

LITHUANIA

1. Introduction




Lithuania's start-up ecosystem, which barely existed 10 years ago, has been developing rapidly, and small and medium-sized enterprises (SMEs) are exporting on a large scale. While Lithuanians have developed a strong entrepreneurial spirit, the ongoing structural shift caused by technological change, digital transformation and the transition to more sustainable business practices is currently creating a skills mismatch. Moreover, Lithuania still needs to make improvements to ensure better access to finance for SMEs as well as more efficient bankruptcy procedures.

The COVID-19 pandemic and the policy measures taken to tackle it led to a moderate contraction of SME value added in Lithuania in 2020. SME value added and employment dropped by 0.6% and 1.6% respectively¹. The downturn was particularly pronounced in the *accommodation and food services* sector, with value added dropping by 36.2% and employment falling by 9.3%. The *information and communication* sector, in contrast, has performed exceptionally well, generating 10.0% growth in SME value added and 6.3% growth in SME employment.

An economic recovery is expected in 2021, with SME value added growth of 7.7% and SME employment growth of 2.5%. As a result, SME value added and SME employment are projected to exceed their 2019 levels by 7.1% and 0.8% respectively in 2021.

Lithuanian SMEs make a substantial contribution to the 'non-financial business economy'. In 2019, they generated 67.2% of total value added and 73.3% of total employment, well above the respective EU averages of 53.0% and 65.2%. However, the average productivity of Lithuanian SMEs, defined as value added per person employed, was only EUR 20 700, around half the EU average of EUR 40 000. SMEs employed an average of 3.5 people in 2020, slightly fewer than the EU average of 3.7.

Figure 1: Number of enterprises, persons employed and value added in 2020

	 Number of enterprises			 Number of persons employed			 Value added		
	Lithuania		EU-27	Lithuania		EU-27	Lithuania		EU-27
	Number	Share	Share	Number	Share	Share	€ billion	Share	Share
Micro	191 749	93.3%	93.3%	282 377	28.8%	29.6%	4.7	21.5%	18.7%
Small	11 186	5.4%	5.7%	225 169	23.0%	19.7%	4.8	21.6%	17%
Medium-sized	2 130	1%	0.9%	210 566	21.5%	15.8%	5.3	24.2%	17.3%
SMEs	205 065	99.8%	99.8%	718 112	73.3%	65.2%	14.8	67.2%	53%
Large	355	0.2%	0.2%	261 962	26.7%	34.8%	7.2	32.8%	47%
Total	205 420	100%	100%	980 074	100%	100%	22.1	100%	100%

Source: These are estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

2. Key strengths

High share of SME exports

Between 2009 and 2018, Lithuanian exports grew by 10% a year on average (exports of goods of Lithuanian origin, except for oil products, reached EUR 13.5 billion in 2018), while worldwide export growth slowed to 4.6%². Over the last decade, the average annual growth of the market share of exports of goods and services stood at 2.7 percentage points, which is one of the best results among EU countries (third behind Ireland and Romania)³.

Lithuanian SMEs form up to 98% of exporting companies, while accounting for 50% of all exports (EUR 11 billion), which is well above EU average of 33%⁴. On extra-EU trade, it falls into the country group with a high share of SMEs in export values and the number of exporters⁵. The share of the exports' value to non-EU countries accounted for 44% (EUR 3.1 billion) in 2018, against the EU average of 28%⁶.

