

The annual Human Development Report has already become a fine tradition in Lithuania. By consistently analysing the concept of human development, the Report helps to understand better the complex processes taking place in the country, as well as bring the attention of society to the main social problems. Thanks to the Report, the concept of human development is now well known in Lithuania. It could be said that the Report serves as a constant reminder that the final goal of all our actions should be the individual and the enlarging choices and expanding possibilities for every person's self expression.

The time of change in which we now live alters the mode of life in essence. Complex structural changes give rise to new activities and push others into the shadow. The enormous differences between peoples' opportunities and prospects for human development inevitably emerge alongside such changes. The deepening of inequality between regions and between urban and rural areas are indicative in this respect. We must work actively with the hope that this is only a temporary phenomenon, so that a new, more harmonious society will emerge from the process of change. The attention given in this year's Report to the territorial disparities in human development, and the attempts both to disclose the reasons behind them and to foresee the chances of overcoming them, are very timely.

As in the past, this year's Report expresses the opinions of independent authors whose work was supported by the United Nations Development Programme in Lithuania and does not necessarily reflect the official opinion of the government. We hope, therefore, that it may contribute to the multilateral dialog between government and society, as well as encourage fruitful discussions regarding the main landmarks and perspectives of human development.



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Executive summary

The Lithuanian Human Development Report 2000, *Territorial Disparities in Human Development*, is the sixth publication financially supported by the United Nations Development Programme (UNDP) in Lithuania since 1995.

Over these six years, the Report has cut a path from being an unknown publication that first introduced the concept of human development to being a popular, widely read annual publication that is used by lecturers at the country's largest universities to teach a new discipline called Sustainable Human Development. It gives hope that, through education, sustainable human development as an important concept that enriches knowledge about development will empower policy makers by giving them multi-disciplinary analytical tools for better decision making.

The aim of the Report is two-fold: to inform and to motivate. It has inspired the need for in-depth research focused on problems that society is facing during this period of transition. Among such problems are poverty, social exclusion, suicide, territorial disparities in human development, improving social and regional statistics and many others.

The Report is a continuous publication loosely modelled on the core of the sustainable human development concept formulated by the UNDP in 1990. This year's Report is focused on the territorial disparities of human development. All human development indicators (mortality, morbidity, suicide, longevity, employment and education profiles, standard of living) give persuasive evidence of the disadvantageous position of the rural population and the people who live in small towns compared to that of city inhabitants. At the same time these deep discrepancies have not yet been assessed and

acknowledged as a serious national problem. Regional development planning continues to be top-down and short-term.

The message of the Report is that the real challenge for a country that puts at the core of its national strategy joining the ranks of highly developed and democratic countries where individuals and their quality of life are highly valued, is to ensure equal opportunities for its inhabitants irrespective of their place of residence. This goal cannot be achieved without determined effort in assessing the scope, nature and manifestations of territorial disparities in human development. No less important is to acknowledge the existence of disparities as an acute national problem, and to formulate a strategy aimed at their reduction. Regional development planning should become a continuous process that is not simply owned by government institutions but that incorporates a wide range of initiatives from below.

Chapter 1

Regional policy

Regional policy and regional planning as a separate sphere of government activity began to develop under the influence of the new needs that emerged in the process of Lithuania's preparation for membership of the European Union (EU). The concept of regional policy, its institutional framework and its main instruments suffer from two major drawbacks. First, their orientation towards the narrow goal of taking advantage of EU assistance has impeded discussion on the essence, goals, instruments and results of regional policy. Secondly,

despite the fact that regional policy has been designed for the better channelling and use of EU assistance, its foundations were in fact not conducive to achieving this goal. Trends in regional policy in the countries of Western Europe and the structural policy of the EU show that both regional policy and structural assistance can only be effective when they are directly associated with national economic development and investment policies. In Lithuanian regional policy, this vital connection has not been established either in terms of institutional framework or policy tools.

The European Commission (EC) has concluded that Lithuania suffers from wide gaps in socio-economic development between districts and lacks independent local governments and adequate regional statistics. In 1998, per capita GDP was more than twice as large in the richest district, Vilnius, compared to the poorest district, Tauragė. This could be especially aggravated with the further restructuring of agriculture and industry, a process that is being accelerated by preparation for membership of the EU. The very concept of a region itself is new in Lithuania. This problem was solved by rather mechanically declaring the regions of Lithuania its 'districts'. The statistics reflecting district economic and social development were compiled accordingly.

The first National Socio-Economic Development Plan was prepared at the end of 1999. This had to become the basis for channelling EU structural assistance. In 1998, the Department of Statistics began to compile and publish regional statistics. The essence of the main tool of regional policy, the National Development Plan, was determined by the Law on Regional Development.

In a broad sense, the main objectives of the National (Regional) Development Plan are: to increase the growth of real GDP and employment as well as to raise the standard of living as compared to developed European nations; to strengthen the competitiveness of the economy; and to decrease economic and social differences between regions by creating favourable conditions for the social and economic development of the most underdeveloped regions.

Chapter 2

Economy

GDP decreased by 4.1% during 1999. The residual elements of a centralised system, a monopolised market and insufficient investment in science and education did not allow society to fully benefit from the advances in world technology and hampered

economic growth. Programmes for regional development were not sufficiently effective. It was therefore the people in underdeveloped districts who were hit hardest by the economic recession.

The flow of resources from industry and agriculture to the service sector determined many of the differences in economic development between districts. By 1999, industrial input fell to 23.2% and agriculture to 8.8% of GDP, while the input of the service sector grew to 60.1%. Between 1995 and 1999, the average annual number of people employed in industry fell by 16.4%. In the district of Šiauliai the number industrial workers fell by 28.6%, and by 30.8% in the city of Šiauliai itself. These trends were similar for other industrial centres. Development of the service sector was very much conditional on exporting services abroad.

In 1999, per capita investment in the district of Vilnius exceeded the national average by four times, while in the district of Marijampolė it amounted to only 7% of the national average. In 1999, the highest volume of per capita private investment went to the districts of Telšiai, Vilnius and Utena - 2,151 LTL, 852 LTL and 730 LTL, respectively. The uneven distribution of state investment between districts diminished their attractiveness in the eyes of private investors, while the formulation of state investment programmes did not take into account regional development needs. The order and pace of privatisation has had a marked effect on the distribution of foreign investment. However, the monopolist position on the market allowed foreign investors to restructure enterprises slowly. Privatisation has neither resolved problems nor stimulated the modernisation process. It created prerequisites for growing regional differentiation.

In 1998, 63.3% of the total GDP was created in the districts of Vilnius, Kaunas and Klaipėda. In 1999, the majority of the state and private research and development (R&D) sector (95%) was concentrated in the districts of Vilnius, Kaunas and Klaipėda, allowing them to benefit more than other districts from the achievements of world science and technology and to find new markets. The concentration of economic activity in the cities has resulted in an increase in unemployment and social problems in the other regions.

In 1999, compared with 1998, exports of Lithuanian goods and services decreased by 16.4%. Exports to Russia fell by 65.6%, while exports to Western countries continued to rise, growing by 6.8% during 1999. The proportion of total exports to countries in the EU increased from 38% to

50.1%. The district of Kaunas made the greatest contribution to exports, with 24.5% of the total. Vilnius contributed 19.3%. Thanks to the oil processing enterprise Mažeikių Nafta, the district of Telšiai contributed 15.6%.

The structural nature of unemployment makes it very difficult to resolve the employment problem. The unemployed do not possess the required skills while a decrease in local budget revenue has been behind a lack of funding for retraining programmes. Compared to previous years, the overall local budget revenue in 1999 decreased by 13.8%. Local governments allocated approximately 80% of their budget revenues to the social sphere.

The resolution of these accumulating problems demands the creation of an environment conducive to innovation and the creation of jobs.

Chapter 3

Employment

Since the end of 1998 and throughout 1999, there has been a decrease in employment and an increase in unemployment due to the economic recession. In 1999, the employment level in Lithuania was 53.2%, and the unemployment level reached 14.1% (according to the labour force survey).

The highest unemployment and lowest employment levels are found among young people. Young people - even those with a good education or trained in a profession - have difficulties 'entering' the labour market. Young people with no qualifications and little education have an extremely difficult time finding work. At the beginning of 1999, according to the Labour Exchange, unemployment among people under the age of 25 reached 26.5% (nearly double the national average). At the start of 2000, the figure was already 27.1%.

According to survey data, women made up 50.8% of the total number of employed people in 1999, while men accounted for 57.1%. Women have the distinct advantage from the point of view of education. There are more of them with a higher and specialised secondary education, both among the general population and among the employed. Yet, despite their lower education, men dominate the economic sectors and professions that provide greater income.

Data from 1997 and 1999 show that the labour force has continued to move from manufacturing into

services. Internal, structural changes in employment are likely to have a positive effect on the long-term development of employment in Lithuania. Meanwhile, because of a very low level of territorial and professional mobility among the rural population, a decline in employment in agriculture is happening much more slowly than its previous increase occurred. And if in 1991 the private sector employed less than 30% of the working population, by 1999 it employed nearly 70%.

There are considerable differences in territorial employment trends due to growing gaps in economic development between the regions and low labour mobility. Generally speaking, the employment situation is better in Lithuania's cities than in the towns and rural areas. All districts could be divided into four groups according to their employment performance. The first group is where growth in employment was accompanied by relatively positive structural changes. The districts of Vilnius, Kaunas, Utena and Tauragė belong to this group. The second group comprises districts where employment grew but its structural changes were not favourable. Klaipėda belongs to this group. The third group of regions has shown a decline in employment along with positive structural changes. Panevėžys and Telšiai fall into this group. The fourth group comprises districts where the employment situation was most unfavourable; employment fell and structural changes were negative. Šiauliai, Alytus and Marijampolė belong to this group.

Guarantees for equal employment opportunities include measures making competing on the labour market more fair. Especially important is the implementation of a principle of lifelong education and training. Up to now, the focus in Lithuania has been on basic professional training; continuing education has not been well developed. According to Labour Force Survey data, only approximately every tenth worker upgrades his qualifications annually. One of the major setbacks in the development of continuing professional education is a lack of financing and tools for active policy measures.

Chapter 4

Standard of living

The standard of living of the population depends not only on the country's economic performance but also on the place of residence. The results of the household budget survey between 1996 and 1999 clearly show a growth in the standard of liv-

ing. Disposable income increased by more than a third. Employment income grew by 42.7%. Income from pensions and social assistance benefits more than doubled. During the period from 1996 to 1999, the average disposable income per household member increased by more than a third in urban areas, but only by a fifth in rural areas. The recent changes in the income pattern for cities, rural areas and small towns were unfavourable. Employment income and income from agriculture, business and crafts are being rapidly replaced by social assistance benefits. The rural population is losing its ability to sustain itself with traditionally rural occupations along with insufficient new income earning opportunities.

Households with no employment income and where the breadwinner is a farmer have the smallest disposable income of 253 LTL per family member per month.

Between 1996 and 1999, total consumer expenditure increased by 22.2%, and in 1999 it reached 425.4 LTL per person per month. The decline in food expenditure nationwide could be considered a positive change in the pattern of consumption. Consumption differs by region both in size and pattern. All expenditures except for food are much lower in rural than in urban areas. Both in 1996 and in 1999, rural consumer expenditure for social and cultural needs - leisure activities, education and health care - were several times lower than in the cities. The standard of living in Lithuania is growing, but at very different rates in the cities, towns and rural areas. Farmers have a smaller consumer expenditure and a poorer consumption pattern. Food takes up as much as 62.6% of all their expenditure (the national average was 45.7% in 1999). Meanwhile, expenditure on health, education, leisure and other human development needs are the lowest among farmers' households.

In 1999, 15.8% of the population was below the poverty line of 50% of the average consumer expenditure. The level of poverty is significantly higher in rural areas (28.2%) than in the cities (7.2%). The place of residence, education, occupation and family size and structure are the factors most related to poverty. Between 1996 and 1999, the consumption pattern of poor households underwent unfavourable changes. They made less use of education and health care, and have less accessibility to leisure and culture. Single parents with children are the worst off, especially in rural areas. The total disposable income per person in rural single parent households is 68% of the income of similar households in the cities.

Chapter 5

Social security

The Law on Pension Funds, which came into effect in January 2000, legalised supplementary pension insurance alongside the state insurance system. Voluntary pension insurance is slow to develop because of insufficient encouragement from the state and low trust in private financial institutions.

Since the beginning of 2000, the mandatory state social insurance contribution rate has increased from 31% to 34%. However, even with this increase the rate in Lithuania is one of the lowest in Europe. The increasing social insurance contribution rate was aimed at balancing the SODRA budget. Nevertheless, this goal was not achieved and SODRA's budget is left with a deficit.

In April 2000, the concept on pension reforms was approved. A White Paper on pension reforms was prepared and presented in October 2000. Pension reforms aim to change the whole pension system so that when people reach pension age they would receive a larger part of their income. To achieve this goal mandatory privately managed pension insurance schemes should be established.

The average old age pension in mid-2000 was 321 LTL. In 1999, the highest average old age pension (over 320 LTL) could be found in the districts of Vilnius, Kaunas, Klaipėda, Naujoji Vilnia and Pasvalys; the lowest (under 260 LTL) was registered in the districts of Šalčininkai and Šilalė.

Benefits and social services provided by the social security system differ by region both quantitatively and qualitatively. The territorial differences in social insurance revenue and expenditure within the SODRA budget depends on the number of pension recipients per 1,000 insured persons. The greatest numbers of pensioners per 1,000 insured persons are in the districts of Širvintai (2,752) Lazdijai (2,533) and Švenčioniai (2,221). The most favourable relationships between pension recipients and insured persons are in the districts of Visaginas (317 pension recipients per 1,000 insured), Mažeikiai and Šilutė (under 500), Vilnius (456) and other cities (around 800 on average). In the small towns and rural areas, the ratio between the working age population and those who are insured is particularly unfavourable for the social insurance system. In 1999, only 61.4% of all people of working age contributed to SODRA.

Social insurance for the rural population is a serious problem. The low standard of living in rural areas is

one of the reasons why many people there avoid paying social insurance contributions or pay irregularly. Those farmers who have no insurance record will not be eligible for basic old age, disability, widows or orphans benefits. One of the possible solutions is the introduction of a universal (national) social assistance pension, paid unconditionally from the state budget to all non-working aged people.

At the present time, social benefits in cash predominate in the social assistance provided by local governments. There is as much as a three-fold difference in average per capita benefits between some cities and districts. In 1999, approximately 11%-12% of all households in Vilnius, Klaipėda and Visaginas were among benefit recipients. Meanwhile, in some districts such as Šilalė, around 33% of households receive benefits, in Skuodas 29% and in Kelmė 28%.

Chapter 6

Education

The following priority goals have been formulated for the second stage of education reform: the modernisation of teaching and the curriculum, and improvement in the quality of education; improvement in the social and pedagogical conditions for education; and the harmonisation of the education system. In implementing reforms, attempts are being made to guarantee a high quality of education and apply in practice the principle of equal opportunities. The pedagogical community has not been unanimous in its opinion on the introduction of a 10-year basic education, specialisation and differentiation of teaching, or reforms in the network of different types of school. The education reforms were readjusted because of cut-backs in funding for the education sector due to the economic recession. The pace of school computerisation was slowed down, and there were no funds for the government programme on the training of social teachers. Also, state funds for summer recreation programmes and the prevention of juvenile crime have been cut.

Assessment of the territorial differences in education is based on the following criteria: teachers' qualifications, teacher and director certification and the results of graduation exams. The differences between districts in the quality of teaching are not large. Districts differ essentially in providing educational opportunities. The larger districts, primarily Vilnius and Kaunas, offer wider choices to those who are seeking higher, specialised secondary and vocational education. The districts offer more-or-

less equal opportunities in basic and secondary education. District educational policy could be directed towards creating a greater choice of opportunities for students.

Rural-urban differences in education are most noticeable even at the pre-school level. In 1998, 52% of pre-school age children in towns and cities attended pre-school educational institutions; in the countryside only 12% did. Approximately 90% of secondary schools and 31% of basic schools had computer classes in the city; 70% of secondary schools and only 9% of basic schools did in the countryside. Teachers with a higher education made up 90% of all teachers in urban areas, and 77% in rural areas. Pupils in urban areas not only have a higher level of teaching, they also have more choice. Graduates from larger schools were more successful in their exams.

The logic of the education concept demands that the lower links in the education system be more broadly involved in the process of reforms. There is a growing need for a regional education policy at the district and / or municipal level, allowing for a more flexible and attentive attitude to the needs of each district. At the same time, districts have the most restricted possibilities for formulating regional education policies. It is the municipalities that have better prospects for regional education policy-making. Since these are in charge of the absolute majority of primary, basic and secondary schools and gymnasiums in their territory, they can influence the provision of more diverse and quality education opportunities.

Balanced regional education development should be stimulated and supported by financial reforms.

The principal goal of national education policy should be the safeguarding of quality education for all pupils regardless of their place of residence.

Chapter 7

Health

In 1999, the pattern of mortality remained similar to that of previous years. The standardised mortality rate is higher in rural than urban areas, at 11.7 and 8.8 per 1,000 population, respectively. Such a wide gap might be ascribed to the difference in socio-economic conditions and accessibility to health care. The three main causes of death are diseases of the cardiovascular system (54.8% of all deaths), malignant tumours (19.6%) and external causes (13.2%). Men die from external or so-called

non-medical causes up to 3.9 times more often than women. They commit suicide 5.4 times more often. An enormous difference in the pattern of mortality exists between rural and urban areas all over the country. The inhabitants of rural areas die from diseases of the respiratory system three times more often than those in urban areas. Non-medical causes of death are 1.8 times more prevalent.

The mortality of infants further decreased in 1999, and reached 8.6 per 1,000 live births. The mortality of infants was 7.6 per 1,000 live births in the cities and 10.3 in rural areas. The mortality of infants differed not only between urban and rural areas but also by district. It was lowest in the districts of Tauragė, Panevėžys and Telšiai (7.0, 7.3 and 7.6, respectively) and highest in the districts of Utena, Kaunas and Marijampolė (12.5, 9.8 and 9.3, respectively). Almost 60% of the deaths of children between the ages of one and 14 years were due to non-medical causes.

The number of suicides is gradually declining, reaching 41.9 per 100,000 population in 1999. The proportion of young people who commit suicide (18% of the total) remains high. Almost 80% of the suicide total were those of working age. Regionally, the districts of Tauragė, Utena and Panevėžys stand out in terms of suicide. The rate there significantly exceeds the national average, reaching 57.0, 51.9 and 50.7 per 100,000 population, respectively, in 1999.

Average life expectancy has been progressively increasing since 1995 along with falling mortality, reaching 72.33 years in 1999. People in the towns and cities live an average of five years longer than people in rural areas.

In 1999, there were fewer newly diagnosed cases of tuberculosis than in 1997 and 1998. The incidence of tuberculosis decreased slightly in urban areas, while it continued to grow among the inhabitants of rural areas. The largest numbers of newly diagnosed cases of tuberculosis were in the districts of Telšiai (82.1 per 100,000 population), Alytus (72.7) and Kaunas (71.5).

The incidence of diseases of addiction is distributed quite unevenly territorially. The greatest numbers of cases of alcohol-related psychoses were registered in the districts of Vilnius, Klaipėda and Tauragė. The most unfavourable situation in terms of the incidence of drug and narcotic addiction was to be found in the districts of Vilnius, Utena and Telšiai.

It is difficult to evaluate and correctly interpret the territorial differences of health and health care without in-depth medical and social research. The cur-

rent health statistics and methods of registration of some diseases (especially social diseases) do not accurately reflect the true situation. Problem-oriented studies on the health of the people of Lithuania are very much needed.

Chapter 8

Crime

In 1999, the registered crime rate decreased for the second time since 1991, by 1.2%. Relative to 1998, the number of premeditated murders decreased by 3.7%, incidences of fraud by 36.8% and theft by 0.7%, in 1999. In 1999, compared to 1998, there was a 12% increase in the number of registered crimes related to the illegal circulation of narcotics and psychotropic substances. Data from the first four months of 2000 show that the trend towards a decrease in the total number of registered crimes has continued.

There was a slightly higher level of registered crimes solved in 1999 than in 1998 (41% and 40.3%, respectively). Crime solving is still a substantial problem, especially in cases of property-related crime: only 31% of robberies, 27% of thefts and barely 12% of car thefts were solved in 1999.

In 1999, 16% of all solved crimes were committed by persons between the ages of 14 and 18 (this figure rose to over 17% during the first four months of 2000).

The most obvious territorial differences in crime rates and patterns of crime exist between rural and urban areas, cities and resorts. The crime rate is higher in the cities than in the countryside. However, the rate of violent crime is higher in the countryside than in the cities. The number of premeditated murders per 10,000 population in rural areas exceeds that of urban areas by approximately 30%. The rate of premeditated grievous bodily harm in rural areas during 1998 and 1999 exceeded the indicator for urban areas by 20%.

In 1999, 51.4% of all crimes were committed in Lithuania's cities (Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys). The cities' general crime rate (268.2 per 10,000 population) is much higher than the national average (208.3). The proportion of solved crimes in the above cities is also significantly lower than the national average.

The four self-governing resort towns of Palanga, Neringa, Druskininkai and Birštonas differ in their crime situation from the national average and other towns, cities and regions due to their 'resort' status.

Tourists and visitors determine the level of crime there. Crime in Neringa and Palanga increases by an average of four to five times during the summer season compared to any other time of the year.

Territorial differences in crime are determined by a diverse range of factors, from socio-economic factors such as education, occupation, income and unemployment, to the efficiency of law and order institutions and the public's trust in them. Unemployed people of working age who do not study committed 63% of all solved crimes in 1999. Police efficiency (usually measured in terms of solved crimes) has a great impact on the level of crime.

The ranking of administrative units by crime indicators permits a differentiated application of preventative and control measures. Meanwhile, so far there have been practically no specialised crime control and prevention measures at the municipal level. This is left in the hands of the state. Much more attention must therefore be given to the multi-dimensional research of crime and the nature of its territorial differentiation at all levels, from state to local government.

Conclusions

Although territorial disparities in human development are not a new problem for Lithuania neither

their scope nor their nature and root causes have been properly assessed and analysed.

The economic recession has sharpened territorial disparities in human development. Most indicative of this is the widening gaps in the standard of living, employment opportunities, social security, education and health between rural areas, cities and towns. The rural population is losing its ability to sustain itself with traditionally rural occupations while new sustainable livelihoods have not appeared. The quality of life and access to essential opportunities depend on the place of residence.

The time for the reappraisal of values not only in the economy but in the whole of society has come. The EU's strength lies in its shared values of democracy, individual rights and freedoms, equality of opportunities and respect for human dignity. Regional differences in economic and social development in Lithuania are already great and will probably continue to increase in the future due to the further restructuring of agriculture and industry, a process that is being accelerated in preparation for membership of the EU. But there is no alternative to equitable development because no democratic state or union of states can function without efforts towards economic cohesion between rich and poor regions and solidarity between fortunate and disadvantaged groups.

From the editors

The Lithuanian Human Development Report 2000, Territorial Disparities in Human Development, is the sixth publication financially supported by the United Nations Development Programme (UNDP) in Lithuania since 1995. By issuing the annual Report, Lithuania is participating in a sustainable international initiative. Nearly 100 countries all the over the world have been publishing their own national accounts of human development. This widens our understanding of human development and creates a framework for international dialogue.

The uniqueness of the Lithuanian Report is that it is, as always, independent and prepared by a highly professional team of national scholars and experts. The Report covers a wide range of human development issues and analysis based on the latest data. At the core of the analysis lie official statistics, while information obtained from surveys and studies as well as expert assessments are complementary. Professionals from the Department of Statistics have provided valuable support in the form of advice and data.

Since the views presented in the Report are expressed by independent professionals, they do not necessarily coincide with the views of the Lithuanian government or the UNDP.

Drawing from experience gained it could be said that over six years the Lithuanian Human Development Report has cut a path from being an unknown publication that first introduced the concept of human development to being a popular, widely read annual publication that is used by lecturers at the country's universities to teach a new discipline, Sustainable Human Development.

Many countries have attained a tremendous level of success by adhering to human development principles in strategy and policy making over the last few decades. Nevertheless, making the concept of human development popular in policy making in Lithuania has not altogether been an easy task. In our opinion, the real breakthrough might happen when the leading universities in the country became interested in including human development into their curricula. In 1999, a human development course for BA and MA students was introduced at Vilnius University and Vytautas Magnus University in Kaunas. Later, due to the success of the course, Kaunas University of Technology joined in. It gives hope that through education sustainable human development as an important concept that enriches knowledge about development will empower policy makers by giving them multi-disciplinary analytical tools for better decision making. The circle of those

interested in the practical application of the concept of human development is gradually widening. In 2000, lectures on human development have been included in upgrading programmes for the employees of the welfare departments of municipalities and district administrations.

It should not be forgotten that human development is a concept that requires experience to be underpinned by systematic and widely diffused knowledge. Policy makers with different specialisations have to understand one another. The Report brings together concepts and multi-sided data - a key to today's policy making. The producers of the Report faced a tradeoff - to give more recommendations or to provide the facts. We decided that the Report is designed to provide a thorough understanding of the situation rather than give recipes on solutions to the problems. The main argument in favour of this choice is that recommendations are the result of an individual opinion that might not necessarily be 'valuable', while a lack of facts will not allow the reader to judge it. Moreover, many human development issues are complex enough to be supplemented by any recommendations without serious research. In our opinion, the most compelling advantage of the Report is the ease with which each reader may develop his/her own opinion and recommendations on the basis of contextualised data and analysis.

The aim of the Report is two-fold: to inform and to motivate. It has inspired the need for in-depth research focused on problems that society is facing during this period of transition. Among such problems are poverty; social exclusion; suicide; territorial disparities in human development; improving social and regional statistics; and many more. We are currently developing the Report as a vehicle for learning concepts as well as a tool for policy making.

The Report is a continuous publication loosely modelled on the core of the sustainable human development concept formulated by the UNDP in 1990.

This year's Report is focused on the territorial disparities in human development. The word territorial has been chosen to emphasise that disparities are being examined not only by administrative units like districts or municipalities, but on a wider scale including rural and urban areas, towns and cities. The choice of topic for this Report was somehow inspired by the preparation of Lithuania for membership in the European Union (EU).

All human development indicators (mortality, morbidity,

Brief overview of theoretical basics

The Sustainable Human Development concept. For many centuries people have viewed development as a means of improving the quality of life in a broad sense. The idea that development must be judged by the extent it promotes 'human good' goes back to Aristotle: "Wealth is evidently not the good we are seeking, for it is merely useful and for the sake of something else." Yet in the 17th century Sir William Petty, one of the first development economists (the 'grandfather' of national income), distinguished such development factors as 'common safety' and 'each man's particular happiness'.

The modern concept of human development is therefore not a new invention. It re-establishes a well-known, but for some time obscured, approach which embraces every aspect of society, not just the economy, putting people at the centre of development.

Human development values human life itself, but not because people can produce material goods. People are regarded as the end of the process of development and its means of existence. In actual fact, people-centred development means: development of the people, for the people and by the people. Enlarging people's choices ('choice' in preference to 'capability') conveys the idea of individuals taking charge of their own lives. Choice is wider than capability. It is understood not

The original definition of human development

Human development is a process for enlarging people's choices. In principle these choices can be infinite and can change over time. But at all levels of development, the three most essential are for people to lead a long and healthy life, to acquire knowledge and to have access to those resources needed for a decent standard of living. If these essential choices are not available, many other opportunities remain inaccessible.

But human development does not end there. Additional choices, highly valued by many people, range from political, economic and social freedoms to opportunities for being creative and productive, and enjoying personal self-respect and guaranteed human rights.

From the UNDP's 1990 Human Development Report

as choice between different models of cars, newspapers or houses, but as choice that is created by expanding human abilities (to be knowledgeable, to be healthy, to use the Internet and many other more or less essential abilities). Development enables people to build on their abilities in order to have more choice, but the choices people make are their own concern.

Development enables people to build capabilities in order to have choices, but the choices people make are their own concern.

The following principles have been laid at the core of the concept of sustainable human development:

- *productivity* - human development has two important aspects, the formation and the use of capabilities. The principle of productivity in this respect means enabling the environment (the environment in a broad sense - economic, political, social, natural) to allow people to achieve their maximum potential and use their acquired capabilities for productive purposes. This principle is obviously wider than simply investing in people (education, health, housing). Contrary to the human development approach, growth models regard productivity in terms of human capital as the means of development;

- *equality* - in opportunities (not in results that depend on individual abilities), which implies that all people irrespective of gender, nationality, place of residence or age have equal opportunities to lead a productive and freely chosen life. This postulate is based on the universality of a claim to life for everyone.

- *empowerment* - giving people greater opportunities (through education, employment, democracy) to participate in economic, social, cultural and political processes and to take part in decision making. Unlike welfare or basic needs approaches, which assign to people a passive role of benefits or being the recipients of basic social services, 'development by the people' in the human development paradigm envisages an active position.

- *sustainability* - which in a broad sense refers to human opportunities (not just to the renewal of natural resources and environmental protection). This principle implies that society should preserve its capacity to ensure well-being not only for the current generation but for the generation to come. For example, neglect of people's health and education, or the violation of their basic rights and freedoms may have no less a devastating effect on the lives of current and future generations than mining out natural resources or a mounting external debt.

From Human Development: Concept and Trends, SPU / UNDP, Vilnius, 1999

suicide, longevity, employment, education profiles and standard of living) give persuasive evidence of the disadvantageous position of the rural population and the people who live in small towns compared to that of city inhabitants. At the same time these deep discrepancies have not yet been assessed and acknowledged as a serious national problem. In today's Lithuania, it has become increasingly clear that human development issues can no longer be ignored in development planning. Yet both research and practice shows that regional development, one of the important parts of the national development strategy, does not correspond to the criteria of developed democratic countries and does not, therefore, meet the requirements of the EU. Regional development planning continues to be top-down, and short-term, similar to that 'tailored' for the centralised economy of the Soviet Union.

The message of the Report is that the real challenge for a country that puts at the core of its national strategy joining the ranks of highly developed and democratic countries, where individuals and their quality of life are highly valued, is to ensure equal opportunities for its inhabitants irrespective of their place of residence. This goal cannot be achieved without determined effort in assessing the scope, nature and manifestations of territorial disparities in human development. No less important is to acknowledge the existence of disparities as an acute national problem, and to formulate a strategy aimed at their reduction. Regional development planning should become a continuous process that is not simply owned by government institutions but that incorporates a wide range of initiatives from below.

We hope that this publication will be both interesting and motivating, encouraging debate and research into the territorial dimension of sustainable human development.

Chapter 1

Regional policy

Klaudijus Maniokas

Regional policy: background, prerequisites and features. Regional policy is an area of public policy in Lithuania that is only now starting to be formed. Certain elements of it have existed in the past in agricultural policy (for example, a special regime of support to unproductive lands in Soviet times), spatial planning and measures directed to equalising municipal budgets revenues. However, regional planning as a separate sphere of government activity began to develop under the influence of the new needs that emerged in the process of Lithuania's preparation for membership of the European Union (EU), primarily as a means to take advantage of assistance from the EU. In fact, the government did admit that Lithuania needs an effectively functioning system for the formation and implementation of regional development policy only when encouraged by the EU. Thus, regional policy began to develop in Lithuania as a result of external pressure rather than domestic needs for social and economic development.

The main elements of regional development policy - a concept of regional policy, its institutional framework and its main instruments - have been formed over the last few years. However, these foundations suffer from two major drawbacks. First, their orientation towards the narrow goal of taking advantage of EU assistance have impeded discussion on the essence, goals, instruments and results of regional policy. Secondly, despite the fact that regional policy has been designed for the better channelling and use of EU assistance, its foundations were in fact not conducive to achieving this goal. Therefore the foundations for the development of regional policy in Lithuania do not yet fully correspond either to the needs of the society or to EU requirements. At the same time, this has been an example of arti-

ficial policy making 'from the top down', and of obstacles the government faces when designing policy that is not supported by the public interest.

Trends in regional policy in the countries of Western Europe and the structural policy of the EU show that both regional policy and structural assistance can only be effective when they are directly associated with national economic development and investment policies. In the prerequisites for Lithuanian regional policy, this vital connection has not been established either in terms of institutional framework or policy tools.

Regional policy is understood as being policy aimed at reducing differences in economic and social development between regions. Economic assumptions for regional policy are based on the market failure argument, saying that market forces cannot reduce these differences because the mobility of factors of production and economic starting conditions (such as the efficiency of infrastructure, for example) varies greatly. The labour force is less mobile in Europe compared to the US. Its mobility is restrained by many factors, for example by linguistic or cultural differences between regions and countries. People do not, therefore, eagerly migrate to take up employment, and so significant territorial differences in unemployment and income emerge. The necessity for regional policy is substantiated by principles of equal opportunity and solidarity, which were especially accentuated by the social democrats and Christian democrats who dominated policy in Western Europe throughout the 20th century, most notably in the second half. Moreover, regional policy was seen as an important means of integrating different ethnic and social groups into the nation state

Regional policy is an area of public policy in Lithuania that is only now starting to be formed.

Regional policy is understood as being policy aimed at reducing differences in economic and social development between regions.

while preserving their cultural identity. It was an important part of the national political consensus on the essential directions of the development of the state after the Second World War.

However, the orientation of the regional policy of most member countries has changed over the last 20 years. In many countries it was redirected towards criteria of efficiency and became a regional dimension of general economic policy. The amount of funds designated for regional policy and the ways in which they are used have changed. Regional policy has assumed more and more functions of distribution and has become less redistributive. Most countries in Western Europe have abandoned large subsidy-based programmes and have begun to finance smaller projects aimed at the creation of new jobs, the implementation of advanced technology and facilitating competition between regions. These projects were based on principles of strategic planning, taking into account regional development potential.¹ In fact, under the influence of these changes the policies of the EC became the means for the modernisation of national regional policy.

