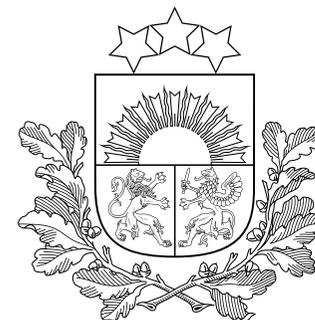


The Treasury  
Public Report for  
2014

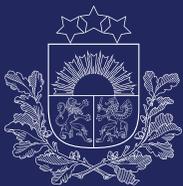


Treasury  
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## Abbreviations Used in the Report

**ERAF** European Regional Development Fund

**ES** European Union

**ESF** European Social Fund

**EUROSTAT** Statistical Office of the European Union

**IKP** Gross Domestic Product

## Units of Measurement

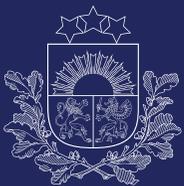
**EUR** *Euro*, the official currency unit of the EU

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# The Treasurer's Statement

**T**he strategic course of the Treasury has always been closely tied to the growth of the national economy, fiscal policy, international macroeconomic situation, situation in the financial markets, as well as the geopolitical and national security of the state. That is why it is of the utmost importance to analyse and determine strategically and financially favourable operations and measures for the state in the areas supervised by the Treasury. This strategic operation succession for ensuring the state's financial stability is an important factor when planning and organising the work of the Treasury. In 2014, the Treasury's work was marked by the successful accomplishment of the predetermined strategic objectives and the implementation of measures directed towards development.

In 2014, the Treasury continued carrying out measures for the timely provision of resources needed for the financing of the central government budget implementation and the refinancing of central government debt in the domestic and international financial markets. The economic development, accession to the Eurozone and Latvia's credit rating upgrades (all rating agencies improved the credit rating of the Republic of Latvia and provided a stable outlook evaluation in 2014) provided for borrowing resources in international financial markets with favourable terms, thus using new borrowings for the refinancing of loans repayable to the European Commission in 2014 and 2015 in the amount of EUR 2.2 billion.

In 2014, Latvia returned to the euro currency bond market after a six year break, this time with the status of a Eurozone state. The Treasury priced 7-year and 10-year bonds in the amount of EUR 2 billion in January and April, drawing a lot of interest from the operators of the international financial market. In both Eurobond issues, the long-term resources were raised at lower interest rates than those set for European Commission loans. Thus the main objective of the medium-term borrowing strategy was achieved – the biggest loans of the international borrowing programme have been refinanced in the financial markets with long-term loans at lower interest rates, evening the central government debt repayment profile, and retaining the amount of central government debt at a sustainable level, as well as optimising the central government debt management expenses in the following years.

In order to gradually integrate the domestic financial market in the Eurozone financial market, the Treasury continued furthering this process, also by cooperating with primary dealers. By taking important steps in the development of the government securities market in 2013 (introduction of the Primary Dealer System, savings bonds) and continuing the work in 2014, the secondary market of government securities has seen improvements, and demand for government securities has remained high. The second phase of the savings bond implementation has been finished – along with the option of purchasing savings bonds on the website [www.krajobligacijas.lv](http://www.krajobligacijas.lv), they are now also distributed by the state joint stock company *Latvijas Pasts*.

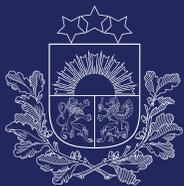
By continuing to improve the quality of services provided by the Treasury and in order to ensure their availability at a technologically high level for the implementation of the central government budget, in 2014 the service information systems of the Treasury have been improved: processes have been optimised, measures have been carried out in order to stabilise the operation of the systems, and ensure the security and continuity of operation by broadening the applied information technology monitoring solutions. With the provided electronic services, a more effective process of central government budget implementation has been achieved – the budget implementation procedures have been standardised and the bureaucratic burden of clients and residents has been decreased. Measures for a more complete conformance of the financial statements to the main principles of international accounting standards and international public sector accounting standards were ensured with a view to improving the central government budget management, accounting and control process.

Within the framework of creating the management and control system for the implementation of European Union Cohesion policy funds of the new 2014-2020 programming period, as the Certifying Authority the Treasury was involved in the development of the normative base for regulating the administration of investment funds, defining the accounting system requirements and preparing the description of the control system.

The awareness that we are the ones who shape and develop this country and are its public purse holders makes us set new objectives, as well as improve on existing ones and accomplish them. Expressing appreciation and paying tribute to each and every employee of the Treasury for their efforts, I am pleased with their performance for the benefit of the State and the contribution to its development. In 2014, the Treasury received 3<sup>rd</sup> place in the business sector "Finances" of the survey "TOP Employer 2014", which is a true honour and shows that the work carried out by the Treasury in strengthening the loyalty of our employees and maintaining the good reputation of the Treasury in society is highly valued.

The results of the survey of the Treasury's clients (in order to identify the level of satisfaction of the Treasury's clients with the services provided by it, and find out their opinion regarding the Treasury's image, as well as the quality of its communication) carried out at the end of 2014 also indicate the high quality of services provided by the Treasury (97% of respondents were generally satisfied with the services provided by the Treasury), surpassing the client servicing quality evaluation indicators defined in the Operational Strategy of the Treasury and in the Communication Strategy of the Treasury. The Treasury will continue developing and improving quality and diverse services for its existing and potential clients in accordance with good management and client servicing standards.

Treasurer  
**Kaspars Āboliņš**  
Riga, 17 April 2015



Treasury  
Republic of Latvia

# The Operational Strategy of the Treasury for 2014-2016

On 27 June 2014, the Minister of Finance approved the Operational Strategy of the Treasury for 2014-2016.

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

The Operational Strategy of the Treasury defines the following **operational directions** for the Treasury:

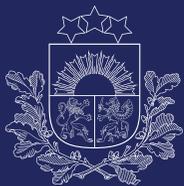
- 1) **implementation of a central government budget** is focused on ensuring an effective and economical central government budget implementation process and improving the services provided by the Treasury in accordance with the best financial management practices;
- 2) **central government debt management** through securing the necessary financial resources with more favourable terms, limiting financial risks and taking into account Latvia's macro-economic development and integration of the financial market in the common market of the Eurozone, as well as ensuring the implementation of the state guarantee process;
- 3) **cash and state loan management** by securing a financially effective and secure cash management, limiting and monitoring financial risks, securing the necessary liquidity for the government to timely and fully meet its financial commitments, and ensuring a state lending process that serves the interests of the State;
- 4) **performance of the functions of the Paying and Certifying Authority of the EU funds and foreign financial assistance** by organising and standardising the performance of the functions of the Paying and Certifying Authority in a manner that ensures compliance with the requirements of the granting institutions and regulatory enactments of the Republic of Latvia, the timely receipt of funds from the granting institutions and that minimises the acceptable risk for the inclusion of ineligible expenditures in the expenditure declarations and reports.

In pursuing its strategic objectives, the Treasury observes unified **institutional operating principles in:**

- 1) quality and risk management;
- 2) personnel management;
- 3) the internal control system;
- 4) the application of information technology and information security;
- 5) ensuring the lawfulness and legality of procedures;
- 6) institutional administration;
- 7) institutional communication.

The **main priorities** of the Strategy are as follows:

- 1) effective human resource management, whereby employee development and their involvement in the accomplishment of the Treasury's objectives are encouraged at all levels;
- 2) ensuring access to the services provided by the Treasury at a high-standard and conforming to the latest developments in the information technology area level, exploiting the resource optimisation opportunities they afford;
- 3) effective, economical, fast and secure administration and monitoring of public financial management processes in accordance with the interests of the State and its residents.



Treasury  
Republic of Latvia

# Legal Status and Structure of the Treasury

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

The operations of the Treasury are managed by **the Treasurer**. The Treasurer is appointed and removed from office by the Minister of Finance.

The Treasury has the following **functions**:

- 1) organising the implementation and financial accounting of the central government budget;
- 2) allocating expenditure and effecting payments from central government budget revenue;
- 3) management of central government debt;
- 4) the functions of the Paying and Certifying Authority for EU policy instruments, the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism laid down in the regulatory enactments and the National Fund functions delegated by the National Authorising Officer;
- 5) other functions prescribed by the regulatory enactments.

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**". On 3 November 2014, according to Cabinet Regulation No.391 of 8 July 2014 "The Procedure by which the Requests for the Guarantees to be Issued on Behalf of the State shall be Included in the Draft Annual State Budget Law, and the Procedure for the Issue and Supervision of the Guarantees" which prescribes the procedure according to which new state guarantees are issued and supervised, an amendment was made in the Regulation of the Treasury (Cabinet Regulation No.682 of 3 November 2014), specifying the task of the Treasury regarding the evaluation of state-issued guarantee documents and the supervision of state-issued guarantee liabilities in accordance with regulatory enactments.

The structure and operational organisation of the Treasury is established by **the Rules of Procedure of the Treasury**, issued on 20 February 2012 (on 6 February 2015 new Rules of Procedure of the Treasury were issued).

In order to limit the financial risks to the maximum extent possible, **the structure** of the Treasury has been based on the principle of segregation of functions (according to the best practices of banks and European debt management bodies):

- 1) client service and financial transactions;
- 2) financial risk management;
- 3) maintaining accounting records and drafting of reports.

To ensure unified decision-making, the following committees remained active in 2014:

**Audit Committee** – to facilitate the effective implementation of the internal control function at the Treasury and to improve the internal control system established by the Treasury with a view to ensuring the accomplishment of the Treasury's strategic objectives, safeguarding its resources, and establishing and maintaining effective control measures.

**Euro Changeover Committee** – to ensure a successful process of euro implementation in the areas falling within the competence of the Treasury. The Committee ended its work on 25 April 2014 by acknowledging the process of euro implementation in the Treasury to be complete.

**Committee for the Management of Information System Changes** – to ensure a coordinated review and execution of requests for changes to the Treasury's information systems.

**Credit Committee** – to facilitate effective work and decision-making in the area of the credit risk management of the Treasury's counterparties and in matters related to the issuing and administration of state loans and state guarantees.

**Quality and Risk Management Committee** – to ensure the achievement of the strategic objectives of the Treasury, continuous improvement of the institution's performance and service conformity to the interests of the State and its residents, as well as the needs of clients, by implementing efficient quality management, risk management and information security management.

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

**Resource Liquidity Committee** – to promote secure and effective cash management in accordance with the Treasury's Cash Management Strategy.



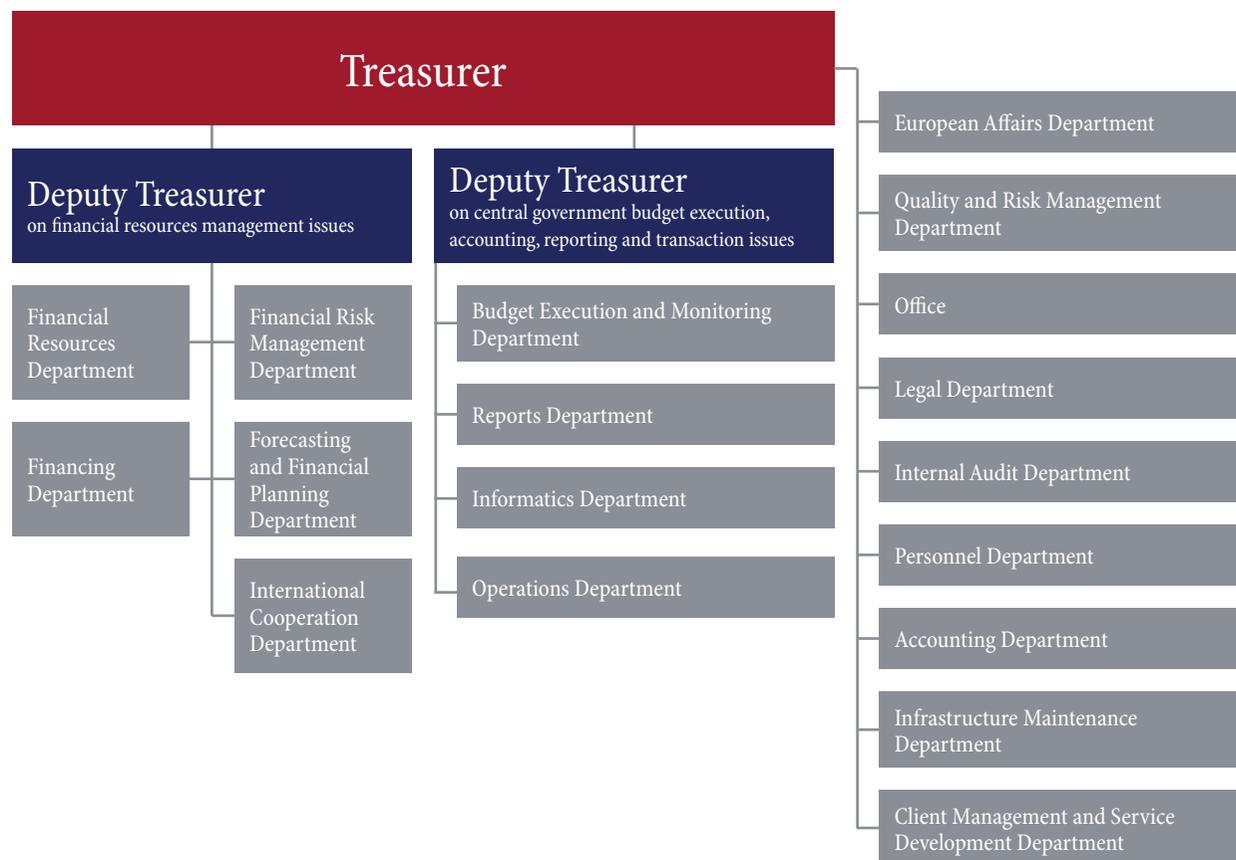
Treasury  
Republic of Latvia

## Legal Status and Structure of the Treasury

**Management Committee** – to ensure the effective management of the Treasury’s staff and financial resources with a view to accomplishing the objectives defined in the Operational Strategy of the Treasury.

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

### Organisational chart of the Treasury





# Activities of the Treasury in 2014

## 1. Implementation of the Central Government Budget

### 1.1. Operational Principles and Areas of Development

In accordance with the Law on Budget and Financial Management, the Treasury, as a direct administration institution subordinate to the Ministry of Finance, has been tasked with organising the implementation and financial accounting of the central government budget, granting expenditure allocations, and executing budget institution payments within the limits of the appropriations specified in the annual central government budget.

In implementing the central government budget, the Treasury maintains a Comprehensive Central Government Budget Planning and Implementation System, which ensures a full government budget management cycle – from budget planning (including the preparation of the annual central government budget project and its amendments – this function is realised by the Ministry of Finance) to implementation and implementation monitoring (including the accounting of central government budget revenue, opening of accounts for state budget institutions and institutions financed by the budget, allocation of expenditures and issuing of grants from the general revenue on the basis of appropriations in the annual central government budget and financing plans registered with the Treasury, processing and execution of payment orders from the Treasury clients by using the electronic budget payments system eKase), as well as provides information on taxes and duties paid, as well as other payments received in the central government budget to the bodies administering the government budget payments.

