Chapter 1

Governance and well-being in Lithuania: The context of regulatory policy reform

This chapter describes the main public governance reforms and economic and social trends that have marked the country since its independence in 1991. It points to some of the challenges related to the development of a regulatory environment and public institutions that support investment, growth and well-being.

Public governance: From communism to EU accession

After regaining independence in 1990, Lithuania was confronted with a public administration with little internal coherence. Lithuania partly addressed these challenges through a series of reforms of the public administration and a clear commitment to EU integration. The treatment has been effective, but some of the symptoms, such as limited horizontal co-ordination and a relatively weak Centre of Government, are still evident.

The communist heritage

Under communism, ministries worked in silos, which resulted in little coherence and co-ordination among them. Political and strategic decisions were taken mostly within the communist party, as opposed to the administration (Synnerström, 1997). Closely related to the lack of coherence and co-ordination was the lack of co-ordinated staffing and personnel management. Each public institution was an independent employer, and there were no common standards for selection, recruitment, promotion, or personnel management. In addition, the concept of management functions was virtually absent. Officials working for the administration were considered "specialists". There were no standard requirements or professional criteria for the respective positions in the state administration, which impeded job mobility across institutions (Synnerström, 1997). Furthermore, due to the hierarchical and legalistic nature of the system, it was more important for officials to comply with the formal rules than to ensure the actual implementation of programmes (Nakrošis, 2001).

Post-communist government institutions

The constitution adopted by referendum in 1992 radically changed the governance system, abandoning the primacy of the communist party over the state. The President of the Republic, directly elected for a period of five years, is the head of state. The President appoints and dismisses the Prime Minister, with the approval of the *Seimas*, the Lithuanian parliament. The unicameral *Seimas* is composed of 141 members elected for a period of four years through direct, mixed-system elections.[1]

The executive and state agencies

The Law on the Government adopted in 1994 defines the composition, competences and roles of the executive, known as the Government of the Republic of Lithuania.[2] The Government of the Republic of Lithuania consists of the Prime minister and ministers. According to the Concept of the Improvement of the Structure of the Executive Power System,[3] the executive power consists of: ministries, agencies under the ministries, government agencies, public bodies, whose owner or stakeholder is the state and the state enterprises whose owner's rights and obligations are implemented by state agencies. There are also public and private limited liability companies controlled by the state. In 2013, 810 public sector organisations operated in Lithuania: 537 state budgetary agencies, 81 state enterprises, 134 public agencies, and 58 public and private limited liability companies. The group of state budgetary agencies consisted of: 14 ministries, 14 government agencies, 99 agencies under the ministries, and 411 other state agencies.[4]

The 14 relatively autonomous ministries in Lithuania shape public policy, organise, co-ordinate and control its implementation in the spheres of administration assigned to the minister. The functions of the public policy implementation may be assigned to the ministry only in the cases laid down by the law and for a set period of time. According to the Law on the Government, the government agencies and agencies under the ministries are responsible for the implementation of public policy.

Both the agencies under the ministries and the government agencies are budgetary institutions, i.e. financed through the state budget. The differences mainly lay in the appointment and accountability of the agency head, as well as in the agencies functions and organisation of their activities:

- **Government agencies** participate in the shaping of a policy in the area of administration assigned to the minister and implement such policy. The **directors of government agencies are appointed by the government** on the recommendation of the minister of an appropriate sphere of administration. There is no control by the parliament or the office of the President over this appointment. However, while the appointment lies in the hands of the government, directors are not generally replaced when a government changes. The director of the agency is accountable to the government and the ministers whose areas of competence are related to the activities of the agency.
- Agencies under the ministries implement public policy in the spheres of administration assigned to the minister and also attend to the shaping and implementation of such policy. An agency may participate in the shaping of the public policy in the policy area assigned to the minister. The **heads of the agencies under the ministries are appointed according to the Law on Civil Service for a period of four years**, with the possibility to extend their term of office by another four years. The head of the agency is recruited and dismissed by the relevant minister. The appointment follows the successful participation in a civil service competitive exam. The head of an agency is directly subordinated and accountable to the minister.

Lithuania has been successful in clearly separating political and professional functions and de-politicise the Civil Service. In each ministry, a career civil servant, the Chancellor of the Ministry, heads the administration. Vice-ministers are also civil servants. A Civil Service Law adopted in 1999 (and replacing a Law on Officials adopted in 1995) has supported the principle of impartiality and legal accountability of the civil service. The new Civil Service Law adopted in 2002 has reinforced these basic principles of the Civil Service and introduced some changes on the status of a civil servant, his responsibility, remuneration, social and other guarantees, as well as the legal basis for the management of the Civil Service.

Deconcentrated and decentralised levels of government

At the beginning of the 1990s, Lithuania had 581 municipalities, which limited familiarity and capacity for self-government. Municipalities were progressively reduced to 60 and made more democratic and open. A Law on Local Self-Government, adopted in 1994, regulates the functions and powers of municipalities.

In addition to municipalities, Lithuania was also divided into 10 territorial administrative counties with an appointed governor and a county administration. In 2010, the county administrations were abolished and functions were transferred to either municipalities or the central government. Counties still exist as territorial units. Chapter 8 on the interface between supra-national, sub-national and national levels of government provides an overview of the regulatory powers of municipalities and their role in supporting the regulatory policy agenda in Lithuania.

EU accession and the drive for strategic planning and evidence-based policy making

Lithuania's accession to the EU resulted in a number of considerable changes, including for the public administration. The EU accession process provided an incentive to strengthen the capacity of the public administration for forecasting, planning, organising, co-ordinating, controlling, and assessing outcomes.

