

Lithuania: National Reform Programme 2015



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I. INTRODUCTION

Despite of the increased external risk, the Lithuanian economy is forecasted to experience a stable growth. Regained competitiveness after the financial crisis encouraged stable economic growth in recent years. In 2012–2014 economic growth accounted for an average of 3.3 percent per year. At first, the growth was driven by export, while currently domestic demand has become the main engine stimulating growth. Domestic demand is forecasted to rapidly increase in 2015, mainly as a result of increasing wages, decreasing unemployment and lower inflation.

It is important to note that 1 January 2015 marks the introduction of a new currency - the euro. The benefit is expected to significantly exceed the costs of introduction of the new currency and the planned additional state contributions, which was proved by quantitative assessment of the impact of the euro adoption on the national economy conducted by economists of the Bank of Lithuania. The study revealed that residents, business and state finances will feel the impact of the adoption of the euro through the reduced interest burden, non-existent costs of litas and euro exchange, rapidly increasing export and investments.

Calculations made by economists of the Bank of Lithuania reveal that the average annual GDP level after joining the euro area is planned to be 1.8-1.9 percent greater in 2022 than without the adoption of the euro. GDP will be mainly determined by export growth and decreasing interest burden as a result of the introduction of the single currency.

It should be noted that in the evaluation of the country's competitiveness, based on the World Bank Report *Doing Business 2015*, Lithuania ranked 10th among 28 European Union (hereinafter - the EU) Member States, which is a relatively high place.

The National Reform Programme 2015 (hereinafter - the NRP) summarizes the main structural reforms that are under implementation or are planned to be implemented in the effort to achieve quantitative targets of the *Europe 2020* strategy, implementing of the Council Recommendation on the National Reform Programme 2014 of Lithuania and delivering a Council opinion on the updated convergence programme of Lithuania for 2012 - 2016. The document has been drafted taking into account the provisions of the Lithuanian progress strategy *Lithuania 2030*. When planning new measures in the field of structural reforms, the evaluated proposals of the European Commission (hereinafter – EC) to the EU Member States are provided in the *Annual Growth Survey 2015*.

According to the priorities outlined in the *Europe 2020* strategy the Lithuanian progress strategy *Lithuania 2030* and the Programme of the Government of the Republic of Lithuania (hereinafter – the Government) for 2012–2016, the following are immediate priorities of the Government: fostering employment, reduction of unemployment, poverty and social exclusion,

improvement of investments and business environment, assurance of financial sustainability, enhancement of the taxation system, implementation of the multi-annual financial framework 2014–2020 of the European Union, education and higher education reform, creation of electricity and gas markets. In the medium-term period, in order to implement the targets of the *Europe 2020* strategy, the plan is to continue reorganization in the social insurance and energy sectors as well as the health system reform and to further improve business environment and conditions for research and innovation. Support from the EU structural funds will be of particular importance in the implementation of these reforms.

The structure and format of the updated National Reform Programme 2015 has been drafted according to the guidelines published by the EC on 15 October 2013. The NRP 2015 is supplemented with two annexes: Annex 1 National quantitative targets: current situation and projections for 2016 and 2020; Annex 2 Implementation of the Council recommendations for Lithuania within the period of 2014–2015.

II. MACROECONOMIC PERSPECTIVES

The Lithuanian economic development results for 2014 show that Lithuanian exporters manage to successfully cope with challenges and understand the necessity of the diversification of their export markets and the direction of higher export flows to stable markets. The Lithuanian business managed to absorb the impact of the Russian embargo: the export of goods of Lithuanian origin (excluding mineral products) to Russia decreased by EUR 114 million in 2014, while export to other markets increased by EUR 550 million. Export to non-major markets (other than the EU, EFTA and CIS countries) grew by EUR 173 million and completely offset the loss of export to Russia. Thus driven by domestic demand and export the Lithuanian economy increased by 2.9 percent in 2014.

The increasing conflict between Russian and Ukraine as well as mutual sanctions applied by the EU and Russia led to economic development of foreign trade partners important for Lithuania. The Russian economy is planned to experience recession in 2015, and slower development of economies of other CIS countries is projected this year. The risk related to lower prices of natural resources also materialized.

Having assessed the changed preconditions of the external environment, the development of the Lithuanian economy is planned to slow down to 2.5 percent in 2015. However, the increased foreign demand and favourable monetary policy conducted European Union-wide will result in a consistent economic growth since 2016: in 2016, GDP will grow by 3.2 percent, in 2017 - by 3.5 percent and in 2018 - by 3.9 percent.

Annual deflation of 0.1 percent recorded in December 2014 increased to 1.4 percent in January 2015, and it reached 1.8 percent in February. In light of these changes, the average annual inflation in Lithuania is forecasted to be negative in 2015 as a result of falling energy prices, and will account for 0.4 percent. In 2016, with a gradual recovery of prices of energy products, increasing demand and price level in the main Lithuania's export market - the European Union, the average annual inflation will account for 1.7 percent in 2016. Given the presumption of stable prices of energy products, a moderate acceleration of inflation accompanied by increasing demand for workforce and trends of growing level of wages, moderate acceleration of inflation is planned in 2017–2018.

Low prices in the domestic and foreign markets, decline in corporate profits (gross operating surplus and mixed income fell by 0.8 percent in 2014) shows that the growth of wages should slow down in 2015. However, the demand for skilled workforce and limited availability thereof will lead to growing pressure to increase wages in later medium-term years. Thus, wages will experience a gradual growth throughout the entire medium-term period: in 2015, it will be 4.8 percent, in 2016 - 5.3 percent and in 2018 - 6.2 percent.

The planned improving economic condition of the European Union Member States and reforms in the labour market undertaken in recent years will contribute to increasing employment and reducing unemployment, thus the situation in the labour market will gradually improve in the medium-term period. The number of the employed will increase by an average of 0.7 percent per year in 2015–2018, while the level of unemployment will experience a gradual reduction: it will account for 9.9 percent in 2015, 9.1 percent in 2016, 8.1 percent in 2017 and 7.1 percent in 2018.

III. IMPLEMENTATION OF COUNCIL RECOMMENDATIONS FOR LITHUANIA

When preparing the recommendations, the EC assessed the National Reform Programme 2014 of Lithuania and its Convergence Programme for 2014*. Not only fiscal, social and economic policy of Lithuania, but also the compliance with the EU rules and guidelines was evaluated, since the implementation of national measures will allow reaching common EU targets as well. 6 recommendations prepared by the EC for Lithuania regarding its economic policy and structural reform for 2014-2015 were approved by the European Council on 26-27 June 2014.

This section presents the measures planned and those being implemented, which are aimed at the implementation of the Council recommendations for Lithuania within the 2014–2015 period.

* For more information: http://ec.europa.eu/europe2020/pdf/csr2014/swd2014_lithuania_en.pdf

3.1. Fiscal Discipline and Taxation Policy

Recommendation 1:

Reinforce the budgetary measures for 2014 in the light of expenditure growth exceeding the benchmark and the emerging gap of 0.3percent of GDP in terms of structural effort based on the Commission services 2014 spring forecast, pointing to a risk of significant deviation relative to the preventive arm of the Stability and Growth Pact requirements. In 2015, strengthen the budgetary strategy to ensure the required adjustment of 0.5 percent of GDP towards the medium-term objective. Complement the budgetary strategy with a further strengthened fiscal framework, in particular by ensuring binding expenditure ceilings when setting the medium-term budgetary framework. Further review the tax system and consider increasing those taxes that are least detrimental to growth, such as recurrent property and environmental taxation, while continuing to improve tax compliance.

Reinforcing fiscal policy and implementing the budgetary strategy

In order to strengthen the fiscal framework, the Constitutional Law on the Implementation of the Fiscal Compact was adopted and the budgetary policy control authority was established in 2014. The Law lays down the provisions governing the fiscal discipline of the governmental sector and fiscal rules, the compliance wherewith would ensure that Lithuania achieves the medium-term objective and adheres thereto later on. The implementation of the provisions of this Law will ensure sustainability of finances of the governmental sector, contribute to economic development and implement the Treaty on Stability, Coordination and Governance in Economic and Monetary Union of 2 March 2012.

More detailed information on finances of the government and medium-term prospects is available in the Lithuania's Stability Programme for 2015.

Strengthening the tax system and tax administration

Gradually reviewing the tax structure, the base of taxes least detrimental to growth has been expanded. In 2014, having adopted amendments to the Law on Immovable Property Tax, the base of immovable property tax has been expanded since 1 January 2015. It was done by setting a lower tax-exempt amount (EUR 220 000) applicable to immovable property owned by natural persons for their personal use and setting a lower immovable property tax rate (of 0.5percent instead of the previously valid 1percent) applicable to the said property.

As the Law on Land Tax of the Republic of Lithuania took effect as from 2013, based on which the procedure for calculating land tax was changed, also a 5-year transitional period was established for applying increased land value. A land tax for land plots, whose value is greater than the value applied in calculating a land tax for 2012 was increased. For year 2014, the tax was calculated of the value of land greater by 20percent than in 2013, while for year 2015 - of the value of land greater by 20 percent than in 2014.

In 2014, the Law Amending the Law on Environmental Pollution Tax of the Republic of Lithuania was adopted, whereby a tax for environmental pollution with landfilled waste (a landfill tax) will be introduced from 2016 with the aim to encourage the installation of new waste management technologies (sorting, recovery, recycling), to reduce the amount of waste disposed of in landfills and to collect funds for the creation and development of waste management system.

Since 1 March 2014, excise duties on cigarettes, cigars, cigarillos and other smoking tobacco, and since 1 April 2014 - on ethyl alcohol and other alcoholic beverages - have been increased.

In order to continue improving tax compliance, preconditions for “shadow economy” have been decreased, control efficiency and traceability of potentially illegal transactions as well as transparency and reliability of financial transactions has been increased, also, expecting to reduce chances of tax evasion and allow for a more efficient collection of taxes.

To this end, the following drafts were presented to the Seimas of the Republic of Lithuania (hereinafter - the Seimas):

- Law Amending the Law on Excise Duty establishing a more efficient mechanism for levying of excise duty on lubricant oils, which can be used as motor fuel;
- Law on Restriction of Payments in Cash establishing restrictions on payments in cash (up to EUR 5 000 for natural persons, who are not engaged in any economic-commercial activities, and up to EUR 3 000 for other persons);
- Amendments to the Law on Tax Administration, aimed at optimizing the processes of the provision of information necessary for identifying undeclared income and unjustified sources of acquisition of property, setting a tax obligation and ensuring the compliance therewith, and cooperating with tax administrations of other countries;
- Amendment to the Law on Value Added Tax (hereinafter – VAT), enshrining a joint and several liability in cases of unfair non-payment of VAT and establishing measures to combat illegal VAT evasion and abuse of VAT exemptions more efficiently.

Amendments to the resolution of the Government were made establishing additional cases when the tax administrator can demand risky taxpayers to submit a guarantee document, thus assuring additional preconditions for ensuring tax compliance.

Amendments to the Law on Value Added Tax of the Republic of Lithuania were made, in accordance with which a taxable person, a VAT payer, at the order of whom construction works are carried out, must withhold and pay VAT to the budget since 1 July 2015, seeking for a more efficient VAT collection in the state budget in the construction sector.

In the area of practical tax administration, the State Tax Inspectorate (hereinafter - the STI) has implemented the consolidated strategy for the assurance of tax compliance of and tax collection from taxpayers for 2014-2017. Complex measures aimed at promoting voluntary tax payment as well

as ensuring prevention and control of violations of tax laws have been implemented. Given the determined risk, in 2014 and 2015, control priorities include the identification of income from unregistered and illegal activities, cases of possible illicit enrichment, implementation of targeted measures for the prevention of fraud, undue application of 0percent VAT rate and the control of meeting private needs at corporate expense.

The fight against “envelope wages”, smuggling and illegal possession of excise goods will remain priority areas. It should be additionally noted that the Government of the Republic of Lithuania consented to the deployment of the latest technology solutions-based tax administration information system (Smart Tax Administration System) in the State Tax Inspectorate.

3.2. Implementation of a Comprehensive Pension Reform

Recommendation 2:

Adopt and implement legislation on a comprehensive pension system reform. In particular, align the statutory retirement age with life expectancy, restrict access to early retirement, establish clear rules for the indexation of pensions, and promote the use of complementary savings schemes. Underpin pension reform with measures that promote the employability of older workers.

A comprehensive pension system reform is implemented in compliance with the reform guidelines adopted by the Seimas. Schedule for the preparation of legislation necessary for the implementation of the pension reform was approved by the Government in the Programme Action Plan 2012-2016. In accordance with this plan, proposals on the pension system reform must be presented to the Seimas by 2nd half of 2015.

Because of the implementation of the Law of the Pension Reform System, from 2016 those residents accumulating funds in the 2nd pillar of the Pension Funds, will be allocated 2 percent of last year’s employee’s average monthly gross wage medium. This will be the allowance from the state budget. In comparison, the allowance from the state budget amounted to 1percent of the medium in 2015.

In the implementation of the project of the development of the social model of Lithuania, a new draft Law on State Social Insurance Pension was drawn up. This draft is aimed at creating a pension system, which would be more financially sustainable, reliable and transparent. The draft provides for:

- establishing a clear indexation based on clear criteria taking into account both economic conditions and demographic indicators (indexation based on the average changes in the wages fund for 3 past and 3 forecasted years);

- gradually increasing the requirement for the obligatory record for the awarding of pension from 30 to 35 years;
- after 2026 increasing retirement age in line with increasing future life expectancy;
- separating the financing of the general and individual parts of state social insurance pension: to finance the individual part of state social insurance pension dependent on contributions from the social insurance fund and the general part of state social insurance pension - from the state budget.

Upon the implementation of all the above measures, in the long-term (2060), pension costs could decrease from 7.8 percent of GDP (in case of non-implementation of the reform) to 4.2 percent of GDP.

In accordance with the schedule set forth in the Law on State Social Insurance Pensions, retirement will be delayed till 2026, when the retirement age of both men and women will reach 65 years. Retirement age is increasing faster than the average expected life expectancy is increasing.

The Law on Early Payment of State Social Insurance Old-age Pensions establishes that an early old-age pension can be awarded only to those persons, who have no more than 5 years remaining to the statutory retirement age, they have acquired the state social pension insurance record of at least 30 years and do not have any labour relations-related income, or do not receive any other pension benefits. The law also provides for the fact that an early old-age pension shall be calculated in the same manner as an old-age pension and decreased by 0.4 percent for each full month remaining till the retirement age. This reduction shall apply till both reaching the retirement age and afterwards.

The new draft Law on Social Insurance Pensions drawn up in the implementation of the project of the development of the social model of Lithuania provides for the following amendments to the award and payment of early old-age pensions:

- the proposal has been made to award and pay early old-age pensions no longer than 3 years remaining till the retirement age;
- the proposal has been made to tie the reduction of early old-age pension with increasing average life expectancy. The application of an identical linkage has been proposed for the deferred pension as well - it has been proposed to establish the increase of pension to the extent of an increase of the average life expectancy instead of the currently valid percentage increase in case of deferred pension.

