Lithuania: Making State Ownership Successful

Presented by

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### Transparency and disclosure
- Adoption of Transparency Guidelines
- Introduction of aggregated SOE portfolio reporting

### Ownership policy
- Adoption of Ownership policy
- Establishment of the Governance Coordination Centre

### Governance professionalisation
- Improved Board autonomy (independence)
- Introduction of letters of expectations

### Portfolio optimisation
- SOE portfolio optimisation
- Corporatisation of SOEs

<table>
<thead>
<tr>
<th>Year</th>
<th>Ownership policy</th>
<th>Governance professionalisation</th>
<th>Portfolio optimisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>Adoption of Ownership policy</td>
<td>Improved Board autonomy (independence)</td>
<td>SOE portfolio optimisation</td>
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<td>2012</td>
<td>Establishment of the Governance Coordination Centre</td>
<td>Introduction of letters of expectations</td>
<td>Corporatisation of SOEs</td>
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**Accession to OECD**
- Opened OECD accession discussions

**Road to Professional and Transparent SOEs’ Governance**

*Building effective, accountable, and inclusive institutions. Lessons from Europe and Central Asia Region*
ACCESSION TO THE OECD

SOE reform in line with OECD recommendations

✓ Strengthen ownership function
✓ Improve Board autonomy
✓ Streamline SOEs’ legal and corporate forms
✓ Make disclosure standards mandatory
Governance centralization through the Governance Coordination Centre

- Reduced number of ownership entities (from 23 to 10)
- Core governance policies established by the national law

GOVERNANCE COORDINATION CENTRE

Analytical centre, founded by the Government, which seeks to ensure the consistent and professional governance of state-owned enterprises

- **Transparency**: Analytic reports and publication of SOEs performance
- **Boards**: Selection procedures of independent board members
- **Clear targets**: Review of SOEs strategies, letters of expectation and monitoring of the achievement of targets
- **Consulting**: Assistance in SOE policy setting, consulting on good governance practices
At least ½ of Independent Board members
- Boards without political appointees
- Standardised and public board selection procedures for all SOEs

**OPERATIONAL INDEPENDENCE OF SOE BOARDS**

The Percentage of Independent Board Members:
- 2015*: 13%
- 2016: 17%
- 2017: 33%
- 2018: 56%
- 2019: 60%

The Percentage of Political Appointees in Boards:
- 2015*: 19%
- 2016: 15%
- 2017: 4%
- 2018: 0%
- 2019: 0%
✓ Optimisation of SOE portfolio
  ▪ Wide range of solutions to divest, consolidate or reorganize enterprises (no major privatization programs)

✓ Plans to fully corporatize SOEs’ legal forms
  ▪ Since the reform, number of State enterprises (SE) reduced from 92 to 17
HIGH QUALITY ACCOUNTING AND TRANSPARENCY

- SOEs accountable to general public at least as listed companies
- Detail and public aggregate report of SOE portfolio, extensive disclosure through GCC’s tools
- Developed monitoring tool - SOEs Corporate Governance Index

https://governance.lt/en/
Improved SOEs’ governance leads to higher return to the state...

**RETURN TO THE STATE (EUR MILLION)**

- Atypical taxes to the state
- Dividends and profit contributions to the state

- 3x higher average return to the state

...value is generated not only from cash perspective

- Since SOE reform, book value of portfolio grew 23%
- Significant part of portfolio operates under regulated market or provides public oriented services (special obligations)
Improved SOEs’ governance strengthens local capital market

In 2020 energy company Ignitis group completed largest IPO in Baltic capital markets history:

✓ EUR 450 millions raised
✓ International institutional funds and major pension funds attracted
✓ Almost 7,000 retail investors
Success in SOEs’ governance can be transferred to municipal level...

Lithuania extended Board autonomy and disclosure principles to MOEs:
✓ Aggregate MOE portfolio reporting is introduced
✓ Independent board members are mandatory
✓ Public and standardized Board selection procedures implemented

...MOEs plays significant part in national economy

MOE portfolio:
- 250 enterprises (5x more than SOEs)
- Book value – EUR 3.2 billion (1/3 of SOE portfolio)
- Revenues – EUR 1 billion
- Main sectors: Heat production, Water supply, Public transportation
Data and monitoring institution – fundamental for professional governance

Evolution vs revolution – small steps matter, while the initial ambition provides momentum

Accession to the OECD – powerful motivation to reform SOEs’ governance

The OECD Guidelines and expertise provide strong foundation
Governance centralization – a key to effective and competent governance
✓ Public competence consolidation
✓ Simpler regulation
✓ Unified governance

Strengthening of SOE Boards – autonomous Boards are one of the main pillars of effective and balanced governance
✓ Transparent and professional selection
✓ Dialogue principles
✓ Balanced board composition

Portfolio optimization – allows to avoid market distortions and concentrate efforts to key sectors
✓ Ownership criteria
✓ Management consolidation
✓ Attention to strategic sectors
Covid-19 pandemic affected Lithuania’s economy to a lesser extent

- Impact to SOEs sector is marginal and located in air transport and tourism related enterprises
- Majority of SOEs had extensive cash reserves, allowing to absorb initial impact of pandemics
- Affected SOEs are exempt from dividend payout
- Recovery fund (SOE) established in order to support badly affected private companies
THANK YOU!

Visit
https://governance.lt/en/
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