



# **'Improvement of the business supervisory system'**

**Case study of Lithuanian ESF project under the  
study 'Progress Assessment of the ESF Support to  
Public Administration' (PAPA)**

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Specific contract No VC/2018/0771 under the Multiple Framework Contract No VC/2017/0376 for the provision of services related to the implementation of Better Regulation Guidelines

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## PROJECT BACKGROUND

### Improvement of the business supervisory system in Lithuania

<b>Operational Programme</b>	The project is supported under the measure 'The development of better regulation and improvement of the business regulatory system' under priority 10 of the Operational Programme for EU Structural Funds Investments for 2014-2020
<b>Beneficiary organisation</b>	Lithuanian Ministry of the Economy and Innovation (EIMIN)
<b>Target groups</b>	Business supervisory agencies
<b>Project duration</b>	03/08/2016 – 17/11/2020
<b>Budget</b>	EUR 930,648.06 (ESF contribution: EUR 682,036.86)
<b>Project manager (email address)</b>	Business Supervision Policy Division, Lithuanian Ministry of the Economy and Innovation (verslo prieziura@eimin.lt)
<b>Partners</b>	N/A
<b>Project/ organisation website</b>	<a href="https://www.esinvesticijos.lt/lt/finansavimas/paraiskos_ir_projektai/verslo-prieziuros-sistemas-tobulinimas">https://www.esinvesticijos.lt/lt/finansavimas/paraiskos_ir_projektai/verslo-prieziuros-sistemas-tobulinimas</a> <a href="http://eimin.lrv.lt/en/">http://eimin.lrv.lt/en/</a>

This case study was produced during the project 'Progress Assessment of the ESF Support to Public Administration' project, contracted by DG Employment, Social Affairs and Inclusion of the European Commission. The purpose of this project was to present specific cases of ESF-funded public administration reform and capacity building initiatives, as well as to show the role of ESF financial support to public administration, for the purposes of accountability. This report provides a story on the project '**Improvement of the business supervisory system**'. This account discusses the context and purpose of the project; the characteristics of the team implementing it; the main challenges faced and difficulties encountered during its implementation; key developments during the implementation process; results and impacts achieved; as well as lessons learnt and the contribution of ESF.

## IMPROVEMENT OF THE BUSINESS SUPERVISORY SYSTEM IN LITHUANIA

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### Introduction: the context of the project

When the study team met with Gita Šematovičiūtė, the former head of Business Supervision Policy Division at the Lithuanian Ministry of the Economy and Innovation (EIMIN), she had recently returned from Lima, Peru. She was there on behalf of EIMIN, which had been invited by the Organisation for Economic Co-operation and Development (OECD) to share its expertise and contribute to an assessment of the business supervisory system in Peru. Gita Šematovičiūtė noted that 'even before Lithuania joined the OECD, we had already been invited to share our good practices'. In fact, OECD had previously recognised the progress Lithuania had made in improving its business supervisory system, including the adoption of special business supervision provisions in the Public Administration Law and the Government Decision of 2010 May 4 No. 511<sup>1</sup>.

The reform of business supervisory agencies in Lithuania dates back to 2009. Performance culture among these agencies was perceived to be frequently based on punishing businesses for infractions, rather than providing advice and assistance. The large network of supervisory institutions and their overlapping tasks were identified as one of the main weaknesses of the business' supervisory system<sup>2</sup>. In 2009, the former Lithuanian Ministry of the Economy, in cooperation with the Ministry of Justice, introduced a reform seeking to optimise the functions of the country's supervisory agencies and increase their efficiency. The motto of this reform – 'The inspector is not a punisher, but a consultant!' – captures the vision behind it, and sets the direction for supervisory agencies to follow.

Within the framework of the reform, the optimisation of business supervisory institutions and their functions became one of the Lithuanian government's key priorities. The 2008-2012 Lithuanian government proposed the clustering of all supervisory agencies according to eight policy areas (the environment; market regulation; financial regulation; culture and education; taxation, customs and accounting; healthcare; product and process safety). The 2012-2016 Lithuanian administration approved a plan for the consolidation of business supervisory institutions, which was prepared with ESF support. Despite some achievements<sup>3</sup>, however, the rationalisation of these institutions was rather sluggish. Between 2012 and 2016, implementation of the consolidation plan reduced the number of business inspection institutions by six, compared to an original planned reduction by 38 institutions. In its 2018 report, the National Audit Office highlighted the fact that half of all regulatory agencies involved in the rationalisation process had not appointed any personnel to be responsible for these reforms<sup>4</sup>. In addition, optimising business supervisory agencies almost always requires

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<sup>1</sup> OECD (2015), *Regulatory Policy in Lithuania: Focusing on the Delivery Side*, OECD Reviews of Regulatory Reform. OECD Publishing, Paris; OECD (2018), *OECD Regulatory Policy Outlook 2018*. OECD Publishing, Paris.

<sup>2</sup> For history of previous reform efforts, see: Ministry of the Economy of the Republic of Lithuania (2018), *Ūkio subjektų veiklos priežiūrą atliekančių institucijų pažangumo vertinimas (švieslentė). 2017 metų ataskaita* [Progress assessment of agencies supervising the activities of business entities (the Scoreboard). 2017 report]. [Hereinafter EIMIN (2018), *The Scoreboard*.], p.5.

