

2022



Treasury
Republic of Latvia

The Treasury Public Report for 2022

(with the assessment of the
implementation of the
Operational Strategy of
the Treasury 2020-2022)

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Units of Measurement

EUR – euro, official currency of the European Union

Abbreviations Used in the Report 2022

Covid-19	Disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2)
ERDF	European Regional Development Fund
ES	European Union
EUROSTAT	Statistical Office of the European Union
ESF	European Social Fund
GDP	Gross domestic product
CF	Cohesion Fund
LOC	Latvian Olympic Committee
AML/CFTP	Anti-Money Laundering and Combating Financing of Terrorism and Proliferation
SURE	European Commission instrument for temporary support to mitigate unemployment risks in an emergency is available to EU Member States which have to mobilise substantial financial resources to fight the negative economic and social consequences of the COVID-19 infection outbreak in their territory.

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The three-year strategic period of the Treasury's activity, full of challenges, has come to an end. I consider the period of 2020-2022 to be a significant milestone in our everyday life and in this report we provide both an insight into what has already been accomplished in 2022 and an assessment of implementation of the strategy, as well as the plans for further progress and development of the Treasury.

Unforeseen external events – the COVID-19 pandemic, Russia's military invasion of Ukraine, the sharp rise in energy prices, the high inflation caused by it and the measures taken by central banks to limit it, great uncertainty and increased volatility in the financial markets – created a series of internal challenges – the need to move to a new working environment model, execution of functions both remotely and in a hybrid model, additional measures for a cyber-secure environment and operational continuity. At this stage, we implemented the structural reform, we are moving towards a sustainable quality culture, introducing new practices in project management, the transition to data analytics, new challenges in the field of information technologies, and we are digitally transforming the processes. This means significant changes in the daily lives of employees, development of competencies and skills and new challenges.

When developing the Operational Strategy of the Treasury for the next period – 2023-2026, we assessed and determined the application of sustainability principles in the development of the Treasury, as well as a series of new initiatives. The move in cooperation with the State Chancellery towards the implementation of the Unified Service Centre for further centralisation of the support functions of the direct State administration is the most significant of the launched near-future projects, which will open up the possibility for standardised and unified accounting, personnel record-keeping, financial management and human resources management processes throughout the State administration.

In 2022, we concluded two important projects for the enhancement of the services of the Treasury: Redesign of *Payments (eKase (eTreasury))*, promoting the ease of using the portal, compliance with accessibility requirements and modern trends, as well as the *eAizdevumi (eLoans)* project, fully digitising the State loan service.

In 2022, in circumstances of geopolitical tension and increased volatility of financial markets, we have attracted resources under favourable conditions for covering the total financing need: for financing of the central government budget deficit and State loans, fulfilment of the central government debt commitments, incl. for mitigating the impact of the COVID-19 outbreak and compensating high energy prices. By flexibly adapting to the current financial market situation, similarly to other EU countries, Latvia also made active use of the capacity and support of the internal market, by involving the historically largest volume of resources in the auctions of government debt securities in 2022 and providing investors with investment opportunities in liquid Latvian government securities.

Along with the increase in interest rates in the financial markets in 2022, interest rates on savings bonds also became more attractive. The financial profitability of savings bonds contributed to the increased interest of Latvian population and the ever-increasing demand for savings bonds, which are considered to be an important, convenient and safe financial instrument for population.

The openness of staff to development and innovative trends, influx of new ideas, as well as a clear future vision are the main drivers of changes in the team of the Treasury towards a focused and targeted action-orientated working environment.

Treasurer
Kaspars Āboliņš

Rīga, 26 April 2023

Legal Status

The Treasury is an institution of direct administration under the control of the Ministry of Finance, the purpose of activity of which is the effective implementation of State administration functions in the field of management of State financial resources. Its activity is managed by the Treasurer. The legal status, functions, tasks, competence and rights of the Treasury are defined in Cabinet Regulation No. 677 of 3 August 2004 "Regulations of the Treasury", where in accordance with the applicable regulatory enactments and by way of adjusting the use of terms the amendments were introduced on 22 December 2022.

For the successful fulfilment of functions and tasks and adoption of a single decision the following committees continued their operation in 2022:

- 1) Audit Committee;
- 2) Credit Committee;
- 3) Crisis Management Committee;
- 4) Quality and Risk Management Committee;
- 5) Central Government Debt and Cash Management Committee;
- 6) Resource Liquidity Committee;
- 7) Management Committee;
- 8) Central Government Budget Accounting Committee.

Operational Strategy and Overarching Goal

Overarching Goal
Safe and effective State financing management in the public interest.

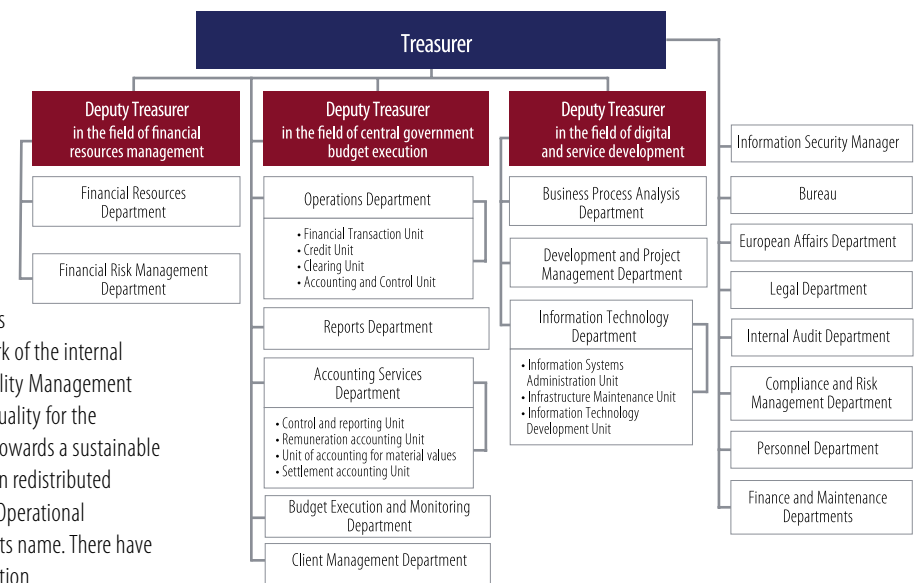
The strategic direction of the Treasury have been implemented in accordance with the strategic aims set out in the Operational Strategy of the Treasury 2020-2022 approved by the Minister of Finance in the fields of operation of the Treasury. Upon completion of the operational cycle of the strategy, we provide an assessment of its implementation in the report for each of the operational directions.

Considering the fact that the planning documents of both the European Commission and Latvia outline sustainability and climate neutrality as a strategic direction of special importance, and that it is important for any public and private sector participant to define both principles and directions in the field of sustainability in their activity, in 2022 analysis was carried out on the sustainability principles and directions of the Treasury for the new strategy period for inclusion in the Operational Strategy of the Treasury 2023-2026.

Structure and its Changes

The integrated management system (quality and information security management) established in the Treasury ensures stable operation of the institution, its continuity and prompt response in crisis situations. Good practice examples show that a combined approach is common in organisations – where the existing procedures guarantee the operational compliance, while efficiency methods provide for development opportunities and the provision of competitiveness. In assessing the framework of the internal control system of the Treasury, the European Foundation for Quality Management Excellence Model (EFQM) was determined as the next level of quality for the development of the activity of the Treasury and the movement towards a sustainable quality culture. To ensure these changes, the functions have been redistributed between the Operational Process Analysis Department and the Operational Compliance and Risk Management Department, also adjusting its name. There have been no other significant changes in the operation of the institution.

Figure 1. Structure of the Treasury at the end of 2022



1. Implementation of Central Government Budget

Goal of the Operational Direction

To ensure the effective and economic implementation of the central government budget and conformity of the services provided by the Treasury to the financial management best practice.

1.1. Organisation of the Implementation of the Central Government Budget of 2022

Within the framework of the State financial management cycle, the Treasury organises the implementation of the central government budget, sets the requirements for the accounting and bookkeeping of the general government and performs the financial accounting of the central government budget.

The Treasury provides budget execution services to customers in the form of electronic services: it awards assignments and grants from the general revenue, provides payment services, prepares State and local government budget execution reports, as well as provides information to institutions administering budget payments on taxes, fees paid and other State budget revenue.

The execution of the central government budget is organised within a single funds account, which is recognised in global practice as the most effective financial management method.

Granting and Execution of Assignations

In 2022, to ensure the execution of the State budget implementation, the Treasury granted assignments in the amount of EUR 14 565.4 million: EUR 10 718 million for the basic budget and EUR 3 847.4 million for the special budget. Assignations were granted to 170 central government budget institutions.

The Treasury opened 2 472 basic budget expenditure accounts. Compared to 2021, the number of accounts increased by 130, since, in addition, an appropriation was granted from funds for unforeseen events both for containment measures regarding the spread of COVID-19 infection and for the support of Ukrainian civilians in Latvia, as well as the involvement of central government budget authorities in the implementation of EU and foreign financial assistance projects increased.

Customer and Counterparty Analysis

In the provision of financial services it is important to receive and analyse information

on customers and counterparties, their activity and implemented transactions while identifying and managing the risks related to financial crime. The Treasury controls the provided financial services by improving the institutions' internal control system in the field of international and national sanctions and AML/CFTP, as well as fraud and corruption, and it also carries out monitoring of the liabilities and transactions of customers and partners.

With the aim of achieving a high reputation and the implementation of safe State financial management, the possibility is ensured to prevent service provision to sanctioned persons or beneficial owners thereof and, within the competence of the institution, to detect signs of suspicious and unusual transactions in which proceeds of crime or funds related to terrorism financing might be involved: an automated online payment screening tool has been introduced to the full extent, ensuring the screening of incoming and outgoing payments against sanction lists, preventing circumvention of the set sanctions, inter alia, providing enhanced payment due diligence for high-risk countries.

At the same time, the amount and scope of the sanctions set by both the European Commission and the USA significantly increased the number of enhanced payment due diligence checks at the Treasury in order to comply with the provisions of the Regulations and to prevent possible attempts to circumvent the sanctions.

As a result of Russia's military aggression, cyber security threats in Europe also increased significantly. The Treasury elaborated on its operational continuity plan, crisis communication model, and carried out operational continuity tests.

Accounting and Reporting

By using central government budget implementation data and summarising accounting data of central and local government budget institutions, the Treasury prepares monthly and quarterly budget implementation reports, as well as a financial year report on the implementation of the central government budget and on local government budgets, which is audited by the State Audit Office whose opinion certifies the completeness and reliability of the information contained in the reports to users. The reports prepared by the Treasury and those received from authorities are available on the Treasury's website. In 2022, the yearly report prepared by the State Revenue Service on the taxes, fees and other payments it administers in the State budget was consolidated in the financial year report for the first time, providing the users of the financial year report with information about the State budget revenue according to the accrual principle.

The Treasury supports the European Commission's initiative to improve the quality of accounting data and conformity of financial reports to guidelines of accounting standards of the public sector, so that decision makers, the public, investors and international credit rating agencies receive qualitative, timely and internationally comparable information (reports) on the State's financial position according to best practice. By organising uniform accounting of the State's finances, the Treasury develops regulatory enactments in the field of accounting of the central government and local government budget institutions and preparation of financial reports while evaluating the current requirements of international accounting standards of the public sector according to the possibilities of Latvia. In 2022, the Cabinet issued the amendments prepared by the Treasury to Cabinet Regulation No. 87 "Procedures for the Accounting Records of Budget Institutions" and No. 652 "Procedures for Preparing Annual Financial Statements", providing for the records of real estate tax in accordance with the accrual principle starting from 2024 and adjusting disclosures in the annual statement.

By continuing the practice established during the previous years, the annual seminar for financial employees of budget institutions on current trends in accounting records and preparation of annual statements has also been organised in 2022. Additionally, the Treasury organised workshops on the further use of inventory data for ensuring the quality of the financial year report and enhancing inventory-taking of authorities. Workshops were also organised in order to create a uniform standardised environment for the comparison process between the customers of the state and local government public sector *Pārskati (Reports)* information system in 2023, which will facilitate the faster preparation of annual statements.

E-invoices

In moving to an integrated budget planning, execution and accounting process, the Treasury uses structured e-invoices and creates preconditions for the automation of payment for received services. Authorities receiving the services of accounting records are provided with the possibility to receive and send structured electronic invoices in PEPPOL format and human-readable format, by replacing paper invoices with structured digital data. This allows for the more operational and effective processing and archiving of invoices, which facilitates the reduction of the administrative burden (invoice data don't need to be entered manually in the system anymore), as well as the scope for error and fraud. The procurement regulations and contracts of the Treasury stipulate a mandatory requirement for customers to submit e-invoices.

1. Implementation of Central Government Budget

Publication of State Budget Execution Data in Open Data Format

The Treasury optimises its data structures in order to provide the public with access to State budget execution data in open data (machine-readable) form. Open data will ensure the availability thereof not only to the authorities which need it to perform their daily functions, but also to data analysts and researchers who want to study the results and trends of State budget execution.

1.2. Development of the Services and Information Systems of the Treasury

For functional support, a robust, integrated set of information systems of national significance which meets safety requirements, has been established in the Treasury. Competence in the introduction and maintenance of information systems provides the possibility to handle State resources economically and use the possibilities provided by the information systems rationally. The Treasury develops electronic services on the basis of proven technologies, by facilitating, to the extent possible, exchange of standardised and structured data between the Treasury and the customer thereby ensuring a high degree of digitisation and effective use of data.

With the purpose of ensuring qualitative services, in 2022, the Treasury continued investing in supporting information systems: by optimising processes and carrying out measures for stabilisation of the operation, security and operational continuity of the systems, standardisation of budget implementation procedures, reduction of the administrative burden on customers and the public.

In 2022, the Treasury maintained and continued to develop the following services and information systems:

Unified State Budget Planning and Execution Information System

The Unified State Budget Planning and Execution Information System maintained by the Treasury (developed on the basis of the software product SAP) ensures a full budget management cycle – from budget planning to its execution and monitoring of the execution. The Unified State Budget Planning and Execution Information System is developed for both support of the planning functions of the Ministry of Finance and the execution of the budget of the central government budget institutions. In 2022, migration of the Treasury Data Warehouse (SAP BW) to the HANA database was performed, which significantly increases the performance of

existing solutions and provides ample opportunities in the future development of data analysis solutions

In 2022, the Treasury ensured the measures for the preparedness of the Treasury for the transition of the European Central Bank's *Target2* and *Target2-Securities* systems to the ISO 20022 standard format in the processing of payments in the new consolidated *Target* system, which is envisaged in March 2023. The Unified State Budget Planning and Execution Information System in payment information processing has been adjusted to the SWIFT ISO 2022 standard format, as well as other necessary system improvements have been performed.

Unified Treasury's E-services Portal

The Treasury's E-services Portal ensures easy user authentication with electronic identification means supported by *Latvija.lv*, uniform navigation between e-services and a modern design meeting the requirements of usability, as well as uninterrupted availability and use.

Pārskati (Reports)

Service *Pārskati (Reports)* is provided for managing financial and budget execution data of budget authorities. Monthly, quarterly and annual reports of budget institutions are signed by submitters electronically online in *Pārskati*, thereby ensuring the mutually efficient use of administrative and time resources. In 2022, 3 845 users were registered in *Pārskati*.

Eight ministries and State central authorities used the *Pārskati* solution for monitoring and control of the use of central government budget resources: Ministry of Finance, Ministry of Education and Science, Ministry of Culture, Ministry of Welfare, Ministry of Transport, Ministry of Environmental Protection and Regional Development, State Chancellery and the Central Election Commission.

Plāni (Plans)

Ministries or authorities subordinated thereto use the service *Plāni* for the preparation, approval and submission of draft financing plans to the Treasury, on the basis of which the Treasury issues assignments and grants from the general revenue. In 2022, there were 723 registered users in *Plāni*, and 2 493 basic budget and special budget financing plans were processed.

Tāmes (Estimates)

The service *Tāmes* ensures a unified centralised environment for all central government budget institutions for the entering and signing of estimates of budget programmes, sub-programmes and measures. In 2022, there were 916 registered users in *Tāmes*, and 2 493 basic budget and special budget estimates were processed.

Aizņēmumi (Loans)

The service *Aizņēmumi* provides for the possibility to apply remotely for receiving a State loan, electronically process a loan application, submit a loan disbursement application within the framework of the concluded State loan agreement, remotely manage the loan, apply for early loan repayment, as well as electronically generate and sign the agreement. In 2022, there were 560 registered users in *Aizņēmumi*.

