1. Basic Information

1.1. Désirée No. LT 0002-01

1.2. Twinning Component Number: LT 2000/IB/FI/01

1.3. Title

Promotion of Competitiveness / Enforcement of Financial Discipline for Enterprises

1.4. Sector

Economic Criteria

1.5. Location

Ministry of Economy (MoEco), Gedimino pr 38, Vilnius

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2. Objectives

2.1. Wider Objective

The Wider Objective of this 2.0 MEUR Project is to:

- Promote the competitiveness of Lithuania’s enterprise sector, enforcing financial discipline for enterprises particularly through enforcement of bankruptcy and restructuring legislation and promotion of best-practice in corporate governance, plus

- Development of enabling factors for increasing the competitiveness of Lithuanian enterprises:
  - Development of the business environment, focused on simplification of regulations governing enterprise registration and administration, plus
  - The adaptation/creation of Government enterprise development policy and delivery instruments, in accordance with Structural Funds’ requirements, plus
  - The assistance for adaptation of Government innovation policy and mechanisms intended to enhance innovation processes in companies.

2.2. Immediate Objectives

The Immediate Objectives of this Project are to:

- Strengthen the capacity of different actors (Enterprise Bankruptcy Management Department, Ministry of Economy; business administrators; judges; enterprise managers etc.) to effectively and efficiently enforce bankruptcy procedures and enterprise restructuring, on the basis of the promotion of best-practice in corporate governance, to be achieved via the review of enforcement procedures, development of best-practice models and the provision of extensive training and business awareness;

- Streamline relevant legislation and regulations relating to enterprise registration, administration and licensing, to be achieved via the review of legislation/regulation and procedures, the development of simplified implementation practice and a business-friendly environment, plus training of civil servants to ensure effective implementation;

- Adapt existing Government policy and delivery mechanisms (plus create new mechanisms) for the provision of state support to enterprise development, based on the development of Structural Funds-type mechanisms in the field of enterprise policy, business development, productive investment and industrial restructuring, to be achieved via the detailed assessment of existing policy and mechanisms, the provision of support for the adaptation of procedures,
plus the training of civil servants to analyse economic trends, to create corresponding policy and to evaluate the effectiveness of delivery instruments;

- Help the Government to identify the necessary mechanisms and structures, as well as financial resources that are needed to implement Business Innovation Programme. In the specific sectors of innovation, the provision of consultation services to strengthen the productivity, quality control and export potential of innovation: providing business consultation services to potential leading-edge SMEs operating in the area of high-tech innovation, supporting enterprises to develop appropriate business and investment plans and management procedures for the commercialisation and utilisation of innovative technology, to be achieved via training in R&D, product evaluation and marketing, market research, management, financial evaluation etc.

2.3. Accession Partnership and NPAA Priority

The Accession Partnership (December 1999) specifies the following short and medium term priorities (highlighted in italics) as relevant to this Project:

- Economic criteria (short term): complete the scheduled large-scale privatisation; complete the restructuring of the banking sector; promote competitiveness through market-based enterprise restructuring in the industry sector, with particular attention to small and medium-sized enterprises; continue land titling and registration and continue support for land market development; improve bankruptcy procedures and streamline implementation;

- Economic criteria (medium term): continue promotion of market-driven restructuring in the enterprise, finance and banking sectors; establish an annual fiscal surveillance procedure aimed at bringing the reporting, monitoring and control of public finances, specifically fiscal positions, in line with EU procedures; continue social security financing reform.

The NPAA (May 1999) sets out the following priority in this sector:

- With the aim of speeding up bankruptcy procedures, creating conditions for a faster use of the assets of enterprises under bankruptcy companies and settling accounts with employees, the draft Law on Amendments and Supplements to the Enterprise Bankruptcy Law has been drawn up. The project provides for a shorter period set for liquidation of the bankrupt enterprise by simplifying the auction procedures, and plans to expand the authority of the Liquidation Commission. In accordance with the project of the Modernisation of the Commercial Legal Acts under the Phare programme a new wording of the Enterprise Bankruptcy Law is to be prepared, and is planned to be submitted to the Government in the first quarter of 2000;

- The policy pursued by Government is oriented towards the creation of an SME-friendly legal and economic environment, the elimination of bureaucratic barriers, the formation of a technical and financial support system, the improvement of business infrastructure and business self-governance;

- The competitive capacity of enterprises will be strengthened through implementation of business promotion and horizontal structural regulation programmes. Special emphasis will be placed on the programmes intended for small and medium business promotion, and development of their infrastructure;

- In the medium term, it is planned to create conditions for economic efficiency growth. In the sphere of business development, plans are foreseen to provide support to the introduction of new technologies and products into the market, and to create conditions for co-operation between enterprises and scientific institutions.
2.4. Contribution to National Development Plan ("NDP")

In terms that this Institution Building Project will assist the Government with the promotion of competitiveness of Lithuania’s enterprise sector, it also contributes to the National Development Plan. In particular inputs will be provided to facilitate the adaptation of Government policy and delivery mechanisms for the promotion of enterprises in line with Structural Funds’ principles. Investment co-financing to pilot-test revised operational procedures will be channelled via the pilot regions selected to receive Phare funds for the promotion of economic and social cohesion.

