DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

STRATEGY FOR LITHUANIA

As approved by the Board of Directors on 9 March 2004

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EXECUTIVE SUMMARY

Lithuania continues to meet the conditions specified in Article 1 of the Agreement Establishing the Bank. Following the positive outcome of the May 2003 referendum, and after successful negotiations regarding signature of the Treaty built on a high level of alignment with the *acquis communautaire*, Lithuania is now scheduled to join the EU in May 2004. Over the past decade of transition, Lithuania has made substantial progress in structural reforms, through the early liberalisation of prices and trade, the rapid privatisation of enterprises and gradual strengthening of the financial sector. Nevertheless, income per capita levels are still among the lowest in acceding countries. The structure of the economy does not yet reflect that of advanced industrialised economies, and low productivity in agriculture remains a problem. A number of important reform challenges still remain to enable rapid convergence to average EU income levels. In particular, the main challenge will be to strengthen domestic savings in order to accumulate adequate wealth for growth in standards of living in the future and to make high rates of domestic investment less reliant on foreign financing. In this context ongoing progress with structural reforms is necessary, such as the completion of privatisation, improvements to the business environment, further commercialisation and deregulation in the infrastructure sphere, strengthening of non-bank financial institutions and reforming the inadequately targeted social safety net. The proposed strategy has been developed to help address a number of these challenges, and to support Lithuania's transition towards a market economy in the context of the country's accession to the EU.

Since the last strategy was approved, Lithuania's economic performance stands out among EU acceding countries. The economy has grown by 6.5 per cent in 2001, 6.8 per cent in 2002 and an estimated 8.9 percent in 2003, driven by investments, exports and increasingly consumption. The authorities have undergone an impressive fiscal consolidation under an IMF stabilisation programme that has cut the budget deficit from a peak of 8.5 per cent of GDP in 1999 to around 2 per cent of GDP for 2003. Despite strong growth and weak export markets, the current account deficit has stayed at 5.3 per cent of GDP in 2002 and around 6 per cent in 2003, financed in large part by high, albeit recently decreasing, inflows of foreign direct investment. Nevertheless, while unemployment has been declining, regional disparities are high and rural poverty is widespread. In addition, gross domestic savings at 17% of GDP in 2003 are still amongst the lowest in acceding countries, and will have to rise to sustain high rates of growth in standards of living and make investment less reliant on foreign financing in the future. Although the financial sector is growing rapidly and an international standard prudential framework is now in place, domestic credit to the private sector is still the lowest in acceding countries. There is a need to accelerate the structural reform agenda in order to sustain employment creation and rapid economic growth going forward.

Since the last strategy was approved, significant progress with structural reforms has gained Lithuania an invitation to join the EU in May 2004. Following the unbundling of the electricity sector, the privatisation of the two regional distribution companies – VST and RST – was launched in July 2003 and finalised for the first one in December 2003 while the privatisation of RST has been interrupted. The sale of an initial 34 per cent stake in the gas transmission and distribution monopoly Lithuanian Gas, to a consortium of Germany's Ruhrgas and E.ON Energie was completed in May 2002 and the sale of a second 34 per cent stake to Gazprom was agreed in January 2004. The state reduced its exposure in Mazeikiu Nafta's and the oil supply issue was solved in 2002 when Yukos became the majority shareholder of the company. Following the last remaining privatisation in the banking sector in March 2002, the sector has strengthened considerably and credit has grown particularly rapidly. The process of enterprise restructuring was given a boost in late 2002 with changes in legislation to improve the enterprise restructuring law and the bankruptcy law, although further changes are deemed necessary. Moreover, Lithuania has taken steps to combat corruption through the adoption of a national anti-corruption action plan and the creation of independent monitoring and enforcement mechanisms, although more action is required in implementing these plans (particularly in strengthening the Special Investigation Service and in the area of prevention).

However, despite this progress, important challenges still remain. These include:

- Given ongoing weakness in the external environment, the continuation of prudent macroeconomic policies and increases in the domestic savings rate will be crucial in order to enable sustainable high growth rates necessary for rapid convergence to EU income levels.

- To promote a conducive environment for savings and investment, the authorities need to progress with improving tax administration, streamlining business registration and simplifying the cumbersome legal framework. Further efforts are needed to improve the efficiency of public administration. Continued progress needs to be achieved in the fight against corruption, particularly administrative corruption in the fields of public procurement and customs.

- Continued efforts are needed to complete the privatisation process, restructure some of the large local companies and improve their corporate governance standards.

- To overcome regional income disparities and help reduce the high number of unemployed, the support to SMEs should be enhanced.

- As capital expenditures by municipalities have in recent years been restricted by budgetary constraints, priority should be given to promoting commercialisation and private sector financing of municipal infrastructure without recourse to the sovereign, to building of capacity, and to improving regulatory frameworks.

- The restructuring and commercialisation of the energy sector needs to receive continued priority, *inter alia* to help offset the progressive closure of the Ignalina Nuclear Power Plant (INPP).

- Further reforms may be needed to establish a well-capitalised pension system that is sustainable over the long term and develop the non-bank financial sector. In addition, the inadequately targeted and expensive social safety net needs to be reformed.

As of 31 December 2003, the Bank had signed 27 projects with a total project cost of EUR 973 million, including EBRD financing of EUR 393 million, or 40 per cent, from the Bank. The private/state sector portfolio ratio stands at 62/38, indicating a small increase of the private sector in the portfolio. At the time of the previous strategy the private sector accounted for 58 per cent of the portfolio.

The Bank's activities in the coming years will be based on the following operational objectives:

Private Sector
The Bank will continue its support to the private sector through projects that need more extensive structuring, and cross-border investments, especially into CIS countries including Kaliningrad in Russia, and large investment projects in Lithuania. Particular attention will be given to improving corporate governance and increasing competitiveness in the enlarged EU market. The Bank will support growth in SMEs by providing medium- and long-term finance to financial institutions and by providing equity to equity funds.

Energy Sector
In order to support the further development of the Polish-Lithuanian Interconnector project the Bank will work with the Lithuanian and Polish authorities as well as the EU Commission and financial institutions. The Bank aims to support the development of renewable energy sources and will continue its active role as administrator of the NSA and the IIDSF.

Infrastructure
The bank will focus on financing state-owned and municipal entities, to support priority investment needs, while facilitating restructuring and private sector participation. Financing would be provided where feasible on a non-sovereign public or private basis to help reduce fiscal pressures. Priority areas will be the transport sector and municipal infrastructure. Instruments for lending to municipal entities through local banks will be developed. Assistance to local authorities will be provided to prepare, co-finance and implement projects eligible for EU Cohesion and Structural Funds. In developing financing structures, the Bank will work closely with the EIB and other IFIs in order to generate synergies.

The Bank will continue to ensure that all EBRD operations in Lithuania are subject to the Bank's Environmental Procedures and incorporate, where necessary, Environmental Action Plans. The Bank will also ensure that all its projects adhere to best-practice international procurement rules.

LIST OF ABBREVIATIONS

BAS	Business Advisory Service
EU	European Union
EIB	European Investment Bank
EMU	European Monetary Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau
NIB	Nordic Investment Bank
TAM	Turnaround Management Programme
NSA	Nuclear Safety Account
IIDSP	Ignalina International Decommissioning Support Fund

1. THE BANK'S PORTFOLIO

1.1 Overview of Bank Activities to Date

To the end of December 2003, the Bank had signed 27 operations in Lithuania with a total project cost of EUR 973 million, including EBRD financing of EUR 393 million, or 40 per cent, from the Bank. From the Bank's financing, EUR 291 million, or 74 per cent, had been disbursed. The Bank's core operations currently active in Lithuania include specialised industries and infrastructure. SME development activities are included within the financial sector. The table below summarises the Bank's activities to the end of December 2003.

EUR millions

Sector	No. of Ops	Total Project Cost	EBRD Finance	per cent EBRD from Total	per cent EBRD Disbursed
Energy	1	51	42	82	87
Financial Institutions	15	268	136	51	66
Infrastructure	6	380	110	29	58
Specialised Industries	5	273	106	39	95
Total	27	973	393	40	74

1.2 Implementation of the previous country strategy

The banking sector in Lithuania has been very liquid. This, combined with the fact that many working capital and fixed investments in the corporate sector have been financed by internal funds or retained earnings, has meant that financing opportunities for EBRD in the corporate sector have been scarce. Much of the FDI has come from the Nordic countries. With many of the Nordic banks having an active presence in Lithuania these investments have been mainly financed by the sponsors' house banks or their Lithuanian subsidiaries. Larger infrastructure projects have been postponed in anticipation of EU accession and the availability of EU structure and cohesion funds. Achievements against the main objectives from the previous strategy are as follows:

- *Strengthen the co-operation with municipalities, principally in infrastructure sectors, coupled with assistance to improve their municipal finances, programme planning and credit standing.* The Bank in March 2003 signed its first loan with the City of Vilnius for an amount of EUR 7 million to renovate and upgrade a road running through an area planned to be the future commercial and business centre of Vilnius. The City received technical assistance from the Bank for a capital management programme and traffic management.
- *Maintain an active policy dialogue to assist in legislative changes.* A Grain Receipts Law was introduced in Lithuania in 2002 and a new Concession Law was introduced in 2003. Both laws were prepared with the Bank's assistance including grant-funded technical assistance and active input by Bank staff. The Grain Receipts Law will improve the agricultural sector's access for financing.

The new Concession Law will facilitate the development of PPP projects in Lithuania.

- *Participate in larger industrial transactions such as Mazeikiu Nafta provided the oil supply issue is appropriately resolved, and other larger private sector projects such as port terminals.* Since Yukos became the majority shareholder (with 53.7 per cent) in Mazeikiu Nafta in 2002 and secured long term crude oil supply to the refinery, the Bank has been discussing the possibility of acquiring a part of the shares representing 40.7 per cent of the company owned by the Lithuanian Government. A EUR 35 million loan to VP Market the largest retailer in Lithuania and the Baltic countries was signed in January 2004 to facilitate the group's further expansion in the country.
- *Support projects which enhance co-operation with neighbouring countries in sectors such as energy and transport in particular, and with special attention to co-operation with the Kaliningrad region.* The Bank's role in preparing the feasibility study for the Poland-Lithuania electricity interconnector as a member of the steering committee has been important. Going forward the Bank stands ready to support the development of the project together with the EU and other financial institutions. Lithuanian enterprises have been establishing a presence in Kaliningrad through small investments which to date have been too small to give the Bank an opportunity to become actively involved.
- *Expand both the volume and spectrum of funding instruments for SMEs through local financial institutions, also with a view to ensuring a more balanced regional development, and a further development of non-banking financial institutions.* Lithuanian banks are very liquid and other providers of the EU supported SME Facility have been offering financing to the banks at significantly lower cost than that offered by the EBRD. Consequently during the strategy period the Bank has not been able to increase the funding to SMEs via the banks. All major leasing companies in Lithuania are bank-owned and have mostly been funded by their parent banks. In 2002 an equity commitment of up to EUR 20 million was provided to the EUR 80 million Askembla Growth Fund, a regional equity fund for the Baltics.
- *Support restructuring, commercialisation, and participation by the private sector in infrastructure through pre-privatisation finance and participation alongside strategic investors in privatisation and post privatisation investments.* An increase in the equity of EUR 3.8 million in Litesko, an Energy Saving Company, was signed in December 2003. The privatisations identified in the previous strategy, namely the electricity distribution companies in Lithuania, have only been completed for one of the two companies and postponed for the other.
- *The Bank will continue with its active role as administrator of the NSA and the IIDSF.* The first projects financed from IIDSF are being implemented.

Lithuania has achieved considerable progress in aligning with the *environmental acquis*, in particular in relation to water quality, waste management, nature protection, and noise as well as in developing the necessary administrative capacity to implement the *acquis* in this area. Concerning administrative capacity, attention has been devoted to implementation issues and institutional strengthening.

1.3 Transition impact of the Bank's portfolio and lessons learned

1.3.1 Transition impact in the infrastructure and energy sectors

- The Bank has had a wide-ranging involvement in the Lithuanian infrastructure sectors. Early on, the Bank has had one project in the Lithuanian power sector, an emergency rehabilitation loan in 1992, with sub-loans focusing inter alia on energy tariff reforms, an energy conservation campaign, and boiler conversions. However, more radical reform in Lithuania's power sector is slow to take off, reflecting inter alia the delays that had been incurred in reaching decisions regarding the future of the Ignalina nuclear power plant. The Bank played a leading role in the establishment of the Ignalina Decommissioning Fund.
- The Bank has also been involved in one ESCO operation and the Kaunas district heating system. However the potential transition impact in the latter investment was not realised due to failure in 2000 by the authorities to select a concessionaire. On the other hand, policy dialogue is ongoing to build consensus on the need for reform in other municipalities in which projects are now under discussion.
- In the municipal infrastructure sector the Bank's first project was structured as a sovereign guaranteed loan of USD 14.7 million to the Kaunas Water Company for upgrading and rehabilitation combined with a four year twinning programme with the Stockholm Water Company. The Company's financial and operational performance improved substantially following signing as it made strong efforts to comply with the covenants which required tariffs to be increased to full cost recovery and annual operating expenses to be reduced. Building on the success of the first phase, the Bank extended a second loan to the Kaunas Water Company of USD 14.7 million in 2001, backed only with a municipal support agreement with the City of Kaunas. The second loan was the Bank's first direct corporate loan to local service utility in Lithuania without recourse to a sovereign guarantee. The proceeds will co-finance a European Union funded investment programme and will help Lithuania comply with the environmental requirements of accession. These two projects have successfully promoted commercialisation and self-financing by increasing tariffs to reflect user and pollution-related costs, and by focusing institutional development efforts on improving internal management through better management information systems, new billing and revenue collection systems and the close management of operating costs to achieve savings.
- In 2003, the Bank approved a general obligation loan to the City of Vilnius to finance priority street improvements related to a major land development scheme as part of the implementation of the City's Transport Master Plan. The main transition impact will be achieved with a Capital Development Programme which will improve the City's capital budgeting procedures and improve the City's infrastructure financing capacity.

1.3.2. Transition impact in the enterprise sector

- The Bank has had a much better experience in the Lithuanian enterprise sector than in the other two Baltic States. The Bank made three agribusiness investments in Lithuania (Rokiskio Suris, Svyturys (Carlsberg), and the regional Baltic Food Holding), with a significant impact on the sector by restructuring key companies, providing positive examples of corporate governance, attracting strong strategic investors and enhancing competition. Recently, the Board has also approved a loan to one of the largest local Baltic conglomerates, the VP Market retail chain, where the Bank targets significant improvements to the group's holding structure and corporate governance.

- The Bank supported only two industrial companies, Paroc Silikatas - an insulation material manufacturer- with a loan in the mid 90's, and Drobe Wool - one of the largest Eastern European manufacturers of pure wool and wool blend fabrics - with equity and debt in early 2000. However, the latter project has experienced financial difficulties and the intended transition impact of successful restructuring has so far not materialised.
- The provision of finance to SMEs has progressed much more slowly than in the other acceding countries. In Lithuania the SME sector was reached through a credit line under the EU SME Facility to Siauliu Bankas. The performance is very good and the Bank has made a long term commitment to lend to the SME sector which is its core business segment. Otherwise Lithuania's SME sector has further benefited from the TAM and BAS initiatives and investments in more than 20 companies by equity funds in which the Bank has invested.
- The Bank has also been involved in the early stage of privatisation of Lietuvos Telekomas through a loan aimed at restructuring the state-owned enterprise. Through the loan, local call metering, computerised subscriber billing and accounting systems and the institutional development of LT were improved. The Bank also participated in the second stage of LT's privatisation, when it underwrote a number of shares of the company during its IPO and provided assistance on the redrafting of the legal framework for telecommunications.

1.3.3 Transition impact in the financial sector

- Early projects focused on strengthening the local privately owned banks and increasing their financial leverage through subordinated loans and credit lines, for example to Vilnius Bankas (VB), Bankas Hermis (BH) and the Lithuanian Development Bank (LDB). The Bank has successfully encouraged and supported the parallel progress of VB and BH from small private commercial banks until 1998 when consolidation in the market led VB to acquire BH before VB was itself acquired in 1999 by Skandinavska Enskilda Banken (SEB). VB is the largest bank in Lithuania, with nearly 40 per cent market share. The Bank had an active board role in BH and made a significant impact in improving corporate governance and bank management. The Bank was also instrumental in supporting the privatisation in 2002 of the Lithuanian Agricultural Bank (LZUB) to Nord/LB as a strategic investor. Subsequently Nord/LB has undertaken a total restructuring of the bank, has increased its lending and has transformed it into a profitable bank by 2003.
- In the non-bank financial sector, in 1999 the EBRD participated in the successful privatisation of the dominant state-owned insurance company - Lietuvos Draudimas - to Codan (Denmark) as a foreign strategic investor. Furthermore, the Bank played a key investor role in the IPO of Lietuvos Telekomas; which had a significant positive impact on the National Stock Exchange of Lithuania's market capitalisation and trading volumes.

