.1.1-LVPA-V-815 "Entrepreneurship LT"

<sup>42</sup> See in detail the Country Assessment Note, Lithuania 2016.

<sup>43</sup> <http://futurepreneurs.lt/>

learned from previous experiences in order to avoid duplication and get synergy. Kind of regularly updated and monitored compendium would make it easier to support the unified information business (start-up in particular) platform that the *Enterprise Lithuania* holds. Given the multidisciplinary nature of the task of entrepreneurship promotion, it seems reasonable to monitor all relevant measures at the level of central government with a view to ensure appropriate and timely allocation of adequate resources to respond to the changing economic and demographic situation. Emphasizing entrepreneurship as an inseparable feature of human capital, it is advisable to establish a logical link with the human resources monitoring system developed at the initiative of the GRL<sup>44</sup>.

2. Although in the mainstream entrepreneurship Lithuania has already built a considerable experience, the "inclusive entrepreneurship" has been often restricted to general formulations or identification of the most vulnerable groups as priority groups in relation to financial support or other incentives. Many business policy development measures are of general character, failing to adequately reflect the specific features of regional, local labour markets and different human resources. This is certainly not enough and it is necessary to think about instruments that are actually customized for even very small target groups (for example, 50+ rural women, young people from children's homes, etc.). This is also dictated by the country's demographic situation, when there is a need to properly integrate / reintegrate into the labour market those who have previously been out of the sight of the institutions in charge of the implementation of labour market policies, and now they are seen as an untapped human potential. It is also necessary to take on board the experience of implementing the YEI, to eliminate legal and other obstacles that prevented the full implementation of the planned actions and to take further the intended actions (reaching the largest possible number of youth that are not in employment or education) and to deepen them (by identifying potential points of risk and applying smart prevention actions). Such changes are impossible without a more global approach to entrepreneurship, without initiatives in the areas that have traditionally not been linked to the development of entrepreneurship (for example, by expanding the form of home-based businesses, which on the one hand, get comfortable technical conditions in Lithuania, having in mind one of the best Internet access and fast fibre Internet penetration in Europe, but on the other hand, are stopped by poor traditions and a legal gap). As regards of entrepreneurship and employment for people with disabilities, it is recommended to follow the United Nations Convention on the Rights of Persons with Disabilities and the international practice whereby parents raising children with disabilities are also attributed to the group of persons with disabilities. It is recommended to establish the job position of a work assistant. Another untapped human resource potential is Lithuanian emigrants. This, in turn, is not a single homogeneous target group and needs to be treated from the point of view of the "inclusive entrepreneurship". It is advisable to create appropriate legal and organizational measures to encourage emigrants to do business in Lithuania (not necessarily physically operating in Lithuania); to create an information base that would link country employers with students from Lithuania studying abroad, etc.

3. The development of social business is very important in the context of an inclusive entrepreneurship as an appropriate place to create and apply effective and targeted motivational tools with a view to recruiting socially vulnerable individuals. Therefore, the GRL plans to draft a Social Business Law are very welcome as they will help defining social business criteria, forms and methods of receiving support, and to identify priority areas. It is recommended that public authorities work together with social business communities to see how to better organize counselling for a social business start-up, and what motivations are most effective in this case. Such measures are not available in Lithuania for the moment.

4. Accordingly, the social responsibility of all the existing and emerging businesses should be further strengthened. Although since 2011 the GDP has been growing steadily, unemployment decreasing, other macroeconomic indicators improving, however wages, especially for less-paid

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<sup>44</sup>The collection of data on the occupation, education, career, migration, etc. from various sources of data (State Insurance System, Tax Inspectorate, LLE, Population Register, Register of Diplomas and Certificates, etc.), which placed in a single repository and is accessible for monitoring and analyse in accordance with the procedure established by the legal acts. GRL Resolution No 162, 18 February 2016.

groups of the population, are lagging behind, the satisfaction of the people in the labour market is low and this encourages their emigration. In 2015, the income inequality was the highest among the EU states. Establishing an adequate official wage for the staff in business companies is broadly seen as a feature of social responsibility. Besides, it is recommended through legal and organizational measures to encourage staff participation in corporate governance. This is a well-known fact that a business-inclined person is not always ready to run his own business, he can well find fulfilment in hired work. This phenomenon called "entrepreneurial employee activity" (EEA) is yet another factor of economic growth, and according to some experts it helped Europe to still remain competitive, despite the start-up gap. Most of the economies in Eastern Europe and the Baltics are in the opposite situation: high start-ups and a relatively undeveloped EEA<sup>45</sup>. It is likely that in developing the paradigm of a socially responsible business, measures to promote the potential of the EEA may be envisaged and promoted. Lithuania has set a positive trend in developing a coherent and continuous entrepreneurship education system and implementing measures aimed at improving study environment and developing the relevance of studies vis-a-vis the needs of the labour market and the society; efforts will be made to implement activities that promote students' creativity, entrepreneurship, and leadership. It would be expedient for the development of a modern entrepreneur to integrate into the curriculum of general education programmes at higher education institutions not only the entrepreneurship and financial literacy course but also the Corporate Social Responsibility.

5. It would be advisable to further streamline the functions of business supervising institutions, to move towards a user-friendly environment of business supervision and oversight. This is not a new idea, but the negative attitude of employers towards business supervision and oversight is at its height now; they fail to adequately prevent the misconduct, offer no appropriate training, etc. The introduction of a new paradigm of partnership with business at the State Tax Inspectorate might be mentioned as the best practice in this field.

6. It is necessary to carry out regular and focused monitoring and analysis of the funding of job creation, etc. An impact assessment is particularly needed to see how much the financial costs of the state determine the financial independence of persons with disabilities (other vulnerable groups) in terms of benefits. The key to promoting employment and entrepreneurship is to ensure employment (economic activity), competencies and financial stability that meet the needs of the people concerned. Until now, the implementation of business support measures have failed to receive appropriate assessment, including both short-term (under a year) and long-term (5 years). It is also necessary to evaluate the experience of implementing the YEI, to eliminate legal and other obstacles that prevented the full implementation of the planned actions and to take further the intended actions (reaching the largest possible number of youth that are not in employment or education) and to deepen them (by identifying potential points of risk and applying smart prevention actions).

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<sup>45</sup>Europe's Hidden Entrepreneurs: Entrepreneurial Employee Activity and Competitiveness in Europe. World Economic Forum, 2016