The NDP specifies inter alia:

- The need to support growth through greater competitiveness resulting from economic restructuring, improving the business environment, promoting the development of new businesses;
- The necessity to address the following issues: a limited tradition of indigenous entrepreneurship; low levels of company formation in productive sectors, low levels of research and technological development (RTD) in local companies; inadequate management skills; a poor skills base in the labour force; and inefficient energy usage;
- The NDP targets business and micro-business start-ups by providing advice on credit lines, on legal/administrative requirements, and on sources of financial incentives (premises and sites). NDP measures seek to increase competitiveness of existing enterprises by providing access to RTD (research and technological development), and to modernise production methods, increase efficiency, provide needed management skills, give export advice, market analysis, and address product quality control issues. The overall strategy is to turn Lithuania into a high-skill society competing in the global economy by virtue of innovation and exploitation of natural assets;
- The creation of an institutional infrastructure for the development of technology transfer and innovations in the SME sector by promoting the development of institutions of technological audit, technological information broker services, technological business incubators, innovations information centres, the establishment of science and technology parks and development of their activities;
- The creation of mechanisms of financial support for technology transfer and innovations in the SME sector (risk capital funds, innovations and new technology support funds, etc.), develop guarantee mechanisms encouraging banks to finance innovative projects;
- Development of a programme for the improvement of qualification of SME employees on management, marketing and intellectual management matter.

3. Description

3.1. Background and Justification

The 1999 Regular Report concluded that "Lithuania has continued to make progress in establishing a functioning market economy and is on its way to cope with the competitive pressure and market forces within the Union in the medium term provided it completes the remaining reform agenda".

The key task of the Government in increasing competitiveness of the industry and improving its structure is rationalisation of the bankruptcy procedures, simplification of business legislation, realisation of instruments for enterprise policy implementation and development of the innovation system.

In order to facilitate the process of strengthening the financial discipline, management and the ultimate development of globally competitive enterprises, series of connected measures are foreseen to be supported by the Government over the short-to-medium-term period:
Strengthened enforcement of bankruptcy proceedings and the restructuring of enterprises facing financial difficulties, including the development of best-practice in corporate governance;

Development of the business environment, via streamlined regulatory requirements, improved procedures for business registration and reporting etc., on the basis of EU best-practice (BEST);

Strengthened preparation for the implementation of Government industrial and enterprise policy in accordance with Structural Funds’ principles and appropriate mechanisms for delivery of support;

Promotion and commercialisation of innovations.

**Bankruptcy / Corporate Governance**

Of the 101,727 registered, active enterprises in Lithuania (as of 30/09/99), the fact that only 388 enterprises were under bankruptcy proceedings (i.e. 0.38%) indicates that the insolvency problem is inadequately addressed. Most of the insolvent Enterprises are in Vilnius, Kaunas, and Klaipeda counties and the cities. The sector spread for the 388 enterprises is as follows:

- Industry: 172;
- Trade: 55;
- Construction: 35;
- Agriculture: 20;
- Hotels, etc.: 12;
- Others: 94.

In addition, delays with the enforcement of bankruptcy proceedings are evidenced by the fact that of the 99 enterprises that went into bankruptcy in 1998, for only 13 enterprises the proceedings has been completed (of the 109 enterprises gone bankrupt in 1998, only 35 are finished). The major obstacles to speed up resolution of bankruptcy proceedings include:

- Difficulty to identify suitable administrators for enterprises without assets under bankruptcy;
- Simplified procedures for SMEs under bankruptcy do not exist;
- Relations between creditors and enterprises at pre-bankruptcy stage are not regulated.

Investigations by the MoEco show that key impacts leading to enterprise insolvency include:

- Problems with enterprise legislation;
- Market research and development problems;
- Shortage of working capital;
- High cost of borrowing;
- Russian financial crisis.

Effective restructuring of the economy has been restricted in the past due to inadequacies in the bankruptcy laws as well as inadequacies in the enforcement and application of these laws by insolvent enterprises, managers, administrators and the courts. With the adoption of new legislation in the first half of year 2000, the legal mechanisms will be available for effective bankruptcy and restructuring procedures.

Main largest companies in energy sector are under way of restructuring in Lithuania at the moment: regional energy companies have been passed to the Municipalities. The Government will control activities of central energy units and the process of privatisation only.
Law on Restructuring which is now under the preparation will be applied for the large companies (employees above 50 persons) and enterprises which do not reach the insolvency level. Companies which debts exceed the assets will go bankrupt. New Law on Bankruptcy will not foresee the process of revitalisation.

Currently the MoEco has prepared draft laws amending the Law on Bankruptcy and a Law on Restructuring which are both expected to be approved by Government and proceed to Seimas in early 2000. It is expected that the new laws will be in force by 1 July 2000 at the latest. Detailed enforcement procedures will need to be prepared, including extensive training for key public and private sector actors, for which Member States’ experience and best-practice is sought.

The main objective of the draft laws is to create effective mechanisms to govern relations between enterprises and creditors. The amendments to the bankruptcy law are expected to simplify and accelerate the process and enhance the ability of the administrator to liquidate the enterprise by allowing private disposal of assets after two public auction offerings. A Guarantee Fund is being established to compensate employees and injured persons where enterprises have no assets with a view to encouraging bankruptcy proceedings in such cases to be initiated in order to further economic restructuring. In addition, a series of procedures are foreseen to support enterprises facing temporary financial difficulties.

Additionally, in order to boost the confidence of investors, attract capital investment, improve competitiveness, enhance growth, reduce bankruptcy risk, increase availability of credit, etc., there is a need to develop concepts of good corporate governance in Lithuania, including the dissemination of recommendations to the private sector. This will assist enterprises to:

- More efficiently employ capital resources and carry through restructuring;
- Ensure greater accountability to its shareholders and stakeholders.

**Business Environment**

Competitiveness will also be enhanced by the streamlining of regulation and red tape associated with the establishment and administration of enterprises and generally by removing unnecessary barriers to market entry for both local and foreign investors.

The Foreign Investment Advisory Service (FIAS) report on “Lithuania – Administrative Barriers” (June 1999) concluded that businesses in Lithuania face relatively more rules, restrictions and regulations than in other central and eastern European countries.

Based on the review of relevant legislation and regulations currently in force, the major themes emerging from the study are as follows:

- Business in Lithuania is still heavily regulated, with a greater burden falling on SMEs, many of whom can not afford professional legal or accounting advice;
- While many large and/or foreign investors describe most of the bureaucrats they deal with in Lithuania as quite reasonable and flexible, there was a striking difference in attitude from the small and medium enterprise sector, who described the bulk of the Lithuanian bureaucracy as corrupt and often abusive;
- Government has often taken an inappropriately harsh and also ineffective approach toward revenue collection.

