The Green Development Needs Significant Developments in Reducing **Bureaucracy:** A Case Study of Lithuania



o combat the detrimental effects of climate change and degradation, environmental the European Union (EU) has committed to transforming itself into a modern, resource-efficient, and competitive economy<sup>1</sup>. Among many of its initiatives and instruments lies the NextGenerationEU Recovery Plan (NGEU) aimed at providing financial support to EU member states and their residents in green development. The main portion of responsibility lies at the member state level, as states were required to come up with their own plans for implementing the recovery plan. For example, Lithuania's plan is focused on ensuring energy independence and expanding the green energy infrastructure typically via subsidies or compensations for alternative energy<sup>2</sup>.

According to the 2021 data of Electricity Transmission System Operator (ETSO), AB LITGRIT, which is in charge of the infrastructure of electricity transmission of the state, Lithuania meets only about 32% of its electricity demand with local generation. 78% of Lithuania's electricity comes from renewable energy sources (RES), but this is less than a fifth of the total electricity consumption. In 2021, RES accounted for less than 20% of Lithuania's total electricity demand. However, by 2022, this share has increased and now accounts for just over a fifth (~21%). Meanwhile, the NGEU's target for 2030 is that 90% of all electricity consumption will be generated in Lithuania - mostly from RES. In the years 2014-2021, the overall energy consumption rose by 3 TWh, whereas the share of RES almost doubled. However, the portion of imported electricity also rose - from 7.6 to 9 TWh, whereas during the aforementioned period the amount of non-RES electricity slightly dropped (by 0.191 TWh) [See: Figure 1]. Since 2012, RES has become the core source of Lithuania's produced energy instead of thermal and hydro plants [See: Figure 2].

Due to ongoing crises and tensions (particularly the war in Ukraine), dependency on imported energy has posed major risks to the European Union and national markets as the prices of energy soar. Relying

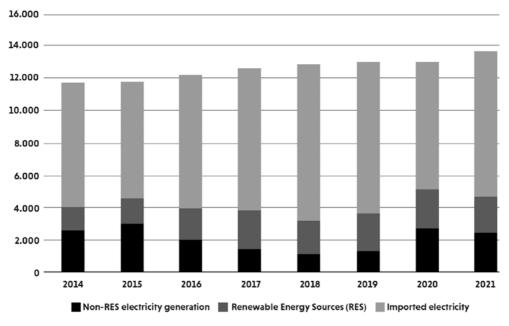
<sup>1</sup> https://ec.europa.eu/info/publications/factsheets-european-green-deal\_en



LITHUANIA'S PI AN IS FOCUSED ON ENSURING **FNFRGY** INDEPENDENCE AND FXPANDING THE GREEN ENERGY INFRASTRUCTURE TYPICALLY VIA SUBSIDIFS OR COMPENSA-TIONS FOR ALTER-NATIVE ENERGY

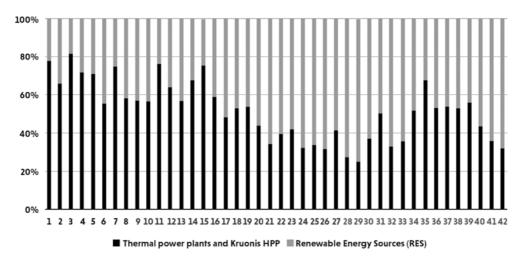
<sup>&</sup>lt;sup>2</sup> The Ministry of Finance of the Republic of Lithuania (2021) Ekonomikos gaivinimo ir atsparumo didinimo planas "Naujos kartos Lietuva". Available [online]: https://finmin.lrv.lt/uploads/finmin/documents/files/ Naujos%20kartos%20Lietuva%20planas.pdf [in Lithuanianl

Figure 1: Total electricity demand in Lithuania, GWh



Source: Author's own calculations based on the ETSO data

Figure 2: Source of electricity generated in Lithuania



Source: Author's own calculations based on the ETSO data



DUE TO ONGOING **CRISES** AND TENSIONS (PARTICULARLY THF WAR IN UKRAINE). DEPENDENCY ON IMPORTED ENERGY HAS POSED MAJOR RISKS TO THE FUROPEAN UNION AND NATIONAL **MARKETS** AS THE PRICES OF FNFRGY SOAR

on imported electricity could be mitigated by new fossil power plants, which is relatively improbable since the overall goal of the EU and its member states is to depend on this source of energy as little as possible. Another option would be nuclear power; however, just recently, one of the core power plants in Lithuania has been closed down<sup>3</sup> and there are no talks at the political or societal level about reopening the nuclear plant. Relying more on RES is the most probable option, as fostering innovation and investments in these sources of energy would not only allow the EU to be more independent from market fluctuations, but it could also reduce overall energy prices in the long run.