1.4 Financial performance, mobilisation of co-financing and portfolio ratio

With a portfolio in Lithuania of EUR 241 million, and disbursed operating assets of EUR 177 million, the Bank's performing assets represent 67 per cent, or EUR 119 million, of operating assets.

As of 31 December 2003, the Bank had signed 27 projects with a total project cost of EUR 973 million, including EBRD financing of EUR 393 million, or 40 per cent, from the Bank, i.e. with a mobilisation ratio of 1.5. The private/state sector portfolio ratio stands at 62/38, indicating a small increase of the private sector in the portfolio. At the time of the previous strategy the private sector accounted for 58 per cent of the portfolio.

The non-sovereign risk portfolio is dominated by the 7.7 per cent equity investment in 2000 in the IPO of Lietuvos Telekomas, the incumbent fixed-line telecoms operator (€52m, 29 per cent of operating assets). The investment has been affected by the global downturn in sentiment towards the telecoms sector and limited growth prospects in Lithuania from not having a mobile license. The €5million combined debt and equity exposure to Drobe Wool (textiles, 3 per cent of operating assets) has not performed satisfactorily due to a sharp rise in wool costs and a market downturn.

2 OPERATIONAL ENVIRONMENT

2.1 The General Reform Environment

General Political and Social Environment:
Since its independence, Lithuania has been a constitutional parliamentary democracy, with a 141-member single-chamber Parliament; a directly elected President; and a government whose Ministers are nominated by the Prime Minister, appointed by the President, and approved by Parliament. Algirdas Brazauskas has been Prime Minister since July 2001 when Rolandas Paksas resigned having been the Prime Minister since the previous parliamentary elections in October 2000. Mr Brazauskas is leader of the Social Democrats whose junior partner in the government coalition is the New Union-Social Liberals party. The government is reform-minded, with a smooth transition into the EU (following accession in May 2004) a top policy priority. Presidential elections are held every five years. After two rounds of presidential elections, Rolandas Paksas, a businessman, former Mayor of Vilnius (twice) and former Prime Minister (also twice) was elected President defeating Valdas Adamkus in January 2002. However, impeachment proceedings against him were formally initiated by the Lithuanian Parliament on 8 March 2004. This was recommended by a special parliamentary commission of investigation, which had concluded that the President had violated the Constitution and his oath of office. The Constitution provides for an independent judiciary, but despite some recent improvements in the quality of the judiciary, significant problems (including inefficiency and allegations of corruption) remain. Although significant progress has been made by the country in the fight against corruption, it continues to be an issue highlighted in various international assessments of the country. For further detail on political and social issues, please refer to Annex 1.

Legal Issues:

The 2003 Comprehensive Monitoring Report of the European Commission on Lithuania's Preparation for Membership reveals that Lithuania has reached a high level of alignment with the *acquis communautaire* in most areas. Considerable progress has been achieved in improving the administrative and judicial capacity and most of the administrative structures, which are necessary to implement the *acquis*, are now in place. However, further sustained efforts to reinforce the administrative capacity are required, and, in particular, with respect to the hiring and training of qualified staff and the effective co-ordination of the agencies. Other areas where Lithuania needs to make enhanced efforts include insurance and investment services, securities markets, payment systems and fight against money laundering, protection of intellectual and industrial property rights. Also, although efforts have been made in amending bankruptcy laws, there remain certain weaknesses in these laws and their implementation as described in Annex 2.

An overall assessment of the commercial law reveals that Lithuania has developed a legal system comparable, to a limited extent, with international standards. Investors continue to be encouraged by a stable political environment and conducive macroeconomic environment. Among the most noticeable and significant legal reforms recently made is the new concession law, prepared with EBRD technical assistance and providing for a much more flexible regime for concession arrangements and in line with internationally accepted standards, which has come into force in 2003 (for more information on the Legal Transition see Annex 2).

Environmental Issues:

Meeting the requirements for EU accession has been one of the prevailing environmental policy objectives for Lithuania. According to the European Commission's 2003 Comprehensive Monitoring Report on Lithuania's Preparations for Membership, which reflects the situation at the end of September 2003, Lithuania is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be in a position to implement the *acquis* in all areas of environment policy by accession. Implementation remains a major challenge, in particular in areas which require heavy investments or investments by private enterprises. Considerable investments need to be secured, also in the medium-term, to ensure implementation of the environmental *acquis*.

2.2 Progress in Transition and the Economy's Response

2.2.1 Macroeconomic conditions for Bank operations

Since the last strategy was approved, the macroeconomic performance of Lithuania has been impressive. The economy has been growing by an average rate of over 6.5 per cent per annum since 2000 due to continued strength in exports and investments and is projected to grow by around 6.5 per cent in 2004 (driven in part by favourable developments in the energy sector). The switch of the currency peg under the currency board arrangement from the dollar to the euro (at 3.4528 Litas to one Euro) in February 2002 went smoothly and the arrangement is likely to remain in place until Lithuania formally adopts the Euro. Strong fiscal consolidation under an IMF stabilisation programme has cut the budget deficit from a peak of 8.5 per cent of GDP in 1999 to around 2 per cent of GDP in 2003. The level of public debt remains low (below 15% of GDP). Despite strong growth and weak export markets, the current account deficit has stayed relatively modest (at around 6 per cent of GDP in 2003), financed in large part by high inflows of foreign direct investment. However, in per capita terms, Lithuania is still amongst the poorest in EU acceding countries. Unemployment remains high and regional income disparities are significant (see Annex 1). Moreover domestic savings remain amongst the lowest of acceding countries. Although the financial sector is growing rapidly, domestic credit to the private sector was still less than 15 per cent of GDP in 2002 (the lowest among acceding countries). The challenge will be to address high unemployment levels, promote domestic savings and financial intermediation in order to foster the accumulation of adequate wealth for fast rises in standards of living and make high rates of investment less dependent on foreign financing. This will require ongoing progress with structural reforms (see next section). For a more detailed analysis of macroeconomic performance, please refer to Annex 3.

2.2.2. Transition success and transition challenges

Lithuania has made significant progress in its transition towards a market economy since the last strategy was approved. The privatisation process made further advances in the last two years and now only a handful of large-scale enterprises, mainly in infrastructure, remain under state control. The process of enterprise restructuring is helped by amendments to the enterprise restructuring law and the bankruptcy law (although as described above further changes are necessary). Moreover, Lithuania has taken some important steps to combat corruption. Following the last remaining privatisation in the banking sector in March 2002, the sector has strengthened considerably and credit has grown rapidly. More recently privatisations have progressed in the energy and gas sectors. Although it still lags in some areas, Lithuania now ranks well among the acceding countries with respect to the implementation of market reforms across most reform dimensions (see Annex 3 on Comparative Statistics).

The main challenge in the current strategy period is to continue to promote the development of a vibrant private sector. Ongoing efforts will be needed to restructure a number of large local companies and improve their corporate governance standards. To overcome regional income disparities and help reduce the high number of unemployed, the support to SMEs should be enhanced. Parallel progress is required in improving the efficiency of public administration, streamlining business registration and simplifying the cumbersome legal framework. Continued progress needs to be achieved in the fight against corruption, particularly administrative corruption in the fields of public procurement and customs. In addition, reforms are still necessary in the public infrastructure sector. As capital expenditures by municipalities have in recent years been restricted by budgetary constraints, priority should be given to promoting commercialisation and private sector financing of municipal infrastructure without recourse to the sovereign, and to improving regulatory frameworks. The restructuring and commercialisation of the energy sector needs to receive continued priority, *inter alia* to help offset the progressive closure of the Ignalina Nuclear Power Plant (INPP). Further reforms are needed to establish a well-capitalised pension system and develop the non-bank financial sector.

In particular the upcoming challenges sector-by-sector include:

Enterprise reform: *the key reform challenge in Lithuania remains the restructuring of large-scale enterprises and the creation of a business-friendly environment to promote new business entry (including FDI) to support continued fast productivity growth.* Since the repegging of the currency to the euro, the litas has continued to appreciate along with the euro, raising concerns about the future competitiveness of Lithuania's exports to countries outside the euro area. However, the strong recovery since the Russian crisis coincided with acceleration in the process of labour shedding and restructuring, leading to exceptionally high increases in labour productivity. Manufacturing wages have risen only modestly since 2000 and the resulting fall in unit labour costs has so far largely offset the continued appreciation in the nominal exchange rate. Nevertheless, Lithuania needs to build on these successes to ensure continued competitiveness going forward. Net cumulative FDI inflows per capita since 1989 still remain among the lowest (together with Poland) among acceding countries (at only US$ 1,024 in 2002), despite the rapid privatisation of large-scale enterprises to foreign strategic investors in recent years. A challenge will be to further attract greenfield or brownfield FDI which would not only bring in capital but also relevant skills and knowledge.

The key challenges in the enterprise sector are:

- *Efforts need to continue in improving the business environment and building administrative capacity to effectively enforce recently enacted enterprise legislation.* According to the World Bank/EBRD Business Environment and Enterprise Performance Survey (BEEPS) conducted in 1999 and 2002, a significant number of enterprises continue to report problems in the areas of taxation and regulations. Since the survey, Lithuania has introduced important changes in legislation to improve the enterprise restructuring law (in November 2002) and the bankruptcy law (in December 2002). A new labour code became effective in January 2003 aimed at modernising the existing system and incorporating key principles of international labor legislation. Progress has also been made in simplifying administrative procedures for market entry. Moreover, Lithuania has taken significant steps to combat corruption through the adoption of a national anti-corruption action plan and creation of independent monitoring and enforcement mechanisms. Nevertheless, the authorities need to progress with improving tax administration, streamlining business registration and simplifying the cumbersome legal framework. Further efforts are needed to improve the efficiency of public administration. Continued progress needs to be achieved in the fight against corruption, particularly administrative corruption in the fields of public procurement and customs.
- *The support to SMEs needs to be enhanced to overcome regional imbalances and address persistent high unemployment.* As in the other Baltic States, SMEs (i.e. enterprises employing less than 249 people) account for 99 per cent of the total number of enterprises in Lithuania, but relative to the EU much fewer enterprises are micro/small- versus medium-sized. Ongoing problems mentioned by small businesses in surveys (from local institutions and the World Bank/EBRD) are the complex and changing tax requirements, the cumbersome legal framework, low-level administrative corruption, the lack of financing, and the shortage of skilled labour. Efforts therefore need to focus on improving tax administration, further developing infrastructure, simplifying business

administration and licensing requirements, encouraging skills training and labour mobility, and supporting the provision of finance to SMEs which would help mitigate the problems with high collateral requirements and short repayment periods.

- *Another key priority will be improving corporate governance standards and restructuring of large local corporates.* Although unit labour costs still compare favourably to other acceding countries and productivity improvements have been rapid in recent years, many of the local companies still are not in full compliance with the best international reporting, disclosure and transparency standards and have limited access to international finance. The challenge will be to assist these companies to restructure in order to remain competitive in an enlarged EU market. Given the small size of the Baltic countries, this will be key to promote cross-border links.
- *Reforms in the agricultural sector should be advanced to address the challenges in rural regions.* In 2003 agriculture was one of the slowest growing sectors of the economy. The size of the agriculture sector is relatively large in Lithuania accounting for 18.6 per cent of total employment in 2002 (well above the EU average) but only 6.3 per cent of gross value added.[1] This reflects the continued production inefficiencies and hidden unemployment in rural areas. The development of rural areas is still constrained by the inefficiencies in the operation of the land market, the small size of farms, the lack of infrastructure and the lack of alternative job opportunities outside of agriculture. Quality and technological improvements are needed to increase the productivity and competitiveness of the agricultural and agribusiness sector and to address the challenges in rural regions. These quality improvements would be best achieved through the standards demanded by downstream agribusiness enterprises as well as the enforcement of EU phytosanitary standards. The issue of lack of access to financing applies to farmers and small agribusiness enterprises as much as it does to SMEs, although in agriculture it is especially important that farmers receive adequate working capital.

Energy sector: *further restructuring, commercialization, privatisation and strengthening of regulatory frameworks are needed in the energy sector.* The Lithuanian power sector is the only unbundled power market in Baltic countries. In 2002 the vertically integrated electricity monopoly Lietuvos Energija was divided into independent generation, transmission, distribution and supply companies. The total available power production capacity of Lithuania is 6,002 MW and power generation is dominated by INPP, which produced over 80% of the country's total electricity output in 2003 allowing the country to keep its position as a net exporter (38% in 2002) of electricity; however, the power sector has finally experienced a significant increase also in domestic final customer demand in recent years (from 3 % to 10 % p.a.), driven by the strong growth in real GDP and industrial production. The closure of INPP is the central issue in the restructuring of the generation sub-sector in Lithuania. During the accession process, Lithuania committed itself to closing Unit 1 of Ignalina before 2005 and Unit 2 by 2009 (and the EU committed itself to support this process). Given the recent progress in adjusting electricity tariffs to reflect long run marginal cost, energy efficiency has also started to improve to align itself more with conditions in other acceding countries. However, further progress needs to be achieved.

[1] These numbers refer to agriculture, hunting and fishing.

In particular:

- *The privatisation, restructuring and commercialisation of the energy sector needs to receive continued priority to help offset the progressive closure of the Ignalina.* The privatisation of the two regional distribution companies – VST and RST – was launched in July 2003. In December 2003 the government approved the sale of 77% in VST to NDX, a company related to the Lithuanian retail chain VP market, for LTL 539.85 mn (€156 mn). NDX has also committed to make LTL 420 mn (€121 mn) worth of investments over five years. A number of European utilities companies, including E.On, EdF, Fortum, and Eesti Energija, expressed their interest in bidding for the RST stakes, but finally only Eesti Energija submitted a bid and the Government of Lithuania decided to suspend the bid until a notice of possible next steps. Next on the agenda is the privatisation/commercialisation of the two generation companies.
- *Moreover, the regulatory framework needs to be further strengthened for the implementation of regulated third-party access to the power transmission and distribution grids.* The National Control Commission for Prices and Energy, which was established in 1997, needs to be strengthened to enable the implementation of regulated third-party access (TPA) to the power transmission and distribution grids. The NCCPE will also need to further develop tariff methodologies in line with market liberalisation and as Ignalina INPP's progressive decommissioning moves forward, and establish a track record as an independent regulator. Market opening is taking place in line with the new electricity law and commitments made under the EU negotiations: 21 per cent of the market as from 2002; 26 per cent as from 2003; 33 per cent as from 2004 and full market opening as from 2010. However, the liberalisation timetable, which would allow all customers free access by 2010, is not in compliance with the new EU directive that allows third-party access from July 2007.
- *In the gas sector, the privatisation of Lithuanian Gas should now be completed and further regulatory reform will be necessary.* Lithuania has minimal natural gas reserves and no natural gas production, making the country completely reliant on imports. After reorganizing the company, the Lithuanian government has begun to privatize Lietuvos Dujos, starting with a 34% stake that it sold to a German consortium of EON Energie and Ruhrgas for US$33 million in June 2002. Russia's Gazprom was the sole bidder for a 34% stake in the second phase of the privatization in the fall of 2002, but as Lithuania's main natural gas supplier, Gazprom initially offered just 70% (US$23.3 million) for the tender. According to recent news, the sale of a second 34% stake to Gazprom has now been agreed in January 2004. According to the State Property Fund, the final sales price will be LTL 100m (US$36.8 million). The sale, which has been in negotiations for over a year, will be completed in February or March. Lithuanian officials, who had held out for a sales price of LTL 116m after receiving that amount from a German consortium for a 34% stake in Lietuvos Dujos, finally agreed to the Gazprom offer in September, accepting the lower price but apparently satisfied that the Russian gas giant improved upon its earlier offer of just LTL 80m. The privatisation of the company will enhance competition, but this should be supplemented by improved regulation for TPA to transmission and distribution networks.
- *Given the resolution of the oil supply issue, the further upgrading of the production facilities at Mazeikiu Nafta are a priority.* Following the

controversial sale of the country's only refinery Mazeikiu Nafta to Williams Intl in 1999, Yukos acquired a 53.7% stake in the company in 2002, buying out Williams' stake and taking over management rights and operational control. The government is still deciding whether to sell additional stakes in the company.

Infrastructure: ***further commercialisation and private sector participation in infrastructure services and transport sector will be needed to enhance efficiency.*** Compared to the other acceding countries, national budgetary capital expenditures as a percentage of GDP have been relatively small (see Annex 3). Government efforts to reduce fiscal imbalances in recent years have squeezed public capital expenditures, including those by the municipalities. Given the fiscal challenges involved in EU and NATO accession[2], it is important that authorities maintain a balance between undertaking necessary capital investments in order to implement the EU *acquis* and fiscal prudence. Therefore, the authorities should seek ways to encourage private sector investments into the infrastructure and environment sectors, including for those activities and investments that fall under the jurisdiction of municipalities.

