Executive summary of the public audit report

ECONOMIC PROJECTS OF NATIONAL SIGNIFICANCE

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DEFINITIONS AND ABBREVIATIONS

Initiating institution: the institution applying to have a project recognised as an EPNS (VSEP)

EPNS (VSEP): Economic project of national significance

NLS (NŽT): National Land Service

SUMMARY

The status of nationally significant economic project is granted by the Government or Seimas to projects that have been developed for the purpose of furthering the country's strategic interests or implementing sectoral and/or regional policy objectives, if their implementation has a great impact on the economic, social, political state of Lithuania and/or on specific areas of public life.

Over the period of 1999–2015, EPNS status was granted to a total of 57 projects. In this regard, the Government recognised three times as many projects compared to the Seimas: Seimas laws and resolutions granted the status to 16 projects, whereas Government resolutions granted it to 41. Projects recognised as EPNS by the Government are varied in nature: they are implemented in various sectors (energy, tourism, transport, economy, etc.) and there are significant differences in their planned impact, importance, scope, investment size and other indicators. Current EPNS projects include Rail Baltica, the Lithuanian National Liquefied Gas Terminal, the Lithuanian segment of the Via Baltica Pan European Corridor, the Gariūnai Business Park for small to medium business, the Mother and Child Clinic at the Šiauliai County Hospital, the Multifunctional Lazdynai Wellness Centre in Vilnius, the foundation of the LITEXPO National Congress Centre, the football field project implemented by the Vilnius Football Academy, the development of the Ice Palace in Elektrėnai, etc. (Annex 2).

The number of EPNS continues to grow, with the Government granting the status to a further six projects just in 2014–2015. However, the projects are still being selected with no general system for the identification and selection of suitable projects, and on-going projects are managed and administered without any general principles of management in place. Not a single institution has been tasked with keeping track of the list of EPNS projects or collecting, systematising and publicising information on progress being made, project statuses or objectives achieved. The process of monitoring the implementation of these projects is a complex one because the institutions initiating the projects and the ministries overseeing them were for a long time not required to monitor or supervise their implementation, and there is no information about the general public benefit produced by these projects.

The implementation of EPNS can be encouraged using several means. By way of simplified procedure, executive bodies can acquire land for public needs or rent it without auction, carry out simplified territorial planning procedures and pay lower dividend payouts and profit contributions to the state budget. Only 27% of the executive bodies made use of the exemptions the law allows for such projects. In the project implementation process, executive bodies place greater importance on various exemptions and priorities established by law that facilitate the implementation of the project.

At present, all the projects have maintained their status as EPNS, regardless of the fact that some of them have already been completed, some have not even begun to be implemented and others are being implemented without fulfilling the obligations the initiating institution signed on for when the project was granted its status of national significance .

The EPNS status continues to be granted to projects of lesser significance as well as projects whose contribution to the state is questionable.

The purpose of the audit is to assess how the status of nationally significant economic project is granted;

- is the status of nationally significant economic project awarded suitably and on good grounds;
- are projects that have been granted the status of nationally significant economic project properly managed and monitored, and are relevant audiences aware of the result of their implementation;
- are exemptions applied to nationally significant economic project awarded suitably and on good grounds;

The object of this audit is the Ministry of Economy because it is responsible for developing an environment favourable for business as well as better regulation (reducing the administrative burden, simplifying legal acts, improving the quality of regulation), analysing business conditions in Lithuania, submitting proposals to the Government for improving these conditions, cooperating with municipal institutions and associated business structures in order to ensure a wide-reaching regional network providing institutional support for business, and coordinating the development and expansion of innovation support infrastructure.

Auditing procedures were carried out in:

- the ministries of Environment, Energy, Finance, Transport and Communications, Health and Interior Affairs, which administer nationally significant economic projects within the limits of their competence;
- the Competition Council, responsible for carrying out expert assessments of and issuing conclusions on state support projects;
- the National Land Service under the Ministry of Agriculture, responsible for overseeing land lease agreements.

An audit period from 1999 to 2015 was selected because this was the period during which projects were granted the status of EPNS.

The following public audit conclusions and recommendations were drawn upon the assessment of the audit findings.

CONCLUSIONS

1. Projects that have been granted the status of EPNS do not always significantly or productively contribute to furthering the country's strategic interests or implementing sectoral and/or regional policy objectives. It is also not always a given that they have a great impact on the economic, social, political state of Lithuania and/or on specific areas of public life. This is a result of the following:
    1.1. The status is granted to each project on an individual basis and not by evaluating the area it belongs to as a whole. This means that authorities can sometimes overlook other projects that might contribute just as much or more to the state (Subsection 1.2);
    1.2. No general, consistent or clearly regulated system for selecting projects has been developed. Contending projects only need to meet some of the electively chosen criteria established in the description of the procedure for granting EPNS status. This criteria is general in nature, easy to fulfil and provides no basis for evaluating impact.

Therefore, initiating institutions guide themselves by their own criteria and priorities, which do not always ensure an adequate selection process (Subsection 1.2);

1.3. Because the Provisions for Recognising Economic Projects of National Significance were terminated and no legislation was produced to replace them, the Government granted EPNS status to 13 projects over the course of 2004–2008 at a time when there were no mandatory requirements for granting this status. (Subsection 1.1).