The core instrument of the EU and Lithuania's NGEU to achieve the latter scenario is to provide financial support to those who wish to invest in the RES infrastructure. However, it would be inefficient to focus solely on financial injections as the key means of achieving the EU's environmental goals. At the core of the EU strategy lies the intention to create new opportunities for innovation and investment and jobs, and to strengthen the competitiveness of European companies<sup>4</sup>. This requires creating an "environmentally-friendly" regulatory framework that would not hinder or harm the possibilities and willingness of private actors to engage in green development but instead enable them. In order to do so. it is necessary to address core issues that hinder progress. Among these are statelevel bureaucratic chains, inefficient decisionmaking and stakeholder involvement, as well as a profit tax regime that does not directly reward investments.

# THE WEB OF BUREAUCRACY TRAPS TIME, INVESTMENTS AND AMBITION

As noted by EU MP Dacian Cioloş, "the Green Deal should not bring new red tape<sup>5</sup>" to say the least. However, due implementation of the EU's goals to foster innovation and investments requires the member states to review mechanisms that currently

<sup>&</sup>lt;sup>3</sup> https://www.iae.lt/veikla/eksploatavimo-nutraukimas/67 [in Lithuanian]

<sup>&</sup>lt;sup>4</sup> See, e.g., http://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/delivering-european-green-deal\_en

<sup>&</sup>lt;sup>5</sup> https://www.europarl.europa.eu/news/en/pressroom/20191203IPR68087/green-deal-for-europefirst-reactions-from-meps





discourage private actors from engaging more actively.

Wind energy business representatives, who wish to develop in Lithuania, note that their possibilities to invest in the country are severely slowed down by bureaucracy<sup>6</sup>. Only some of the companies that applied for state support in spring of 2022 have acquired a part of the promised subsidies for investing into wind or solar power. In addition, those subsidies are fully paid only after the project has been implemented<sup>7</sup>. According to the Lithuanian Small and Medium Business Council, the latter circumstance may deter some companies from using renewable energy resources as they would opt for payments in advance instead of compensations, thus discouraging maximal green development in the country8. However, it must be kept in mind that the financial resources for subsidies are limited. In the long run, the pre-financing of such projects may prove to be inefficient if investors do not follow through. This, in turn, could reduce the circle of possible investors if all of the funds were paid out in a single lump sum, and if the company defaulted and went bankrupt.

Vidmantas Janulevičius, the President of the Lithuanian Confederation of Industrialists and the Chairman of the Board of Global BOD Group, a manufacturer of solar modules, argues that industrial companies could invest without state support, but the situation is complicated by bureaucratic hurdles



# BUREAUCRACY POSES AT LEAST TWOFOLD RISKS TO ACHIEVING THE EU'S GREEN DEVELOPMENT GOALS

created by central and local governments – particularly those of acquiring the necessary permits to build wind turbines and solar modules<sup>9</sup>. This not only increases legal uncertainty, but also costs valuable time that could be invested more efficiently. Agreeing with this, Minister of the Environment Simonas Gentvilas noted that such and similar bureaucratic constraints must be eased<sup>10</sup>. However, given the general procedural requirements of law-making, the said decisions can still take at least a few months to be finalized and have not yet been done by the end of the summer of 2022.

Superfluous bureaucracy together with rigid and slow implementation on the part of the public sector have become common grounds for critiquing Lithuania's ambitions regarding green development. Stakeholders note that Lithuania's Next Generation plan was supposed to be one for fast-paced

<sup>&</sup>lt;sup>6</sup> Gaidamavičius, G. (2022) Verslui įsirengti nuosavas jėgaines trukdo per menkas finansavimas ir biurokratija, BNS. Available [online]: https://www.lrt.lt/naujienos/verslas/4/1618500/verslui-isirengti-nuosavas-jegaines-trukdo-per-menkas-finansavimas-ir-biurokratija [in Lithuanian]

<sup>&</sup>lt;sup>7</sup>BNS (2022) Verslui įsirengti nuosavas jėgaines trukdo per menkasfinansavimasirbiurokratija, BNS. Available [online]: https://www.bns.lt/topic/1912/news/65726831/print/true/ [in Lithuanian]

<sup>8</sup> Ibid.

