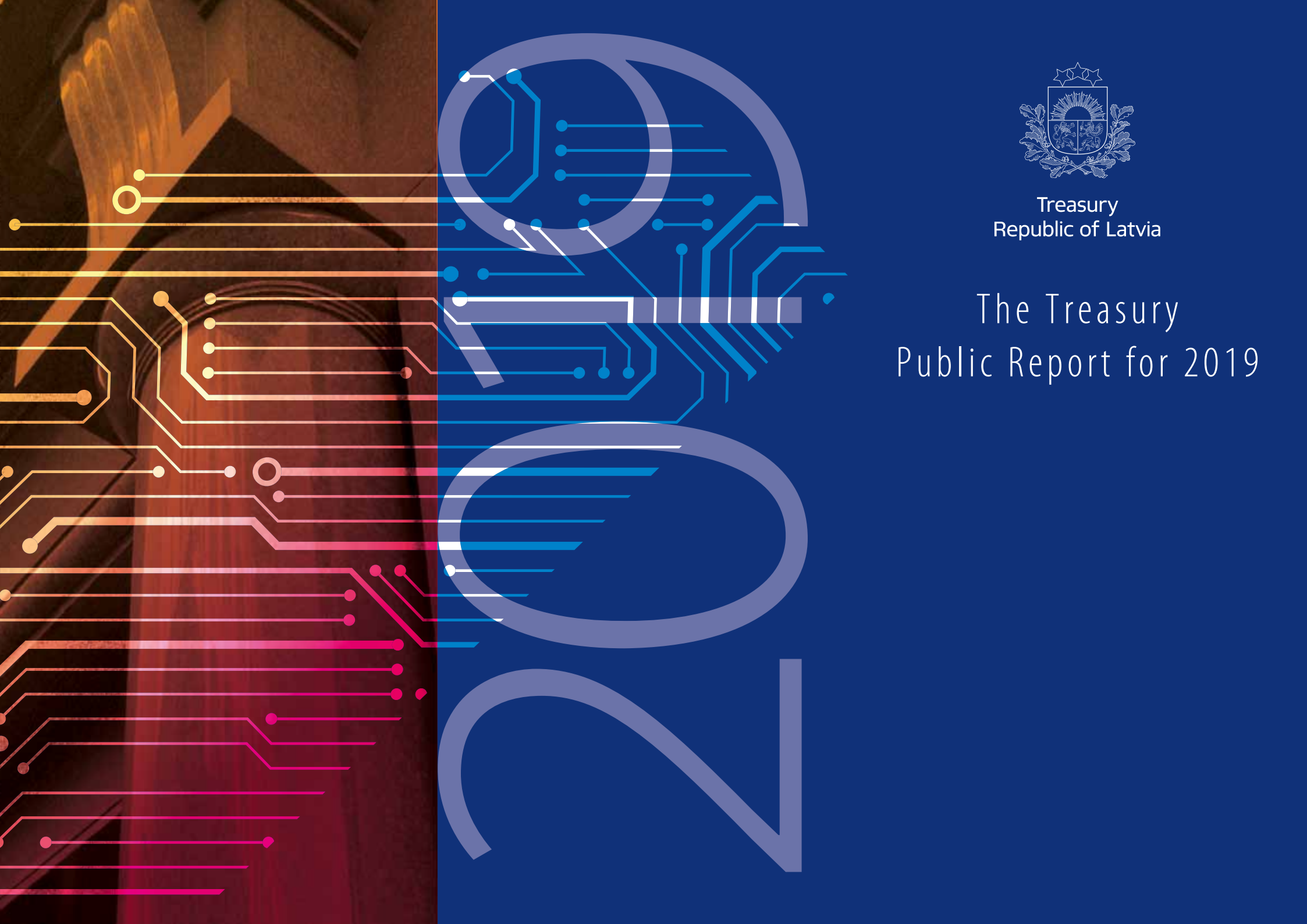




Treasury  
Republic of Latvia

# The Treasury Public Report for 2019





# Contents

## Abbreviations Used in the Report

The Treasurer's Statement

Legal Status and Structure of the Treasury

Treasury Operational Strategy

Activities of the Treasury in 2019

<b>1. Implementation of the Central Government Budget</b>	7	<b>3.5. Public Services Performance Indicators for Private Individuals in Central Government Loan and Guarantee Management</b>	24
1.1. Operational Principles and Areas of Development	7	<b>3.6. Assessment of introduction of the Operational Strategy of the Treasury for 2017-2019 into the central government loan and guarantee management</b>	24
1.2. Organisation of the Implementation of the Central Government Budget in 2019	7		
1.3. Development of the Services and Information Systems of the Treasury	8	<b>4. Implementation of the Functions of the Paying and Certifying Authority of the EU funds and foreign financial assistance</b>	26
1.4. Performance Indicators of the Operational Targets for Central Government Budget Implementation as Defined in the Operational Strategy of the Treasury	10	4.1. Operational Principles and Areas of Development	26
1.5. Public Services Performance Indicators for Private Individuals in the Central Government Budget Implementation	10	4.2. Functions of the Certifying Authority in the 2014-2020 Programming Period	26
1.6. Assessment of introduction of the Operational Strategy of the Treasury for 2017-2019 into the Central Government Budget implementation	11	4.3. Functions of the Certifying Authority for the European Economic Area	27
		4.4. Functions of the Certifying Authority for the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism for 2014-2021	27
<b>2. Central Government Debt and Cash Management</b>	13	4.5. Performance Indicators of the Operational Targets Defined in the Operational Strategy of the Treasury for the Implementation of the Functions of the Paying and Certifying Authority of the EU Funds and Foreign Financial Assistance	27
2.1. Operational Principles and Areas of Development	13	4.6. Assessment of introduction of the Operational Strategy of the Treasury for 2017-2019 into the implementation of the functions of the Paying and Certifying Authority of the EU funds and foreign financial assistance	28
2.2. Structure, indicators and changes of the Central Government Debt	14		
2.3. Central Government Borrowing Management	15	<b>5. Accounting Services</b>	29
2.4. Central Government Debt Portfolio Management	18	5.1. Operational Principles and Areas of Development	29
2.5. Cash Management	19	5.2. Provision of the Accounting Service	29
2.6. Performance indicators of the Operational Targets for Central Government Debt and Cash Managements as Defined in the Operational Strategy of the Treasury	19	5.3. Performance Indicators of the Operational Targets for the Provision of the Accounting Service as Defined in the Operational Strategy of the Treasury	29
2.7. Public Services Performance Indicators for Private Individuals in Central Government Debt and Cash Management	20	5.4. Assessment of introduction of the Operational Strategy of the Treasury for 2017-2019 into the provision of accounting service	29
2.8. Assessment of introduction of the Operational Strategy of the Treasury for 2017-2019 into Central Government Debt and Cash Management	20		
<b>3. Central Government Loan and Guarantee Management</b>	22	<b>6. Governance of the Treasury as a Public Administration Institution</b>	31
3.1. Operational Principles and Areas of Development	22	6.1. Funding of the Treasury and the Spending Thereof	31
3.2. State-Issued Guarantees	22	6.2. Personnel and Personnel Management	41
3.3. Central Government Loans	23	6.3. Quality, Risk and Information Security Management	42
3.4. Performance Indicators of the Operational Targets for Central Government Loan and Guarantee Management as Defined in the Operational Strategy of the Treasury	24	6.4. Internal Control System	42
		<b>Public Communication</b>	43
		The Treasury's Development Priorities for 2020	44



## Abbreviations Used in the Report

CF	Cohesion Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
EUROSTAT	Statistical Office of the European Union
GDP	Gross Domestic Product

## Units of Measurement

EUR	<i>Euro</i> , the official currency unit of the European Union
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# The Treasurer's Statement



The year 2019 marked the conclusion of another strategic three-year operational cycle of the Treasury. The strategic planning of activities in line with the state's priorities and consequently implemented measures are important factors when assessing the work performed, as well as when planning the strategic objectives and tasks in fields

overseen by the Treasury for the next period. In this report we provide both an evaluation of what has already been accomplished in 2019 and an assessment of introduction of the strategy, as well as the plans for further progress and development of the Treasury.

One of the governmental priorities in 2019 was the arrangement of the financial sector, in order to ensure the transparent, sustainable, and safe operation and international reputation thereof. In 2019, Latvian public authorities, including the Treasury, have faithfully fulfilled the tasks and recommendations of the government, creating a safe environment for public finance governance and investments. The Financial Action Task Force (FATF), in its plenary session in Paris, on 21 February 2020, recognised that Latvia was the first *Moneyval* Member State to successfully fulfil all the recommendations. The Treasury, within the scope of delegated functions, including, by ensuring the payments, considerably enhanced the internal control system of the institution, which, among other things, provides for payment checks against binding sanctions lists. To adjust the conditions for payment service provision to the development trends in the financial sector, a new Cabinet Regulation has been issued – Procedure by which the Treasury Ensures the Provision of Payment Services, significantly expanding the mandate of the Treasury for obtaining information about the client and the transaction, in implementing the “Know Your Client” principle.

In 2019, Latvia's economic growth slowed down slightly compared to the steep rate in previous years. This was triggered by several external and internal environment factors, incl., large uncertainty and slower growth in the global economy, a slowdown of the Latvia's economy, as well as a number of other factors. In 2019, the government of the Republic of Latvia preserved and continued the State policy direction towards ensuring a low central government budget deficit and sustainable central government debt level.

Along with increasing financial market fluctuations and risks, it was important for the Treasury to preserve the flexibility of borrowing options. By timely refinancing the central government debt obligations in international financial markets with lower-than-planned interest rates, attracting long-term financial resources in the amount of EUR 1 billion for both the financing needs of 2019 and repayment of the central government debt planned in the first half of 2020, the Treasury ensured the hedging of financial risks and saving of budget funds for the long-term servicing of the central government debt, attraction of new investors, as well as safe cash management.

To simplify, digitise and make it more comfortable for the clients to receive central government loans for the implementation of investment projects, the Treasury introduced a new e-Service – *e-Borrowings*, and developed the new legal framework.

In line with the move towards a small and efficient public administration and for the purposes of centralising the support functions, the Treasury continued developing the accounting service, promoting the uniformity of information required for taking management decisions and data quality, preparation of financial statements in compliance with uniform fundamental principles. In 2019, the Treasury started providing an accounting service to the Ministry of Finance, thus providing services to nine institutions in total.

By implementing the functions of the Certifying Authority of the EU Funds and Foreign Financial Assistance, the Treasury introduced a new approach to the verification of EU Funds expenditure reports, which accelerated the submission of payment applications to the European Commission, by reducing the time required for the verification of a payment application by 40 %.

The teamwork rooted in common objectives, mutual respect and collegiality are the aspects serving as a guarantee that has stood the test of time for the achievement of strategic objectives and quality performance of everyday tasks of the Treasury. The Treasury expresses gratitude to every employee for their professionalism, awareness and interest in the provision, development and enhancement of the institution's processes, providing confidence to the public in the safe and effective governance of public finance.

Treasurer  
Kaspars Āboliņš

Riga, April 24, 2020

# Legal Status and Structure of the Treasury

The Treasury is a direct administrative authority under the Ministry of Finance designed to effectively implement the functions of public administration in the area of public financial management. The operations of the Treasury are managed by the Treasurer, who is appointed and removed from office by the Minister of Finance.

The legal status, functions, tasks, competence and rights of the Treasury are stipulated by Cabinet Regulation No. 677 of 3 August 2004 "Regulation of the Treasury".

To ensure unified decision-making, the following committees remained active in 2019:

**Audit Committee** – to facilitate the effective implementation of the internal audit functions and to improve the internal control system with a view to ensuring the achievement of the Treasury's strategic goals, safeguarding its resources, and establishing and maintaining effective control measures;

**Information Systems Change Management Committee** – to ensure the coordinated change management of the Treasury's information systems;

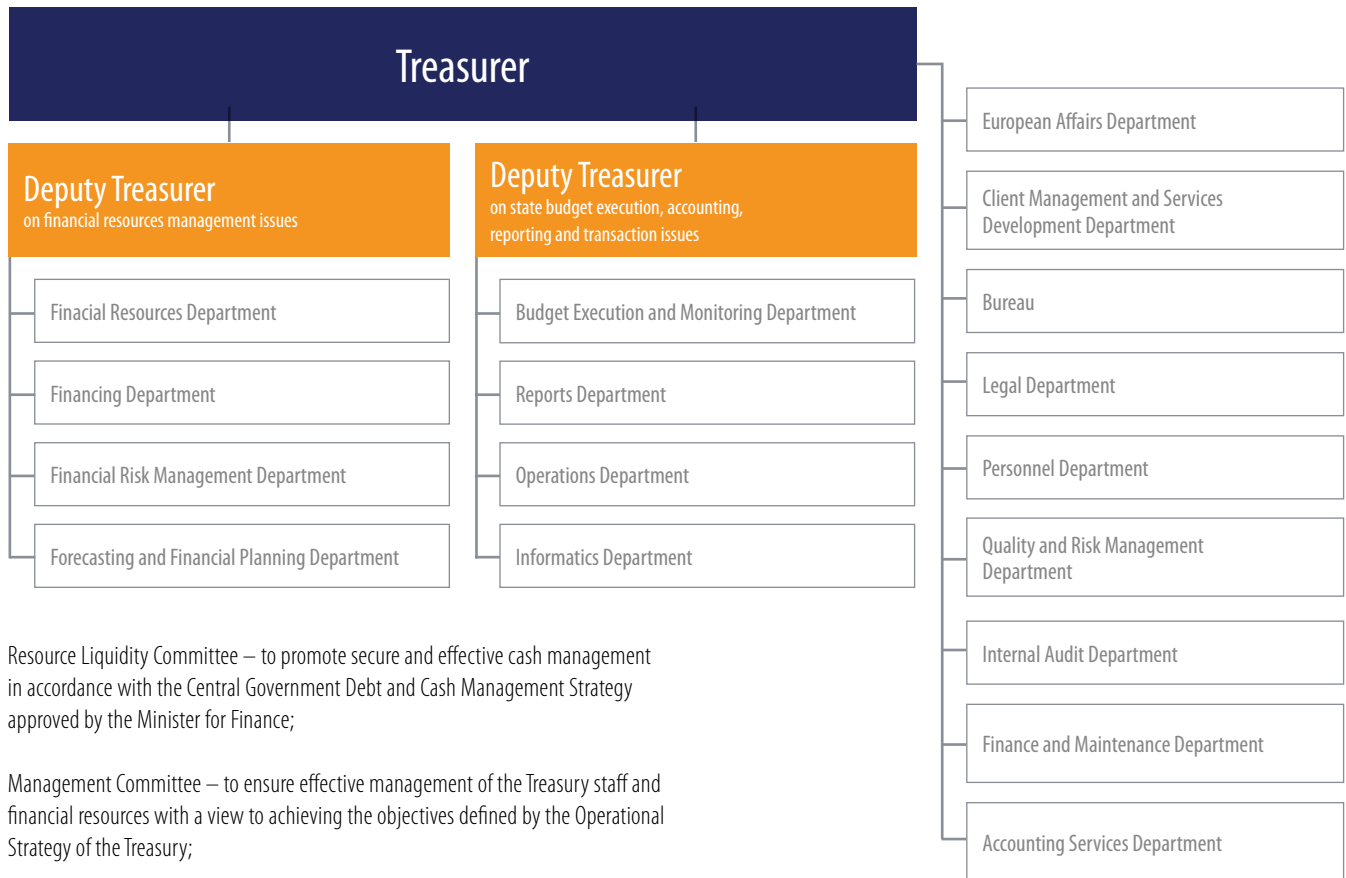
**Credit Committee** – to facilitate efficient work in the area of credit risk management of the Treasury's counter-parties, credit risk management of mediators of security purchasing transactions and mediators of security issuing cash payments, as well as regarding matters related to the issuing, servicing and managing of central government loans and state guarantees;

**Crisis Management Committee** – to ensure the continuity of the Treasury's operations, efficient coordination of actions and resources in a situation of operational crisis in the Treasury, fulfilment of the functions and restoration of operations as quickly as possible by simultaneously preventing the risk of the bad image of an authority;

**Quality and Risk Management Committee** – to facilitate the achievement of the strategic goals, continuous improvement of the Treasury's performance and compliance of the services with the interests of the state and its population and clients' needs through effective quality, risk and information security management;

**Debt Management Committee** – to facilitate effective work and decision-making in the area of central government debt management;

Figure 1. Organisational Chart of the Treasury



**Resource Liquidity Committee** – to promote secure and effective cash management in accordance with the Central Government Debt and Cash Management Strategy approved by the Minister for Finance;

**Management Committee** – to ensure effective management of the Treasury staff and financial resources with a view to achieving the objectives defined by the Operational Strategy of the Treasury;

**Central Government Budget Accounting Committee** – to organise the implementation, updating and change management of the Treasury's central government budget financial accounting policy.

The structure and operational organisation of the Treasury is established by the Rules of Procedure of the Treasury. For the purposes of the more efficient implementation of tasks, in 2019, the European Union Payments Division and the Bookkeeping and Control Division of the Operations Department were consolidated.

