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Treasury of the Republic of Latvia

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THE TREASURY
OF THE REPUBLIC OF LATVIA

**Public Report
for**

2009

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Abbreviations used in the Report

CDS	Credit Default Swap
CEB	Council of European Development Bank
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
eKase	Electronic Settlement System of the Central Government Budget
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
EUROSTAT	The Statistical Office of the European Community
GDP	Gross Domestic Product
JSC	Joint Stock Company
IMF	International Monetary Fund
NIB	Nordic Investment Bank
PPP	Public-Private Partnership
Strategy	Operational Strategy of the Treasury

Units of Measure

LVL – lat, the national currency of the Republic of Latvia

EUR – euro, the official currency of the EU

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Translation by Skrivanek Baltic

The Treasurer's Statement



For the Treasury, as for the Latvian state, 2009 was a year marked by a global and domestic financial crisis, economic downturn, the structural reform of state administration, administrative-territorial reform and factors influencing these events. This time, replete with upheavals and challenges, has brought significant adjustments and changes to the Treasury's strategic direction and its responsibilities towards the State, to the way it relates to each resident of the country, the Treasury's clients, its co-operation partners, foreign investors, the mass media and to the daily routine of each employee of the Treasury. This year has placed the Treasury at the epicentre of events.

The task of the Treasury is to manage and monitor public financial management processes effectively and safely by ensuring the execution of the central government budget, management of public debt, cash and budget loans and implementation of functions as a Paying and Certifying Authority of EU policy instruments. Accordingly, the Treasury is a significant participant in the Latvian financial market and, by providing the financial administration of the central government budget, assumes the management of risks threatening the State. We proved the suitability of the Treasury for this important status by re-certifying the Treasury's quality management system in 2009 in accordance with the requirements of the new ISO 9001:2008 standard.

In addition to successfully executing governmental assignments for the stabilisation of the public financial system, we took advantage of the latest advances in information technology in making the Treasury's services more accessible and optimising its resources. In 2009, we made a one-off investment to improve information systems in order to guarantee significant savings of public funds in subsequent years. In June, we switched to



the expanded Unified Central Government Budget Planning and Execution Information System, which provides a full cycle of central government budget management: from budget planning to its execution to the monitoring thereof. In late 2009, we delivered the new version of *eKase*, the electronic settlement system of the central government budget, which also serves as the single access point of the Treasury's *e-services* and ensures the execution of domestic and international payments (in the Latvian national currency and foreign currencies) and provides information on accounts, an overview of budget execution and other types of information exchange between the client and the Treasury.

In the area of government debt management, the greatest challenge was to secure the necessary financial resources in extremely complex financial market conditions, which we were able to accomplish. By attracting financial resources to finance the budget deficit and to refinance the government debt, to provide a cash reserve required for the execution cycle of the central government budget and the fulfilment of obligations, and to stabilise the financial sector in accordance with government resolutions, we borrowed considerably on the domestic market; furthermore, the international financial aid programme was adopted. As the liquidity of the lat market gradually recovered in late 2009, we successfully commenced the issue of longer-term government securities whilst attaining a considerable fall in security interest rates. Arranging the issue of a state guarantee to JSC Liepājas Metalurgs was important for the country's economic recovery and the restoration of competitiveness. JSC Liepājas Metalurgs is the only iron-and-steel works in the Baltics and thus of great strategic value, yet it had been unable to attract a loan for the modernisation of its plant without a state guarantee due to the financial crisis.

Thanks to the full transition to electronic budget payments within *eKase*, the electronic settlement system of the central government budget, the Law on Administrative Territories and Settlements and with the commencement of centralised acceptance and compilation of local government budget execution reports, we reorganised the structure of the Treasury in 2009 by significantly optimising the number of staff involved in the process of central government budget execution and support functions.



As the Treasury commences its 2010 operations, we are filled with justified hope as we observe the first signs of the national economy stabilising, macroeconomic indicators improving and structural transformation taking place in the economy. In the execution of the central government budget, we plan to develop a series of new electronic services and online information exchanges, emphasising the resource optimisation capabilities of the information technology provided and developed by the Treasury. Moreover, we will consider the possibility of providing such services to a specific group of clients – local governments and their institutions. We have also defined as an objective to identify and analyse the risks inherent in the central government budget management process and to decide on limiting or eliminating them. In the management of central government debt and cash, we will improve the debt management methods and the planning process for state guarantees, organise the execution of the Funding Plan, implement purposeful management of investor relations and co-ordinate the active involvement of Latvia's representatives in the assigning of the Latvian government's credit rating.

I am pleased with the accomplishments of the Treasury's employees in 2009 and their united, professional, determined and conscientious efforts as a team. Without this, it would be impossible to attain our strategic targets and accomplish the daily tasks to a high standard of quality.

Kaspars Āboliņš

The Treasurer

Riga, March 2010

Operational Strategy of the Treasury

The Treasury operational strategy is a medium term planning and management document based on the functions and assignments fixed in Treasury Regulations, as well as the financing planned for their execution.

The Strategy prescribes the operational directions of the Treasury, its strategic targets, assignments, results and performance indicators, as well as the budget programmes and sub-programmes corresponding to the operational directions and a summary of its financial indicators. The task of the Strategy is to facilitate the involvement of all Treasury employees in attaining the set targets.

The rapidly changing external conditions (the state of the domestic and international financial market, state administration, available funding, etc.) have also considerably affected the operations of the Treasury and, accordingly, the strategic and development vision and direction of the Treasury. To define this in the medium term, the **Treasury updated its operational strategy** in late 2009 by developing and discussing a new draft of the document.

The **main changes** stipulated by the updated strategy are as follows:

- 1) in central government budget execution: intensified monitoring of government fiscal discipline, preventing inefficiencies and mismanagement in the use of central government budget funds while preserving the orientation of client services in terms of speed and convenience;
- 2) in government debt management: to ensure a financially advantageous and tactically sound return of Latvia to the international financial capital markets.





The ultimate target of the Treasury is to be an institution that is dynamic, modern and geared towards perfecting the quality of the services it provides – to be an institution that, in accordance with the best practices of financial management, efficiently and securely administers and monitors the processes of financial management to serve the interests of the State and its residents.

The Strategy prescribes the following Treasury operational directions, the execution of which in 2009 is described in this Report:

- 1) **Central government budget execution**, which is oriented towards ensuring an effective and economical budget execution process and the improvement of services provided by the Treasury in accordance with the best practices of financial management;
- 2) **Central government debt management**, to secure the necessary financial resources, including those on public capital markets, at the lowest possible cost, to limit financial risks and, to the extent possible, promote the financial interests of the State in the process of issuing state guarantees, with consideration given to factors of state macroeconomic stability and the development of the capital market and financial system, which is aimed at the introduction of the euro currency in the medium term;
- 3) **Cash and budget loan management**, by providing effective and safe cash management, limiting and monitoring financial risks, ensuring the necessary liquidity promptly and in full amount for execution of state financial liabilities, as well as performing effective granting and servicing budget loans, with consideration of the necessity to achieve state macroeconomic stability and development targets in the medium term.



4) Implementation of the functions of the paying and certifying authority for EU policy instrument by organising and standardising the execution of the functions of the paying and certifying authority in a way that ensures the fulfilment of requirements included in legislative acts of the granting authorities and the Republic of Latvia and also the timely receipt of funds from the granting authorities, and also minimises the permissible risk for the inclusion of improperly incurred expenses in expense declarations and reports.

The Treasury observes **unified institution operation principles** to achieve its set targets:

- 1) quality and risk management;
- 2) personnel management;
- 3) effectiveness of the operational management of the internal control system;
- 4) use of information technology and information security;
- 5) lawfulness and legality of Treasury activities;
- 6) institutional administration;
- 7) institutional communication.

The principal priorities of the Treasury Strategy are as follows:

- 1) efficient human resource management, whereby employee development at all levels and their involvement in the attainment of the Treasury's targets is encouraged;
- 2) ensuring high-level access to the services provided by the Treasury, in accordance with developments in information technology and by utilising the resource optimisation capabilities they afford;
- 3) efficient and secure administration and monitoring of the state financial management processes in accordance with the interests of the State and its residents.



Legal status and structure of the Treasury

The Treasury is a direct administration institution subordinated to the Ministry of Finance. Its operational objective is the effective implementation of public administration functions in the area of public finance management.

The Treasurer manages the Treasury's operations and is appointed and dismissed from office by the Minister of Finance.

The Treasury has the following **functions**:

- 1) Organising the execution and financial accounting of the central government budget;
- 2) Providing assignments and making payments from central government budget revenue;
- 3) Central government debt management;
- 4) Functions of the Paying and Certifying Authority for EU policy instruments, the European Economic Area Financial Instrument and the Norwegian Government Bilateral Financial Instrument, and the National Fund functions delegated by the National Authorising Officer;
- 5) Other functions prescribed by laws and regulations.

The legal status, functions, tasks, competence, rights and procedure for ensuring legality are stipulated by Cabinet of Ministers Regulations No.677 of the “**Regulation of the Treasury**” of 3 August 2004 pursuant to the Public Administration Law.



The structure and work organisation of the Treasury is established by the **Rules of Procedure of the Treasury**. Due to the structural **changes in the Treasury** that took place in 2009, new Rules of Procedure were issued 16 July 2009.

Pursuant to the Cabinet of Ministers Minutes No. 45, §31, Item 16, of 1 July 2008, Minutes No. 68, §43, Item 3, of 23 September 2008 and Minutes No. 28, §3, Item 10, of 30 April 2009, regarding the full transition to electronic budget payments only within the *eKase* electronic settlement system of the central government budget, pursuant to the Law on Administrative Territories and Settlements, with the commencement of the centralised acceptance and compilation of local government budget execution reports by the Reports Department of the Treasury and to ensure sound administration and the optimisation of Treasury operations, **the Treasury's Units and the Treasury's Units Co-Ordination Department were restructured** in 2009, creating a Client Management and Service Development Department composed of two sections: the Client Management Unit and the Service Development Unit.

Following this restructuring and in accordance with the decisions made by the government in 2008 to reduce the number of those employed in state administration, and having considered the possibilities of optimising the personnel involved in support functions, **a total of 89 staff positions, or 33 %, were liquidated at the Treasury in 2008 and 2009.**

In order to make unified decisions, the following **committees** continued their work in 2009:

Audit Committee – to improve the operation of the Treasury's internal control system, to facilitate the achievement of the Treasury's strategic goals, to protect its resources, and establish and maintain effective control of measures. The Committee reviews the findings and conclusions of internal and external auditors' reports on the Treasury's operations, recommendations included in the reports for operational improvements of the internal control system established in the Treasury, and comments provided by the audited structural units concerning the facts discovered during audits. The Committee is authorised to decide on potential measures for mitigation or prevention of the most significant risks to the Treasury.



Central Government Debt Management Committee – to facilitate effective central government debt management, develop proposals for improvement and implement the Central Government Debt Management Strategy.

Central Government Budget Accounting Committee – to update implementation of the financial accounting policy of the budget managed by the Treasury and to ensure effective management of accounting policy changes. The task of the Committee is to define accounting policy and its compliance with accounting standards, establish accounting policy objectives, improve and update accounting policy and facilitate compliance with the requirements established thereby.

Committee for Management of Information System Changes in the Treasury – to coordinate consideration and implementation of requests for changes to the Treasury's Information System.

Credit Committee – to facilitate credit risk management by coordinating the activities of the Treasury's structural units concerning monitoring of central government budget loans, guarantees issued on behalf of the government and counterparty limits.

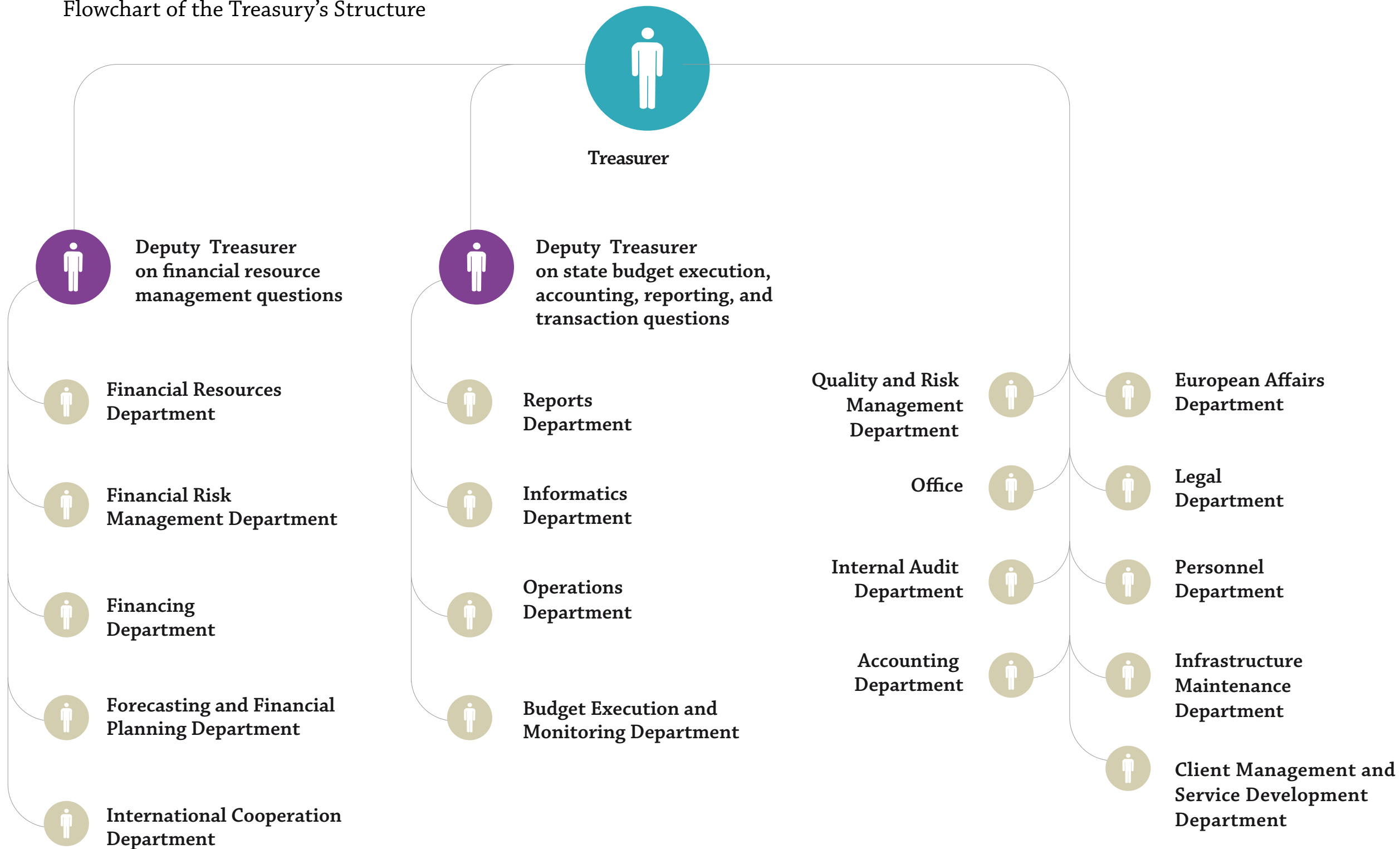
Euro Changeover Committee – to draft proposals for ensuring the euro changeover in the areas of the Treasury's competence and coordinate the involvement of the Treasury's structural units in implementation of the relevant euro changeover measures.

Management Committee – to ensure effective management of the budget and personnel resources of the Treasury, attain the objectives stated in the Strategy, and implement priority measures and new policy initiatives.

Resource Liquidity Committee – to facilitate the quality of cash management in order to ensure proper liquidity management in compliance with the tasks set in the Treasury's Cash Management Strategy.

Quality and Risk Management Committee – to facilitate constant improvement of the Treasury's operations and compliance of its services with clients' needs by ensuring effective quality, risk and information safety management.

Flowchart of the Treasury's Structure





Central Government Budget Execution



1.1. Characteristics of the Central Government Budget Execution Function

The Law on Budget and Financial Management has authorised the Treasury as the direct administration institution subordinated to the Ministry of Finance **to organise the execution and financial accounting of the central government budget and ensure the granting of allocations and execution of payments made by budget institutions within the limits of the appropriations set in the annual central government budget.**

While implementing the central government budget, the Treasury maintains **the State Budget Planning and Implementation System**, where budget accounts for budget executors are opened; grants allocations based on financial plans; ensures payments of budget institutions by accepting both paper documents for payment execution as well as accepting instructions online via the *eKase*; keeps records of the budget execution transactions effected by institutions financed from the budget, monitoring their compliance with the annual appropriations from the central government budget; and keeps records of central government budget revenue as well as providing information concerning the taxes and fees collected by the State Revenue Service.

Ensuring uniform accounting of public finances, the Treasury **drafts laws and regulations concerning the accounting in the central and local government budget institutions**, thereby setting universal accounting principles, a universal chart of accounts and a reporting system which is compliant with classifications approved by the Cabinet of Ministers, while yielding information on budget execution based on both the cash flow accounting principle and accruals principle. The uniform budget reporting system ensures aggregation of the reports submitted by central and local government

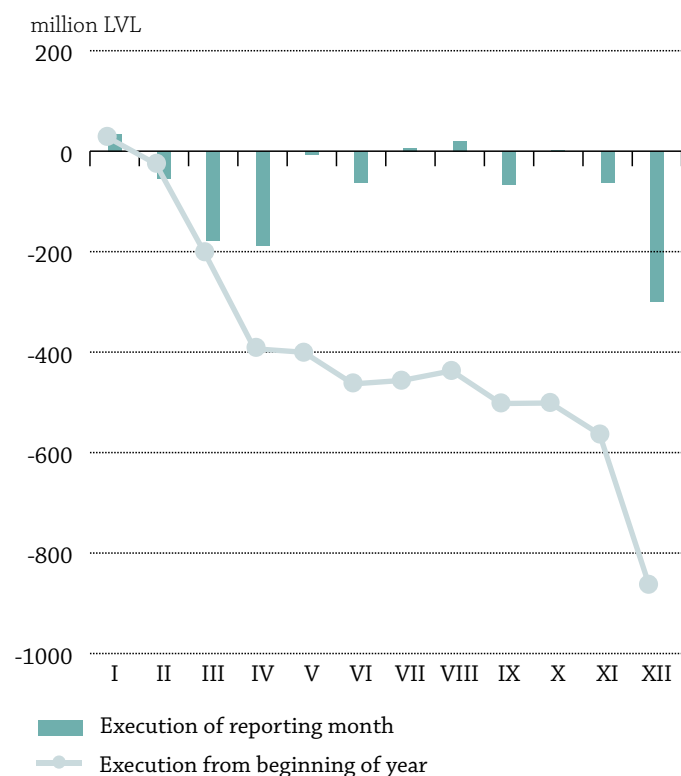


Chart 2. Financial Balance of the Central Government Consolidated Budget¹ in 2009

Source: The Treasury

budget institutions, and is used not only by the Treasury, but also by the Ministry of Finance, State Audit Office, Bank of Latvia, Central Statistical Bureau and other public administration institutions.