Formation of regional policy in Lithuania. In 1996, the European Commission was preparing its opinions about the preparation of candidate countries to become members of the EU. The candidate nations, among them Lithuania, had to answer questions regarding the principles, institutions and instruments of their regional policy. At that time it became clear that there was no adequate regional policy in Lithuania. The Ministry of Public Administration Reforms and Local Authorities functioning at that time was named as the main actor in regional policy. In the middle of 1997, the European Commission concluded that Lithuania was facing serious problems associated with regional policy. These included a poorly developed infrastructure, a decline in industry, urban tension and a low level of

Regional policy in the EU

Regional policy in the EC and, later, the EU developed gradually. The preamble to the Treaty of Rome, by which the European Economic Community was created, stated that the six founding nations, on the establishment of the EC, would be “anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions”². However, the differences in economic development between the regions of the founding nations except, perhaps, Southern Italy, were not very great at that time. Also, the assumption that such differences could be eliminated by market forces once a common market was created was expressed in the treaty. Thus the foundations of regional policy at that time were determined by the principles of liberal economics, which began to dominate the project of economic integration. Some elements of a redistributive regional policy appeared when it was decided to formulate a common agricultural policy. However, for a long time this was limited to the sphere of agriculture. The Social Fund and the European Investment Bank, both created by the Treaty of Rome, should also be mentioned. The European Investment Bank was supposed to provide loans for the development of more backward regions. However, this was probably an exception and was not a part of future regional policy.

The European Social Fund was established in 1961. The European Commission presented the first memorandum on regional policy in 1965 and founded a separate General Directorate, which was responsible for regional development only in 1968. The development of regional policy was encouraged by the expansion of the Community. Later, in 1975, the Fund for European Regional Development was created, which at first disposed of very small amounts of capital.

Essential changes came about after Greece, then Spain and Portugal, joined the European Community. These nations were less developed economically than any of the other EC members. Special assistance was designated to them in order to facilitate their economic development and bridge the gap. Every step on the way to EC integration was followed by growth in the influence of regional policy and an increase in the financial and regulatory capacity of the European Community in this field. In actual fact, regional policy became a mechanism of compensation for comparatively economically backward countries.³ Assistance provided through regional policy projects, redistributed by structural funds, reached 35% of the EU budget in 1999, a rise from just 4.8% in 1975.

income of inhabitants of rural areas. It was also stated that the Lithuanian government had not yet considered the establishment of regional policy and did not intend to create a regional policy in the near future.⁴ The EC also affirmed that Lithuania lacked independent local governments, and that governing remains centralised. It was not even possible to identify differences in economic development between regions because regional statistics were not sufficient. For example, the GDP of separate regions was not calculated. Although the Commission did not directly encourage Lithuania to introduce a regional policy, it did affirm that application for EU structural assistance was conditional on the creation of proper administrative mechanisms and tools for regional policy making.

¹ Bachtler, J., “New Dimensions of Regional Policy in Western Europe”, in Keating, M., Loughlin, J., *The Political Economy of Regionalism*, Frank Cass, 1997, pp. 85–87.

² *Europos Sąjunga: Steigimo dokumentų rinktinė*, Vilnius, 1998, p. 58.

³ Allen, D., “Cohesion and Structural Adjustment”, in Wallace, H., Wallace, W. (eds.), *Policy-Making in the European Union*, Oxford, 1996.

⁴ *Agenda 2000. The Opinion of the Commission Regarding Lithuania's Application for Membership to the European Union*, p. 76

The evaluation by the European Commission encouraged government activities in the field of regional policy and guidelines for a regional policy in Lithuania were adopted in the middle of 1998. However, during the preparation of the guidelines there were no discussions about whether or not Lithuania needed a regional policy and what its scope and method of implementation should be. It seemed that it was more important to create the prerequisites necessary to receive EU assistance and, making use of a favourable moment, to reform the territorial-administrative division in Lithuania. The Ministry of Public Administration Reforms and Local Authorities viewed regional policy not as an additional dimension of economic or investment policy, but as an improvement in the country's territorial-administrative division or, at best, of the development of self-governance. The further development of regional policy in Lithuania only strengthened this trend and transformed it into a corresponding system of institutions and political instruments.

Does Lithuania need a regional policy? It is impossible to adequately evaluate the achievements and shortcomings of Lithuanian regional policy without first determining whether or not a real need for regional policy exists. This question should be addressed in two ways. First, it is necessary to determine whether significant differences in economic and social development between regions exist, which the government would seek to lessen with the help of a regional policy. Second, it should be determined whether that would be feasible and by what means.

Regional differences in economic and social development in Lithuania are already great and will probably continue to increase in the future.

It should first be noted that the concept of a region is new in Lithuania, and firm traditions of 'regionalism' do not exist. Four ethnographic regions of Lithuania are distinguished by certain cultural differences and differences in identity. However, these are not administratively defined. For this reason discussion about regional policy in Lithuania began with a discussion about what should be considered a region and, accordingly, how the scope of regional differences should be evaluated. The problem was solved by rather mechanically declaring the regions of Lithuania its 'districts'.⁵ The statistics reflecting district economic and social development were compiled accordingly.

Territorial differences in development. According to per capita GDP, Lithuania is not a homogenous country in terms of economic development. In 1998, per capita GDP was more than twice as large in the richest district, Vilnius, compared to the poorest district,

Tauragė,⁶ and these gaps between regions continue to widen. Although there is more than one centre of economic growth in Lithuania, as opposed to Latvia and Estonia, the difference between urbanised and rural regions continues to increase, as does the difference between the largest and third-largest cities, Vilnius and Klaipėda, and the remainder of the country. Other economic indicators, such as the structure of GDP and the amount of direct foreign investment, show that the regional differences in economic development can be explained by the structural problems that exist in separate regions and that they can only increase in the future. The private sector is therefore much less developed around the periphery of Lithuania as compared to the central regions; old large or medium-sized industrial enterprises, nearing bankruptcy, dominate the economic structures; the service sector is poorly developed. Differences in social indicators are also noticeable.

Regional differences in economic and social development in Lithuania are already great and will probably continue to increase in the future. This could be especially aggravated with the further restructuring of agriculture and industry, a process that is being accelerated by preparation for membership of the EU.

The most important question arising in this context is by what means the territorial differences can be reduced. There are at least three possible solutions. The first is based on the belief in the power of the free market - regional differences should decrease as labour migrates and the growth of the country's economy increases. The second solution is supported by the application of special tools for regional development such as government investments in the less developed regions or special tax deductions for private investors who invest in certain regions. The third solution is to encourage the economic development of the entire country while adhering to the principle of equal opportunity, and address the problem of regional differences as a problem in decreasing the difference between the level of development in Lithuania and the EU.

The stages of formation of a regional policy. The landmarks for regional policy were provided for in the aforementioned guidelines for regional development adopted by the government in 1998. In the guidelines, the main territorial units, to which the national regional policy should be applied, are the districts. Regional policy was defined as differentiated activity implemented by the state in regions aimed at balanc-

⁵ The definition of a region presented in the Law of Regional Development (July 20, 2000, Nr. VIII-1889), 6th paragraph.

⁶ National Development Plan, Draft, September 2000, p. 130.

Differences in the level of development in Lithuania and the EU*

Index	Year	Lithuania	EU	Lithuania, 1998
Population, thous.	1998 01 01	3,704.0	374,565.7	3,700.8 (1999 01 01)
Territory, thous. km ²	1997	65.3		65.3
Density of population, people / km ²	1997	56.8		56.7
GDP per capita, Euro PPP	1997	5,800	19,000	
Increase in population, per 1,000 population	1998/90	-0.1	3.0	-0.1
Infant mortality, per 1,000 live births	1997	10.3	5.4	9.2
Average life expectancy at birth: men / women, years	1996	65.0 / 76.0	74.1 / 80.5	66.5 / 76.9
People under the age of 15 in the total population, %	1997	21.2	17.3	20.4
People over the age of 65 in the total population, %	1997	12.4	15.7	13.1
Level of economic activity, %	1997	61.5	67.5	61.7
Level of economic activity of women, %	1997	53.9	57.6	54.9
Employed in agriculture and fisheries, %	1997	20.7	5.0	21.0
Employed in industry and construction, %	1997	28.5	29.4	27.6
Employed in services, %	1997	50.8	65.6	51.4
Level of unemployment, % (labour force survey)	1997	14.1	10.8	13.3
People between the ages of 25 and 29 with secondary school education, %	1998 05	51.2	57.9	51.2
Proportion of students in total enrolment (ISCED 5, 6, 7), %	1994/95	10	14	13
Proportion of women among students (ISCED 5, 6, 7), %	1994/95	58	51	60
Economics				
<i>The structure of total value added</i>				
Agriculture and fisheries, %	1996	12.3	2.9	10.1
Industry (including energy), %	1996	25.8	26.8	23.6
Services, %	1996	54.9	65.0	58.4
Construction, %	1996	7.1	5.3	7.9
R&D, %	1998	0.57	...	0.57
Average size of farms, ha.	1996	10.1	~ 17	11.8
Number of beds in hotels, motels, camping facilities and tourist bases per capita	1996	0.003	0.023	0.003
Highways in total length of roads, %	1996	0.7	1.3	0.6
Electrified railways in total length of railways, %	1998	6.1	48.0	6.1
Number of automobiles per 1,000 population	1997	238	454	265
Number of telephone lines per 1,000 population	1996	268	499	300

*Source: National Development Plan, project, September 2000

ing regional socio-economic development. Regional policy pursued the following objectives:

- to support the development of a market economy in each region while creating conditions for sustainable and equal development;
- to create an infrastructure meeting socio-economic needs as well as requirements for environmental protection;
- to decrease significant differences in standard of living, economic performance and education among the regions.

When implementing these objectives it was planned that initiative among the communities involved in regional development should be encouraged, as well as be co-ordinated with national goals. Important prerequisites for successful regional policy are considered to be taking advantage of the benefits of international regional collaboration, supporting the co-ordinated development of border regions and providing support for business restructuring. The guidelines also provide for the application of the EU structural policy principles of co-ordination, partnership, local initiative, local growth and sustainability.

The guidelines suggested a two-level institutional

framework for regional policy - regional and national - which was legalised in 2000 by the Law on Regional Development. At the national level, the National Council on Regional Development (NCRD) determines the objectives of regional policy, approves the National Regional Development Plan and regional development programmes. The council consists of government employees, representatives from the main groups of interest and the National Regional Development Agency, which co-ordinates the preparation of the programmes for regional development and the National Regional Development Plan. At the regional level, the Centre for Regional Development, which is comprised of representatives from local governments based on the principle of proportional representation, is responsible for preparing the plan for regional development. This is how the problem of representation on the district level was solved.

With regard to the tools of regional policy, the guidelines and later the Law on Regional Development provided that the policy be implemented by providing assistance to enterprises and regulating local government budget revenue. Programmes for regional development will be financed by the gov-

Per capita GDP by district

District	GDP per capita, thousands LTL (below, as a proportion of the national average, %)			Change between 1996 and 1998, %
	1996	1997	1998	
Alytus	7.2	8.7	9.1	+26.4
	84.7	83.8	78.4	
Kaunas	8.2	10.3	11.4	+39.0
	95.8	99.2	98.0	
Klaipėda	9.4	11.0	11.9	+26.6
	110.7	106.0	102.7	
Marijampolė	6.7	8.2	8.9	+32.8
	78.9	79.6	76.4	
Panevėžys	8.6	10.4	10.8	+25.6
	101.4	100.5	93.4	
Šiauliai	7.6	9.0	9.4	+23.7
	89.6	87.4	81.2	
Tauragė	6.3	6.7	7.0	+11.1
	74.4	64.7	60.6	
Telsiai	7.7	9.1	9.9	+28.6
	90.7	87.8	85.4	
Utena	8.0	9.3	10.3	+28.8
	93.5	90.1	89.2	
Vilnius	10.0	12.6	15.4	+54.0
	117.9	121.4	132.5	
Total	8.5	10.4	11.6	+36.5
	100.0	100.0	100.0	

ernment budget and specialised state funds, loans and subsidies provided by local government budgets, commercial banks and international financial organisations. It is also foreseen that private investment and, when Lithuania becomes a member of the EU, funding from EU structural funds should be used in regional development.

In May 1999, one year after the guidelines were ratified, the government adopted a resolution regarding the means of its implementation. The essential role of the Ministry of Public Administration Reforms and Local Authorities in co-ordinating regional and structural policy in Lithuania was legalised by the above resolution. Certain concrete actions had also been taken earlier. A Department of Regional Development was created at the ministry in the beginning of 1999 and the government passed a resolution regarding the foundation of a National Regional Development Agency as early as late 1998. Eight working groups were created by a special PHARE project to support activities in this area.⁷ A

The first National Socio-Economic Development Plan was prepared at the end of 1999.

resolution for the creation of a National Fund within the Ministry of Public Administration Reforms and Local Authorities for the administration of EU assistance was passed in April 1999.

The first National Socio-Economic Development Plan was prepared at the end of 1999. This has become the basis for channelling EU structural assistance. The Rural Development Plan and strategic documents on environmental protection and transportation⁸ were prepared at the same time. In 1998, the Department of Statistics began to compile and publish regional statistics.

The actors and tools of regional policy. The institutions (actors) and instruments of regional policy were copied according to the examples of the EU and implemented in an 'empty' place, and the actors have been chosen within the existing territorial-administrative division of Lithuania. The regional institutional framework, its tools and procedures were defined by the aforementioned Law on Regional Development. The entire institutional framework consolidated by law is based on the assumption that development policy and applications for EU assistance can be brought together in regional policy, with emphasis on the needs of separate regions. Procedures for the preparation of the main tool of regional policy, the National Development Plan, and its essence were also determined by the law.

The plan was prepared twice, in 1999 and 2000. In a broad sense, the National (Regional) Development Plan generalises those objectives and tasks that are of the highest priority for national and regional economic and social development, formulates national policy for regional development, and provides for the means to achieve the objectives and tasks.⁹ Among the main objectives are:

- to increase the growth of real GDP and employment as well as to raise the standard of living as compared to developed European nations;
- to strengthen the competitiveness of the economy;
- to decrease economic and social differences between regions by creating favourable conditions for the social and economic development of the most underdeveloped regions.

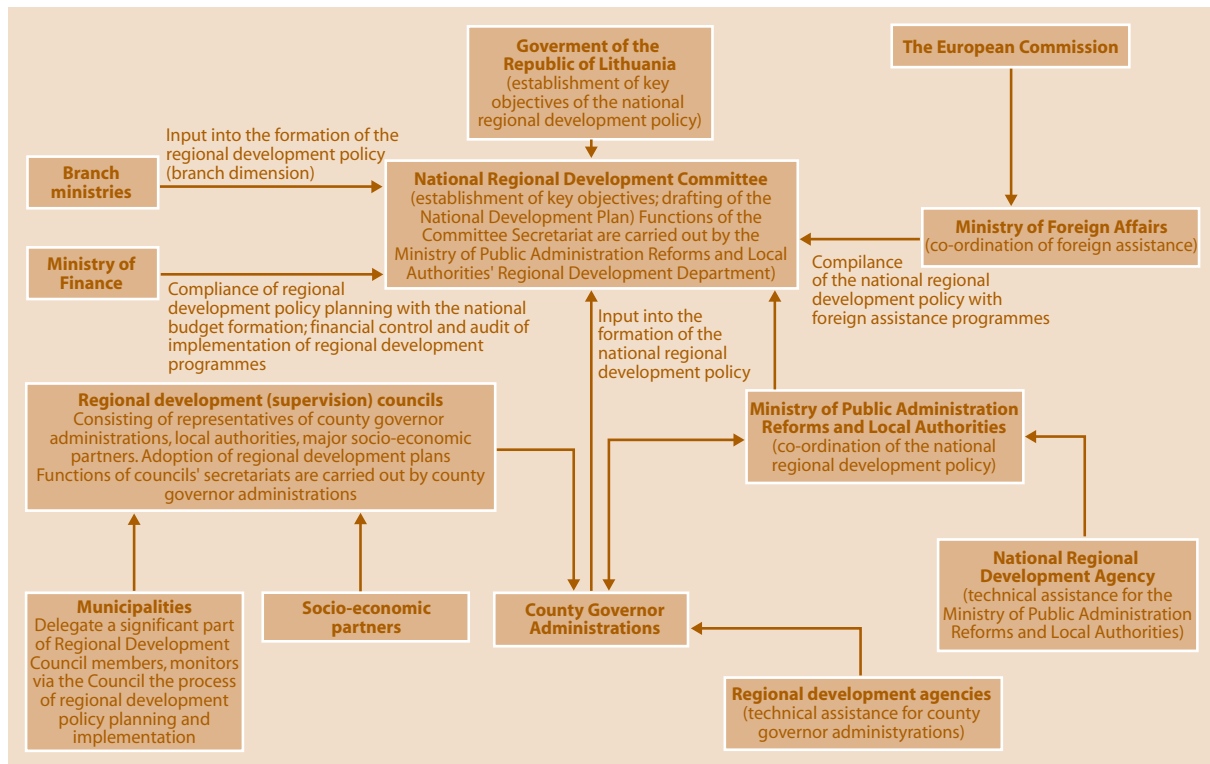
The content of the plan does not, however, clearly correspond to these objectives. As it is comprised of

⁷ The Governmental Committee for European Integration, Lithuania's progress in preparation for membership to the European Union between July 1998 and June 1999; Vilnius, 1 July 1999.

⁸ The EU channels funds for agriculture through the special SAPARD programme, and to transportation and environment through the ISPA programme. These two programmes are administered according to the principles and regulations of EU structural funds, through which support is provided to EU member states.

⁹ National (Regional) Development Plan Draft, September 2000, pp. 48.

Formation of the National Regional Development policy



unrelated parts, it not only fails to satisfy the requirements necessary for a unified programme but also has several conceptual shortcomings.

The first and probably most serious shortcoming is the reduction of the general problems of development to regional development. Although a fairly detailed analysis of the economic situation is presented in the plan, trends in international economic performance as well as problems related to the country's development are reflected only briefly and more in the context of the National Investment Programme or sectoral development programmes without an explicit link to regional development. The objective of raising the standard of living in Lithuania to the EU level is not supported by any measures. The second shortcoming is that regional development itself is reduced to EU assistance. In other words, the plan itself simply represents terms of reference for the application for EU PHARE assistance¹⁰ and is not supplemented by means of national regional policy. Finally, the third shortcoming is that there is no financial plan that would allow for discussion on the feasibility of either the plan or its national co-financing.

...

It can be concluded that although an infrastructure for regional policy has been established, the tools of regional policy cannot become effective means for solving the problems of territorial disparities. Both regional policy and structural assistance from the EU can be effective only if they become an integral part of national public policy. In order for this to happen it is necessary to begin a discussion as to which means of public policy might solve the problems of regional disparity. EU support for regional development can only help implement regional policy, not substitute it.

On the other hand, the problems of Lithuania's economic development and EU structural funds should not be reduced to the problems of regional development. Regional policy should become a part of national development policy, the implementation of which should be supported by EU structural assistance.

¹⁰ For economic and social cohesion and regional policy, it should consist of about 13 million Euros. Department of Technical Aid, Ministry of Foreign Affairs of the Republic of Lithuania. EU Assistance to Lithuania: Phare Programme 1991-1999, Vilnius, 2000.

Chapter 2

Economy

Margarita Starkevičiūtė

Summing up the latest developments. It may be said that 1999 became a year for the reappraisal of values in the Lithuanian economy. Adverse trends in Central and Eastern European markets and increasing competition due to globalisation in western markets deepened an economic recession in Lithuania that had begun the previous year. GDP decreased by 4.1% during 1999. Emerging negative economic trends prompted new insights into reforms carried out over the last decade of restructuring.

At the beginning of the transition period, many economists and politicians from both Lithuania and abroad thought that economic growth, prosperity and reaching the level of developed countries would be an automatic consequence of the shift to a market economy. The economic recession which began ten years later, however, clearly indicated that the reforms of the transition period in themselves did not guarantee a high rate of economic growth.

The transformations of the economic system implemented during the 1990s were of a fundamental nature. They encompassed the most important institutional functions, forms of ownership, management of enterprises, laws and even relationships between people and attitudes to work. These transformations subsequently led to a stable, market-oriented political and economic system. However, from an institutional standpoint the residual elements of a centralised system, a monopolised market and insufficient investment in science and education did not allow society to fully benefit from the advances in world technology. They restricted

the country's economic growth. Programmes for regional development, which could have assisted in solving economic and employment problems in underdeveloped districts, were not sufficiently effective. It was therefore the people in these districts who were hit hardest by the economic recession in 1999.

Unlike the other Baltic countries, where industrial enterprises were concentrated in the capital cities during the Soviet period, Lithuania's regional centres have been fairly well developed (Vilnius, Kaunas, Klaipėda, Šiauliai, Panevėžys, Alytus, Marijampolė, Utena). Each of these cities and towns had a large meat and dairy processing enterprise, a brewery or a soft drinks manufacturer, and a textile or clothes factory. These enterprises affected the economies not only of their towns and cities but also of the entire region. Around the industrial centres, suppliers of raw materials, construction companies and enterprises providing other services have been established, whose work was directly linked to the working rhythm of the centre.

Problematic regions

Compound problematic areas were distinguished according to an integrated evaluation of development difficulties in districts and municipalities on the basis of the following indications:

- social aspect - the critical demographic situation, negative social conditions;
- economic dimension - insufficient investment and income;
- agricultural and urban development - low land productivity, 'urban tension';
- the environment - no guarantees regarding a healthy environment, the threat of depletion of natural resources, the disappearance of cultural values.

Analysis and evaluation indicated that:

- the most complex problematic areas are located close to Lithuania's borders - on the coast (Klaipėda to Šilutė), in the North-East (Švenčionys to Zarasai) and in the South (Lazdijai to Šalčininkai);
- the least problematic area is situated in the centre of the country (with the exception of the area between Kaunas and Kedainiai).

General Territorial Plan for the Republic of Lithuania

With the onset of economic reforms and price liberalisation, it became obvious that the existing capital structure of industrial enterprises, the range of their production and the qualifications of their employees were not sufficient for success in the new economic environment. And since the enterprises could not compete on the international market their output decreased. This trend was accompanied by a decrease in demand from enterprises providing raw materials and services. Many 'single enterprise' towns ended up becoming towns 'without a single enterprise', which gave rise to structural unemployment and a decline in the standard of living throughout the region.

In the mid-1990s, economic growth in Lithuania was being driven by the flow of resources from less productive industries and agriculture to the more productive service sector.

The influence of structural reforms on the regions. In the mid-1990s, economic growth in Lithuania was being driven by the flow of resources from less productive industries and agriculture to the more productive service sector. This determined many of the differences in economic development between the districts. While in 1992 the industrial sector created 35%, and the agricultural sector approximately 13%, of GDP, by 1999 industrial input (including the energy sector) fell to 23.2%, and agriculture to 8.8%. The input of the service sector into the economy in this period grew from 42.2% to 60.1%.

Between 1995 and 1999, the average annual number of people employed in industry fell by 16.4%. A particularly difficult situation was in the district of Šiauliai, where the number industrial workers fell by 28.6%, and by 30.8% in the city of Šiauliai itself. These trends were similar for other industrial centres. In four years, in Klaipėda, Panevėžys and Kaunas, the average annual number of people employed in industry decreased by 27.5%, 26.6% and 20.6%, respectively. Although the number of industrial workers fell insignificantly in the districts of Marijampolė, Utena and Alytus - by 6.9%, 4.9% and 4.3%, respectively - this cannot be considered with any optimism. In the real economy this trend indicates that enterprises are being restructured slowly, with workers being kept on the pay-roll only formally. The majority of such enterprises have no permanent orders from customers and mostly undertake work only occasionally. Wages are therefore low, delayed or not paid at all. In 1999, 4.2% of all industrial workers in Lithuania were employed in the district of Marijampolė, but their contribution to the country's total industrial output was only 3.0%.

A way out of this difficult situation, and new jobs, could be found in the development of the service sector. Such development was possible, however, only in the cities and in locations that found it viable to export services abroad. The demand for services in the smaller cities, towns and villages was limited. Consequently, the services sector was successfully developed in those districts that were able to establish foreign contacts, and in those with larger populations - primarily Vilnius, Klaipėda and Kaunas.

In 1999, 65% and 56% of the total working populations of the districts of Vilnius and Klaipėda, respectively, worked in the service sector. In the districts of Utena and Marijampolė, meanwhile, the figures are much lower, at 37% and 39%, respectively. The proportion of people employed in services in other districts did not exceed 50% of their total working population, even though services created more than 60% of the total GDP.

Certain districts have endeavoured to increase demand for services by organising markets selling automobiles and goods to buyers coming from the

Average annual number of people employed in industry

District	1995	1999	Change %
Šiauliai	21,804	15,578	-28.6
city of Šiauliai	14,108	9,762	-30.8
Tauragė	3,685	2,758	-25.2
Klaipėda	28,776	22,699	-21.1
city of Klaipėda	23,019	16,694	-27.5
Telšiai	15,321	12,392	-19.1
Panevėžys	25,617	21,254	-17.0
city of Panevėžys	19,737	14,481	-26.6
Kaunas	60,761	50,467	-16.9
city of Kaunas	46,469	36,908	-20.6
Vilnius	62,036	53,203	-14.2
city of Vilnius	50,771	42,962	-15.4
Marijampolė	9,463	8,812	-6.9
city of Marijampolė	5,516	5,334	-3.3
Utena	8,804	8,371	-4.9
Alytus	15,603	14,928	-4.3
city of Alytus	13,062	13,066	0.03
Total	251,870	210,462	-16.4

In 1999, in the districts of Tauragė and Marijampolė, a large proportion of the working population was employed in agriculture, at 45% and 41%, respectively. The proportion of industrial workers is highest in the districts of Alytus and Telšiai, at 28% and 24%, respectively, while Utena district stands out by its high employment in construction, which accounts for 10% of this district's working population.

East. But after the crisis in Russia in 1998, income from this commercial sector fell significantly. At the same time, it has been more difficult for smaller towns to form working relationships with Western partners, since foreign investors have mostly been interested in investing where domestic demand is greater and where the infrastructure has been better developed - i.e., in the larger cities.

Regional trends in foreign investment. As the capital Vilnius has attracted the largest foreign investment, this has allowed for the provision of jobs for the population in the outer district of Vilnius. The city of Klaipėda, with its ice-free port and transportation junction within the East-West trade corridor, has also attracted a significant amount of investment. It must be noted, therefore, that foreign investment has been distributed very unevenly by region. In 1999, per capita investment in the district of Vilnius exceeded the national average by four times, while in the district of Marijampolė it amounted to only 7% of the national average.

Throughout the entire decade of reforms, there has been very little foreign investment allocated to Šiauliai, the country's fourth largest city and industrial centre. One of the reasons why Šiauliai has failed to attract sufficient investment is its unfavourable geographical location. It is far from both the port and the capital city of Lithuania, and also the principal highway connecting the two. Compared to previous years, Šiauliai's was the only district where foreign investment decreased slightly (by 2.4%) in 1999. Despite the unfavourable economic conditions, direct foreign investment increased in all other districts, by 32% in Kaunas and by as much as 40% in Tauragė. Foreign investment remained unchanged in the district of Marijampolė.

There were two principal reasons for the increase in direct foreign investment in the districts in 1999: more information on investment opportunities, and privatisation. Moreover, investment was stronger also because of the decision to begin negotiations for Lithuanian membership of the European Union (EU). Foreign investors hoped that sup-

Direct foreign investment per capita by district, US\$, 1 January 2000

Marijampolė	7
Tauragė	12
Šiauliai	22
Utena	30
Telšiai	57
Alytus	65
Panevėžys	75
Kaunas	86
Klaipėda	156
Vilnius	358

port for the districts from European structural funds would lead to the speedier development of regional infrastructure, and to increased returns on their investment in the future. The fact that districts have learned to better administer their foreign contacts also played an important role.

The impact of privatisation on the country's economic potential. The order and pace of privatisation has had a marked effect on the distribution of foreign investment. During the first stage of the

In 1999, per capita investment in the district of Vilnius exceeded the national average by four times, while in the district of Marijampolė it amounted to only 7% of the national average.

Developing communications infrastructure

Guidelines for the development of Lithuania's communication systems:

- identifying as the principal transportation axis of the country the Vilnius-Kaunas-Klaipėda highway and the Vilnius-Šiauliai-Klaipėda railway line, since they embrace the greater part of national and international interests, and create a convenient link with sea transport;
- developing international multi-modal transportation corridors, and providing for the reconstruction of the Via Baltica and IXth corridor for transit and local traffic, while foreseeing the following additional corridors: Klaipėda-Šiauliai-Panevėžys-Daugavpils-Moscow; Liepoja-Palanga-Klaipėda-Panemunė-Kaliningrad; Warsaw-Alytus-Vilnius-Daugavpils-St. Petersburg; a Vilnius-Kaunas branch of the European railway route;
- giving priority to transporting passengers, and partly cargo, to road transport and consequently expanding the network of highways and roads (also using reconstructed regional roads); improving the technical parameters of the roads, decreasing their harmful effects on the environment;
- linking immediate restoration of the rail network to the improvement of its technical parameters by increasing throughput capacity and speed between Šiauliai and Klaipėda; putting the development of the present rail network into perspective, because of the insufficient density and connectedness of railway lines;
- giving special attention to the development and reconstruction of the port of Klaipėda and its infrastructure, thereby guaranteeing anticipated international transport capabilities;
- giving priority to transporting international passengers to Vilnius, Kaunas, Šiauliai and Palanga airports, foreseeing the construction of a new airstrip in Vilnius.

General Territorial Plan for the Republic of Lithuania

transition period it was thought that the change from state to private ownership would allow industrial enterprises to transform rapidly their activities in line with market demands.

At the beginning of the reform period, Lithuania gained insufficient recognition on the international market and failed to attract the attention of solid, reputable foreign companies. Consequently, privatisation with investment cheques meant that the majority of enterprises were reorganised by local owners. Regulatory legislation was created when the privatisation process was already underway, and institutions supervising the market were only established two years after privatisation began. When new owners with little experience of running enterprises under market conditions began to understand that they could not tackle production-related problems, they had no difficulty in laundering company assets and leaving debts and unpaid wages in the hands of their creditors - usually the state and the workers.

The restructuring of the remaining state enterprises took on 'defence' features, which meant that their work efficiency improved very slowly, while their financial problems snowballed. It was therefore difficult to attract foreign investors once it was decided finally to privatise them. Inefficient enterprises were maintained by direct and indirect budget subsidies, although in 1999, when budget revenues decreased, many found themselves without financial support and on the verge of bankruptcy.

The volume of foreign investment increased significantly in 1995, when the privatisation of the country's large infrastructure enterprises commenced. These were sold to foreign owners before restructuring. This privatisation strategy meant that the new owners acquired monopoly rights on the domestic market. Rather than being equally distributed among the districts of Lithuania, foreign investment was concentrated in Vilnius, the central headquarters for these enterprises; branches located in smaller towns were shut down, and production was consolidated in the cities. The legalised monopolist position on the market allowed foreign investors to restructure enterprises slowly and place tariff increases at the core of their financial policy. Such a policy increased the expenditure of the population and the enterprises. Districts lying furthest away from the country's centres, where income levels were not high, were hit hardest by the consequences of such a method of privatisation. The average monthly wage for industrial workers in the districts of Šilalė and Panevėžys did not exceed 500 LTL,

The order and pace of privatisation has had a marked effect on the distribution of foreign investment.

The concentration of economic activity in the cities has resulted in an increase in unemployment and social problems in the other regions.

while in the districts of both Klaipėda and Vilnius it reached 1,000 LTL.

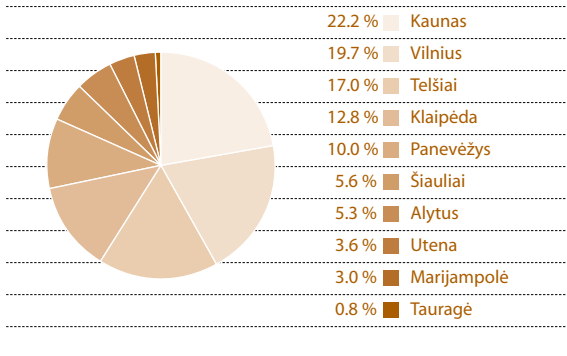
The privatisation of enterprises therefore neither automatically resolved the mounting problems nor stimulated the modernisation process that allowed enterprises to compete on the international market. Moreover, it created prerequisites for the accumulation of social problems and growing regional differentiation.

Despite the recession of 1999, the decline in the rate of growth was not as significant in the districts of Vilnius and Klaipėda, which had been the most successful in utilising the benefits of economic reform. The pace of development in the district of Telšiai was determined by the activities of the oil refinery Mažeikių Nafta, one of the country's largest enterprises. In the district of Utena, companies were successful because they managed to restructure their activities rapidly. The economies of other districts were already declining in 1998. This meant that the increase in population income fell behind the increase in prices of 'subsistence' goods. The districts of Panevėžys and Šiauliai, which once had well-developed industrial sectors, were left in a particularly unfavourable situation.

The differentiation in the rates of growth within the country determines an increasing unevenness in the distribution of Lithuania's economic potential. In 1998, as much as 63.3% of the total GDP was created in the districts of Vilnius, Kaunas and Klaipėda. In 1996, their combined contribution to the country's economy equalled 60.4%. Only 55.8% of Lithuania's population lives in these districts.

The concentration of economic activity in the cities has resulted in an increase in unemployment and social problems in the other regions. However, it must be noted that the contribution of Vilnius and Kaunas according to official statistics might appear somewhat larger than it really is. Although national accounts statistics take into consideration the distribution of production, a part of the value added created in a district may be ascribed to headquarters, which are usually situated in Vilnius, Kaunas or Klaipėda.

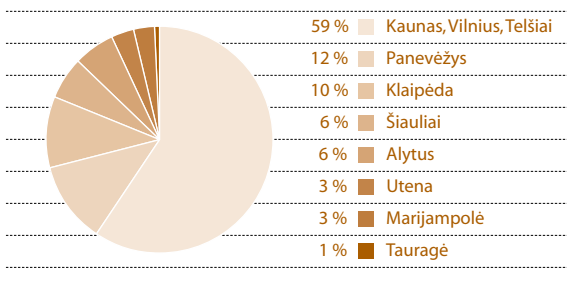
The largest slice of total industrial output - 22.2% - was produced in the district of Kaunas, although this district's proportion has decreased by 1% since 1995. The districts of Klaipėda and Vilnius increased their shares of the total over the same period, by

Industrial output by district, % without VAT and excise, 1999

2.8% and 3.4%, respectively, reaching 12.8% and 19.7%. With the growing influence of these districts on the country's industrial output, the relative weight of the others has diminished. For example, those of the districts of Alytus and Šiauliai have fallen by 1.4% since 1995.

