



DRAFT Lithuania Country Strategy 2021-2026





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		ETS	Emission Trading System	PR	Performance Requirement
		EU	European Union	PTI	Portfolio Transition Impact
		FDI	Foreign Direct Investment	R&D	Research and Development
		FI	Financial Institution	RE	Renewable Energy
		FI	Financial Institutions	RRF	Recovery and Resilience Facility
		GDP	Gross Domestic Product	RSF	Risk Sharing Facility
		GEFF	Green Economy Financing Facility	SME	Small and Medium sized enterprises
		GET	Green Economy Transition	SOE	State-owned Enterprise
		GHG	Greenhouse Gas	SPO	Secondary Public Offering
		GVC	Global Value Chains	TC	Technical Cooperation
		HR	Human Resources	TPES	Total Primary Energy Supply
		ICA	Industry, Commerce & Agribusiness	VC	Venture Capital
		ICT	Information and communications Technology	WDI	World Development Indicators
		IEA	International Energy Agency	WEF	World Economic Forum
		IFI	International Financial Institution		

Executive Summary



European Bank
for Reconstruction and Development

The Republic of Lithuania's commitment to and application of principles set out in Article 1 of the Agreement Establishing the Bank has continued over the period since the adoption of the previous Country Strategy. The constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The separation of powers and checks and balances in the political system, and guarantees for human rights and fundamental freedoms are largely in line with international and European standards. The media are pluralistic and competitive and civil society operates independently. Elections are conducted in a manner deemed by the OSCE to be free and in line with international standards. Lithuania has been a member of the European Union since 2004.

Featuring the largest population and economy among its Baltic country peers, Lithuania is a well-integrated small open economy benefitting from EU membership. Demonstrating robust economic growth and significant convergence towards EU prosperity, the country is on a steady transition path. Although, experiencing a modest recession, the country has proved resilient in its response to the COVID induced crisis. Nevertheless, boosting productivity growth and addressing existing transition gaps will be key to reignite the country's growth for further convergence. Gaps remain particularly apparent in the areas of green (high energy intensity and reliance on imports undermine energy security), competitiveness (weak economic complexity and low investment in innovative sectors) and resilience (highly concentrated financial system and shallow capital markets). Acknowledging that much needs to be done for the modernisation of the economy and society, the newly elected government is embarking on an ambitious ten-year modernisation plan.

The economy was significantly affected by the pandemic, thereby temporarily increasing EBRD's additionality to provide support for recovery during the strategy period. In light of a strong policy response and considerable EU funding expected under the RRF and MFF, the strategy will be reviewed as part of an extended Country Strategy Delivery Review in 2023, which will be informed by an analysis of market level additionality, and will consider whether the objective of pursuing Covid-19 recovery has been completed. As a consequence of such review, and the country being on a sustained recovery path, the Bank's objectives in the remainder of the strategy period will be adjusted as needed to focus on core strategic sectors and products where the Bank's additionality and the transition gaps are evident and material. In line with EBRD's graduation policy, Lithuania will indicate the country's intended path and plausible pace of graduation at the appropriate time.

The Bank is well placed and additional in assisting the country on its path of modernisation and green economy transition, including support to achieve the country's Nationally Determined Contributions. There will be continued focus on the development and integration of the pan-Baltic capital market, and efforts to improve access to finance for the acceleration of innovation and digitalisation. Throughout, the Bank will promote regional investment and transfer of regional knowledge in the Baltic countries. The EBRD will work in co-operation with the EU and international partners, leveraging resources where applicable, while continuing strategic selection of activities to preserve additionality and focused delivery on the following strategic priorities in Lithuania 2021-2026:

- i. *Support Lithuania's Green Economy Transition*
- ii. *Foster Lithuania's Knowledge Economy through More Diversified Sources of Private Finance*

Lithuania – EBRD Snapshot

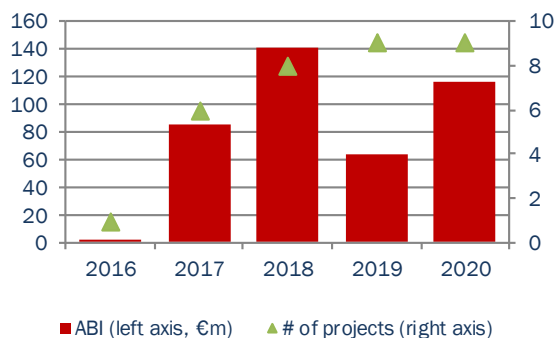


European Bank
for Reconstruction and Development

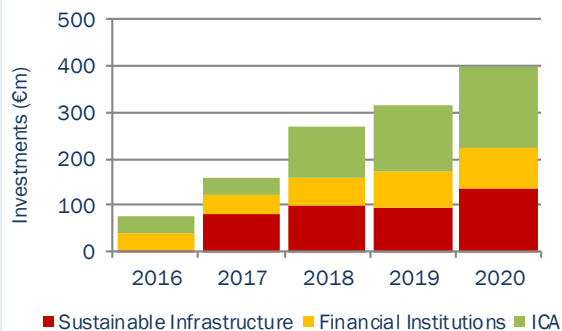
EBRD Investment Activities in Lithuania (as of year-end 2020)

Portfolio	€399m	Active projects	43
Equity share	42%	Operating assets	€365m
Private Sector Share ¹	71%	Net cum. investment	€1,011m