The main text of the report contains a long list of recommendations to abolish controls and restrictions, or to greatly simplify them, in order to lower barriers to investment as well as operating cost for business in general. In reviewing and revising business regulations, full account also needs to be taken of the conclusions of the Business Environment Simplification Taskforce (BEST), plus the recent Report from the Commission on Concerted Action in the Field of Enterprise Policy (COM (99) 569).
The MoEco is responsible for the co-ordination, monitoring and assessment of small and medium business development policy in Lithuania. The SME Development Programme outlines the key measures targeted at encouraging the start-up of the new firms, development of their further activities, via:

- As great as possible simplification of the procedures of company establishment and liquidation; elimination of bureaucratic barriers;
- Creation of the system of cheap and qualified business consulting and training services. With support from PHARE, special training and consulting centres have been founded in Alytus, Kaunas, Panevezys and Siauliai;
- Enhancing entrepreneurs’ awareness about the new business possibilities. This is especially poorly developed infrastructure, so it will be given special attention. The primary information which is needed by the beginning entrepreneurs is about local and international markets, potential partners, possibilities of public purchasing and of co-operation with larger companies, technological and other innovations, financial possibilities, etc.;
- Creation of the institutional business infrastructure, first of all – the efficiently functioning SME Support Foundation, business incubators, business centres, etc..

Instruments for Implementing Enterprise Policy

Post-war industrialisation took place under the conditions of a centralised economy, plus an abundant supply of cheap energy (oil imports and generation from large national power plants). Consequently much of Lithuanian industry was wasteful and energy-intensive.

With the break-up of the former Soviet Union, industrial enterprises have been forced to update technologies, improve product safety and quality standards, to seek access to new markets and to reorient towards manufacture of new product. In addition, Lithuania was hit hard when Russian oil prices increased to world market levels in the early 1990’s. During that time the Lithuanian industrial sector all but collapsed and registered the most severe decline in output in post-Soviet Europe. Industrial output fell by 52% and 43% in 1992 and 1993 respectively.

To date, Lithuania has preserved a large part of these energy-intensive industries. One reason for this is the continued availability of under-priced energy. However, this is set to change with the foreseen closure of the Ignalina NPP. This coupled with the loss of traditional export markets (further aggravated with the Russian currency collapse) makes a compelling case for further restructuring and re-orientation of the economy, plus the need to promote business start-up.

Lithuania’s industrial policy was originally developed in 1993, set out in the Programme for Industry Restructuring and Change of Specialisation of Big Companies. The goals outlined in the Programme corresponded to the political, economic and social standing of the country and availability of state financial support to promote industrial change at that time.

As the private industrial sector was still in its development stage, most efforts were directed towards privatisation and the creation of the institutional and legal basis needed for the sound functioning of the private sector: company establishment, change in management styles and strengthening of other market functions, that would otherwise make impossible the technological company reorganisation.

The privatisation of companies, especially big ones, was primarily conducted using a prior-to-privatisation restructuring strategy, principally by splitting companies, separating non-producing units. Such a policy facilitated a rather high speed of privatisation, and it created a basis for economic and technological restructuring. The period, though, became famous for some negative trends in development as well. Some of the mistakes made during the period determined the inefficiencies of today’s industrial structure: the process of company restructuring (economic, managerial and technological) has taken a slower than anticipated pace, due to the limited financial resources and relatively low direct foreign investment. Restructuring was much more visible in
those branches of industry where private companies were establishing themselves more intensively
and where the need to change production profile was limited: for example, the sectors of timber and
wood processing, furniture, light, construction material.

Recently, on the basis of the guidelines in the Government’s Activity Programme 1999–2000, industrial policy has been reviewed, drafting the Medium-term Industry Development Policy and the Strategy for its Implementation (including SME development). MoÉco is the main governmental institution responsible for the preparation and implementation of this document. Currently the Policy and Strategy for its Implementation is under consideration by the Government.

The Policy and Strategy build on the earlier policy, with the goal of the revised policy to adapt Lithuania’s business promotion policies and implementation instruments in line with EU best-practice and EC requirements (competition, state aids, environmental impact assessment etc.). In this respect the policy, even though it is intended for the medium term, will be topical, with slight periodic modifications, for the whole pre- and immediate post-accession period. The medium-term industrial policy and the strategy of its realisation are primarily Government’s policy and strategy, the Government is not able to implement them on its own. In order for the strategy of industrial development to become a reality and to contribute to the economic development and business growth, participation in the process of all interested and necessary parties is crucial. It implies that participation of the whole society is necessary by supporting the process by positive attitude towards industry, business, entrepreneurship and risk. At the state level it implies that various institutions should be established and strengthened, and the qualification of public servants improved by developing their skills required for strategy implementation and for flexible response to the needs of businesses. Business community should also become involved into the process of strengthening the institutions, so that in such way it could better meet its needs and the challenges posed by the changes in the country. All this has national and regional dimension.

A key priority must therefore be to develop implementation measures (initially, the adaptation of existing government support measures in line with Structural Funds’ principles and mechanisms) for both restructuring of industry and for the promotion of new business start-ups, in particular the development and support to SMEs in order that they might provide employment in economically viable fields. Investment co-financing to pilot-test revised delivery instruments and operational procedures will be channelled via the pilot regions selected to receive Phare funds for the promotion of economic and social cohesion.