Vibrant start-up-ecosystem

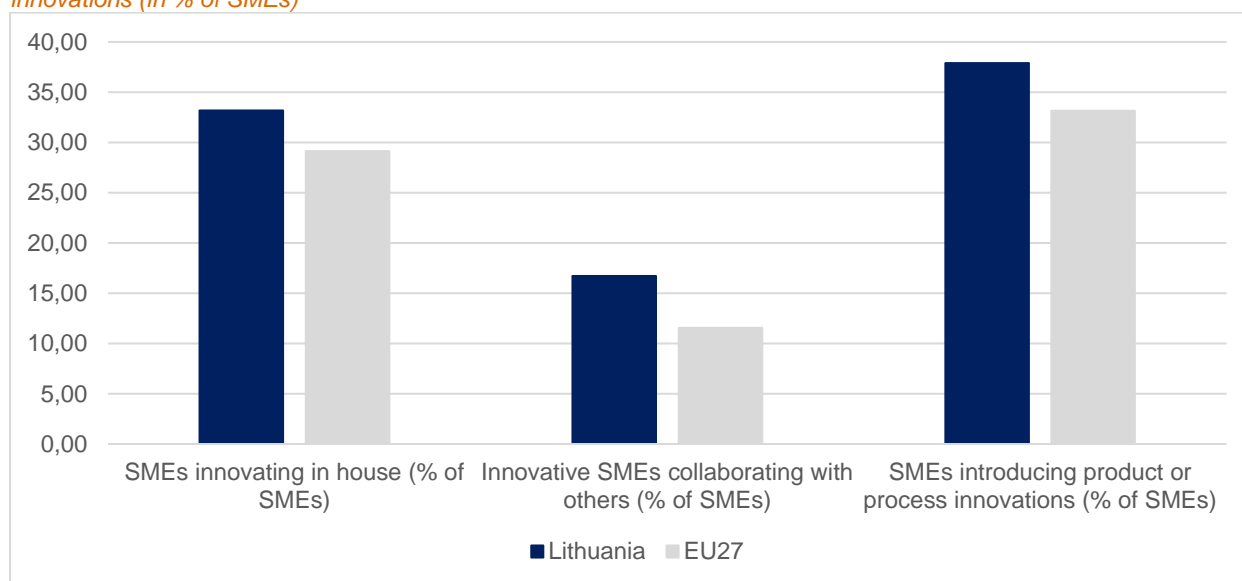
Lithuania's start-up ecosystem, which barely existed 10 years ago, has been developing rapidly and already ranks highly in the start-up world. StartupBlink, a start-up platform and research centre, ranked Lithuania's start-up ecosystem 15th out of 100 countries in its new 2020 report (the top 3 being the USA, United Kingdom and Israel)⁷.

Lithuania is also becoming one of Europe's leading fintech hubs, ranking 4th in the Global Fintech Index 2020⁸.

Lithuania's capital Vilnius ranks in the top 10 in two categories: cost-effectiveness and foreign direct investment performance in the Tech cities of the Future 2020/21 report⁹.

Moreover, when looking at the employment share of high-growth enterprises, Lithuania outperforms the EU average, reaching 19.4% against the EU average of 15.4%¹⁰.

Figure 2: SMEs innovating in house, innovative SMEs collaborating with others, SMEs introducing product or process innovations (in % of SMEs)



Source: Community innovation survey, Eurostat, 2016¹¹

Strong entrepreneurial spirit

Lithuanians have a strong entrepreneurial spirit. An international study on entrepreneurial attitudes across 44 countries, The Amway Global Entrepreneurship Report 2018, finds that more Lithuanian respondents (76%) want to start their own business than EU respondents (41%). While the desire to become an entrepreneur has decreased slightly since 2016 (78%), there is a strong sense of continued optimism among respondents. However, only 33% believe they have the necessary skills and resources to launch their business, compared to 37% of EU respondents. Looking at Lithuanian respondents' abilities and attitudes to start and run a business, the majority (88%) see themselves as being socially supported by family and friends, against 62% in the EU. When it comes to taking risks, 74% of Lithuanian respondents consider themselves to be risk-takers, against 41% of respondents in the EU¹².

3. Key challenges

The current structural shift caused by digital transformation creates a skills mismatch

The Lithuanian labour market is currently facing various challenges, namely adverse demographic trends, technological advancements and migration-led regional disparities.

The ongoing structural shift caused by technological change, digital transformation and transition to more sustainable business practices increases the demand for new high-level competences and related skills, while making other competences obsolete¹³. A third of the workforce in Lithuania therefore faces a skills mismatch compared to the OECD average of 15%¹⁴, and SMEs face difficulties in finding employees with the right set of skills.