- *An immediate challenge for the authorities is to strengthen the financial discipline of municipalities.* Although municipalities have made some progress in reducing their budgetary arrears, they have not yet been able to put their finances on a sound footing. The authorities have been advised by the IMF to push forward with expenditure rationalisation, enforcement of borrowing limits, and improvement of budgeting/planning procedures for capital investment programmes. In addition the IMF expressed disappointment about the postponement of the introduction of the real estate tax, which would provide municipalities with a control over their tax base (so far the main source of revenue for municipalities continues to be personal income tax). These measures would enhance the scope for the municipalities to undertake investments without recourse to the sovereign.
- *Priority should also be given to enhancing private sector participation in the municipal services sector.* While the stabilisation of revenues is a positive step, the ability of the municipalities to undertake capital investment projects on their own account is restricted. According to the Law on the Approval of the Financial Indicators of the State Budget and Municipal Budgets for the year 2004, the total borrowing limit of municipalities is capped at 35 per cent of annual revenues excluding transfers from the central government, except for the Vilnius and Kaunas municipalities, where it is capped at 50 per cent. Net borrowing per annum is limited to 20 per cent of the annual revenues excluding transfers. Debt service is also capped at 20 per cent of annual revenues excluding transfers. Although these ratios do not apply to projects included in the State Investment Programme, it is clear that the municipalities should consider public-private partnerships to meet their investment needs. Involvement of the private sector could be sought either through the privatisation of municipal-owned service companies, contracting out certain elements of municipal services, or through concessions. *Further refurbishment and restructuring of transport services, including municipal transport, is a key priority.* In the transport sector, while Lithuania has relatively developed road networks compared to other countries in the CEB, reforms in railways as measured by productivity have significantly

[2] According to the IMF, the fiscal cost of EU accession will be 4.9-5.6 per cent of GDP per annum in the next three years. Defence expenditures will also amount to 2 per cent of GDP per annum over the medium term as required by NATO accession. Grants will amount to 2.3-3.2 per cent of GDP (assuming full absorption of available post-accession grants). This would leave a sizeable funding gap.

lagged behind (see Annex 3). Streamlining of the new rail operating units and productivity improvements are needed in all areas of the railways. Further progress requires the issue of funding losses accruing from operating the loss-making passenger services, which are not adequately compensated by the government and which are currently cross-subsidised by freight, to be resolved. In the road sector, the main challenge is to implement the reform of the financing of the sector to provide a system that is sustainable, predictable and sufficient.

Financial sector: *Further reforms may be needed to establish a well-capitalised and sustainable second pension pillar and develop the non-bank financial sector.* In March 2002, the authorities sold their 76 per cent stake in Agricultural Bank, the third-largest bank in Lithuania in terms of assets, for LTL 71 million (EUR 20 million) to NordLB of Germany. However financial intermediation in Lithuania, at 30 per cent, continues to lag significantly the average rate of 70 per cent among the Bank's countries of operation. The local capital market, which was temporarily buoyed by the IPO of Lithuanian Telecom, has since lost steam and market capitalisation as a percentage of GDP is minimal (see Annex 3).

The main challenges of the financial sector are:

- *Although banks are performing well, they require continued close monitoring of the rapid growth in credit and could benefit from further improvements in supervision.* Broad money and credit to the private sector each grew by 17 per cent and 30 per cent respectively last year and, starting from a low base, are expected to grow by similar amounts this year and next. This rapid credit growth calls into question the quality of loan portfolios and highlights the importance of careful supervision. A number of changes were made in 2003 to further enhance banking sector supervision, in line with recommendations from the IMF and the EU. The authorities have revised the law on banks to enhance the powers of the supervisory capacity of the Credit Institutions Supervision Department of the Bank of Lithuania. Further anti-money laundering procedures have also been introduced. A new Law on Insurance was adopted in September 2003 which addresses many of the weaknesses highlighted by the International Association of Insurance Supervisors (IAIS) in insurance supervision. However, the law does not provide for sufficient financial independence of the insurance supervisory agency and the IMF continues to recommend that improvements are made in this area. The IMF also recommends that financial sector supervision should be unified in the long term.
- The capital market in Lithuania continues to be underdeveloped, reflecting in part a weak institutional investor base. Stock market capitalisation at the end of 2002 was only 10 per cent of GDP, lower than in most of the other advanced transition countries, although it grew by 40 per cent in 2003. At the same time, there are nine life insurance companies and 26 non-life insurance companies, but the total insurance premiums underwritten in 2002 were less than 2 per cent of GDP (compared with 8 per cent in the EU), although insurance premiums grew by 10 per cent in 2003.

- *There is a continued need to ensure that the pension system is financially viable over the long-term.* In December 2002 parliament adopted a new law on pension reform which establishes a voluntary contribution second pension pillar instead of the compulsory participation type that was originally envisaged. Starting in January 2004 private individuals are able to direct a portion of their social security contributions from the state-run social insurance fund, Sodra, to private pension funds and life insurance companies on a voluntary basis. The authorities believe that further reforms are not needed and that all the necessary legal acts are now in place. Indeed, the participation rate has exceeded many expectations and it is reported that some 40% of all those participating in Sodra have chosen to divert part of their contributions from Sodra to private funds. However, there is remaining doubt about whether these reforms establish a well-capitalised contribution-defined second pillar, which is sustainable over the long-term. As a result of the current favourable demographic situation, SODRA will have a surplus for few years to come, which would make now an ideal time for more meaningful reform. According to some calculations, however, the current pay-as-you-go system will cease to be financially viable in around 15-20 years. According to the IMF and other observers, ensuring the long-term sustainability of the PAYG system will require additional measures, such as further increases in the retirement age, the strengthening of the collections of contributions, eliminating the ceiling on the earnings-related pensions, tightening eligibility requirements for disability pensions. In addition the IMF believes that participation in the second pillar should be further encouraged by making participation mandatory for younger cohorts and strengthening the regulation of pension funds.

2.3 Access to Capital and Investment Requirements

Local banks are well capitalised and highly liquid from growing deposits. With EU accession imminent and reducing credit risk, banks are willing to lend to 10 years for corporate loans and up to 40 years for mortgage loans, with interest rates typically at 4 to 7 per cent per annum. Loan default rates on average are less than 2 per cent.

Household credit (consumer loans, credit cards and mortgages) and leasing markets have grown particularly rapidly in the past three years and need close monitoring. The stock of leased assets now makes up over 3 per cent of GDP, which is higher than in most other accession and EU countries (except for Estonia and Latvia). In this respect leases have to some extent replaced more traditional bank lending, which has been due primarily to the relative inefficiency of the legal process in asset liquidation cases and the lack of borrowers' collateral.

However, local banks are generally unwilling to lend to start-ups and newly established companies. Consequently small companies continue to cite the lack of access to reasonably priced long-term financing as the most significant barrier to growth. Other barriers include bureaucratic regulatory authorities and the lack of suitably qualified staff.

Small and illiquid, the domestic capital market has played a very limited role as a means to attract and allocate savings into capital investment. Equity markets as a source of financing are still in their infancy, with stock market capitalisation in Lithuania at less than 10 per cent of GDP. The domestic bond market continues to be dominated by government securities and a sizeable fraction of bonds outstanding are international

Eurobonds. Lithuania has recently issued another long-term Eurobond of Euro 600 million. Ahead of this issue, the Fitch and Standard&Poors rating agencies upgraded Lithuania's long-term foreign currency ratings from BBB to BBB+ and from BBB+ to A- respectively in January and February 2004.

3. STRATEGIC ORIENTATIONS

3.1 Bank's Priorities for the Strategy Period

Given its mandate and the challenges outlined above, the Bank will focus on those sectors in which it continues to be additional in Lithuania during the next strategy period. These will primarily comprise the following main operational priorities and drawing the lessons from the previous strategy, the Bank has retargeted its key priorities and objectives in Lithuania as follows:

- **Private Enterprise Sector.** The Bank's primary focus will be to support the development of a competitive private enterprise sector. The Bank will seek to support larger industrial, manufacturing and service enterprises with a view to facilitating the expansion of Lithuanian companies in the region and improving local corporate governance standards. The Bank will also support the development of SMEs. Since these companies are quite small, the Bank can hope to achieve this primarily through operations in the financial sector and through equity funds. The Bank will seek to provide long-term funding to the financial sector in the form of credit lines, subordinated loans and equity investments to support SME growth. The Bank will also seek to support further development of non-bank institutions, including leasing companies, the insurance sector, mortgage lenders and pension funds, once the necessary legislation is in place.

- **Energy.** The Bank will seek to promote development of a Baltic energy market among the three Baltic States as well as the Polish-Lithuanian Interconnector. The decommissioning of IINPP will translate into other energy related projects.

- **Infrastructure.** The Bank will support the further development of infrastructure, including in the transport and municipal infrastructure sectors, in order to strengthen municipal finances, foster competition, promote regional integration and attract private investment and commercial operations for long-term sustainability.

The Bank stands ready to assist the authorities in defining priorities, procedures and responsibilities to ensure effective access to EU structural and cohesion funds. The Bank has valuable experience in working with the EU on designing and jointly implementing financing operations to support a variety of sectors, including SME development, transport infrastructure and municipal infrastructure. This experience will be deployed in supporting Lithuania's access to committed EU funds.

The Bank's environmental approach for Lithuania reflects the country's advanced stage of legislation framework and economic development. The Bank's relatively extensive project portfolio addresses Lithuania's key environmental concerns by focusing on further improving specific environmental management areas through the Bank's projects in line with the EU accession process. All EBRD operations in Lithuania are subject to the Bank's Environmental Policy to ensure projects are structured to meet applicable EU environmental standards. Where appropriate, Environmental Action Plans are incorporated into the legal documentation in order to address issues raised during due diligence, in line with the Bank's mandate to actively support environmentally sound and sustainable development through its investment projects. In all projects the Bank will uphold international procurement standards, which should act as an important demonstration effect to Lithuanian companies and authorities.

3.2 Sectoral Challenges and Bank Objectives

In response to the transition challenges identified in Section 2.2, the Bank's operational objectives in the enterprise sector will be the following:

3.2.1 Private Enterprise Sector

The Bank stands ready to support large investment projects that encourage FDI in Lithuania and other direct investment projects, such as in the manufacturing, agribusiness or service sectors by medium sized foreign or local companies. A EUR 35 million financing for VP Market, the largest retailer in the Baltics and the second largest company in Lithuania, was signed in early January this year. This could be followed by a further EUR 25 million syndicated facility in late 2004 or early 2005. The Bank's involvement in direct investment projects will focus on projects that need more extensive structuring and cross-border investments, particularly into or from Russia and other CIS countries, for example in the financial sector, manufacturing, trade or distribution. Attention will be given to improving corporate governance, transparency and accountability, and increasing Lithuania's competitiveness.

The Bank will provide debt and equity financing to smaller enterprises in Lithuania via financial intermediaries such as banks, leasing companies and equity funds. In particular, the Bank aims to address regional income disparities with facilities such as the EU SME Rural Finance Facility. The Bank is also developing a risk sharing facility to support Lithuanian banks' financing of their corporate customers' activities in Kaliningrad, Ukraine and other CIS countries.

3.2.2 Energy Sector

In the energy sector the Bank is prepared to support the restructuring (including selective privatisation) of the power sector, priority investments into available generation capacity and transmission systems consequential to the closure of INPP, renewable energy sources like wind and hydro, potentially provide funding to new CHP projects, and finance energy efficiency improvement projects.[3] The Bank will also support the development of the Common Baltic Electricity Market (CBEM). More specifically and in line with the transition challenges identified in this Strategy document, the Bank is preparing the following:

- The feasibility study for the Polish-Lithuanian Interconnector has been prepared and the Bank stands ready to support the development of this important cross border project.

[3] According to the Ignalina Protocol annexed to the EU Accession Treaty "The Ignalina Programme shall, inter alia, cover: measures in support of the decommissioning of the Ignalina Nuclear Power Plant; measures for the environmental upgrading in line with the acquis and modernisation measures of conventional production capacity to replace the production capacity of the two Ignalina Nuclear Power Plant reactors; and other measures which are consequential to the decision to close and decommission this plant and which contribute to the necessary restructuring, environmental upgrading and modernisation of the energy production, transmission and distribution sectors in Lithuania as well as to enhancing the security of energy supply and improving energy efficiency in Lithuania."

- The first projects financed from International Ignalina Decommissioning Support Fund are being implemented and the Bank is developing a project to rehabilitate the Lithuanian Thermal Power Plant (LTPP) to be mostly financed by the International Ignalina Decommissioning Support Fund (IIDSF).
- Supporting renewable energy sources, mainly wind and hydro, will be important in light of Lithuania's increased dependence on the LTPP.
- The Bank is willing to consider financing CHP projects with full, limited or non-recourse to the owners subject to suitable power purchase and fuel supply agreement being entered to.
- The Bank is prepared to support further privatisation of power sector including generation and distribution companies.
- In 2003 the Bank has also organised the regional gas study which analysed and prioritised potential projects in the Lithuanian gas sector. The study was financed from IIDSF. Although there are no immediate investment opportunities for the Bank in the Lithuanian gas sector, there are several potential projects in the medium term perspective. These include construction of underground gas storage and participation of the Bank in the equity of Lijetuvos Dujos (Lithuanian Gas). The Bank will continue dialogue with key parties involved, including Ministry of Economy, Gazprom and Ruhrgas/E.ON.
- The renovation of Mazeikiu Nafta oil refinery (to bring it up to the EU standards) is expected to be one of the largest investment projects in Lithuania in 2004-2005 and the Bank will continue to proactively seek a role in this project and continue dialogue with Yukos.

3.2.3 Infrastructure

In the **municipal infrastructure** sector, the Bank will focus on developing lending on a sub-sovereign basis for improving and commercialising municipal services. The Bank stands ready to support environmental projects (mainly water, wastewater, and solid waste) as well as urban transport and district heating projects, in cooperation with the EU and other donors, and local banks where appropriate. In particular:

- The Bank will work to encourage the development of environmental projects by small and medium-sized municipalities, in particular to help address disparities in regional income and infrastructure levels. To this end, the Bank will aim to initiate financing under the EU Small Municipalities Facility. Due to restrictions in Lithuania on municipal borrowing and the small size of the projects, communities find it extremely difficult to attract funding for their projects. The Bank will also investigate ways in which both EBRD and EU funds, as well as other donor funding, can be efficiently channelled on a joint basis to smaller municipalities in the water and wastewater sector.
- The Bank will encourage the development of borrowing by municipal and privatised utilities, both of which are eligible to receive commercial bank financing. By promoting co-financing with commercial banks in this area, the Bank will seek to attract additional capital and at the same time provide utilities with the significantly longer tenors needed for their capital investment programmes. By developing the financing capabilities of utility companies, the Bank will further promote the improvement in service levels, commercialisation and market pricing of municipal services.

- In the case of Kaunas, where the Bank has already provided funding for the Kaunas Water Company, the Bank is working with the City to prepare public transport project to finance the acquisition of buses backed by a municipal support agreement. The Bank will also provide advisory services to assist the municipality to restructure the public transport system in Kaunas and prepare a public service contract between the City and the Kaunas Transport Company. This transaction will send a signal to cities and banks that public transport investments can be financed without recourse to full municipal guarantees. Direct lending to public transport companies will free up borrowing capacity for investment in non-fare earning services and infrastructure. The Kaunas Public Transport Transaction is planned as a demonstration project to be used as a replicable model in other Lithuanian cities and advanced transition countries of operation.
- Where appropriate, the Bank will encourage the use of public-private partnership structures and operational concessions to improve the cost-efficiency of the municipal operations.

In the **transport** sector:

- The Bank will continue to work with the state-owned Lithuanian Railways company to support their on-going restructuring and investment programme. The rail freight business is continuing to develop strongly, due primarily to the increasing flow to Klaipeda and Kaliningrad ports of transit cargo between Russia and Western Europe, and the main east-west freight routes on the national rail network require further capital investment to ensure reliable service under increasing volumes. Support for the projects related to strengthening of the Lithuanian rail link with Poland and potential further extension of the western European gauge rail in Lithuania are also among the Bank's priorities. The Bank will work with EIB in this sector to secure EU funds for these large projects.
- The Bank will also work with EIB and EU funds in identifying suitable and economically viable road projects, primarily to improve North-South road freight routes, road bypasses around major towns and access roads to ports. The project concept of the Panemune-Sovietsk (Kaliningrad) bridge is yet to be defined; however the Bank stands ready to assist with project preparation and implementation once the Lithuanian and Russian authorities agree on the scope of the project.
- Air freight and passenger transport sectors development in Lithuania will also require further investments and the Bank will work to support the modernisation and upgrading of the air transport infrastructure as well as the development and further commercialisation of the air transport services operating in and from Lithuania.
- The Bank will also work in the water transport sector in Lithuania, supporting the development of Lithuanian port facilities and shipping companies.
- The development of multi-modal logistics terminals and related infrastructure in Lithuania are one of the key areas for the improvement of the overall transport sector efficiency on the regional scale. The Bank will work with the private sector as well as relevant national and local authorities to support such development and

to facilitate private sector involvement in transport and logistics infrastructure projects.