With a view to ensuring the uniform accounting of public finances, the Treasury drafts legislation concerning accounting at central and local government budget institutions by defining uniform accounting principles and methods, a single chart of accounts and a reporting system that is based on the classifications of financial information approved by the Cabinet, thus enabling the obtaining of quality information regarding the implementation of the central government budget both under the cash flow principle and the accruals principle. The aggregation of reports submitted by central and local government budget institutions

is ensured by *ePārskati* (eReports), the Budget Reporting Information System of the Ministries, Central Government Institutions and Local Governments, which is not only used by the Treasury, but also by the Ministry of Finance, the State Audit Office, the Bank of Latvia, the Central Statistical Bureau and other public administration authorities.

The Treasury has to ensure the performance of the financial commitments of the Republic of Latvia, making timely and full annual membership contributions to international financial organisations on behalf of the Republic of Latvia and payments into the capital and/or reserves of the international financial institutions in which the Republic of Latvia holds capital shares, thus ensuring that the commitments assumed by the State are met.

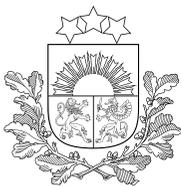
Under the procedure laid down in the regulatory enactments, the Treasury disburses compensation to rehabilitated citizens and ensures the transfer of grants from the state budget to the local government financial equalisation fund.

### 1.2. Organisation of the Implementation of the Central Government Budget in 2014

#### Granting and Implementing Expenditure Allocations

In 2014, the Treasury allocated expenditures worth EUR 8,038.74 million towards the implementation of the central government budget, which included EUR 5,808.07 million for the general budget and EUR 2,230.67 million for the special budget. Allocations were granted to 195 state budget institutions.

In 2014, 2,337 general budget expenditure accounts were opened. Compared to 2013, the number of accounts increased by 354 accounts, which was due to the parliamentary elections, as well as the intensive implementation of projects co-financed with the EU policy instruments and other foreign assistance. Due to this factor, the number of current accounts rose by 467 compared to 2013 and reached 8,961. Following the continuous decline in the overall volume of donations and gifts, the number of accounts opened by budget institutions to account for the donated funds fell by 9%, and there were 129 such accounts in 2014.



Treasury  
Republic of Latvia

# Activities of the Treasury in 2014

## Accounting and Reporting

In 2014, **measures for the complete conformance of the financial statements to the main principles of the international accounting standards and the international public sector accounting standards were ensured**, which was also reflected in the EUROSTAT study concerning member state conformity to the international public accounting standards, where Latvia was evaluated with a conformance level of 84%.

Pursuant to the regulatory enactments, the Treasury prepares official daily, monthly and quarterly reports and the Annual Report on the Central Government and Local Government Budget Implementation (the monthly reports are available on the Treasury's website, the Annual Report on the Central Government and Local Government Budget Implementation is published on the Treasury's website upon receiving the opinion of the State Audit Office). The Treasury ensures that the consolidated annual report of ministries, central government institutions, state budget institutions, derived public persons partially financed from the central government budget and local governments is published on its website.

The Treasury prepares the Annual Report on Central Government and Local Government Budget Implementation by consolidating the information from the annual reports submitted by the ministries, central government institutions and local governments. The structure and scope of the annual report is prescribed by the Law on Budget and Financial Management and the Cabinet Regulation regarding the procedures for preparing an Annual Report. In 2014, the Annual Report on the performance in 2013 was prepared by consolidating the consolidated annual reports submitted by 13 ministries, 15 central government institutions and 119 local governments. The consolidated annual report of ministries and central government institutions comprises the annual reports of state budget institutions, derived public persons partially financed from the central government budget and institutions not financed from the central government budget, while the consolidated annual report of local government budget comprises the annual reports of local government budget institutions and joint local government institutions<sup>1</sup>.

The Annual Report audited by the State Audit Office is the most significant and credible source of information regarding the financial position

of the State at the end of the reporting period and the results of the implementation of the central government budget in the reporting year. The opinion issued by the State Audit Office provides assurance that the report gives a true and fair view of the completeness and credibility of the information disclosed in the reports and the quality of the information included in the Annual Report, the users whereof are the Saeima (the Parliament), the Bank of Latvia, various international institutions (European Commission, EUROSTAT, International Monetary Fund and international rating agencies), and potential investors who decide on potential investment in the economy of Latvia based on the information provided in the Annual Report.

In order to include uniform and comparable information in the Annual Report, the Treasury develops and updates the regulatory enactments governing the accounting and reporting of budget institutions. By ensuring compliance with uniform principles in the financial accounting and reporting of central and local government budget institutions, measures aimed at improving accounting at the budget institutions have been carried out, including the drafting of supplements to the existing regulatory enactments and the provision of detailed explanations to the preparers of the reports.

In 2014, the Cabinet Regulation on the preparation and submitting procedure of quarterly reports was prepared and reissued, in order to improve the quality of the report data, make it easier for the users to prepare reports, specify and supplement the regulation, as well as make the procedure of preparing reports more understandable. The volume of the information to be submitted has been specified in the regulation – now it is also necessary to provide information on concluded insurance agreements, and derived financial instruments that have positive values in the assets and liabilities accounts of the accounting balance during the reporting period. This information is needed for the aggregation of qualitative data for statistical needs. Consolidation positions have been determined for ministries, other central government institutions and local governments, in order to ensure equal consolidation principles.

<sup>1</sup> To address common tasks, local governments can establish joint institutions upon mutual agreement. Such institutions operate on the basis of bylaws approved by the respective local councils. The bylaws prescribe the competence of a joint local government institution, the procedures of financing, monitoring and liquidation thereof, and the procedures by which withdrawal from the institution takes place, as well as other matters pertaining to the operation of the joint local government institution (e.g., construction board, regional municipal police, etc.).



## Treasury Republic of Latvia

# Activities of the Treasury in 2014

The Cabinet Regulation on the preparation procedure of the Annual Report has been amended, in order to specify the information regarding the procedure of preparing the “Annual Report on the Implementation of the Central Government Budget, Budget of Derived Public Persons Partially Financed from the Central Government Budget and Budget of Institutions Not Financed from the Central Government Budget”, improve data quality and provide publically better understandable and more representable information, specify the norms regarding the preparation of consolidated reports and their supplements, determine the structure of report supplements according to the earmarked subsidies to local governments prescribed in the State Budget Law and the state-issued guarantees prescribed in the State Budget Law.

Amendments in the Cabinet Regulation regarding the procedure according to which the Treasury ensures the electronic exchange of information are intended to broaden the scope of *ePārskati* users with unions, foundations, religious organisations and private capital companies.

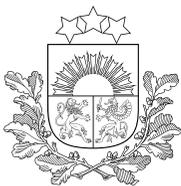
Amendments in the Cabinet Regulation on the preparation and submitting procedure of monthly reports determine that monthly reports also have to be submitted by public foundations and provide a requirement on submitting additional information to local governments on expenses in the implementation of projects co-financed by the EU and other foreign financial assistance.

In 2014, **ministries and local governments evaluated the financial statements of capital companies submitted to the *ePārskati* system for the first time, and prepared a summary on the influence of financial activities of capital companies on the budget expenses of the central government or local governments** to include the information in their annual report. 352 state and local government capital companies, in which 50% and more shares are separately or collectively owned by the State or local government, or less than 50% of shares are separately or collectively owned by the State or local government, but the State or local government determines and controls the financial and core activity policy of the capital company, submitted their 2013 reports and “Forms on Applying the Principles for the Capital Company to Continue as a Going Concern” in the *ePārskati* system.

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

One of the priorities laid down in the Operational Strategy of the Treasury stipulates that the services provided by the Treasury must be available at a high standard and consistently with the latest developments in information technology, exploiting the resource optimisation capabilities provided by them, which also correspond with the guidelines brought forward by the state and approved by the results of national level studies on e-governing efficiency. In order to develop a detailed evaluation regarding the possibilities of using e-environment in local governments and central government institutions (quality and availability of the provided e-services by using solutions offered by modern information and communication technologies), in 2014 Lattelecom and the Ministry of Environmental Protection and Regional Development together with partners started the “Latvia’s e-index” partnership initiative by carrying out the “**E-index survey of Latvian state institutions**” and surveying 102 state institutions. The state institution e-index reflects the e-governing efficiency in state institutions in five fields: efficient organisation of the institution’s internal processes, efficient cross-institutional collaboration, efficient circulation of documents, efficient provision of services, and efficient involvement of the society. **The Treasury earned 6<sup>th</sup> place in the category “Cross-institutional collaboration index in the institution group”, whereas in the overall standing among 89 institutions the Treasury earned a high 9<sup>th</sup> place.**

By continuing to improve the quality of services provided by the Treasury and in order to ensure their availability at a technologically high level, in 2014 the service information systems of the Treasury have been improved: **processes have been optimised, measures have been carried out in order to stabilise the operation of the systems, and ensure security and continuity of operation by broadening the applied information technology monitoring solutions.** By providing electronic services, a more effective process of central government budget implementation has been achieved – the budget implementation procedures have been standardised, the bureaucratic burden of clients and residents has been decreased, and preconditions for reusing information have been developed.



Treasury  
Republic of Latvia

## Activities of the Treasury in 2014

In 2014, 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 ensures a full government budget management cycle: from budget planning to implementation to implementation monitoring:

- 1) the central government budget planning functionality ensures the processing of the central government budget and amendments thereto by aggregating data from ministries and central government budget institutions (this function is performed by the Ministry of Finance);
- 2) the central government budget implementation functionality ensures the process of the Treasury and central government budget institutions in the system, e.g., account creation, the granting and execution of expenditure allocations, the central government budget revenue process, the process of daily, monthly and annual closing, as well as the local government financial equalisation fund and personal income tax allocation process, etc. (this function is performed by the Treasury).

The Data Warehouse Section of the Comprehensive Central Government Budget Planning and Implementation Information System generates reports on the implementation of the central government budget according to the central government budget structure.

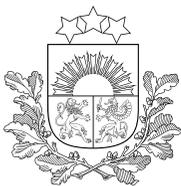
2014 marked the fifth year the Treasury has maintained the Comprehensive Central Government Budget Planning and Implementation Information System. By continuing to improve client servicing in the electronic environment, **system updates were carried out in April and now loan requests (invoices) are prepared and sent to local governments only electronically.**

### *ePārskati*, the Budget Reporting Information System of the Ministries, Central Government Institutions and Local Governments

*ePārskati*, the Budget Reporting Information System of the Ministries, Central Government Institutions and Local Governments, is used 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 administrative and time savings.

As of February 2014 **the Treasury provides the services of the *ePārskati* system only on internet browsers.** (A transitional period was set until 1 February 2014 during which users were able to use the previous technical solution – software installed on their existing work stations, as well as by logging on to the system in the Treasury's electronic services portal). The use of a single e-services portal provides the users a more convenient and secure authentication, and the clients can work on their reports regardless of their location. An additional benefit is the fact that the web solution is platform independent, which means that **the clients are no longer limited to using the MS Windows operating system, and the *ePārskati* system can also be fully used by clients that have switched to open-source operating systems.** The development of web technologies and internet browsers ensures possibilities of creating software of better usability with these technologies.

In 2014, **the functionality of summary reports on budget implementation to be harmonised was put into use** in the *ePārskati* system, providing ministries, central government institutions and their subordinate bodies with the opportunity to compare budget programme and sub-programme implementation data in a manner that is faster, more convenient and of a higher quality, and by saving on administrative costs, as well as providing the opportunity to ensure data transfer to the annual report forms on budget implementation by excluding manual labour. There is also the option to compare the correspondence of data with the information provided in the annual report.



Treasury  
Republic of Latvia

## Activities of the Treasury in 2014

The option of receiving reports from private persons (unions, foundations, religious organisations) has been ensured to the Ministry of Culture in the *ePārskati* system. The Ministry of Culture, which distributes earmarked subsidies to private persons, receives information on their use quicker and more conveniently, ensuring the information needed for accounting, whereas the process of submitting the account has been made easier to private persons according to a specific form and procedure, and additional administrative costs have been excluded.

In 2014, the option of submitting operative financial statements in the *ePārskati* system has been ensured to those state and local government capital companies and derived public persons which have concluded a loan and/or guarantee service and supervision agreement or an agreement on the debt repayment procedure with the Treasury and which have to submit operative financial statements to the Treasury, thus ensuring a faster exchange of information and decrease of expenses.

### *ePlāni*, the Financing Plan Processing Information System

Ministries or their subordinate bodies use the *ePlāni* system to prepare, approve and submit financing plan projects to the Treasury, on the basis of which allocations and grants are issued from the general revenue. In 2014, 10,337 general budget and special budget financing plans were registered and processed in the system.

### *eKase*, Budget Electronic Payment System

The Treasury renders payment services electronically, using the budget electronic payment system *eKase* and its Online Data Exchange Module. Through *eKase*, 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 ensures the automated exchange of information between the Treasury and its clients. The Online Data Exchange Module ensures the option to request on-line payment data (account statements and account statement for the day not yet closed) and submit payment orders for execution to *eKase*.

### e-Service for the Verification of the Payment Made to the Budget

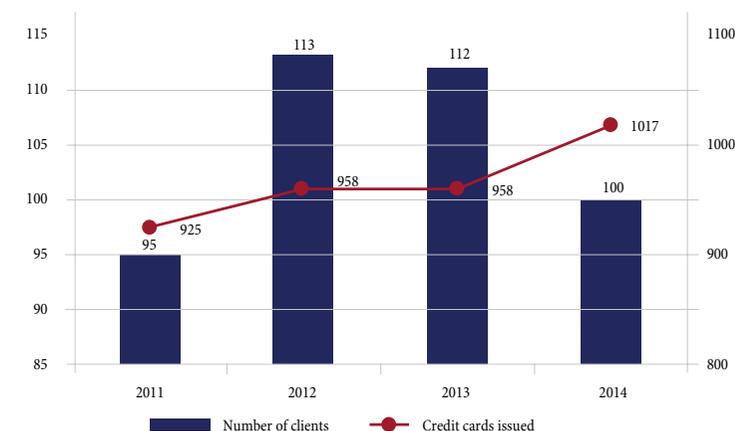
The section “Verification of a Payment Made to the Budget” on the Treasury’s website [www.kase.gov.lv](http://www.kase.gov.lv) provides the option for payers to verify whether the payment made by the payer has been received in the specified account of the government budget with the Treasury. In 2014, there were more than 15,000 requests for this e-service, which is 25% less than in 2013.

### Credit Cards Tied to Treasury Accounts

In cooperation with AS *Swedbank*, the Treasury provides government budget institutions with the opportunity to use credit cards tied to Treasury accounts for budget expenditures. Such credit card services are intended for covering expenses incurred by personnel on business trips and job-related travel and for business purposes: the employees of central government budget institutions have the option to make non-cash payments during their business trips, while complying with the requirement of the Law on Budget and Financial Management under which central government budget expenditures are to be made from accounts opened with the Treasury.

In 2014, the service of credit cards tied to Treasury accounts was used by 101 state budget institutions, and a total of 1020 credit cards were issued to such institutions.