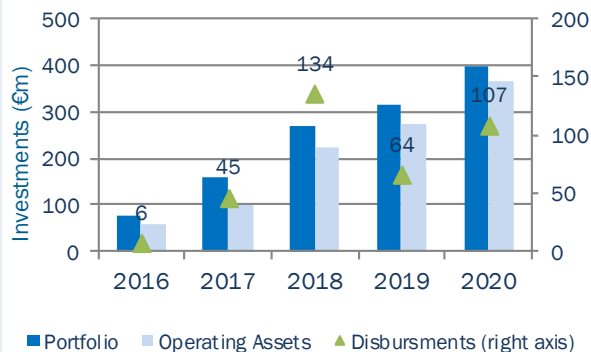
ABI and Operations



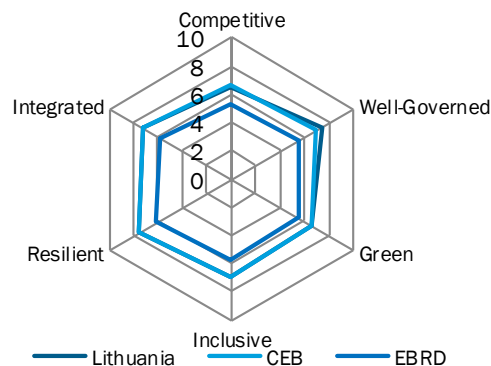
Portfolio Composition



Portfolio Dynamics



Transition Gaps²



Country Context Figures

	Country	Comparators
Population (million) ³ (2019)	2.787	Latvia (1.9), Estonia (1.3)
GDP per capita (PPP, USD) ³ (2019)	38,502	Latvia (32,191), Estonia (38,915)
Global Competitiveness Index (WEF) (2019) (out of 140 economies)	39	Latvia (41), Estonia (31)
Unemployment (% ILO est.) ⁴ (2019)	6.5	Latvia (6.5), Estonia (4.6)
Youth unemployment (% ILO est.) ⁴ (2019) share of youth not in employment, education or training (NEET)	8.7	Latvia (7.9), Estonia (6.9)
Female labour force participation (% ILO est.) ⁴ (2019)	57.3	Latvia (55.8), Estonia (57.6)
Energy intensity (TPES/GDP) ⁵ (2018)	0.17	Latvia (0.16), Estonia (0.24)
Emission intensity/GDP (kgCO ₂ /10'€) ⁵ (2018)	0.2	Latvia (0.2), Estonia (0.6)

1 Cumulative Bank Investment: 5 year rolling basis on portfolio.

2 Cf. EBRD Transition Report 2020. 3 World Bank WDI. 4 International Labour Organisation (estimates). 5 IEA's Energy Atlas.

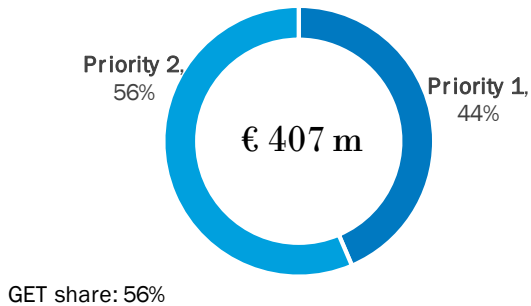


1. Implementation of Previous Strategy (2016-2020)

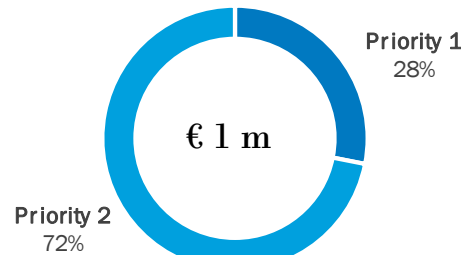
1.1. Key Transition Results Achieved during previous Country Strategy

Strategic Alignment 2016-2020

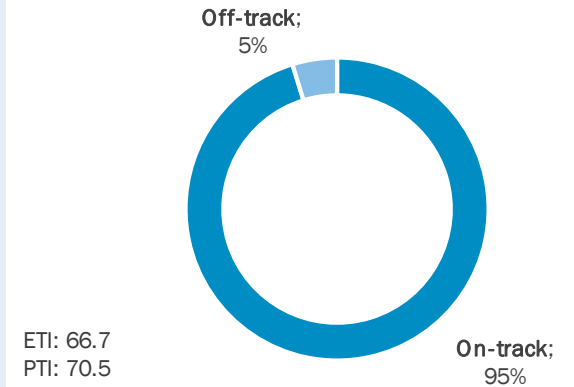
Annual Business Investment (ABI)



Technical Assistance and Investment Grants

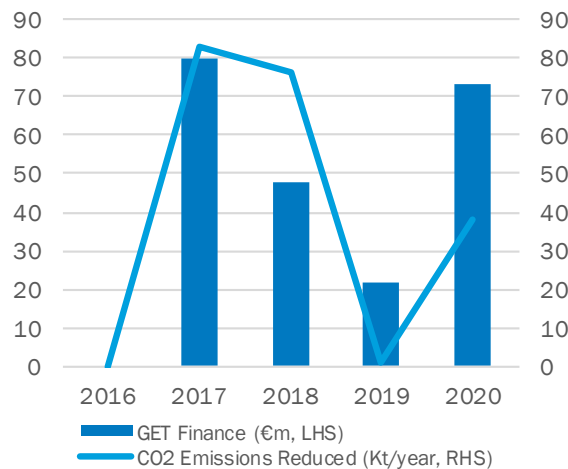


Transition Impact Performance*



Priority 1: Bolstering energy security and increasing energy efficiency

Green Economy



Key Transition Results

- Invested €60m in Green Bonds issued by Ignitis (formerly Lietuvos Energija), with proceeds to be used for investments in biomass, waste-to-energy CHPs and wind farms.
- Invested €67.5m in the €450m IPO of the state-owned energy company Ignitis, with the proceeds to expand renewable energy and modernise the distribution network.
- BaltCap Infra fund has invested in a biomass plant providing heat in Vilnius.
- Provided funding for cross-border investment in renewables by a Lithuanian renewable power developers.
- Financed Lithuania's Public Investment Development Agency (VIPA) with a €50m structured loan to support energy efficiency investments in residential buildings.
- Completed a TC project on "Supporting the Development of the ESCO Market", enabling more private sector participation in public sector and housing energy efficiency through ESCOs and Energy Performance Contracting, which led to the successful tendering of 4 projects.
- Invested in an innovative Baltic agribusiness company, with proceeds to be used in energy efficiency investments – specifically targeting reduction of fertilizers/chemicals and contributing to sustainable land use.
- Invested €10.1m in the EFTEN Baltics Sustainable Property Fund, the first local property fund in the Baltics with a climate agenda and green objectives as an integral part of the business concept.