Innovation

A large and high quality research infrastructure was developed in Lithuania to serve the Soviet space and defence industries and despite the difficulties of restructuring, high quality research remains. This could be used to support economic development in at least three ‘high tech’ areas, namely:

- **Lasers** – this industry draws heavily on the high class research in physics and material sciences at Vilnius University and the Research Institutes;
- **Biotechnology** – strengthens exists in niche fields including gene expression in yeast, restriction and modification enzymes and highly purified proteins;
- **Scientific and industrial instrumentation** – throughout the research infrastructure, a wide variety of measuring and monitoring instruments are produced which draw on the existing high quality research base in semiconductor physics, ultrasound technologies and nanotechnology. These instruments have wide ranging applications and there is a distinct specialisation in non-destructive testing.

In these three areas, the integration of fundamental and applied research and interdisciplinary nature of the work are the great strengths, which are capable of commercial exploitation. At present while there have been some examples of successful commercial exploitation of innovation, there is no
effective mechanisms operating which assists researchers to commercialise their research and convert research into economic benefit for Lithuania.

In the long-term, human resources and technological development will be the most important and most reliable source of the growth of Lithuanian economy. Such claim is determined by two reasons. Firstly, Lithuanian domestic market is very small, and export markets for its traditional products are also limited or highly competitive. Secondly, the country is not aiming at becoming the cheapest producer manufacturing standard products. To enter new markets, Lithuania needs new technologies and innovations.

In this respect the state has very limited resources, so the most beneficial investment for the country is to allocate the necessary funds for applied research and for the development of technologies with practical application. In present economic situation this is also a difficult task, but this is the only prospective way.

In order to develop the necessary institutional framework and instruments for Government support, in late 1999 the Ministry of Economy and Phare sub-project “Support to Innovation Strategy, drafting of Programme for Innovations in Business” prepared for Government approval the outline of a Business Innovation Programme.

The long-term aim of this programme is to raise the competitiveness of Lithuania in international business, intensifying the realisation of new technological solutions and organisational initiatives in business.

The medium-term aim (2001-2003) is: to remove obstacles which restrict the development of innovations; to actively promote strategic partnerships of Lithuania’s economic entities when putting into practice innovations; to enhance the ability of enterprises to receive, to form and realise innovations.

One of programme’s support measures is foreseen to be an Innovation Development Fund, for which a draft law is foreseen to be passed to the Government in the 1st quarter of year 2000. In the prepared project for Innovation Development Fund, the provisions of legal regulation are formulated which should induce development of innovations in Lithuania’s industrial sector. It is foreseen that the Innovation Development Fund will provide support for:

- Applied scientific research;
- Realisation of innovation projects;
- Infrastructure strengthening needed for innovations (consulting, information, training).

In order to provide support to innovative SMEs, plus to pilot test existing proposals for business innovation, it is foreseen that business consultancy services be provided via Phare, to support a number of suitable innovative spheres with potential to be further developed.

When forming the background of national system of innovation, it is foreseen to carry out the analysis of all legal system and to correct other laws in the aspect of development environment favourable for innovations. It is foreseen to improve and develop the system of innovation and technological information as well as services provision, founding consulting, information provision and other structures. MoEco, Ministry of Education and Research and other related science communities are responsible for the development of innovation system. The mechanisms intended to enhance innovation processes in companies are outlined in the “White Book on Science and Technology” which is under preparation with support of the 1997 Phare Programme project Support to European Integration in Lithuania.
3.2. **Linked Activities**

Over the period late 1997 to end June 1999, the MoEco benefited from a Framework Project on the Modernisation of Lithuanian Basic Commercial Laws (*LI 9610*), the general objective of which was to support the approximation of Lithuanian legislation and enforcement practice in line with EC company law, plus to support the establishment of a legal framework conducive to economic activity in Lithuania. Assistance was also provided with the review and drafting to the reform of the 1997 Law on Bankruptcy.

Via the Phare project Support to European Integration in Lithuania (*LI 9701*), the following sub-projects are underway:

- Support for Medium Term Economic-Strategy Development;
- Support to Medium Term Industry Policy and the Strategy of its Implementation;
- Support to Innovation Strategy, drafting of Programme for Innovations in Business;
- Support for Technology policy: Drafting of White Paper on Science and Technology.

Although the MoEco will not benefit directly from the Phare 2000 Social and Economic Cohesions projects, the Ministry is part of the overall coordination structures for regional development.

3.3. **Results / Outputs**

Outputs to be delivered via this Project and Results to be achieved include:

**Bankruptcy / Corporate Governance**

Strengthened and efficient implementation of new bankruptcy and restructuring procedures, strengthened financial discipline in enterprises, through adoption of best-practice corporate governance methods:

- Extensive training of bankruptcy/restructuring players (approximately 100 persons), including civil servants, administrators, judges and enterprise managers (as well as lawyers and others involved in this sector), on a decentralised basis centred on the district courts plus strengthening the capacity of MoEco staff, in the Enterprise Bankruptcy Management Department, in the areas of assessment of restructuring plans, risk evaluation, information gathering, evaluation and dissemination techniques, etc.;
- Review and recommendations linked to corporate governance model for enterprises, based on best international practice (including proposal of and drafting assistance on amending legislation) and provide training of MoEco staff and enterprise managers (approximately 20 persons) in best practice corporate governance on a decentralised basis, including awareness raising of such requirements in the public and private sectors.

**Business Environment**

Simplified business environment, through streamlined regulation:

- Review and recommendations linked to the efficiency and effectiveness of the enterprise registration system (about to be effected through the hypotec register system) plus post-registration administrative requirements, in line with best-practice.
- Pre- and post-registration licensing requirements, procedures for obtaining licences and permits, inspection and record keeping requirements for compliance with requirements of tax police, economic police and customs officials should all be reviewed in order to compile an accurate picture of the administrative barriers to business entry, SME development, etc. Following a review of current legislation and regulations, assistance will be provided with the drafting and review of amending legislation/regulations. Issues of disclosures and transparency are related to corporate governance issues also.

