

2018 SBA Fact Sheet

Lithuania



Key points

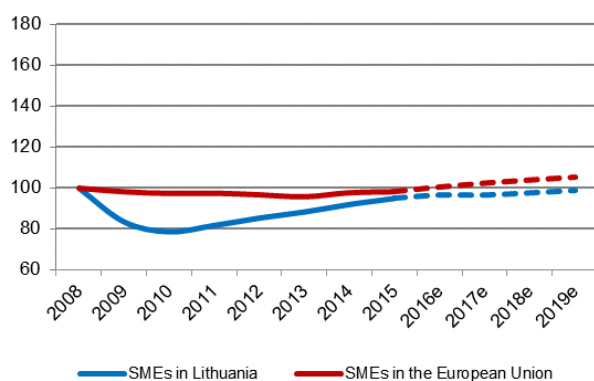
Past & future SME performance¹: Along with large companies, SMEs in the 'non-financial business economy' have been growth generators in recent years. In 2013-2017, SME value added rose by 38.7 % and SME employment by 9.5 %. Productivity grew by 26.7 % in the same period. However, in 2017 the productivity of Lithuanian SMEs was only 38.3 % of the EU average. In 2017, SMEs generated 68.5 % of value added and 76.1 % of employment. This is higher than the respective EU averages of 56.8 % and 66.4 %. SME value added growth is expected to remain strong (15.3 % for 2017-2019), exceeding the expected growth of 11.3 % in large firms. In contrast, SME employment growth is likely to be moderate, at 2.5 % for the same period. While employment in large firms is predicted to fall by 0.7 %, SMEs are expected to be the main employment growth drivers for the economy as a whole, creating almost 17 700 new jobs by 2019.

Implementing the Small Business Act for Europe (SBA): Lithuania's overall SBA profile remains strong as in previous years, despite it slipping in some areas compared to other EU countries. It scores below EU average on only one principle — 'second chance' — with average scores on access to finance, single market, skills & innovation and the environment. It scores above EU average on entrepreneurship, 'responsive administration' and state aid & public procurement, and scores second best on internationalisation.

SME policy priorities: Lithuania is performing well in most SBA criteria, and is particularly strong in areas such as internationalisation, entrepreneurship, 'responsive administration' and state aid & public procurement. Although it continues to make some progress in implementing the SBA, several pressing issues remain, in particular the time, cost and conditions for resolving bankruptcy issues. There has also been little progress overall on the environment. While there have been significant advances in public measures to help SMEs produce green products, there was a sharp drop in the proportion of SMEs offering green products and services. In the area of skills & innovation, while several new measures have been introduced, Lithuania's overall performance remains in line with the EU average. Further work is needed in particular to develop an innovation culture among Lithuanian SMEs and to address skills shortages (in particular to ensure that ICT skills training is available to more people).

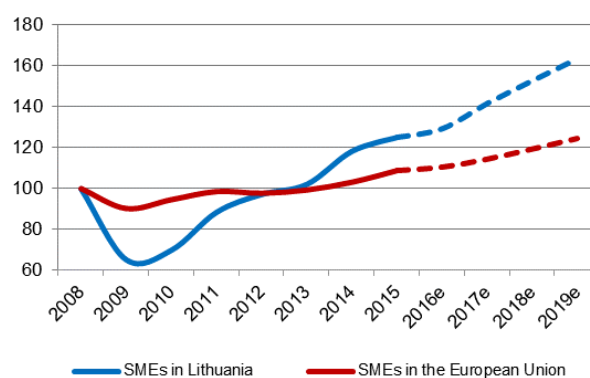
Number of persons employed in SMEs

(Index: 2008=100, estimates as from 2016 onwards)



Value added of SMEs

(Index: 2008=100, estimates as from 2016 onwards)



About the SBA fact sheets

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and 'responsive administration' to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs. Since 2011, each EU Member State has appointed a high-ranking government official as its national SME envoy. SME envoys spearhead the implementation of the SBA agenda in their countries.

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1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Lithuania		EU-28	Lithuania		EU-28	Lithuania		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	170 659	92.8 %	93.1 %	277 281	29.4 %	29.4 %	3.4	19.3 %	20.7 %
Small	10 867	5.9 %	5.8 %	227 071	24.1 %	20.0 %	3.9	22.4 %	17.8 %
Medium-sized	2 026	1.1 %	0.9 %	213 106	22.6 %	17.0 %	4.7	26.8 %	18.3 %
SMEs	183 552	99.8 %	99.8 %	717 458	76.1 %	66.4 %	12.0	68.5 %	56.8 %
Large	306	0.2 %	0.2 %	224 818	23.9 %	33.6 %	5.5	31.5 %	43.2 %
Total	183 858	100.0 %	100.0 %	942 276	100.0 %	100.0 %	17.6	100.0 %	100.0 %

These are estimates for 2017 produced by DIW Econ, based on 2008-15 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

SMEs play a significant role in the Lithuanian 'non-financial business economy', generating 68.5 % of value added and 76.1 % of employment in 2017. This is higher than the respective EU averages of 56.8 % and 66.4 %. The productivity of Lithuanian SMEs is around EUR 16 800 per person, which is only 38.3 % of the EU average of EUR 43 900. The most important SME sectors are wholesale and retail trade and manufacturing, with contributions to total value added of 27.3 % and 19.1 % respectively.

Along with large companies, SMEs in the 'non-financial business economy' have been growth generators in recent years. In 2013-

2017, SME value added rose by 38.7 % and SME employment by 9.5 %. During the same period, the growth of micro firms has been remarkable, with an increase of 78.5 % in value added and 21.6 % in employment, significantly outperforming firms of other size classes, including large firms. Micro firms created almost 50 000 new jobs in 2013-2017, which was nearly two thirds of all new jobs created in the 'non-financial business economy' during the same period.

The largest SME sector, wholesale and retail trade, has generated steady growth in recent years. SME value added in this sector climbed by 27.7 % in 2013-2017, and SME

employment increased by 2.8 %. One of the growth drivers is rising household incomes. Real wages have increased due to a shortage of skilled workers combined with the favourable economic environment². This rise in both job vacancies and wages has encouraged unemployed people to enter the labour market. In 2016, the unemployment rate was 7.9 %, 1.2 percentage points lower than in the previous year³. The increase in labour costs resulting from higher wages has stimulated investment aimed at boosting productivity in the sector⁴. Although SME value added had already recovered to its pre-crisis level by 2012, SME employment in this sector was still 10.6 % lower in 2017 compared to 2008. As a result, productivity in the sector (measured as value added per person employed) increased by 53.4 % in 2008-2017. This was higher than the 46.9 % average productivity growth of SMEs in the Lithuanian 'non-financial business economy' as a whole during the same period. Furthermore, wholesale trade has benefited from an increase in export and import activities⁵.

Of all the sectors in Lithuania, the administrative and support services sector has generated the most overall growth, with a rise of 75.5 % in value added in 2013-2017. SMEs in this sector achieved even higher growth of 84.0 % in the same period. SME employment in this sector rose by 22.9 %, outperforming the 20.8 % overall employment growth in the sector. Several factors have contributed to the success of administrative and support services. Firstly, demand for support services has increased due to large investment programmes provided by EU structural funds^{6,7}. Secondly, growth has been strengthened by investments from foreign companies, which have been actively outsourcing their business processes; foreign direct investment (FDI) increased by 65 % in 2017 compared to 2014⁸. However, the 5.2 % share of value added generated by administrative and support services in Lithuania's 'non-financial business economy' is still well below the EU average of 7.6 %.

Three other sectors worth a mention are transportation, manufacturing, and professional, technical and scientific. SME value added in these sectors increased by 36.75 %, 33.75 % and 26 % respectively during the period.

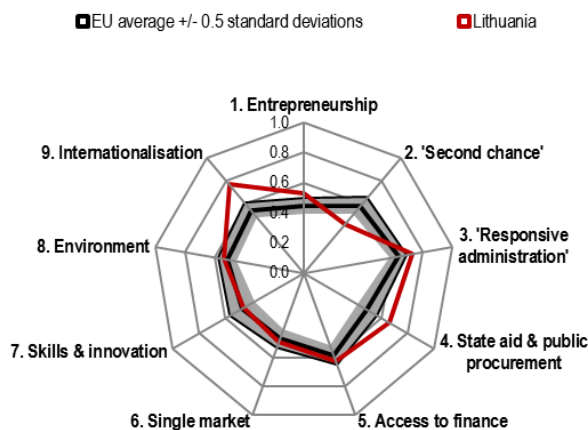
Value added still comes largely from low-tech, less knowledge intensive activities. In 2013-2017, there was a slight positive trend: the percentage of SME value added from low-tech manufacturing and less knowledge intensive services fell slightly from 80 % to 77 %. The situation is similar for the percentage of people employed in this type of activity (83 % in 2013 and 81 % in 2017).

Despite the continuing growth of the Lithuanian economy, the number of active companies has barely risen in the past year. At the beginning of 2018 there were 104 117 registered firms compared to 104 074 in the previous year⁹. According to the Lithuanian Department of Statistics, 11 345 new companies were registered in 2017, 8.6 % more than in 2016¹⁰, while 4 674 companies de-registered¹¹ and 2 951 filed for bankruptcy¹². The 8 % rise in bankruptcies compared with 2016 is related to a new filing procedure rather than to economic circumstances^{13,14}.