1.2. Trends of Execution of the Central Government Budget for 2009

The execution indicators of the central government budget in 2009 were significantly affected by the situation in the domestic and international financial market, as well as the downward trends in the Latvian economy. Growing fiscal risks and agreements with international lenders caused the annual state budget law to be amended twice in 2009 (28 January and 16 June 2009), revising the projected central government budget revenues and carrying out measures of fiscal consolidation. **The state consolidated budget revenues in 2009 comprised 3.9 billion lats and expenditures comprised 4.8 billion lats, whereas the financial deficit in 2009 was – 856.8 million lats.**

1.3. Organising Central Government Budget Execution for 2009

In 2009, the Treasury issued **allocations in the amount of 5 275 million lats** to ensure central budget execution, of which 3 671.1 million lats were for the general budget and 1 603.9 million lats for the special budget. Allocations were issued to **533 budget institutions, for which 2 210 budget accounts have been opened.**

¹ Not including donations and grants

The number of general budget expenditure accounts has decreased by 182 account, or 7.6 % in 2009, compared with 2008. The main cause of the decrease in the number of accounts has been the structural reform of state administration, due to which several significant changes took place in 2009 both in the number of budget institutions and in the number of the budget expenditure accounts opened, such as:

- 1) as of 1 June 2009, the Secretariat of the Special Assignments Minister for Electronic Government Affairs was liquidated, whereas, as of 1 July 2009, the Ministry for Children, Family and Social Integration Affairs was liquidated;
- 2) the evaluation of state administrative functions and the optimisation of the number of institutions started in 2008 was continued and, accordingly, the liquidation, restructuring and merging of a number of state administration institutions, such as the restructuring of the state administration institutions subordinated to the Ministry of Health and the restructuring of state agencies and their annexation to institutions of direct state administration or transformation into public companies;
- 3) in 2009, the number of accounts opened decreased due to the creation of centralised financial accounting at several institutions of state administration, such as the State Forest Service and the Food and Veterinary Service.

Table 1

Number of Central Government Budget Revenue and Expenditure Accounts of the Treasury in 2008 and 2009

General budget income accounts			General budget expenditure accounts			Special budget accounts			Grant and donation accounts			Operations accounts			Deposited funds accounts		
2008	2009	%	2008	2009	%	2008	2009	%	2008	2009	%	2008	2009	%	2008	2009	%
279	283	1,4	2392	2210	-7,6	39	43	10,3	262	305	16,4	3419	5787	69,3	303	615	103,0

Source: The Treasury



A number of budget institutions were restructured as of 1 January 2010 (e.g. the State Museums Administration, the Emergency Medical Assistance Service and the Centre of Emergency and Disaster Medicine, as well as state social care centres under the Ministry of Welfare), therefore, it may be projected that the declining trend in the number of budget institutions and open accounts will continue in the year 2010.

The number of operations accounts in 2009 has grown by 2 368 accounts, or 69.3 %. The main **causes** of the increase in the number of accounts **are the creation of local government regions and the intensive adoption of structural funds and other foreign financial assistance** for projects. New operations accounts have been opened at the Treasury for the implementation of these projects.

In comparison to preceding years, **there has been a marked increase in the number of deposited funds accounts:** in comparison to 2008, the number of accounts has increased by 312, or 103 %. The increase in the number of accounts is associated with Cabinet of Ministers Decree No. 882 of 29 December, 2008, “On measures to ensure fiscal discipline and monitoring”, which **prescribes stricter conditions for budget planning and the use of surpluses.**

In order to implement the execution of the central government budget in 2009, the Treasury has developed Cabinet of Ministers Regulations No. 1482 of 15 December 2009, “**Procedure for Granting and Implementing Assignations**”, which stipulates that the Treasury shall issue assignations to the executors of the budget based on approved financing plans and will ensure the execution of the assignations, as well as determining the procedure for the use of the surpluses of the central government budget funds; and Regulations No. 1637 of 22 December 2009, “**Procedure for the use of accounts and execution of payments at the Treasury**”, which stipulates the procedure whereby clients shall open and use accounts at the Treasury and how payments shall be submitted to and executed by the Treasury from the accounts opened by clients.



1.4. Accounting and Reporting

In accordance with the delegation of the Law on Budget and Financial Management, the Treasury elaborated several normative acts of the Cabinet of Ministers in 2009, as well as preparing various reports and information for external users. The amendments of 14 November, 2008, to the Law on Budget and Financial Management stipulate that **reports must also be submitted to the Treasury by derived public persons who are partially funded by the central government budget.**

When preparing regulatory enactments in the area of accounting and reporting of budget institutions, before developing the drafts the Treasury compiles proposals from the reporting parties (ministries and local government) and the users of the information (State Audit Office, Bank of Latvia, CSB) regarding the necessary additions and adjustments, as well as holding active consultations with practising accountants working in local government and ministries on a common understanding and application of the standards to be included in the draft regulations. This provides local government and ministries with prompt information regarding the upcoming changes and information exchange with the Treasury regarding potential problems in the application of such standards and the elimination of these problems.

Amendments to regulatory enactments made in 2009 prescribe the procedure for the preparation of monthly, quarterly and annual reports and reports for the financial year by budget institutions and local government, as well as for the preparation of the central government budget execution report:

- 1) Cabinet of Ministers Regulations No. 224 of 10 March, 2009, “**Procedures by Which State Budget Institutions, Local Governments and Derived Public Persons Partly Financed From the State Budget Shall Prepare and Submit Quarterly Financial Reports**”, was prepared to stipulate the preparation of quarterly financial reports of derived public persons partly financed by the state budget and in compliance with the necessary modifications to the existing regulatory enactment (Cabinet of



Ministers Regulations No. 811 of 25 October, 2005, “Regulations on the procedure of preparing quarterly financial reports by budget institutions and local government”). The structure of the reports facilitates a more efficient compilation and processing of data in accordance with the requirements of government statistics and renders the preparation of reports easier for users, ensuring that the submission of detailed data is as accurate as possible. In order to reduce the volume of information to be submitted on paper and to establish a unified procedure for the submission of reports, the regulations provide only for electronic submission of quarterly reports by budget institutions and local government, using the central government and local government budget reporting system;

- 2) Cabinet of Ministers Regulations No. 1071 of 22 September, 2009, “**Regulations on the volume of monthly reports and the procedure of their preparation and submission**”, stipulates the forms for monthly reports, as well as the preparation and submission of the reports to the Treasury by local government and derived public persons partly financed by the central government budget, for which monthly reports are to be submitted by the respective government ministry or central state institution to which the derived public person is subordinated. The Treasury uses the monthly reports received and compiled from derived public persons partly financed by the central government budget in the preparation of the Treasury’s official monthly report on the execution of the consolidated total central government budget;
- 3) Cabinet of Ministers Regulations No. 1193 of 20 October, 2009, “**Procedure for the preparation of annual reports**”, replaces Cabinet of Ministers Regulations No. 749 of 13 November 2007, “Regulations on the procedure of the preparation of annual reports by state budget institutions and local governments”, and was initially prepared as amendments to the latter to stipulate the preparation and submission of the reports to the Treasury regarding derived public persons partly financed by the local government or central government budget, for which reports are to be submitted by the respective government ministry or local government to which the derived public person is subordinated. In order to facilitate user understanding of a large volume of text in the regulations, the regulations stipulate the procedure



of the preparation and submission of the annual report for all budget institutions and report forms, in which transactions are classified according to the provisions of regulatory enactments in the area of accounting and budget. Furthermore, the description of each form is supplemented with explanations;

- 4) **Cabinet of Ministers Instructions No. 1 of 6 January, 2009, “Procedure according to which state budget institutions prepare the budget execution report, the cash flow report and the report on the financial results of operations”**, stipulates the procedure according to which state budget institutions prepare the annual report on budget execution, the cash flow report and the report on the financial results of operations;
- 5) Cabinet of Ministers Instructions No. 17 of 17 November, 2009, **“Procedures by Which State Budget Institutions Prepare Budget Implementation Reports, Cash Flow Reports and Reports on Financial Results of Activities”**, was prepared in accordance with the new edition of the Cabinet of Ministers Regulations No. 1193 of 20 October, 2009, “Procedure for the preparation of annual reports”. The instructions clarify the information provided in the report regarding the amount of funds provided to other branch ministries for the budget type “Funds of other budgets” and clarify the application of the classification codes of revenues and expenditures in accordance with the effective regulatory enactments;
- 6) Cabinet of Ministers Regulations No. 1486 of 15 December, 2009, **“Procedures, by which Budgetary Institutions Organise Accounting”**, was prepared to replace Cabinet of Ministers Regulations No. 867 of 11 November, 2005, “Procedure according to which budget institutions keep accounting records”. This prescribes terms for the development of a unified policy for the branch (procedure) prepared by the government ministry in charge of the branch, another central state institution or local government, and which is binding on all subordinate institutions. Additionally, it clarifies the recording of the decrease of the value of long-term investments and valuation methods, the classification of lease transactions, recognition and valuation of reserves and accrued liabilities, lays down the recording of museum holdings and central government or local government real estate transferred into the holdings of



corporations, explains the determination of potential liabilities and potential assets as a result of agreements entered into, and also supplements the account plan with new accounts required for detailed recording and clarify the descriptions of the use of the existing accounts. It is expected that the additions, clarifications and modifications to the regulatory enactment stipulating unified application of accounting principles and methods will improve the quality and comparability of the information provided in the reports by budget institutions.

The Treasury prepares **daily, monthly, quarterly and annual reports on central government and local government budget execution**. One of the most important reports is the annual financial year report. In 2009, the “**Annual Report of the Republic of Latvia on the Central Government Budget Execution and Local government Budgets for 2008**” (3 volumes, 896 pages) was prepared in accordance with the requirements and structure of Article 31 of the Law on Budget and Financial Management, enacted by Cabinet of Ministers Regulations No.362 of 26 May 2008 “Regulations on the Procedure of Preparation of the Financial Year Report”. This report is available to external users on the Treasury’s website.

At the request of the most significant users of the annual report (EUROSTAT, European Central Bank, international financial institutions, as well as the Saeima (the Latvian Parliament), the State Audit Office, the Ministry of Finance, the Bank of Latvia, and the Central Statistical Bureau, **additional information** was prepared and provided **on the execution of the central government and local government budget** during the financial year, quarter and month and **central government and local government finance statistical information** for the accounting month, quarter and financial year, summarized from direct data sources.

In 2009, there was an increase in the volume and frequency of the data requested and to be processed **for the purposes of monitoring fiscal discipline** in accordance with the requirements of Cabinet of Ministers Decree No. 882 of 29 December, 2008, “On measures to ensure fiscal discipline and monitoring”, as individual indicators of quarterly and annual report data are compiled monthly, the key indicators of monthly local government data were requested and compiled twice monthly and weekly information



was prepared and submitted to the fiscal discipline monitoring committee regarding the progress of the execution of the central government budget, while additionally compiling report data of affiliated and associated corporations.

In order to prepare and ensure the execution of the above assignments, the Treasury completed very extensive and important work in 2009: within a short span of time, information request forms and methodological explanations for their completion were developed and efficient methodological support was provided to budget institutions and local government.

The Treasury regularly advises state budget institutions and local government on issues associated with the preparation of reports and accounting records; furthermore, it publishes information on its website regarding methodological matters of accounting and report preparation, as well as the latest developments and services for institutions and local government.



1.5. Electronic Services Development

One of the operational priorities set in the Treasury's Strategy stipulates that the services provided by the Treasury must be available at a high level and in line with the latest developments in information technology, taking advantage of the resource optimisation capabilities this affords. In 2009, the Treasury maintained and continued to develop the following services and information systems:

Implementation of the Unified Central Government Budget Planning and Execution Information System

In June 2009, the Treasury introduced an expanded **Unified Central Government Budget Planning and Information System** in conjunction with the Ministry of Finance. This system supports the full cycle of central government budget management, from budget planning to its execution and the monitoring thereof, as well as making it possible to reduce the processing time of transactions and increase the number of services. By implementing this system, the deficiencies of other systems have been eliminated, the number of information systems in use was reduced and the administration of the information and systems was simplified. In the **Data Storage** of the unified government financial management system, reports and requests have been created in accordance with the structure of the central government budget, the central government budget and the definitions of the system's Budget Execution Module.

Information System "Reports of the Central Government Budget and Local Government Budget"

Since 2006, those submitting reports for budget institutions may submit monthly, quarterly and annual reports to the Treasury and confirm them electronically in the information system "Reports of the Central Government Budget and Local Governments Budget", which is based on the latest IT solutions and uses the web environment. In order to develop electronic services and online information exchange with the Treasury's clients and to ensure a unified system of central government and



local government budget reports and statistical reports, an **improved system of central government and local government budget reports and statistical reports was ensured in 2009 and expanded to the level of budget institutions**. Budget institutions have the opportunity to use the electronic data exchange file format, which ensures data exchange between accounting software and the system of central government and local government budget reports. The above system ensures efficient utilisation and economises manpower and funds, promotes equal understanding by those submitting the reports and the users of the system of budget execution at various levels, capabilities of process standardisation and its benefits, and improves the quality of report data and widens their application.

Electronic Settlement System of the Central Government Budget *eKase*

More than six years, the Treasury has been using *eKase* (**electronic settlement system of the central government budget**), which has been elaborated to provide the Treasury services over the Internet. Via *eKase*, the Treasury grants remote access to services to institutions financed from the budget and local governments, at the same time guaranteeing the security and confidentiality of information. Using *eKase*, the Treasury's clients can:

- 1) Make payments;
- 2) Check the results of implementation of the payment instructions;;
- 3) Receive financial information on account position, implementation of the financial plans of the central government budget, statements of account turnover and monthly account summaries.

Pursuant to the provisions of Cabinet of Ministers Minutes No. 28, §3, Item 10 of 30 April, 2009, and to the amendments made to Cabinet of Ministers Instructions No. 17 of 6 November, 2007, "Procedure for the execution of payments at the Treasury", as of 1 June 2009, the Treasury **shall accept domestic payments from clients in the Latvian national currency only via the electronic settlement system of the central government budget, *eKase***.



In 2009, co-operation agreements on the use of the *eKase* system were concluded by 594 clients and the services of the *eKase* system were used by a total of 2 277 clients, with 8 093 users in 2009. The total ratio of the payments in lats via *eKase* to the total flow in lats is 96 %. Compared to 2008, the number of payments processed via the *eKase* system in 2009 increased by 21 %, which was boosted by amendments to Cabinet of Ministers Instructions No. 17 of 6 November, 2007, “Procedure for the execution of payments at the Treasury” and an increase in the number of users of the service.

Continuing to maximise the efficient use of information technology in client service, the Treasury developed the **new version of *eKase*** in 2009, which will also fulfil the function of the unified access point of Treasury e-services: it will be possible to use the same authentication tools to access a number of Treasury information systems (e.g. *eKase*, the system of central government and local government budget reports). In addition, a number of new functional improvements have been incorporated into the system, such as the functionality of processing currency payments, a safe digital signature as a means of authentication. Additionally, the financial reports section has been visually and functionally enhanced. The new version of the *eKase* system will be delivered for productive use as of 2010.

Credit cards attached to the Treasury’s accounts

As of 1 January 2007, the Treasury (in collaboration with JSC Swedbank) provides budget institutions the opportunity to perform budget expenditures with **credit cards attached to the Treasury’s accounts**. **Credit cards attached to Treasury’s accounts** provide budget institutions the opportunity to perform budget expenditures with credit cards. Credit card services are provided for expenditures incurred by staff on business trips and visits, as well as administrative expenses. Employees of central government budget institutions can make cashless payments during their business trips, complying with the Law on Budget and Finance Management, which requires that government expenditures are to be made from accounts opened with the Treasury. In 2009, 20 budget institutions signed agreements regarding use of credit card services, and a total of 198 institutions use this service.



Introduction of payment cards by collecting central government budget payments and charges for services provided by the budget institutions

Continuing the modernisation of the services provided by the state administration, as of 5 January 2009, the Treasury began to provide a new service to state budget institutions (including institutions and organisations collecting central government budget payments) in co-operation with JSC SEB banka and JSC Parex banka: **the provision of the service of accepting payment cards when collecting central government budget payments and charges for services provided by budget institutions.** The agreement entered into by JSC SEB banka and the Treasury provides for free-of-charge installation and servicing and of payment card terminals and staff training in the operation of the terminal and the general principles of accepting payment cards.

The essence of the service is to provide private individuals with equal opportunities at all state budget institutions (including institutions and organisations collecting central government budget payments) to use *VISA*, *VISA Electron*, *MasterCard*, *Maestro* and *American Express* payment cards as a means of payment for services provided by state budget institutions.

Pursuant to the provisions of the Cabinet of Ministers meeting minutes of 14 October, 2008, ministries and their subordinate institutions providing paid services to private individuals or collecting central government budget payments from them (except taxes) on the territory of the Republic of Latvia were to commence the use of said bank services in co-operation with the Treasury by 31 December 2009.

In 2009, the Treasury approved the rights of 29 state budget institutions to receive the payment card acceptance service and a total of 354 payment card terminals were installed at state budget institutions in 2009. In 2009, 81 312 transactions were performed using payment cards at state budget institutions, for a total amount of 2 377 848 lats.



Simplification of settlements with state institutions via internet banking

Pursuant to the assignment of the resolution of the Cabinet of Ministers meeting minutes of 14 October, 2008, the Treasury produced the report “**On the possible solutions when simplifying the recognition of payments made for services provided by budget institutions via internet banking**”, which describes problems in the process of collecting state budget payments (including payment for paid services provided by budget institutions) and offers solutions for simplifying the recognition of remotely completed payments (including those completed via internet banking) for services provided by budget institutions, i.e. to develop a unified procedure by which the payments are to be made and recognised as having been received in the central government budget and for the requirements on the use of online payment services for settlements with the central government budget.

In accordance with the report by the Treasury and the assignment of the resolution of the Cabinet of Ministers meeting minutes of 25 August, 2009, the Treasury developed and the Cabinet of Ministers issued on 10 November, 2009 the Cabinet of Ministers Decree No. 768, “**On the procedure of recognising payments made via internet banking**”. The established procedure facilitates the recognition of payments made using internet banking and provides for the obligation to the direct administration institutions of the State to notify the payer of the types of payments for services, and to encourage the use of payment card settlements as much as possible.