# Treasury Operational Strategy

The operation and strategic course of action of the Treasury has been implemented in accordance with strategic goals and objectives in the field of operation of the Treasury set by the *Operational Strategy of the Treasury for 2017–2019* approved by the Minister for Finance, as well as in line with the functions and tasks defined by the Regulation of the Treasury and the financing planned for the fulfilment thereof.

The overriding strategic goal of the Treasury — sound and effective financial management in the public interest.

## Operational directions of the Treasury:

- 1) implementation of the central government budget, ensuring efficient and economical budget implementation and the compliance of the services provided by the Treasury with the best financial management practices;
- 2) the central government debt and cash management, by ensuring, 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;
- 3) management of the central government loans and guarantees, by ensuring the availability of financial resources (incl. long term) for candidates to the central government loans in the form of a central government loan on financially favourable terms through quality service, as well as ensuring a timely government guarantee process, while limiting the credit risks of central government loans and guarantees;
- 4) implementation of the functions of the EU Funds and Foreign Financial Assistance Payment and Certifying Authority, by organising and standardising the performance of the functions of Payment and Certifying Authorities in a manner that ensures compliance with the requirements of the Granting Authorities and laws and regulations of the republic of Latvia and timely receipt of funds from Granting Authorities, and minimises the acceptable risk of ineligible expenditure being declared;
- 5) accounting service, by providing an effective and high-quality accounting service to public administration institutions.

## Strategic priorities of the Treasury are:

- 1) effective human resources management, encouraging management leadership and employee development at all levels, and their engagement in the achievement of the Treasury's goals;
- 2) ensuring effective access to and quality of the services provided by the Treasury through exploiting the possibilities provided by information technologies;
- 3) effective administration and monitoring of public financial management processes in the public interest.

The year 2019 concludes the operating cycle of the Operational Strategy of the Treasury for 2017–2019 and in this report we provide an assessment introduction of the strategy.

## 1. Implementation of Central Government Budget

### 1.1. Operational Principles and Areas of Development

The Treasury, within the scope of the public financial management cycle, organises the implementation of the central government budget, accounting and bookkeeping of the general government (except for capital companies) and arranges for the accounts of the central government budgetary means. The Treasury provides the budget implementation services in the e-environment: assigns allocations and grants from general revenue, provides payment services, as well as provides institutions administering central government budget payments with information about taxes and duties paid and other central government budget revenues.

The central government budget implementation process is organised within the Single Treasury Account, which is recognised in world practice as the most efficient method for ensuring financial management. Such financial management approach enables the reduction of direct and indirect costs of borrowing and cash management, provides for a possibility to generate additional revenue through the more efficient management of funds and investments, and a possibility to monitor and control all transactions, as well as facilitates the accounting of transactions. By way of ensuring the fulfilment of the tasks under the competence of the Treasury within the scope of a multi-annual project of the Ministry of Finance regarding introduction of the accruals principle in tax accounting records, in the field of accounting records and financial reporting, in 2019, the legal framework was developed on the procedure for information exchange between the Treasury and the State Revenue Service regarding the collection and accounting of the central government budget revenue, stipulating that the mutual data exchange, by introducing a single account, would take place in the form of payment orders, adjusting the previous information exchange.

The Treasury controls the provided financial services, by enhancing the internal control system of the institution in the field of international and national sanctions and anti-money laundering and counter-terrorism and proliferation financing. The Treasury supports the European Commission initiative to improve the quality of accounting data and compliance of the financial reporting with the main principles

of international public sector accounting standards to enable the decision-makers, public, investors and international credit rating agencies to receive quality, timely and internationally comparable information (reports) on public finances in line with the best practice. When organising uniform public financial accounting, the Treasury develops the legal framework in the field of accounting and bookkeeping and reporting of the central government and local government budget institutions, by assessing the requirements of the international public sector accounting standards in accordance with the possibilities of Latvia. In 2014, Latvia's conformance to the international public sector accounting standards has been assessed in the amount of 63% (EUROSTAT). The set of measures taken during the strategy period has allowed one to achieve 85% conformance in 2019 (self-assessment of the Treasury).

### 1.2. Organisation of the Implementation of the Central Government Budget in 2019

#### Granting and Implementing Allocations

In 2019, the Treasury implemented the measures for increasing the effectiveness of the central government budget implementation process and minimising the administrative burden, starting from 2019, shifting to granting allocations and grants from general revenue for central government budget institutions in the amount of the annual sum (up to now, allocations or the authority to incur expenditures in a certain amount was granted for a month, and the budget implementers, due to objective reasons, as the expenditure forecasts changed, had to introduce corrections and this re-planning created an administrative burden). To compare in 2018, the financing plans underlying the granting of allocations have been changed 8,760 times, but in 2019 – 5,859 times, thus reducing the number of amendments by 33 %.

In 2019, for ensuring central government budget implementation, the Treasury allocated expenditures worth EUR 9,927.03 million: EUR 6,995.19 million for the basic budget and EUR 2,931.84 million for the special budget. Allocations were granted to 175 state budget institutions.

In 2019, the Treasury opened 2,131 basic budget expenditure accounts. As compared to 2018, the number of accounts increased by 113 accounts, because of the implementation of the activities of the 2014–2020 Programming Period of the EU Funds and other projects financed by the EU policy mechanisms.

#### Accounting and Reporting

Using the central government budget implementation data and aggregating the accounting data of the central and local government budget institutions, the Treasury prepares monthly and quarterly reports on the central government budget implementation, as well as the Economic Annual Report audited by the State Audit Office, and the opinion thereof provides assurance for the users as to the completeness and credibility of the information disclosed in the reports. The reports prepared by the Treasury and the reports received from the institution are available on the website of the Treasury.

Within the scope of the project *Development of Latvia's public sector accounting and bookkeeping guidelines and external legal framework, organisation of training and introduction of requirements of the legal framework in line with the competence of the Treasury (2015–2020)*, the Treasury developed and published on the website of the Treasury, the calculators necessary for ensuring accounting and bookkeeping, calculating the amortised value of financial instruments and determining the present value of the claims, liabilities and other items, which would reduce the administrative burden and equalise the methodology applied by the budget institutions, in line with the new legal framework. For the transaction accounting and bookkeeping and better understanding of the requirements of the legal framework, the Treasury organised the seminars (for 800 employees of the ministries, central government institutions and local government institutions).

## 1. Implementation of Central Government Budget

### 1.3. Development of the Services and Information Systems of the Treasury

For the purposes of supporting the functions there is a stable, integrated set of national importance information systems created in the Treasury, meeting the safety requirements. To ensure quality e-services, in 2019, the Treasury continued investment for information systems to support them: optimising the processes, taking measures to stabilise, secure and ensure the continuity of operations of the systems, standardise budget execution procedures, reduce the administrative burden for clients and residents.

In 2019, the Treasury maintained and continued the development of the following services and information systems:

#### Comprehensive Central Government Budget Planning and Implementation Information System

The Comprehensive Central Government Budget Planning and Implementation Information System maintained by the Treasury (developed on the basis of SAP software product) ensures a full central government budget management cycle: from budget planning to the implementation thereof, and to implementation monitoring. The Comprehensive Central Government Budget Planning and Implementation Information System has been developed both for the support of planning functions of the Ministry of Finance and for the budget implementation of the central government budget institutions. In 2019, the Treasury commenced a gradual shift of SAP versions to the latest system version – S/4HANA, providing the opportunity to carry it out in stages.

#### Single Electronic Data Exchange System

Single Electronic Data Exchange System functionality provides support in monitoring and analysis of the grants allocated to the line ministries. Within the scope of a multi-annual project *Modernisation of Accessibility and Usability of the Treasury's E-Services (2016-2020)*, in 2019, the Treasury developed the visual identity of the e-services portal and interfaces, creating a uniform e-services design to be applied, when re-designing the e-services interfaces and developing the e-services portal.

#### eReports (ePārskati)

e-service *ePārskati (eReports)* is intended for the management of the financial and budget implementation reports of budget institutions. The submitters of the budget institution reports submit their monthly, quarterly and annual reports to the Treasury and sign them electronically online in the *ePārskati* system, thus ensuring mutual administrative and time savings. In 2019, there were 4, 200 users registered in the *ePārskati* system on average.

The *ePārskati* solution for the submission, summarising and verification of reports, to ensure supervision and control over the allocation of the central government budget means, was used by eight ministries and central government institutions: Ministry of Finance, Ministry of Education and Science, Ministry of Culture, Ministry of Welfare, Ministry of Transport, Ministry of Environmental Protection and Regional Development, the State Chancellery and the Central Election Commission.

#### ePlans (ePlāni)

Ministries or their subordinate bodies use the e-service *ePlāni (ePlans)* to prepare, approve and submit financing plan projects to the Treasury, based on which the Treasury issues allocations and grants from the general revenue. In 2019, 708 users were registered, and 2, 130 basic budget and special budget financing plans were processed in *ePlāni*.

#### eEstimates (eTāmes)

e-service *eTāmes (eEstimates)* ensures a single, centralised environment for all central government budget institutions for entering and signing the estimates of the budgetary programmes, sub-programmes and events. In 2019, 931 users were registered, and 2, 129 basic budget and special budget estimates were processed in *eTāmes*.

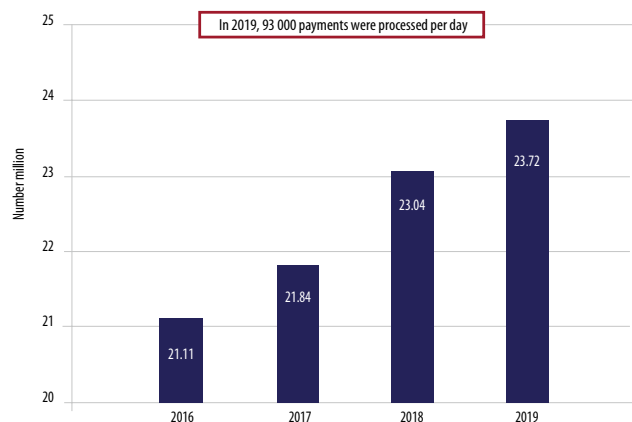
#### eKase

The Treasury renders payment services electronically, using the e-Service *eKase* and its Online Data Exchange Module. Within the scope of the service, the Treasury enables its clients to execute payment orders, view the results of the execution of payment orders, and receive financial information offered by the Treasury: on account status (balance), account turnover statements, and summary of revenues and expenditures or resources to cover expenditures. The Online Data Exchange Module of *eKase* ensures the automated exchange of payment data (payment status statement and account statement) between the Treasury and its clients, as well as the option to submit payment orders for execution.



## 1. Implementation of Central Government Budget

**Figure 2.** Number of payments processed in the Treasury (2016-2019)

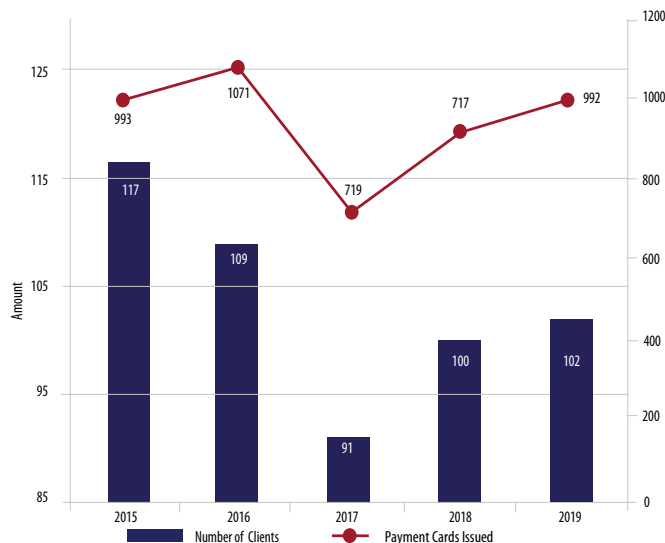


### Payment cards tied to Treasury accounts

In cooperation with *AS Citadele Banka*, the Treasury provides the possibility for the central government and local government institutions to perform payments with the payment cards tied to the Treasury accounts. The payment card service is intended for performing business trips, official travel and operating expenses of the employees: the employees of the state budget institutions are provided with the possibility to carry out wire payments during business trips, in line with the requirements of the Law on Budget and Financial Management, prescribing that the expenditures of the central government budget shall be made from the accounts opened in the Treasury.

In 2019, the service of payment cards tied to Treasury accounts was used by 102 institutions, and a total of 992 credit cards were issued to such institutions.

**Figure 3.** Dynamics of the service of payment cards tied to Treasury accounts (2015-2019)

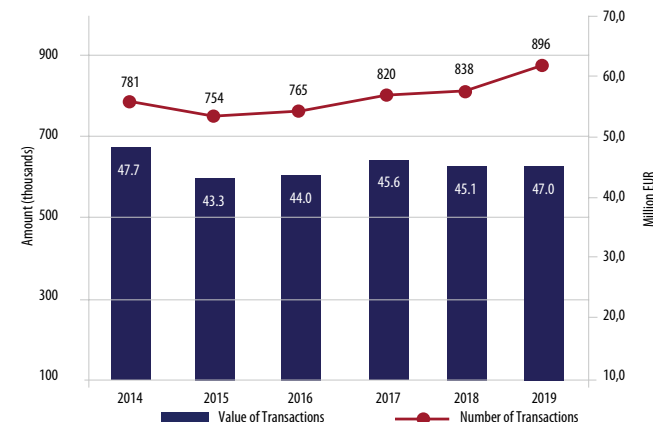


### Acceptance of Payment Cards in the Collection of Government Budget Payments

The Treasury provides the payment card acceptance service via *AS Citadele banka* to the central government and local government institutions, providing for the possibility to pay for the services provided by the institution, using *VISA Electron*, *MasterCard* and *Maestro* payment cards in a payment card acceptance terminal or another alternative system.

In 2019, the service provided by the Treasury was used by 135 clients of the Treasury, including 45 local governments and their subordinate bodies. Over the year 2019, 896, 180 transactions with a total value of EUR 46, 959, 004 were made with payment cards at the 1, 018 payment card terminals installed at the central government and local government institutions.

**Figure 4.** Dynamics of the payment card (*VISA* and *MasterCard*) acceptance service (2014-2019)



## 1. Implementation of Central Government Budget

### 1.4. Performance Indicators of the Operational Targets for Central Government Budget Implementation as Defined in the Operational Strategy of the Treasury

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

Result formulation	Performance indicator	Numerical values of the performance indicator in 2019	
		Projected	Implemented
1. Uniform budget implementation, budget cash flow accounting and implementation principles developed and approved and a positive assessment of the quality of budget implementation process, effective accounting, timely and adequate control received from external auditors and counterparts.	1.1. Conformity of the financial statements with the main principles of international and international public sector accounting standards (%).	85	85
	1.2. Conformity of the financial statements with the requirements of the European Statistics Code of Practice within the framework of the national statistical information programme (as % of the European Statistics Code of Practice performance requirements referable to the Treasury).	90	100 <sup>1</sup>
2. The Treasury's client expectations have been identified, and the provided services have been improved accordingly.	2. Satisfaction with the quality of services received in the field of public budget implementation is not lower than 85% (% of clients surveyed <sup>2</sup> ).	85	91
3. Efficient and operational central government budget implementation process ensured.	3. Execution of all payment orders submitted in the national currency (Euro) in the e-environment within one business day regardless of the number of payment orders and amounts (annual average % determined by applying the number of payments received from clients during a business day in euros against payment orders executed on that day).	100	100

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

In accordance with that which is stated in the 4 July 2017 Cabinet of Ministers Regulation No. 399 Procedures for Accounting, Quality Control and the Provision of Public Administration Services, in the central government budget implementation the Treasury provides two public administration services to private individuals<sup>3</sup> – maintenance of accounts and payment service.

Applications from 1, 242 private individuals have been received within the scope of the account maintenance service (out of which 757 service applications have been received electronically, 485 – in paper application form). Electronic payments of 303, 318 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 client complaints have been received.

<sup>1</sup> In accordance with the request and instructions of the Central Statistical Bureau (CSB), on 15 June 2018, the Treasury submitted the CSB the updated self-assessment questionnaire, where the conformity of all indicators of the requirements of the European Statistics Code of Practice (ESCP) is specified as implemented (i.e., 100% conformity). The indicator is met, by exceeding the projected value thereof (by 33.3%), as defined at the initial stage of implementation of the ESCP, applying the primary statistical requirements to the Treasury.

<sup>2</sup> In accordance with the requirements of documents governing the Treasury's quality management system, client satisfaction surveys must be carried out at least once per three years. Both comprehensive client surveys and surveys aimed at identifying satisfaction with a certain service, or satisfaction within and needs of a particular client segment are carried out as necessary.

<sup>3</sup> Legal entity of private law (associations, foundations, religious organisations, commercial companies and other legal entities of private law, having an account opened in the Treasury).

## 1. Implementation of Central Government Budget

### 1.6. Assessment of introduction of the Operational Strategy of the Treasury for 2017-2019 into the central government budget implementation

Strategic goal of central government budget implementation: *Implementation and supervision of the central government general budget, by ensuring an effective and economical budget implementation process and the compliance of the services provided by the Treasury with the best financial management practice* has been achieved to the extent prescribed for 2017-2019 (tasks defined/results to be achieved/performance indicators).