The Action Plan for the Implementation of the Strategy of National Demographic (Population) Policy for the Welfare of Families for 2014-2015 has been implemented. The Action Plan lays down measures contributing to increasing the employability of older workers and improving wellness of older people. Actions provided for in the Action Plan of the Programme for

Increasing Employability for 2014-2020 will also significantly contribute to increasing employability of older workers.

Amendments to the Law on Support for Employment took effect on 1 September 2014. They are aimed at encouraging employers organizing the measure of support for the acquisition of professional skills to retain older employees (50 years of age and older) in cases when they train newly hired young people (up to 29 years of age) compensating more expenses than for other persons.

Planned works in 2015:

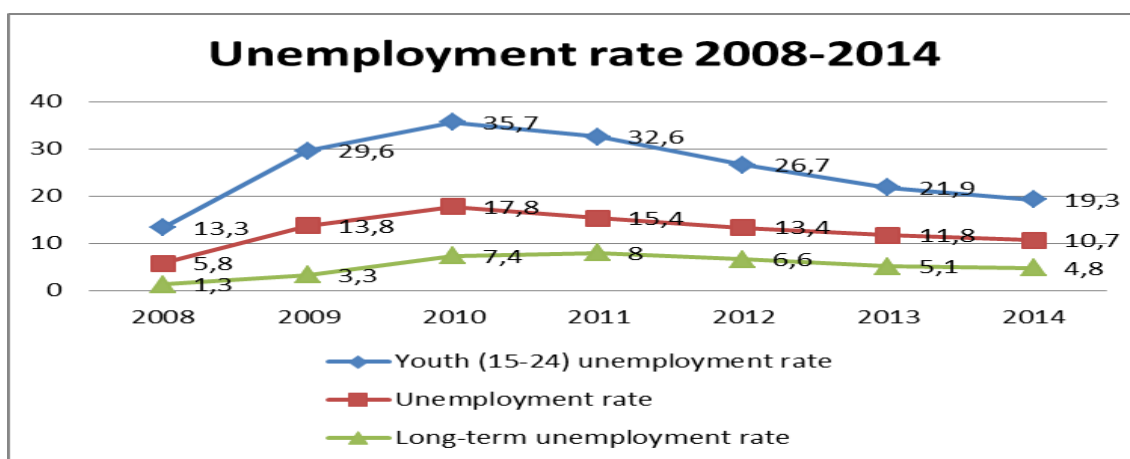
- To draw up draft legislation necessary for the implementation of the pension system reform by the 2nd of 2015;
- To continue the preparation of the action programme for the EU structural support for active ageing.

3.3. Reducing Unemployment

Recommendation 3:

Better target active labour market policy measures to the low-skilled and long-term unemployed. Improve coverage and adequacy of unemployment benefits and link them to activation. Address persistent skills mismatches by improving the labour-market relevance of education inter alia based on skills forecast systems and promote lifelong learning. In order to increase the employability of young people, prioritise offering quality apprenticeships, other forms of work-based learning, and strengthen partnership with the private sector. Review the appropriateness of labour legislation, in particular with regard to the framework for labour contracts and for working time arrangements, in consultation with social partners.

The downward unemployment rate of residents of all age groups has prevailed in the Lithuanian labour market. In 2014, the unemployment rate accounted for 10.7 percent and was 1.1 percentage point lower than in 2013. The unemployment rate of men was 12.2 percent and that of women - 9.2 percent in 2014. During the year, the unemployment rate of men decreased by 0.9 percentage point and that of women - by 1.3 percentage point. The unemployment rate of youth (15-24 years of age) accounted for 19.3 percent in 2014 and was 2.6 percentage points lower than in 2013. Long-term unemployment rate accounted for 4.8 percent in 2014, and was 0.3 percentage point lower compared to 2013.



Better target active labour market policy measures to the low-skilled and long-term unemployed

Long-term and low-skilled unemployed are attributed to a target group of persons receiving additional support in the labour market.

On 1 August 2014, the implementation of projects funded from the EU structural funds and the state budget of the Republic of Lithuania was started:

1. The aim of the project for improving competences of unskilled persons is to increase motivation of unskilled unemployed registered with local labour exchanges to find employment, help them tackle emotional, personality and communication problems hindering their employment, help them acquire or improve their skills or acquire competences or missing professional skills directly in the workplace, also, integrate in the labour market and establish themselves therein. The duration of the project is 30 months. The total value of the project during the 2014-2016 period is EUR 35.35 million, of which EUR 8.6 million is funds from the state budget. During the implementation of the project, about 14 000 unskilled unemployed registered with local labour exchanges will participate in project activities. Vocational training, non-formal education programme, the measure for consulting and career guidance of the unskilled unemployed and supported employment measures will be implemented during the project. These measures support for the acquisition of professional skills and job rotation.

2. The aim of the project for the support for the employment of long-term unemployed is to help long-term unemployed and people who have stayed out of work for a long time registered with local labour exchanges integrate into the labour market and stay therein. The duration of the project is 30 months. The total project value in 2014-2016 is EUR 18.14 million, of which EUR 4.42 million will be allocated from the state budget. More than 10 000 long-term unemployed and persons having stayed out of work for a long time, registered with local labour exchanges will participate in project activities. Participants will be directed towards the measures for vocational training, support of the

acquisition of work skills, subsidized employment and support of territorial mobility of the unemployed.

Planned works in 2015:

- Application of complex active labour market policy measures, which will allow the unemployed to faster find employment, and provide the employer with the possibility to find the employee having the required skills, for example, to apply the measure for acquiring job skills having completed a vocational training course, by acquiring the missing skills in the workplace.
- Creating possibilities for integrating into the labour market more unemployed from regions (for example, a new measure - support for mobility aimed at compensating increased expenses of a person due to the necessity for his traveling to the workplace).
- Setting new forms of support for learning, such as apprenticeship, on-the-job training contract, internship and vocational training, which will help the unemployed to acquire skills, competences and find employment as well as gain professional practice.

Increasing the coverage and adequacy of unemployment benefits and the linkage thereof to activation measures

Starting from 2015, the maximum amount of unemployment social insurance benefit was restored to the level of 2009, i.e. EUR 301.67, and is currently of the same amount as the minimum monthly wages. According to preliminary data, the unemployment social insurance benefits were paid to 40.923 persons (24 percent of all unemployed).

After the adoption of amendments and supplements to the Law on Support for Employment on 10 July 2014, two new voluntary measures - the acquisition of work skills under bilateral agreements and voluntary practice - were enshrined for young people up to 29 years of age. By participating in these measures, young people do not get any compensation, but are covered by compulsory health insurance, social insurance against accidents at work and occupational diseases from the state funds. Moreover, if they are registered with the local labour exchanges, participants retain the right to receive an unemployment social insurance benefit during the implementation of the measure, if such benefit was allocated to them.

Amendments to the Law on Unemployment Social Insurance established an obligation to the unemployed to repay unemployment social insurance benefits, if they were working illegally and received a salary for that as from 1 January 2015.

Planned works in 2015:

- To change the rate of unemployment social insurance benefits. The proposal is to increase the unemployment benefit during the initial unemployment period (up to 50 percent of wages in the first three months) and to reduce it for those, who have not found employment for a longer period of time (up to 9 months; a benefit would no longer be paid altogether later on). Such a measure is aimed at encouraging the unemployed to search for another job as soon as possible, ensuring adequate income in the short term, so that persons having earned a higher income and respectively paid higher contributions would get an appropriate social insurance return.

Address persistent skills mismatches by improving the labour-market relevance of education inter alia based on skills forecast systems and promote lifelong learning.

The Specialist Qualifications Map is being drawn up with the aim to determine the need for specialists and their prospects in the labour market. Also to determine study and training programmes, that provide the most prospective graduates. Measures, which will allow periodic collection and evaluation of data on the linkage between the qualifications of specialists to jobs, were under implementation in 2014:

- A draft Law on Education, which constitutes a legal framework for obtaining and collecting data necessary for the Specialist Qualifications Map, was drawn up and presented for approval;

- The agreement was reached that data collected from various sources of data (the State Social Insurance Fund Board (SODRA), the State Tax Inspectorate (STI), the Lithuanian Labour Exchange, the Residents' Register, the Register of Diplomas and Certificates, etc.) on the progression, education, career, migration, etc. of the employed persons in Lithuania will be stored in the education management information system. Data source interfaces were designed: a) the education management information system was prepared for retrieving data from SODRA; b) the Register of Diplomas and Certificates was supplemented with data from 1995; c) data for 4 years were obtained from SODRA for conducting an initial analysis; d) an interface between the education management information system and the Research and Higher Education Monitoring and Analysis Centre was designed;

- A one-time initial analysis of the specialist qualification demand was conducted in 2014. It shows the rate of employment of graduates of 2012 and 2013, their wages rate, comparing these indicators to the average wages and employment level nation-wide. The analysis results are presented in paragraph 4.4.

Professional standards of 5 different sectors (architecture and construction, accommodation and catering, information technology and communications, transportation and storage services as

well as the energy sector) and 40 modular vocational training programmes were prepared in 2014. Also, an external evaluation of vocational training programmes was started in 2014, at the time of which the implementation of most popular programmes in all vocational training institutions will be evaluated. The evaluation was conducted for 92 programmes.

Development works of the Adult Learning Information System (www.smis.lt) were completed in 2014, a new interactive e-learning service was implemented which was designed to enable the widest possible share of the public to actively participate in continuous learning activities. Each resident is already able to learn about the non-formal learning opportunities - to find a free of charge, professionally prepared training material in various fields and to test the knowledge acquired.

The participation in the Programme for the International Assessment of Adult Competencies (PIAAC) was started. The results of the Programme will allow to better target non-formal education and training programmes.

In 2014, a Methodology for Matching Subgroups of the Lithuanian Classification of Occupations with Study and Training Programmes was developed. A matching of study and training programmes with groups and subgroups of occupations presented in the Lithuanian Classification of Occupations will be conducted, thus allowing determining whether a person has found employment in line with his acquired qualification.

Following the best practice of the State Employment Service of the Republic of Finland in the field of forecasting of the labour market, the Lithuanian Labour Exchange updated the annual methodology for forecasting the needs of the labour market and drew up on the basis whereof a significantly expanded *Barometer on Employment Opportunities 2015*, which covers 155 groups of occupations and better reflects the structure of the Lithuanian labour market. An interactive map of demand of 155 groups of occupations was developed on the basis of this barometer, which presents a forecasted situation of supply and demand of a specific group of occupations across different municipalities.

Planned works in 2015:

- To draw up school- and national-level recommendations for improving the quality and efficiency of vocational training based on conclusions of the external vocational training programme evaluation.
- In the development of the Specialist Qualifications Map a decision was made to:
 - install interfaces with databases of SODRA, the STI, the Lithuanian Labour Exchange and the Residents' Register, which will allow transferring to the ongoing monitoring of graduates' careers;
 - draw up the analysis of the linkage of specialist qualifications to jobs;

- match study and training programmes with the groups of occupations presented in the Lithuanian Classification of Occupations allowing to determine the employment of a person in line with his acquired qualification, and to conduct expert testing and evaluation of the matching of the groups of occupations listed in the Lithuanian Classification of Occupations with study and training programmes.

Quality apprenticeships and other forms of work-based learning

Draft legislation governing vocational training was drawn up in 2014 with the aim to improve the current regulation of the form of organization of apprenticeships:

- Draft amendment to the Description of the Procedure for Formal Vocational Training (supplementing the Description with the concepts of an apprentice and master, establishing the organization of apprenticeship training in the initial and continuous vocational training and the execution of apprenticeship when a training organizer is a business company or a licenced vocational training provider);

- Draft amendment to the Rules of Licensing Formal Vocational Training (the aim of the amendment is to waive the requirement for natural persons willing to engage in formal vocational training to reside in the Republic of Lithuania, to seek to speed up the issuance of licenses and to propose to combine procedures conducted by two institutions. The procedures include the performance of expert examination, i.e. an advance evaluation of the preparation for the execution of a training programme (programmes) and the issuance of a license, to reduce the time for obtaining the license to 30 days (instead of the previous 90 days). A person seeking to obtain a license is provided with an opportunity to address the licensing authority once and to submit one application thereto on the assessment of the compliance with the set requirements and the issuance of the license;

- Draft Description of the Procedure for Formal Programme Preparation (the Description governs the preparation of modular programmes aimed at acquiring I-V-level qualification of the Lithuanian Qualifications Framework);

- A revised Description of the Procedure for the Evaluation of Competencies Acquired by an Individual was approved in January 2015, simplifying the procedures for the evaluation of competencies and governing the possibilities for formalizing competencies acquired in a way of non-formal or informal learning.

The EUF pilot project *Vocational Training through Apprenticeship Form in the Labour Market Training Centres* has been implemented in 2013 - 2015 for testing apprenticeship form and drawing up respective recommendations, which will help assess the most suitable model for organizing and funding apprenticeship in Lithuania. The plan is to train 900 persons (granting

priority to youth) in five labour market training centres; more than 95 percent of them were trained in 2014.

6 cooperation contracts were signed with associated business structures in 2014; they agreed to cooperate in resolving issues related to legal regulation and organization of vocational training, in order to meet the needs of the labour market, practical and vocational training through apprenticeship vocational training organization form and vocational guidance.

A pilot project *Apprenticeship - an Opportunity for the Development of Export* is under implementation. This is a dual training model-based consulting project encouraging companies themselves to invest in the training of a skilled employee. During the project, companies are advised on the demand for employees holding certain competence in the company, recruitment and selection of employees, application of apprenticeship and other issues relevant to companies.

The development of work-based practical training is sped up allowing students of vocational training institutions to acquire practical learning skills in sectoral practical training centres; 23 of such centres have been opened up since 2010 (with 16 centres opened in 2014).

Planned works in 2015:

- To prepare in cooperation with experts of the European Centre for the Development of Vocational Training (CEDEFOP) a comprehensive overview of apprenticeship development possibilities in Lithuania. Also prepare the action plan for increasing work-based vocational training in Lithuania as well as for the implementation of an apprenticeship model;

- To continue the works of the activities provided for in the agreement on funding and administration of the project *PE Vilnius Jeruzalės Labour Market Training Centre*. To finish training the remaining persons of 900 people trained in the apprenticeship form (giving priority to youth), draw up tripartite agreements for training in the form of apprenticeship, also, to prepare a set of recommendations for the apprenticeship implementation and development guidelines for the organisation of this form of trainings. The aim of the preparation of these recommendations is to create sets of legally valid and effective recommendations, which would help develop the apprenticeship quality management system.

Review of the appropriateness of labour legislation, in particular with regard to the framework for labour contracts and for working time arrangements.