In the future, state direct administration institutions must accept the print-out for a payment made by way of the internet banking facilities of credit institutions from natural and legal entities bearing the payer’s (natural or legal entity) signature, which shall serve as a document certifying the payment. The payment print-out must clearly specify the payer’s name, surname or company name, and it must be signed by the payer.



The procedure for recognising payments is the most optimal way to **achieve a unified procedure for the recognition of payments made using internet banking** in the transition period until the elaboration of the pertinent regulatory enactments and the introduction of suitable technical solutions. Thus, institutions of direct administration would have unified requirements for the submission of documents certifying the payment and the receipt of services or security.

Exchange of payment data using the On-line Data Exchange System

By improving and developing client service quality, the Treasury developed a secure **on-line data exchange system** in 2008 as an alternative to *eKase* that makes the performance of State administration functions in the field of public finance management more efficient, ensuring an exchange of payment data information. The on-line data exchange system operation principles are based on inter-related databases and ensure the automatic request and transfer of the received payment data to clients in XML format at particular intervals of time. In order to make the development of the institution system interface easier and to decrease the development costs, the Association of Commercial Banks of Latvia Financial Data Exchange Unified Standard FIDAVista 1.01 is used as a data exchange format, which is complemented with additional fields required for accounting of budget execution.

This system ensures a faster exchange of information, by reducing the amount of manpower involved and ensuring the possibility for further automatic data processing, which significantly decreases the potential risks in the information processing process.

The Treasury offers said services as an efficient solution to the institutions that need to quickly receive payment data information in order to perform control and accounting functions regarding payments received in the Treasury's accounts.

In 2009, agreements for the use of the on-line data exchange system were entered into by five institutions – a total of six institutions use the service.



Participation in the Electronic Clearing System of the Bank of Latvia for Euro Transactions

As of 2008, **in order to receive payments in euro**, the Treasury began using the Electronic Clearing System of the Bank of Latvia for small-scale euro payments, which affords the possibility to forgo the services of foreign correspondent banks when performing payments in euro and reduces the time to complete a payment and the associated costs.

Following successful adaptation of the internal information system for payment processing, **as of 8 June 2009, the Treasury executes small-scale euro payments submitted by clients to Latvian banks within one business day**, using the Electronic Clearing System of the Bank of Latvia for small-scale euro payments.

1.6. Restructuring of the Treasury's Units

Considering that an administrative-territorial reform was carried out in the country starting 1 June, 2009, and that the principal clients of the Treasury's Units are local government and their institutions, the Treasury undertook a preliminary study as early as 2007 to learn how this process would affect the subsequent operations of the Treasury's Units and the services provided. The task force formed by the Treasury evaluated the functions of the Treasury's Units, issues associated with the development prospects of the staff of the Treasury's Units, compliance with information security requirements, the distribution of responsibilities among employees, the role of the Treasury's Units within the framework of the implementation of the Treasury's functions, and the conformity of the client service process to the procedure established in the documents of the Treasury's quality management system.



In 2008, the Treasury performed an analysis of the numerical indicators of the operations of the Treasury's Units, comparing them with the respective indicators from 2007. Considering the results of the analysis and upon evaluation of the prospects of the development of the services in accordance with the Strategy, the Treasury made a decision in favour of a restructuring of the Treasury's Units, which was completed in 2009.

Pursuant to the Cabinet of Ministers minutes No. 28, §3, Item 10 regarding a full transition to electronic budget payments only within the *eKase* electronic settlement system of the central government budget, and pursuant to the Law on Administrative Territories and Settlements and with the commencement of the centralised acceptance and compilation of local government budget execution reports by the Reports Department of the Treasury, **a restructuring of the Treasury's Units and the Treasury's Units Co-ordination Department was carried out, creating a Client Management and Service Development Department composed of two units: the Client Management Unit (in Riga, Daugavpils, Madona, Kuldiga and Valmiera) and the Service Development Unit (see Chart. 2).**

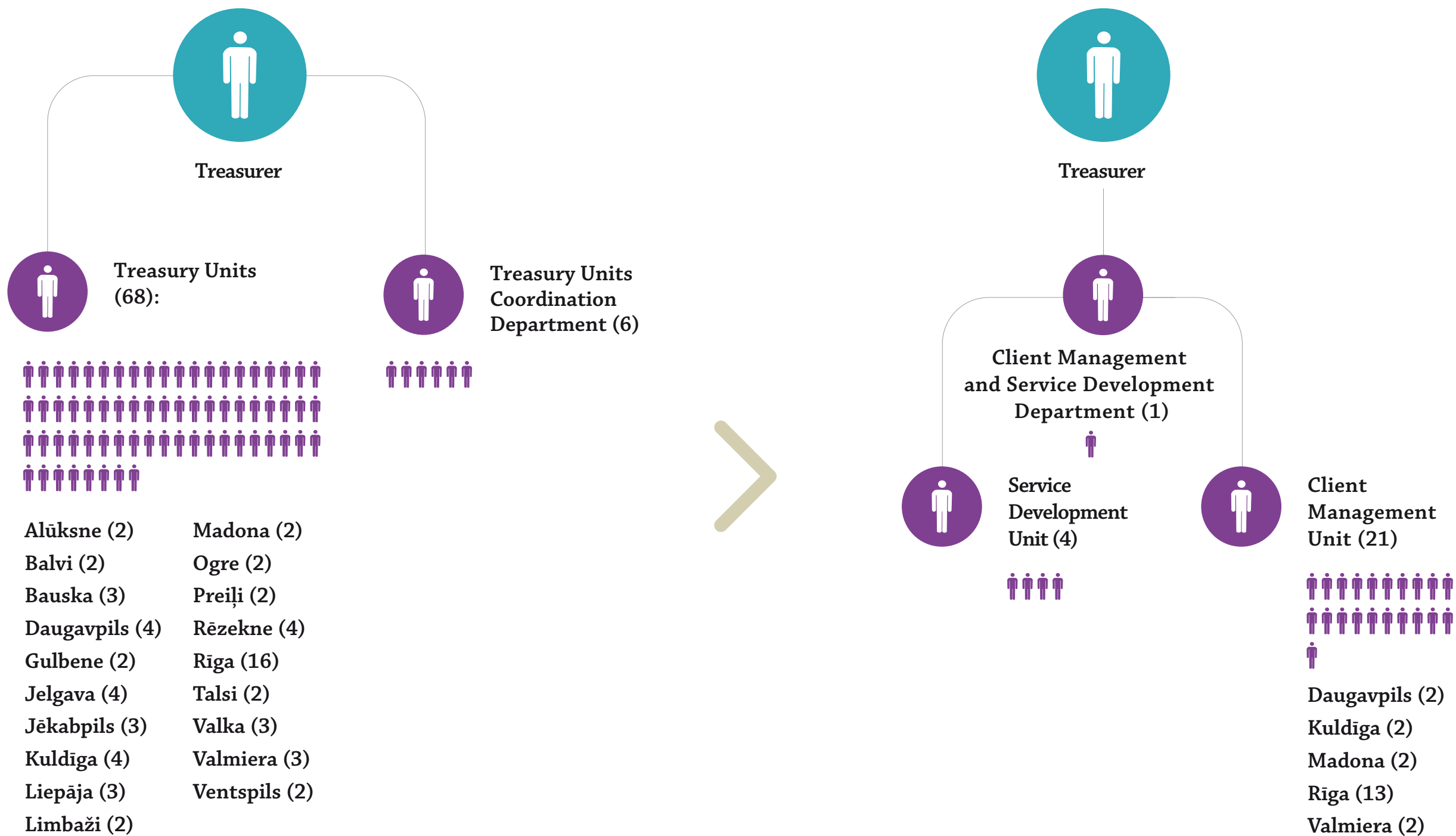
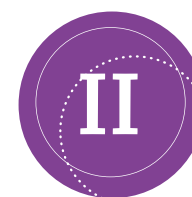


Chart 2. Restructuring of the Treasury's Units and the resulting number of laid-off staff



Central Government Debt Management



2.1. Central Government Debt Management Function

In accordance with authorisation from the Minister of Finance, **the Treasury performs the management of central government debt and temporarily free funds, transactions with derivatives and other transactions within the framework of government debt management, as well as organising the issue and monitoring of central government budget loans and guarantees.**

The annual State Budget Law sets the maximum allowable level of outstanding government debt as at the end of the year, whereas the objectives, basic principles and tasks of the central government debt portfolio and borrowing management within the framework of the medium-term government debt management are established by the Central Government Debt Management Strategy approved by the Minister of Finance.

In compliance with the Central Government Debt Management Strategy, **government debt portfolio management** is conservative and oriented to the limitation and prevention of financial risks, allowing use of derivatives, determined in the Central Government Debt Management Strategy, only to ensure management of financial risks. The approach in **government borrowing management** is to ensure borrowing opportunities, liquidity and beneficial borrowing conditions.

The amount of government borrowing, central government debt level and the respective costs to be set aside to meet the debt commitments are affected by the size of the **total financing requirement**, comprised of the fiscal deficit to be financed from the central government budget, the amount of central government debt commitments to be settled, as well as the amount of the required reserve liquidity to ensure the implementation of the central government budget cycle and commitments. Planned measures to satisfy the total financing requirement within the current year and the financial instruments



best suited for financing are prescribed in an annual **Medium-Term Funding Plan**, which is developed by the Treasury based on the guidelines established in the Central Government Debt Management Strategy and approved by the Minister of Finance. Prior to approval, the opinion of the Bank of Latvia is sought.

Within the framework of central government debt management, the Treasury organises visits by analysts from the three largest **international rating agencies** (*Fitch Ratings, Standard & Poor`s and Moody`s Investors Service*), as well as the Japanese rating agency “*R&I*” to Latvia, thus providing investors with an opportunity to receive the latest information about Latvia and analyse Latvia’s development trends and potential risks. Investors use this information to assess investment opportunities in Latvia (including investment into government-issued securities). Therefore, a credit rating is an important factor for Latvia in ensuring availability of financing, which affects the price of borrowing. Rating agencies review the credit rating of the Republic of Latvia and its outlook on an annual basis and also assign ratings to each specific government-issued security. Currently, Latvia’s long-term foreign currency credit rating is Baa3 (“*Moody`s Investors Service*”) BB+ (“*Fitch Ratings*” and “*R&I*”) and BB (“*Standard & Poor`s*”) **with negative outlook** from all agencies. Within the reporting period, a number of the country’s credit rating downgrades have taken place: the **investment grade credit rating** for Latvia has been retained only by the “*Moody`s Investors Service*” rating agency; the others have assigned to Latvia a **speculative rating**. Considering the negative outlook kept by the rating agencies, it is important for Latvia to provide the rating agencies with co-ordinated and thorough information on the developments in the Latvian economy. Thus the Treasury compiles the latest information for the institutions involved prior to visits by agency representatives.

The Treasury participates in the process of guarantees issue on behalf of the state by examining and evaluating the risks pertaining to granting state guarantees. The Treasury organises the process, of the guarantee agreements signing: i.e., participates in drafting of the guarantee agreements, guarantee servicing and guarantee collateral agreements.



After the guarantee agreements have been signed, the Treasury keeps accounts of the commitments associated with guarantees issued on behalf of the state. The maximum size of guarantees issued on behalf of the state and project implementers are set in the annual State Budget Law.

2.2. Central Government Debt Management Strategy

The Central Government Debt Management Strategy outlines **the medium term activities of the Treasury in central government debt management** in accordance with economic development trends, as well as by performing analysis of the situation in the Latvian and global financial markets. The Central Government Debt Management Strategy **sets targets and assignments in government debt management**.

The Central Government Debt Management Strategy distinguishes between debt portfolio management and borrowing management. **The goal of the central government debt portfolio management** is to manage the financial risks of the central government debt portfolio. Thus, several **parameters of the central government debt portfolio structure** have been set for the purpose of achieving this objective:

- 1) the share of the lat's debt;
- 2) maturity profile;
- 3) the share of the fixed rate;
- 4) interest rate duration;
- 5) currency composition for the foreign currency net debt.

The goal of the central government borrowing management is to ensure the availability of the necessary financial resources and their liquidity for financing the deficit of the central government budget and refinancing of the central government debt as well as borrowing on favourable terms and conditions.

As a result of the global financial crisis and the negative trends in the development of the Latvian economy, compliance with many goals, objectives and basic principles established in the Central Government Debt Management Strategy became more difficult as early as the end of 2008. On 12 February 2009, the Minister of Finance approved an **Addendum to the Central Government Debt Management Strategy** which provides more detailed guidelines for the management of central government debt under the present circumstances. In 2010, the Treasury will continue to evaluate the consistency of the Central Government Debt Management Strategy to the existing situation, considering both the current conditions in the financial markets and the trends of the considerable increase in government debt since the end of 2008.

2.3. Report on Central Government Debt Management and Quarterly Bulletin

The Treasury prepares an analytical **Central Government Debt Management Report** for each year, so as to provide the Treasury's clients, including the existing and potential cooperation partners of the Treasury and investors in government securities, with information on the latest developments in government debt management, performance indicators and future trends. The Central Government Debt Management Report was also sent to other bodies implementing government debt management functions in the

EU (debt management bureaus). The cooperation partners (including banks) expressed their appreciation of this form of presenting information on the latest developments in the Latvian central government debt management.

In order to implement purposeful management of investor relations and define the corresponding measures to be undertaken, the Treasury continues to notify investors and co-operation partners on a regular basis by preparing **Central Government Debt Management quarterly bulletins** and compiling reports of current weekly events.

2.4. Changes in the Central Government Debt in 2009

Central Government Debt in 2004-2009

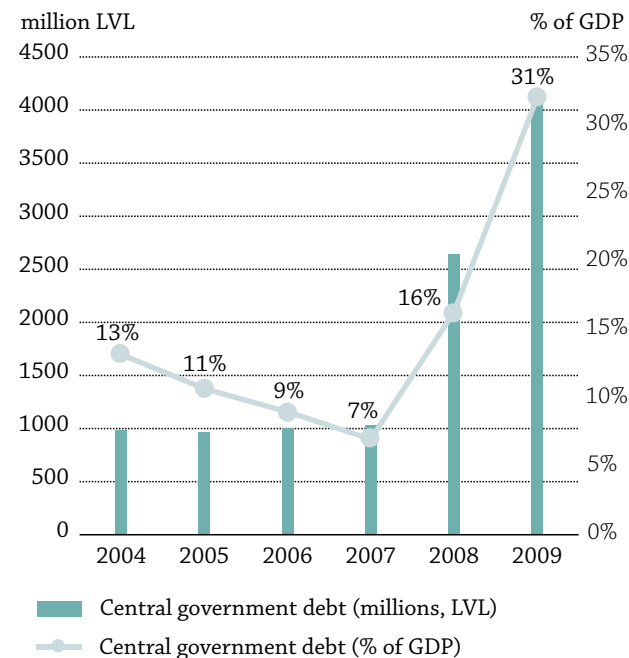


Chart 3. Central government debt (nominal value) in 2004-2009 (in millions, LVL/% of GDP)

Source: The Treasury

In 2009, to attract financial resources for the financing of the central government budget deficit and the refinancing of government debt, to secure the liquid cash reserves required to perform the central government budget execution cycle and to fulfil obligations, and to stabilise the financial sector in accordance with government decisions, **considerable borrowing took place in the domestic market and funds were obtained within the framework of the international financial aid programme.**

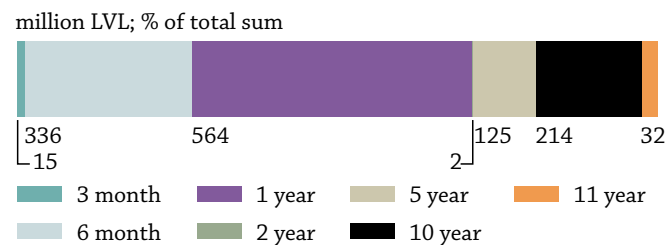
From all the **government domestic borrowing instruments, only short-term domestic treasury bills** with the term of maturity of one, three, six and 12 months were used in 2009 to cover financing requirements. In 2009 the direct selling method was also used in the initial placement of government securities, and domestic bonds were also issued in euro in private placement form, i.e. by selling the securities directly to institutional investors outside the bidding process. **The amount of resources raised as a result of securities issue on the domestic financial market in 2009 amounts to 1 340.9 million lats**, whereas general liquidity is ensured with short-term loan facilities in the amount of 120 million euro.

Borrowing on foreign financial markets reached 1 986.1 million lats in 2009. This mainly comprises funds obtained within the framework of the international financial aid programme.

The amount of outstanding central government debt at the end of the year constituted 5.5 billion lats, whereas the maximum amount of debt for 2010 (at the nominal) has been set at 7.5 billion lats.

Due to borrowing and debt repayment in 2009, the **central government debt** has increased by 1 529.2 million lats and, according to operational data, reached **4 169.2 million lats** at the nominal value, or **32.0 % of the GDP** as on 31 December 2009 (see Chart 3).

2008



2009

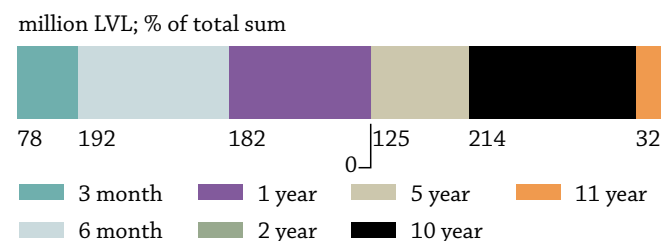


Chart 4. Government Domestic Securities in Circulation

Source: The Treasury

2.5. Central Government Domestic Debt

On 31 December 2009, the **central government domestic debt** amounted to **907.95 million lats** at nominal value, of which central government domestic debt consisted a lat debt (domestic borrowing securities) of 823.61 million lats and a foreign currency (credit line) debt of 84.34 million lats.

In 2009, a **decrease of domestic debt** by 472 million lats at the nominal was observed. This was caused by a decrease in the lat debt by 222.6 million lats at the nominal and a decrease of the foreign currency debt by 249.1 million lats at the nominal. The decrease of domestic debt can mainly be attributed to the repayment of government domestic securities issued to secure the liquidity of JSC Parex banka.

In 2009, there was a change in the percentage distribution of the types of government domestic securities (see Chart. 4).

The total amount of resources attracted by securities issuances on the domestic financial market in 2009 has increased by 354.4 million lats.

