

PRIVATISATION AND AUDIT EXPERIENCE IN LITHUANIA

This paper sets out the system of privatisation in Lithuania, the main issues of audit on privatisation, impact and role of the National Audit Office in privatisation.

Privatisation in Lithuania

Lithuania was one of the first among the post-communist countries to initiate large-scale privatisation.

The scheme of privatisation for vouchers was selected for the first stage not accidentally – the process of privatisation for cash would have been much slower, whereas there was an urgent need for execution of economic reforms and formation of the private sector in Lithuania.

The right choice was virtually corroborated by the favourable quantitative results of the first stage: 30% of the total state-owned property was sold for vouchers.

The second stage of privatisation started in 1996, when the Parliament of the Republic of Lithuania passed the Law on the Privatisation of State-Owned and Municipal Property. This stage differs from the first one in two respects: first, state-owned and municipal property was sold for cash under market conditions; and second, Lithuanian and foreign individual or corporate investors had an opportunity to participate in the process of privatisation on an equal footing. Creation of the flexible and transparent legal and business environment changed the attitude of both foreign and local investors towards the process of privatisation in a positive manner.

Results of the second stage: more than 80% of the total state-owned property was sold (data from 2003).

There are three main privatisation institutions: The Government, The Privatisation Commission and The State Property Fund.



The Government of the Republic of Lithuania:

- formulates the policy of privatisation of state-owned property;
- approves the list of entities to be privatised;
- approves draft privatisation programmes and projects of transactions;
- suspends or cancels the implementation of privatisation programmes;
- forms selective tender commissions to privatise enterprises that are important infrastructure entities or entities holding a dominant position in certain branches of the economy.

The process of privatisation is supervised by the Privatisation Commission, a body set up by and accountable only to the Parliament. The Privatisation Commission approves draft privatisation programmes, sales deals conducted and resolves other issues related to privatisation of state-owned property.

The State Property Fund is a state enterprise which, in the manner prescribed by the Law on the State Property Fund, the Law on the Privatisation of State-Owned and Municipal Property and other laws, holds in trust, uses and disposes of the securities and other state-owned property transferred to it by the Government. Functions of the State Property Fund:

- to privatise state-owned property in accordance with the Law on the Privatisation of State-Owned and Municipal Property;
- to represent interests of the state by holding and using state-owned shares and long-term tangible assets transferred to it in trust and by disposing of them;
- to perform other functions prescribed by laws and to provide services stipulated in the Articles of Association of the Property Fund.

Competence of the State Property Fund in the sphere of privatisation:

- draws up the draft list of privatisation entities and submits it to the Government for approval;
- establishes the method of privatisation and terms and conditions of privatisation of a specific entity (or group of entities);
- seeks investors for the privatisation entities;
- monitors implementation of privatisation until the full fulfilment of all terms and conditions of the transaction.

It is important to mention that the State Property Fund not only prepares entities for privatisation, monitors implementation of the privatisation deals signed, but also holds state-owned shares and real estate properties in trust.

During the period from 1998-2003, in Lithuania, a total of 4568 stakes and real estate properties were privatised for 5429 million Litas (or 1574 million Euros), of which the State Property Fund privatised 2857 entities for 5145 million Litas (or 1491 million Euros). As we can see, the main numbers of entities were privatised by State Property Fund, others entities were privatised by municipalities. The main amount of revenue went to the State Property Fund as well.

Year	Total in Lithuania		State Property Fund	
	Number of entities privatised	Revenue, LTL million	Number of entities privatised	Revenue, LTL million
1998	344	2330	137	2300
1999	693	470	469	456
2000	939	902	717	865
2001	842	468	620	436
2002	963	349	510	266
2003	787	910	404	822
Total	4568	5429	2857	5145

As we can see, in general number of entities privatised is going up, but revenue is going down, except for 2003. The reason for that are small enterprises. All banks and almost all largest enterprises were sold in 1998 and earlier. Some big enterprises were privatised in 2003, for example Electricity Distribution Enterprise, all alcohol producing companies and Lithuanian Gas Enterprise.

The process of privatisation is further continued in compliance with the following provisions of the Programme of the Government of the Republic of Lithuania:

- to carry out transparent and prudent privatisation of state-owned property;
- to demand clear responsibilities and open declaration of obligations from all partners involved in privatisation transactions;
- to use possibilities offered by the National Stock Exchange in the privatisation of the state property.

The main impacts of the privatisation audits

The National Audit Office of Lithuania is the Supreme Public Audit Institution, accountable to the Parliament of Lithuania. Considering the organisational structure of the National Audit Office, it is important to draw attention to the fact that the functions of Financial and Performance audits are separated. There are 10 Departments of Financial audit and 4 Departments of Performance audit. Audit subjects are distributed among Audit Departments according to particular areas of their activities. Audit of privatisation is conducted by 3rd Performance Audit Department.

The analysis of privatisation process and recommendations of National Audit Office revealed that the policy of privatisation of state-owned and municipal property should be formulated and implemented by separate institutions, and therefore, the Government adopted decisions under which the Ministry of Economy was appointed as the institution in charge of the policy of privatisation of state-owned property.

The main objectives of the Ministry of Economy, as institution responsible for formulating the general policy of privatisation of state-owned property, are to ensure efficiency, clarity and publicity of privatisation and management of state-owned property, to create most favourable business environment, to reduce the possibilities for legal regulation by the state and municipalities, to seek consistency in the legal regulation of privatisation of state-owned property and transparency of the privatisation process.

With the view of ensuring transparency of the privatisation process and publicity of privatisation transactions, a great number of amendments to legal acts governing this process were adopted.

According to recommendations of the National Audit Office public tender procedure was improved – it was established that the initial selling price of the entity, the name of the buyer and its obligations would be announced publicly.

According to recommendations of the National Audit Office suggesting to sell more stakes through the Stock Exchange, the State Property Fund started to co-operate closer with specialists of the National Stock Exchange, and therefore, the sales of shares on the National Stock Exchange started growing.

The main conclusions of the audit of privatisation and the State Property Fund:

- The State Property Fund is not independent in privatisation process. The State Property Fund concludes privatisation transactions on behalf of the Government. There is no responsibility for untoward privatisation transaction condition and monitoring implementation of privatisation transactions.
- The Privatisation Commission is politicized institution. There are no criteria of professional requirements for Commission members.
- The legislation should be improved (the Law on Privatisation); there are no criteria for investors.
- Sometimes the Government provide against bad financial conditions of privatising enterprise. For example when one of the banks was privatised bad landings were moved to the public bank and later paid back from the national budget.

There are a lot of problems and there is a lot of space for improvement in privatisation. The National Audit Office of Lithuania recognises the need to co-operate with other SAI's which have experience in privatisation field which would be useful to our institution. By experience we may say that the exchange of skills and experience is the best and most efficient way to learn about privatisation issues.

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