In June 2014, the Law Amending Articles of the Labour Code of the Republic of Lithuania was adopted with regard to waiving labour contract registration and work certificates, simplification of the completion of work time sheets considering the possibility to present pay slips electronically,

thus reducing administrative burden on business. Procedure for the recruitment of employees was simplified by waiving the registration of labour contracts and work certificates.

In the implementation of a project for the development of the Lithuanian social model, a new draft Labour Code governing labour relations was drawn up. The draft Labour Code provides for the expansion of the diversity of labour contracts introducing such types as design employment contracts, work-based training contracts, labour contracts for unforeseen volume of work, employee-sharing contracts, job-sharing contracts, etc. The liberalization of the conclusion of fixed-term labour contracts is proposed - businesses could hire employees under fixed-term employment contracts much more often than they do now, however, in such a case employers would have to pay a higher unemployment social insurance contribution for an employee working under a fixed-term employment contract.

Also, the proposal is to transpose the restrictions on the dismissal and guarantees from the Labour Code into the national collective bargaining agreements, wherein employers will be able to agree with employees on more flexible labour relations beneficial to both parties. The proposal was made to shorten the term for giving a notice of dismissal and to uniform the amount of severance payments as well as to reduce a severance payment period to 1 month, ensuring a more generous unemployment social insurance benefit and a possibility to receive it for a wider range of people.

The draft Labour Code provides for a possibility to give up setting a specific number of working hours per day, leaving a work time standard of 40-hours per week. That way an employer could agree with an employee on an individual schedule for each day.

The draft Labour Code establishes that employees participating in non-formal adult learning programmes should be granted an educational leave of up to five working days per year for participation in non-formal adult learning programmes. Employees whose employment relations with the employer last longer than one year would be left with a salary, leaving half a salary for educational leave lasting for up to twenty working days per working year, unless labour law standards or an employment contract establishes otherwise. That way employees would be granted a possibility to improve their qualification and remain competitive in the labour market.

The plan is to enshrine in the Labour Code the participation of employees in the employer's decision-making process. The proposal is to enable representatives of employees to appoint a part of members of the company's supervisory body, which would have the same rights as other members of this body. Also, the proposal is to enable representatives of employees to participate under the right of an observer or advisor in meetings of collegial management and supervisory bodies of the employer solving issues related to work conditions of the company's employees.

On 24 March 2015, the new draft Labour Code was submitted for consideration to the Tripartite Council of the Republic of Lithuania and discussion of social partners. The plan is to submit the draft to the Government in April.

3.4. Reducing poverty and social exclusion

Recommendation 4:

Ensure adequate coverage of those most in need and continue to strengthen the links between cash social assistance and activation measures.

Ensurance of adequate assistance for those most in need

In the continuation of the cash social assistance system reform, a uniform model for the provision of cash social assistance for the deprived was established in all 60 municipalities in 2015 - the provision, which is funded from municipal budgets, was transferred to municipalities implementing independent function. Since 2015, all municipalities have been obligated to provide assistance to the deprived residents as stipulated in the Law on Cash Social Assistance for Poor Residents adopted on 2 December 2014, under equal conditions, waiving the grounds for the allocation, non-allocation, reduction, etc. of social benefits and compensation in the procedure established by municipal councils. Municipalities have been granted this discretion only in cases when a social assistance is allocated in other cases unprovided by laws. The Law also establishes that municipalities shall first of all use municipal budget funds unused for cash social assistance for funding other social assistance. The use of these funds is subject to monitoring.

The development of open youth centres and spaces has been continued with the aim to increase motivation of young people for better integration into the labour market. The plan is to provide motivation services and employment opportunities to young people in open youth centres and spaces, also to establish new or renovate the existing open youth centres and spaces.

Planned works in 2015:

- To establish or renovate 8 open youth centres and 5 children day centres with an open youth space, and to provide therein services to young people. In 2014, the Department of Youth Affairs funded 33 open youth centre/ space programmes. In the implementation of those programmes 15.6 thousand 14-29 year-olds were provided with services of motivation, development of basic skills, inclusion into the public benefit activities as well as services of individual socio-educational counselling. 0.8 thousand of these people were unemployed, not engaged in any learning or training activities, of which 205 (25.1 percent) were integrated into the labour market or education system and 127 (15.5 percent) registered with the labour exchange;

- To draw up an action plan for the use of funds from the European Regional Development for the development of social housing fund of municipalities. Municipalities are expected to start preparing draft proposals (along with investment projects) starting from December 2015.

Continued strengthening of the links between cash social assistance and activation measures

Compared to 2013, the number of recipients of social benefits decreased by 26.3 percent in 2014, i.e. from 190 thousand to 140.1 thousand people. It should be noted that such significant decline is directly related to the country's economic recovery, application of labour market measures to working people of working age and directing municipal actions towards more accurate allocation of cash social assistance.

According to the data of the Lithuanian Labour Exchange, out of all 52.7 thousand recipients of social benefits registered with local labour exchanges, 76.6 percent found employment or received activation measures in the labour market in 2014. Moreover, a new measure provided for in the law governing the provision of cash social assistance played an important role as one of incentives for more active integration of the recipients of social benefits into the labour market. This measure is a possibility for a long-term recipient of a social benefit to additionally receive the allocated social benefit for another 6 months in the amount equal to 50 percent of the benefit paid before finding employment. According to the data of municipalities, compared to 2013, the number of long-term recipients of social benefits, the employment of whom required the allocation of additional social benefit, increased by 22.3 percent in 2014.

In order to promote financial interest of social benefit recipients to find employment and remain in the labour market, municipalities have been provided with the right to also allocate social benefits in cases when the family income of a person (family) exceeds the state-supported income level enshrined in the law. Since 2015 the level of personal income has been increased from 20 to 50 percent of the state-supported income amount (to EUR 51), when, having assessed living conditions of a person or a family, municipalities are entitled to allocate social benefits in an exceptional procedure. For example the family's income increases upon the employment of a family member, thus losing the right to receive a social benefit in the general procedure prescribed by law. Also, conditions for receiving a cash social assistance for self-employed have been simplified.

The recruitment of employable persons of working age who are unemployed or employed, given the duration of the working time or the activity, persons of working age who are out of school, who receive a cash social assistance and do not participate in active labour market policy measures, to engage them in public benefit activities has been continued. Public benefit activities are small-scale services beneficial to the public, which residents living in municipal area perform for the well-

being of the community. The aim of these activities is to encourage residents to actively contribute to the creation of the well-being of the community, to increase their initiative and work motivation. The existing professional readiness, personal skills, hobbies and other features of a person are considered in the organization of these activities. In the procedure prescribed by laws, these activities cannot exceed 40 hours per month. It should be noted that a social assistance recipient can refuse to participate in public benefit activities. However, even if a person refuses to engage in public benefit activities organized by the municipality for no valid reason, his family will not be left without assistance, i.e. the provision of the assistance is terminated only for employable adults of working age, but the payment of social benefits is continued to children in these families. It is also important to note that pursuant to the provisions of the Law on Health Insurance of the Republic of Lithuania, all the recipients of social assistance, i.e. persons hired for public benefit activities, are covered by compulsory health insurance.

As previously mentioned, the number of recipients of social assistance decreased as a result of the employment of employable persons of working age and their participation in active labour market policy measures. Also due to active municipality actions in better targeting cash social assistance.

When solving issues related to the provision of assistance, analysis of individual cases has been widely applied. According to the data of 2014, 16.2 percent of all recipients of social assistance left the social assistance system for the following reasons: income and/or assets of persons, who are employed and receive social assistance, increased; they failed to inform about the changed financial status (received income), family composition, concealed their employment; they refused to enable social workers to check their living conditions; they transferred their assets or improved living conditions and failed to inform about that; information was received about received illegal income or undeclared (illegal) work.

In order to increase the coverage of assistance for persons who need it the most, in 2014, municipalities granted additional social assistance from their budget funds to 188.4 thousand persons.

Planned works in 2015:

- Upon the end of the cash social assistance system reform, to continue monitoring the implementation of legal regulation to strengthen the cooperation between local authorities and Labour Exchange Offices and to further strengthen the links to activation measures in order to ensure the provision of assistance for persons with the highest need. This will be done by continuing the payment of the additional social assistance share for long-term social assistance recipients, etc.

3.5. Implementation of the Reform of State-Owned Enterprises (SOEs)

Recommendation 5:

Complete the implementation of the reform of state-owned enterprises as planned; in particular by finalising the separation of commercial and non-commercial activities, further professionalising executive boards and closely monitoring compliance with the requirements of the reform.

Amendments to the Law on State and Municipal Companies establishing a possibility to elect both public officials and other natural persons to members of the board of state companies (independent board members) were adopted in 2014. These amendments are expected to help increase the competencies, independence and motivation of boards of these companies.

In 2014, the Governance Coordination Centre (GCC) drew up 4 summative interim SOE activity reports and one detailed annual SOE activity report for 2013. The GCC presented the first study of special obligations and report on financial indicators of SOE special obligations in 2014 along with the annual SOE activity report for 2013. Also, in 2014, the GCC prepared a SOE strategy assessment report as well as SOE strategy implementation report analysing on how the companies managed to achieve the targets set in their strategies.

Planned works in 2015:

- To continue periodical preparation of summary reports on SOE activities and the results thereof, annual reports on the implementation of company strategies and to present recommendations on the improvement of activities of state-owned enterprises to institutions representing the state;
- To establish a procedure for selecting members of the board of state companies in accordance with which the appointment of independent board members to boards will be possible.

3.6. Increasing Energy Efficiency of Buildings and Competitiveness of Energy Networks

Recommendation 6:

Step up measures to improve the energy efficiency of buildings, through a rapid implementation of the holding fund. Continue the development of cross-border connections to neighbouring Member States for both electricity and gas to diversify energy sources and promote competition through improved integration of the Baltic energy markets.

Increasing energy efficiency of buildings through the implementation of the holding fund.

In the continuation of the implementation of the new funding model for renovation (modernization) of multi-apartment buildings, in 2014:

1. 3 404 investment projects were prepared and approved;
2. 989 contracts on construction contracting works were concluded, the total sum of investments whereof amounts to more than EUR 200 million;
3. financial institutions signed 729 agreements on the loans for renovation of multi-apartment buildings for EUR 159.8 million. Funding was approved for 1578 projects in the amount of EUR 231.2 million.

According to preliminary data of 2014, the estimated heat energy consumption in multi-apartment buildings built in accordance with technical construction standards valid in 1993 have been reduced by about 270 GWh since 2005. The plan was to reduce it by 211 GWh).

The Programme for Improving Energy Efficiency of Public Buildings was approved in November 2014. It provides for the renovation of the area covering at least 700 thousand square meters of these buildings by 2020 and the reduction of their heating costs by at least 20 percent. 700 thousand square meters comprise of 470 thousand square meters of central government buildings and 230 thousand square meters of municipal public buildings.

Planned works in 2015:

- To implement renovation (modernization) projects of at least 550 multi-apartment buildings reducing energy consumption of renovated (modernized) buildings by about 50 GWh. The plan is to have the estimated heat energy consumption in multi-apartment buildings built in accordance with technical construction standards valid in 1993 reduced by about 277 GWh in 2015.

- To coordinate the implementation of the Programme for the Renovation (Modernization) of Multi-Apartment Buildings; to revise legislation in order to ensure proper management of the modernization process and the quality of the performed works;

- To create a funding mechanisms of projects for increasing energy efficiency of public buildings owned by the state or municipalities under the right of ownership or trust under the Programme for Improving Energy Efficiency of Public Buildings.

Promoting the development and competition of energy networks by improving connections to other Member States for both electricity and gas

In December 2014, a liquefied natural gas (hereinafter - the LNG) terminal was launched in the southern part of the Klaipėda Seaport; here liquefied natural gas is accepted, stored, gasified and supplied to the gas distribution pipeline. The LNG terminal started its commercial activities on 1 January 2015.

Syderiai geological structure surveys and reservoir modelling works were conducted; also, a cost-benefit analysis was additionally performed, which was presented together with geological

survey results in the meeting of the Government held on 5 November 2014. The survey results confirmed the fact that Lithuania has all the necessary conditions for the installation of an underground natural gas storage facility. The economic evaluation showed that most beneficial implementation of the project would be by attracting EU support funds for its financing and using the storage for enhancing energy security of the entire region, by setting up a storage facility, which will hold the volume of approximately 1 billion cubic meters, including a 500-million cubic meter gas “cushion”.

Planned works in 2015:

- To build electricity interconnection with Poland (LitPol Link) and Sweden (NordBalt). The length of the LitPol Link electricity interconnection will be 163 km, 51 km of which will run in Lithuania. At the end of 2015, the interconnection will supply up to 500 MW of electricity. The length of the 700 MW NordBalt interconnection will be about 450 km, 400 km of which will be laid on the bottom of the Baltic Sea. Upon the construction of power bridges with Sweden and Poland, Lithuania will become the best connected energy system in the Baltic Sea region. Lithuania will have 16 interconnections, including the LitPol Link and NordBalt, while technical possibilities for transferring electricity between Lithuania and its neighbouring countries will be more than double. Projects of LitPol Link and NordBalt interconnections are developed according to the planned schedules. In the implementation of these cross-border interconnection projects, environmental impact assessments have been conducted, special plans have been approved, contractors for the performance of main works have been selected, designs have been drawn up, construction permits have been obtained and construction works are currently under implementation;

- On 5 December 2014, the Baltic Prime Ministers confirmed in the meeting of the Baltic Council of Ministers that the synchronization of the Baltic countries with the networks of continental Europe must be achieved by 2025 through interconnections between Lithuania and Poland. At the same time they urged the responsible Ministers of the Baltic countries to take the necessary action. On 14 January 2015, the Ministers of the Baltic countries responsible for energy signed a Declaration on Security of Energy Supply. They agreed that in 1st half of 2015 the Baltic countries will prepare and start implementing a special action plan and will seek to resolve key issues related to further necessary political, financial and third party-related agreements;

- To build the second line of the gas distribution pipeline Klaipėda – Kuršėnai by December 2015.