**Instruments for implementing enterprise policy**
Mechanisms and operational guidelines for the delivery of structural assistance to productive investment, industrial restructuring and business development adapted/established, on the basis of Structural Funds’ principles:

- Review, assessment and adaptation of existing enterprise policy and delivery mechanisms and operational procedures, leading to recommendations for the adaptation of existing mechanisms plus the establishment of new delivery instruments and procedures;
- Training of civil servants (approximately 20 persons) to analyse economic trends, to create corresponding policy and to evaluate the effectiveness of delivery instruments.

**Innovation**

Development of national mechanisms to support innovation, to attract investment, enhance enterprise management in leading edge technologies leading to a tested methodology for business promotion, improved access to credit for enterprises particularly SMEs and therefore greater efficiency in the utilisation of scarce State funds:

- Support MoEco to establish and pilot-test mechanisms, structures and operations, as well as potential financial resources/mechanisms, to implement Business Innovation Strategy;
- Identification of suitable innovation spheres for intensive technical assistance through appropriate vehicles to prepare and train researchers and management in actively commercialising innovation in order to attract FDI/strategic investment to further R&D, marketing etc., so as to produce through pilot projects (approximately 20 enterprises) a working and tested model framework which can be used by other researchers to commercialise their research;
- Training programmes for research and academic staff (approximately 40 persons) in areas as high tech entrepreneurship, commercialisation of science and technology, marketing, etc;
- Preparation and realisation of innovation projects, encouraging export promotion;
- Development of licensing models;
- Development of appropriate vehicles for furthering commercial exploitation of innovation coupled with assistance in defining regulations to clarify issues such as ownership rights to intellectual/industrial property, financial issues and rewards, strategies, responsibilities, etc..

### 3.4. Activities / Inputs

**Two contracts are foreseen to be concluded under this Project:**

**A Twinning and Training package (LI 2000/IB/FI/01)** to assist the MoEco with:

- Advice on the preparation of implementing legislation/regulations based on the soon-to-be approved Laws on Bankruptcy and Restructuring: methodology for the preparation and evaluation of restructuring plans, rules of appointment, cancellation and evaluation of administrators, judges and enterprise managers etc.;
- Advice and training on implementation of bankruptcy and restructuring procedures, plus advice and training for the development of best practice corporate governance;
- Advice and training support for preparation of reforms to reduce business regulation and administration in order to encourage innovation and SME development;
- Support with the development of appropriate enterprise development instruments for delivery of structural measures to enhance competitiveness and sustainable job creation.

**A Technical Assistance project** will assist the MoEco with:
Strengthening innovation and commercialisation links through spheres suitable for innovation identification; extensive training to selected innovation commercialisation enterprises (approximately 40 people) to create attractive investment opportunities for funding R&D and strategic investment (approximately 20 enterprises) plus developed and tested model for future application.

3.4.1 Twinning and Training Package (LI 2000/IB/FI/01)

The Twinning and Training Package will comprise the following elements:

- A 2 year PAA to support the MoEco (Enterprise Bankruptcy Management Department), in the supervision and enforcement of new bankruptcy and restructuring legislation and utilisation of Guarantee Fund including identification of training needs at national and regional level for civil servants, judges, administrators and enterprise managers and provision of extensive training programme covering law, practice, economics, risk evaluation, etc plus overall project supervision.

- The PAA should have at least 10+ years experience of bankruptcy/restructuring, either as an insolvency practitioner as well as experience of project management and training design and delivery and should be supported by short term experts (judges, lawyers, accountants, economists, trainers etc.);

- A 1 year (over 24 months) PAA supporting the MoEco (Industry and Business Department), in the development and delivery of a regional structural funds policy (including dovetailing the experience of the technical assistance innovation promotion part of this Project Fiche).

- The PAA should have at least 10+ years experience of the development of high technology SMEs with particular reference to the innovation spin-offs plus experience of regional and structural fund programmes;

- A series of short term expert inputs (approximately 60 p/m) supporting:

  - MoEco (Enterprise Bankruptcy Management Department and Enterprise Economic and Management Department), Ministry of Justice and district courts as well as administrators, in bankruptcy and restructuring enforcement including the review of operations and training in enforcement, assessment, risk evaluation, auditing and promotion of best-practice in corporate governance, etc.

- It is expected that the training (approximately 100 people regarding bankruptcy and 20 people regarding corporate governance) will be delivered in 6 locations centred round the 5 district courts (Vilnius, Kaunas, Panevėžys, Šiauliai and Klaipėda) plus the MoEco in Vilnius. The judicial training in Vilnius would also include appellate judges. This structure will allow the training to be targeted to meeting the local needs of judges, administrator's etc. as well as overall needs. In order to foster consistency and the relationship development there would be 6 lead trainers drawn from the short term experts with each allocated to a specific locality but with selected rotation during the project to allow consistency to be monitored and local trends and issues arising in the courts and with administrators to be considered.

The lead trainers would be co-ordinated by the PAA and supported by short term experts in the actual delivery of the training. It would be anticipated that there would be 4 training blocks over a 2-year period with the training blocks addressing issues such as:

- Training of judges in interpretative and analytical skills connected with assessment of restructuring plans, economic skills, risk assessment, practical legal issues etc.;

- Training of administrators in financial and accounting management skills, risk assessment, valuation techniques, strategy, marketing, etc.;

- Training of civil servants in financial and accounting management skills, risk assessment, valuation techniques, strategy, etc. in order to improve bankruptcy
supervision and statistical evaluation;
- Training of trainers to ensure ability to continue self-sufficient training in the future to further develop skills;
- Overview and training in concepts of revised legislation;
- Overview and training in general concepts of good corporate governance, where expectation is based on voluntary adoption of good practice linked to identification the benefits of doing so.

In so far as possible the training should be strategically planned so as to develop and extend the participants over the 4 blocks of training over the 2 years of the project.