In 2015, a total of 1 843 Lithuanian firms were classified as high-growth firms,¹⁵ equating to an 11.2 % of all firms in the 'business economy'¹⁶ with at least 10 employees — higher than the EU average of 9.9 %. However, in contrast to the trend in the EU as a whole, this share has steadily fallen for the third year in a row from its peak of 13.4 % in 2013. High-growth firms are particularly prevalent in construction and transportation and storage, with 14.7 % and 13.1 % respectively. Together, these two sectors comprise more than a third of all high-growth firms in the 'business economy'.

SME value added growth is expected to remain strong, rising by 15.3 % in 2017-2019 and exceeding the expected growth of 11.3 % in large firms. In contrast, SME employment growth is likely to be moderate, at 2.5 % in the same period. While employment in large firms is predicted to fall by 0.7 %, SMEs are expected to be the main employment growth drivers for the economy as a whole, creating almost 17 700 new jobs by 2019.

2. SBA profile¹⁷



Lithuania's overall SBA profile is generally strong, with above-average performance on entrepreneurship, 'responsive administration' and state aid & public procurement. It has the second highest score among the Member States on internationalisation. It scores below the EU average in only one area, 'second chance', and is in line with the EU average in the remaining four areas — access to finance, single market, skills & innovation and environment.

Generally speaking, Lithuania has not adopted a specific strategy for SBA implementation since 2008. SBA measures were largely introduced under the Entrepreneurship Promotion Action Plan 2014-2020, which addresses many of the SBA topics and objectives (as part of the government's general legislative agenda). The Entrepreneurship Promotion Programme 2014-2020 addresses three broad policy areas: entrepreneurial education, creating a favourable environment for business, and promoting entrepreneurship, in particular for vulnerable target groups (e.g. women, young people) and regions. The programme is funded by a mix of contributions from the government budget and other sources, such as EU structural funds and joint public-private investments, with progress reported each year and overseen by the government.

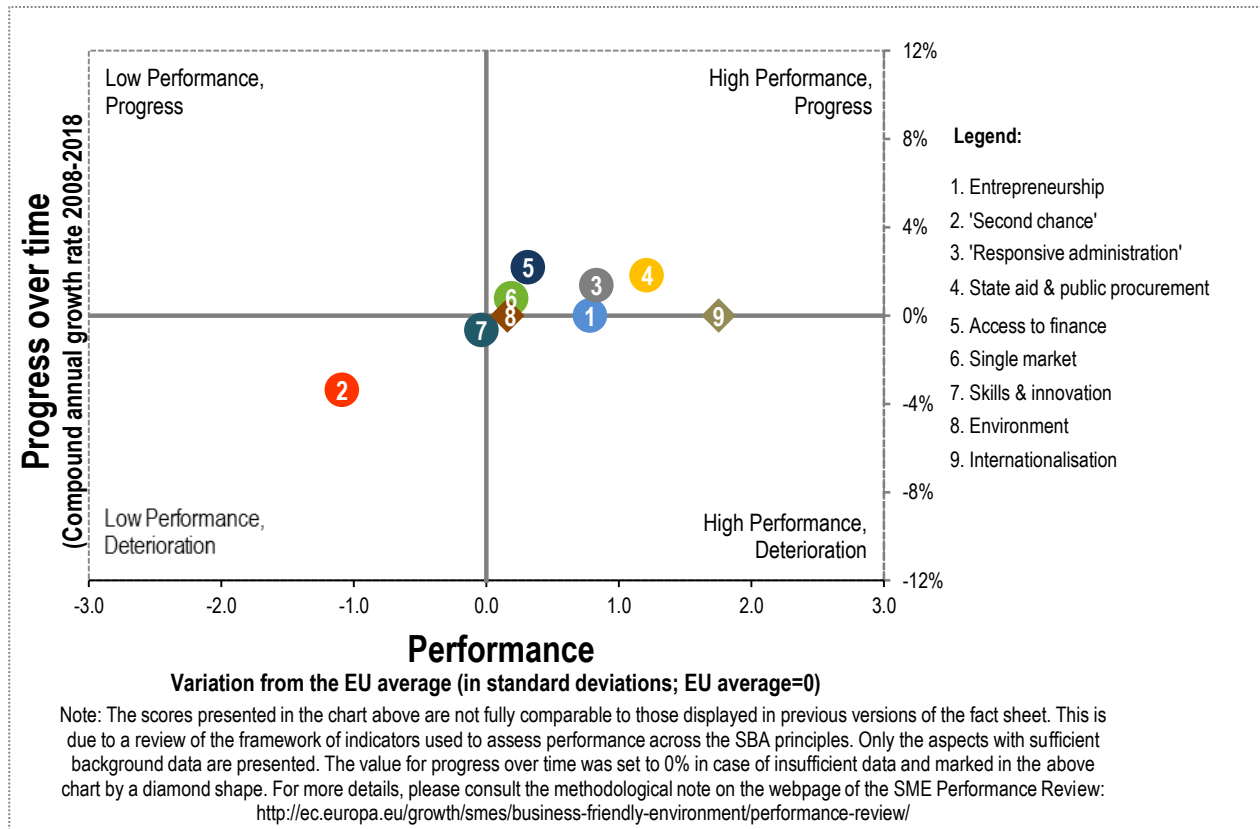
Starting with a number of key policy initiatives in priority areas such as access to finance, 'responsive administration' and skills & innovation, recent governments have been improving the conditions for SMEs in almost all SBA areas. The government continued its active business support strategy with the flagship Entrepreneurship Promotion Programme 2014-2020 as well as the Innovation Development Programme 2014-2020 (adopted in 2013). Challenges remain in policy areas that have received less attention over recent years such as 'second chance', where there is a pressing need to reduce the time and cost of resolving bankruptcy issues. Another issue involves increasing SME uptake of resource efficiency measures and green products and reconciling differing — and sometimes conflicting — stakeholder interests. These challenges are compounded by an economy-wide skills shortage and a general lack of innovation in SMEs, both of which merit further attention.

Many measures introduced so far concern access to finance (e.g. loan guarantees, portfolio loans and venture capital). Areas such as entrepreneurship and SME digitalisation have also garnered considerable attention, with less action seen on better regulation.

In 2017 and the first quarter of 2018, Lithuania adopted 19 new policy measures addressing 9 out of the 10 policy areas under the Small Business Act. Overall, stakeholders acknowledge that substantial progress has been made in implementing the SBA. The most progress made during the reference period was on access to finance (five specific measures), followed by internationalisation (three new measures). There were also three new measures for skills & innovation, although a number of challenges remain in this area. There were two new measures for 'responsive administration'. The latter three principles are also addressed on a secondary basis by measures aimed primarily at other principles. Two other SBA areas — entrepreneurship and public procurement & state aid — are the target of two measures, with the 'Think Small First', 'second chance' and environment principles each benefiting from one measure.

The single market is the only area for which no new policies were introduced during the reference period, although the conditions are already very much in line with the SBA requirements thanks to initiatives taken in previous years.

SBA performance of Lithuania: state of play and development from 2008 to 2018¹⁸



3. SBA principles¹⁹

3.0 ‘Think Small First’

The ‘Think Small First’ principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to take SME interests into account at the early stages of the policymaking process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

