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Abt Associates Inc.

Senior Treasury Debt Management Advisor Report

Final Survey on Five Projects

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Cambridge, MA
Lexington, MA
Hadley, MA
Bethesda, MD
Washington, DC
Chicago, IL
Cairo, Egypt
Johannesburg, South Africa

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Prepared for
U.S. Agency for International Development
Vilnius, Lithuania

Prepared by
John Wetherhold

Presented by
Abt Associates Inc.
Hannon International Inc.

Abt Associates Inc.
Suite 600
4800 Montgomery Lane
Bethesda, MD 20814-5341

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The following presents the background, current status, and recommended next steps for the five projects covered under the Lithuania Treasury and Debt Management Project.

PROJECT ONE

The scope of work states that the Project One will address the following issues:

"Proposing and advocating better financial management practices that would be implemented government-wide. This will involve clarifying the Ministry of Finance's government-wide financial management regulatory role, and better integrating financial functions that are now viewed as discreet.

Better financial management will include promoting time value of money measures, such as zero balancing Government depository accounts at the end of each day and transferring the funds into the Treasury Main Account so that funds are available for use more rapidly. The Tax Inspectorate accounts have the most problems in this area because of municipal sharing, but they should be the first to be zero balanced because of the large amount of money involved. STDMA will focus on revenue collection and activities of the State Tax Inspectorate and provide recommendations that will help to improve cash concentration abilities. STDMA will also provide recommendations for improvement in Bank procedures when necessary.

As debt management after borrowing/lending is integrated into the Treasury System, the functions of the two Departments involved will also have to change. Financial planning is now inhibited to the extent that the Government's debts and liabilities and due dates and amounts of loan repayments are not yet fully known or documented. STDMA efforts will include an investigation of the methods of monitoring guarantees and contingent guarantees, examination of procedures for DMFAS and making recommendations."

See Appendix A. "Modified Scope of Work."

BACKGROUND

We undertook significant research in all of the areas covered in Project One. This background section of our report covers much of the research we found through interviews and reviewing documents provided by the Ministry of Finance of Lithuania and related entities, John Wetherhold's trip report covering this engagement from March 10 to April 10, also provides some of the details obtained in meetings and interviews with MOF officials and others.

Project One is focused on the efficiency of the Government's cash mobilization and cash management efforts. In this section we also provide comments on the role of the Debt Management Department in the cash management process. We traced tax funds from the payers to the Treasury Main Account and other receiving accounts and recommended changes (see Appendix H: GBAP Treasury System). Better cash monitoring will permit more timely collection and expenditure of public funds and also reduce the cost of borrowing.

In our visit to the State Tax Inspectorate we traced the flow of money from the taxpayer to the Lithuanian State Savings Bank (LSB), which is the cash mobilization bank of the Government. The individual taxpayer is subject to almost the same process as a small business in the tax system, so we will use a legal person as a typical taxpayer in our example. Of course, very large taxpayers such as large corporations have special procedures and more direct service to speed payments. The individual taxpayer goes first to his local bank where he prepares a payment order for the local tax inspectorate office (there are 61 in Lithuania). If the bank is not the bank where the local STI has its account, the funds must wait a day until the local STI bank can collect from the other bank. Otherwise, the LSB accepts the funds directly and deposits these funds as the coding requires. The taxpayer is responsible for entering the correct payment code on the coupon provided by the STI for making tax payments to banks. This is the same procedure for non electronic individual and small business filers in the U.S. The payment order is paid in cash as there is no active system of drafts in the country. The bank issues the payment order with a specific tax coded. The taxes go to different budgets, so the coding step is critical. The coding step has produced high error rates and delays in funds transfers. The STI sharply reduced the number of codes causing the error rate in coding to drop sharply in 2000. Another important step taken in 2000 was to replace multiple STI bank accounts in each local office with one main account. This has sped up collections and reduced errors.