Pieteikumi (Applications)

For the submission of applications for services provided by the Treasury in the form of structured data, so as to thereby ensure a more effective data processing process and significantly reduce the workload of the employees of the Treasury in processing this data, as well as to significantly reduce the number of erroneously submitted service applications, a user interface prototype was developed and validated in cooperation with the users for further development of the solution in 2023.

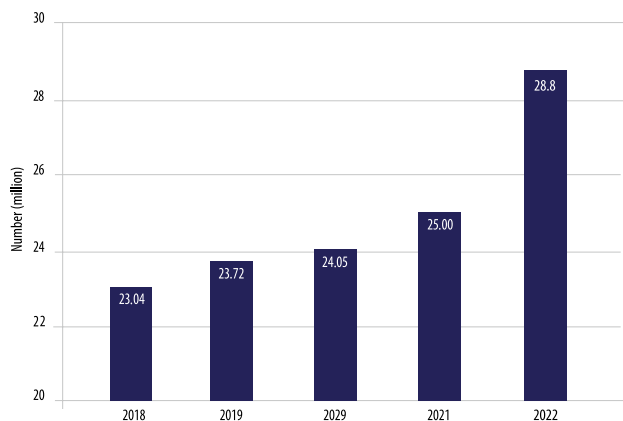
Payments

The Treasury ensures the State budget payments by using the service *Payments* and its online data exchange module. Within the framework of the service, the Treasury provides customers with the possibility to execute payment orders, see payment order execution results, as well as receive financial information: account position (balance), account turnover extracts and a summary on revenue and expenditure or resources for covering expenditure. The online data exchange module of *Payments* ensures automated information exchange on payment data (payment status statement and account statement) between the Treasury and the customer.

In 2022, the modernisation of *Payments* was completed (availability, usability). For the purposes of improving the quality and availability of services, in 2022, the modernised *File import* functionality and the following functionalities of the *User settings* are available in a new visual design: *Signing, My samples, News and correspondence*. Thereby the ease of usability of the portal was ensured, as well as the compliance thereof with accessibility requirements, operation on mobile devices and conformity of the visual design to the trends of state-of-the-art web design and functionality.

1. Implementation of Central Government Budget

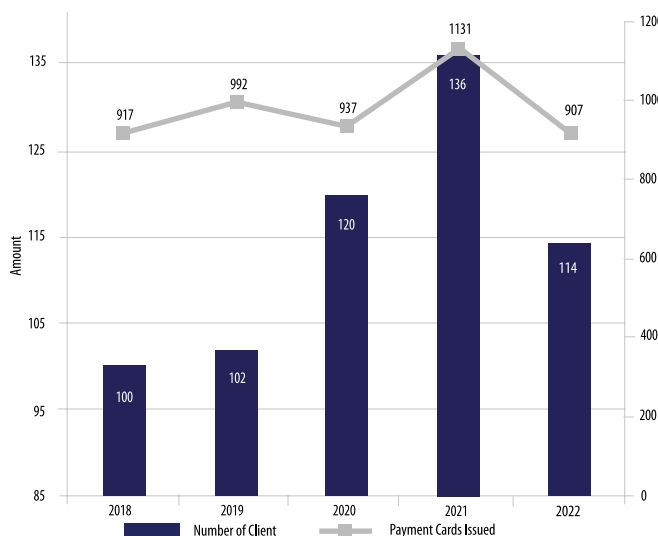
Figure 2. Number of payments processed by the Treasury (2018–2022)



Instant payments

In order to facilitate the digital development of the financial sector and the state administration, on 1 February 2022, the Treasury joined the instant payment infrastructure maintained by the Bank of Latvia, ensuring innovative and swift settlements for public service recipients. Thereby the settlement of accounts between the public and the State has become instant – payments to the central government budget are ensured within seconds 24 hours a day, on weekends and public holidays as well. In 2022, 41% of the payments incoming into the central government budget were made by payers using this service.

Figure 3. Dynamics of the payment card service tied to the accounts of the Treasury (2018–2022)

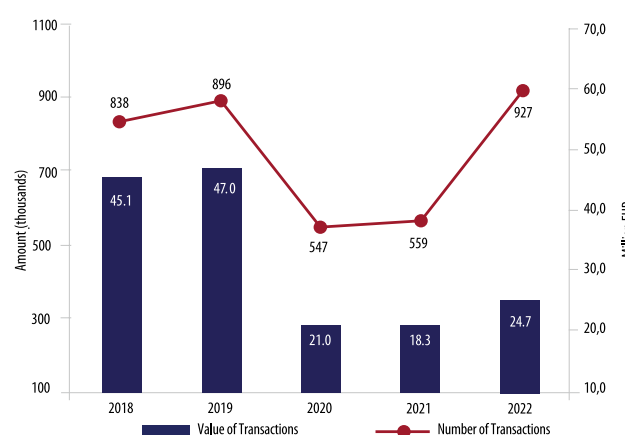


Payment cards tied to the Treasury's accounts

In cooperation with AS Citadele Banka, the Treasury provides the possibility for State and municipal authorities to make payments with the payment cards tied to the Treasury's accounts. The payment card service is envisaged for the making of staff business trip and operating expenditure: the employees of central government budget institutions are provided with the possibility during trips to perform non-cash settlement by observing the requirement of the Law on Budget and Financial Management to the effect that central government budget fund expenditure is to be carried out from accounts opened with the Treasury.

In 2022, 114 authorities used the service of payment cards tied to the accounts of the Treasury, and 907 cards were issued in total. The decrease in the number of authorities using the payment card service tied to the accounts of the Treasury and hence also the payment cards is related to the changes in the regulatory enactments, limiting the scope of subjects entitled to use the referred to service.

Figure 4. Payment card (VISA and MasterCard) acceptance service dynamics (2018–2022)



Acceptance of payment cards when collecting central government budget payments

The Treasury, via AS Citadele banka, ensures an acceptance service of payment cards to State and municipal authorities by providing for the possibility to pay for the services provided by it using *VISA Electron*, *MasterCard* and *Maestro* payment cards in a payment card acceptance terminal or another alternative system.

In 2022, the service provided by the Treasury was used by 105 customers. In 2022, in 1 196 payment card terminals installed in State and municipal authorities, 926 897 transactions were performed for a total amount of EUR 24 708 616. The increase in the number of transactions in 2022 is related to the trend to move away from transactions in cash by using card payments instead.

1. Implementation of Central Government Budget

1.3. Information Regarding Utilisation of Central Government Budget Funds for Covid 19 Crisis Prevention Measures

In order to provide transparent and current information to the public regarding the utilisation of central government budget funds granted for COVID-19 crisis prevention measures, the Treasury, in cooperation with the State Chancellery, provides a technical solution for reporting where central government budget institutions provide operational budget implementation information in *Pārskati*.

1.4. Performance Indicators of the Operational Targets Defined in the Operational Strategy of the Treasury in the implementation of the Central Government Budget

Table 1.
Performance indicators of operational targets in the implementation of the central government budget

Result	Performance indicator	Numerical values of the performance indicator in 2022	
		Planned	Implemented
1. Uniform principles for the preparation of accounting and financial statements of budget institutions developed and approved, and an assessment from Eurostat received.	1.1. Conformity to the guidelines of international and international public sector accounting standards in the field of accounting and annual reporting (%).	90	90
2. The usability and availability of the Treasury's electronic services – <i>Kase, Plāni, Pārskati, Tāmes</i> – has been modernised.	2.1. Satisfaction with the quality of the electronic services received is not lower than 85% (% of customers surveyed ¹).	85	90
3. Submission of service applications has been improved by introducing a structured, electronic application data submission solution.	3.1. Number of incorrectly submitted service applications (% of total applications).	1	Was not measured ²
	3.2. The time required to fill in service applications has been reduced (%).	50	Was not measured ³
	3.3. Average time required to process one service application (minutes). ⁴	5	Was not measured ⁵
4. SAP ERP database Oracle was changed to HANA.	4.1. SAP ERP production environment data base was migrated to HANA.	-	_6

1.5. Public Services Performance Indicators for Private Individuals in the Central Government Budget Implementation

In accordance with that which is stated in Cabinet Regulation No. 399 of 4 July 2017 “Procedures for Accounting, Quality Control and the Provision of Public Administration Services”, in State budget execution the Treasury provides two public administration services to private individuals⁷ – maintenance of accounts and payment service.

2 353 applications were received, within the scope of the account maintenance service. Electronic payments of 350 490 private individuals have been received and performed within the scope of the payment service. Service execution has been carried out in accordance with the requirements of regulatory enactments, no delays in service execution have taken place, and no customer complaints have been received.

¹ In accordance with the requirements of documents governing the Treasury's quality management system, customer satisfaction surveys must be carried out at least once per three years. Both comprehensive customer surveys and surveys aimed at identifying satisfaction with a certain service, or satisfaction within and needs of a particular customer segment are carried out as necessary.

² Planned implementation of the performance indicator in 2022 was not achieved, as, when evaluating and determining the priority development measures, the improvement of the submission of service applications was postponed to 2024.

³ Planned implementation of the performance indicator in 2022 was not achieved, as, when evaluating and determining the priority development measures, the improvement of the submission of service applications was postponed to 2024.

⁴ Measurement was performed for the processing of the electronic service applications.

⁵ Planned implementation of the performance indicator in 2022 was not achieved, as, when evaluating and determining the priority development measures, the improvement of the submission of service applications was postponed to 2024.

⁶ Migrated in 2021.

⁷ Legal entity of private law (associations, foundations, religious organisations, commercial companies and other legal entities of private law, having an account opened with the Treasury).

1. Implementation of Central Government Budget

1.6. Assessment of Introduction of the Operational Strategy of the Treasury 2020-2022 into the Central Government Budget Implementation and Further Development

The target and indicators of the operational direction – generally achieved.

Accomplishments for Implementing the Target of Operational Direction

1. To ensure the conformity of regulatory enactments in the field of accounting and preparation of reports of budget institutions to the guidelines of international and international public sector accounting standards.

- By regularly working on the regulatory base in the field of accounting and preparation of reports, taking the practice established in Latvia into account and evaluating the possibilities of reducing the administrative burden, in the European Commission (Eurostat) study on the level of development of accounting of EU Member State governments in accordance with the International Public Sector Accounting Standards (IPSAS), Latvia has achieved a conformity score of 89%, while for the support of related information technologies for the provision of full accrual basis information – 91%. For comparison, the EU average is 63% and 65% respectively. The above indicators show that the basic accounting principles of the sector of Latvia conform, to a large extent, to the internationally recognised best practice, and, after the introduction of the European Public Sector Accounting Standards (EPSAS), less changes will be needed in Latvia than on average in the EU.
- a uniform legal regulation has been established for budget institutions in preparing annual report and consolidated financial year reports, which, among other things, provides for the shortening of the term for preparation of the report from 1 May to 1 April (starting with the annual statement for 2023);
- the transfer of the balance of budget programmes and sub-programmes to the end of the year has been improved and automated;
- the fulfilment of the tasks under the competence of the Treasury has been ensured in the project of the Ministry of Finance regarding the introduction of the accrual basis into tax accounting, in the field of accounting and financial reporting.

2. The availability and usability of the electronic services of the Treasury has been modernised, ensuring that at least 85% of users of electronic services are satisfied with their use.

- Modernisation of the e-services portal of the Treasury has been completed (availability, usability);
- The Treasury joined the instant payment infrastructure maintained by the Bank of Latvia;
- an automated online payment screening tool has been implemented, ensuring the screening of payments against sanctions lists, preventing circumvention of the set sanctions, i.e., providing enhanced payment due diligence for high-risk countries;
- continuous availability and use of services has been ensured;
- the possibility for the Treasury has been ensured to continue providing payment services in EUR currency as a direct participant of the consolidated *Target* system;
- 90% of customers are satisfied with the services provided by the Treasury.

3. Improve the submission of service applications by introducing a structured, electronic application data submission solution, thus reducing the administrative burden on the customer and the Treasury in the application data processing process.

In evaluating and determining the priority development measures, the improvement of the submission of service applications was commenced in 2022 and will be completed in 2024.

4. Perform the change of the SAP ERP database from Oracle to HANA, as well as perform preparatory and test migration work for the implementation of S/4HANA.

- Migration of the SAP ERP database from Oracle to HANA was performed, which is the first step in migration to the SAP ERP latest version SAP S/4HANA: the measures taken ensure a 23% shorter payment processing time and a 97% reduction in the execution time of individual reports;
- migration of the Treasury Data Warehouse to HANA database was performed, which significantly increases the performance of existing solutions and provides ample opportunities in the future development of data analysis solutions.

The key conclusions for the new strategic programming period (2023–2026)

- Evaluate the latest International Public Sector Accounting Standards (2022 version) for the application of requirements in regulatory enactments in the field of accounting records and preparation of reports of the budget institutions;
- to also henceforth organise the execution of the central government budget within a single funds account, which is recognised in global practice as the most effective financial management method. Such financial management approach enables the reduction of direct and indirect costs of borrowing and cash management, is favourable under the financial market conditions – provides for a possibility to generate additional revenue through the more effective management of funds and investments, and a possibility to monitor and control all transactions, as well as facilitates the accounting of transactions;
- in accordance with market trends, improve the submission of service applications by shifting to a structured solution based on customer self-service;
- automate the preparation procedures of the consolidated financial year report, ensuring that the evaluation of the consolidation positions of the financial report and related explanations is performed in an automated manner according to defined algorithms.

2. Central Government Debt and Cash Management

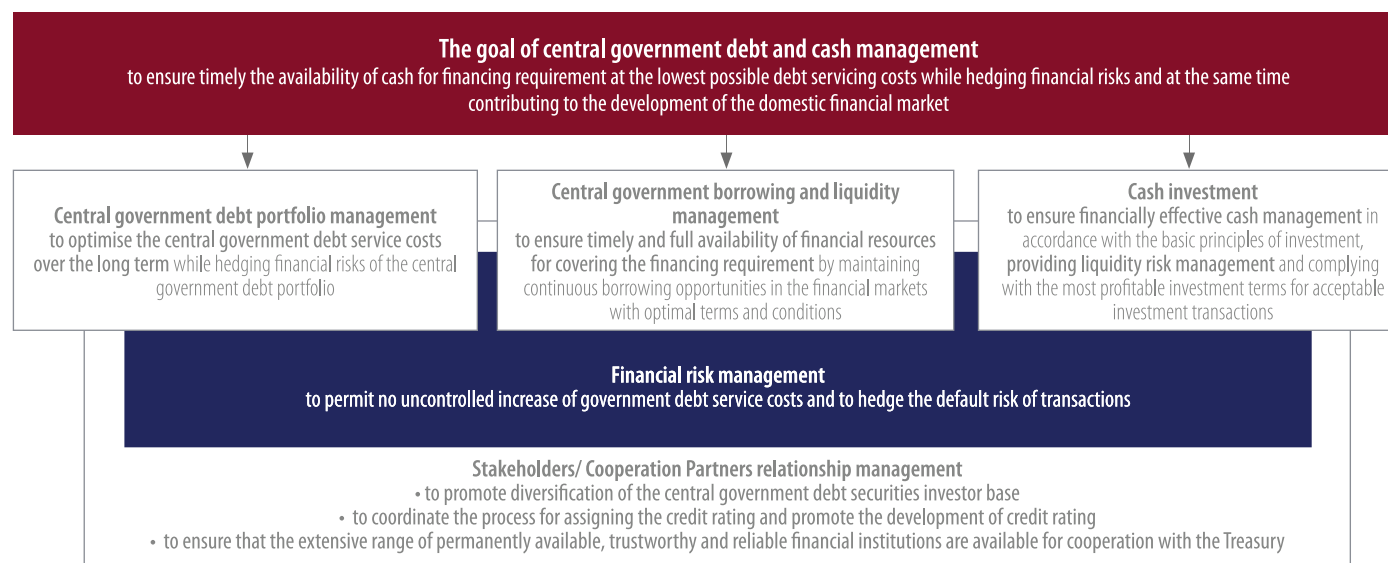
Goal of the Operational Direction

To ensure the timely availability of cash for financing requirements at the lowest possible debt servicing cost over the long term, while hedging financial risks and at the same time contributing to the development of the domestic financial market.

2.1. Operational Principles and Development Trends

In 2022, the activities of the Treasury in the field of central government debt and cash management were determined by the Central Government Debt and Cash Management Strategy approved by the Minister for Finance (see Figure 5).