The achievement of the strategic goal was promoted by:

- 1) strict public fiscal policy, stability of the financial sector and economic growth of the country;
- 2) development of technologies and the application thereof in the field of financial services, process automation, implementation of *ePārvalde* within the country and shift to the electronic document turnover on the national level;
- 3) experience gained in the management of financial resources and accounting;
- 4) the volume of financing available for the implementation of functions and development of the services provided;
- 5) stable, integrated and safe information technology solutions of national significance;
- 6) data quality and credibility, efficient data use;
- 7) experienced, knowledgeable, motivated and growth-orientated staff;
- 8) project management approach to the development of services and operational improvement of the Treasury;
- 9) client service and good governance principles complied with;
- 10) quality, risk and information security management system maintained for the efficient achievement of the objectives;
- 11) the enhanced internal control system of the institution in the field of international and national sanctions and anti-money laundering and counter-terrorism and proliferation financing, by controlling the provided financial services and supervising the liabilities and transactions of the clients and partners.

The achievement of the strategic goal was also affected by a number of hindering factors:

- 1) concurrent execution of several high priority and complex tasks and projects, considerable dependence upon cooperation partners;
- 2) insufficient competences of business information system analysts;
- 3) insufficient competitiveness of the public administration remuneration as compared to the level of work remuneration paid in the private sector, posing a risk for recruiting financial management, business analysts and specialists in the field of information technologies for long-term employment in the Treasury.

Accomplishments for the fulfilment of the strategic tasks, results and performance indicators set in the operational direction of central government budget implementation in 2017-2019:

- 1) Unified classifications corresponding with the requirements of international financial institutions have been applied in the planning and implementation of the general central government budget, and an operative and efficient central government budget implementation process has been organised. Measures for ensuring the conformance of financial statements to International and International Public Sector Accounting Standards have been secured (conclusion in 2020). The national statistical information programme has been fulfilled in a quality manner:
  - to ensure high-level conformity of the financial statements to the guidelines of the international and international public sector accounting standards, the Treasury implemented a priority measure *Ensuring the standardisation of financial accounting processes at central and local government institutions (2015-2020)* and the project *Development of Latvia's public sector accounting and bookkeeping guidelines and external legal framework, organisation of training and introduction of requirements of the legal framework in line with the competence of the Treasury (2015-2020)*, within the scope whereof:
- it developed the legal framework (Cabinet of Ministers Regulation *Procedures for Accounting and Bookkeeping in Budget Institutions* (13 February 2018, No. 87) and Cabinet of Ministers Regulation *Procedures*

*for the Preparation of Annual Reports* (19 June 2018, No. 344)), in line with the requirements of the international public sector accounting standards, adjusting the scope of the annual report, confirmation on the authenticity of information provided by the financial report, structured form of explanations (notes) to the items of the financial report, as well as determining the liability for the introduction and maintenance of the internal control system;

- accounting and bookkeeping handbooks and annual report preparation guidelines were developed;
- it organised the annual training and seminars for the employees in the field of central and local government finance regarding topicalities in the accounting and bookkeeping and preparation of the annual report;
- it determined single discount rates for 2019, developed and published on the website of the Treasury, the calculators necessary for ensuring accounting and bookkeeping, calculating the amortised value of financial instruments and determining the present value of the claims, liabilities and other items to reduce the administrative burden and equalise the methodology applied by the budget institutions, in line with the new legal framework;
- it developed the *Internal Control System Guidelines* for local governments for a uniform understanding regarding the key principles of the internal control system, recommendations for the assessment of the internal control system;
- it ensured the fulfilment of the tasks under the competence of the Treasury within the scope of the multi-annual project of the Ministry of Finance regarding the introduction of the accruals principle in tax accounting - development of laws and regulations in the field of accounting and bookkeeping and preparation of reports with respect to the disclosure of taxes, duties and other payments into the central government budget administered by the State Revenue Service in the budget implementation reports, as well as ensured the integration of the budget implementation process with the single tax account;

## 1. Implementation of Central Government Budget

- introduced the publishing of financial data time series contained in the national statistical programme, in line with the Official Statistics Programme, the European Statistics Code of Practice and the Special Data Dissemination Standard - publications are prepared on the website of the Treasury regarding the central government transactions and government debt in a human-readable and machine-readable (SDMX-ML) format.
- 2) The administrative burden for the receipt of services and the costs related to service administration has been reduced, thus ensuring quality remote access to the services of the Treasury:

  - The Treasury improved the efficiency of the central government budget implementation process, by optimising and simplifying the granting of central government budget allocations, thus considerably reducing the administrative burden for all central government budget authorities, by providing the possibility to more effectively use administrative resources for the planning and analysis of implementation of the central government budget (by shifting to granting allocations and grants from general revenue for central government budget institutions in the amount of the annual sum).
  - The Treasury controlled the provided financial services, by enhancing the internal control system of the institution in the field of international and national sanctions and anti-money laundering and counter-terrorism and proliferation financing. The measures to be taken for the purposes of reducing the number of accounts of private individuals (invitations, foundations, commercial companies, etc.) in the Treasury have been assessed, by submitting proposals for amendments to the Law on Budget and Financial Management, to reduce the administrative burden for both the Treasury and the clients, as well as to minimise the money laundering and terrorism and proliferation financing risk within the scope of the Treasury, and the central government budget expenditure for the maintenance of accounts, by introducing amendments to Section 27 of the Law, limiting the scope of subjects entitled to open the account in the Treasury for the receipt of central government budget funds and performance of expenditure, excluding non-governmental organisations (associations, foundations, religious organisations, etc.) and private capital companies. Amendments are to be introduced gradually,

starting from 2021. By introducing the referred to norm, the number of clients-private individuals receiving payment services in the Treasury would gradually decrease.

- The results of the survey of the Treasury's clients conducted at the end of 2019 (with the aim to ascertain the satisfaction of the Treasury's clients with the services provided by the Treasury, as well as their opinion on the image of the Treasury and the quality, speed and clarity of its communication) affirm the high quality of the services provided by the Treasury (91% of the respondents were generally satisfied with the services provided by the Treasury), surpassing the indicator put forward in the Operational Strategy of the Treasury for the assessment of quality of customer service ( $\geq 85$ ).
- 3) To ensure and develop quality e-services provided during the time when information security, cyber-attacks and technological risks are increasing considerably, the Treasury organised an external interdependent assessment of the solutions of information technologies, according to which the Treasury's Information Technologies Strategy for 2019-2021 has been developed, laying down new principles for the introduction of information systems, modernisation of infrastructure of computer networks and technical resources, directions and guidelines for staff development, to ensure information technology solutions that are convenient to use and secure for both internal and external users.

### The most significant conclusions for the new strategic planning period (2020-2022) in central government budget implementation:

- 1) the set of taken measures has allowed the Treasury to achieve 85 % conformance to the requirements of the international public sector accounting standards in 2019 (self-assessment of the Treasury). To achieve a higher level, in the next planning period the accruals principle in the accounting and bookkeeping of the real estate tax is to be introduced and the State should commence applying the accruals principle in tax accounting;
- 2) by expanding the provision of the accounting and bookkeeping service to the central government budget authorities, the centralisation of the support function

of the central government budget authorities is to be facilitated, moving towards an integrated budget planning, implementation and accounting and bookkeeping process, the use of standardised and unified bookkeeping principles and unified technical solutions in the country;

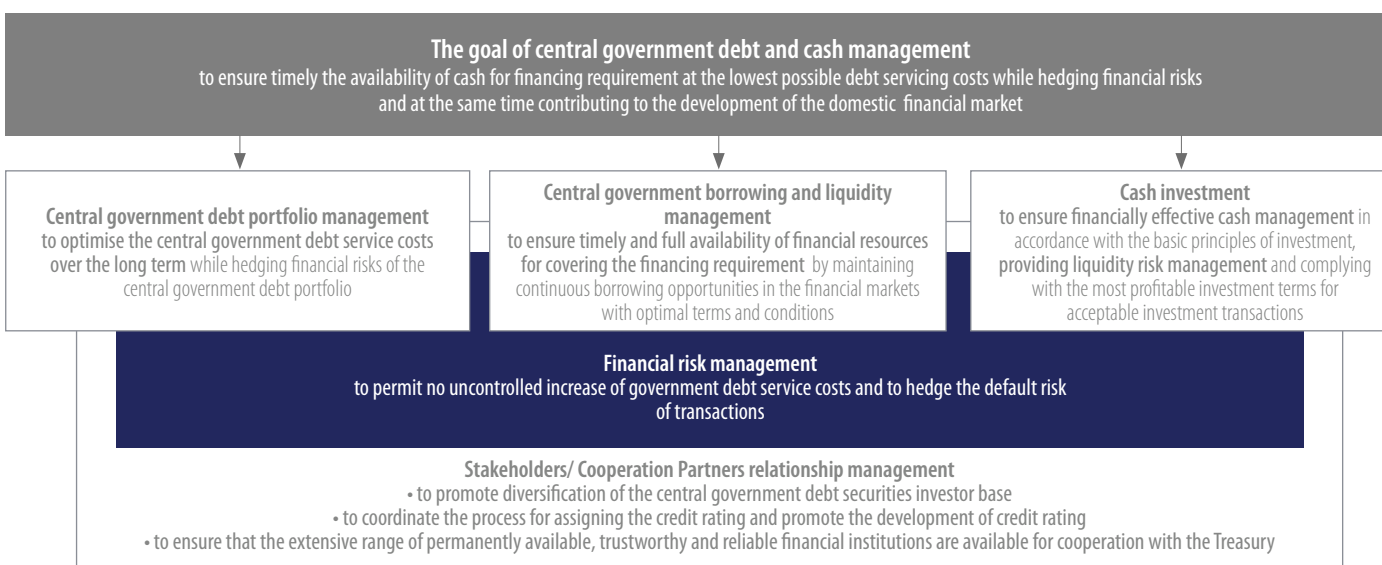
- 3) in light of the fact that the SAP software manufacturer has announced the termination of the maintenance support (development of updates, problem solving) of the SAP version used by the Treasury (on the basis whereof the Comprehensive Central Government Budget Planning and Implementation Information System has been created) at the end of 2025, the gradual shift of SAP versions to the newest system version - S/4HANA is to be continued;
- 4) to ensure the conformity of the electric services to the modern accessibility and usability requirements, it is necessary to introduce a single electronic services portal and to redesign the existing e-services, based on the use of uniform design system elements, as well as for the purposes of increasing the degree of digitisation of e-services, it is necessary to introduce structured application forms for requesting and administering the services;
- 5) by means of high-quality information about the central government budget implementation both by cash flow and by the accruals principle, and in support of Latvia's Fourth Open Government Partnership National Action Plan 2020-2021 on the open public data initiative, the possibilities of expanding public access to data accumulated in the Treasury shall be assessed in the medium term, in order to promote data-based decision-making;
- 6) upon the shift to the single tax account, the process of remittance of the central government budget revenue into the accounts of the Treasury is to be reviewed;
- 7) it is necessary to continue enhancing the internal control system of the institution in the field of international and national sanctions and anti-money laundering and counter-terrorism and proliferation financing for maintaining the financial reputation of the country, inter alia, by identifying and managing the risks pertaining to financial crime.

## 2. Central Government Debt and Cash Management

### 2.1. Operational Principles and Areas of Development

In 2019, 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:

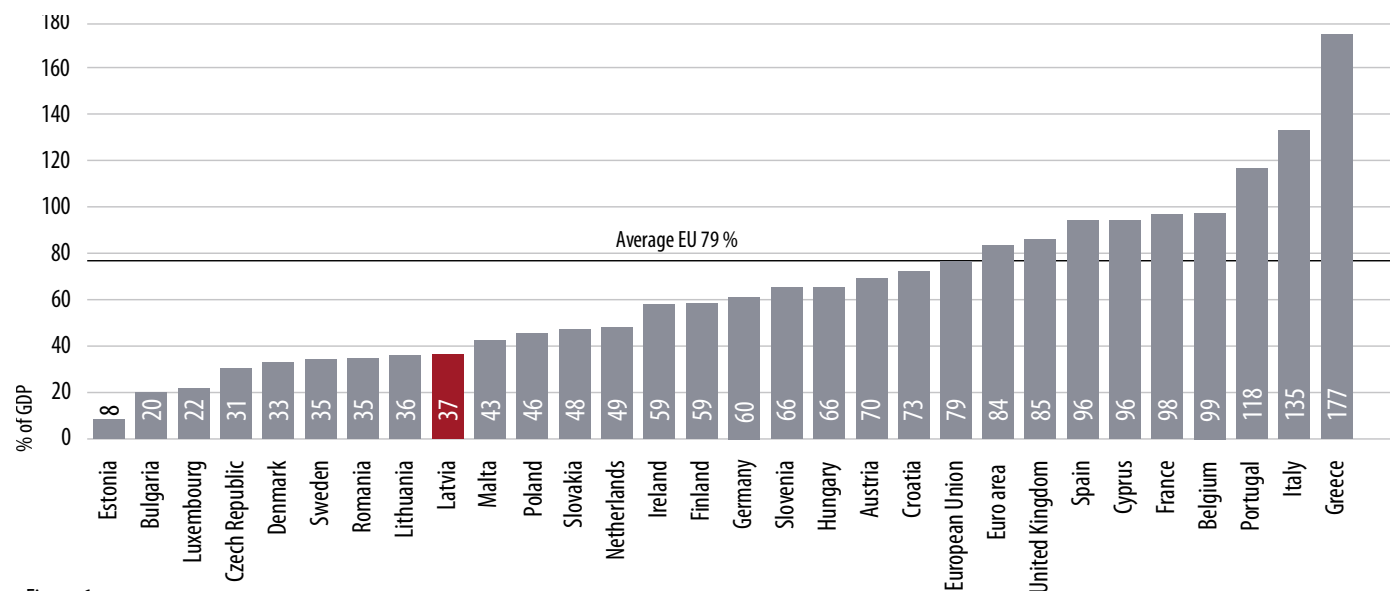
- 1) ensuring borrowing in the international financial markets with public issues of medium-term and long-term government debt securities by retaining flexibility in relation to choosing the time and instruments of loans in order to ensure borrowing with favourable conditions;
- 2) promote the development of the domestic 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 domestic financial market, in order to make better use of the borrowing potential of the domestic market and facilitate its functioning;
- 3) 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 cooperation partners, facilitating active participation and competition of investors from various global regions in the primary placement of external government debt securities in international markets;
- 4) 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;
- 5) maintain and develop long-term cooperation with the existing and new cooperation partners, ensuring a constantly available circle of partners for closing financial transactions, as well as to expand the range of financial mechanisms to be applied in central government debt and cash management.

## 2. Central Government Debt and Cash Management

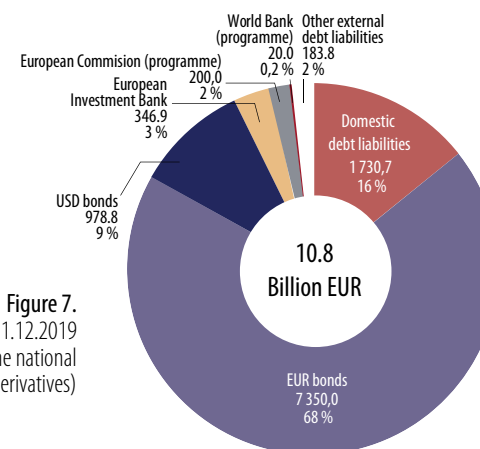
### 2.2. Structure, Indicators and Changes of the Central Government Debt

Latvian general government debt, which is formed by central and local government structure consolidated debt, accounted for 36.9 % of GDP at the end of 2019. 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 debt<sup>5</sup>, which, at the end of 2019, according to the operational data of the Treasury, comprised EUR 10.8 billion at nominal value (see Figure 7), growing by EUR 0.6 billion since the end of 2018. In February 2019, the Treasury discharged the domestic borrowing bonds in the amount of EUR 229.8 million and in April 2020 – repaid the European Commission loan in the amount of EUR 500 million, by means of the resources of Eurobonds issued in the international financial markets in 2018 and in February 2019. In February and May 2019, the Treasury issued Eurobonds in the sum total of EUR 1.0 billion, ensuring the resources for covering the funding needs of both 2019 and 2020, incl., discharging the US dollar bonds in January 2020. In 2019, the Treasury issued bonds in the amount of EUR 422.0 million in the domestic financial market.



**Figure 6.** General government debt at the end of 2019 (% of GDP) under the ESA 2010 methodology<sup>4</sup> (Source: EUROSTAT)



**Figure 7.** Central government debt structure (at nominal value) on 31.12.2019 (million EUR and % of the total amount, according to the national methodology, excluding derivatives)

<sup>4</sup> The general government debt is valued 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.

<sup>5</sup> 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, client deposits and balances of current accounts placed in the Treasury.