In order to prepare for EU accession, between 1998 and 2003, Lithuania worked with the Institute of Public Administration of Canada (IPAC) and the Ontario Public Service (OPS) to introduce reforms aimed at strengthening planning, co-ordination and use of evidence in the policy-making process. A national programme on better regulation was prepared in 2007 and adopted in 2008. The reforms also introduced a number of new management tools and processes, including:

- A **Strategic Planning Committee** chaired by the Prime minister, to oversee the priority-setting and budget process and review major policy issues;
- A strategic planning system, including
  - a government priority-setting exercise in advance of the budget process;
  - preparation of individual ministry strategic plans to reflect the government's strategic priorities and ministry service-delivery priorities; and
  - public release of ministry strategic plans and public report of results achieved against targets;
  - An **integrated fiscal-planning system**, including
  - a macroeconomic plan developed in tandem with the priority-setting exercise; the plan included realistic aggregate revenue, expenditure and deficit targets, as well as a fiscal envelope to fund the strategic priorities;
  - individual ministry budget ceilings accompanying the budget circular's instructions to ministries and agencies; and
  - instructions requiring ministries to demonstrate how their budget requests supported the government's strategic priorities;
- A **restructured Centre of Government, the Government Office,** to reflect a shift in focus from an administrative to a strategic/analytic organisation, including the creation of a Strategic Planning Unit to co-ordinate the planning process and liaise with the Ministry of Finance.

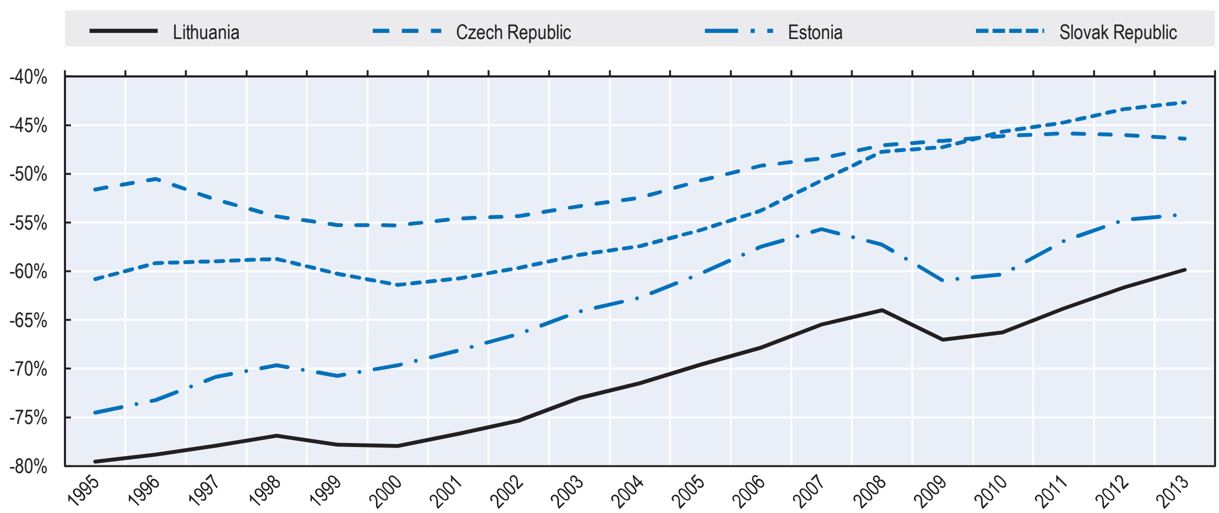
The reforms were introduced under the first Kubilius government and, although the government stayed in power only from 1999 to 2000, the following governments continued the reforms aimed at connecting strategic planning, priority-setting, and fiscal planning. In 2003 the first report on ministries' performance was submitted to the *Seimas*. Furthermore, impact assessment reports were introduced, in order to base ministerial policies on greater evidence and move away from an overly legalistic approach to policy making.

Over time, however, reforms lost momentum. In 2009, the second Kubilius government assessed the reform progress rather negatively. Strategic planning had become an administrative rather than a political exercise. Furthermore, there appeared to be no meaningful evaluation system in place. Consequently, a new wave of reforms aimed at strengthening the efficiency and effectiveness of the public administration and, more broadly policy making, were introduced. Some of these reforms, in particular those related to regulatory policy, will be reviewed in the following chapters.

Growth and well-being: Economic performance, public finances and social challenges

Lithuania has been rapidly catching up with other EU countries. However, a large convergence potential remains. In 2013, GDP per capita was only 57% of the average GDP per capita in the 28 EU countries (Figure 1.1 and Box 1.1).

Figure 1.1**. Gap in GDP per capita with EU average**



Note: Percentage gap with respect to the simple average of the GDP per capita of the 28 EU countries (in constant 2005 PPPs).

Source: World Bank World Development Indicators database, http://data.worldbank.org/indicator/ny.gdp.pcap.kd.

Box 1.1. Lithuania and comparable economies

The review uses as reference points for comparing Lithuania's socio-economic performances three EU members which are also OECD members: the Czech Republic, Estonia and the Slovak Republic. While there is some variation in the size of the economy and the population (see table below for reference), these countries share some geographic proximity (Central and Eastern Europe), recent history (former communist countries joining the EU in 2004) and economic structure (open catching-up economies).