2. No mechanism has been set up to prevent the provision of state assistance for purposes that are not compatible with the internal market and that violate the limitations for providing assistance, so it can be recovered from the receivers of assistance because:
   2.1. In most cases, initiating institutions do not make sure that no limitations for providing state assistance are violated (Subsection 1.3);
   2.2. The Competition Council is responsible for conducting expert assessments of EPNS projects, however, the conclusions it issues with regard to the unlawful use of state assistance are not compulsory, and thus initiating institutions do not typically take them into account (Subsection 1.3);
   2.3. In certain cases, expert assessments of the violation of limitations for providing state assistance are carried out once the status of EPNS has already been granted and project implementation is already under way (Subsection 1.3).
3. EPNS projects are managed without any clear principles of management and are not adequately coordinated both in general and within the relevant ministries because:
   3.1. No institution has been tasked with coordinating all EPNS projects, monitoring their implementation or helping ministries resolve emerging problems (Subsection 2.1);
   3.2. The law does not establish who is responsible for managing the projects once EPNS status has been granted or overseeing the implementation of strategic goals and measures (Subsection 2.1);
   3.3. With the termination of counties, the control of some EPNS projects and signed agreements was never delegated to other institutions (Subsection 2.1).
4. Project implementation monitoring does not ensure that projects are properly implemented and reach the objectives established when status was granted because:
   4.1. Up to 21/12/2011, the monitoring process had not been provided for by law, thus the relevant ministries were not deemed responsible for monitoring the 30 EPNS approved at the time, and executive bodies were not obliged to inform anyone about the implementation process. The Government has not made any decisions with regard to monitoring EPNS (Subsection 2.2);
   4.2. From 21/12/2011, relevant ministries will be responsible for carrying out project monitoring, however, they will not be obliged to collect information systematically and submit it to the Government (Subsection 2.2);
   4.3. Executive bodies do not always inform the relevant ministry about incomplete work or tasks, and sometimes even arbitrarily reduce their commitments as established when EPNS status was being granted (Subsection 2.3).
5. The EPNS status is held by all of the projects that were ever granted, regardless of whether the project was completed, never started or implemented without fulfilling the commitments entered into when status was granted because the law does not allow for the termination of this status (Subsection 2.4).
6. There is no comprehensive regulation for regulating the cases, conditions and ways in which specific EPNS projects can take advantage of certain legal exemptions, therefore:

6.1. Human and financial resources of public institutions are used ineffectively when the executive bodies of projects that require the acquisition of land for public needs, use this status to acquire the status of special national significance, which allows for even more convenient simplified procedures for the acquisition of land for public needs (Subsection 3.1);

6.2. When executive bodies rent public land, there have been cases of the land being used for purposes that are not compatible with the commitments entered into when status was granted (Subsection 3.2);

6.3. When the share of profit for dividend payouts and profit contributions to the state budget are reduced, in most cases, this reduction is not sufficiently linked to specific executive commitments because there is no one to oversee how the reduced dividend payout or profit contributions are used (Subsection 3.3).

7. The executive bodies of nationally significant economic projects take advantage of exceptional terms, priorities and exemptions that facilitate their implementation process and are useful and valuable but are not defined by law.

RECOMMENDATIONS

To the Government of the Republic of Lithuania:

In order to ensure that EPNS status is only granted to projects that significantly contribute to furthering the strategic interests of the state as well as sectoral and regional objectives and other purposes that are important to the country, we recommend:

1. Developing a clearer procedure for granting EPNS status that would establish:

1.1. project selection procedures and clear project selection criteria (Conclusion 1);

1.2. conditions that establish that projects can only be submitted for recognition as EPNS projects to the Government of the Republic of Lithuania once an evaluation of compliance to EU rules for the provision of state assistance has been conducted(Conclusion 2);

1.3. measures to be implemented after status is granted in order to ensure the monitoring of project implementation and established strategic goals, the systematic collection of information, accountability, as well as the general coordination of project activity and supervision; (Conclusion 3);

1.4. conditions for terminating or invalidating the EPNS status when a project is recognised as complete (Conclusion 4);

2. Initiating the revision of projects recognised as EPNS by the Government and deciding on:

2.1. the monitoring of management, implementation and the fulfilment of obligations, and the further necessity of maintaining the status for projects that were granted it when there were no legal acts regulating the provision of the status (Conclusion 1.3);

2.2. the temporary suspension of project implementation when an assessment of the violation of limitations for state assistance has not been conducted up to now(Conclusion 2.1);

2.3. projects initiated by counties, the supervision and contract control of which was never delegated to other institutions once the counties were terminated(Conclusion 3.3);

2.4. project monitoring for projects that were granted status when monitoring was not compulsory and executive bodies were not obliged to provide information about project implementation (Conclusion 4.1);

2.5. the further necessity of the status for projects that are already complete, not being implemented or have been implemented without reaching established objectives (Conclusion 5);

2.6. the further necessity of exemptions for projects that were granted formal exemptions never applied for the purpose of fulfilling project obligations (Conclusion 6.2).

3. Promoting systematised information about the implementation process of EPNS projects, their status and results, ensuring the transparency of the implementation of EPNS projects (Conclusion 7).