<sup>&</sup>lt;sup>9</sup> Gaidamavičius, G. (2022) Verslui įsirengti nuosavas jėgaines trukdo per menkas finansavimas ir biurokratija, BNS. Available [online]: https://www.lrt.lt/naujienos/verslas/4/1618500/verslui-isirengti-nuosavas-jegaines-trukdo-per-menkas-finansavimas-ir-biurokratija [in Lithuanian]

<sup>10</sup> Ibid.

projects that had to pour money quickly into the economy<sup>11</sup>. Thus, not only efficient instruments, but also speed and a timely implementation of the plan's measures are crucial – which became even more relevant given Russia's ongoing war in Ukraine and its shrinking effects on private investments. However, no significant speedy decisions have been made to date<sup>12</sup>.

Therefore, bureaucracy poses at least twofold risks to achieving the EU's green development goals. Firstly, it reduces the motivation and ambitions of private actors to invest in green development and innovation thus reducing the effectiveness of Europe's instruments. Secondly, it traps time, which is a crucial resource both to the private and public sector and, instead, could be more efficiently invested. Given that the success of Europe's green development plans relies not only on efficient, but also on timely decisions, a crucial component of the transition is ensuring a regulatory framework that would not unjustly waste time when speedy decisions are necessary.

# ASKING HOW TO DO IT INSTEAD OF TELLING WHAT TO DO

Even though the European Union had provided guidelines on the national plans for green development, it was primarily up to the states to determine the concrete measures it plans on taking. In this sense, the efficiency of the plan depends not only on the declared measures, but also on their implementation possibilities. And the latter cannot be determined solely by politicians applying a topdown approach but also should include the efficient involvement of the stakeholders that the measures aim to aid.

However, Lithuania's initiatives regarding green development are heavily criticized due to the lack of involvement of society in the decision-making process. The National Network of NGOs has joined more than a hundred Lithuanian non-governmental organizations in addressing the Prime Minister of Lithuania regarding unfulfilled promises to involve civil society in processes critical to Lithuania regarding the green development plan. Many NGO representatives publicly criticize the government for not including the community enough and

LITHUANIA'S
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<sup>&</sup>lt;sup>11</sup> Simėnas, D. (2022) Ekonominės transformacijos planą užgožė karo ir infliacijos šešėlis, VŽ. Available [online]: <a href="https://www.vz.lt/finansai-apskaita/2022/04/21/ekonomines-transformacijos-plana-uzgoze-karo-ir-infliacijos-seselis [in Lithuanian]">https://www.vz.lt/finansai-apskaita/2022/04/21/ekonomines-transformacijos-plana-uzgoze-karo-ir-infliacijos-seselis [in Lithuanian]</a>

<sup>12</sup> Ibid.

<sup>&</sup>lt;sup>13</sup> Švietimo NVO tinklas (2021) NVO kreipiasi į Ingridą Šimonytę dėl nepakankamo bendradarbiavimo su pilietine visuomene, svietimotinklas.lt. Available [online]: https://svietimotinklas.lt/nvo-kreipiasi-i-ingrida-simo-nyte-del-nepakankamo-bendradarbiavimo-su-pilietine-visuomene/ [in Lithuanian]



THE PRIVATE SECTOR IS THUS FOCUSED ON SERVICE
DELIVERY, WHEREAS
THE PUBLIC
SECTOR'S PERFORMANCE CAN BETTER BE DESCRIBED
AS FORMAL
COMPLIANCE
WITH THE RULES,
WHERE CUSTOMER SATISFACTION
IS NOT
AN INDICATOR

disregarding many of their opinions and arguments<sup>14</sup>. In June 2021, Business Europe and the Lithuanian Confederation of Industrialists surveyed their members on

the Lithuanian plan; these members underlined the minimal involvement of social partners in designing it<sup>15</sup>. Many social partners noted that the plan's public discussions were a mere formality and that it is destined to be inefficient since many of the stakeholders' arguments and concerns were not addressed<sup>16</sup>. However, the lack of society's involvement is a complex issue, which needs a variety of measures in order to improve its quality. The responsibility for duly involving the society should be shared among the EU, the member states, and the representatives of the society themselves.