<sup>3</sup> For instance, the 2008-2012 Lithuanian government absorbed the Securities Commission and the Insurance Supervisory Commission into the Bank of Lithuania, while the 2012-2016 government integrated the State Non-Food Product Inspection into the State Consumer Rights Protection Authority.

<sup>4</sup> State Audit Office (2018), *Ar Lietuvos verslo priežiūros sistema efektyvi. Valstybinio audito ataskaitos santrauka*. 2018 m. kovo 20 d. Nr. VA-2018-P-50-2-3 [Is Lithuania's business supervision system efficient? A summary of State Audit's report. 20 March 2018. No. VA-2018-P-50-2-3]. Available at: <https://www.vkontrolė.lt/failas.aspx?id=3793> (accessed: 21 March 2019).



the amendment of sectoral legislation by parliament, where opposition is often mobilised to block unfavourable reform proposals.

Alongside consolidation, supervisory reforms sought to change the ethos behind supervisory institutions, encouraging them to act primarily as consultants to business entities rather than punitive bodies. The Ministry of the Economy promoted the application of common instruments in supervisory agencies. These included risk management systems, inspection checklists, advisory services, 'Declaration regarding the first year of business' – a joint declaration of supervisory institutions on providing consultations during the first year of business, instead of putting on immediate fines, and measurement and assessment of the performance of the supervisory agencies. For instance, risk assessment was established as the foundation for business inspection activities, encouraging supervisory agencies to focus their activities on high-risk cases. It was also decided that business inspections carried out by the supervisory agencies were to be based on clear inspection checklists. As a result, an increase was reported in the application of these instruments by Lithuanian supervisory agencies, with larger agencies showing greater progress than smaller ones. Implementation of the reforms led to a short-term reduction in the number of business inspections conducted; however, while the number of visits made to each inspected business fell between 2011 and 2012, this figure had recovered by 2014 after the pace of the reform had slowed somewhat<sup>5</sup>.

The implementation of these reform initiatives has continued under the 2016-2020 Lithuanian government. After the State Audit released a report in 2018 on the efficiency of business supervision system, the Prime Minister Saulius Skvernelis has turned to the working group comprised of civil servants at EIMIN and business associations, and led by Vice-minister Marius Skuodis. In response to the failure of the previous round of rationalisation to achieve the expected results, EIMIN reviewed the network of supervisory agencies and suggested further improvements to business supervision, based on previous reform proposals. After holding five meetings with representatives of various institutions, the working group developed a set of suggestions. The vice-minister discussed these suggestions developed by the working group with vice-ministers of other institutions concerned by the proposals made, in order to find balance between different viewpoints and reach a consensus. The results of this consultation were presented to the Prime Minister who assigned his team to work additionally on the consolidation question, insisting on making it more ambitious. Recognising the challenges faced during the previous round of consolidation, it was decided to steer the implementation of the plan from the centre of government. As a result, at the end of 2018, the government approved an action plan for the consolidation and optimisation of business inspection institutions and functions.

According to the protocol of a government meeting held on 3 October 2018, the Government Office was assigned to take over coordination of preparations for an action plan to consolidate business supervisory agencies and optimise their functions<sup>6</sup>. The final plan envisages a reduction in the overall number of business inspection bodies from 55 to 47 by 2020. Due to the fact that several supervisory bodies had already been reorganised prior to the approval of this action plan, it is anticipated that the 2016-2020 Lithuanian government will achieve an

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<sup>5</sup> OECD (2015), *Regulatory Policy in Lithuania: Focusing on the Delivery Side, OECD Reviews of Regulatory Reform*. OECD Publishing, Paris.

<sup>6</sup> The Government Office of the Republic of Lithuania, Pasitarimo protokolai, Dėl ūkio subjektų veiklos priežiūrą atliekančių institucijų ir (ar) jų funkcijų konsolidavimo ir optimizavimo priemonių plano, 2018 m. spalio 3 d. Nr. 44 [Protocol of the meeting regarding the Action plan for optimising and consolidating the functions of agencies conducting supervision of business entities, 3 October 2018, No. 44].

overall reduction in the number of business inspection bodies of 16. The plan includes a set of 18 measures to optimise the agencies' business supervision functions<sup>7</sup>.

According to Chief Advisor to the government's Strategic Competence Group, 'the Government understood that a decision based on political will is required for consolidation. Otherwise, there would be no natural merging of business supervisory agencies by following a bottom-up approach. The easier decisions have already been taken; the decisions that are left are more complicated decisions and require the exercise of stronger political leadership'. Given the need for this political determination, the government took over direct coordination of the current consolidation plan, hoping to address the issues previously encountered by EIMIN. This is also in line with a broader OECD recommendation on strengthening the role of the Government Office in regulatory policy as a whole<sup>8</sup>.

Overall, some positive results of the reforms and initiatives implemented are already visible. For instance, surveys of business entities reveal that the number of respondents expressing satisfaction with the services provided remains stable and high<sup>9</sup>. In 2015, 69.2% of respondents rated the activities of business supervisory agencies positively. In 2016 and 2017, this figure remained the same: 69%. Emilis Ruželė, Senior Policy Advisor at the Investors' Forum, which is an association of Lithuanian business investors, echoed this tendency and distinguished a few good practice examples. For instance, the State Tax Inspectorate has introduced legally binding consultations and the State Labour Inspectorate has made progress in collaborating with stakeholders, which was especially important in respect to explaining the new Labour Code.