Contributions of districts to the country's exports. Due to the small size of the Lithuanian domestic market, economic growth and well-being depend directly on the expansion of exports. In 1999, compared with 1998, exports of Lithuanian goods and services decreased by 16.4%. This decrease was mainly due to problems in markets to the East. As the result of the financial crisis there, exports to Russia fell by 65.6%, while exports to Western countries continued to rise, growing by 6.8% during 1999. The proportion of total exports to countries in the EU increased from 38% to 50.1%. Strengthening trade ties with developed economies allowed enterprises to adopt the management and marketing experiences of their partners, which in turn led the way to greater opportunities on international financial markets.

The district of Kaunas made the greatest contribution to exports; 24.5% of the country's total exports came from Kaunas enterprises. Vilnius contributed 19.3%. Thanks to Mažeikių nafta, the largest oil refinery in the Baltic countries, the northern district of Telšiai contributed 15.6%. Although Klaipėda

Exports by district, %, 1999

exported fewer goods, it predominated in exporting services. Vilnius also made a substantial contribution in service exports.

Export indicators also allow for an indirect evaluation of the efficiency of regional industry. The highest productivity indicator was in the district of Telšiai (19,000 LTL worth of exports of Lithuanian goods per worker). This is, however, mainly ascribed to extensive factors, such as capacity utilisation of the oil refinery. Good results in the district of Panevėžys (7,600 LTL) are witness to the high labour productivity there. The restructuring process is nearing completion, and during 2000 the volume of goods sold and exported has already increased significantly in the majority of the Panevėžys district's enterprises.

Kaunas, with 7,000 LTL worth of exports per worker, came third. Enterprises in the districts of Šiauliai and Marijampolė, with 3,200 LTL and 3,300 LTL, respectively, were not prepared for the production of goods in demand on the international market. Tauragė was far behind the high-flyers, with only 1,300 LTL worth of exports per worker. The restructuring process in the three last districts are moving slowly, which is unfortunately conducive to the accumulation there of social problems. Government officials should have focused much more on the development of these regions.

The influence of government policy on regional economic development. The well-known theoreticians of economic growth R. Solow, P. Romer, A. Harberger and others indicated that modern growth is driven not by capital and labour but more by knowledge and innovation. The results of research based on their models carried out in Lithuania would permit one to say that the positive trend in economic performance between 1994 and 1998 was due to an increase in overall efficiency embracing a whole score of factors, including the following:

- the application of market-oriented management know-how;
- the development of new goods and services;
- the discovery of new markets;
- the adaptation of new equipment and technology;
- more effective capacity utilisation;
- the development of marketing and financial services;
- growing confidence in the stability of the macro economy.

For reasons both objective and subjective, all these factors manifested themselves in diverse ways in various districts, and determined their economic development and ability to withstand the negative trends that appeared in 1999. It was easier to acquire new knowledge necessary for working under market conditions for regions with a concentration of scien-

tific potential able to establish trade and cultural relations with countries rich in human capital. The speed of knowledge acquisition was related closely to factors determining the growth of overall productivity mentioned above.

In 1999, Lithuania's state and private research and development (R&D) sector employed 15,296 people (approximately 1% of the country's total working population). The majority (95%) were concentrated in the districts of Vilnius, Kaunas and Klaipėda. Only Utena outnumbered Klaipėda in terms of R&D scientists and technicians working in private business. The district of Šiauliai was not far behind the advanced districts, but there researchers were mostly concentrated in higher education or the state sector rather than in private business and paid more attention to teaching rather than research activities.

The relatively strong potential for innovation allowed Vilnius, Kaunas and Klaipėda to benefit more than other districts from the achievements of world science and technology and to find new markets. By working with partners on the international market and utilising their experience, these districts were able to restructure their enterprises and improve their efficiency more easily and more quickly, which in turn enhanced their competitiveness on the international market. Utenos trikotažas, a clothing manufacturing enterprise in Utena, is an example of this type of successful venture.

Nevertheless, the formulation of state investment programmes was mainly based on those strategies and priorities formulated by various government institutions without taking into account regional development needs. A state investment programme related to regional policy was formulated by the Ministry of Economy, with insufficient participation from the Association of Municipalities and other institutions related to regional development. It was based on extensive indicators (like the volume of labour) rather than on qualitative criteria (like the potential use of information technology).

A decrease in national income by 6.5% in 1999 led to a downfall in total domestic investment. Despite an increase in privatisation-motivated foreign investment, total state investment compared to 1998 fell by 2.7%. More backward districts have appeared in an even more unfavourable

The relatively strong potential for innovation allowed Vilnius, Kaunas and Klaipėda to benefit more than other districts from the achievements of world science and technology and to find new markets.

position, since the investment level there had been low even prior to the downturn. Per capita state investment in Alytus, Marijampolė, Šiauliai and Tauragė failed to reach 50% of the national average (746 LTL). In the district of Vilnius, per capita state investment was nearly double the national average.

The uneven distribution of state investment between districts diminished their attractiveness in the eyes of private investors. In 1999, the highest volume of per capita private investment (more than the national average) went to the districts of Telšiai, Vilnius and Utena - 2,151 LTL, 852 LTL and 730 LTL, respectively. High levels of private investment in Telšiai and Utena came in the form of foreign investment in their large enterprises.

Diminished state and private investment has hit the construction industry painfully, which decreased in volume in 1999. In the districts of Klaipėda and Tauragė, construction volumes fell by 38%. Reconstruction remained the main focus of activity, while new construction made up just 35% of the work structure. Only Vilnius had a high proportion of new construction (43%). Construction was unevenly distributed throughout the country, with as much as 75% taking place in Vilnius, Kaunas and Klaipėda. Construction companies from other regions therefore looked for work in the capital or other cities. Selling their services at lower prices, workers from the peripheral districts took over the principal construction market in Lithuania, but their labour conditions were very difficult and they were forced to live throughout the week in dormitories, away from family and home.

Local budget problems. Without support from the central government, local governments were unable to solve increasingly difficult economic problems on their own. Unfavourable economic conditions caused cutbacks in municipal budget revenues, the larger part of which was usually allocated to the social sphere,

The restructuring of the energy sector put rural municipalities in a very unfavourable situation. The small volume of energy services consumed caused a noticeable increase in heating expenditure and, therefore, in compensation paid by municipalities to people on social support.

For example, after the heating providers in Pakrojas were separated from the Šiauliai heating network, heating costs there increased from 12.65 cents per kWh to 16 cents per kWh, while in Šiauliai they remained unchanged.

In 1999, municipalities in Lithuania allocated 61.1 million LTL in compensation to people on social support for their heating costs.

such as health care, education and social security. In 1999, local budgets faced a difficult situation not only because of shrinking revenues but also due to a growing demand for social assistance.

Compared to previous years, the overall local budget revenue in 1999 decreased by 13.8%. Kaunas suffered the greatest loss, at 6.1%. Vilnius, meanwhile, lost only 1.9%. All local governments allocated approximately 80% of their budget revenues to the social sphere. Average per capita local budget expenditure came to 891 LTL. Although the government implemented a policy of equalising revenues, in Utena this indicator exceeded the average by 16%, while in Kaunas it fell short by 10%.

The regional dimension of unemployment.

Continuing structural reforms and a decline in demand from abroad caused an increase in unemployment. According to the Labour Exchange, until 1999 the level of unemployment was relatively low and stable at approximately 7%. Anticipating positive changes in the future, and taking into account relatively high income and social insurance taxes, companies were inclined to hoard labour by paying employees low salaries. The economic recession forced enterprises to look for ways to increase productivity and competitiveness in Western markets. Many enterprises therefore cut back on staff. A number of enterprises, especially those operating in Eastern markets, went bankrupt, while their workers joined the burgeoning ranks of the unemployed. Structural reforms in privatised enterprises added to the increase in unemployment.

According to the Labour Exchange, unemployment reached 8.4% in 1999. Survey data place it much higher, at 14.1%. Population surveys reflect the real situation more accurately. Since unemployment benefits were low and labour exchanges had few new jobs to offer, some unemployed people did not bother to register at all. The population survey (labour force survey) indicates that unemployment in Lithuania in 1999 grew by 7.5% compared to 1998. There were significant increases in unemployment figures in the districts of Klaipėda (by 43.6%), Tauragė (by 22.2%) and Kaunas (by 21.1%).

Survey data indicates that in 1999 the districts of Alytus, Šiauliai and Klaipėda, had the highest unemployment, with 21.1%, 16.8% and 11.1% respectively, while Telšiai (10.5%) and Utena (10.8%) registered the lowest. During the Soviet period, the district of Utena underwent development later than elsewhere and once economic reforms began it was easier to restructure the relatively modern enterprises and adjust them to competitive market conditions.

Indeed, the productivity of Utena district enterprises grew even under the conditions of economic recession.

Compared to previous years, the overall local budget revenue in 1999 decreased by 13.8%.

It should be noted that although increased unemployment has resulted in a decline in the standard of living in all regions, this process has provided evidence of the fact that the economy has started to undergo deep structural reforms, which increase enterprise efficiency and give hope of subsequent improved productivity.

The structural nature of unemployment makes it very difficult to resolve the employment problem, particularly taking into consideration that more often than not it is less qualified workers who have lost their jobs when enterprises are being restructured. It is even more difficult for young people with no practical skills to find work. Surveys indicate that the unemployment level for people under the age of 24 reached 26.5% in 1999, yet it was 11.4% for those over 25. In some regions, this figure was significantly higher. In the districts of Tauragė, Telšiai, Alytus and Klaipėda, unemployment affected over 30% of the population.

The unemployed do not possess the skills required to survive in a competitive market economy, and territorial labour mobility remains limited. Labour force migration is restricted by the fact that an effective and accessible credit system needed to cover higher housing costs in the cities, where jobs are on offer, has not yet been established and is still in a state of flux. So re-qualification and education programmes have assumed an important role. However, a decrease in local budget revenue has been behind a lack of funding for these programmes. The situation has been particularly tough for the peripheral regions, where private capital is scarce. In 1999, the government allocated only 4.3 million LTL to various programmes supporting small businesses.

The capital city of Vilnius, Kaunas and Klaipėda have become the country's three main economic centres, although Kaunas' role in the country's economy has been declining gradually.

In 1999, increasing long-term unemployment, decreasing national income and deep regional differentiation has forced a reevaluation of existing economic policies and a reassessment of priorities.

A resolution of these accumulating problems demands the creation of an environment conducive to innovation, the establishment of new enterprises and the creation of jobs. But all this can be achieved only by changing the existing order of employment

Economic indicators by district, 1999

District	Total* investment	Local budget revenue*	Retail trade*	Construction*	Employed in R&D	Unemployment level (labour force survey)
Alytus	1,016.7	945.4	2,047.5	746.0	24	21.1
Kaunas	1,161.1	756.6	4,434.4	686.9	5,796	13.5
Klaipėda	1,347.3	911.2	3,509.4	637.1	750	14.9
Marijampolė	569.1	897.9	2,508.3	344.2	13	13.5
Panevėžys	1,153.4	860.1	2,462.0	712.5	36	12.4
Šiauliai	656.1	891.5	3,275.6	414.1	615	16.8
Tauragė	252.9	961.8	2,204.9	128.9	28	12.6
Telšiai	2,672.5	895.5	4,831.5	800.9	-	10.5
Utena	1,244.2	1,023.1	2,514.7	628.5	36	11.1
Vilnius	2,307.9	853.4	6,561.7	990.0	7,998	13.9

* Per capita, LTL

and living conditions. According to research done by World Bank experts, the emergence of small enterprises, especially in the sphere of new technology, has been restricted by excessive regulation and contradictory normative documents, which

increase founding and operational expenditures. In 1999, the Lithuanian government therefore established a commission on business liberalisation and started to formulate programmes aimed at the liberalisation of the existing order of business regulation.

Chapter 3

Employment

Rimvydas Dilba

General employment trends.

Employment has undergone certain changes over the last decade. The period up to 1994 saw an increase in employment. A second phase, during which employment and economic activity declined, lasted from 1994 to 1996. Although the official economy started to grow there was a greater decline in the shadow economy, leading to a decline in the number of employed people. Moreover, the number of young people continuing their education grew.

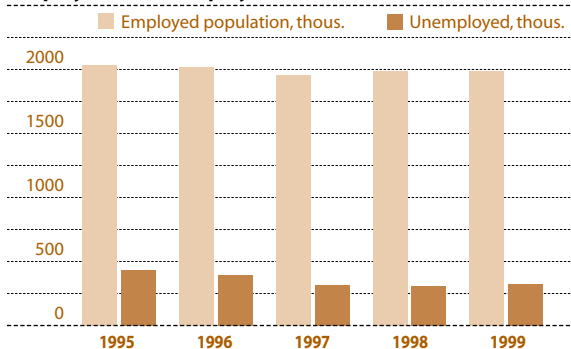
The third period - 1997 and the first half of 1998 - saw both a stabilisation and the emergence of pre-requisites for growth in employment. Rapid economic growth and falling unemployment were characteristic of this period. The general growth in employment figures was, however, restricted by a continuing increase in the economically inactive population and in the number of young people studying at vocational, specialised secondary and higher education. There were nearly 40,000 more students in 1998-99 than there had been in 1995-96. In terms of the labour market, this is a truly significant figure.

Employment at that time could be described in terms of an ongoing legalisation of the labour market, without a decline in overall employment figures. This positive trend was suddenly interrupted at the end of 1998 by an economic recession which began as a result of the financial crisis in Russia. The number of officially employed individuals once again began to decline, the unofficially working population continued to

Internal structural changes in employment are likely to have a positive effect on the long-term development of employment in Lithuania.

diminish, and unemployment figures rose. This trend continued throughout 1999.

Employment trends at the end of 1998 and throughout 1999 could be described as revealing a decrease in employment and an increase in unemployment as a result of the economic recession. These trends, however, cannot be considered long-term. The accelerating integration of the economy into Western

Employed and unemployed*

* Labour force survey data

Employment and the shadow economy

The existence of a shadow economy distorts an assessment of the employment situation based on statistics. The scope of the shadow economy is difficult to measure accurately. According to the Free Market Institute, in the mid-1990s the shadow economy accounted for more than 30% of GDP, after which it declined to around 20% in 1997-98.

Calculations carried out by Institute of Labour and Social Research, based on data from the State Social Insurance Fund (SODRA), the Department of Statistics and the Lithuanian Labour Exchange, indicate that unofficial employment grew rapidly from 1991 to more than 370,000 in 1994 (in 1992, the figure was only 170,000). Meanwhile, according to statistics, employment figures during this period fell by approximately 200,000. Unrecorded employment began to decrease from 1995, reaching around 240,000 in 1999, and fell to 225,000 in the first half of 2000.

A lot of discussion has arisen around unofficial employment over the last few years. According to some experts, the decrease in the number of the officially employed has been accompanied by an increase in the number of those employed in the shadow economy. Often, specific figures on shadow employment are being announced, which vary depending on the year from 24,000 and 340,000 people. As a rule, these figures are the result of an elementary comparison between data on the numbers of employed people provided by the Department of Statistics with the number of payees (or contributors) to the State Social Insurance Fund (SODRA). In actual fact, the difference between the two figures is significant. Nevertheless, experts do not always look behind the data supplied by the Department of Statistics.

The employed population consists of people working according to written labour contracts or oral agreements, hired workers, employers, the self-employed (among whom are small farmers who have under 3 ha. of land and cultivate produce for sale and own need, patent holders, and other), members of the household who help in family business or at home. Employment estimates are made by the Department of Statistics in accordance with international recommendations, which include those of the European Union (EU). Moreover, attempts are made using these recommendations to assess the employment situation in the countries of Central and Eastern Europe. In the opinion of professionals from the Department of Statistics, the employment estimates are quite reliable.

The number of contributors to SODRA is less than the number of employed people by approximately 200,000-300,000 people. Nevertheless, this is an absolutely normal phenomenon. The number of patent holders is growing from year to year, and these

people have not had to pay SODRA contributions until the year 2000. There are also approximately 200,000 small farmers, of which only a small percentage voluntarily pay insurance contributions to SODRA.

Therefore, I do not share the opinion that in order to assess employment more accurately people who do not pay SODRA should be added to the total number of the employed. This will only artificially 'inflate' the employment figure.

Moreover, a population survey (labour force survey), regularly carried out by the Department of Statistics reveals that only 4-5% of the population work according to an oral agreement. This fact is taken into account in the estimates of the total employment figure.

In addition, according to the EUROSTAT 'Central European employment and labour market review' published in 2000, the employment level for Lithuania varied between 63% and 66%. This is one of the highest indicators among the 12 countries for which the employment situation was reviewed. In both Estonia and Latvia, for example, the employment level has been declining annually and has reached 63% and 62%, respectively, in the last few years. In Poland, the employment level (60%) has remained unchanged for the four last years in a row.

Therefore, if we follow the advice of the experts and add the so-called 'shadow employment' to the total employment figure, Lithuania would become a leader in terms of employment not just among the countries of Central and Eastern Europe but in Europe as a whole. Could this be right?

Vitalija Motiekaitienė, Head of the Employment Statistics Division, Department of Statistics

This text is included in the chapter by the editors of the Report.

markets is subsequently reducing the influence of unstable Eastern markets on the Lithuanian economy, and is causing the restructuring of the labour force. Growing competition forces workers to take a greater interest in education and upgrading, which in turn has a positive effect on the quality and competitiveness of the labour force. Therefore internal, structural changes in employment are likely to have a positive effect on the long-term development of employment in Lithuania. Employment has reached a new qualitative level; to a greater degree it has become regulated by market levers.

Employment of young people. The highest unemployment and lowest employment levels are found among young people. There are nearly twice the number of young people among the unemployed as there are among the employed. Young people - even those with a good education or who are trained in a profession - have difficulties 'entering' the labour market. Young people with no qualifications and little education have

The highest unemployment and lowest employment levels are found among young people.

Young people - even those with a good education or who are trained in a profession - have difficulties 'entering' the labour market.

an extremely difficult time finding work. Approximately half of the young people out of work, according to labour exchange data, have no qualifications. A decline in unemployment among young people in 1997 was followed by a rapid increase between 1998 and 1999. At the

Employment by age group, 1999*

	Employed, thous.	Unemployed, thous.	Employed %	Unemployed %
14-19	36.1	16.1	2.3	6.1
20-24	134.4	45.3	8.4	17.2
25-29	220.7	33.9	13.8	12.9
30-34	222.8	39.3	13.9	14.9
35-39	248.6	37.2	15.6	14.1
40-44	203.8	34.6	12.8	13.1
45-49	187.8	21.9	11.7	8.3
50-54	151.1	21.9	9.5	8.3
55-59	117.7	12.0	7.4	4.6
60-64	48.4	1.1	3.0	0.4
65-69	16.7	0.0	1.0	0.0
70+	10.1	0.0	0.6	0.0
Total	1,598.4	263.3	100	100

beginning of 1999, according to the labour exchange unemployment among people under the age of 25 reached 26.5% (nearly double the national average). At the start of 2000, the figure was already 27.1%.

Women and men in the labour market. An evaluation of employment and unemployment shows that, on the one hand, men appear to be worse off. According to survey data, in 1999 they made up 50.8% of the total number of employed people, while men accounted for 57.1% of the unemployed. Unemployment among men was higher (15.6%) than among women (12.6%).

Women have the distinct advantage from the point of view of education: there are more of them with a higher and specialised secondary education, both among the general population and among the employed. Women with a higher education are economically more active. Despite their lower education, men dominate the economic sectors and professions that provide greater income. Men dominate among legislators, lawyers, senior officials, managers and qualified industrial workers, while women dominate among specialist professions and white collar workers. According to statistical data, men earn more than women in all economic spheres by an average of 20-25%. And in the most highly paid sectors, such as financial mediation, which employ more women, the differences in salaries between men and women are particularly large, reaching 1.5 times.

Employment among women and men changed in very different ways between 1997 and 1998; it increased for women and decreased for men. With unemployment the opposite was true; it increased for men and decreased for women. This trend was even

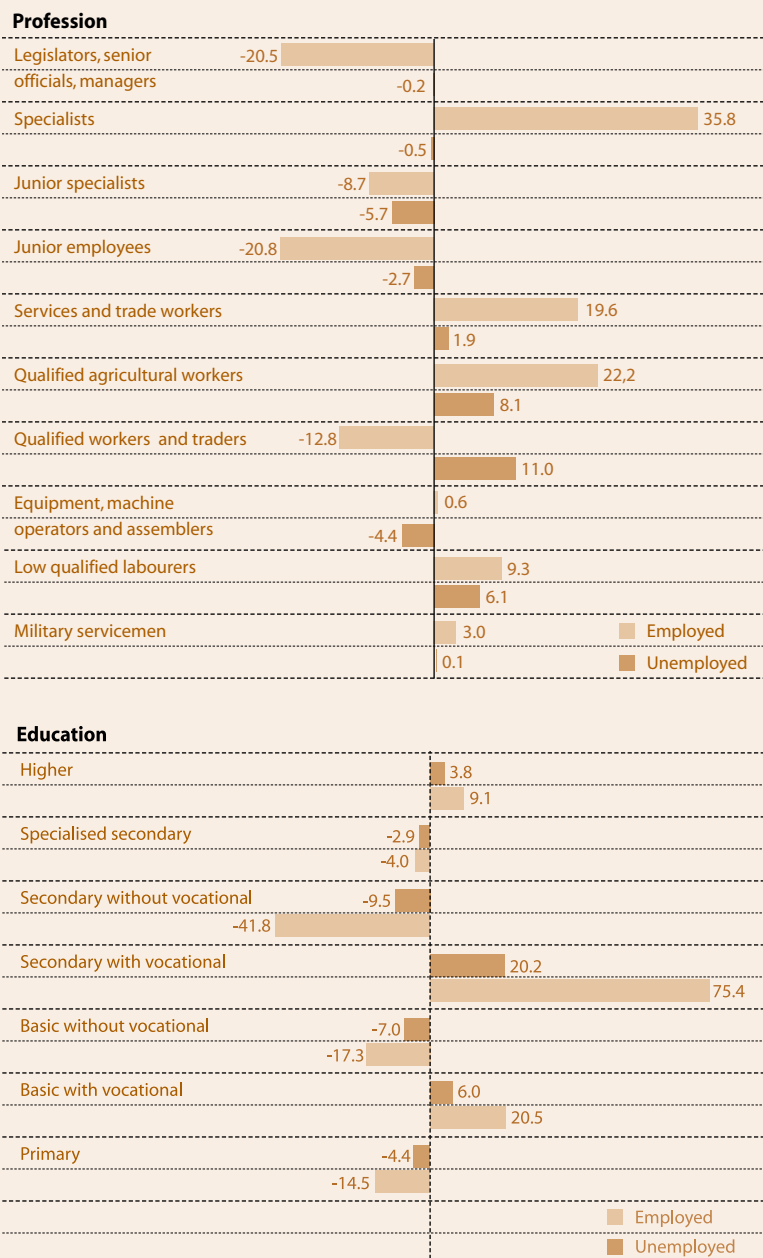
Despite their lower education, men dominate the economic sectors and professions that provide greater income.

more striking in 1999. The industrial sector lost the greatest number of men that year, yet it hired more women. Construction also lost

An assessment of employment opportunities for different professional groups indicates that highly educated and qualified people have many more chances than others do. People with a higher education comprise more than 20% of the employed and only 7.9% of the unemployed.

Unskilled workers have the lowest occupational mobility. Except for young people, who are easier to motivate to get education and higher qualifications, unskilled labourers move reluctantly towards the higher professional groups.

Employed and unemployed by education and profession*, thous., 1999



* Labour force survey data

Employment by economic sector, %

	1991	1999
Agriculture, hunting, forestry, fishing	17.8	20.2
Industry	29.9	19.8
Construction	9.6	6.6
Services	42.7	53.4

more men than women. During 1999, the employment situation for men worsened compared to the situation for women. During the period from the beginning of 1999 to the beginning of 2000 the number of employed men declined by approximately 61,000 while the ranks of employed women lost 30,000 people.

Employment by economic activity. During the first half of the 1990s, the labour force rapidly flowed out of the manufacturing sector and into services. If in 1991, 29.9% of the labour force was employed in industry, 9.6% in construction and 42.7% in services, by 1994 the figures were 22.4%, 6.6% and 47.6%, respectively. Many people faced difficulties in adjusting themselves to such rapid structural changes, and not being able to find a source of livelihood in the cities they moved to rural areas and began to take up farming. Consequently, employment in agriculture increased.

By 1995, structural changes in employment had slowed down. There was a continued, though not as rapid, decrease in employment in industry, along with an increase in construction and services. Meanwhile, with the decrease in the volume of construction since 1997, the number of people employed in construction has started to fall. The number of workers in agriculture stabilised, and began to decrease from 1997.

Data from 1997 and 1999 show that the labour force continued to move from manufacturing into services. Surveys indicate that during this period the services sector expanded by nearly 50,000 employees. The number of people in public services, mandatory social insurance, health and social work, education and catering continued to grow. The number of people employed in trade decreased. Also the number of people employed in industry, construction and agriculture declined between 1998 and 1999. Meanwhile, because of a very low level of territorial and professional mobility among the rural population, a decline in employment in agriculture is happening much more slowly than its previous increase occurred. Surveys show that in

Data from 1997 and 1999 show that the labour force continued to move from manufacturing into services.

If in 1991 the private sector employed less than 30% of the working population, by 1999 it employed nearly 70%.

1999 the number of people working in agriculture fell by over 13,000.

Employment in the private and state sectors. If in 1991 the private sector employed less than 30% of the working population, by 1999 it employed nearly 70%.

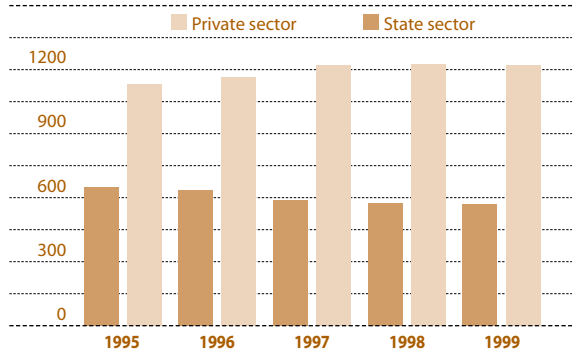
Between 1997 and 1999, there was a decline in the number of employed people in the state sector except for public services, defence and mandatory social insurance. Trends within the private sector were uneven; employment fell in agriculture and grew in industry, construction and services. Health care, social work and education are the fastest growing private service sectors.

The effect of privatisation on employment should be evaluated by taking into account the long and the short term, and not only in terms of employment figures but also considering labour productivity. The short-term effect usually manifests itself in a decline in employment. Prior to privatisation, enterprises usually had surplus labour and utilised it inefficiently. Privatisation has had a positive effect on labour productivity. Moreover, new technology and methods of organising work in the long term stimulates the creation of new jobs.

Labour productivity. Assessments of labour productivity are being made on the basis of official statistics. The shadow economy is difficult to take into account. In 1998, the highest labour productivity was in industry, which created 20,100 LTL worth of value added per employee. After that came construction with 16,900 LTL, and services with 16,000 LTL. Labour productivity in agriculture created only 9,100 LTL per employee. This varied greatly among the various spheres in the services sector, from 6,700 LTL in health care and social work to nearly 50,000 LTL in financial mediation. Between 1997 and 1999, labour productivity grew the most rapidly in, transportation, communications, trade. It declined, meanwhile, in the public sector, education and catering.

Territorial aspects of employment. Data for districts are provided by the labour force survey. There were considerable differences in territorial employment trends due to growing gaps in economic development between the regions and low labour mobility. Generally speaking, the employment situation is better in Lithuania's cities than in the towns and rural areas. In 1999, the employment level in

Employment in the private and state sectors, thous., 1999



Lithuania was 53.2%, and the unemployment level reached 14.1%.

The district of Alytus experienced a decline in employment and a growth in unemployment between 1997 and 1998. In 1999, Alytus had the highest level of unemployment in the country, at 21.1%. Employment stood at 46.2%, while the national average at that time was 53.2%.

Between 1997 and 1999, labour productivity grew the most rapidly in, transportation, communications, trade.

This poor situation can be explained by lower economic growth than the national average. The number of people employed in agriculture fell by more than 11,000. If at the beginning of 1997 nearly every third working individual was employed in

agriculture, two years later this figure dropped to every fifth. More than 30% of all employed people work in industry and construction - the largest indicator in the country. There was hardly any increase in services, although even with a decrease in the total employment figure in 1999 it employed 40% of that total.

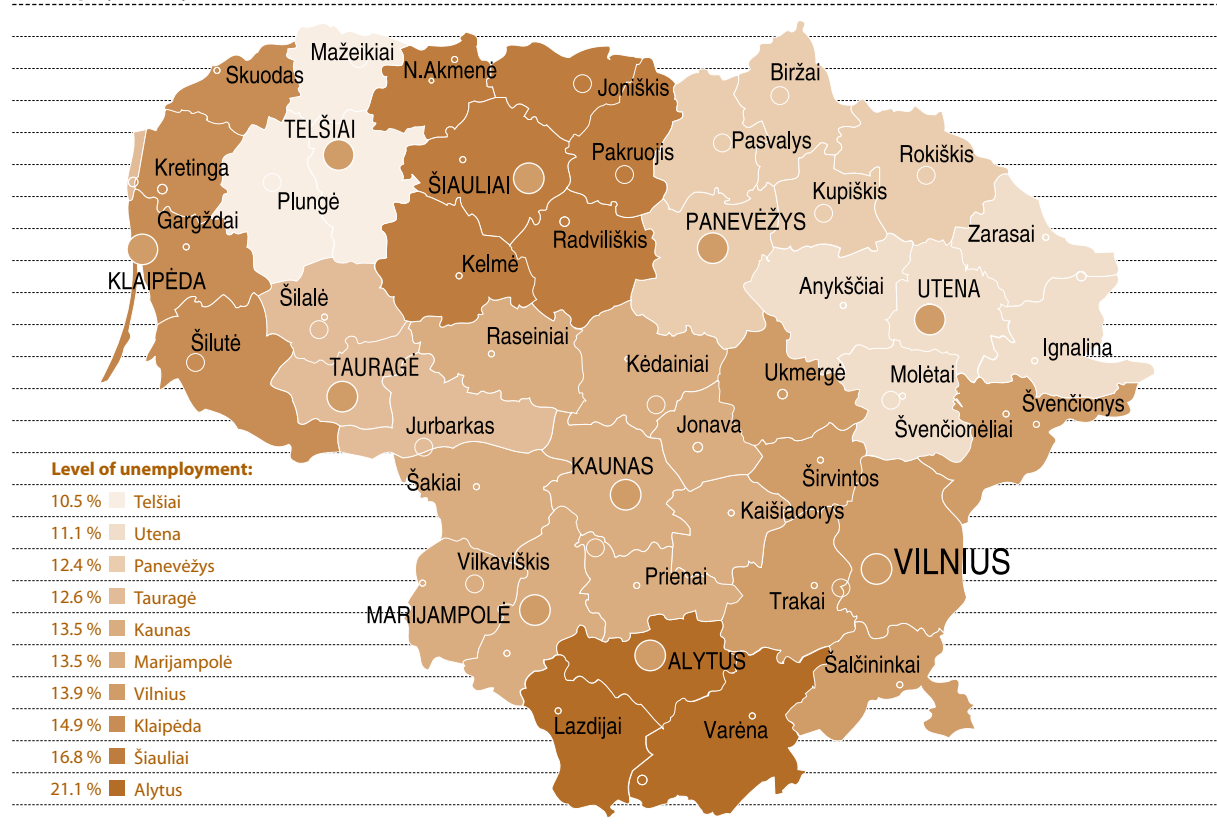
In May 2000, employment was 46.3% while unemployment fell to 14%.

The district of Kaunas has experienced uneven changes in employment. Unemployment stood at 13.5% in 1999, a lower figure than the national average. With the exception of Jonava, Kaunas is noted for its relatively low unemployment.

The level of employment was also lower than the national average, at 52.9%. The numbers employed in agriculture (employing 16.4% of the district's employed in 1999) have fallen each year. Unlike many regions, there were hardly any changes in industry, which employed 30.1% of the employed, somewhat more than the national average. Services employed more than half of the total employed, 53.5% in 1999.

In May 2000, unemployment reached 15.8%, while the employment level fell to 50.7%.

Unemployment by district, 1999



Employment in selected economic sectors*, %, 1999

	Agriculture	Industry and construction	Services
District			
Alytus	20.5	34.2	45.3
Kaunas	16.4	30.1	53.5
Klaipėda	18.4	27.3	54.3
Marijampolė	39.5	20.6	40.0
Panevėžys	27.7	23.3	48.9
Šiauliai	30.2	19.8	49.9
Tauragė	43.3	18.8	37.9
Telšiai	25.6	32.7	41.5
Utena	30.3	27.5	42.3
Vilnius	7.2	28.0	64.8

*Labour force survey data

The district of Klaipėda. In 1999, both the unemployment level (14.9%) and the employment level (54.9%) in the district were somewhat higher than in the rest of the country. The share of the district's GDP in the national figure fell continuously, from 12.4% in 1996 to 11.9% in 1997 to 11.5% in 1998.

There was a consistent decrease in employment in services between 1997 and 1999. A distinctive trend for this district was the highest growth in employment in agriculture in the country.

In May 2000, unemployment fell to 12.7%, and the employment level fell to 54.2%.

The district of Marijampolė. Unemployment in Marijampolė in 1999 stood at 13.5%. The employment level stood at 54.5%.

This district is one of the most rural districts in the country, with less developed industry, construction and services. Between 1997 and 1999, employment trends in these spheres stood in opposition to the general national trend. Meanwhile, employment in agriculture rose even further, from more than 30% in 1997 to nearly 40% in 1999. Employment in services decreased the most drastically between 1997 and 1999, as the number of the employed fell by nearly 8,000. Only 40% of all employed work in this sector (the lowest indicator in the country after Tauragė).