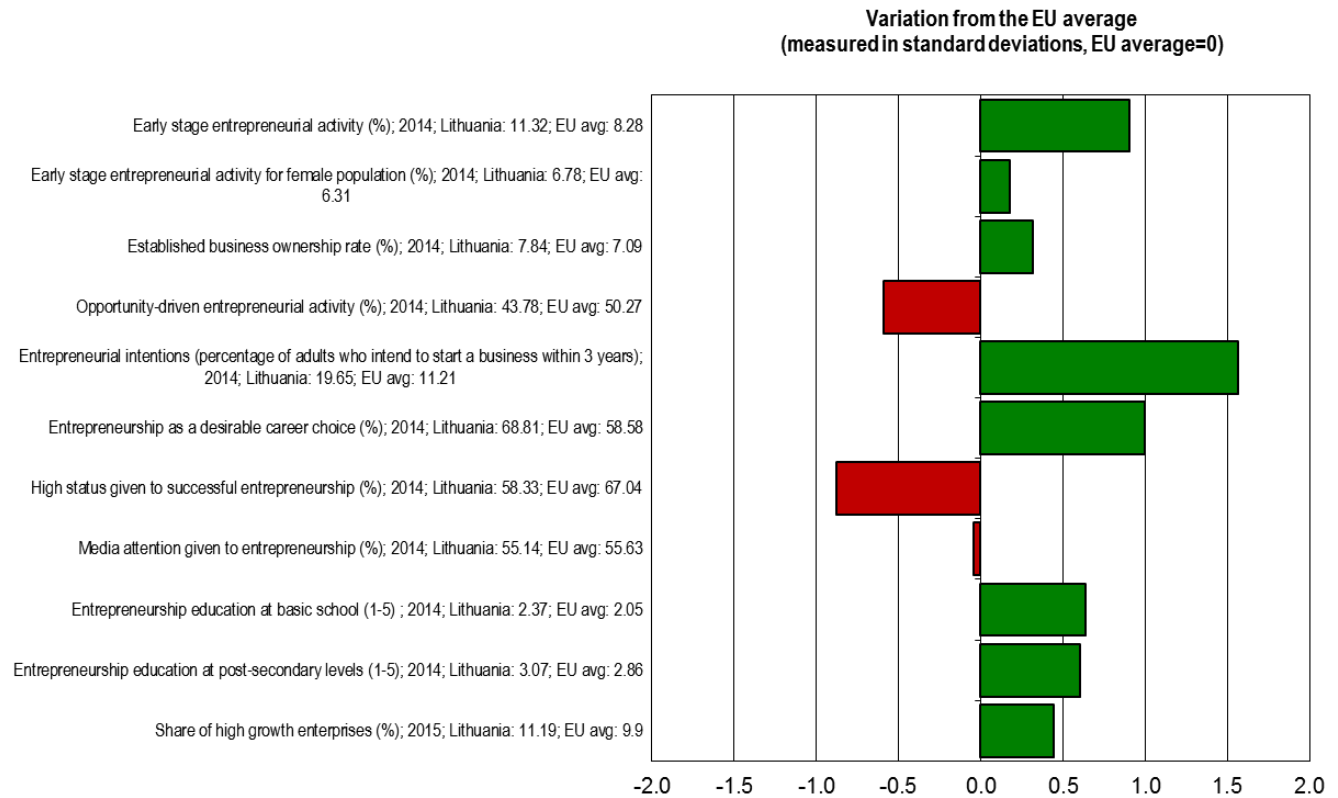
Lithuania has introduced a number of key measures linked to the ‘Think Small First’ principle. Processes for SME consultation are in place, while SME stakeholders are consulted on SME-related legislative proposals and their views are taken into consideration. The Small and Medium-sized Business Council, which represents the business community, meets regularly to discuss and communicate its opinions on matters important to SMEs. Its representatives are invited to participate in the ‘Commission for the Supervision of Better Regulation’ (a working group established by the Ministry of Finance to discuss matters relating to SMEs, including taxation) as well as many other groups. The Law on Legislative Framework, which came into force in November 2013, created a requirement for any new regulations or requirements affecting businesses to become law on a common commencement date (either 1 May or 1 November) each year. Common commencement dates ensure that new laws, administrative decrees and ministerial regulations come into force on fixed dates, allowing businesses and other stakeholders to plan and budget for new measures and minimising additional costs.

Regulatory impact assessments are also carried out to measure the administrative burden and monitor it at national and municipal level. Public institutions are obliged to evaluate the potential administrative burden arising from prospective legislation and to develop plans to address it. Although the methodological processes for regulatory impact assessment have been updated over the years, there is also some evidence of a lack of effectiveness (see 3.3 below).

There is also scope for improving the ‘SME test’ (used to assess the impact of regulation on SMEs), which has been adopted but is not used systematically. As a result, many legislative initiatives are not assessed. In Lithuania, business monitoring is carried out by 56 institutions responsible for making decisions on reducing the number of bureaucratic hurdles, excessive requirements, and administrative and other regulatory concerns affecting business. While stakeholders understand the need to monitor, they believe that the institutions tasked with related functions lack effective interoperability²⁰.

Over the reference period, one significant measure was introduced that may affect many SMEs — the amended Law on Small and Medium-sized Business Development (amendment No XII-192 adopted in January 2017) came into force in May 2017. The amendment introduced new definitions of micro, small and medium-sized enterprises, described the forms of state support available to them and defined the status and functions of the Small and Medium-sized Business Council.

3.1 Entrepreneurship



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Lithuania performs above the EU average in this SBA policy area; it has the second highest level of entrepreneurial intentions among the Member States with 19.7 %, although all indicators remain unchanged from the previous year's fact sheet.

Sentiment amongst Lithuanians towards entrepreneurship is mixed. A recent survey²¹ indicated that almost a third of Lithuanians would like to become entrepreneurs, 26 % feel it is likely they will start their own business and 5 % feel quite sure they will. However, almost half feel they will never become entrepreneurs. The main obstacles cited are lack of skills (36 %) and lack of capital (35 %). Fear of failure and financial instability are also among the main reasons that prevent people from setting up a company. Although fear of failure is relatively high in Lithuania, people tend to create businesses in pursuit of good opportunities rather than because they have no other work options. Necessity-driven entrepreneurs are leaving business to choose other careers²².

Over the last few years, Lithuania has developed an attractive and dynamic ecosystem for start-ups and scale-ups. There are around 380 registered start-ups, with various sources of advice and support. Lithuania has seen a particularly steep rise in venture capital investment in recent years. There are also business angels²³. Public research institutions and government

agencies actively promote the start-up and scale-up culture. Enterprise Lithuania runs Start-up Lithuania, a one-stop shop that provides information, advice and consultancy for start-ups. It also organises events and gives selected start-ups the opportunity to visit the world's leading tech start-up conferences and successful ecosystems. A number of banks are also involved in initiatives to support knowledge sharing and access to finance for scale-ups (for example, the Innovation Centre run by SEB, and the Financial Technologies Programme run by Swedbank and Startup Wise Guys²⁴). The Start-up Visa measure mentioned at the end of this fact sheet is also intended to stimulate the local start-up ecosystem, among others by forging global start-up network connections and encouraging innovation.

Since 2008, the government has introduced a number of measures designed to support entrepreneurship. These include business support programmes such as the 'First Year of Business Service Basket' operated by Enterprise Lithuania, and financial incentive schemes such as the Entrepreneurship Promotion Fund, which is a microcredit programme run by Investment and Business Guarantees Ltd. (INVEGA), the national agency that develops and implements business financing solutions for SMEs..

Most of the key SBA principles in entrepreneurship have been implemented. Entrepreneurship education has been introduced in

secondary and tertiary education, with students given opportunities to develop positive attitudes towards entrepreneurship and to gain practical skills through experience. A few aspects of the entrepreneurship principle have not yet been implemented, in particular those on supporting business transfers.

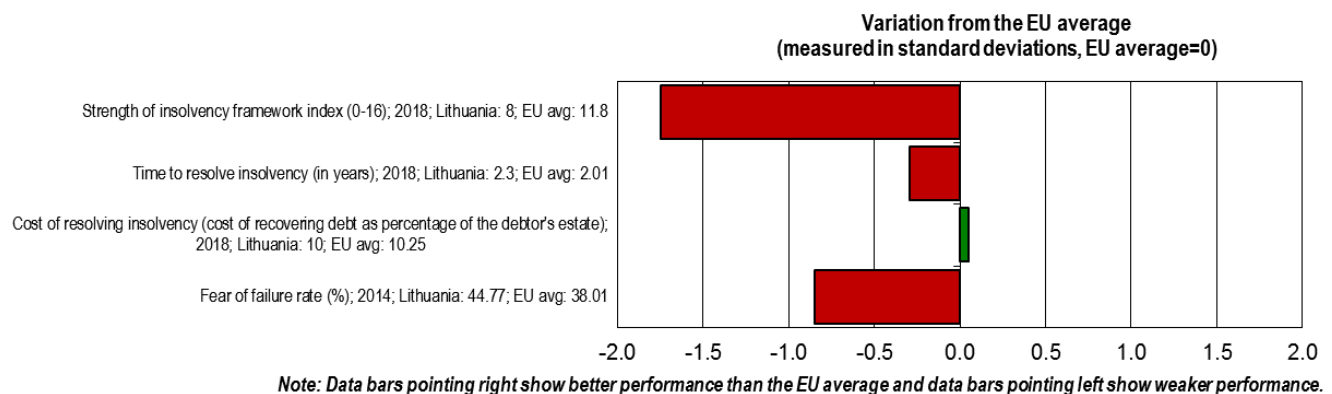
Two further new measures were introduced during the reporting period to complement the existing programmes:

- Start-up Visa: in January 2017 the Lithuanian government adopted new immigration legislation, which aims to attract ambitious entrepreneurs from outside the EU to Lithuania. New immigration rules ensure a fast-track permanent residency process for high-tech, early stage start-ups with scalable,

innovative products or business models. During 2017, 27 start-ups received a positive evaluation and 11 (from South Korea, China, Russia and Ukraine) started their businesses in Lithuania.

- Capacity building to support entrepreneurship in regions: regions often lack the requisite manpower, knowledge and skills to support entrepreneurs located in their territory. Enterprise Lithuania has analysed how regional SME programmes work and surveyed SMEs about the perceived benefits of existing measures. Following this analysis, Enterprise Lithuania provided recommendations, guidelines and good practice cases to help and encourage municipalities to improve their SME support programmes.

3.2 'Second chance'



'Second chance' refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. This is the SBA area where Lithuania performs the worst, remaining below the EU average and having largely regressed overall since 2008. The country's performance remains unchanged against last year's SBA fact sheet.