- MoEco (Industry and Business Department and Enterprise Economic and Management Department), Ministry of Justice as well as local administrations and district courts with a review of enterprise registration and administration.
- Review and recommendations linked to the efficiency and effectiveness of the enterprise registration system, post-registration administrative requirements, procedures for obtaining licences and permits, inspection and record keeping requirements for compliance with requirements of tax police, economic police and customs officials etc. compiling an accurate picture of the administrative barriers to business entry, SME development, etc.
- Following a review of current legislation and regulations, assistance will be provided with the drafting and review of amending legislation/regulations, plus relevant training for the MoEco and Ministry if Justice (approximately 20 people);
- Other services and supplies including development of information management systems, IT requirements, translation costs, study fellowships (conferences, seminars, fellowships in the Member States, etc.).

3.4.2 Technical Assistance / Business Consultancy Services

The Technical Assistance project necessitates:

- A 10.5 person-months resident adviser (over 24 calendar-months) to provide general management and institutional support to the MoEco (Industry and Business Department), related agencies and selected enterprises with the commercialisation of innovative technology;
- A series of short term expert inputs (approximately 40 p/m) providing consultancy support and training to selected enterprises. The short-term experts should have broad SME development skills, plus scientific/innovation skills, marketing and research experience, etc..

The technical assistance support would assist in the definition/testing of instruments and structures for successful government support to exploit research potential and create strong links between the business and science communities, including the development of appropriate enterprise vehicles for the commercialisation of selected high-tech products, plus provide extensive training in enterprise and financial management and planning, development financing, product and risk evaluation, market evaluation and research, marketing, etc in order to prepare the enterprise(s) for R&D funding, strategic investment, etc..

In addition to supporting the Government’s identification of necessary mechanisms and structures, the activities will also provide direct practical assistance to enterprises (approximately 20) and the transfer of know-how across the academic/commercialisation sector (approximately 40 researchers to be trained), encourage future commercialisation of scientific innovation through adoption of the model schemes developed as part of this project thus increasing competitiveness, improving access to external funds and encouraging development of SME high technology sector:
- Product Sector Support Programmes focused on: export market entry strategies, product development, quality packaging materials and presentation, organisation of after sales services and follow-up, participation at selective trade exhibitions etc.;
- Innovation Projects Support Programme, providing support for the preparation and realisation of innovative SMEs projects;
- Market Support Programmes, providing a range of support services to cover the provision of market intelligence and profiles on selected markets in western and central Europe;
- Export Training Programme aimed at increasing the skills level of enterprises with export potential and export support organisations: management, marketing and skills development across selected sectors, improving management capability and contributing to a more effective export performance. The design and delivery of training programmes will follow from a detailed needs analysis.

4. Institutional Framework

The Project will be co-ordinated by the MoEco working through the Enterprise Bankruptcy Management Department (“EBMD” – Ceslovas Purlys), Industry and Business Department (“IBD” – Juozas Martinonis, Vilius Šileika, Šarunas Birutis, Ceslovas Švetkauskas), Enterprise Economic and Management Department (“EEMD” – Audrone Railaite).

The main tasks of the EBMD are to implement government policy in respect of bankrupt and insolvent enterprises and to analyse activities of such companies and identify enterprises which could benefit from restructuring particularly where the state is a creditor. The EBMD is under the MoEco and supervision of the vice-minister and has 21 staff carrying out functions covering administration, analysis, supervision, etc. The EBMD is also responsible for the registration of bankruptcy administrators who must pass a training course set by the EBMD in order to obtain a licence. The EBMD through its supervisory roles seeks to monitor the performance of administrators and supports ongoing continuing professional development for administrators.

The IBD comprises 20 personnel, with specific groups covering industrial strategy, competitiveness and SMEs. The IBD is charged with formulating policy with regard to industrial development as part of Lithuania’s accession to the EU. This includes co-ordinating activity within the Ministry and taking part in the formulation of science, technical and information policies in the industrial development, export promotion and entrepreneurship sectors. These tasks are implemented through economic programmes related to integration with the EU, improving efficiency, preparing legislation aimed at improving the economic and legal environment for business, etc.

Development of business environment, focused on simplification of regulations governing enterprise registration and administration will be provided through the IBD and EEMD (staff of 18) in connection with Lithuanian Industrialists’ Confederation, Lithuanian Business and Employers Confederation, Chamber of Industry and Commerce etc.

As part of this process the IBD has developed the “Business Innovations Programme” (“BIP”) which has the long term objective of increasing international competitiveness of Lithuanian business by the implementation of new technological and organisational initiatives. In the short term the BIP foresees the elimination of obstacles to the development of innovation and intensify strategic partnerships for implementation of innovation. At the institutional level the Project will have regard to the continuing development of the BIP through the IBD.

In addition liaison will be necessary with other departments in the MoEco in particular aspects of the project as required.

The project will require to be implemented in conjunction with the Ministry of Justice (judicial training, enterprises registration), Ministry of Public Administration Reforms and Local Authority (promotion of new business start-up, pilot test revision via selected pilot regions for the promotion
of economic and social cohesion) as well as other institutions such as Small and Medium Enterprises Development Agency, Lithuanian Development Agency, Lithuanian Judicial Training Centre etc. in order to ensure activities are co-ordinated and not being duplicated.

5. **Budget (in million EUR)**

<table>
<thead>
<tr>
<th>Project Components</th>
<th>Investment Support</th>
<th>Institution Building</th>
<th>Total Phare (= I + IB)</th>
<th>National Co-financing</th>
<th>IFI</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twinning and Training Package</td>
<td>1.4 MEUR</td>
<td>1.4 MEUR</td>
<td>0.1 MEUR</td>
<td>1.5 MEUR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High-Tech T.A. Support Package</td>
<td>0.6</td>
<td>0.6</td>
<td>0.05</td>
<td>0.65</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>2.0</td>
<td>2.0</td>
<td>1.5</td>
<td>2.15</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. **Implementation Arrangements**

6.1 **Implementing Agency**

The CFCU is the Implementing Agency responsible for tendering, contracting and accounting. Responsibility for technical preparation and control will remain with the beneficiary: Ministry of Economy.