At the beginning of 2000, unemployment fell to 13.2%, while the employment level fell to 51.1%.

The district of Panevėžys. Unemployment in Panevėžys is one of the lowest in the country; in 1999 it stood at 12.4%. The employment level was 51.1%.

The most noticeable changes occurred in agriculture and services. Employment figures fell by 10,000 in agriculture; at the end of 1999, this sector employed 27.7% of the total employed (still significantly more

than in the country overall). Employment in the services sector grew by nearly 7,000 to 48.9% of the total.

In May 2000, unemployment reached 14.8%, while the employment level increased to 51.8%.

The district of Šiauliai. Unemployment was 16.8% in 1999; after Alytus, this was the highest rate in the country. The employment level stood at 53.3%.

Šiauliai has a more developed agricultural sector, weaker services and construction and a weaker industrial base. Between 1997 and 1999, the proportion of those employed in industry and construction fell from 25% to 20%. This change was accompanied by insignificant growth in employment in services and agriculture.

In May 2000, unemployment grew and employment decreased, to 17.5% and 51.2%, respectively.

The district of Tauragė. Although two years earlier unemployment stood at 20.3% (the highest of all Lithuania's districts), in 1999 it was lower (at 12.6%) than in the country as a whole. During the same period the level of employment rose from 43.1% to 52%.

Tauragė, however, remains the country's most agrarian region. It is the only area with a larger rural than urban population. Agriculture employs more than 43% of the total employed. Services and industry and construction are the district's weakest sectors, employing 37.9% and 18.8% of the total employed, respectively.

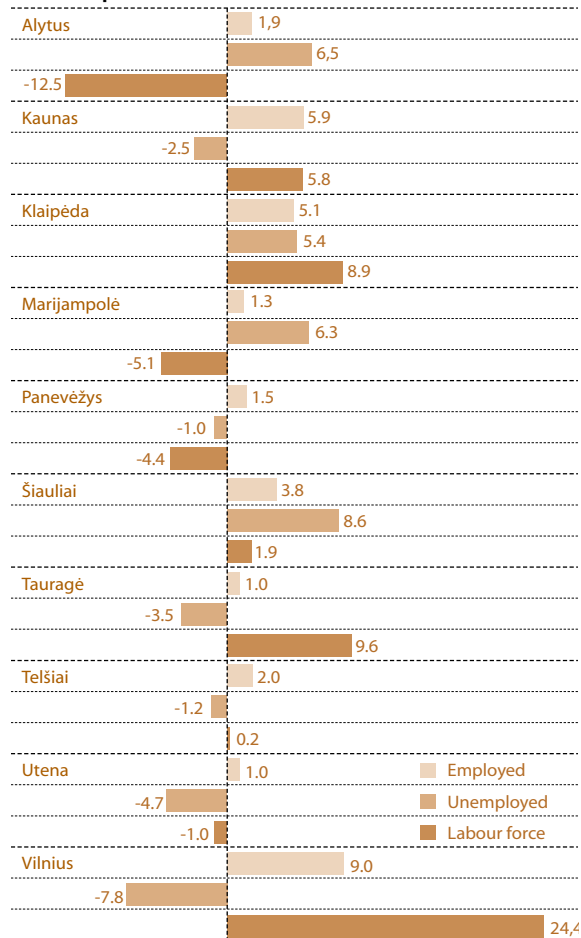
Nevertheless, the general and structural trends in employment for the population are more favourable here than in Šiauliai. Unemployment trends indicate this as well.

In May 2000, the level of employment reached 54.8%. Unemployment also increased, to 15.3%.

The district of Telšiai had the lowest unemployment in Lithuania, which declined by 1.3 points between 1997 and 1999, and reached 10.5%. The employment level was 53.2%.

The district has more people working in agriculture (25%), industry and construction (more than 30%) and less in services (around 40%) than the national average. Although Telšiai district can still be considered to be the most industrial region in Lithuania after Alytus, the decline in employment in the industrial sector was the highest compared to the other districts (from 41.9% at the start of 1997 to 32.7% by the start of 1999).

The employment situation is better in Lithuania's cities than in the towns and rural areas.

Changes in employment and unemployment by district, thous., 1999 compared to 1997

As in Tauragė, both the employment and unemployment levels grew, reaching 54.5% and 11.7%, respectively, in May 2000.

The district of Utena. In 1999, both the unemployment and employment levels, at 11.1%, and 50.8%, were lower than the national average.

There were substantial changes in the industry and construction and services sectors between 1997 and 1999. While every third working person was employed in industry and construction in 1997, by 1999 the figure had dropped to 25%. There was a growth - to 42.3% in the number of people employed in the services sector. However, the latter still lags behind the national average, employing 42.3% of the total employed. Employment in agriculture has barely changed; at over 30%, it ranks among the highest in the country.

The employment situation in Utena varies greatly by area. The district includes the industrial Utena area and the agrarian areas of Anykščiai, Zarasai, Molėtai and Ignalina. Employment in the town of Visaginas is directly dependent on the nearby Ignalina nuclear power plant.

During 1999, the employment situation worsened significantly. In May 2000, the employment level was the lowest in the country at 45.9%. Unemployment also grew, to 11.4%.

The district of Vilnius, where the capital is situated, is the largest district in the country. After the restoration of independence in 1990, Vilnius attracted a larger labour force and more investment than it had in the past. The district is home to 25% of Lithuania's population, and has attracted more than 60% of all foreign investment (most has gone to the city of Vilnius). The level of unemployment stood at 13.9%, while employment, at 55.2%, was the highest in the country.

Vilnius is noted for its highly developed services, which grew at a consistent rate between 1997 and 1999 and employed nearly 65% of people in the region in 1999. Employment in industry and construction has remained unchanged, except for the fact that with the general growth in employment the proportion of workers in this sector fell to 28%. Only 7.2% of the working population in the district - the lowest indicator in the country - is employed in agriculture. This figure was basically unchanged between 1997 and 1999.

In May 2000, the employment level decreased to 55% and unemployment grew to reach 15%.

...

All districts could be divided into the following groups according to their employment performance:

- the first group is where growth in employment was accompanied by relatively positive structural changes. The districts of Vilnius, Kaunas, Utena and Tauragė belong to this group. With the exception of Tauragė, employment in agriculture declined everywhere.
- the second group comprises districts where employment grew but its structural changes were not favourable. Klaipėda belongs to this group. Although employment rose slightly, it increased in agriculture and fell in services.
- the third group of regions has shown a decline in employment along with positive structural changes. Panevėžys and Telšiai fall into this group. Total employment fell slightly, while services underwent rapid growth and employment in agriculture declined. The situation was somewhat better in Panevėžys, which did not experience any significant decline in employment in the industrial sector.
- the fourth group comprises districts where the employment situation was most unfavourable;

employment fell and structural changes were negative. Šiauliai, Alytus and Marijampolė belong to this group. The services sector is barely growing at all, and is even declining in Marijampolė. Employment in industry is falling in all of these districts, while in agriculture it is growing in Marijampolė and Šiauliai.

State employment policy.

State employment policy is directed at the following targets: the promotion of economic growth and job creation; the development of human resources; and dedication to equal employment and business opportunities for all. A plan of action currently being prepared is aimed at boosting employment between 2000 and 2003 and is based on these targets. It is oriented towards the European Union's single economic zone. The plan proposes five strategic goals, the first four of which correspond to EU employment strategies. The fifth is oriented towards the need to strengthen inter-institutional co-operation and an integration of employment policy in Lithuania:

1. economic growth and job creation;
2. support for employment;
3. improved adaptation to structural changes;
4. equal opportunities in the labour market;
5. integration of employment policy.

The principal task in achieving the first goal is to create an environment conducive to business. This is aimed particularly at small businesses, which, according to both national and international practice, generate the greatest number of new jobs.

The other three goals incorporate the development of human resources and guarantee equal opportunities for economic activity for the different social and demographic population groups of the country. In the development of human resources, professional training closely related to market needs occupies a key role. Especially important is the implementation of a principle of lifelong education and training. Up to now, the focus in Lithuania has been on basic professional training; continuing education has not been well developed. According to labour force survey data, only approximately every tenth worker upgrades his qualifications annually; of the 200,000 unemployed people registered every year by the

According to labour force survey data, only approximately every tenth worker upgrades his/her qualifications annually.

One of the major setbacks in the development of continuing professional education is a lack of financing and tools for active policy measures.

Labour Exchange only about 13,000 are directed towards further training. No less important is the development of high quality education at school level.

One of the major setbacks in the development of continuing professional education is a lack of financing and tools for active policy measures. The resources of the Employment Fund allocated for the re-qualification of

the unemployed are insufficient, while the fund aimed at supporting professional training provided by the Law on Professional Training does not yet operate. It was anticipated that money collected via mandatory deductions would, over time, permit every worker to finance professional training corresponding to the needs of the labour market. This would go towards balancing the labour market, increasing employment and reducing unemployment.

Guarantees for equal employment opportunities include measures making competing on the labour market more fair. These measures foresee the motivation of employers to hire people from disadvantaged groups, as well as special programmes designed to advise, train, integrate and maintain uncompetitive individuals in the labour market.

It must be noted that although there were considerable structural changes in employment over the last decade, labour mobility still remains very low. Often state employment policy was impeding this and 'inefficient' employment was artificially supported. This simply postponed the real tackling of the problems raised. Attempts to mitigate social tensions were sometimes temporary, and measures to make the labour force more competitive and flexible would have been much more effective.

Employment in Lithuania will unavoidably change in the direction being taken by more developed countries in the West. Supporting this change must therefore be a state priority in employment policies. So far, high employment levels in agriculture, an insufficiently developed (especially private) services sector and small business, with a relatively weak industrial base means that the employment situation in Lithuania does not meet EU criteria.

Chapter 4

Standard of living

Laimutė Žalimienė

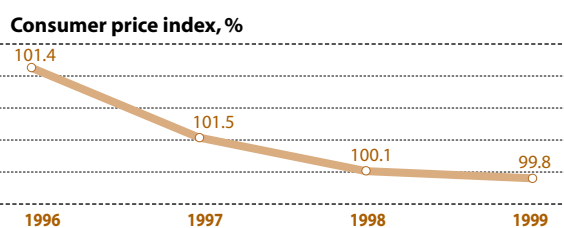
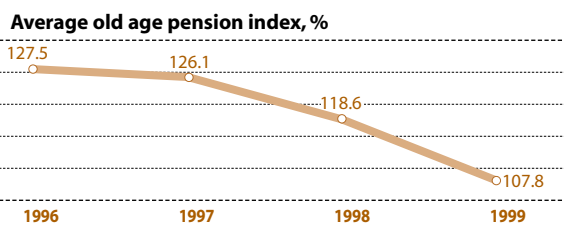
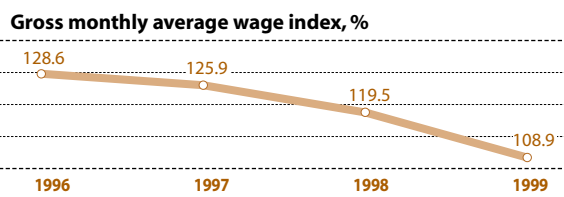
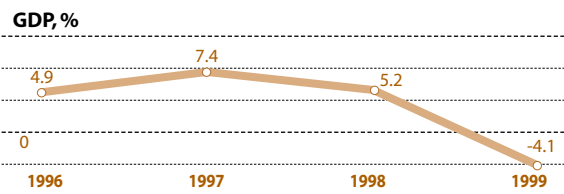
Territorial analysis of living standards: approaches and recent changes in indicators.

The standard of living of the population depends not only on the country's economic performance reflected in national socio-economic indicators, but also on the specific features of their place of residence. So in considering only national average indicators, one might obtain the wrong impression of the standard of living and miss the multitude of problems which emerge when analysis goes more deeply into regional factors (city, rural area, municipality, district).

Thus far, Lithuania does not have a uniform concept of the region as a territorial community. Regions are equated with districts, identified on the basis of the level of urbanisation, or are distinguished as territories encompassing large cities and regional centres, or towns and rural settlements.

The fact that there is no definition of region also determines the absence of multi-dimensional and comparable regional statistics of the standard of living. The most common and reliable source of data on the standard of living is an annual household budget survey carried out by the Department of Statistics. The survey represents the dimension of cities, towns and rural settlements. The size and patterns of disposable income and consumer expenditure and their dynamics is a significant basis for regional policy making and decision taking. When analysed across the region, standard of living indicators give an integrated picture of socio-economic development, reflecting not only the performance of the industrial, agriculture or service sectors, but also access to income earning opportunities, education, health care, culture, etc. One of the criteria suggested by European Union (EU) methodology for selecting regions for assistance is standard of living expressed as a proportion of the regional per capita GDP.

The results of the household budget survey between 1996 and 1999 clearly show a growth in the standard of living. Disposable income increased by more than a third. Employment income grew by 42.7%. There was a 16.7% decrease in income from agriculture and a 11.6% decrease in income from business,



Structure of total monthly disposable income by region per household member, LTL

	1996			1999		
	Wages	Social assistance benefits	Other income	Wages	Social assistance benefits	Other income
Cities	254.9	57.6	60.8	343.6	106.1	59.1
Towns	217.4	49.9	49.9	286.1	90.6	52.1
Rural areas	182.3	58.4	28.2	196.1	105	26.2

crafts and freelance employment. Nevertheless, compared to the period between 1996 and 1998, the growth rate of employment income slowed down noticeably in 1999.

Income from pensions and social assistance benefits more than doubled. The growth in income from social assistance benefits should not be seen just from the one side, that this might seem to indicate a growth in the standard of living. On the other, a more rapid growth in social assistance benefits compared to employment income could also be seen as a negative phenomenon. Between 1996 and 1999, the average old age pension grew by 63.5% and the disability pension by 57.8%. There was an increase in the size of family benefits (including those that are not means tested) and grants for orphans.

During the period from 1996 to 1999, the average disposable income per household member increased by more than a third in urban areas, but only by a fifth in rural areas. Monetary income increased by approximately 43% in both urban and rural areas, but there was a clear decrease (by more than 46%) in monetary income inherent to the rural population, from the agricultural, business and crafts sectors. This decrease was partially compensated by growth in income from pensions, and especially various social assistance benefits. So despite this fall the total monetary income of the rural population increased rather than decreased.

Pattern of income: the territorial aspect. The recent changes in income pattern for cities, rural areas and small towns were

During the period from 1996 to 1999, the average disposable income per household member increased by more than a third in urban areas, but only by a fifth in rural areas.

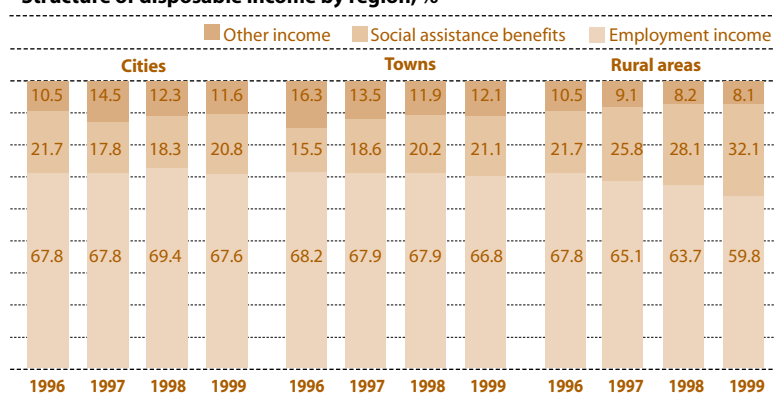
unfavourable. Employment income and income from agriculture, business and crafts is being rapidly replaced by social assistance benefits. The proportion of social benefits in rural areas grew from 21.7% in 1996 to 32.1% in 1999. Social assistance benefits alone, not counting old age pensions, increased by 2.4 times.

Similar negative trends in the pattern of monetary employment income manifested themselves to a different extent among the regions as follows:

- in cities, monetary employment income increased by 44%, while social assistance benefits increased by 84%;
- in rural areas, income from wages increased by 42%, while income from social assistance benefits increased by as much as 80%;
- in the towns, monetary employment income increased by 44% and social assistance benefits increased by 55%. At the same time, there was a more distinctive increase in monetary income from the business and crafts sector in this region, which mitigated the negative changes in the pattern of disposable income.

One important conclusion may be made when analysing the income pattern in rural areas. The

Structure of disposable income by region, %



Changes in the sources of household disposable income, %

	1996-1997	1997-1998	1998-1999	1996-1999
Total disposable income	+12.9	+14.5	+1.3	+31.0
Employment income	+20.1	+16.1	+2.3	+42.7
Income from agriculture	-2.0	+6.6	-20.3	-16.7
Income from business, crafts, freelance	-28.1	+30.8	-5.9	-11.6
Old age pensions	+31.7	+14.3	+15.0	+73.8
Unemployment benefits	-9.1	+50.0	0.0	+36.4
Other pensions, benefits	+38.3	+32.9	+9.4	+2 times

Structure of household monetary income by occupation, 1999

	Employment income	Social assistance benefits	Other
Employed	84	11.4	4.6
Farmers	61	32.4	6.6
Unemployed	6.2	51	42.8

Income in households where the breadwinner has no employment income

	1996m.		1999m.	
	Income size, LTL	% of total	Income size, LTL	% of total
Employment income	63.0	27.7	37.5	14.8
Pensions	9.6	4.2	7.5	3.0
Unemployment benefits	9.6	4.2	14.5	5.7
Social assistance benefits	12.6	5.6	24.5	9.7
Family benefits	9.1	4.0	20.0	7.9
Other benefits	10.2	4.5	26.9	10.6
Other income*	113.3	49.8	122.6	48.3
Total income	227.4	100.0	253.5	100.0

* Other income is mostly made up of gifts in-kind

rural population is losing its ability to sustain itself with traditionally rural occupations. At the same time, there are insufficient prerequisites created to permit new sustainable income earning opportunities to emerge and compensate falling agricultural production.

Households most vulnerable to low income.

The household budget surveys have grouped households according to the occupation of the breadwinner as follows: farmers, employed, business people, pensioners, other households. The latter group is made up of households where the head of the household has no employment income (unemployed, receiving social assistance benefits, stipends, alimony, etc.). Households with no employment income and where the breadwinner is a farmer have the smallest disposable income of 253 LTL per family member per month. More than a third of all income derives from social assistance benefits, stipends, alimony and charity, and social assistance benefits make up more than 40% of all monetary income.

Breadwinner with no employment income. These households have only 59% of the average household income. They mainly exist on social assistance benefits, whose proportion within the total income has nearly doubled. Meanwhile, employment income decreased by approximately 60% between 1996 and 1999 and

There are insufficient prerequisites created to permit new sustainable income earning opportunities to emerge and compensate falling agricultural production.

makes up around 15% of their total income. In 1999, income from social assistance benefits was 24.5 LTL (12.6 LTL in 1996) per household member per month, and from employment 37.48 LTL (63 LTL in 1996).

Breadwinner is a farmer. Farmers' households are experiencing a similar situation to unemployed households. Approximately 38% of their total income is made up of in-kind income from agriculture. Monetary income from agriculture comes to only 21% of the total income. Social benefits make up approximately 19% of all disposable income. Old age pensions equal 7.6%, and assistance benefits make up 11.5% of all disposable income, or 32% of monetary income. Farmers' households have even less monetary income than do households where the principal source of income is benefits, stipends, etc. Thus even when they work, their monetary income is less than that of unemployed individuals receiving benefits. The standard of living for these households is becoming increasingly dependent on in-kind income.

Consumer expenditure. Between 1996 and 1999, total consumer expenditure increased by 22.2%, and in 1999 reached 425.4 LTL per person per month. Consumption differs by region both in size and pattern. The average expenditure on food is similar in all regions, coming to approximately 190 LTL per person per month. However, more than a third (35.8%) of rural food consumption is made up of expenditure in-kind, i.e., home-produced food items. In the cities, in-kind food expenditure equalled approximately 10%, and in towns about 16%.

All other expenditures are much lower in rural than in urban areas. Both in 1996 and in 1999, rural consumer expenditures for social and cultural needs - leisure activities, education and health care - were several times lower than in the cities.

Monthly monetary consumer expenditure by region, LTL per household member

	1996			1999		
	Cities	Towns	Rural areas	Cities	Towns	Rural areas
Total	390.2	349.8	292.0	499.8	427.6	331.1
Food and non-alcoholic beverages	195.4	189.5	190.6	202.0	191.0	188.1
Alcohol and tobacco	14.1	13.7	11.2	20.6	16.4	14.9
Clothing, footwear	33.3	28.6	18.2	40.3	34.8	21.8
Household costs, utilities	50.4	45.0	26.0	70.0	59.5	31.8
Health care	10.1	9.8	7.1	19.3	14.2	11.3
Leisure and culture	11.2	8.9	4.9	22.2	14.6	7.1
Education	4.7	2.7	1.6	4.6	2.3	0.6
Transportation	25.0	15.1	12.2	39.8	35.4	20.4
Communications	*	*	*	12.5	11.0	5.4
Hotels, cafes, restaurants	17.8	9.7	5.6	27.8	13.9	8.4
Other	28.4	27.0	14.5	40.8	34.5	21.3

* Was not identified as a separate expenditure

Changes in monetary consumer expenditure, %, 1999 compared to 1996

	Nationwide	Cities	Towns	Rural areas
Total expenditure	30.3	32.8	30.6	26.5
Food and non-alcoholic beverages	9.6	8.6	10.3	13.1
Alcohol and tobacco	34.4	45.5	22.3	32.4
Clothing and footwear	23.1	23.1	25.8	21.1
Household costs, utilities	33.7	39.8	33.9	21.0
Health care	70.4	101.1	45.9	53.7
Transportation	78.4	59.9	135.9	66.4
Leisure, culture	77.6	100.0	57.0	51.2

Consumer expenditure by region, %, 1999



Generally, the pattern of consumer expenditure has improved due to the increased proportion of so-called 'non-material needs'. However, the redistribution of expenditure was to a certain extent influenced by changes in the prices of certain services and goods. Particularly noticeable was the growth in the price of communications, household utilities, water, electricity, gas, fuel, education and transportation services. Meanwhile, the price of food, alcohol and tobacco decreased. Growth in expenditure for leisure, culture and health care between 1998 and 1999 was accompanied by insignificant increases or even a decrease in the price of these services.

The decline in food expenditure nationwide could be considered a positive change in the pattern of consumption.

Changes in the consumer price index, %

	1997/1996	1998/1997	1999/1998
Total consumer price index	8.4	2.4	0.3
Food and non-alcoholic beverages	4.1	-3.7	-1.4
Alcohol and tobacco	17.1	13.8	-9.3
Clothing, footwear	5.3	3.0	1.0
Household costs, utilities	21.1	11.1	1.8
Furnishing, renovation	1.8	0.5	-1.2
Health care	6.5	-0.4	-3.1
Transportation	6.5	2.5	15.8
Communications	28.7	32.3	16.9
Leisure and culture	2.2	7.0	-1.5
Education	18.2	6.3	5.3
Hotels, cafes, restaurants	11.7	3.7	0.5
Other	4.5	4.1	1.8

Territorial gaps in consumption. As mentioned above, the general consumption pattern is changing for the better. The decline in food expenditure nationwide could be considered a positive change in the pattern of consumption. The territorial gap in expenditure on food was smaller in 1999 than it had been in 1996. Territorial differences in monetary expenditure for clothing and transportation increased insignificantly between 1996 and 1999.

Nevertheless, a comparison of the consumption patterns in cities, towns and rural areas reveals the following unfavourable trends:

- Expenditure on health care in rural areas and towns lags behind the cities. If expenditure on health care more than doubled in the cities, it increased by only 53.7% in rural areas and by 46% in the towns, despite the fact that morbidity and disability prevalence are higher there. This indirectly allows for the conclusion that health care is less affordable and accessible to the populations of rural areas and small towns. Moreover, a large part of the rural population has no health or pensions insurance.
- The gap between rural and urban areas in the consumption of health care noticeably widened between 1996 and 1999. If in 1996 monetary expenditure on health care in the countryside was 31% less than in the cities, and differed by 3.5% between the cities and the towns, then in 1999 this gap had reached 72% while the gap between the urban areas themselves had also grown by 42.7%. Nevertheless, it should be noted that the household budget

survey does not take into account health care expenditure covered by health insurance.

- Rural areas are experiencing a lower rate of growth in expenditure on leisure and culture. Between 1996 and 1999, expenditure on leisure and culture grew by only approximately 50% in the towns and rural areas, compared with a more than twofold increase in the cities. If the difference in expenditure on leisure in the cities and rural areas was 133% in 1996, by 1999 it had reached 208%. Although leisure and cultural events are more 'costly' in the cities, recreational and cultural facilities have collapsed in many rural areas and towns and their restoration is slow.

Meanwhile, territorial differentiation in monetary consumer expenditure on clothes and footwear and transportation between 1996 and 1999, grew insignificantly. The territorial difference in the size of food expenditure even decreased in 1999 compared to 1996.

Changes in the pattern of consumer expenditure allow for the conclusion that the standard of living in Lithuania is growing, but at very different rates in the cities, towns and rural areas. The rural areas are experiencing the slowest changes. Indeed, there is also a growing gap between urban and rural areas in this respect. The size of consumption in the towns is not as far behind the cities as rural areas. There is an exceptionally high level of differentiation among the regions in expenditure related to human development - on education, health care, leisure and culture. The cities continue to diverge from the other settlements in these expenditures.

Consumption of the wealthiest and the poorest. Differences in consumption between the wealthiest

Differences in consumer expenditure between the 1st and 10th deciles in rural and urban households, 1999

	Urban 1-X, times	Rural 1-X, times
Food and non-alcoholic beverages	3.5	4.3
Clothing, footwear	14.1	16.4
Household costs, utilities	6.2	15.9
Health care	14.3	24.9
Transportation	28.7	30.0
Leisure and culture	22.6	29.7
Education	14.5	16.0

Durables per 100 households in Lithuania and Latvia, 1999

	Cities		Towns		Rural areas	
	Lithuania	Latvia	Lithuania	Latvia*	Lithuania	Latvia
Colour TVs	106	89	93		71	63
Black & white TVs	27	15	31		33	31
Video recorders	25	29	16		8	11
Tape players	56	29	58		43	21
Music centres	12	7	7		3	2
CD players	5	7	5		2	2
Personal computers	6	5	2		1	1
Refrigerators	98	95	97		89	82
Freezers	4	2	7		19	6
Washing machines	73	74	78		72	71
Vacuum cleaners	79	70	74		43	45
Microwaves	15	5	12		5	1
Automobiles	46	25	45		36	32

* No data available

There is an exceptionally high level of differentiation among the regions in expenditure related to human development - on education, health care, leisure and culture.

and the poorest within the regions are much greater than between the regions themselves.

Consumption of farmers' households. The lowest consumer expenditure is among farmers'

households. If in 1999 total consumer expenditure per household member among the employed equalled 449.1 LTL per month, then in farmers' households it was 280 LTL. The total farmers' consumer expenditure remained practically unchanged, while it grew by more than 20% for all households and for those employed. A comparison of monetary consumer expenditure shows that farmers spent only 43% of the amount spent by the employed. However, a large proportion of consumer expenditure in farming households is made up of expenditure in-kind (41%); in-kind expenditure equalled only 14% of all consumer expenditure in the households of the employed.

Farmers also have a poorer consumption pattern. Food takes up as much as 62.6% of all expenditure (the national average was 45.7% in 1999). Meanwhile, expenditure on health, education, leisure and other human development needs are the lowest among farmers' households.

Farmers' households are less mobile. Their expenditure on transportation underwent an increase half that of expenditure in employed and all types of households. While expenditure for clothing and footwear increased by 20.6% in all households, in farming households it decreased by 19.1%. Farming households tend to acquire clothing for lower prices in second-hand clothing stores. In 1999, consumer expenditure for leisure was nearly three times smaller in farming households than the average in all households or among the employed. Between 1996 and 1999, this expenditure grew in farming households by approximately 12%, while in all households it grew by nearly 80%.

Changes in consumer expenditure among farmers and employed, %, 1999 compared to 1996

	Farmers	Employed	All households
Food and non-alcoholic beverages	-5.8	-1.2	+1.1
Alcohol and tobacco	+27.0	+31.7	+35.4
Clothing, footwear	-19.1	+19.1	+20.6
Household costs, utilities	-5.5	+31.0	+33.3
Health care	0.0	+59.3	+68.1
Transportation	+43.9	+86.7	+82.2
Leisure and culture	+11.5	+80.2	+76.7

Consumption of benefit recipients and the unemployed. The average consumer expenditure of households without, or with minimal, employment income is 68% of the average household expenditure, while expenditure in-kind makes up 29% of the total expenditure. The consumption pattern of these households reflects a low capability to make use of health care, transportation, culture and leisure, and education services. Consumer expenditure on education in this group was only 0.90 LTL per person per month (the average for all households was 2.7 LTL) in 1999. However, these households do receive compensation for some of these services. For example, schoolchildren get free meals, group activities and kindergarten, while household utilities costs are reduced. In actual fact, compensation and concessions for households on social assistance make up quite a large proportion of their income.

Poverty: the territorial aspect.

In 1999, 15.8% of the population was below the poverty line of 50% of average consumer expenditure. The poverty level slightly decreased compared to 1998 (16%). The level of poverty is significantly higher in rural areas (28.2%) than in the cities (7.2%). Compared to 1998, the impoverished population increased in the rural areas but decreased in the cities. There was an exceptionally high increase in the number of poor households where the breadwinner is a farmer.

Place of residence, education, occupation, and household size and structure are the factors most related to poverty. In all regions, the highest poverty levels are among households where the head has the lowest education (primary or basic). In rural areas,

In 1999, 15.8% of the population was below the poverty line. The level of poverty is significantly higher in rural areas (28.2%) than in the cities (7.2%).

6% of the population with a higher education is also poor while in cities such people account for 1.5% only. In all regions, single person households with children under the age of 18 are the most impoverished.

Income of poor households.

Households receiving social assistance benefits and single person households with children or households with three or more children more frequently fall below the poverty line.

Monthly benefits per household member, LTL*

Type of benefit	Categories of benefit recipients		
	Social assistance benefits	Benefits for three children or more	Family benefits
Free school meals	60	58	57
Reduced pre-school rates	38	37	36
Compensation for heating	38	24	32
Compensation for hot water	16	12	15
Compensation for cold water	14	11	11
Compensation for fuel	14	8	15
Compensation for telephone and transportation	20	9	21

**Report: Socialinės paramos šeimoms, auginančioms vaikams, ekonominio efektyvumo įvertinimas, Ministry of Social Security and Labour, Social Policy Unit, Vilnius: 1999.*

Poverty level by type of household and region, %, 1999

	Cities		Rural areas	
		five largest cities	towns	
All households	9.9	7.2	13.7	28.2
Education				
Primary, illiterate	20.6	20.3	21.0	30.6
Basic	18.2	16.2	20.5	35.7
Secondary	13.0	9.7	17.6	33.1
Specialised secondary	7.5	4.3	10.8	19.8
Higher	1.5	1.5	1.7	6.0
Occupation				
Farmers	...	-	...	40.6
Employed	8.4	5.8	12.1	22.4
Business	4.7	4.0	5.6	...
Pensioners	13.5	11.7	16.0	26.2
Other	32.6	21.8	44.4	53.2
Size of household				
Single person	8.4	5.7	12.2	22.1
Single person with child(ren) under 18	21.5	10.2	31.6	36.6
Couple with child(ren) under 18	8.7	5.6	12.5	30.2
Other households with child(ren) under 18	13.5	12.0	16.1	38.8
Childless couple	5.9	4.8	7.3	13.9
Other households without children	9.8	6.9	14.4	26.2
Gender				
Male	8.2	6.2	11.1	26.7
Female	12.7	8.9	17.4	30.6

In 1999, social assistance recipients made up approximately 2.8% of the country's population (more than 100,000 persons). In the cities, 17.6 people per 1,000 residents received social assistance benefits. In rural areas and towns this figure was 35.7 people. Social assistance benefit payments made up approximately 21% of all funds allocated for social benefits.

Social assistance benefits make up 19%, and employment income 47%, of the total income of benefit recipients. Their monetary income equals 165 LTL per person per month, of which 70 LTL is employment income, approximately 80 LTL is social assistance benefits and pensions, and about 15 LTL other income (mostly gifts). In households that do not receive social assistance benefits, employment income comprises more than 65% of the total income. In a monetary form this equals 250 LTL per month, i.e., 3.6 times more than in social welfare households. Income in-kind comprises 29% of the total income received by social assistance recipients.

Consumption in poor households. Between 1996 and 1999, the consumption pattern of poor households underwent unfavourable changes. Such households made less use of health care, are less mobile and have less accessibility to leisure and culture infrastructure. Moreover, the gap between households receiving benefits and those not receiving them is widening. If in 1996 social benefit recipients' consumer expenditure was 61% of the consumer expenditure of those who do not receive benefits, in 1999 the figure was 53%.

Consumer expenditure in poor households increasingly diverges from the average consumption pattern. If in 1996 expenditure on health care differed twofold, by 1999 the difference had increased to 3.3 times. Obviously, poorer households cannot afford to buy supplementary medication or use private health care. In 1996, expenditure on recreation and culture differed by 1.9 times, and in 1999 by 2.6 times.

Children and poverty: risk factors. The principal risk factors associated with child poverty are related to parent unemployment, low employment income, family structure (single parent families), the number of children and child neglect. In 1999, the income of single parent households with

In 1999, social assistance recipients made up approximately 2.8% of the country's population (more than 100,000 persons).

If in 1996 social benefit recipients' consumer expenditure was 61% of the consumer expenditure of those who do not receive benefits, in 1999 the figure was 53%.

children came to only 40%, while that of two-parent households with children equalled 60% of the income of childless households. Single parents with children are the worst off, especially in rural areas. The total disposable income per person in rural single parent households is 68% of the income of similar households in the cities.