From the local STI account, the money is wired to one of three places, the Treasury Main Account, municipalities, and special funds. As noted, there may be some delay in collection by the Lithuanian Savings Bank (LSB) if the bank of payment is not the same as the bank where the STI keeps its local account. The role of the LSB should be noted here. The Savings Bank of Lithuania, which has recently been sold to HANSA BANK, was a wholly state owned bank that served as a repository of the Main Account of the Government. Officials of the LSB noted that the STI has a general agreement with them on transfers (Appendix E: LSB Flow Chart). They noted that the Social Security Administration (SODRA) is a problem since it does not have electronic processing for their funds. Their role in the nation's tax collection system is to collect revenues from the regional STI offices and from taxpayers who make payments in their branches. SODRA transfers them to the Treasury Main Account in their bank. This is not a real time system. Only at 11 a.m. and 3 p.m. are the accounts cleared nationally. There is also a special settlement locally in Vilnius at 9:30 a.m. and 5 p.m. The LSB Clearing Department works until 5:30 p.m. Thus, deposits to the Treasury Main Account could be made as of midnight, and then transferred the next morning to the Treasury Main Account. The only way to accelerate the tax deposits transfer to the Treasury Main Account is to transfer available deposits on a real time basis.

As the main mobilization bank, the LSB maintains the Treasury Main Account. The LSB has a large retail branch network throughout Lithuania and transfers the tax payments received during the day into the Treasury Main Account the next day. The claim is made by LSB Savings Bank officials that there are still tax payments received at their 24 hour sites until the evening, so all payments are lumped together and sent the next morning. We would like to see all payments received deposited and earning interest the same day. If an inquiry reveals that the bulk of the payments are received before 4 p.m., the existing payments should be put in the main account and earn some overnight interest. The last processing of funds by the LSB is about 5 p.m., so most of the collections should be sent to the Treasury Main Account by 5 p.m. Partial clearance every day could move the money to the Treasury Main Account a day earlier. The principal problem of the LSB is liquidity management when the Treasury Main Account has a major cash swing. They use derivative instruments to deal with the large variations. The bank likes to know about these shifts and will call the Treasury Department directly when large changes are noted or when there is a desire to put balances out at interest for a multi-day period. See Appendix for the LSB flow chart of these deposits (Appendix E: LSB Flow Chart).

There has been a plan to transfer all of the government balances from the commercial banking system to the Bank of Lithuania (BOL), which is their Central Bank. Currently there are some types of government deposits of different types scattered around the banking system. The BOL is not a commercial bank with an established method for dealing with huge liquidity flows and processing massive amounts of deposits. The BOL can take tax payments from any commercial bank. Thus, the number of transfers would increase as would the chances for error. The currency board could also be disrupted if there were large amounts of currency conversion involved in the cash management area. A better approach would be to put out a Request for Proposals (RFP) for banking services to the commercial banking system for the operation of the Treasury Main Account and other subsidiary government accounts used for tax collection.

We would also recommend that the MOF, which includes both the Treasury and the Debt Management Department, reduce the number of accounts under its administration. The consolidation of government funds into the Treasury Main Account is still not fully implemented. This effort should be accelerated. We would also recommend reducing the overall size of government balances for special purposes and operating funds. Our analysis of the Treasury funds and the Government's balances in the Central Bank concerns us. It appears that the balances are too high for the operating needs of the government. While some funds, such as the Privatization fund, may inflate this, we still feel that the operating balances are too high and that there may be over-borrowing.

RECOMMENDATIONS:

- Reduce the number of Government Accounts in both the Treasury and Debt Management Departments

- Do not separate the Liability Management (Debt Management) into a separate sub-unit of the Ministry. The functions of Risk Management, Treasury, and cash flow forecasting are too interconnected to have a physical or organizational separation.
- Feed critical information on loan management from both DMFAS and the 7 Excel Registers into Navision Financial in the Debt Management Department.
- Increase routine communication between bank for Main Depository accounts and the Central Treasury in the MOF.
- Continue the cash forecasting efforts currently in place in the Treasury. If the introduction of Navision Financial can be accelerated, the Treasury should have the last main piece of the puzzle in their cash forecasting.

PROJECT TWO

The scope of work states that Project Two will address the following issues:

"Assisting on the Public Debt Law and Regulations on the Use of Money Market Funds for public monies.

The Ministry of Finance has drafted the Public Debt Management Law that has to be presented to the Parliament in February 2001. The STDMA will arrange the translation of the law, analyze and provide recommendations for improvement of this law.

There are also existing Regulations on Use of Money Market Funds, and the STDMA will analyze Regulations and provide recommendations on their use."