It has also been calculated that the administrative burden on business entities has been reduced by a total of EUR 109 million since 2014. The majority of this reduction (EUR 103.9 million) was achieved in 2018<sup>10</sup>. EIMIN itself contributed to this success by reducing the administrative burden on businesses by EUR 0.4 million in 2018. In addition, the 2019 Ease of Doing Business indicator ranks Lithuania as the 14<sup>th</sup> easiest country in the world in which to do business<sup>11</sup>. These positive results contribute to a better business environment and a more effective use of public funds, thus addressing some of the recommendations made by the Commission for Lithuania's progress during the European Semester process.

The 2011 European Semester report identified that Lithuania is lagging behind in terms of start-up conditions, delivery of construction permits and protection of investors, as well as warranting improvements to business regulations in these domains<sup>12</sup>. Consequently,

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<sup>7</sup> Some of these measures include preparing new legislative projects to simplify regulations in the areas of construction and food safety; increasing the competencies of inspectors working at regulatory agencies; preparing an ethical code of conduct for inspectors; applying indicators to measure the effectiveness and efficiency of regulatory agencies, and the administrative burden created for businesses etc. The Government Office of the Republic of Lithuania, 2018 m. gruodžio 12 d. pasitarimo sprendimo (protokolo Nr. 55, 3 klausimas) priedas. Ūkio subjektų veiklos priežiūrą atliekančių Institucijų ir (ar) jų funkcijų konsolidavimo ir optimizavimo priemonių Planas [Annex to the decision of the meeting of 12 December 2018 (protocol No. 55, question 3). Action plan for optimising and consolidating the functions of agencies conducting supervision of business entities].

<sup>8</sup> OECD (2018), *OECD Regulatory Policy Outlook 2018*. OECD Publishing, Paris.

<sup>9</sup> Ministry of the Economy of the Republic of Lithuania (2018), *2017 metų veiklos ataskaita* [Report on 2017 activities], Vilnius.

<sup>10</sup> Ministry of the Economy and Innovation of the Republic of Lithuania (2019), *Administracinės naštos mažinimo stebėsenos ataskaita, 2018 metai* [Monitoring report on the reduction of administrative burden in 2018], pp.1-4.

<sup>11</sup> International Bank for Reconstruction and Development / The World Bank (2019). *Doing Business 2019. Training for Reform*. The World Bank Group.

<sup>12</sup> Commission Staff Working Paper, Assessment of the 2011 national reform programme and convergence programme for Lithuania, accompanying the document Recommendation for a Council Recommendation on the National Reform Programme 2011 of Lithuania and delivering a Council Opinion on the updated convergence programme of Lithuania, 2011-2014, Brussels, 7 June 2011, SEC(2011) 723 final.

inefficiency of these and other procedures was noted to produce significant administrative burden on businesses. The 2011 country-specific recommendations proposed improving the business environment in Lithuania. These recommendations were later reiterated in 2012, 2013 and 2014 European Semester reports.

## **Design and execution of the ESF-funded projects**

### ***Previous ESF-supported projects***

To support the implementation of the regulatory reform, EIMIN decided to employ ESF funds. During the programming period 2007-2013, EIMIN coordinated the ESF-supported project '**Measurement of administrative burden, improvement of quality and effectiveness of legal regulation and strengthening of administrative capacities in the context of better regulation**'<sup>13</sup>. The project primarily aimed to assess priority areas in which the administrative burden upon businesses was the greatest, and to take appropriate measures to improve regulatory quality and efficiency. Its aim was to contribute to the achievement of the Lithuanian government's goal to reduce the administrative burden on businesses by 30% by the end of 2011.

During this project, EIMIN measured the administrative burden on businesses in monetary terms in seven priority areas; organised training for 60 persons working at regulatory agencies to ensure that civil servants could practically measure administrative burden on businesses in monetary terms; and prepared an educational publication 'Administrative Burden'. The implementation of these activities helped to save around EUR 1,142,857<sup>14</sup> per year, and reduced the administrative burden on businesses by approximately 1.8%. In addition, the Law on Administrative Burden Reduction was adopted in Lithuania and was based on the documents prepared during the implementation of this project. Importantly, this project brought about cultural changes and the employees of public sector organisations, politicians and the media began to realise that the information obligations arising out of regulations cause administrative burden for businesses, which can be measured in monetary terms.

### ***ESF-supported project 'Improvement of the business supervisory system'***

Following the end of programming period 2007-2013, EIMIN identified key areas of the business supervision system that required further improvement. The Ministry found that some supervisory agencies lacked the necessary resources to train and improve the competences of their staff in order to conduct an effective business supervision. EIMIN also found that some supervisory agencies did not apply any criteria to assess the inspection burden they create upon business entities, or the share of public resources dedicated by the supervisory agencies to implement these activities. Since EIMIN did not have sufficient human or financial resources to carry out these activities, the team decided to apply for ESF support.