To some extent, one could look into the EU's actions, as the European Union has required states to agree upon an enormous amount of rules and obligations whilst leaving a disproportionate amount of time to prepare the final draft of the NGEU. Furthermore, public consultations pose a burden on the financial resources of the state and thus the taxpayers themselves, so the duration and scope of the negotiations have to be proportionate. Lastly, the quality of the society's involvement relies on the stakeholders themselves, i.e., they should address whether they are looking to negotiate and compromise on issues with opposing interests.

The Lithuanian Business Confederation indicated that Lithuania's NextGenerationEU Plan vaguely describes the reforms relevant to business and society without specifying the concrete implementation measures on which the success of the reforms

<sup>&</sup>lt;sup>14</sup> See, e.g., Simėnas, D. (2022) Ekonominės transformacijos planą užgožė karo ir infliacijos šešėlis, VŽ. Available [online]: <a href="https://www.vz.lt/finansai-apskai-ta/2022/04/21/ekonomines-transformacijos-plana-uz-goze-karo-ir-infliacijos-seselis [in Lithuanian]; Šavelė, G. (2021) Trys (ne)tiesos, lydėjusios "Naujos kartos Lietuva" plano pristatymą, LRT. Available [online]: <a href="https://www.lrt.lt/naujienos/verslo-pozicija/692/1394015/gaja-savele-trys-ne-tiesos-lydejusios-naujos-kartos-lietuva-plano-pristatyma">https://www.lrt.lt/naujienos/verslo-pozicija/692/1394015/gaja-savele-trys-ne-tiesos-lydejusios-naujos-kartos-lietuva-plano-pristatyma</a> [in Lithuanian]

<sup>&</sup>lt;sup>15</sup> https://www.businesseurope.eu/publications/reform-barometer-2021-country-results-lithuania

<sup>&</sup>lt;sup>16</sup> Švietimo NVO tinklas (2021) NVO kreipiasi į Ingridą Šimonytę dėl nepakankamo bendradarbiavimo su pilietine visuomene, svietimotinklas.lt. Available [online]: https://svietimotinklas.lt/nvo-kreipiasi-i-ingrida-simo-nyte-del-nepakankamo-bendradarbiavimo-su-pilietine-visuomene/ [in Lithuanian]



A FASTER-THANNORMAL
DECISION MAY
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IN THE CIVIL
SERVANT BEING
QUESTIONED
BY THE SPECIAL
INVESTIGATION
SERVICE OR EVEN
INVESTIGATED
FOR POSSIBLE
CORRUPTION
IN LITHUANIA

themselves depends<sup>17</sup>. The Lithuanian Confederation of Industrialists noted that there is no system, no clarity, and no overall picture of the plan's implementation<sup>18</sup>. Its rep-

resentative also emphasized that it is difficult to say how much will be spent on the green transformation of companies, and at what stage, and that it is unclear to what extent and which measures will be subsidized<sup>19</sup>. This poses another threat to achieving the EU's environmental goals, as many of the national plans may lack efficiency if they were not duly negotiated with stakeholders, who in fact will have to make use of the plan's measures.

The fundamental principles of law-making primarily imply the requirement to hold actual public consultations and to consider such suggestions in order for the regulations to achieve their objectives efficiently<sup>20</sup>. The Law on the Legislative Framework also provides the principle of expediency, meaning that a draft legal act must be drawn up, and a legal act must be adopted only where the objectives pursued cannot be achieved by other means<sup>21</sup>. Without identifying the core issues and alternatives to solving them, not only are the quality requirements not met, but also the measures themselves may prove to be inefficient.

# A CLIENT-ORIENTED PUBLIC SECTOR TO BETTER ACHIEVE ENVIRONMENTAL GOALS

The plans to implement green development as well as to increase innovation and investments depend not only on the efficiency of the proposed instruments, but also on their timely and adequate implementation. This includes the reaction of the companies who wish to invest in renewable energy together with the actions of the institutions and their employees.