In 2009, there were 14 issues of one-month T-bills in the amount of 481.78 million lats; 28 issues of three-month T-bills in the amount of 359.41 million lats (incl. one issue in euro in the amount of 50 million euro [35.14 million lats]); 25 issues of six-month T-bills in the amount of 317.32 million lats (incl. one issue in euro in the amount of 50 million euro [35.14 million lats]), which is 48.34 million lats less than in 2008; and 23 issues of 12-month T-bills for 182.38 million lats, which is 388.74 million lats less than in 2008.

2.6. Central Government Foreign Debt

On 31 December 2009, the **central government foreign (currency) debt** amounted to **3261.3 million lats**.

In 2009, the central government foreign debt increased by 2 000.9 million lats. The increase in the foreign debt is mainly associated with the withdrawal of the loans from the international aid programme and the obtaining of loans from EIB and CEB (see subsection “Foreign Borrowing” in Section 2.7).

The major portion of the **central government foreign debt** (47 %) is formed by loans from the European Commission, the IMF (20 %) and the capital market (17 %), which are euro bonds maturing in 2014 and 2018 (see Chart 5).

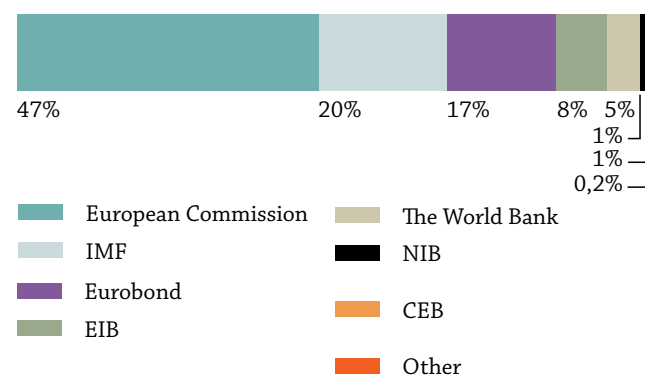


Chart 5. Central Government Foreign Debt on 31 December 2009 by Creditors (%)

Source: The Treasury

2.7. Management of the Central Government Borrowing

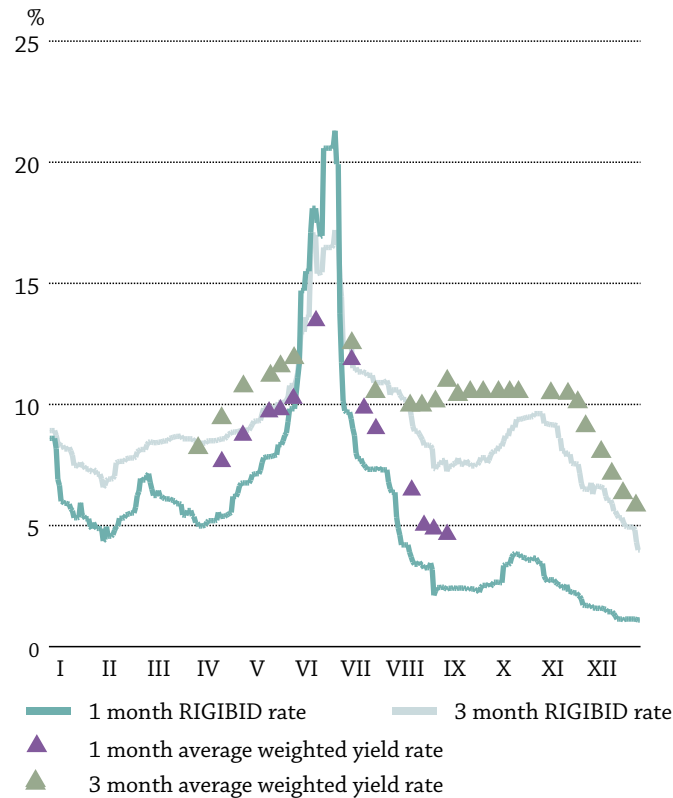


Chart 6. One and three months T-bill interest rates and respective RIGIBID rates (%)

Source: The Treasury

In order to ensure strategic decision-making in the management of central government borrowing, **the Treasury improved the methods for forecasting financing requirements and cash flow.** Corresponding financial management decisions were made based on a number of scenarios of financing estimation and resource sufficiency, developed after evaluating the risks of the fulfilment of the projections and proposing various assumptions.

Domestic borrowing

Considering the economic recession, the uncertainty of the financial market's future development prospects remained also in 2009; therefore, market participants avoided purchasing long-term securities, hoping for stabilisation of the market situation in the future and an increase of interest rates. **The Treasury did not offer long-term securities,** thus reducing future debt servicing costs, **and focused on issues of short-term and medium-term securities** while waiting for financial market stabilisation that already came into sight toward the end of the year.

The activity in the bidding for government domestic securities was inconsistent and did not reach relatively high levels, especially in mid-year. This was mainly due to the fluctuating domestic money market and the shortage of lat liquidity. The Treasury only issued short-term government securities. On 15 April 2009, **the participants of the capital market were again offered one-month T-bills for the first time since 2000.**

Starting from September 2009 the Treasury discontinued the issue of one month government domestic securities and resumed the issue of 12-month government domestic securities. By the end of September the Treasury had fully refinanced one-month securities by longer maturity period securities (six and twelve month).

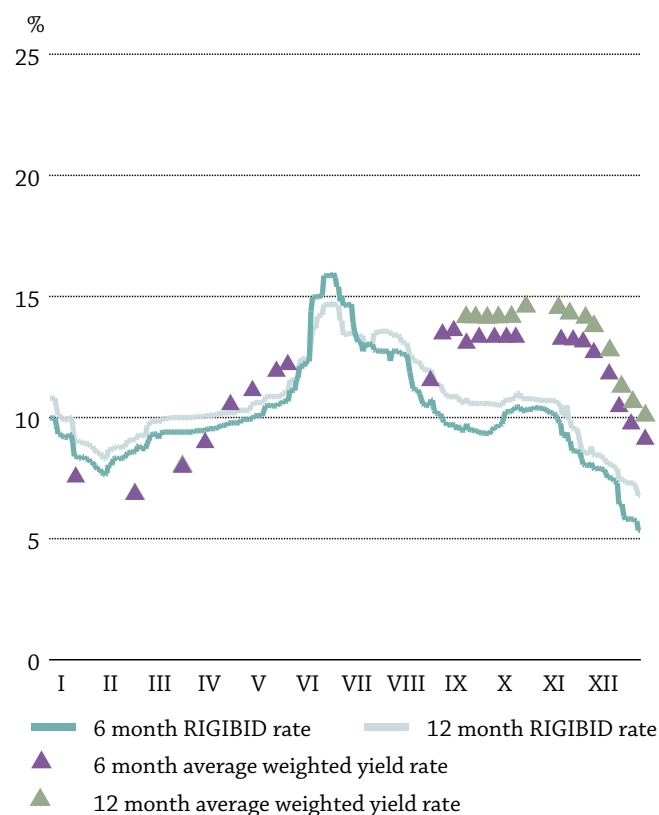


Chart 7. Six and 12 months T-bill interest rates and respective RIGIBID rates (%)

Source: The Treasury

Upon gradual improvement of the liquidity of the lat market in November and December 2009, the interest of participants in the purchase of government securities increased in November and December 2009. In separate non-competitive auctions the demand even exceeded the supply by six times, which is the highest indicator since the beginning of 2007. Due to the increased demand, the interest rates of government domestic securities have significantly decreased since the end of October, especially for securities with three-month maturity period – from the highest rate of 13.5% to 4.7%..

External borrowing

The International Financial Loan Programme

In 2009, the major part of the funds necessary for financing was provided from the loans within the international aid programme granted by the European Commission, the IMF and the World Bank, as well as the governments of other countries, which anticipates the total funding of 7.5 billion euro during 2009-2011. In 2009 the international lenders carefully followed the compliance with the programme terms and carried out two review missions resulting in ensuring further funding. **The funding within the loan programme depends on further performance of the undertaken economic and fiscal obligations.** It is essential to proceed with the current programme not only due to the fact that it ensures the largest portion of financing for the state budget of 2010 and 2011, but also because **the performance thereof is a guarantee to the international community with respect to carrying out further economic reforms in the country, the sustainability of those reforms, and the performance thereof ensures the sustaining of confidence in the state of Latvia.** Successful performance of the programme allows the financial market to be sure of the ability of Latvia to meet its obligations in the medium term.

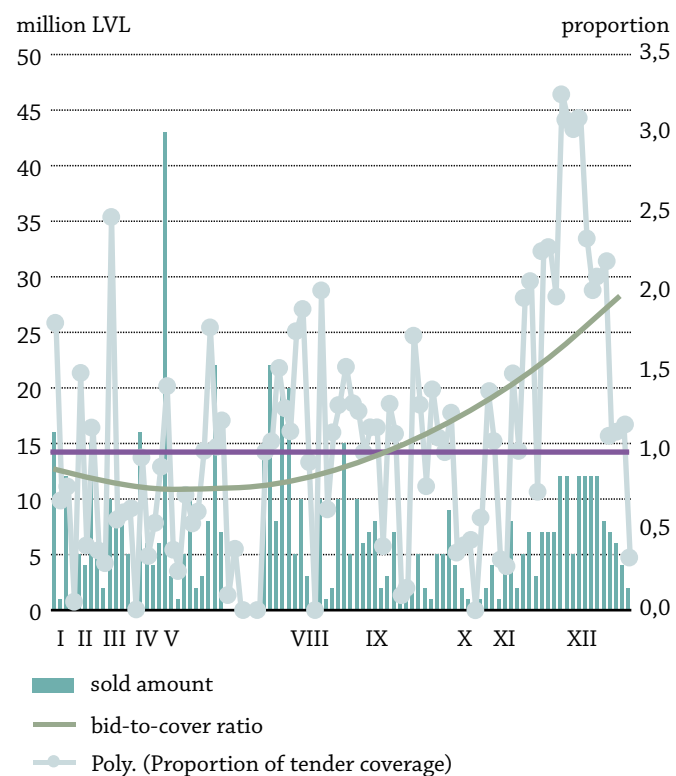


Chart 8. Primary trade activity of government domestic securities in competing multi-price auctions in 2009

Source: The Treasury

Within the international aid programme in 2009 Latvia received loans amounting to 2.7 billion euro, including the largest loans granted by the European Commission in the amount of 2.200 million euro, the World Bank in the amount of 200 million euro and the IMF in the amount of approximately 200 million euro. The first portion of the loan amounting to 600 million euro from the IMF was received already in December 2008, thus **by the end of 2009 Latvia had received 3.3 billion euro, including the 100 million euro granted by the EBRD within the JSC “Parex bank” support programme.**

Table 2

Received and planned payments from international lenders (by year, millions of euro)

million EUR	Received		Planned			Received till the end of 2009
	2008	2009	2010	2011	Total	
Total	600	2 700	2 600	1 600	7 500	3 300
European Union		2 200	700	200	3 100	2 200
Nordics (Sweden, Denmark, Finland, Norway, Estonia) ²			1000	900	1 900	
World Bank		200	200		400	200
Czech Republic			100	100	200	
EBRD		100			100	100
Poland			100		100	
IMF ³	600	200	500	400	1 700	800

Source: The Treasury

The work on the receipt of loans from the Nordic countries, the Czech Republic and the Republic of Poland will also be continued in 2010, and further payments by the European Commission and the IMF are planned as well.

² 100 million euro from Estonia in the third quarter of 2010

³ Amounts in EUR may change depending on the XDR exchange rate

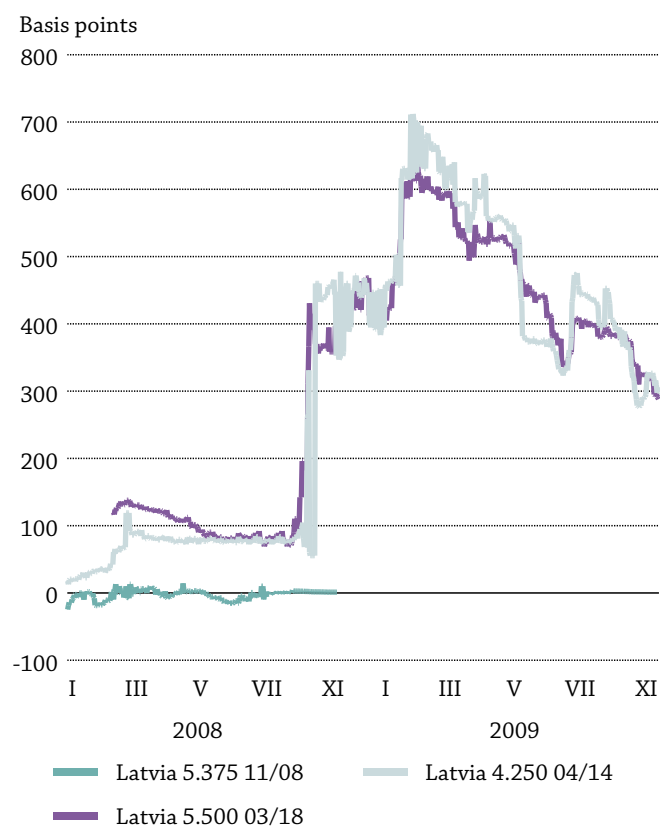


Chart 9. Mark-up of Latvian-issued euro bonds on the secondary market

Source: The Treasury

Loans from EIB and CEB

On 26 February 2009, the Minister of Finance signed on behalf of the government the **amendment and restatement of the agreement with EIB** concluded on 30 October, 2008, **regarding the increase of the loan to Latvia from 500 million euro to 750 million euro**, of which 225 million euro has been received. The loan will be used to co-finance the EU structural fund and Cohesion Fund projects in the 2007-13 planning period in areas that are of particular significance for the development of Latvia. These include projects to promote entrepreneurship and, in particular, innovation. The funds will also be available for the development of employment: for the promotion of higher education, further education and life-long education and for investments in the development of infrastructure. Considerable funds will be available for the development of the transportation system, information technology and environmentally friendly energy sources.

On 15 October 2009 the Minister of Finance **signed** on behalf of the State a **supplementary contract to Finance Contract concluded with the EIB on the 29 September 2005 to increase the total loan amount by 70 million euro**. The **contract will give** the possibility of attracting resources for ensuring state budget co-financing for the projects financed by the EU Cohesion fund and structural fund during the 2004 – 2006 programming period.

On 30 April 2009 an agreement with the CEB was made on the co-financing of projects in the educational sphere, urban and rural infrastructure improvement for the total amount of 50 million euro. The first tranche of the loan amounting to 25 million euro has already been received.

Latvia in the Public Capital Markets

The fluctuations in the financial markets during the year had an influence on the Eurobond secondary trade levels of Latvia, as well as Latvian CDS fluctuations.

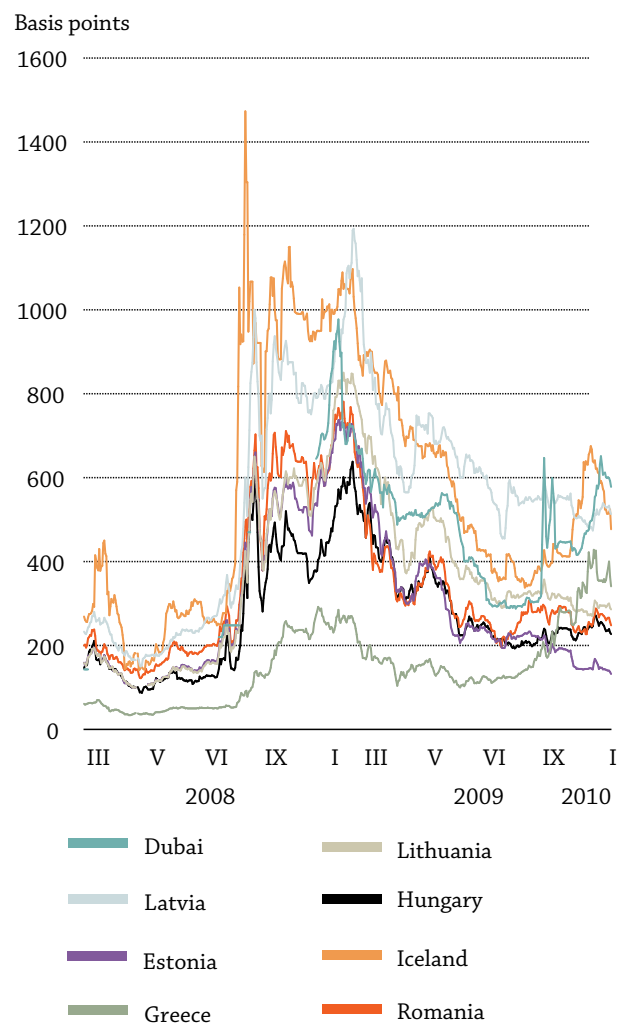


Chart 10. Five years CDS

Source: *Bloomberg*

Considering the rapid downgrades of the credit ratings of Latvia and the amount of negative news on the situation in the Latvian economy in the international press, **the Latvian CDS level has been the highest among the new EU member states (the fifth highest in the world) for quite a long period of time.**

The state CDS level has a significant role in price determination for new loan resources by investors, since considering the relative low volumes of Eurobond trading, it includes higher risk level and relatively – the expected future changes in rating, and provides a very fast “response” to domestic policy events.

At the end of 2009 the relevant Latvian state officials led by the Minister of Finance provided an in-depth explanation of the social economic situation in Latvia to potential foreign government security investors on a non-deal road show in order to reduce the possible shortage of information, as well as to inform them on the economic situation in the country and the implemented reforms.

2.8. Central Government Debt Portfolio Management

In order to assess how the Central Government Debt Management Strategy has been implemented, the actual debt portfolio composition parameters on 31 December 2009 have been compared against the debt portfolio composition parameters on 31 December 2008 and the debt portfolio composition parameters set in the strategy (Table 3).

Table 3
Compliance of the Central Government Debt Composition Parameters with the Central Government Debt Portfolio Composition Parameters established by the Central Government Debt Management Strategy

Parameters	on 31.12.2008.		on 31.12.2009.		Strategy
Share of the lats debt	40%		19.7%		$\geq 25\%^4$
Maturity profile (%)	< 1 year 38.8%	< 3 years 52.0%	< 1 year 14.3%	< 3 years 24.3%	< 1 year < 25% < 3 years < 50%
Share of fixed rates	40.2%		66.3%		$\geq 60\%$
Interest rate duration (in years)	2.39		3.08		3.35 (+/- 0.35)
Currency composition of net foreign currency debt	EUR 99.7%		EUR 100.04%		EUR 100% (+/- 5%)

Source: The Treasury

⁴ If the weighted average yield of mid-term and long-term government domestic securities offered at the auctions held by the Treasury during half year are less than 100 basis points above borrowing opportunity level in EUR, the minimum share of the lats debt must be ensured at least at a level of 35 % no later than in one year's time.