Total disposable income among social benefit recipients and non-recipients, 1999

	Social benefits recipients		Households not receiving social assistance benefits	
	income LTL	% of total	income LTL	% of total
Total disposable income	232.2	100.0	436.5	100
employment income	108.1	46.7	287.1	65.8
pensions	14.5	6.2	84.1	19.3
unemployment benefits	1.5	0.6	1.5	0.3
social assistance benefits	45.1	19.4	0.0	0.0
other benefits, stipends	21.1	9.1	14.2	3.3
benefits in-kind	8.6	3.7	2.0	0.6
other income	33.3	14.3	47.2	10.7

Changes in consumption among social benefit recipients and non-recipients, %, 1999 compared to 1996

	Social benefit recipients	Households not receiving social assistance benefits
Food and non-alcoholic beverages	-7.8	+1.3
Alcohol and tobacco	+16.2	+34.3
Clothing, footwear	+33.6	+19.6
Household costs, utilities	+8.6	+33.3
Health care	+4.3	+68.8
Transportation	+15.7	+79.0
Leisure and culture	+28.3	+77.3
Total consumer expenditure	+6.1	+22.4

Households raising children under the age of three have a net disposable income 27.7% less than households with no children under the age of three. In 1999, monetary income was 273.5 LTL per month for households with small children, and 368.6 LTL for households without small children.

Households with many children. Total disposable income differs by approximately 70% between households with one child and those with three or more children. The average monthly monetary income in households with many children is 178 LTL per person. In both 1996 and in 1999, households with one child had more than double the monetary income of households with three or more children.

In 1999, households with one child had 2.5 times the monetary employment income of house-

Consumer expenditure in poor households increasingly diverges from the average consumption pattern.

Disposable income by size of household, LTL, 1999

	Single person	Single person with child(ren) under 18	Childless couple	Couple with child(ren) under 18	Other households with children	Other households without children
Cities	659	379	660	479	400	528
Towns	551	320	536	399	343	462
Rural areas	434	259	417	283	271	363

holds with many children. In 1996, households with many children received only 98 LTL per family member in monthly monetary employment income; in 1999, they received 119 LTL. Thus in households with many children, a stable employment monetary income makes up less than half of the total income. These households also receive income in-kind: in 1999 it amounted to 76 LTL; the largest proportion was comprised of income from agriculture, charity, gifts, etc.

The dynamics of income for households with different numbers of children between 1996 and 1999 clearly shows that material conditions are worsening for households with a greater number of children. If in 1996 the proportion of employment income for households with many children equalled 71%, in 1999 it only amounted to 66%. At the same time the share of social assistance benefits rose from 15% to 23%. Meanwhile, households with many children are becoming increasingly dependent on social assistance. If their employment income increased by 16% (compared to approx. 27-28% for households with one or two children) between 1996 and 1999, social assistance benefits increased by 53%.

In 1999, the level of total monthly consumer expenditure per household member in households with one child was 426 LTL. In households with three or more children it was 263.4 LTL, or 61.7% less. (In 1996, this difference was 59.1%). Between 1996 and 1999, households with a larger number of children experienced a smaller increase in consumer expenditure. Consumer expenditure grew by 22.2% in households with no children, by 20.7% in households with one child, by 19% in households with two children and by only 18.8% in households with three or more children.

Consumer expenditure for education declined significantly for all households, but especially so in larger households (by more

Income for households with different numbers of children, LTL

	Households with 1 child		Households with 2 children		Households with 3 children	
	1996	1999	1996	1999	1996	1999
Total disposable income	337.1	422.5	294.2	359.6	202.2	251.8
Employment income	250.5	316.4	219.7	280.3	144.3	167.2
Social assistance benefits	31.4	50.6	20.9	32.9	30.0	58.9
Other income	55.2	55.4	53.6	46.3	27.8	25.7

Place of residence, education, occupation, and household size and structure are the factors most related to poverty.

than a third). Expenditure for health care, leisure and culture is increasing at a slower rate for households with a larger number of children. This, however, is also affected by compensation for the cost of health care services, group activities for children, etc., for such households.

The manifestations and consequences of child poverty. Child poverty is a particularly appalling phenomenon since children, unlike adults, have very little influence and control over their own lives let alone the circumstances that can induce poverty. Poverty amongst children deprives them of the opportunities to lead meaningful and healthy lives in the future. The manifestations and the consequences of child poverty are numerous and difficult to determine without special research into the problem.

Insufficient nutrition. Many poor households are not able to provide sufficient meals for their school-age children. Children from households with a low income get free meals at school. In 1998, approximately 157,000 children, 29% of all those enrolled in basic school, received free lunches. In 1999, the number of children having free meals dropped to 142,000 children, or 25% of those enrolled. A free

Problematic households

Problematic households are defined as households where parents do not take care of their children and do not guarantee them a minimum subsistence level. Every year, more than 3,000 children lose their parents. Only 10% of these children are true orphans and in fact have no parents. The others have one or even both parents, who have lost their parenting rights or the opportunity to live with their children through alcoholism, child abuse, neglect, abandonment, imprisonment, etc. Approximately 5% of parents are unable to take care of their children because of sickness or disability. According to the Ministry of Social Security and Labour, in 1999 approximately 8% of all children were growing up in 'troubled' households. In the cities, the figure was 6.9%, in towns 5.2% and in rural areas 8.3%.

breakfast was provided for 2,200 pupils from poor households. Until 1997, approximately 5% of pupils at basic schools were given lunch for free, funded by municipalities. Since 1997, funds for school meals have been allocated from the state budget. In 1997, 41 million LTL went on school meals. In 1999, the figure reached 60 million LTL.

Pupils completing 12 grades and continuing their education, %, 1999

	Total	Vocational schools	Specialised secondary schools	Higher schools
Nationwide	83.3	8.4	28.7	46.3
Cities	84.0	7.0	25.2	51.8
Rural areas and towns	82.5	9.9	32.6	40.0

A new procedure for organising free meals at basic schools initiated by the Ministry of Social Security and Labour and the Ministry of Education and Science was approved in August 1999. It provides free meals on a means-tested basis for pupils from benefits recipients households and households where each family member has less than 1.5 of the government-supported monthly income (202.5 LTL). The majority of pupils receive a free lunch (worth up to 3 LTL), and children from extremely poor households receive a lunch and breakfast (worth 1.2 LTL).

Poor educational opportunities. The proportion of secondary school graduates who continue to study varies between regions from 57% to 95%. Data provided by schools indicates that a significantly smaller proportion of children from rural areas and towns seek a higher education. This is mainly due to the financial incapability of parents to support their children studying away from home, since higher education institutions are located only in the cities. A higher percentage of these children therefore study at specialised secondary or vocational schools, which are located closer to home.

In 1999, farmers allocated only 0.3 LTL per household member per month to education - nine times less than the average household expenditure. Farmers' households, with an average monthly monetary disposable income in 1999 of 139 LTL, obviously cannot even afford to pay the 50-100 LTL per month for a student dormitory in a city. This situation will in future undoubtedly have an effect on the decline in the level of education for the rural population.

Chapter 5

Social security

Virginija Poškutė

Reforms in the social security system began immediately after the restoration of Lithuania's independence. In 1990 and 1991, the foundation of a system of state social insurance and social assistance was laid down. The state social insurance pension system was reformed in 1994. Although the fundamental principles outlined by the reforms have not changed, the social security system is continuing to be developed so that it is adapted better to the changing situation.

Briefly, social security in Lithuania is comprised of state social insurance and social assistance. Solely state institutions manage social security. Private structures have not yet been integrated into the system of social security provision. State social security has its own separate budget and is administered centrally by the State Social Security Fund (SODRA). The social assistance system, on the other hand, has been decentralised, and lies within the jurisdiction of local governments.

One of the most important laws related to social security was the Law on Pension Funds, passed in 1999.

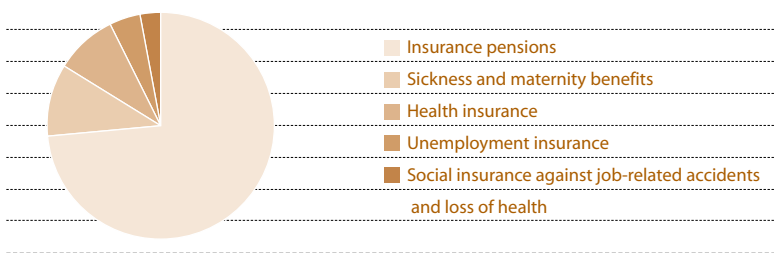
Most important changes in the social security legal environment. One of the most important laws related to social security was the Law on Pension Funds, passed

in 1999. This law came into effect in January 2000. It legalises supplementary pension insurance alongside pensions paid out by the state insurance system. Thus voluntary participation in pension funds is not an alternative to state social insurance. Although the law has been in effect for nearly a year, there are still no pension funds in Lithuania providing for the means to acquire a supplementary old age income. There are several explanations for this. First of all, Lithuania is experiencing a fairly difficult economic situation. Many enterprises and workers have difficulty making contributions to the mandatory state social insurance fund let alone to a supplementary pension insurance. Meanwhile, voluntary participation in a supplementary pension insurance fund is not suitably encouraged. An individual who decides to take on supplementary insurance pays the same level of social insurance contributions to

THE STRUCTURE OF LITHUANIA'S SOCIAL SECURITY SYSTEM

Social Security				
Social insurance	Social assistance			Special benefits
	Social assistance in cash	Social services		
		Special	General	
Pension insurance	Social (assistance) pension	Day care institutions	Information and consulting	President's pension
Sickness and maternity insurance	Family benefits	Temporary stay institutions (shelters)	Home care	1st and 2nd degree state pensions
Health insurance	Funeral benefit	Permanent social care institutions (homes for the elderly, disabled, orphans and foster children)	Home nursing	Deprived people's pensions
Unemployment insurance	Social benefit (income tested)	Mixed social services Institutions	Cash for social services	Military and officials' pensions
Accidents at work and work-related illness insurance	Compensations (heating, cold and hot water supply, etc.)	Other institutions		Scientists' pensions Actors' rent

State social insurance contribution by type of insurance, %, 1999



Social insurance contribution rates in selected European countries*, %

Country	Year	Employer	Employee	Total
Estonia	2000	20.0	0	20.0
Lithuania	2000	22.5	2.5	25.0
Czech Republic	2000	19.5	6.5	26.0
Slovakia	1999	21.6	5.9	27.5
Hungary	2000	23.0	7.0	30.0
Poland	2000	16.26	16.26	32.52
Latvia	1999	23.6	9.0	32.6
Bulgaria	1999	34.7	1.0	35.7
Albania	1999	26.0	10.0	36.0

* Taken from International Labour Organisation conference materials, Prague, 2000

mandatory state insurance as other insured persons do. At the same time, voluntary pension insurance is slow to develop because of a lack of trust in private financial institutions. After all, there is a risk that pension funds could go bankrupt even in countries with long-term experience in this field. In seeking to reduce this risk the Law on Pension Funds foresees strict requirements concerning the returns on capital for pension programmes, which, in turn, are not conducive to the emergence of pension funds.

A second change in the legal environment, which had a direct influence on the financial capacity of SODRA, was the change and redistribution of social insurance contribution rates at the end of 1999. Since the beginning of 2000, the mandatory state social insurance contribution rate has increased from 31% to 34%. At the present time, insurers (employers) contribute 31% (previously 30%), and insured persons 3% (previously 1%) of an employee's gross income to SODRA. The change in the level of contribution rates was accompanied by a change in the redistribution of rates among the various types of social insurance. Now the contribution rate is distributed thus: 25% goes to insure pensions (22.5% from insurer contributions and 2.5% from the insured person's contributions); 3.5% to sickness and maternity benefits (3% from the insurer and 0.5% from the insured); 1.5% to unemployment insurance; 3% to health

insurance; and 1% to social insurance against job-related accidents and loss of health.

However, even with an increase in the social insurance contribution rate, in Lithuania the rate is one of the lowest in Europe, including the majority of Eastern European countries.

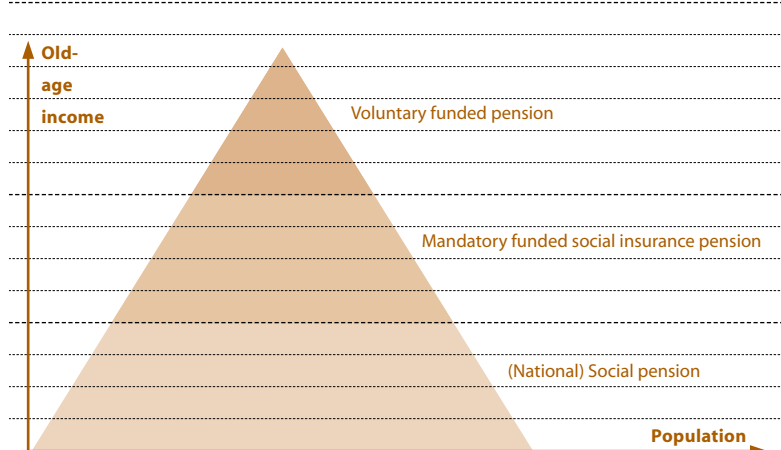
The increasing social insurance contribution rate was aimed at balancing the SODRA budget. Nevertheless, this goal was not achieved and SODRA's budget is left with a deficit. Although the average wage from which contributions are calculated slightly increased, falling numbers of insured contributors due to the economic recession had an unfavourable influence on the budget deficit. One should not sweep aside the argument that the increase in the rate was conducive to the transfer of some workers from full-time labour contract employment to part-time or informal employment.

The third important factor that will influence the future social security system is related to one of the most important decisions regarding social security, passed by the Lithuanian government in April 2000. This was the approval of a concept on pension reforms. On the basis of this concept a White Paper on pension reforms was prepared and presented in October 2000.

Pension reforms aim to achieve several short- and long-term goals. The most urgent short-term goal is to balance the financial flows of the social insurance pension system so it can function without a financial deficit and be self-supporting.

The second and most important long-term goal is to change the whole pension system so that when people reach pension age they will be able to receive a larger part of their income than they had been getting thus far. The pension reform concept expects to achieve this goal

New pension system



by introducing mandatory privately managed insurance pension schemes. For a time, this goal would be implemented without increasing the present rate for pension insurance by transferring part of the contributions from the present system of pay-as-you-go pensions into a funded pensions insurance.

Apart from explicitly formulated social goals, pension reforms are aimed at macroeconomic objectives. It is expected that pension fund capital should facilitate the development of a capital market and financial system (or infrastructure), open space for investment and speed up economic growth. In turn, economic growth will allow for an increase in pensions for all pensioners present and future.

The concept for pension reforms foresees the introduction of a three-pillar pension system:

- a pension based on current contributions or taxes (pay-as-you-go pensions)
- a mandatory funded pension insurance
- a voluntary pension insurance

The first-pillar pension would guarantee every Lithuanian resident minimal protection against poverty, and would compensate for a part of one's income lost in the case of old age or disability. So far it has not finally been decided on what kind of pension the first-pillar pension should be, whether it should be a flat-rate minimum income guarantee benefit for everybody (national pension), or whether the pension should be earnings-related, i.e., linked to the previous income and employment record of the pensioner (today's supplementary pension). The second pillar - the mandatory pension - would guarantee a higher level of replacement for income lost due to old age than is currently available. Mandatory pensions would insure people who are receiving a work income (salary, wage). As the pension system expands the part that is funded should take up an increasingly large proportion. The third pillar, voluntary pensions, would be designed for those who wish in their old age to receive benefits supplementary to what is pro-

vided by the first two pillars. Those who wish to accumulate supplementary pensions would be able to do so with the aid of pension funds and / or by participating in insurance pension schemes offered by the enterprise or company.

Prerequisites for reforming the pension system.

Certain preliminary conditions must emerge or be cultivated in every society that decides to reform its pension

Mandatory pensions scheme

Pros

The mandatory pensions scheme may:

- allow for the concentration of large funds, which could be used for long-term investment. This will encourage the development of the country's capital market and financial infrastructure;
- allow for a distribution of risk, when co-ordinated with the current pay-as-you-go system (such as the State Social Insurance Fund). It can be expected that, should one system begin to function more poorly, the other system will begin to work better, so that general security will be better assured upon retirement. Moreover, both systems working together could increase the total size of the pension;
- be more attractive than the current pay-as-you-go to contributors, because they believe that they are paying themselves, putting money into their own account, as opposed to a 'common pot' for others;
- create more opportunities for each individual to decide when to retire, because once the necessary pension capital is accumulated, each individual can begin to use it at once or later according to necessity.

Cons

The mandatory pensions may:

- divert a significant amount of funds from the current social insurance. However, the latter's obligations will remain unchanged for a rather long period of time. For this reason, it will be necessary to find additional funds with which to finance current pensions. The demand for such funds may be so great that it might be necessary to postpone the establishment of the mandatory accumulative system;
- increase capital supply, because the funds will have to invest accumulated moneys. Investment in the securities of Lithuanian enterprises can be very risky, however, and may appear unacceptable to the pension funds. Investment in securities abroad may be safer, but may also be undesirable (it is unlikely that exported capital will return as an investment in the Lithuanian economy). For this reason, the pension funds will, at first at least, be forced to invest mostly in government securities, that is to burden future pension obligations for workers, with whose money the securities will have to be redeemed. Yet the current pay-as-you-go system does the same (albeit differently);
- eventually become too influential in the country and affect politics in a way that is not favourable to society through the disposition of large amounts of capital;
- quickly become dominated by foreign capital. For example, all four of the largest pension funds in Chile are either partially or totally controlled by foreign countries;
- create a situation where payments from the funds may be subject to fluctuations in the market. Individuals who have accumulated equal pension funds but who have retired at different times may receive very different pensions;
- not solve the problems of those people whose incomes have been very low throughout their lifetime, and whose pensions are also very low. The same is applicable to disabled people who lose their ability to work at a young age and who may have accumulated only small amounts of capital. For this reason, only a co-ordination of both pension systems can guarantee acceptable social solidarity.

T. Medaiskis, Esu, „I exist“ May 2000, Nr. 10

system and introduce a non-government funded insurance. An important group of preconditions is related to the preparedness of the state budget and financial system for such reform: while transferring part of the pension contributions to pension funds monies should be found to meet current obligations. Moreover, the state financial system should be prepared to set up conditions for the safe and effective investment of pension fund capital.

Since the pension insurance contribution rate will not be increased and part of it will be transferred to pension funds, it will upset the balance between SODRA's revenue and expenditure. According to the White Paper, reforms induced SODRA's budget deficit for the first year, estimated at 1.5% of GDP (from approximately half a billion to 670 million LTL). The total estimated sum required to cover the deficit will vary from 2.4% to 4.3% of GDP. These funds are expected to be found in money received from privatisation (if promises for compensation of lost Soviet time savings will be abolished or postponed). Moreover, some of the required funds may be obtained by rationalising the present pension system (social insurance pensions and state pensions). For example, increasing the pension age, changing the adjustment of pensions to inflation and applying other measures can reduce pension insurance expenditure. The concept on pension reforms claims that a more rapid increase in the pension age to 60 for women and 62.5 for men is vital. Once the age currently legislated has been reached it should again be increased to 65 for both genders. Plans also include limiting pensions for working pensioners.

Another important factor determining the introduction of a non-government insurance pension in the country is the incentive of the state, employers and individuals themselves in developing supplementary pension insurance. Such an incentive may emerge due to insufficient confidence in the existing state insurance pension, its structure and size, requirements for granting the pension and other parameters. The smaller the size and extent of differentiation in the state social insurance pension, the greater society's potential demand for funded and supplementary pension schemes.

In Lithuania, the state social insurance old age pension consists of two parts: the basic part, which is the same for everybody, and a complementary part determined by previous income levels.

Old age pension relative to previous income in selected countries*, %, 1980

	Total level	State pension	Private pension
France	70	50	20
Germany	75	50	25
Netherlands	70	40	30
Sweden	65-70	55-60	10
Switzerland	60	40	20

** Source: Voirin M. Private and Public Pension Schemes: Elements of a Comparative Approach // ISSR. Vol. 48, N 3-4, 1995. p. 119. Official data from later years do not exist, but the pension systems in these countries are fairly stable, so it is likely that these figures have not changed a great deal.*

Although it consists of two parts, state social insurance pensions in Lithuania are relatively low. The average old age pension in mid 2000 was 321 LTL, or around 40% of the national average wage after tax, and insignificantly differentiated. In 1998, approximately 80% of all old age pensions in Lithuania came to 200-400 LTL (US \$50-100). The introduction of a mandatory insurance would lessen the redistribution factor since in line with pension fund financing logic every working individual would be accumulating funds for their own future pensions. The introduction of private pensions in Lithuania in the long term would increase the differentiation of income of the elderly. In other countries, old age pensioners have the opportunity to

Pensions and macro-economics

It is hoped that funded pension schemes will not only ease the burden on society of state social insurance pensions but also encourage economic growth. However, the effect of supplementary funded pension schemes on the economy is neither direct nor unilateral. The success of funded pension schemes is particularly dependent on the nature of financial institutions managing the pension funds, and on their decisions regarding investing accrued resources.

The differences in a country's cultural and historical environment (the propensity for society to save and consume) also influence the effect of supplementary pensions on the economy. It is mostly American scholars who claim that establishing pension funds would improve savings and investment indicators. This may be explained by the fact that for many years, the level of savings in the US was lower than that of the majority of developed European economies. Support for pension funds in such a consumer-dominated environment is therefore perfectly understandable.

However, pension funds could have a different effect on an economy with a high propensity to save. Belgium could be considered an example of such a country. The level of savings there is fairly high (23% of GDP), and pensions are mostly financed according to the pay-as-you-go principle, which is more conducive to consumption. Expanding pension funds may lead to an increase in savings that would be undesirable in such a country. Depending on the 'environment', therefore, pension funds can favourably affect savings and / or investments, yet at the same time they can also impede the mobility of the labour force or have a negative effect on the redistribution of income and consumption.

In providing tax exemptions, the government contributes to the indirect financing of pension funds. Such taxation policy drains financial resources that could be allocated to other social needs. The supplementary pension schemes are often associated with a possible increase in discrimination within society by dividing people into those who belong to such schemes and who benefit from tax policy and those who do not.

bolster state insurance old age pensions with the help of private pension schemes.

Meanwhile, it is doubtful that the implementation of the funded pension fund itself would increase the size of the pension. As was mentioned above, the pension reform concept foresees that the funded pension will be developed at the expense of the decrease in the existing social insurance pension. So a pension paid from two systems will be somewhat larger than present pension only if the greater part of GDP will be allocated for pensions in total.

The population may be inclined to evaluate pension funds as a positive measure for security in old age due to the fact that pension funds may promise 'fair' (less redistributive) pensions, implement 'personal savings' principles, and intend to pay higher pensions for the same rate of contributions. At the moment, these arguments have not worked persuasively enough for potential subscribers to pension funds, and they are rather cautious to take out a pension. So it seems that the most realistic way of encouraging a funded insurance system, as stated in the concept on pension reforms, is the introduction of mandatory insurance without increasing the current social insurance contribution rate.

The government can be motivated to introduce a supplementary funded pension insurance by aiming at sharing the growing costs of maintaining an ageing population with the non-governmental sector, and widening opportunities for the aged to save.

Territorial discrepancies in the provision of social security. Usually, when assessing the level of social security in the country, judgements are made on the basis of national average indicators. Nevertheless, benefits and social services provided by the social security system differ by region both quantitatively and qualitatively. These discrepancies are closely linked to the unevenness in regional economic development. In actual fact the pace and efficiency of economic restructuring, modernisation and manufacturing, and subsequently socio-economic conditions vary by region. Districts where economic reforms have been more successful have a higher standard of living and a more sufficient level of social security. For example, in the cities and some districts the export of manufactured goods, foreign investment and high-tech industry has ensured a sustainable livelihood for the population. Other districts, however, particularly many small towns, continue to suffer deep recession and have failed to restructure and renovate their manufacturing base. As a result unemployment is higher there, with fewer opportunities for social protection.

Benefits and social services provided by the social security system differ by region both quantitatively and qualitatively.

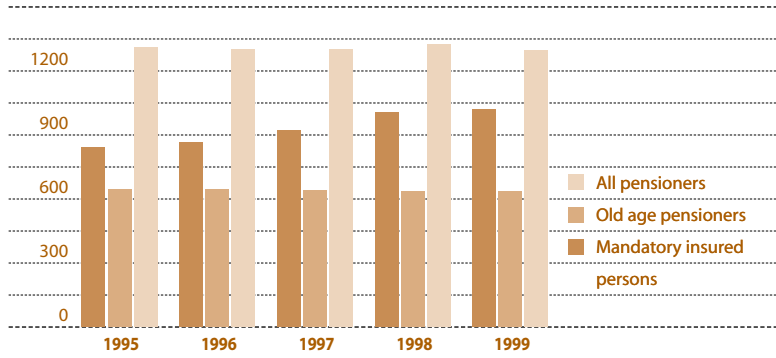
Most social insurance expenditure in 1999 - approximately 71% - was allocated to all kinds of pensions.

Social insurance. Most social insurance expenditure in 1999 - approximately 71% - was allocated to all kinds of pensions. The ratio of insured persons who contribute to SODRA to benefit recipients (pensioners) is an important indicator for the pay-as-you-go pension insurance in effect in Lithuania. This indicator differs greatly by region. More than 62% of all people covered by mandatory social insurance live in the large cities and regional centres where there is a large concentration of industrial enterprises - Vilnius, Kaunas, Klaipėda, Panevėžys, Alytus, and Marijampolė. In the small towns and rural areas, where unemployment is higher than in the cities, the ratio between the working age population and those who are insured is particularly unfavourable for the social insurance system. Meanwhile, there are many people of working age who for a variety of reasons do not contribute to state social insurance in Lithuania's cities. In 1999, only 61.4% of all people of working age contributed to SODRA.

In 1999, there was also a fairly significant territorial difference in the average wage. The highest average wages were to be found in Visaginas, Mažeikiai, Vilnius and Klaipėda (over 1,000 LTL); the lowest were in the Pasvalys, Vilkaviškis, Šalčininkai and Pakruojis districts (under 650 LTL). The differences in the average wage and the ratio of insured persons and pensioners determined the balance between SODRA revenue and expenditure in the districts. In nearly all of the towns of Lithuania (with the exception of Klaipėda, Neringa, Palanga and Vilnius), social insurance expenditure exceeded revenue. A particularly large excess of revenue over expenditure was seen in Visaginas (244%), Vilnius (152%), Neringa (138%) and Klaipėda (122%). Meanwhile, SODRA expenditure calculated in all territorial regional departments (with the exception of the Mažeikiai region) greatly exceeded the revenue collected. The worst levels of revenue covering expenditure in 1999 were found in the districts of Lazdijai, Kelmė, Ignalina, Skuodas and Šakiai. These districts were short in raising the necessary revenue to cover expenditure by more than half.

Social insurance for the rural population is a serious problem. The low standard of living in rural areas is one of the reasons why many people there avoid paying social insurance contributions or pay irregularly. In 1998, buyers of agricultural produce owed the farmers more than 250 million LTL. According to data from SODRA, there are approximately 79,000 farmers in Lithuania, of whom nearly 55,000 have been exempted from social insurance contributions and approximately 22,000 farmers do not pay social insurance contributions. Only 22,000 contribute to SODRA. Meanwhile, those farmers who do not pay insurance contributions and have no insurance record will not be

Ratio of insured persons to pensioners



...Only 38% of the 1,900 residents [in Didžiašalis] work. [...] When only every third person works, every family can be considered problematic for society. [...] Unemployment and malnutrition push people to despair. Nearly half of newcomers brought by fate to this border town are not registered and have no documents - and therefore no social guarantees (they cannot register with the Labour Exchange or receive any benefits). The local officials find out about the illegal residents when their children show up at school (where they get a free meal), or when the 'illegal' decides to ask for assistance.

Darius Širvydis. Sala duobėje, Esu, January 2000, Nr. 2 (199).

Once enterprises are privatised, the number of employees usually diminishes and the company becomes smaller. In the 16 largest enterprises in Vilnius, the number of employees has fallen from 32,000 to 2,000 in the last seven years; in the largest 25 enterprises in Kaunas, from 22,000 to 2,500; and in the largest enterprises in Klaipėda, Šiauliai, and Panevėžys, from 35,000 to 5,000.

Pimpė A. "Senka ir darbo rinkos versmės. Kaip atgaivinti?" Esu, September 1999, Nr. 17 (190).

eligible for basic old age, disability, widows or orphans benefits. Social pensions are also not always guaranteed. Such people can receive social assistance, but this is payable only for six months. In many European countries, insurance for the rural population and farmers is subsidised by the state. In Lithuania such subsidising is foreseen for economically weak farmers. Nevertheless, this measure cannot radically help to solve the problem. One of the possible solutions is the introduction of a universal (national) social assistance pension, paid unconditionally from the state budget to all old age people.

The state social insurance pension varies, although insignificantly, between cities and districts. In 1999, the highest average old age pensions (over 320 LTL) could be found in the districts of Vilnius, Kaunas, Klaipėda, Naujoji Vilnia and Pasvalys; the lowest (under 260 LTL) were in the districts of Šalčininkai and Šilalė.

The territorial differences in social insurance revenue and expenditure within the SODRA budget depends on

The low standard of living in rural areas is one of the reasons why many people there avoid paying social insurance contributions or pay irregularly.

the number of pension recipients per 1,000 insured persons. The greatest numbers of pension recipients per 1,000 insured persons are in the districts of Širvintai (2,752) Lazdijai (2,533) and Švenčioniai (2,221). The most favourable relationships between pension recipients and insured persons are in the districts of Visaginas (317 pension recipients per 1,000 insured), Mažeikiai and Šilutė (under 500), and Klaipėda and Utena (under 1,000 each), and also in Neringa (388), Vilnius (456) and other cities (around 800 on average). This may be explained by the fact that economic development was more rapid in these areas, with more young people being attracted by employment opportunities and social infrastructure. Data on economic activity in these districts differs significantly from that of the other areas in Lithuania. The relatively favourable demographic, social and economic situation in the districts of Mažeikiai, Utena and Jonava is mostly the result of the successful performance of the one or two large enterprises located in these areas. On the other hand, job losses in these large enterprises means that there are very few opportunities for finding other work in the same region.

Thus the territorial SODRA departments should already be considering ways of tackling the demographic problem in the districts with a large number of pension recipients per 1,000 insured persons. According to Lithuanian demographic forecasts, the number of people eligible for old age pensions - the majority of SODRA pension recipients - will continue to grow. This means that without an increase in the number of insured persons the state social insurance system, based on a pay-as-you-go principle, will face even greater financial problems in the future. An increase in the number of insured persons depends not only on an improvement in economic conditions, but also on the efficiency of territorial SODRA departments and on the friendliness of state tax policy towards pension insurance.

Other important indicators revealing territorial discrepancies in the formation of the SODRA budget are the annual income (as a basis for the collection of contributions) and expenditure per insured person. The highest

All of the problems depressing the Šalčininkai region come to be concentrated in their own way in territorial SODRA departments. Last year [...] it was possible to collect [...] 2 million LTL worth of contributions. But this year the situation has clearly taken a turn for the worse.

[...] Pensions alone require 2,917,500 LTL. With the addition of sickness and maternity benefits, that sum reaches more than 3 million LTL. But even at best it is possible to collect barely half of the necessary funds. For if five years ago approximately 12,500 people in the region had full-time jobs, now that figure has decreased to 8,400. Therefore only on-going subsidies from the central resources of the Social Insurance Fund can help.

Virgilijus Mundrys. Gyvenimas pasienyje [“Life along the border.”] Esu, October 1999, Nr. 20 (193).

It is hard to imagine where the money for pensions would come from if not for the several dozen agricultural co-operatives that give people work as well as pay SODRA contributions on time. [...] Last year, 48 co-operatives from the [Pakruojis] region paid more than 4.3 million LTL in social insurance contributions. Meanwhile, of the 1,075 farmers registered in the Pakruojis region, only 62 paid half of the basic pension contributions to SODRA, and only five paid taxes for all of their family members. So SODRA received 34,856 LTL worth of contributions from the private agricultural sector last year, and only 6,900 LTL during the first half of this year.

Comparing these figures, it is not difficult to understand that as our rural settlements age and the number of pensioners there increases, the liquidation of co-operatives would become an unbearable burden for SODRA. There are hardly any functioning industrial enterprises left in the Pakruojis region anymore.

Virgilijus Mundrys. Bendrovės moka, o dvarininkas protestuoja. [“Agricultural co-operatives contribute, but the farmer protests.”] Esu, August 1999, Nr. 16 (189).

income per insured person can be found in the cities and larger towns and in those districts with several successfully operating large enterprises. The highest real annual income per insured person in 1999 (4,943 LTL) came from Visaginas, Vilnius (3,639), the district of Mažeikiai (3,440) and Klaipėda (3,402). Total expenditure per insured person, on the other hand, is highest in rural districts such as Skuodas, Anykščiai, Ignalina, Lazdijai, Šakiai and Naujoji Vilnia (over 6,000 LTL), and lowest in the towns and cities of Visaginas, Neringa, Vilnius and Palanga (under 2,500 LTL). Thus the difference in social insurance income and expenditure per insured person in the various cities and districts of Lithuania is fairly obvious. Meanwhile, social insurance benefits represent the principal source of income for many people in those districts with a weak economy. Per capita revenues collected by SODRA depend on the level of economic and social development in the region, on the scale of the unofficial ‘hidden’ market, and on the efficiency of territorial SODRA departments.

Social assistance. At the present time, social benefits in cash predominate in the social assistance provided by local governments. An analysis of regional data in 1999

indicates that the total per capita regional benefits did not exceed 100 LTL only in the districts of Kaunas, Trakai, Utena and Vilnius. The highest per capita benefits were in the districts of Šilalė (182 LTL), Skuodas (164 LTL), Joniškis (147 LTL), Šilutė (143 LTL), and Šakiai (142 LTL). The lowest annual benefits per person are paid out in the cities, larger towns and regional centres. The average per capita benefit slightly exceeded 100 LTL only in Šiauliai; in all other towns and cities it was significantly lower than in the districts. In 1999, the average benefit per capita was 56 LTL in the town of Visaginas, 57 LTL in the city of Klaipėda and 62 LTL in the capital Vilnius. There was as much as a three-fold difference, therefore, in average per capita benefits between some cities and districts. Throughout Lithuania in 1999, the various benefits totalled more than 358 million LTL. On average, each Lithuanian resident would have received approximately 97 LTL in various benefits in 1999.