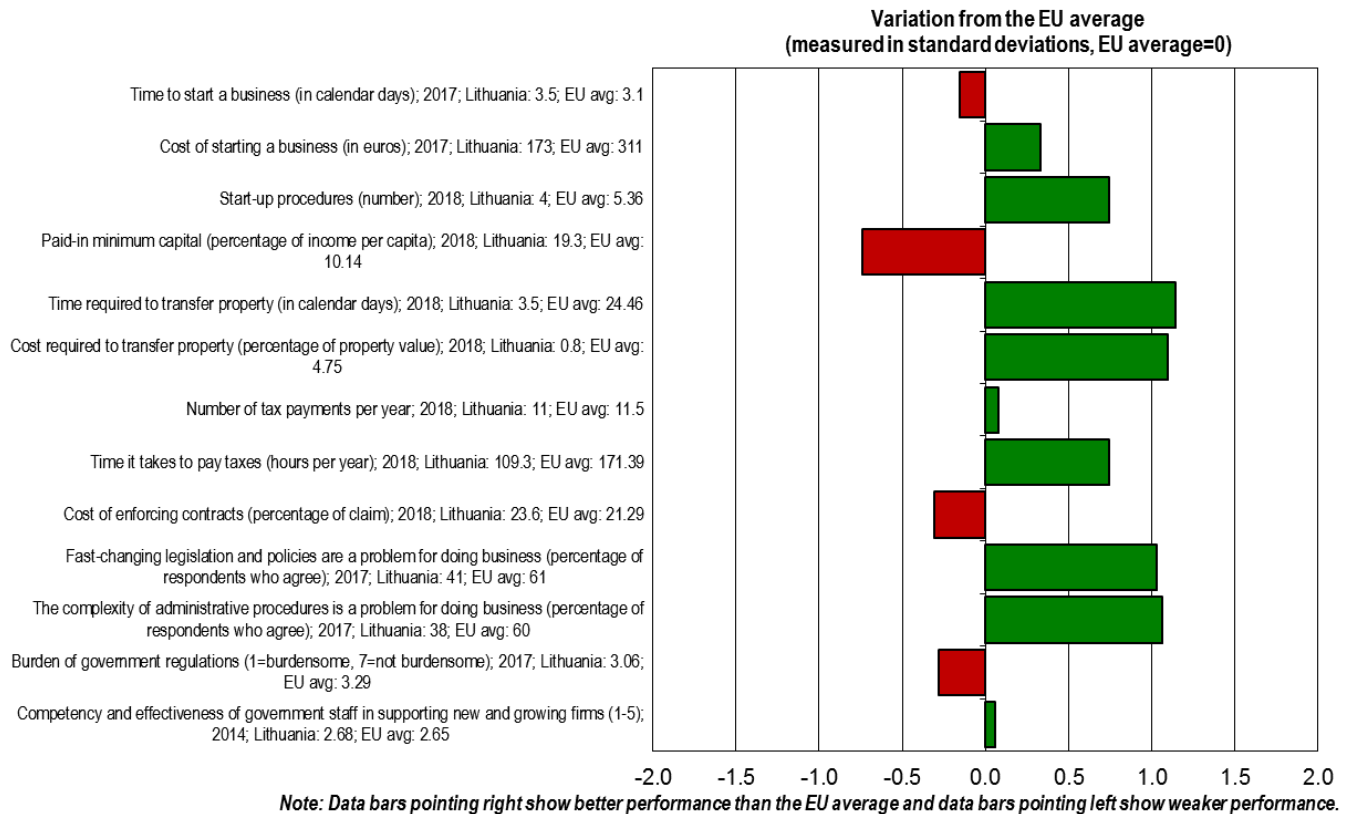
Since 2008, Lithuania has adopted a number of measures to address the 'second chance' principle. In recent years, efforts have been made to improve the insolvency framework, with courts using a computer programme to appoint bankruptcy administrators in bankruptcy proceedings since the beginning of 2015. Regulations were also modified to allow asset sales by electronic auction during bankruptcy proceedings. The purpose of these changes was to ensure a transparent process for appointing bankruptcy administrators and to simplify and shorten bankruptcy proceedings. These measures were introduced thanks to amendments to bankruptcy law adopted in 2015, and complemented earlier regulations to optimise insolvency procedures such as the calculation of bankruptcy expenses and remuneration of administrators. However, the conditions for resolving insolvencies — an important step for starting again as a 'second chance' entrepreneur — still need to

be improved, as the time and costs involved are unacceptably high.

Measures have also been introduced to improve the public image of honest failed entrepreneurs. Success stories of entrepreneurs who found success during their second attempt at starting a business have been publicised, although the stigma of failure prevails. The Entrepreneurship Action Plan 2014-2020 aims to strengthen awareness-raising activities, mentoring and training for 'second chance' entrepreneurs.

Little has changed since last year's analysis, although there is a new regulation that establishes the procedure and requirements of the qualification exam for persons wishing to provide bankruptcy administration services. There is legislative momentum to develop the Law on Insolvency of Legal Persons, which will consolidate legislation on bankruptcy and restructuring, encourage restructuring and make bankruptcy procedures faster. Amendments to the Law on the Bankruptcy of Natural Persons are also expected. The Ministry of Finance has launched the project, which will develop supporting measures to implement the insolvency policy, such as an early warning system to improve insolvency risk assessments and promote good practice.

3.3 'Responsive administration'



'Responsive administration' refers to public administration being responsive to the needs of SMEs. Lithuania performs above the EU average in this area, with steady progress having been made overall since 2008 and the third fastest property transfer time in the EU at 3.5 days. Although the time to start a business improved from 4 days in 2016 to 3.5 days in 2017, the cost of doing so increased from EUR 135 to EUR 173 over the same period. Paid-in minimum capital requirements continued to fall in the last 2 years, hitting 19.3 % in 2018 — well below the 2008 level of 46.2 %, although some way off the 6.4 % recorded in 2015. There was a significant drop in the time required to pay taxes, which fell from 171 hours in 2017 to 109.3 hours in 2018, although the regulatory burden appeared to increase slightly overall. This is supported by an increase in the proportion of businesses that indicated that either fast-changing legislation and policy (41 % in 2017 against 36 % in 2015) or the complexity of administrative procedures (38 % in 2017 against 34 % in 2015) are a problem when doing business.

All key components of this SBA principle have been implemented, with substantial activity seen in this area since 2008, especially in 2013 when the Law on Administrative Burden Reduction was passed. The law introduced a new monitoring body, the Better Regulation Supervisory Commission, and two-year administrative burden reduction plans. The plans

envisage specific measures to reduce the administrative burden, such as simplifying licensing regime procedures.

A series of measures have been introduced to simplify government support services and make them easier to find. The E-Government Gateway (www.epaslaugos.lt), a single information portal which serves as an online 'shop window' for all government support products and services, is one noteworthy service in this area.

Nonetheless, there is still room for improving the effectiveness of some measures. For example, an audit carried out by the Supreme Audit Institution shows that the consolidation of business monitoring institutions that has taken place since 2012 has focused more on reducing the number of monitoring institutions rather than improving the quality of their monitoring activity²⁵. As the audit results show, the monitoring institutions and responsible ministries do not assess the actual effectiveness of monitoring or how it benefits business and the wider community.

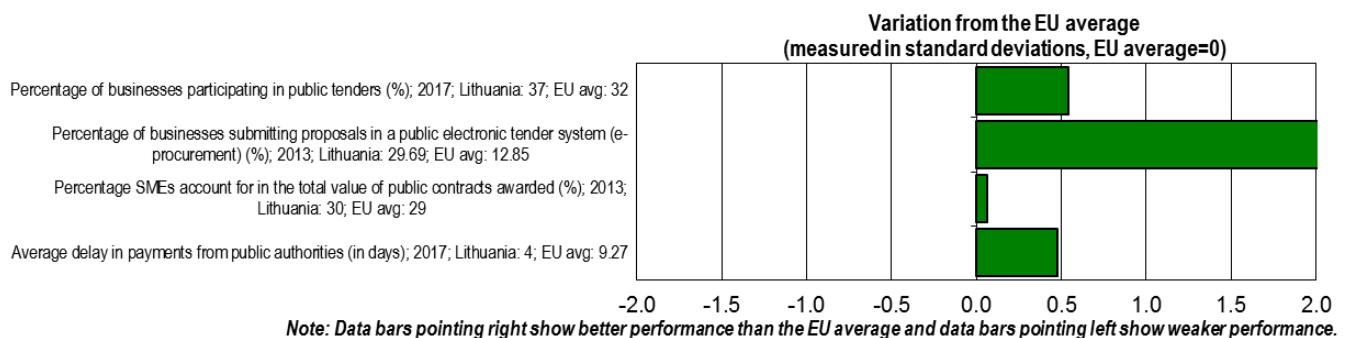
An audit of the legislative process conducted by the National Audit Office of Lithuania showed that the current monitoring of legal regulation is fragmented, of low quality and fails to provide the required information²⁶. This prevents the government from

reacting in a timely and effective manner to changes in various areas of social life.

The audit also showed that assessments on how legal regulation impacts SMEs are still not effective; this is a concern given the frequent observation that legal loopholes and negative impacts of new regulation usually only become apparent after a law has been passed. This is symptomatic of deficiencies in the existing formal legislative process; low-quality law making creates an unnecessary administrative burden for both businesses and the public, and can also create conditions for ineffective use of budgetary funds, expansions to the scope of activity of public management institutions, and failure to prevent corruption.

The one measure adopted in this area during the reference period is the progress evaluation (dashboard) methodology for supervisory institutions. This methodology will be used to evaluate supervisory institutions regularly in order to assess how well supervisory measures and other practices related to business supervision are being implemented. The dashboard is a useful tool for collecting, storing and organising information about the activities of supervisory institutions, and will help monitor their progress in implementing advanced business supervisory methods. It will also help identify major problems and make the supervisory system more transparent²⁷.