Considering the tense credit confidence situation in the world's financial markets which began on the second half of 2008 and continued in 2009, as well as the sequence of Latvia's credit rating downgrades, the achievement of goals, compliance with the basic principles and accomplishment of objectives specified in the Central Debt Management Strategy became difficult. Therefore on 12 February 2009 the addendum to the strategy **was approved setting out the additional basic principles for central government debt management** (including the hierarchy of financial risks to be managed) in order to ensure the state debt management process until the stabilisation of the global financial market and the restoration of credit confidence in Latvia.

The proper choice of terms for interest rates and maturity periods for loans from the IMF and the European Commission allowed compensation for the deviations from the parameters specified in the strategy that had arisen at the end of 2008, when four of the six debt structure parameters were not in compliance with the strategy (see Table 3.). **All debt structure parameters specified in the strategy have been complied with as from March 2009.** In July, after disbursement of the second European Commission loan, deviations from the limit defined in the strategy emerged for the share of the lat debt in the portfolio, which decreased below the minimum acceptable level of 25% specified in the strategy. **Deviation from the limits of the lat debt share is related to the fact that, considering the general low financial market liquidity, as well as the considerable funds borrowed from the IMF, the European Commission and other international lenders, it was not possible to borrow funds in lats in the amount that would be adequate to compensate the increase of debt in foreign currencies.** In accordance with additional basic principles of the debt portfolio management included in the addendum to the strategy, **deviation from the limits of the lat debt share at inadequate market tendering is allowable for as long a time period as would be necessary to be able to make domestic borrowing on acceptable conditions and in compliance with other transitional basic principles of the central government debt portfolio and borrowing management.**

To implement the strategy and to accomplish its objectives, **financial derivatives were used**. In 2009 **currency and interest rate swap transactions were used** to decrease the net debt currency open position and to increase the share of fixed rates and *duration* in the debt portfolio.

In the first three quarters of 2009 the interest rates in the eurozone tended to decrease, and in the fourth quarter of 2009 interest rates were at their historically lowest levels, the market value of concluded interest rate swap transactions increased in this period and reached its highest value since the conclusion of these transactions. **The Treasury effectively limited interest rate risks in 2009 by performing interest rate risk management activities**. In spring 2009, shortly after the downgrade of the credit rating assigned to Latvia by the agency *Standard&Poor's* (from BBB- to BB+), pursuant to the transaction terms on the credit rating level, the Treasury at the request of a business partner was forced to terminate two interest rate swap transactions and to pay the then market value for those transactions.

2.9. Issuance of State Guarantees

Article 37 of the Law on Budget and Financial Management stipulates that only the Minister of Finance has the authority to grant guarantees in the name of the State within the limits set in the annual State Budget Law, committing public funds to implement the Public Investment Programme projects and business support programmes as well as study and student credits. Guarantees are issued in accordance with Cabinet of Ministers Regulations No.513 of 12 July 2005 “**Procedure for Issuing and Monitoring Guarantees**”.

In accordance with the situation within the economy and the financial markets, in late 2008, **Section 37 of the Law on Budget and Financial Management was supplemented, stipulating that according to the procedure established by the Cabinet of Ministers, the Minister of Finance shall be entitled to decide upon the issuance of a guarantee for the implementation of the objectives stated in Section 8¹ of the Law: to reduce overall economic risks, to avoid a socio-economic crisis or to reduce its impact and to secure the availability of funds in emergency situations.** The above changes ensure more responsive options for the provision of support in the form of a guarantee in emergencies. The amendments to the Law on Budget and Financial Management allow for the issuance of a guarantee in addition of the guarantees included in the annual budget law. However, for the Minister of Finance to be able to exercise his right, he requires approval from the Budget and Finance (Tax) Committee of the Saeima. Furthermore, the anticipated amount of the guarantee within the financial year may not exceed 10 % of the annual volume of the GDP for the financial year stipulated in the state budget law.

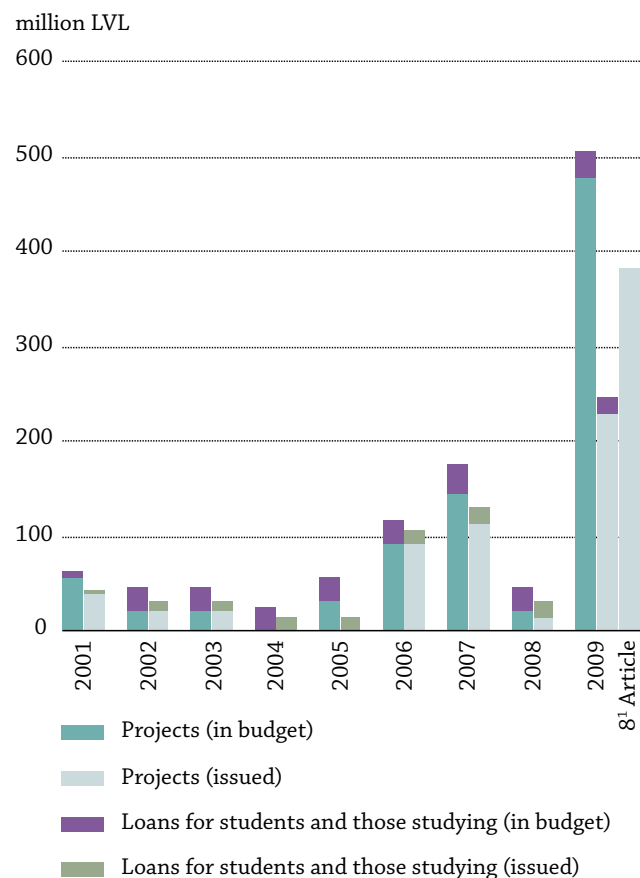


Chart 11. State issued Guarantees from 2001 to 2009 (million LVL)

Source: The Treasury

Based on the above standard, Cabinet of Ministers Regulations No. 111, **“Procedure according to which guarantees for bank loans are provided and monitored”**, was developed in early 2009 and adopted on 3 February 2009 in co-operation with the involved institutions (the Financial and Capital Market Commission and the Bank of Latvia among them), which, considering the government assistance mechanism for banks included in the regulations, was **co-ordinated with the European Commission.** In accordance with these regulations, a **guarantee was issued in March 2009 to the providers of the syndicated loans to JSC Parex banka in the amount of 542.5 million euro.**

The annual state budget law provided for guarantees for the projects of the Latvian Olympic Committee to construct and renovate sports facilities in the total amount of 8.8 million lats, for the co-financing of EIB loan issuance projects in the countries of Africa, the Caribbean, the Pacific region and overseas countries and territories in the amount of 0.99 million lats, 29.7 million lats for loans to students and those studying, 284 million lats for the Latvian Mortgage and Land Bank to implement the Company

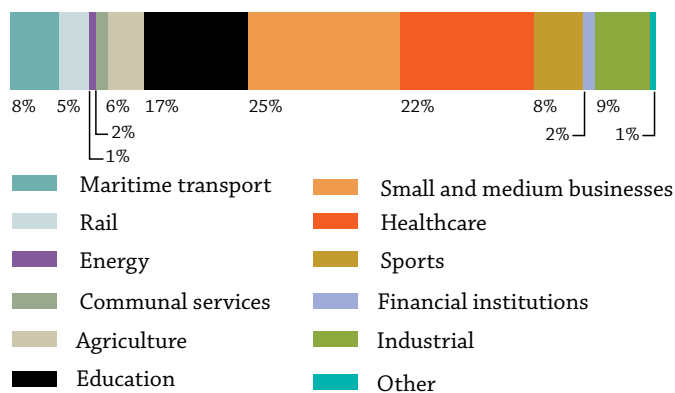


Chart 12. State guaranteed loans granted by industry (%)

Source: The Treasury

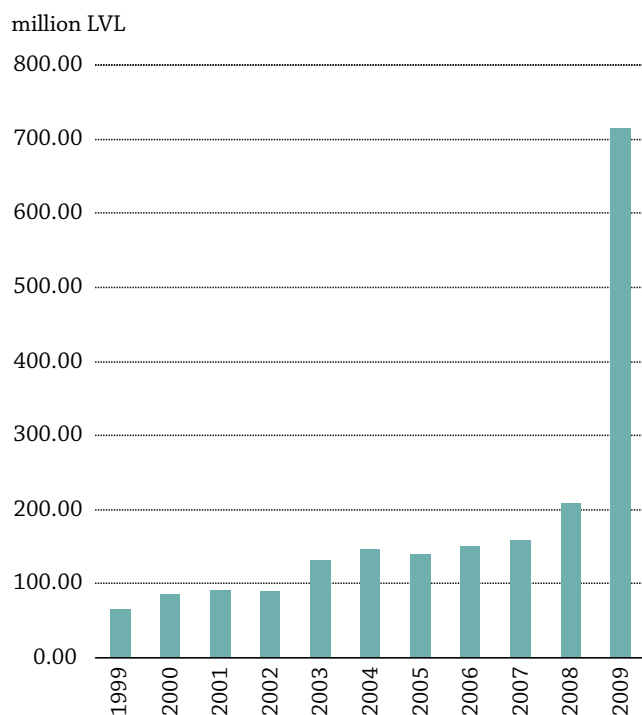


Chart 13. Outstanding amounts of government guaranteed loans (million LVL)

Source: The Treasury

Competitiveness Enhancement Assistance Programme and for Commercial Activity Promotion loans, 71 million lats for the implementation of the Small and Medium Business Assistance Programme of JSC Parex banka and 112 million lats for the obligations of JSC Liepâjas Metalurgs to continue the modernisation of its plants. The actual government guarantees for loans to students and those studying were issued in the amount of 18.3 million lats. 60.2 million lats were issued for the obligations of JSC Liepâjas Metalurgs, 8.8 million lats were issued for the projects of the Latvian Olympic Committee to construct and renovate sports facilities, 0.99 million were issued for the co-financing of EIB loan projects in Africa, the Caribbean, the countries of the Pacific region and overseas countries and territories, and 71 million lats each were issued for the Latvian Mortgage and Land Bank to implement its Company Competitiveness Enhancement Assistance Programme and Commercial Activity Promotion loans.

Government-guaranteed loans were issued to assist various industries (except the government-guaranteed loan to JSC Parex banka, which was issued for the implementation of the objectives established in Section 8¹, Paragraph One of the Law on Budget and Financial Management). Of the total amount of guarantees issued, 25 % were for the promotion of small and medium business development, 22 % for health care, 17 % for education and 9 % for manufacturing. In recent years, government support for health care establishments and small and medium businesses has increased; therefore, the greatest volume of guarantees has been issued to health care institutions and small and medium businesses.

The majority of government-guaranteed loans have been obtained from **foreign lenders**, which comprise **89 %** of the total amount of guarantees issued. The remaining **11 %** have been lent by domestic lenders. The largest lender for government-guaranteed loans is the **EIB** (funds support programmes for small and medium businesses), whereas the largest of the domestic lenders is JSC SEB banka with 6 % of the total amount of the loans.



In 2010, the budget proposes to grant government guarantees in a total amount of 171.65 million lats. Of these, 29.65 million lats are designated for study and student loans. 71.0 million lats are designated for the implementation of Company Competitiveness Enhancement Assistance Programme of the Latvian Mortgage and Land Bank, and another 71.0 million lats are designated to implement the Small and Medium Business Assistance Programme of JSC Parex banka.

At the end of 2009, the **outstanding amounts of the government-guaranteed loans** amounted to **713.801 million lats** (see Chart. 13), including the syndicated loan to Parex banka for 381.3 million.

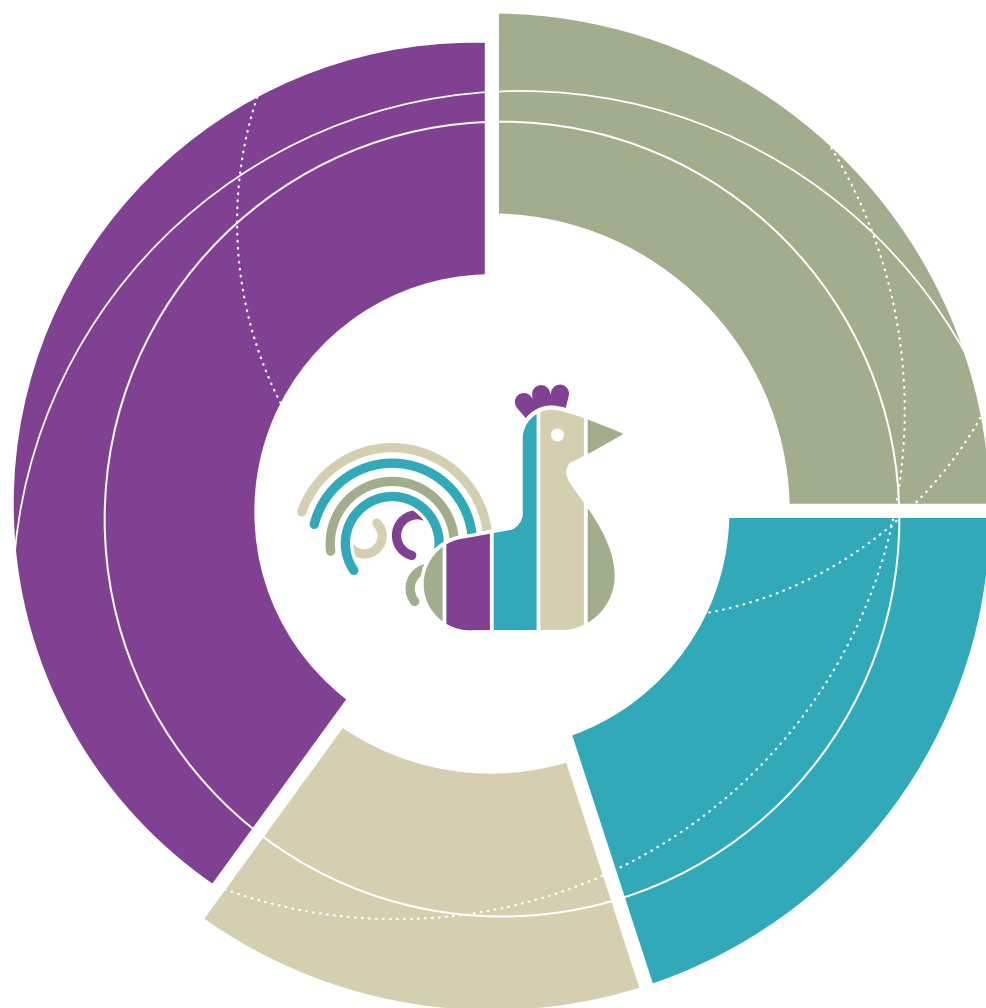
In 2010, the Treasury plans to develop and submit for approval amendments to the regulatory enactments governing the government guarantee process to improve the process of planning, issuing and servicing state guarantees.

2.10. Facilitating Public-Private Partnership

In 2009, a considerable step forward has been made in the area of PPP in terms of updating and introducing legislative standards: on 1 October 2009, the Public and Private Partnership Law came into force; whereas on 15 October, the Cabinet of Ministers Regulations No. 1152 of 6 October, 2009, “Procedure for conducting financial and economic calculations, determining the type of agreement for public and private partnership and issuing an opinion on the financial and economic calculations”; and other regulatory enactments arising from the law have been developed and adopted.



In accordance with the above Cabinet of Ministers Regulations, **the Treasury has become involved in the project evaluation and monitoring mechanism**, participating in the preparation of the opinion on the projected impact of the conditions referred to in the financial and economic calculations on the volume of the long-term obligations of the central government budget and the central government debt, which is one of the stages in the decision-making process on the implementation of a PPP project.



Cash Management and Central Government Budget Lending

3.1. Cash Management

The Treasury Cash Management Strategy approved by the Minister of Finance establishes the goals, tasks, basic principles and responsibility of the Treasury by performing timely and effective cash management, observing liquidity requirements and restricting financial risks.

Within the framework of temporarily free fund management, the Treasury organises financial resource placement for collaboration with both local and foreign business partners. In order to ensure the administration of central government budget funds and to preserve the macroeconomic stability of the country, **the Treasury predominantly places resources in the Bank of Latvia, observing the lenders' conditions within the framework of the international financial aid programme.**

3.2. Issuing and Servicing of Central Government Budget Loans

In accordance with the delegation by the Minister of Finance, the Treasury ensures the issue and servicing of central government budget loans within the limits established in the annual budget law. The process of awarding central government budget loans **is governed by the Law on Budget and Financial Management, the annual state budget law**, as well as Cabinet of Ministers Regulations No. 395 of 19 June, 2007, **“Procedure for issuing and servicing government loans”**. (On 19 January 2010, Cabinet of Ministers Regulations No. 63, “Procedure for issuing and servicing government loans”, came into force, replacing Cabinet of Ministers Regulations No. 395 of 19 June 2007.)



Loans from the central government general budget are **intended for the following purposes:**

- 1) budget and financial management;
- 2) stabilisation of local government finances;
- 3) investments;
- 4) implementation of commercial activity assistance programmes;
- 5) implementation of projects and measures co-financed by the European Union;
- 6) implementation of projects funded through foreign financial aid.

The **circle of recipients** of government loans is defined in Section 36 of the Law on Budget and Financial Management. Loan repayments to the general central government budget are planned in accordance with the repayment deadlines and amounts stipulated in the loan agreement.

The Treasury performs loan monitoring and, in the event that commercial companies should fail to meet their obligations in accordance with the agreements entered into, **performs debt collection activities:** it submits claims to the borrower regarding the repayment of the loan or submits a complaint to the court regarding the collection of the debt and an application to secure the claim. In cases where a commercial company is liquidated and no debt collection is possible, the Treasury, in accordance with Cabinet of Ministers Regulations No. 389 of 15 July 2003, “**Procedure according to which the Minister of Finance discharges government loans**”, writes off the discharged debt liabilities of the liquidated commercial company. Within the respective budget year, the debt liabilities of liquidated commercial companies are discharged in accordance with the provisions of the annual state budget law.