In Lithuania, the percentage of total people employed that have ICT specialist skills (13.5%) and the share of SMEs that provide training to their staff to develop or upgrade their ICT skills (9.6%) are significantly lower compared to the EU average (19.6% and 21.6% respectively in 2019)¹⁵.

To respond to this challenge, Lithuania launched the Skills Strategy Project to develop a more strategic, whole-of-government and cross-sectoral approach to its skills policy. The project aims to develop tailor-made policy recommendations for improving skills in collaboration with the government and stakeholders¹⁶.

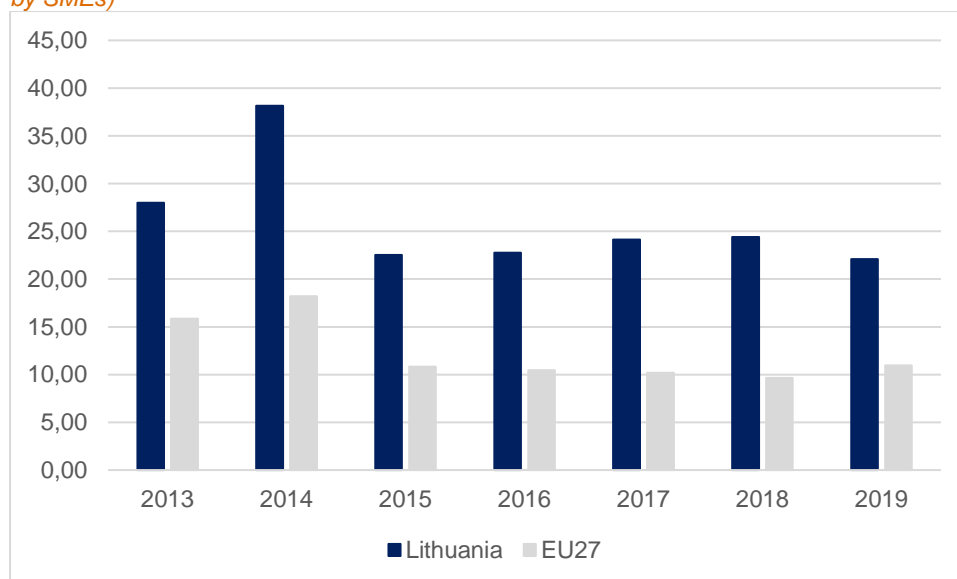
Bank lending to SMEs is restricted

Access to finance is the biggest concern for 13% of SMEs in Lithuania, against 7% for the EU¹⁷. According to a survey conducted by the Bank of Lithuania, 32% of SMEs consider that bank loans would be a relevant source of financing (with only 16% actually using them), while credit lines were considered relevant for 41% of SMEs (and are used by 22%).

Bank lending is rather restricted in Lithuania. Almost 30% of SMEs that submitted a bank loan application have been rejected, against 7% for the EU. Nearly half of SMEs surveyed by the Bank of Lithuania stated that lending opportunities are limited or non-existent¹⁸. The annual average interest rate for small loans is also higher in Lithuania compared to the EU average, reaching 3.2% in Lithuania against 2.9% for the EU in 2019¹⁹.

The government has introduced a wide range of measures to improve access to finance, including developing alternative sources of financing. According to a Dealroom report, venture capital for example grew by 135% on average between 2013 and 2018²⁰. Nevertheless, despite rapid growth, the volume of alternative financing remains low compared to bank lending and the financing needs faced by SMEs.

Figure 3: Rejected loan applications and loan offers whose conditions were deemed unacceptable (% of loan applications by SMEs)



Bankruptcy procedure is inefficient

In the World Bank's Doing Business 2020 report, Lithuania ranked 89th out of 190 countries in 'Resolving insolvency'²². Similarly, Lithuania ranks only 95th out of 141 economies on 'Strength of Insolvency Framework' in the World Economic Forum's Global Competitiveness Index²³. The time and cost to resolve insolvency is also significantly higher in Lithuania compared to the EU average. While it takes 2.3 years and 15% of the debtor's estate to resolve insolvency in Lithuania, it only takes 2 years and 10.6% for the EU average²⁴.