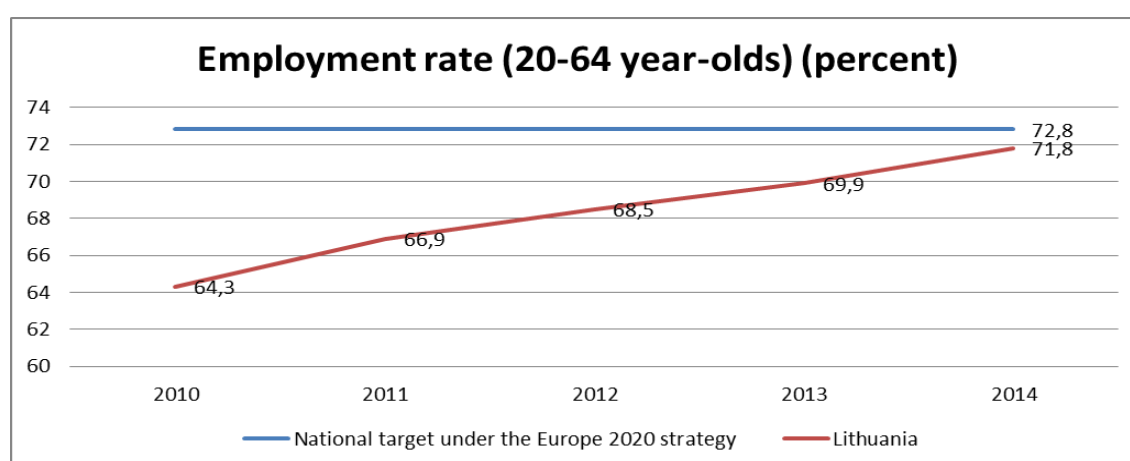
IV. IMPLEMENTATION OF THE TARGETS OF THE EUROPE 2020 STRATEGY

4.1. Increasing Employment

EU 2020 target	National target	Current situation in Lithuania
Employment rate of 75 percent of the 20-64 year-olds	Employment rate of 72.8 percent of the 20-64 year-olds	Employment rate of 71.8 percent of the 20-64 year-olds

Lithuania made progress seeking for the national employment target of the *Europe 2020* strategy – to achieve the employment rate of 72.8 percent of the 20-64 year-olds. During the year, the employment rate of 20-64 year-olds increased by 1.9 percentage points and accounted for 71.8 percent in 2014.

Implementation of the Europe 2020 national employment target



In 2014, the employment rate of both men and women of all age groups was the highest in the last 5 years. The employment rate of 15-64 year-olds increased by 2 percentage points in 2014 and accounted for 65.7 percent. The employment rate of 15-64 year-old males increased by 1.8 percentage point and that of 15-64 year-old females - by 2.1 percentage points during the year and accounted for 66.5 and 64.9 percent, respectively. The employment rate of older residents (55-64 years of age) increased by 2.8 percentage points in 2014 and accounted for 56.2 percent.

Implementation of the Youth Guarantee Initiative

In 2014, out of 94.4 thousand of registered young unemployed who are 16-29 years of age participating in the Youth Guarantee Initiative 40.8 thousand persons (43.2 percent of all registered persons) found employment and 14.1 thousand (14.9 percent of all registered people) participated in active labour market policy measures.

During 4 months, the offer of youth guarantees (employment/ participation in active labour market policy measures) was made to 57.5 percent of all participants in the Youth Guarantee Initiative.

Vocational training, supported employment and other measures to promote employment

During 2014, 5 175 unemployed persons and employees who have been notified of their dismissal participated in vocational training measure. Within 3 months after the completion of vocational training course 76.5 percent of vocational training graduates found employment and 89.7 percent were employed within 6 months after the completion of vocational training course.

During the reporting period, 50 213 job seekers took part in supported employment measures. Participants in public works (49 percent) and subsidized employment (45 percent) accounted for the major part of participants in supported employment measures.

24 058 persons participated in the subsidized employment measure. The employment rate achieved in 6 months after the end of funding of the measure accounted for 55.3 percent, while the rate of integration into the labour market totalled 85.1 percent during 6 months.

3 885 persons took part in the measure for the support of acquisition of job skills. 90.3 percent of participants found employment during 6 months of integration into the labour market.

Promoting employment in rural areas

Local employment initiative projects are implemented in high unemployment areas, helping to bring together the efforts of local community and social partners to increase employment of residents of individual areas and to develop local socio-economic infrastructure. In 2014 a total of 83 local employment initiative projects were implemented, of which 42 percent of local employment initiative projects were implemented in villages and small towns. Most jobs (49 percent) were created for youth up to 29 years of age, 21 percent was created for people older than 50 years of age and 8 percent - for long-term unemployed.

In the promotion of the creation and development of economic activities, in 2014, support was provided for activities alternative to agriculture in rural areas under the measures *Diversification into Non-Agricultural Activities*, *Support for the Creation and Development of Business* and *Promotion of Rural Tourism Activities* of the Lithuanian Rural Development Programme 2007-2013. In 2014 a total of 244 applications for support were submitted under the measures for EUR 28 million; support was approved for 113 projects for EUR 14.5 million. In 2014 the support paid for businesses alternative to agriculture amounted to more than EUR 40 million.

In the support of the establishment of young farmers, 461 support application was received under the measure *Establishment of Young Farmers* in 2014 for EUR 17.7 million; the submitted projects are currently under evaluation. In 2014 support paid for the projects of young farmers totalled EUR 1.3 million.

In the promotion of sustainable development of fisheries areas and improvement of the quality of life therein as well as the creation of jobs, the Minister of Agriculture allocated an additional support of EUR 366 721 for the implementation of the development strategies of 6 fisheries regions.

Non-formal education of adults

In 2014, the special targeted grant for funding a pupil's basket remained unchanged, which allowed ensuring the necessary supply of formal adult education in all municipalities.

A tender for financing non-formal adult education programmes was held in 2014. Financing was allocated for 24 institutions providing non-formal adult education services (universities, colleges, educational centres, public institutions, etc.). This instrument of financing allowed 885 persons acquire new general and specific competencies. It enhanced the cooperation of schools of higher education and business companies in the preparation of joint training programmes for employees of various sectors.

The Action Plan for the Development of Non-Formal Adult Education 2014-2016 was approved, establishing new measures for upgrading skills of specialists with higher education to meet the demand of the labour market.

Development of a social model

A more sustainable social model of Lithuania is under development for the first time in the history of Lithuania at the initiative of the Ministry of Social Security and Labour. The aim is to combine four pillars, which would strongly and stably hold the entire social system of Lithuania. The proposed reform/ amendment blocks include more favourable labour relations, higher employment rate, more sustainable social insurance and reduction of poverty.

The new model is planned to ensure for employees adequate guarantees and a possibility to better combine work and family commitments, and create more favourable conditions for employers to hire and retain work force. The aim is to attract more investments and create additional jobs by applying more flexible labour relations.

The plan is to balance state social insurance budget income and expenses and to meet legitimate expectations of contribution payers for transparent and adequate benefits. The balanced state social insurance system budget will allow ensuring a stable reserve for meeting the minimum

social needs in case of a crisis at the same time creating a possibility to expand the circle of the insured thus contributing to poverty reduction in the country.

Planned works in 2015:

- To draw up a draft Labour Code and its accompanying draft legislation;
- To prepare draft legislation governing social insurance: draft Law on the State Social Insurance, draft Law on State Social Insurance Pensions, draft Law on Sickness and Maternity Social Insurance, draft Law on Unemployment Social Insurance and draft Law on Social Insurance of Occupational Accidents and Diseases;
- To draw up draft legislation promoting employment (job creation): draft Law on Employment, draft Description of the Conditions and Procedure for the Implementation of Active Labour Market Policy Measures, draft Description of the Conditions and Procedure for Monitoring the Labour Market and draft Description of the Conditions and Procedure for the Provision of Labour Market Services;
- To amend the process and procedure for setting the minimum monthly wage (MMW). The methodology for setting the MMW will be approved. The expert commission formed in accordance therewith (also in light of recommendations of social partners) would present its proposals to the Government, which would approve the minimum monthly wages and the minimum hourly rate having assessed all circumstances;
- To organize and provide career guidance and motivation services for job seekers. To provide professional counselling and motivation services to persons individually or to groups of people. To improve the accessibility of professional counselling services and the quality thereof, and to apply new counselling measures;
- To implement the Youth Guarantee Initiative and other comprehensive programmes to promote youth employment;
- To implement the inter-institutional action plan for the implementation of the Employment Enhancement Programme 2014–2020 providing for the measures seeking for three main goals – 1. to encourage the creation of jobs and work demand, 2. to increase the matching of skills of workforce with the labour market needs, 3. to integrate free labour resources into the labour market and retain them therein (to support the employment of young, long-term, low-skilled employable persons of working age who are unemployed as well as unemployed persons older than 50 years of age, to increase the participation of the disabled in the labour market);
- Having introduced compulsory pre-school education since 1 September 2015, about 200 pre-school teachers and education support specialists will be employed.

4.2. Increasing Investment in Research and Development

EU 2020 target	National target	Current situation in Lithuania
Increasing investment in R&D to 3percent of GDP	Increasing investment in R&D to 1.9percent of GDP	0.95 percent of GDP (data of 2013)

Lithuania seeks to create innovation, new technologies and qualified human resources-based knowledge economy, create better general and financing conditions of research and development to ensure that innovative ideas were turned into products and services, which would promote growth and creation of new jobs.

In 2013, 10.2 percent more funds were allocated for research and development (hereinafter - R&D) works in Lithuania compared to 2012.

According to the indicators of the Innovation Union Scoreboard 2014, the total innovation index of Lithuania was 0.289 in 2013 (it was 0.280 in 2012). Lithuania falls within the group of moderate innovators. The strengths of Lithuania are its human resources and expenses for innovation unrelated to research and development.

The 2014 – 2017 Action Plan for the Implementation of the Lithuanian Innovation Development Programme 2014 – 2020. It focuses on measures covering the full innovation cycle, in particular technologic development and preparation of products for the market, was approved in 2014.

In order to increase business investment in the development of new products, amendments to the Law on Corporate Income Tax provide for the extension of the income tax relief for companies engaged in investment projects and investing into the essential technological modernization to 5 years starting from 1 January.

In April 2014, the Government approved the Programme for the Implementation of Priority R&D and Innovation Development (Smart Specialization) Areas and their Priorities, distinguishing 20 smart specialization priority areas, setting programme goals, tasks, programme implementation and evaluation criteria of the implementation thereof.

Commercialization and application of science in business

In order to strengthen international competitiveness of the Lithuanian research and enhance the cooperation between science and business, the development of the Programme for the Development of Integrated Science, Studies and Business Centres (Valleys) created in Lithuania will be continued. In 2014, the implementation of 4 projects was completed, while the remaining ones will be finished in 2015. However, clear trends of the use of research equipment obtained through financed valleys in business can already be observed: open access centres (22), businesses are

established, contracts for the performance of research are signed with foreign companies, scientific presentations are made in research centres of famous foreign companies.

In 2014, a research vessel, which is a most state of the art vessel throughout Europe, was built in Klaipėda; the number of graduates from doctoral programmes has increased. The Programme for the Development of Integrated Science, Studies and Business Centres (Valleys) together with measures intended for businesses form a basis for the competitiveness of research and the commercialization thereof through infrastructure developed in Lithuania.

18 new innovative companies were supported under the R&D commercialization measure aimed at supporting technologic spin-offs. It created new jobs, developed or implemented innovative technologies, prepared innovative products and services for the market or submitted a national patent application. A total of 35 new high-tech spin-offs received support in 2012-2014.

A call for drawing up feasibility studies was published in order to encourage research and education institutions to engage in the R&D result commercialization and/or knowledge and technology sharing activities, to create proper conditions for increasing scope of these activities. Financing was allocated for 13 applications (for EUR 349 861). All projects were implemented in a timely manner and the goals set were achieved – feasibility studies for the development of the commercialization of R&D results were drawn up, long-term action plans for the commercialization of R&D results and/or knowledge and technology sharing activities were prepared and will be integrated in strategic long-term and short-term activity plans of institutions.

In the implementation of the financing model of joint science - business projects aimed at the commercialization of research results. 25 projects of the value of EUR 11.67 million were financed. In the implementation of these projects, 326 scientists and other researchers (except for students) were employed under employment contracts in the public sector and 20 scientific articles were published.

In order to promote business-science cooperation and the application of research results in business, *de minimis* support under the innovation voucher scheme was provided in 2014. Funding was approved for 456 applications allocating the support of EUR 2.03 million, with private investments of companies totalling EUR 521 316. Companies were able to choose research suitable for them out of 1 812 services provided by 43 public and private research and education institutions throughout Lithuania. Colleges were included into the list of services for the first time in 2014.

The implementation of the project *Innovative Business Promotion* (INOVEKS) was started in 2014. Funding allocated therefor totalled EUR 2.78 million. It is an initiative aimed at promoting youth entrepreneurship, which focuses on the development of business. 71 new technology start-ups were established during 2014.

In the implementation of the project *Incubation of New Technology Companies (Technostartas)*, 45 technology start-ups were established in 2014. The aim of the project is to promote the establishment of new innovative SMEs by reducing initial operating costs in the primary stage of company operations and introduction of new products, technologies and services into the market.

Accrediting laboratories

A new measure was created aimed at supporting accreditation of laboratories of science and education institutions. 14 funding agreements with 6 public science and education institutions were concluded, allocating EUR 175 220 for the accreditation of laboratories.

In 2014, in the implementation of the General National Complex Programme, the implementation of 15 projects was continued in 2014 with the aim to update and create public, technologic and information R&D infrastructure (funding of EUR 48.76 million was allocated therefor). 19 projects were under implementation under the measure *Execution of Research and Development Activities by Topics of the National Complex Programmes*. The value whereof totalled EUR 10.20 million (EUR 7.38 million was used). The implementation of 4 project activities was completed in 2014. 32 grants were funded for research activities of scientists and other researchers (except for students). 357 scientists and other researchers (except for students) were employed under employment contracts in the public sector.

Protecting intellectual property

In 2014, funding was allocated for 92 projects (68 invention patents, 24 design registrations). State support of EUR 591 114 was allocated for the execution of the projects (total project value - EUR 622 393). In order to simplify the administrative burden on those seeking to protect intellectual property internationally, a cooperation agreement on the implementation of the search system of patent applications in the European Patent Office was signed in 2014.

In the implementation of the project *Technology and Science for Innovative Business*, 302 unique SMEs were consulted in different regions. As a result, 2 international patent applications and 12 international industrial design applications were submitted in intellectual property management consulting firms.

Promoting clusterization

To promote clusterization, the project *Promotion of Internationalisation of Business – Science Partnership* was under implementation aimed at the search for common innovative solutions by SMEs as well as research and education institutions, also, for the creation of innovative networks and

merging into international clusters. Funding of EUR 1.07 million was allocated for the project. In the implementation of project activities, 9 clusters were created in 2014, of which 1 was an international cluster. In February 2014, the Lithuanian cluster development concept established tasks promoting clusterization, distinguished goals for the development of clusters and trends for the development of clusterization processes, set the optimal number of cluster members and distinguished the development level of clusters. Description of the Procedure for Monitoring and Evaluation of the Promotion of Clusterization was drawn up pursuant to the cluster development concept. In 2014 funding of EUR 32 300 was allocated for 4 applicants in the implementation of the international cluster promotion initiative *Innovation Express*.

The joint Baltic Sea Research and Development Programme BONUS, the aim whereof is to combine scientific research of the Baltic Sea conducted in individual countries into an interdisciplinary, long-term, integrated programme seeking for sustainable development of the Baltic region, was under implementation in 2014. This programme is aimed at promoting multilateral research of high scientific level. It would help forming a new, smart ecosystem rather than utilitarian principle-based management of the Baltic Sea, sustainable use conserving ecosystem and its resources). A description of the procedure for project funding under the BONUS programme was drawn up. Funding for the programme was increased to EUR 43 443 (from EUR 28 937). 1 international project was funded in the field of marine eco-innovation (ZEB - Zero emissions in the Baltic Sea).