3.4 State aid & public procurement



Lithuania performs above the EU average in this SBA area, although it has fallen out of the top three since last year's fact sheet. There have been few new measures since 2008. Lithuania still has the second highest proportion of SMEs submitting offers using a public electronic tendering system, though this indicator has remained the same at 29.69 % since 2013. While the proportion of SMEs taking part in public tenders fell from 42 % in 2015 to 37 % in 2017, it remains above the EU average. Over the same period, the average payment delay from public authorities shot up from 1 to 4 days, remaining within the EU average despite the increase.

Lithuania has implemented most of the recommendations specified in this area. Government guidelines on making it easier for SMEs to participate in public tenders were published in 2010. These advise contracting authorities to simplify procurement rules, introduce flexibility to the process, and reduce the timeframe and administration cost for SMEs competing for public sector contracts. They also suggest breaking large contracts into smaller lots, ensuring access to information and quality of information, and setting minimum criteria for the qualifications of bidding suppliers etc.

The Lithuanian e-procurement portal was launched in 2008 and covers all the award phases of the public procurement process: e-notification, e-access, e-submission and e-awarding. The recently added e-account information system enables Lithuanian public institutions to accept electronic as well as paper invoices while implementing public procurement contracts.

The amended Law on Small and Medium-sized Business Development mentioned earlier, which came into force on 1 May 2017, also defines forms of state support applied to SMEs.

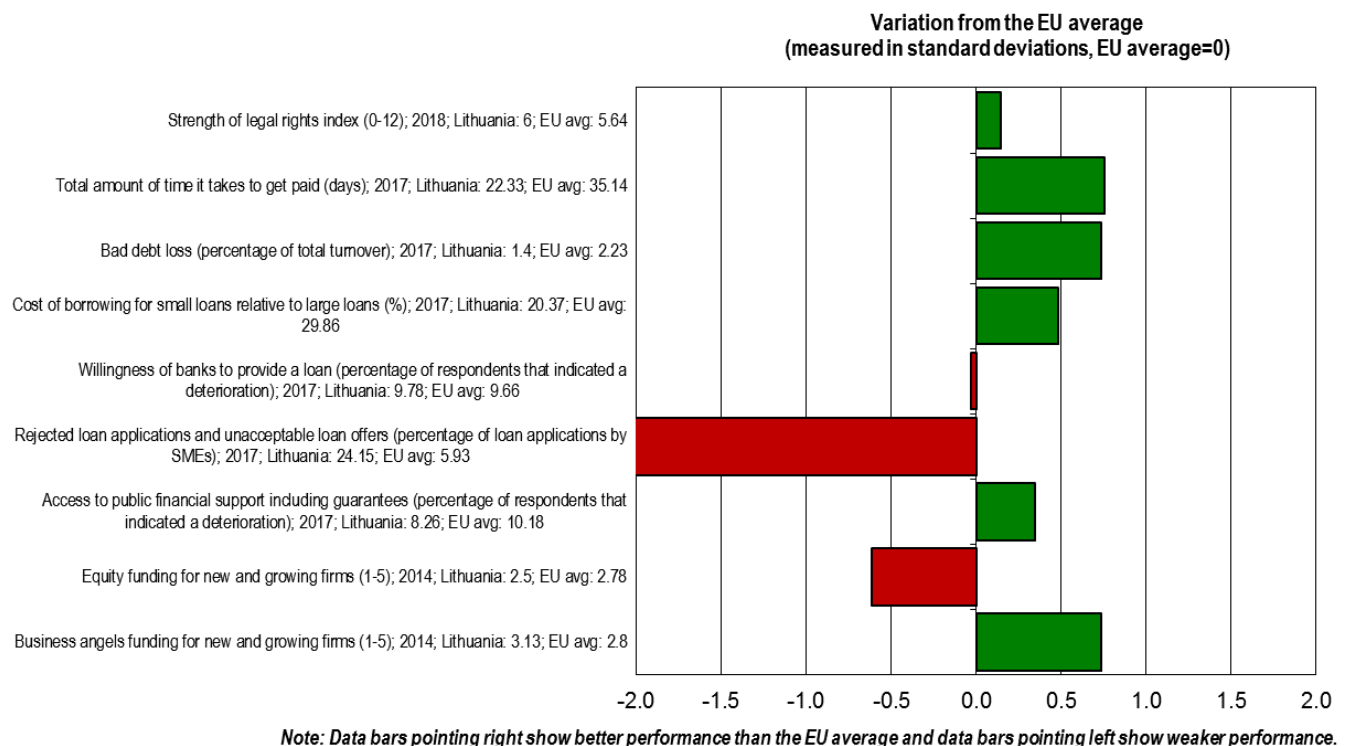
During the reference period, two major measures were also adopted to transpose EU procurement directives into national law:

- The new Law on Public Procurement. The law also aims to create more favourable conditions for SMEs to participate in public tenders. These include more transparency in the implementation of low-value procurement procedures. Supplier qualification assessment is becoming much simpler thanks to changes that allow evaluations to be based on self-declarations using the European Single Procurement Document. All procurement procedures, except for very low value and exceptional cases, must be implemented electronically; this also includes an obligation to accept electronic invoices. The law also makes it possible for contracting entities to make payments to sub-suppliers directly. For international procurement procedures, this new law introduced an obligation to divide procedures into lots, whereas in the past this was only a recommendation. It also introduced a requirement to have at least 30 % of procedures awarded under quality criteria.

- The Law on procurement carried out by contracting entities that operate in the water management, energy, transport and postal services sector. This law simplifies and increases the flexibility of procurement rules relating to utility services, providing procuring entities with more choice and reducing the administrative burden on both the entity and supplier. Measures to

encourage SMEs to participate, such as dividing procedures into lots, are also included in this law. Contracting entities operating under this law will apply their own rules for low value procurement, but transactions with controlled entities are restricted.

3.5 Access to finance



Lithuania's score for access to finance remains in line with the EU average, and has improved gradually since 2008. However, SMEs continue to experience some challenges in obtaining loans. Lithuania has the second highest proportion of rejected SME loan applications (24.2 % in 2017, up from 22.8 % in 2016). Data on the willingness of banks to provide loans to SMEs also showed a similar trend — there was a slight increase in the proportion of respondents indicating a deterioration of the situation, from 7.6 % in 2016 to 9.8 % in 2017. While the annual average interest rate for small loans remained almost unchanged from last year at 2.7 %, the cost of small loans relative to large ones increased from 18.1 % in 2016 to 20.4 % in 2017. Conversely, the situation for payments to SMEs improved, with a small decrease in the average payment time from 23.7 days in 2016 to 22.3 days in 2017, and a fall in bad debt loss as a percentage of total turnover from 2.2 % to 1.4 % over the same period. Both figures are significantly below their respective 2008 levels and the EU average.

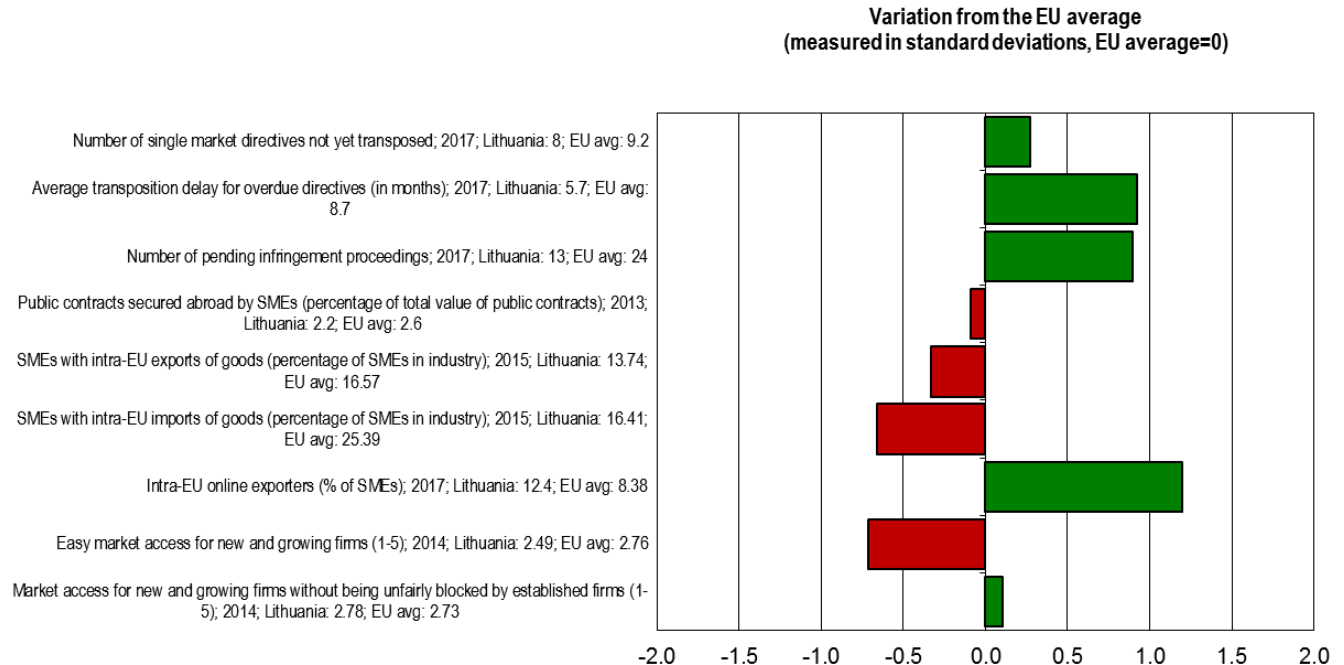
Access to finance has been the priority for the government in recent years, resulting in significant improvements to the

availability of financing options. Several financial instruments for SMEs have been strengthened — measures have been introduced to improve debt financing for SMEs, such as microcredits, loan guarantees and subsidies to partially cover interest. Between 2010 and 2013, other instruments addressing the specific financing needs of start-ups, such as equity finance, were also introduced. Between 2000 and 2016, Lithuania experienced the second highest growth in venture capital financing after Estonia. Several risk capital funds for early stage financing were set up with the help of the European Investment Fund, and subsidies for special purposes, such as supporting research in SMEs, investment in eco-efficiency and green economy areas were also made available to SMEs. The Law on Crowdfunding, which was approved in 2016, also introduced new forms of financing; this removed legal barriers to setting up and operating crowdfunding platforms, stimulating alternative financing and investment opportunities in Lithuania.