**Figure 1.**  
Dynamics of the service of credit cards tied to Treasury accounts (2011-2014)





## Treasury Republic of Latvia

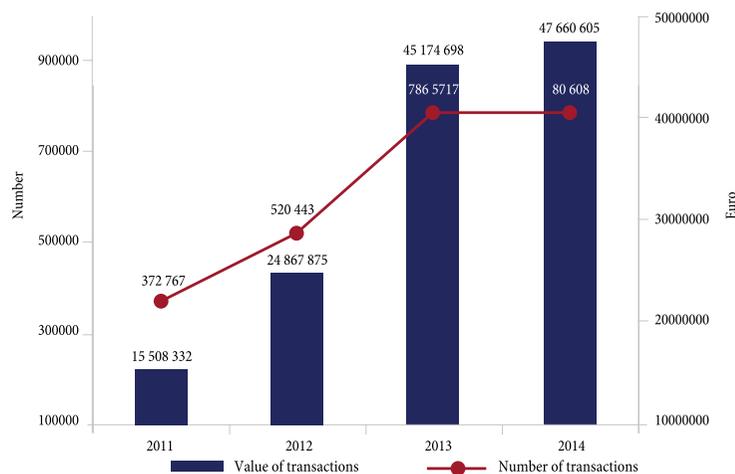
# Activities of the Treasury in 2014

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

The Treasury provides the payment card acceptance service (via AS *SEB banka* and AS *Citadele banka*) to those clients that are institutions administering budget payments and collecting budget payments from private persons. They are provided with the option to collect such payments using *VISA Electron*, *MasterCard*, *Maestro* or *American Express* payment cards in a payment card acceptance terminal or another alternative system.

In 2014, the amount of money collected and payment card terminals installed continued to grow, which indicates that the residents approve of the service and are increasingly using payment cards in their payments to the state and enjoy the advantages they afford. 780,608 transactions of total value of EUR 47,660,605 were made with payment cards at the 787 payment card terminals installed at institutions administering budget payments.

**Figure 2.**  
Dynamics of the payment card (*VISA*, *MasterCard* un *American Express*) acceptance service (2011-2014)



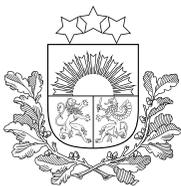
## Centralised Resource Management System

The Treasury continued to maintain the centralised resource management system *Horizon*, enabling the financial management, accounting and personnel accounting of the Ministry of Finance and the institutions subordinated to it (departments of the Ministry of Finance) within a single system. Ergonomic and functional improvements were made to the system in 2014.

To ensure the uniform and effective implementation of the accounting process at the institutions subordinate to the Ministry of Finance, the Treasury continued to maintain the accounting of the Procurement Monitoring Bureau and the accounting and personnel management process of the Lotteries and Gambling Supervision Inspectorate, as well as started to maintain the accounting of the Fiscal Discipline Council.

## Developing Client Relations Management

The Treasury's client service centre has been **equipped with a call centre platform** to ensure a structured (the topic of the conversation can be selected) and faster servicing of client calls and recording of conversations for the purpose of analysing the client service process, thus improving the servicing of clients.



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## Activities of the Treasury in 2014

### 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 indicators	Numeric values of performance indicators in 2014	
		Projected	Implemented
1. Uniform budget implementation, budget cash flow accounting and implementation principles have been developed and approved; a positive assessment of the quality of the budget implementation, effective accounting, timely and adequate control of the budget implementation process has been received from external auditors and counterparties.	1.1. Conformance of the financial statements to the main principles of the international accounting standards and the international public sector accounting standards (%).	63	63
	1.2. Conformance of financial statements to the requirements of the European Statistical Code of Practice within the framework of the national statistical information programme (percentage of the requirements of the European Statistics Code of Practice referable to the Treasury).	-	-
2. The wishes of the Treasury's clients have been identified and the rendered services have been improved accordingly.	2. Satisfaction with the quality of the services received (percentage of surveyed clients <sup>2</sup> ).	≥80	88,5
3. It has been ensured that the Treasury's services can be received electronically.	3. Provision of services via electronic service delivery channels (percentage of all services rendered).	≥80	100
4. The financial and management accounting reports of budget institutions have been submitted using a single information system.	4. Option for state and local government institutions to receive information for management decision-making and improvement of budget financing supervision quality in <i>ePārskati</i> , the Budget Reporting Information System of the Ministries, Central Government Institutions and Local Governments (number of budget institutions).	13	13

<sup>2</sup> In accordance with the provisions of the documents governing the Treasury's quality management system, client satisfaction surveys must be performed not less than once every three years. If necessary, comprehensive client surveys, surveys relating to a particular service, as well as surveys aimed at identifying the satisfaction and needs of a particular client segment are carried out.



# Activities of the Treasury in 2014

## 2. Central Government Debt Management

### 2.1. Operational Principles and Areas of Development

In accordance with the regulation, the Treasury performs the management of central government debt, as well as organises the issuing and monitoring of state guarantees.

The main principles and objectives of central government debt management for the medium term are defined in the **Central Government Debt Management Strategy**, which is approved by the Minister of Finance. According to the Central Government Debt Management Strategy, the **objective of the management of central government debt** is to ensure the financial resources required for the refinancing of central government debt, implementation of the central government budget and maintaining of a financial resource reserve with the lowest possible costs, through limiting financial risks and taking into account Latvia's macroeconomic development and integration of the financial market in the common financial market of the Eurozone. In order to ensure the compliance of the central government debt management process with internationally acknowledged practices, and ensure the accomplishment of the central government debt management objective, the central government debt management is divided into two inter-related processes: central government debt portfolio management and central government borrowing management.

The amount of borrowing and the level of central government debt in the medium term is influenced by total financing needs, which are mainly formed by the amount of resources needed for the implementation of the central government budget and the repayment of government debt maturing in the respective period. In order to fulfil the central government debt and budget obligations, a strategic approach in the ensuring of the central government borrowing and debt management process is used, by maintaining high flexibility with regard to the choice of borrowing terms in financial markets (timing, currency, amount and maturity of the borrowing). This allows the limiting of financial risks in the medium term, as well ensuring the resources needed for covering the total financing needs with terms that are as favourable and advantageous as possible.

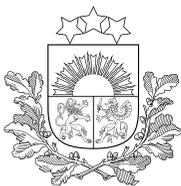
The steps planned for accommodating the total financing needs in the current year and the choice of borrowing instruments that best suit the financing needs are provided in the **Medium-Term Borrowing Plan**, which, having regard to the guidelines laid down in the Central Government Debt Management Strategy, is developed by the Treasury and approved by the Minister of Finance. The plan consists of an assessment of the total financing needs, an analysis of the situation in domestic and international financial markets, macroeconomic indicators, interest rate forecasts and trends, an evaluation of alternative borrowing instruments and different scenarios of the use thereof with a view of thereby ensuring the raising of financial resources on terms that are beneficial to the country. The plan also provides for the measures aimed at promoting relations with existing and potential domestic and foreign investors, informing investors of the country's economic and financial situation, promoting the interest of investors about investments in government securities, and for other matters related to the planned borrowing.

In order to ensure the observation of the main principles of central government debt management set in the Central Government Debt Strategy and ensure the accomplishment of objectives, **the following priorities have been set for the medium-term borrowing strategy:**

#### 1) in the domestic financial market:

- **to maintain a constant and regular supply of government securities** in the domestic financial market according to domestic investor demand, in order to use the potential of borrowing in the domestic market and facilitate the functioning of the domestic financial market;
- **to maintain communication with investors within the framework of the Primary Dealer System**<sup>3</sup>, in order to facilitate the demand for government securities in the initial placement;
- **to maintain the supply of savings bonds to households**, in order to ensure the raising of resources from a group of investors that has been less active, as well as promote the residents' trust in

<sup>3</sup> The Primary Dealer System is a form of cooperation between the issuer (the Treasury) and financial institutions for the realisation of a single security market development strategy.



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# Central Government Debt Management

the financial market, thus facilitating the government security market development in general.

## 2) in international financial markets:

- **to ensure timely borrowing in international financial markets**, mainly by organising regular public issues of government debt securities, in order to decrease the risk of refinancing the central government debt and maintain flexibility with regard to the choice of borrowing terms, thus ensuring borrowing with **favourable terms**;
- **to ensure diversification and expansion of the range of investors in government securities**, by engaging in a regular, on-going dialogue and long-term work with investors and counterparties, in order to promote that investors of different regions of the world actively participate and compete in the initial placement of the government external debt securities;
- **to maintain and broaden the range of counterparties** which are continuously available for entering into financial transactions.

By continuing borrowing activities in line with the medium-term strategy and pursuing a responsible fiscal policy, it is possible to refinance the assumed government debt obligations on favourable terms, as well as achieve a reduction in the government debt level in the long term and the stabilisation thereof at a sustainable level.

In accordance with the authorisation by the Ministry of Finance, the Treasury evaluates the requests of the ministries for the state guarantees and prepares a shortlist of the applicants to be supported and their projects for inclusion in the annual State Budget Law. The Treasury takes part in the process of providing and servicing state guarantees, by assessing and monitoring the risks related to the guarantee issuing, organising the conclusion of the guarantee agreements and handling the accounting for the state-issued guarantees, as well as regularly analysing and monitoring the financial position of the state-guaranteed project implementers.

## 2.2. Structure, indicators and changes of the Central Government Debt

**The Latvian general government debt**, which is formed by the central and local government structure consolidated debt, accounted for approx. 40% of GDP at the end of 2014. Despite its substantial growth in recent years, the Latvian general government debt was **the fifth lowest among EU Member States**, and was **well below the average indicator in the EU** (see Figure 4).

Figure 3. Medium-term borrowing strategy

<p><b>Borrowing flexibility:</b> regarding the timing, currency and maturity of the borrowing</p>	<p><b>Diversification of the investor base:</b> constant dialogue with investors greater competition among investors broader borrowing possibilities</p>
<p><b>Optimisation of debt servicing costs in the medium term</b></p>	
<p><b>Exploration of the potential of the domestic financial market:</b> adequate investment possibilities to market operators. Primary Dealer System</p>	<p><b>Broadening the range of counterparties:</b> counterparties are continuously available for concluding financial transactions</p>

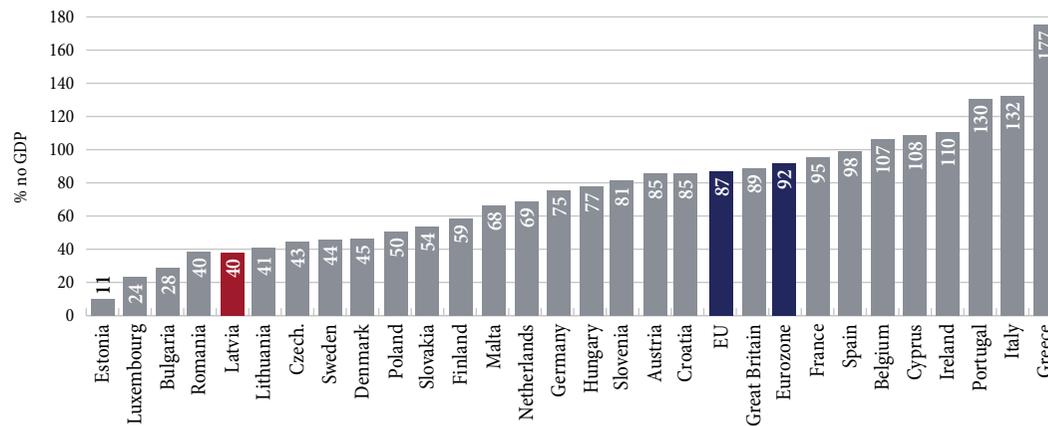


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**Figure 4. General government debt at the end of 2014 (% of GDP) under the ESA '2010 methodology**

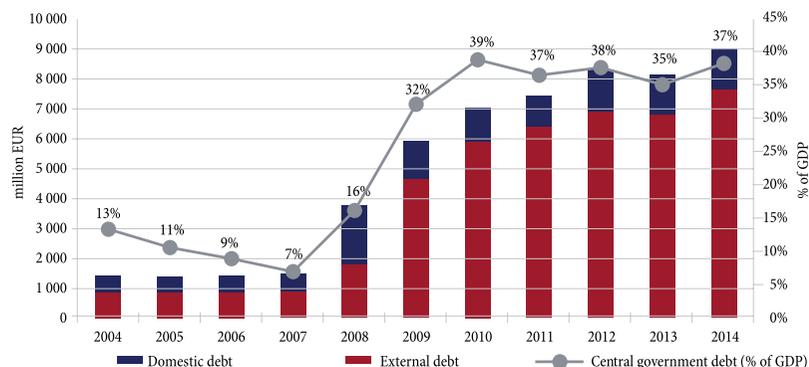
Source: EUROSTAT



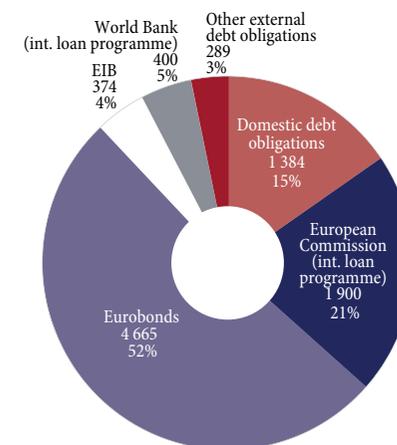
The level of general government debt is mainly influenced by central government debt, which increased by EUR 919.4 million in 2014 and reached EUR 9,012.3 million at the end of 2014 at nominal value or 37.4% of GDP forecast for 2014, remaining below the maximum level of debt of EUR 9.5 billion at the end of the year as provided for in the State Budget Law for 2014 (see Figure 5).

In the structure of central government debt of 2014, external debt made up the greatest share reaching 85%, whereas the government domestic debt accounted for 15% of the total central government debt (see Figure 6).

**Figure 5. Central government debt (at nominal value) 2004-2014.<sup>5</sup>**

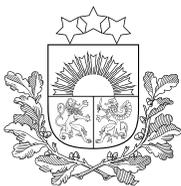


**Figure 6. Central government debt structure (at nominal value) on 31.12.2014 (in EUR million and % of the total amount)**



<sup>4</sup> Central government debt is formed by the central government structure debt, which includes government securities, loans, savings bonds and client deposits placed in the Treasury.

<sup>5</sup> Operational data 2014.



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## Central Government Debt Management

The central government external debt according to nominal value as of 31 December 2014 stood at EUR 7.628 billion.