The PAO will be the Director of the CFCU, Mr Z Pajarskas, Ministry of Finance J. Tumo-Vaizganto 8a, 2600 Vilnius; telephone: +370 2 61 19 32, fax: +370 2 22 53 35 and e-mail: cfcu@takas.lt.

For both contracts, the initial contact person is Mrs Loreta Petrašiunaite (tel. +370 2 627517, fax +370 2 623974, e-mail: eik@po.ekm.lt).

6.2 **Twinning**

For the Twinning and Training package, the Twinning Team will primarily be located in the Ministry of Economy, for whom the counterpart will be Mr Ceslovas Purlys, Head of Division (tel: +370 2 625042, e-mail: band@po.ekm.lt).

6.3 **Non-standard aspects**

DIS rules and procedures will be applied fully. The project has two components: twinning and technical assistance.

6.4 **Contracts**

There will be two contracts in this project:
Value of Twinning Covenant 1.4 MEURO
Value of technical assistance contract: 600,000 Euro

7. **Implementation Schedule**

- Start of Twinning Selection: 2Q/00
- Start of T.A. Tendering: 1Q/01
- Start of Twinning Activity: 2Q/01
- Start of T.A. Activity: 2Q/01
- Project Completion: 1Q/03
- Project Completion: 1Q/03

8. **Equal Opportunity**

Equal opportunity principles and practices in ensuring equitable gender participation in the Project will be guaranteed.

9. **Conditionally and Sequencing**
The implementation of **Component 1** (Bankruptcy & Restructuring) will be conditional upon:

- Entry into force of bankruptcy and restructuring laws (expected to be complete by July 2000);
- Involvement of Ministry of Justice to ensure implementation of efficient court procedures;
- Co-ordination with the Lithuanian Judicial Training Centre.

The implementation of **Component 2** (Business Environment) will be conditional upon:

- Identification of a responsible department that will become the government’s ‘better regulation unit’ for business;
- Setting up of working groups involving business representatives and representatives of the LDA and the SME Development Agency;
- Establishment of Legal entity registers based on hypotec information system (15 hypotec divisions as registration offices and Central mortgage office as manager of the Central database).

The implementation of **Component 3** (Instruments for Implementing Enterprise Policy) will be conditional upon:

- Co-ordination with Ministry of Public Administration Reform and Local Authorities (no duplication with SPP programme).

The MoEco will ensure coordination with MoPARLA over the Social and Economic Cohesion Projects in the 2000 Phare programme.

The implementation of **Component 4** (Innovation) will be conditional upon:

- Involvement of the Department of Science and Study of the Ministry of Education & Science, the Lithuanian Development Agency, the SME Development Agency and business associations.
## Promotion of Competitiveness/ Enforcement of Financial Discipline for Enterprises

### Wider Objective

- a) Promote the competitiveness of Lithuania’s enterprise sector, enforcing financial discipline for enterprises particularly through enforcement of bankruptcy and restructuring legislation and promotion of best-practice in corporate governance, plus
- b) Development of enabling factors for increasing the competitiveness of Lithuanian enterprises:
  - Development of the business environment, focused on simplification of regulations governing enterprise registration and administration, plus
  - The adaptation/creation of Government enterprise development policy and delivery instruments, in accordance with Structural Funds’ requirements,
  - The assistance for adaptation of Government innovation policy and mechanisms intended to enhance innovation processes in companies.

### Immediate Objectives

- Strengthen the capacity of different actors (Enterprise Bankruptcy Management Department, Ministry of Economy, business administrators, judges and enterprise managers) to effectively and efficiently enforce bankruptcy procedures and enterprise restructuring, on the basis of the promotion of best-practice in corporate governance
- Streamline relevant legislation and regulations relating to enterprise registration, administration and licensing
- Adapt existing Government policy and delivery mechanisms (plus create new mechanisms) for the provision of state support to enterprise development, based on the development of Structural Funds-type mechanisms in the field of productive investment, industrial restructuring and business development
- Help the Government identify the necessary mechanisms and structures, as well as financial resources that are needed to implement Business Innovation Programme. In the specific sectors of innovation, the provision

### Logframe Matrix

<table>
<thead>
<tr>
<th>Project Number: <strong>LT 0002-01</strong></th>
<th>Contracting Period Expires: 3Q/2002</th>
<th>Disbursement Period Expires: 3Q/2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Budget: <strong>2.15 MEUR</strong></td>
<td>Phare Contribution: <strong>2.0 MEUR</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Indicators of Achievement

- Increase in number of completed bankruptcies and reconstructions
- New legislation and institutional structures in the field of registration and governance
- Government enterprise support policy and mechanisms in compliance with Structural Funds’ principles and methodology
- Adaptation of Government innovation policy and mechanisms intended to enhance innovation processes in companies

### Sources of Information

- Publications of legislation, funding scheme and court statistics
- Publications of regulation/guidelines
- Improved effectiveness in bankruptcy/reconstruction matters
- Regulations and guidelines on new regulatory requirements and corporate governance
- Commencement of pilot investment scheme
- Identification of suitable innovation spheres for intensive technical assistance

### Assumptions/Risks

- Publication of regulation/guidelines
- Highly qualified staff
- Collection of data
- Publication of legislation
of consultation services to strengthen the productivity, quality control and export potential of innovation: providing business consultation services to potential leading-edge SMEs operating in the area of high-tech innovation, supporting enterprises to develop appropriate business and investment plans and management procedures for the commercialisation and utilisation of innovative technology