In the implementation of the Green Innovation Programme of the Norwegian Financial Mechanism 2009-2014, an additional call for applications was announced in March 2014. Support of EUR 3.45 million was allocated for 4 projects.

Planned works in 2015:

- The cooperation will be further developed between the Agency for Science, Innovation and Technology (MITA) and the State Patent Bureau. As a result whereof Lithuanian applicants registering national patents will continue to receive compensation of a part of expenses incurred for conducting international patent search;
- Companies will be encouraged to continue to actively use innovation vouchers not only for acquiring research and education services, but also for building relationships, which would evolve into permanent cooperation later on;
- In order to encourage a close cooperation between business and scientific community and engage in joint projects, the draft Description of the Implementation of Joint Education, Research and Experimental (Socio-Cultural) Development and Innovation Initiatives will be drawn up.

- Seeking for the targeted policy of activities of science and technology parks, an updated Concept for the Development of Science and Technology Parks will be drawn up. It will identify the role of science and technology parks in the smart specialization process, possible course of their activities, recommended evaluation indicators of their operating results aimed at better targeting/focusing of R&D activities on the services creating higher value added.

4.3. Reducing the Number of Early School Leavers

EU 2020 target	National target	Current situation in Lithuania
Below 10 percent	Below 9 percent	5.9 percent (2014)

In terms of the early school leaving rate (of 18-24 year-old persons who have not acquired a secondary education and are out of school) Lithuania is among twelve Member States, which already have exceeded the *Europe 2020* headline target of 10 percent. The rate of 5.9 percent of early school leavers registered in 2014 also exceeds the target established in the National Education Strategy 2013-2022 of Lithuania (of no more than 9 percent). Such a sufficiently good indicator can be explained by the fact that a number of 18-29 year-olds are still studying in schools of general education or have a possibility to acquire secondary education along with a professional qualification in vocational training institutions. Moreover, the prestige associated with higher education is sufficiently high, thus a large share (65.99 percent in 2013) of graduates continues their education in schools of higher education in the same year.

Lithuania will continue reducing the share of early school leavers. Reasons posing a threat for a person dropping out of the education system may include personality and development problems, unfavourable social, economic, educational, cultural or linguistic backgrounds, congenital or acquired medical conditions, unidentified talents, unsatisfied educational needs of students and in the absence of the provision of the necessary educational assistance. These reasons may lead to the attribution of a child to a group of persons with special educational needs, who are provided with the necessary assistance in the educational process.

General education

In 2014, a methodological publication *Second Language at an Early Age* (peculiarities of the development of the native language and bilingualism, practical examples of the organization of educational activities, tasks for children, etc.) was prepared for teachers teaching 3-6 year-old children the Lithuanian language.

A methodological tool for teaching the Lithuanian language *Methodology Guide for Teachers* was prepared for teachers of the Lithuanian language working with first and second graders in ethnic minority schools and schools in multilingual environment. This tool was designed as a methodological support for teachers with the aim to provide them with didactic knowledge in teaching a second (non-native) language. The tool mainly focuses on the development of language skills of students with poor Lithuanian language experience.

Various evaluation measures in 12 state and 10 school matura exams were applied to students with special educational needs in matura exam session in 2014. 7 matura exam tasks were adapted for being completed in Braille (paper and computer versions).

Different measures (tasks in Braille, a possibility to write on the computer, taking exam in the usual environment, voice-over tasks) were adapted for checking general education achievements of students with special educational needs.

4 213 students with hearing, vision, physical and motor, development disorders and learning disabilities were provided with a possibility to take matura exams and seek for secondary education.

In order to better target educational assistance, learning achievements of students with special educational needs, teacher competences to educate students having different capacities and abilities and to assess their learning achievements were analysed.

Pre-school and pre-primary education

Draft amendments to the Law on Education establishing compulsory pre-primary education (for children from 6 to 7 years old) were prepared. The consideration whereof is planned in the Seimas spring session. The general pre-school education programme was updated. According to the data of Centre of Information Technologies in Education, as at 31 December 2014, 96 percent of all children of this age were educated under the pre-primary (PP) programmes.

32 innovative pre-primary education organization models were created and implemented. As a result whereof almost 500 children were newly involved in the institutional development, more teachers and other staff were employed.

In 2014, a share of non-public pre-school education institutions increased by 11 percent (from 67 in 2013 to 75 in 2014). A part of children attending pre-school education institutions increased by almost 4 percent (from 92 200 in 2013 to 95 171 in 2014). A share of pre-school education groups in schools of general education increased by 24 percent (from 504 in 2013 to 658 in 2014). In 2014 a *Description of Achievements of Pre-Schoolers* and *Methodical Recommendations for Educating Pre-Schoolers* were drawn up in order to improve the quality of pre-school education .

In 2014 the number of schools - multifunctional centres increased from 27 in 2013 to 48.

Non-formal education

A *Description of the Procedure for Financing and Organization of Projects of Non-formal Education of Children* was approved. 28 projects of non-formal education of children were financed and implemented according to the results of the tender for financing projects of non-formal education of children. 3 training seminars for teachers and children summer camp leaders (75 participants) were financed and organized.

The Action Plan for the Socialization of Children and Youth was approved for 2014-2016.

3 preventive programmes are under implementation in selected schools, i.e. targeted non-formal education preventive programmes for the creation of a safe school strengthening children's health and their social and emotional resilience, have been tested.

Vocational guidance

In the implementation of *the Programme for the National Vocational Guidance within Education System*, 4 EU Structural Fund project activities for strengthening methodological base (training programs, methodologies and other tools) for vocational (career) guidance services, training of career specialists, provision of services, arrangement of service monitoring as well as improvement of infrastructure have been implemented since 2010. The provision of quality vocational (career) guidance services was started to pupils and students in general education schools, vocational training institutions and universities.

The programme for career education for schools of general education and vocational training institutions was approved in 2014.

In 2014 the Open Information, Counselling and Guidance System (AIKOS), allowing creating an individual space for planning personal career and collecting planning results, was improved.

Vocational training

The Vocational Training Development Plan 2014–2016 covering the reorganization of vocational training institutions network in light of perspectives of regional industries was approved. The measures of the action plan provide for training vocational teachers and arrangement of their internships in actual workplaces. It encourages highly-qualified employees working in production to work as vocational teachers, student practices, initiatives promoting entrepreneurship, implementation of the European and national qualifications framework, by rearranging vocational training programmes into modular ones and the system of examination for qualification in order to have qualifications obtained in Lithuania to be equated to qualifications received in a way of formal, non-formal or self-education in European Union Member States. The goals provided for in the plan focus on the optimization of the vocational training network, improvement of infrastructure of

vocational training institutions, optimization of the offered vocational training programmes and improvement of the quality of implementation thereof, enhancement of scope of training in workplaces, improvement of the assessment system of competencies for gaining qualification, improvement of management of vocational training institutions, enhancement of attractiveness of vocational training, etc.

The General Plan for the Reorganization of the Network of State Vocational Training Institutions 2014–2016 was approved.

Legislation implementing the Law on Vocational Training creating more favourable conditions for implementing apprenticeship vocational training organization form and increasing the scope of practical learning in workplace was drawn up.

Planned works in 2015:

- To legalize compulsory pre-primary educations since 1 September and allow all children who have turned 6 before 2015 to attend pre-primary education groups and receive education under the General Pre-Primary Education Programme: to set up the missing number of groups, pre-primary education teachers staff and educational assistance specialists staff in municipalities. To organize the carriage of pre-primary-age children living more than 3 kilometres away from school;

- To implement the Action Plan for the Strengthening of General Education Schools Engaged in Primary and Basic Education Programmes as well as the Development of Inclusive Education for 2014–2016 aimed at increasing educational availability and improving the quality of education at schools implementing primary and basic education programmes;

- To implement the Action Plan for the Socialization of Children and Youth for 2014–2016 covering the organization of summer recreation, reorganization of socialization centres and other activities;

- To organize vocational practicing, i.e. activities at the time of which students are assisted in actively getting to know various areas of employment, peculiarities of different professions and career opportunities, collecting work experience, developing professional motivation and planning future career, for 60 000 students from general education schools. To this end, monitoring of work activities, practices and training in companies, institutions or in virtual space, also, the discussion of the acquired practice and other activities will be organized.

4.4. Retaining the Share of Individuals with Higher or Equivalent Education

EU 2020 target	National target	Current situation in Lithuania
40 percent	Below 48.7 percent	52.6 percent in 2014

The Lithuanian Higher Education Association for General Admission (hereinafter - LAMA BPO) system has been undergoing further development; since 2014, information has been also provided in the English language, the study programme database has been associated with programme accreditation database.

The initial analysis of data of the Specialist Qualifications Map was prepared. The rate of employment of graduates of 2012 and 2013 as well as their wages were analysed comparing these indicators to the average wages and employment level nation-wide (preliminary results: graduates from university bachelor programmes of computing and engineering qualification level and graduates from college transport services and computing qualification level receive the highest wages and find employment the fastest; graduates from bachelor study programmes of law and life sciences are the last to find employment and receive wages lower than the average wages in Lithuania). Currently the data can be presented for a one-time analysis only, therefore, ongoing monitoring is impossible - objective research cannot be conducted without it. In solving this problem, the right to manage personal data administered in registers must be acquired, therefore a draft Law Amending the Law on Education was drawn up.

In 2014, the process of learning was facilitated for students with disabilities: all entitled students were paid social scholarships, students with low level of employability received target benefits. Also, foreigners of Lithuanian descent studying in Lithuanian schools of higher education received support (158 of them received state support in 2014). In 2014, foreign students and teachers having come to Lithuanian schools of higher education were allocated support (27 scholarships and 15 benefits for covering the study price were allocated for Master students, support was allocated for 95 teachers from foreign science and education institutions).

A draft Law Amending the Law on Science and Studies of the Republic of Lithuania was prepared in order to strengthen the principles for the ensurance of quality of science and education, the provision and accreditation of higher education qualifications and degrees.

Measures of the 2013–2015 action plan of the 2013–2020 Programme of the State Higher Education, Research and Experimental (Socio-Cultural) Development aimed at the ensurance of informed and conscious choice and accessibility of studies were under implementation in 2014.

Planned works in 2015:

- To continue the implementation of the measures of the 2013–2015 action plan of the 2013–2020 Programme of the State Higher Education, Research and Experimental (Socio-Cultural) Development;
- To evaluate about 220 study programmes under implementation;
- To continue the activities of LAMA BPO (using the EU Structural Funds);

- The plan is to conduct the analysis of the performance of rating of motivation of entrants to pedagogical study programmes in 2015-2016.

4.5. Increasing the Use of Renewable Energy Sources

EU 2020 target	National target	Current situation in Lithuania
To increase the share of renewable energy sources in the total final energy consumption to 20 percent by 2020.	To increase the share of renewable energy sources in the total final energy consumption to 23 percent by 2020.	Energy produced from renewable energy sources accounted for about 22.95 percent in the total final energy consumption in Lithuania in 2013.

Since energy produced from renewable energy sources is usually more expensive than energy produced from fossil fuels, investments need to be made into a respective infrastructure. The promotion of the development of renewable energy sources is supported by the state. The following support measures are currently used: discount for connecting to the grid, priority is given to renewable energy sources in presence of limited transmission capacities, capacities and permeability of electricity grids are reserved, excise tax reliefs for biofuels, feed-in tariffs, reliefs for balancing electricity are applied.

The implementation of measures promoting the production of energy from renewable energy sources and consumption thereof provided for in the National Renewable Energy Sources Action Plan has been continued.

In March 2014, the draft National Programme for the Development of Renewable Energy Sources till 2020 was presented for the approval of the concerned authorities and the public. The comments received were evaluated, at the same time conducting strategic environmental assessment (SEA) procedures of the programme. In November 2014, the SEA report was presented for the evaluation of assessing entities, and the respectively revised draft Programme will be submitted for the Government's approval along with the SEA report adjusted according to the conclusions made by assessing entities.

On 24 April 2014, the Seimas approved amendments to the Law on Energy from Renewable Sources, establishing that economic entities planning for the construction of wind power plants shall reimburse investments made by state authorities (if any) and other expenses necessary for the ensurance of the performance of national security functions.

In December 2014, the Government approved the Law Amending the Law on Energy from Renewable Sources and the Law Amending the Law on Electricity legitimizing net metering system for solar power plants (in householders - <10kW, in budgetary and state institutions <50 kW). The

amendments to the laws took effect as from 2 March 2015, and will promote the installation of additional solar power plants with installed capacity of up to 10 MW.

Planned works in 2015:

- To approve the National Programme for the Development of Renewable Energy Sources till 2020 and draw up an inter-institutional action plan;
- To amend the Law on Energy from Renewable Sources by revising and itemizing conditions for the application of incentive measures as well as conditions and procedure for the ensurance of the fulfilment of manufacturer's obligations and return to the manufacturer;
- In light of the Government's decision on the priority legislative initiatives for increasing the share of renewable energy sources in the final energy consumption in the transport sector, to draw up amendments to related legislation depending on need.

4.6. Increasing Energy Efficiency

EU 202 target	National target	Current situation in Lithuania
To increase energy efficiency by 20 percent by 2020 compared to the consumption level in 2009	To increase energy efficiency by 17 percent by 2020 compared to the consumption level in 2009	5.37 percent reduction in final energy use compared to 2010

The annual electricity growth of 1 percent is forecasted in Lithuania, thus the implemented measures increasing the efficiency of energy consumption are likely to allow retaining energy consumption at the same level. In the achievement of these goals:

- the National Energy Efficiency Action Plan was prepared;
- the Programme for Increasing Energy Efficiency of Public Buildings was drawn up and approved;
- the Special Climate Change Programme has been under implementation;
- the Programme for the Renovation (Modernization) of Multi-apartment Buildings has been under implementation;
- renovation of public buildings under the Operational Programme for the European Structural and Investment Funds 2014-2020 has been implemented.

Planned works in 2015:

- To draw up a draft Law on Energy Efficiency and draft amendments to related Law on Energy, Law on Electricity, Law on Heat Sector and Law on Natural Gas;

- To prepare and approve the methodology for drawing up a list of state-owned heated and/or cooled state institutions and bodies - buildings used by state administrative entities suitable for renovation;

- To develop an energy efficiency obligation system in the implementation of the Directive 2012/27/EU of the European Parliament and of the Council on energy efficiency. Each year till 2020 new energy volume equivalent to 1.5 percent of all volume of energy transmitted to end-users by all energy distributors and/or retail energy companies each year, calculated according to the 2010–2012 average will be saved. The general goal of energy consumption savings of Lithuania according to the requirements of the Energy Efficiency Directive starting from 2015 is 287 ktn by 31 December 2020.