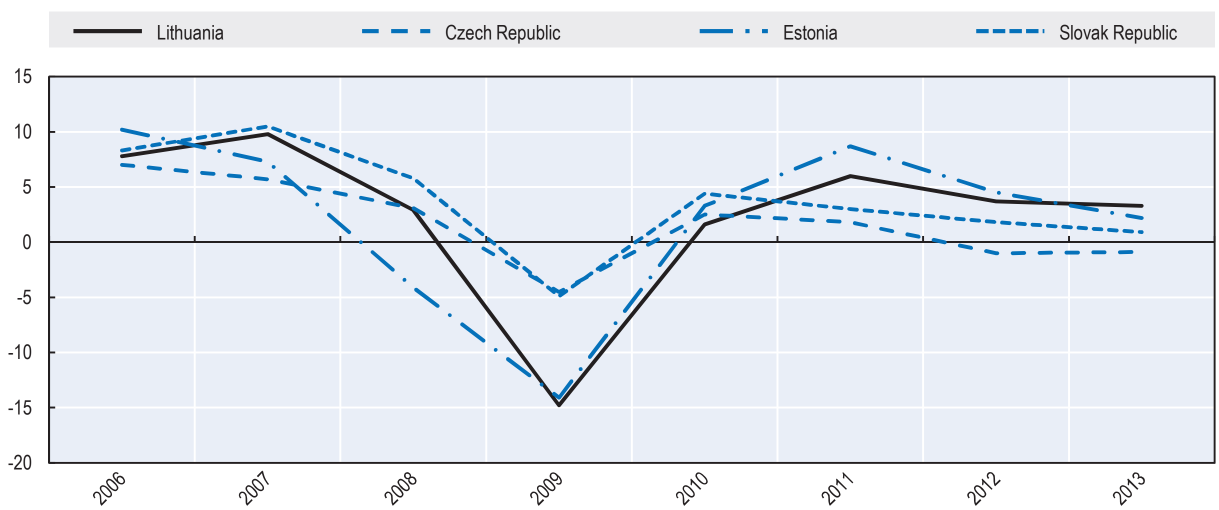
Country	Population (2013, million people)	GDP (2013, million euros)
Lithuania	2.97	34 955
Czech Republic	10.51	156 932
Estonia	1.32	18 738
Slovak Republic	5.41	73 593

Source: Eurostat database, http://ec.europa.eu/eurostat/tgm/table.do?language=en&pcode=tps00001 and http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nama_10_gdp.

Economic performance

The country was hit particularly hard by the economic crisis. Between 2008 and 2009, GDP dipped by almost 15 percentage points (Figure 1.2). The recovery has been as impressive as the recession. The economy has regained steam rapidly, largely pushed by exports. Lithuania has gained global market share, upgraded product quality, and reoriented away from traditional markets, mostly former Soviet Republics and Russia. However, success has relied to a large extent on labour intensive exports and was facilitated by favourable trading partner growth (IMF, 2014). For example, Lithuania performs worse than all its peers in attracting foreign direct investment (Figure 1.3).

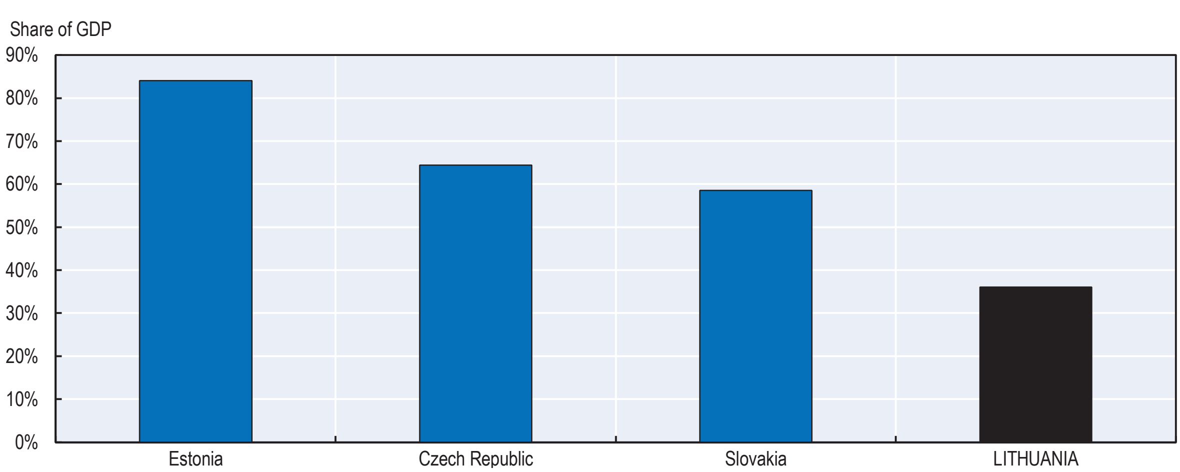
Figure 1.2. **GDP, percentage change over previous year**



Source: Eurostat database, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nama_gdp_k&lang=en.

Figure 1.3. **FDI inward stocks**

2010-13 average, share of GDP



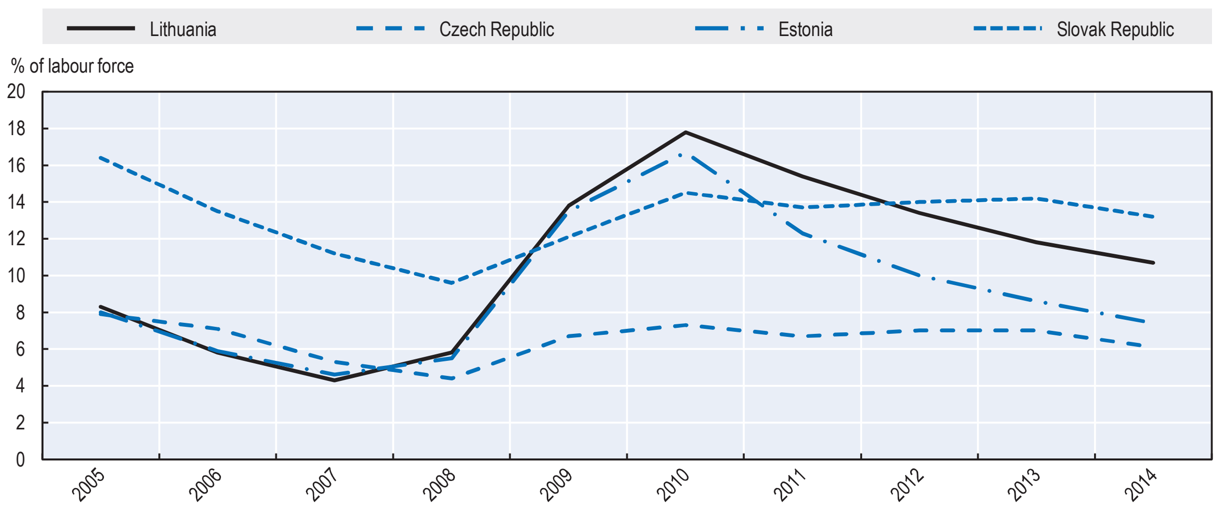
Note: Inward stocks measure all direct investment held by non-residents in a given country.