BACKGROUND:

Project Two, which was the subject of the STDMA Advisor's February engagement, may still require additional assistance. We originally were asked to read and comment on the current draft of the Public Debt Law of Lithuania as well as review the regulations on the use of money market funds for idle government balances (see Appendix B: Public Debt Law and Appendix C: John Wetherhold draft comments on Public Debt Law). This was accomplished and the revised Public Debt law was returned to Mr. Ramunas Lygis, Advisor to the Minister of Finance, and coordinator of this project. Our revisions to the Debt Law focused on increasing the authority of the Ministry of Finance, simplifying and clarifying the law's language, ensuring that the meanings and uses of technical terms conform with the meaning and uses of technical terms in other legislation, eliminating issues not relevant to debt issuance, and stating clearly that all obligations generated by the law are full faith and credit obligations of the Government of Lithuania. We also recommended that they utilize the US Treasury drafting attorney for public debt laws, Mr. Michael DeAngelis, to provide additional comments. Sheila Tschinkel, the US Treasury intermittent advisor who was stationed in Lithuania for several years, also concurred with our comments. Amendments to the debt law were passed in early May to clear the way for efforts to further simplify the law and separate the sections on contingent liabilities and on-lending.

Regarding the regulations for the investment of idle government balances, I recommended that the guidelines move toward higher credit quality, greater diversification, and no market risk. Several questions are raised by the regulations. First, why are Government and special fund balances so high that a major effort to earn interest on the funds is needed? Who will do the direct investing? Will only commingled short-term funds be used? Also, who will monitor the numerous investment activities involving the numerous government funds and personnel to ensure compliance with these regulations? We did not receive clear answers to these questions.

RECOMMENDATIONS:

Our primary recommendations regarding the Public Debt Law and the Regulations on idle government balances were as follows:

- The Public Debt Law should be streamlined and better organized to be more user friendly. For example, sections on contingent liabilities should be separated from sections on lending.
- Definitions of technical terms should be more concise and conform to the uses of the same technical terms in other legislation.
- The Public Debt of the government should have a full faith and credit guarantee.
- The Government's mission statement should be changed to reflect the need to establish a legal framework for the issuance of the debt of the sovereign Republic of Lithuania .
- The role of the Finance Minister should be strengthened so that all borrowing, project lending, guarantees, and cash management are concentrated in the Ministry and not dispersed through other government entities.

As a postscript to the draft report we noted that the amendments to the Public Debt Law placed more emphasis on the ideas of quicker right offs and recognition of financial problems in private companies. The amendments also presented stronger collection methods. We liked what we saw in the amendments that passed. Our only remaining concern is the whole area of on-lending and guarantees for private companies which may hide contingent liabilities. We were also encouraged to see that most programs that rely on government money or guarantees of debt are being gradually reduced.

PROJECT THREE

The scope of work states that the Project Three will address the following issues:

"Assisting with development and refinement of centralized reporting, so there is adequate transparency and better management information.

The STDMA will be assisting on accounting changes when required, e.g., the transition to accrual accounting which will reflect liabilities which do no appear in a cash basis accounting system.

The accounting module of the Treasury creates an entire framework in which expenditures can be analyzed for reasonable and necessary use, fraud, misuse, imbalance, etc. Treasury generated figures, which are always considered more reliable than non-system generated financial figures, will also provide more credible figures for international credit ratings and foreign borrowing. This should reduce the cost of borrowing for Lithuania in the long run."

BACKGROUND:

There are four generally recognized accounting bases used by governments:

- Cash accounting
- Modified cash accounting
- Accrual Accounting
- Modified Accrual Accounting

The basic difference between these accounting bases is the timing or recognition (or recording or reporting) of a transaction.

- Under the cash basis, income or expenditure is recognized when cash is received or paid irrespective of when goods and services are received.
- Under the accrual basis, income or expenditure is recognized when earned or incurred, regardless of when cash is paid or received.
- Under the modified accrual version there are differences in the accounting treatment of fixed assets.

The stages of a transaction can show the differences in accounting in each basis:

Stage 1	Stage 2	Stage 3
Placing an Order	Receiving Goods	Making Payment

Under the cash basis, the transaction would be recognized in Stage 3; under the accrual basis at stage 2; under the modified cash basis at Stage 2 if an invoice is received and payment occurs soon after (within one month); and under the modified accrual basis the transaction would be accounted for in the same way as under the accrual basis, except where the goods represent long term assets, which are written off in the year of acquisition (i.e. not capitalized).