4.7. Limiting Greenhouse Gas (GHG) Emissions

EU 2020 target	National target	Current situation in Lithuania
To reduce GHG emissions by 20percent by 2020 compared to 1990 levels	Not to exceed the annual GHG quotas (t CO ₂ -eqv.) set for Lithuania in sectors that are not covered by the European Union Emission Trading Scheme during 2013 - 2020, and to achieve that the level of GHG emissions would not increase by more than 15 percent compared to 2005 level, and would not exceed 15.46 million t CO ₂ -eqv.	In 2013, the quota for sectors that are not covered by the European Union Emission Trading Scheme was 12.936 million t CO ₂ -eqv. According to the preliminary data of the National GHG emissions accounting report, the actual GHG emissions volume in 2013 was 12.64 million t CO ₂ -eqv.

Different scenarios have shown that the potential of Lithuania to reduce GHG emissions is very much dependent on the course of energy sector development and the measures implemented to reduce climate change in other sectors of economy, especially in transport and agriculture sectors.

The National Strategy for the Climate Change Management Policy, the aim of which is to achieve a much faster growth of the country's economy than the increase of GHG emissions by 2020 is being implemented.

On 20 August 2014, the Government approved the inter-institutional action plan for the implementation of goals and tasks of the National Strategy for the Climate Change Management Policy. The aim of it is to provide for climate change mitigation and adaptation measures as well as appropriations for the implementation of these measures, and to ensure inter-institutional cooperation in order to implement the goals and tasks laid down in the Strategy.

In 2014, projects for increasing energy efficiency and renewable energy sources, upon the implementation of which GHG emissions in the energy, industrial and household sectors will be reduced, were funded from the funds of the Special Climate Change Programme.

In 2014, in the area of increased energy efficiency EUR 5.79 million were allocated for modernization projects of public buildings. Upon the implementation of them energy efficiency class of at least D will be achieved and calculated heat energy expenses will be reduced by at least 40 percent as compared to the calculated heat energy expenses before the project implementation. EUR 14.48 million was allocated for the implementation of these projects, however, only EUR 3.43 million was used therefor. Also, calls for the execution of modernization projects of private residential houses (EUR 926 784) were announced.

In the implementation of the trend of projects for the implementation of renewable energy sources, projects for the installation of renewably energy sources in public buildings (EUR 5.79 million) were funded. A support was also allocated for applicants intending to replace worn out biofuel boilers with more efficient biofuel boilers (EUR 2.03 million), however applications for less than EUR 1.01 million were received.

Installation of renewable energy sources (solar, wind, geothermal energy, biofuel, etc.) in private residential houses was promoted by compensating a part of investments made by natural persons (about EUR 529 240). Assistance was planned for compensating expenses incurred for the removal of logging waste for biofuel production from forest sites (EUR 1.74 million). Assistance was also planned for the modernization of water transport and its infrastructure (EUR 86 886), but no applications were received.

Biofuel boilers installed in 2013 and renovated will allow saving 2088.822 CO₂ t per year.

Planned works in 2015:

- To continue funding projects from the funds of the Special Climate Change Programme in the following fields in 2015: increasing energy consumption and production efficiency and promoting the use of renewable energy sources, installation of environmentally-friendly technologies, including efficient energy production in a way of cogeneration. The plan is to allocate a total of EUR 31.8 million for these measures;

- To allocate EUR 17.18 million for the funding of increasing energy consumption and production efficiency, of which the allocation of EUR 16.18 million is planned for renovating (modernizing) public buildings, including buildings owned by various social groups and multi-apartment buildings, by reducing energy expenses by at least 40 percent. The plan is to continue modernization projects of private residential houses allocating therefor 1 million in support from the Special Climate Change Programme;

- To allocate EUR 12.72 million for promoting the use of renewable energy sources and funding of environmentally-friendly technologies, including cogeneration as an efficient way to produce electricity. The plan is to allocate EUR 10.22 million for the use of renewable energy

sources in public buildings/ spaces and companies engaged in economic commercial activities, EUR 1 million – for the installation of renewable energy sources in private residential houses and EUR 1.5 million – for the collection of logging waste for biofuel production by compensating acquisition of equipment;

- in 2015, the following results will be achieved using the Special Climate Change Programme funds (allocated for 2012–2014):

- 180 private houses will be modernized achieving energy class of a building of at least C;
- 33 public buildings will be modernized – emitted CO₂ volumes will decrease by about 2.24 thousand tonnes per year;
- 30 biofuel boilers with total installed capacity of 75.9 MW will be installed and launched, replacing the use of fossil fuels;
- 344 thousand MW of heat energy per year will be generated in heat supply companies using biofuel - emitted CO₂ volumes will decrease by about 50.8 thousand tonnes per year.

4.8. Reducing Poverty and Social Exclusion

ES 2020 target	National target	Current situation in Lithuania
20 million residents	814 000 residents	917 000 residents

In 2013 the number of residents at risk of poverty or social exclusion decreased by 5.9 percent, compared to the previous year. The number of residents at risk of poverty or social exclusion decreased faster than the EU average (the EU-28 average number of the said group of residents decreased by 0.9 percent), since the number of these persons increased in 15 Member States. Increasing employment decreased the number of individuals living in households with very low work intensity levels, i.e. their number dropped by 5 percent during the year from 259 000 to 246 000 persons. Increasing income of residents led to intense reduction of the number of residents suffering severe material deprivation. The number of persons suffering severe material deprivation decreased by as much as 20.1 percent, from 590 000 to 476 000 persons. Recovering economy and labour market enabled the growth of work income; however, social consequences of the crisis and formed social insurance and state budget debts did not allow increasing social benefits. Different growth rates of monetary income across individual groups of residents led to increasing income differentiation. A share of residents increased, whose income was lower than the risk of poverty threshold, which was EUR 234.88. In 2013, the number of residents at the risk of poverty increased by 52 000, from 559 000 to 611 000, i.e. from 18.6 percent in 2012 to 20.6 percent in 2013. The gap between the income of residents at risk of the poverty and the risk of poverty threshold tended to

increase. The income of these people was 24.8 percent below the risk of poverty threshold (22.6 percent in 2012). The unemployed were at the highest risk of poverty – the risk of poverty threshold was 61 percent. The risk of poverty threshold of large families was 45.1 percent and single person with children families – 42.8 percent. In order to implement the commitment assumed by Lithuania to reduce the number of individuals living at the risk of poverty or social exclusion to 814.000 by 2020, it is necessary to increase the possibilities of residents to actively participate in the labour market and public life, promote social innovation and the development thereof and to seek for a more efficient use of funds allocated for the implementation of social policy.

In order to improve public health and reduce health inequalities, the Norwegian Financial Mechanism Programme 2009–2014 was implemented in 2014. The development of the children health monitoring information system aimed at systematic monitoring of health of children and purposeful formation of health policy, also, of the model for strengthening of the capacities to identify and reduce health inequalities and model for providing youth-friendly health care services was started. Upon the implementation thereof, more favourable conditions will be created for children and youth health care, strengthening and monitoring, skills of health specialists of national and municipal-level institutions will be enhanced and public health inequalities will be reduced.

Social integration

In 2014, the Action Plan for Increasing Social Inclusion for 2014 - 2020 was revised, distinguishing target groups of residents, revising measures and planning for the funds allocated for the implementation thereof in 2015–2016.

The main focus has been placed on increasing opportunities of people who are most distant from the labour market to participate in the implementation of active inclusion measures. Services for strengthening competencies of the elderly and the disabled, socio-cultural services and services of integration into the labour market of the Roma, activation of voluntary activities of youth and the elderly, projects for the implementation of local employment initiatives have been planned for.

In 2014, in the implementation of the National Programme for Social Integration of the Disabled 2013 - 2019, 413 social rehabilitation service projects for the disabled in communities were selected in all municipalities in a tender procedure. In the implementation of the projects, funding was allocated for activities and services in line with social rehabilitation of permanent nature. In 2014 about 37 500 disabled persons benefited from the social integration projects.

In 2014, support was provided to 1 021 disabled students studying in 39 schools of higher education. 1 012 disabled people received benefits for meeting special needs and 513 disabled persons were paid benefits for partial compensation of study expenses.

In 2014, 57 city and region municipalities received 708 applications of the disabled for housing adaptation. 236 apartments were adapted to meet the needs of the disabled.

Cooperation with non-governmental organizations

Thematic trainings in the areas of entrepreneurship promotion of non-governmental organization (including community organizations) and acquisition of competencies in social activity development were held in 2014. 4 non-governmental organization and community forums aimed at discussing cooperation experience and development of state authorities and non-governmental authorities were arranged. Research of the development of non-governmental sector was conducted in 2014: aspects to be improved leading to better entrepreneurship of non-governmental organizations were distinguished, respective conclusions and recommendations were made for increasing entrepreneurship and financial independence of non-governmental organizations.

In 2014, activities of non-governmental organizations representing elderly people were supported. These organizations have been representing the interests of elderly people, sharing experience, collecting information on problems of the elderly, searching for ways to resolve them and providing information to the public and state authorities on the situation of the elderly. 1 933 events were held in various cities and districts of the country in 2014.

Incentive programme for non-governmental organizations participating in health strengthening activities has been implemented. The aim of the programme is to encourage non-governmental organizations to take an active part in the implementation of health policy by raising public awareness, improving public information and disseminating information about healthy lifestyles, disease prevention and other health improvement-related activities. 30 projects were financed in 2014 in the following areas: prevention of psychoactive substance abuse among children, improvement of children's mental health, implementation of healthy eating habits of children and organization of physical activity events for children.

Cultural activity projects

Cultural activity projects were financed from the state budget funds in 2014. They were attended by persons in social exclusion: the disabled, children from foster homes, seniors, unemployed and low-income persons.

In the reduction of cultural and social exclusion, 564 projects were implemented, allocating EUR 2.27 million therefor from the state budget. Various art projects were implemented, the activities whereof were conducted not only in major cities of Lithuania, but in towns and villages as well. 30 specialized projects for the disabled were implemented.

Strengthening community activities

According to the data presented by municipality administrations, 548 elderships participated in the implementation of the Programme for Self-Government of Local Communities in 2014. 2 518 decisions of local community councils were made on activities meeting public local community needs: improvement of public spaces and quality of the environment, enhancement of concentration of local communities and community activities; support of cultural and educational activities; installation of children playgrounds, basketball courts, outdoor fitness equipment and acquisition of various sports equipment.

In 2014, activities promoting the cooperation of local communities and institutions preparing and implementing educational programmes for children and youth were conducted. More than half of the activities were intended for younger school-age children, children and youth falling into social risk groups – those who are experiencing cultural and social exclusion, live in children foster homes, families with addiction problems, and for the disabled. The following were the results achieved: 125 736 children and young people participated in cultural educational activities, of which 18 254 were persons with disabilities. Activities of only 62 out of 239 projects have been implemented in major cities Vilnius, Kaunas and Klaipėda, while activities of other projects have been implemented in small cities and towns.

Improving health

In order to increase the linkage between social, cultural and health areas, 44 projects were partially financed and implemented in 2014, contributing to strengthening the positive impact of art on human health and social well-being and improvement of the quality of life. Activities of these projects were conducted in health care institutions and institutions providing social services.

In order to bring public health care services closer to the community and improve the quality thereof, the provision of public health care services has been expanded for children educated under pre-primary, pre-school, primary, general and secondary education programmes in pre-primary education institutions, basic education schools and vocational training institutions located in municipal territories, also expanding the enhancement and monitoring of public health. Municipalities have been establishing public health care budgetary institutions – municipal public health offices for performing public health care functions, or they have provided public health care services to residents of municipalities on the basis of a cooperation agreement of municipalities signed with a public health bureau established by another municipality. In 2014, there were 40 municipal public health bureaus operating in the country (in the performance of the development of infrastructure in municipalities, 27 public health bureaus underwent modernization). 20

municipalities provided public health care services under an agreement signed with a public health bureau established by another municipality.

Planned works in 2015:

- To allocate housing to 550 persons;
- During 2014–2020, the focus will be placed on the reduction of health inequalities between residents of Lithuania in the nation-wide implementation of the Action Plan for the Reduction of Health Inequalities in Lithuania for 2014–2023. Targeted measures have been provided for this goal, which focus on the preservation of public health, disease prevention and early diagnosis of diseases, optimization of health care system by reorganizing it so that the existing major health inequalities were reduced;
- To get ready for the implementation of the provisions of the Regulation of the European Parliament and of the Council on the Fund for European Aid to the Most Deprived and provide food assistance to about 300 000 persons;
- To continue cultural activity projects aimed at social groups at exclusion, large families, seniors, children and youth; funding will be provided to projects encouraging positive impact of art on human health and social well-being; the adaptation of non-traditional spaces for the provision of cultural services in regions and forming alternative cultural spaces in city districts will be sought for;
- To continue the implementation of the Norwegian Financial Mechanism Programme *Public Health Initiatives*;
- To develop the provision of public health care services in municipalities.

V. IMPLEMENTATION OF ADDITIONAL MEASURES AND THE USE OF STRUCTURAL FUNDS

5.1. Fostering Competitiveness and Growth

Lithuania has implemented additional measures for fostering competitiveness and growth of the Lithuanian economy on the basis of the following documents: Lithuania's Progress Strategy *Lithuania 2030*, *Lithuanian Innovation Strategy 2010–2020*, *Lithuania's Innovation Development Programme for 2014–2020*, *Investment Promotion Programme for 2011–2021*, *the National Education Strategy 2013–2022* and *the National Energy Independence Strategy*. The following main lines of action have been provided for the implementation of these measures: reduction of administrative burden, improvement of business conditions, entrepreneurship promotion,

improvement of business supervisory institutions, promotion of creative industries and promotion of eco-friendly economy (improved waste management, water management and recycling).

Reducing administrative burden

In the implementation of the Law on Administrative Burden Reduction, Commission of Better Regulatory Supervision was formed and started operating in 2014. The main tasks of the Commission of Better Regulatory Supervision are related to the valuation of administrative burden and the application of its mitigation measures in state and municipal institutions and authorities.

In July 2014, the Government approved the Administrative Burden Reduction Action Plan for 2014-2015 covering more than 90 measures for reducing administrative burden borne by business and natural persons, which were proposed by business and state institution representatives.

In July 2014, the amendment to the Methodology for Setting Administrative Burden for Economic Entities enshrined a new goal for the reduction of administrative burden applicable to each institution individually: the level of administrative burden, which is imposed on economic entities by legal regulation initiated in the area of competence of the institution must remain unchanged or decreased during the calendar year.

In the evaluation of the change of the administrative burden of institutions on economic entities determined by legislation adopted in 2014, administrative burden on business decreased by EUR 1.85 million.

Planned works in 2015:

- In order to encourage institutions to evaluate and reduce administrative burden, to continue monitoring the progress made in implementing the goal of reducing administrative burden;
- To hold 5 trainings on the issues related to the evaluation of administrative burden for civil servants working in state and municipal institutions and establishments;
- To create a network of national consultants in order to improve the accessibility of information and consulting services to entrepreneurs in Lithuanian municipalities.