Source: Eurostat database, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=bop_ext_intpos&lang=en.

The unemployment rate has decreased significantly from its peak of 17.8% in 2010, reaching 10.7% in 2014 (Figure 1.4). Despite the good economic performance, however, unemployment remains relatively high. Moreover, while before the economic crisis the unemployment trend closely followed Estonia, since the recovery, Estonia appears to have been more successful in bringing people back to work. While also confronted with significant challenges, Estonia appears to benefit from some framework conditions, including a business-friendly environment and governance that are conducive to sustained growth (Box 1.2).

Figure 1.4. **Unemployment rate**

As % of labour force, annual average



Source: Eurostat database, http://appsso.eurostat.ec.europa.eu/nui/show.do?wai=true&dataset=une_rt_a.

Box 1.2. Estonia's economic performance and the role of a growth-friendly business environment

Like Lithuania, Estonia experienced a sharp output contraction in the aftermath of the 2008 and 2009 economic crisis. In the following years, the economy has recovered quickly and, despite persistent socio-economic challenges including labour market conditions and a slow-down in 2012, Estonia appears to benefit from framework conditions that are conducive to sustained economic expansion. These conditions include:

- Product and labour market regulation are business-friendly and are backed up by an effective public administration, transparent governance and efficient law enforcement.
- Low and simple corporate taxation supports entrepreneurship;
- A solid banking sector and the strong fiscal position support growth;
- Literacy, numeracy and science competences among Estonian youth are among the strongest in the OECD. Numeracy and literacy skills of the adult population are also above average.

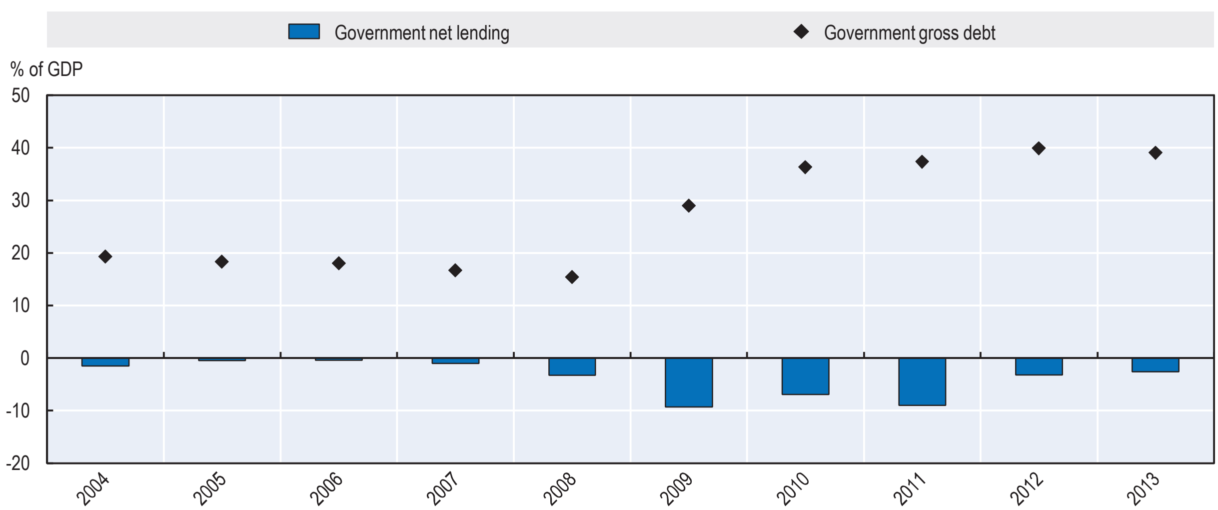
Source: OECD (2015a), *OECD Economic Surveys: Estonia 2015*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-est-2015-en.

Public finances

In 2008, public-debt-to-GDP ratio declined to approximately 15% in 2008 thanks to a deficit that hovered around 1% of GDP and sustained economic growth. Consolidation, however, proved cyclical and the crisis triggered a fiscal deficit of almost 10% of GDP in 2009, which was reduced to approximately 7% in 2010, sliding back however to approximately 10% in 2011. Public finances have been brought back on track through a multi-year consolidation effort that has stabilised public debt at 40% of GDP, fiscal deficit at 2.6% of GDP and ushered Lithuania into the euro zone (Figure 1.5).