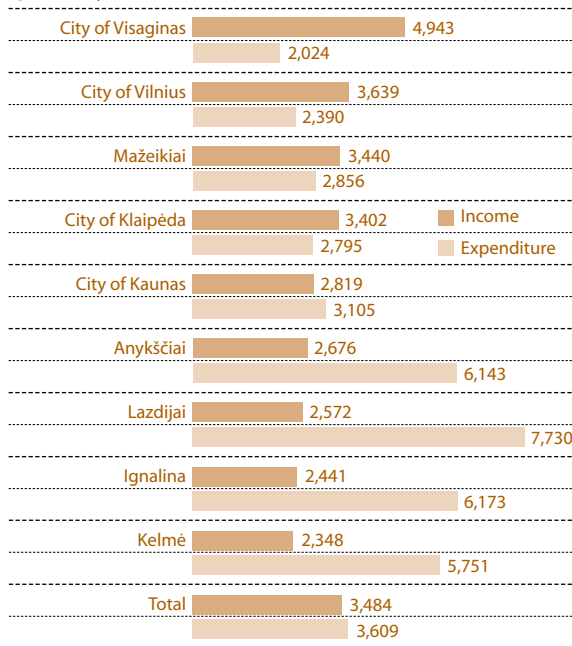
Pension recipients by district, per 1,000 insured persons 1999

Širvintai	2,752
Lazdijai	2,533
Švenčionys	2,221
Skuodas	1,934
Ignalina	1,921
Molėtai	1,771
Jonava	974
Utena	909
City of Kaunas	658
Mažeikiai	586
City of Klaipėda	560
Šilutė	487
City of Vilnius	456
City of Neringa	388
City of Visaginas	317

Districts and municipalities are now mostly responsible for the development of a social service infrastructure within their own territory. So far, local governments [...] have usually limited themselves to providing material assistance. But local governments should in fact think seriously about what services the population most needs, whether it will need them in the future, and whether there are sufficient funds for them.

Živilė Kriauciūnienė. Projektai: gauna duodantys. [“Projects: those who give, receive.”] Esu, January 1999, Nr. 1 (174).

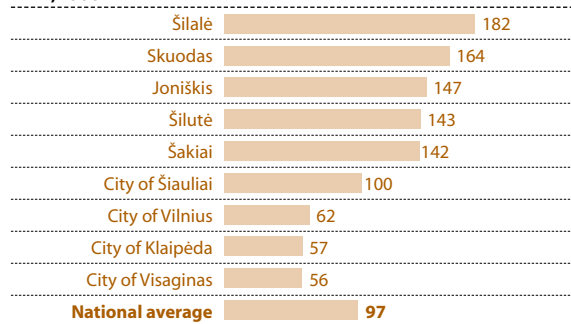
Real annual income and calculated expenditure per insured person by district, LTL, 1999



An important indicator of territorial differences in the provision of social assistance benefits is the proportion of individuals and / or households receiving benefits in cash among the total population of the settlement (city or region). In 1999, approximately 11%-12% of all households in Vilnius, Klaipėda and Visaginas were among benefit recipients. Meanwhile, in some districts such as Šilalė around 33% of households receive benefits, in Skuodas 29% and in Kelmė 28%.

Social services in Lithuania are still not sufficiently developed either quantitatively or qualitatively, despite the great progress made in this field. The need for social services at the local government level is high and fairly varied. In developing the system of social services the priority should be given to the provision of services at home, and other non-stationary (out-

Annual per capita social assistance benefits in cash by district, LTL, 1999



patient) services. According to data from the Ministry of Social Security and Labour, the greatest percentage of such services was provided in the district of Varėna (39% of people older than 75 received these services), while the least were provided in the districts of Kelmė and Kretinga, where only around 0.9% of inhabitants over 75 received these services. Some municipalities have no municipal or parish care homes for the elderly

(the districts of Alytus, Klaipėda, Šiauliai and Rokiškis). However, some of these municipalities do have nursing beds for the elderly in their hospitals. Only the districts of Alytus and Rokiškis have no such facilities. The social services provision network is therefore developed unevenly among districts.

...

From a human development standpoint, income earning opportunities and standard of living, as well as social security, depend on the place of residence. Social assistance benefits become the principal source of income for many in some districts. People living in rural areas receive significantly more social insurance and social assistance benefits than do urban residents. Such obvious differentiation in the provision of - and need for - social security between urban and rural residents does not exist in developed European countries.

At the present time, social benefits in cash predominate in the social assistance provided by local governments.

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Chapter 6

Education

Rimantas Želvys

Recent developments in education reform. The first stage of education reform ended in 1997. Its main objectives were successfully implemented: the most important legal acts regulating different spheres of education management; a system of teacher certification; a national curriculum; educational standards for grades 1-10; and new textbooks for the majority of subjects. A network of pedagogical and psychological assistance providers have started to operate. The establishment of a modern system for educating people with special needs has begun. Also, new types of pre-schools have appeared. Many important initiatives and reforms have commenced, such as: the preparation for the transition to a ten-year basic education; differentiation and specialisation in secondary school teaching; the creation of a network of youth schools; and reforms in vocational and specialised secondary education. The system of adult education has been reshaped.

However, unsolved problems remain. Lithuania's political powers have failed to agree on a common national education policy and problems of reform planning, management and implementation are left unsolved. The problem of ensuring the quality of education stays unattended. Moreover, little attention has been paid to the publicity of the reforms and their popularity in society. It is hoped that these unsolved problems, together with emerging new ones, will be solved during the second stage of reform.

The ongoing second stage is continuing to implement principles raised in the concept on education passed in 1992. These principles are being expanded, elaborated and adjusted, taking into account the political, economic and social changes that have taken place since the education concept was expounded. The following priority goals have been formulated for the second stage of education reform: the modernisation of teaching and the curriculum and improvement in the quality of education;

improvement in the social and pedagogical conditions for education; and the harmonisation of the education system.

In implementing reforms, attempts are being made to guarantee a high quality of education and apply in practice the principle of equal opportunities. The following basic tasks are being carried out in an effort to achieve these goals:

- reshaping the curriculum. The curriculum for grades 1-8 has been reformed, and preparations are under way to reform grade 9 textbooks. Teaching programmes have been adapted for grade 10 in basic schools. Modified and adapted programmes are being applied in integrating children with special needs into the general education system. Teaching is being carried out according to programmes diversified by level.
- reforming exams and the system of evaluation. Five state exams were held in a centralised manner in 2000. Diagnostic testing is anticipated for grades 4 and 8 in 2001. Methods for evaluating schools and a process for external evaluations are being prepared. A project for educational monitoring indicators has been prepared.
- renovating school buildings, equipment and teaching aids. Annually, 80 new textbooks and other teaching aids are being prepared and published. Six million LTL has been allocated for textbooks in 2000, and 300,000 LTL has been allocated for their centralised delivery to municipalities. Certain municipalities are initiating and carrying out school renovation programmes.
- reforming teacher training, re-qualification, upgrading. In pursuing the further decentralisation of teacher upgrading, the Lithuanian Teacher In Service Training Institute has been transformed into

the Teacher's Professional Development Centre, with part of its functions being transferred to regional education institutions. Since 2000, the distribution of some funds designated for upgrading are being decentralised. Preparations are underway for a project on the reform for teacher training.

- computerising schools. Between 1998 and 1999, there was one computer for every 55 pupils in grades 5 to 12. Information technology classes were given in 84% of city and just 16% of rural secondary schools and gymnasiums. The figures for basic schools are 21% and 5%, respectively. Electronic mail was being used by 48% of all schools, and by 52% of schools that have computers, whereas 39% of all schools and 41% of those with computers had access to the Internet. In 1999, more than 200 basic and youth schools were allocated computers.

- organising transportation for pupils. An analysis of the situation related to the transportation of pupils was carried out in 1999. It is anticipated that a school bus programme will be confirmed in 2000. Bidding for the provision of school buses was delayed, and the first buses were delivered to municipalities only in October 2000.

- changing the principles for financing the education system. A project for new principles for financing the education system has been prepared. The main idea behind this project is to allocate funds necessary for the maintenance of each pupil who continues to study 'funding basket'. This 'basket' becomes a basis for identifying the financial resources necessary for a training programme, teachers' qualifications, teaching aids, management needs in pedagogical and psychological assistance or additional training. In actual fact, the 'basket' follows the pupil from institution to institution, irrespective of its subordination.

- reshaping the network of schools (changing types of schools). Programmes for reforming the system of schools (from primary to secondary) have been prepared. Secondary schools will gradually be reformed into 10-year basic schools.

- providing social services. A project for the introduction of social teachers into the school system has been prepared. Social teachers are needed at school, because many problems related to pupils who need special social care arise. Social teachers help pupils who fall into an asocial environment to adapt themselves to school life and study. One of the main concerns for social teachers is school attendance. Funds are being allocated for feeding children from families depend-

ent on social welfare. Attempts are being made to enrol a greater number of 16-17 year old children.

- specialised teaching. An experiment in specialised teaching is being completed in 2000, and changes are starting to be made throughout the country. Projects for general programmes have been prepared. Requirements for commencing 11 grades of specialised schools have been formulated.

- modernising libraries. A project for modernising libraries has been prepared, although it has not yet been put into action. The Education Development Fund has approved support for the modernisation of libraries as one of its priority directions.

- implementing a 10-year basic education programme. The organisation of a network of basic schools has commenced. Teacher-consultants for grade 10 have been prepared. A basic specialised programme for grades 9-10 has been started.

The achievements of the second stage of education reform (such as renewing the curriculum, reforming exams, etc.) have been quite significant, and evaluated positively by both local and foreign education experts. At the same time, the public and the pedagogical community have not been unanimous in their opinion on certain steps in the reforms, such as the introduction of a 10-year basic education, specialisation and differentiation of teaching, or reforms in the network of different types of school. Moreover, reforms were readjusted because of cutbacks in funding for the education sector due to the economic recession. The government did not start to finance the programme on the modernisation of the curriculum, the pace of school computerisation was slowed down, and there were no funds for the government programme on the training of social teachers. Also, state funds for summer recreation programmes and the prevention of juvenile crime have been cut.

Governing the education system. The logic of the education concept demands that the lower links in the education system be more broadly involved in the process of reforms. There is a growing need for a regional education policy at the district and/or municipal level that would allow for a more flexible and attentive attitude to the needs of each district, and for a more effective use of resources.

Municipal education departments have long existed, but these have played no role in policy making because the education system was centralised. District education divisions emerged as a result of administrative reforms in 1994 and were not foreseen by the national educa-

The logic of the education concept demands that the lower links in the education system be more broadly involved in the process of reforms.

tion concept. The administrative reforms therefore unexpectedly influenced the structure of the education system.

Since the emergence of the district education divisions was not caused by the need to deal with regional problems in education, the promoters of education reform had to decide which functions to delegate to them. There were basically two ways to approach this task. The first was to transfer a part of the functions that had previously belonged to the central authorities to the district level, and thereby partially decentralise control over education. The second was to hand over certain municipal education department functions to the district level. The education reformers at that time were not ready for a more fundamental decentralisation of the education system, and thus chose the second route: they initiated amendments to the Law on Education and transferred some of the functions previously carried out by the municipalities to the district education divisions. Scholars¹ who have analysed the problems of governing education consider this to be a step back to a more centralised education system and a trend towards expanding state administration.

On the other hand, according to the national education concept formulated in 1992, municipal education departments are responsible for creating conditions conducive to the efficient operation of education institutions and teacher upgrading, preparing and implementing regional education development programmes and organising inspections.

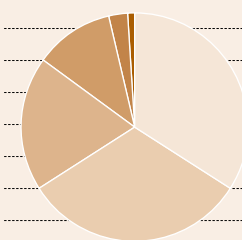
Meanwhile, after the changes mentioned above in the Law on Education, municipal education departments essentially retained only the functions related to the creation of conditions for the operation of educational institutions and teacher upgrading. Inspections have been entrusted to the districts, and the law on education does not even mention regional education development programmes. Certain other functions, such as the supply of information regarding the conditions and problems of education, guar-

anteeing that all children under the age of 16 attend school, creating conditions for the upgrading of teachers and organising their certification, are shared by district and municipal education units.

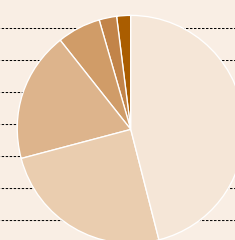
At the same time, when examining the essence of the authority that the Ministry of Education and Science has delegated to district level, it becomes clear that the latter in fact hardly carries out any independent functions at all. District education institutions are established, re-organised and abolished only by approval of the ministry. Directors of subordinate units are designated and dismissed in the same manner. Although the Ministry of Education and Science no longer has an inspection department, similar functions are carried out by the Education Supervision Department created in its place. The district education division is charged with supervising the implementation of general education policy within the district, but it is not legally obligated to independently formulate regional education policy or to prepare and implement regional education development programmes. Therefore the conditions for the formulation of a regional education policy at the district level are not

The pedagogical community and scholars have met the emergence of district education divisions with scepticism. In 1996, a questionnaire was distributed among 758 directors of secondary schools and the heads of municipal and district educational institutions (at that time there were 10 districts, 55 municipal education departments and 693 secondary schools). A total of 594 mid-level education officials (78%) responded. Two questions were aimed at evaluating the appearance of district education divisions:

What is your attitude towards the appearance of the new link to district education divisions?



Regarding the education system, the introduction of the district level in your opinion will:



R. Želvys. Education Governance and Changes, Vilnius: Garnelis, p. 154

¹ MAČERINSKIENĖ, I. (1996) Changes in the administration of Lithuania's education system during 1990-1994. Social sciences. Educology, 1 (5), 59-71. (Jackūnas, 1995; Mačerinskienė, 1996, 70)

entirely favourable. The planned creation of district education councils, as per the latest edition of the Law on Education, has not so far contributed to any motivation in this direction either.

The Ministry of Education and Science is seeking more active involvement by district education divisions in organising the supervision of education. The District Education Authority has been allocated the following functions related to education policy making and implementation:

- supervising the implementation of an annual education plan partly based on the results of annual inspections required by the Ministry of Education and Science;
- analysing statistical data and materials of an external audit, and evaluating conditions and changes in education at the district level;
- providing school accreditation on the basis of set criteria and procedures and evaluating the suitability of district schools for accreditation;
- observing examination procedures, checking documents for regulating exams, as well as the process of granting certificates; when necessary investigating violations of examination procedures in a timely manner;
- according to procedures outlined by the examination centre, providing schools with diagnostic tests;
- analysing data on the certification of district teachers and checking certification documents;
- analysing how municipalities carry out planned restructuring of the network of educational institutions; establishing, re-organising and abolishing educational institutions;
- analysing the general codes of institutions within municipalities and districts, and developing a district code for presentation to the Ministry of Education and Science;
- collecting current information on the functioning of educational institutions and feasibility of the curriculum;
- investigating complaints and requests.

There is a shortage of qualified staff for policy implementation. Municipalities lost 118 of the education professionals and inspectors who were transferred to districts. Subsequently, by 1999 there were only 49 professionals and inspectors left in the district administrations. Although an inspector is offi-

cially allocated an average of 30-40 educational institutions, in the district of Utena one inspector has to supervise 275 educational institutions; in Marijampolė, 239; Vilnius, 131; Panevėžys, 82; Šiauliai, 79; Kaunas, 74; Klaipėda, 65; Telšiai, 49; Alytus, 35. The district of Tauragė has no inspector at all, even though there are 155 educational institutions there. In actual fact, it is the head of the State Education Inspection who supervises this district.

Territorial disparities in education: qualitative and quantitative aspects. Assessment of the territorial differences in education is based on the following criteria: teachers' qualifications, teacher and director certification and the results of graduation exams. As mentioned above, the district itself is a newly created administrative unit and its role in education policy remains 'artificial'. A more comprehensive picture of the assessment of territorial differences may therefore be made by a comparison between districts, municipalities and rural and urban areas.

Districts. Generally speaking, the differences among the districts in the quality of teaching, are not large, for teachers have a similar level and standard of training nationwide. More than 80% of teachers in all districts except Marijampolė have had a higher education. The district of Marijampolė has a slightly higher number of teachers with specialised secondary education. This is probably due to the existence of the Marijampolė Specialised Pedagogical School, which supplies both Marijampolė and surrounding districts with teachers. There is also a similarity in the number of certified teachers, which varies from 63% in the district of Šiauliai to 76% in the district of Alytus. The differences in the proportion of certified directors varies from 59% in the district of Utena to 75% in the district of Alytus. The indicators in the largest districts of Vilnius and Kaunas are similar to the national average. On 1 January 2000, 69% of teachers and 62% of educational institution directors were certified nation-wide.

Another important indicator of the quality of teaching is in the results of school graduation exams. For example, in 1999, 66% of graduates from schools in Vilnius achieved a score of between 6 and 10 in the mathematics exam on a 10-point scale. The poorest results came from the district of Panevėžys, where only 38% of graduates passed the exam at this level. Tauragė district students had the best marks in the history exam: 73% scored between 6 and 10. The districts of Šiauliai and Telšiai had the poorest results, with only 60% of graduating students passing the exam with this score.

In summary, it could be concluded that there are no essential territorial differences in the quality of teach-

Higher, specialised secondary and vocational schools are unevenly distributed throughout the districts of Lithuania. The higher schools in particular are scattered disproportionately. Thirteen out of the 15 higher schools are located in two districts - Vilnius and Kaunas - obviously insufficiently meeting the needs of the other districts. Hopefully, the non-university higher education institutions - colleges - that are now being established will be more evenly distributed by district and will better meet local needs.

Specialised secondary and vocational schools play a substantial role in meeting the labour market needs of the district. Their uneven distribution by district therefore hampers employment opportunities and does not allow districts with few schools to participate in labour market policies on equal terms with other districts. The district of Vilnius alone has 20 specialised secondary schools, while the districts of Marijampolė, Alytus, Telšiai and Tauragė have only one or two each. The same goes for vocational schools. The district of Kaunas has 21 vocational schools, while Tauragė has only three. There is a ten-fold difference in the number of students in vocational schools among these districts. Areas with a greater number of specialised secondary and vocational schools are more receptive to the development of regional employment policy and labour market needs, while districts with only a couple of specialised secondary schools and few vocational schools are not involved even in policy discussions. Moreover, these schools are not subordinate to district education subdivisions.

ing. Meanwhile, districts differ essentially in providing educational opportunities. The larger districts, primarily Vilnius and Kaunas, offer wider choices to those who are seeking higher, specialised secondary and vocational education. These districts attract the most talented students to their specialised secondary and higher schools who often do not return to their home district after finishing their education, and so do not contribute to consolidating its qualified labour force. On the other hand, students from poorer families in other districts who would like to study in Vilnius or Kaunas often cannot afford to move and live there. The districts offer more-or-less equal opportunities in basic and secondary education. District educational policy could be directed towards creating a greater choice and greater opportunities for students. However, in this respect it remains limited for as long as specialised secondary and vocational schools are not subordinate to the districts.

Municipalities. More than 90% of teachers from Lithuania's urban centres have a higher education. Urban areas therefore hold first place in teacher training. For example, 96% of teachers in the town of Birštonas have a higher education, 94% in Šiauliai and Panevėžys, 93% in Klaipėda, and 92% in Vilnius, Palanga and Neringa. The following districts have the lowest percentages of teachers with a higher education:

There are no essential territorial differences in the quality of teaching. Districts differ essentially in providing educational opportunities.

District educational policy could be directed towards creating a greater choice and greater opportunities for students.

Rural-urban differences in education are most noticeable even at the pre-school level.

Marijampolė, 67%; Lazdijai, 70%; Vilkaviškis, 73%; Šalčininkai, 77%; and Prienai, 78%.

The following areas have the highest proportions of certified teachers: Varėna district, 88%; Ukmergė district, 85%; Šilalė district, 83%; Ignalina district, 81%; the city of Panevėžys, the towns of Marijampolė and Birštonas, and the Klaipėda district, 79% each. The lowest numbers of certified teachers may be found in the districts of Šiauliai, 55%; Kelmė, 56%; Prienai and Šalčininkai, 58%; Pasvalys and Pakruojis, 60%.

The highest numbers of certified directors can be found in the following areas: Ukmergė district, 88%; Kėdainiai district, 85%; Tauragė district, 83%; and the cities of Kaunas and Alytus, 82%. The following districts have the lowest numbers: Kaišiadorys, 26%; Molėtai, 27%; Marijampolė, 34%; Šilalė, 40%; and Rokiškis, 43%.

In 1999, graduates from schools in the town of Visaginas received the highest marks on the mathematics exam. The average of their best-scoring tenth was 96; in the district of Kaišiadoriai, 93; in the city of Vilnius, 92; and in Tauragė and Varėna districts, 91. Šakiai district scored the lowest: the average of their best-scoring tenth was 58; in Marijampolė district, 59; in Skuodas district, 64; and in the Vilnius and Šilalė districts, 67.

In 1999, graduates from the districts of Varėna and Tauragė received the highest marks in the history exam. The average of their best-scoring tenth was 97; in Raseiniai district, 96; in Prienai district, 93; and in Klaipėda district and the city of Vilnius, 92. Šalčininkai district scored the lowest: the average of their best-scoring tenth was 64; in the Lazdijai and Joniškis districts, 73; in the district of Marijampolė, 74; and in Širvintai, Plungė and Mažeikiai districts, 76.

In summary, it could be said that according to the selected criteria there were greater differences among the municipalities than among the districts. The larger towns and cities fall into the group with the most educated

teachers and the correspondingly highest teaching results. Students in urban areas therefore not only have more choice, they also have a higher level of teaching.

Rural-urban areas. It is very important to compare urban and rural areas when analysing territorial education gaps. Rural-urban differences in education are most noticeable even at the pre-school level. In 1998,

52% of pre-school age children in towns and cities attended pre-school educational institutions; in the countryside only 12% did. Approximately 90% of secondary schools and 31% of basic schools had computer classes in the city; 70% of secondary schools and only 9% of basic schools did in the countryside. Teachers with a higher education made up 90% of all teachers in urban areas, and 77% in rural areas.

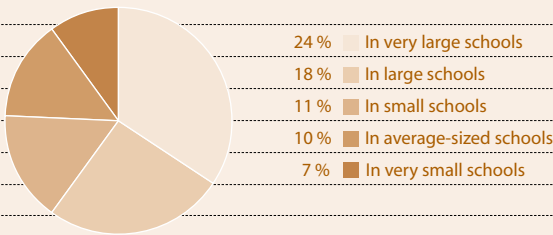
The size of the school and the quality of the teaching

In the cities, pre-schools had an average of 176 children. In the countryside they had only 48. Urban primary schools had an average of 278 pupils. Rural schools had 22. Urban basic schools averaged 248 pupils, rural schools 97. Urban secondary schools had 811 pupils, while rural schools had 270. All types of urban basic education schools had an average of 563 pupils; rural schools had 89. Urban classes averaged 23 pupils, rural classes 13.

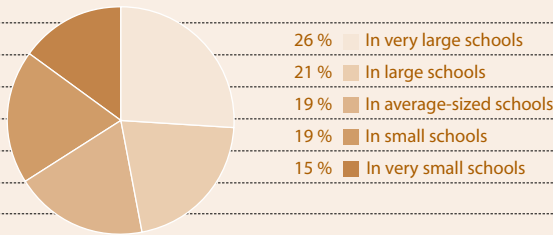
The National Examination Centre studied the correlation between school graduation exam results and school size. Schools were divided into the following groups:

- very large - more than 60 graduates
- large - 31-60 graduates
- average - 21-30 graduates
- small - 11-20 graduates
- very small - fewer than 11 graduates

The proportion of graduates who obtained very good marks (9 or 10) in mathematics:



The proportion of graduates who obtained very good marks (9 or 10) in history:



Graduates from the larger schools were more successful in their exams. Reasons for this might include the fact that larger schools are better equipped, have better qualified teachers, greater competition between pupils, etc. What is clear is that pupils from small rural schools are not guaranteed the same opportunities when compared with pupils attending larger schools in the cities. Even though the cost of maintaining one pupil in a small rural school is much higher than in an urban school, rural schools have fewer computers as well as teachers with lower qualifications. On average, twice the amount of funding is needed to keep a pupil in a rural school than in a large urban school. For example, in 2000 the national average basic funding per pupil was 1,398 LTL, with the average in the cities being 1,333 LTL, and the average in the districts being 1,466 LTL. According to available data, the greatest expenditure per pupil was in the district of Šalčininkų, at 2,262 LTL, and the lowest was in the district of Kalvarijų, at 998 LTL. Since the methodology of calculating expenditure per pupil is not yet comprehensive, these figures should be taken as provisional. But they reflect general trends.

Aspects of regional education policy making and governance. When speaking about the regional development of education, it would be most accurate to consider district, municipal, and urban and rural schools. It is perhaps the districts which have the most restricted possibilities for formulating regional education policies. Their role in ensuring equal education opportunities by even distribution of specialised secondary and vocational schools and colleges is insufficient.

It is the municipalities that have better prospects for regional education policy-making. Since these are in charge of the absolute majority of primary, basic and secondary schools and gymnasiums in their territory, they can influence the reshaping of the school network, the enlargement of schools providing more diverse and quality education opportunities. This process will unavoidably be a painful one, and may meet resistance from some communities. Inconveniences may be minimised by raising public awareness of the advantages of such reforms and by efficiently organising pupil transportation.

Balanced regional education development should be stimulated and supported by financial reforms. An important step in

this direction is the proposed principle of an equal basic 'funding basket' for each pupil. Municipalities can actively formulate policy dealing with the improvement of teacher qualification and certification, since this is directly related to improvements in the quality of teaching. They also have the means to initiate and implement school renovation projects, the computerisation of their regional schools and the modernisation of their libraries without waiting for the revitalisation of frozen government programmes. Of course, the present difficult economic situation does limit these possibilities. In any event, the principal goal of municipal education policy should be the safeguarding of quality education for all pupils regardless of their place of residence.

There are two possible scenarios for the further development of regional educational governance. The first is to essentially decentralise the education system and transfer all vocational and specialised secondary schools, colleges and supplementary training institutions to the districts. This would require the transfer of a significant part of the functions of the Ministry of Education and Science, and of financial resources to the district education divisions. It would also require increased personnel for these subdivisions. The Ministry of Education and Science should remain an institution dealing with the formulation of national education policy.

Districts have the most restricted possibilities for formulating regional education policies.

The other possible scenario is to completely abandon the concept of district education divisions and concentrate on formulating regional education policy at the municipal level. In that case, the municipal education divisions should be given back the role of being inspectors, which should eventually be transformed into being consulting and supervising educational institutions. Perhaps it would then be appropriate to also transfer vocational schools to the jurisdiction of the municipalities. The Ministry of Education and Science would carry on its role as a sufficiently influential body. In any event, the present situation - in which many functions within the education system are duplicated on several levels and where the district education divisions have no clear independent role - hinders the effective functioning of the education system.

Despite the fact that the decentralisation scenario in the education system seems to be more democratic and compliant with trends in the development of education worldwide, at the present stage of education reforms it looks less probable. The second scenario is more realistic, especially given the fact that the Ministry of Education and Science will no doubt attempt to preserve its fairly extensive powers while the influence and number of district education departments will gradually diminish or be abolished.

Chapter 7

Health

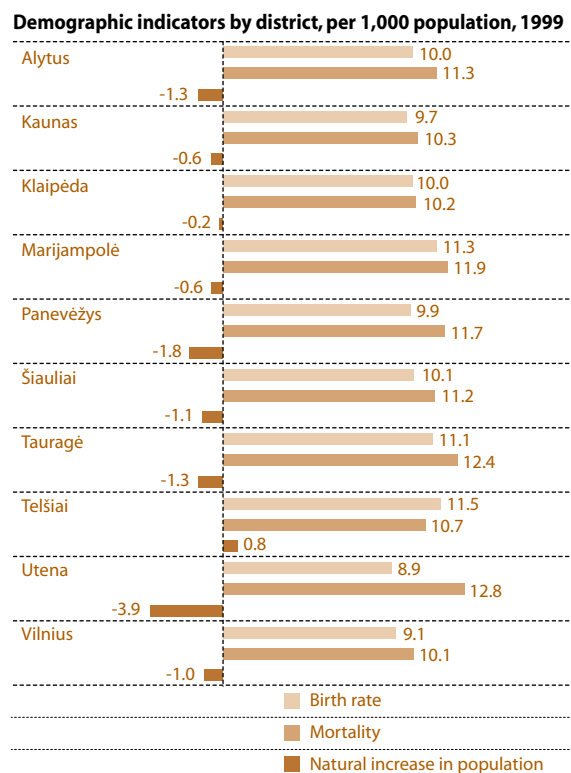
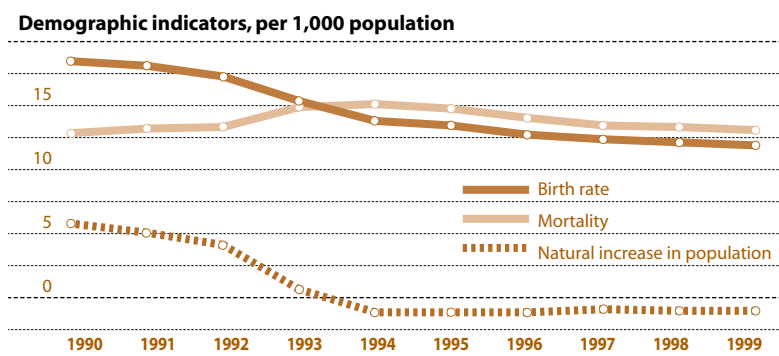
Arūnas Liubšys

The demographic situation. The demographic situation in Lithuania began to deteriorate in 1990. Since then the birth rate has been declining continuously, resulting in a negative natural increase in population even though mortality - after an increase in the first half of the decade - has decreased slightly in the past five years and in 1999 reached the same level as 1990. The demographic situation has been changing unevenly throughout the various districts of Lithuania. There are noticeable differences between them. The worst demographic situation in 1999 was in the district of Utena, which had not only the lowest birth rate but also the highest mortality rate (8.9 and 12.8 per 1,000 population, respectively). Only the district of Telšiai had a positive natural increase in population (0.8), because the birth rate in this area was significantly higher than the national average (11.5 per 1,000 population). More infants were born in rural areas than in urban areas (11.6 as opposed to 9.0 per 1,000 population). However, the mortality rate in rural areas was almost twice that of urban areas (15.3 and 8.7 per 1,000 population), and as a result there was a significant difference in the natural increase in population in rural and urban areas (-3.7 and 0.3 per 1,000 inhabitants, respectively).

Mortality. In 1999, the pattern of mortality remained similar to that of previous years. Mortality among men of all age groups living in either rural or urban areas was 1.2-1.3 times higher than that of women. People of working age accounted for 23.7% of the total mortality rate; 3.6 times more men from this age group died than women (6.9 and 1.9 per 1,000 population, respectively). The mortality of both genders was 1.7 times higher in rural than in urban areas. Such

Mortality among men of all age groups living in either rural or urban areas was 1.2-1.3 times higher than that of women.

a wide gap between the mortality of men and women and rural and urban inhabitants is determined by several factors. Firstly, a great



Mortality, per 1,000 population, 1999

	All areas			In the cities			In rural areas		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Crude mortality rate	10.8	12.0	9.7	8.7	9.7	7.9	15.3	16.8	13.8
Standardised mortality rate	9.8	13.7	7.0	8.8	12.1	6.5	11.7	16.6	8.1

The number of *abortions* decreased in 1999 compared to 1998 and 1997, reaching 28.35 per 1,000 women of fertile age, or 73.63 per 100 live births. Only in the city of Panevėžys and in the district of Kaunas there were more abortions performed than babies born (115.16 and 100.24 per 100 live births, respectively). The fewest numbers of abortions were registered in the districts of Tauragė, Telšiai and Šiauliai (36.16, 40.28 and 40.92 per 100 live births, respectively), and the greatest were registered in the districts of Vilnius, Klaipėda and Panevėžys (96.12, 91.75, and 90.82 per 100 live births, respectively).

impact is made by the difference in the age pattern (or structure) of the population. Old people (those who are aged 60 and older) account for 23% of the total population in rural areas and only 16% in urban areas. Among men old people account for 14%, while among women 22%. Therefore to make comparisons between the mortality indicators for different categories of population the standardised mortality indicator is used, which eliminates the influence of the age pattern of the population. Secondly, this difference might be ascribed to socio-economic conditions: a lower standard of living, higher unemployment and more widespread alcoholism. The influence of the quality and accessibility of health care also counts.

The mortality of infants and children. The mortality of infants further decreased in 1999 and reached a record low of 8.6 per 1,000 live births (in comparison, 15.0 per 1,000 live births in Latvia and 9.3 in Estonia). Nevertheless, here, too, a significant difference between rural and urban inhabitants can be seen. The mortality of infants was 7.6 per 1,000 live births in the cities and 10.3 in rural areas. The mortality of infants differed not only between urban and rural areas, but also by district. It was lowest in the districts of Tauragė, Panevėžys and Telšiai (7.0, 7.3

The mortality of infants further decreased in 1999 and reached a record low of 8.6 per 1,000 live births.

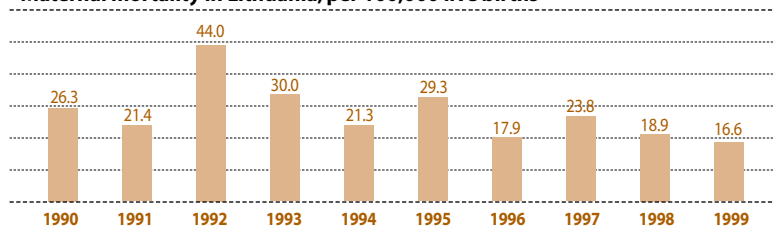
and 7.6, respectively) and highest in the districts of Utena, Kaunas and Marijampolė (12.5, 9.8 and 9.3, respectively). In some districts it was as much as two or three times higher than the national average: Kupiškis, 24.1 per 1,000 live births; Molėtai, 23.6; Ignalina, 23.3; Širvintai, 19.3; Zarasai, 18.0; Lazdijai, 15.8. Such high infant mortality cannot be explained simply by regional differences. The most important causative factor is probably the poor level

of health care in these districts. A total of 315 infants and new-borns died in 1999, comprising 0.8% of all deaths. The mortality of children in their first year of life also decreased in all age groups.