Improving business conditions

Lithuania ranks 24th in the World Bank report *Doing Business 2015*. It ranks 10th among the 28 European Union Member States. Upon further simplification of procedures for starting up a business, Lithuania managed to retain a relatively high 11th position in terms of the business start-up indicator.

In 2014, Lithuania implemented several changes, which should reflect in the *Doing Business 2016* report to be published in the fall of 2015:

- When it comes to the area of starting up a business, since September 2014, when registering a new company with the Register of Legal Entities, it can at the same time be registered as a VAT payer. Information on the registration of a new company and its application to become a VAT payer will reach the STI automatically, while the administrator's decision will be presented electronically within 3 working days;

- In June 2014, amendments and supplements to the Law on Companies were adopted to protect minor investors, establishing that a member of the Board shall not have the right of vote when solving in the meeting of the Board an issue related to his activities on the Board or to his the area of his responsibility.

Based on the data of the Small Business Act (hereinafter - the SBA) Fact Sheets, Lithuania successfully implemented reform related to the improvement of conditions for small and medium business in 2014. Lithuania exceeds the EU average in such areas monitored by the SBA as entrepreneurship, need-based administration, state aid and public procurement, access to financing and the environment (efficient use of resources, eco-friendly products).

In 2014, upon the amendment of the Law on State Social Insurance, since January 2015, the self-employed (owners of sole proprietorships, partners of small partnerships, partners of general partnerships and general partners of limited partnerships) shall for one year from the start of their first business pay state social insurance contributions to Sodra of the sum of income withdrawn for their personal needs.

A draft concept of social business was drawn up in 2014. The aim whereof is to enshrine the definition of a social business, list general principles of a social business, identify problem areas and distinguish key tasks in order to promote the development of social business.

In 2014, the Government approved the replacement of 45 types of licenses with declarations, annulment of 9 types of licences and simplification of the procedure for the issuance of 160 types of licenses.

Improving the activities of business supervisory institutions

A reform of institutions supervising the activities of economic entities, the aim whereof is to reduce the burden borne by economic entities when performing supervisory functions, reducing corruption allegations, ensuring that supervisory requirements are understandable, easily and conveniently accessible, has been implemented in Lithuania since 2009. The main goal of the reform is for the supervisory institutions to become business advisors rather than punishers.

47 supervisory institutions have signed a declaration *On the First Business Year* undertaking to avoid punishing business entities during the first year of their economic activity, but to consult and

render assistance to them instead; the supervision of economic entities must be based on risk assessment.

40 business supervisory institutions have been carrying out the risk assessment-based supervision. In order to ensure professional evaluation of risk assessment and management system applied by supervisory institutions, a research of risk assessment and management systems of six business supervisory institutions was conducted in 2014:

- control checklists have been prepared and applied for the simplification of inspection procedures. In 2014, supervisory institutions applied 147 control checklists. A total of 80 percent of conducted inspections have been carried out using control checklists;

- in 2014, evaluation of *de minimis* violations of legislation requirements made by economic entities was conducted.

In order to improve the coordination of actions of supervisory institutions and their information sharing in planning and carrying out business supervision, the common information system of supervisory institutions (PAIIS) is under development. In 2014 the analysis of potential activity models of PAIIS and consolidation of business supervisory institutions of economic entities was conducted. Having hired independent experts and using the information collected from supervisory institutions, functions carried out by supervisory institutions were analysed and recommendations on the consolidation model of supervisory institutions and the possibilities for the implementation thereof were drawn up. An overview study of regulated professions was conducted, proposals on the improvement of regulation of professions were drawn up and the planned impact assessment of improvement proposals was performed in 2014.

Promoting entrepreneurship

In 2014, the Lithuanian Entrepreneurship Action Plan for 2014-2020 was approved. It provides for the actions aimed at consistent growth of the Lithuania's entrepreneurship level by emphasizing entrepreneurship education, creation of environment favourable for starting and developing a business, increase of accessibility of public services to the business, improvement of the image of an entrepreneur in the society, promoting target group and social entrepreneurship and focusing on regions.

16 youth entrepreneurship promotion events *Business Rocks* were held in 2014. The main goal whereof is to motivate young people to embody their ideas in business, provide them with the necessary self-confidence, disseminate information about the possibilities to find and receive full support for starting a business,.

In the implementation of the project *First Business Year Service Vouchers for Young People up to 29 Years Old* (providing consultations on starting up a business, financial accounting,

marketing, strategic management, negotiations and other issues and holding trainings), 373 enterprises were established in 2014.

28 events were held for start-ups or those willing to establish them in 2014: *Start-up Lithuania* series of events, conference *Silicon Valley Comes to the Baltics*, conference *LOGIN Start-up Fair*, and team building events. In the implementation of the project *Start-up Lithuania Roadshow*, the selected start-up teams went to introduce themselves to investors of the largest start-up communities in Tel Aviv, London, Dublin, Helsinki and the Silicon Valley in USA in 2014.

In 2014, 26 innovative start-ups participated in the project *Start-up Nitro Vouchers* carried out by PI Enterprise Lithuania, at the time whereof each start-up received 30 hours of individual consultations on the issues related to starting up a business and other.

In order to promote women's entrepreneurship, 12 events for promoting the entrepreneurship of women were held in 2014. Three topics most relevant for starting a business were selected for the events: business basics, financing aspects, marketing and advertising.

Various projects aimed at promoting entrepreneurship of senior year pupils were arranged in 2014: *Contest for Student Entrepreneurship Ideas*, *Students in the Ministry of Economy*, *Young Fellow* and *Fair of Training Companies for Pupils*.

A publication for 8-12 year-old children presenting information about business and introducing business basics (the concept of business, goal of entrepreneurship education, business planning and start, activities after the establishment of a legal person, business culture) was published in 2014.

Planned works in 2015:

- To create a calculator for determining business value – an electronic tool, which will help entrepreneurs to evaluate their sold businesses;
- To prepare 10 new business memos (there already are 10 business memos created at this time) covering most popular SME business types in Lithuania. Memos will help present information on the licenses necessary for starting a business, requirements set for products, services and business premises, employment, applicable taxes and their rates as well as accounting in one place. Practical advice of those engaged in specific activities as well as other important information will be presented therein;
- To transfer to electronic environment administrative procedures related to the issuance of 29 permits, which will allow reducing administrative burden borne by both businesses and institutions.

Promoting creative industries

In order to more actively promote the awareness of new creative products and services in global markets, conditions for the development of creative industries were established in 2014. Their achievements in the country and abroad were introduced; the internationalization of their activities as well as export of creative products and cross-sector cooperation was promoted in order to create new products or services in line with sustainable development principles.

19 projects, in the implementation whereof Lithuanian companies operating in various fields of creative industries introduced their produce in international fairs, business missions and festivals of global and European importance, were co-funded in 2014.

The project improving the infrastructure for training specialists of creative industries and research infrastructure as well as creating conditions for intensive development of the Lithuanian creative and cultural industries sector was being successfully implemented. The said institutions gather the main arts, science and study human resources of the Lithuanian creative and cultural industries. In October 2014, the Music Innovation Studies Centre was opened up. One of the measures promoting research in various areas and the commercialization thereof, including creative industries, is the EU funded National Open Access Scholarly Communication and Information Centre open 24-7, which was opened up in 2014; the implementation of 8 digitalization projects of research, creative industries and documentary heritage was completed.

Green economy: waste management, water management, recycling

Measures *Renovation and Development of Water Supply and Wastewater Treatment Systems* and *Development of Waste Management System* of the Cohesion Promotion Operational Programme 2007-2013, also the measure of the Operational Programme for EU Structural Funds Investments for 2014-2020 *Improvement of Drinking Water Supply and Wastewater Management System* were being carried out in 2014.

110 projects for the renovation of water supply and wastewater management systems (of which 45 were completed in 2014) were being implemented in 2014. EUR 64.947 million of EU support and co-financing funds were used therefor. Wastewater treatment plants were built/reconstructed, new water supply networks and wastewater networks were built, water supply networks and wastewater networks were reconstructed under agreements. 20 015 residents were connected to sewerage networks, which is significantly less than in 2013. However, this is not the final result, because the connection to sewerage networks will last till the end of 2015. Water supply and wastewater management infrastructure was upgraded in 309 neighbourhoods, which is by almost one hundred neighbourhoods more than in 2013.

Also, 23 projects were implemented for closing old landfills, installation of bulky waste collection sites, green waste composting sites, construction of hazardous waste landfills, development of municipal biodegradable waste treatment infrastructure and municipal waste management systems. EU support and co-financing in the amount of EUR 42.738 million was used for this purpose. 6 of the above-mentioned projects were completed in 2014. The share of used (recycled) municipal waste of the generated municipal waste amount increased by 5 percent to 35 percent.

In 2014, 63 old landfills and dumps were closed, 12 bulky waste collection sites and 8 green waste composting sites were installed.

Using the funds of the *Programme for Processing Product and Packaging Waste*, the following works were carried out in 2014:

- 32 municipal projects, at the time whereof containers for collecting packaging waste from individual residential housing neighbourhoods, also, bins for collecting packaging waste for educational institutions were acquired and more than 1 000 waste tires were managed (for transporting waste tires to the waste recovery sites), were completed;

- The implementation of the project for the management of waste electrical and electronic equipment was completed, at the time whereof containers for collecting waste electrical and electronic equipment were built. More than 2 200 tonnes of small waste electrical and electronic equipment were collected (with the total value of the project being EUR 550 278);

- Seminars promoting the culture of responsible consumption and eco-friendly behaviour, also, seminars promoting the culture of responsible consumption and eco-friendly behaviour of the public and introducing with the waste management system and principles of waste prevention were held;

- State registry of waste managers was developed.

Planned works in 2015:

- To develop and install waste management and treatment systems focused on the reduction of waste generation, waste sorting, composting, recycling and the use thereof for energy production, also, the modernization thereof, with a greater emphasis on the creation of biodegradable waste management capacities (composting, biogas production):

- implementing legislation on the Law on Pollution Tax related to the application of the tax on landfilled waste will be drawn up - it will establish the procedure for the calculation and payment of a pollution tax for landfilled waste as well as the procedure for application of tax reliefs, a declaration form and rules for completing it;
- amendments to the Law on Packaging and Packaging Waste Management of the Republic of Lithuania for a compulsory deposit for disposable beverage packaging will be drawn

up in order to increase the collection (sorting) of packaging waste generated in municipal waste flow and the recycling thereof.

- To reorganize the drinking water supply and wastewater management system to ensure that the greatest possible number of consumers in the region receive drinking water supply and wastewater management services meeting safety and quality requirements under uniform conditions.

5.2. Reinforcing Financial Stability

In 2014, Lithuania implemented various measures for reducing risk in the financial sector and strengthening resilience of the financial system. Measures for ensuring stability of the credit union sector and works related to the implementation of macro-prudential policy should be distinguished here.

In July 2014, amendments to the Law on Credit Unions aimed at ensuring higher reliability and safety of the activities of credit unions were approved. The amendments include changes to the minimum capital requirements, management of credit unions and risk assessment. These requirements should help increase the reliability operations of all credit unions.

In order to ensure sustainable contribution of the financial sector into the growth of economy, amendments to the Law on Bank of Lithuania were approved in 2014, whereby the Bank of Lithuania was granted powers of forming and implementing the macro-prudential policy in Lithuania.

The EU Capital Requirement Directive (CRD IV) transposed into the national law in the beginning of 2015 reinforced regulation in financial stability area. In preparation for the supervision of credit institutions under the Single Supervisory Mechanism, the review of the quality of assets of three largest banks in Lithuania and the stress testing were conducted in 2014. Stress testing and asset quality evaluation results confirmed the financial sustainability of the Lithuanian banking sector.

In the beginning of 2014, the first evaluation of recovery plans prepared by banking groups was conducted together with foreign banking supervisory colleges. These measures are aimed at strengthening advance preparation for the harmonized application of resolution measures for cross-border financial groups and their subdivisions.

The implementation of EU banking union initiatives in Lithuania, which have started in 2014 will create preconditions for more sustainable banking activity and contribute to strengthening of the financial stability. Upon the adoption of the necessary amendments to laws and insurance of the compatibility of the Lithuanian legal system with the provisions of EU legislation, an efficient problem prevention mechanism for financial institutions will be established. While in case of the emergence of problems - methods for fast and efficient solution of these problems will be provided

for, by minimizing potential burden on taxpayers' funds, at the same time avoiding destabilization in the financial sector and protecting interests of depositors.

5.3. Access to Funding Sources

In order to promote business development in Lithuania and improve access of small- and medium-sized legal entities to external funding sources, currently SMEs can made use of the following measures of financial support:

Concessional loans

The state has granted to credit institutions operating in Lithuania funds for the disbursement of loans to SMEs:

- 907 loans for EUR 51.74 million were issued by 31 December 2014 under the measure *Small Credits*, whereby SMEs are disbursed loans up to EUR 101 367 at concessional interest rates. 505 loans for EUR 69.48 million (including the share of bank resources) were issued by 31 December 2014 under the measure *Open Credit Fund*, whereby loans up to EUR 434 430 (+25 percent of bank resources) are issued to SMEs at concessional interest rates. EUR 57.055 million from the EU SF was allocated for the measure.

- 833 loans for EUR 180.462 million were disbursed by 31 December 2014 under the measure *Risk Sharing Loans*, whereby SMEs are issued loans up to EUR 4.778 million for investments replenishing working capital, if the activities of SMEs are expanded by the use of such funding. EUR 110 million from the EU SF was allocated for the measure.

Guarantees

- By using the *Guarantee Fund*, state guarantees (up to 80 percent of loan amount) are disbursed to credit institutions for investment loans and working capital loans related to the development of business of SMEs, thus solving the issue of insufficient and unattractive collateral. 2 803 guarantees were issued for SME loans by 31 December 2014. The amount of issued guarantees totals EUR 234.85 million. EUR 37.36 million from the EU SF was allocated for the measure.

- The measure *Portfolio Guarantees* is aimed at promoting loans by guaranteeing for up to 80 percent of the loan amount of SMEs and thus seeking to reduce barriers for companies to receive funding when they do not have sufficient collateral. By 31 December 2014, 445 guarantees for loans of SMEs were included into the portfolio of guaranteed loans (the amount of guarantees totals EUR 49.67 million). EUR 7 million from the EU SF was allocated for the measure.

- The measure *Portfolio Guarantees for Leasing* provides financial guarantee (for up to 80 percent of leasing amount) for new SME leasing transactions (the maximum transaction amount is EUR 1.87 million). 166 guarantees in the amount of EUR 10.02 million for SME leasing transactions were included into the portfolio of guaranteed leasing transactions by 31 December 2014. EUR 6 million from the EU SF was allocated for the measure.