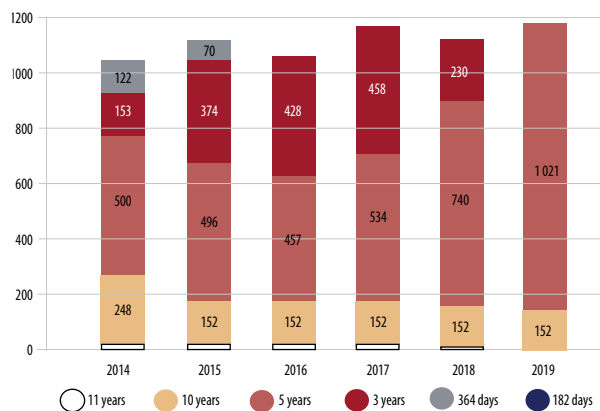
## 2. Central Government Debt and Cash Management

### 2.3. Central Government Borrowing Management

#### 2.3.1. Borrowing in the Domestic Financial Market

At the end of 2019, the largest share of the central government domestic debt was formed by domestic debt securities issued by the Treasury, which were basically purchased by domestic financial market investors (credit institutions, pension funds, insurance companies, etc.). The total amount of government domestic debt securities of Latvia in circulation at the end of 2019 was EUR 1, 172 billion – EUR 46 million more than a year before (see Figure 8). Considering the favourable market situation, low interest rates were recorded in Latvia’s domestic debt securities auctions.

**Figure 8.**  
Government domestic debt securities in circulation by initial maturity at the end of 2015–2019, in EUR million

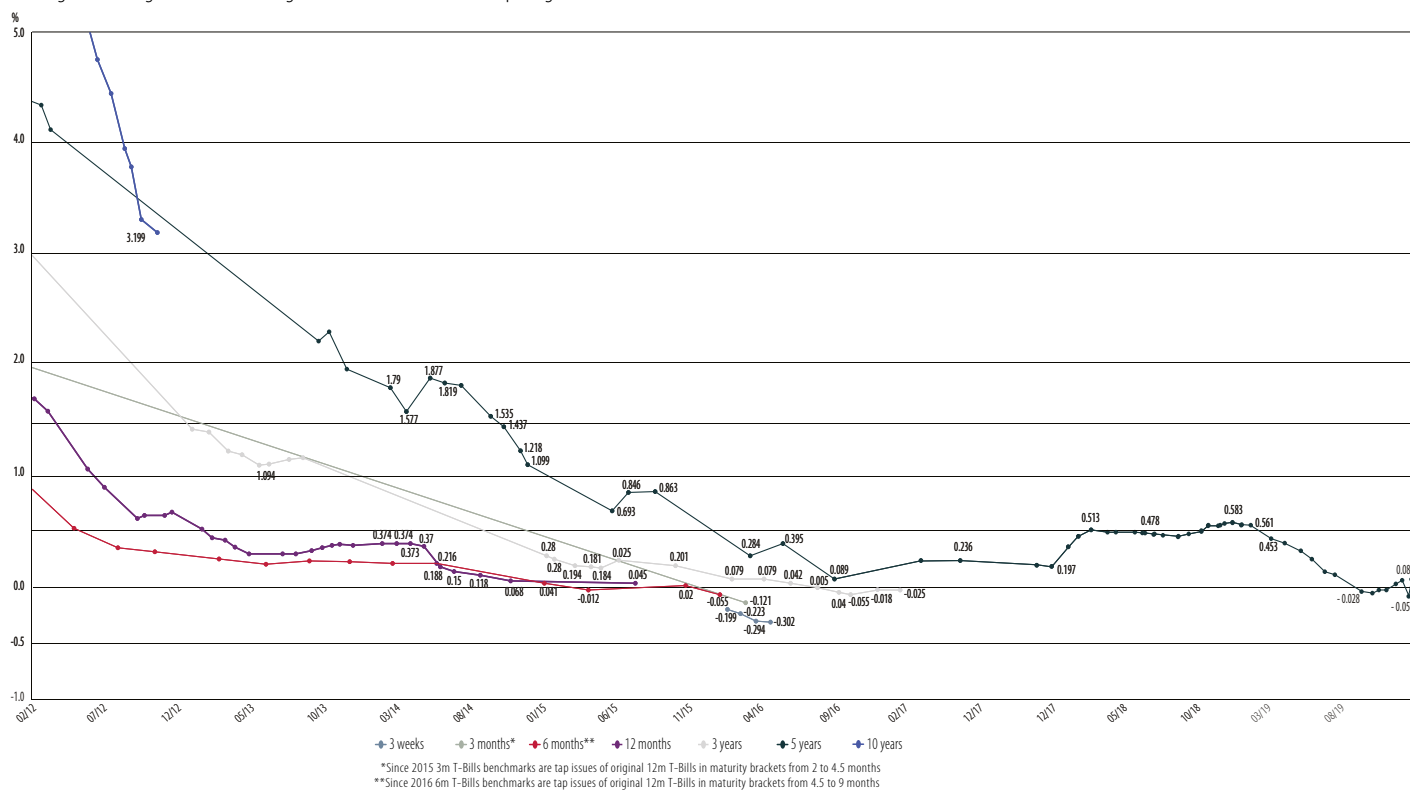


Gross issue volume in the domestic market in 2019 was EUR 422 million and the Treasury discharged government securities in the amount of EUR 376 million. At the beginning of 2019, the five-year bond programme launched in 2018 was continued, the volume whereof in circulation reached EUR 250 million at nominal value, but in July 2019 one new five-year bond programme was launched, for which a coupon at the level of 0.000% was fixed. As at the end of the year, the new five-year bond programme comprised EUR 232 million in circulation at nominal value and it is planned to also continue it in 2020. Liquid volume securities programmes in circulation promote the circulation of securities in the secondary market, which, in turn, positively influences the pricing of securities in the primary market.

In 2019, the demand for the central government domestic borrowing securities of Latvia remained high, thus the investor competition (characterised by the supply/sold volume proportion) in all auctions ensured the attraction of resources under financially beneficial terms. On average, the aggregate demand in competitive multi-price auctions exceeded the supply 4.4 times in 2019.

The rates of securities in the auctions remained at the historically lowest levels, but with moderate growth at the end of the year, reflecting the general trends of the financial market rates in 2019. Preservation of the rates at low levels can be explained not only by general financial market trends, but also by the active participation of primary dealers in auctions and by the high liquidity of Latvian credit institutions.

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



## 2. Central Government Debt and Cash Management

### 2.3.1.1. Primary Dealer System

The Primary Dealer System is aimed at facilitating the development and activity of the government securities market by promoting the emergence of new borrowing instruments, broadening the investor base, a more liquid and investor-friendly government securities market, as well as the reduction of risks associated with central government debt refinancing. As part of the Primary Dealer System, the credit institutions that have entered into a primary dealer agreement with the Treasury may take part in government security auctions. The primary dealers are selected, by assessing the operation of the credit institutions in the state security market and the activity in financial transactions with the Treasury, within the scope of the debt and asset activities. At present, the group of Primary Dealers includes the following credit institutions: AS Citadele banka, Luminor Bank AB, AS SEB bankas and AS Swedbank.

The Treasury communicates with Primary Dealers on a regular basis regarding the situation in the financial market, auction plans and results, as well as matters related to the secondary market of government securities. In 2019, considering larger borrowing volumes in the domestic market, the increasing trends were also demonstrated by the total turnover of trade with government securities of primary dealers in the secondary market.

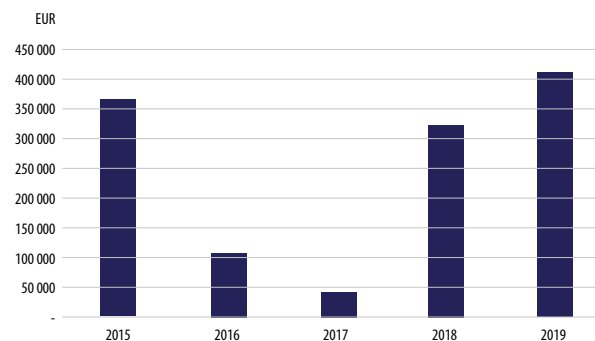
### 2.3.1.2. Savings Bonds

The Treasury continues maintaining the savings bonds offer (on the website [www.krajobligacijas.lv](http://www.krajobligacijas.lv) and at post service points of the state joint-stock company Latvijas Pastis). The objective of savings bonds is to provide private individuals with a convenient and secure investment opportunity in classic and secure financial instruments, facilitating public confidence in the financial market and the effective depositing of cash savings, broadening their practical experience of residents in investing.

In 2019, 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 all terms, in order to retain various options for investors in relation to the term and profitability in changing market conditions.

Since the introduction of the savings bonds, the residents have mainly elected the long-term investments, and, in 2019, the 10-year savings bonds made up 94 % of the volume thereof. At the end of 2019, the volume of savings bonds at the disposal of residents amounted to EUR 5.275 million. As compared to the year before, the volume of the traded savings bonds has not considerably changed.

**Figure 10.**  
Issued volume of savings bonds in 2015–2019 (nominal value)



### 2.3.1.3. Interest-Free Bonds

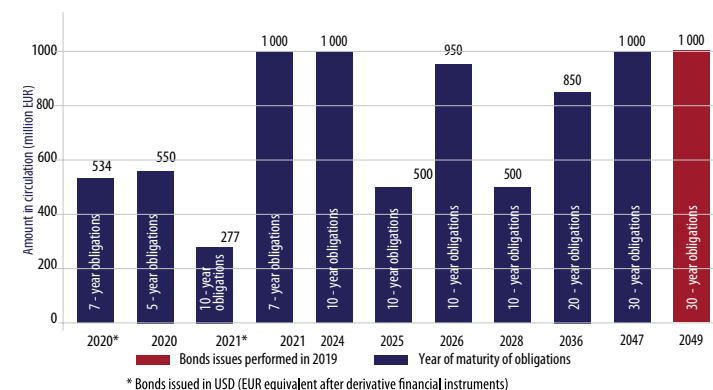
The Treasury continues ensuring the issue of interest-free bonds, which started in 2015. The issue of such securities is foreseen by Section 23, Paragraph one, Clause 31 of the Immigration Law, which prescribes that a foreigner has the right to request a residence permit in the Republic of Latvia for a period of time not exceeding five years if he or she purchases interest-free government securities dedicated to a specific purpose with a nominal value of EUR 250, 000 and pays EUR 38, 000 into the central government budget. In 2019, three interest-free bond issues took place, and the total nominal value of interest-free bonds at the end of the year amounted to EUR 10.25 million.

### 2.3.2. Borrowing in International Financial Markets

Under the circumstances of global 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, especially for the acquisition of long-term government securities. The activities of the Treasury in the field of external debt management in recent years have been focused on the exploitation of such beneficial borrowing moments, because it allows the accomplishment of the key objective of the borrowing strategy – to achieve a reduction in the government debt servicing costs in the medium term through borrowing in international financial markets on the most favourable terms possible.

For borrowing in international financial markets, the Treasury uses the legal framework of external government securities 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.

**Figure 11.**  
Issued bonds traded in international financial markets





## 2. Central Government Debt and Cash Management

The stable credit rating of the state in the rating group “A”, high investor evaluation and confidence in the long-term development of Latvia, as well as the constantly low levels of the euro base rates and the credit risk premium of the securities of the Eurozone countries, thanks to a stimulating monetary policy implemented by the European Central Bank in 2019, ensured the possibility to attract resources in the international financial markets on favourable terms.

As the Treasury issued Eurobonds in the amount of EUR 1 billion, the external borrowing plan for 2019 has been successfully implemented, thus refinancing the previously assumed central government debt liabilities with low interest rates and ensuring significant saving of the central government budget resources for central government debt servicing in the long term, including, reducing the interest expenditure in 2020 by EUR 30 million, as compared to that which was previously planned. Concurrently with the issues, the liquidity of these securities also grew, namely, both the outstanding traded amount has grown and more active trade in the secondary market has been promoted (see Table 2).

**Table 2.**  
Characteristic values of the Eurobonds issued in 2018 in international financial markets

	Issue of new 30-year Eurobonds	Additional issues of 30-year Eurobonds
Maturity term	19 February 2049	19 February 2049
Amount	EUR 700 million (12 December 2019)	EUR 300 million (20 May 2019)
	<b>TOTAL: EUR 1 billion</b>	
Fixed income rate (coupon)	1.875 %	1.875%* (fixed at 12 February 2019)
Profitability	1.929 %	1.764 %

### 2.3.3. Counterparty Relationship Management

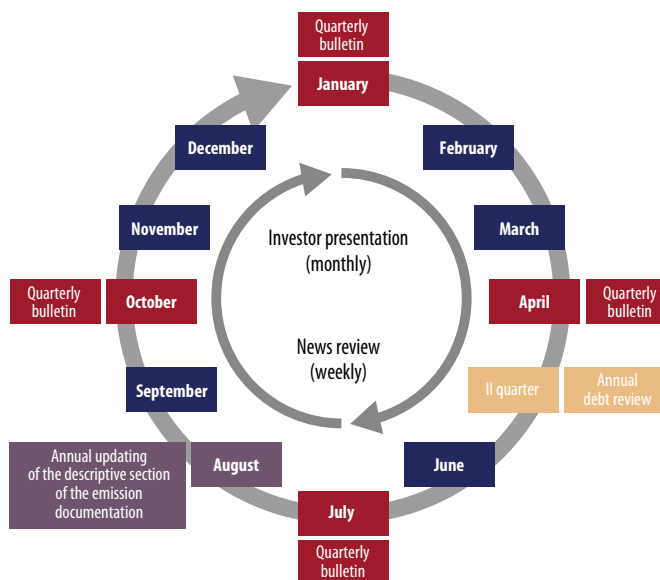
The aim of managing relationships with collaborating financial institutions is to regularly ensure the widest, safest and most reliable range of financial institutions

possible for collaboration with the Treasury, which ensures competitive terms for the performance of financial transactions.

Both as members of the Latvian delegation during the Annual Meeting of the World Bank and the International Monetary Fund, and also organising face-to-face meetings, incl. at various conferences and seminars, the representatives of the Treasury hold meetings with investors of government debt securities, representatives of foreign investment banks and credit rating agencies and provide the most up-to-date information about the situation in the Latvian economy, financial market, as well as the national borrowing strategy thereby also ensuring the dissemination and explanation of information to the investor community, which resolves on contributions into government securities.

The Treasury also organises the regular preparation of analytical materials and the operational provision of information to counterparties, by implementing the set of purposeful and structured communication measures, allowing one to reach the task of diversifying the debt securities investor base set in the Operational Strategy of the Treasury.

**Figure 12.**  
Annual Cycle of Regular Communication Events



### 2.3.4. 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. As part of central government debt management, for the purpose of establishing the credit rating of the Republic of Latvia, the Treasury arranges visits by analysts from the three major international rating agencies – *Fitch Ratings*, *S&P Global* and *Moody's Investors Services* – as well as the Japanese rating agency *R&I* to Latvia, and provides them with regular, comprehensive and relevant information on Latvia with a view to facilitating the credit rating agencies to make decisions for the favourable development of the credit rating of the Republic of Latvia. Based on the available information, including the country's credit rating, investors evaluate the prospects of investing in Latvia, e.g. in government securities. The 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 on the national credit rating of the Republic of Latvia and the factors affecting it, and provides proposals for improving the credit rating.

Also in 2019, the credit rating of Latvia remained at a stable position in the “A” credit rating group: seven credit rating reports have been received regarding holding the credit rating at the existing level and one report on the credit rating increase. The agencies have also published eight comments (publications) regarding the assessment of Latvia's creditworthiness.

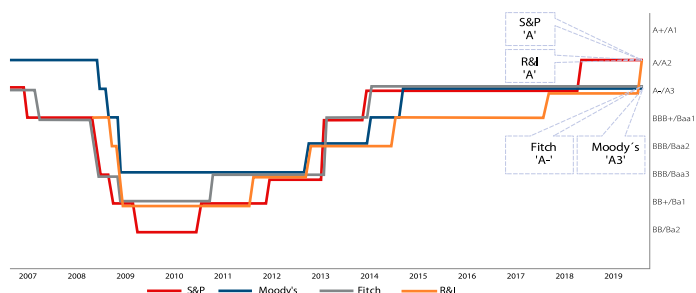
At the end of 2019, Latvia's credit rating for long-term liabilities in foreign currency was “A3” (with a stable outlook), as determined by *Moody's Investors Services*, “A-” (with a stable outlook), as determined by *Fitch Ratings*, “A-” (with a stable outlook), as determined by *S&P Global* and “A” (with a stable outlook), increased in December of 2019 from “A-” level by the Japanese credit rating agency *R&I*.

## 2. Central Government Debt and Cash Management

According to the credit rating assessment, Latvia was assessed as a quality and reliable issuer that facilitates borrowing with favourable terms. Latvia's credit rating in "A" group is stably maintained by:

- 1) anti-money laundering and counter-terrorism financing measures implemented by the government;
- 2) stable economic growth and growth forecasts;
- 3) fiscal policy implemented by the government;
- 4) low general government debt level;
- 5) successfully implemented public financial and institutional administration.