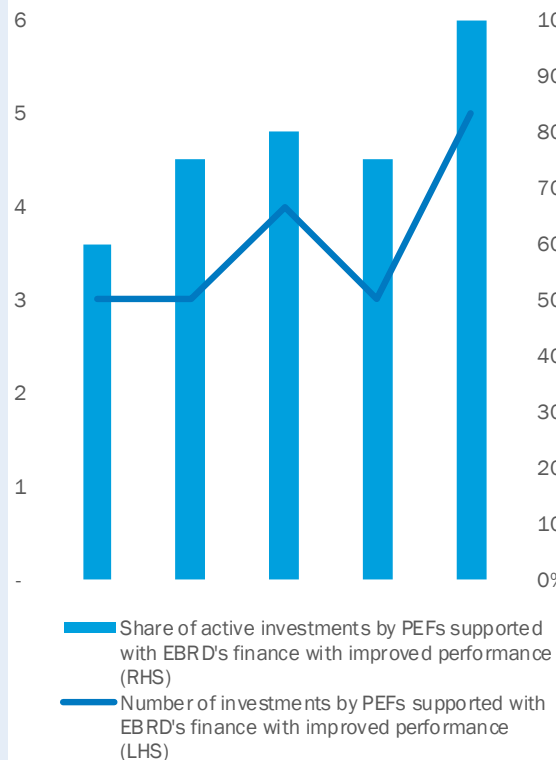


1. Implementation of Previous Strategy (2016-2020)

1.1. Key Transition Results Achieved during previous Country Strategy

Priority 2: Enhancing private sector competitiveness

EBRD supported PEF performance



Key Transition Results

- Supported the market expansion of a local client bank to increase its SME portfolio and outreach to regional cities.
- Invested in innovative and export-oriented companies: €2.5m to support the expansion in foreign markets of Trafi, a company that provides real time public transport information; an equity SPO by an innovative Baltic agribusiness company present in all three Baltic countries to promote innovation by expanding R&D activities and offering innovative farming inputs to local farmers. The Bank further invested €18.9m in Vilnius Baldai furniture manufacturer for a greenfield investment in expanded production capacity; supported the investment of €10m by a Ukrainian pet food manufacturer in a cross border greenfield investment in Lithuania; invested in bonds issued by Maxima retailer to support their investment in Poland; and provided a loan of €10m to Kauno Grudai agriculture and food business group to support their investments in Belarus.
- Contributed to the Baltics Integrated Approach (BIA), leading to establishment of the Baltic Venture Capital Association, laying the ground for training and capacity building events and developing a pipeline.
- Worked with the Government and other stakeholders to secure funding from SRSS for the development of capital markets. An MoU was signed in 2017 by the Baltic Finance Ministers to support the further development of Pan-Baltic capital markets in areas such as covered bonds and SME financing. The Bank prepared a TC-project to develop legal and regulatory framework for securitisation under Local Currency Initiative.
- Signed a co-operation agreement with Invega, a government agency, on the implementation of four equity instruments targeting investments in over 70 SMEs, facilitating their start-up and business development needs.
- In line with the objective to diversify sources of finance in the economy, the Bank: invested in the first international bond issued by Luminor Bank; committed to the first pan-Baltic Infrastructure fund and invested in a number of debt and equity transaction (i.e. Ignitis IPO). To support the emergence of a stronger, more sustainable private equity sector, the Bank invested in 5 regional equity funds, including €40m in Resource Eastern European Equity Partners regional private equity investor, and €25m investment in the BaltCap Private Equity Fund III.
- Conducted policy dialogue with the authorities to convert a loan for Siauliu Bankas into equity and thus facilitate further lending to SMEs.
- Completed the Baltic Transshipment project, which achieved cost competitiveness of container shipping via Klaipėdos Smeltė (Lithuania), as opposed to other North European routes.



1. Implementation of Previous Strategy (2016-2020)

1.2. Challenges to Implementation and Key Lessons

Context for Implementation

Over the course of the last strategic period, Lithuania demonstrated robust growth, recording the fastest convergence rate of GDP per capita among CEB states: reaching 84% of the EU average by 2019. The country was regionally the least affected by the first wave of COVID pandemic induced economic downturn in 2020, thereby showing evidence of economic resilience and effective policy response. Since starting operations in 1992, the EBRD has invested over €1bn in 101 projects in Lithuania; the focus during the 2016-2020 strategic period sought to enhance competitiveness, support investments in renewable energy and energy efficiency, and strengthen local banks.

Implementation Challenges

- There are no cities in Lithuania to date in the Green Cities Programme as a result of difficulties to identify a trigger investment and subsequently as focus of city authorities shifted towards managing and mitigating the impact of the COVID19 pandemic.
- Universe (albeit small) of well-established, sophisticated and highly-liquid banks that can offer competitive pricing for mid-sized and larger corporates.

Key Lessons & Way Forward

- Importance to identify a trigger investment early on. Good potential to rollout the Green Cities Programme, starting with Vilnius.
- Focus on financing gaps where total size of project exceeds maximum ticket size of local banks and / or where companies have grown to a size that exceeds capacity of the combined local market, and for SMEs which remain underserved.



2. Economic Context

2.1. Macroeconomic Context and Outlook for Strategy Period

Lithuania - Main macroeconomic indicators

	2016	2017	2018	2019
GDP growth (% y-o-y)	2.5	4.3	3.9	4.3
CPI inflation (% avg.)	0.7	3.7	2.5	2.2
Government balance (% of GDP)	0.2	0.5	0.6	0.3
Current account balance (% of GDP)	-1.1	0.5	0.3	4.2
Net FDI (% of GDP)	-0.9%	-2.0	-0.8	-1.5
External debt (% of GDP)	86.2	82.6	78.1	67.7
Gross reserves (% of GDP)	-	-	-	-
General government gross debt (% of GDP)	39.7	39.1	33.8	36.3
Unemployment (15-64, % pop)	8.1	7.3	6.3	6.5
Nominal GDP (€bn)	38.9	42.0	45.5	48.8

Lithuania's GDP per capita has further converged towards the EU average. In 2019, GDP per capita in PPS reached 84% of the EU average, recording the fastest convergence rate in the last five years among CEB states. This is a notable growth, as in 2009 GDP per capita was below CEB average at 57% of the EU average.