<table>
<thead>
<tr>
<th>Results/Outputs</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions/Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankruptcy and reconstruction procedures strengthened with enhanced skills through training and increased bankruptcy/ restructuring disposal rate, to be achieved via the review of enforcement procedures, development of best-practice models and the provision of extensive training and business awareness. New legislation, regulations and guidelines fulfilling Lithuania’s obligations and priorities in the Accession Partnership and NPAA in respect of streamlined enterprise registration and corporate governance, to be achieved via the review of legislation/regulation and procedures, the development of simplified implementation practice and a business-friendly environment, plus training of civil servants to ensure effective implementation. The development of Instruments for implementing enterprise policy, to be achieved via the detailed assessment of existing policy and mechanisms, the provision of support for the adaptation of procedures, plus the training of civil servants to analyse economic trends, to create corresponding policy and to evaluate the effectiveness of delivery instruments; Identification of leading edge technology business/products suitable for commercialisation and pilot tested model for future innovation/business commercialisation of innovation, to be achieved via training in R&amp;D, product evaluation and marketing, market research, management, financial evaluation.</td>
<td>MoEco departments, courts and other bankruptcy players trained Laws/regulations/guidelines published Restructured industry and the promoted of competitiveness Innovation enterprise ready for R&amp;D/strategic investment/successful external investment in innovation/product development enterprise coupled with market penetration for new product(s)</td>
<td>Project reports supported by independent assessments</td>
<td>The project is based on the assumption that EU membership and adaptation of the economy remains a high priority of the Lithuanian government and that there is the necessary political support to implement this project</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inputs</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) PAAs and short term experts (lawyers, trainers)</td>
<td></td>
<td></td>
<td>Assume project tendering and contracting proceeds smoothly according to established procedures</td>
</tr>
</tbody>
</table>
### Detailed Implementation Chart for the Project

#### Annex 2

<table>
<thead>
<tr>
<th>Detailed Project Implementation</th>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
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</thead>
<tbody>
<tr>
<td><strong>Institution Building</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Twinning and Training Package</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Launch Twinning request to Member States (June 2000)</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>- Selection of MS(s) for twinning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Elaboration of twinning covenant</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>- Submit Twinning covenant to Commission &amp; Steering Committee for approval</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>- Twinning Package commences</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bankruptcy - preparation of detailed training programme, legislative review</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Bankruptcy – delivery of training</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Business registration/administration – review and recommendations, training</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Development of Instruments for implementing enterprise policy</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>TA to Innovation SMEs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Draft TOR</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Tender process</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Sign contract</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delivery of services</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Final Report</td>
<td></td>
<td></td>
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</tbody>
</table>

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Cumulative Contracting and Disbursement Schedule for the Project (MEUR)  
Annex 3
Promotion of Competitiveness / Enforcement of Financial Discipline for Enterprises

### Cumulative Quarterly Contracting Schedule (MEUR)

<table>
<thead>
<tr>
<th>Project</th>
<th>4Q/00</th>
<th>1Q/01</th>
<th>2Q/01</th>
<th>3Q/01</th>
<th>4Q/01</th>
<th>1Q/02</th>
<th>2Q/02</th>
<th>3Q/02</th>
<th>4Q/02</th>
<th>1Q/03</th>
<th>2Q/03</th>
<th>3Q/03</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twinning</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td>1.6</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
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<td></td>
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<td>0.4</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
<td>2.0</td>
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<td>2.0</td>
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</tbody>
</table>

### Cumulative Quarterly Disbursement Schedule (MEUR)

<table>
<thead>
<tr>
<th>Project</th>
<th>4Q/00</th>
<th>1Q/01</th>
<th>2Q/01</th>
<th>3Q/01</th>
<th>4Q/01</th>
<th>1Q/02</th>
<th>2Q/02</th>
<th>3Q/02</th>
<th>4Q/02</th>
<th>1Q/03</th>
<th>2Q/03</th>
<th>3Q/03</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twinning</td>
<td>0.4</td>
<td>0.4</td>
<td>0.7</td>
<td>1.0</td>
<td>1.2</td>
<td>1.5</td>
<td>1.6</td>
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<td>1.6</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
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<td>0.4</td>
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</tr>
<tr>
<td><strong>TOTAL</strong></td>
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<td>0.7</td>
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<td>1.3</td>
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<td>2.0</td>
</tr>
</tbody>
</table>
LT 0002-01

List of Applicable Laws

1. Law on Bankruptcy 1997
2. Law on Bankruptcy – amending legislation
3. Law on Restructuring (not passed yet)
4. Law on Companies 1995 (as amended)
5. Law on Registration of Enterprises
7. Law on Investment
Structure of the Ministry of Economy

- EU Integration Co-ordination Department (staff of 4)
- Economy Strategy Department (staff of 18)
  - Economy Development Policy Division
  - Investment Policy Division
  - Financial Analysis Division
- Enterprise Economics and Management Department (staff of 18)
  - Enterprise Activities Regulation Division
  - State Property Division
  - Enterprise Registration Division
- Export-Import Regulation Department (staff of 13)
  - Foreign Trade and Customs Policy Division
  - Strategic Goods Export Control Division
- Industry and Business Department (staff of 20)
  - Industry Strategy Division
  - Industry Competitiveness Division
  - Small and Medium Business Division
- Internal Trade Department (staff of 12)
  - Internal Trade Policy Division
  - Analysis and Forecasts Division
- Energy Development Department (staff of 14)
  - Energy Strategy Division
  - Energy Reforms Division
- Energy Resources Department (staff of 13)
  - Fuel Strategy Division
  - Energy Infrastructure Division
- Nuclear Energy Division (staff of 6)
- State Reserves Division (staff of 4)
- Legal Division (staff of 5)
- Personnel Division (staff of 5)
- Protocol Division (staff of 6)
- Finance and Accounting Division (staff of 6)
- Chancellery (staff of 10)
- Enterprise Bankruptcy Management Department, under the Ministry of Economy (staff of 21)
  - Enterprise Bankruptcy Division
  - Supervision of Unprofitable Enterprises Division
  - Enterprise Activity Analysis Division