Since there are differences in the timing of recognition of transactions, asset reporting varies depending on the accounting basis used.

- Under the cash and modified cash basis, only cash balances are reported.
- Under the modified accrual basis, the assets reported include cash balances, investments, receivables, and inventories for sale and liabilities.
- Under full accrual, in addition to the assets reported on the modified accrual basis, physical assets such as plant, equipment and infrastructure are also reported.

To assist in the training and ensure some continuity, we developed for the MOF staff a short instructional memo on these different accounting methods entitled: "What is the difference Between Cash-Basis and Accrual-Basis Accounting?"

There are two concepts that are central to accrual accounting:

The Realization Concept: The realization of revenues and expenses is usually recognized at the time of the exchange transaction when goods are sold or services rendered. For instance, revenue is recognized at the time of invoicing, or an expense is realized when goods ordered are received. It is at this point that the amount of the accrued revenue and expense can be reliably measured. For example, this would be the case with the amount of the debtor invoice for accrued income.

The Matching Concept: Both revenue and the costs incurred in earning such revenue are to be recognized in the same reporting period. This is to determine the net effect of the transaction to see whether the transaction resulted in a net surplus or a net loss. Examples of accruals include: wages, depreciation, accounts payable, accounts receivable, and employee entitlements.

The primary way in which modified accrual accounting differs from accrual accounting is in the treatment of long term fixed assets that are expensed rather than capitalized and depreciated. We will prepare a series of summaries on the types of governmental accounting for training purposes.

Recognizing the Ministry's need for continued accounting training, Mr. Ramunas Lygis, Advisor to the Minister of Finance has drafted a letter to the U.S. Treasury requesting additional assistance from the Financial Management Service of the United States Treasury. Specifically, he has requested that advisors and trainers be sent to Lithuania to work on the following MOF projects:

- Review existing Ministry Chart of Accounts for completeness and conformity with EU requirements.
- Review needs of the MOF training Department and train the trainers in basic government accounting.
- Review cash forecasting and cash management in the Treasury Department. Determine if the Government Balances are too high.
- Introduce concepts of accrual accounting to Ministry Financial Staff and outline steps needed to implement it.
- Determine if the Navision system adequately prepares financial reports on government operations including expenditure checks, and payments to vendors.
- Investigate the time necessary to fully implement the Navision Financial System.
- Determine a plan of consolidation of all operational accounts relating to budget execution to a single Main Treasury fund.

The MOF Training Director, Mr. Eugenijus Chlivickas, has also sent a letter to the President of the East-West Management Institute requesting its SMART computer based training program that has been used to train the Russian State tax service in financial accounting, audit and tax audit procedures. East-West Management Institute has sent the CD ROM's to Mr. Chlivickas and will follow-up concerning the use of SMART.

In addition, I have ordered a series of texts for the Risk Management and Debt Departments which should enable them to train new employees in their department in Municipal analysis, risk management, use of hedging instruments, and fixed income instruments, both short and long term (see also Appendix D: Memo to Daiva Kamarauskiene on Municipal Analysis). These texts were delivered in May. The training Center may also use these texts for basic concepts in classes for new employees.

My recommendation to call on these specialists came with the realization that there are serious weaknesses in the financial controls in the Ministry that cannot be addressed by simply helping the person in the Accounting Department to understand and implement accrual accounting. This is a much larger task than this engagement entails.

RECOMMENDATIONS:

My summary recommendations on accounting are as follows:

A. The MOF should request additional training and technical assistance from the U.S. Treasury in the area of accrual accounting and training by staff from the Financial Management Service. Any training program should leave behind a cadre of trained trainers and curriculum that may continue to be used internally by the MOF.

B. The MOF should request additional assistance from East-West and other donors such as EU for accounting. This should be coordinated with the U.S. Treasury request for assistance.

C. An immediate training program should be undertaken by the MOF that focuses on the basics of cash accounting with accrual accounting to be introduced later.

PROJECT FOUR

The scope of work states that the Project Four will address the following issues:

"Developing a Government-wide framework of financial controls and discipline, by focusing on the expansion of the Treasury system and its sub-systems.

The goal is to institutionalize the Treasury system. This requires getting the Treasury system to a stage where (1) a decent set of financial controls is in place, (2) Lithuania can generate reliable and credible financial reports from Treasury information, (3) not one cent of government funds is lost or unaccounted for, (4) Ministries cannot overspend their budgets, and (5) centralized payments are made directly to vendors.