Five measures were implemented in the reference period:

- Export credit guarantees. INVEGA began providing export credit guarantees to SMEs that export goods of Lithuanian origin to countries considered higher risk. It allows exporters to sell goods with deferred payment and can cover up to 90 % of a loss incurred if a buyer goes bankrupt or fails to pay as provided for in the contract.
- Early Stage and Development Fund I. This fund was established to make it easier to commercialise ideas from research and higher education institutions and to improve access to early stage and expansion capital for SMEs operating in high-tech sectors. The measure also provides expert support for SMEs so they can identify innovative ideas that have commercial potential.
- Co-investment fund. This new pilot measure is designed to stimulate private investment in SMEs so they can develop their business ideas. It is the first public fund co-investing together with private venture capital funds and business angels and has two sub-funds known as 'Co-investment funds I and II' (with EUR 11 million and EUR 9.28 million, respectively). The former is financed by INVEGA, the latter by the Business Financing Fund, which is financed by the European Regional Development Fund (ERDF).
- Shared risk loans financed by the ERDF. The measure allows selected financial intermediaries — usually banks — to provide shared risk loans to SMEs (including credit lines) for their projects with support from the ERDF. An SME may receive up to EUR 4 million in loans provided that the bank contributes at least 55 % of the value of the loan. This measure reduces the cost of financing by reducing the risk for the bank.
- Portfolio guarantees for loans and leasing financed by the ERDF. These financial engineering measures are implemented by INVEGA, together with selected financial intermediaries (usually banks). They reduce the risk for banks providing loans to SMEs with portfolio guarantees or leasing services. This allows them to offer more affordable financing conditions, especially when SMEs lack collateral or other forms of guarantee. For a lease, an SME may receive a guarantee for 80 % of the value of the leasing contract, for the financing of investments in new equipment, technological lines and machines for agriculture or forestry.

3.6 Single market



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

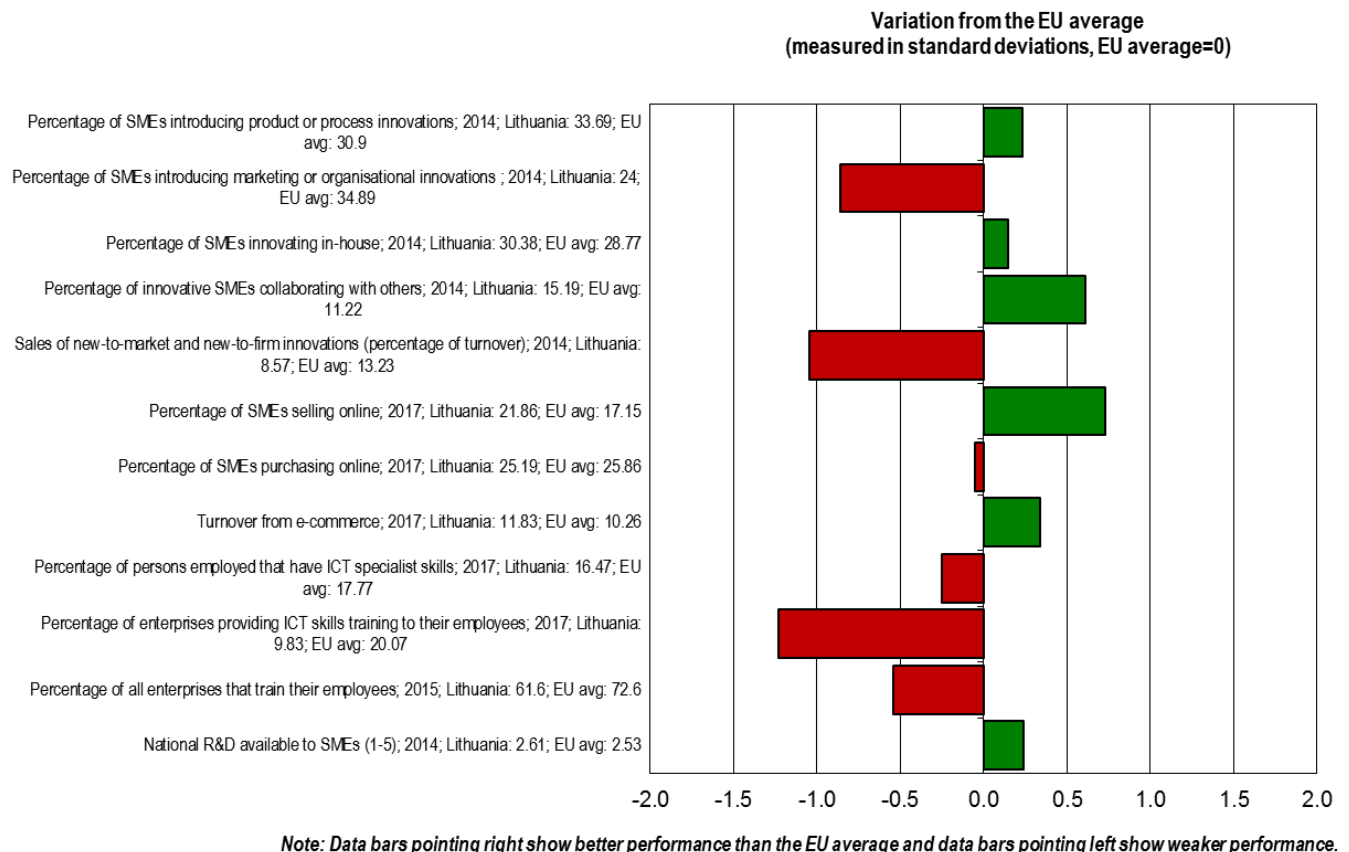
Lithuania continues to perform in line with the EU average on the single market, though its overall progress since 2008 has been lacklustre. After a deterioration of certain figures related to the transposition of single market directives in 2015-2016, Lithuania made a significant recovery in 2016-2017, but did not quite get back to 2015 levels. The number of outstanding single market directives not transposed into national legislation fell to 8 in 2017, from 13 in 2016, but had been down to 3 in 2015. The average transposition delay fell from 7.7 months to 5.7 over the same period, not quite reaching the 2015 figure of 5.3 months. Lithuania has the third highest share of SMEs exporting online within the EU at 12.4 % in 2017, up from 9.7 % in 2015, with all other single market indicators unchanged since last year's SBA fact sheet. In addition, it also performs well above the EU average on the level of trade integration in the single market for goods, and above average for services. In 2016, trade integration for goods decreased, whereas trade integration for services increased at the second highest rate in the EU.²⁸

In recent years, relatively few key measures have been introduced in this area, in part because of progress made in previous years. The single point of contact, www.verslovertai.lt, provides support to SMEs on the single market and covers four

major contact points: Product Contact Point, Product Contact Points for Construction, the Point of Single Contact and Contact Point for Regulated Professions. The Lithuanian SOLVIT²⁹ centre and the Internal Market Information System (IMI) are in operation, with their usage and efficiency on the increase. For example, the number of SOLVIT cases in 2017 increased to 42 compared to 34 in 2016, with all of them resolved. Lithuanian authorities received 350 requests through the IMI system in 2017. This is 122 more than in 2016. Some 93 % of incoming requests were accepted within 1 week, taking on average 7 days to reply to. SMEs also help develop the standards of the Lithuanian Standards Board, whose portal informs small firms of relevant standards in their industry free of charge.

The Enterprise Europe Network operates in four major cities in Lithuania. This network provides a range of advisory and partnership services to SMEs with international growth and innovation potential. Its activities are co-financed by the EU programme for the competitiveness of enterprises and small and medium-sized enterprises (COSME) and by its partner organisations (four business and research support organisations).

3.7 Skills & innovation



Lithuania continues to perform in line with the EU average on skills & innovation, though its overall score has fallen slightly since 2008. While both remain below their 2008 levels, the proportion of SMEs purchasing online (25.2 % in 2017 against 23.5 % in 2016) and selling online (21.9 % in 2017 against 18.4 % in 2016) grew. However, overall turnover from e-commerce fell from 12.2 % to 11.8 % over the same period. ICT skills in the workforce improved slightly, with 9.8 % of SMEs providing specialist ICT training to their employees in 2017 against 8.7 % in 2016. While this remains well below the EU average, it is possible that it contributed to a rise of just over 2 percentage points in the proportion of total employees with specialist ICT skills, from 13.9 % in 2016 to 16.5 % in 2017.