Strong GDP growth has been driven by robust consumption and investment rates. GDP growth averaged 3.8% in the previous strategy period amid a strong business cycle and pro-cyclical fiscal policy. Strong wage growth on the back of a tightening of the labour market spurred private consumption, which had an average contribution to GDP of 2.4% since 2016. Robust investment, tied to growing net exports, also had significant contributions to economic expansion of average 1.5% and 1.4%, respectively.

Lithuania was less affected by the first phase of the Covid-19 pandemic. In the first half of 2020, the economic decline was among the mildest in the EU, with GDP declining by 1.1% year-on-year. Sufficient fiscal space has enabled a strong policy response to the crisis, while early easing of lockdowns after the first wave in Spring 2020 allowed private consumption to recover quickly as wage growth increased to 10.4% in Q3 due to public sector raises. Exports have held relatively well given the favourable structure of exported goods.

Outlook remains uncertain in the short-term, but the economy is well-positioned for further convergence. The significant second wave in Q4 2020 has likely affected further economic recovery, while high uncertainty will continue dragging down investment recovery at least in the first half of 2021. The budget deficit in 2021 is expected to remain high as the government will continue the fiscal stimulus. In this sense, the national recovery and resilience plan will be key in unlocking additional EU resources to support government spending and recovery. In the medium to long term, further productivity growth by addressing existing transition gaps will allow Lithuania to move closer to average EU income levels.



2. Economic Context

2.2. Key Transition Challenges

Competitive (6.49/10)

- The shift towards a full-fledged knowledge-based economy is limited by a less technologically-advanced exports basket, and the dominance of transport services.
- Supporting private R&D and intangible assets investments could help allocate resources to more innovative sectors and increase productivity of incumbent industries.
- The score on the economic complexity dimension reveals that the performance of the three Baltic countries is slightly weaker than regional CEB peers. Low complexity products (agricultural products) as well as chemicals dominate Lithuania's exports.
- In Lithuania, the score on the share of advanced services (communications, financial, insurance and other business services) stands below both CEB and EBRD averages, mainly due to the high share of transport services.

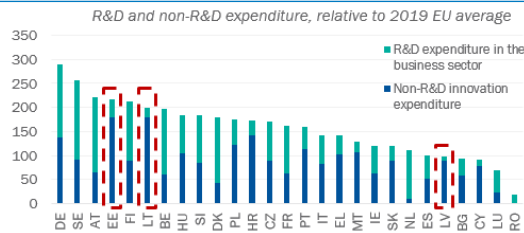
Well-governed (7.4/10)

- Lithuania has made good progress in the area of governance since 2017 and now it holds the second place among all EBRD countries.
- Lithuania is ahead of its neighbours in the area of rights of shareholders on the corporate level, and enforcement of contracts on the national level.
- Lithuania lags behind the EBRD average on the framework for challenging regulations and the burden of government regulation. Public ownership and the scope and governance of SOEs is a major contributor to this issue, particularly in the energy and transport sectors. However, Lithuania's score for burden of regulation has improved since 2018.
- In the 2019 Transparency International Corruption Perception Index, Lithuania ranks 35th/180. Lithuania's public administration is good overall but progress in fighting corruption has been slow.

Green (6.63/10)

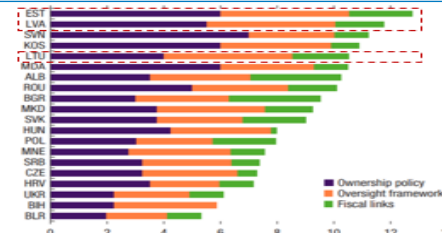
- Development of wind energy has been notable, but the ambitious 2030 targets will require a significant effort to continue renewable energy development, increase energy efficiency as well as support the transport sector to shift to cleaner solutions.
- Carbon pricing and coverage should be brought in line with the ambitions under the EU ETS.
- Final energy intensity has substantially decreased but remains high compared to the EU average, partially due to inherited Soviet-era built infrastructure.
- Energy efficiency improvements have been driven by the residential sector and should continue via building renovations. In Lithuania, the share of this sector in total gain was equal to 61 per cent.

R&D remains low despite high levels of innovation expenditure



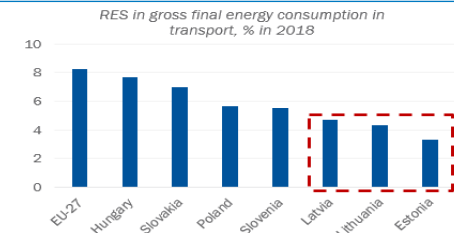
Source: European Innovation Scoreboard 2020

Governance of SOEs in the Baltic states is among the best in CEB region



Source: IMF research, 2019 PUBLIC

Share of RES in transport lags behind regional peers



Source: Eurostat.



2. Economic Context

2.2. Key Transition Challenges

Inclusive (6.91/10)

- The three Baltic countries rank in the top of the inclusive ranking for all EBRD countries of operations. Estonia has the highest rankings of the three, followed by Latvia and then Lithuania.
- The labour force participation for women is close to 56% across all three states and lower than the participation of men: Lithuania: 56.53%, men: 67.74%. The share of youth not in employment, education or training is higher in Lithuania than in the Baltic peers (8.7%).
- Regional disparities are higher in Lithuania and Latvia than in Estonia. The quality of trade and transport in Lithuania (2.72) is below the regional average. Latvia's score of 2.98 is slightly below regional average, while Estonia has the highest score at 3.09.