4. OTHER IFIs AND MULTILATERAL DONORS

4.1 EUROPEAN UNION (POST ACCESION FUNDS)

Pre-accession assistance:

In the years 2000-2002 Lithuania received € 126 million for PHARE (plus a top-up amount of € 18.5 million for reinforcement of administrative capacity in 2002), € 90 million for SAPARD (Special Accession Programme for Agricultural and Rural Development) and around € 155 million for ISPA (Instrument for Structural policies for pre-accession). The indicative allocation for Sapard in Lithuania for 2002 is € 31.8 million and the ISPA allocation for 2002 is € 61million and € 48 million for 2003. During the period 1992-1999, the PHARE program allocated € 328 to Lithuania, €50 million in 2000 and € 48.5 in 2001. The 2002 Phare programme for Lithuania consisted of an allocation of € 43.7 million for the National Programme complemented by €18.5 million under the Phare 2002 supplementary institution building facility. Lithuania is estimated to have received a total of around €200 million in pre-accession assistance during 2003, including assistance for nuclear decommissioning.

Post-accession funds

At the Copenhagen European Council on 13 December 2002, Lithuania successfully concluded accession negotiations with a view to signing the Accession Treaty in Athens on 16 April 2003 and becoming an EU Member State from 1 May 2004. The final package is positive for Lithuania since it is one of the countries, with the highest rate per capita of EU funds (€ 769 for 2004-2006, out of which € 208 are devoted to agriculture). In terms of EU allocations, Lithuania will be a net beneficiary: its per capita contribution to the EU budget will amount to € 147, while receipts will total € 535. Lithuania also received additional support (included in the above calculations) of € 47 million comprising payments to ease the national budget situation (€ 34.8 million in 2004 and € 12.6 million in 2005-2006). An additional €140 million will be allocated to Lithuania for the Schengen Facility and €24 million allocated to Lithuania for the Transition Facility. According to IMF calculations, these post-accession grants are expected to increase from around 2.3 per cent of GDP in 2004 to 3 per cent by 2006, although this depends on whether the necessary institutional capacities will have been put in place. However, EU-related expenditures have been estimated to increase to reach 5-5.6 per cent of GDP in 2004-2006, leaving a sizeable funding gap over the medium term. Additional expenditure priorities will be agriculture, defence, social services and healthcare.

During the negotiations Lithuania and the EU managed to reach a compromise on three key items: agricultural quotas, the decommissioning of the Ignalina Nuclear Power Plant (INPP), and Kaliningrad as follows:

- As regards agriculture, an agreement was reached on the progressive introduction of direct payments in line with agreements of the other acceding countries. Lithuania has also been given the possibility to top-up the amounts by using co-financing from other EC funds and national funds.

- As regards Ignalina INPP, the results of the negotiations are enshrined in an Ignalina Protocol for the Accession Treaty. The Protocol stipulates that Lithuania committed, at EU request, to close Unit 1 of INPP before 2005 and Unit 2 by 2009. The EU committed to continue, also after 2006, to support Lithuania's decommissioning efforts on the basis of Community solidarity. For 2004-2006 the EU committed an amount of €285 million.
- As regards Kaliningrad, the EU, Lithuania and Russia agreed on the modalities of Kaliningrad transit. A maximum envelope of €40M has been agreed for the post-accession period for Kaliningrad, with details of the projects presently under negotiation.

The Bank continues to closely co-ordinate its activities with the EU, in particular in view of the high investment requirements and progress with transition as well as the sizeable structural funds available to Lithuania from the start of this year. The Bank will continue its co-operation in the environmental area with other institutions including the Baltic Marine Environmental Protection Commission (HELCOM) and the World Bank group (IBRD and IFC), the environmental activities of which are complementary to those of the EBRD. In order to ensure effective synergies with other IFIs operating in Lithuania, the Bank will maintain policy dialogue primarily with the following IFIs:

4.2 EUROPEAN INVESTMENT BANK (EIB)

Since the EIB began operating in Lithuania, it has approved projects for Lithuania in an aggregate amount of €337 million. These included, for example, telecommunications projects, such as the expansion and development of the GSM mobile network and the fibre optic network. In the transport sector EIB has financed several investments to upgrade or improve the infrastructure, for example the Lithuanian Railways – project, Lithuanian Highways – project, Vilnius International Airport and infrastructure at Klaipeda port. In addition, the EIB has financed environmental projects of municipalities and has signed several facilities under its Global Loans for financing smaller scale projects, including facilities with NordLB Lietuva and Sampo Bankas.

In the context of preparation for EU membership, and subsequent to Lithuania's accession to the EU, the EIB's activities in Lithuania will be closely co-ordinated with the EU Structural and Cohesion Funds. In December 2003 EIB signed a €60 million Cohesion and Structural Funds Framework Facility to be used for co-financing projects fostering the development in the economic and social infrastructure and projects in the fields of the environment and trans-European networks.

4.3 KREDITANSTALT FÜR WIEDERAUFBAU (KFW)

Kreditanstalt für Wiederaufbau has provided financing in Lithuania for SME development. In early 2002, KfW provided a €10 million credit line for 10 years to Vilniaus Bankas to support SME development and in 2003 KfW provided a €10 million credit line for the same purpose to NordLB Lietuva. Prior to 2002 KfW had already financed Sampo Bankas and Vereins- und Westbank with a SME Facility.

4.4 International Monetary Fund (IMF)

Lithuania joined the IMF in May 1992. Throughout the course of the 1990s and until last year, Lithuania requested from the IMF one Extended Fund Facility (from 1994-1997) and 2 Stand-By Arrangements as a precautionary measure. The latest SBA was approved in August 2001 for the amount of SDR 86.5 million and expired successfully in March 2003 with all performance criteria met. Lithuania still has financial obligations to the IMF that will be repaid by 2007. At the latest Article IV consultation, which was concluded in September 2003, it was decided to hold the next Article IV consultation on the standard 12-month cycle.

4.5 Nordic Investment Bank (NIB)

The Nordic Investment Bank is a multilateral financial institution owned by the five Nordic countries: Denmark, Finland, Iceland, Norway and Sweden. In 2000 NIB developed a financing programme for supporting women entrepreneurs, part of which included a €300,000 loan to Lithuanian Development Bank in 2000 and two loans in 2002, €500,000 to Siauliu Bankas and €1 million to Sampo Bankas for selective on-lending. The Lithuanian Road Administration received a loan of €67.4 million from NIB in 2001 for the improvement of gravel roads. In 2002 NIB financed with a €10 million loan to the Republic of Lithuania energy efficiency investments in public buildings. Also in 2002 NIB financed improvements in the Klaipeda port with a €4.3 million loan through the Klaipeda State Seaport Authority. On 11 February 2004 Lithuania signed an agreement for membership in the NIB. After the ratification of the agreement during 2004 Lithuania is expected to become a member of the NIB from 1 January 2005.

4.6 World Bank and IFC

Lithuania joined the World Bank in 1992. Since then, the World Bank has played an important role in the country through adjustment and investment lending, policy dialogue, and analytical and advisory assistance. The World Bank support has helped the Government implement structural reforms and build capacity at the sector and local levels, improve the access of small and medium enterprise to finance through commercial banks, and tackle the cleaning up of the Baltic Sea as part of an international effort. The Bank’s current program is focused on a) building public sector capacity, including the reform of public sector management, and regulatory reform; b) sustaining growth by improving the business environment, promoting the knowledge economy, and encouraging rural development; and c) reducing social vulnerabilities through reform of the pension system, the social assistance program, and the health sector.

Lithuania’s per capita income is still below the World Bank graduation threshold at which discussions to initiate formal graduation would normally commence. The Bank’s assistance to Lithuania will be demand-driven and based on the Bank’s framework for support to EU acceding countries. A move to a non-lending relationship is envisaged in the new Country Assistance Strategy, whereby the Bank will maintain its presence in Lithuania as a key development partner for policy advice, knowledge transfer, capacity building, implementation support and technical assistance, and promote capacity building for effective use of EU structural funds.

Lithuania has been a member of **IFC** since 1993. IFC has financed companies in the textile and electronics sectors as well as financial institutions and funds. Most recently, in 2002, IFC provided financing of approximately USD 12 million for a hotel project in Vilnius. Going forward IFC will continue to focus on export-oriented projects in which Lithuania has a comparative advantage, such as pulp and paper and food processing, and projects in sectors with large growth potential, such as retail trade and services, electronic components manufacturing, metals, plastics and wood processing. IFC will also explore opportunities to promote the development of specialized private sector financial institutions, such as insurance, pension fund management and housing finance companies.

ANNEX 1: POLITICAL AND SOCIAL ASSESSMENT

Lithuania became an independent state in 1919, lost its independence during the Second World War and regained it in March 1990. It is a parliamentary democracy, with a Constitution adopted by a referendum in 1992, and a 141-seat single-chamber parliament; a directly elected president; and a government whose ministers are nominated by the Prime Minister, appointed by the President and approved by parliament. Post-independence Lithuania's political system is made up of three main elements: a strong, modernised post-social democratic (to some extent post-Communist) left, with a disciplined membership; a personality-based centre-right prone to fragmentation; and the nationalists. In each of the four elections, the incumbent government has been turned out. In line with the Constitution, the government respects the independence of the judiciary. The President is head of state and has a range of formal powers, including the appointment and removal – subject to confirmation by parliament – of the Prime Minister, individual ministers and the commander-in-chief of the armed forces.

The first post-independence President, Algirdas Brazauskas, was succeeded in the January 1998 presidential election by Valdas Adamkus. In January 2003, 70-year-old Adamkus, a popular and respected figure who had returned to Lithuania from exile in the United States, was defeated in the run-off election by 48-year-old Rolandas Paksas, a former Prime Minister and a former Mayor of Vilnius. Paksas had conducted a controversial, well-financed campaign. However, in October 2003, Lithuania was plunged into a political crisis involving the President. Reports issuing from the security services, linking Paksas and his entourage with the Russian underworld, led to a parliamentary inquiry. A commission of inquiry appointed by parliament in December 2003 reported back in February. It recommended the President's impeachment on the following six counts: posing a threat to national security; violating his oath of office; leaking classified information; meddling with private business; discrediting public institutions; and allowing his collaborators to abuse their powers. On the basis of this recommendation, the Lithuanian Parliament formally opened impeachment proceedings against Paksas on 8 March and asked the Constitutional Court to examine its decision. Once the Court has ruled on this issue, a vote will be taken in parliament. President Paksas refuses to stand down, claiming that he is an innocent victim of a political plot.

The referendum on 10-11 May 2003 on Lithuania's accession to the EU resulted in over 90% of those voting saying 'yes' (with a turnout of 63%). The 2003 Comprehensive Monitoring Report of the EU Commission on the state of Lithuania's Preparedness for EU membership issued in November 2003 was positive. It noted that Lithuania had reached a high level of alignment with the *acquis communautaire* in most policy areas. Two relatively small remaining areas of concern mentioned in the Report related to Lithuania's preparation for mutual recognition of qualifications and the area of fisheries (inspection and control in relation to fleet management).

Elections for the European Parliament will be held in June 2004 and those for the Lithuanian Parliament in the autumn of 2004. The uncovering of a series of corruption scandals - in the judiciary, the Foreign Ministry and the agency administering EU funds - has harmed the government.

International relations

Lithuania's foreign policy since independence has had two main aims – joining NATO and the EU. Russia was at first opposed both to the EU's and NATO's eastward expansion, but first altered its stance over EU enlargement and then in 2002 dropped its opposition to NATO's as part of its improved relations with the United States, NATO's main military power. Together with its Baltic neighbours, Estonia and Latvia, Lithuania was invited to join NATO's expansion at the organisation's summit in Prague in November 2002. Lithuania is scheduled to join the EU on 1 May 2004. Forthcoming EU membership has had a beneficial impact on relations with Russia. On 1 July 2003 the new transit system for residents of the Russian enclave of Kaliningrad visiting the rest of the Russian Federation, came into operation. The new regime follows a compromise deal between Russia and the European Union in November 2002. Russian citizens use the new facilitated entry document issued upon the production of an internal Russian passport. It must be obtained at least 24 hours before travel and is valid for one journey. On 12 August 2003 in Vilnius, Foreign Minister Antanas Valionis and Russia's Ambassador to Lithuania, Yurij Zubakov, exchanged ratification letters of the border treaties. This completed the process begun with the signing of the treaties by Presidents Brazauskas and Yeltsin in Moscow in October 1997. Lithuania is the only former Soviet republic with which Russia has officially settled its borders. Two issues are currently under discussion between Russia and Lithuania: the transporting of spent nuclear fuel from Kaliningrad to Russia; and the plan by Lukoil to start drilling for oil 22km from Curonian Spit, an international tourist attraction and UNESCO World Heritage Site, vulnerable to pollution.

Investment climate and integrity issues

The need for enhanced efforts in the fight against organised crime, money laundering and fraud and corruption was mentioned in the Comprehensive Monitoring Report of the European Commission on the state of Lithuania's preparedness for EU membership published in October 2003. A series of recent scandals has involved members of the political establishment. Nevertheless, these cases prove that Lithuania is making significant headway in fighting corruption. In July 2003, seven diplomats at consulates in Russia and Belarus resigned over accusations of accepting bribes to speed up visa applications. Also in July, seven judges were dismissed following the discovery of a large smuggling ring reportedly involving senior civil servants and police officers. In August 2003, the head of the of the National Payments Agency, which administers EU funds, was forced to resign over allegations of the lack of control which failed to prevent payment under an alleged fraudulent claim for funds from SAPARD (the EU's special pre-accession programme for agriculture and rural development). At the end of the summer 2003, the investigation into the privatisation of the Mazeikiu Nafta oil company in 1999 has led to the preparation of charges against 20 persons including two ministers, a deputy minister and three former American employees of Williams International, a company that bought an original 26.8% stake in the Lithuanian enterprise in 1999.

Transparency International's Corruption Perception Index 2003 placed Lithuania 41st in a group of 133 countries, with a 4.4 score on a 10-point scale. This is behind Estonia

(33rd place; 5.5 score) but ahead of Latvia (57th place; 3.8 score). In 2002 Lithuania was ranked 36th in a group of 102 countries. Only 38 out of 133 countries listed in the 2003 Index had a rating above 5, the dividing line between countries with low corruption and those where it is a problem. The Index measures corruption as perceived by analysts, academics and businessmen.

Social conditions

According to Eurostat data, per capita GDP calculated in purchasing power terms in 2002 was only 39 per cent of the EU average, one of the lowest in acceding countries. Demographic indicators also continue to be unfavourable. According to the 2001 census, Lithuania's population was 3.48 million at the beginning of 2002, representing a fall of 5.4% since the previous census in 1989 which can partly be attributed to emigration following the collapse of the Soviet Union. Infant mortality peaked at 16.5 deaths per 1,000 live births in 1992 and gradually declined to 7.8 deaths per 1,000 live births in 2001. The preference for smaller families since 1990 has led to a decrease in the birth rate and an ageing demographic structure. Life expectancy reached its lowest point in 1994, when it was 62.7 years for men and 74.9 years for women, but climbed by 2002 to 65.9 year for men and 77.4 years for women. Since 1995 the statutory retirement age has gradually been increased and is to reach 62.5 years for males and 60 years for females by 2006. The rapid growth of the number of AIDS-related cases, a feature of the entire region, is likely to further aggravate the demographic balance in future years.

Regional income and social disparities remain high. For example, the poorest county, Taurage county, recorded GDP per capita of only 8.4 thousand litas in 2002, only 57% of the national average and compared to 21 thousand litas in Vilnius county. Taurage and Telsiai counties also report the highest national unemployment rates according to the National Labour Exchange, of over 14% compared to the national average of 10.3%. These counties also have the fewest registered enterprises of any county and lowest FDI stock.

Trafficking in persons is prohibited by the Criminal Code, but is a problem. The country is primarily a country of origin and to a lesser extent a transit country as well as a destination for trafficking in women and girls. Women from Lithuania are trafficked mostly to Western Europe and the Middle East. A 1998 law penalises trafficking in persons for purposes of sexual abuse. However, several NGOs rate the government's effort to prevent trafficking in persons and the search for missing persons as inadequate.