Since 2008, Lithuania has introduced a range of measures that encourage innovation and commercialisation. For example, the popular programmes Intelektas and Intelektas+ provide funding for R&D activity and for companies to build R&D capabilities. Innovation vouchers encourage SMEs to undertake feasibility studies and small-scale research with the help of public research organisations. Other incentives, such as R&D tax relief and tax incentives for income received from selling intellectual property help companies to reinvest more in innovation.

More recently, the government introduced a subsidy for firms that are growing and investing to acquire new, high impact technologies. This is expected to make the latest technologies more affordable for SMEs. In the skills area, a range of funding and employer-led programmes are already in place to improve skills development, including subsidies for employees to develop professional qualifications, apprenticeships in companies and access to external experts.

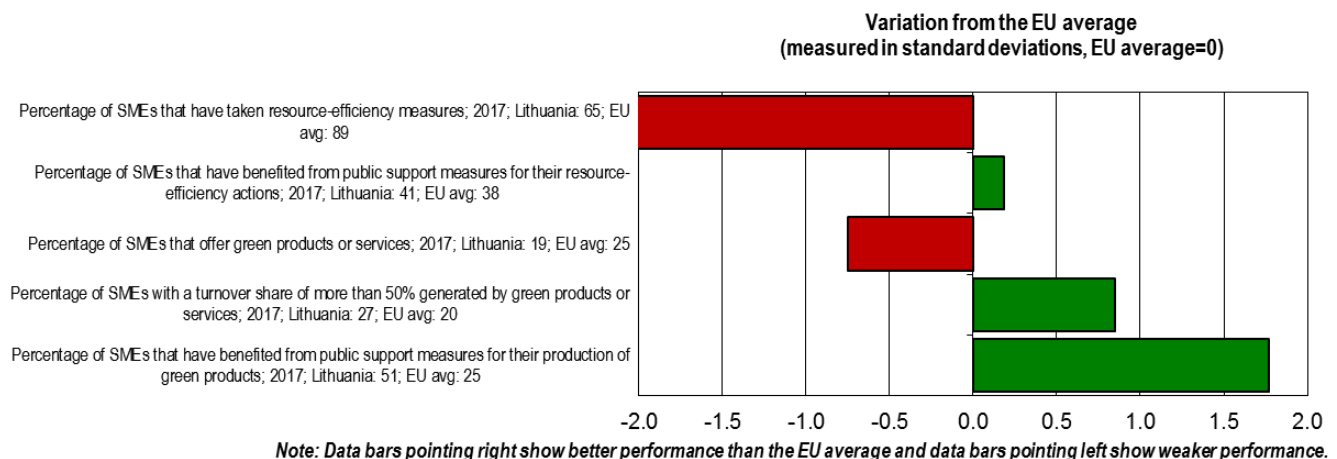
During the reference period, three new measures were introduced in the 'skills & innovation' area:

- The Innovation Action Plan 2018-2020 specifies measures for implementing the Innovation Development Programme 2014-2020. It covers areas of new knowledge development and use by SMEs in particular as well as innovation promotion, innovative business creation, investment in high value added activities and new product development. Activities include information and consulting support, financial support, skills development, etc.
- Ino-internship: this measure aims to help research-performing SMEs increase their research capabilities.

SMEs are encouraged to send employees to R&D centres and research-performing SMEs in other countries to receive training and/or develop technological skills. The subsidy has a maximum value of EUR 30 000, a maximum duration of 12 months, and a maximum ceiling of 70 % of the total cost.

- Innopatient supports investments in patenting inventions (World Intellectual Property Organization or European Patent Office) or in registering designs at international level. Projects will be selected on an ongoing basis, with both public and private legal entities able to apply.

3.8 Environment



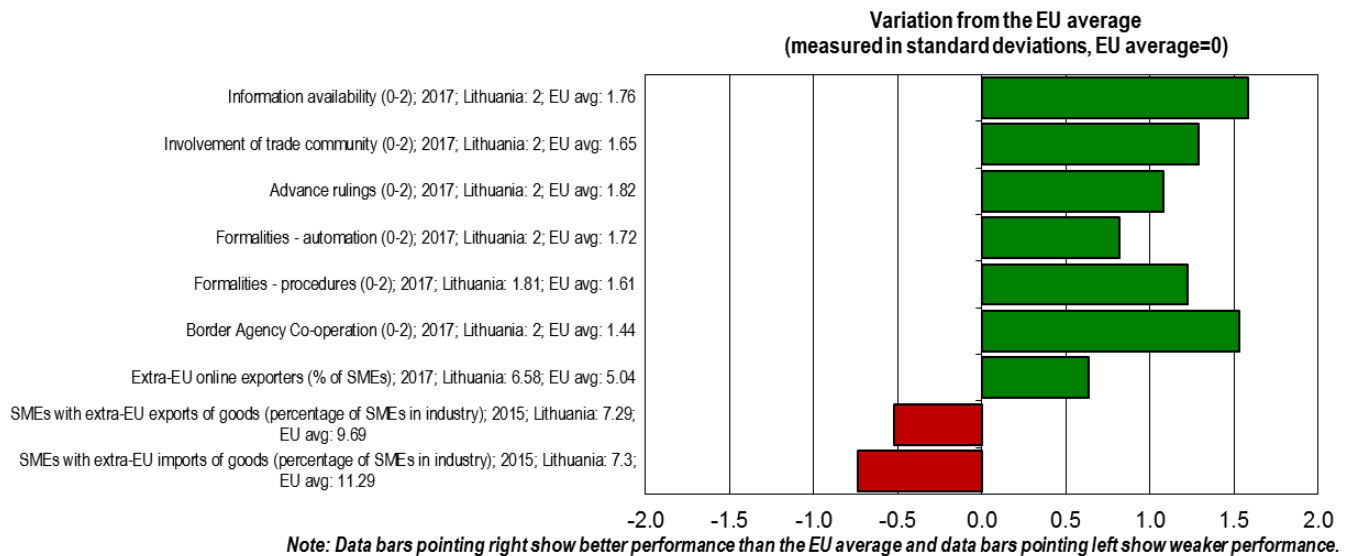
Lithuania performs in line with the EU average on the environment, having fallen out of the top three Member States since last year's fact sheet. It has succeeded in increasing the proportion of SMEs that have benefited from public support measures to produce green products; this indicator has improved from 28 % in 2015 to 51 % in 2017 — now the highest level in the EU. In contrast, only 65 % of SMEs have taken resource efficiency measures (down from 72 % in 2015), leaving Lithuania with the third lowest score for this indicator. This coincides with a sharp drop, from 66 % in 2015 to 41 % in 2017, in the proportion of SMEs that have benefited from public support measures for their resource efficiency measures. The proportion of SMEs offering green products or services also fell to 19 % between 2015 and 2017, while the proportion of SMEs generating more than 50 % of their turnover from green products or services fell similarly from 34 % to 27 % over the same period.

Since 2008, few measures dedicated specifically to SMEs have been implemented in this area. On the policy side, the Green Procurement Action Plan 2008-2011 provided industry with incentives to invest in green products and services. The Green Industry Programme, with two sub-schemes — 'Green Industry

Partnerships' and 'Green Industry Small Projects' (2013) — encouraged SMEs to develop or improve green products and eco-efficient processes. This programme has already yielded results, with companies having introduced 13 environmental protection technologies, developed 20 eco technologies — 2 of which were commercialised — and 10 new green products. Building upon this experience, additional measures were introduced to promote energy efficiency, investment in energy-efficient and eco-efficient technology and implementation of environment management systems. The 'eco-innovation' programme helps SMEs implement environment management systems and production technology, while the 'Eco-innovation+' and 'Renewable Energy Sources in Industry+' programmes encourage SME investment in eco-efficient production technologies and renewable energy.

One measure was introduced during the reference period — 'Eco-consultant' supports SMEs wanting to make use of consulting services as part of their sustainability efforts in the areas of efficient resource utilisation, conservation of natural resources and eco technologies. The maximum subsidy to cover part of the consultation costs is EUR 4 000, with a maximum project duration of 6 months.

3.9 Internationalisation



Lithuania performs significantly above the EU average in this area, though it has dropped from first to second place since last year's fact sheet. Given that the underlying methodology for calculating the trade facilitation indicators changed during the reference period it is difficult to compare them with previous years. In terms of SME trade the percentage of SMEs exporting online outside the EU has slightly increased to 6.6 % in 2017 from 6.5 % in 2015. Only the proportion of SMEs in industry exporting and importing goods is below EU average.

Internationalisation has been the subject of much policy attention since 2008 given that taking action in this area was seen as important for mitigating the effects of the global financial crisis. In 2009 the government approved Lithuania's export development strategy for 2009-2013, which made provisions for key support measures; this included subsidies for taking part in international fairs, exhibitions and missions, market research, training and consulting, and export guarantees. Since then, budgets for popular measures, such as subsidies for taking part in trade fairs and exhibitions, have been increased. In 2014, when recession hit Russia and Russian counter-sanctions in response to Western sanctions caused the value of exports to Russia to shrink substantially, fast-track measures in this area were adopted to help SMEs to diversify their export markets. Lithuania has had some success in gearing its exports to a wider range of countries, in particular the Middle East and Asia.