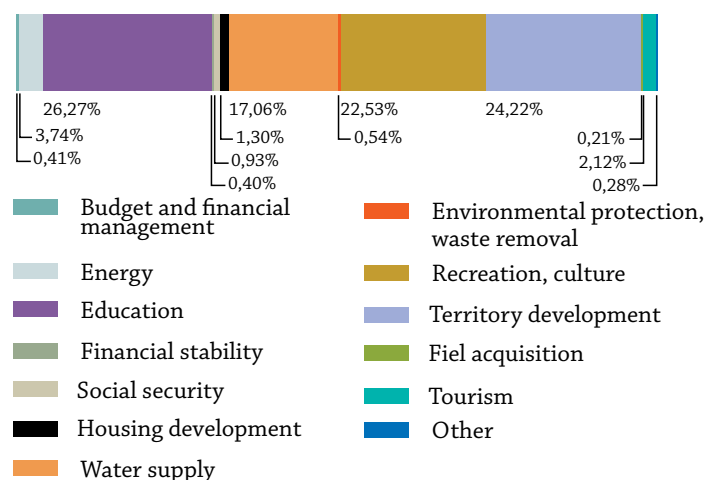


Chart 14. Breakdown of Central Government Loans Issued in 2009 to local governments by Purposes (%)

Source: The Treasury

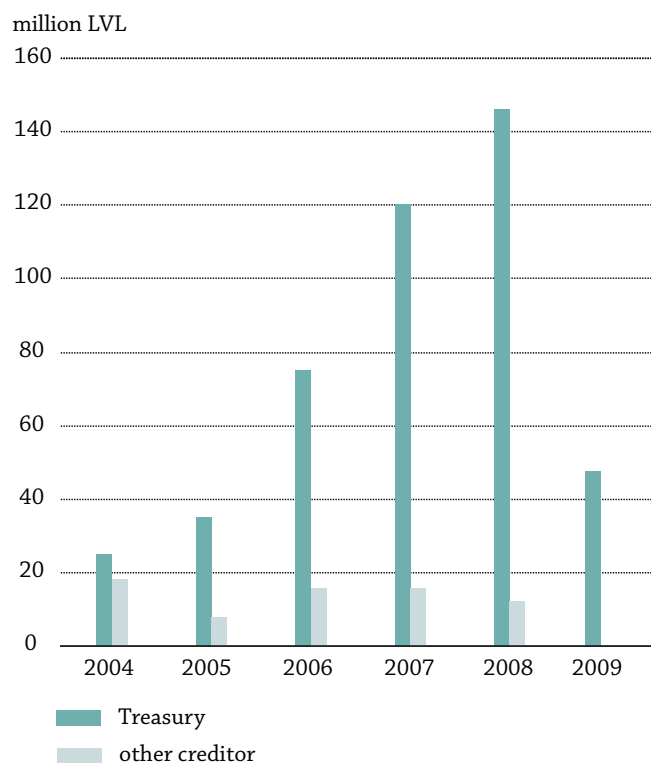


Chart 15. Loans to local governments from 2004 to 2009 (million LVL)

Source: The Treasury

In cases where local government fail to meet their obligations under the loan agreements entered into, pursuant to Cabinet of Ministers Regulations No. 196 of 25 March, 2008, “**Regulations on local government loans and guarantees**”, the Treasury is entitled to write off the funds in question unchallenged from the amount of personal income tax due to the respective local government or the grant from the local government financial equalisation fund.

Pursuant to the annual state budget law, the total increase in central government budget loans was set at **211.6 million lats** in 2009, including the total increase in local government borrowers in the amount of 66.0 million lats.

In 2009, government loans in the amount of 271.4 million lats were issued, of which 215.3 million lats was issued to the Latvian Privatisation Agency to increase the subordinated equity capital of JSC Parex banka, to implement the objectives stipulated in Section 8¹, Paragraph One of the Law on Budget and Financial Management, in accordance with the provisions of Section 36, Paragraph Six, of the Law on Budget and Financial Management, which constitutes 81.7 % of the total volume of loans issued in 2009 (in 2009, the Latvian Privatisation Agency made loan repayments in the amount of 91.6 million lats). The volume of loans issued to local government in 2009 amounted to 48.1 million lats (17.7 %). The remaining share of government-issued loans in the amount of 0.5 % was received by corporations.

Local governments may only obtain a loan from a different lender with the approval of the Minister of Finance and if the lending terms are more advantageous than those offered by the Treasury. In 2009, local governments received 99 % of the total amount of loans obtained from the Treasury. The total local government debt as of 31 December, 2009 amounted to **495.6 million lats**, of which the amount of local government debt liabilities to the Treasury constituted 369.9 million lats.

In 2009, the interest rates applied to loans issued in lats fluctuated between 4.712 % and 16.534 % per annum, whereas the interest rates applicable to the euro ranged between 2.022 and 4.934 %.



In 2010, it is planned to issue loans to local governments and only for the implementation of projects co-financed by the European Union. It is planned to issue them to the following recipients of government loans: corporations in which the government or a local government share of the equity capital separately or jointly exceeds 50 %, corporations created by several local governments in which the total local government share in the equity capital exceeds 65 %, and any such scientific institutes and higher education establishments that have been designated as derived public persons and port administrations.

3.3. Liquidity Management

The **objective** of liquidity management is to **ensure availability of cash to meet financial liabilities** in due time and in the full amount. The Treasury sets the **requirements for providing cash liquidity** and a **procedure for meeting the liquidity requirements**.

The Treasury engages in the following activities with the intention of complying with the liquidity requirements:

- 1) Monitors the stock of liquid cash as well as compliance with the liquidity limits and size of the liquid cash reserve;
- 2) Timely identifies and prevents situations that may impair cash liquidity and result in a payment or liquidity crisis;
- 3) Place temporarily free funds so as to maintain an adequate stock of liquidity that would ensure the required liquid cash reserve and compliance with liquidity limits within the relevant period.

In managing financial resources, the Treasury observes the requirements for securing liquidity, thus reducing the risk of a payments or liquidity crisis occurring.



In 2009, the Treasury ensured the availability of the **required liquid cash**, based on financing needs and financial market developments, as well as placed temporarily free funds, maintaining necessary **liquid financial resource reserves** and complying with the **liquidity limits**. In 2009, available fund surpluses, resources attracted at the domestic market and resources received in the framework of the international financial borrowing programme were used to ensure liquidity.

At the end of 2009 **the balance of the resources available in the Treasury accounts reached 1.3 billion lats** (including the resources marked for financial sector stabilisation measures amounting to ~456 million lats).

During the first half of 2009 the Treasury continued depositing temporarily free resources in the domestic and foreign commercial banks according to the principle of prudence and by limiting the risk of the partner. The Treasury ensures compliance with the principle of prudence through defining clear basic principles for determination of business partner limits that have been based on the ratings assigned by international rating agencies, and additional assessment of the development of financial operations of business partners. During the second half of 2009, pursuant to the 27 July 2009 Letter of Intent to the IMF, temporarily free resources were deposited solely with the Bank of Latvia.

Support Measures for Ensuring the Liquidity of JSC Parex banka

In 2009, as part of the support measures to ensure the liquidity of JSC Parex banka, the Treasury placed fixed-term deposits in Parex banka for a specific term, with the right to extend these deposits upon the expiration of the term, and also extended the fixed-term deposits placed in 2008.

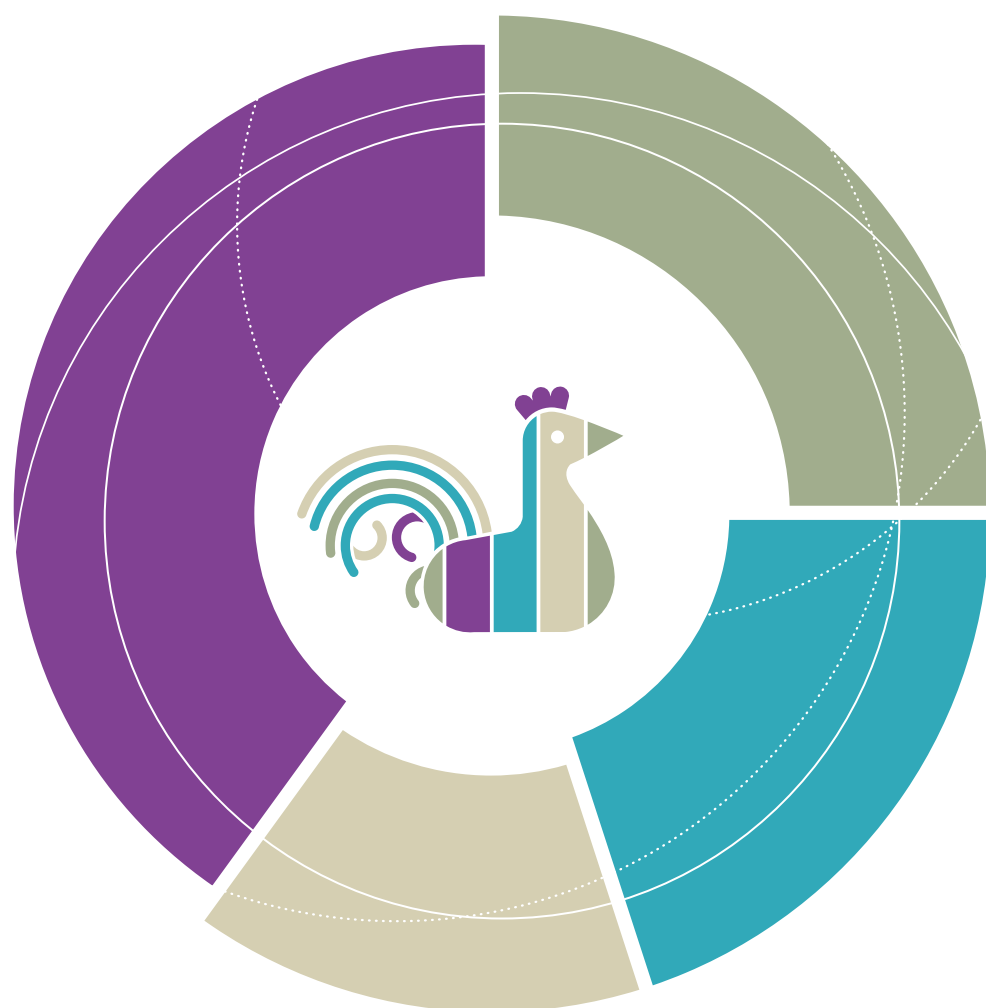
In 2009, the Treasury placed two new fixed-term deposits in JSC Parex banka to ensure support for its liquidity, and discontinued five deposits placed in 2008. To all deposits placed in JSC Parex banka were applied interest rates that corresponded to the situation in the market: as of 31 December 2009, seven fixed-term deposits made by the Treasury are effective in the total amount of 622 million lats (or the equivalent), of which six are in euro and one is in lats.

Table 4**Fixed-term deposits by the Treasury in JSC Parex banka as at 31 December 2009**


No.	Start date	Amount of fixed-term deposit (thousands)	Currency	Interest rate (%)
1.	10.11.2008.	291 330,24	EUR	4,667
2.	12.11.2008.	9 250,00	LVL	11,448
3.	12.12.2008.	20 000,00	EUR	4,688
4.	15.12.2008.	30 000,00	EUR	4,662
5.	17.12.2008.	11 027,63	EUR	4,662
6.	23.12.2008.	287 074,55	EUR	4,683
7.	17.03.2009.	232 500,00	EUR	4,662
Total		871 932,42	EUR	
		9 250,00	LVL	
		622 047,59	LVL equivalent	

Source: The Treasury

As part of the measures to support the liquidity of JSC Parex banka, guarantees for the bank's liabilities to the providers of syndicated loans have been issued, and the bank's capital has been increased (see Section 2.9).



Implementation of the functions of the Paying and Certifying Authority for European Union Policy Instruments



4.1. Function of the Paying Authority During the Programming Period from 2004 to 2006

In accordance with the provisions of EU Regulations, a **Paying Authority** is **one or several national, regional or local authorities or bodies designated by the Member State to certify the incurred expenditure, submit payment claims and Declarations of Expenditure, and receive payments from the European Commission.** The Paying Authority, the same as other institutions involved in implementation of the EU policy instruments, must ensure operation of the instruments in compliance with EU interests, as well as effective management and monitoring of structural funds in accordance with the provisions of EU Regulations and guidelines.

The functions of the Paying Authority are to receive funds from the European Commission and to perform payments to the receivers of the final beneficiaries within the shortest term and in full amount.

The Treasury started implementing Paying Authority functions as of 1 May 2004.

The Treasury performs the **functions** of Paying Authority for the **following EU policy instruments**:

- 1) **EU structural funds** – European Regional Development Fund, European Social Fund, European Agricultural Guidance and Guarantee Fund and Financial Instrument for Fisheries Guidance;
- 2) **Cohesion Fund**;
- 3) **European Community initiative *EQUAL*.**



When certifying the expenditure included in the EU policy instrument claims and Declarations of Expenditure, **the task of the Paying Authority is to ascertain the correctness, eligibility of expenditure incurred within the framework of projects and their compliance with EU Regulations, as well as the sufficiency of the management control systems or checks established by the Intermediate Bodies/ Managing Authority.** In order to ensure the above, the Paying Authority has the **right to request the Managing Authority to implement additional controls in the Intermediate Bodies/ Managing Authority, as well as conduct financial controls and audits of the Intermediate Bodies/ Managing Authority.**

In 2009, **within the framework of EU structural funds**, the Treasury performed **verification of 291 payment requests and paid out 36 269 thousand euro** from the structural funds.

In 2009, one interim Declaration of Expenditure of the European Social Fund was submitted to the European Commission declaring 12 950 thousand euro. In accordance with the decision of the European Commission, the expenditure eligibility period expired on 30 June, 2009 and, considering that the last possible interim payments were already received in 2008, all expenditures not yet declared to the European Commission are included in the final Declarations of Expenditure. In accordance with the schedule of the Managing Authority, declarations of expenditure prepared by the 2nd Intermediate Bodies were submitted for verification to the Paying authority. The Paying Authority performed the necessary verifications, asked for adjustments to be made, and submitted the certified final Declarations of Expenditure to the Winding-up body for an opinion. In accordance with the results of the checks performed, it is possible to request the full EU financing provided for in the Single Programming Document from the European Commission with the final Declarations of Expenditure.

In 2010, the Paying Authority will continue the closure process of the structural funds of the 2004-06 programming period and, upon receipt of the approved opinion from the Winding-up body, will ensure the submission of the final Declarations of Expenditure to the European Commission within the time and according to the procedure prescribed in regulatory enactments.



Within the framework of the Cohesion Fund, 18 Declarations of Expenditure were submitted to the European Commission in 2009, of which **four were the final Declarations of Expenditure**, claiming **42 056 thousand euro** from the European Commission. The Treasury disbursed **60 126 thousand euro** or **LVL 42 257 thousand** from the Cohesion Fund in 2009.

The number of Cohesion Fund Declarations of Expenditure to be submitted to the European Commission continues to diminish, as the programme is nearing its conclusion; moreover, for the majority of the projects currently being implemented, the requested amount (in the form of advance and interim payments) has reached 80 %, which according to the Council Regulation No. 1265/99 amending Annex II to Regulation (EC) No. 1164/94 establishing a Cohesion Fund, Article 4, is the maximum sum payable as advance and interim payments. Accordingly, interim Declarations of Expenditure are no longer submitted for projects of this type. In 2010, it is planned to close and submit the final Declaration of Expenditure to the European Commission for 11 more projects.

Within the European Community initiative EQUAL, a final Declaration of Expenditure was submitted on 9 June, 2009 to the European Commission requesting 400.4 thousand euro. The Paying Authority conducted the necessary verifications for the certification of the final Declaration of Expenditure in order to be confident that the expenditures included in the Declaration of Expenditure conform to the terms of the projects and the programme and that any deficiencies found during the audit and the controls have been eliminated and do not affect the admissibility of the expenditures declared. It must be noted as a positive that, following the audit by the Winding-up body, there was no need to update the final Declaration of Expenditure certified by the Payment Authority, which attests to the effective operation of the internal controls system of the Ministry of Welfare as a Managing Authority and a Paying Authority



Table 5

Comparison of expenditures certified for the European Commission in 2009 with 2008

EU policy instrument	2008		2009	
	Sent declarations	Declared expenditures, thousands of EUR	Sent declarations	Declared expenditures, thousands of EUR
Cohesion fund	47	211 042	18	113 279
Structural funds	12	255 356	1	12 950
EQUAL	3	1 643	1	119
Total	62	468 041	20	126 348

Source: The Treasury

At the conclusion of the first period of the bilateral financial instrument of the European Economic Area and the Norwegian Financial Mechanism, all projects were fully approved in 2009 for the total amount of 50.5 million euro, or 35.5 million lats.

During the time of operation of the financial instruments, 68 individual projects, three programmes (integration of environmental policy in Latvia, promotion of PPP, cross-border co-operation) and six grant schemes (strengthening of civil society and integration of society, academic research, an NGO fund, a scholarship grant scheme, a project preparation fund, a short-term expert fund) were approved. The implementation of the individual projects, programmes and grant schemes will continue until 30 April 2011. Considering all of the above, 2009 saw the commencement of active project implementation and absorption of funds, which is evidenced by the number of advances obtained and interim reports submitted (see Table 6)




Table 6

Funds Claimed and Received in 2009 within the Framework of the European Economic Area Financial Instrument and the Norwegian Government Bilateral Financial Instrument, Compared to 2008, EUR (thousands)

Type of Payment	Number of Reports Sent		Amount Claimed		Amount Received	
	2008	2009	2008	2009	2008	2009
Advance payment	3	22	110	1 210	110	1 210
Transitional	14	68	2 419	7 330	2 419	6 916
Total	17	90	2 529	8 540	2 529	8 126

Source: The Treasury

As part of the implementation of the **Latvian-Swiss Co-operation Programme**, five agreements were signed in 2009 to grant assistance for the implementation of projects. Cabinet of Ministers Regulations No. 273, “Procedure for ensuring the administration of the Latvian-Swiss Co-Operation Programme”, was prepared and adopted on 31 March, 2009, stipulating the approval, implementation and monitoring of projects; as well as an order of the Ministry of Finance establishing the execution of the functions of the managing authority and Paying Authority. A management and control system was set up at the Treasury in 2009, ensuring the execution of the functions of the Paying Authority of the Latvian-Swiss Co-operation Programme. The first payments are planned for 2010.



4.2. Function of the Certifying Authority and Paying Authority During the Programming Period of 2007-2013

In compliance with the Law of the EU Structural Funds and Cohesion Fund management, the Treasury will act as a **Certifying Authority** and Paying Authority for the European Regional Development Fund, European Social Fund and Cohesion Fund in the programming period from 2007–2013. **The functions of the Certifying Authority include preparation of certified Declarations of Expenditure and payment claims and their submission to the European Commission, as well as certifying that the declared expenditure is compliant with the existing European Community and Member State Regulations.** The function of the **payment authority** is to ensure accounting of the EU Fund financing received and used from the European Commission and to make **payments to the final beneficiaries within the shortest possible time.**

In 2009, the Treasury performed the verification and payment of 2 466 payment requests **within the framework of EU funds for the 2007-13 programming period**, including 890 advance payments. The Treasury has **disbursed 282 608 thousand lats (399 720 thousand euro) from EU funds.** The Treasury has disbursed 154 049 thousand lats as advance payments within the framework of EU fund projects.