The country's highly centralised healthcare system inherited from the Soviet Union was reformed in the mid-1990s, placing a greater emphasis on primary care and general practitioners (GPs). The Social Insurance Fund is funded by 31% contribution on wages from employers and 3% from employees. Lithuania's four-tier educational system (elementary, primary, secondary and higher education) is compulsory from the ages of seven to 16. At 14, students opt either for vocational schools or for comprehensive schools teaching science and humanities. Engineering is the most popular vocational school discipline. Since 1994 employers have laid a greater role in shaping the curriculum of vocational schools. Enrolment at all levels of education declined from a peak of 793,000 in the early 1980s to 633,000 in 1993 but reached 885,000 in 2001/02. The number of students continuing on to tertiary education rose from 83,650 in 1996 to 148,790 in 2001. Before the Second World War the population was largely rural, with only 22% living in urban areas. By 1 January 2002 the proportion of the urban population had gone up to 67% of the total. In Lithuania in 2001 83.5% of the population were Lithuanians, 6.7% Poles and 6.3% Russians. Under a 1989 Lithuanian law, all residents were allowed to apply for naturalisation, regardless of ethnicity.

Labour issues

Although the unemployment rate has continued to drop to a four-year low in 2003 of around 10.3% (according to the National Labour Exchange data) or 12.5% (according to the Labour Force Survey), it remains high. Also, more than a quarter of the unemployed have been unemployed for more than a year, suggesting that structural unemployment remains significant. While unemployment has been declining, regional disparities remain high and rural poverty is widespread. Given that the share of agriculture in employment is much larger than its share of GDP, and looking at the experience of Spain after EU accession, the likely decline in agricultural employment may put a significant strain on unemployment levels in the future.

A new labour code became effective in January 2003 aimed at modernising the existing system and incorporating key principles of international labor legislation. Amendments also have been made to the Law on Support to the Unemployed to stimulate employment in depressed areas through subsidised job creation and other polices. However, key challenges remain in bringing about a long-lasting recovery in the labour market. In particular, labour market flexibility needs to be further increased. For example, the minimum wage is binding and contributes to high unemployment among low skilled workers, and the recently approved increase may not be a positive step in that direction.

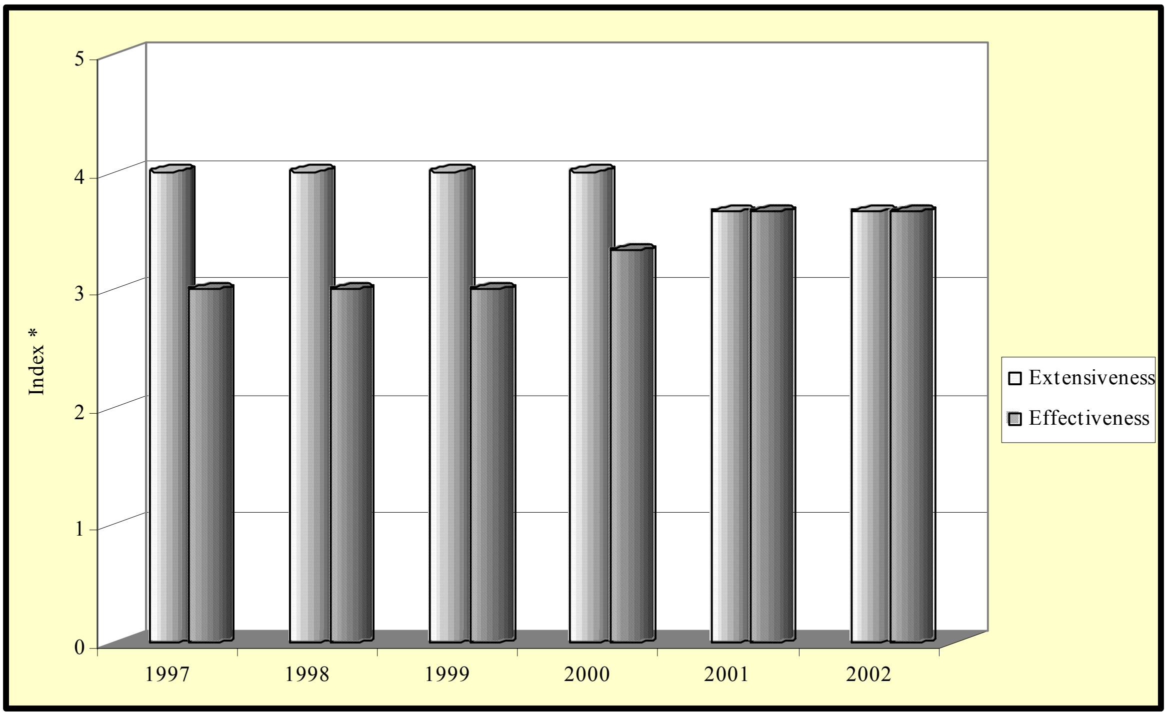
Under the Constitution and the Law on Trade union, workers and employees are free to form and join trade unions. From 10 to 20% of all enterprises have trade unions and approximately 10 to 15 % of the workforce is unionised. There are four major trade union associations: The Lithuanian Trade union Centre (approx.100, 000 members), the Lithuanian Workers' Union (50,000), the Association of Lithuanian Trade unions (40,000) and the Lithuanian Work Federation (15,000). They all work within the Trilateral Commission which brings together trade unionists, employers and government. Public sector workers in essential services are not allowed to go on strike, but others are. Strikes occur mostly in the public sector but are few (and most of them are 'warning' strikes).

ANNEX 2: LEGAL TRANSITION

COMPARATIVE ASSESSMENT OF LITHUANIA'S COMMERCIAL LAW

I. Assessment Over Time

Extensiveness and Effectiveness of Lithuania's Commercial Law[4]



Source: OGC Legal Indicator Surveys; 1997 - 2002
**Note:* Indicators along the y axis range from 1 (little progress) to 5 (substantial progress)

According to the annual EBRD Legal Indicator Surveys the commercial laws in Lithuania are overall within the standards generally acceptable internationally.

The above table reveals that from 1997 to 2000, there have been gaps between laws on the books and their implementation. The table indicates an improvement in 2001 which has continued into 2002.

[4] The EBRD conducts a Legal Indicator Survey each year to measure the progress in legal reform in Central and Eastern Europe, the Baltic States and the Commonwealth of Independent States, as viewed by local lawyers and academics. The results of such survey are based on responses to the questionnaire sent out to lawyers practising in any given country. The survey represented their perception of the country's legal system and, in particular, the degree to which key commercial and financial laws have reached internationally acceptable standards (extensiveness) and to which extent these laws are implemented and enforced (effectiveness). The survey is based purely on local lawyers' perception of their own country legislation and does not represent EBRD's own view on these legal systems. In addition, it must be noted that each respondent is asked to answer the questionnaire for his/her country only, and not on a comparative basis.

II. Situation in Other Transition Countries

Lithuania compares well with other transition countries. Based on the 2002 EBRD Legal Indicator Survey, which measured the perception of lawyers familiar with Lithuanian law, the commercial laws of Lithuania can be characterised as adequate for supporting investment and other commercial activity.

Compared with other countries in Central Europe, Lithuanian commercial law is perceived by lawyers in the field as broadly being on the same level as that of Estonia, Hungary, and the Czech Republic.

LEGAL SECTOR ASSESSMENT

Bankruptcy

The two major acts governing insolvency procedures are the Enterprise Bankruptcy Law of 20 March 2001, as amended, and the Law on Restructuring of Enterprise of 21 March 2001, as amended. The Enterprise Bankruptcy Law had modified the earlier definition of insolvency and grounds for the initiation of bankruptcy proceedings aiming to facilitate the bankruptcy procedures. The Law on Restructuring of Enterprise provides for a restructuring procedure as an alternative to bankruptcy proceedings, for enterprises with temporary financial difficulties. Enterprise restructuring is to be carried out according to the enterprise restructuring plan adopted by the creditors' general meeting and approved by the court. An enterprise restructuring plan may provide for allowances, such as deferred payments, debt relief, debt reduction and others, granted to the enterprise under restructuring by its creditors.

Whilst acknowledging Lithuania's efforts to foster better bankruptcy regulations, EBRD recently conducted an insolvency law assessment, which revealed some areas of Lithuania's bankruptcy law that fall short of the internationally recognised standards and should be improved. Among deficiencies are the following: (i) there are no provisions for automatic conversion from reorganisation to liquidation; (ii) it seems difficult to initiate insolvency proceedings; (iii) there is no balance sheet test of insolvency; (iv) the priority for payment of administration cost is vague and unclear.

Capital Markets

The primary legislation governing the securities market includes the Law on Securities Market, the Law on Collective Investment Undertakings and the Law on Companies. Coming into force in April 2002, the Law on Securities Market in fact is a supplemented and amended version of the Law on Public Trading in Securities adopted in 1996. This amended version is aimed at reflecting in the national legislation the newest trends of the investment services globalisation and market integration, transposing provisions of the relevant EU Directives concerning the securities market, bringing the provisions of this Law in line with the provisions of the Civil Code, and incorporating changes necessary for a more efficient enforcement. The Law on Collective Investment Undertakings was adopted in July 2003 and aimed at harmonising the regulation of collective investment undertakings with EU legislation.

The principal supervisory authority of the securities market is the Lithuania Securities Commission (the "LSC"). The LSC was established in September 1992 according to a Government decree and is funded by the state budget. The Chairman and the members of the LSC are appointed for a five-year term by the Lithuania Parliament (Seimas) on the proposal of the President of Lithuania. Their posts may be held for a maximum of two terms.

The insurance sector is supervised by the State Insurance Supervisory Authority (renamed the Insurance Supervisory Commission since January 2004), which is a member of the International Association of Insurance Supervisors. The Law on Insurance was further amended in May 2001, liberalising the investment of insurance assets abroad.

On 4 July 2003, the Seimas adopted a package of legislation necessary for establishing a new pension system. The package of legislation mainly includes the new Law on Pension Accumulation and the Law Amending the Law on Pension Funds (which has been renamed "Law on Supplementary Voluntary Pension Accumulation" effective as of 30 July 2003). The Law on Pension Accumulation establishes conditions for accumulation of part of the state social insurance contribution and for payment of pension benefits, whereas the Law on Supplementary Voluntary Pension Accumulation provides a legal basis for the voluntary accumulation of pensions in pension funds managed by management companies. Under the Law on Pension Accumulation, the LSC is entrusted with the authority to issue activity licenses for pension funds and to supervise their activities. In addition, the LSC is given the power to supervise the activities of depositaries, as entities charged with the custody of pension assets.

Company Law and Corporate Governance

The Law on Companies came into force on 1 January 2001, with the most recent amendments made in December 2002. Under the Law on Companies, a limited liability company is considered as public when its shares are offered for sale and traded publicly according to the relevant legal acts regulating public trading in securities. The minimum authorised capital is LTL 150,000 for a public company and LTL 10,000 for a private one. Furthermore, the number of incorporators for a public limited liability company is not limited, whereas in case of private limited liability company the number shall not exceed 100. All companies shall be subject to registration in the Register of Enterprises of the Republic of Lithuania. The company shall be deemed incorporated and shall acquire the rights of a legal person as from the day of its registration.

The compulsory management bodies of a public limited liability company shall be the general meeting of shareholders, the head of the administration (e.g., president, etc.) and at least one collegial management body - the board of directors or the supervisory board, whereas in the case of private limited liability company, formation of the supervisory board and the board of directors are not compulsory. The Law on Companies also provides for the appointment of a shareholder as an "inspector" in connection with holding a general meeting of shareholders. In addition, members of the company's management bodies are required to disclose conflicting or competing interests in connection with the company's operations. Subject to certain exemptions specified in the Law on Companies, the chairman and members of the board of directors in a company must jointly compensate the losses incurred by the company by reason of the decisions of the board adopted in violation of the law or the company's Articles of Association.

According to the Law on Companies, holders of shares of a given class shall have equal rights and duties. An annual general meeting shall be convened within four months of the end of the financial year (which shall be the calendar year unless the Articles of Association provides otherwise). Unless otherwise provided for in the Articles of Association, a shareholder holding at least one tenth of all votes has the right to call a general meeting. Furthermore, a shareholder holding at least one twentieth of all votes in a company has the right to propose an item to be added into the agenda for a general meeting of shareholders. A resolution of the general meeting may be appealed against to the court no later than 30 days from the day when the person learned or should have learnt of its adoption. Every shareholder of the company or a group of shareholders is entitled to enter into a contract with the firm of auditors of his/their choice for auditing the activities and accounting documents of the company.

According to the results of the EBRD's 2003 Corporate Governance Sector Assessment Project, Lithuania is rated among "high compliance" countries for its existing corporate governance related laws (i.e., "law on the books", as opposed to how the relevant legislation is being implemented) when compared to the OECD *Principles of Corporate Governance*. General reform priorities for countries in this category are to improve effective implementation and enforcement of existing legislation. In particular, the relevant stock market regulator should be given sufficient independence and resources to carry out its mandate; the competence of the judiciary in adjudicating corporate governance related disputes should also continue to be enhanced.

Concessions

On 1 October 2003 Lithuania enacted a new Concessions Law (the “Concessions Law”). The previous law of 1996 did not work in practice and no concession agreements had been entered into. The EBRD has assisted the authorities in reviewing and developing the new legal framework.

The Concessions Law is based on best international standards and practices, particularly, the UNCITRAL Legislative Guide on Privately Financed Infrastructure Projects and is in line with EU recommendations and standards. At the same time the Concessions Law is consistent with other Lithuanian laws, being based on and taking into account specificities of the local legal and judicial systems as well as the Civil Code.

The definition of a concession under the Concessions Law covers a full range of activities, assets and services. Furthermore, it introduces a “commercial component”, transfer of risks, into the definition of a concession. Under the new regime, any domestic or foreign entity including consortia and joint ventures may bid for and be granted concession contracts. According to the previous law the arrangements between the concession agreement’s parties could only be limited to the Build-

Operate-Transfer structure and the agreement used to be largely non-negotiable. Under the Concessions Law, the terms of a concession agreement and the very type of arrangements' structure is left for the parties to define and choose which brings flexibility to both investors and the authorities.

The new tendering rules are much simpler and clearer. In line with best international practices, direct contracting is provided in the Concessions Law in specific cases.
Parties to the concession agreement are free to choose the applicable law subject to Civil Code rules. While previously disputes were to be resolved in Lithuanian courts only, the new regime gives the parties a choice of dispute resolution procedure and forum, including domestic or international arbitration.

Secured Transactions

Secured transactions over movable and immovable assets are regulated by the Civil Code. Security rights over movable assets are also governed by the Law on the Pledge of Movable Property of 10 June 1997, and security rights over real estate by the Law on the amendment of the law on Mortgage of 10 June 1997. The reform of the Civil Code (in force on 1 July 2001) and of the Code of Civil Procedure (in force on 1 January 2003) has significantly altered the system. According to the new provisions, all charges over movable property (except possessor charges) and a number of other transactions which are "quasi" security interests (sales with the right of redemption, leasing agreements, and sales with reservation of title) must be registered with the Hypothecary Register. The Register also registers mortgages over immovable assets. The system is centralised, fully computerised and easily accessible through the Internet. All interested persons can search the data electronically, including the particulars of a charge.

Generally, the system for taking, perfecting and enforcing security over movable and immovable property has been carefully and thoroughly implemented and is working well. This is confirmed in all EBRD surveys. In particular, enforcement of a charge seems to be very efficient (see EBRD New Legal Indicators Survey, 2003). However, further improvements could be made to the regime:

1) There is uncertainty about charging assets that would be described generally in the collateral bond. Although the Civil Code provides that the charge can cover all types of movable assets, both present and future, to secure all types of debts, including future debts, so that in theory it would be perfectly possible to create a charge encompassing fluctuating pools of assets, and even the whole of the enterprise, it seems that in practice the procedure requires to specifically describe and identify all assets given as collateral. Local practitioners report that the only charge over fluctuating assets which could be taken is a charge over stock-in-trade – ambiguously, the Civil Code provides for a special charge over stock in trade, encumbering only goods and raw materials owned by an enterprise.
2) The registration procedure could be streamlined and simplified. Currently, in order to register a charge with the Register, all transaction documents must be filed at the Register and reviewed, in addition to being previously certified by a public notary. In contrast, in order to register a quasi security interest, it is sufficient to give a simple notice to the Register. A period of five working days is usually needed to carry out the entire process. It may be that this time could

be significantly reduced. This could have an impact on the costs too: currently, fees for registering a charge can amount to LTL 700 (approximately €200, this includes stamp duty and notarial fees). The filing of a quasi security interest, in contrast, is only LTL 20.

Telecommunications

The telecommunications sector is currently regulated by the Communications Regulatory Authority ("RRT") and is governed by the Telecommunications Act, 1998 (the "Telecommunications Act") as amended in 2002. The RRT is an independent agency and was formed in May 2001 to carry out telecommunications regulatory functions. The Telecommunications Act defines the responsibilities of the RRT and the Ministry of Transport and Communications (MTC). The RRT's responsibilities are supervision of licences, setting requirements for and monitoring interconnection, setting tariff limits in fixed-line telecoms and any other area where there is market dominance or cross-subsidisation, administering the national numbering plan, approving customer contracts, examining disputes between operators over interconnection and the joint use of conduits, cable ducts, towers and poles, and, drawing up a strategic plan for assigning frequencies in co-operation with the Radio and Television Commission. The MTC's key functions are to form telecoms policy, issue licences by way of tender, represent Lithuania abroad on issues of relevance to telecoms, to set and monitor universal service obligations, and to approve by-laws issued by the RRT.