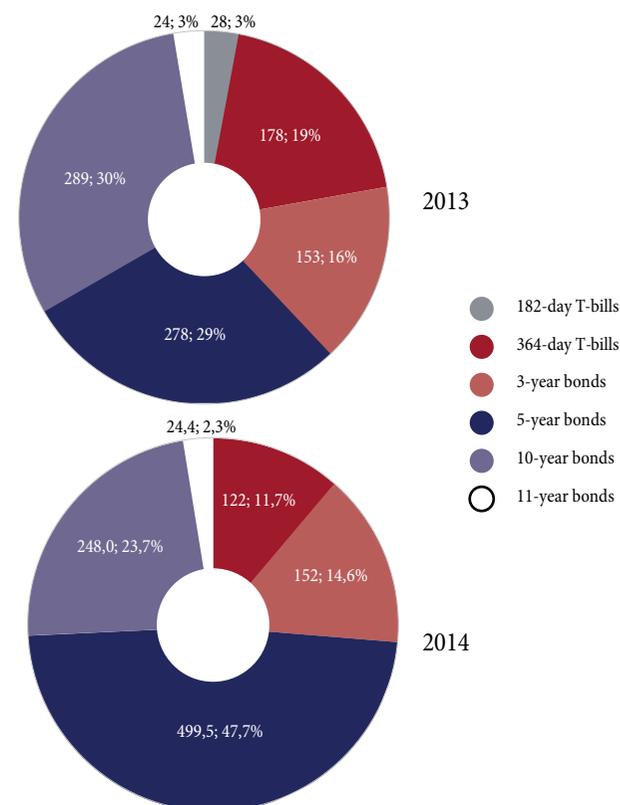
In 2014, the central government external debt increased by EUR 822.2 million, as in 2014 the **European Commission loan** in the amount of EUR 1 billion was repaid and the **bond issued in international financial markets in 2014** in the amount of EUR 400 million was repaid, as well as in the first part of 2014 the **Treasury carried out two bond issues in international financial markets** with the total sum of EUR 2 billion, by timely ensuring resources for the repayment of the external debt carried out in 2014, as well as the repayment of the European Commission loan in the amount of EUR 1.2 billion in January 2015. On 31 December 2014 the **largest share of the central government external debt was formed by the issued Eurobonds and European Commission loans.**

The domestic government debt according to nominal value as of 31 December 2014 stood at EUR 1,384 billion.

In 2014, the domestic government debt increased by EUR 97.1 million, which was mainly influenced by the increase in the amount of outstanding domestic debt securities by EUR 80.0 million.

On 31 December 2014 the largest share of the domestic government debt was formed by domestic debt securities worth EUR 1.047 billion, which were mainly purchased by the domestic financial market operators (credit institutions and institutional investors) at the public auctions regularly arranged by the Treasury. In 2014, the Treasury offered investors to purchase short-term and medium-term government domestic debt securities, and according to that the percentage rate of outstanding government domestic debt securities changed (see Figure 7).

Figure 7. Government domestic debt securities outstanding at the end of 2013 and 2014, in EUR million; % of the total sum



The remaining share of the domestic government debt was formed by short notice and short-term deposits, short-term, medium-term and long-term loans, and savings bonds – total of EUR 337.5 million.

### 2.3. Central Government Borrowing Management

In accordance with the Central Government Debt Management Strategy, the **goal of central government borrowing management** is to ensure the constant option of raising resources in international markets and in the domestic market with optimal borrowing transaction terms.



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# Central Government Debt Management

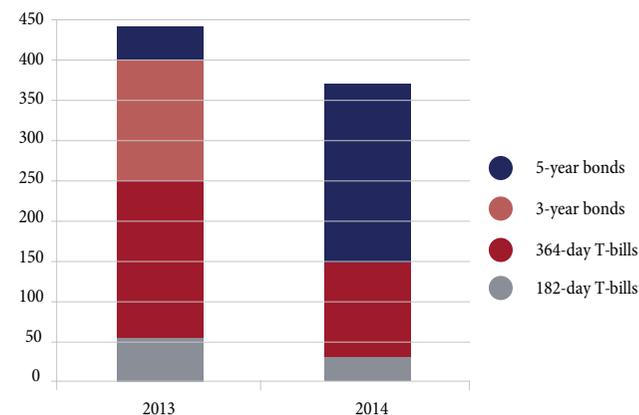
## 2.3.1. Central Government Domestic Debt

In 2014, the Treasury continued to hold regular auctions of government securities. As in previous years, the Treasury held 6-month and 12-month T-bill auctions, with a view to refinance the domestic short-term debt and raise relatively cheap liquidity resources, as well as maintain the domestic government debt securities market. Whereas in order to ensure resources for financing the general government budget to institutional investors, the Treasury continued the 5-year bond programme started in October 2013 by reaching an amount of EUR 124.4 million of such bonds outstanding. In May 2014, the Treasury started a new 5-year bond programme, showing good auction results, reaching a high demand and borrowing at the lowest interest rate levels in history. At the end of 2014, the volume of the new 5-year bond programme reached EUR 141.279 million.

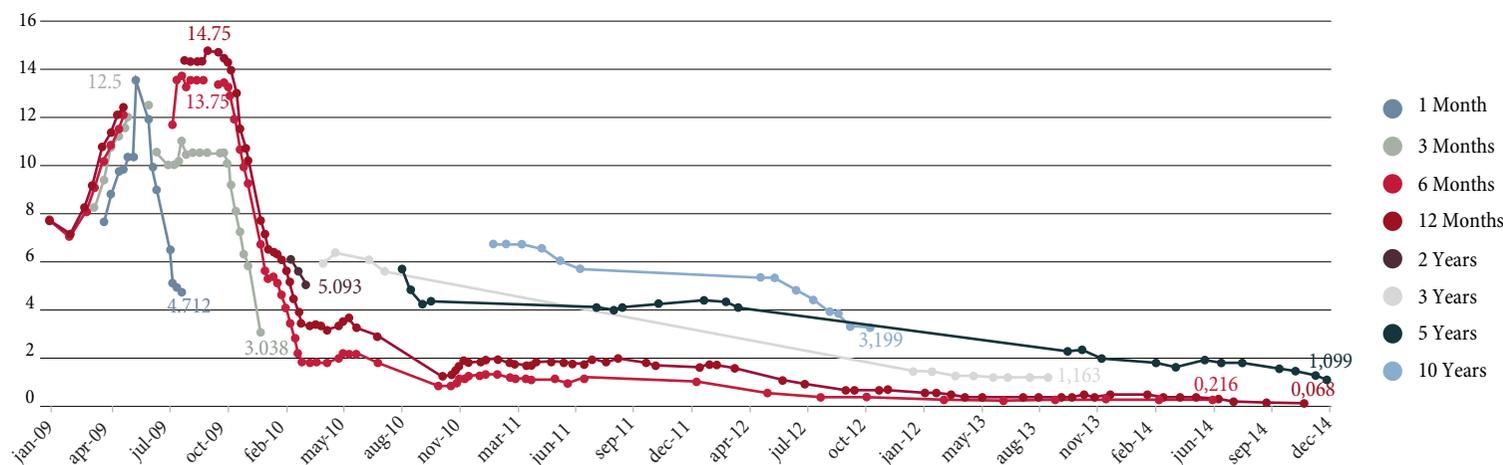
In 2014, the Treasury sold government domestic debt securities worth EUR 373 million in the primary market, including EUR 296 million in competitive multi-price auctions. On average the aggregate demand in competitive multi-price auctions was 3.99 times higher than supply and was EUR 1,181.5 million.

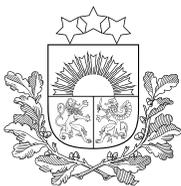
The rates remained at the historically lowest levels in auctions held in 2014. The rates decreased with each auction and remained at stable and low levels. The rate drop can be explained by the active participation of primary dealers in auctions, positive rate development trends in global financial markets, as well as the high liquidity among credit institutions.

**Figure 8. Government domestic debt security issues in 2013 and 2014 by maturity, in EUR million**



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





## Treasury Republic of Latvia

# Central Government Debt Management

In the medium term it is also planned that regular and demand-satisfying offers of domestic government debt securities will be ensured, by increasing the debt levels wisely and having regard to the capacity of the financial market.

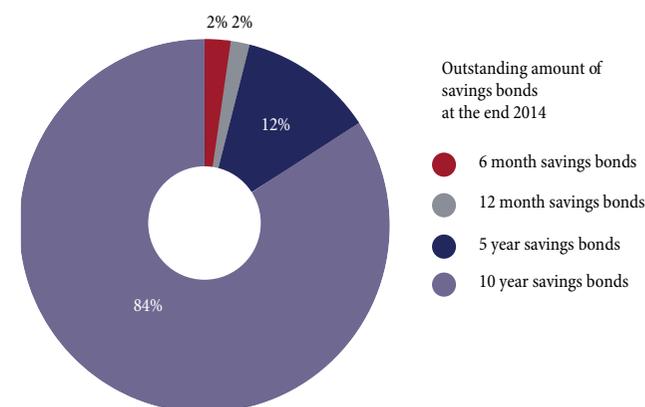
By taking important steps in the development of the government securities market in 2013 (introduction of the Primary Dealer System, savings bonds) and continuing the work in 2014, the secondary market of government securities has seen improvements and the demand for government securities has remained high.

In 2014, with a view to developing the domestic government debt securities market, the Treasury continued to strengthen the **Primary Dealer System** introduced in February 2013, which is aimed at promoting the development and activity of the government securities market, i.e. the emergence of new borrowing instruments, widening the base of investors, a more active, liquid and investor-friendly government securities market, and reduction of the risks associated with central government debt management. 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. After evaluating the current performance of each credit institution in the government securities market and their activity in financial transactions with the Treasury with respect to government debt and asset management matters, the following credit institutions have become the primary dealers: AS *Citadele banka*, AS *DNB banka*<sup>6</sup>, AS *SEB banka*, AS *Swedbank* and AS *ABLV Bank* (which replaced the joint-stock company *Nordea Bank Finland Plc* in 2014).

In June 2013, a new domestic financial market instrument – **savings bonds** – was introduced. The primary objective of savings bonds was to provide a convenient and secure investment opportunity to private persons as a potentially new investor group, expand the investment possibilities for residents in classic and safe financial instruments, broaden their practical experience in investing, develop the government securities market in general, as well as facilitate public confidence in the financial market. By offering savings bonds, the Treasury does not only attract additional funds according to the rates of the financial market, but mainly provides residents the opportunity to expand their investment options in classic and safe financial instruments. By realising the above mentioned objectives, the Treasury planned to start

selling savings bonds in post service points of the state joint-stock company *Latvijas Pasts* in 2014, so that the savings bonds could also be bought by those residents that do not use banking services. **The distribution of savings bonds with the mediation of the state joint-stock company *Latvijas pasts* was started in July 2014.** Residents may purchase 6-month and 12-month, as well as 5-year and 10-year savings bonds on the website [www.krajobligacijas.lv](http://www.krajobligacijas.lv) and at the post service points of *Latvijas pasts*. At the end of 2014, the savings bonds in circulation amounted to EUR 5.1 million.

Figure 10. Savings bonds in circulation (on 31.12.2014)

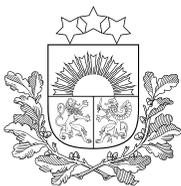


### 2.3.2. Central Government External Debt

#### Borrowing in International Financial Markets

The Treasury's experience relating to transactions in international financial markets in recent years shows that 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, brief and the most beneficial moments when positive news emerges in financial markets and investors become better disposed towards making new investments. The activities of the Treasury in the area of external debt management in recent years have been focused exactly 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 of the government debt servicing costs in the medium term through borrowing in international financial markets on terms favourable to the country.

<sup>6</sup> The Lithuanian AB DNB Bankas in the secondary market.



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## Central Government Debt Management

An essential prerequisite for maintaining flexibility in terms of choosing the borrowing terms in international financial markets (timing, currency, amount and maturity of the borrowing) in 2014 was the maintaining of resource reserves in the Treasury's accounts for the planned repayment of the government debt in 2014-2015, including the repayment of European Commission loans. By borrowing in a timely manner and gradually, without delaying large-scale borrowing to the last moment before the performance of substantial debt obligations, **the Treasury has eliminated the central government debt refinancing risk**, as the price of the borrowed resources was not subjected to speculative financial market impact, also in relation to geopolitical factors.

**For borrowing in international financial markets the Treasury uses the legal framework of external government securities documentation GMTN** (Global Medium Term Note programme) implemented in 2013 which consists of standardised agreements and has been designed to facilitate Latvia's future borrowing process. The GMTN programme allows the Treasury to efficiently exploit favourable conditions in international financial markets, as well as issue government securities in different currencies. The programme also provides for the issuing of government securities if the investor addresses the Treasury through a two-party arrangement and makes a loan offer, subject to complying with the legal terms and conditions of the programme.

**In 2014, after a break that lasted several years, Latvia returned to the euro financial markets, with the Treasury organising two benchmark security issues in EUR currency. In January 2014, 7-year bonds in the amount of EUR 1 billion were issued** with a fixed interest (coupon) rate of 2.625% per year (profitability 2.815%) **and in April 10-year bonds in the amount of EUR 1 billion were issued** with a fixed interest (coupon) rate of 2.875% per year (profitability 2.961%). **By issuing Eurobonds, resources were provided for the covering of financing needs, as well as for the regular repayment of the share of international loan granted to Latvia during the economic crisis** (on 25 March 2014 a loan share in the amount of EUR 1 billion was repaid to the European Commission and on 16 January 2015 the second share in the amount of EUR 1.2 billion was repaid). Both Eurobond issues were carried out within the framework of the medium-term borrowing strategy, by timely providing resources for the covering of the financing needs, including the repayment of the largest government debt maturing in 2014 and 2015. The economic development, accession to the Eurozone, Latvia's credit

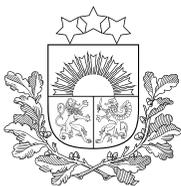
rating upgrades, the positive evaluation from investors regarding work carried out in Latvia's economy during the past years, and believing in Latvia's development in the long term provided for borrowing financial resources in international markets **with favourable terms**. In both Eurobond issues carried out in 2014 **the long-term resources were raised with lower interest rates than the ones set for European Commission loans** (3.125%). Both the January and April issue rates were lower than the benchmark rates on the respective date, which are determined on the basis of the financial market information regarding securities of other Central and Eastern European countries.

### 2.3.3. Investor Relation Management

In order to carry out focused **investor relation management** and define appropriate measures to be taken, the Treasury regularly provides information to investors and counterparties by drawing up the annual Central Government Debt Management Report and quarterly bulletins, and prepares a digest of relevant weekly developments, as well as engages in other communication measures.

Every year the Treasury produces an analytical **Report on Central Government Debt Management** (in Latvian and English) for the preceding year, in order to provide clients and operators of the financial market, including the existing and potential counterparties and investors in government securities, with information on developments in the management of the central government debt and assets, borrowing processes and results. The Report on Central Government Debt Management is also forwarded to other bodies performing equivalent government debt management functions in the EU (debt management offices) and to the embassies of the Republic of Latvia abroad. This form of presenting information on the latest developments in Latvian government debt management has been positively acknowledged by counterparties (including banks).

Once every quarter, the Treasury posts a Quarterly Bulletin on Central Government Debt Management (in Latvian and English) on its website, which includes the latest data on government budget implementation and central government debt management, information regarding the credit rating of Latvia, borrowing carried out in the domestic and international financial markets, result of government security auctions, government debt portfolio management and achieved results, as well as information regarding local government borrowing and state-issued guarantees.



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Every week, the Treasury compiles, forwards to investors and posts on its website a **Weekly Update** (in English) regarding central government budget implementation, central government debt management, and the most important developments in Latvia's financial sector, economy and politics.