Figure 1.5. **Fiscal balance and public debt**

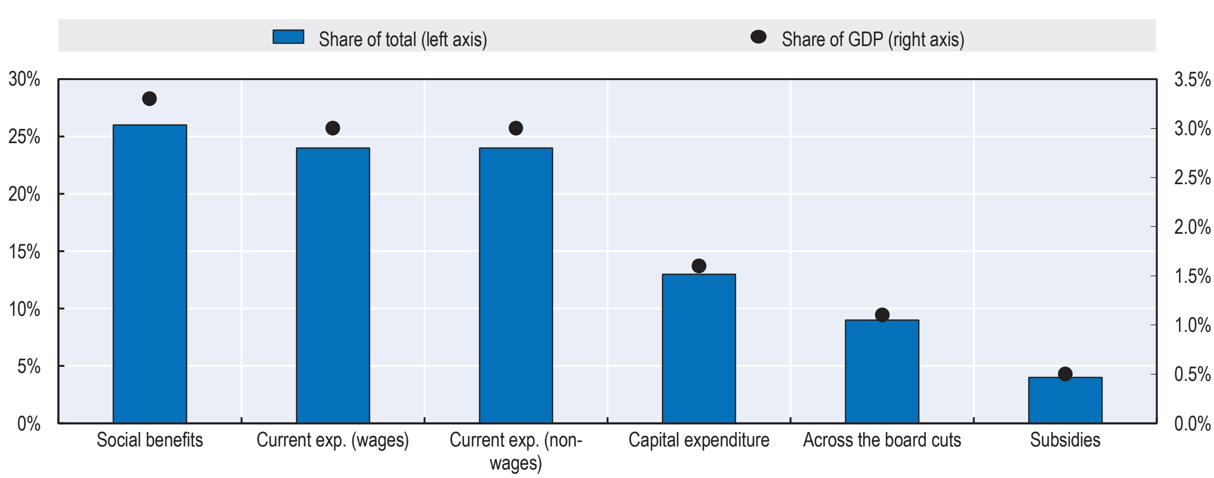
As % of GDP



Source: Eurostat database, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=gov_10dd_edpt1&lang=en.

Figure 1.6. **Public expenditure consolidation**

2009-2012

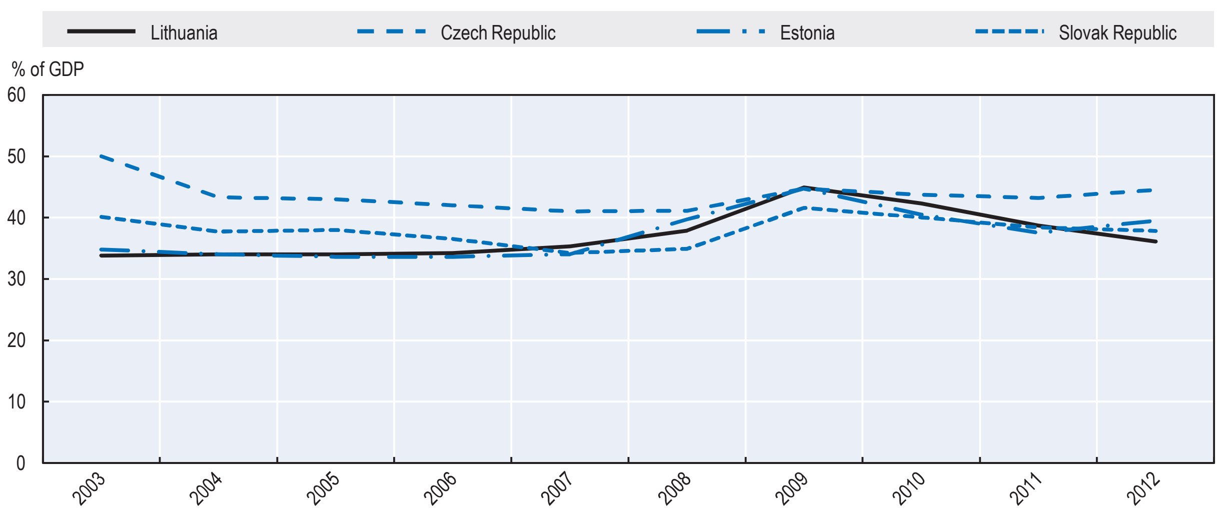


Source: IMF (2014), "Republic of Lithuania: 2014 Article IV Consultation: Selected Issues", IMF Country Report No. 14/114, www.imf.org/external/pubs/cat/longres.aspx?sk=41538.0.

The consolidation programme has significantly reduced government spending. Public expenditure was cut by 13% of GDP over the period 2009-2012. Social benefits and current expenditure (both wages and non-wages) accounted for almost three-quarter of the consolidation measures (and approximately 9% of GDP). Capital expenditure was reduced by 1.6% of GDP (Figure 1.6). In 2012, general government expenditure accounted for 36% of GDP in 2012, the lowest share compared to the Czech Republic (44.5%), Estonia (39.5%) and the Slovak Republic (37.8%) (Figure 1.7).

Figure 1.7. **General government expenditures**

As % of GDP



Note: General government includes central and local governments and social security funds.

Source: Eurostat database, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=gov_a_exp&lang=en.