**Figure 13.**  
Credit Rating Development of the Republic of Latvia

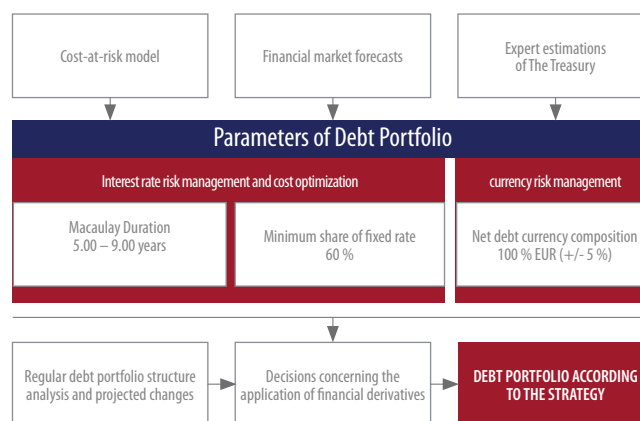


### 2.4. Government Debt Portfolio Management

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 the best balance between the costs and the interest rate risk (see Figure 14) 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.

**Figure 14.**  
Basic principles of central government debt portfolio management



In 2019, all the indicators of the debt structure as defined in the Central Government Debt Management Strategy have been complied with (see Table 3).

**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

PARAMETERS	ACTUAL DEBT STRUCTURE PARAMETERS 31.12.2018	ACTUAL DEBT STRUCTURE PARAMETERS 31.12.2019	DEBT STRUCTURE PARAMETERS DEFINED IN THE STRATEGY
Amount of domestic debt securities <sup>6</sup> at the end of the year	EUR 1 126,08 million	EUR 1 172,24 million	not less than outstanding at the end of the preceding year <sup>7</sup>
Maturity profile (%) of central government debt	≤ 1 year	≤ 3 years	≤ 1 year
	13.4 %	40.5 %	≤ 25 %
Minimum share <sup>8</sup> of fixed interest rate	≤ 1 year	≤ 3 years	≤ 1 year
	17.1 %	33.5 %	≤ 50 %
Minimum share <sup>8</sup> of fixed interest rate	90.1 %	86.2 %	≥ 60 %
Weighted average fixed period of the interest rates in years	6.49	7.61	5.0 – 9.0
Net debt currency composition	EUR 100.07 %	EUR 100.08 %	EUR 100 % (+/- 5 %)

<sup>6</sup> The amount of securities in circulation which were issued under Latvian law.

<sup>7</sup> A derogation may be made for negative net issuances within a current year provided that the relevant amount is compensated when planning domestic market borrowings for the following year.

<sup>8</sup> Central government debt with a fixed interest rate and with remaining maturity that is longer than one year.

## 2. Central Government Debt and Cash Management

### 2.5. Cash Management

In 2019, the Treasury ensured cash management in accordance with the *Central Government Debt and Cash Management Strategy*, promoting secure and financially effective cash investment with the most beneficial conditions possible. In 2019, cash investment and liquidity management were ensured under the circumstances of the negative short-term euro interests rates, because the European Central Bank continued applying negative rates (minus 0.40 %, from 12 September – minus 0.50 %) to the Euro-system deposit possibilities.

In 2019, the Treasury placed the temporarily available cash in Latvian and foreign credit institutions and deposited them into fixed-income debt securities. Financial risks in cash investment transactions have been hedged in accordance with the cooperation limits set for counterparties, ensuring the diversification of the cash investment portfolio.

In cash management, within the scope of contribution, on 29 May 2019, the Treasury, at a competitive multi-price auction, partially (in the amount of EUR 6.0 million at nominal value) redeemed and discharged the securities with maturity on 21 November 2019 (at a fixed income rate or coupon of 1.875 %) before maturity, ensuring the saving of the central government budget funds for debt servicing and for the placing of cash up to the planned maturity.

### 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 formulation	Performance indicator	Numerical values of the performance indicator in 2019	
		Projected	Implemented
1. Availability of financial resources to cover funding needs 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 <sup>9</sup> 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	-37 <sup>10</sup>
	1.2. Interest expense of the current year to the preceding year's central government debt ratio <sup>11</sup> does not exceed the relevant indicator of the preceding year by more than 30 basis points (deviation from the preceding year in basis points). <sup>12</sup>	30	14
	1.3. Liquidity provisions <sup>13</sup> are not lower than the liquidity reserve (annual average (%)) determined as a ratio of the amount of liquidity provisions of each month against the liquidity reserve of the relevant month <sup>14</sup> .	100	363 <sup>15</sup>
2. Offer of government securities to domestic financial market participants has been maintained.	2. Outstanding amount of domestic debt securities <sup>16</sup> at the end of the year is not lower than at the beginning of the year concerned (minimum difference between the outstanding amount of securities at the end and beginning of the year, EUR million). <sup>17</sup>	0	46.2 <sup>18</sup>

<sup>9</sup> 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 ESA 2010 basis).

<sup>10</sup> In 2019, the indirect interest rate of Latvian general government debt comprised 1.9%, which is by 37 base points lower than the average indicator of euro area countries with a similar and one grade higher credit rating for the year concerned.

<sup>11</sup> 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).

<sup>12</sup> 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 4. 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.

<sup>13</sup> Funding required for the liquidity reserve of the relevant month, which, in compliance with the applicable Debt and Cash Management Strategy, is constituted by liquid funds and liquidity-providing operations (e.g., issue of 21-day T-bills, short-term borrowings to be made within the relevant month), day T-bills, short-term borrowings to be made within the relevant month).

<sup>14</sup> Amount of funding required to ensure the implementation of the central government budget and performance of obligations within a calendar month.

<sup>15</sup> The indicator is met, by considerably exceeding the projected value thereof, which was defined in accordance with the minimum permissible level (100 %). The average value of the indicator was affected by the increase in the balance of resources available in the accounts of the Treasury following the Eurobond issues performed in the international financial markets in the amount of EUR 1 billion, inter alia, attracting EUR 700 million in February 2019 and EUR 300 million in May 2019.

<sup>16</sup> Government securities distributed among domestic financial market investors through initial placement.

<sup>17</sup> A derogation may be made for negative net issuances within a current year provided that the relevant amount is compensated when planning domestic market borrowings for the following year.

<sup>18</sup> Met, considering the permissible derogation of the performance indicator. In 2019, regular government securities auctions have been ensured, offering investors the five-year bond programmes. In total, in 2019, the gross domestic borrowing issue volume comprises EUR 422 million, but government domestic debt securities in the amount of EUR 375.8 million at nominal value have been discharged, thus ensuring the net issuance volume in the amount of EUR 46.2 million in 2019, to compensate the negative net issuance volume in 2018.

## 2. Central Government Debt and Cash Management

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

In accordance with that which is stated in the 4 July 2017 Cabinet of Ministers Regulation No. 399 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<sup>19</sup> – issues of savings bonds and investing of balances of funds<sup>20</sup>.

In 2019, 38 savings bonds issues were fulfilled. Service execution has been carried out in accordance with the requirements of regulatory enactments, no delays in service execution have taken place and no client complaints have been received. In 2019, three applications for investments of funds from private individuals were received.

### 2.8. Assessment of introduction of the Operational Strategy of the Treasury for 2017-2019 into the central government debt and cash management

Strategic goal of central government debt management: *Central government debt and cash management, by ensuring, 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 has been achieved to the extent prescribed for 2017-2019 (tasks defined/results to be achieved/performance indicators).*

The achievement of the strategic goal was promoted by:

- 1) strict public fiscal policy, stability of the financial sector and economic growth of the country;
- 2) development of technologies and the application thereof in the field of financial services, process automation, implementation of *ePārvalde* within the country and the shift to electronic document turnover on the national level;
- 3) experience gained in the management of financial resources;
- 4) the volume of financing available for the implementation of functions and development of the services provided;

- 5) stable, integrated and safe information technology solutions of national significance;
- 6) experienced, knowledgeable, motivated and growth-orientated staff;
- 7) client service and good governance principles complied with;
- 8) efficiency of the quality, risk and information security management system in the achievement of the objectives set.

The achievement of the strategic goal was also affected by a number of hindering factors:

- 1) impact of political and external environment factors on the achievement of the set goals and fulfilment of functions: growth in uncertainty and shock in financial markets due to foreign policy risks;
- 2) insufficient competitiveness of the public administration remuneration as compared to the level of work remuneration paid in the private sector, posing a risk for recruiting financial management, business analysts and specialists in the field of information technologies for long-term employment in the Treasury.

Accomplishments for the fulfilment of the strategic tasks, results and performance indicators set in the operational direction of the central government debt and cash management in 2017-2019:

- 1) Availability of financial resources ensured to cover funding needs at low debt servicing costs in the long term while ensuring the hedging of financial risks:
  - The Treasury, by monitoring and assessing the situation in global financial markets on a regular basis, timely ensured the fulfilment of the central government budget and debt liabilities, by timely attracting resources in financial markets with lower-than-planned interest rates, ensuring hedging of the financial risks and saving of budgetary funds for servicing of the central government debt in the long term, as well as secure and financially effective cash management.
- 2) The diversification of the investor base in the field of investor relations was continued for ensuring the availability of financial resources and

borrowing opportunities by maintaining a regular dialogue with the existing investor community (in Europe, the USA, Asia), and taking measures to expand the investor base:

- The Treasury ensured diversification and expansion of the range of government security investors through active, regular and continuous dialogue and long-term work with the investor community and cooperation partners, facilitating active participation and the competition of investors from various global regions in the primary placement of external government debt securities in international markets, as well as by increasingly attracting more investors investing in the bonds of developed countries with lower interest rate levels;
- The Treasury actively communicated with international rating agencies, ensuring the provision of a single and coordinated opinion regarding the situation in Latvia within the process of the credit rating calculation;
- The Treasury organised face-to-face meetings with investors, as well as conference calls, providing information about the borrowing plans and strategy: organised meetings in Japan (Tokyo), the USA (Boston) and Germany (Frankfurt), during which it provided information about the topicalities in economy, fiscal policy and central government debt management, borrowing plans and strategy, ensuring additional support in disseminating information to the investor community.
- 3) In the field of the government securities market, for the purposes of ensuring borrowing possibilities and the most favourable conditions possible, measures were taken, directed towards the improvement of liquidity of securities:
  - the Treasury's regular offer of government securities for institutional investors of the domestic financial market and savings bonds offer to households, by promoting the functioning and development of the domestic financial market, as well as by increasing the liquidity of debt securities for the more active trade of such securities in the secondary market. Within the scope of the Primary Dealer System, the initial placement of government securities was improved, thus promoting stable and high demand for government securities;

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

<sup>20</sup> Legal entity of private law.

## 2. Central Government Debt and Cash Management

- to ensure the additional issue of external government debt securities in EUR, within the scope of the Primary Dealer System, in 2019, the legal framework was supplemented with respect to the use of such instrument in the domestic market, as well as agreements were concluded with the involved parties;
  - measures were taken to ensure the possibilities of applying securities-guaranteed deposits (reverse REPO transactions) within the scope of cash management;
  - by assessing the existing legal basis for the trading of securities and determining further steps for more optimal organisation of the trading process, the legal framework was adjusted, by consolidating the linkage of government securities to a particular international securities identification code;
  - the Treasury successfully joined the newly established Baltic depository institution Nasdaq CSD, whose securities payment system fully meets the requirements of a pan-European securities payment platform. This is to be viewed as a significant project of integration of the Baltic capital market, ensuring the application of uniform securities payment standards.
- 4) The cash management process was enhanced, and the range of instruments used was extended, by observing the principles of secure and financially effective cash management:
- the Treasury ensured financially effective liquidity management under the existing non-standard circumstances (given the negative short-term euro interest rates);
  - by developing new instruments and ensuring financially beneficial cash contributions, the Treasury used the new method - redemption of the domestic borrowing securities;
  - the Treasury enhanced the Counterparty Limits Procedure, increasing the safety requirements for cash contributions.

- 5) For the development of the operational potential of the Treasury, the possibilities of managing other public financial assets have been assessed:
- the Treasury examines the possibilities of governing the expenditure currency and commodity risks of the central government budget authorities;
  - the initial legal assessment was carried out with respect to the possibility for the Treasury to receive a mandate for managing the 3rd pension pillar for those employed in the public sector.

### The most significant conclusions for the new strategic planning period (2020–2022) in central government debt and cash management:

- 1) the borrowing strategy implemented up to now, which provided for the timely attraction of funding, without postponing the borrowing at the last moment before the repayment of the central government debt to be performed in a significant amount, has reduced the central government debt refinancing risks, ensured the attraction of resources under beneficial terms in the best timing of borrowing, as well as the central government debt servicing expenditure in the long term. Also in the coming years, by new borrowings, the Treasury would have to refinance a comparatively large scope of the central government debt liabilities assumed in the previous years, at the same time ensuring resources for financing the central government budget deficit and granting central government loans;
- 2) despite the continuation of the period of low interest rates and in the presence of various risks of a rapidly changing situation, the choice of the most appropriate borrowing time would still be the largest challenge for the Treasury in the management of the borrowings in the coming years, so as to attract resources under beneficial terms to cover the total funding needs. In the medium term, it is strategically important to retain the largest possible flexibility in relation to also choosing other conditions (currency, amount, maturity), as it allows the attraction of resources to be ensured with low central government debt service costs in the long term, while hedging financial risks. In turn, for the purposes of ensuring the availability of financial resources and constant borrowing opportunities, the diversification of the

investor base should continue, by maintaining a regular dialogue with the existing investor community (in Europe, the USA, Asia), and taking measures to expand the investor base;

- 3) by organising new borrowings for refinancing of the central government debt, the Treasury will have to ensure the secure and financially effective management of large funds in the medium term. By way of adapting to the changing market practice, in the medium term the range of applicable financial instruments would have to be expanded as far as possible by new investment opportunities, strictly observing the requirements set for hedging financial risks;
- 4) in the medium term, it will be important to ensure the liquidity of securities for successful government securities issues in both the international and domestic financial market, providing possibilities for the local investors to invest in various government securities of Latvia;
- 5) digital transformation of the central government debt and cash management process, using the most advanced information technology possibilities for automation of the processes, minimisation of the scope of manual work, in-depth data analysis and preparation of information necessary for taking financial management decisions, will facilitate the achievement of the objectives of the Central Government Debt and Cash Management Strategy.

### 3. Central government loan and guarantee management

#### 3.1. Operational Principles and Areas of Development

Candidates for central government loans meeting the eligibility criteria defined by the Law on Budget and Financial Management and whose projects comply with the objectives of the Law, may operationally receive central government loans within the limits set by the Central Government Annual Budget Law. The Treasury grants and services central government loans, incl., supervises the proper performance of commitments, in line with the Cabinet Regulation on the procedure for granting and servicing central government loans. By assessing the central government loan portfolio and its structure, as well as by evaluating the repayment options of the loan portfolio, the Treasury provides suggestions to the Minister of Finance on a regular basis regarding future actions for supervision of the 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 European Union 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. Local governments, in turn, in order to promote the implementation of economically significant investment projects co-financed by the European Union and to ensure the availability of the services, issue guarantees on liabilities of their capital companies.

In 2019, the Treasury introduced a new strategic approach to the granting and servicing of central government loans: ensuring the more accessible receipt of a central government loan for the circle of central government loan applicants for the implementation of investment projects, by automating and digitising the service and making it more comfortable for clients to receive central government loans and to cooperate with the Treasury. New e-service of the Treasury is being offered for the clients – *eAizņēmumi (eBorrowings)*, as well as a new strategic approach has been set in the legal framework for ensuring the process of granting and servicing central government loans and reducing the administrative burden.

In 2018, the Treasury commenced and, in 2019, continued consolidating the agreements on the issued central government loans (48 novation agreements in total have been concluded, consolidating 1,353 agreements) Thus, the administrative burden has been reduced for the local government, the Treasury and the Ministry of Finance; the transparency of the monthly reports on the amount of liabilities of the local governments has been ensured with a smaller probability of errors.

The Treasury ensured successful participation in the Credit Register of the Bank of Latvia, by generating and submitting general, periodic and infringement files.

According to the procedure prescribed by the Cabinet, the Treasury takes part in the provision of state guarantees, by assessing and monitoring the risks related to the issuing of guarantees, organising the conclusion of guarantee agreements and handling the commitment of accounting for state-issued guarantees, as well as regularly analysing and monitoring the financial position of state-guaranteed project implementers, thus facilitating the realisation of nationally significant projects.

To ensure maximum effectiveness of the study and student lending system, as far as possible meeting the best interests of the financial market participants and the students, in line with Cabinet Decree No. 382 of 17 July 2019 On the Concept Note “On the Change of the Model of Study and Student Lending from the Resources of Credit Institutions with the Government Guarantee”; starting from April 2020 the new system of the state-guaranteed study and student loans is introduced, when the guarantee is issued by the joint-stock company *Attīstības finanšu institūcija Altum* (Development Financial Institution *Altum*) in the form of the portfolio guarantee instrument.

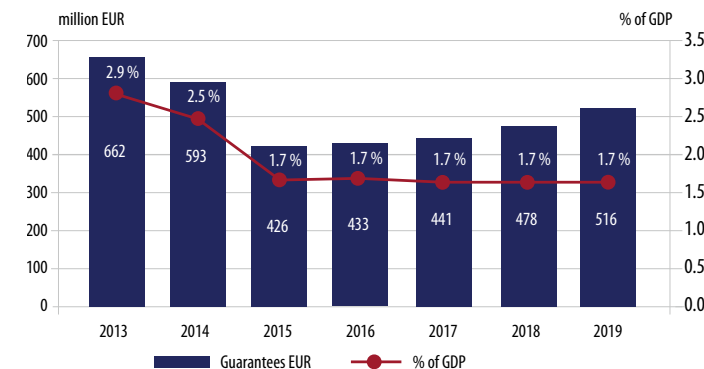
#### 3.2. State-Issued Guarantees

The annual State Budget Law did not provide for granting new state-issued guarantees; however, at the same time, 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 joint-stock company *Attīstības finanšu institūcija Altum*.

