PPIAF Assistance in Lithuania

A high-income country with a population of 3.2 million, Lithuania had a gross national income per capita of $12,280 in 2011 (GNI, Atlas method)\(^1\). Since regaining its independence in 1991 following the collapse of the Soviet Union, Lithuania has experienced a remarkable political, social, and economic transition. Achievements include Lithuania’s European Union (EU) accession in May 2004 just weeks after joining NATO. EU integration has had a very strong and positive effect on the country’s performance and growth.

Lithuania joined the World Bank in 1992. Since then, the World Bank has played an important role in Lithuania’s transition through lending, policy dialogue, and analytical and advisory assistance. The last active World Bank-financed investment project closed in 2006. Following its graduation from the World Bank in 2006, Lithuania continued to benefit from a number of cross-country analytical and advisory activities, including a programmatic study of public finance reform issues in the new EU member states, a social inclusion report, Regular Economic Reports, and seminars on public-private partnerships. In 2007 Lithuania became a donor to the International Development Association, the concessional lending arm of the World Bank Group.

In August 2009, in response to the economic crisis, the World Bank prepared a rapid-response public expenditure review of the social sectors to support the Government of Lithuania’s efforts to protect the most vulnerable citizens through the social safety net. The report recommended fiscal consolidation and reforms that would generate immediate fiscal savings while making social sector spending more efficient and equitable. The report also identified changes in social assistance benefits that would better protect the poor and vulnerable during the crisis and beyond.

PPIAF funded one activity in Lithuania in 2002 to structure and develop private sector participation in water and wastewater service provision. Lithuania became an EU country in 2004 and is no longer eligible to receive PPIAF funding.

Technical Assistance for Lithuania’s Water and Sanitation Sector

In June 2001, the Government of Lithuania completed its negotiations regarding the Chapter 22 of the EU acquis (the accumulated legislation, legal acts, and court decisions that constitute the body of European Union law), “Environment,” with the European Commission. It was estimated that the investment needs for compliance with the EU Directives in the water sector were €320 million for wastewater treatment and €22 million for drinking water treatment. In addition to that, the pipe network of drinking water supply was in a very poor state. Lithuania’s national priority was to improve the drinking water quality, and an estimate of about €290 million was required to do so for the entire country. The water utilities were in no position to raise this investment, thus it was evident that the sector needed to be restructured from its municipal base and engage an effective relationship with the private sector.

Lithuania requested PPIAF assistance in late 2001 to study options and to recommend an approach for the structure and development of private sector participation in water and wastewater service provision with a particular focus on poverty alleviation by designing directed subsidy schemes, or output-based aid schemes for low-income users. The activity also aimed to design a regulatory framework and structure, which benefits from best practice in Europe and accounts for the requirements of EU accession. Another objective of the activity was to establish capacity strengthening measures to support the effective implementation of the reforms.

PPIAF support took place against the background of the Government’s development of a Law on Water Supply and Wastewater Treatment, which was drafted in 2005 and approved by Parliament. The draft law effectively set out the Government policy for reform in the sector. The PPIAF-funded study included an analysis of technical, financial, economic, legal, private sector participation, regulatory, institutional strengthening, and public awareness issues. The study also reviewed the draft law and included drafts of three of the regulations that would be required to be issued under the draft law: 1) Procedure for

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\(^1\) World Development Indicators: http://data.worldbank.org/country/lithuania
Provision of Information to the Subscribers on the Safety and Quality of Cold Drinking Water, and on Cold Drinking Water Supply and Wastewater Treatment Services; 2) The Procedure for Preparation and Publishing of Information About the Public Water Suppliers; and 3) The Standard Conditions of the Public Water Supply Contract.

The study concluded that the best way to attract private sector participation in the sector would be to choose a stock company (a limited liability private legal person, whose capital is divided into shares) as a corporate form of the regional operator, for several reasons. First, the existing legal framework provides no restriction for the municipalities becoming the shareholders of a stock company. Second, this solution provides the shareholder more opportunities to participate in the governance of the stock company. Finally, a stock company is a more attractive corporate form in comparison with the partnership, in particular when considering the future investments into the water supply sector.

The draft law offered a good deal of freedom to the existing industry in terms of how to reform itself, and noted that the aggregation of companies may not proceed in all cases along the desired uniform path to regional water suppliers. Other alternative forms of utility management and operation may arise, including at the sub-regional level, with possibly both public and private participation involved. The draft law provided that the implementation of regional water suppliers investment programs can be supported from the state budget; consequently the rules on state aid would apply with regard to such support.

A workshop to present the final report “Options for Reform of and Private Sector Participation in the Water Supply and Sewerage Operations in Lithuania” took place in Vilnius on June 1, 2005 to an audience of some 20 key stakeholders.

### Results of PPIAF’s Activities in Lithuania’s Water and Sanitation Sector

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<td>• Options for Reform of and Private Sector Participation in the Water Supply and Sewerage Operations in Lithuania, June 2005</td>
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<tr>
<td>Policies prepared or legal or regulatory changes recommended</td>
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