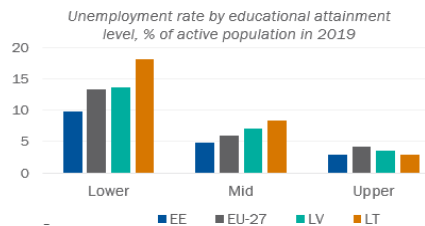
Resilient (6.68/10)

- Baltic's banking sector is highly concentrated and majority owned by Nordic banking groups, with a number of only four key banks in each of the three countries. In Lithuania, the sector is also smaller and experienced slower deposit and credit growth, as credit penetration was 39 per cent of GDP in 2019, while credit to firms is the lowest among CEB peers.
- The capital markets remain shallow compared to EU. Against this background, the creation of a pan-Baltic integrated market is at the core of the capital markets development strategy in the region.
- The three Baltic countries' electricity grids still operates synchronously with the Russian and Belarusian systems. By 2025, the synchronisation with the continental European network is expected to be completed.

Integrated (7.23/10)

- Thanks to the European Union membership, the country is part of 44 regional trade agreements (EBRD countries average: 19), but also have a high number of non-tariff measures originating from EU or domestic regulations (Latvia: 2031, Lithuania: 1989, Estonia: 197, EBRD countries average: 900).
- Lithuania ranks second regarding road connectivity among all EBRD countries. With intercity travel times typically 20% longer than the frontier (crow flies distance at 110 km/h), it performs above the CEB countries' (36%), the EBRD COOs (71%), as well as the OECD comparator countries' averages (37%).
- Despite relatively good road connectivity and robust growth of transport services in recent years, international logistic performance of Lithuania remains behind CEB peers.

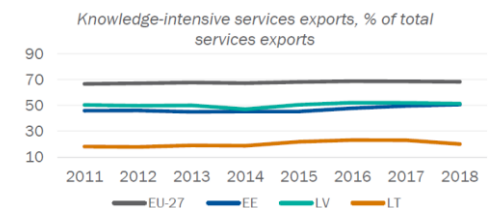
Unemployment rate is high for lower-skilled workers in Lithuania



The Baltics' stock market size combined is small compared to regional peers



Transport services dominate Lithuania's exports





3. Government Priorities and Stakeholder Engagement

3.1. Government Reform Priorities

In addition to the current focus on short-term crisis response measures to provide liquidity to the economy, and protect vulnerable workers and individuals, the new government's programme includes an ambitious ten-year modernisation plan for the economy and society to boost productivity and accelerate economic growth by doubling R&D spending by 2030. The government aims to have at least one Lithuanian university in the global top 300 and will aim to increase Lithuania's soft power.

Innovation – enhancement of the competitiveness for a higher value-added economy and the development of knowledge economy; promotion of entrepreneurship and qualifications corresponding to market needs; and through the creation of favourable conditions for the emergence and growth of innovative businesses.

Entrepreneurship – promotion of entrepreneurship through the establishment of a consistent and continuous system of entrepreneurship education, the creation of a favourable environment for the start and development of businesses and support of entrepreneurship within target groups (youth, women) by ensuring accessibility of public services to businesses.

Energy – priorities for the new government are to connect to the European power network, and develop domestic energy production capacities. The Lithuanian Government strongly opposes the construction and operation of unsafe nuclear power plants constructed without compliance to EU safety standards. The National Energy and Plan, aligned with commitments made under the Paris Agreement targets the reduction of GHG emissions from all sectors of economy by at least 40% by 2030; envisages reaching a 45% share of renewables in gross final energy consumption, and 15% share in the transport sector; aims for the 1.5 times reduction of energy intensity compared to 2017.

Rule of law – further strengthened independence and accountability of judges; promotion of open and transparent operations of courts.

Tax – support of a long-term, transparent and predictable pro-growth tax policy, while balancing revenue raising capacity with Lithuania's recognised position as a highly competitive tax environment.

Education – a comprehensive renewal of the education system covering all the levels of the system – from preschool to higher education.

Healthcare – improved quality and accessibility of healthcare services, decreased waiting time for access, and reduced share of preventable hospitalization cases.

3.2. EBRD Reform Areas Broadly Agreed with Authorities

- Given the impact of the pandemic on the Lithuanian economy, the Bank will continue providing support for recovery from the pandemic through private sector investments.
- Transition gaps are present in green, competitiveness and resilience, accordingly the Bank will support Lithuania's green and digital transition.
- The Bank will support investments in the private sector that support the establishment of a green energy innovation ecosystem.
- The Bank will continue to support the growth of corporates, through debt, equity and risk-sharing products, as well as continued participation in investment funds.
- Continued capital market development is a shared priority. EBRD will continue to cooperate with the Bank of Lithuania and support and invest in innovative and green financial instruments, and promote competition in the financial sector.

3.3. Key Messages from Civil Society to EBRD

- Civil society organisations welcomed the EBRD's strategic priority regarding the Green Economy Transition (GET) and reduction of CO2 emissions in Lithuania, which are indispensable to the country's development.
- CSOs also pointed to issues with the implementation of large infrastructure projects, in particular their impact on nature-protected sites like NATURA 2000. Civil society representatives urged the Bank to help improve the assessment and preparation of such infrastructure projects, as well as public-private partnerships (PPPs).
- While welcoming the focus on knowledge economy and innovation, CSOs highlighted the need to improve public procurement systems and open data platforms, as well as the creation of a beneficial ownership registry. Cooperation with civil society in this area is crucial in order to promote good governance and transparency. CSOs moreover suggested that the EBRD should foster the development of social businesses and social entrepreneurship, including with the help of new technologies.