The state-guaranteed debt outstanding at the end of 2019 amounted to EUR 515.7 million, which is EUR 38.1 million more than in 2018, and is comprised of the central government liabilities assumed in the previous years in the form of the state-issued guarantees.

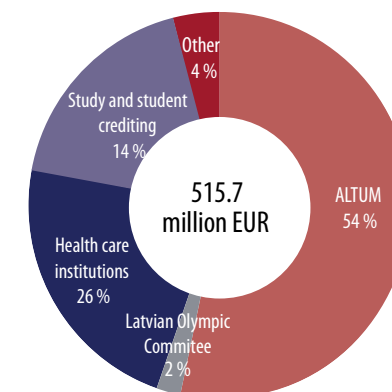
<sup>21</sup> In accordance with the Law on Budget and Financial Management the central government loans may be issued to local governments, state special budget implementers, capital companies where the state or local government share of the fixed capital, separately or combined, exceeds 50 % and to 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.

Figure 15.  
State Guaranteed Debt Outstanding, EUR million



The largest share of the state-issued guarantee portfolio by the borrower – 54 % – was formed by state-issued guarantees for the obligations assumed by the state for the obligations of the joint-stock company *Attīstības finanšu institūcija Altum* (Latvian Development Financial Institution *Altum*) for the implementation of state aid programmes (small and medium-sized enterprises, agriculture, start-ups, etc.), 26 % – for the obligations assumed by health care institutions and state-issued guarantees for ensuring the study and student loan programme – 14 %.

Figure 16.  
State-issued guarantee portfolio, by borrower on 31.12.2019



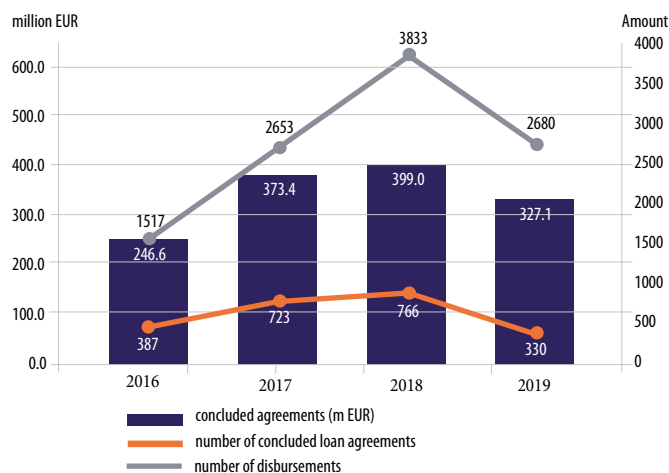
## 3. Central government loan and guarantee management

### 3.3. Central Government Loans

The overall increase of central government loans in the central government budget was set at EUR 334.5 million. In turn, the total permissible amount of central government loans to be granted in 2019 was EUR 481.6 million, including the total increase of EUR 334.5 million in state loans determined by the annual Central Government Budget Law, and the planned repayment of central government loans issued during previous years in the amount of EUR 147.1 million.

In 2019, the fall in the number and volume of the concluded loan agreements is observed, which is related to the limited borrowing possibilities of local governments, within the scope of securing financial discipline.

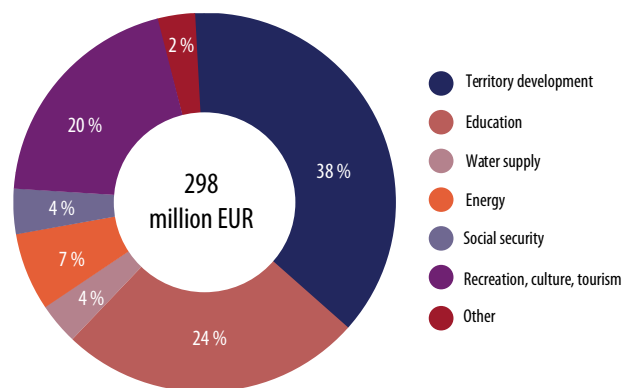
**Figure 17.**  
Dynamics of Central Government Loans (2016-2019)



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

In 2019, the largest amount of central government loans at EUR 297.5 million was granted to local government bodies (81.8 % of total central government loans issued in 2019), which, compared to 31 December 2018, has increased by EUR 5.3 million.

**Figure 18.**  
Central government loans issued to local governments in 2019, by purpose



In 2019, 100% of financial resources raised by local governments in the form of loans came from the Treasury, which is an indication that the Treasury provides financially favourable conditions and quality service.

#### 3.3.2. Central Government Loans to Central Government Bodies

Central government loans in the amount of EUR 49.1 million or 13.5 % of the total volume of the central government loans are granted to economic operators controlled and financed by central government bodies<sup>23</sup>, out of which EUR 47.6 million is issued to the joint-stock company *Attīstības finanšu institūcija Altum*, constituting an increase by EUR 41.6 million, as compared to 2018, for the implementation of state aid programmes (small and medium-sized enterprises, agriculture, start-ups, etc.) and EUR 1.5 million – to the Latvian Biomedical Research and Study Centre and Rezekne Academy of Technologies.

#### 3.3.3. Central Government Loans to Non-Financial Economic Operators<sup>22</sup>

Central government loans in the amount of EUR 17 million or 4.7% of the total volume of the central government loans are granted to non-financial entities, constituting an increase by EUR 8 million, as compared to 2018, and are mainly granted to the local government capital companies for implementation of the projects co-financed by the EU.

<sup>22</sup> 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.

## 3. Central government loan and guarantee management

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

**Table 5.**  
Performance indicators of the operational targets for central government loan and guarantee management

Result formulation	Performance indicator	Numerical values of the performance indicator in 2019	
		Projected	Implemented
1. A client-orientated central government lending and monitoring process on financially favourable terms ensured.	1.1. The amount of central government loans granted to local governments and their capital companies guaranteed by local governments is not less than 85% of the total amount of borrowings by local governments and their capital companies guaranteed by local governments in the year concerned.	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 clients surveyed <sup>23</sup> ).	85	85
2. Timely and proper assessment of credit quality and adequacy of the provisions to cover potential losses built on that basis ensured.	1. The amount of provisions calculated within the central government loan portfolio for the preceding quarter is sufficient or exceeds the amount actually unpaid in the current quarter (provisions as % of receivables).	100	100

### 3.5. Public Services Performance Indicators for Private Individuals in Central Government Loan and Guarantee Management

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

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

<sup>24</sup> Legal 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.

Public Administration Services, in central government loan and guarantee management the Treasury provides two public administration services to private individuals – central government loan management and guarantee issuance and supervision. In 2019, 33 loan applications have been received from private individuals<sup>24</sup> (out of which 27 applications have been received electronically, and six – in paper form). Service execution has been carried out in accordance with the

requirements of regulatory enactments, no delays in service execution have taken place and no client complaints have been received. In 2019, state-issued guarantees were granted with respect to 1, 482 study and student loans.

### 3.6. Assessment of introduction of the Operational Strategy of the Treasury for 2017-2019 into the central government loan and guarantee and cash management

Strategic goal of the central government loan and guarantee management: *To ensure the availability of financial resources (incl. long term) for candidates to the central government loans in the form of the central government loan on financially favourable terms through quality service, and to ensure a timely government guarantee process, while limiting the credit risks of central government loans and guarantees has been achieved to the extent prescribed for 2017-2019 (tasks defined/results to be achieved/performance indicators).*

The achievement of the strategic goal was promoted by:

- 1) strict public fiscal policy, stability of the financial sector and economic growth of the country;
- 2) development of technologies and the application thereof in the field of financial services, process automation, implementation of ePārvalde within the country and the shift to electronic document turnover on the national level;
- 3) experience gained in the management of financial resources;
- 4) the volume of financing available for the implementation of functions and development of the services provided;
- 5) experienced, knowledgeable, motivated and growth-orientated staff;
- 6) project management approach to the development of services and operational improvement of the Treasury;
- 7) client service and good governance principles complied with;
- 8) quality, risk and information security management system maintained for the efficient achievement of the objectives;
- 9) enhanced internal control system in the field of sanctions and anti-money laundering and counter-terrorism and proliferation financing, by carrying out customer due diligence and assessing the cooperation risks before commencing the business relations.

The achievement of the strategic goal was also affected by a number of hindering factors:

- 1) limited availability of information system suppliers suitable for the work specifics of the Treasury;
- 2) difficulties in effective human resources management (uncompetitive remuneration in one of the Treasury areas, i.e. financial management).



## 3. Central government loan and guarantee management

Accomplishments for the fulfilment of the strategic tasks, results and performance indicators set in the operational direction of the central government loan and guarantee management in 2017-2019:

- 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 Treasury ensured the timely granting of central government loans, observing the principles of quality and effective service provision;
  - In 2018, commencing the consolidation of the granted central government loans (concluding the novation agreements), the administrative burden has been reduced for the local governments, the Treasury and the Ministry of Finance, and the transparency of the monthly reports on the amount of liabilities of the local governments has been ensured with a smaller probability of errors.
- 2) Client satisfaction with the central government lending and loan servicing process was increased, by ensuring the digitisation of this service and joining the Credit Register of the Bank of Latvia:
  - the Treasury introduced a new strategic approach to granting and servicing of the central government loans: ensuring the more accessible receipt of the central government loan for the circle of the central government loan applicants for the implementation of investment projects, by automating and digitising the service and making it more comfortable for clients to receive central government loans and to cooperate with the Treasury. New e-service of the Treasury is being offered for the clients – *eAizņēmumi (eBorrowings)*, as well as the new strategic approach has been set the legal framework for ensuring granting and servicing central government loans and reducing the administrative burden.

- The results of the survey of the Treasury's clients conducted at the end of 2019 (with the aim to ascertain the satisfaction of the Treasury's clients with the services provided by the Treasury, as well as their opinion on the image of the Treasury and the quality, speed and clarity of its communication) affirm the high quality of the process of issuance and administration of the central government loans provided by the Treasury (85 % of the respondents were generally satisfied with the services provided by the Treasury), achieving the indicator put forward in the Operational Strategy of the Treasury for the assessment of quality of customer service ( $\geq 85$ ).
  - The Treasury ensured successful participation in the Credit Register of the Bank of Latvia, by generating and submitting general, periodic and infringement files.
- 3) A timely government guarantee provision process was ensured and the availability of the state-guaranteed study and student loans was promoted.
  - 4) Deterioration of loan quality was timely assessed, by creating adequate provisions.
  - 5) The Cabinet is informed about the guarantee portfolio quality: information has been provided about the state-guaranteed loans and liabilities portfolio has been assessed, guarantee portfolio structure by borrower creditworthiness has been assessed, providing information about the quality of each guarantee group determined according to borrower creditworthiness. Assessments of the financial condition (creditworthiness) of the borrowers, for whose liabilities state-issued guarantees were granted, and proposals for further action have been submitted to the Minister for Finance, as well as the central government loan portfolio, the structure, credit risk and quality thereof has been assessed, accompanied with proposals for loan portfolio supervision.

The most significant conclusions for the new strategic planning period (2020-2022) in the central government loan and guarantee management:

- 1) with decreased financing from EU funds in the form of grants in the coming years, it is necessary to build a system where local governments and their capital companies can implement projects through the use of financial instruments. The Treasury must not only ensure an optimum and up-to-date government lending process, but, if necessary, also provide advisory support on the use of various financial instruments;
- 2) to ensure an even faster and more transparent process of granting and servicing central government loans, based on the principles of the provision of quality service meeting modern standards, and to reduce the administrative burden, the Treasury will continue developing the *eAizņēmumi* solution, by increasing the volume and quality of the electronic services provided by the Treasury, which will ensure the submission of loan requests and administration of the received loans in the electronic environment;
- 3) to minimise the financial risks, the central government loan is the primary financial instrument for ensuring the implementation of the regionally and nationally significant projects. In turn state guarantees, as a support mechanism, are to only be used for the loans issued by such international financial institutions, where the Republic of Latvia is the Member State.

## 4. Implementation of the Functions of the Paying and Certifying Authority of EU funds and foreign financial assistance

### 4.1. Operational Principles and Areas of Development

The Treasury, in line with the provisions of laws and regulations, performs the functions of the Certifying Authority for the ERDF, ESF and CF, as well as the European Economic Area Financial Mechanism and Norwegian Financial Mechanism.

Fulfilling the functions of the Certifying Authority, the Treasury ensures accounting of the resources received and spent, prepares and submits statements to the Granting Authority confirming that the declared expenses have been spent in compliance with the applicable laws and regulations, and performs other duties related to financial management. Before confirming the expenditure to be declared, to obtain the necessary confidence with respect to the eligibility of expenditure, the Treasury, based on the risk assessment, carries out the verifications prescribed by the regulatory enactments, as well as analyses and takes note of the information at its disposal (verifications, audits, irregularities detected during the audits, etc.).

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

In this programming period, regulatory enactments of the European Commission<sup>25</sup> (hereinafter – Regulation No. 1303/2013) foresee the annual closing procedure, therewith the applications for payments have to be submitted in the current accounting year, and, as the accounting year concludes, a closing balance of accounts must be submitted.

In 2019, the Treasury continued submitting regular payment applications to the European Commission and receiving payments. To ensure meeting of the performance framework financial target, the Treasury submitted additional payment applications to the European Commission, thereby ensuring the granting of 6% reserve funding provided for in Regulation No. 1303/2013. The amount of expenditures to be declared, as compared to 2018, grew considerably within the scope of the ERDF and the CF, which was indicative of a steep increase in investment amount specifically in the infrastructure improvement projects; please refer to Table 6 and 7 for more detailed information.

On 13 February 2019, the set of account closure documentation has been submitted to the European Commission for the accounting year from 1 January 2017 till 30 June 2018:

- 1) The closure of accounts prepared by the Treasury as the certifying authority<sup>26</sup>;
- 2) Governance declaration and the annual summary for the previous year prepared by the Ministry of Finance as the national focal point;
- 3) The annual control report and opinion prepared by the Ministry of Finance as the audit authority<sup>27</sup>.

On 11 April 2019, the European Commission submitted the closure documentation back for the introduction of the necessary adjustments, because, in the opinion of the Commission, Latvia has failed to correctly interpret the requirements of Regulation No. 1303/2013 on the amount of expenditure to be deducted from the account closure, the eligibility whereof is being additionally assessed, or the decision on the detection of the irregularity has not been adopted. Due to the above-mentioned, the account closures were returned to several Member States (for example, Lithuania, Estonia, Romania, Slovakia, Bulgaria, Croatia, etc.). Following the submission of the adjusted set of account closure documentation, the European Commission accepted it on 27 August 2019, specifying that the documentation is complete, correct and true.

**Table 6.**

Declared expenditures and refunds/advances received from the European Commission in 2019, thousand EUR

Fund	Total <sup>28</sup> eligible expenditure declared in payment applications	incl. in the 5th accounting year	incl. in the 6th accounting year	Payments received from the European Commission	incl. annual advances received from the European Commission for the 5th accounting year	incl. refunds for the 5th accounting year	incl. refunds for the 6th accounting year	Planned balance payment <sup>29</sup> for the 5th accounting year
(1)	(2)=(3)+(4)	(3)	(4)	(5)=(6)+(7)+(8)	(6)	(7)	(8)	(9)
ESF (t.sk. YEI <sup>30</sup> )	100,961	49,658	51,303	111,690	17,307	39,282	55,101	-16,899
ERDF	522,290	304,252	218,038	529,289	64,894	297,595	166,800	-64,821
CF	178,533	93,852	84,681	197,870	36,468	96,621	64,781	-34,155
<b>Total</b>	<b>801,784</b>	<b>447,762</b>	<b>354,022</b>	<b>838,849</b>	<b>118,669</b>	<b>433,498</b>	<b>286,682</b>	<b>-115,875</b>

Source: The Treasury, CP MIS<sup>31</sup>

<sup>25</sup> 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.

<sup>26</sup> Annex 12 to Regulation (EU) No. 1011/2014 – Report on Transactions Included in the Payment Application to the European Commission (PAEC).

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

<sup>28</sup> EU financing, national public financing and private financing.

<sup>29</sup> Planned amount of resources to be received from the European Commission/to be repaid to the European Commission for the 5th accounting year (the sum is calculated by taking into account the planned amount of expenditure to be included in the closing balance of accounts, the amount of annual advances received, which should have been used over the 5th accounting year, as well as the refunds received from the European Commission for the 5th accounting year). In accordance with the European Commission proposal to amend Regulation No. 1303/2013, it is planned that the sum would not have to be repaid in 2020.

<sup>30</sup> Youth Employment Initiative.

<sup>31</sup> Cohesion Policy Funds Management Information System.