<sup>&</sup>lt;sup>17</sup> Simėnas, D. and J. Budreikienė (2021) *Ragina nesudėti RRF plano lėšų į televizorius klasėse kaip į trinkeles kaimuose*, VŽ. Available [online]: <a href="https://www.vz.lt/finansai-apskaita/2021/05/14/ragina-nesudeti-rrf-plano-lesu-i-televizorius-klasese-kaip-i-trinkeles-kaimuose&da3319ae490f58">https://www.vz.lt/finansai-apskaita/2021/05/14/ragina-nesudeti-rrf-plano-lesu-i-televizorius-klasese-kaip-i-trinkeles-kaimuose&da3319ae490f58</a> [in Lithuanian]

<sup>&</sup>lt;sup>18</sup> Simėnas, D. (2022) Ekonominės transformacijos planą užgožė karo ir infliacijos šešėlis, VŽ. Available [online]: <a href="https://www.vz.lt/finansai-apskaita/2022/04/21/ekonomines-transformacijos-plana-uzgoze-karo-ir-infliaci-jos-seselis">https://www.vz.lt/finansai-apskaita/2022/04/21/ekonomines-transformacijos-plana-uzgoze-karo-ir-infliaci-jos-seselis</a> [in Lithuanian]

<sup>19</sup> Ibic

<sup>&</sup>lt;sup>20</sup> Republic of Lithuania Law on Legislative Framework, No. XI-2220. Available [online]: <a href="https://e-seimas.lrs.lt/">https://e-seimas.lrs.lt/</a> <a href="portal/legalAct/lt/TAD/722be922696011ecb2fe9975f8a">portal/legalAct/lt/TAD/722be922696011ecb2fe9975f8a</a> <a href="poetage-18025st5v">9e52e?ifwid=13l025st5v</a> [in Lithuanian]

<sup>21</sup> Ibid.

# LITHUANIAN MPS HAVE MADE ADVANCES OFFERING CERTAIN 'TAX RELIEFS' TO PROFITS REINVESTED INTO GREEN DEVELOPMENT

The state has a monopoly on the provision of certain services, in this particular case granting permits to construct solar panels or wind turbines, because the performance of these functions is its prerogative. In this context, for the public sector, customer welfare is not a key performance indicator, as the customer cannot express their will, for example, by choosing another service provider. The private sector is thus focused on service delivery, whereas the public sector's performance can better be described as formal compliance with the rules, where customer satisfaction is not an indicator. In the context of public administration, a client is not only a direct recipient of a public service: the notion of a client encompasses a wide range of entities in relation to which a civil servant acts.

This becomes more evident when talking about permit issuance procedures regarding construction. As mentioned before by the private stakeholders, obtaining permits is hazy in terms of rules and requirements; however, it is also a prolonged and thus costly procedure. This may be caused by several national requirements that discourage efficient and timely decision-making by institutions.

If a civil servant issues a permit sooner than the statutory deadline, it significantly eases the burden on the private entity (providing more clarity and time to engage in economic activity), as well as on the civil servant themselves, thus allowing them to optimize their own resources and to continue to work effectively. However, a faster-than-normal decision may result in the civil servant being questioned by the Special Investigation Service or even investigated for possible corruption in Lithuania, given the cross-referencing of information among institutions. This demonstrates not only a lack of trust in the private sector, but also in civil servants themselves. The most effective approach would be to promote responsibility and ownership among civil servants in a comprehensive way, and not penalize them for getting things done more quickly.

The motivation to spend resources efficiently is also distorted by the fact that there is typically no limit to the number of times a civil servant can return requests for permits, queries, or other documents for revision<sup>22</sup>. Both the abundance of formal rules and the lack of real accountability undermine the autonomy and incentives of the civil servant to act efficiently. It is understandable that the human factor may lead to the sincere omission of certain aspects of documents, but the unlimited number of corrections does not encourage officials to optimize their performance.