During the programming period 2014-2020, EIMIN launched a number of ESF-funded projects in the field of better regulation. The current ESF-supported project, '**Improvement of the business supervisory system**', is closely related to EIMIN's broader work, and to national policy goals. The project aims to increase the efficiency of Lithuania's business supervisory system by: 1) ensuring the development and application of innovative business supervision instruments by supervisory agencies; and 2) improving the skills of staff employed in these agencies. The project involves a range of activities, including: consulting with business

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<sup>13</sup> Ministry of the Interior of the Republic of Lithuania (2014), *The 2007–2013 Projects for Public Management Improvement in Lithuania financed by EU Structural Funds: Best Practice Examples. Let's shorten the path to success!*

<sup>14</sup> EUR 1,142,857 equals LTL 4 million. The *litas* (LTL) was the currency of Lithuania until 1 January 2015, when it was replaced by the euro.

supervisory agencies on the implementation of innovative supervisory instruments; preparing recommendations for supervisory institutions' key performance indicators; carrying out 'secret client' evaluations to assess the quality of the consultations provided to businesses; surveying business entities to identify which issues they regard as most relevant in relation to the business supervision system; organising training for the specialists who work at supervisory agencies; as well as publishing an updated 'Business Supervision Handbook'. EIMIN secured EUR 682,036.86 from the ESF to implement the project (out of a total project budget of EUR 930,648.06).

The project contributes to the implementation of the Lithuanian Operational Programme (CCI 2014LT16MAOP001)<sup>15</sup>. The project supports the achievement of the Specific Objective 10.1.4 (Improve business regulation environment) under Priority Axis 10 (Society-oriented smart public administrations). The expected project results correspond to the result indicators of the SO 10.1.4 (1. Reduced administrative/other regulatory burden due to better regulation initiatives implemented by using ESF resources under the OP; and 2. Share of the institutions supervising entities & applying smart business supervision measures implemented by using ESF resources under the OP).

For instance, two activities of the project (providing recommendations and implementing training seminars) contribute directly to the 18 measures set out in the most recent consolidation plan of December 2018. Specifically, the new plan outlines measures to 'evaluate the situation of the business supervision system and provide recommendations for the improvement of the activity of business supervisory agencies', as well as to 'develop the competencies and qualifications of inspectors working at business supervisory institutions – organise targeted training events for no less than 3,500 employees'<sup>16</sup>. The latter measure is directly linked to activities of the ESF-funded project, which plans to carry out approximately 275 seminars involving 3,500 participants from all supervisory institutions.

In addition, EIMIN dedicated efforts to introducing further e-government solutions in order to improve the business supervisory system in Lithuania. In May 2018, EIMIN signed a contract for the implementation of another ESF-funded project, 'Development and implementation of the information system for supervisory agencies'<sup>17</sup>. This project aims to create a system to address inconsistencies between the practices applied at different supervisory institutions. Some institutions do not possess a comprehensive electronic information system and carry out their work mostly using paper documents. Further to this, no transparent system exists to decide inspection dates. The proposed information system aims to solve these problems by automating and standardising processes across different supervisory institutions. The project also includes the implementation of a risk management system, which will include separate risk-management models for each agency in relation to its needs. The system will enable separate supervisory agencies to share information, and will inform business entities about upcoming inspections, as well as providing them with inspection checklists prior to the visit. Likewise, business entities will be able to provide feedback to supervisory agencies, as well as submitting proof that they have corrected any breaches found. EIMIN expects this will eventually reduce the inspection burden experienced by business entities.

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<sup>15</sup> European Commission (2016), Summary of Operational Programmes Supporting Institutional Capacity Building 2014-2020. Luxembourg: Publications Office of the European Union, pp.104-105.

<sup>16</sup> The Government Office of the Republic of Lithuania, Action plan for optimising and consolidating the functions of agencies conducting supervision of business entities.

<sup>17</sup> Ministry of the Economy and Innovation of the Republic of Lithuania (2018), *Projektas 'Priežiūrą atliekančių institucijų informacinė sistema (PAIIS)'* [Project 'Development and implementation of the information system for supervisory agencies (PAIIS)']. Available at: <http://eimin.lrv.lt/lt/veiklos-sritys/verslo-aplinka/verslo-prieziuros-politika/projektas-prieziura-atliekanciu-instituciju-informacine-sistema-paiis> (accessed: 21 March 2019).

By securing ESF funds, EIMIN took a step forward towards achieving its more ambitious goals regarding the broader national reform of Lithuanian business supervisory institutions. The process of achieving these goals has been challenging, and the project team faced a number of difficulties, both in the context of the project, and of overall supervisory reform. The project team, led first by Gita Šematovičiūtė, and supported by EIMIN's middle and senior management, has played an instrumental role in the project implementation stage and the achievement of its first positive results.

Gita Šematovičiūtė recalls that when she started working at EIMIN in February 2017, the Business Supervision Policy Division was under-staffed, and the implementation of its activities and projects were behind schedule. The project 'Improvement of the business supervisory system' was still in its initial stage, having officially begun on 23 November 2016 (anticipated to run until November 2020). The need for Gita, who had recently been hired, and Milda Kaupelienė, who had recently returned from maternity leave, to familiarize with the project, as well as a delay in hiring an internal project expert whose position is financed directly from the project budget, caused some delays. The main responsibilities of the internal project expert, who was hired on 19 May 2017, are to provide consultations to supervisory institutions on implementing best practices and improving operations, while also ensuring that all project activities are carried out as planned, and working closely with the Business Supervision Policy Division on all business supervision questions. The project team also includes a number of other civil servants. The team has received support from senior management at EIMIN, including Milda Kaupelienė, Director of the Business Environment Department; and a Vice Minister at EIMIN responsible for the project (first Marius Skuodis, followed by Gintaras Vilda).