## 4. Implementation of the Functions of the Paying and Certifying Authority of EU funds and foreign financial assistance

**Table 7.**  
Declared expenditures in 2019, as compared to 2018, thousand EUR

Fund	Total financing allocation <sup>32</sup>	KTotal declared expenditures <sup>33</sup>	incl. declared expenditures in 2018	incl. declared expenditures in 2019
ESF (t.sk. YEI)	780,252	294,291	108,720	100,961
ERDF	2,825,003	1,052,744	327,366	522,290
CF	1,587,547	471,698	113,122	178,533
<b>Total</b>	<b>5,192,802</b>	<b>1,818,733</b>	<b>549,208</b>	<b>801,784</b>

During the reporting period, the Treasury introduced a new approach to the verification of the EU funds expenditure reports, without pegging the overarching control results to the verification of each payment application, but ensuring the fulfilment of the volume necessary for verifications by the submission of the last payment application to the European Commission, thus reducing the time for verification of the payment application by the Certifying Authority by 40 %.

### 4.3. Functions of the Certifying Authority for the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism

In the 2009–2014 Programming Period, within the scope of the European Economic Area and the Norwegian Financial Mechanism, Latvia implemented seven programmes and a technical assistance project. Already in 2018, the Certifying Authority submitted the Financial Mechanism Office the closure reports of all programmes and received closing payments for a certain part of the programmes. In 2019, the remaining closing payments have been received in the amount of EUR 0.7 million, but no payment was received for one of the programmes, in light of continuing the discussions with competent authorities regarding the state aid issue.

In addition, it should be noted that, in 2019, Latvia performed a refund to the Financial Mechanism Office for one programme in the amount of EUR 1.2 million due to the failure to achieve the project objective, as well as for one programme the adjusted closure report has been submitted to the Financial Mechanism Office (reducing the expenditure incorporated therein by EUR 0.06 million), because the programme operator detected that no economic activity is ensured in two projects.

### 4.4. Functions of the Certifying Authority for the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism for 2014–2021

The allocation for Latvia, within the scope of this period, comprises EUR 94.4 million (incl. EUR 9 million to be administered by the Financial Mechanism Office and Innovation Norway). Latvia will implement six programmes, as well as the Technical Assistance Project and the Fund for Bilateral Relations. Introduction of the programme is at the commencement stage and, in 2019, the donor states and the national focal point have signed four programme agreements, while two agreements were under coordination. The first interim financial reports

have been submitted to the Financial Mechanism Office, requesting EUR 0.43 million from the donor states. EUR 0.37 million was received for the submitted reports – the sum is smaller than requested, because for one of the programmes the Cabinet Regulation governing programme implementation has not yet been approved, forming a prerequisite for receipt of the funds.

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

**Table 8.**  
Performance indicators of the operational targets for the implementation of the functions of the Paying and Certifying Authority of the EU Funds and Foreign Financial Assistance

Result formulation	Performance indicator	Numerical values of the performance indicator in 2019	
		Projected	Implemented
A positive rating <sup>34</sup> 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	2

<sup>32</sup> Total with national co-financing.

<sup>33</sup> Total declared expenditure in 2016–2019, without corrections introduced, when submitting account closures.

<sup>34</sup> Rating categories in compliance with the laws and regulations governing the management of European Union Funds ('1' – works well, no or minor weaknesses identified; '2' – works, but certain improvements are needed; '3' – works partially and substantial improvements are needed; '4' – not working, major weaknesses identified).

## 4. Implementation of the Functions of the Paying and Certifying Authority of EU funds and foreign financial assistance

### 4.6. Assessment of the introduction of the Operational Strategy of the Treasury into 2017-2019 for the implementation of the functions of the Paying and Certifying Authority of the EU funds and foreign financial assistance

Strategic objective of the implementation of the functions of the Paying and Certifying Authority of EU funds and foreign financial assistance: *To organise and standardise the performance of the functions of Payment and Certifying Authorities in a manner that ensures compliance with the requirements of the Granting Authorities and laws and regulations of the Republic of Latvia and timely receipt of funds from Granting Authorities, and minimises the acceptable risk of ineligible expenditure being declared* has been achieved to the extent prescribed for 2017-2019 (tasks defined/results to be achieved/performance indicators), all fund requests have been paid for, payments are not suspended.

The achievement of the strategic goal was promoted by:

- 1) experience gained in the implementation of the functions of the Paying and Certifying Authority of EU funds and foreign financial assistance;
- 2) experienced, knowledgeable, motivated and growth-orientated staff;
- 3) development of technologies and application thereof in the area of financial services, automaton of processes;
- 4) efficiency of the quality, risk and information security management system in the achievement of the objectives set.

The achievement of the strategic goal was also affected by a number of hindering factors:

- 1) updating of the EU legal framework and guidelines, incorporating new requirements therein, possibilities of incorrect interpretation of the norms incorporated in the documents governing the EU funds management;
- 2) information increasingly appearing in the public space regarding suspicions of fraud and violations of competition norms in the EU funds projects, as well as various other violations, *inter alia*, inclusion of the beneficiaries or their cooperation partners in the lists of sanctions, requiring additional assessment.

Accomplishments for the fulfilment of the strategic tasks, results and performance indicators set in the operational direction of the implementation of functions of the Paying and Certifying Authority of the EU policy instruments in 2017-2019:

- 1) The Treasury implemented the measures for the purposes of closing the 2009-2014 European Economic Area and the Norwegian Financial Mechanism programmes, establishment of the management and control system for 2014-2021 European Economic Area and the Norwegian Financial Mechanism, as well as ensured the timely and high-quality preparation of the EU funds payment applications and account closure and the submission thereof to the European Commission;
- 2) along with the receipt of the closing payments, the 2007-2013 Programming Period of the EU Funds was closed, with the follow-ups still taking place;
- 3) the Treasury introduced a new approach to verification of the EU funds expenditure reports, accelerating the submission of the payment applications to the European Commission;
- 4) the Treasury ensured the measures under its competence for the fulfilment of the financial objectives: additional payment applications were submitted to the European Commission. The amount of declared expenditures ensured the fulfilment of the financial objectives of the performance framework, therewith a 6% reserve allocation has been guaranteed for Latvia;
- 5) the Treasury provided support to the national focal point in preparing the standpoint regarding the wordings of the Regulations proposed by the European Commission.

The most significant conclusions for the new strategic planning period (2020-2022) in the implementation of functions of the Paying and Certifying Authority of the EU policy instruments:

- 1) in the new programming period of the EU funds (2021-2027) the institutional system will operate according to the system created in the 2014-2020 Programming Period: it is planned that the Treasury will fulfil the accounting functions comprised of ensuring the bookkeeping of expenditure and preparation of reports, nevertheless, considering that henceforth the expenditure will be certified (their eligibility will be confirmed) by the national focal point, verifications at the beneficiary level are no longer necessary in the preparation of reports;
- 2) 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 the EU funds projects, as well as various other violations, *inter alia*, inclusion of the beneficiaries or their cooperation partners on the lists of sanctions, are increasingly appearing in the public space, it is essential to ensure a fast response management and control system;
- 3) to minimise manual operations, as well as to apply 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.

## 5. Accounting service

### 5.1. Operational Principles and Areas of Development

In line with the move towards a small and efficient public administration and centralisation of support functions, the Treasury continues providing and developing the accounting 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 compliance with uniform fundamental 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 single service centre for the provision of standardised accounting and personnel records services to the central government budget institutions, by means of integrated personnel records, accounting and the budget implementation information system, thus ensuring the effective and rational use of the resources and credible, high-quality and reusable data.

### 5.2. Provision of the Accounting Service

In 2019, the Treasury provided an accounting service to nine central government budget institutions: the State Chancellery, the School of Public Administration, the Cross-Sectoral Coordination Centre, the National Electronic Mass Media Council, the Ministry of Finance, the subordinate authorities of the Ministry of Finance – the Procurement Monitoring Bureau, the Lotteries and Gambling Supervisory Inspection and the Treasury, as well as to the Fiscal Discipline Council. In 2019:

- 1) Internal Regulation of the Ministry of Finance *Procedure Under Which the Treasury Provides the Accounting Service to the Authorities of the Ministry of Finance and the Fiscal Discipline Council* was amended, setting more detailed cooperation principles and uniform bookkeeping processes for the sectoral institutions of the Ministry of Finance;
- 2) by means of *Horizon BI* software, the full-scope preparation of the remuneration, quarterly and annual statements was ensured to the central

government institutions, and the remuneration and quarterly accounts solution was developed for separate institutions of the Ministry of Finance.

Starting from 1 January 2020, the Treasury also commenced providing the service to the Central Finance and Contracting Agency, and is planning to start providing the service to the State Revenue Service at the end of 2020.

### 5.3. Performance Indicators of the Operational Targets for the Provision of the Accounting Service as Defined in the Operational Strategy of the Treasury

**Table 9.**  
Performance indicators of the operational targets for the provision of the accounting service

Result formulation	Performance indicator	Numerical values of the performance indicator in 2019	
		Projected	Implemented
1. Accounting service to state budget institutions provided.	1. State budget institutions receiving the accounting service provided by the Treasury (number).	9	9
2. The Treasury's client expectations have been identified, and the provided services have been improved accordingly.	2. Satisfaction with the quality of the accounting service received is not lower than 60 % (% of clients surveyed <sup>35</sup> ).	60	72

### 5.4. Assessment of introduction of the Operational Strategy of the Treasury for 2017-2019 into the provision of accounting service

Strategic goal of the accounting service: *To ensure an effective and quality accounting service to the public administration authorities* has been achieved to the extent prescribed for 2017-2019 (tasks defined/results to be achieved/performance indicators).

The achievement of the strategic goal was promoted by:

- 1) development of technologies and the application thereof, implementation of *ePārvalde* within the country and shift to electronic document turnover on the national level;
- 2) accrued experience in accounting;
- 3) the volume of financing available for the implementation of the function and development of the services;
- 4) experienced, knowledgeable, motivated and growth-orientated staff;
- 5) experience and application of the principles of project management to the development of services and operational improvement of the Treasury;
- 6) client service and good governance principles complied with;

- 7) efficiency of the quality, risk and information security management system in the achievement of the objectives set.

<sup>35</sup> In accordance with the requirements of documents governing the Treasury's quality management system, client satisfaction surveys must be carried out at least once per three years. Both comprehensive client surveys and surveys aimed at identifying satisfaction with a certain service, or satisfaction within and needs of a particular client segment are carried out as necessary.

## 5. Accounting service

The achievement of the strategic goal was also affected by a number of hindering factors:

- 1) institutions have the possibility to separately organise the human resources management, procurements and financial records, thus creating non-uniform input data and hindering the equalisation of accounting;
- 2) accounting, personnel records and budget implementation and planning information systems are maintained in a decentralised way, the mutual integration of these systems is to be assessed as low, without ensuring the use of effective technical solutions for electronic data processing;
- 3) the Treasury applies two instances of the resource management system *Horizon* (due to different information system configuration), and in the long term it reduces the efficiency of use and administration of technical solutions.

### Accomplishments for the fulfilment of the strategic tasks, results and performance indicators set in the operational direction of the accounting service in 2017–2019:

- 1) In 2017, the Treasury developed the legal framework of the service provision, uniform accounting records and procedure, uniform personnel remuneration records, assessed and introduced the technical solution and concluded a cross-sectoral agreement on the provision of accounting and the human resources management information system service, starting from 2018, to four pilot project institutions, communicating the progress to the Cabinet of Ministers. The Treasury, based on uniform principles, also continued enhancing and providing the service to the institutions of the Ministry of Finance: the Procurement Monitoring Bureau, the Lotteries and Gambling Supervisory Inspection, the Treasury, as well as to the Fiscal Discipline Council. In 2019, the Treasury provided the accounting service to nine institutions;

- 2) the Treasury organised information and data exchange with the service providers in electronic form, using information systems and their self-service portal for ensuring the service, in line with technological possibilities and the needs of the service recipients, minimising the data circulation outside the information system and standardising applicable technological solutions. Electronic stock-taking was introduced in the self-service portal – creation, online approval of the personnel applications and consecutive processing thereof in the accounting, internal movement, writing off and online approval of fixed assets and inventory was enhanced, generation of several reports was implemented by means of technological solutions, thus improving data quality and reducing the volume of manual work;
- 3) notwithstanding the fact that the outsourcing provided by the Treasury is comparatively new, the client survey carried out at the end of 2019 regarding the satisfaction with the accounting and bookkeeping service provided by the Treasury (market and social research centre *Latvijas Fakti* surveyed 16 respondents in nine institutions in the form of on-site interviews) showed that the clients, in general, endorse the course of action of the public administration towards the centralisation of the services of support functions, incl., outsourcing of the accounting service, to make public administration more effective, processes faster and more accurate (with the total client satisfaction reaching 72 % and exceeding the indicator set by the Operational Strategy of the Treasury for evaluating client service quality ( $\geq 60$ )).

### The most significant conclusions for the new strategic planning period (2020–2022) in the field of accounting service:

- 1) service to be henceforth enhanced, by digitising the processes, reducing data circulation outside the information technology solution, facilitating the application of uniform principles to communication with all institutions and the accumulation of information, receipt of uniformly structured data and the more effective processing thereof;
- 2) for the purposes of moving towards centralised accounting, in cooperation with the State Chancellery, fulfilling the Cabinet Decision<sup>36</sup>, till 15 December 2021:
  - uniform and standardised processes are to be developed in the ministries and their subordinate authorities;
  - proposals are to be developed for the creation of a single service centre;
  - proposals are to be developed for the introduction of the information systems solution.

<sup>36</sup> Protocol No. 42, § 27 of the 17 September 2019 Meeting of the Cabinet.

## 6. Governance of the Treasury as a Public Administration Institution

### 6.1. Funding of the Treasury and the Spending Thereof

In 2019, resources for covering expenditure in the budget of the Treasury were comprised of:

- 1) a grant from the general revenue;
- 2) chargeable services and other own revenues, *inter alia*,
  - revenue from servicing central government loans;
  - revenue from servicing state guarantees.
- 3) central government basic budget transfer;
- 4) cash balance as at the beginning of the reporting period.

In 2019, 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 "Budget Implementation and Central Government Debt Management":
  - 31.01.0 Sub-Programme "Budget Implementation";
  - 31.02.0 Sub-Programme "Central Government Debt Management";
- 2) Sub-Programme 41.03.00 "Contributions to International Organisations";
- 3) Programme 42.00.00 "Central Government Budget Loans and the Repayment Thereof";
- 4) Sub-Programme 63.20.00 "Technical Assistance for the Absorption of the European Social Fund (ESF) (2014–2020)";
- 5) Sub-Programme 71.05.00 "Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Government Bilateral Financial Mechanism";
- 6) Programme "Use of Funds for Unforeseen Events".

The objective of the Sub-Programme "Central Government 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.

The objective of the Programme "Central Government Budget Loans and Repayments Thereof" is to ensure the availability of financial resources (incl. long term) for candidates to central government loans in the form of a government loan on financially favourable terms through quality service, while hedging the credit risk of the central government loan.

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 European Social Fund. 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", the compensation was paid in accordance with Sub-clause 6.2 of the 22 December 2009 Cabinet of Ministers Regulation No. 1644 *Funds for Unforeseen Events* and Sub-clause 45.2 of the 17 July 2018 Cabinet of Ministers No. 421 *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.*

The Treasury, within the scope of budget unit 64, fulfils the Ministry of Finance Programme 01.00.00 "Grant to the Local Government Financial Equalisation Fund", in order to ensure financial resources for the Local Government Financial Equalisation Fund, thus fulfilling the norms of the *Law on Local Government Financial Equalisation*. The Local Government Financial Equalisation Fund implements the equalisation of both revenue capacity and the expenditure need. Grant for the Local Government Financial Equalisation Fund is intended to ensure the amount of grants to be disbursed to local government from the Fund, comprised of the contributions of local government into the Funds and the state budget grant. The funding is also intended for the transfer of the grant to local governments for the persons institutionalised in social care institutions – orphanages, retirement homes and centres – by 1 January 1998.