As members of the Latvian delegation, the representatives of the Treasury hold meetings with investors, representatives of foreign investment banks and rating agencies during the Annual Meeting of the World Bank and the International Monetary Fund, and also organise face-to-face meetings, thereby **additionally supporting the dissemination of information to investors**. In order to facilitate new borrowing transaction options, in addition to these activities in 2014 meetings were organised with investors in government securities in Switzerland, Germany, Austria, United Kingdom, Italy and France, thus stimulating their interest to invest in Latvian government securities in the future.

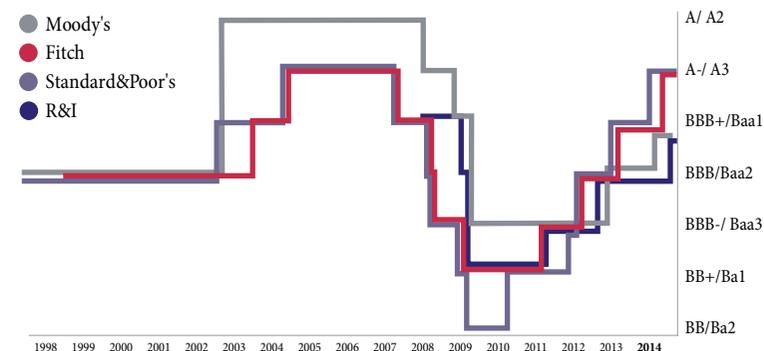
### 2.3.4. Credit Rating of the Republic of Latvia

The national credit rating is a critical aspect in organising borrowing transactions, and a significant factor for the availability of financial resources, because it influences the price of the borrowed resources. As part of the 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, Standard & Poor's and Moody's Investors Service**, 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 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 credit rating, investors evaluate the prospects of investing in Latvia, e.g. in government securities. The rating agencies do not only review the credit rating of the Republic of Latvia and its outlook every year, but also assign 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, as well as provides proposals for improving the credit rating.

**In 2014, once again all rating agencies raised the credit rating of the Republic of Latvia and provided a stable outlook evaluation.** At the end of 2014, Latvia's long-term credit rating was Baa1 (*Moody's Investors Service*), A- (*Fitch Ratings*), A- (*Standard & Poor's*) and BBB+ (*R&I*). (The

international rating agency *Moody's Investors Service* also raised Latvia's credit rating in the beginning of 2015 (February) from Baa1 to A3, determining a stable credit rating outlook).

**Figure 11. Credit rating history of the Republic of Latvia**



### 2.4. Central Government Debt Portfolio Management

According to the Central Government Debt Management Strategy, the objective of government debt portfolio management is to **optimise the costs of government debt servicing in the long term by limiting the financial risks of the government debt portfolio**.

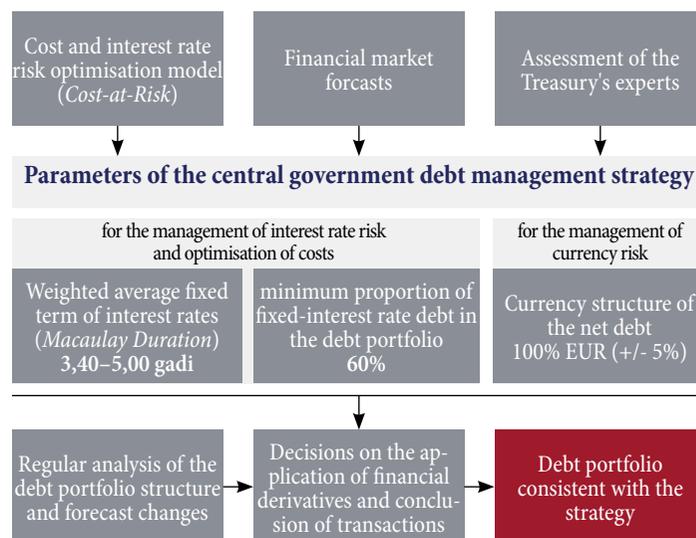
The Treasury assesses the debt portfolio structure parameters laid down in the Central Government Debt Management Strategy on a regular basis and evaluates the need to change them. With a view to limiting the government debt interest rate risk and optimising the long-term government debt servicing costs, the potential volatility risk measure of costs and interest rates (*Cost-at-Risk (CaR)*) is calculated, which, with the probability of occurrence set at 95%, reflects the extent to which the interest expense on the debt may be higher than that anticipated in the medium term. Based on the results of the calculations, financial market forecasts, and the assessment of the Treasury's experts, 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 12) are determined. Whereas for the currency risk management an optimal currency structure of net debt is determined and monitored by taking into account the financial market forecasts and the assessment of the Treasury's experts, and it allows complying with the balance of assets and liabilities in foreign currencies, thus avoiding the influence caused by exchange rate fluctuations.



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## Central Government Debt Management

**Figure 12.** General principles of central government debt portfolio management



The division of government debt management into two interrelated processes – central government debt management and central government debt portfolio management – enables the Treasury to meet the central government debt management objective when making new borrowings, and subsequently, if necessary, to adjust the structure of the central government debt portfolio with derivatives and other available resources for it to be optimal and comply with the requirements provided for in the Latvian Central Government Debt Management Strategy.

**In 2014, all the parameters for the central government debt structure specified in the Latvian Central Government Debt Management Strategy were complied with** (see Table 2).

<sup>7</sup> The amount of securities in circulation which were issued under Latvian law.

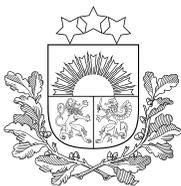
<sup>8</sup> The maturity profile of the total debt, taking into account the government debt refinancing reserve in the amount of EUR 142 million.

<sup>9</sup> The maturity profile of the total debt, taking into account the government debt refinancing reserve in the amount of EUR 142 million.

**Table 2.** Compliance of the parameters of the central government debt structure with those provided for in the Latvian Central Government Debt Management Strategy

PARAMETERS	ACTUAL DEBT STRUCTURE PARAMETERS 31.12.2013		ACTUAL DEBT STRUCTURE PARAMETERS 31.12.2014		DEBT STRUCTURE PARAMETERS DEFINED IN THE STRATEGY	
	≤ 1 year	≤ 3 years	≤ 1 year	≤ 3 years	≤ 1 year	≤ 3 years
Amount of domestic debt securities <sup>7</sup> at the end of the year	EUR 966.60 million		EUR 1,046.55 million		not less than outstanding at the end of the preceding year	
Maturity profile (%) of the central government debt portfolio	23,1% <sup>8</sup>	46,1% <sup>9</sup>	21,4%	36,4%	< 25%	< 50%
<b>Minimum proportion of the fixed interest rate in the central government debt portfolio</b>	78,2%		81,7%		≥ 60%	
Average weighted fixed period of interest rates, in years	3,41		4,16		3,4 – 5,0	
Currency structure of net debt	EUR 100,07%		EUR 100,00%		EUR 100% (+/- 5%)	

In order to comply with the maturity profile parameter, **the Treasury maintained a government debt refinancing reserve in the beginning of 2014, providing resources for the repayment of debt in 2014. Thus the government debt refinancing risk was eliminated**, as the risk related to the new borrowing in the amount of reserved funding was no longer existent – the resources were already in the Treasury's accounts. In order to ensure compliance with the maturity profile of up to one year determined in the Central Government Debt Management Strategy, the government debt refinancing reserve was maintained until the repayment of the European Commission loan and the Eurobonds issued in 2004 in March-April 2014. However, **during the period from April to December 2014, no additional risk preventing measures were required for compliance with the debt portfolio parameters.**



Treasury  
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# Central Government Debt Management

## 2.5. State-Issued Guarantees

State guarantees are issued:

- 1) for obligations that are assumed by an economic operator that has a central or local government share invested in it, and that produces goods or provides non-financial services in order to retain profit or other benefits;
- 2) for obligations that are assumed to ensure financing for different business support programmes that are approved by regulatory enactments;
- 3) for ensuring the study and student loan programme;
- 4) for the accomplishing of the objectives prescribed in Section 8.1 of the Law on Budget and Financial Management.

In accordance with the annual State Budget Law, the decision on issuing or not issuing state guarantees is made by the Cabinet, based on the assessment of the draft order prepared by the Ministry of Finance and the ministry responsible for the respective field, the business plans of the guarantee candidates, provided collateral, and a list of other documents.

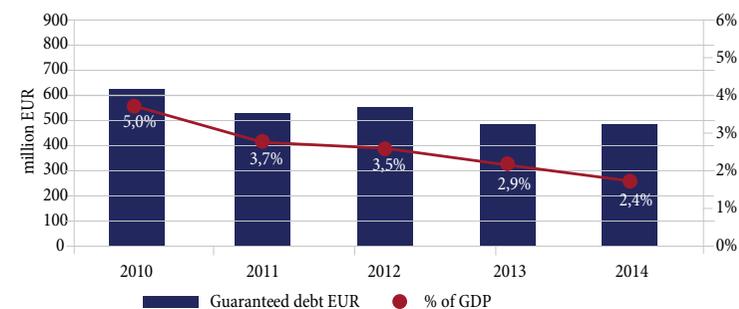
The state guarantees are issued in accordance with the procedure determined by the Cabinet and are secured with a commercial pledge, real estate pledge or other type of security.

In order to ensure the assessment and management of the fiscal risks of the fulfilment of state-issued guarantee obligations, as well as to improve the process of issuing and supervising state guarantees, on 8 July 2014 Cabinet Regulation No.391 “Procedure by which the Requests for the Guarantees to be Issued on Behalf of the State are Included in the Draft Annual State Budget Law and Guarantees are Issued and Supervised” was issued. The Regulation was drawn up by the Treasury and includes stricter supervision requirements regarding state guaranteed obligations, by dividing the co-responsibility of implementing the business plan of the project between the Ministry of Finance and the ministry of the respective field. Additional requirements have been determined for cases when the financial performance indicators of the counterparty worsen and the value of the commercial pledge item decreases, criteria for determining increased loan repayment risks have been included, and other improvements have been introduced with a view to protecting the government’s interests to the maximum extent.

In 2014, state-issued guarantees totalling EUR 10.6 million were issued solely in respect of study and student loans, which is less than the amount of state-issued guarantees for study and student loans (EUR 40.9 million) prescribed in the Law on the State Budget for 2014.

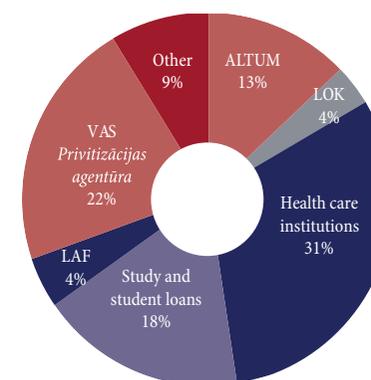
At the end of 2014, the outstanding balance of state-guaranteed loans was EUR 592.6 million, which is EUR 70.3 million or 10% less than at the end of 2013.

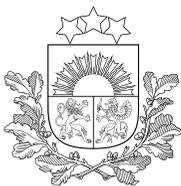
**Figure 13. Outstanding balance of state-guaranteed loans, in EUR million**



The largest share of the state-issued guarantee portfolio by borrower was formed by state-issued guarantees for the obligations assumed by health care institutions (31%), state-issued guarantees for the obligations assumed by the state joint-stock company *Privatizācijas aģentūra* (22%), and state-issued guarantees for ensuring the study and student loan programme (18%).

**Figure 14. State-issued guarantee portfolio, by borrower on 31.12.2014**





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## Central Government Debt Management

In 2013, the liabilities of *AS Liepājas Metalurgs* to *UniCredit S.p.A* in the amount of EUR 73.6 million were settled under the signed guarantee agreements because the borrower was unable to perform its liabilities. On the day when the government made the payment to the lender in place of the borrower, the government received the right to demand funds from *AS Liepājas Metalurgs* in the amount of the paid sum. When this situation occurred, the government carried out recovery measures in order to recover the debt from the borrower. On 12 November 2013, the Court of Liepāja declared that *AS Liepājas Metalurgs* had become insolvent and that the insolvency process had started. During the insolvency process a potential investor was successfully drawn in, and at the end of

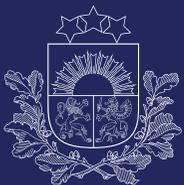
2014 a purchase agreement was concluded between the insolvent *AS Liepājas Metalurgs* and the investor *KVV Group* on the sale of property of *AS Liepāja Metalurgs* related to the main production and the payment of the agreed purchase price during a period of 10 years.

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

**Table 3. Performance indicators of the operational targets for central government debt management**

Result formulation	Performance indicators	Numeric values of performance indicators in 2014	
		Projected	Implemented
1. The investor base has been widened and diversified.	1. The amount of resources raised from new investors through issuing securities in international financial markets during the year (the share of securities purchased by new investors in primary issues in terms of the total amount of annual issue).	5	27
2. Loans of the international borrowing programme have been refinanced on more favourable terms.	2. Conformity of Latvia's government borrowing rate level to the benchmark rate <sup>10</sup> (%).	Not higher than the benchmark: 14.01.2014 issue benchmark 2.878% 24.04.2014 issue benchmark 3.071%	14.01.2014 issue rate 2.815% 24.04.2014 issue rate 2.961%
3. The government securities remained on offer to operators in the domestic financial market.	3. The amount of domestic debt securities included in the turnover at the end of the year at nominal value (in EUR million).	Not lower than at the end of the previous year (EUR 966.60 million)	1 046,55

<sup>10</sup> The benchmark rate for the issue of the benchmark amount is determined by reference to the average rates of the international financial markets and is made up of the secondary market rates of the bonds issued in the international financial markets of the Central and Eastern European countries, the credit rating whereof is +/- 2 degrees against that set for Latvia, of which a profit curve with a logarithmic function has been created, as increased by 0.25% – an additional mark-up on raising a new loan.



# Activities of the Treasury in 2014

## 3. Cash and State Loan Management

### 3.1. Operational Principles and Areas of Development

The Treasury's Cash Management Strategy, approved by the Minister of Finance, establishes the objectives, tasks and responsibility of the Treasury in carrying out financially effective and secure cash management while meeting liquidity requirements and limiting financial risks.

The Treasury temporarily places its free cash resources in the Bank of Latvia, Latvian and foreign credit institutions or invests them in fixed-income debt securities, thus limiting financial risks in accordance with the investment parameters and cooperation limits which are specified for each counterparty depending on the type of financial instrument as provided for in the Treasury's Cash Management Strategy.

The priorities set for cash management are as follows:

- 1) to ensure the compliance of the cash management process with the best financial market practices, by observing the basic principles of financially effective and secure cash placement, considering the ensuring of liquidity and limiting of financial risks as the most significant ones;
- 2) to maintain and develop long-term partnerships with the operators of domestic and international financial markets (counterparties) with a view to broadening the options for investing cash resources and securing the information required for financial decision-making at both ends.

According to the authorisation by the Ministry of Finance, the Treasury organises the government lending process by making financial resources available in the form of state loans in accordance with the concluded loan agreements and by monitoring the financial position of the recipients of state loans, which involves the monitoring of the repayment of state loans and, if necessary, engaging in recovery measures.