The STDMA will make recommendations to accelerate integration of the Debt Management Department with the Treasury Main account. This will assist full development of the Treasury System. The Treasury system is known in Lithuania as the Governmental Budget, Accounting and Payment System. The broad Treasury system makes funds available sooner and for a longer period of time, thus reducing borrowing needs, reduces the cost of financial transactions, and includes a set of checks and balances which minimize inappropriate or fraudulent expenditures. In the future, it will also be able to offset overdue amounts due the Government, and thus facilitate debt collection."

BACKGROUND

In 1979, the UN Commission for Trade and Development (UNCTAD) created the first version of the Debt Management and Financial Accounting System (DMFAS). The system was intended primarily as an external debt tracking system with some features included for tracking domestic securities and other analytic processes. It was designed as a standard system, but is limited by the fact that the service and development center of DMFAS in Geneva has resisted attempts to customize it for the unique circumstances of some countries.

The DMFAS is a computer system designed for use by developing or transition country Ministries of Finance or Central Banks for the management of public debt. It is a good system for tracking public external debt from official and commercial creditors. The DMFAS is a tool specifically designed to support the Operational Debt Management Functions, that is, the day-to-day management of the effective debt management functions. The liabilities arising from a loan contract between a creditor and a debtor, that is a direct or contingent liability for the government, are registered in the system. In connection with public expenditure, the DMFAS 5.2 is easily linked to the budget execution system, when there is one in use at the Ministry of Finance. The DMFAS is also a support tool for the Executive Debt Management, which might be viewed as the establishment of the "rules of the game", by the highest levels of the government, regarding public indebtedness within the macroeconomic context of public finance.

DMFAS allows the user to follow public short, medium, and long-term debt, both external and domestic, as well as on lending systems. Private debt and grants may also be registered within the system. DMFAS 5.2 is designed to satisfy three distinct debt management needs: the day-to-day operational needs of the debt manager, the aggregate statistical requirements of the debt office, and the analytical needs of the policy-maker. These needs fall into the hierarchical levels of Operational and Executive Debt Management. DMFAS version 5.2 is a Windows TM-based application that uses all the advantages of this standard graphical user-interface. It also uses Oracle's Relation Database Management System and Oracle Development Tools. The standard DMFAS version 5.2 exists in four different languages and can be used both in a single-user and in a networked environment.

DMFAS has facilities to register and establish the required links between the following types of agreements:

- Loans - all types of loan contracts, including bonds, and individual loans
- Grants - treated as loans without repayment schedules
- On-lending Agreements
- Composite agreements
- Projects
- Debt reorganization Agreements

The system is well documented but has some serious flaws within its operations in the Lithuanian Ministry of Finance. Among these, we highlight the following:

1. The system cannot calculate T-bills, on-lent foreign loans received on behalf of the government, or issues of securities of the Government of the Republic of Lithuania. These make the whole system less effective.
2. Loans from the IMF in currency baskets are not calculated in the system. Hand calculations are used.
3. The Debt Department has created a number of special registers to record data on the public debt in an Excel format.
4. Numbers are put in reports manually from the registers.
5. Given the fact that much data is not in the DMFAS system, the analytic functions of the system are little used.

These deficiencies in the actual operation of the system create problems for the Debt Department but also for the Treasury Department especially. Any cash flows, whether they are maturities, interest payments, partial principal payments, or new loans should be known to the Treasury Department whose job is to monitor the Government's balances, revenues, and obligations (see also Appendix F: Lithuanian Government Report: Variability of Government Balances Nov.-Dec. 2000). It is essential that the Treasury handle the accounting and payment procedures. This may appear obvious, but DMFAS was not really designed to interface with other computer systems. Therefore, for example, Navision, a system developed for widespread commercial use in medium sized enterprises that is also being used by the government, is not easily integrated with DMFAS.