In 2009, the Certifying Authority commenced the submission of Declarations of Expenditure to the European Commission and, accordingly, began to receive the first interim payments from the European Commission (see Table 7). In 2009, 23 interim Declarations of Expenditure were submitted to the European Commission, whereas, in order to prepare Declarations of Expenditure for the European Commission, 69 Declarations of Expenditures were received from Co-operating Authorities and Responsible Authorities and verified.



Table 7
Expenditures certified for the European Commission and reimbursements received in 2009

EU policy instrument	Number of Declarations of Expenditure submitted	Admissible expenditures declared, thousands of EUR	Requested from EC, thousands of EUR	Received, thousands of EUR
1. Operational programme (ESF)	6	23 592	19 868	19 868
2. Operational programme (ERDF)	8	219 108	167 232	160 623 ⁵
3. Operational programme	9	156 210	123 856	63 254
<i>of which ERDF</i>	5	40 365	34 301	28 348 ⁶
<i>of which Cohesion Fund</i>	4	115 845	89 555	34 906 ⁷
Total	23	398 910	310 956	243 745

Source: The Treasury

Pursuant to the amendments made to the Cabinet of Ministers Regulations No. 418 of 26 June, 2007, “Procedure according to which central government budget funds are to be allocated for the implementation of projects co-financed by a European Union fund and the procedure for the execution of payments and the preparation of the declaration of expenditure”, as of July 2009, Declarations of Expenditure are received by the Certifying Authority monthly – they were previously prepared once quarterly. Moreover, the time allotted to the Certifying Authority for the verification of the declarations has been reduced from 23 business days to 18. Such changes favourably affected the speed of obtaining funds from the European Commission.

⁵ The difference consists in a request for funds made in 2009 and paid by the European Commission in 2010, as well as EUR 1 046 thousand which emerged due to the different methodology of the calculation of funds to be requested, applied by the European Commission, which was only clarified by the European Commission in the final quarter of 2009

⁶ The difference consists of a request for funds made in 2009 and paid by the European Commission in 2010.

⁷ The difference consists of a request for funds made in 2009 and paid by the European Commission in 2010.



In 2009, **181 217 thousand euro** were received as advance payments from the European Commission within the framework of the 2007-13 programming period.

Table 8
Advance payments received from the European Commission in 2009

EU policy instrument	Advance payments received in 2009, thousands of EUR
1.Operational programme (ESF)	22 026
2.Operational programme (ERDF)	29 469
3.Operational programme	129 722
<i>including ERDF</i>	<i>68 131</i>
<i>including Cohesion Fund</i>	<i>61 591</i>
Total	181 217

Source: The Treasury



Corporate Governance of the Treasury

5.1. The Treasury's Financing and its Spending

The Treasury's financing is comprised of:

- 1) A grant from general revenue;
- 2) Service charges and other self-generated revenue:
 - revenue from the central government loan service,
 - revenue from the central government guarantee service.

In 2009, the Treasury implemented the following **general budget programmes** and **sub-programmes**:

- 1) Programme "Central government budget execution and central government debt management":
 - sub-programme "Central government budget execution";
 - sub-programme "Central government debt management";
- 2) Sub-programme "Contributions to international organisations";
- 3) Sub-programme "Compensation to rehabilitated citizens";
- 4) Programme "Central government budget loans and their repayments";
- 5) Programme "Grant to local government cohesion fund";
- 6) Sub-programme "Use of Emergency Funds".



The objective of the **sub-programme “Central government budget execution”** is the ensuring of an effective and economical budget execution process and the improvement of services provided by the Treasury in accordance with the best practices of financial management.

The objective of the **sub-programme “Central government debt management”** is to secure the necessary financial resources, including those on public capital markets, at the lowest possible cost, to limit financial risks and, to the extent possible, promote the financial interests of the State in the process of issuing state guarantees, with consideration given to factors of state macroeconomic stability and the development of the capital market and financial system, which is aimed at the introduction of the euro currency in the medium term.

The objective of the **sub-programme “Contributions to international organisations”** is to make annual membership contributions of the Republic of Latvia to international financial organisations and payments into the capital and/or reserves of the international financial institutions where the Republic of Latvia is a holder of capital shares, in due time and full amount, thus ensuring settlement of the undertaken commitments.

The objective of the **sub-programme “Compensation to rehabilitated citizens”** is to ensure disbursement of compensation to rehabilitated citizens in compliance with the laws and regulations.

The objective of the **programme “Central government budget loans and their repayments”** is to ensure central government budget lending in compliance with respective budget appropriation, offering to project implementers the most adequate financial resources, to provide current information on the budget loan portfolio issued, and to perform the actions required for the process of collecting delayed payments.

The objective of the **programme “Grant to local government cohesion fund”** is to ensure transferring of the grant from the central government budget to the Local Government Financial Cohesion Fund in compliance with the effective laws and regulations.

Within the framework of the sub-programme “Use of Emergency Funds” and pursuant to the Ministry of Finance Decree No. 179 of 17 March, 2009, the Treasury was allocated funds to cover losses in connection with the mass disorders in Old Riga on 13 January 2009.

Table 9
Central general government budget financing and its application
 (summary by programme, LVL)

No.	Financial assets	In the preceding year (Actual)	In the reporting year	
			Approved by the law	Actual
1.	Financial assets to cover expenditure (total):	98 888 521	233 458 918	233 749 752
1.1.	Grants	97 776 525	231 842 443	231 842 443
1.2.	Service charges and other self-generated revenue	1 111 996	1 616 475	1 907 309
2.	Expenditure (total):	97 809 332	233 458 918	220 190 749
2.1.	Maintenance costs (total):	97 162 018	232 313 055	219 129 676
2.1.1.	Running costs	6 560 293	9 098 478	7 843 656
2.1.2.	Interests	77 345 000	210 200 300	198 473 804
2.1.3.	Subsidies and grants	353 083	250 000	220 969
2.1.4.	International collaboration	5 750 745	5 611 380	5 438 350
2.1.5.	Transfers of maintenance costs	7 152 897	7 152 897	7 152 897
2.2.	Expenditures for capital investments	647 314	1 145 863	1 061 073
	Financial balance	1 079 189	-	13 559 003
	Increase (-) or decrease (+) in service charges and other self-generated revenue cash balances	43 510	-	-290 834

Source: The Treasury



In 2009, funding approved in the central government general **budget to cover expenditure** was **233 458 918 lats** including:

- 1) **A grant from general revenue** in the amount of **231 842 443 lats**;
- 2) **Self-generated revenue from the servicing of central government loans** in the amount of **1 616 475 lats**.

The surplus of cash funds from paid services and other own revenue at the start of the period is 521 370 lats; the increase for the period is 290 834 lats, as a result of which the surplus of these funds at the end of the period constitutes 812 204 lats.

In 2009, the resources for the coverage of expenditures confirmed within the general budget in the amount of 233 458 918 lats exceeded the actual expenditures for 2008 by 135 649 586 lats. **The resources for covering expenditures** actually used came to the amount of **220 190 749 lats**, which is 122 381 417 lats more than in 2008 and **constitutes 125.1 %** of the amount of actual expenditures in 2008.

Table 10

Central government general budget funding and its spending for the general budget programme “Central government budget execution and central government debt management” (LVL)

No.	Financial assets	In the preceding year (Actual)	In the reporting year	
			Approved by the law	Actual
1.	Financial assets to cover expenditure (total):	85 474 624	220 436 847	220 727 681
1.1.	Grants from general income	84 362 628	218 820 372	218 820 372
1.2.	Service charges and other self-generated revenue	1 111 996	1 616 475	1 907 309
2.	Expenditure (total):	84 552 607	220 436 847	207 370 889
2.1.	Maintenance costs (total):	83 905 293	219 290 984	206 309 816
2.1.1.	Running costs	6 560 293	9 090 684	7 836 012
2.1.2.	Interests	77 345 000	210 200 300	198 473 804
2.2.	Expenditures for capital investments	647 314	1 145 863	1 061 073
	Expenditure (total):	922 017	-	13 356 792
	Increase (-) or decrease (+) in service charges and other self-generated revenue cash balances	43 510	-	-290 834

Source: The Treasury

Table 11

Central government general budget funding and its spending, general budget sub-programme “Budget execution” (LVL)

No.	Financial assets	In the preceding year (Actual)	In the reporting year	
			Approved by the law	Actual
1.	Financial assets to cover expenditure (total):	5 953 624	5 241 159	5 531 993
1.1.	Grants from general income	4 841 628	3 624 684	3 624 684
1.2.	Service charges and other self-generated revenue	1 111 996	1 616 475	1 907 309
2.	Expenditure (total):	5 867 939	5 241 159	4 787 543
2.1.	Maintenance costs (total):	5 220 625	4 095 296	3 726 470
2.1.1.	Running costs	5 220 625	4 095 296	3 726 470
2.2.	Expenditures for capital investments	647 314	1 145 863	1 061 073
	Expenditure (total):	85 685	-	744 450
	Increase (-) or decrease (+) in service charges and other self-generated revenue cash balances	43 510	-	-290 834

Source: The Treasury

In 2009, the actual expenditure for capital investments compared to the previous reporting period has increased by 413 759 lats; this is explained first and foremost by the changes in the time schedule of the project “Implementation of the unified central government budget planning and execution information system (SAP)” relative to the preceding period, and activities to supplement other information systems.

The change in the surplus cash funds of the sub-programme “Budget execution” in the amount of 290 834 lats is constituted by an increase in the revenues from paid services.

Table 12

Central government general budget funding and its spending, general budget sub-programme “Central government debt management” (LVL)

No.	Financial assets	In the preceding year (Actual)	In the reporting year	
			Approved by the law	Actual
1.	Financial assets to cover expenditure (total):	79 521 000	215 195 688	215 195 688
1.1.	Grants from general income	79 521 000	215 195 688	215 195 688
1.2.	Service charges and other self-generated revenue	-	-	-
1.3.	Foreign financial assistance	-	-	-
2.	Expenditure (total):	78 684 668	215 195 688	202 583 346
2.1.	Maintenance costs (total):	78 684 668	215 195 688	202 583 346
2.1.1.	Running costs	1 339 668	4 995 388	4 109 543
2.1.2.	Interests	77 345 000	210 200 300	198 473 803
2.2.	Expenditures for capital investments	-	-	-
	Expenditure (total):	836 332	-	12 612 342

Source: The Treasury



In the reporting year, within the framework of the general budget sub-programme “Central government debt management”, the total expenditure was planned in the amount of 215.2 million lats; the actual execution constituted 94.1 % of the planned amount, or 202.6 million lats.

Within the general budget programme “Central government debt management”, interest payments were made to foreign and international financial institutions in accordance with the agreements entered into and from the result of derivative financial instruments, interest payments on government-issued securities and government-issued bond warrants and payments associated with the management of central government debt, including payment for the registration and storing of domestic borrowing securities and the servicing of security-related events at the Latvian Central Depository, as well as their inclusion in the official list of NASDAQ OMX Riga. Payments were also made for the use of financial market information systems, for legal services, services of credit rating agencies and other services associated with the management of central government debt. Payments were also made to credit institutions for the servicing of accounts (incl. servicing of credit cards), as well as interest payments to the State Social Insurance Agency and other depositors for the deposits of special budget, government and local government budget funds in the Treasury and for the use of account balances in accordance with the agreements entered into.

Table 13**Central government general budget funding and its spending, general budget sub-programme “Contributions to international organisations” (LVL)**

No.	Financial assets	In the preceding year (Actual)	In the reporting year	
			Approved by the law	Actual
1.	Financial assets to cover expenditure (total):	5 811 000	5 611 380	5 611 380
1.1.	Grants	5 811 000	5 611 380	5 611 380
1.2.	Service charges and other self-generated revenue			
1.3.	Foreign financial assistance			
2.	Expenditure (total):	5 750 745	5 611 380	5 438 350
2.1.	Maintenance costs (total):	5 750 745	5 611 380	5 438 350
2.1.1.	International collaboration	5 750 745	5 611 380	5 438 350
2.2.	Expenditures for capital investments	-	-	-
	Expenditure (total):	60 255	-	173 030

Source: The Treasury

The Republic of Latvia is a member country in a number of international financial institutions and organisations. By joining these organisations, the Republic of Latvia not only acquires rights but also undertakes certain commitments, i.e. to make contributions to the capital and reserves and pay annual membership fees. Within the framework of this programme, the Treasury ensures the timely and complete fulfilment of the commitments the Republic of Latvia according to the payment schedules. In 2009, the Treasury made payments to such financial institutions as the EBRD, EIB, NIB, CEB, the International Development Agency, the World Customs Organisation and the Intra-European Organisation of Tax Administrations.

Contributions amounting to 5 611 380 lats were planned in the state budget for 2009. All scheduled commitment payments to international financial organisations were made in a timely manner and in full amount, reaching 5 438 350 lats. Thus, the main

objective of the sub-programme was attained. The total amount of contributions made was smaller than planned, as no contribution was made within the framework of the sub-programme to the 15th replenishment of resources of the International Development Agency, and the cost of contributions to the NIB was also lower than planned, as the payment depends on the euro market rates. In turn, the contribution to the EBRD exceeded the amount planned in lats in the budget, due to the fluctuations of the LVL/USD exchange rate.

In the future, no contributions will be made to the EIB and EBRD, since the last instalment to the capital and reserves of the EIB was made in 2009. In terms of the EBRD, the promissory notes issued for contributions to the capital are repaid as of 2009.

Table 14
Central government general budget funding and its spending,
general budget programme “Compensations to rehabilitated citizens” (LVL)

No	Financial assets	In the preceding year (Actual)	In the reporting year	
			Approved by the law	Actual
1.	Financial assets to cover expenditure (total):	450 000	250 000	250 000
1.1.	Grants	450 000	250 000	250 000
1.2.	Service charges and other self-generated revenue	-	-	-
1.3.	Foreign financial assistance	-	-	-
2.	Expenditure (total):	353 084	250 000	220 969
2.1.	Maintenance costs (total):	353 084	250 000	220 969
2.1.1.	Subsidies and grants	353 084	250 000	220 969
2.2.	Expenditures for capital investments	-	-	-
	Expenditure (total):	96 916	-	29 031

Source: The Treasury

Expenditure for compensations to rehabilitated citizens in 2009 was executed in accordance with Cabinet of Ministers Regulations No. 443 of 30 December, 1997, “Procedure according to which property is to be recovered or its value compensated to persons who were deprived of it in connection with the non-payment of the increased tax and duty imposed on them, or who avoided the political repressions of the communist regime”.

Table 15

Central government general budget funding and its spending, general budget programme “Grant to local government financial cohesion fund” (LVL)

No	Financial assets	In the preceding year (Actual)	In the reporting year	
			Approved by the law	Actual
1.	Financial assets to cover expenditure (total):	7 152 897	7 152 897	7 152 897
1.1.	Grants	7 152 897	7 152 897	7 152 897
1.2.	Service charges and other self-generated revenue	-	-	-
1.3.	Foreign financial assistance	-	-	-
2.	Expenditure (total):	7 152 897	7 152 897	7 152 897
2.1.	Maintenance costs (total):	7 152 897	7 152 897	7 152 897
2.1.1.	Transfers of maintenance costs	7 152 897	7 152 897	7 152 897
2.2.	Expenditures for capital investments	-	-	-
	Expenditure (total):	0	-	0

Source: The Treasury

Table 16**Central government general budget funding and its spending, general budget sub-programme “Use of emergency funds” (LVL)**

No	Financial assets	In the preceding year (Actual)	In the reporting year	
			Approved by the law	Actual
1.	Financial assets to cover expenditure (total):	0	7 794	7 794
1.1.	Grants from general income	0	7 794	7 794
1.2.	Service charges and other self-generated revenue	-	-	-
1.3.	Foreign financial assistance	-	-	-
2.	Expenditure (total):	0	7 794	7 644
2.1.	Maintenance costs (total):	0	7 794	7 644
2.1.1.	Running costs	-	7 794	7 644
2.2.	Expenditures for capital investments	-	-	-
	Financial balance	0	-	150

Source: The Treasury

Pursuant to the Ministry of Finance Decree No. 179 of 17 March, 2009, funds were allocated from the general budget sub-programme of the Ministry of Finance, 99.00.00 “Use of emergency funds”, to cover the losses incurred in association with the mass disorder in Old Riga on 13 January 2009.

State and local government purchases

The Treasury implemented procurement in compliance with the Law “On Public Procurement” and applied procedure for an open tender, negotiations, price inquiry and procedure for procurements. For the procurement, the Treasurer establishes a procurement committee, whose members are competent in the particular area of procurement in which the contract will be signed. The procurement is registered and contracts are monitored in the Register of Procurement Contracts. In 2009, the total number of purchases amounted to 25 (excluding purchases under 1 000 lats), and contracts in the amount of 575 401 lats (VAT exclusive) were concluded.

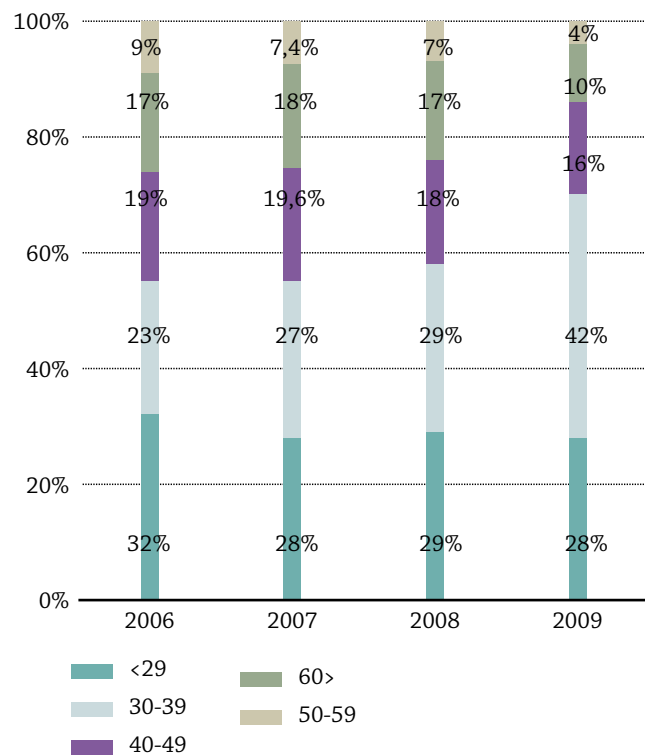


Chart 16. Distribution of the personnel of the Treasury by age groups from 2006 till 2009 (%)

Source: the Treasury

5.2. Personnel and Personnel Management

The Treasury’s most important resource is its personnel, which ensures the fulfilment of the Treasury’s functions and the attainment of its strategic targets. The year 2009 was a **year of restructuring** at the Treasury: the **optimisation of personnel employed in the execution of the function of the central apparatus and the execution and control of the central government budget**, which commenced in 2008, was continued by revising official responsibilities and evaluating the subsequent provision of the function of central government budget execution and the development of services.