Figure 5. Central Government Debt and Cash Management Strategy



The Treasury takes measures in the field of central government debt and cash management in accordance with the following priorities:

- 1) ensure borrowing in the international financial markets with public issues of medium-term and long-term government debt securities by retaining flexibility in relation to choosing the time and instruments of loans in order to ensure borrowing on favourable terms;
- 2) promote the development of the domestic financial market and liquidity of sovereign debt securities, by providing for appropriate investment opportunities (continuous and regular offer of government securities, including savings bonds) for participants of the internal financial market, in order to make better use of the borrowing potential of the internal market and facilitate its functioning;

- 3) ensure safe and financially effective cash management;
- 4) ensure diversification and expansion of the range of government security investors through regular and continuous dialogue and long-term work with the investor community and counterparties, facilitating active participation and competition of investors from various global regions in the primary placement of external government debt securities;
- 5) actively communicate with credit rating agencies and ensure the provision of a single and coordinated opinion regarding the situation in Latvia within the process of credit rating calculation, in order to have a positive impact on the advancement of Latvia's credit rating;
- 6) maintain and develop long-term cooperation with the existing and new counterparties, ensuring a sufficient range of counterparties for the conclusion of financial transactions.

Within the scope of the internal project of the Treasury, the digital transformation of the central government debt and cash management is being implemented, ensuring the automated loading of data in the Treasury's systems into the analytical and projection models that are used for taking financial management decisions, as well as developing *Business Intelligence* (BI) solutions for the availability of operational data, supervision of the indicators of the central government debt portfolio, credit risk supervision, evaluation and supervision of execution of various forecasts used in taking financial management decisions, as well as for ensuring regular information about the central government debt on the website of the Treasury. The project is planned to be completed in the first half of 2023, significantly reducing the labour intensity of information and data processing used in the process of the central government debt and cash management, in order to make better use of time and human resources for in-depth data analysis and taking financial management decisions. In implementing the project, it is expected to achieve a higher level of digital maturity of the central government debt and cash management process, which is planned to be assessed in 2023.

2. Central Government Debt and Cash Management

2.2. Structure, Indicators and Changes of the Central Government Debt

At the end of 2022, Latvian general government debt⁴ accounted for 40.8% of GDP. Latvian general government debt is still one of the lowest of the EU member states, and also well below the average indicator in the EU (see Figure 6).

The level of general government debt is mainly affected by central government debt⁹, which, at the end of 2022, according to the operational data of the Treasury, comprised EUR 16.8 billion at nominal value, growing by EUR 1.5 billion since the end of 2021.

Since the beginning of 2020, the trends in the increase of the central government debt were determined by the implementation of comprehensive support measures to mitigate the impact of the Covid-19 outbreak and, starting from 2022, State support measures to compensate for the rapid increase in energy resource prices.

The largest share in the structure of the central government debt – 74% of the total volume of the central government debt, is made up of bonds issued in the international financial markets, the additional issues of which are regularly offered in the domestic market as well (see Figure 7).

Figure 6.
General government debt as of the end of 2022 (% of GDP) according to the ESA 2010 methodology⁸ (Source EUROSTAT)

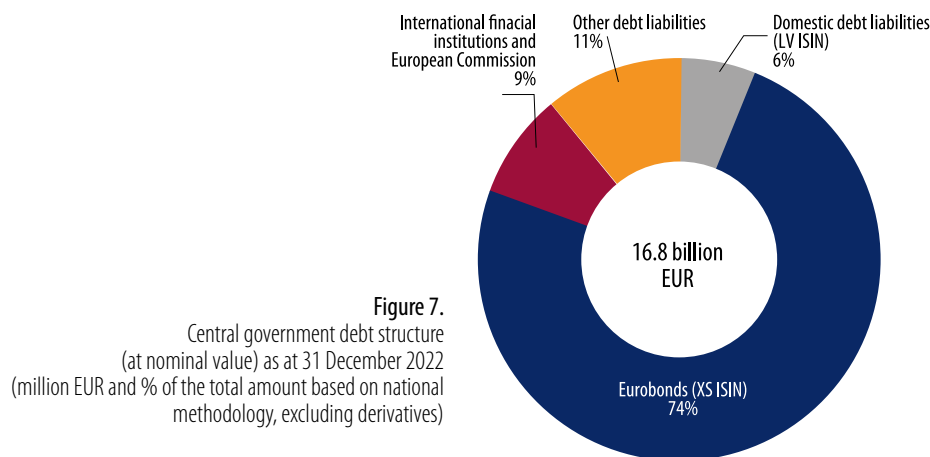
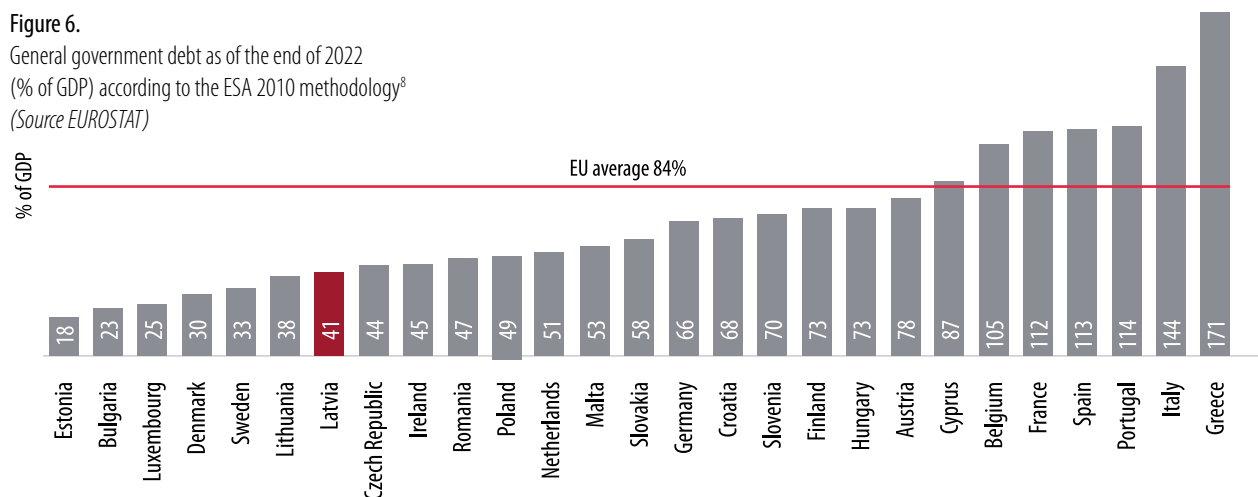


Figure 7.
Central government debt structure (at nominal value) as at 31 December 2022 (million EUR and % of the total amount based on national methodology, excluding derivatives)

⁸ The general government debt is evaluated according to the common methodology of the European System of Accounts (ESA 2010), and it includes central and local government consolidated debt, debt liabilities of companies classified in the general government sector and other liabilities according to ESA 2010 methodology requirements.

⁹ The central government debt, based on national methodology, is comprised of the debts of public bodies, incorporating the State issued debt securities, borrowings, savings bonds, customer deposits and balances of current accounts placed in the Treasury.

2. Central Government Debt and Cash Management

2.3. Central Government Borrowing Management

Since February 2022, Russia's military aggression in Ukraine has maintained high uncertainty and volatility in the financial markets, increasing the credit risk level of the Baltic states, with investors temporarily becoming cautious regarding new investment transactions, as well as generally, over the year, adversely affecting the borrowing time, conditions (term) and, in some cases, even borrowing possibilities. In addition to the geopolitical tension in the region, all European countries faced energy security challenges, which were later reflected in a rapid increase in inflation, for the purposes of limiting whereof the European Central Bank repeatedly raised the base interest rates, thus causing an increase in market rates as well.

In 2022, the Treasury attracted funds both in financial markets and from international institutions for covering the total financing need – for financing of the central government budget deficit, provision of State loans and fulfilment of sovereign debt commitments, incl. for mitigating the impact of the COVID-19 outbreak and compensating high energy prices.

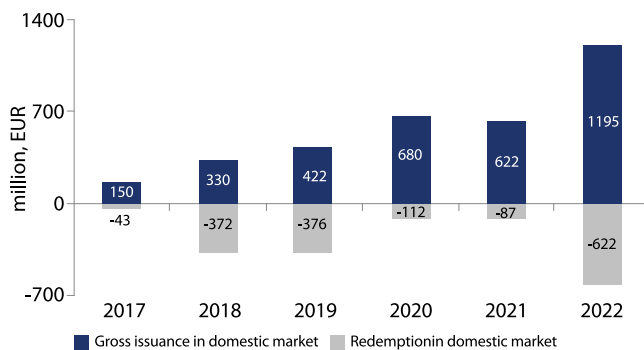
2.3.1. Borrowing in the Domestic Financial Market

By flexibly adapting to the current financial market situation, similarly to other EU countries, Latvia also used the capacity and support of the internal market to increase borrowing volumes in regular auctions of government debt securities in 2022, providing investors with investment opportunities in liquid Latvian government securities. Borrowing measures in the internal market were organised by using additional tranches of Eurobonds in circulation in Latvia with maturities in 2024, 2025, 2026, 2028, 2029 and 2031. After the aggravation of the geopolitical situation in Europe, the interest of investors was mainly focused on Eurobond issues with shorter maturities, but in periods when the situation in the markets stabilised, interest in longer-term securities also increased.

In 2022, the issue of government securities (gross) in the internal market reached EUR 1 195 billion, whereas the government securities redemption amount was EUR 622.22 million (see Figure 8). Investors' demand for government securities at auctions in 2022 remained high, allowing attraction of the historically largest amount of resources in the internal market in a short time and maintaining of high liquidity in the accounts of the Treasury. In competitive multi-price auctions the demand on average exceeds the amount of securities traded by the Treasury by 2.3 times.

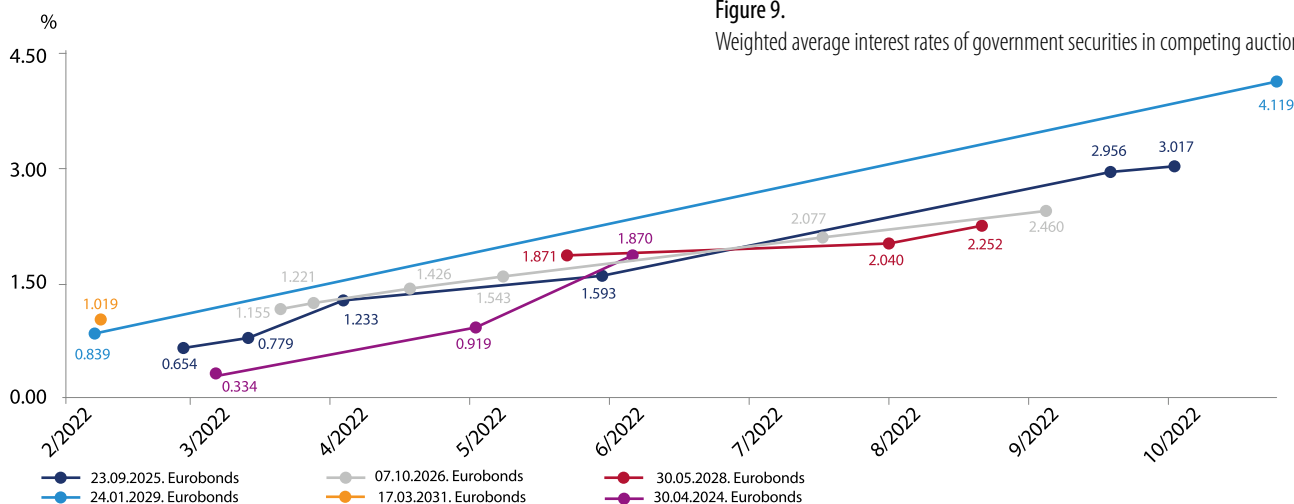
Primary dealers – credit institutions that have entered into a primary dealer agreement with the Treasury, are taking part in government security auctions. In 2022, the group of Primary Dealers consisted of AS Citadele banka, Luminor Bank AB, AS SEB banka, AS Swedbank and Erste Group Bank AG.

Figure 8. Volumes of government securities gross issues and redemption in the internal market (in the respective year, million EUR)



The interest rates fixed in the government securities auctions reflected the current situation and fluctuations in the financial markets. Thus, for example, euro interest rates (SWAP) increased significantly in 2022 compared to the end of 2021, which was triggered by the war of Russia in Ukraine, the energy crisis in Europe in the second half of 2022, as well as the European Central Bank's decisions to raise base rates, to combat rising inflation (see Figure 9 and Figure 10). Regular auctions, taking into account the rapidly changing financial market conditions, made it possible to balance out the borrowing costs over the year and to absorb the risks of changing investors' demand. The high liquidity in the accounts of the Treasury, in turn, made it possible to obtain flexibility regarding the choice of time for the issue in the international financial markets.

Figure 9. Weighted average interest rates of government securities in competing auctions in 2022



2. Central Government Debt and Cash Management

Figure 10.
Development of the European Central Bank base rate and the five-year market rate (SWAP) in 2022



can purchase online through the internet bank on the website www.krajobligacijas.lv. The State fully guarantees the funds invested in savings bonds, regardless of their amount, and the interest received on savings bonds is not taxed.

2.3.2. Savings Bonds

Savings bonds are government securities with a fixed interest rate, which have already been issued by the Treasury on behalf of the Republic of Latvia since 2013. The objective of savings bonds is to provide the citizens of Latvia (only private individuals) with a convenient, secure and, in the current financial market situation, also profitable investment opportunity, promoting financial literacy of the public and broadening the practical experience of residents in investing.

Along with the increase in interest rates in the financial markets in 2022, the interest rates of savings bonds also became more attractive, as they are determined once a week in accordance with the current state borrowing costs of the relevant term in the financial market.

The financial profitability of savings bonds contributed to the increased interest of Latvian residents and the growing demand for savings bonds, which private individuals

Figure 11.
Savings bond rates in 2022 (%)

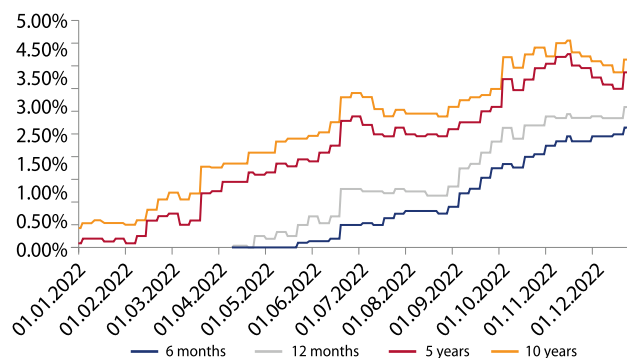
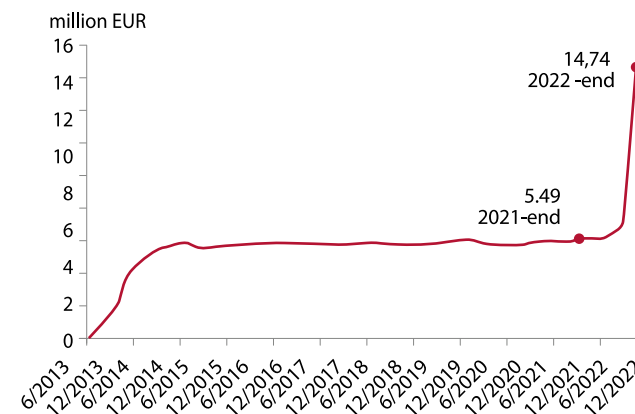
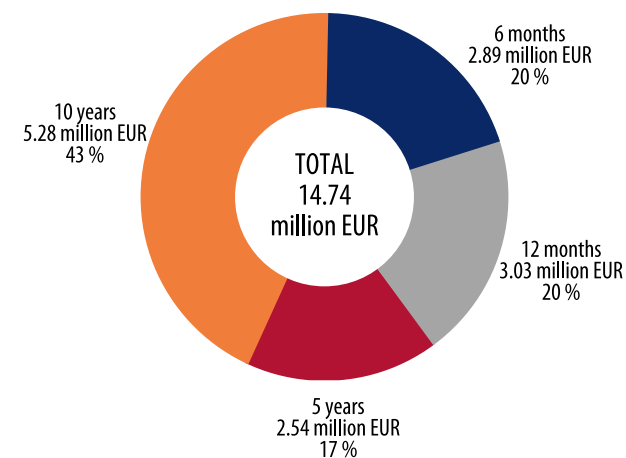


Figure 12.
The volume of savings bonds owned by private individuals in 2013–2022 (million EUR)



In 2022, residents were offered six-month and 12-month, as well as five-year and 10-year savings bonds. It is necessary to maintain the offer of savings bonds of several terms, in order to retain various options for investors in relation to the term and profitability in changing market conditions.