4. Defining Lithuania Country Strategy Priorities

What needs to change? (Country Diagnostic)	Can it be changed? (Political Economy)	What can the Bank do? (Bank's additionality)	Strategic Priorities (2021-2026)	What We Want to see (Key Objectives)
<ul style="list-style-type: none"> • Energy consumption is significantly higher than EU and Baltic peers, primarily due to legacy building stock and transport. • In 2019 RE share in final energy consumption reached 25% exceeding its target for 2020 (23%). • High electricity imports, over 70% of domestic consumption. • Circular material use rate in Lithuania in 2019 (4.0%) was below the EU avg. (11.9%). 	<ul style="list-style-type: none"> • The EU Green Deal, together with the Paris Agreement, informs Lithuania's energy and environment strategy, including its NECP and long-term renovation strategy (LTRS). • Government commitment to improve energy efficiency in legacy housing. • Building EE renovation part of Covid-19 economic recovery and referred to in the government's recovery plan. • Baltic energy market interconnection initiative for the integration of the Baltic power grid with ENTSO-E by 2025. 	<ul style="list-style-type: none"> • Strong track record of institutional support and financing of renewable energy and EE in buildings (VIPA). Successful assistance of the implementation of RE auctions across CoOs. • Extensive experience supporting green transition through policy engagement and investments. This includes greening the financial sector, industrial decarbonisation, green buildings, circular economy, and promoting sustainable cities and mobility. 	<p>Support Lithuania's Green Economy Transition</p>	<ul style="list-style-type: none"> • Improved energy and resource efficiency • Reduced GHG emission, increased renewable energy
<ul style="list-style-type: none"> • Lithuania scores above most CEB countries on the EC's Digital Economy and Society Index; however, connectivity and human capital lag the EU average. • Low capacity of firms to innovate and low levels of investment (private R&D at 0.3% of GDP, Lithuania ranks 19th/27 on EC Innovation Scoreboard). • Integration into GVCs lags behind CEE peers. • Limited access to finance identified as key concern by 13% of firms compared to 10% EU average. • Lithuania has the EU's second highest proportion of rejected loan applications, due to often poor financial health of enterprises and decreased risk appetite of banks in lending to small businesses. • Limited access to diversified sources of finance (domestic private sector credit / GDP at 39.2% compared to avg 86% in Euro area). • Public equity market capitalisation among the smallest in the EU (7.2% of GDP). 	<ul style="list-style-type: none"> • Improving 'access to finance' has been a priority for the government in recent years, contributing to the rise of risk capital funds for early-stage financing, establishment of crowdfunding platforms, Fintech, and the introduction of alternative investment opportunities. • Growing appetite by firms for alternative sources of finance. • Strong government support for private equity and development of the pan-Baltic capital market. • EU Technical Support Instrument programme important anchor. 	<ul style="list-style-type: none"> • Capability to identify and invest in innovative, high-growth companies directly through structured debt and equity products and indirectly through participating in investment funds and through partner FIs. • Reliable track record and dedicated financial instruments for capital markets development including through policy dialogue and technical cooperation, as well as participation as an active investor. • Expertise for growing the country's investor base and promoting greater capital market integration. 	<p>Foster Lithuania's Knowledge Economy through More Diversified Sources of Private Finance</p>	<ul style="list-style-type: none"> • Improved access to finance for innovation and digitalisation • Deepened and diversified debt and equity capital markets



5. Activities and Results Framework

Priority 1: Support Lithuania's Green Economy Transition

Key Objectives	Activities	Tracking Indicators (Outcomes)
Improved energy and resource efficiency	<ul style="list-style-type: none"> • Continue financing energy efficiency improvements of the built environment (including through ESCOs). • Support development of circular economy through financing of recycling, waste management and technologies that reduce material demand. • Support Lithuania's achievement of its NDCs through Green Economy Transition investments in the private sector that support the establishment of a green energy innovation ecosystem, and support green skills development. • Support and finance sustainable urban development and regeneration projects. 	<ul style="list-style-type: none"> • Total primary energy saved (GJ/years) • Materials, solid waste reduced or recycled (tonnes/yr)
Reduced GHG emission, increased renewable energy	<ul style="list-style-type: none"> • Support development of renewable energy. • Support and finance development of sustainable, inclusive and green transport & infrastructure solutions including through InvestEU (e.g. Baltic power grid interconnections). • Explore opportunities to finance district heating and cooling infrastructure. • Support EBRD Green Cities in Lithuania. 	<ul style="list-style-type: none"> • Total CO2e emissions reduced (tonnes/year)





5. Activities and Results Framework

Priority 2: Foster Lithuania's Knowledge Economy through More Diversified Sources of Private Finance

Key Objectives	Activities	Tracking Indicators (Outcomes)
COVID-19 recovery (2021-2023)	<ul style="list-style-type: none"> Deploy equity, debt and risk sharing products focused on Covid-19 recovery to Build Back Better focusing on areas of additionality. 	<ul style="list-style-type: none"> New instruments introduced or existing ones tailored to support resilience and Covid-19 recovery
Improved access to finance for innovation and digitalisation	<ul style="list-style-type: none"> Continue participation as active investor in VC/equity/property funds. Explore opportunities to finance innovative scale-ups (including Fintechs and the IT sector) and continued policy engagement. Support the growth of corporates incl. their expansion abroad and corporate governance improvements, inclusion and gender equal opportunities. Promote acceleration of digitalisation in the corporate sector, and invest in infrastructure that supports innovation, inclusion and green digitalisation (incl. 5G). 	<ul style="list-style-type: none"> Total number of innovative companies supported
Deepened and diversified debt and equity capital markets	<ul style="list-style-type: none"> Continue policy engagement to develop the pan-Baltic capital market through Technical Support Instrument funds (e.g. single index classification, CMDF). Grow country's investor and issuer base through IPOs and financing and introduction of new and green instruments (e.g. sustainability-linked bonds). Explore opportunities to promote competition in the financial sector. 	<ul style="list-style-type: none"> Pan-Baltic covered bond framework adopted and implemented, number of Pan-Baltic capital market instruments launched Volume of capital market transactions facilitated





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6. Mapping of International Partners Complementarity in EBRD Business Areas

EBRD BUSINESS AREAS															
		Sectors										Cross-cutting Themes			
		Industry, Commerce & Agribusiness					Sustainable Infrastructure		Financial Institutions			Strategic Initiatives			
Previous strategy period indicative annual investment/ Grants, €m (2016-2019 average unless otherwise specified)	2020	Agribusiness	ICT	Manufacturing & Services	Natural resources	Property & Tourism	Energy	Infrastructure	Banking	Non-bank Financial Institutions	Green Economy	Inclusion and Gender	Local Currency and Capital Markets	Small Business	
EU (ESI Funds)*	1,199	NA	€	€P	€		€	€			€P	€P		€	
EIB	159	983			€		€	€	€	€	€	€			
CEB	100	68									€	€			
NIB	88	708			€		€	€							
EIF**	17	5		€	€									€	
EBRD	74	116	€		€		€P		€	€	€P		€P		

€ Area of significant investments

P Area of significant policy engagement

● Focus mostly on private sector

○ Focus mostly on public sector

Potential Areas of cooperation for the next Country Strategy period

Green:
Co-operate with partner IFIs in the financing of energy efficiency improvements to the built environment. Coordinated Green Economy investments with the EIB – given its strengthened focus on climate and environmental sustainability, and with the EIF – as it is expanding to themed fund products.

