



CONCLUSIONS AND RECOMMENDATIONS

Lithuania has made significant progress in SOE reform consistent with the OECD Guidelines over the last five years. The accomplishments include the introduction of annual aggregate reporting at a comparatively high international level; the introduction of an ownership policy, including a classification of SOEs according to types of objectives; the establishment of an ownership coordination function; heightened standards of transparency and disclosure in SOEs; and the inclusion of independent directors in a number of SOE boards. This should, however, not distract from a continued need to clarify the rationales for state ownership of individual enterprises and subject these to recurrent reviews.

A couple of overarching concerns remain. One is the apparent absence of a vigorous, consistent implementation and enforcement of the broadly sound governance and transparency standards that have been developed by the Lithuanian government. Another concern relates to the effective separation of the government's roles as owner and regulator of enterprises, which is exacerbated by the dispersed ownership, the exercise of regulation within different sections of the ownership ministries, and the closeness of many of the SOE boards to the ownership functions. In addition to creating conflicts of interest for the relevant state bodies it also raises the potential for excessive politicisation of individual enterprises. Some remedial measures recommended to the Lithuanian authorities are the following:

- **Strengthening the ownership function.** If a centralisation of the ownership function is not feasible at the current juncture, then the existent coordinating function should be strengthened. The provisions in the Ownership Guidelines are consistent with commonly agreed good practices, but the GCC is currently not resourced to implement them. In addition, the government should give consideration to the institutional status of the GCC which should arguably have an independent legal personality or, at least, not be placed within one of the SOEs it is charged with overseeing. Two areas of priority are:
 - *Well-resourced coordination.* Provide the GCC with more adequate financial resourcing allowing it to employ specialised staff, including persons with strong corporate backgrounds, with expertise in accountancy, corporate law and management.
 - *Enforcement of government decisions.* Create mechanisms that ensure that departures from government policies by SOEs or ministries are promptly addressed on a whole-of-government basis.
- **Improving board autonomy.** Additional steps are needed to safeguard board autonomy. A larger number of independent directors, selected through transparent nomination procedures including outside recruitment specialists is a necessary first step. Board members should have sufficient professional expertise (accounting, relevant sectoral and commercial experience) to be able to effectively monitor strategy and the performance of the CEOs.

Where government officials serve on SOE boards they should be selected on the basis of individual merits, and be from parts of the public administration that are not linked with the SOEs in whose boards they partake. Acting politicians should not serve on SOE boards. An effort should be made to improve the functioning of two-tier boards (where such exist) by strengthening the role of supervisory boards. If this is not feasible the government should consider converting two-tier boards to unitary boards. To improve board autonomy, Chairs should increasingly be nominated from among the independent board members.

- **Streamlining SOEs' legal and corporate forms.** Work remains to be done in terms of simplifying and standardising the corporate form of SOEs. Consistent with current and recent trends across OECD countries, a number of statutory corporations could be converted to limited liability companies. Moreover, measures should be taken to ensure that groups of small SOEs with identical or near identical functions achieve an efficient allocation of resources and are subject to higher standards of governance and transparency (i.e. those standards that are currently only applicable to large SOEs). Two areas of priority are:
 - *Stronger corporatisation.* Identify state enterprises pursuing primarily economic activities and convert them to limited liability companies.
 - *Rationalisation of sectors with multiple SOEs.* Clarify the rationale for maintaining the 42 state forestry enterprises and 11 road maintenance enterprises and organise both sectors with a view to achieving an efficient allocation of resources and implementing high standards of governance and transparency. This could be achieved through a consolidation of the enterprises within each sector.
- **Making disclosure standards mandatory.** The Transparency Guidelines contain sound recommendations consistent with commonly accepted good practices. However, their implementation should be made compulsory for at least the larger SOEs. The fact that similar reporting requirements are implemented on a comply-or-explain basis for listed companies should not provide licence for SOEs to fail to implement their government owners' expectations.