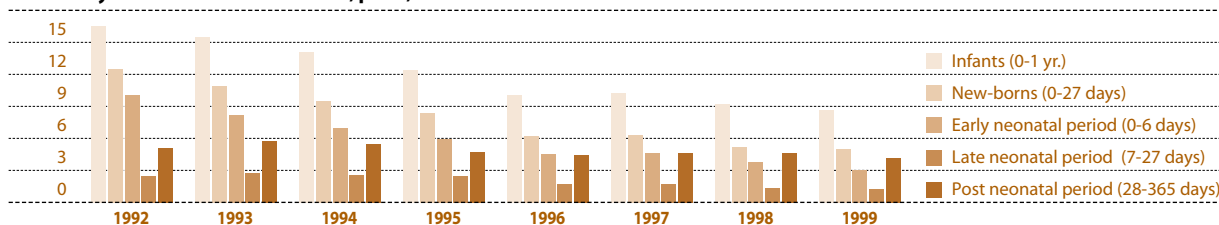
A total of 268 children between the ages of one and 14 died in 1999 (0.7% of the total mortality), of which 166 (61.9%) were boys. The mortality rate in this age group was slightly higher in rural areas than in towns and cities (0.8% and 0.6%, respectively).

Six women died in 1999 as a result of complications in pregnancy, labour, delivery and the postpartum period, and maternal mortality was 16.6 per 100,000 live births. Although this figure has also decreased in recent years, it still remains much higher than that of most developed countries.

Maternal mortality in Lithuania, per 100,000 live births



Mortality of infants and new-borns, per 1,000 live births



Mortality pattern, per 100,000 population, 1999

Cause of death	Total in all areas			In urban areas			In rural areas		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
Diseases of the cardiovascular system	592.0	547.5	631.8	459.7	437.6	479.2	875.5	777.7	965.4
Tumours	211.9	252.4	175.8	187.6	215.1	163.4	264.1	330.7	203.0
External causes of death	142.4	234.5	60.2	113.9	184.2	52.0	203.5	340.0	78.1
Diseases of the respiratory system	41.2	59.3	25.1	25.3	34.5	17.3	75.3	111.3	42.4
Diseases of the gastrointestinal system	33.5	38.8	28.8	33.7	38.3	29.6	33.3	39.9	27.2
Infectious and parasitic diseases	13.1	20.6	6.4	11.3	17.9	5.4	17.1	26.3	8.6
Diseases of the nervous system and sensory organs	9.1	10.6	7.7	8.1	10.2	6.3	11.2	11.5	10.9
Diseases of the urogenital system	9.0	9.7	8.3	7.0	7.4	6.7	13.2	14.7	11.7
Other diseases and conditions	29.1	28.7	29.4	27.1	27.6	26.6	33.0	30.6	35.1
TOTAL	1,081.3	1,202.1	973.5	873.7	972.8	786.5	1,526.2	1,682.7	1,382.4

Causes of death. The pattern of mortality in Lithuania has remained the same for several years. The three main causes of death are diseases of the cardiovascular system (54.8% of all deaths), malignant tumours (19.6%) and external causes (13.2%). Together they make up 87.6% of all deaths. While women die more often as the result of cardiovascular diseases, men 'take top place' in all other causes of death. Men die from external or so-called non-medical causes up to 3.9 times more often than women. They commit suicide 5.4 times more often, drown 4.9 times more often, die in traffic accidents 3.2 times more often, and die from alcohol intoxication 3.3 times more often. And 2.7 times more men than women are murdered. Men die more than women as a result of illness: 2.4 times more due to diseases of the respiratory system, 3.2 times more due to infectious and parasitic diseases, and 1.4 times more due to malignant tumours. One of the main reasons for such a difference is addiction (primarily through smoking and alcohol consumption), which affects significantly more men than women.

An enormous difference in the pattern of mortality exists between rural and urban areas all over the country. Inhabitants of rural areas die from diseases of the respiratory system three times more often than those in urban areas, and twice as often of vascular pathology and diseases of the urogenital system. Non-medical causes of death are 1.8 times more prevalent, and deaths as a result of tumours occur 1.4 times more often. There is no doubt that such a contrast is determined not only by the different socio-economic conditions of rural and urban dwellers, but also by a difference in the quality and availability of health care.

The three main causes of death are diseases of the cardiovascular system (54.8% of all deaths), malignant tumours (19.6%) and external causes (13.2%).

Although the pattern of mortality is similar in all regions of the country, the prevalence of certain causes is much higher in some areas than others. Mortality from cardiovascular diseases is much higher than the national average

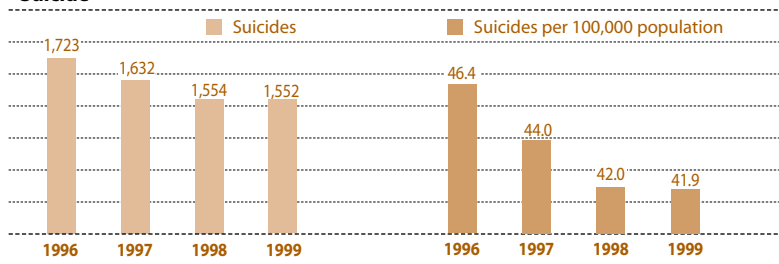
in the districts of Tauragė (748 per 100,000 population), Utena (724), Panevėžys (675), Marijampolė (646), Šiauliai (639) and Alytus (628); the incidence of death from tumours is highest in the districts of Marijampolė (246), Panevėžys (235) and Alytus (228); death from non-medical causes is most prevalent in the districts of Utena (172), Tauragė (158) and Telšiai (148); and mortality due to diseases of the respiratory system is highest in the districts of Alytus (63), Utena (56) and Marijampolė (56).

The causes of death of infants and children. Most prevalent in the pattern of mortality of infants and children are congenital anomalies and diseases of the perinatal period, which together make up almost 70% of all deaths in this age group. As in 1998, the third most common cause of death in 1999 was non-medical (external) causes, which accounted for the deaths of every tenth child or infant. Only 20% of deaths can be allotted to other diseases. The pattern of mortality has remained mostly unchanged in the last few years.

Cause of death of infants and children, 1999

Cause of death	Infants (up to 1 year of age)		Children (aged 1-14 years)	
	No. of deaths	%	No. of deaths	%
Congenital anomalies	116	36.8	19	7.1
Diseases of the perinatal period	102	32.5	-	-
External causes of death	31	9.8	159	59.3
Diseases of the cardiovascular system	7	2.2	10	3.6
Diseases of the respiratory system	18	5.7	5	1.9
Infectious and parasitic diseases	17	5.4	5	1.9
Malignant tumours	1	0.3	30	11.2
Symptoms and not clearly defined causes of death	10	3.2	5	1.9
Other causes of death	13	4.1	35	13.1
TOTAL	315	100%	268	100%

Suicide



Almost 60% of the deaths of children between the ages of one and 14 years were due to non-medical causes. As in 1998, they dominated the pattern of mortality for this age group in 1999. Almost every fourth child who died drowned (65 children, 24.3%), almost every fifth died in automobile accidents (45 children, 16.8%), and 17 children committed suicide or were murdered (6.3% for children ages 1-14).

Almost 60% of the deaths of children between the ages of one and 14 years were due to non-medical causes.

The number of suicides is gradually declining, reaching 41,9 per 100,000 population in 1999. As earlier, men commit suicide far more often than women do (73.8 and 13.6 people per 100,000, respectively). The greatest difference between the suicide rates of men and women is in rural areas, where men commit suicide seven times more often than women do. The proportion of young people who commit suicide remains high. In 1999, 280 people between the ages of 10 and 29

The number of suicides is gradually declining, reaching 41,9 per 100,000 population in 1999.

committed suicide, which accounted for 18% of the total. Nevertheless, the majority of people who commit suicide are those who are aged between 35 and 59. In 1999, 821 people of this age committed suicide, which accounted for 53% of all suicide cases. Almost 80% of the suicide total were those of working age. Regionally, the districts of Tauragė, Utena and Panevėžys stand out in terms of suicide. The rate there significantly exceeds the national average reaching 57.0, 51.9 and 50.7 per 100,000 population, respectively, in 1999.

However, in Vilnius (35.7), Kaunas (36.9) and Telšiai (39.4) districts, the suicide rate was below the national average.

Average life expectancy of the population. At the beginning of the last decade, life expectancy at birth started to decline and reached its lowest level at 68.7 years in 1994. Such a level of life expectancy was last experienced in the 1960s. Average life expectancy has been progressively increasing since 1995 along with falling mortality, and reached 72.33 years in 1999. Although the average life expectancy for both men and women has increased, women in Lithuania live almost ten years longer than men on average. Even more obvious is the difference between average life expectancy in rural and urban areas. People in the towns and cities live an average of five years longer than people in rural areas. Both men and women living in rural areas have shorter

Average life expectancy at birth for rural and urban populations

Year	National average			In urban areas			In rural areas		
	Total	Men	Women	Total	Men	Women	Total	Men	Women
1999	72.33	67.07	77.41	74.09	69.15	78.58	69.15	63.45	75.47
1994	68.71	62.73	74.89	69.76	63.98	75.48	66.41	60.19	73.66
1990	72.33	66.55	76.22	74.09	67.6	76.78	69.15	64.16	75.12

Morbidity treated by out-patient institutions by district

	Adults and teenagers				Children (aged 0-14 years)			
	Total number of illnesses registered per 1,000 adults and teenagers		Number of newly registered illnesses per 1,000 adults and teenagers		Total number of illnesses registered per 1,000 children		Number of newly registered illnesses per 1,000 children	
	1998	1999	1998	1999	1998	1999	1998	1999
Total	1,151.1	1,360.4	547.3	656.7	1,871.2	2,011.6	1,591.6	1,697.5
Alytus	995.3	1,205.3	507.4	609.9	1,548.9	1,746.2	1,372.3	1,493.9
Kaunas	1,155.5	1,238.1	563.5	576.1	2,184.0	2,184.0	1,933.5	1,886.0
Klaipėda	1,172.0	1,326.9	446.9	549.9	2,073.4	2,115.6	1,502.1	1,665.4
Marijampolė	916.2	1,281.4	427.6	578.7	1,414.6	1,860.2	1,241.4	1,563.5
Panevėžys	1,221.3	1,470.0	555.4	697.1	1,608.2	1,960.7	1,388.9	1,650.2
Šiauliai	970.4	1,172.6	452.0	564.6	1,575.1	1,820.8	1,316.7	1,589.7
Tauragė	1,159.4	1,143.2	513.5	502.0	1,543.9	1,606.7	1,266.4	1,283.6
Telšiai	977.6	1,055.5	454.2	488.5	1,644.5	1,829.2	1,454.4	1,536.8
Utena	1,042.0	1,396.6	489.7	664.6	1,727.7	2,281.1	1,549.3	1,787.2
Vilnius	1,332.3	1,651.5	687.1	876.4	2,096.7	2,085.1	1,808.7	1,802.2

life spans than those living in urban areas. Average life expectancy varies in different parts of Lithuania. People have the shortest life spans in the districts of Tauragė (71.36), Utena (71.41) and Šiauliai (71.85), and the longest in the districts of Alytus (72.93), Kaunas (72.84) and Panevėžys (72.56).

Morbidity¹. According to data from out-patient institutions, people sought medical care more often in 1999 than in 1998. It is hard to say whether this tendency is the result of an increase in the general morbidity or of a better organisation of out-patient medical care. It is obvious that in 1999, as in 1998, the inhabitants of urban areas sought out-patient medical care more often than those living in rural areas. Bearing in mind that the mortality rate is much higher in rural than urban areas (as the morbidity should be in this case), it seems apparent that health care is still not accessible enough for the inhabitants of rural areas and districts.

An analysis of morbidity treated by out-patient institutions shows that each adult or teenage individual sought medical care an average of 1.36 times in 1999, and that each child visited out-patient health care clinics an average of 2.01 times. Based on the current system of registration (illnesses are registered, not the number of people seeking medical attention), it is impossible to determine the real number of people who sought medical care more than once, and those who did not attend health care institutions at all. The highest out-patient morbidity

Average life expectancy has been progressively increasing since 1995 along with falling mortality, and reached 72.33 years in 1999.

of teenagers and adults was registered in the districts of Vilnius, Panevėžys and Utena, and of children in the districts of Kaunas, Vilnius and Utena.

An analysis of the pattern of out-patient morbidity shows that diseases of the cardiovascular, respiratory, connective tissue and musculoskeletal, and gastrointestinal systems, as well as traumas, poisonings and other illnesses caused by external factors, were most predominant among adults and teenagers. Together these diseases made up 60% of all morbidity. The pattern of morbidity is very similar to that of 1998. The pattern of out-patient morbidity of children was quite different from that of adults. Apart from diseases of the respiratory system, which comprised 65.4% of all illnesses, children sought medical attention mostly for diseases of the ocular and auxiliary organs, diseases of the gastrointestinal system, and dermal and subcutaneous diseases.

Hospitals treated 10,600 more patients in 1999 than in 1998. Virtually every fifth inhabitant (19.5%) was treated in a hospital. Out of every 100 adults and teenagers 24.4 were hospitalised, and out of every 100 children 20 were hospitalised. People in rural areas, where morbidity and mortality is substantially higher than in urban areas, were treated in hospitals 2.2 times less often. It is apparent that qualified in-patient medical care is still not sufficiently available to the inhabitants of rural areas. The number of patients treated in hospitals in all districts has changed very little over the last four years. The greatest proportion of patients was hospitalised in those districts that have the largest number of hospitals - Vilnius, Klaipėda and Kaunas - and where people come from other districts to be treated.

The greatest proportion of adult patients was treated in hospitals for diseases of the cardiovascular, gastrointestinal and respiratory systems, as well as for illnesses caused by external factors. Children were hospitalised most often for diseases of the respiratory and gastrointestinal systems, infectious and parasitic diseases, and illnesses caused by external factors. The pattern of in-patient morbidity for both adults and children remained practically unchanged last year.

Pattern of morbidity treated by out-patient institutions

Name of disease according to ICD-10 (International Code of Diseases)	per 1,000 adults and teenagers		per 1,000 children (up to the age of 14)	
	1998	1999	1998	1999
Diseases of the respiratory system	187.4	223.9	1095.0	1,110.0
Diseases of the cardiovascular system	191.7	229.4	9.6	12.5
Diseases of the gastrointestinal system	120.5	118.6	117.8	120.0
Connective tissue and musculoskeletal diseases	97.7	131.7	42.2	51.1
Ocular and auxiliary organ diseases	85.3	94.0	104.6	120.4
Traumas, poisonings and other illnesses caused by external factors	80.7	102.8	79.4	89.4
Mental and behavioural disturbances	61.7	66.3	30.2	35.5
Diseases of the urogenital system	61.0	77.0	16.7	20.3
Some infectious and parasitic diseases	54.0	57.1	84.1	97.2
Dermal and subcutaneous diseases	49.9	64.8	88.1	107.4
Diseases of the nervous system	41.0	55.5	21.1	24.3
Endocrine, dietary and metabolic diseases	32.5	40.3	23.1	27.5
Tumours	30.0	31.3	3.0	3.4
Congenital anomalies	1.5	2.1	24.5	31.5
Certain illnesses of the perinatal period	0.1	0.1	9.1	10.1
Other illnesses	56.1	65.5	122.7	151.0

¹ Data provided by the Lithuanian Health Information Centre.

Morbidity treated in hospitals by district, per 1,000 population

District	per 1,000 population			
	1996	1997	1998	1999
Total	206.3	216.2	241.7	244.7
Alytus	195.5	178.8	180.8	185.9
Kaunas	235.5	246.5	271.7	270.0
Klaipėda	243.8	256.9	304.8	319.8
Marijampolė	169.8	179.0	198.5	198.7
Panevėžys	197.6	216.3	237.4	237.8
Šiauliai	192.2	202.0	226.7	227.2
Tauragė	141.5	148.5	167.0	166.8
Telšiai	139.1	149.3	165.5	176.4
Utena	164.9	168.1	177.2	173.8
Vilnius	216.5	229.0	259.6	263.6

Malignant tumours. Both the incidence and prevalence of malignant tumours increased slightly compared to 1998. While the prevalence of malignant tumours was much greater among women (1,887.2 per 100,000 population) than men (1,178.3), new incidences were registered more often in men. On the other hand, the mortality of men associated with malignant tumours was almost 1.5 times greater than that of women. The highest incidences of malignant tumours in 1999 were registered in the districts of Kaunas (407.6 per 100,000 population), Panevėžys (400.3), Marijampolė (396.8) and Alytus (378.9), and the lowest was registered in the district of Telšiai (314.6).

Tuberculosis. Although the incidence and prevalence of tuberculosis remain high compared to developed countries, in 1999,

The greatest proportion of adult patients was treated in hospitals for diseases of the cardiovascular, gastrointestinal and respiratory systems, as well as for illnesses caused by external factors.

While the prevalence of malignant tumours was much greater among women new incidences were registered more often in men.

In 1999, there were fewer newly diagnosed cases of tuberculosis than in 1997 and 1998.

there were fewer newly diagnosed cases of tuberculosis than in 1997 and 1998. The incidence of tuberculosis decreased slightly in urban areas, while the incidence of the disease continues to grow among the inhabitants of rural areas. Almost half of all newly diagnosed cases of active tuberculosis are in individuals under the age of 45. Men are diagnosed with the disease 1.9 times more often than women are. The largest numbers of newly diagnosed cases of tuberculosis were in the districts of Telšiai (82.1 per 100,000 population), Alytus (72.7) and Kaunas (71.5). The number of newly diagnosed cases of tuberculosis in children also has not decreased. In

1999, 18 new cases of tuberculosis were diagnosed in children aged 0-4 years.

Sexually transmitted diseases (STD). Although official statistics show that the incidence of both syphilis and gonorrhoea is constantly declining, it is doubtful that official figures reflect the true situation accurately. A number of patients with STDs do not seek medical attention and are therefore not registered by clinics. Some patients receive treatment in private clinics and are also not included in the official statistics. However, even the official number of registered cases is much higher in Lithuania than in most European countries. The highest numbers of cases of syphilis were registered in the districts of Vilnius (62.4 per 100,000 population), Klaipėda (50.3), Šiauliai (49.3) and Alytus (48.0), and the lowest were registered in the districts of Panevėžys (16.5) and Tauragė (17.7). Gonorrhoea

Pattern of morbidity treated in hospitals, per 1,000 population

Name of disease according to ICD-10	Adults and teenagers			Children (up to the age of 14 years)		
	1997	1998	1999	1997	1998	1999
Diseases of the respiratory system	17.6	20.1	19.2	65.9	78.1	77.8
Diseases of the cardiovascular system	41.7	46.9	48.6	2.1	2.8	2.6
Diseases of the gastrointestinal system	21.6	22.6	22.4	21.3	21.9	24.5
Connective tissue and musculoskeletal diseases	12.8	14.2	14.9	3.3	3.7	3.9
Traumas, poisonings and other illnesses caused by external factors	19.4	21.4	22.2	15.3	17.5	18.3
Mental and behavioural disturbances	13.0	14.7	14.5	5.5	5.9	5.5
Diseases of the urogenital system	17.4	19.3	19.5	5.7	6.5	6.2
Infectious and parasitic diseases	8.5	8.7	8.4	15.7	14.5	18.4
Diseases of the nervous system	8.7	11.1	10.5	6.0	5.6	5.4
Endocrine, dietary and metabolic diseases	4.5	4.7	5.2	2.2	2.2	2.5
Tumours	15.5	17.3	17.7	1.9	2.4	2.3
Pregnancy, labour and delivery, and the postpartum period	27.5	28.5	27.6	0.04	0.04	0.04
Congenital anomalies	0.6	0.6	0.6	6.4	6.3	6.7
Certain conditions of the perinatal period	-	-	-	11.7	13.7	15.3
Other illnesses	11.6	13.2	13.1	16.1	17.7	20.3
Total	220.4	243.3	244.4	179.1	198.9	209.7

Incidence, prevalence and mortality associated with malignant tumours, per 100,000 population, 1999

District	Incidence			Prevalence			Mortality		
	Among men	Among women	Total	Among men	Among women	Total	Among men	Among women	Total
Total	386.1	365.8	375.4	1,178.3	1,887.2	1,552.9	247.5	172.3	207.7
Alytus	411.4	350.0	378.9	1,132.2	1,787.6	1,479.5	254.6	194.2	222.6
Kaunas	402.5	411.9	407.6	1,250.7	2,106.2	1,709.2	237.6	172.8	202.8
Klaipėda	392.0	359.2	374.8	1,175.9	1,902.2	1,555.4	253.9	168.5	209.3
Marijampolė	436.4	360.8	396.8	1,252.9	2,005.9	1,647.5	290.3	187.6	236.5
Panevėžys	430.0	374.4	400.3	1,253.3	2,051.0	1,679.1	293.8	185.4	236.0
Šiauliai	367.5	331.6	348.5	1,053.2	1,647.1	1,367.1	250.6	163.2	204.4
Tauragė	374.2	287.8	328.9	1,125.7	1,826.9	1,493.5	251.1	148.3	197.2
Telšiai	326.6	303.7	314.6	926.8	1,648.1	1,289.2	218.5	153.4	184.4
Utena	394.0	362.5	377.3	1,113.2	1,683.9	1,415.0	258.4	178.4	216.1
Vilnius	357.9	371.1	364.8	1,042.5	1,652.9	1,362.9	226.9	170.4	197.2

was most prevalent in the districts of Klaipėda (44.5 per 100,000 population), Vilnius (41.5) and Tauragė (33.1), and least prevalent in the districts of Telšiai (18.1), Utena (18.9) and Marijampolė (19.6).

The incidence and prevalence of diseases of addiction. The number of patients newly diagnosed with diseases of addiction almost halved in 1999. Such a sudden decrease is firstly associated with the fact that there were 1.9 times fewer individuals diagnosed with alcohol dependency. It is difficult to believe that the rate of

The greatest numbers of cases of alcohol-related psychoses were registered in the districts of Vilnius, Klaipėda and Tauragė.

alcoholism fell so dramatically in just one year. The change in the statistics more likely reflects a change in the order of the registration of this disease. Such speculation is indirectly supported by the fact that both the incidence and prevalence of other diseases of addiction practically remained unchanged compared to 1998.

The incidence of diseases of addiction is distributed quite unevenly territorially. The highest numbers of newly diagnosed cases of alcoholism were registered in the districts of Šiauliai (103.6 per 100,000 population) and Utena (100.6), while the lowest were registered in the districts of Alytus (47.5) and Klaipėda (56.6). However, the greatest numbers of cases of alcohol-related psychoses were registered in the districts of Vilnius, Klaipėda and Tauragė. The rate of such illnesses is probably a more precise indicator of the true situation of alcoholism. A most unfavourable situation in terms of incidence of drug and narcotic addiction is to be found in the districts of Vilnius, Utena and Telšiai.

Incidence and prevalence of tuberculosis, per 100,000 population

Year	Newly diagnosed cases of active tuberculosis			Number of patients with active tuberculosis		
	Total	In urban areas	In rural areas	Total	In urban areas	In rural areas
1997	79.0	75.8	85.8	288.5	275.8	315.8
1998	81.4	78.7	87.4	308.0	294.4	337.3
1999	76.9	70.3	90.9	318.4	311.4	332.2

Incidence and prevalence of tuberculosis among children, per 100,000 population

Year	Newly diagnosed cases of active tuberculosis			Number of patients with active tuberculosis		
	Total	In urban areas	In rural areas	Total	In urban areas	In rural areas
1997	18.7	20.3	15.3	37.7	39.5	34.1
1998	21.8	21.6	22.3	43.2	44.2	41.2
1999	21.9	21.6	22.5	46.7	49.8	40.8

Incidence of sexually transmitted diseases, per 100,000 population

Year	Syphilis		Gonorrhoea	
	Total syphilis	Contagious syphilis	Acute	Chronic
1997	84.9	52.7	49.2	5.3
1998	62.8	34.6	36.3	3.8
1999	45.3	23.7	30.9	2.9

Incidence and prevalence of mental diseases. The incidence of mental diseases decreased slightly in 1999 compared to 1998. More children and teenagers with mental diseases were registered than adults. It is important to note that the data presented by the National Centre of Mental Health is difficult to interpret. A comparison of the incidence and prevalence of mental diseases in different areas of the country shows very significant differences. For example, the incidence of mental diseases in Kaunas (731.7 per 100,000 population) is 3.1 times greater than the national average, and an astonishing 12.4 times greater than in Klaipėda (59.2), while not a single new case of mental illness was registered last year in the district of Joniškis. These differences in statistics can actually be ascribed to the interpretation and registration of cases.

Incidence and prevalence of diseases of addiction

Mental and behavioural disturbances (according to ICD-X)	Number of patients newly diagnosed						Patients being monitored at the end of the year					
	Total		Alcohol		Psychoses dependency		Total		Alcohol		Psychoses dependency	
	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999
Mental and behavioural disturbances under the influence of alcohol	172.2	97.7	144.7	75.3	27.5	22.4	1,927.4	1,840.0	1,871.6	1,788.9	55.8	51.1
Mental and behavioural disturbances under the influence of narcotics and substances	13.4	10.8	-	-	-	-	77.5	83.3	-	-	-	-
Total	185.6	108.5	144.7	75.3	27.5	22.4	2,004.9	1,923.3	1,871.6	1,788.9	55.8	51.1

Traumas, poisonings and other illnesses due to external causes treated in out-patient institutions, per 1,000 population

District	Adults and teenagers			Children (up to 14 years)		
	1997	1998	1999	1997	1998	1999
Total	72.7	75.6	94.5	65.8	78.0	87.5
Alytus	88.8	73.9	98.0	68.1	77.8	130.2
Kaunas	104.2	97.1	95.5	99.6	107.6	105.8
Klaipėda	51.7	54.5	63.9	32.7	44.0	40.8
Marijampolė	54.8	61.7	79.8	32.8	56.4	68.7
Panevėžys	74.1	81.5	105.2	41.2	50.0	77.5
Šiauliai	55.9	54.4	75.1	49.5	57.1	61.3
Tauragė	47.4	64.4	75.8	23.8	35.5	45.8
Telšiai	75.3	70.1	70.4	48.9	62.7	67.5
Utena	55.1	57.1	75.6	67.0	62.9	80.7
Vilnius	69.7	84.4	125.7	91.1	112.4	121.8

The incidence of trauma, poisonings and other illnesses with external causes. The incidence of illness from external causes has increased consistently over the last few years to reach a level of 94.5 per 100,000 population among adults and teenagers, and 87.5 among children. Traumas have been predominant in this group of ailments every year (among both adults and children). The incidence of trauma is distributed unevenly among the various regions of the country. The highest incidences of trauma among adults and teenagers were registered in the districts of Vilnius, Panevėžys, Alytus and Kaunas, while the highest incidences among children were in the districts of Alytus, Vilnius and Kaunas.

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This overview of the state of health of Lithuania's population in 1999 reveals that the pattern of mortality and morbidity remained very much the same as in 1998. Significant differences exist between rural and urban areas and between regions. In 1999, Lithuania

continued to have a high suicide rate, including that of teenagers and children. The prevalence and incidence of social diseases practically remained unchanged. The incidence of tuberculosis remained high (also among children), as did the incidence of STDs, the incidence of trauma, and so on. On the other hand, there were some positive trends. The mortality of new-borns and infants continued to decrease, and life expectancy at birth continued to grow.

Meanwhile, it is difficult to evaluate and correctly interpret the territorial differences of health and health care without in-depth medical and social research. The current health statistics and methods of registration of some diseases (especially social diseases) do not accurately reflect the true situation. For this reason, it is doubtful that reliable generalisations can be made using data based on these methods. Likewise, the existing problems cannot be fully understood and evaluated, nor can measures be taken to apprehend them, without full knowledge as to what the real situation is. Furthermore, tuberculosis, venereal and mental diseases and addiction depend very much on non-medical factors. It would be naive to believe that it is possible to decrease the incidence of these illnesses through the efforts of the health care community and by medical means alone. The effort of the whole of society is needed, as well as the complete support of the government. Hopefully, this overview will motivate problem-oriented studies on the health of the people of Lithuania.

Chapter 8

Crime

Petras Ragauskas

Latest trends and patterns. In 1999, for the second time since 1991, the registered crime rate decreased. It did so by 1.2%, from 210.9 crimes per 10,000 population in 1998 to 208.3 in 1999. In absolute figures, the total number of registered crimes fell from 78,149 to 77,108. Within the pattern of registered crimes, there was a 5% decrease in the number of serious crimes (from 22,112 in 1998 to 20,999 in 1999). Statistics from the first four months of 2000 show that the trend towards a decrease in the number of registered crimes has continued. Compared to 1999, this period indicates a decrease of 3.9% in the number of registered crimes, with an even greater decrease - 22% - in the number of serious crimes.

Nevertheless, it should be noted that a comparison of the number of serious crimes over time will not be completely accurate since indicators were changed by amendments to the Criminal Code in December 1999. For example, automobile theft is no longer considered a serious crime if the value of the stolen vehicle does not exceed 250 minimum subsistence levels (MSL). In the past, car theft made up nearly 20% of all serious criminal offences. An even greater decrease in serious crime may be anticipated during 2000, when all thefts of inexpensive automobiles will be considered minor crimes (until 15 December 1999, the theft of inexpensive cars was considered a serious crime).

There was also a decrease in the number of premeditated murders (3.7%), incidences of fraud (36.8%) and theft (0.7%) registered. Relative to 1998, the number of registered robberies in 1999 decreased by 7%. As in the previous year, the greatest number of these crimes - up to 44% - were committed outdoors (in 1998, this figure was 40%). Compared to 1998,

there was a 36% increase in registered incidences of rape. The number of registered cases of bribe taking grew by 38% in 1999.

Despite a decrease in the overall level of crime in 1999, certain crime figures not only did not fall, they increased significantly compared to 1998. For example, there was a 12% increase in the number of registered crimes related to the illegal circulation of narcotics and psychotropic substances. In fact it is this sphere of crime that raises the most problems regarding crime forecasts and future trends. It is thought that the level of drug-related criminal activity will continue to increase, especially given that Lithuania is a transit country between East and West.

There was a slightly higher level of registered crimes solved in 1999 than in 1998 (41% and 40.3%, respectively). Nevertheless, crime solving is still a substantial problem, especially in cases of property-related crimes: only 31% of robberies, 27% of thefts, and barely 12% of car thefts were solved in 1999. The current economic situation allows little possibility for compensating victims of property-related damages. Indeed, it creates favourable conditions for establishing an atmosphere of impunity: the just interests of victims are not resolved, while individuals committing property-related crimes are allowed to feel relatively secure.

In 1999, 25,160 individuals committed crimes. The number of juveniles committing crimes grew by 0.5% between 1998 and 1999. In 1999, 16% of all solved crimes were committed by persons between the ages of 14 and 18 (this figure rose to over 17% during the first four months of 2000). It should be noted that persons between the ages of 14 and 15 are held criminally

In 1999, for the second time since 1991, the registered crime rate decreased.

In 1999, 16% of all solved crimes were committed by persons between the ages of 14 and 18.

accountable only for some of the most serious crimes.

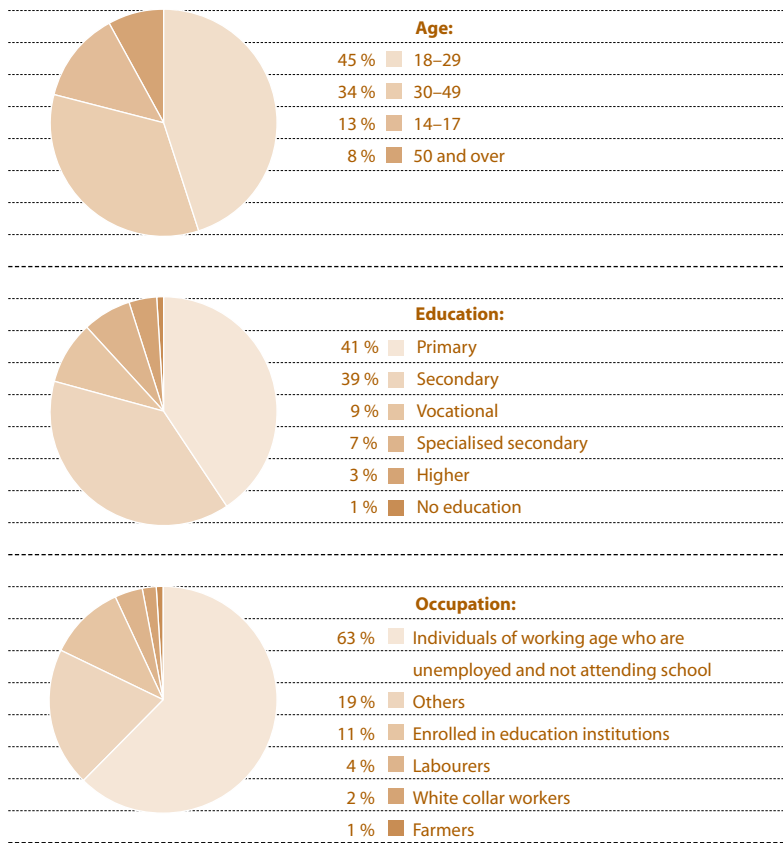
In 1999, nearly 7% of all persons found guilty of criminal offences had committed crimes after being granted a deferred or suspended sentence, or while released from prison before their terms ended (8% in 1998).

Territorial disparities of crime.

The national average crime rate does not, however, accurately reflect the territorial aspect of crime, differences in crime rates and patterns of crime. The most apparent differences exist between rural and urban areas, cities and resorts.

Rural-urban crime disparities: pattern and trends. The crime rate was approximately 25-38% higher in the cities than in the countryside. In 1999, the total registered crime rate in rural areas was 178 crimes per 10,000 population, compared with 223 crimes per 10,000 population in urban areas. It would not be appropriate to compare the urban and rural situation regarding such crimes as, for example, those related to financial mediation since few enterprises operate in the countryside.