Competitive:
Finance corporates in coordination with other IFIs (NIB, EIB).

Resilient:
Build on the Technical Support Instrument funded policy work, and the close collaboration with the Central Bank, Ministry of Finance, and the NIB in capital market development, including the introduction of new instruments (eg Commercial Paper).
Align Covid response measures with other locally active IFIs.

Note: IFI activity mapping based on publicly available information.

Significant IFI investment defined as projects exceeding 5% of annual investment and signed from 2016.

* Based on the EU contributions to the Lithuania Country Budget for 2014 – 2020. ** European Investment Fund, including EIF Baltic Innovation Fund 2 and EFSISME Guarantee Window.



7. Implementation Risks

Risks to the Strategy Implementation	Probability	Effect	Environmental and Social Implications
<ul style="list-style-type: none"> Adverse impact of COVID-19 on domestic capacity to introduce innovative products and progress with greening transition. 			<p>Assessment and Management of E&S Impacts: Ensure that direct, indirect, cumulative and transboundary E&S impacts of projects and associated facilities are appropriately assessed and mitigated in accordance with EBRD PRs. Consider environmental and social capacity building to ensure adoption of good international practice. Support clients to strengthen E&S management capacity and disclose information.</p>
<ul style="list-style-type: none"> Preponderance of grant and soft loans could limit the ability to leverage debt finance. 			<p>Labour and Working Conditions: Ensure that clients' HR policies and labour practices comply with EBRD requirements, particularly in respect to labour terms and conditions; contractor management; potential discrimination in the workplace, promotion of equal opportunities and managing impacts of large scale retrenchment and preventing potential discrimination towards minority and other vulnerable groups.</p>
<ul style="list-style-type: none"> State financed (COVID-19 crisis response) equity and debt funds could crowd out private sector equity funds and debt financing in the corporate sector 			<p>Resource Efficiency and Pollution Prevention and Control: Support capacity building initiatives in relevant sectors; ensuring that alternatives are considered to identify investments that support compliance with EU standards and EU Best Available Techniques (BAT), transition to a low carbon and resource efficient economy, strengthen resilience to climate change and promote circular economy. Support clients to comply with relevant EU Directives and improve the efficiency of industry-specific processes in line with EU Best Available Techniques.</p> <p>Health and Safety: Improve occupational and community health and safety with specific focus on activities which are associated with common accidents reported on Bank's projects. Additional emphasis and TC support will be placed on road safety by requiring road safety audits, capacity building and raising awareness within communities at risk.</p> <p>Land Acquisition, Involuntary Resettlement and Economic Displacement: Ensure that any projects requiring acquisition of land comply with compensation and livelihood restoration requirements of the Bank, with particular attention on informal land users and vulnerable groups.</p> <p>Biodiversity Conservation and Sustainable Management of Living Natural Resources: Support capacity building initiatives for robust biodiversity assessments and mitigation approaches that will ensure that species and habitats of conservation importance are protected where projects could encroach upon nature protected areas, sensitive flora, fauna, ecosystem services and/or legally protected and internationally recognised areas of biodiversity value. TC funds to raise awareness concerning good international practices with both public and private sector partners may be required.</p> <p>Cultural Heritage: Work with clients to ensure appropriate assessment processes to identify and consult with key stakeholders to protect cultural heritage.</p> <p>Financial Intermediaries: Ensure that FI partners have adequate E&S capacity and risk management procedures in place.</p> <p>Stakeholder engagement: Support clients in developing and implementing stakeholder engagement plans and ensure transparent participatory consultation is carried out as part of local permitting and ESIA</p>

High Medium Low



8. Donor Co-Financing Assessment

8.1. Needs Assessment for the New Country Strategy Period

Some funding will be needed to achieve the strategic objectives of the Country Strategy, including for:

- Policy dialogue activities, including potential engagements in further capital market development and integration
- Project preparation and implementation support for investments in energy efficiency and other green initiatives
- Guarantees offered under the InvestEU programme to facilitate new investment opportunities

Selected Affordability Indicators

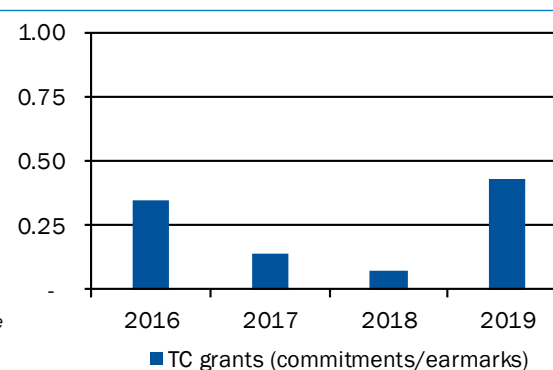
		EBRD regional percentile rank ¹
GDP per capita (PPP, current. \$) ²	38,214	89 th
ODA Country ³	No	N/A

1. Simple percentile rank reported as the share of EBRD economies that are represented below Lithuania.
2. Source: WDI (2019 or most recent year)
3. Source: OECD (2018)
4. 2016-2019 TC data is based on earmarks at the project level.
5. Based on the primary Transition Quality of TC grants earmarked in 2018 and 2019.