## 6. Governance of the Treasury as a Public Administration Institution

**Table 10.**  
Central Government Basic Budget Financing and the Spending Thereof  
(summary by all programmes, EUR)

Nr. p.k.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>345,513,330</b>	<b>357,526,945</b>	<b>355,460,862</b>
1.1.	Grant from the general revenue	341,418,585	353,198,726	351,247,466
1.2.	Chargeable services and other own revenue	4,047,945	4,281,419	4,170,756
1.3.	<b>Foreign financial assistance</b>	-	-	-
1.4.	Transfers	46,800	46,800	42,640
1.5.	Donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>301,268,293</b>	<b>357,727,071</b>	<b>355,660,988</b>
2.1.	Maintenance costs (total)	300,516,102	357,182,095	355,116,351
2.1.1.	Running costs	9,330,627	-10,213,330	9,426,927
2.1.2.	Interest expense	232,506,303	223,876,684	222,639,300
2.1.3.	Subsidies, grants and social benefits	133,901	45,889	45,889
2.1.4.	Regular payments into the European Community budget and international cooperation	316,193	107,450	97,248
2.1.5.	Maintenance cost transfers	58,229,078	122,938,742	122,906,987
2.2.	Expenditure for capital investments	752,191	544,976	544,637
<b>3.</b>	<b>Financial balance</b>	<b>44,245,037</b>	<b>-200,126</b>	<b>-200,126</b>
4.	Financing	-44,245,037	200,126	200,126
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	967,963	1,163,126	1,163,126
4.2.	Shares and other holdings in the equity of economic operators	-45,213,000	-963,000	-963,000



## 6. Governance of the Treasury as a Public Administration 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)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>241, 421, 950</b>	<b>233, 261, 735</b>	<b>231, 245, 696</b>
1.1.	grants	237, 327, 205	228, 933, 516	227, 032, 300
1.2.	chargeable services and other own revenues	4, 047, 945	4, 281, 419	4, 170, 756
1.3.	<b>foreign financial assistance</b>	-	-	-
1.4.	transfers	46, 800	46, 800	42, 640
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>242, 389, 913</b>	<b>234, 424, 861</b>	<b>232, 408, 822</b>
2.1.	Maintenance costs (total)	241, 637, 722	233, 879, 885	231, 864, 185
2.1.1.	running costs	9, 131, 419	10, 003, 201	9, 224, 885
2.1.2.	interest expense	232, 506, 303	223, 876, 684	222, 639, 300
2.1.2.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	752 191	544 976	544 637
<b>3.</b>	<b>Financial balance</b>	<b>-967 963</b>	<b>-1 163 126</b>	<b>-1 163 126</b>
4.	Financing	967 963	1 163 126	1 163 126
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	967 963	1 163 126	1 163 126

## 6. Governance of the Treasury as a Public Administration Institution

**Table 12.**  
Central Government Basic Budget Financing and the Spending Thereof  
for the Basic Budget Sub-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
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>6,676,171</b>	<b>6,677,451</b>	<b>6,330,886</b>
1.1.	grants	2,628,226	2,396,032	2,160,130
1.2.	chargeable services and other own revenues	4,047,945	4,281,419	4,170,756
1.3.	<b>foreign financial assistance</b>	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>7,644,134</b>	<b>7,840,577</b>	<b>7,494,012</b>
2.1.	Maintenance costs (total)	6,891,943	7,295,601	6,949,375
2.1.1.	running costs	6,891,943	7,295,601	6,949,375
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	752,191	544,976	544,637
<b>3.</b>	<b>Financial balance</b>	<b>-967,963</b>	<b>-1,163,126</b>	<b>-1,163,126</b>
4.	Financing	967,963	1,163,126	1,163,126
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	967,963	1,163,126	1,163,126

## 6. Governance of the Treasury as a Public Administration Institution

**Table 13.**  
Central Government Basic Budget Financing and the Spending Thereof  
for the Basic Budget Sub-Programme "Central Government Debt  
Management" (EUR)

Item No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
<b>1.</b>	<b>Resources for covering expenditures (total)</b>	<b>234,745,779</b>	<b>226,584,284</b>	<b>224,914,810</b>
1.1.	grants	234,745,779	226,584,284	224,914,810
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	46,800	46,800	42,640
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>234,745,779</b>	<b>226,584,284</b>	<b>224,914,810</b>
2.1.	Maintenance costs (total)	234,745,779	226,584,284	224,914,810
2.1.1.	running costs	2,239,476	2,707,600	2,275,510
2.1.2.	interest expense	232,506,303	223,876,684	222,639,300
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-

## 6. Governance of the Treasury as a Public Administration Institution

**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
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>45,529,193</b>	<b>1,070,450</b>	<b>1,060,248</b>
1.1.	grants	45,529,193	1,070,450	1,060,248
1.2.	chargeable services and other own revenues			
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>316,193</b>	<b>107,450</b>	<b>97,248</b>
2.1.	Maintenance costs (total)	316,193	107,450	97,248
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	316,193	107,450	97,248
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-
<b>3.</b>	<b>Financial balance</b>	<b>-45,213,000</b>	<b>963,000</b>	<b>963,000</b>
4.	Financing	-45,213,000	-963,000	-963,000
4.1.	Shares and other holdings in the equity of economic operators	-45,213,000	-963,000	-963,000

## 6. Governance of the Treasury as a Public Administration Institution

**Table 15.**  
Central Government Basic Budget Financing and the Spending Thereof  
for the Basic Budget Programme "Grants for the Local Government  
Finance Equalisation Fund" (EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>58,229,078</b>	<b>122,938,742</b>	<b>122,906,987</b>
1.1.	grants	58,229,078	122,938,742	122,906,987
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>58,229,078</b>	<b>122,938,742</b>	<b>122,906,987</b>
2.1.	Maintenance costs (total)	58,229,078	122,938,742	122,906,987
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	58,229,078	122,938,742	122,906,987
2.2.	expenditure for capital investments	-	-	-

## 6. Governance of the Treasury as a Public Administration Institution

**Table 16.**  
Central Government Basic Budget Financing and the Spending Thereof  
for the Basic Budget Programme "Grants for the Local Government  
Finance Equalisation Fund" (EUR)

No.	Financial indicators	In the previous year (actual implementation)	In the reporting year	
			approved by amendments to the law	actual implementation
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	-	<b>179,800</b>	<b>172,913</b>
1.1.	grants	-	179,800	172,913
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	-	<b>179,800</b>	<b>172,913</b>
2.1.	Maintenance costs (total)	-	179,800	172,913
2.1.1.	running costs	-	179,800	172,913
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-

## 6. Governance of the Treasury as a Public Administration Institution

**Table 17.**  
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 Financial Mechanism 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
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>29,176</b>	<b>30,329</b>	<b>29,129</b>
1.1.	grants	29,176	30,329	29,129
1.2.	chargeable services and other own revenues	-	-	-
<b>1.3.</b>	<b>foreign financial assistance</b>	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>29,176</b>	<b>30,329</b>	<b>29,129</b>
2.1.	Maintenance costs (total)	29,176	30,329	29,129
2.1.1.	running costs	29,176	30,329	29,129
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	-	-	-
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-

## 6. Governance of the Treasury as a Public Administration Institution

**Table 18.**  
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
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>133,901</b>	<b>45,889</b>	<b>45,889</b>
1.1.	grants	133,901	45,889	45,889
1.2.	chargeable services and other own revenues	-	-	-
<b>1.3.</b>	<b>foreign financial assistance</b>	-	-	-
1.4.	transfers	-	-	-
1.5.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>133,901</b>	<b>45,889</b>	<b>45,889</b>
2.1.	Maintenance costs (total)	133,901	45,889	45,889
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	133,901	45,889	45,889
2.1.4.	regular payments into the European Community budget and international cooperation	-	-	-
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-

### 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 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 2019, the Treasury undertook seven 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 745,026, excluding VAT.

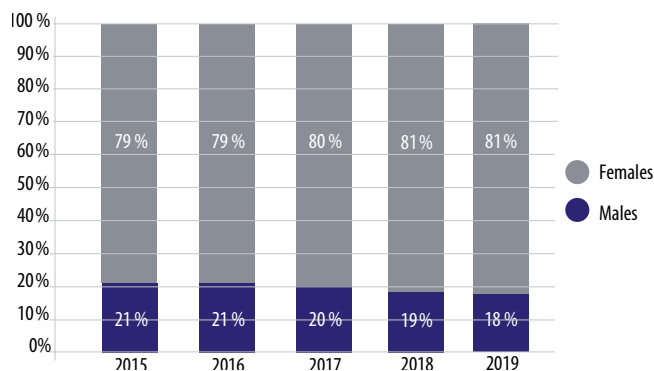


## 6. Governance of the Treasury as a Public Administration Institution

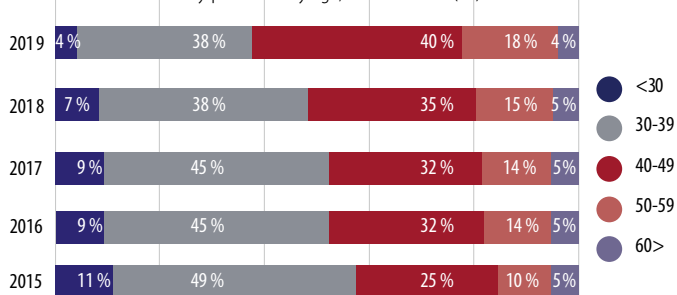
### 6.2. Personnel and Personnel Management

At the beginning of 2019, there were 194 official positions in the Treasury. By implementing the structural reforms in accordance with that which is laid down in the 24 November 2017 Cabinet of Ministers Decree No. 701 On the Public Administration Reforms Plan 2020 and concurrently ensuring the expansion of the accounting and bookkeeping service function, the total number of official positions was reduced – at the end of the year it comprised 192. In 2019, the average number of employees, including civil servants and employees on a long-term leave of absence, comprised 180, incl. 157 civil servants and 23 employees (please see the breakdown of the Treasury personnel by age and gender groups in Figure 19 and 20).

**Figure 19.**  
Breakdown of the Treasury personnel by gender, 2015 to 2019 (%)

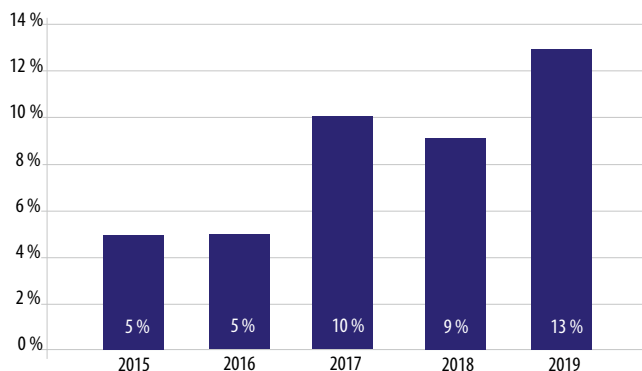


**Figure 20.**  
Breakdown of the Treasury personnel by age, 2015 to 2019 (%)



The Treasury combines functions characteristic of a public administration institution and those of a banking sector operator with a dynamic work environment that is full of new challenges. In general, the personnel of the Treasury can be characterised by a long length of service, which speaks to the employees' loyalty to the Treasury as a workplace. In 2019, the percentage of the dismissed personnel was 13% of those actually working, constituting an increase, as compared to 2018 (see Figure 21). There are still difficulties present in keeping and attracting highly skilled specialists for work in the Treasury, especially in the field of financial management, due to non-competitive remuneration in public administration. The Treasury focuses considerably on promoting the professional development of the employees, ensuring both horizontal and vertical career growth possibilities within the scope of the institution as far as possible, for example, by transferring employees to another position, engaging in the implementation of the development projects, etc.

**Figure 21.**  
Percentage of the dismissed personnel of the actually working employees (2015-2019) (%)



The greatest asset of the Treasury is its highly educated and professional personnel – 99% of those employed have higher education. In order to attract personnel, the Treasury cooperates with institutions of higher education and a recruitment agency. With a view to ensuring a professional and impartial personnel selection process, a selection committee has been established; the committee selects the most suitable candidates by using well-structured criteria for assessing the candidates (scoring system) and arranging practical tests and interviews in several rounds.

At the time of approving the training plan for the current year, the Treasury assesses and determines the training needs with regard to the strategic direction of the institution, the functions of the structural units, and other criteria that justify the need for training for the effective performance of job-related tasks. In organising the training process, the Treasury continues seeking the best solutions for the professional development and enhancement of the competencies of its employees, both by organising training adjusted for the needs of the Treasury for larger groups of employees, and by offering individual training options.

The same as in previous years, training organised by the Treasury has been of relevance in the following fields: in the field of anti-money laundering and counter-terrorism and proliferation financing and imposition of sanctions, project management with the *LEAN* method, application of *SAP BusinessObjects* and business information tool *Microsoft Power BI*, practical cryptography, data analysis, data visualisation and forecasting, information security management, prevention of corruption and conflict of interests, and professional ethics of public officials, virtualisation of applications, updates in accounting and bookkeeping and preparation of the Annual Report 2019, as well as other topics of relevance. During the Newcomer Days, civil servants and employees become acquainted with the functions of the Treasury, its strategic direction, quality and risk management, information security policy, as well as other information necessary for work.

## 6. Governance of the Treasury as a Public Administration Institution

### 6.3. 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 standard ISO 9001:2015 and ISO 27001:2013.

In February 2020, the monitoring audit of the integrated management system of the Treasury has been performed successfully. The auditors of SIA "BM Certification" recognised that the Treasury successfully maintains and enhances the governance of the institution, monitors the impact of external and internal factors, manages the risks, carries out internal audits. A positive assessment has been given to the understanding of the employees regarding the requirements and their input to enhancing the Quality Control System and Information Security Management System.

The auditors recognised that processes such as strategic planning, administration of user rights and development of new services correspond to the best practice. The auditors specifically emphasised that the internal work environment of the Treasury is motivating and inclusive for the employees, as well as appreciated the organisational culture and democratic atmosphere of the Treasury.

All of the basic fields of activity of the Treasury have been certified: central government budget implementation, central government debt and cash management, central government loan and guarantee management, implementation of the functions of the certifying authority of EU funds and the accounting service.

### 6.4. 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 established an organisational structure with clearly defined responsibilities and powers, segregation of duties and a reporting procedure.

Risk management and quality management systems 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.

In providing financial services, it is important to receive and analyse information about the clients and cooperation partners, their operation and implemented transactions, at the same time identifying and managing risks related to financial crime. The Treasury controls the provided financial services and enhances the internal

control system of the institution in the field of international and national sanctions and anti-money laundering and counter-terrorism and proliferation financing, as well as carries out the supervision of the liabilities and transactions of the clients and partners.

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 2019, 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 practices and the experience of organisations of the financial sector.

## Public Communication

### Measures for Public Information and Education

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

Considering the functions delegated to the Treasury, the Treasury's communication focusses primarily on rendering inter-institutional services, informing of clients and other interested parties<sup>37</sup>, 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 communication processes of the Treasury are significantly influenced by the national socio-political and economic conditions: the Treasury remains at the epicentre of events, and the interest of mass media and the public regarding the Treasury's operations, functions and responsibilities is high. 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.

To ensure the planning of operational and successful activities, create and maintain a favourable internal communication environment in the Treasury and to develop the image of the Treasury through complementary activities in external communication, the Communication Plan of the Treasury for 2019 has been developed and fulfilled.

On the website of the Treasury [www.kase.gov.lv](http://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 clients and interested parties, and, if necessary, prepare more in-depth information to be posted on the website and distributed to the clients and interested parties, as well as identify potential problems and prevent them.

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 media site *Twitter*.

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](http://www.krajobligacijas.lv), and explanations for purchasing savings bonds.

### Events aimed at identifying public opinion regarding satisfaction with the quality of the operation of the Treasury and the results thereof

It is very important for the services provided by the Treasury to be comprehensible, efficient, convenient and simple, and planned and coordinated communication has to be ensured. This is achieved by analysing the needs of the clients and requirements of the stakeholders, using the options provided by modern information technologies, as well as client-driven servicing principles. The Treasury thanks its clients for their opinion, which is very important to the Treasury. The received information is used in order to develop and improve quality and diverse services in accordance with good management and client servicing standards.

It is very important for the services provided by the Treasury to be comprehensible, efficient, convenient and simple, and to ensure planned and coordinated communication for the clients.

To assess the satisfaction with the provided services, the Treasury organised two client surveys in October and November of 2019: Client satisfaction survey with the e-services provided by the Treasury and Client satisfaction survey with the accounting and bookkeeping service provided by the Treasury. Surveys were carried out by the market and social research centre *Latvijas Fakti*.

1, 803 clients took part in the internet survey regarding e-services. Regarding the accounting and bookkeeping service, in turn, on-site interviews with 16 respondents of all nine authorities under the supervision of the Treasury were carried out.

In both surveys, it was important to clarify both those factors in the operation and provided services of the Treasury, which were appreciated and positively assessed by the clients, and also the aspects affecting and hindering the quality of the services, which the clients are not satisfied with and which require further improvements. Within the survey regarding the accounting service, it was important to clarify how the clients assess the service, cooperation with the Treasury, as well as to listen to proposals for enhancing the cooperation, to make the service mutually more comfortable and effective.

91% of respondents of the e-services survey and 72 % of respondents of the accounting service are, in general satisfied with the rendered services, exceeding the indicators set by the Operational Strategy of the Treasury for evaluating client service quality (correspondingly – 85 % and 60 %).

The Treasury is grateful to the clients for the provided answers, expressed proposals and time devoted to participation in the survey. Client recommendations and proposals will be assessed and incorporated in the projects of enhancement of the e-services of the Treasury for improving and increasing the efficiency of the services and processes.

<sup>37</sup> 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



Treasury  
Republic of Latvia

# The Treasury Public Report for 2019

## The Treasury's Development Priorities for 2020

- 1) The strategic medium-term course of action of the authority towards digitisation (digital transformation) and increasing the efficiency of services and processes;
- 2) To expand an accounting and bookkeeping centralisation service and a technical solution for personnel management in accordance with uniform basic accounting principles by optimising the use of financial information technologies and human resources;
- 3) To develop information technologies of the Treasury, *inter alia*, by enhancing the customer due diligence and transaction supervision measures;
- 4) To enhance the process of granting and servicing central government loans: to automate and digitise the service, making it more comfortable for the clients to apply for and to receive central government loans.