Figure 13.
The structure of savings bonds owned by private individuals at the end of 2022



2. Central Government Debt and Cash Management

In 2022, the outstanding volume of savings bonds owned by private individuals more than doubled, with the largest share still remaining in the 10-year segment. The interest of private individuals in 2022 was mainly observed for savings bonds with a term of five years, six and 12 months. At the end of 2022, the volume of savings bonds at the disposal of residents amounted to EUR 14.7 million.

2.3.3. Borrowing in International Financial Markets

Under the circumstances of global financial market uncertainty or a rapidly changing situation, the timing of borrowing for issuers is largely determined by the use of particular, beneficial moments when financial markets are stable and investors become better disposed towards making new investments. The activities of the Treasury in the field of management of borrowing in international markets in recent years have been focused on the exploitation of such beneficial borrowing moments in order to attract funds for covering the total financing needs on favourable terms by fixing the lowest possible central government debt servicing costs and, during a period of high interest rates, without creating an additional expenditure burden on the central government budget in the long term.

Along with larger activity appearing in the primary market, incl. issues of debt securities of neighbouring countries, on 20 October 2022, Latvia made use of the opportunity to raise funds in the amount of EUR 850 million, by issuing Eurobonds with a maturity of 25 March 2027, a fixed interest (coupon) rate of 3.875% per annum and a yield of 4.198%. The transaction achieved the highest investor demand among the issues of the Baltic states in the relevant period (EUR 2.1 billion), which exceeded the amount of securities issued by 2.5 times. A significant contribution to the activity of investors in this transaction was provided by the opportunity for investors to meet remotely with representatives of the Latvian side and to discuss current issues about Latvia's national economy, national fiscal policy, energy independence and national security.

For borrowing in international financial markets, the Treasury uses the legal framework of external government securities (Eurobonds) documentation GMTN (Global Medium Term Note programme), which allows the Treasury to efficiently exploit favourable conditions in international financial markets, as well as issue government securities in different currencies. The GMTN framework also provides for the possibility of issuing government securities if the investor addresses the Treasury and makes a loan offer, subject to complying with the legal terms and conditions of the programme.

2.3.4. Borrowings from International Financial Institutions

In addition to borrowings made in the financial markets, in 2020 and 2021, Latvia used the financially advantageous borrowing opportunities from the European Commission, raising funding in the amount of EUR 305.2 million within the framework of the SURE financial instrument. In 2022, as advantageous financial conditions were preserved, Latvia used the SURE instrument of the European Commission for the third time, raising the borrowing in the amount of EUR 167 million for 15 years with a fixed interest rate of 2.750% per year.

2.3.5. Counterparty Relationship Management

The aim of relationship management with collaborating financial institutions is to regularly ensure the widest, safest and most reliable range of partners possible for collaboration with the Treasury which would ensure competitive terms for the performance of financial transactions. Therefore, the Treasury organises the regular preparation of analytical materials and operational provision of information to counterparties, by implementing a set of targeted and structured communication measures.

In 2022, the Treasury together with counterparties, credit rating agencies and investors continued to communicate both remotely and via on-site meetings by providing the most up-to-date information about the situation in the Latvian economy, financial market, public finances, as well as the national borrowing strategy, thereby also ensuring the dissemination and explanation of information to the investor community, which decides on investments into government securities.

2.3.6. Credit Rating of the Republic of Latvia

The national credit rating is a critical aspect in organising borrowing transactions, and a significant factor for the availability of financial resources, as it has an influence on the price of the borrowed resources. Based on the available information, including the country's credit rating, investors evaluate the prospects of investing in Latvia, e.g., in government securities.

Within the scope of central government debt management, the Treasury organises the credit rating assessment of the Republic of Latvia, using the three largest international credit rating agencies: *Fitch Ratings*, *S&P Global* and *Moody's Investors Service*, as well as

the Japanese rating agency *R&I*. Credit rating agencies not only review the credit rating of the Republic of Latvia and its outlook every year, but also assign a credit rating to government securities. Once a year, the inter-agency working group led by the Treasury informs the Cabinet of the national credit rating of the Republic of Latvia and the factors affecting it.

In 2022, intensive work took place with credit rating agencies not only within the framework of annual credit rating assessments, but also regularly providing the agencies with up-to-date information about the situation in Latvia and the measures taken after Russia's invasion of Ukraine. The Treasury provided regular, proactive, comprehensive information, to facilitate the credit rating agencies to make objective decisions on the credit rating of the Republic of Latvia and the future development thereof.

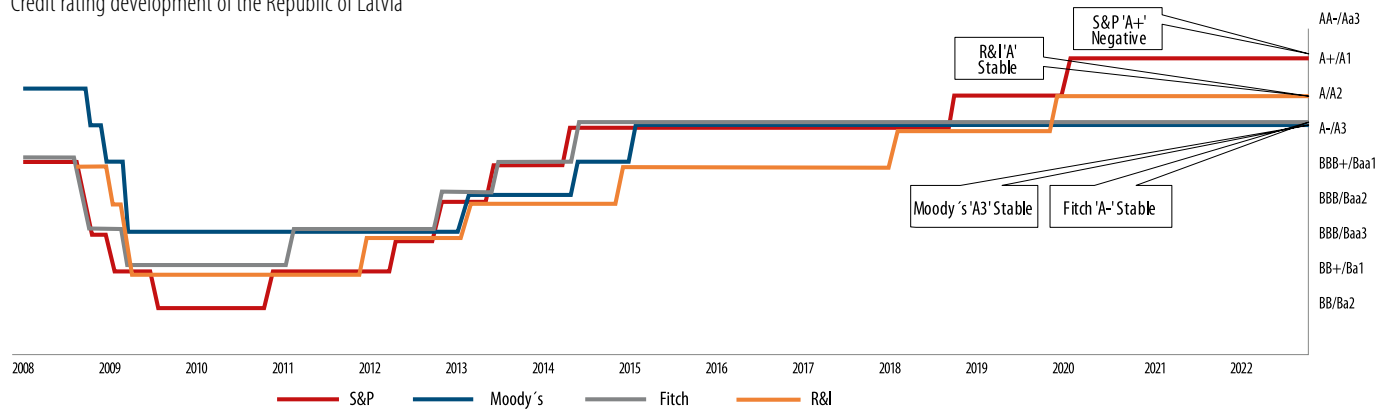
In 2022, the credit rating of Latvia steadily remained at a high and investment-safe position in the "A" group: *Moody's Investors Services*, *S&P Global* and *Fitch Ratings* confirmed the credit rating of Latvia at the previous level. *Moody's* and *Fitch Ratings* maintained an unchanged (stable) credit rating outlook, but *S&P Global* changed the credit rating outlook for the Baltic states, including for Latvia, from stable to negative in December 2022, justifying its decision by the fact that a longer and more unpredictable conflict between Russia and Ukraine may cause greater economic and security costs for the small, open economies of the Baltic states. The Japanese credit rating agency *R&I* maintained Latvia's credit rating and its outlook without changes.

Latvia's credit rating in group "A" is maintained by:

- 1) membership in international organisations and unions – NATO, EU and Eurozone;
- 2) progress in strengthening energy independence from Russia and security;
- 3) moderate central government debt to GDP and moderate debt servicing costs as compared to the average indicators of the countries with the credit rating level "A";
- 4) reliability and efficiency of the implemented policy;
- 5) economic flexibility and adaptability, sustainable export industries.

2. Central Government Debt and Cash Management

Figure 14.
Credit rating development of the Republic of Latvia



2.4. Central Government Debt Portfolio Management

The goal of central government debt portfolio management is to optimise the central government debt servicing costs over the long term while hedging financial risks of the central government debt portfolio. The Treasury assesses the debt portfolio structure parameters, as well as the need to change them on a regular basis. Based on the assessment of the Treasury's experts, financial market forecasts, as well as the results of modelling costs and interest rate risk, the weighted average fixed-period interest rate and fixed-rate ratio values that ensure an optimum balance between the costs and the interest rate risk (see Figure 15) are determined. Whereas for currency risk management, an optimal currency structure of net debt is determined and monitored by considering the financial market forecasts and the assessment of the Treasury's experts, and it allows compliance with the balance of assets and liabilities in foreign currencies, thus avoiding the impact caused by exchange rate fluctuations.

In 2022, all the indicators of the debt structure as defined in the Central Government Debt and Cash Management Strategy have been complied with (see Table 3).

In previous years, during the period of historically lowest interest rates, borrowing was done with longer-term financial instruments, fixing low interest rates for the

long term. This contributed to an increase in the weighted average fixed period (duration) and a decrease in the weighted average interest rate of the debt portfolio.

In 2022, as interest rates in the financial markets increased, in accordance with the principle defined in the Central Government Debt and Cash Management Strategy, the terms of the issued securities were shorter (up to five years), as a result of which the average weighted fixed duration decreased and the average weighted rate of the central government debt portfolio increased.

By outsourcing the service, the improved *Cost at Risk* (CaR) model was validated and the possibilities of supplementing the functions of the model with the *Expected Shortfall* calculation were analysed.

The CaR validation of the existing econometric model was carried out in order to identify functional and technical operational errors or shortcomings of the model and to eliminate them, so that the model could be fully used for simulating various borrowing scenarios.

Figure 15.
Basic principles of central government debt portfolio management

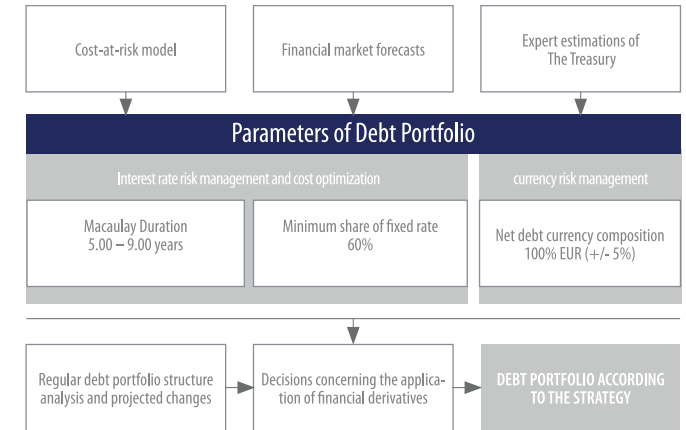


Table 3.
Compliance of the parameters of the central government debt structure with the parameters of the central government debt portfolio structure defined in the Central Government Debt and Cash Management Strategy

Debt portfolio parameters	Strategy		31.12.2022	
	≤ 1 year	≤ 3 years	≤ 1 year	≤ 3 years
Maturity profile (%) of central government debt portfolio	≤ 25%	≤ 50%	17.40%	38.20%
	≥ 60%		76.40%	
Weighted average fixed duration of the interest rates in years	5.00-9.00		5.85	
Net debt currency composition	100% (+/- 5%)		100.47%	

2. Central Government Debt and Cash Management

2.5. Cash Management

In 2022, the Treasury ensured cash management in accordance with the Central Government Debt and Cash Management Strategy, ensuring liquidity risk management and considering the most favourable conditions for permissible investment transactions.

Cash management in 2022 was implemented under fluctuating financial market conditions, which is mainly related to geopolitical factors and uncertainty about the future development of the global economy. In response to rising inflation, the European Central Bank gradually phased out stimulating monetary policy and turned to restrictive monetary policy, initiating a base interest rate hike in July 2022¹⁰, as a result of which base interest rates increased by 2.5% until the end of 2022. In order to ensure financial coverage for support measures (including for mitigating the impact of sharp increase of prices of energy resources and raw materials) for mitigating especially unfavourable economic circumstances, and with enough uncertainty existing as to the geopolitical situation in the Eastern European region, in 2022 the Treasury also maintained a reserve of resources, mainly in its accounts with the Bank of Latvia and the European Central Bank, by limiting financial risks to a maximum extent and ensuring the expeditious availability of liquid resources for covering the financing need.

¹⁰ Main interest rate of refinancing operations, interest rate of overnight loan facilities, interest rate of overnight deposit facilities.

¹¹ In accordance with the Stability Programme methodology, the indicator is determined by dividing the debt servicing interest expense of the general government debt for the current year in the relevant country by the preceding year's amount of general government debt (using EUROSTAT data on the basis of ESA 2010).

¹² The indirect interest rate of Latvian general government debt was 1.2% in 2022, which is 27 basis points lower than the average of euro area countries with a similar and one grade higher credit rating for the year concerned.

¹³ The value of the ratio is established as a percentage by dividing the interest expense of the sub-programme 31.02. "Central Government Debt Management" in year n (reduced by the general budget revenue result from financial derivative instruments, the premium fixed at the issuance of securities, and revenue from borrowings with negative interest) by the amount of consolidated debt as at the end of year N-1 (by adding the currency result of financial derivative instruments linked to external borrowings and debt securities administered by the Treasury).

¹⁴ The value of the performance indicator is the difference between the ratio value of the current and preceding year in basis points, determined in accordance with the calculation methodology referenced in footnote 3 of the Operational Strategy of the Treasury. Overrun of the performance indicator in the current year is only permissible if transactions resulting in reduced interest expense in the medium and long term are effected within the central government debt management during the year concerned.

¹⁵ The indicator is met. Since February 2022, Russia's military aggression in Ukraine has maintained high uncertainty and volatility in the financial markets, increasing the credit risk level of the Baltic states, with investors temporarily becoming cautious regarding new investment transactions, as well as generally, over the year, adversely affecting the borrowing time, conditions (term) and, in some cases, even borrowing possibilities. In addition to the geopolitical tension in the region, all European countries faced energy security challenges, which were later reflected in a rapid increase in inflation, for the purposes of limiting whereof the European Central Bank repeatedly raised the base interest rates, thus causing an increase in market rates as well.

¹⁶ During the five-year period (2020-2024), negative numerical values of the performance indicator are allowed in certain years, provided that the performance indicator is fulfilled at the end of the five-year period, i.e., at the end of 2024.

¹⁷ In accordance with the technological maturity evaluation model according to which the level of technological maturity of the Treasury central government debt and debt and cash management process was assessed within the framework of the project implemented with the support of the European Commission Structural Reform Support Programme.

¹⁸ The indicator was not measured in 2022, taking into account the extension of the term for completion of the project "Digital Transformation of the Central Government Debt and Cash Management Process" implemented by the Treasury until 30 June 2023, accordingly, the implementation of the indicator will be measured in 2023.

2.6. Performance Indicators of the Operational Targets for Central Government Debt and Cash Management as Defined in the Operational Strategy of the Treasury

Table 4.

Performance indicators of the operational targets for central government debt and cash management

Result	Performance indicator	Numerical values of the performance indicator in 2022	
		Planned	Implemented
1. Availability of financial resources to cover the financing need at low debt servicing costs in the long term while ensuring the hedging of financial risks.	1.1. The indirect interest rate of Latvian general government debt ¹¹ does not exceed the average of euro area countries with a similar and one grade higher credit rating for the year concerned (the minimum positive deviation of the Latvian indicator from the euro area average, in basis points).	0	-27 ¹²
	1.2. Interest expense of the current year to the preceding year's central government debt ratio ¹³ does not exceed the relevant indicator of the preceding year by more than 20 basis points (deviation from the preceding year in basis points). ¹⁴	20	-62 ¹⁵
2. Regular offer of government securities in the internal financial market has been maintained.	2.1. Outstanding amount of government securities, which at the initial placement were issued in the domestic financial market at the end of the five-year period, is not less than the amount at the beginning of the five-year period (minimum difference between the outstanding amount of securities at the end of the relevant year and beginning of 2020, EUR million). ¹⁶	0	1 675
3. Digital transformation of the government debt and cash management process has been ensured.	3.1. At the end of 2022, the level of technological maturity of the central government debt and cash management process is at least one degree higher compared to the assessment at the end of 2019 (level at the end of the year ¹⁷).	3	Was not measured ¹⁸

2.7. Public Services Performance Indicators for Private Individuals in Central Government Debt and Cash Management

In accordance with that which is stated in Cabinet Regulation No. 399 of 4 July 2017 "Procedures for Accounting, Quality Control and the Provision of Public Administration

Services", in central government debt and cash management the Treasury provides two public administration services to private individuals – issues of savings bonds¹⁹ and investing of balances of funds.²⁰

In 2022, 405 savings bonds issues were fulfilled and five applications for investments of balances of funds were received. Service execution has been carried out in accordance

with the requirements of regulatory enactments, no delays in service execution have taken place, and no customer complaints have been received.