The priorities set for state loan management are as follows:

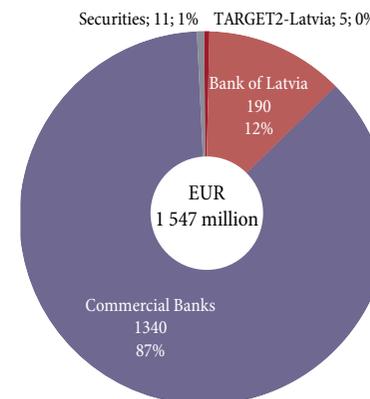
- 1) to ensure a transparent and effective state loan management process;
- 2) to ensure the quality of client service and client satisfaction with the government lending process, including the option to conclude agreements electronically.

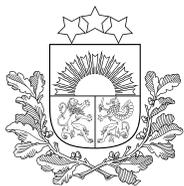
### 3.2. Cash Management

In 2014, having regard to the financing needs and circumstances in financial markets, the Treasury ensured the availability of liquid resources required to meet the financial commitments, as well as deposited the temporarily free funds with the Bank of Latvia and Latvian and foreign credit institutions and, by diversifying the investment portfolio, invested in fixed-income debt securities. In order to make the cash management process more effective, the Treasury improved the **Cash Management Strategy**, which was approved by the Minister of Finance on 18 August 2014.

In 2014, the interest income for deposits, account balances and government debt securities in the general government budget amounted to EUR 29.8 million, which was EUR 11.6 million or 63% more than in the plan prescribed by the Law on the State Budget for 2014. The largest share (74%) of this position is formed by interest income from *AS Reverta* securities provided by the state for support.

**Figure 15. Cash investment structure (31.12.2014), in EUR million and % from the total amount**





Treasury  
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## Cash and State Loan Management

In 2014, within the framework of the support process for ensuring liquidity, *AS Reverta* repaid all interest on bonds in the amount of EUR 21.9 million and redeemed the government support bonds of EUR 60.0 million. At the end of 2014, the value of *AS Reverta* closed issues was EUR 455.36 million. There were no investments into the share capital of *AS Reverta* in 2014.

### 3.3. State Loan Management

The range of recipients of state loans<sup>11</sup> is defined in Section 36 of the Law on Budget and Financial Management. Whereas the annual State Budget Law for the current year prescribes the state loan limit, defining the amount in which state loans can be issued during the respective year, by separately dividing the limit for local government loans. The total state loan limit is formed by the amount prescribed in the annual State Budget Law, to which the state loan repayments made in the respective year have been added (loan repayments in the central government general budget are planned in accordance with the terms and amount set in the loan agreement). In order to apply for a state loan, the applicant makes a request to the ministry responsible for the respective field on prescribing a state loan for the following economic year. After receiving support from the respective ministry, the state loan request is sent to the Ministry of Finance to be included in the planned state loan limit in the Draft State Budget Law for the following year.

State loans are issued according to the procedure determined by the Cabinet and are secured with local government guarantees, commercial pledge, real estate pledge or other type of security.

The Treasury monitors state loans and, if necessary, performs debt recovery activities. In cases when the borrower is not able to perform the assumed obligations, the set of required measures of activity derives from the conditions established in each individual case, the financial situation and risks, and its implementation is ensured in close cooperation with the ministry of the respective field and the borrower, in

<sup>11</sup> According to the Law on Budget and Financial Management state loans may be issued to local governments, state special budget implementers, capital companies where the State or local government share of the fixed capital, separately or combined, exceeds 50% and to capital companies formed by several local governments, where the combined local government share of the fixed capital exceeds 65%, as well as those scientific institutes and higher education establishments to which the status of a derived public person has been determined, and port authorities.

order to ensure the repayment of the state loan. For example, in cases when local governments have failed to perform the obligations under the provisions of the agreements, the Treasury is entitled to deduct the outstanding sums from the amount of personal income tax due to the local government or the grant from the local government financial equalisation fund. Whereas in cases when commercial companies have failed to perform the obligations under the signed agreements, claims for repayment are brought to the borrowers or complaints regarding the recovery of the debt and an application to secure the claim are filed with the courts. If a commercial company is being liquidated and debt recovery is no longer possible, the Treasury writes off the cancelled debt obligations of the liquidated commercial company in accordance with the Cabinet Regulation "Procedures for the Cancellation of State Loans by the Minister of Finance". The debt obligations of commercial companies liquidated in the respective budget year are cancelled in the amount prescribed in the annual State Budget Law.

In 2014, the overall increase of state loans in the annual state budget was set at EUR 296.0 million, including the overall increase of local government loans in the amount of EUR 118.1 million. The total amount of state loans to be issued in 2014 was foreseen to be EUR 373.5 million, which included the overall increase in state loans stipulated in the annual State Budget Law and the 2014 repayments of state loans issued in the previous years.

In 2014, the largest share of state loans – EUR 222.9 million or 77% of the total amount of state-issued loans – was issued to local governments and entities managed and funded by local government bodies.

The breakdown of state loans of EUR 222.94 million issued to local governments:

- 1) for budget and financial management – EUR 0.28 million;
- 2) for local government investments – EUR 66.55 million;
- 3) for the implementation of projects co-financed by the EU – EUR 156.10 million.

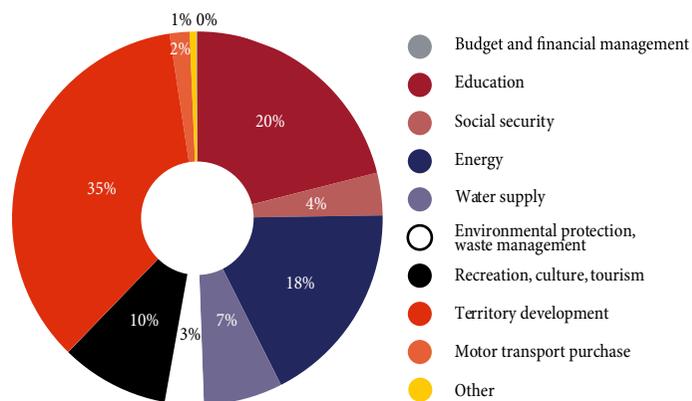
The largest share of state loans issued to local governments (70%) was issued for the implementation of projects co-financed by the EU.



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## Cash and State Loan Management

**Figure 16. State loans issued in 2014, by purpose**



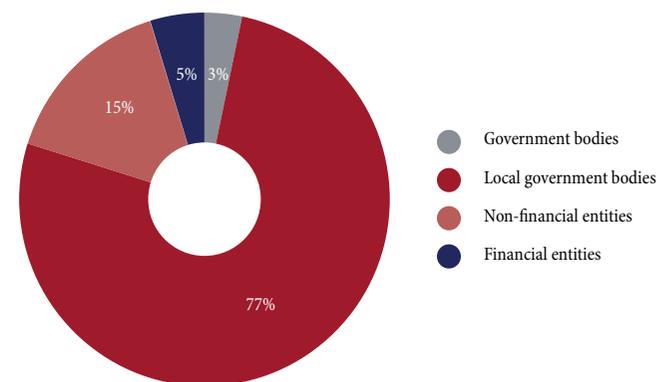
State loans of EUR 9.26 million or 3% of the total state budget loans were issued to entities controlled and financed by the central government bodies – derived public persons partially financed from the central government budget (scientific institutes and higher education establishments to which the status of a derived public person has been determined) – for the implementation of projects co-financed by the EU.

State loans of EUR 43.97 million or 15% of the total state budget loans were issued to capital companies in which central or local government capital has been invested or non-financial entities, including:

- 1) a loan of EUR 26.0 million to VAS *Starptautiskā lidosta Rīga* (Riga International Airport) for the implementation of the Cohesion Fund project No.2010LV161PR001 “Infrastructure Development at Riga International Airport”;
- 2) a loan of EUR 9.11 million to AS *Air Baltic Corporation* for the ensuring of necessary cash flows for business activity;
- 3) a loan of EUR 8.87 million for the implementation of water and heat supply system reconstruction projects co-financed by the EU (SIA *Jelgavas ūdens*, SIA *Dagdas komunālā saimniecība*, AS *Daugavpils satiksme*, SIA *Dobeles ūdens*, SIA *Grobiņas novada namsaimnieks*, SIA *Jelgavas novada KU*, SIA *Kuldīgas ūdens*, etc.).
- 4)

State loans of EUR 13.21 million or 5% of the total state budget loans were issued to institutions, the main functions and core activity of which is financial mediation and the provision of auxiliaries related to it, or financial entities – to VAS *Lauku attīstības fonds* (Rural Development Fund) for granting state aid in the form of loans to persons engaged in performing business activities who wish to acquire agricultural land for agricultural purposes.

**Figure 17. Recipients of state loans issued in 2014**



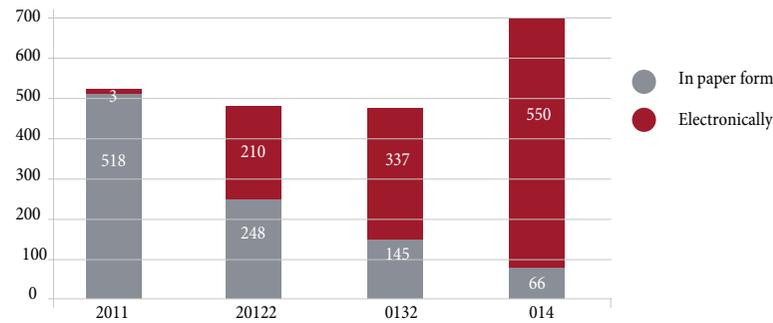
Paragraph 5.1.3 of Section 41 of the Informative report “On Proposals Regarding Ensuring the Wider Usage of Electronic Signature” of minutes No.75 of the Cabinet session of 20 December 2011 prescribes that “the flow of documents which are exchanged between the institutions of central and local governments and are signed in paper form shall be effected electronically, including the flow of information of the financial assistance documentation of the EU Structural Funds, the Cohesion Fund and other EU and foreign financial assistance”, and in accordance with the Operational Strategy of the Treasury state loan agreements shall be concluded electronically, thus saving time and financial resources. In 2014, 85% of all concluded state loan agreements and memorandums of understanding were concluded electronically, thus the performance indicator ( $\geq 70\%$ ) provided by the strategy of the Treasury was achieved.



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## Cash and State Loan Management

**Figure 18. Number of agreements concluded with local governments, by years**



In 2014, the Treasury surveyed its clients, including local governments, regarding the used services of the Treasury and satisfaction therewith. Just as in 2013, the results of the survey proved that local governments are satisfied with the services provided by the Treasury, and it was also assured that the use of services provided by the Treasury ensures a faster exchange of information, quicker processes and significant savings of financial resources of the government – the time needed for receiving the services is shortening and the administering costs of the services are decreasing.

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

**Table 4. Performance indicators of the operational targets for cash and state loan management**

Result formulation	Performance indicators	Numeric values of performance indicators in 2014	
		Projected	Implemented
1. Secure and maximally effective cash management consistent with the best financial market practices has been ensured.	1. Revenues from investments of government budget funds have been ensured in the amount provided for in the annual State Budget Law (implementation as a percentage of the annual plan).	≥100	163
2. A methodologically transparent, effective and operative process of planning, issuing and monitoring of state loans that is consistent with the best market practices and serves the national interests has been ensured.	2.1. Satisfaction with the quality of the services received (percentage of surveyed clients <sup>12</sup> ).	≥75	87
	2.2. Provision of services via electronic service delivery channels (electronically concluded agreements and memorandums of understanding (percentage of the total agreements and memorandums of understanding entered into during the year)).	≥ 70	85

<sup>12</sup> In accordance with the provisions of the documents governing the Treasury's quality management system, client satisfaction surveys must be performed not less than once every three years. If necessary, comprehensive client surveys, surveys relating to a particular service, as well as surveys aimed at identifying the satisfactions and needs of a particular client segment are carried out.



# Activities of the Treasury in 2014

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

### 4.1. Operational Principles and Areas of Development

Under the requirements of the regulatory enactments the Treasury performs the functions of the Paying and Certifying Authority for the EU policy instruments, the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism, and the Latvian-Swiss Cooperation Programme.

Under the Law on the Management of European Union Structural Funds and the Cohesion Fund, the Treasury acts as the Certifying and Paying Authority for the European Regional Development Fund, the European Social Fund and the Cohesion Fund in the 2007-2013 programming period. The Treasury will also act as the Certifying Authority for European Union funds during the 2014-2020 programming period.

As the Certifying Authority, the Treasury prepares and submits statements of expenditure and applications for payment to the European Commission, and certifies that the declared expenditure complies with the applicable Community and Member State regulations. As the Paying Authority, the Treasury maintains the accounting for the received and spent EU Fund financing provided by the European Commission and makes payments to the EU Fund beneficiaries within the shortest possible time frame.

For the purpose of performing the functions of the Paying Authority under the Swiss-Latvian Cooperation Programme, the Treasury opens and maintains the co-financing accounts of the cooperation programme, verifies the received payment requests for compliance with the Framework Agreement and the provisions of the relevant regulatory enactments, approves and submits them to the competent Swiss authorities, makes payments after receiving co-financing from the Swiss Confederation, and ensures the repayment of unused funds or ineligible expenditure to the Swiss Confederation.

By performing the functions of the Certifying Authority of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2009-2014, the Treasury submits the approved interim financial statements and the final reports of the programme, as well as forecasts to the Financial Mechanism Office, ensures accounting for the funds of the financial instruments, provides information regarding the interest accrued within the framework of financial mechanisms to the Financial Mechanism Office, and monitors the repayment of unused funds or ineligible expenditure.

### 4.2. Functions of the Certifying and Paying Authority in the 2007-2013 Programming Period

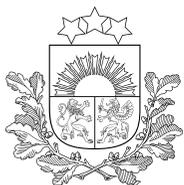
In 2014, an audit institution carried out the audit of the operating efficiency of the developed EU Structural Fund and the Cohesion Fund management and control system, and an audit of the refunded expenses certified in 2013 in the Treasury as in the Certifying and Paying Authority. Within the framework of the audit, **the Treasury received the highest possible evaluation of “-1”, which indicates that the developed management and control system works efficiently and in accordance with the provisions laid down in regulatory enactments.**

In 2014, within the framework of the EU funds for the 2007-2013 programming period the Paying Authority executed 5,891 payment orders, including the verification and refunding of 443 advance payments. The Paying Authority refunded EUR 773,722 thousand to the beneficiaries from the EU fund financing. Advance payments of EUR 90,107 thousand were made within the framework of the EU fund projects.

In 2014, the Certifying Authority prepared and verified 41 expenditure declarations and submitted them to the European Commission. In order not to lose the grants received within Operational programme 2 because of not implementing the “n+2” principle<sup>13</sup>, intensive work was carried out at the end of 2014, ensuring the submitting of an additional<sup>14</sup> expenditure declaration to the European Commission.

<sup>13</sup> According to Section 93 of the Council Regulation no.1083/2006, the EC may automatically cancel the commitments if interim payments are not submitted in the determined amount during the respective calendar year.

<sup>14</sup> In addition to the provisions of Cabinet Regulation No.1041 of 09.11.2010 “Procedures by which Resources in the State Budget are Intended for the Implementation of Projects Co-financed by European Union Structural Funds and the Cohesion Fund, as well as Procedures for Making of Payments and Preparation of Statement of Expenditure”.