### ***Implementation of the ESF project: main developments and challenges***

Taking over the project and mobilising efforts was no easy task for the team, and several challenges have occurred along the way. The main difficulties have involved working closely with service providers and overcoming the resistance of some supervisory institutions to collaborating and changing their business inspection practices.

The project team began by executing procurement procedures. EIMIN contracted service providers to carry out various project activities that are implemented almost simultaneously – preparing recommendations for the creation of assessment criteria; preparing training materials and organising training events; executing a 'secret client' evaluation service; and implementing surveys of business entities.

Implementing these procurement procedures provided the first difficulty encountered by the team. Although the project contract had been signed in 2016, the procurement procedures for contacting service providers for different activities were planned to begin during the first project year. Calls for services published by EIMIN attracted little interest, leaving the team with a limited choice of potential service providers. This issue was not entirely unexpected – Lithuanian authorities often face the problem of a supply shortage for such services. Gita Šematovičiūtė observes that it is much easier to find relatively good service providers to conduct simpler tasks (e.g. implementing surveys), but rather more difficult to contract professional providers for more complicated tasks that require expert knowledge.

As a result, delivering high-quality outputs required more effort than the project team initially expected. This became especially evident during their work with a consulting company contracted with the task of reviewing all 55 business supervisory agencies and preparing individual recommendations for the design of assessment criteria. Designing these criteria was an important task, given that some institutions did not measure the burden they created for business entities, the public funds used to carry out their supervisory activities, or the effects

of their operations on society (whether pollution, accidents, or deaths were increasing or decreasing). The project team expected the consultancy company to provide a high-quality product, which they could use as the basis for future activities. In the event, things did not go quite as smoothly as planned.

First and foremost, the duration of the assignment doubled. Instead of six months, it took a year for the project team to receive satisfactory outputs. Although the ESFA was concerned by the delay, the team decided not to rush the task, as they believed the extra time was essential to receiving outputs of the necessary quality. In order to achieve a satisfactory result, it became inevitable for the team to work very closely with the consultancy firm. An extensive amount of time was spent explaining the content of the task to the service providers, in order to improve the quality of its outputs.

The perseverance shown by the project team has been an important factor in delivering the best possible outputs. Although it was an intense process during which the project expert has closely worked with the service provider, the team's hard work has to some extent paid off. Their efforts have resulted in a high-quality input into future project activities and other reform initiatives. One such reform initiatives was the Scoreboard of business supervisory institutions.

The rationale behind the Scoreboard, as Gita Šematovičiūtė explains it, was to assess how business supervisory institutions implement in practice the methods suggested by EIMIN (see Figure 1). EIMIN developed a methodology to evaluate the performance of different supervisory institutions, based on the same criteria, arranged into 10 categories. These categories are as follows: performance indicators; risk assessment and management; checklists; performing of inspections; uniform and high-quality consulting; delivery of compulsory information; transparency of performance; special attention to new businesses; application of the principle of minor irregularities; feedback from business.

**Figure 1. Scoreboard for the top 10 supervisory agencies in Lithuania**

Place	Regulatory agency	Progress index	Progress score	Performance indicators	Risk assessment and management	Inspection checklists	Inspection management	Consulting	Delivery of compulsory information	Application of impact assessment measures and appeal procedures	"Business newcomer" status	Minor irregularities	Feedback
1.	State Labour Inspectorate under the Ministry of Social Security and Labour	9.42	A	10.0	10.0	9.3	10.0	10.0	9.2	8.8	6.0	10.0	8.1
2.	State Tax Inspectorate under the Ministry of Finance	9.25	A	9.0	10.0	7.3	10.0	10.0	8.3	8.8	10.0	10.0	9.3
3.	State Territorial Planning and Construction Inspectorate under the Ministry of Environment	8.46	B+	5.5	10.0	8.3	8.0	10.0	8.6	8.8	6.0	10.0	9.5
4.	Customs Department under the Ministry of Finance	7.90	B	8.0	10.0	5.5	10.0	7.3	8.1	7.5	5.0	7.0	5.3
5.	State Food and Veterinary Service	7.86	B	6.0	9.0	7.3	10.0	8.9	6.3	7.5	5.0	10.0	8.3
6.	The Bank of Lithuania	7.70	B	7.0	9.0	7.7	10.0	8.5	7.1	7.5	7.0	0.0	8.3
7.	The State Plant Service under the Ministry of Agriculture	7.65	B	7.0	9.0	7.0	10.0	5.0	7.5	7.5	6.0	7.0	8.9
8.	Public Procurement Office	6.57	C+	4.5	10.0	5.5	9.0	7.9	7.4	7.5	0.0	0.0	3.3
9.	State Nuclear Power Safety Inspectorate	6.44	C	6.0	7.8	4.3	10.0	3.6	6.9	5.0	4.0	10.0	6.4
10.	State Energy Inspectorate under the Ministry of Energy	6.41	C	2.5	6.3	7.3	9.0	9.7	7.8	7.5	6.0	0.0	7.3

Source: based on the Ministry of the Economy of the Republic of Lithuania (2018), *The Scoreboard*, p.12