¹⁹ Natural persons (investor, being a natural person of at least 18 years of age).

²⁰ Legal entity of private law.

2. Central Government Debt and Cash Management

2.8. Assessment of Introduction of the Operational Strategy of the Treasury for 2020-2022 into the Central Government Debt and Cash Management and Further Development

The target and indicators of the operational direction – generally achieved.

Accomplishments for Implementing the Target of Operational Direction

1. Ensure refinancing of the central government debt obligations on favourable terms, by hedging financial risks in the long term.
 - The year 2020 has passed by under the shadow of the Covid-19 pandemic, resulting in a global economic downturn and significant fluctuations in financial markets. Likewise, the COVID-19 outbreak and the measures taken to limit it have had an adverse impact on Latvia's economic development and fiscal performance, triggering the need to urgently ensure financial coverage for government decisions to mitigate the impact of the Covid-19 outbreak and economic support measures in an emergency. In turn, the instability caused by COVID-19, in 2022, was replaced by high uncertainty and volatility in the financial markets caused by Russia's military aggression in Ukraine, increasing the credit risk level of the Baltic states, with investors temporarily becoming cautious regarding new investment transactions, as well as generally, over the year, adversely affecting the borrowing time, conditions (term) and, in some cases, even borrowing possibilities. In addition to the geopolitical tension in the region, all European countries faced energy security challenges, which were later reflected in a rapid increase in inflation, for the purposes of limiting whereof the European Central Bank repeatedly raised the base interest rates, thus causing an increase in market rates as well;
 - during the strategy period, the Treasury provided financial coverage to cover the overall financing need, including support measures for mitigating the impact of the Covid-19 outbreak and compensating for high energy prices, maintaining a high liquidity reserve in the Treasury accounts for the management of various risks and following the Central Government Debt and Cash Management Strategy. Financial resources were raised in the financial markets with optimal central government debt servicing costs of servicing under conditions of increased volatility and uncertainty, ensuring the diversification of the investor base, hedging financial risks and at the same time promoting the development

of the domestic financial market. In addition, in 2020, 2021 and 2022, financially advantageous borrowing opportunities from the Nordic Investment Bank and the European Commission (SURE) were used;

- in December 2021, for the first time in the country's history, sustainable Eurobonds were issued to support the development of Latvia and attract financing for measures and priorities directed towards mitigating the negative climate change impact, transition to climate neutrality and raising of wellbeing. Latvia became the first among the Baltic and Scandinavian countries to issue sustainable bonds. The transaction gained international recognition and received positive feedback from financial market participants, securities investors and counterparties of the Treasury. The established sustainable bonds framework will also allow one to issue such bonds in the future by attracting new investors, which is one of the conditions for the attraction of financial resources on favourable terms in the future as well;
- a coordinated process of determining country's credit rating, with Latvia's credit rating remaining in the high, investment-safe "A" group;
- cash management is ensured in fluctuating financial market conditions related to geopolitical factors and uncertainty about the future development of the global economy, under the most favourable conditions possible, ensuring liquidity risk management and prompt availability of liquid resources in the accounts of the Treasury to cover the financing need;
- validation of the existing *Cost at Risk* (CaR) econometric model was carried out in order to identify functional and technical operational errors or shortcomings of the CaR model and eliminate them, so that the model is fully used to simulate various borrowing scenarios, arriving at the baseline scenario with the most acceptable interest rate risk and debt servicing costs.

2. Continue measures to increase the liquidity of government securities.

- In 2020, the Treasury implemented measures aimed at improving the liquidity of government securities, by arranging an auction of Latvian Eurobonds in the domestic financial market via primary dealers for the first time. Since autumn of 2020, only additional issues of existing Eurobonds with different maturities have been offered at auctions in the domestic market, which allows the attraction of resources on more favourable terms and promotes the activity of the secondary market;
- The Treasury maintained the supply of government securities in regular auctions, using the capacity and potential of the domestic market, which allowed attraction of the historically largest volume of resources in the domestic financial

market in a short time, equalising borrowing costs and absorbing the risks of variable demand from investors;

- The Treasury maintained the supply of savings bonds, providing Latvian residents with a convenient, secure and, in the current financial market situation, also profitable investment opportunity, promoting financial literacy of the public and broadening the practical experience of residents in investing.
3. To optimise the central government debt and cash management process, by digitally transforming it.

Within the scope of the internal project of the Treasury, the digital transformation of the central government debt and cash management is being implemented, ensuring the automated loading of data in the Treasury's systems into the analytical and projection models that are used for taking financial management decisions, as well as developing Business Intelligence (BI) solutions for the availability of operational data, supervision of the indicators of the central government debt portfolio, credit risk supervision, evaluation and supervision of execution of various forecasts used in taking financial management decisions, as well as for ensuring regular information about the central government debt on the external website of the Treasury. The project is planned to be completed in the first half of 2023, significantly reducing the labour intensity of information and data processing used in the process of central government debt and cash management, in order to make better use of time and human resources for in-depth data analysis and taking financial management decisions. In implementing the project, it is expected to achieve a higher level of digital maturity of the central government debt and cash management process, which is planned to be assessed in 2023.

The key conclusions for the new strategic programming period (2023–2026)

- Ensure the maintenance and further development of the savings bond supply, incl. taking measures to popularise savings bonds and modernise their distribution channel;
- ensure the availability of government debt securities in the primary market for a wider range of investors, making better use of the potential of the domestic financial market and promoting its development;
- ensure the use of sustainable, social and/or green government debt securities as a regular borrowing instrument.

3. State Loan and Guarantee Management

Goal of the Operational Direction

To ensure the availability of financial resources (incl. long term) for the candidates for State loans in the form of a State loan on financially favourable terms through quality service, and to ensure the State guarantee supervision process, while limiting the credit risks of the State loans and guarantees.

3.1. 3.1. Description of the Situation and Development Trends

Candidates for State loans meeting the eligibility criteria defined by the Law on Budget and Financial Management²¹ and whose projects comply with the objectives of the Law, may operationally receive State loans within the limits set by the Central Government Annual Budget Law. The Treasury grants and services State loans, incl., supervises the proper performance of commitments, in line with Cabinet Regulations on the issue and servicing of State loans. By assessing the state loan portfolio and its structure, as well as by evaluating the repayment options of the state loan portfolio, the Treasury provides suggestions to the Minister of Finance on a regular basis regarding future actions for the supervision of the State loan portfolio.

It is important for the Treasury to ensure the availability of financial resources for the implementation of economically significant investment projects co-financed by the EU on financially favourable terms, thus reducing the non-implementation of projects or freezing risks (e.g., due to insufficient financial flows), and availability and quality risks of the services provided to citizens.

For the purpose of the further automation and digitisation of the State loan granting and service process, in 2022, the functionality of the Treasury's service *Aizņēmumi (Loans)* was improved by ensuring customers the possibility to electronically submit an application for early repayment of a State loan in *Aizņēmumi* and its further processing therein, reducing manual operations, simplifying and speeding up the process. Measures have been taken to implement the generation and signing of the standard-form loan agreements in *Aizņēmumi* using the data available in the system.

According to the procedure prescribed by the Cabinet, the Treasury takes part in the provision of State-issued guarantees, as well as regularly analyses and monitors the financial position of State-guaranteed project implementers.

When issuing State guarantees, all factual risks and their management are carried by the State. Therefore, to minimise the financial risks, the State loan is the primary financial instrument for ensuring the implementation of regionally and nationally significant projects. In turn, the State-issued support mechanism is to only be used for the loans issued by such international financial institutions, where the Republic of Latvia is a member State.

In 2022, timely and proper assessment of credit quality and adequacy of the provisions to cover potential losses built on that basis has been ensured. The determination and accounting of the value of security (collateral) has been significantly revised, facilitating the process of monitoring the borrowers and reducing the number of cases when it is necessary to submit an updated assessment by a certified appraiser, thus reducing the administrative and cost burden for the borrower during the term of the loan agreement.

3.2. State-Issued Guarantees

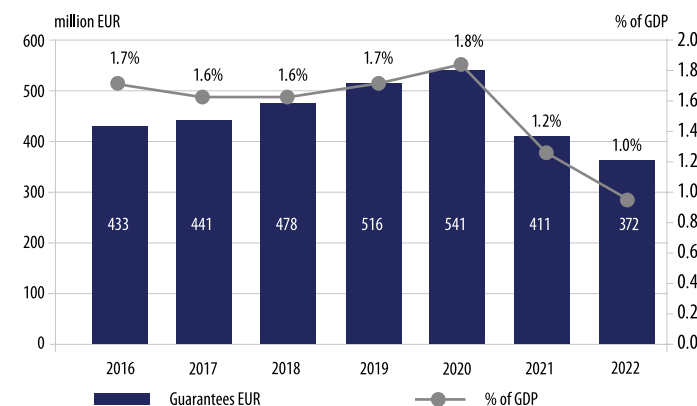
The State Budget Law for 2022 did not provide for granting new State-issued guarantees; however, it prescribed that, in line with the law On Agriculture and Rural Development and Development Financial Institution Law, the State, in the amount of EUR 270.0 million, shall be liable for the guarantees issued by the AS Attīstības finanšu institūcija Altum.

After the attack of the Russian Federation on Ukraine on 24 February 2022, the Law on Assistance to Ukrainian Civilians was immediately developed, which entered into force on 5 March 2022, and in accordance with Section 8.2 of this Law, the Republic of Latvia, on 11 July 2022, signed the State guarantee agreement with the International Bank for Reconstruction and Development (within the World Bank Group) for a loan to Ukraine of EUR 10.0 million and interest on the loan within the framework of the Public Expenditures for Administrative Capacity Endurance in Ukraine project. The deadline for repayment of the loan is planned for 15 August 2040. In turn, on 1 December 2022, the Republic of Latvia signed a guarantee agreement with the European Commission based on the decision on exceptional macro-financial assistance to Ukraine. The agreement stipulates that until 31 December 2058, the Republic of Latvia will guarantee the principal amount of the loan of EUR 8.1 million and the loan interest payments from 2028 till 2058.

At the end of 2022, the amount of State-issued guarantees was EUR 578.2 million, comprised of the disbursed but not yet repaid part of the State-issued guarantee in the amount of EUR 371.8 million and not yet disbursed but still available part of the State-issued guarantee in the amount of EUR 206.4 million. The total balance of the State-issued guarantees at the end of 2022 was EUR 371.8 million or 1% of GDP.

Figure 16.

Balance of State-issued guarantees at the end of the relevant year (million EUR)

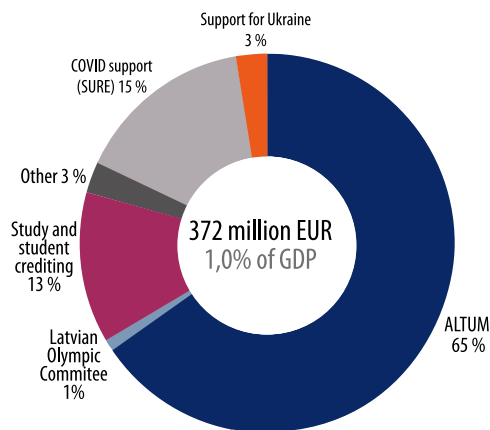


The largest share in the State issued guarantee portfolio was made up of guarantees to the AS Attīstības finanšu institūcija Altum for the guarantees issued by AS Attīstības finanšu institūcija Altum to credit institutions for farmers' borrowings (over-guarantees), guarantees to the European Investment Bank for loans issued by the AS Attīstības finanšu institūcija Altum within the framework of the business competitiveness improvement support programme and crediting the development of small and medium enterprises of Latvia (EUR 242.6 million), guarantees for crediting of studies and students (EUR 48.3 million), as well as, on the basis of the Law on Measures for the Prevention and Suppression of Threat to the State and Its Consequences Due to the Spread of COVID-19, a guarantee to the European Commission in the amount of EUR 57.1 million for Latvia's participation in SURE. In the future, it is expected that an increasingly larger share in the State-issued guarantee portfolio will be comprised of support to small and medium enterprises and implementation of other State support programmes.

²¹In accordance with the Law on Budget and Financial Management the State loans may be issued to local governments, State special budget implementers, capital companies where the State or local government share of the fixed capital, separately or combined, exceeds 50% and to capital companies formed by several local governments, where the combined local government share of the fixed capital exceeds 65%, as well as those scientific institutes and higher education establishments to which the status of a derived public person has been determined, and port authorities.

3. State Loan and Guarantee Management

Figure 17.
State-issued guarantee portfolio, by borrower on 31.12.2022



Despite the economic downturn caused by COVID-19, Russia's military invasion of Ukraine, the rise in global energy prices and the European Central Bank's multiple interest rate hikes, these factors have not had a significant impact on the fulfilment of the State-issued guarantees.

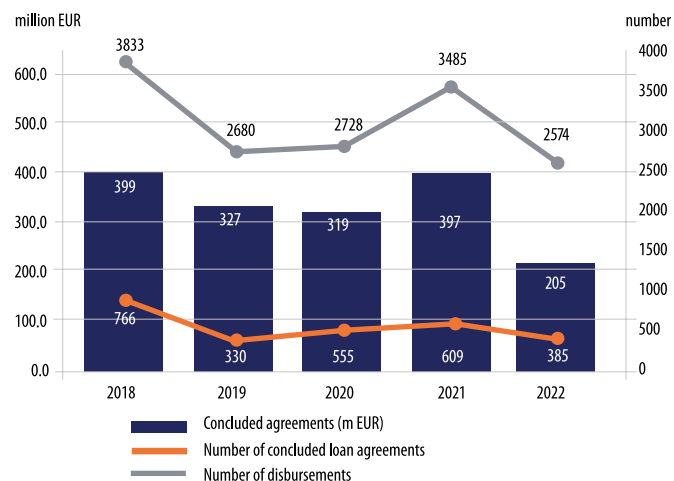
3.3. State Loans

The Law on State Budget for 2022 prescribed the total increase of the State budget loans in the amount of EUR 216.3 million, including the total increase of the local governments' borrowings by EUR 188.1 million.

In turn, the total State loan portfolio as at 31 December 2022 was EUR 2 124.3 million, which is EUR 165.7 million more than in 2021.

In the State loan credit portfolio, the largest share is still made up of loans to local governments in the amount of EUR 1 734.5 million, which have increased by EUR 116.6 million as compared to 2021.

Figure 18.
State loan dynamics (2018–2022)

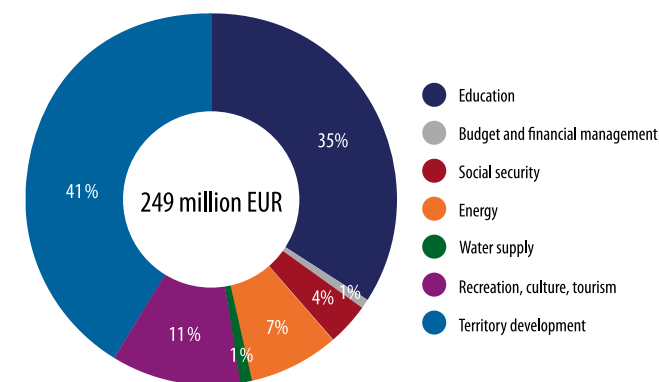


3.3.1. State Loans to Local Governments and Entities Managed and Funded by Local Government Bodies

In 2022, 385 State loan agreements were concluded for a total amount of EUR 205.4 million, of which 190 loan agreements were concluded for the total amount of EUR 65.3 million for mitigating and preventing the impact of the emergency situation in local governments due to the spread of COVID-19, 141 loan agreements for the total amount of EUR 114.0 million – for the implementation of the EU projects and budget and financial management, 54 loan agreements for the total amount of EUR 26.1 million – for the implementation of priority investment projects of each local government.

²² Economic unit performing the manufacture of goods or provision of non-financial services for the purposes of gaining profit or other benefits, for example, capital company, joint-stock company and sole proprietorship.

Figure 19.
State loans issued to local governments in 2022, by purpose



State loans in the amount of EUR 250.2 million or 78% of the total amount of State loans were issued to local government bodies, incl. EUR 249.1 million for local governments.

3.3.2. State Loans to Central Government Bodies

State loans in the amount of EUR 40.5 million or 13% of the total volume of the State loans have been granted to economic operators controlled and financed by public bodies²³, of which EUR 40.5 million was issued to the AS Attīstības finanšu institūcija Altum for the implementation of State aid (small and medium-sized enterprises, agriculture, start-ups, etc.) and EUR 1.9 million – to scientific institutes and universities for the implementation of projects co-financed by the EU (development of research infrastructure, improvement of energy efficiency in buildings, etc.).