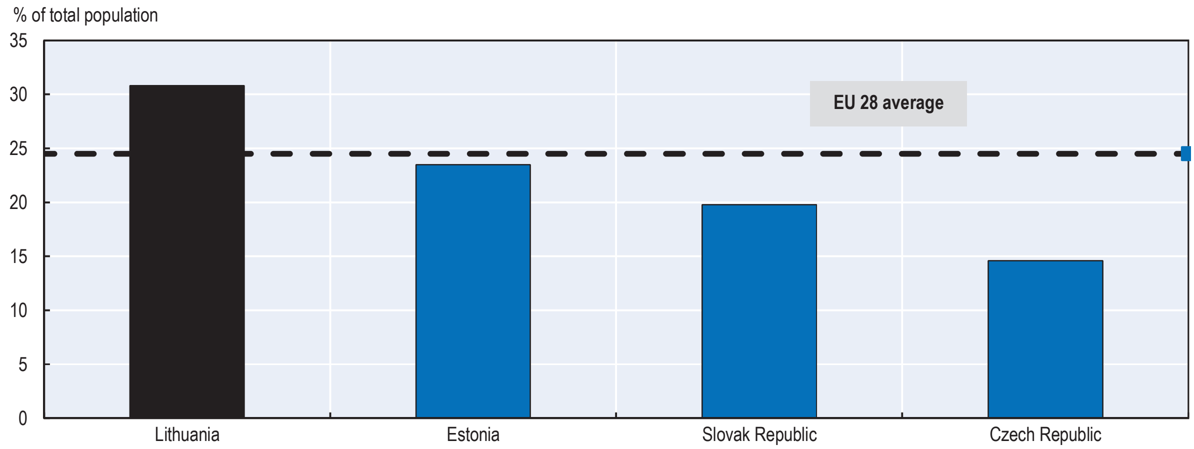
Poverty and population flows

Lithuania is confronted with a number of social challenges that calls for a good calibration of public policies to ensure that economic performance—impressive so far—is inclusive and sustainable over time. For example, 30% of the population is at risk of poverty or social exclusion, six percentage points above the average for the 28 EU countries and between 7 and 16 percentage points above its OECD and EU peers (Figure 1.8).

Emigration is another challenge that could affect the long-term welfare of the country. In 2010, Lithuania experienced an unprecedented peak in emigration. This increase in the number of registered emigrants might in fact represent a more realistic snapshot of the state of play (rather than a real increase in the number of emigrants) since this year it was introduced a statutory obligation for all permanent residents of the country to pay compulsory health insurance (providing thus an incentive to those who had already emigrated to declare their status as emigrants). This trend has continued through 2013, albeit at a slower pace (Figure 1.9). Immigration flows are minimal. The emigrants have been disproportionally young and more educated than those who have remained, depriving the country of a qualified labour force (Sipavičienė and Stankūnienė, 2013).

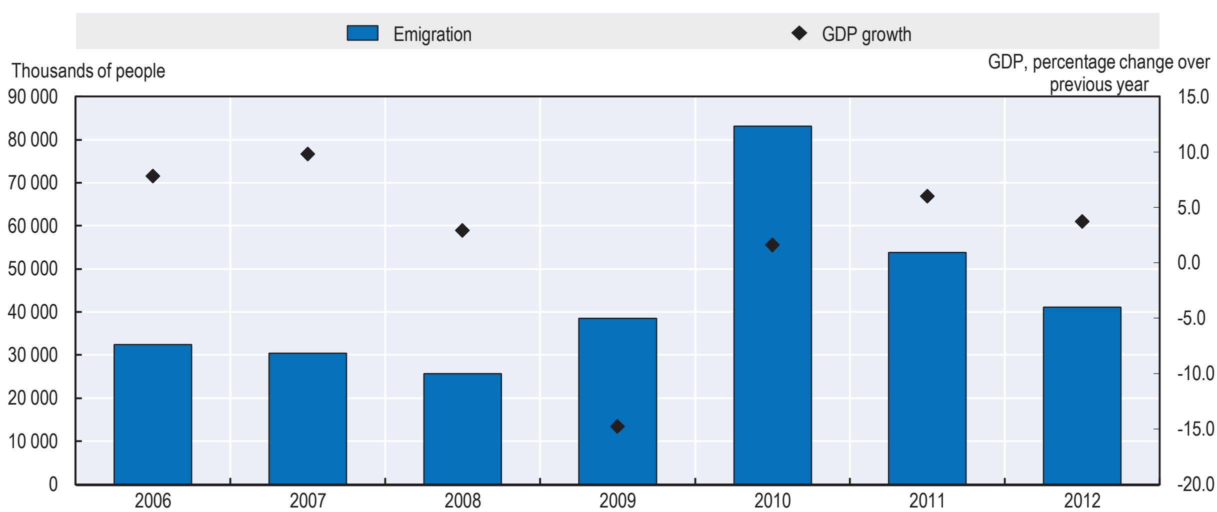
Figure 1.8. **People at risk of poverty and social exclusion**

Share of total population, 2013



Source: Eurostat-SILC database, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_peps01&lang=en.

Figure 1.9. **Emigration and GDP growth**



Source: Eurostat database, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=migr_emi2&lang=en.

Fit-for-purpose public policies and institutions?

This section looks at three public policy areas – trust, tax administration and the business environment – that can help support inclusive and sustainable growth.

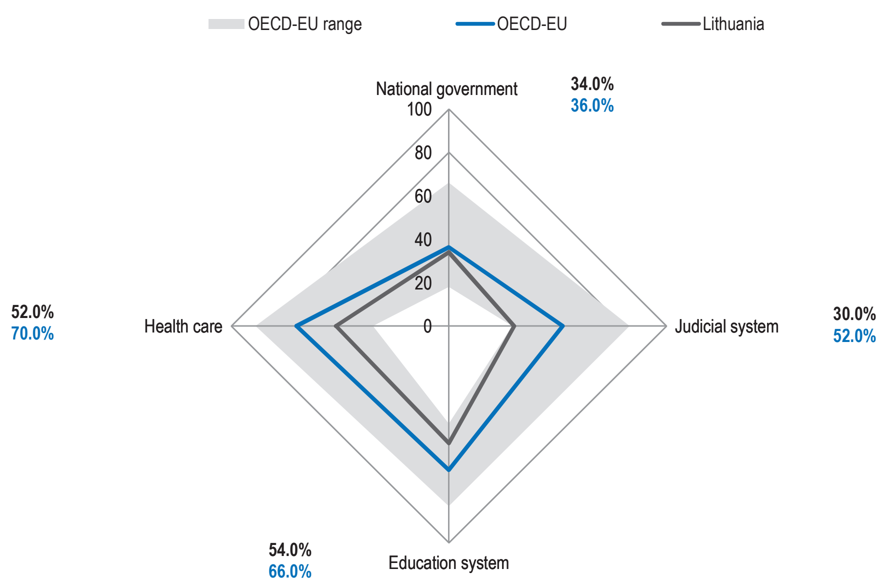
Trust

Trust in government can help increase the efficiency and effectiveness of government operations, including regulatory policy implementation. A decline in trust can lead to lower levels of compliance with regulation. Citizens and businesses can also become more risk averse, delaying investment, innovation and employment decisions that can help regain competitiveness and support growth (OECD, 2013).