The high level of focus on helping SMEs to do business internationally has resulted in all but one of the SBA principles being implemented. The missing component is the umbrella organisation providing all internationalisation support. However, this is offset to some extent by the fact that existing agencies coordinate their own activities.

Three measures have been implemented during the reference period:

- Export Guide is a one-stop shop for information about Lithuania's priority markets. The portal contains up-to-date information on the regulatory provisions of each country as well as market reviews, financing options and information on market entry and positioning, licensing and approvals, and potential barriers to entry.
- InnoConnect helps SMEs participate in international research, development and innovation partnership events run by the Enterprise Europe Network (EEN). The travel costs of eligible applicants to EEN brokered events and other R&D&I initiatives may be subsidised up to EUR 10 000. To be able to participate, applicants must be incorporated as a legal entity (SMEs, incubators, science and technology parks, etc.).
- Expo Consultant LT supports the provision of consultancy services to SMEs up to 3 years old in the area of exports and international collaboration. The measure takes the form of a 'consultancy cheque' — in effect a voucher providing access to up to EUR 4 000 worth of consultancy services from consultants registered with the National Network of Consultants database.

An additional measure, the export credit guarantees for SMEs, is mentioned under access to finance above.

Interesting initiative

Below is an example of an initiative from Lithuania to show what governments can do to support SMEs:

Start-Up Visa

The Start-up Visa in Lithuania is the result of recently approved amendments to immigration law by the Lithuanian government. These are designed to help entrepreneurs relocate and grow high-impact start-ups in Lithuania. The Start-up Visa gives individuals who are creating a start-up temporary permission to live and work in Lithuania for a period of 1 year, with the option to extend it for another year. After that, standard immigration procedures apply. Family members are allowed to accompany entrepreneurs. The new immigration rules will also fast-track the permanent residency process for owners of high-tech, early stage start-ups that have scalable and innovative products or business models. There is no requirement to invest a particular amount of capital in the company (only enough to start and operate). The company is also not required to employ a certain number of staff.

A panel consisting of representatives of certified institutions, including venture capital funds and accelerators form the so-called 'Start-up Visa Committee', assesses whether an applicant is eligible for a visa. There are some key criteria for start-up founders applying for the visa: start-ups must operate in a high-tech field, applicants must legally be at least a partial owner of the newly founded company, and they must have enough financial resources to achieve the business goals set for 1 year. Applicants can decide themselves how much capital is required to achieve the goals in their first year in Lithuania. In less than a year, 27 start-ups received a positive evaluation and 11 of them (from South Korea, China, Russia and Ukraine) already started their business in Lithuania.

The presence of foreign entrepreneurs in Lithuania is intended to create economic growth, employment, and global start-up network connections. Talented entrepreneurs are expected to reinvent industries, create jobs and ignite the local start-up ecosystem by spreading innovative ideas.

References:

<https://www.startupvisalithuania.com/>

Important remarks

The European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) produces the SBA fact sheets as part of the SME Performance Review (SPR), its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member State policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures national SME policy experts consider relevant. They do not and cannot reflect all measures the government has taken over the reference period. There is more policy information on a database accessible from the SPR website.

SME Performance Review:

<http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

grow-spr@ec.europa.eu

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

Entrepreneurship and SMEs:

<https://ec.europa.eu/growth/smes>

Endnotes

¹ The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2016, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2015 figures from Eurostat's Structural Business Statistics Database. The data cover the 'non-financial business economy', which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

² Vidutinis darbo užmokestis. Finansistas.net: <http://www.finansistas.net/vidutinis-darbo-uzmokestis.html>

³ Lithuania's Economic Outlook for 2017-2020. Ministry of Finance, 2017.
https://finmin.lrv.lt/uploads/finmin/documents/files/ERS%202017-03-20_paskelbtas_EN.pdf

⁴ Kas lemia Lietuvos bendrovių pajamų sąstingį? <https://www.seb.lt/infobankas/verslui/kas-lemia-lietuvos-bendroviu-pajamu-sastingi>

⁵ Statistical Yearbook of Lithuania 2017. p 333: <https://osp.stat.gov.lt/services-portlet/pub-edition-file?id=28260> Lithuanian Department of Statistics: <https://osp.stat.gov.lt/informaciniai-pranesimai?eventId=164843>

⁶ http://ec.europa.eu/regional_policy/en/atlas/programmes/2014-2020/lithuania/2014lt16_maop001, last accessed 4.6.2018.

⁷ http://ec.europa.eu/regional_policy/en/information/publications/factsheets/2016/european-structural-and-investment-funds-country-factsheet-lithuania, last accessed 4.6.2018.

⁸ FDI at the end of period: Lithuanian Department of Statistics: <https://osp.stat.gov.lt/statistiniu-rodikliu-analise/>

⁹ Ūkio subjektai 2018 m. pradžioje. Department of Statistics: <https://osp.stat.gov.lt/naujienos?articleId=5510903>, last accessed 4.6.2018.

¹⁰ <http://www.lpsk.lt/2018/02/01/statistikos-departamentas-paskelbe-2017-m-pagrindinius-ekonominius-ir-socialinius-rodiklius/>, last accessed 7.6.2018.

¹¹ Ibid.

¹² Įmonių bankroto ir restruktūrizavimo bei fizinių asmenų bankroto procesų 2017 m. apžvalga. Table 1, p. 5. <http://www.avnt.lt/assets/Nemokumas/Duomenys-ir-analiz/2017-met-APZVALGA2018-01-31internetui.pdf>, last accessed 4.6.2018.

¹³ Ibid.

¹⁴ <https://www.insol-europe.org/download/documents/746>, last accessed 6.6.2018.

¹⁵ In line with Commission Implementing Regulation (EU) No 439/2014, high-growth enterprises are defined as firms with at least 10 employees at the beginning of their growth and average annualised growth in number of employees greater than 10 % per year over a 3-year period. The share of high-growth enterprises is the number of high-growth enterprises divided by the number of active enterprises with at least 10 employees. Source of the data on high-growth enterprises is Eurostat (http://ec.europa.eu/eurostat/web/products-datasets/-/bd_9pm_r2, last accessed 13.4.2018).

¹⁶ Due to data availability, the data on high-growth firms refers to the 'business economy' only, which covers sections B-N including section K (financial activities, except activities of holding companies). The 'non-financial business economy' excludes section K.

¹⁷ The 2018 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

¹⁸ The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2018. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2018. All SBA principles, with the exception of the 'Think Small First' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

¹⁹ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2017 and the first quarter of 2018. The national SME policy expert that PwC (DG GROW's lead contractor for the 2018 SBA fact sheets) contracted made the selection. The experts were asked to select only the measures they considered the most important, i.e. the ones expected to have the highest impact in the SBA area in question. The complete range of measures the experts compiled in producing this year's fact sheets will be published alongside the fact sheets in the form of a policy database on the DG GROW website.

²⁰ Is the Lithuanian Business Monitoring System Effective? Report of the National Audit Office of Lithuania, 20.3.2018, http://www.vkontrole.lt/audito_ataskaitos_en.aspx?tipas=15, viewed on 12.4.2018.

²¹ Kas antras įsitikins, kad nelemta tapti verslininku, Spinter tyrimai, 24.01.2018 <http://www.spinter.lt/site/lt/vidinis/menutop/9/home/publish/OTc1Ozk7OzA=>, viewed on 12.4.2018.

²² Global Entrepreneurship Monitor, <https://www.gemconsortium.org/country-profile/82>, viewed on 30.4.2018.

²³ Work to set up a national business angels network started early in 2018 (<https://www.startuplithuania.com/news/launch-business-angels-network-lithuania/>). However, Lithuania does not currently offer tax incentives to business angel investors.

²⁴ This supports innovation and scale-ups in the financial technologies sector. A first edition has already taken place. The second edition will begin in autumn 2018. Financing of up to EUR 30 000 will be available to enable start-ups to further develop their business ideas. Participants will spend 3 months in Swedbank's Riga office, receive advice from leading experts in various fields, and be able to use the resources of Swedbank's open banking platform.

²⁵ Is the Lithuanian Business Monitoring System Effective? Report of the National Audit Office of Lithuania, 20.3.2018, http://www.vkontrole.lt/audito_ataskaitos_en.aspx?tipas=15, viewed on 12.4.2018.

²⁶ The press release of the National Audit Office of Lithuania, 19.3.2018 https://www.vkontrole.lt/pranesimas_spaudai_en.aspx?id=24465, viewed on 12.4.2018.

²⁷ Further information on the scoreboard is available in Lithuanian on the following web pages: <https://ukmin.lrv.lt/lt/veiklos-sritys/verslo-aplinka/verslo-prieziuros-politika/svietlente>

²⁸ Source Single Market Scoreboard, performance per Member State, Lithuania, reporting period 2017: http://ec.europa.eu/internal_market/scoreboard/docs/2018/member-states/2018-lithuania_en.pdf

²⁹ SOLVIT is the problem-solving network in which EU member states work together to solve problems caused by misapplication by public authorities of EU internal market law.