The Treasury Department and the Government's spending units are currently using Navision. The current version in use is DOS based and is used by the spending units to report on budget developments and by the Treasury to do the Government Accounting. It is intended to be a Government wide system. The Ministry is beginning the introduction of Navision Financial, a more advanced and Windows based version of Navision. It is a superior product, but its introduction and training will take time. At this time, the Treasury, the IT, and the budget staff are taking the introductory course to Navision Financial. More specifically, Navision GBAP is a Governmental Budgeting, Accounting, and Payment system developed by Merkantildata in cooperation with the Danish Ministry of Finance and the Lithuanian Ministry of Finance. Navision GBAP is based on Navision version 3.5x that is a character based standard accounting package from Navision Software A/S. This package contains a wide range of functionality structured in modules, e.g., Finance Accounting, Accounts Receivable, Accounts Payable, Inventory and Fixed Assets. Navision is a fully integrated client server system with approximately 20,000 installations world-wide. Navision GBAP has been adapted to the Lithuanian system that uses the version 2.3 currently.

The Government Budgeting, Accounting, and Payment System (GBAP) which is driven by Navision is a system operating at four organizational levels:

1. Spending Units
2. Line Ministries/Departments
3. Ministry of Finance, Treasury
4. Bank holding the Treasury Single Account

The GBAP system consists of the following modules:

A. Budget Module
B. Accounting Module
C. Payment Module
D. Revenue Model
E. Fixed Asset Module
F. Debtor Module
G. Report Generator

There are no easy answers to the integration question although it has been extensively studied (See Appendix G: "Feasibility Study; Interface between Navision GBAP and Debt Management System." Prepared by Merkantildata Per Andersen, July 1999.) Standard systems such as these are of limited use to the facilities for which they are designed. Customizing these systems requires additional maintenance and constant adjustments.

The consequences of such an approach would be:

A. Use DMFAS for keeping track of foreign debt and related agreements, and for calculating interest payments and currency consequences.

B. Use Navision to handle the accounting, payment, and invoicing procedures.

The Debt Department currently keeps seven registers in Excel format to record debt data. In the case of 1 and 2, these are duplicates of files kept on DMFAS. The process of using separate registers for all categories of state debt and guarantees is unnecessary and confusing. This is not a good way to store or retrieve scattered information about the national debt. The current registers in Excel are:

1. Register of foreign loans of the Republic of Lithuania
2. Register of foreign guarantees
3. Register of domestic guarantees
4. Register of loans recognized as state debt
5. Register of obligations of guarantee institutions and insurance companies
6. Register of issues of securities of the government of the Republic of Lithuania in Litas
7. Register of domestic loans of the Republic of Lithuania.

The DMFAS system functions basically as a foreign debt tracking system. It has been a disappointment over time that the system could not be modified extensively or become capable of handling other types of debts and guarantees.

The role of the interface module is to establish an appropriate link between DMFAS and GBAP. The interface module should be composed of the following elements:

- Information Flow
- Interface module in DMFAS
- Interface module in GBAP
- File Handling (placement, file transfer etc.)
- File Structure (ASCII, file layout, field format, identifiers etc.)

This interface should not be regarded as highly unusual since the specific items which must be communicated between systems are limited to loan accounting, payment orders, requests for payments, creditor ledger entries, and general ledger entries. When the request for payment on a loan is paid, information about this is imported into the Ministry of Finance GBAP system and should also go to DMFAS. This information can be input into DMFAS manually at first until it is clear that the payment information is not validated and handled appropriately.

Since there is data created by the activity of the debt department that should be in the GBAP system, it seems clear that they will have to enter much of their data directly into Navision Financial when it becomes available. DMFAS can continue to be used as a data base and foreign debt tracking system.

We recommend the following from the information we have gathered on the two systems:

A. The Debt Management department should make a commitment to send appropriate staff to the Navision Financial training when it is offered. While the systems may never be perfectly integrated, the debt department, which is not yet a part of the GBAP, will have to use some functions of Navision and export information to the system.
B. Loans that cannot be easily monitored, especially the active loan guarantees and on-lending activities, should be considered for outsourcing to the Turto Bankas. They have the staff, experience, and credit background to monitor the loans and give a correct accounting to the Navision system. These should not be in the Ministry.
C. Recognize the serious shortcomings of DMFAS and its lack of support and flexibility, but retain the functions it is good at, namely foreign debt monitoring.
It is an important and well maintained data base and should be used in that manner.
D. Once the specifications for data import into Navision are written, the Informatics Department can establish an interface for the specific information that is needed from DMFAS. The time budgeted for the integration should be clearly set out and a firm schedule for accompanying each stage set.
E. Both the Treasury IT staff and the Debt Management IT staff will have to train together and have a clear understanding of both systems. The proper coordination of training will be a major job of the transition and should start now.