Trust in the national government – 34% of Lithuanians tend to trust the national government – is lower than trust in other public services such as education and is lower than in other OECD countries which are also members of the EU. Trust in the judicial system is particularly low (30% of Lithuanians tend to trust the judicial system compared with 50% in other OECD-EU members). Nevertheless, Lithuania has improved its position since the crisis, with trust in the national government rising from 27% to 34% compared with other OECD-EU members where it increased only from 34% to 36% (Figure 1.10).

Figure 1.10. **Satisfaction and confidence with public institutions and services**

Lithuania and OECD-EU countries, 2014

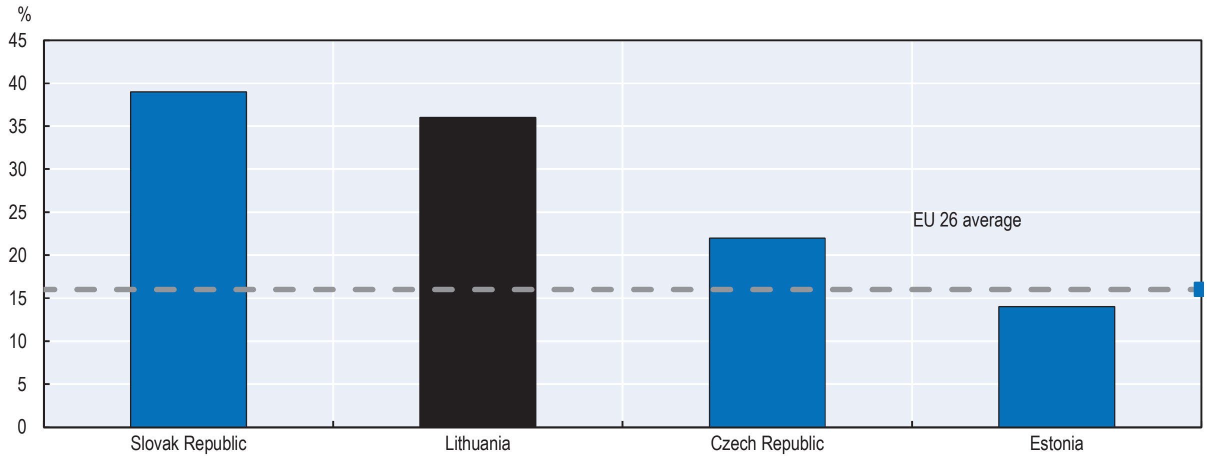


Source: Gallup World Poll (n.d.), www.gallup.com.

Tax administration

The difference between the VAT Tax liability and the VAT that is in fact collected is relatively large (36%) in Lithuania, 20 percentage points above the average for 26 EU countries (and second worst only to the Slovak Republic among some of Lithuania’s OECD peers). This suggests room for improvement in the tax administration, with significant potential impact on the government’s revenues (Figure 1.11).

Figure 1.11. **VAT Gap (2012)**



Note: The VAT Gap is the difference between the VAT Collections (as recorded by Eurostat) and the amount theoretically due, i.e. VTTL (VAT Total Tax Liability). The latter is the total amount of estimated VAT payments on the basis of national accounts aggregates and the existing structure of rates and exemptions.

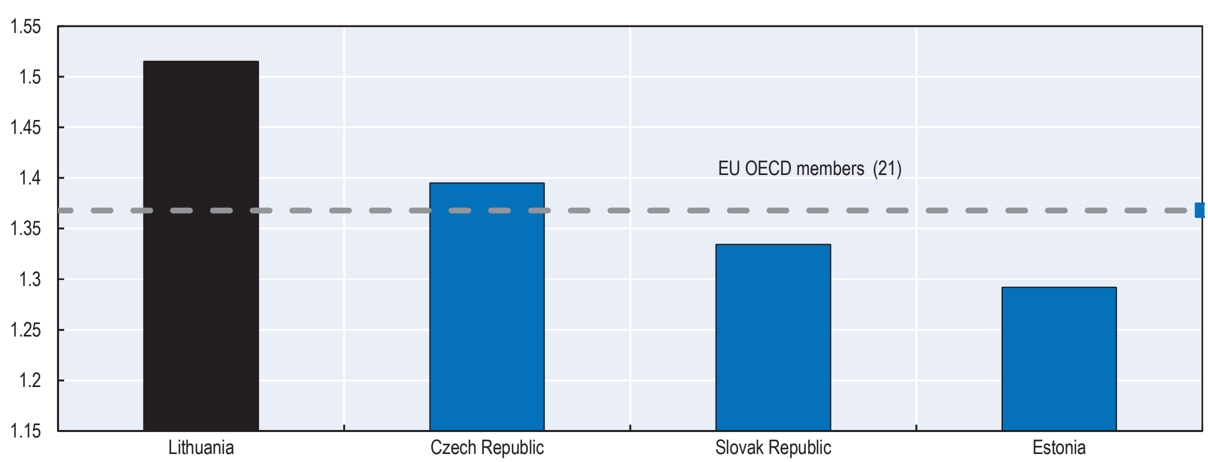
Source: European Commission (2014), "2012 Update Report to the Study to quantify and analyse the VAT Gap in the EU-27 Member States", September, http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/vat_gap2012.pdf.

Regulation and business environment

Regulation can hamper competition and investment. Overall, product market regulation (PMR) in Lithuania is not very pro-competitive when compared to a close competitor like Estonia. State involvement in the economy remains considerable. Moreover, more can be done to improve the overall regulatory system (Figure 1.12).