<sup>&</sup>lt;sup>22</sup> See, e.g. Republic of Lithuania Law on Public Administration. Available [online]: <a href="https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/6996d4c0d86111e8820ea019e5d9ad04?jfwid=13l025snzr">https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/6996d4c0d86111e8820ea019e5d9ad04?jfwid=13l025snzr</a>

It would, therefore, make sense to limit the number of times a given request can be returned for rectification, as this would allow for a more efficient implementation of many state goals, including those regarding green development where progress needs to be done fast.

This stems from the general legal interpretation of what constitutes 'damages'. Under the Lithuanian Civil Code damages are a financial category and are linked with unlawful actions<sup>23</sup>. Noncompliance with the principles of good administration (i.e., timely and efficient decision-making) is out of the scope of the source for damages to occur. Liability, therefore, arises only in cases of misconduct and in the occurrence of concrete material damage to the person. which must be dealt with by the courts<sup>24</sup>. Such enforcement of liability through the courts is costly for both the private persons and the state and is, as a result, only applicable in exceptional cases of serious damage. It cannot be considered an adequate and proportionate mechanism to enforce the liability of civil servants.

The damage caused by the state as a service provider could be linked to the expectations of the citizen-customer arising from the legislation governing the civil service. Often, delays in making decisions and responding to citizens' queries, the minutiae of checking the documentation of queries, and the transfer of documents from one department to another do not directly damage the person's assets, but they do cause damage in terms of wasted time and financial resources that could be channeled into value creation and business development. However, the

ONE OF THE CORE STRATEGIES
OF THE EUROPEAN UNION TO ENCOURAGE GREEN DEVELOPMENT
IS CREATING NEW OPPORTUNITIES FOR INNOVATION, INVESTMENT, AND JOBS, AND STRENGTHENING THE COMPETITIVENESS OF EUROPEAN COMPANIES

tual responsibility for missing deadlines in public authorities' decision-making and responses to citizens often does not materialize. It, therefore, makes sense to expand the legislation on the concept of damages and the forms of redress, including the redress mechanism provided for in the Civil Code.

The transfer of unnecessary functions to the private sector and NGOs would also help optimize the public sector to better implement green development plans.

<sup>99</sup> 

<sup>&</sup>lt;sup>23</sup> Civil Code of the Republic of Lithuania, Art. 6.249. Available [online]: <a href="https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.404614?jfwid=13l025spwi">https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.404614?jfwid=13l025spwi</a>

<sup>24</sup> Ibid.

LITHUANIA'S
EXAMPLE
SHOWS
THAT STAKEHOLDERS WOULD BE
WILLING TO INVEST
IN RENEWABLE
ENERGY
EVEN WITHOUT
THE STATE'S
FINANCIAL SUPPORT

The government of Lithuania proposed a concept of reforming the public sector, which includes freeing the state from those functions that can be more effectively performed by the private sector and NGOs<sup>25</sup>. Such a path would allow the state to spend its limited resources in a meaningful way in pursuit of its mission.

It is important to note that such a transfer of functions must not be based on the objective of achieving ideal service delivery, which is not possible regardless of the resources available. Trust in the private sector for the transfer of functions is based on the

<sup>25</sup> The Government of the Republic of Lithuania (2022) Valstybės tarnybos reforma: koncepcija. Available [online]: <a href="https://vrm.lrv.lt/uploads/vrm/documents/files/LT-versija/VTI\_koncepcija\_2022\_02\_28.pdf">https://vrm.lrv.lt/uploads/vrm/documents/files/ LT-versija/VTI\_koncepcija\_2022\_02\_28.pdf</a> [in Lithuanian] expectation that, as the owner of private property, it will make every effort to deliver services adequately and to take care of the resources and continuity of its operations, which will help the state to save time and financial resources that are now essential for the performance of essential state functions

# A CORPORATE INCOME TAX TO PROFIT THE ENVIRONMENT

Lithuanian MPs have also made advances offering certain 'tax reliefs' to profits reinvested into green development. However, instead, it would be prudent to systematically revise the current corporate income tax regime to incentivize investing in green development.

LFMI's study suggests that the currently applied CIT also plays a significant role in promoting investments in renewable energy in Lithuania<sup>26</sup>. Profits earned here are taxed twice – at the company level and by dividends<sup>27</sup>. In 2021, the effective corporate tax rate was as high as 27.75%. Since the abolition of the zero rates on reinvested earnings in 2002, a chronic development of corporate tax incentives has been observed showing the need of a systemic review of the framework.