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

**Table 5. Expenditure Certified to the European Commission and refunds received in 2014 compared to 2013, in EUR thousand**

Source: The Treasury, MIS of the EU SFCE<sup>16</sup>

the ES policy instrument	Declared eligible expenditure		Amount requested		Amount received	
	2013	2014	2013	2014	2013	2014
Operational programme 1 (ESF)	117 691	73 735 <sup>15</sup>	100 532	0	91 576	0
Operational programme 2 (ERDF)	147 273	262 980	82 367	156 921	47 977	93 669
Operational programme 3	671 619	702 065	555 903	577 533	484 101	598 473
<i>incl. ERDF</i>	<i>353 346</i>	<i>326 728</i>	<i>300 010</i>	<i>274 255</i>	<i>279 249</i>	<i>293 517</i>
<i>incl. the Cohesion Fund</i>	<i>318 273</i>	<i>375 337</i>	<i>255 893</i>	<i>303 278</i>	<i>204 852</i>	<i>304 956</i>
<b>Total</b>	<b>936 583</b>	<b>1 038 780</b>	<b>738 802</b>	<b>734 454</b>	<b>623 654</b>	<b>692 142</b>

The requested amount specified in the table is larger than that received from the European Commission because the Treasury received the funding for the expenditure declarations submitted at the end of 2014 in January 2015. According to the data in Table 5, projects are implemented and absorption of financing occurs intensively within the scope of Operational programmes 2 and 3 because the amount of declared eligible expenditure has increased in comparison to 2013.

<sup>15</sup> Already 95% of ESF financing have been received within the scope of Operational programme 1 in the form of European Commission advance and interim payments, and according to the provisions of European Commission regulatory enactments the Treasury will not receive any additional payments, although the expenditure declarations are still being submitted. The Treasury will receive the remaining 5% of ESF financing at the end of the programming period after the submitting of the final expenditure declaration.

<sup>16</sup> The Information System for the Management of European Union Structural Funds and the Cohesion Fund.

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

In 2014, regulatory enactments for the 2014-2020 programming period (the law and subordinate Cabinet regulations) were drafted intensively.

On 11 November 2014, the European Commission approved the operational programme "Growth and Employment" of the 2014-2020 programming period, within the framework of which Latvia will receive EU Fund financing in the amount of EUR 4.4 billion. The first advances within the scope of the operational programme were already received in the Treasury's account in December.



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

**Table 6. Advance payments received from the European Commission in 2014, in EUR thousand**

Fund	Advance sum, EUR	Date of receiving the advance
ERAF	22 571	09.12.2014.
KF	12 684	09.12.2014.
ESF	6 019	15.12.2014.
Youth Employment Initiative	290	15.12.2014.
<b>Total</b>	<b>41 566</b>	

### 4.4. Functions of the Paying Authority within the Latvian-Swiss Cooperation Programme

By the beginning of 2012, all agreements within the framework of the programme had been signed. The total obligations assumed within the framework of the programme equalled 100% of the total available funding, i.e. CHF 54.9 million (excluding the Scholarship Fund allocation).

In 2014, as part of the Latvian-Swiss Cooperation Programme the Paying Authority verified and submitted one advance, 16 interim and two final refund applications to the competent Swiss authorities for the amount of CHF 6 million, and received CHF 5.3 million with respect to the submitted refund applications (the amount received is smaller than that applied for because two of the applications for funding submitted in 2014 were paid for by the competent Swiss authorities in 2015). By the end of 2014 there are still eight on-going projects/programmes within the framework of the programme.

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

The implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Instrument of the 2009-2014 programming period occurs mainly in the form of programmes<sup>17</sup>, thus ensuring a more efficient implementation of financial instruments. By the end of 2012 the donor states had approved all programmes submitted by Latvia, and in 2013 the implementation of the programmes was started. In 2014, according to the procedure determined in the documents governing its quality management system, the Certifying Authority verified 24 interim reports and submitted them to the Financial Mechanism Office, requesting EUR 6.9 million from the donor states, and received funding in the amount of EUR 7.4 million in respect of the submitted reports (the amount received was larger than that applied for because in the beginning of 2014 the funding for the requests that were submitted in 2013 but were not paid for was received).

<sup>17</sup> Technical assistance to the recipient country and funding for mutual relations at the national level are implemented as a project.



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

## 4.6. 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 Policy Instruments

**Table 7.** 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 indicators	Numeric values of performance indicators in 2014	
		Projected	Implemented
1. Certified expenditure has been paid in full.	Expenditure received from the European Commission (percentage of the expenditure requested from the European Commission).	100	100



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# Activities of the Treasury in 2014

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

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

The Treasury's financing consists of:

- 1) a grant from the general revenue;
- 2) chargeable services and other own revenues:
  - revenue from the servicing of state loans;
  - revenue from the servicing of state guarantees.

In 2014, the Treasury implemented the following general budget programmes and sub-programmes:

- 1) Programme "Central Government Budget Implementation and Central Government Debt Management":
  - Sub-Programme "Central Government Budget Implementation";
  - Sub-Programme "Central Government Debt Management";
- 2) Sub-Programme "Contributions to International Organisations";
- 3) Sub-Programme "Compensation to Rehabilitated Citizens";
- 4) Programme "State Budget Loans and Repayments Thereof";
- 5) Sub-Programme "Limited Competition Projects Financed by the European Regional Development Fund (ERDF) (2007-2013)";
- 6) Sub-Programme "Technical Assistance for the Absorption of the ERDF, ESF and the Cohesion Fund (2007-2013)";
- 7) Sub-Programme "Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism";
- 8) Programme "Grant to the Local Government Financial Equalisation Fund".

The objective of the **Sub-Programme "Central Government Budget Implementation"** is the implementation and monitoring of the general central government budget, aimed towards ensuring an

effective and economical process of the central government budget implementation and improving the quality of the services provided by the Treasury to bring them in line with the best financial management practices, organising and standardising the performance of the functions of the Paying and Certifying Authority with a view to ensure the compliance with the requirements of the granting institutions and the regulatory enactments of the Republic of Latvia, timely receipt of financing from the granting institutions, and minimising the acceptable risk regarding the inclusion of ineligible expenditure in expenditure declarations and reports.

The objective of the **Sub-Programme "Central Government Debt Management"** is to secure the necessary funding for meeting the financing needs with more favourable terms, through limiting financial risks and taking into account Latvia's macroeconomic development and integration of the financial market in the common financial market of the Eurozone, to ensure the implementation of a state guarantee process, to ensure a financially effective and secure cash management, by limiting and monitoring financial risks, and to timely and fully ensure the availability of cash for the performance of the financial commitments of the State, as well as ensure the implementation of a government lending process that serves the interests of the State.

The objective of the **Sub-Programme "Contributions to International Organisations"** is to perform the commitments of the Republic of Latvia, by making timely and full annual memberships contributions to international financial organisations and by making payments into the capital and/or reserves of the international financial institutions in which the Republic of Latvia holds capital shares, thus ensuring that the commitments assumed are met and the capital shares belonging to the State are accounted for.

The objective of the **Sub-Programme "Compensation to Rehabilitated Citizens"** is to ensure the timely and full disbursement of compensations to rehabilitated citizens under the decisions of the local governments submitted to the Treasury.

The objective of the **Programme "State Budget Loans and Repayments Thereof"** is to ensure effective state loan issuing and servicing.



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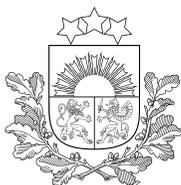
## Governance of the Treasury as a Public Administration Institution

The ERDF financed project “Adaptation of the Treasury’s information systems to the introduction of the euro” has been implemented within the framework of the **Sub-Programme “Limited Competition Projects Financed by the European Regional Development Fund (ERDF) (2007-2013)”**, in order to ensure operating with the euro as the national currency. The project was implemented under sub-activity 3.2.2.1.1 “Development of Information Systems and Electronic Services” of activity 3.2.2.1 “Development of Electronic Services and Information Systems of Public Administration” of measure 3.2.2 “ICT Infrastructure and Services” of the ERDF operational programme “Infrastructure and Services”.

The EU technical assistance project “Technical assistance to ensure the operation of the Treasury as the Certifying and Paying Authority” has been implemented within the framework of the **Sub-Programme “Technical Assistance for the Absorption of the ERDF, ESF and the Cohesion Fund (2007-2013)”**. The objective of the project is to ensure the quality and effective performance of the functions of the Certifying and Paying Authority and qualified personnel. Support to ensure the quality and effective performance of the functions of the Treasury as the Certifying and Paying Authority as prescribed in the Law on the Management of European Union Structural Funds and the Cohesion Fund has been ensured within the framework of the technical assistance project.

The Treasury has been participating in the implementation of the technical assistance project of the Ministry of Finance “Technical Assistance Fund for 2011-2017” within the scope of the **Sub-Programme “Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism”**.

**Programme “Grant to the Local Government Financial Equalisation Fund”**. The financial resources envisaged for the programme represent the funding of the Local Government Financial Equalisation Fund to ensure the performance of the requirements prescribed by the law “On Local Government Financial Equalisation”. The Local Government Financial Equalisation Fund implements the equalisation of both the revenue raising capacity and expenditure needs. The grant for the Local Government Financial Equalisation Fund is envisaged to ensure the amount of grants payable to local governments, which is made up of the contributions of local governments made to the Fund and the state budget grant. The funding is also envisaged for the transfer of the grant to local governments in respect of the people who were placed in social care institutions – orphanages, old people’s homes and centres – before 1 January 1998, and transferring the grant to local governments that have the lowest assessed revenues per capita after the equalisation of the local government finances. Funding for regional local governments is envisaged for ensuring the assessed revenues after the equalisation of the local government finances, at 97% of the lower limit of the non-equable financing needs.



Treasury  
Republic of Latvia

## Governance of the Treasury as a Public Administration Institution

**Table 8**  
**Central government budget financing and spending**  
(Summary by programme, EUR)

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>351 785 434</b>	<b>394 014 402</b>	<b>389 679 510</b>
1.1.	grants	348 316 881	390 704 126	385 985 748
1.2.	chargeable services and other own revenues	3 468 553	3 310 276	3 693 762
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>340 476 657</b>	<b>349 039 989</b>	<b>344 572 069</b>
2.1.	maintenance costs (total)	339 465 584	348 480 592	344 021 047
2.1.1.	running costs	9 647 480	15 348 013	13 930 827
2.1.2.	interest expense	298 599 258	302 888 863	299 928 297
2.1.3.	subsidies, grants and social benefits	107 322	135 173	111 710
2.1.4.	regular payments into the European Community budget and international cooperation	1 233 276	129 160	113 875
2.1.5.	maintenance cost transfers	29 878 248	29 979 383	29 936 338
2.2.	expenditure for capital investments	1 011 073	559 397	551 022
<b>3.</b>	<b>Financial balance</b>	<b>11 308 777</b>	<b>44 974 413</b>	<b>45 107 441</b>
4.	Financing	-11 308 777	-44 974 413	-45 107 441
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	-740 300	1 206 453	485 780
4.2.	Shares and other holdings in the equity of economic operators	-10 568 477	-46 180 866	-45 593 221



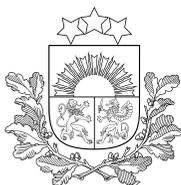
Treasury  
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## Governance of the Treasury as a Public Administration Institution

**Table 9**

**Central government budget financing and spending for the general budget Programme “Central Government Budget Implementation and Central Government Debt Management” (EUR)**

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>309 389 886</b>	<b>317 355 525</b>	<b>313 703 317</b>
1.1.	grants	305 921 333	314 045 249	310 009 555
1.2.	chargeable services and other own revenues	3 468 553	3 310 276	3 693 762
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>308 649 586</b>	<b>318 561 978</b>	<b>314 189 097</b>
2.1.	maintenance costs (total)	308 170 812	318 120 402	313 755 542
2.1.1.	running costs	9 571 554	15 231 539	13 827 245
2.1.2.	interest expense	298 599 258	302 888 863	299 928 297
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	478 774	441 576	433 555
<b>3.</b>	<b>Financial balance</b>	<b>740 300</b>	<b>-1 206 453</b>	<b>-485 780</b>
4.	Financing	-740 300	1 206 453	485 780
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	-740 300	1 206 453	485 780



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

**Table 10**

**Central government budget financing and spending for the general budget Sub-Programme “Central Government Budget Implementation” (EUR)**

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>6 565 949</b>	<b>5 390 756</b>	<b>5 773 179</b>
1.1.	grants	3 097 396	2 080 480	2 079 417
1.2.	chargeable services and other own revenues	3 468 553	3 310 276	3 693 762
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>5 825 649</b>	<b>6 597 209</b>	<b>6 258 959</b>
2.1.	maintenance costs (total)	5 346 875	6 155 633	5 825 404
2.1.1.	running costs	5 346 875	6 155 633	5 825 404
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	478 774	441 576	433 555
<b>3.</b>	<b>Financial balance</b>	<b>740 300</b>	<b>-1 206 453</b>	<b>-485 780</b>
4.	Financing	-740 300	1 206 453	485 780
4.1.	Increase (-) or decrease (+) in the balance of funds from chargeable services and other own revenues	-740 300	1 206 453	485 780



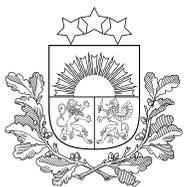
Treasury  
Republic of Latvia

## Governance of the Treasury as a Public Administration Institution

**Table 11**

**Central government budget financing and spending for the general budget Sub-Programme “Central Government Debt Management” (EUR)**

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>302 823 937</b>	<b>311 964 769</b>	<b>307 930 138</b>
1.1.	grants	302 823 937	311 964 769	307 930 138
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>302 823 937</b>	<b>311 964 769</b>	<b>307 930 138</b>
2.1.	maintenance costs (total)	302 823 937	311 964 769	307 930 138
2.1.1.	running costs	4 224 679	9 075 906	8 001 841
2.1.2.	interest expense	298 599 258	302 888 863	299 928 297
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	-	-	-



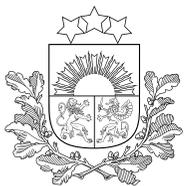
Treasury  
Republic of Latvia

## Governance of the Treasury as a Public Administration Institution

**Table 12**

**Central government budget financing and spending for the general budget Sub-Programme “Contributions to International Organisations” (EUR)**

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>11 801 753</b>	<b>46 310 026</b>	<b>45 707 096</b>
1.1.	grants	11 801 753	46 310 026	45 707 096
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>1 233 276</b>	<b>129 160</b>	<b>113 875</b>
2.1.	maintenance costs (total)	1 233 276	129 160	113 875
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	1 233 276	129 160	113 875
2.1.5.	maintenance cost transfers	-	-	-
2.2.	expenditure for capital investments	-	-	-
<b>3.</b>	<b>Financial balance</b>	<b>10 568 477</b>	<b>46 180 866</b>	<b>45 593 221</b>
4.	Financing	-10 568 477	-46 180 866	-45 593 221
4.1.	Shares and other holdings in the equity of economic operators	-10 568 477	-46 180 866	-45 593 221



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## Governance of the Treasury as a Public Administration Institution

**Table 13**

**Central government budget financing and spending for the general budget Sub-Programme “Compensation to Rehabilitated Citizens” (EUR)**