Despite considerable efforts to improve its insolvency legislation and many amendments to its bankruptcy law since 2001, Lithuania still needs to improve its bankruptcy process, which is complex, time-consuming and costly. It is expected that the new law on insolvency for legal persons, which entered into force on 1 January 2020, will help improve the situation²⁵. According to the OECD, this reform has the potential to turn Lithuania's insolvency framework into one of the most effective of the OECD countries²⁶. It is not yet clear how effective the new legislation is in practice, and certain key provisions have been suspended because of the COVID-19 crisis.

In addition to appropriate insolvency legislation, Lithuania would need to ensure the effectiveness of the insolvency processes' complementary measures, such as an early warning system designed to inform businesses of potential threats before they face irreversible financial difficulties.

4. Other key SME-related brief insights



DIGITALISATION OF SMES

The Digital Economy and Society Index published in 2020 shows that Lithuanian SMEs performed particularly well in the area of 'Integration of digital technologies into their business practices'.

The highest score was for the indicator 'Electronic information sharing' (48% of Lithuanian enterprises share information electronically compared to an EU average of 34%). Lithuania also performed above the EU average on indicators such as 'SMEs selling online', 'Selling online across the border to other EU countries' and, even after a slight decrease recently, on 'e-commerce turnover'²⁷.



GREEN TRANSITION OF SMES

Lithuania ranked 18th among the EU-28 in the 2019 Eco-Innovation Index. This poor performance is mainly related to weak results for indicators such as 'Implementation of sustainable products among SMEs' and 'Implementation of resource efficiency actions among SMEs'. Lithuania ranked 4th on the 'Green early stage investments' indicator, pointing to a favourable investment environment for eco-friendly technologies²⁸.



REGULATORY BURDEN

In the World Bank's Doing Business report 2020, which compares business regulation across 190 countries, Lithuania ranked 11th in 2020 – the highest ever position achieved by the country. This demonstrates that Lithuania's regulatory and administrative environment is favourable to SMEs²⁹.



IMPACT OF COVID-19 CRISIS ON SMES

Lithuania's economy has been one of the least affected by the COVID-19 crisis. GDP fell less than expected in the second quarter of 2020 – by 4% year-on-year³⁰, against 13.9% in the EU. Although half of the SMEs surveyed said that business lending was limited, the conditions for business financing have remained almost unchanged from the previous year³¹.

Almost two-thirds of businesses have experienced the negative impact of COVID-19. *Accommodation and food services* was the most affected sector, while *manufacturing* was among the least impacted³².