Venture capital measures

- By 31 December 2014, venture capital funds *Lithuania SME Fund (BaltCap)* and *LitCapital I* invested EUR 22.39 million into 16 companies. EUR 31.51 million from the EU SF was allocated for these funds.

- Co-investment fund *Verslo Angelai (Business Angels)* (JEREMIE Holding Fund measure) invested EUR 11.18 million into 27 companies together with “Business Angels” (up to EUR 399 676 into one company) by 31 December 2014. EUR 7.99 million from the EU SF was allocated for the measure.

- By 31 December 2014, the *Seed and Venture Capital Funds* (JEREMIE Holding Fund measure) invested EUR 9.91 million into 33 companies. EUR 17 million from the EU SF was allocated for the measure.

Partial compensation of interest on loans

The state compensates a part of interest paid by SMEs on loans and leasing agreements. 4 418 SMEs received a compensation of interest for EUR 15.031 million by 31 December 2014. EUR 16.218 million from the EU SF was allocated for the measure.

Entrepreneurship Promotion Fund:

The aim of the Fund is to enable micro and small companies as well as natural persons to start their own business, also, for social enterprises to develop their business through the use of the financial engineering instrument, thus promoting entrepreneurship and self-employment and the creation of new jobs. By 31 December 2014, SMEs were issued 1 120 loans for EUR 15.454 million.

5.4. Modernising Public Administration

The squeeze on public finances has created a new momentum for the modernization of public administration by developing e-procurement procedures, ensuring the digitalization of public administration and improving the use of the EU Structural Funds.

Increasing efficiency and transparency of public procurement procedures

In 2014, the e-catalogue of the central purchasing body (hereinafter - CPO LT) was expanded by adding new procurement modules. The number of contracting authorities registered with the CPO LT e-catalogue grew from 2 151 to 3 310. The number of contracts concluded on the CPO LT e-catalogue and the value thereof increased almost 3 times (from 5 168 contracts in 2013 to 15 263 contracts in 2014, with the total contract value increasing from EUR 152 million in 2013 to EUR 392 million in 2014).

Since 2014, contracting authorities, except for diplomatic representations, consular institutions of Lithuania abroad and representations of Lithuania under international organizations have been obliged to acquire goods, services and works from or through the central purchasing body, when goods, services or works offered on the central purchasing body e-catalogue meet the needs of the contracting authority or the contracting authority cannot purchase them in a more efficient way rationally using funds allocated for that purpose.

E-procurement

In order to promote the application of e-tools on public procurement procedures nation-wide, the following priority measures are planned in 2015:

- to legitimize the obligation to submit to specified contracting authorities in the determined public procurement procedure e-invoices only;
- to legitimize the obligation for contracting authorities to present contract notices of all cross-border procurement procedures, tender conditions, correspondence and supplier tenders by electronic means only;
- to continue expanding the CPO LT e-catalogue by adding new procurement modules.

Digitalization of public administration

According to the United Nations Electronic Government Development Index (EGDI), Lithuania ranked 29th out of 193 countries of the world in 2014. The share of main public and administrative services transferred to electronic environment increased: it accounted for 88 percent compared to 81 percent in 2013.

In 2014, residents were actively exploiting the possibility to fill various applications and declarations online and submit them to various institutions.

At the end of 2014, links to 530 public and administrative e-services were presented on the centralized e-government gate portal www.epaslaugos.lt - a one-stop access to all public sector e-services; it was visited by more than 1 300 000 unique visitors during the year.

During 2014, public sector institutions developed and started the provision of 42 new e-services for residents and business, of which 20 were new administrative services, 16 transport, civil protection, geodetic surveying and environmental services, 4 cultural services and 2 regional level democracy services. The following are a few examples of new e-services:

1. The STI transferred the majority of services provided thereby into the electronic environment. Currently, taxpayers can take out or extend their business license, view their debt or overpayment in a tax record card, receive notifications on the outstanding debt, discuss issues in e-forum, participate in remote trainings, submit and receive the necessary documents electronically. They can also change data on branches and representative offices of the Lithuanian and foreign legal entities in the taxpayers' register, submit an e-application for the recovery of tax overpayment and conduct other important transactions electronically on the STI portal;

2. The installation of the Information System of Social Support for Families, the aim whereof is the uniform registration and collection of information on social support provided by municipalities, analysis of this information by municipalities, types of support and support recipients, also, prevention of the receipt of support in several municipalities simultaneously. By making use of 26 newly developed e-services, residents of Lithuania can submit e-applications for a social benefit, a one-time newborn allowance, social assistance pension, compensation of nursing expenses or for other assistance, and to manage other social support-related issues electronically;

3. The Official Statistics Portal aimed at unified placement and publication of all official statistics. The portal has an installed flexible tool for the analysis of statistical indicators allowing the user himself to draw up tables from statistical indicators of various fields and to reflect them;

4. New e-services were created for natural and legal persons participating in civil and administrative court proceedings. The information on participated cases under examination can be reviewed. Furthermore video recordings of court proceedings can be accessed and information on ongoing court proceedings can be obtained. Procedural documents can be drawn up and submitted to the court, documents can be completed according to pre-prepared forms, notification of the acceptance of documents, errors, case examination can be received, payment of fines imposed by the court, litigation expenses or a stamp duty can be paid.

8 e-service development projects were implemented during 2014, such as *State Labour Inspectorate E-Service System for Employers*, *Development of Information System for the Management of Craft Navigation at the Klaipėda Seaport*, *Development of E-Services for the Issuance of Personal Documents to Citizens of the Republic of Lithuania and Foreigners and Other E-Services*.

In the preparation for the new EU SF investment stage, the study *Model for Defining, Epitomizing and Assessing Administrative and Public E-Services* relevant for further development of

public sector e-services was drawn up in 2014. The model defines the features to be met by advanced e-services, provides recommendations on development perspectives of e-services, identifies the types of e-services and criteria for attribution to these types, presents a model for assessment of e-services, provides recommendations for projects for the development of e-services. Expedience and perspectives of partnership between the public and private sectors in the field of e-services in Lithuania were assessed. Methodical documentation setting requirements for the priorities of the development of e-services in Lithuania, e-service quality assessment and project implementation processes will be drawn up on the basis of the study.

5.5. Improvement of the Management of Health Care System

The implementation of 57 projects aimed at the accessibility and efficiency of complex measures in 40 health care institutions of the country during the period from 2007 till 2014 improved accessibility of residents of the country to effective medical aid in the areas of cardiovascular and oncological diseases, trauma, mental illness prevention, early diagnosis and treatment. Preconditions were created for health care institutions to gradually increase their operating efficiency in the performance of prevention, diagnosis and treatment of these diseases as well as the reduction of health care inequalities.

The development of the *Integrated Health Care and Functional Cluster System* aimed at starting quality treatment of patients suffering from serious illnesses within the shortest period of time, efficient management of patient flows and optimizing activities of hospitals was continued in 2014.

Since 1 January 2014, public health care activities have been conducted in pre-school education, general education schools and vocational training institutions located in the territory of municipalities.

In order to counteract adverse effects of aging and demographic impact, the plan is to implement the measures of the Action Plan for Health Ageing Assurance in Lithuania for 2014–2023. These measures are aimed at the improvement of health care and accessibility thereto of older people (55 years and older), promotion of healthy lifestyle and conditions favourable to physical and mental health at work.

Stroke treatment centres, focusing human and material resources at one place, conducting coordinated operational actions, applying standardized treatment meeting modern evidence-based medical requirements in case of an acute cerebral stroke, started operating in 2014.

In order to assess the health state of new-borns and diagnose possible congenital genetic diseases in a timely manner, the universal newborn screening was supplemented with two additional new tests, the performance whereof was started since 1 January 2015.

The Plan for the Development of Health System and Consolidation of Hospital Network till 2025 establishing that the implementation will be performed in stages, drawing up specific action implementation plans for each stage, was approved in 2014. The aim is to achieve efficient functioning of the national health care institution system.

Planned works in 2015:

- Seeking for efficient functioning of the national health care institution system, to draw up and implement the Plan for the Development of Health System and Consolidation of Hospital Network for stage 4;
- To continue improving the quality of maternal and newborn health care and early diagnosis of congenital genetic diseases of new-borns;
- In order to counteract adverse effects of health disorders on the society's working capacity, to implement the Programme for the Reduction of Morbidity and Mortality from Main Non-communicable Diseases 2007–2013. It provides for the insurance of essential high-quality and accessible health care services, by investing in the modernization of infrastructure of health care institutions and installation of modern technologies as well as improving prevention of main non-communicable diseases, by 2015.

5.6. Funding the Implementation of Europe 2020 Strategy Targets from the EU Structural Funds during the 2014–2020 Period

On 20 June 2014, the European Commission approved the Partnership Agreement. It covers investments from five European structural and investment funds: the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Regional Development and the European Maritime and Fisheries Fund totalling to almost EUR 8.4 billion for the 2014-2020 period. The combination of financing from these funds and their management provisions in a single document encourages operational integrity and synergy, ensures better coordination between separate financial measures, reduces the cases of activity duplication and creates common monitoring mechanisms allowing to identify common problems and possible methods for solving them. Besides the provisions governing operational integrity, coordination and better management, the Partnership Agreement combines the provisions of EU strategic documents

(Europe 2020 Strategy, the EU Strategy for the Baltic Sea Region), the National Reform Programme and the EU Council's recommendations for Lithuania.

On 8 September 2014, the European Commission approved the 2014–2020 European Union Structural Funds Investment Operational Programme (hereinafter – the Operational Programme). The Operational Programme covers investments of the three EU funds (the European Regional Development Fund, the European Social Fund and the Cohesion Fund). During the 2014-2020 EU fund use period, EUR 6.709 billion of investments from EU funds was allocated for Lithuania, a significant share whereof will be invested in 2014-2020 into the areas, which are important for sustainable economic growth and creation of jobs in medium- and long-term, - research, technologic development and innovation, development of information technologies, promotion of competitiveness of small and medium-size businesses, energy efficiency and promotion of renewable energy sources, increase of employability and reduction of social exclusion and poverty. During the 2014-2020 period, a special focus will be placed on sustainable territorial development applying new elements – integrated territorial investments and community-initiated local development.

In order to ensure efficient and effective use of EU funds in 2014-2020, a mandatory prerequisite – setting *ex ante* conditions for the implementation of regulatory requirements to avoid inefficient investments of EU funds into those sectors/ areas, which do not have the necessary strategic or development documents and programmes prepared, emerged in this period. Only upon the fulfilment of these conditions, funds will be allocated for the implementation of respective priorities of the Operational Programme. It should be noted that *ex ante* conditions are also related to *Europe 2020* targets. When approving the Operational Programme, the Action Plan for the Implementation of Outstanding Ex Ante Conditions (hereinafter – the Action Plan), whereby Lithuania undertook to implement 13 outstanding thematic *ex ante* conditions and 1 general *ex ante* condition, was drawn up. 7 *ex ante* conditions of the conditions provided for in the Action Plan are related to *Europe 2020* targets:

- A smart specialization strategy must be drawn up in line with the National Reform Programme in order to attract private funds for covering research and innovation (hereinafter - R&I) expenses, which meets well-functioning national and regional R&I systems; also, a multi-annual budget and investment priority plan must be prepared;
- Comprehensive plans and regulatory measures for investments in smart energy infrastructure, contributing to the improvement of energy efficiency and security of supply, must be drawn up;
- A national strategic policy framework for poverty reduction aimed at ensuring active inclusion of persons excluded from the labour market in view of employment guidelines must be prepared and implemented;

- A national strategic policy framework for the inclusion of the Roma must be drawn up;
- Strategic policy framework for the reduction of the number of school leavers must be set;
- A national or regional strategic policy framework for encouraging the acquisition of tertiary education, improving the quality and efficiency thereof, must be prepared;
- A national and/or regional strategic policy framework for life-long learning must be prepared.

On 1 February 2015, all the respective legislation provided for in the Action Plan according to all outstanding thematic and 1 common *ex ante* condition was prepared and approved. The European Commission already assessed 7 *ex ante* conditions of the said 13 to have been properly fulfilled.

The Operational Programme priority *Promoting Research, Development and Innovation*, 10.1 percent of all EU funds was allocated wherefor, will contribute the most to the *Europe 2020* target to increase investments in research and development;

The priority *Public Education and Increase of Human Resource Potential*, 9.9 percent of all EU funds was allocated wherefor, will contribute to the *Europe 2020* target to reduce early school leaving among young people and to increase the share of youth with higher education;

The priority *Promoting Energy Efficiency and Production and Use of Renewable Energy Sources*, 14.5 percent of all EU funds was allocated wherefor, will contribute to the *Europe 2020* target to increase renewable energy sources, energy efficiency and limit emissions of greenhouse gases;

Priorities *Promoting Quality Employment and Participation in the Labour Market*, 10.9 percent of all EU funds was allocated wherefor, and *Increasing Social Inclusion and Combating Poverty*, 8 percent of all EU funds was allocated wherefor, will contribute to the *Europe 2020* target to increase employment and reduce social exclusion.

According to the data presented by the EC on 31 December 2014, in terms of the use of EU funds in 2007-2013, Lithuania remains one of the leaders among all EU Member States – it has used 15 percent more funds than the EU average (with the EU average being 68 percent and Lithuania's usage rate - 83 percent), and ranks second after Portugal.

VI. INTERINSTITUTIONAL COOPERATION AND INCLUSION OF SOCIAL AND ECONOMIC PARTNERS

The NRP 2015 was drawn up by interinstitutional working group comprising representatives of ministries, the Bank of Lithuania and Statistics Lithuania. The Minister of Economy coordinated the preparation of the NRP. In order to include into the process social and economic partners, proposals received from public organizations, social and economic partners representing various groups of interests were assessed at the time of preparation of the NRP 2015. Discussions with social

and economic partners were held on the 13th and 16th of March 2015 in the Ministry of Economy. Representatives from the Lithuanian Confederation of Industrialists, the Lithuanian Labour Federation, Association *Investors' Forum*, the Engineering Industries Association of Lithuania, the Lithuanian Innovation Centre, the Energy Agency, the Lithuanian Trade Union *Solidarity*, *Invest Lithuania* and other participants took part in the discussions.

It should also be noted that on 17 March, the aspects of the preparation of the NRP and main priorities of the reforms were discussed in the Supervisory Committee for the Implementation of the National Reform Programme, consisting of vice-ministers of responsible ministries and a representative from the Office of the Government of the Republic of Lithuania headed by the Minister of Economy.

On 24 March 2015, the draft NRP 2015 was approved at the meeting of the European Committee under the Government. On 25 March 2015, it was approved at the meeting of the Seimas Committee on European Affairs. During the meeting, members of the Seimas and responsible representatives from the ministry-level institutions engaged in active discussions on poverty reduction and pension reform issues. During the meeting, issues related to the progress achieved in the implementation of the Council's recommendations for Lithuania for 2014 were also discussed. The final document was approved in the meeting of the Government held on 7 April 2015.