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>107 322</b>	<b>135 173</b>	<b>111 710</b>
1.1.	grants	107 322	135 173	111 710
1.2.	chargeable services and other own revenues			
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>107 322</b>	<b>135 173</b>	<b>111 710</b>
2.1.	maintenance costs (total)	107 322	135 173	111 710
2.1.1.	running costs	-	-	-
2.1.2.	interest expense	-	-	-
2.1.3.	subsidies, grants and social benefits	107 322	135 173	111 710
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	-	-	-



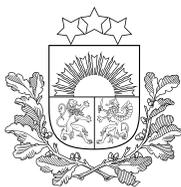
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## Governance of the Treasury as a Public Administration Institution

**Table 14**

**Central government budget financing and spending for the general budget Programme “Grant to the Local Government Financial Equalisation Fund” (EUR)**

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>29 878 248</b>	<b>29 979 383</b>	<b>29 936 338</b>
1.1.	grants	29 878 248	29 979 383	29 936 338
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>29 878 248</b>	<b>29 979 383</b>	<b>29 936 338</b>
2.1.	maintenance costs (total)	29 878 248	29 979 383	29 936 338
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	29 878 248	29 979 383	29 936 338
2.2.	expenditure for capital investments	-	-	-



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## Governance of the Treasury as a Public Administration Institution

**Table 15**

**Central government budget financing and spending for the general budget Sub-Programme “Limited Competition Projects Financed by the European Regional Development Fund (ERDF) (2007-2013)” (EUR)**

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>532 299</b>	<b>110 561</b>	<b>110 560</b>
1.1.	grants	532 299	110 561	110 560
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>532 299</b>	<b>374 103</b>	<b>110 560</b>
2.1.	maintenance costs (total)	-	-	-
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	-	-	-
2.2.	expenditure for capital investments	532 299	110 561	110 560



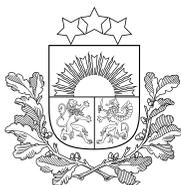
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## Governance of the Treasury as a Public Administration Institution

**Table 16**

**Central government budget financing and spending for the general budget Sub-Programme “Technical Assistance for the Absorption of the ERDF, ESF and the Cohesion Fund (2007-2013) (EUR)**

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>55 892</b>	<b>104 820</b>	<b>92 865</b>
1.1.	grants	55 892	104 820	92 865
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>55 892</b>	<b>104 820</b>	<b>92 865</b>
2.1.	maintenance costs (total)	55 892	97 560	85 958
2.1.1.	running costs	55 892	97 560	85 958
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	-	7 260	6 907



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# Governance of the Treasury as a Public Administration Institution

**Table 17**

**Central government financing and spending for the general budget Sub-Programme “Technical Assistance for the Absorption of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism” (EUR)**

Item No.	Financial performance indicators	Previous year (actual implementation)	In the reporting year	
			approved by law	actual implementation
<b>1.</b>	<b>Financial resources for covering expenditures (total)</b>	<b>20 034</b>	<b>18 914</b>	<b>17 624</b>
1.1.	grants	20 034	18 914	17 624
1.2.	chargeable services and other own revenues	-	-	-
1.3.	foreign financial assistance	-	-	-
1.4.	donations and gifts	-	-	-
<b>2.</b>	<b>Expenditure (total)</b>	<b>20 034</b>	<b>18 914</b>	<b>17 624</b>
2.1.	maintenance costs (total)	20 034	18 914	17 624
2.1.1.	running costs	20 034	18 914	17 624
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	-	-	-

## State and Local Government Procurements

The Treasury undertakes procurements in accordance with the Public Procurement Law by applying an open tender, a negotiated procedure and a procurement procedure pursuant to Section 8.1 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 2014, the Treasury undertook 16 procurements (excluding procurements valued under EUR 4000) and awarded contracts worth EUR 1,056,855, excluding VAT.



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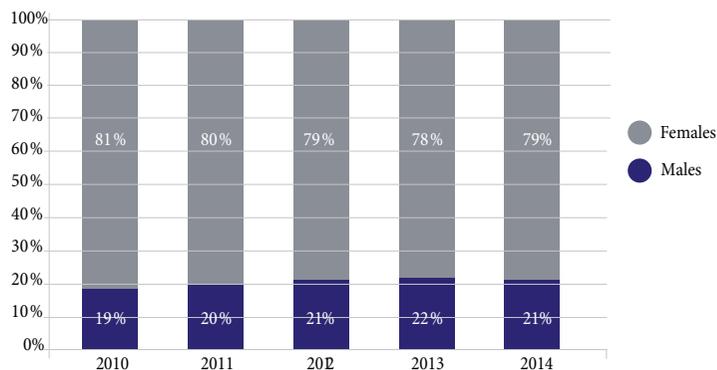
# Governance of the Treasury as a Public Administration Institution

## 5.2. Personnel and Personnel Management

At the beginning of 2014, there were 187 official positions at the Treasury: 170 civil service positions and 17 staff positions, while at the end of 2014 there were 190 official positions: 173 civil service positions and 17 staff positions. In 2014, the average number of employees was 191 (including employees on a long-term leave of absence): 173 civil servants and 18 staff.

In 2014, the percentage breakdown of the Treasury personnel by age and gender did not change significantly in comparison with the previous years (see Figures 19 and 20).

**Figure 19. Breakdown of the Treasury personnel by gender, 2010 to 2014 (%)**



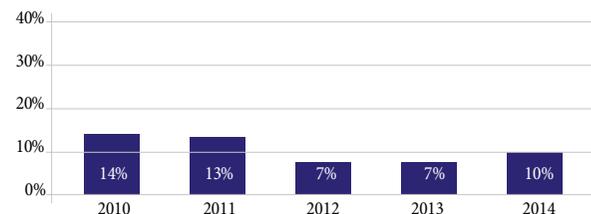
**Figure 20. Breakdown of the Treasury personnel by age, 2010 to 2014 (%)**



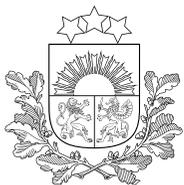
In 2014, 19 employees or 10% of the total personnel were released. The percentage change of personnel turnover increased by 3% in comparison to 2013 (see Figure 21).

**Figure 21. Released personnel, 2010 to 2014 (%)**

Source: The Treasury



The greatest asset of the Treasury is its highly educated and professional personnel. 98% of the personnel hold university degrees (of those, 51% hold a master's degree). In order to attract professional personnel, the Treasury cooperates with the 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 a scoring system and arranging practical tests and interviews in several rounds. In the reporting year, 19 specialists entered into a civil service or employment relationship with the Treasury.



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## Governance of the Treasury as a Public Administration Institution

**In 2014, the Treasury received 3<sup>rd</sup> place** in the business sector “Finances” of the survey “TOP Employer 2014” organised by the internet recruitment company “CV-Online Latvia”, which is a true honour and shows that the work carried out by the Treasury in strengthening the loyalty of our employees and maintaining the good reputation of the Treasury among society is highly valued.

At the time of approving the annual Training plan, training needs are assessed and determined 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 seeks solutions for the professional development and enhancement of the competencies of its employees, including free seminars and experience-sharing events. Same as in previous years, training organised by civil servants of the Treasury has been of relevance as well; the training covered areas such as project management, including work with *MS Project*, use of the Risk management model in the management of process measurements, also by inviting specialists, training was organised in the area of Information security management and regarding issues of identifying lobbying and making it public. During the Newcomer Days, employees get acquainted with the functions of Treasury, its strategic direction and the information necessary on a daily basis.

In 2014, within the framework of the ESF project “Support for Reforms within the Area of Budget and Financial Policy”, some civil servants involved in the area of finance were once more given the opportunity to attend experience-sharing events and specialised advanced training on the best practices and competence of other countries in areas of finance, such as the government borrowing strategy and the methods for optimising the cost of central government debt, financial derivatives, credit risk analysis and management, etc. in Latvia and abroad.

### 5.3. Quality and Risk Management

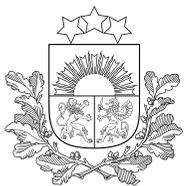
Since 2006 the Treasury’s quality management system has been certified in accordance with the requirements of the international standard ISO 9001:2008 “Quality management systems. Requirements”.

**In 2015, by starting the fourth quality management system certification cycle, the repeatedly received certificate** reassures the stakeholders regarding the Treasury’s high operational standards in the

certified spheres of activity, which are the main operational processes of the institution – implementation of the central government budget, central government debt management, cash and state loan management, performance of the functions of the Paying and Certifying Authority of the EU funds and foreign financial assistance, and also provides confidence regarding a more efficient implementation of the Treasury’s quality policy – to be an institution that is dynamic, modern and geared towards perfecting the quality of the services it provides, and one that efficiently and securely administers and monitors the process of public financial management in accordance with the best financial management practices to serve the interests of the State and its residents.

In order to promote the effectiveness of the provided services and client satisfaction regarding them, the Treasury organises surveys to find out the opinion of clients and stakeholders at least once every three years. **The client survey carried out** by the marketing and public opinion research centre “SKDS” **in 2014 regarding the quality of services provided by the Treasury has ended with excellent results**, thus confirming the high level of communication with clients and services provided to them, as well as providing confidence regarding the accomplishment of the objectives and performance indicators defined in the Operational Strategy and Communicational Strategy of the Treasury.

In accordance with the objectives determined in the course of action “Quality management system development” of the public administration policy development standards for 2014-2020, the Treasury, in cooperation with the State Chancellery and Latvian Society for Quality, is popularising the implementation of quality management in public administration and promotes experience-sharing regarding good practices by taking part in and organising the operation of the group “Quality management in public administration”. By using the experience of the Treasury and the example set by it, the “Public administration client servicing manual” has been developed. In cooperation with Riga Technical University, the Treasury has provided a significant contribution to the improvement of the quality manager and process quality management engineer profession, by encouraging new specialists to acquire competence and knowledge regarding the principles of quality, risk and project management.



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## Valsts kases kā valsts pārvaldes iestādes pārvaldība

Continuing to develop the services of the Treasury, the Treasury employs the project management methodology for the planning and management of the Treasury's development projects and continues to improve the project management methodology implemented in 2012 in accordance with the Operational Strategy, organisational culture and needs of the Treasury.

The Treasury's **risk management** is embedded in the quality management system, ensuring a single and coordinated approach to the Treasury's risk management process and a timely identification and implementation of preventive steps, and has a focus on the achievement of the Strategic Objectives of the Treasury. Risk management in the Treasury is also directed towards the promoting of good management principle observation, which includes the **organisation of corruption and reputation risk management and reduction events**.

**By developing an understanding within public administration regarding the necessity of risk management for ensuring the operational efficiency of the institution and the accomplishment of strategic objectives**, the Treasury has shared its experience with other public administration institutions and organisations and has provided a practical contribution in the risk management of the national level euro project, as well as created the presentation "Euro project risk management" in the final Euro webinar – good practice in the euro project (<http://www.eiro.lv/lv/saites/nosledzosais-eirovebinars-laba-prakse-eiro-projekta>).

### 5.4. Internal Control System

The internal control system of the Treasury has been established based on 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 reporting procedure.

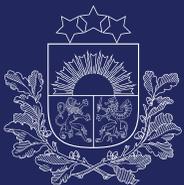
Risk management and quality management systems are embedded in the daily operations and project management, shifting the control activities of the Treasury from corrective to preventive. The processes of the Treasury and the controls applied in implementing them have been set out in the internal documents governing the quality management system.

The Treasury performs the monitoring of the internal control system through process management, by measuring the process operation quality criteria, through the strategic management process, by analysing performance, performing self-assessments of the risk management and non-compliance elimination processes, 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** and **reviews** performed in 2014, as well as the **process of implementation of audit recommendations**, attested to the fact that **the Treasury's internal control system is functioning well and the assessed controls are generally adequate, sufficient and efficient, providing sufficient assurance that the Treasury's risks are being managed and the institutional objectives are being met**. The Treasury's internal control system in place 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, and ensures the credibility and adequacy of the reports produced.

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.





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# Activities of the Treasury in 2014

## Public Communication

### Measures for Public Information and Education

The main objective of the Treasury's communication is to create and maintain a positive image of the Treasury that is in line with the main objectives of the Treasury in the external and internal environment, by implementing a complex of purposeful, understandable and coordinated communication measures.

Considering the functions delegated to **the Treasury, the Treasury's communication focuses primarily on rendering inter-institutional services, informing of clients and targeted investor relations management** – provision of information to international financial institutions, credit rating agencies, and 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 has remained 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.

In accordance with the Communication Strategy of the Treasury for 2014-2016, the Communication Plan of the Treasury for 2014 has been developed and fulfilled with a view to ensuring the planning of efficient and successful operations, creating and maintaining a favourable and cooperative environment for internal communication within the Treasury, and to develop the image of the Treasury using additional external communication activities.

The Treasury's website [www.kase.gov.lv](http://www.kase.gov.lv) provides information on the institution and its functions. Information on the latest developments at the Treasury is posted and updated on the website on a regular basis. Questions can be asked and submissions filed electronically. 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 general public and clients and, if necessary, prepare more in-depth information to post on the website and distribute to clients, and 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 new and 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) was created for making purchases of savings bonds, and it provides all of the necessary information and explanations for purchasing savings bonds. With a view to informing the public regarding the new investment services and purchase opportunities, the following public communications have been carried out: the public presentation of the savings bond with the participation of media representatives, regular press releases on the sale volumes of savings bonds, and a savings bond advertising campaign.



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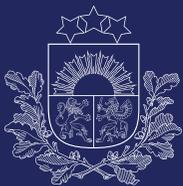
## Public Communication

### 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 results of the survey of the Treasury's clients (in order to identify the level of satisfaction of the Treasury's clients with the services provided by it and find out their opinion regarding the Treasury's image, as well as the quality, speed and comprehensibility of its communication) carried out at the end of 2014 indicate the high quality of services provided by the Treasury (97% of the respondents were generally satisfied with the services provided by the Treasury), surpassing the client servicing quality evaluation indicators defined in the Operational Strategy of the Treasury and in the Communication Strategy of the Treasury. Clients have acknowledged that the Treasury is a modern institution (96%), the employees of the Treasury are kind and responsive (95%), the Treasury is easily accessible (94%), it uses the options provided by technology (94%), and its employees are competent and knowledgeable (93%). The same amount of respondents (93%) thought that the Treasury is developing and improving client-driven services.

The Treasury thanks its clients for their opinion, which is very important to the Treasury. The results of the survey will also be used in the future in order to develop and improve quality and diverse services in accordance with the good management and client servicing standards.



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## The Treasury's Development Priorities for 2015

- 1) To continue improving the Treasury's operations and processes in a quality manner.
- 2) To start the implementation of the new political initiative "Development of Latvia's public sector accounting guidelines and their implementation manual (2015-2018)": carry out the assessment of regulatory enactments, prepare suggestions for regulatory enactment amendments, as well as develop guidelines for tax accounting in accordance with the accrual principle in 2015.
- 3) To continue working on the multi-year project of the Ministry of Finance on the implementation of the accrual principle in tax accounting, and in the area of accounting and financial statement provision.
- 4) To explore options for the further development of the government security market.