The Lithuanian telecoms market was fully liberalised on 1 January 2003 when local, domestic and international long-distance telephony were opened up to competition. However, meaningful competition will take longer to emerge due to ongoing negotiations between the former incumbent, Lithuanian Telecom, and new entrants on interconnection.

Whilst considerable advance has been made in harmonising the telecommunications sector in Lithuania with that of the European Union (EU), the revised EU framework of 2002 has yet to be fully transposed. Progress in this regard will be essential before anticipated accession of Lithuania to the EU in May 2004. Lithuania has only partially met its commitments and requirements arising from the accession to the EU in the telecommunications area. In its November 2003 *Comprehensive Monitoring Report on Lithuania's Preparations for Membership* the EU identified a number of areas where the Lithuanian government needed to make further progress to meet entry requirements for the EU. These areas included:

- Approved fixed interconnection prices of the incumbent have yet to be oriented towards cost on the basis of long-run average incremental cost methodology;
- Local loop unbundling needs to be implemented;
- Fixed network modernisation and price re-balancing need to continue apace;
- The Resources of the Regulator (RRT) are too limited and staff training in the telecommunication legal framework needs to be strengthened. Allied to this, effectiveness and independence of the regulator need to be ensured;
- RRT needs to give particular attention to the achievement of universal service.

ANNEX 3: MACROECONOMIC DEVELOPMENTS AND INDICATORS

Output: ***rapid growth due to strong investment and exports.*** Real GDP grew by 6.8% in 2002 and by an estimated 8.9 % in 2003. Growth has been until recently primarily driven by strong growth in investments and exports, while consumption only started to pick up in 2003. Gross fixed capital formation grew by 13.5% and 12.4% in 2001 and 2002 respectively, while exports of goods and services grew by 21.2% and 19.4% in those two years. Exports continued to perform well in spite of the appreciation of the real effective exchange rate and the weakness of the EU economy, since investments in the past few years have eased capacity constraints. Investment and exports continued to grow strongly in 2003, but private consumption has also started to pick-up on the back of a rise in earnings and a decline in unemployment. Growth also continues to be broad-based across all main economic activities. Growth in 2003 was particularly rapid in the energy, manufacturing, trade and construction sectors. Developments in the energy sector have in particular driven the recent good economic performance, since the Mazeiku Nafta oil refinery has been able to operate economically on the basis of a stable supply of Russian crude, underpinned by the Yukos takeover from Williams and favourable electricity and gas prices. Further contributing factors have been the recovery in Russia. A potential downturn in Russia could have quite a negative effect on the Lithuanian economy, although this could be compensated by the on-going re-orientation of the economy towards the EU.

Fiscal policy: ***strong fiscal consolidation.*** The general government budget recorded a deficit of 1.2% if GDP in 2002, down from 2% in 2001, 2.8% in 2000 and 8.5% in 1999. Cost-cutting measures successfully reduced pharmaceutical expenditures of the Health Insurance Fund. Preliminary data for 2003 indicate that the general government deficit came slightly below target at 1.9 per cent of GDP. Between January and September, Lithuania's central and municipal government revenues were 0.8% higher than the target. The improved revenue collection figures were mainly due to improved tax collection. Expenditure has been lower that budgeted due to savings in interest and lower outlays in goods and services.

The budget for 2004 envisages a further widening in the general government deficit to 2.95% of GDP. The increase is primarily related to expenditures and revenue changes related to EU accession. EU-related expenditures have been estimated to increase to reach 5.2% of GDP. Additional expenditure priorities will be agriculture, defence, social services and healthcare. EU grants are expected to increase from around 2.3% of GDP this year to 3.2% next year, although this depends on whether the necessary institutional capacities will have been put in place. The IMF has urged the government to keep the deficit target in the range of 2.5-2.7% of GDP, to leave some headroom for a possible slowdown in the economy.

Monetary and exchange rate policy: ***the currency board underpins monetary stability.*** The currency was repegged to the Euro from the US dollar in February 2002 at 3.4528 Litas to one Euro, at the prevailing exchange rate of the US dollar to the Euro. The authorities have recently reiterated their intention of maintaining the currency board until an early adoption of the Euro. The proposed strategy is to join ERM II soon after accession, by maintaining the current parity and the commitment to the currency board arrangement, and then adopting the Euro after the minimum required two years and continued compliance with the Maastricht criteria. The sustainability of the currency board will depend on continued fiscal prudence and further enhancement of external trade competitiveness. According to recent research by the IMF, Lithuania has so far maintained its external competitiveness, as indicated by the continued strong export performance and productivity growth.

Inflation is still non-existent, given the fact that the CPI index actually fell by 1.3% by the end of 2003. This mainly reflects declining food prices, cheaper import prices and downward pressures from higher competition and productivity. Real interest rates, as measured by the difference between the three months VILIBOR and inflation, have declined steadily from 17% at the beginning of 2000 to below 4% by the end of 2003. This reflects the impact of the steady increase in the international reserves position. However, it also reflects an easing of government financing requirements, as well as increased confidence and liquidity in the banking system. Growth in domestic credit was extremely strong in 2003, growing by over 40% year-on-year in 2003.

Balance of payments: ***current account deficit widens.*** Reflecting the litas' real appreciation and continued high investment-related imports, the current account deficit widened somewhat last year to around 6.2% of GDP from 5.3% a year earlier. Despite robust export growth, the current account deficit is expected to remain at this higher level, reflecting the expected fiscal expansion. This will be primarily due to the high import content of EU-related investment and the effect on private consumption provided by EU transfers.

The current account deficit was almost fully financed (or 97%) by net FDI inflows in 2002, but a much smaller portion of the deficit is estimated to have been financed by FDI inflows in 2003 (mainly due to an increase in reinvested earnings). Net FDI inflows grew by over 60% to reach US$ 714 million in 2002 and fell to around US$ 470 million in 2003. Net FDI inflows are expected to remain at US$ 500 million this year, with substantial new investments spurred by ongoing privatisations and the prospect of EU accession likely. At the end of February 2004 Lithuania launched a 9-year Euro 600 million Eurobond, which will be added to a 10-year Euro 400 million euro issue placed in February 2003. The bond was sold at a record low yield of 4.5 percent.

External debt and debt servicing capacity: ***debt ratios should stabilise in the coming years.*** Economic recovery and declines in real interest rates have contributed to stabilising the debt ratios. Gross external debt is estimated to have decreased slightly last year as a percentage of GDP, reaching 41% of GDP in 2003. Continued strong growth will lead to overall debt levels remaining relatively stable this year and next. More than half of the debt is owed by commercial banks, while public and publicly guaranteed external debt is only 15% of GDP. Debt service ratios have risen in recent years to less than 15% of current account revenues, and are expected to stay at this level this year. International reserves have remained at comfortable levels covering 3.3 months of imports of goods and services in 2002. The coverage ratio has improved to 4 months of imports of goods and services in 2003, but is likely to decline somewhat in 2004.

Annex 3
Table I Selected Economic Indicators for Lithuania

Lithuania updated 03/04

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
										Estimate	*Forecast*
Output and expenditure			*(Percentage change in real terms)*								
GDP	-9.8	3.3	4.7	7.0	7.3	-1.8	4.0	6.5	6.8	8.9	6.5
Private consumption	na	na	6.5	5.3	4.7	3.3	6.6	3.9	4.2	na	na
Public consumption	na	na	2.5	6.3	6.0	-8.1	3.9	0.3	4.3	na	na
Gross fixed investment	na	na	12.6	34.8	19.8	-2.1	-11.8	17.0	10.7	na	na
Exports of goods and services	na	na	19.3	18.7	4.6	-16.8	9.8	21.2	19.4	na	na
Imports of goods and services	na	na	23.3	25.0	6.2	-12.4	4.7	17.7	16.1	na	na
Industrial gross output	-26.5	5.3	5.0	3.3	8.2	-11.2	5.3	15.9	5.0	na	na
Agricultural gross output	-8.4	2.6	-1.2	5.8	1.1	-2.6	0.9	-4.6	6.1	na	na
Employment 1/			*(Percentage change)*								
Labour force (annual average)	-6.4	0.7	-2.1	-5.7	na	-0.6	-2.0	-2.1	-0.3	na	na
Employment (annual average, thousands)	-5.8	-1.9	-0.7	-3.1	na	-2.2	-4.0	-3.3	4.0	2.1	na
Unemployment (annual average)	3.8	17.5	16.4	14.1	13.2	14.6	16.4	17.4	13.8	12.5	na
Prices and wages			*(Percentage change)*								
Consumer prices (annual average)	72.1	39.6	24.6	8.9	5.1	0.8	1.0	1.3	0.3	-1.2	1.5
Consumer prices (end-year)	45.0	35.7	13.1	8.4	2.4	0.3	1.4	2.0	-1.0	-1.3	4.3
Producer prices (annual average) 2/	44.8	28.3	16.5	6.0	-3.9	1.7	16.0	-3.0	-2.8	na	na
Producer prices (end-year) 2/	33.8	20.3	12.3	0.9	-8.3	23.3	-7.8	1.9	2.1	-0.5	na
Gross average monthly earnings in economy (annual average)	95.9	47.8	28.5	25.9	19.5	6.2	-1.7	1.2	13.9	7.6	na
Government sector 3/			*(In per cent of GDP)*								
General government balance	-4.8	-4.4	-4.5	-1.8	-5.8	-8.5	-2.8	-2.0	-1.2	-1.9	-3.0
General government expenditure	37.4	35.8	34.2	33.5	37.6	40.3	33.6	31.7	31.3	35.9	na
#N/A	na	na	na	na	22.5	29.0	29.5	28.3	27.0	24.8	23.0
Monetary sector			*(Percentage change)*								
Broad money (M2, end-year)	63.0	28.9	-3.5	34.1	14.5	7.7	16.5	21.4	16.9	18.2	na
Domestic credit (end-year)	na	na	1.8	37.6	16.8	24.5	1.7	13.7	22.3	42.4	na
			(In per cent of GDP)								
Broad money (M2, end-year)	25.8	22.7	17.2	18.9	19.1	21.1	23.4	26.7	29.2	32.0	na
Interest and exchange rates			*(In per cent per annum, end-year)*								
Money market rate	22.4	10.7	7.6	5.8	6.1	4.6	4.7	3.0	3.5	1.4	na
Treasury bill rate	20.6	22.4	10.6	9.1	11.5	12.3	5.7	4.6	3.2	2.4	na
Deposit rate 4/	7.6	7.4	4.3	1.9	2.4	1.6	1.0	0.8	0.3	0.4	na
Lending rate 5/	22.1	10.4	14.7	10.9	9.5	10.1	10.7	8.1	6.1	5.1	na
			(Litai per US dollar)								
Exchange rate (end-year)	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.4	2.8	na
Exchange rate (annual average)	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.7	3.0	na
External sector			*(In millions of US dollars)*								
Current account	-94	-614	-723	-981	-1,298	-1,194	-675	-574	-734	-1,112	-1,240
Trade balance	-205	-698	-896	-1,147	-1,518	-1,405	-1,104	-1,108	-1,337	-1,530	-1,912
Merchandise exports	2,029	2,706	3,413	4,192	3,962	3,147	4,050	4,889	6,031	7,585	8,571
Merchandise imports	2,234	3,404	4,309	5,340	5,480	4,551	5,154	5,997	7,368	9,115	10,483
Foreign direct investment, net 6/	31	72	152	328	921	478	375	439	714	467	500
Gross reserves (end-year), excluding gold	525	757	772	1,010	1,409	1,195	1,312	1,618	2,349	3,372	3,348
External debt stock 7/	529	1,374	2,401	3,299	3,795	4,540	4,884	5,268	6,199	7,400	8,000
			(In months of imports of goods and services)								
Gross reserves (end-year), excluding gold	2.4	2.3	1.9	1.9	2.7	2.7	2.7	2.9	3.4	4.0	3.4
			(In per cent of current account revenues, excluding transfers)								
Debt service	2.3	3.7	6.9	10.5	17.8	20.0	19.8	15.0	14.6	13.2	12.0
Memorandum items			*(Denominations as indicated)*								
Population (end-year, millions)	3.6	3.6	3.6	3.6	3.5	3.5	3.5	3.5	3.5	3.4	3.4
GDP (in millions of litai)	16,904	24,781	31,529	38,520	43,555	42,608	44,698	47,498	50,758	54,846	59,261
GDP per capita (in US dollars)	1,166	1,714	2,197	2,703	3,079	3,033	3204.6	3416.5	3993.7	5254.9	6364.6
Share of industry in GDP (in per cent)	25.5	23.9	23.7	22.5	21.1	20.4	23.3	25.6	26.0	na	na
Share of agriculture in GDP (in per cent)	10.1	10.7	11.2	10.5	9.1	7.5	7.0	6.3	6.0	na	na
Current account/GDP (in per cent)	-2.2	-9.9	-9.2	-10.2	-11.9	-11.2	-6.0	-4.8	-5.3	-6.2	-5.7
External Debt - Reserves, in US$ millions	4	617	1,628	2,289	2,386	3,345	3572.5	3650.3	3849.5	4028.0	4651.9
External Debt/GDP (in per cent)	12.4	22.2	30.5	34.3	34.9	42.6	43.7	44.4	44.9	41.0	36.8
External Debt/Exports of goods and services (in per cent)	22.5	43.1	57.0	63.2	74.8	107.1	95.6	87.1	82.5	80.1	77.0

Note: Data for 1992-2002 represent official estimates of outturns as reflected in publications from the national authorities.
Data for 2003 reflect EBRD estimates, partly based on information from these sources.

1/ Based on the labour force survey data. Data refers to annual average. There is a break in the series. Data from 1998 are based on the Population Census and previous data has not been recalculated.

2/ Producer prices excluding electricity, gas and water until 1995; total industry from 1996

3/ General government sector includes the state, municipalities and extra budgetary funds. General government expenditure includes net lending.

4/ Average interest rate on demand deposits in litai.

5/ Average interest rate on long-term loans in litai.

6/ Covers only investment in equity capital for 1993 and 1994; equity capital and reinvested earnings for 1995 onwards.

7/ Includes non-resident currency and deposits and loans to foreign subsidiaries

Annex 3
Table II Comparative indicators. Data for 2002 unless indicated

	Czech Republic	Estonia	Hungary	Latvia	Lithuania	Poland	Slovak Republic	Slovenia
Enterprises								
Budgetary subsidies and current transfers (in per cent of GDP) [1]	7.9	1.1	na	6.0	0.2	2.5	1.7	1.1
Private sector share in GDP (in per cent)	80.0	80.0	80.0	70.0	75.0	75.0	80.0	65.0
Share of trade with non-transition countries (in per cent)	80.7	71.8	84.5	67.7	61.5	81.3	63.5	77.6
Share of industry in total employment (in per cent)	30.7	24.7	34.1	19.5	20.9	20.6	26.7	38.5
Labour productivity in manafacturing, 1998-2002 cumulative % change	19	42	15	30	42	30	24	25
Investment rate/GDP (in per cent)	34.0	31.4	26.8	29.5	22.6	19.2	na	na
EBRD index of enterprise reform [2]	3+	3+	3+	3	3	3+	3	3
EBRD index of competition policy [2]	3	3-	3	3-	3	3	3	3-
EBRD index of small-scale privatisation [2]	4+	4+	4+	4+	4+	4+	4+	4+
EBRD index of large-scale privatisation [2]	4	4	4	3+	4-	3+	4	3
Infrastructure								
Government capital expenditure as % of GDP	na	3.9	3.5	4.1	3.1	na	na	na
Fixed line (mobile) penetration rate (per 100 inhabitants), survey	37.8	35.1	36.1	30.1	27.1	29.5	26.1	40.7
Internet penetration rate (per 10,000 inhabitants), survey	219.6	465.9	194.5	155.7	150.8	170.0	159.3	179.0
Railway labour productivity (1989=100)	68.2	287.4	130.3	108.6	54.4	93.1	61.7	133.6
Electricity tariffs, USc kWh (collection rate in per cent)	7.96(na)	5.6(>90)	8.7(>90)	4.9(99.5)	7.9(>90)	8.75(>90)	7.5(95)	8.0(95-98)
EBRD index of infrastructure reform [2]	3	3+	4-	3-	3-	3+	2+	3
Electric power [2]	3+	3	4	3	3	3	4	3
Railways [2]	3	4+	3+	3+	2+	4	2+	3
Roads [2]	2+	2+	3+	2+	2+	3	2+	3
Telecommunications [2]	4	4	4	3	3+	4	2+	3
Water and waste water [2]	4	4	4	3+	3+	3+	2+	4
Financial institutions								
Number of banks (foreign owned) [3]	37(26)	7(4)	38(27)	23(9)	14(7)	59(45)	20(15)	22(6)
Asset share of state-owned banks (in per cent)	4.6	0.0	10.8	4.0	0.0	26.6	2.9	48.6
Non-performing loans (in per cent of total loans)	9.4	0.8	4.6	2.1	5.8	24.6	11.2	10.0
Domestic credit to private sector (in per cent of GDP)	20.0	29.8	34.5	33.4	14.2	15.2	25.2	41.0
Stock market capitalisation (in per cent of GDP)	21.0	33.6	17.6	8.0	9.5	14.3	7.0	19.1
EBRD index of banking sector reform [2]	4-	4-	4	4-	3	3+	3+	3+
EBRD index of reform of non-banking financial institutions [2]	3	3+	4-	3	3	4-	3-	3-

[1] For the Czech Republic: subsidies to enterprises and financial institutions, including Konsolidacni Banka Agency

[2] Data for 2003 for all countries. The indices range from 1 (standards and performance norms common in a command economy) to 4+ (standards and performance norms of advanced industrial economies).
For a more detailed description of these indices, please refer to *Transition Report 2003*.