3.3.3. State Loans to Non-Financial Corporations²²

State loans in the amount of EUR 29.3 million or 9% of the total volume of the State loans were granted to non-financial corporations, incl. State loans in the amount of EUR 27.0 million for local government capital companies for the implementation of projects co-financed by the EU, in order to ensure the provision of services of economic interest (implementation of heat supply, water supply and sewerage projects, etc.).

3. State Loan and Guarantee Management

3.4. Performance Indicators of the Operational Targets for State Loan and Guarantee Management as Defined in the Operational Strategy of the Treasury

Table 5.
Performance indicators of the operational targets for State loan and guarantee management

Result	Performance indicator	Numerical values of the performance indicator in 2022	
		Planned	Implemented
1. A customer-orientated central government lending and monitoring process on financially favourable terms ensured.	1.1. The amount of loans of local governments and their capital companies guaranteed by local governments from the Treasury is not less than 85% (of the total amount of borrowings by local governments and their capital companies guaranteed by local governments).	85	100
	1.2. Satisfaction with the quality of services received through the implementation of the central government lending process is not lower than 85% (% of customers surveyed ²³).	85	94
2. Timely and proper assessment of credit quality and adequacy of the provisions to cover potential losses built on that basis ensured.	2.1. For a borrower who has not made a regular payment of principal or interest provided for in a State loan or government guaranteed loan agreement, provisions have been made in advance for at least the amount of the outstanding payment (% of all cases).	100	100

²³In accordance with the requirements of documents governing the Treasury's quality management system, customer satisfaction surveys must be carried out at least once per three years. Both comprehensive customer surveys and surveys aimed at identifying satisfaction with a certain service, or satisfaction within and needs of a particular customer segment are carried out as necessary.

²⁴Legal entity of public law, legal entity of private law (capital companies, the shareholding of the central or local government in the share capital whereof separately or in total exceeds 50%, and the capital companies established by several local governments, with the shareholding of local governments in the share capital in total exceeding 65%, higher education institutions and scientific institutes (derived public persons), port authorities.

3.5. Public Services Performance Indicators for Private Individuals in State Loan and Guarantee Management

In accordance with that which is stated in Cabinet Regulation No. 399 of 4 July 2017 "Procedures for Accounting, Quality Control and the Provision of Public Administration Services", in State loan and guarantee management the Treasury

provides two public administration services to private individuals – State loan management and guarantee issuance and supervision.

In 2022, 35²⁴ loan applications were received from private individuals. Service execution has been carried out in accordance with the requirements of regulatory enactments, no delays in service execution have taken place and no customer complaints have been received.

3. State Loan and Guarantee Management

3.6. Assessment of Introduction of the Operational Strategy of the Treasury 2020-2022 into the State Loan and Guarantee Management and Further Development

The target and indicators of the operational direction – achieved.

Accomplishments for Implementing the Target of Operational Direction

1. To ensure an operational central government lending and loan servicing process, while maintaining the dominant role of local governments and their capital companies in the field of local government guaranteed loans.

- The amount of loans of local governments and their capital companies guaranteed by local governments from the Treasury achieved 100% of the total amount of borrowings by local governments and their capital companies guaranteed by local governments;
- for the purposes of enhancing the process of State loans, measures have been taken for the digitisation thereof, ensuring faster and more transparent granting and servicing of State loans based on the principles of service provision in line with modern standards, at the same time reducing the administrative burden.

2. To ensure customer satisfaction with the State Loan granting and servicing process, by providing the availability of this service and consultations in the *eAizņēmumi* electronic service system.

Customer satisfaction with the quality of the received State loan service reached 94%, which is indicative of a correct direction taken by the Treasury in digitising the loan granting and servicing process, making it intuitively perceivable for customers.

3. To ensure the State guarantee monitoring process.

- Regular analysis of the financial condition of the State-guaranteed project implementers and credit risk monitoring have been carried out;
- the necessary actions for granting a guarantee for the support of Ukraine have been carried out promptly and in due quality.

4. To make a timely assessment of deterioration of credit quality, by creating adequate provisions.

Timely and correct assessment of credit quality and the adequacy of the provisions created on the basis thereof have been ensured. The determination and accounting of the value of security (collateral) has been significantly revised, facilitating the process of monitoring the borrowers and reducing the number of cases when it is necessary to submit an updated assessment by a certified appraiser, thus reducing the administrative and cost burden for the borrower during the term of the loan agreement.

The key conclusions for the new strategic programming period (2023–2026)

- In order to promote the sustainable development of the financial market segment in Latvia and the movement towards climate neutrality, the Treasury will grant sustainable State loans for the projects aimed at mitigating the adverse impact of climate change;
- to continue the improvement and digital transformation of the State loan process, ensuring a high degree of digitisation of the service and efficient use of data.

4. Implementation of the Functions of the Certifying Authority of EU funds and Foreign Financial Assistance

Goal of the Operational Direction

To organise and standardise the fulfilment of the functions of the Certifying Authority in a manner that ensures compliance with the requirements of the Granting Authorities and regulatory enactments of the Republic of Latvia, timely receipt of funds from the Granting Authorities, and minimises the risk of ineligible expenditure being declared.

4.1. Description of the Situation and Development Trends

By implementing the functions of the Certifying Authority of the ERDF, the ESF, the CF, the European Economic Area Financial Mechanism and the Norwegian Government Financial Mechanism, the Treasury ensures accounting of the resources received and spent, prepares and submits statements to the Granting Authority confirming that the declared expenses comply with the requirements of the regulatory enactments, and performs other duties related to financial management. To ensure the approval of expenditures to be declared, the Treasury on the basis of risk assessment, carries out inspections/controls prescribed by laws and regulations, as well as analyses information in its possession and the possible effect on the eligibility of the expenditures to be declared, and adjusts the expenditures to be declared, if necessary.

It is important for the Certifying Authority, in cooperation with other institutions involved in the management of funds, not to allow for declaring doubtful expenditure, to preserve the trust of the Granting Authorities in Latvia's management and control system and to ensure the receipt of regular refunds. As the cases regarding suspicions of fraud and violations of competition norms in EU funds projects, as well as various other violations, *inter alia*, inclusion of the beneficiaries or their counterparties on the lists of sanctions, are increasingly appearing in the public space, it is essential to ensure a fast response management and control system.

To minimise manual operations, as well as to use data available in the management information system of the Cohesion Policy funds as far as possible, it is essential to pursue new system solutions to enhance the functionality of the preparation of reports.

4.2. Functions of the Certifying Authority in the 2014-2020 Programming Period

In this programming period, regulatory enactments of the European Commission²⁵ (Regulation No. 1303/2013) foresee the annual closing procedure, hence, the applications for payments have to be submitted in the current accounting year (period 01.07.N-30.06.N+1), and, as the accounting year concludes, a closing balance of accounts must be submitted.

In 2022, the Treasury continued submitting regular payment applications to the European Commission and receiving payments. In 2022, the amount of expenditures to be declared has decreased as compared to 2021 (see Figure 18), which is in line with that which was forecast by the Managing Authority. In addition, the amount of expenditures declared was influenced by deductions carried out considering the so-called "builders' cartel" case, as well as taking into account other eligibility risks established by the controlling authority (*inter alia*, auditors of the European Commission). According to the forecasts of the Managing Authority, the amount of expenditures to be declared will increase in 2023 and 2024, taking into account the fact that 2023 is the final year when the beneficiary can make project expenditures, therefore all open issues regarding the eligibility of expenditure must be resolved and decisions regarding expenditure withheld for the purposes of sound financial management must be taken before that.

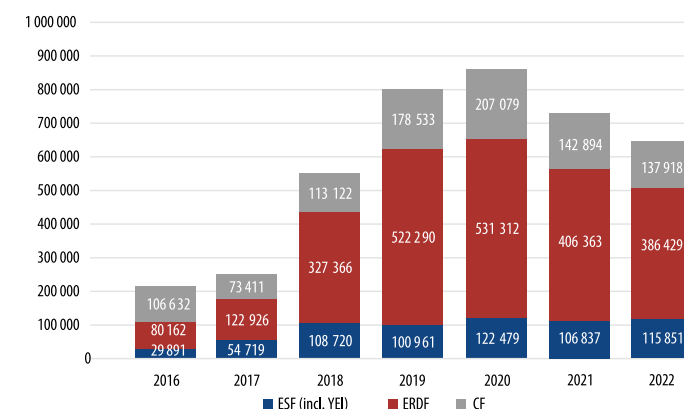
On 25 February 2022, the set of account closure documentation was submitted to the European Commission for the accounting year from 1 January 2020 till 30 June 2021:

- 1) The closure of accounts prepared by the Treasury as the Certifying Authority²⁶;
- 2) Governance declaration and the annual summary for the previous year prepared by the Ministry of Finance as the Managing Authority;
- 3) The annual control report and opinion prepared by the Ministry of Finance as the Audit Authority.²⁷

The European Commission accepted it on 20 May 2022, specifying that the documentation is complete, correct and true.

Figure 20.

Amount of expenditures declared to the European Commission (thousand EUR)



4.3. Functions of the Certifying Authority for the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021

Within the framework of this period, the financing available to Latvia is EUR 94.4 million (incl. EUR 9.0 million to be administered by the Financial Instrument Office and Innovation Norway). Latvia implements six programmes, as well as the Technical Assistance Project and the Bilateral Cooperation Fund. Mid-term financial reports were submitted to the Financial Instrument Office, requiring EUR 7 107 thousand from the donor states. For the submitted reports, repayments have been received in full.

²⁵ Regulation (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down the common provisions on the ERDF, the ESF, the CF, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the ERDF, the ESF, the CF and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No. 1083/2006.

²⁶ RAnnex 12 to Regulation (EU) No. 1011/2014 – Report on Transactions Included in the Payment Application to the European Commission.

²⁷ On the effectiveness of the created system, eligibility of the expenditures declared to the European Commission and the conformity thereof to the regulatory framework, truthfulness and objectivity of information provided in the reports (including the governance declaration).

4. Implementation of the Functions of the Certifying Authority of EU funds and Foreign Financial Assistance

4.4. Performance Indicators of the Operational Targets Defined in the Operational Strategy of the Treasury for the Implementation of the Functions of the Certifying Authority of the EU Funds and Foreign Financial Assistance

Table 6.
Performance indicators of the operational targets for the implementation of the functions of the Certifying Authority of the EU Funds and Foreign Financial Assistance

Result formulation	Performance indicator	Numerical values of the performance indicator in 2022	
		Planned	Implemented
A positive rating ²⁸ of the Certifying Authority's management and control system by external auditors.	Assessment of the Certifying Authority's management and control system by external auditors is not below "2".	2	1 ²⁹

The target and indicators of the operational direction – achieved.

Accomplishments for Implementing the Target of Operational Direction

- To ensure a regular flow of European Union Fund payments from the European Commission by the timely submission of reports of eligible expenditures.
 - A positive annual rating of the Certifying Authority's management and control system by external auditors received;
 - all requests for funds and reports were prepared in accordance with the principles of sound financial management and requirements of the regulatory enactments, and refunds of funds for them have been received in full, thereby ensuring a regular flow of payments received from the Granting Authorities.
- Streamline the functionality of the management information system of the Cohesion Policy Funds for the preparation of reports.

In order to improve the functionality of the payment application and account closure preparation in the management information system of the Cohesion

Policy Funds and its compliance with the requirements of the European Commission, a series of improvements have been implemented in cooperation with the Central Finance and Contracting Agency, as a result of which the correct reflection of irregularities in the reports has been ensured, as well as the traceability of these transactions to third parties, in cases when such are found in payment requests paid in several instalments. An opportunity to automatically read additional detected irregularities into the report has been ensured (up to now adjustments were entered manually), as well as the correct reflection of the new REACT-EU funding in the reports has been ensured.

- To create the management and control system for the implementation of the new EU Funds Programming Period 2021-2027.

Measures have been ensured for the creation of the management and control system of the Accounting Authority of the new EU Funds Programming Period 2021-2027: support has been provided to the Ministry of Finance in the development of regulatory enactments, proposals provided to the Central Finance and Contracting Agency regarding the necessary improvements for performing data analysis and the necessary changes for ensuring the preparation of reports of the information system of the management of the Cohesion Policy Funds.

The key conclusions for the new strategic programming period (2023-2026)

- Along with the closure of eligibility period of the EU Funds 2014-2020 (31 December 2023), the necessary measures to close the programme must be taken, in cooperation with the involved institutions;
- The Treasury will perform the functions of the Accounting Authority within the scope of the EU Funds 2021-2027, which are generally similar to the functions of the Certifying Authority, and according to the draft framework agreement, it is planned that the Treasury will perform the functions of the Paying Authority for the second period of the Swiss Cooperation Programme (2019-2029). In order to ensure these new functions, it is necessary to create a management and control system, observing good practice, standardising test methods and making use of the process digitisation possibilities.

5. Accounting and Bookkeeping Service

Goal of the Operational Direction

In line with the best practice of EU Member States and decision of the Cabinet, to create a shared service centre, over the medium term, for the provision of standardised accounting and bookkeeping services to the State direct administration institutions, by means of integrated personnel records, accounting and bookkeeping and the budget implementation information system, thus ensuring the effective and rational use of the resources and credible, high-quality and reusable data.

5.1. Service Provision and Development Trends

In line with the move towards a small and efficient public administration, inter alia, by centralising support functions, the Treasury continues providing and developing the accounting and bookkeeping service for a number of central government budget institutions, providing them with equalised bookkeeping of accounting transactions, promoting the uniformity of information required for taking management decisions and data quality, the preparation of financial statements in accordance with uniform basic principles, as well as maintains an information system of personnel records and the operational exchange of information.

The long-term development goal of the service is, in line with the best practice of the EU Member States, to create a shared service centre for the provision of standardised accounting and bookkeeping to the State institutions, by means of integrated personnel records, accounting and bookkeeping and the budget implementation information system, thus ensuring the effective and rational use of the resources and credible, high-quality and reusable data.

For further centralisation of the support functions of the direct public administration, the project of the European Union Technical Support Instrument "Development of the shared services centre system for the Public sector in Latvia" performed by the State Chancellery and the Treasury within the framework of the Structural Reforms Support Programme, in cooperation with the European Commission, involving the international consulting company SIA "PricewaterhouseCoopers", was implemented. Within the framework of the project, comprehensive analysis was carried out and proposals were prepared for the creation of a shared service centre ecosystem, including the most suitable centralisation model for the support functions of the direct public administration (accounting, personnel records, financial management

and human resources management), the scope of centralisation of institutions and proposals for the gradual shift of institutions thereto, developed high-level standardised and uniform cooperation processes throughout the entire public administration for their implementation in a centralised information system solution. Based on the results of the project, a concept note "On the Creation of a Shared Service Centre" was developed for the review thereof by the Cabinet, providing for a comprehensive analysis validated by independent consultants, so that the Cabinet can take a decision on the creation of a Shared Service Centre, the scope of centralisation, the timetable, the financing model and the results to be achieved in the short term and long term.

In 2022, the Treasury provided the accounting and bookkeeping service to 12 central government budget institutions in total: the State Chancellery, School of Public Administration, Cross-Sectoral Coordination Centre³⁰, National Electronic Mass Media Council, Ministry of Finance, Procurement Monitoring Bureau, Lotteries and

Gambling Supervisory Inspection, the Treasury, State Revenue Service, Central Finance and Contracting Agency, Fiscal Discipline Council and Public Electronic Mass Media Council.

5.2. Performance Indicators of the Operational Targets for the Provision of the Accounting and Bookkeeping Service as Defined in the Operational Strategy of the Treasury

Table 9

Performance indicators of the operational targets for the provision of accounting services

Result formulation	Performance indicator	Numerical values of the performance indicator in 2022	
		Planned	Implemented
1. Accounting service to central government budget institutions provided.	1.1. Central government budget institutions receiving the accounting service provided by the Treasury (number) ³¹	11	12
2. The Treasury's customer expectations have been identified, and the provided services have been improved accordingly.	2.1. Satisfaction with the quality of the accounting and bookkeeping service received is not lower than the determined numeric value (%). ³²	70	84
3. Unified use of information systems' self-service portal modules.	3.1. Usability of information systems' self-service portal modules (% of total number of modules attributable to the institution).	97	99

³⁰ Liquidated, by merging into the State Chancellery from 2023.