In addition, calculating and controlling income tax costs are regressive – the smaller the company, the higher the ratio of these costs to turnover. This, in turn, demotivates companies from investing into green energy due to the relatively higher costs.

<sup>&</sup>lt;sup>26</sup> Lithuanian Free Market Institute (2021) Faktai ir analizė. Atsigauti po krizės padės investicijoms palankus pelno mokesčio modelis. Available [online]: <a href="https://www.llri.lt/">https://www.llri.lt/</a> naujienos/faktai-ir-analize-atsigauti-po-krizes-pades-investicijoms-palankus-pelno-mokescio-modelis/lrinka [in Lithuanian]

<sup>27</sup> Ibid.



THE EU'S
AND ITS MEMBER
STATES' GOALS
FOR GREEN
DEVELOPMENT
COULD BE
BETTER
ACHIEVED
BY PROMOTING
A CLIENT-ORIENTED
PUBLIC SECTOR
AND ESTABLISHING
DIRECT
FINANCIAL RELIEF
FOR INVESTMENTS

A group of members of the Parliament registered a draft law on providing a zero CIT on investments – particularly those regarding green development<sup>28</sup>. However, such an exemption would put additional administrative burden to prove the nature of the investment. Even if such an exemption would, indeed, make investing

into the green transition more attractive, the instrument could not reach its maximal efficiency and potential, because proving the nature of the investment (particularly having in mind the prolific web of bureaucracy in Lithuania) could disincentivize some investors due to the costs.

Eliminating the taxation of reinvested earnings would increase companies' investment from their own funds. Under this model, only dividends paid out are taxed, while all funds used for investment and business development are tax-free. Taxfree investments free up funds for investment but also remove the need for tax accounting of profits. At the same time, it reduces all the associated burdens and tensions between taxpayers and administrators, as well as the incentives for shadow activities. Regardless of the short-term losses to the state budget in the longterm, such an 'investment' model would result in a more rapid economic expansion, more workplaces being created, and more innovation.

### **CONCLUSIONS**

One of the core strategies of the European Union to encourage green development is creating new opportunities for innovation, investment, and jobs, and strengthening the competitiveness of European companies. This goal cannot be efficiently achieved by offering direct financial injections alone. Investments and innovations are driven and fostered by state support measures in a broad sense, including an enabling and investment-friendly regulatory environment. Creating an innovation and investment fostering and boosting regulatory framework relies on the quality of public services, which include permit issuance procedures and other services that the state has the prerogative to provide.

<sup>&</sup>lt;sup>28</sup> The Parliament of the Republic of Lithuania, draft law on ammending Article 5 the Law on Corporate Income tax of the Republic of Lithuania No XIVP-1295. Available [online]: <a href="https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/36d0f230785111ecb2fe9975f8a9e52e">https://e-seimas.lrs.lt/portal/legalAct/lt/TAP/36d0f230785111ecb2fe9975f8a9e52e</a> [in Lithuanian]

Lithuania's example shows that stakeholders would be willing to invest in renewable energy even without the state's financial support. However, investments are often halted by superfluous and hazy bureaucracy. This situation increases uncertainty and wastes valuable time resources that could instead be invested into economic growth directly.

The due implementation of the EU's and its member states' plans for green development relies, firstly, on establishing efficient instruments and measures. This cannot be achieved without consulting and duly including stakeholders, who will actually be the ones responsible for carrying out the green development. The case study of the Lithuanian NextGenerationEU Plan indicates that the stakeholders were not duly involved, which could result in decreasing the actual efficiency of the plan. Given that stakeholders will have to carry out the plan's measures, it is necessary to formulate them clearly and comprehensively. However, in the case of Lithuania, many of the stakeholders still have no clue on how the plan will be implemented and what responsibilities and possibilities lie ahead

The EU's and its member states' goals for green development could be better achieved by promoting a client-oriented public sector and establishing direct financial relief for investments. By optimizing the public sector and reducing the incentives of institutions to drag out the procedures in cases of construction, private parties would have better means to efficiently invest in the green development and innovate. A zero rate CIT on reinvestments could also be considered as a state investment, because regardless of the short-term losses, the long-term benefits would not only help to better

achieve environmental goals, but would also benefit the national and regional economy.



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