[3] For Estonia: includes Merita-Nordbanken branch and investment banks

ANNEX 4: CUMULATIVE BUSINESS VOLUME, as of 31.12.03

Sector Business Group (SIC)	Sector Team (SIC)	No. of Projects	Total Project Value	EBRD Finance	Debt	Equity	% Share of Commitm ents
Energy	Energy Efficiency	0.2	18	9	4	5	2%
	Power and Energy	1.0	33	32	32	0	8%
Sub-total Energy		**1.2**	**51**	**42**	**37**	**5**	**11%**
Financial Institutions	Bank Equity	2.5	17	6	0	6	1%
	Bank Lending	8.6	145	78	78	0	20%
	Equity Funds	2.3	84	37	0	37	9%
	Non Bank Financial Institutions	1.7	24	15	0	15	4%
Sub-total Financial Institutions		**15.1**	**268**	**136**	**79**	**57**	**35%**
General Industry	General Industry	2.0	42	14	12	1	3%
Sub-total General Industry		**2.0**	**42**	**14**	**12**	**1**	**3%**
Infrastructure	Municipal & Env Inf	3.0	157	34	34	0	9%
	Transport	3.0	223	76	76	0	19%
Sub-total Infrastructure		**6.0**	**380**	**110**	**110**	**0**	**28%**
Specialised Industries	Agribusiness	0.8	50	19	0	19	5%
	Property and Tourism	0.0	4	1	0	1	0%
	Telecoms Informatics & Media	2.0	177	72	20	52	18%
Sub-total Specialised Industries		**2.9**	**231**	**92**	**20**	**72**	**23%**
LITHUANIA TOTAL		**27.2**	**973**	**393**	**257**	**136**	**100%**

ANNEX 5: BILATERAL ASSISTANCE

The Bank has worked with a variety of bilateral donors who since 1992 have provided grant funding for projects in Lithuania for purposes such as institution building, project preparation, support and implementation, and those projects are listed below. The majority of projects financed have been under the Turn Around Management (TAM) Programme and the Business Advisory Service (BAS).

Commitment Number	TC OPID	Commitment Name	Euro Disbursed	Commitment Year	Fund Approved Date	Commit. Stage Name	Operation Leader	Sector	Team Name	Business Group	Linked to Inv.	Signed EBRD Op Amount EUR
TAI-1992-01-11	5343	Banking training	4,498	1992	01/01/92	Closed	Pilipovic-Chaffey D.	Finance, Business	BG/Op. Teams/Financial InstitutionsA	Financial Institutions	N	
DEN-1992-09-05	627	Telecommunications programme - strategy study	294,600	1992	14/09/92	Closed	Haugan O.	Telecommunications	BG/Op. Teams/Telecommunications, Informatics and Media	Specialised Industries	Y	
DEN-1992-11-08	621	Telecommunications programme - regulatory study	157,624	1992	19/11/92	Closed	Haugan O.	Telecommunications	BG/Op. Teams/Telecommunications, Informatics and Media	Specialised Industries	Y	
EC-1992-12-69	954	Energy sector emergency investment programme - project management unit	362,766	1992	20/12/92	Closed	Dyvik E.	Energy	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	
EC-1992-12-70	943	Energy sector emergency investment programme - energy emergency planning group	178,354	1992	20/12/92	Closed	Dyvik E.	Energy	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	
EC-1992-12-71	992	Energy sector emergency investment programme - commercial accounting systems for main energy utilities	475,627	1992	20/12/92	Closed	Dyvik E.	Energy	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	
EC-1992-12-72	968	Energy sector emergency investment programme - energy conservation awareness campaign	189,000	1992	20/12/92	Closed	Dyvik E.	Energy	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	
EC-1992-12-73	978	Energy sector emergency investment programme - wood harvest, distribution and conversion study	188,926	1992	20/12/92	Closed	Noro H.	Energy	BG/Op. Teams/Russia HQ	Russia & Central Asia	Y	
EC-1992-12-74	972	Energy sector emergency investment programme - crude supply study and training	182,876	1992	20/12/92	Closed	Dyvik E.	Energy	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	32,300,000
GER-1993-01-01	614	Telecommunications programme - Master Plan	292,970	1993	15/01/93	Closed	Haugan O.	Telecommunications	BG/Op. Teams/Telecommunications, Informatics and Media	Specialised Industries	Y	
ATR-93-10-01PS	1421	Drobe Wool Company	80,089	1993	20/03/93	Closed	Riley-Pitt J.	Manufacturing	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	
SWE-1993-05-07	584	Baltic sea environmental programme - wastewater treatment plant, Kaunas - feasibility study	156,400	1993	21/05/93	Closed	Holm N.	Energy	BG/Op. Teams/Municipal & Environmental Infrastructure	Infrastructure	Y	12,100,000

JAP-1993-08-34	1030	Energy emergency investment programme - procurement adviser	140,260	1993	01/08/93	Closed	Dyvik E.	Energy	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	
UK-93-08-12PS	1002	Hydrocarbons sector advice - financial advice / petroleum industry economic advice	581,660	1993	04/08/93	Closed	Sholem W.	Manufacturing	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	
NOR-1993-10-06	1002	Hydrocarbons sector advice - environmental specialist	99,847	1993	01/10/93	Closed	Sholem W.	Manufacturing	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	
BTAF-1994-02-05	5319	Post-privatisation Fund - project screening	99,924	1994	01/02/94	Closed	Tangen H.	Finance, Business	BG/Op. Teams/Natural Resources	Energy	Y	
JAP-1994-02-06	761	Telecommunications projects - tender documentation preparation	144,987	1994	08/02/94	Closed	Haugan O.	Telecommunications	BG/Op. Teams/Telecommunications, Informatics and Media	Specialised Industries	Y	
JAP-1994-03-09	761	Telecommunications project - accounting and billing systems	120,000	1994	08/02/94	Closed	Cooper D.	Telecommunications	BG/Op. Teams/Telecommunications, Informatics and Media	Specialised Industries	Y	
JAP-1994-03-08	761	Telecommunications project - corporate strategy	114,522	1994	01/03/94	Closed	Haugan O.	Telecommunications	BG/Op. Teams/Telecommunications, Informatics and Media	Specialised Industries	Y	20,200,000
BTAF-1994-04-08	1345	Financial Institution initiatives - due diligence	79,010	1994	15/04/94	Closed	Marzanati R.	Finance, Business	BG/Op. Teams/Financial InstitutionsA	Financial Institutions	Y	
UKB-1994-05-03	1421	Drobe Wool Company - financial and legal advice	20,027	1994	13/05/94	Closed	Riley-Pitt J.	Manufacturing	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	
BTAF-1994-06-16	1628	Lithuanian Development Bank - board representation	246,798	1994	15/06/94	Closed	Cicognani M.	Finance, Business	BG/Op. Teams/Financial InstitutionsA	Financial Institutions	Y	900,000
NOR-1994-07-01	1629	Oil port pipeline - environmental consultant	123,017	1994	01/07/94	Closed	Sholem W.	Transport, Storage	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	
BTAF-1994-08-21	1680	TurnAround Management Programme - MEDIENOS PLAUSAS	43,141	1994	20/08/94	Closed	McAlister M.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1994-08-22	1680	TurnAround Management Programme - ASTRA	44,516	1994	20/08/94	Closed	McAlister M.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1994-08-23	1680	TurnAround Management Programme - Jonavas Baldai	23,894	1994	20/08/94	Closed	McAlister M.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
EC-1994-11-51	1820	Post-privatisation assistance - financial advice	367,888	1994	04/11/94	Closed	Krivicky G.	Finance, Business	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	
IRL-1994-10-04	1821	Follow-up of corporate strategy	38,341	1994	11/11/94	Closed	Cooper D.	Telecommunications	BG/Op. Teams/Telecommunications, Informatics and Media	Specialised Industries	Y	
GER-1994-12-14	1820	Post-privatisation Fund - legal advice	77,826	1994	02/12/94	Closed	Krivicky G.	Finance, Business	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	
CAN-1995-01-01	1667	Klaipeda Port rail interface study	66,663	1995	31/01/95	Closed	Smith I.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y	
NORG-1995-03-01	2371	Bankas Hermis - institutional strengthening	239,286	1995	01/03/95	Closed	Marzanati R.	Finance, Business	BG/Op. Teams/Financial InstitutionsA	Financial Institutions	Y	12,900,000
BTAF-1995-04-11	1381	Business Advisory Services - regional project manager	193,654	1995	02/04/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1995-04-12	1680	TurnAround Management Programme - Taurages Maistras	39,256	1995	02/04/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1995-04-14	1381	Business Advisory Services - operating expenses for Vilnius	75,904	1995	02/04/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	

BTAF-1995-04-16	1680	TurnAround Management Programme - Laima	46,760	1995	02/04/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1995-04-17	1381	Business Advisory Services - local fund director	37,358	1995	02/04/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1995-05-19	1381	Business Advisory Services - local project officer	6,336	1995	04/05/95	Closed	Cicognani M.	Manufacturing	BG/Op. Teams/Financial InstitutionsA	Financial Institutions	N	
BTAF-1995-06-22	1381	Business Advisory Services - subsidies dusbursement	825,323	1995	20/06/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1995-07-24	1680	TurnAround Management Programme - Snaige	49,300	1995	20/07/95	Closed	White J.	Manufacturing	BG/Op. Teams/Early Stage Equity	Financial Institutions	N	
BTAF-1995-08-27	1680	TurnAround Management Programme - Daugeliu	48,650	1995	25/08/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1995-08-29	2380	Vilniaus Bankas	145,000	1995	25/08/95	Closed	Marzanati R.	Finance, Business	BG/Op. Teams/Financial InstitutionsA	Financial Institutions	Y	2,500,000
TAMEC-95-10-10	5144	TurnAround Management Programme - Drobe Wool	49,693	1995	01/10/95	Closed	McAlister M.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-95-10-15	5144	TurnAround Management Programme - advisory services contract - Nemunas	49,229	1995	01/10/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1995-10-35	1381	Business Advisory Services - vehicle purchasing	43,300	1995	10/10/95	Closed	Cicognani M.	Manufacturing	BG/Op. Teams/Financial InstitutionsA	Financial Institutions	N	
BTAF-1995-10-40	1680	TurnAround Management Programme - Siauliu Stumbras	38,143	1995	10/10/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-95-11-17	5144	TurnAround Management Programme - advisory services contract - Vilniaus Vingis	49,711	1995	01/11/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-95-11-18	5144	TurnAround Management Programme - advisory services contract - Ekranas	49,458	1995	01/11/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-95-11-21	5144	TurnAround Management Programme - advisory services contract - Astra	49,497	1995	01/11/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-95-11-22	5144	TurnAround Management Programme - advisory services contract - Kauno Flektra	49,370	1995	01/11/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-95-11-23	5144	TurnAround Management Programme - Linas	49,625	1995	01/11/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-95-12-29	5144	TurnAround Management Programme - advisory services contract - Snaige	49,757	1995	01/11/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1995-11-44	1381	Business Advisory Services - administrative secretary	6,428	1995	05/11/95	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-96-01-01	5144	TurnAround Management Programme - advisory services contract - Endokrininiai Preparati	42,792	1996	01/01/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-96-01-02	5144	TurnAround Management Programme - advisory services contract - Klaipeda Svyturys	48,253	1996	01/01/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-96-01-03	5144	TurnAround Management Programme - advisory services contract - Klaipedos Baldai	45,829	1996	01/01/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	

TAMEC-96-01-06	5144	TurnAround Management Programme - advisory services contract - Vilkma	42,000	1996	01/01/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
ECP-1995-12-42F	2150	Post-privatisation Fund (Latvia / Lithuania) - pre-investment support, accounting and technical advice	705,778	1996	02/01/96	Closed	Moore T.	Finance, Business	BG/Op. Teams/Financial InstitutionsA	Financial Institutions	Y	
ECP-1995-12-43F	2154	Post-privatisation Fund (Latvia / Lithuania) - investment, legal and environmental support to enterprises	258,821	1996	02/01/96	Closed	Moore T.	Finance, Business	BG/Op. Teams/Financial InstitutionsA	Financial Institutions	Y	17,200,000
AUS-1996-01-01	5242	Development of small hydro power plants	56,010	1996	29/01/96	Closed	Chabrier L.	Energy	BG/Op. Teams/Power and Energy	Energy	Y	
TAMEC-96-03-13	5144	TurnAround Management Programme - advisory services contract - Vilkas	38,968	1996	01/03/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-96-03-14	5144	TurnAround Management Programme - advisory services contract - Audimas JSC	33,037	1996	01/03/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-96-03-15	5144	TurnAround Management Programme - advisory services contract - Neris	26,412	1996	01/03/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-96-03-16	5144	TurnAround Management Programme - advisory services contract - Poslovni Sistem Mercator	46,888	1996	01/03/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1996-03-02	5350	Business Advisory Services - equipment services	22,524	1996	03/03/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1996-03-03	5351	Business Advisory Services - office lease	7,166	1996	26/03/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-96-04-20	5144	TurnAround Management Programme - advisory services contract - Panevezys Glass Works	49,567	1996	01/04/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-96-04-24	5144	TurnAround Management Programme - advisory services contract - Alpina	48,237	1996	01/04/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1996-05-04	5253	Business Advisory Services - project officer	11,335	1996	04/05/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-96-06-28	5144	TurnAround Management Programme - advisory services contract - Medienos Plausas training	40,449	1996	01/06/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-96-10-45	5144	TurnAround Management Programme - advisory services contract - Vilnius Venta	28,193	1996	01/10/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
JAP-1996-11-29	3214	Telecommunications regulatory development licensing for privatisation and liberalisation	289,113	1996	25/11/96	Closed	Styliadou M.	Telecommunications	GC/General Counsel/Legal Transition	Non-Banking	N	
BTAF-1996-12-19	5133	TurnAround Management Programme - Matuizu Plytine	45,013	1996	12/12/96	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-97-01-07	5144	TurnAround Management Programme - Klaipeda Svyturys	41,987	1997	01/01/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	

TAMEC-97-01-08	5144	TurnAround Management Programme - advisory services contract - Nemunas training	49,963	1997	01/01/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-97-01-09	5144	TurnAround Management Programme - Siauliu Vairas	42,044	1997	01/01/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-97-01-10	5144	TurnAround Management Programme - advisory services contract - Vilniaus Vingis	49,695	1997	01/01/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1997-01-03	5258	Business Advisory Services - office lease with Ltimpex	20,293	1997	23/01/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1997-01-04	5259	Business Advisory Services - office renovation works with Ltimpex	10,644	1997	23/01/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
HOL-1997-03-01	3985	Kaunas energy sector reorganisation study	192,527	1997	06/03/97	Closed	Chabrier L.	Energy	BG/Op. Teams/Power and Energy	Energy	Y	
TAMEC-97-04-24	5144	TurnAround Management Programme - advisory services contract - AB Audejas	49,941	1997	01/04/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-97-04-26	5144	TurnAround Management Programme - advisory services contract - Ekranas II	20,000	1997	01/04/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
UKC-1997-04-05	4267	Power sector least cost plan follow on study	25,164	1997	01/04/97	Closed	Chabrier L.	Energy	BG/Op. Teams/Power and Energy	Energy	N	
TAMEC-97-05-29	5144	TurnAround Management Programme - advisory services contract - Linas (Phase III) training	21,312	1997	01/05/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-97-06-32	5144	TurnAround Management Programme - AB Sparta	57,575	1997	20/06/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-97-06-37	5144	TurnAround Management Programme - Rokiskio Suris	43,531	1997	24/06/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-97-07-39	5144	TurnAround Management Programme - advisory services contract - Snaige II training	19,701	1997	03/07/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1997-07-13	5134	TurnAround Management Programme - Puntukas AB	43,392	1997	15/07/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
TAMEC-97-07-41	5144	TurnAround Management Programme - Achema	49,857	1997	18/07/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	Y	
BTAF-1997-09-14	1680	TurnAround Management Programme - post-investment support - Graduva	49,100	1997	02/09/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	Y	
BTAF-1997-10-16	5134	TurnAround Management Programme - Lietuvos Draudimas	49,435	1997	03/10/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1997-10-18	5134	TurnAround Management Programme - post-investment support - SBA Concern	41,549	1997	17/10/97	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
GERK-1997-10-04	3985	Kaunas energy sector and modernisation project	24,368	1997	17/10/97	Closed	Chabrier L.	Energy	BG/Op. Teams/Power and Energy	Energy	Y	
GERK-1997-10-05	3985	Kaunas energy sector reorganisation study	69,024	1997	17/10/97	Closed	Chabrier L.	Energy	BG/Op. Teams/Power and Energy	Energy	Y	