³¹ Numerical value of the performance indicator may be specified according to the decisions taken on the further development of the service.

³² In accordance with the requirements of documents governing the Treasury's quality management system, customer satisfaction surveys must be carried out at least once per three years. Both comprehensive customer surveys and surveys aimed at identifying satisfaction with a certain service, or satisfaction within and needs of a particular customer segment are carried out as necessary.

5. Accounting and Bookkeeping Service

5.3. Assessment of Introduction of the Operational Strategy of the Treasury for 2020-2022 into the Provision of Accounting and Bookkeeping Service and Further Development

The target and indicators of the operational direction – achieved.

Accomplishments for Implementing the Target of Operational Direction

1. To provide standardised accounting services to central government budget institutions, ensuring customer satisfaction.
 - In 2022, the Treasury provided the accounting and bookkeeping service to 12 central government budget institutions;
 - in 2022, satisfaction with the quality of the accounting and bookkeeping service achieved 84%, exceeding the planned ratio.

 2. In cooperation with the State Chancellery, by 20 December 2022, based on the results achieved within the scope of the project of the European Union Technical Support Instrument, in accordance with the established procedure, to prepare and submit the Minister of Finance the concept note “Concept of the Shared Services Centre” for review by the Cabinet.
 - In cooperation with the State Chancellery, in 2021 the Treasury prepared an information report “Regarding Centralisation of Bookkeeping and Personnel Accounting Functions in State Administration” whereby information about the degree of centralisation of the existing bookkeeping and personnel accounting processes was provided; an application was prepared and approval was obtained from the European Commission’s Directorate-General for Structural Reform Support regarding the feasibility study for the unified service centre within the framework of the Technical Support Instrument; the reform was conceptually integrated and harmonised in the Recovery and Resilience Facility Plan for Latvia and Digital Transformation Guidelines for 2021-2027, as well as further steps in the implementation of centralisation and establishment of the uniform service centre were set out;
- the EU Technical Support Instrument project “Development of the shared services centre system for Public sector in Latvia” has been implemented, in cooperation with the State Chancellery and the European Commission, involving the international consulting company SIA “PricewaterhouseCoopers”, using the Structural Reforms Support Programme;
 - within the framework of the project, comprehensive analysis was carried out and proposals were prepared for the creation of a shared service centre ecosystem, including the most suitable centralisation model for the support functions of the direct public administration (accounting, personnel records, financial management and human resources management), the scope of institutions in the centralisation model and proposals for the gradual shift of institutions thereto, developed standardised and uniform processes throughout the entire public administration for their implementation in a centralised information system solution. Based on the results of the project, a concept note On the Creation of a Shared Service Centre was developed for the review thereof by the Cabinet, providing for comprehensive analysis validated by independent consultants, so that the Cabinet can take a decision on the creation of a Shared Service Centre, the scope of centralisation, the timetable, the financing model and the results to be achieved in the short term and long term.

The key conclusions for the new strategic programming period (2023-2026)

- In accordance with the progress towards small and efficient public administration and the centralisation of support functions, the Treasury continues to provide and develop accounting services to the direct public administration institutions;
- the long-term development objective of the service is to create a shared service centre according to the best practice of the EU member States that provides standardised and centralised services of public administration support functions to institutions in order to promote efficiency, digitisation and optimal use of the State funds. The Treasury will provide the institutions with a unified information system solution for budget planning and financial management, as well as will ensure financial accounting and bookkeeping services, centralising both the current workload of accounting positions and information technology solutions.

6. Governance of the Institution

Goal of the Operational Direction

To shape a modern public administration institution with professional, innovative, self-development and cooperation-orientated employees in a supportive working environment for achieving the strategic objectives of the Treasury.

6.1. Funding of the Treasury and the Spending Thereof

In 2022, resources for covering expenditure in the budget of the Treasury were comprised of a grant from the general revenue.

In 2022, the Treasury (within the institutional sector of the Ministry of Finance) implemented the following basic budget programmes and sub-programmes:

- 1) Programme 31.00.00 "Central Government Budget Implementation and Central Government Debt Management":
31.01.00 Sub-Programme "Budget Implementation";
31.02.00 Sub-Programme "Central Government Debt Management";
- 2) Sub-Programme 41.03.00 "Contributions to International Organisations";
- 3) Sub-Programme 63.20.00 "Technical Assistance for the Absorption of the European Social Fund (ESF) (2014–2020)";
- 4) Sub-Programme 71.05.00 "Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Government Bilateral Financial Mechanism";
- 5) Programme 99.00.00 "Use of Funds for Unforeseen Events".

The objective of the Sub-Programme "Budget Implementation" is to ensure efficient and economical central government general budget implementation and supervision, and the compliance of the services provided by the Treasury with the best financial management practice.

The objective of the Sub-Programme "Central Government Debt Management" is to ensure, in a timely manner, the availability of financial resources for covering the funding needs of the central government debt at low service costs in the long term, while hedging financial risks and at the same time contributing to the development of the domestic financial market.

The objective of the Sub-Programme "Contributions to International Organisations" is to ensure the fulfilment of the financial obligations of the Republic of Latvia, by performing, in a timely manner and to a full extent, the annual membership fees to the international financial organisations, as well as performing the payments into the capital and/or reserves of such international financial institutions, where the Republic of Latvia is the holder of the capital shares, ensuring the fulfilment of the assumed obligations, inter alia, Latvia's participation in the financing mechanism of the International Monetary Fund "Financial Transactions Plan".

The objective of the Sub-Programme "Technical Assistance for the Absorption of the European Social Fund (ESF) (2014–2020)" is to ensure funding for the implementation of the project financed by the ESF. The objective of the project is to build the capacity of the Treasury, in order to ensure the quality and efficient performance of the functions of the Certifying Authority of the EU Funds, as well as to raise the qualification of the employees of the Certifying Authority, by attending training, conferences, seminars and other events.

The objective of the Sub-Programme "Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Government Bilateral Financial Mechanism" is to ensure funding for the implementation of the project financed by the European Economic Area Financial Mechanism and the Norwegian Government Bilateral Financial Mechanism.

Within the scope of the Programme "Use of Funds for Unforeseen Events":

- 1) compensation is paid in accordance with Sub-clause 45.2 of Cabinet Regulation No. 421 of 17 July 2018 "Procedures for the Introduction of Amendments to the Appropriation Prescribed by the Annual State Budget Law" – disbursement of compensation to politically repressed persons, whose administrative exile from the Latvian SSR has been recognised as unjustified, and to persons subject to increased taxes and duties, followed by the deprivation of property, eviction from houses or apartments, or who were avoiding political repression of the communist regime, if the political repression prepared against them is documentarily proven;
- 2) resources are granted for expenditure unforeseen in the central government basic budget appropriations for preventing the consequences of catastrophes and natural disasters, compensating the losses caused thereby, ensuring the tasks of the public administration in cases where contractual obligations are not fulfilled and a contractual penalty or interest payment is charged or withheld from the counterparty for default on obligations, other unforeseen cases and for events of particular national importance.

6. Governance of the Institution

Table 10.
Central government basic budget financing and the spending thereof
(summary by all (MoF institutional) programmes, EUR)

Nr. p.k.	Financial indicators	In the previous year	In the reporting year	
			(actual implementation)	actual implementation
1.	Financial resources for covering expenditures (total)	236 264 037	214 270 094	213 490 710
1.1.	Grant from the general revenue	236 264 037	214 270 094	213 490 710
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	233 220 320	182 081 087	181 463 540
2.1.	Maintenance costs (total)	231 758 482	181 185 369	180 608 581
2.1.1.	Running costs	11 154 108	11 801 235	11 382 414
2.1.2.	Interest expense	220 402 527	164 276 684	164 128 135
2.1.3.	Subsidies, grants and social benefits	104 057	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	97 790	5 107 450	5 098 032
2.1.5.	Maintenance cost transfers			
2.2.	Expenditure for capital investments	1 461 838	895 718	854 959
3.	Financial balance	3 043 717	32 189 007	32 027 170
4.	Financing	-3 043 717	-32 189 007	-32 027 170
4.2.	Shares and other holdings in the equity of economic operators	-3 043 717	-32 189 007	-32 027 170

6. Governance of the Institution

Table 11.
Central government basic budget financing and the spending thereof
for the basic budget programme "Budget Implementation and Central
Government Debt Management" (EUR)

Nr. p.k.	Financial indicators	In the previous year	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	232 816 955	176 749 875	176 146 834
1.1.	Grant from the general revenue	232 816 955	176 749 875	176 146 834
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	232 816 955	176 749 875	176 146 834
2.1.	Maintenance costs (total)	231 355 117	175 854 157	175 291 875
2.1.1.	Running costs	10 952 590	11 577 473	11 163 740
2.1.2.	Interest expense	220 402 527	164 276 684	164 128 135
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	1 461 838	895 718	854 959
3.	Financial balance	0	0	0
4.	Financing	0	0	0

6. Governance of the Institution

Table 12.
 Central government basic budget financing and the spending thereof
 for the basic budget programme "Budget Implementation" (EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	9 622 101	9 602 999	9 324 998
1.1.	Grant from the general revenue	9 622 101	9 602 999	9 324 998
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	9 622 101	9 602 999	9 324 998
2.1.	Maintenance costs (total)	8 160 263	8 707 281	8 470 039
2.1.1.	Running costs	8 160 263	8 707 281	8 470 039
2.1.2.	Interest expense	0	0	0
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	1 461 838	895 718	854 959
3.	Financial balance	0	0	0
4.	Financing	0	0	0
4.1.	Increase (-) or decrease (+) in the change of balances of funds from chargeable services and other own revenues	0	0	0

6. Governance of the Institution

Table 13.
Central government basic budget financing and the spending thereof
for the basic budget sub-programme “Central Government Debt
Management” (EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	223 194 854	167 146 876	166 821 836
1.1.	Grant from the general revenue	223 194 854	167 146 876	166 821 836
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	223 194 854	167 146 876	166 821 836
2.1.	Maintenance costs (total)	223 194 854	167 146 876	166 821 836
2.1.1.	Running costs	2 792 327	2 870 192	2 693 701
2.1.2.	Interest expense	220 402 527	164 276 684	164 128 135
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	0	0	0

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Table 14.
Central government basic budget financing and the spending thereof
for the basic budget sub-programme “Contributions to International
Organisations” (EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	3 141 507	32 296 457	32 125 202
1.1.	Grant from the general revenue	3 141 507	32 296 457	32 125 202
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	97 790	107 450	98 032
2.1.	Maintenance costs (total)	0	0	0
2.1.1.	Running costs	0	0	0
2.1.2.	Interest expense	0	0	0
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	97 790	107 450	98 032
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	0	0	0
3.	Financial balance	3 043 717	32 189 007	32 027 170
4.	Financing	-3 043 717	-32 189 007	-32 027 170
4.1.	Shares and other holdings in the equity of economic operators	-3 043 717	-32 189 007	-32 027 170

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Table 15.
Central government basic budget financing and the spending thereof
for the basic budget sub-programme
“Technical Assistance for the Absorption of the European Social Fund
(ESF) (2014-2020)” (EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	172 389	200 633	196 755
1.1.	Grant from the general revenue	172 389	200 633	196 755
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	donations and gifts	0	0	0
2.	Expenditure (total)	172 390	200 633	196 755
2.1.	Maintenance costs (total)	172 390	200 633	196 755
2.1.1.	Running costs	172 390	200 633	196 755
2.1.2.	Interest expense	0	0	0
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	0	0	0

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Table 16.
Central government basic budget financing and the spending thereof
for the basic budget sub-programme
“Technical Assistance for the Absorption of the European Economic
Area and the Norwegian Financial Mechanism” (EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	29 129	23 129	21 919
1.1.	Grant from the general revenue	29 129	23 129	21 919
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	29 129	23 129	21 919
2.1.	Maintenance costs (total)	29 129	23 129	21 919
2.1.1.	Running costs	29 129	23 129	21 919
2.1.2.	Interest expense	0	0	0
2.1.3.	Subsidies, grants and social benefits	0	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	0	0	0
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	0	0	0

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Table 17.
Central government basic budget financing and the spending thereof
for the basic budget programme “Use of Funds for Unforeseen Events”
(EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
1.	Financial resources for covering expenditures (total)	104 057	5 000 000	5 000 000
1.1.	Grant from the general revenue	104 057	5 000 000	5 000 000
1.2.	Chargeable services and other own revenue	0	0	0
1.3.	Foreign financial assistance	0	0	0
1.4.	Transfers	0	0	0
1.5.	Donations and gifts	0	0	0
2.	Expenditure (total)	104 057	5 000 000	5 000 000
2.1.	Maintenance costs (total)	104 057	5 000 000	5 000 000
2.1.1.	Running costs	0	0	0
2.1.2.	Interest expense	0	0	0
2.1.3.	Subsidies, grants and social benefits	104 057	0	0
2.1.4.	Regular payments into the European Community budget and international cooperation	0	5 000 000	5 000 000
2.1.5.	Maintenance cost transfers	0	0	0
2.2.	Expenditure for capital investments	0	0	0

State Procurements

The Treasury undertakes procurements in accordance with the Public Procurement Law by applying an open tender, negotiated procedure and a procurement procedure pursuant to Section 9 and Section 10 of the Public Procurement Law. For undertaking the procurement, the Treasurer establishes, based on its order, a procurement committee that is competent within the field of procurement in respect of which the contract is being awarded. Procurements are registered and the performance of contracts is monitored in the Centralised Resource Management System *Horizon*. In 2022, the Treasury undertook ten procurements (excluding procurements valued under EUR 10 000 and procurements undertaken via the electronic Procurement System sub-system “e-orders”) and, as a result thereof, awarded contracts worth EUR 3 213 086, excluding VAT.

6. Governance of the Institution

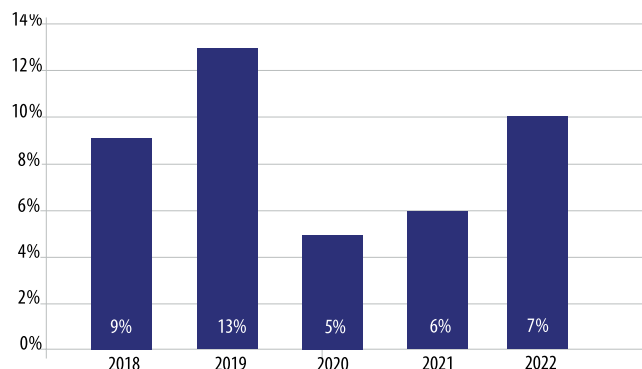
6.2. Work Environment

In 2022, the employees of the State Treasury continued to mainly ensure the performance of functions and tasks remotely, following the “Guidelines for Ensuring Flexible Work” of the StateChancellery. The remote work introduced in public administration, inter alia, the Treasury, during the emergency situation of the COVID-19 pandemic, by ensuring the fulfilment of the functions of the Treasury and the continuity of services, has made it possible to save financial resources (administrative and work premises maintenance expenses), promote digital transformation, sustainability, incl. by attracting specialists from Latvia’s regions to work in the Treasury, as well as to balance work and private life for employees, by shaping a new – modern, inclusive, efficient and flexible work organisation model and culture, developing a long-term work model of the Treasury. The purpose of the project was not only to adapt to the changing work environment and strive for efficient and effective use of premises (during the implementation of the project, by taking a decision to abandon one of the Treasury’s office buildings and working areas of the structural units), but also to promote the quality of the employees’ work life. The developed work environment model envisages an activity-based work environment, giving the employee the opportunity to choose the most appropriate and productive work environment for the performance of specific duties. In the new office, it is possible to carry out various activities and work tasks, to move freely around the work premises and to working where it is most convenient to complete the specific task, observing the functional zoning of the premises. When working remotely, technical support is important, so the new work model includes technologies suitable for different work environments, such as suitable equipment for conducting hybrid meetings. In order to be able to use these modern, activity-based premises and modern technological solutions as comfortably and efficiently as possible, as well as for employees to achieve common and individual goals, communication, culture and work quality management forms an essential part of the developed model. The project recommends a structured and clear approach to organising internal communication and promoting mutual cooperation, as well as developed basic principles for managing work quality and ensuring clear cooperation.

6.3. Personnel and Personnel Management

The Treasury is characterised by experienced and knowledgeable employees demonstrating loyalty and striving for the highest quality standards on a daily basis. In general, the conservative culture of cooperation transforms into a focused, purposeful and development-orientated environment. The main driver of change is the influx of new ideas through employee turnover, openness to development and new trends, as well as a clear vision of the future.