Figure 1.12. **Product Market Regulation indicator (2013)**

2013, index scale of 0-6 from least to most restrictive

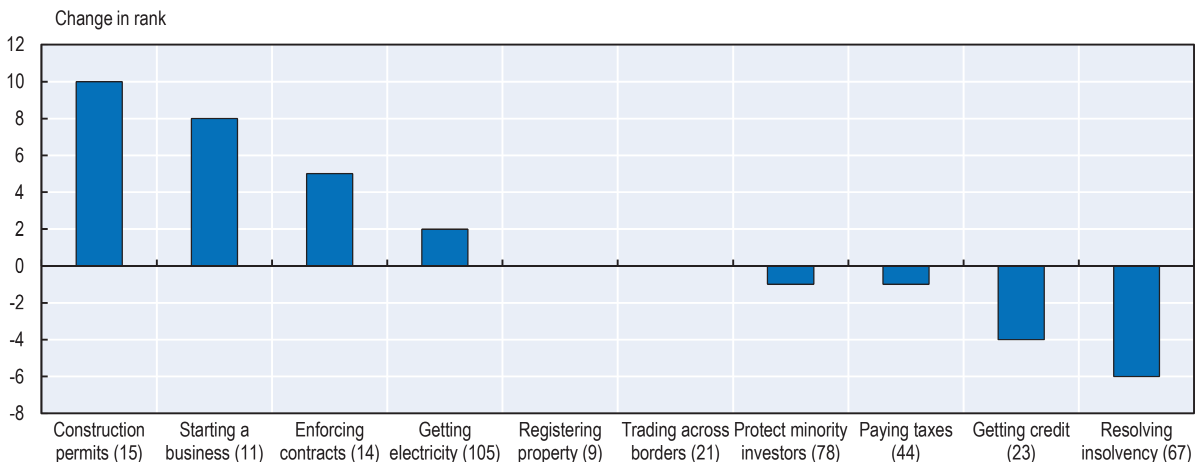


Source: OECD (2013), Product Market Regulation Database, www.oecd.org/economy/growth/indicatorsofproductmarketregulationhomepage.htm.

In *Doing Business 2015*, Lithuania ranks 24th (out of 189 countries); this is the same rank Lithuania had in 2014. Lithuania ranks particularly high in registering property (9th), as well as starting a business (11th), enforcing contracts (14th) and dealing with construction permits (15th), where its rank has improved significantly following reforms introduced between 2013 and 2014. It scores the lowest on providing electricity to business (105th), protecting minority investors (78th) and resolving insolvency (67th) (Figure 1.13).

Figure 1.13. **Lithuania's ranking in the Doing Business data**

Doing Business 2015 compared to 2014



Note: In parenthesis, Lithuania's rank in *Doing Business 2015*.

Source: *Doing Business 2015*, www.doingbusiness.org/data/exploreeconomies/lithuania#starting-a-business.

Notes

1. Chapters V-VII, Constitution of the Republic of Lithuania, http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_e?p_id=275302&p_tr2=2.
2. Law on the Government, http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_e?p_id=449184&p_tr2=2.
3. Concept of the Improvement of the Structure of Executive Power System, http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=382452&p_tr2=2
4. Public Sector Analysis 2013, Ministry of Interior.

Bibliography

European Commission (2014), "2012 Update Report to the Study to quantify and analyse the VAT Gap in the EU-27 Member States", September, http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/vat_gap2012.pdf.

International Monetary Fund (IMF) (2014), "Republic of Lithuania: 2014 Article IV Consultation: Selected Issues", IMF Country Report, No. 14/114, www.imf.org/external/pubs/cat/longres.aspx?sk=41538.0.

Meyer-Sahling, J. (2009), "Sustainability of Civil Service Reforms in Central and Eastern Europe Five Years After EU Accession", *Sigma Papers*, No. 44, OECD Publishing, Paris, http://dx.doi.org/10.1787/5kml60pvjmbq-en.

Nakrošis, Vitalis (2001), "Lithuanian public administration: A usable state bureaucracy?", *Journal of Baltic Studies*, No. 32, Issue 2, pp. 170-181.

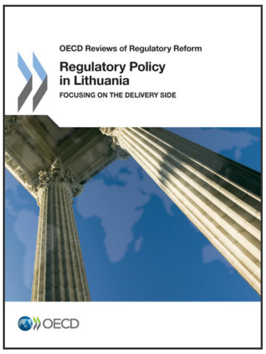
OECD (2015a), *OECD Economic Surveys: Estonia 2015*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-est-2015-en.

OECD (2015b), *Lithuania: Fostering Open and Inclusive Policy Making*, OECD Public Governance Reviews, OECD Publishing, Paris.

OECD (2013), *Government at a Glance 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/gov_glance-2013-en.

Sipavičienė, A. and V. Stankūnienė (2013), "The social and economic impact of emigration on Lithuania", in OECD, *Coping with Emigration in Baltic and East European Countries*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264204928-6-en.

Synnerström, S. (1997), "Professionalism in Public Service Management: The Making of Highly Qualified, Efficient and Effective Public Managers", Proceedings from Regional Conference on the Public Service in Transition. http://unpan1.un.org/intradoc/groups/public/documents/nispacee/unpan007278.pdf.



From:

Regulatory Policy in Lithuania

Focusing on the Delivery Side

Access the complete publication at:

https://doi.org/10.1787/9789264239340-en

Please cite this chapter as:

OECD (2015), “Governance and well-being in Lithuania: The context of regulatory policy reform”, in *Regulatory Policy in Lithuania: Focusing on the Delivery Side*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264239340-6-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d’exploitation du droit de copie (CFC) at contact@cfcopies.com.