We should remember that the recommendations we have been asked to develop are intended to accelerate integration with the Treasury Main Account and to assist on full development of the Treasury System. However, several other issues arose as we investigated the Treasury system. These are discussed below.

We are concerned by what appear to be balances in the accounts of the Government which are above working capital levels. In fact, we helped to assess regulations to invest idle government balances. Some quick research should be done on the level of balances as well as their variability. Many spending units may buy into the idea of having their own cash hoard paying interest. The correct idea is to consolidate balances into the Main Treasury Account as much as possible.

There are too many accounts in the Treasury and Debt Department and efforts to reduce the number should continue. Consolidation efforts should increase. There is another change that has been talked about, namely separating the Liability Management group (Debt Management Department) by making it a separate group under the Ministry of Finance like the State Tax Inspectorate. We do not think this is a good idea since it may fragment controls and remove a vital group from interacting with other relevant groups in the Ministry, including Accounting, Risk Management, and Cash Management.

PROJECT FIVE

The scope of work states that the Project Five will address the following issues:

"This project will entail improving the capacity to monitor borrowing and other commitments of public entities, including SODRA (social security administration) and the Agri-Food Market Regulation Agency (AFMRA).

The STDMA will provide recommendations covering monitoring requirements as well as policy suggestions and training. The work will follow the specific details agreed to by the Government of Lithuania with the World Bank."

BACKGROUND:

We have been asked to examine both the guarantee and on-lending of Agri-Food Market Regulation Agency (AFMRA) and the Lithuanian Social Security Fund (SODRA) with a dual focus. One is to examine the monitoring activities of the Ministry of Finance for adequacy and completeness, the other is to recommend changes in existing reporting and policy recommendations where needed. The first place to start is the Rural Credit Guarantee Fund.

The Rural Credit Fund is a stock company 100% owned by the Ministry of Agriculture. It was founded with two purposes. One is to guarantee long term loans for individual farmers and cooperatives. These credits are to be used for capital improvements to farms as well as for the purchase of farm equipment. Secondly, the Fund provides short term loans to the Agri-Food_Market Regulation Agency and food processing companies. The Agri-Food Market Regulation Agency buys crops at above market prices and sells them to domestic and foreign food processors at market prices. The resulting loss and administrative costs are paid for by the Rural Support Fund. Thus the fund serves both farms and coops and provides income support for farm products.

Up to now, the Fund has been issuing loan guarantees to farmers and farm cooperatives. To ensure the success of "SAPARD" (the European Union grant program for farms), it is very important to create the favorable conditions of getting long-term loans from banks. Therefore, amendments to the Fund's Regulations to assist all the new eligible beneficiaries and activities included in the SAPARD program were eventually approved by the Lithuanian Government on August 28, 2000. The new regulations include more beneficiaries of the Fund's guarantee loan window, including not only farmers and farm co-operatives, but also all agricultural enterprises active in alternative agricultural production or rural activities. These amendments should increase the number of beneficiaries because the type of projects financed has been enlarged to include rural tourist hotels and other rural businesses not directly engaged in food production.

Per Resolution 224 of the Government of Lithuania, there is an absolute total limit placed on the guarantees of the Rural Credit Guarantee Fund and the Export Import Insurance

Company. This is determined each year, but the limit has been coming down each year. Currently the limit for the Rural Fund is 230 million Litas ("LTL"). Loans outstanding at year end 2000 were 222.8 million LTL and declining in outstanding value as loans are paid back. The current outstanding loans as of this writing are about 215 million LTL. Of this about 189 million LTL are short-term loans to Agri-Food Market Regulation Agency ("AFMRA") and food processing companies with the balance comprising loans to farms.

In the case of farm loans, the client first goes to a bank for a loan. The client has to submit his business plan and other financials in order to get the loan. If the bank sees the loan as credit worthy, the bank goes to the Fund and asks it to guarantee the loan. The fund has credit analysts who examine the loan request and categorize it into one of four risk categories. The fund uses a numerical scoring system which categorizes each loan in A,B,C,D categories. A is lowest risk, B is modest risk, C is higher risk with default possible. D is a defaulted property. In general, most loans fall in the B category, good, but not without some risk. When the loan is granted to the farmer, a guarantee fee of up to 5% of the loan is paid to the Fund. This fee is paid by the Rural Support Fund of the MOA. The farmer pays bank interest, but no other fees or commission. Ninety per-cent of the Guarantee Fee goes into the reserve funds of the Guarantee Fund.