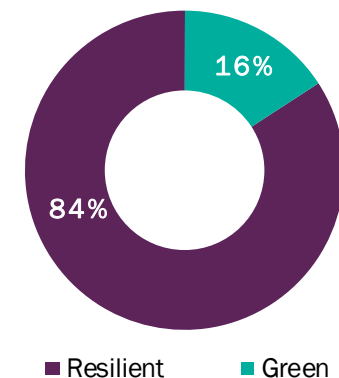
8.2. Potential Sources of Donor Funds

- As a country more advanced in transition, **Lithuania** is expected to provide its own financing to help support investments and policy engagement, both in Lithuania as well as in other countries of operation
- The **EU** is an important source of funding, most notably via monies allocated through **European Structural and Investment Funds, the Recovery and Resilience Framework, and the Just Transition Mechanism**. These could include opportunities for:
 - Blended finance, including through the use of guarantees, under the proposed **InvestEU** programme;
 - Co-financing in the context of the Recovery and Resilience Facility;
 - Funding for engagements promoting structural reforms, including capital markets development, under the proposed **Technical Support Instrument**;
 - Funding for initiatives promoting research and innovation under the proposal for Horizon Europe;
 - Access to TC funds from the EU's sectoral programmes, including in support of investments backed up by InvestEU guarantees.
- Limited resources may also be available from the **Shareholder Special Fund (SSF)**.

Donor finance during last strategy (€m)⁴



Use of grants in 2018-2019⁵



Annexes



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Annex 1 – Political Assessment in the Context of Article 1



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The Republic of Lithuania's commitment to and application of principles set out in Article 1 of the Agreement Establishing the Bank has continued over the period since the adoption of the previous Country Strategy. The constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The separation of powers and checks and balances in the political system, and guarantees for human rights and fundamental freedoms are largely in line with international and European standards. The media are pluralistic and competitive and civil society operates independently. Elections are conducted in a manner deemed by the OSCE to be free and in line with international standards. Lithuania has been a member of the European Union since 2004.

Lithuania has achieved further progress in democratic transition in the period since the last Strategy, although some challenges remain in the area of the rule of law.

Free Elections and Representative Government

Lithuania is a parliamentary republic, with the legislative power lying with the 141-seat parliament, and executive power being divided between the government and the president. The political system is underpinned by the constitutional and legislative framework providing for a clear separation of powers and checks and balances of executive, legislative and judiciary. Lithuania's elected officials do not face undemocratic constraints on their powers to govern effectively.

The legal framework for elections is well suited for the conduct of democratic elections according to the OSCE Office for Democratic Institutions and Human Rights (OSCE/ODIHR) and improvements have been made in the period since the last Country Strategy. The elections are competitive and voters are generally given a wide array of political alternatives, with a high number of contesting parties. The election administration is characterised by professionalism and impartiality, recognised by all contestants including the opposition, who are able to campaign freely in an environment respecting fundamental rights.

The last general elections took place in October 2020. The elections were competitive and voters were given a diverse choice of political alternatives. Previous OSCE/ODIHR recommendations were met prior to this election, including amending legislation for voters abroad, measures for enhanced participation of voters with disabilities, provisions for improved functioning of the electoral administration, and party and campaign finance frameworks were amended. Recommendations that have not yet been addressed but are under consideration include removing undue restrictions on candidates and voter rights, decriminalise defamation, and provide for a judicial review of election results.¹

Civil Society, Media and Participation

The legal framework enabling a diverse civil society to operate independently is in place. Civil society organisations (CSOs) have good access to political decision-making and the law-drafting process. Lithuanian citizens are free to form political parties by law, which is upheld in practice with the existence of well-organised opposition parties that are able to campaign freely. The political party system has long been characterised by fragmentation, with frequent changes of government and fluid political party structures.

The Constitution guarantees freedom of expression and the right to information. Lithuanian media is pluralistic and expresses a wide array of political views. However, the ownership of media outlets continues to be concentrated. Defamation remains a criminal act. Legal protection for investigative journalists exists and is generally observed in practice.

Rule of Law and Access to Justice

The Constitution guarantees all citizens equality before the law. The right to a fair trial for all is enshrined in the Constitution and freedom from arbitrary arrest and detention is guaranteed. The judiciary is independent and generally provides an effective check on executive and legislative powers. In the period since the last Country Strategy, Lithuania has carried out significant measures to reduce corruption among judges. However, the country has not implemented Council of Europe's recommendations to strengthen the independence and the role of the Selection Commission of Candidates to Judicial Officers.²

¹ ODIHR (2020): *Parliamentary Elections October 2020 Needs Assessment Mission Report 2.6 March 2020.*

² GRECO (2017): *Fourth Evaluation Round Lithuania Compliance Report*

Annex 1 – Political Assessment in the Context of Article 1



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Transparency International's 2020 Corruption Perceptions Index ranks Lithuania 35th out of 180 countries assessed.³ A comprehensive normative and institutional framework to prevent and fight corruption is in place and accompanied by overarching anti-corruption strategies. At the same time, the latest report of the Council of Europe's Group of States against Corruption (GRECO) highlights areas to be further improved including strengthening structured cooperation on an operational level between the Chief Official Ethics Commission and the oversight institutions responsible for prevention of corruption among members of parliament, judges and prosecutors.⁴

Civil and Political Rights

Civil and political, including fundamental freedoms of speech, information, religion and conscience, movement, association and assembly are guaranteed by the Lithuanian Constitution and respected in practice.

Lithuania has a well-developed legal framework for the protection of minority rights. While the Polish and Russian ethnic communities are well integrated, concerns remain about the treatment of the Roma minority, although improvements have been made in the period since the last Strategy.

Principles of equal opportunities and equal treatment for men and women are enshrined in the Constitution and covered by relevant four-year National Programmes. The report by the Commissioner of Human Rights of the Council of Europe, following the latest visit to Lithuania in 2017, focused on three areas: gender equality and women's rights; rights of children; and rights of persons with disabilities.⁵

The Constitution of the Republic of Lithuania provides for citizens' freedom from harassment, intimidation and torture, and these freedoms are observed in practice.

³ Transparency International (2020): *Corruption Perceptions Index 2020*

⁴ GRECO (2017): *Fourth Evaluation Round Lithuania Compliance Report*

⁵ CoE (2017): *Report of the Commissioner for Human Rights of the Council of Europe, following his visit to Lithuania 5-9 December 2016*