At the beginning of the year, seven of the 27 Treasury’s Units were liquidated and, due to the full transition to electronic central government budget payments, the administrative-territorial reform, with the commencement of the centralised acceptance and compilation of local government budget execution reports and with consideration of

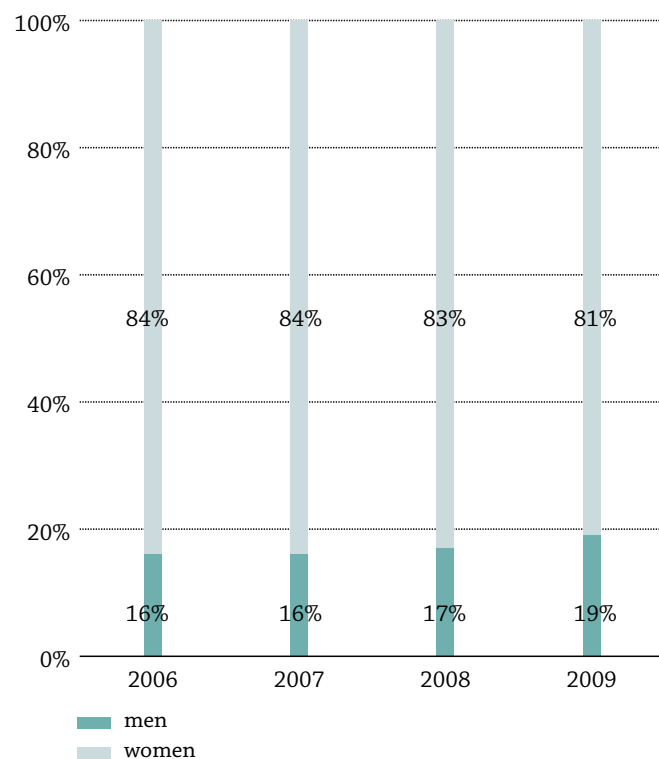


Chart 17. Breakdown of the Treasury Personnel by Gender from 2006 - 2009 (%)

Source: the Treasury

the economic situation in the country, **restructuring of the entire personnel involved in serving Treasury clients was carried out** in July 2009 by creating a Client Service and Service Development Department composed of two sections: the Client Service Unit (in Riga, Daugavpils, Madona, Kuldīga and Valmiera) and the Service Development Unit.

In 2009, change also affected the central apparatus of the Treasury: after analysing administrative and human-resource costs, surveying the scope of functions to be performed by the Treasury and the personnel involved in ensuring their execution and, considering the reduction of personnel at the Treasury's Units and, accordingly, the reduction in the volume of work, personnel cuts were also carried out in the central apparatus of the Treasury. In total, **79 official positions were liquidated** in 2009 (including eight as of 1 January 2009).

In January 2009, there were **251 official positions** at the Treasury: 228 civil service and 23 staff positions, with the **total number of persons employed at 242**. **Following the restructuring**, the number of positions in December 2009 decreased to **182 official positions**: 164 civil service and 18 staff positions.

In the reporting period, the percentage indicators of the Treasury personnel altered slightly: the proportion of employees between the ages of 30 to 39 rose (see Chart 16).

Chart 16. Distribution of the personnel of the Treasury by age groups from 2006 till 2009 (%)

In 2009, **66 civil servants and staff members, or 34 % of the total, were laid off** (see Chart 18).

In the reporting year, 17 candidate selection competitions for vacancies were announced at the Treasury. In the process of personnel selection, civil service or employment legal relations with the Treasury were established by 15 professionals. In order to attract interested parties and to select the most suitable candidates, the Treasury continues its collaboration with mass media outlets, higher education institutions and employment and personnel selection agencies. In order to ensure a professional

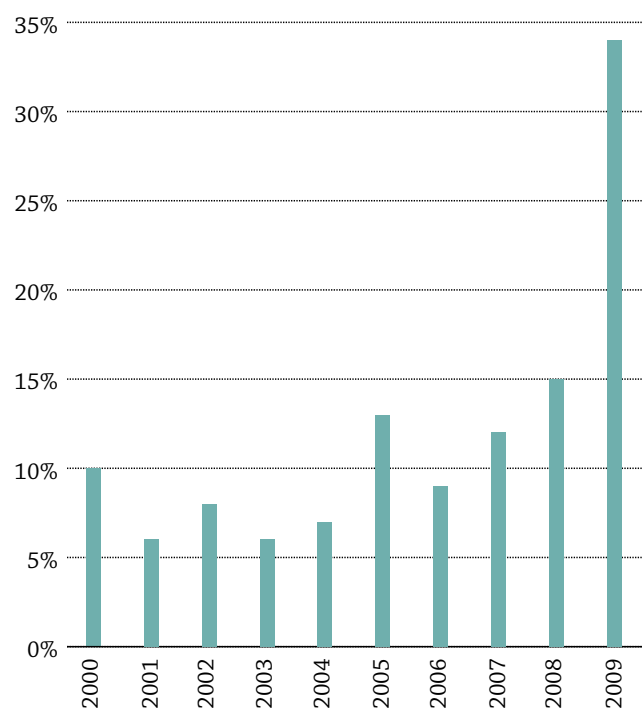


Chart 18. Year-by-year personnel layoffs at the Treasury (2000-2009) (%)

Source: The Treasury

and impartial personnel selection process, several rounds of candidate selection are organised by using a scoring system and arranging practical tests and interviews.

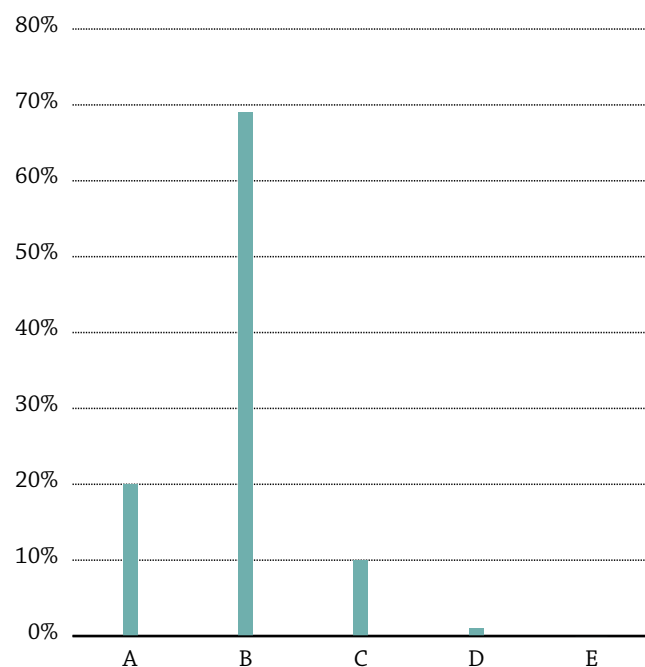
The Treasury continues its usual practice of promoting the careers of its professionals: 17 employees have been given the opportunity to develop their career prospects by transferring them to other, higher-level positions.

The Treasury pays special attention to introducing new employees to their job responsibilities and the operations of the institution by preparing the new employee's work schedule for the test period and familiarising him or her with the functions of the Treasury and the team. At the conclusion of the test period, performance appraisals were carried out for 17 new employees. All the new employees received a positive assessment, which proves that the candidates chosen in the selection process meet the requirements and possess the ability to apply professional knowledge and to master their new job responsibilities successfully.

Based on the results of the performance appraisals after the test period, 11 candidate civil servants were granted the status of a civil servant in 2009.

In 2009, the sixth annual **job performance appraisal** was conducted at the Treasury. Job performance results were evaluated for 203 civil servants and staff members (including 69 civil servants at Treasury's Units). Job performance appraisals have become a tool of personnel management at the Treasury in order to facilitate the execution of assignments, the involvement of the personnel in attaining strategic targets, to motivate the personnel and to provide it with feedback regarding job performance (see results of job performance appraisals in Chart 19).

In 2009, increased attention was paid to the justification of the results of all appraisals: to the analysis of the execution of work assignments and evaluation of skills and to the identification of tasks for the next appraisal period, in order to allow the results of the appraisal to be used more objectively in personnel planning, career development, and to justify the continuation of civil service or legal employment relations.



Results of the performance appraisal process in 2008/2009 (%)

Source: The Treasury

- A – performance in all areas exceeds requirements of the respective industry
- B – performance in particular areas exceeds requirements; however, the remaining areas are in compliance with the requirements of the respective industry
- C – performance is in compliance with the requirements of the respective industry
- D – performance is not in accordance with the requirements of the respective industry in all areas, improvement of performance is required
- E – performance does not comply with the requirements in the respective industry, all areas require significant and immediate improvements

The Treasury's greatest asset is its highly educated and professional personnel. **97 % of the employees are university graduates** (44 % of employees hold a master's degree).

Despite the limited financial resources, training remains an important area of personnel management at the Treasury. In 2009, **in terms of organising the training process**, the practice of finding solutions for the professional development and enhancement of employee competencies by way of various free seminars and experience-sharing events continued. As in 2008, educational sessions organised by the employees themselves within the scope of their competency continued, providing colleagues with training in the management of central government debt and assets, compliance with fire safety requirements, preparation of annual financial reports and basic information security skills.

Collaboration continued with specialists with previous ties to the Treasury who have proven their proficiency in such areas as budget accounting.

Every year, the Treasury assesses the educational and training needs of the civil servants and staff members for the subsequent year. Educational needs are determined by considering the strategic direction of the institution, the functions of the structural unit and other criteria that justify the need for training for the performance of the duties of specific positions.

5.3. Quality and Risk Management

A **quality management system** has been created at the Treasury through the use of the Treasury's capacity for improvement and available resources to ensure the compliance of the services provided by the Treasury with the interests of the State, residents and clients, as well as with the requirements of regulatory enactments.

In 2009, **the quality management system of the Treasury was re-certified in accordance with the requirements of the ISO 9001:2008 standard.** The scope of the quality management system to be certified is the execution of the central government budget, central government debt management, the management of cash funds and government budget loans, the implementation of the functions of a Payment and Certifying Authority and management functions of the National Fund, all of which are basic operational processes of the Treasury. A supervisory audit of the Treasury's quality management system is scheduled for 2010 to ensure confidence in the constant compliance of the Treasury's quality management system with the requirements of the standard.

The Treasury is continuously improving its quality management system to ensure that it not only conforms to the effective requirements of legislative acts, regulatory enactments and the ISO 9001:2008 standard, but that it also secures a balance between satisfying client needs and the control functions the Treasury is expected to provide in accordance to the interests of the State and its residents, as well as to instil confidence in its clients regarding the consistency of the quality of the services provided by the Treasury.



5.4. Internal Control System

The **internal control system** of the Treasury is established based on the basic elements of an internal control system: a control environment, risk assessment, control activities, information and communication, monitoring. Internal control within the structural units of the Treasury is one of the means to prevent potential loss. In order to reduce risks inherent in the administration of transactions, the Treasury implements the **double authorisation principle**, which determines that transactions have to be validated by at least two independent employees. Transacting is governed by internal quality management documents.

The Treasury is constantly improving its **internal control system** by considering not only legal requirements, but also examples of best practice and the know-how of organisations in the financial sector.

The results of internal audits conducted in 2009 attest the fact that the internal control system that has been created provides sufficient and justified confidence that the tasks assigned to the Treasury will be executed in accordance with the strategic targets related to operational effectiveness, accuracy and the credibility of data, compliance with the requirements of regulatory enactments, as well as risk management and the protection of the resources at its disposal against potential losses and a guarantee of operational continuity.

The recommendations submitted as part of the internal audits in 2009 concern improving the administration of information technology, perfecting the Treasury's risk management process and reinforcing controls for the prevention of potential errors in the record-keeping process of central government budget accounting.





In 2009, the Internal Audit Department executed several **consultation projects to improve the internal control system**, within the framework of which assessments, comments and an analysis were provided with respect to risks to the Treasury's systems, classifiers of the Unified central government budget planning and execution information system, improvement of the quality management system, possibilities for the optimisation and restructuring of the Treasury's operations, improvement of the institutional accounting process, IT administration, perfecting record-keeping and accounting for EU policy instruments, etc. In order to improve the methodology of information technology auditing, the Internal Audit Manual was updated during the reporting period.

Public Communication

Valuable communication between the Treasury and society is possible by ensuring an effective exchange of information. The Treasury informs the mass media on a regular basis regarding relevant issues: it prepares and distributes press releases and provides answers to questions of interest to the mass media.

The communication processes of the Treasury in 2009 were significantly altered by both the global and national socio-economic crisis: the Treasury found itself at the epicentre of events and **the interest of mass media and the public in the operations, functions and responsibilities of the Treasury grew considerably**.

The **Communication Plan of the Treasury for 2009** was developed and carried out in accordance with the **Communication Strategy of the Treasury for 2009-11**, approved in the second half of 2008, to ensure the recognisability of the Treasury externally and to promote the formation of a positive image of the Treasury in both the external and internal environments.



Since 2002, the Treasury has been maintaining its Internet homepage (www.kase.gov.lv), where information on the institution and its functions is available. Information on the Treasury's current events is updated and adjusted on a regular basis. It is possible to ask questions as well as submit applications electronically. Visitors to the homepage can receive prompt answers to their questions, whereby the Treasury has the opportunity to acquaint itself with questions of interest from their clients and, if necessary, prepare more in-depth information both on the Internet webpage and for distribution in the Treasury's Units, as well as identify potential problems and prevent them.

The Treasury's development priorities for 2010

Central Government Budget Execution

- 1) To develop electronic services and on-line information exchange with the clients of the Treasury, taking advantage of the resource optimisation capabilities of technology:
 - to commence the electronic exchange of statements of comparison with local governments, using the central government budget and local government budget report system;
 - to implement the new *eKase* system and fully ensure the exchange of electronic payment information with Treasury clients and to intensify co-operation with the largest clients in terms of information exchange regarding their planned payments;
 - to improve the on-line data exchange system;



- to provide institutions administering central government budget revenues with the possibility to identify incoming payments to the government budget accounts according to the economic classification and payment purpose;
 - to implement the electronic preparation of the Summary Report on the execution of the budget in the preceding financial year and its co-ordination with the government ministries and central state institutions;
 - to assess the possibility of using the Financing Plan Processing information system at the level of institutions.
- 2) To introduce standardised payment procedures for transfers from the central government budget to local government.
 - 3) To improve the accounting record-keeping of state and local government institutions by developing amendments to the relevant regulatory enactments and ascertaining the necessary measures to begin the preparation of the value-added tax and real-estate tax report based on the savings principle.
 - 4) To make amendments to the regulatory enactments that stipulate the procedure for preparing the monthly and annual reports of central government budget institutions and local government and the procedure for preparing the report for the financial year, and to develop instructions for preparing the central government budget execution report.
 - 5) **To evaluate the possibility of providing Treasury services to a specific group of clients:** local governments and their institutions.
 - 6) To ensure the identification and analysis of the risks that exist in the financial management process of the budget and to make a decision with respect to limiting/preventing them.
 - 7) To ascertain the possibilities of arranging the provision of accounting services to the central government budget institutions.



Central Government Debt Management

Central Government Debt Portfolio Management

- 1) To assess the correspondence of the Central Government Debt Management Strategy to the financial market situation.
- 2) To introduce Credit Support Annexes to the ISDA agreements to expand the circle of business partners; to reduce mark-ups for transactions with derivatives; and to minimise risk for business partners.
- 3) To expand the range of derivative financial instruments to be used within the framework of the Central Government Debt Management Strategy in order to ensure currency and interest risk management of the government budget, as well as to minimise the credit risk for business partners.

Borrowing Management

- 1) To develop an Action Plan for the Attraction of Resources for 2011-14. To arrange for the execution of the Action Plan for the Attraction of Resources for 2010-13.
- 2) To evaluate repurchasing of central government debt or other restructuring measures to ensure compliance with the Maastricht criteria and structural indicators of the central government debt portfolio.
- 3) To prepare strategic guidelines to improve co-operation with international rating agencies.



Servicing and Supervision of Government Guarantees

- 1) To revise the process of planning and awarding government guarantees by developing a procedure according to which government guarantees to be granted are incorporated into the annual state budget law; to specify the terms for granting the guarantees and tighten the supervision of loans already guaranteed.
- 2) To improve the methodology for determining the risk interest rate for guarantees and loans.

Cash Management and Government Budget Loans

Cash Management

- 1) To examine the expertise of co-operation among eurozone countries in coordinating the operations of central government debt management institutions with the national central banks.
- 2) To ensure a constant circle of Treasury business partners, maintaining and developing partnerships with the participants in the domestic and international financial market.

Liquidity Management

- 1) To evaluate the principles for determining the volume of the necessary financial reserve for preventing of possible fiscal risks.
- 2) To assess the possibilities of optimising liquidity indicators and requirements.

Granting and Servicing of Loans

- 1) To evaluate the process of servicing government loans in order to simplify the procedure of granting a government loan whilst ensuring high-quality service, prompt execution and preventing the increase of risks.



Implementation of EU policy instruments for the Payment and Certifying Authority

- 1) To continue the process of closure of the structural funds for the 2004-06 planning period and, following the receipt of the coordinated opinion from the independent body, to ensure the submission of final Declarations of Expenditure to the European Commission within the deadlines and according to the procedures stipulated in regulatory enactments.
- 2) To ensure the performance of the functions of the payment authority of the Latvian-Swiss Co-operation Programme.

Management of the Treasury as a Government Administration Institution

- 1) To organise re-certification of the Treasury's quality management system in accordance with the requirements of the ISO 9001:2008 standard.
- 2) To implement a centralised solution for financial accounting.
- 3) To secure the most effective and economically profitable IT solutions that maximally correspond to the strategic targets of the Treasury. To improve the knowledge of the employees on issues of information safety, with particular emphasis on the operating stability and reliability of data processing systems.
- 4) To update the communications strategy of the Treasury for the medium term.