BTAF-1997-11-20	5134	TurnAround Management Programme - Berzu Kompleksas	45,981	1997	10/11/97	Disbursing	McPhee J.	Manufacturing	BG/Op. Teams/Turnaround Management Group	TurnAround Management Group	N	
FRA-1997-11-05	3985	Kaunas energy sector and modernisation project	106,646	1997	17/11/97	Closed	Chabrier L.	Energy	BG/Op. Teams/Power and Energy	Energy	Y	
BTAF-1998-01-01	1381	Business Advisory Services	315	1998	06/01/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1998-01-02	5133	TurnAround Management Programme - Drobe Worsteds	49,903	1998	20/01/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1998-02-06	5134	TurnAround Management Programme - Kauno Pieno Centras	49,271	1998	12/02/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1998-02-07	5134	TurnAround Management Programme - AB Trinyciai	45,111	1998	19/02/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1998-03-08	5134	TurnAround Management Programme - AB Farmacija	45,696	1998	05/03/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1998-03-09	4773	Business Advisory Services - Regional Fund Director	16,200	1998	10/03/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1998-03-10	4773	Business Advisory Services - National Fund Director	6,930	1998	10/03/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1998-03-11	4773	Business Advisory Services - project officer	2,970	1998	10/03/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1998-03-12	4773	Business Advisory Services - Assistant to National Fund Director	1,180	1998	10/03/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1998-06-19	5743	Baltic Micro Business Advisory Services Programme - project officer	9,030	1998	30/06/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1998-07-22	5743	Baltic Micro Business Advisory Services Programme - subsidy account	413,024	1998	23/07/98	Disbursing	McPhee J.	Manufacturing	BG/Op. Teams/Turnaround Management Group	TurnAround Management Group	N	
BTAF-1998-07-27	5743	Baltic Micro Business Advisory Services Programme - operating expenses	14,769	1998	23/07/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1998-08-28	5134	TurnAround Management Programme - post-investment support - Interfarma	55,161	1998	03/08/98	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
DEN-1998-10-07	6006	Drobe Wool Energy Audit	22,458	1998	05/10/98	Closed	Herman E.	Manufacturing	BG/Op. Teams/Energy Efficiency	Energy	Y	
BTAF-1998-12-30	5744	TurnAround Management Programme - Drobe Worsteds II	50,535	1998	02/12/98	Disbursing	McPhee J.	Manufacturing	BG/Op. Teams/Turnaround Management Group	TurnAround Management Group	N	
FIN-1998-12-04	6109	Rokiskio Suris	77,055	1998	21/12/98	Closed	Campbell D.	Manufacturing	BG/Op. Teams/Agribusiness	Specialised Industries	Y	8,700,000
BTAF-1999-01-01	5744	TurnAround Management Programme - Trinyciai II	59,143	1999	26/01/99	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
UKB-1999-03-01	6290	Drobe Wool project preparation	5,071	1999	11/03/99	Closed	Gutnik S.	Manufacturing	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	8,100,000
ITA-1999-03-01	6290	Drobe Wool Project Preparation	9,260	1999	15/03/99	Closed	Gutnik S.	Manufacturing	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	
BTAF-1999-04-08	5744	TAM Programme - Kauno Pieno Centras II	54,186	1999	15/04/99	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	

BTAF-1999-05-09	5744	TurnAround Management Programme - Vilma II	59,544	1999	24/05/99	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1999-07-10	5133	Turnaround Management Programme - Lietuvos Draudimas II	28,219	1999	01/07/99	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
UKB-1999-07-02	6290	Drobe Wool Project Preparation	11,859	1999	07/07/99	Closed	Gutnik S.	Manufacturing	BG/Op. Teams/Central Europe Front Office	Central Europe	Y	
BTAF-1999-07-12	5744	Turnaround Management Programme - AB Kauno Audiniai	58,953	1999	20/07/99	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1999-11-20	5744	TurnAround Management Programme (TAM) - Litekas & Calw AB	32,342	1999	24/11/99	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-1999-12-21	5743	Micro-BAS Programme - Project Officer	14,119	1999	16/12/99	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-2000-02-01	6964	Business Advisory Services (BAS) Programme - Subsidies	833,670	2000	07/02/00	Disbursing	McPhee J.	Manufacturing	BG/Op. Teams/Turnaround Management Group	TurnAround Management Group	N	
BTAF-2000-02-05	5744	TurnAround Management Programme - Senukai II	55,038	2000	22/02/00	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-2000-03-07	5744	TurnAround Management Programme (TAM) - Vilniaus Prekybos	58,423	2000	09/03/00	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-2000-05-08	5744	TurnAround Management Programme (TAM) - Sparta Wool	59,581	2000	15/05/00	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-2000-05-11	5744	TurnAround Management Programme (TAM) - Savy	55,801	2000	30/05/00	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
UKE-2000-06-08	4526	FAO Framework Agreement - Dairy Sector Analysis in Lithuania	34,564	2000	14/06/00	Closed	Campbell D.	Manufacturing	BG/Op. Teams/Agribusiness	Specialised Industries	N	
BTAF-2000-06-12	5744	TurnAround Management Programme (TAM) - Klaipedos Pienas	54,691	2000	16/06/00	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-2000-06-13	5744	TurnAround Management Programme (TAM) - Kauno Platanas	55,871	2000	16/06/00	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-2000-07-16	5744	TurnAround Management Programme (TAM) - Kanta	60,000	2000	11/07/00	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-2000-07-18	5744	TurnAround Management Programme (TAM) - Kauno Audiniai II	53,307	2000	27/07/00	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
FIN-2000-10-05	12350	Development of Alternative Energy for Ignalina INPP Closure	199,215	2000	09/10/00	Disbursing	Stanaro R.	Energy	BG/Op. Teams/Power and Energy	Energy	N	
BTAF-2000-10-25	5744	TurnAround Management Programme (TAM) - Vilsota AB	51,293	2000	18/10/00	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-2000-10-27	5744	TurnAround Management Programme (TAM) - Aukmerges Baldai	58,605	2000	31/10/00	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-2000-12-29	5743	Business Advisory Services Programme - Robertas Ivanauskas, Project Officer	16,055	2000	07/12/00	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
ECP98-2000-12-76	16241	Business Advisory Programme	248,818	2000	08/12/00	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
BTAF-2001-02-03	5744	TurnAround Management Programme (TAM) - Lithuanian Airline	56,667	2001	13/02/01	Closed	Walker C.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	

BTAF-2001-04-08	5744	TurnAround Management Programme (TAM) - AB Vilniaus Mesos Kombinatas	58,548	2001	19/04/01	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
UKE-2001-07-24	18469	Lithuania Concessions Law Development	184,506	2001	24/07/01	Closed	Zverev A.	Community/Social Services	GC/General Counsel/Legal Transition	Non-Banking	N	
BTAF-2001-08-10	5744	TurnAround Management Programme (TAM) - Baldai Jums	50,705	2001	21/08/01	Closed	McPhee J.	Manufacturing	PE/ESE/TurnAround Management Group	TurnAround Management Group	N	
LUX-2001-09-01	21702	Lithuania: Public Sector Energy Management Programme, Technical Preparation	26,996	2001	17/09/01	Closed	McCallion T.	Energy	BG/Op. Teams/Energy Efficiency	Energy	Y	
TAI-2002-03-07	4526	Regional Warehouse Receipts Programme	0	2002	06/03/02	Committed	Bryde P.	Manufacturing	BG/Op. Teams/Agribusiness	Specialised Industries	Y	
CA3F-2002-11-09	26593	City of Vilnius - Municipal Capital Development Programme	0	2002	13/11/02	Committed	Covenden P.	Community/Social Services	BG/Op. Teams/Municipal & Environmental Infrastructure	Infrastructure	Y	7,000,000
SWEF-2003-11-01	34745	Kaunas Public Transport - Project Preparation	0	2003	06/11/03	Committed	Bruggeman G.	CEALs, CoFinancing Lines & RVF's	BG/Op. Teams/Municipal & Environmental Infrastructure	Infrastructure	Y	
SWEF-2003-12-02	34748	Kaunas Public Transport Project - Consultancy Services for the Procurement of Buses	0	2003	08/12/03	Committed	Bruggeman G.	Transport, Storage	BG/Op. Teams/Municipal & Environmental Infrastructure	Infrastructure	Y	

ANNEX 6 - THE NUCLEAR SAFETY ACCOUNT AND THE IGNALINA INTERNATIONAL DECOMMISSIONING SUPPORT FUND

The Ignalina Nuclear Power Plant (IINPP) is a legacy from the former Soviet Union. IINPP's two 1500 MWe RBMK reactors are of the same basic design as those at Chernobyl Nuclear Power Plant.

In an Agreement signed in 1994 with EBRD under the EBRD-managed Nuclear Safety Account (NSA), the Government of Lithuania committed itself to (i) to submit IINPP to an in-depth safety assessment for the purpose of nuclear licensing process and to implement safety improvement measures for IINPP; (ii) not to extend the lifetime of either of the two nuclear reactors beyond the time at which their fuel channels should be replaced. (lifetime extension of the reactors through re-channelling is thus excluded.); and (iii) to develop and implement a programme for rehabilitation in the power sector and for demand-side management, improvements in energy efficiency, further reform of pricing policy and the assessment of the need for additional power generating capacity. The 1994 NSA Agreement provided a grant of EUR 34 million to IINPP to support enhancement of the short-term safety of the plant. The short-term safety enhancement project was successfully completed in 1999. An in-depth safety assessment of IINPP, also funded by the NSA, was completed in December 1996 and established a safety case for the remaining limited service life of the plant until permanent shutdown. A similar licensing process is currently being implemented for Unit 2. This is supported by a number of bilateral co-operation agencies.

International experts stated that implementation of short-term safety upgrading programmes has reduced some of the serious deficiencies in design, quality and safety culture and brought the plant to a level of safety tolerable only for a limited period of operation. The Council of the European Union Report on Nuclear Safety in the Context of Enlargement of 27 May 2001 states that in spite of the short-term safety improvements achieved, there remain substantial deviations from widely applied requirements within the EU, mainly with respect to the last barrier for protection of the environment, the confinement system. It is not technically realistic to eliminate these deviations to the extent necessary to achieve the high level of nuclear safety expected within the EU.

Lithuania committed to close IINPP Unit 1 before 2005 and Unit 2 by 31 December 2009 at the latest. These commitments were made with Government and Seimas approval of the National Energy Strategy in 1999 and in 2002 and reconfirmed the early closure of IINPP Units 1 and 2 in accordance with the covenants of the NSA Agreement.

Before final closure of both Units at IINPP it is, however, essential that IINPP implements additional short-term safety upgrades at the plant including an independent and diverse reactor shutdown system at Unit 2, and measures to ensure continued high motivation and safety awareness of the operating staff.

The IINPP decommissioning work will be a long-term process, which is divided in several phases. The initial programme focuses on preparatory activities for the closure of Unit 1. It also includes removal and intermediate storage of fuel and the processing and intermediate storage of operational radioactive wastes from Units 1 and 2. The Lithuanian Government invited concerted and well co-ordinated national and international effort for implementation of this programme.

On the initiative of the European Commission, the EBRD established in June 2000 the new grant facility Ignalina International Decommissioning Support Fund (IIDSF). IIDSF activities are being implemented under a Framework Agreement dated 5 April 2001 between the Republic of Lithuania and the EBRD, which was ratified by the Seimas in July 2001.

To date the European Community and 15 additional countries contributed EUR 210.6 million to the IIDSF. On 13 December 2002, at the Copenhagen European Council the EU finalised accession negotiations with ten candidate countries including Lithuania. On 16 April 2003, at the Athens EU Summit, the Accession Treaty was signed. The Treaty contains specific provisions relating to the closure and decommissioning of IINPP. It also contains a financial package to address these matters. The Treaty furthermore provides for the possibility of making EU assistance or part thereof available to the IIDSF, managed by the EBRD. The Treaty is being ratified by the existing and new EU Member States. The Lithuanian financial package includes: (i) EUR 285 million (based on 1999 prices) additional Community financial assistance for the period 2004 - 2006 to be committed in three equal tranches of EUR 95 million; and (ii) prolonged Community assistance beyond 2006.

The purpose of the IIDSF is to finance or co-finance the provision of goods, works and services necessary:

(i) to support the decommissioning work at IINPP

The overall IINPP decommissioning should be done in a safe and efficient manner in order to ultimately reduce the IINPP hazards and in the long term to release the site for other uses. Decommissioning is a long-term process of high technical complexity. It includes all the administrative and technical operations necessary to withdraw IINPP from the list of licensed facilities. Therefore it is important to bring an integrated approach to the decommissioning process, so that design, engineering, management of investments in pre-decommissioning facilities, licensing and technical support issues are optimised. The main activities during the first phase of 10-15 years following closure are the removal and intermediate storage of spent fuel, the processing of liquid and solid radioactive waste, and preparations for intermediate storage, as well as decontamination of systems and components, systems modifications and systems separations. Lithuania decided to apply the strategy of Immediate Dismantling for decommissioning of IINPP.

The current commitments of the IIDSF relating to the IINPP nuclear decommissioning support under Grant Agreements No. 1 - 4 cover:

- Project management and engineering services (DPMU) phase 1 project from 2001 to 2004. The onsite DPMU ensures an integrated approach to the decommissioning and waste management of IINPP and is responsible for ensuring that these Lithuanian resources will be implemented to meet requirements with respect to scope and quality, time schedule and cost.
- Design and construction of a new interim storage facility for 18,000 RBMK spent fuel assemblies from Units 1 and 2.

- Design and construction of a new solid waste management and storage facility (SWMSF) for 120,000 m^3 short- and long-lived low and intermediate level radioactive waste.
- Design and construction of a reliable replacement heat and steam source for IINPP and Visaginas, including construction of a new gas pipeline from Pabrade to IINPP and Visaginas.
- Modernisation of IINPP technical documentation archive.

IINPP and the EBRD started preparation of the DPMU phase 2 project which will cover the period 2005 to 2010. This should ensure smooth continuation of planning, engineering and project management support to IINPP. Subject to additional contributions to the IIDSF, the EBRD intends to define with IINPP in 2004/2005 additional project proposals.

(ii) to implement measures in the energy sector of Lithuania which are consequential to the closure and decommissioning of IINPP and which would assist the necessary restructuring, upgrading and modernisation of the energy production, transmission and distribution sectors as well as to improve energy efficiency

In 2003, IINPP produced approx. 73% of Lithuania's electricity. The closure of IINPP will impact on the development of the energy sectors of the country. Therefore implementation of measures to facilitate the necessary restructuring, upgrading and modernisation of the energy production, transmission and distribution sectors, as well as to improve energy efficiency, is becoming increasingly important.

In order to support the development of relevant projects, in March 2003 the EBRD commissioned with IIDSF grant financing the following two studies:

- "Lithuania – Power Sector Least Cost Expansion Plan Update"; and
- "Updating of the Gas Sector Development Plan in Lithuania and its Interface with the Gas Sector Development in Latvia, Estonia, NW Russia, Belarus and Poland".

According to the Lithuanian power sector least-cost expansion plan update, the upgrading of the environment protection (fulfilment of EU environment regulations), reliability and energy efficiency of the existing 1800 MW_e Lithuanian Thermal Power Plant (LTPP) is of the highest priority for expedited project development and implementation from 2003-2007. LTPP will become the major Lithuanian power generator after closure of IINPP. The LTPP project could become the first future EBRD-loan/IIDSF-grant co-financed investment project. Subject to additional contributions to the IIDSF after EU accession, the EBRD intends to finalise its project due diligence in 2004 on the LTPP upgrading project.

The EBRD has also expressed interest in investing alongside private investors in the privatisation of the electricity sector. Energy efficiency and renewable energy resources is yet another field of the EBRD's interest.