The ESF-funded project activities, specifically the recommendations prepared for business supervisory agencies, helped EIMIN colleagues working on the Scoreboard to clarify their vision on one of its criteria – performance indicators. To prepare these recommendations, the ESF-funded project team, together with the service provider, met with separate supervisory agencies to discuss and analyse their strategic planning documents, and review whether they

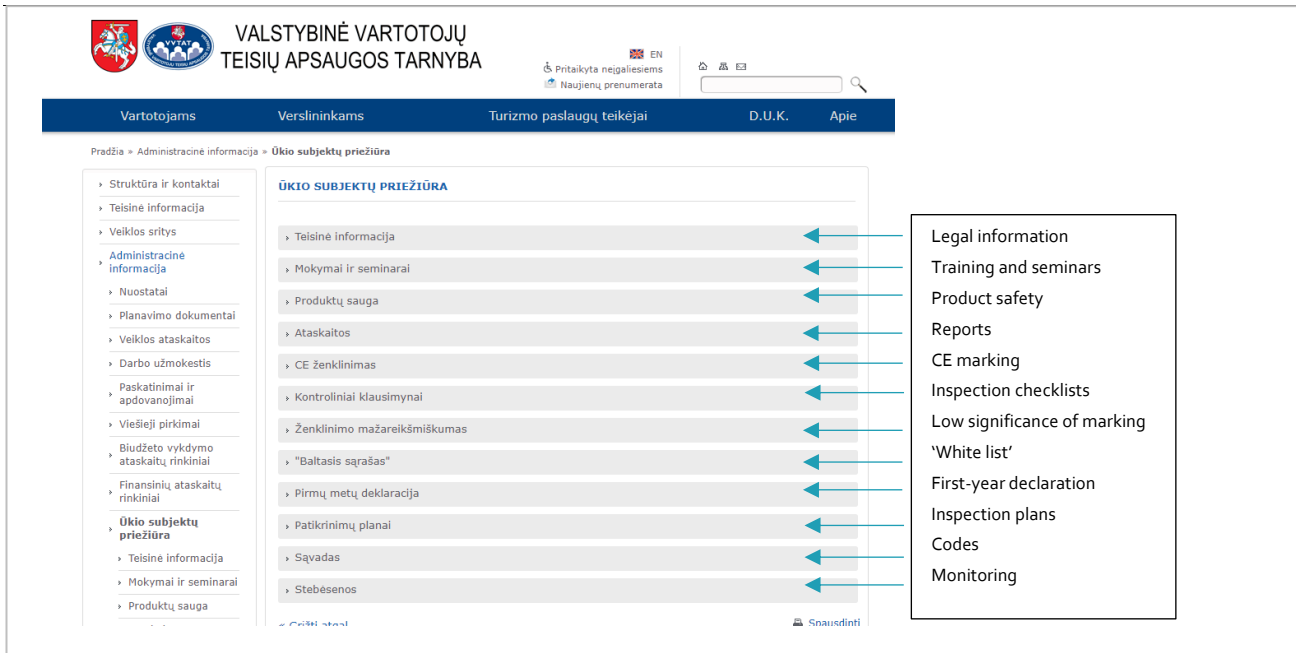
evaluate the level of inspection burden created upon businesses; and the level of resources dedicated to implementing supervisory activities. Based on this assessment, the service provider prepared KPI recommendations on how such assessment of administrative burden created by agencies should be designed. EIMIN considered these project outputs and it helped them to clarify the criteria for the Scoreboard in this particular area. As Gita Šematovičiūtė summarises, this project activity has helped them to clarify their vision on what they expect from supervisory agencies in this area and in the Scoreboard's criterion.

The Scoreboard was first made publicly available in December 2018, and was shared with the Government Office, parliament, all supervisory agencies and the ministries coordinating them, the President's Office, and the National Audit Office. After the Scoreboard report was disseminated among the supervisory agencies, the Business Supervision Policy Division team began holding meetings with each agency to discuss the results. During these meetings, recommendations created as part of the project 'Improvement of the Business Supervisory System' were also discussed. The reactions of the business supervisory institutions to this process were both positive and negative.

In terms of positive perceptions, representatives of supervisory institutions such as the State Labour Inspectorate of the Republic of Lithuania, State Consumer Rights Protection Authority and State Transport Safety Administration praised the Scoreboard during our interview programme. They emphasised that this is the first Scoreboard, and that future reports would allow them to comment further on the usefulness of the tool. They noted that the Scoreboard allowed them to share good practices and to learn from others. The importance of agencies learning from each other and good practices already applied in Lithuania has also been emphasised by the interviewee from Investors' Forum.

In addition, the Scoreboard and the KPI recommendations, which were developed during the project, have already brought some tangible results. The State Consumer Rights Protection Authority, for instance, has applied several changes to its internal documents and procedures, as well as reorganising the way in which information is presented on its website for business entities, in accordance to the Scoreboard and its recommendations (see Figure 2). As the Head of the Market Regulation Planning and Risk Assessment Division at the agency, Arvydas Naina, explains, implementing these changes was not difficult, and they will make this information more user-friendly to businesses.

**Figure 2. Reorganised website of the state consumer rights protection authority**



Source: Website of the State Consumer Rights Protection Authority. Available at: [https://www.vtstat.lt/lt/administracine\\_informacija/ukio-subjektu-prieziura.html](https://www.vtstat.lt/lt/administracine_informacija/ukio-subjektu-prieziura.html) (accessed: 21 March 2019).