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- ¹ The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat).
- ² Versli Lietuva (Enterprise Lithuania) (2019), *Lietuvos vaidmuo pasaulio eksporte* (Lithuania's role in the world export). Versli Lietuva. Tyrimai ir apžvalgos, available at: https://www.verslilietuva.lt/wp-content/uploads/2020/01/2019.12.31_global_exports_analysis.pdf
- ³ Lietuvos bankas (Bank of Lithuania) (2019), *Lietuvos ekonomikos apžvalga. 2019 rugsėjis*. (Overview of the Lithuanian economy, September 2019). Lietuvos bankas. Apžvalgos ir leidiniai, available at: <https://www.lb.lt/lt/leidiniai/lietuvos-ekonomikos-apzvalga-2019-m-rugsejis>
- ⁴ Statistical Office of the European Communities (2018), File: *Shares by size class for exporting (goods) enterprises*, *Eurostat Structural Business Statistics, Entrepreneurship*, available at: <https://ec.europa.eu/eurostat/web/structural-business-statistics/entrepreneurship>
- ⁵ Cemat Lucian, Jakubiak Malgorzata, Preillion Nicolas, (2020), *The Role of SMEs in Extra-EU trade: Key Performance Indicators*. Chief Economist Note. (DG TRADE). Issue 1 (May 2020), pp. 1-27, ISSN 2034-9815. Available at: https://trade.ec.europa.eu/doclib/docs/2020/june/tradoc_158778.pdf
- ⁶ See Note 4.
- ⁷ StartupBlink (2020). *Countries Global Ranking of Startup Ecosystem 2020*, available at: <https://www.startupblink.com/>
- ⁸ Findexable (2019), *Global Fintech Rankings*. [Interactive]. Findexable. [Viewed on 02/11/2020]. Available at: https://findexable.com/wp-content/uploads/2019/12/Findexable_Global-Fintech-Rankings-2020exSFA.pdf
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- ¹⁰ Eurostat (2017), available at: <http://ec.europa.eu/eurostat/web/structural-business-statistics/data/database>
- ¹¹ Eurostat (2016), *Community innovation survey*, available at: http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en
- ¹² Amway (2018), *Amway Global Entrepreneurship Report 2018*, available at: https://23hizqizbc2qqq8o9r5c6tuk-wpengine.netdna-ssl.com/wp-content/uploads/2018/03/Ager_2018_Brochure_Color.pdf
- ¹³ Delfi.lt (2019), *OECD: people in Lithuania often lack skills needed to flourish the digital world*, available at: <https://en.delfi.lt/business/oecd-people-in-lithuania-often-lack-skills-needed-to-flourish-the-digital-world.d?id=81126337>
- ¹⁴ OECD (2018), *Economic Surveys. Lithuania 2018*, available at: https://read.oecd-ilibrary.org/economics/oecd-economic-surveys-lithuania-2018_eco_surveys-ltu-2018-en#page48
- ¹⁵ Eurostat (2019), *Community survey on ICT usage and eCommerce in enterprises*, available at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ske_itspen2&lang=en
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- ¹⁷ European Commission/European Central Bank (2019), *Survey SME access to finance in the EU countries 2019*, available at: <https://ec.europa.eu/docsroom/documents/38442/attachments/1/translations/en/renditions/native>
- ¹⁸ Lietuvos Bankas/Bank of Lithuania (2020), *Įmonių apklausos apžvalga 2020* (Review of Survey of Enterprises 2020), available at: https://www.lb.lt/uploads/publications/docs/26708_6f80bba121eac85e285dd7424a1824d3.pdf
- ¹⁹ European Central Bank (2019).
- ²⁰ Dealroom.co (2020), *The State of the Lithuanian Start-up Ecosystem*. [Interactive]. Dealroom.co. [Viewed on 02/11/2020], available at: <https://blog.dealroom.co/wp-content/uploads/2019/11/The-State-of-the-Lithuanian-Startup-Ecosystem-vFinal.pdf>
- ²¹ European Commission (2019), *Survey on the Access to Finance of Enterprises*, available at: http://ec.europa.eu/growth/access-to-finance/data-surveys/index_en.htm
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- ²³ World Economic Forum (2019), *The Global Competitiveness Report 2019. Profile Lithuania*, available at: http://www3.weforum.org/docs/WEF_GCI4_2019_Profile_Lithuania.pdf
- ²⁴ World Bank (2020), *World Bank Doing Business*, available at: <http://www.doingbusiness.org/>
- ²⁵ Lietuvos Respublikos Seimas (Lithuanian Parliament), 2019. *Juridinių asmenų nemokumo įstatymas* (Law on insolvency for legal persons), available at: <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/56df69a293fa11e9aab6d8dd69c6da66>
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- ²⁸ Nausėdaitė, Reda (2018), *Eco-Innovation Observatory Country Profile 2018-2019: Lithuania*, available at: https://ec.europa.eu/environment/ecoap/sites/ecoap_stayconnected/files/field/field-country-files/eio_country_profile_2018-2019_lithuania.pdf
- ²⁹ See Note 22.
- ³⁰ Eurostat (2020), *News release. Euroindicators 133/2020*, available at: [eurostat/documents/2995521/10545471/2-08092020-AP-EN.pdf/43764613-3547-2e40-7a24-d20c30a20f64#:~:text=Compared%20with%20the%20same%20quarter,time%20series%20started%20in%201995.](https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&code=sdg13-10-01-01&plugin=1)
- ³¹ See Note 18.

³² Oficialios Statistikos Portalas (Official Statistics Portal) (2020), *Bendrojo vidaus produkto antrasis įvertis* (The second estimate of the gross domestic product), available at: <https://osp.stat.gov.lt/informaciniai-pranesimai?eventId=231663>