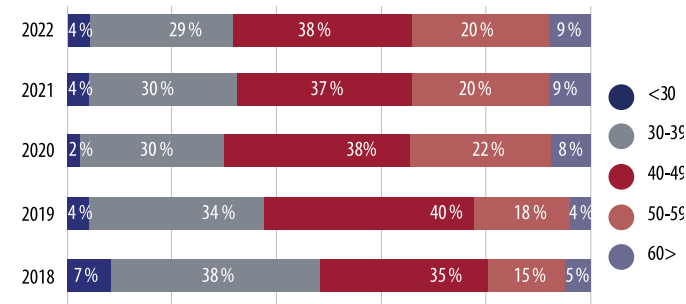
Figure 21
Percentage of dismissed personnel of actually working employees (2018-2022) (%)



The Treasury can take pride in a high employee net promoter score (eNPS=54), which proves that the development and changes of the image of the employer go hand in hand with the vision of the employees about the institution. eNPS is confirmation that the institution has managed to create a development-orientated synergy between experience, since more than half of the employees have more than ten years of service, and newcomers, since the healthy turnover allows employees from different backgrounds and generations to flow into the Treasury.

In addition to satisfaction and involvement, the Treasury, taking care of the well-being and welfare of employees, ascertains the frequency of encouraging and disturbing feelings in daily work on a quarterly basis. Emotional climate index study clearly shows that the employees experience encouraging feelings (independent, informed,

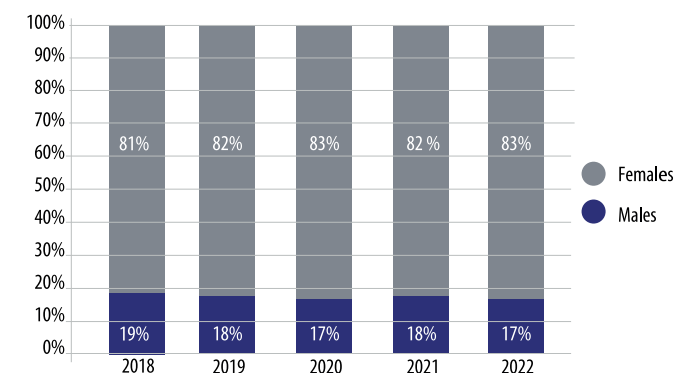
Figure 22.
Breakdown of Treasury personnel by age (2018-2022) (%)



appreciated, productive and happy), on average, significantly more often than the disturbing ones (exhausted, worried, stressed, distracted, unfair).

In 2022, the number of positions in the State Treasury remained unchanged (213). In 2022, the average number of employees, including civil servants and employees on a long-term leave of absence, comprised 202, incl. 158 civil servants and 44 employees. 95% of employees have attended at least two organised training or development sessions during the last year. The focus of competence development is on digital skills, which are directly correlated with the assessment of work quality, and leadership, where a team leader development programme was launched in 2022 to strengthen the role of the leader as a driving force in the development of competences and the achievement of goals.

Figure 23.
Breakdown of Treasury personnel by gender (2018-2022) (%)



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6.4. Quality, Risk and Information Security Management

Since 2006, the Treasury's quality management system has been certified in accordance with the requirements of the international standard ISO 9001 "Quality management systems. Requirements". Over these years, the Treasury has introduced and efficiently maintained process management and monitoring, planning and reaching of goals, monitoring of external and internal factor influences, risk management, organised communication processes, identification of stakeholders and inclusion of their requirements in the institution's processes of operation, as well as employee professionalism, engagement and awareness of management decisions.

Risk management is an essential part of the Treasury's management processes, which facilitates the achievement of the Treasury's objectives and the efficient management of processes and projects. Risk management in the Treasury is directed towards the identification of risks and the reduction thereof to an acceptable level, the use of potential opportunities and the facilitating of conformity with good management principles.

In order to ensure that the services provided by the Treasury are of high quality and secure, by giving special attention to the operational stability and reliability of information processing systems, information security management is one of the Treasury's constant priorities.

Integrated Quality Management and Information Security Management Systems of the Treasury are certified in accordance with the requirements of the standards ISO 9001:2015 and ISO 27001:2013. In February 2022, the monitoring audit of the integrated management system of the Treasury has been performed successfully.

In 2022, the experience of organisations and examples of good practice were analysed in the study of the improvement of the quality management system of the Treasury. Results of the study confirm that the integrated management system (quality and information security management) established in the Treasury ensures stable operation of the institution, a good basis for operational continuity and prompt response in crisis situations. In turn, good practice examples show that a combined approach is common in organisations – where the existing procedures guarantee the operational compliance, while efficiency methods provide for development opportunities and the provision of competitiveness. In assessing the framework of the internal control system of the Treasury, the *European Foundation for Quality*

Management Excellence model (EFQM) was determined as the next level of quality for the development of the activity of the Treasury and the movement towards a sustainable quality culture.

By continuing to improve the management of project and development measures, incl. resource planning, record-keeping of the time spent and execution reports, the Treasury continues to use the *Redmine* tool and prepares execution reports in the *Power BI* tool, and thus, information structured in various dimensions is available to the management.

6.5. Internal Control System

The internal control system of the Treasury has been established on the basis of broad key constituents of the internal control system: the control environment, job performance appraisal, risk management, control activities, monitoring, an efficient flow of information and mutual communication.

The Treasury has established a control environment culture by ensuring that its operations comply with the quality management system and the code of ethics, facilitating the engagement of employees in the improvement of the internal control system. The Treasury has such an organisational structure in place that clearly defines responsibilities and powers, segregation of duties and reporting procedures. Risk management and quality management systems in the Treasury are embedded in the daily operations and project management, shifting the control activities of the Treasury from corrective to preventive. The processes of the Treasury and the controls applied in implementing them have been set out in the internal documents governing the quality management system.

The Treasury monitors the internal control system by applying the process management approach, measuring the process performance indicators, using the strategic management process, analysing the Treasury's performance, carrying out internal audits, and by implementing the recommendations provided within the scope of internal audits and other assessments with a view to improving the performance of the internal control system.

The results of internal audits performed in 2022, as well as the process of implementation of audit recommendations, attested to the fact that the Treasury's internal control system is functioning and the assessed controls are generally

adequate, sufficient and efficient, providing plentiful assurance that the Treasury's risks are being managed and the institutional objectives are being met.

The internal control system ensures the execution of the defined institutional goals in accordance with the strategic objectives and in compliance with the requirements laid down in the external and internal regulatory enactments and documents.

The Treasury has been continuously improving its processes by adhering to the examples of best practice and the experience of organisations of the financial sector.

6.6. Public Communication, Customer Survey

The Treasury's image is built by professional teamwork, jointly developing a trusted and appreciated institution.

Considering the functions delegated to the Treasury, its communication focuses primarily on rendering inter-institutional services, informing customers and other stakeholders³³, as well as targeted management of counterparty relations – provision of information to foreign and international financial institutions, credit rating agencies, and securities investors who use the information provided by the Treasury on public debt management, performance indicators and future trends, and current developments in the Latvian financial sector.

The Treasury regularly informs the mass media about the matters falling within its scope of competence: it prepares and distributes press releases, provides interviews, and replies to questions of interest to the mass media.

On the website of the Treasury www.kase.gov.lv information about the institution and its functions is available, information on the latest developments at the Treasury is posted and updated on the website on a regular basis, and it is also possible to ask questions and file submissions in electronic form. Visitors to the website can receive prompt answers to their enquiries, whereas the Treasury has the opportunity to familiarise itself with the issues that are of interest to the customers and stakeholders, and, if necessary, prepare more in-depth information to be posted on the website and distributed to the customers and stakeholders, as well as identify potential problems and prevent them.

³³ A person or a group of persons that can have a direct or indirect influence or be influenced as a result of a decision or action of the Treasury.

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In order to build two-way communication with the general public, counterparties and other stakeholders more actively, thus promoting awareness of the competences of the Treasury, the Treasury also communicates through its profile on the social networks *Facebook*, *LinkedIn*, *Twitter* and *YouTube*.

A secure investment opportunity has been opened up for Latvian residents – savings bonds, the purpose of which is to provide an opportunity for every Latvian resident to purchase government securities, thus temporarily entrusting their money to the State. The website www.krajobligacijas.lv was created for making purchases of savings bonds, and it provides all of the necessary information and explanations for purchasing savings bonds.

In 2022, in order to assess satisfaction with the services provided and to find out the needs of customers, the Treasury, in cooperation with the research centre “SKDS”, organised an internet survey to find out the satisfaction of customers and cooperation partners and to identify the necessary service improvement opportunities in the following operational directions: Execution of the central government budget, State loan management, Accounting service, implementation of the functions of the Certifying Authority of the EU Funds and Norwegian Financial Mechanism/European Economic Area Financial Mechanism. 1 450 respondents from all over Latvia took part in the survey. 90% of the respondents of the e-services survey are satisfied with the services provided by the Treasury, exceeding the indicator set in the strategy (85%). Customer recommendations and proposals have been evaluated and included in the measures for the development of improvement and streamlining of the services of the Treasury.

6.7. Performance Indicators of the Governance of the Institution as Defined in the Operational Strategy of the Treasury

Table 19

Performance indicators of the governance of the institution

Result	Performance indicator	Numerical values of the performance indicator in 2022	
		Plānotais	Implemented
1. Innovative, involved and result-orientated employee.	1.1. Employee engagement indicator (% of the number of employees).	85	86
2. Improved knowledge of employees in the field of digitisation.	2.1. Attended training, exchange of experience and other events (% of the number of employees).	85	95
3. Employee motivating work environment has been created.	3.1. Employee satisfaction with the work environment (% of the number of employees).	85	86,7
4. Compliance of the integrated management system with the requirements of ISO 9001 and ISO 27001 standards.	4.1. Number of discrepancies in certification and supervisory audits.	0	0
5. Customer-orientated services, decreased administrative burden, quality e-management solutions (ensured transition to e-invoicing in public administration).	5.1. Number of e-invoices submitted and executed by suppliers to the Treasury (% of submitted invoices).	80	11 ³⁴
6. Customers of the Treasury are provided with easy-to-use and secure information technology solutions.	6.1. Availability of information systems used by the Treasury's customers during working hours is not less than 98% (% of working hours).	98	99,8
7. The activity of the Treasury has become more efficient.	7.1. The processes of the Treasury have been revised and optimised using efficiency methods (number of processes).	5	5
8. Improved internal control system of the institution.	8.1. Compliance of the activity of the Treasury with the requirements of the Sanctions Law (%).	100	100

³⁴ After carrying out the integration of the e-invoices management solution, it was established that regular suppliers of the Treasury are not yet ready to submit invoices in the form of e-invoices. It is expected that several suppliers will start the circulation of e-invoices in the second half of 2023 or in 2024. Thus, although the solution has been implemented, the planned performance indicator has not yet been reached due to reasons beyond the control of the Treasury.

6. Governance of the Institution

6.8. Assessment of Introduction of the Operational Strategy of the Treasury 2020-2022 into the Governance of the Institution and Further Development

The target and indicators of the operational direction – generally achieved.

Accomplishments for Implementing the Target of Operational Direction

1. To promote employees' understanding of the direction and goals of the strategic development of the Treasury.

Targeted internal communication aimed at the development of the Treasury ensures a shared understanding of the management and employees (team) about the strategic goals, operating principles and values of the Treasury, promoting the involvement of employees in achieving the goals.

2. To promote the development of employees' professionalism and digitalisation knowledge and skills.

In 2022, 95% of employees have attended at least two organised training or development sessions. The focus of competence development is on digital skills, which are directly correlated with the assessment of work quality, and leadership, with a team leader development programme being launched in 2022, to strengthen the role of the leader as a driving force in the development of competences and the achievement of goals.

3. To create a sustainable work environment with motivated, efficient employees.

The employees of the Treasury mainly ensure the performance of functions and tasks remotely, following the "Guidelines for Ensuring Flexible Work" of the State Chancellery. The remote work introduced in public administration, inter alia, the Treasury, during the emergency situation of the COVID-19 pandemic, by ensuring the fulfilment of the functions of the Treasury and the continuity of services, has made it possible to save financial resources (administrative and work premises maintenance expenses), promote digital transformation, sustainability, incl. by attracting specialists from Latvia's regions to work in the Treasury, as well as to balance work and private life for employees, by shaping a new – modern, inclusive, efficient and flexible work organisation model and culture.

4. To observe the principles of good public administration³⁵, paying special attention to openness with respect to the public and respecting the protection of data.

An annual opinion of external auditors has been received that the integrated management system of the Treasury (quality and information security management) meets the requirements of the ISO 9001:2015 and ISO 27001:2013 standards, is effectively maintained and monitored and complies with good practice.

5. To ensure automatic processing possibilities of e-invoices submitted by suppliers in the Treasury.

- In moving to an integrated budget planning, execution and accounting process, the Treasury uses structured e-invoices, creating preconditions for the automation of payment for received services;
- authorities receiving the services of accounting records are provided with the possibility to receive e-invoices, by replacing paper invoices with structured digital data. This allows for the more operational and effective processing and archiving of invoices, which facilitates the reduction of the administrative burden, as well as the scope for error and fraud;
- starting from 1 February 2023, the procurement regulations and contracts of the Treasury define a mandatory requirement to submit e-invoices.

6. To provide easy-to-use and secure information technology solutions for internal and external users, to maintain a set of stable, integrated and secure information systems. Customers of the Treasury are provided with easy-to-use and secure information technology solutions.

7. To review and optimise the Treasury's processes by simplifying and digitising them.

- Improved and optimised governance, accounting service and central government debt and cash management processes of the Treasury, by automating the processes of data retrieval, processing and analysis:
- improved and automated process of working time records, the process of approving and registering in the information systems;
 - optimised and automated account comparison process;
 - improved contract fulfilment monitoring process;
 - automated commission calculation process;
 - optimised process of gathering information about counterparties (in the field of central government debt management);
 - established e-invoice circulation process in the institution, incl. for the customers to whom the Treasury provides accounting and bookkeeping services;

- the following tasks have been completed and implemented, within the framework of the project "Digital Transformation of the Central Government Debt and Cash Management Process":
 - all the solutions envisaged in the project for the automatic loading of the data of the central government budget implementation, State loans, central government debt obligations and cash management transactions existing in the Treasury systems into the analytical and forecasting models used for taking financial management decisions, significantly reducing the labour intensity of gathering and processing this data;
 - *Business Intelligence* solution for daily monitoring of currency risk within the framework of the central government debt portfolio management.

The key conclusions for the new strategic programming period (2023–2026)

- In assessing the framework of the internal control system of the Treasury, the *European Foundation for Quality Management Excellence model (EFQM)* was determined as the next level of quality for the development of the activity of the Treasury and the movement towards a sustainable quality culture;
- to build the Treasury into a modern financial institution with professional, proactive and self-development-orientated employees. To develop digital skills of the employees;
- to create a sustainable office in accordance with the developed concept of the working environment of the Treasury;
- to review and determine the development principles of the Treasury in the field of information and communication technologies and the development directions of information technology solutions;
- considering the fact that information systems have a dominating role in the provision of the Treasury's functions, a significant role is played by the service enhancement, improvement of their quality and availability development of services, digitisation of processes and improvement of customer experience. In accordance with experience and the State policy, the Treasury will expand the use of open source technical solutions;
- to systematically and strategically advance the development of data expertise;
- to significantly expand the application of the task and project management system Redmine to support various processes.

³⁵ Section 10 of the State Administration Structure Law.



2022

Development Priorities for 2023

- 1) Development of a Medium-Term Operational Strategy of the Treasury.
- 2) Creation of the legal framework of the Shared Services Centre, forming a part of the project of the Recovery and Resilience Facility "Shared planning of public financial resources of the public administration and provision of governance accounting services, introduction of uniform resource management", aimed at creating a centralised platform in the field of accounting, personnel records, budget planning and financial management for direct public administration institutions to promote efficiency, digital transformation and optimisation of central government funds.
- 3) Ensuring the submission of applications for the Treasury services (account servicing, payments, reports, State loans, accounting and bookkeeping, etc.) in the structured data form on the Treasury's ePakalpojumi (eServices) portal, significantly streamlining the data processing process and considerably reducing the workload of the Treasury's employees in processing this data, as well as significantly reducing the number of erroneously submitted service applications.
- 4) Digitalisation of the central government debt, cash management and financial risk processes.
- 5) Further transition to innovative and efficient services by automating the processes and using state-of-the-art technologies and digital transformation possibilities.

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(with the assessment of the implementation of the Operational Strategy of the Treasury 2020-2022)