However, not all institutions demonstrated a positive attitude towards EIMIN’s initiatives. Gita Šematovičiūtė agrees that, for instance, the attitudes of some agencies towards the Scoreboard or initiatives of the project ‘Improvement of the business supervisory system’, have at times been challenging. Some supervisory authorities have been reluctant to collaborate if they do not see an evident benefit. Cooperating with some agencies has also posed a challenge in cases where the agency perceives EIMIN initiatives as a threat (e.g. in terms of consolidation). For instance, a few institutions were critical of the Scoreboard methodology, and claimed it was not feasible to assess all supervisory agencies on the basis of the same criteria. However, Gita Šematovičiūtė explains that in formulating the index, factors such as the size of the inspection body and the number of businesses it supervises were taken into account, enabling the index to reflect each inspection body’s circumstances as accurately as possible. Gita Šematovičiūtė and the team also believes that despite differences between institutions, common standards for the quality of services provided to interested parties are still universally applicable to all institutions.

Although the training sessions carried out under the ESF project had not yet been completed at the time of writing, the project team noted that they had already attracted great interest among the supervisory agencies. However, a few minor issues emerged in relation to the organisation of training events. Again, the project team had to work very closely with the service provider concerned, clarifying with its representatives the content of the assignment and the outcomes expected. Another issue faced by the team relates to administrative requirements. Since the training events will involve a total of 3,500 participants, entering all participant details into the monitoring and information system has proved a challenge. Gita Šematovičiūtė explains that it has consumed a great deal of administrative resources that the team would prefer to devote to other, more important tasks. The team hopes that the training sessions, and the methodological documents prepared for them, will be useful to EIMIN in preparing new documents and recommendations for the development of competence among specialists at supervisory institutions.



Other project tasks, such as surveys of business entities or the 'secret client' evaluation service, have not presented any major difficulties for the project team. So far, the team has been fairly satisfied with the services provided for these assignments. The surveys, some of which are already completed, will in total involve 1,000 business entities and will seek to identify the main trends in the business supervision system, as well as the main issues faced by the business sector. These surveys are annual, and a total of four annual reports will be prepared to analyse their results. The survey reports will reflect some performance aspects of the supervisory agencies (e.g. the frequency and length of inspections, perceptions of the competences of inspectors, and the scope of supervisory measures applied in inspections), as well as the subjective perceptions of business entities regarding ongoing changes in the supervisory system. These surveys are also intended to help the project expert to identify areas for improvement of the business supervisory system.

The 'secret client' evaluation service, meanwhile, aims to evaluate the quality of consultations provided to business entities. It will consist of a three-year programme of evaluation at one of the supervisory institutions, the results of which will be analysed in three annually published reports. Another project activity is the release of an updated edition of the 'Business Supervision Handbook', which has not yet been prepared. The project team is looking forward to implementing these tasks and using their results in their daily activities.

## **Conclusion: results, lessons learnt and the role of ESF financial support for improving the business supervisory system**

### ***Main results***

Despite facing a number of obstacles during the project's implementation stage, the project team has succeeded in achieving their first visible outputs. The main achievement of the project so far has been the development of recommendations and assessment criteria for the 55 institutions. These outputs have also contributed to one of the Scoreboard's criteria, an innovative tool that will enable EIMIN to consolidate its 'soft powers' in the business supervision system. Following the release of the Scoreboard, the team at EIMIN met with representatives of each supervisory institution to discuss the Scoreboard results, together with ways to improve the agencies' performance. As Marius Skuodis, Vice-Minister at EIMIN, explains: 'We seek to ensure a comprehensive approach to business supervision. Although the scoreboard of regulatory agencies is an innovative solution alone that helped to highlight good practices and create 'soft' pressure for improvement, its effect has been strengthened by sending individual recommendations for each institution and offering a related programme for improving the skills of staff. These and other measures have created a number of synergies that should finally lead to better results'. The scoreboard methodology developed by EIMIN attracted attention of other international institutions. For instance, EIMIN has been invited to present the scoreboard results and methodology in the UK. Meanwhile, Greek authorities have also been interested in learning from EIMIN's experience and also implementing a scoreboard approach.

In addition, training sessions for the staff of supervisory agencies have generated interest among the institutions. These sessions have allowed EIMIN to disseminate knowledge on effective business supervision tools and to improve the skills of agency staff. Implementation of other project activities has also begun, including surveys of business entities and the 'secret client' evaluation service. As yet, it is too early to evaluate the results of these activities.

Similarly, short-term and long-term impacts of the project's results will only become apparent after the project is complete in 2020. At an institutional level, the project should help to apply more innovative tools in business supervision (e.g. checklists, risk management, KPIs),

measured by different Scoreboard criteria. The supervisory agencies will be able to reduce the inspection burden on businesses, thus improving the country's business supervisory environment. Successful implementation of the consolidation plan, however, depends on the exercise of strong political leadership from the government in order to overcome potential resistance to the proposed changes during the reform process in the Lithuanian parliament. According to our interviews, the rationalisation of some business regulatory agencies also provides an opportunity to develop internal centres of competence within these institutions, which could further develop the application of the business supervision tools promoted by EIMIN.