Criminal offenders by age, education and occupation, 1999

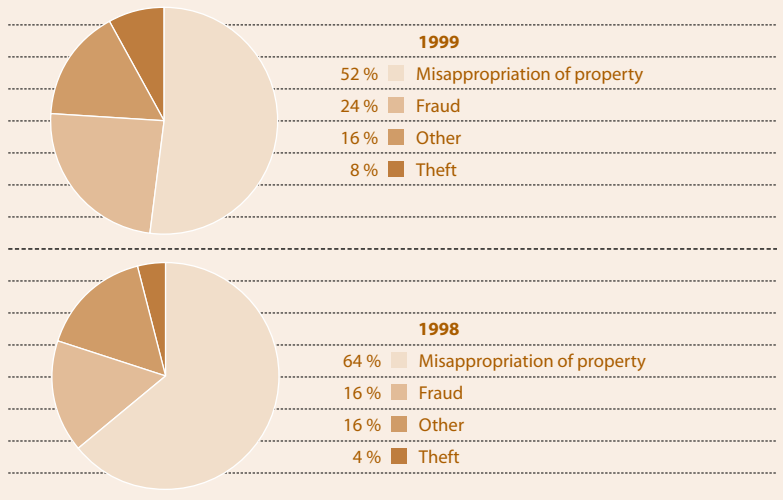


However, not all crime rates are lower in rural areas. The rate of violent crime is higher in the countryside than in the cities. The number of premeditated murders per 10,000 population in rural areas exceeds

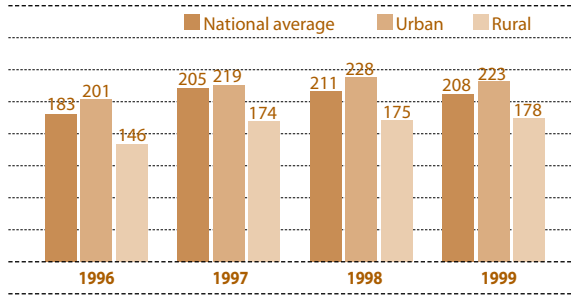
According to charges filed with the Prosecutor’s Office and with the Department of Interrogation of the Ministry of the Interior, property damages inflicted by solved crimes exceeded 182 million LTL in 1999 (in 1998, property damages were nearly double this figure, i.e., more than 335 million LTL). However, only direct damages are taken into account (for example, loss of income is not included). Moreover, it is often difficult to determine accurately the amount of damages when bringing charges, particularly in cases where damages are made up of expenses incurred as a result of the long-term treatment and rehabilitation of the victims of crime.

So the financial consequences of property-related crimes on the basis of charges filed in 1999 were lighter than in 1998. There were also changes in the pattern of damages inflicted by different property-related crimes. Damages inflicted by theft increased, while property misappropriation losses decreased by nearly half.

Damages inflicted by solved crimes



Crime rate in urban and rural areas



that of urban areas by approximately 30%. There was also a relative increase in the rate of premeditated grievous bodily harm in rural areas during 1998 and 1999 when the indicator for rural areas exceeded the indicator for urban areas by 20%. In 1996 and 1997, it was 10% lower in rural areas. Nevertheless, if in 1996 the premeditated murder rate was 56% higher in rural areas than in urban areas, by 1999 this difference had fallen to 38%. The number of murders between 1996 and 1999 fell in both rural and urban areas. The narrowing gap came as a result of the more rapid decrease in murders committed in rural areas.

In 1999, the crime rate was higher in the cities than in the countryside.

There is a very clear gap between urban and rural areas in the number of drug-related crimes and property-related crimes. In 1999, there were 3.5 times more drug-related crimes registered in the cities, and the rural-urban gap is widening. There were 90% more drug-related crimes in the cities in 1997, 100% more in 1998, and 240% more in 1999.

Property extortion and robbery in the countryside is approximately three times less than in the cities. Also there are more than 30% fewer thefts. The rural-urban gap between the incidences of theft, robbery and rape continues to be stable.

However, there is a general trend towards a decrease in disparities between rural and urban crime. If in 1996 the crime rate in the cities was 38% higher than in rural areas, in 1997 this indicator fell to 26%, in 1998 it rose to 30% and in 1999 fell again to 25%. This general decline was due to the fact that crime grew more rapidly in rural than in urban areas (even in 1999, when the general crime rate in the country decreased, rural crime grew).

Cities. In 1999, 51.4% of all crimes were committed in Lithuania's large cities (Vilnius, Kaunas, Klaipėda, Šiauliai and Panevėžys), although only around 40% of the country's population are urban

dwellers. The cities' general crime rate (264.6 per 10,000 population) is much higher than the national average (208.3).

The proportion of solved crimes in the above cities is also significantly lower than the national average. In 1999, Vilnius had the lowest level of solved crimes (29.9%) and Šiauliai had the highest (34.9%); the national average was 41%. With the exception of Neringa (34.5%), the proportion of solved crimes in all other administrative territorial units around the country was higher than in the cities.

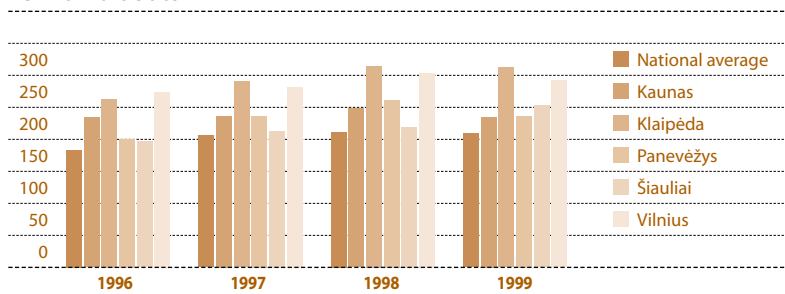
The pattern of crime varies between the cities. Klaipėda, for example, is very marked in its rate of robberies. In 1999, it had 21.2 robberies per 10,000 population, while Panevėžys had only half that number (11.7) and Vilnius had more than a third less (13.7). Klaipėda also ranks 'first' in the rate of fraud (7.7), while Panevėžys comes last (0.8) in this type of crime among the cities. On the other hand, Panevėžys has the highest level of property extortion (1.9). In this respect it is nearly four times ahead of Šiauliai (0.5), three times higher than Vilnius (0.7) and more than double the level of Klaipėda (0.9).

Vilnius is the least affected city with respect to property damage and violent crime. There were 1.3 cases of property damage or destruction per 10,000 population in Vilnius, while Klaipėda had 3.5 times the number of crimes of this nature (4.7), and both Kaunas (3.7) and Šiauliai (3.5) exceeded Vilnius by more than 2.5 times. The incidence of rape in Vilnius (0.4) is two times lower than in the other cities.

Resorts. The four self-governing resort towns (Palanga, Neringa, Druskininkai and Birštonas) differ in their crime situation from the national average and the other towns, cities and regions due to their 'resort' status. One can divide them into two groups: Birštonas and Druskininkai on the one hand, and Palanga and Neringa on the other.

It could be said that it is the tourists and visitors to the resorts who determine the level of crime there.

Crime in the cities



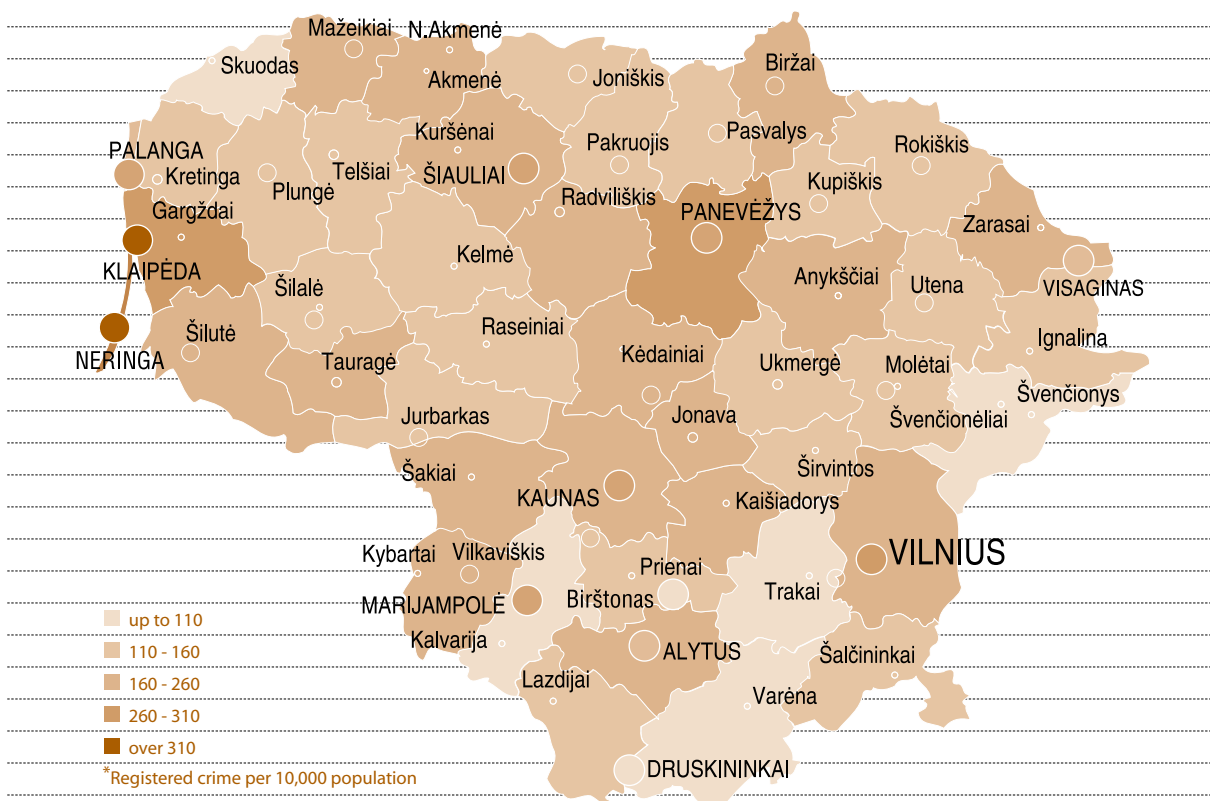
Statistics show that crime in Neringa and Palanga increases by an average of four to five times during the summer season compared to any other time of the year. In comparison with Neringa and Palanga, both Druskininkai and Birštonas have fewer visitors. If during the high season visitors outnumber the approximately 2,700 permanent residents in Neringa by several times, in Druskininkai where approximately 22,000 people live permanently, the inflow of visitors is less intensive and less noticeable. There are practically no seasonal fluctuations in the crime level in Druskininkai and Birštonas. The reason for this is not only the significantly smaller proportion of visitors, but also the fact that there are more sanatoriums than hotels and holiday inns in these towns; many people go to the sanatoriums for treatment and rehabilitation all year round. The sanatorium-oriented resorts of Druskininkai and Birštonas attract a different contingent of visitors than Palanga or Neringa. Young people looking for adventure and entertainment tend to go to the popular resorts of Palanga and Neringa. People of middle age and older prefer treatment at the sanatoriums. The impact of this fact is well illustrated by the statistics on rape. In 1999,

Statistics show that crime in Neringa and Palanga increases by an average of four to five times during the summer season compared to any other time of the year.

there were 3.8 rapes per 10,000 population in Neringa and two in Palanga, while there were only 0.5 rapes per 10,000 population in Druskininkai and no registered incidences of rape in Birštonas. Moreover, the wealthier visitors of the more prestigious resorts of Palanga and Neringa attract criminals. In 1999, the highest rate of theft in Lithuania was registered in Palanga (207.4). Neringa (195) was fourth highest nationwide. Druskininkai (45.4) and Birštonas (50) were among the five territorial administrative units with the lowest rate of theft.

Factors determining territorial differences in crime. Between 1996 and 1999, the general crime rate in the majority of Lithuania's administrative units was unstable. A clear trend towards an increase in the general crime rate appeared, in the city of Šiauliai (from 196 to 252), and the regions of Kaišiadorys (81 to 174), Klaipėda (175 to 274), Marijampolė (145 to 205), Panevėžys (220 to 293), Rokiškis (131 to 160), Plungė (76 to 129), Anykščiai (115 to 187), and Zarasai (98 to 161). A consistent trend towards a decrease in crime occurred only in the region of Varėna (from 117 to 104).

Crime in Lithuania, 1999*



The positive role of community ties in crime prevention and control has been acknowledged throughout the world. This factor has recently also been taken into account in Lithuania. For example, a movement called Stop Crime takes after the experience of other countries and propagates the idea of a 'community watch'. The essence of this idea lies in encouraging residents to keep an eye on their neighbourhood and to inform police of suspicious occurrences in their area. For community watch to be effective, neighbours need to know one another, look out for each other's property and not be indifferent. They need to involve themselves in events which might be connected with an illegal infringement of their interests. However, despite certain efforts to this end, this process has not yet taken hold in Lithuania. Nevertheless, one should keep in mind that in places where people do maintain fairly close ties, such informal controls function with no special efforts being made to introduce them.

Territorial differences in crime are determined by a diverse range of factors, from socio-economic factors such as education, occupation, income and unemployment, to the efficiency of law and order institutions and the public's trust in them.

There is a connection between crime and unemployment as already noted, that unemployed people of working age who do not study committed 63% of all solved crimes in 1999. Generally speaking, there are several aspects linking crime and unemployment. First of all, unemployment, particularly long-term unemployment, unavoidably leads to the loss of income and a fall in the standard of living. People who do not work or attend school have a surplus of free time, which leads them (young people in particular) to look for ways to express themselves. Moreover, crimes are often committed by those who are not looking for work and who have adopted crime as a 'profession'. Nevertheless, this does not necessarily mean that the regions with the highest unemployment levels have the highest rates of crime. Registered crime in the Šalčininkai and Švenčionys regions, which have high registered unemployment levels, is low.

Social and wealth differentiation also has an impact on the level of crime. The greater the differentiation, the higher the probability that individuals with a lower standard of living feel disadvantaged, which creates favourable conditions for property-related and violent crime. The desire to increase social prestige using

any possible measures indirectly creates conditions for property-related crime linked to the acquisition of various prestigious and luxury items. Since the greatest wealth and income differentiation exists in the cities, this factor probably has the greatest impact on crime there.

Alienation among people and their weak participation in society plays a role in the deterioration of informal social control mechanisms and is therefore conducive to crime. Individuals who have weak ties with the people around them have no fear of losing their trust and incurring their condemnation. Alienation makes

Unemployed people of working age who do not study committed 63% of all solved crimes in 1999.

According to data from a victimology survey carried out by the Crime Prevention Centre in 1997, 53% of respondents who were robbed did not inform police of the crime. The most frequently given motive was lack of trust in the police (40% claimed that the police 'could not do anything').

International Victimology Survey in Lithuania, 1997: Concluding Report.

crime easier to commit, and it allows criminals to anticipate that they will not be held accountable. Casual witnesses with no relationship to the victim often think that there is no point either in intervening when a crime is being committed, or in reporting to the police once a crime has been committed.

Police efficiency (usually measured in terms of solved crimes) has a great impact on the level of crime. Crime solving is very closely connected to one of the important factors 'motivating' crime - the

The financial situation in the police force continues to deteriorate. Some police investigation departments no longer have the funds to take photographs of criminals and suspects, and can therefore not present them for identification. The government has explained that a 50% cut in the police budget for the year 2000 means that the normal functioning of police work cannot be guaranteed.

A foundation for crime prevention established by the municipality of Vilnius was forced to close down its operations at the beginning of 2000. Organisations and private individuals who wish to act as police sponsors no longer know whom to address. Those who want to contribute to crime prevention were previously able to transfer money to this effect through the foundation. Approximately ten companies and individuals have replied to an appeal to support the police, and the Vilnius police force has received around 6,000 LTL for petrol.

*N.Stabingyte, „Financial Situation for Police Continues to Worsen“
Lietuvos aidas, 20 June 2000*

probability of getting punished for a crime. On the one hand, a criminal who is not caught is inclined to continue committing crimes. On the other, people who notice that criminals are not being brought to trial lean more easily towards committing a crime themselves under favourable circumstances than they would if they knew that punishment is the inevitable consequence of every crime.

Trust or a lack of confidence in the police has a great impact on the efficiency of police work. A lack of confidence leads to a situation where people are reluctant to co-operate with the police. It creates a 'vicious circle', in which the police work inefficiently because of a lack of help from the community, while the public are reluctant to co-operate because the police do not work effectively.

The efficiency of police work also depends on management, the 'quality and quantity' of staff, the gen-

eral financial and material situation, and the availability and technological level of equipment. It should be noted that in this respect territorial units operate under different conditions.

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Studies of the territorial differentiation of crime help us to evaluate the impact of different groups of factors on crime. The ranking of administrative units by crime indicators permits a differentiated application of preventative and control measures. Meanwhile, so far there have been practically no specialised crime control and prevention measures at the municipal level. This is left in the hands of the state. Much more attention must therefore be given to the multi-dimensional research of crime and the nature of its territorial differentiation at all levels, from state to local government.

Conclusions

The territorial disparities in human development are not a new problem for Lithuania. They existed long before the restoration of the country's independence in 1990. However, neither their scope nor their nature and root causes have been assessed and analysed substantially. Often territorial disparities in development were limited to the economy. Nevertheless, it would be wrong to reduce such territorial differences in human development to economic indicators. There are fundamental social values at issue here. Therefore, in this Report an attempt was made to look beyond the national averages that hide the real situation and examine territorial disparities from the standpoint of human development.

After the years of rapid and sustainable (as many experts predicted) economic growth that Lithuania experienced from 1994/95 came a recession. External factors such as adverse trends in Central and Eastern European markets and sharpening international competition together with internal factors such as residual elements of the centralised system, monopolised domestic market and insufficient investment in science and education were conducive to economic recession. GDP fell by 4.1% and unemployment reached 8.4% according to the Labour Exchange, or 14.1% according to the labour force survey, during 1999. Regionally, the highest unemployment was registered in the district of Alytus, at 21.1%, and the lowest was found in the district of Telšiai, at 10.5%. Unemployment was highest among young people. At the beginning of 1999, according to the Labour Exchange, unemployment among people under the age of 25 reached 26.5%. At the start of 2000, the figure was already 27.1%.

The level of economic development is very uneven by district. In 1998, 63.4% of the total GDP was created in the three districts of Vilnius, Kaunas and Klaipėda. In 1999, per capita foreign investment

exceeded the national average in Vilnius district by four times, while in the district of Marijampolė it accounted for barely 7% of the national average. The heaviest burden of the recession is heaped on the shoulders of people from underdeveloped districts. Moreover, local budgets, 80% of which are allocated to social needs, experienced a decrease in revenue while programmes for regional development were formulated without taking regional needs into account and were therefore ineffective in mitigating the problems of deprived areas.

The economic recession sharpened other territorial disparities in human development. Most indicative of this is the widening gaps in the standard of living between rural areas, towns and cities. The results of the household budget survey between 1996 and 1999 clearly show a growth in the standard of living. The changes in income and consumption both in size and pattern have been unfavourable for rural areas and small towns. Employment income and income from agriculture, business and crafts is being rapidly replaced by social assistance benefits. An important conclusion is that the rural population is losing its ability to sustain itself with traditional rural occupations while new sustainable livelihoods have not appeared. The decline in employment in agriculture is welcome from an economic point of view, but without a national strategy on the absorption of rural unemployment it will inevitably increase hardships for the rural population. There is already an exceptionally wide rural-urban gap in expenditure related to human development - on education, health care, leisure and culture. In 1999, 15.8% of the population was below the poverty line. The level of poverty was significantly higher in rural (28.2%) than in urban areas (7.2%). There was an exceptionally high increase in the number of poor households where the breadwinner is a farmer.

Usually when assessing the level of social security in the country judgements are made on the basis of national average indicators. Nevertheless, benefits and social services provided by the social security system differ by region both quantitatively and qualitatively. These discrepancies are closely linked to the unevenness in regional economic development. Social insurance for the rural population is a serious problem. The low standard of living in rural areas is one of the reasons why many people there avoid paying social insurance contributions or pay irregularly.

Rural-urban differences in education are most noticeable. Approximately 90% of secondary schools and 31% of basic schools had computer classes in the city; 70% of secondary schools and only 9% of basic schools did in the countryside. Teachers with a higher education made up 90% of all teachers in urban areas, and 77% in rural areas. It could be concluded that districts differ essentially in providing educational opportunities. The larger districts, primarily Vilnius and Kaunas, offer wider choices to those who are seeking higher, specialised secondary and vocational education. Contrary to the logic of the education concept that demands that the lower links in the education system be more broadly involved in the process of reforms, district administrations and municipalities play a small role in policy making.

Mortality and morbidity and particularly the incidence and prevalence of social diseases and deaths related to non-medical causes (particularly suicide) in rural areas exceed the urban indicators. In 1999, the standardised mortality rate was higher in rural areas than in towns and cities (11.7 and 8.8 per 1,000 population). The health of the individual continues to depend more and more on the place of residence, while much-needed productive efforts from all of society cannot be taken for granted because

the knowledge of situation is insufficient and health statistics are underdeveloped.

In 1999, the registered crime rate decreased for the second time since 1991. In 1999, the crime rate was higher in urban areas than in the countryside. However, the rate of violent crime is higher in the countryside than in the cities. The number of premeditated murders per 10,000 population in rural areas exceeds that of urban areas by approximately 30%.

It may be said that 1999 became a year for the reappraisal of values in the Lithuanian economy. Continuing this statement, it could be said that the time for reappraising values not only in the economy but in the whole of society has come.

In actual fact, regional policy began to develop in Lithuania as a result of EU 'pressure' rather than internal needs. So far, the emerging regional policy is not associated with economic development and investment policies. But the first important step towards the formulation of a people-centered development policy has been made.

Regional differences in economic and social development in Lithuania are already great and will probably continue to increase in the future due to the further restructuring of agriculture and industry, a process that is being accelerated in preparation for EU membership. The shared values of the EU include democracy, individual rights and freedoms, equality of opportunity and respect for human dignity. There is no alternative to equitable development because no democratic state or union of states can function without efforts towards economic cohesion between rich and poor regions and solidarity between fortunate and disadvantaged groups.

The principal human development indicators

Measuring human development

Human development embraces many sides of development. On the one hand it is a conceptual advantage, but on the other it makes the measurability of human development problematic. In addition, human development contains crucial but not easily quantifiable factors related to empowerment, human rights and freedoms.

The UNDP has constructed a composite Human Development Index (HDI) which was used in the first ever *Human Development Report 1990 (Global Report)* for the international ranking of countries. The basic idea behind the HDI was to incorporate social choices beside income into a single and relatively simple indicator. The HDI is calculated using latest international data available at the time the *Global Report* is presented. The experience of the HDI calculation reflects the continuous effort to improve data.

Life expectancy at birth was therefore chosen as a proxy for many important choices since longevity closely correlates with the quality of life (adequate nutrition, good health, education). In 1998, revision was made by incorporating the demographic effect of HIV/AIDS and by taking into account extensive migration and demographic changes in Eastern Europe and the CIS, which have led to substantial changes in life expectancy estimates for a number of countries.

Adult literacy was chosen as a crude reflection of access to education (later, adult literacy was replaced by mean years of schooling). The adult literacy rates presented in *Global Report 2000* are new estimates taken from UNESCO's February 2000 literacy assessment.

As a measure of the standard of living and as an indicator of access to important economic choices *GDP per capita* was chosen, adjusted for purchasing power parity (PPP US\$). Data are provided by the World Bank. The base year for the PPP data is 1996. So data for the reference year are extrapolated using relative price movements over time between each country and the USA, the base country.

With normalisation of the values of the variables that make up HDI, its value ranges from 0 to 1. The HDI value for a country shows the distance that it had to overcome to reach the maximum possible value of 1.

The HDI can suffer from inadequate, controversial and obsolete data. For example, in dynamic transitional countries, the calculation of the HDI based on two-year old data (GNP at PPP) diminishes its relevance to the current situation. However, the main shortcoming of the HDI remains the fact that it does not take into account an important integral part of the human development concept - political freedom. Beside the conceptual and methodological complexities for measuring political

freedom, the inclusion of such a component to the HDI would provoke political opposition from governments in the developing and industrialised world. If industrialised countries are more concerned with the viability of a political freedom index, developing countries are afraid that any such indicator will be used to impose additional conditions for aid. A low human developing ranking based only on income, literacy and longevity is usually explained by a lack of resources.

The UNDP tried to advance the dialogue with the construction of a Political Freedom Index (PFI). It was suggested that the following clusters be combined: political participation; rule of law; freedom of expression. Each cluster was assessed using data obtained from respected international human rights organisations - Amnesty International, Freedom House, Human Rights Watch, the Inter-Parliamentary Union and other bodies. On the basis of this data an illustrative PFI was designed, ranking 100 nations in 1994 (88 in 1991). With time, the methodology of the PFI should evolve. The human development concept is much broader than its quantitative measurement. Yet tools are needed to monitor progress in human development.

The UNDP maintains a methodology for the HDI which is flexible and open to improvement. So far, the evolution of measuring human development is progressing. The modern international system of measuring human development includes the following indicators:

- The HDI, constructed annually since 1990, measures average achievements in basic human development and produces ranking of countries.
- The gender-related development index (GDI) and the gender empowerment measure (GEM), introduced in *Global Report 1995*, are composite measures reflecting gender inequalities in human development. The GDI measures achievements in the same dimensions as the HDI does. The GEM measures gender inequality in economic and political opportunities.
- The human poverty index (HPI), introduced by the *Global Report 1997*, measures deprivations in the same dimensions as HDI measures achievements.

To sum up, the HDI problem remains open. It is acknowledged that this index needs further research and improvement.

From: UNDP Human Development Report 2000, Oxford University Press, New York, 2000. Human Development: concept and trends, UNDP/SPY, Vilnius, 1999.

	Life expectancy at birth, years, 1998	Adult literacy rate, % age 15 and above, 1998	GDP per capita, PPP US\$, 1998	HDI, 1998
High human development, of which	77.0	98.5	21,799	0.908
Canada (1)*	79.1	99.0	23,582	0.935
Norway (2)	78.3	99.0	26,342	0.934
United States (3)	76.8	99.0	29,605	0.929
Finland (11)	77.0	99.0	20,847	0.917
Czech Republic (34)	74.1	99.0	12,362	0.843
Hungary (43)	71.1	99.3	10,232	0.817
Poland (44)	72.7	99.7	7,619	0.814
Estonia (46)	69.0	99.0	7,682	0.801
Medium human development, of which	66.9	76.9	3,458	0.673
Croatia (49)	72.8	98.0	6,749	0.795
Dominica (51)	76.0	94.0	5,102	0.793
Lithuania (52)	70.2	99.5	6,436	0.789
Cuba (56)	75.8	96.4	3,967	0.783
Belarus (57)	68.1	99.5	6,319	0.781
Russian Federation (62)	66.7	99.5	6,460	0.771
Latvia (63)	68.7	99.8	5,728	0.771
Romania (64)	70.2	97.9	5,648	0.770
Ukraine (78)	69.1	99.6	3,194	0.744
Low human development, of which:	50.9	48.8	994	0.421
Bhutan (142)	61.2	42.0	1,536	0.483
Bangladesh (146)	58.6	40.1	1,361	0.461
Sierra Leone (174)	37.9	31.0	458	0.252
OECD	76.4	97.4	20,357	0.893
Eastern Europe and the CIS	68.9	98.6	6,200	0.777
All developing countries	64.7	72.3	3,270	0.642
World	66.9	78.8	6,526	0.712

* In brackets, HDI rank of country

What does HDI 2000 reveal?

- Of the 174 countries for which the HDI is calculated, 46 are in the high human development category (HDI equals or more than 0.800), 93 in the medium category group, among them Lithuania, (0.500-0.790) and 35 in the low category group (HDI less than 0.500).

- The link between human development and economic prosperity is not automatic. A total of 97 countries

rank higher on HDI than on GDP (PPP US\$) per capita, suggesting that they have converted income into human development effectively. For 69 countries the HDI rank is lower than GDP. These countries were less successful in translating economic prosperity into better lives for their people.

From: UNDP Human Development Report 2000, Oxford University Press, New York, 2000.

Demography, 1999

Population	3,700.8 thous.	Birth rate per 1,000 population	10.8	Life expectancy at birth:	Migration:		
Were born	36.4 thous.	Mortality rate per 1,000 population	9.8	Average	72.33 years	Arrived	2,679
Died	40.0 thous.	Natural increase in population	- 3,588	Women	77.41 years	Departed	1,369
				Men	67.07 years	Migration saldo	1,310

Health

	1993	1994	1995	1996	1997	1998	1999
Morbidity, 100,000 population							
Malignant tumours	1,199.2	1,241.3	1,266.2	1,322.5	1,393.5	1,465.7	1,552.4
Active tuberculosis	220.3	240.0	250.2	268.0	288.5	308.0	318.3
Syphilis	18.5	57.6	90.8	101.4	84.9	62.8	45.3
AIDS*							
HIV carriers	4	10	10	12	31	52	66
AIDS	1	1	1	5	3	8	5
Mortality by cause of death, per 100,000 population							
Cardiovascular diseases	672	654.4	654.3	633.2	613.9	602.0	592.0
Malignant tumours	201	200.7	203.2	202.6	199.7	204.9	209.5
External causes	168	185.9	176.0	157.6	146.9	144.7	142.4
Suicide	42	45.8	45.6	46.4	44.0	42.0	41.9
Men	73.5	81.9	79.1	79.3	77.1	73.6	73.8
Women	13.9	13.4	15.6	17.1	14.5	13.7	13.6
Infant mortality (aged 0-1), per 100 live births	15.7	14.2	12.5	10.1	10.3	9.2	8.6

*Corrected data from the AIDS Centre

Per capita GDP by district

District	GDP per capita, thousands LTL (below, as a proportion of the national average, %)			Change between 1996 and 1998, %
	1996	1997	1998	
Alytus	7.2	8.7	9.1	+26.4
Kaunas	8.2	10.3	11.4	+39.0
Klaipėda	9.4	11.0	11.9	+26.6
Marijampolė	6.7	8.2	8.9	+32.8
Panevėžys	8.6	10.4	10.8	+25.6
Šiauliai	7.6	9.0	9.4	+23.7
Tauragė	6.3	6.7	7.0	+11.1
Telšiai	7.7	9.1	9.9	+28.6
Utena	8.0	9.3	10.3	+28.8
Vilnius	10.0	12.6	15.4	+54.0
<i>Total</i>	<i>8.5</i>	<i>10.4</i>	<i>11.6</i>	<i>+36.5</i>
	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	

Employment, unemployment, wage*

	1993	1994	1995	1996	1997	1998	1999
Employment level, %	-	56.1	55.2	54.6	52.6	53.5	53.2
Unemployment level, % (Labour force survey)	-	17.4	17.1	16.4	14.1	13.5	14.1
(Labour Exchange)	4.4	3.8	6.1	7.1	5.9	6.4	8.4
Women	3.7	3.8	6.4	7.7	6.3	6.6	8.2
Men	5.0	3.8	5.8	6.6	5.6	6.2	8.5
Average monthly gross wage, LTL	166.1	325.4	480.9	618.2	778.1	929.8	1,012.9**
<i>*Corrected data</i>							
<i>**Preliminary data</i>							

Average state insurance pension, LTL

Type of pension	1993	1994	1995	1996	1997	1998	1999
Old age	55.71	108.31	147.04	188.97	239.86	286.15	309.06
Disability	53.78	104.31	139.34	176.82	221.86	260.91	278.94
Widowers'/widows' and orphans'	-	-	91.96	92.56	71.25	58.10	60.49
of which for those who lost spouse before 1 January 1995*	-	-	-	-	31.10	34.43	35.13
Loss of breadwinner	50.50	96.02	102.62	122.66	149.96	174.60	183.11
Seniority	57.93	111.88	125.81	149.93	179.67	208.27	216.24
<i>* Paid since 1 July 1997</i>							

Education

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
Enrolled at all education levels	633	644	665	688	717	746	774
Drop-outs, % of total enrolment	0.9	1.2	1.3	1.2	0.9	0.9	-

Crime

	1993	1994	1995	1996	1997	1998	1999
Registered crime	60,378	58,634	60,819	68,053	75,816	78,149	77,108
Solved crime, %	37	41	40	41	43	40.3	41.0
Crime per 10,000 per population	162	158	164	183	205	211	208

Gender profile*

Average gross monthly wage, LTL

	All employed		of which:			
	Women	Men	Workers		Employees	
			Women	Men	Women	Men
April 1996	534	709	339	560	628	915
April 1997	685	920	546	765	782	1,197
April 1998	886	1,152	643	902	1,044	1,587
April 1999	968	1,182	660	909	1,152	1,615
2000, first quarter	930	1,143	654	861	1,092	1,551

Results of Parliamentary (Seimas) elections

	Women	%	Men	%
VII Seimas, 1992	10	7.1	131	92.9
VIII Seimas, 1996	25	18.0	114	82.0
IX Seimas, 2000	15	10.6	126	89.4

Members of municipal councils

	Women	%	Men	%
1995	289	19.4	1,199	80.6
1997	326	22.0	1,158	78.0
2000	275	17.6	1,287	82.4

Cabinet of Ministers

	Total	Women	Men
VI Cabinet of Ministers	20	-	20
VII Cabinet of Ministers	20	1	19
VIII Cabinet of Ministers	18	2	16
VIII Cabinet of Ministers	15	1	14
IX Cabinet of Ministers	15	1	14

Enrolment, %, beginning of 1999/2000 school year

Education level	Age group	Girls	Boys
Primary	7-10	99.3	100.0
Basic	11-16	91.9	94.0
Secondary	17-18	95.1	90.4
Vocational	19-20	7.3	3.4
Specialised secondary and higher	19-24	47.3	31.2
Total	7-24	80.4	75.6

Pupils and students by gender, %

	Specialised secondary		Higher	
	Girls	Boys	Girls	Boys
1990	50.8	49.2	51.9	48.1
1995	64.3	35.7	56.2	43.8
1999	64.6	35.4	57.9	42.1

Scientists, 1999

	Women	Men
Habilitated doctors, of which:	116	717
Professors	62	550
Docents	19	77
Doctors, of which:	1,670	2,857
Professors	4	48
Docents	781	1575
Professors without academic degree	11	61
Docents without academic degree	69	162
Scientists, total	1,866	3,797

* Women's Issues Information Centre data