The project team also hopes to integrate the project's results into the government's strategic planning and budget formulation via better planning, monitoring and evaluating of the management of supervisory activities. The project will help EIMIN to clarify what aspects and indicators of supervisory agency performance need to be measured. To achieve this goal, EIMIN is cooperating with the Government Office.

### ***Lessons learnt***

The project team admits that a number of important lessons have been learnt. First, the team recognises the great benefit to the project outputs of having an in-house expert working full-time on the project. Second, the team believes that the project could have benefited from reaching agreements with supervisory institutions regarding their willingness to participate *before* the project application was submitted. Such agreements would help to identify which project activities are required, as well as helping to ease their implementation and enabling smoother collaboration between EIMIN and some of the agencies.

Third, the project team agrees that their experiences have enhanced their knowledge of procurement procedures. In the course of implementing the current project, the team have experienced some disappointments with the quality of work carried out by external service providers. As a result, the team has learnt the importance of providing carefully drafted terms of reference that clearly stipulate what is expected of the service provider. The project team have also further developed their skills on other technical and legal aspects of these procedures. Finally, the team improved other skills relating to project management and implementation. This indicates a continuing need to strengthen the administrative capacities of the better regulation unit within EIMIN by employing competent professionals (engaging in-house project experts) and increasing their analytical and managerial capacities in the implementation of business supervision initiatives and activities.

Great potential also exists for learning among the supervisory agencies involved in the project's activities. For example, Arvydas Naina, the Head of Market Regulation Planning and Risk Assessment Division at the State Consumer Rights Agency, explained that the main lesson learnt from participating in this ESF-supported project was that, 'sometimes, very few resources are required to solve all of the problems. [...] Until somebody takes an outsider's view, you do not notice that something is not being done correctly, or that some things can be done more simply, in a smarter, more convenient way'. Interviewees from other supervisory agencies echoed this opinion, agreeing that the project has been a worthwhile initiative so far.

Although it is still too early to determine whether or not this project has been successful, certain factors can be already noted as having a bearing on the project's outputs to date. These include the perseverance of the project team to achieve the best possible results despite some negative experiences of cooperation with service providers, and of resistance to change on the part of some supervisory institutions. The active role played by the project team, plus

the strong support shown by middle and senior management at EIMIN for initiatives and activities carried out in the field of better regulation and, more particularly, business supervision, have made it possible to achieve good progress in the implementation of the project and in the reform of the business supervisory system.

At the same time, certain factors may negatively affect the quality of the project's final outcomes, if no measures are taken to counter them. These include future work with service providers on the project's ongoing activities, such as training, surveys of business entities and the 'secret client' evaluations. The team has also become aware of the opportunities provided by EU funding to contract top experts on business supervision from the OECD or the World Bank, who could provide expert knowledge and generate higher value in the future. The unwillingness of some institutions to cooperate with project activities is an important factor that could determine the future outcomes of this project. In addition to other activities, Gita Šematovičiūtė and her colleagues at EIMIN envisage creating an online platform or forum for sharing information, experience and good practice examples within the network of supervisory agencies, which could apply peer pressure to some agencies and facilitate ownership of reform initiatives.

Thus, it will be crucial for the project team to bear these factors in mind as they take the next steps in project implementation. These steps will inevitably include the continuation of project activities such as surveys, training seminars and the 'secret client' evaluations, as well as the preparation of the 'Business Supervision Handbook'. Also, because the Scoreboard was officially released only after the consolidation plan had been confirmed, its results have not been discussed within government. The Scoreboard can help to identify poorly-performing agencies, thus prompting the decision makers to think of solutions for ensuring a more efficient business supervision system. Although the Scoreboard is primarily concerned with how the supervisory institutions implement their functions rather than with the nature of these functions, it is still important that the results of the Scoreboard, together with the initial results of the consolidation process, are discussed during an official meeting of the government in the near future, in order to maintain the momentum of regulatory reform.

### ***Role of ESF support for improving the business supervisory system in Lithuania***

The considerable progress made by Lithuanian authorities in the area of business supervision has been recognised by the OECD, the World Bank and the European Commission. Support provided by the ESF to improve regulatory activities during the programming periods 2007-2013 and 2014-2020 has been instrumental in improving Lithuania's business supervision system. EIMIN has made this possible by successfully linking some activities of ESF-financed projects to the ongoing reform of business supervision.

For instance, the project 'Measurement of administrative burden, improvement of quality and effectiveness of legal regulation and strengthening of administrative capacities in the context of better regulation' coordinated by EIMIN during the programming period 2007-2013 has contributed to the achievement of the Lithuanian government's goal to reduce the administrative burden on businesses by 30% by the end of 2011. During the implementation of this project a number of tools to measure the administrative burden on businesses had been created, which have brought a change in administrative culture necessary for the implementation of future projects in this area. The two subsequent ESF-supported projects of the programming period 2014-2020 are corresponding to the 2018 action plan dedicated to consolidating business supervisory agencies and optimising their functions. Specifically, 'The improvement of the business supervisory system' has contributed to evaluation of the activity of business supervisory agencies and providing recommendations for their improvement. ESF support has also contributed to strengthening the administrative capacities of the better

regulation unit at EIMIN, and those of individual business supervisory agencies in the country, thus increasing the quality, integrity and professionalism of the civil service and the services provided to business entities by the supervisory institutions.

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