We were encouraged by the Fund's credit screening process, but also by the risk sharing in farm loans. The Fund guarantees 70% of the loan amount. This risk sharing makes both the bank and the client more aware of their obligation since the bank should take up the 30% as a loss in case of default. The Fund's board, which includes members of the Ministry of Finance, Agriculture, Justice, the Cabinet of Ministers and the Fund Director makes their own analysis to examine the merits of the loan proposals. The Fund itself checks to see that loans and guarantees are used for the purpose that they were granted.

The larger part of the program (roughly 87%) is the crop price support program. These loans are short-term loans made to AFMRA to buy up crops and sell it on domestic and international markets. The losses entailed in this program are repaid by the Rural Support Fund of the Government. While loss rates on this business are very low, the strain on the Guarantee Fund comes when the MOA does not pay back the loans promptly through the Rural support Agency. The trend of losses here is flat and low over time. In addition, AFMRA provides short-term loans to food processing companies for working capital. These loans are guaranteed by the fund. AFMRA must submit a business plan to the Fund in order to get guarantees for short-term loans. The Fund's director stated that the Fund's reserve is sufficient for current loan and default levels. In fact, the Fund's ambition is to become a guarantee bank similar to those in the EU.

The Fund sends a monthly report to the MOF detailing all loans granted and those that were repaid. Where partial repayment has been made, this is noted also. The Banks send the Ministry a new loan letter with all loan details. This is entered into the registry of Guarantees and checked against information from the Fund. The Register is kept in both hard and electronic copies. It then is entered into the debt guarantee totals to update them. We believe that this monitoring effort is minimal and there should be an attempt over time to understand the forces straining the finances of the Fund or forcing changes in their lending practices. The bookkeeping of the Fund and of the register of guaranteed debt is done in Excel. However, most documents are sent to the fund and the Ministry in hard copy and entered in the Ministry by hand. Since the Registry in the MOF is checked against the Guarantees on the book of the Fund, there is adequate control here. All the effective loan monitoring of each individual agricultural loan is done by the Fund since there are no resources in the Ministry to do any real credit review.

There are several trends that must be monitored and addressed. First, since the Fund takes 90% of the Guarantee Fee into reserves, the capital structure of the Fund is importantly enhanced by retained earnings. It is the current practice for the Ministry of Finance ("MOF") to ask the Fund for a regular dividend and to remove a portion of the surplus deemed redundant and put it into the general coffers of the government. The Ministry should arrive at a figure with the agreement of the Fund that adequately supports the present and future book on a risk adjusted basis. The Fund should not be overcapitalized nor should it take on the role of supplier of funds to the general government. Since other parts of the capital structure are notional funds as well, the retention of invested reserves is very important to the Fund: Also, the MOF should carefully examine the credit process used by the Fund and have an independent review of the projected default rates and risk exposure to the Fund.

Second, the failure of the Ministry of Agriculture to pay AFMRA promptly so they can pay the Fund in a timely manner puts some strain on the capital of the fund. The situation is not critical, but the delays are needless and should be addressed. Given the straightforward nature of the loans and guarantees, there should be prompt repayment.

Third, there should be an attempt to measure the effects of the SAPARD direct farm grants on the risk level and volume of lending for the Fund. If it reduces the volume of lending to farmers directly, are the short-term loans to AFMRA a better credit risk?

Finally, we have not been advised that AFMRA borrows under its own authority from banks. Any borrowing of this kind should stop. The only funds being lent or on-lent should be from the Ministry of Finance which can get the risk free rate on its borrowings.

With these caveats and recommendations, we feel the Rural Credit Guarantee Fund presents only a modest risk to the government under the current arrangements. Ensuring the capital adequacy of the Fund and monitoring their credit process and default rates more closely should enable this to be a fairly safe guarantee for the Government of Lithuania. There are some things the Fund and the MOF can do to improve the monitoring of the loans as well as their safety.

RECOMMENDATIONS:

We recommend the following:

A. The Fund should transmit all loan files and amounts in a common format to the MOF once a month. There should be a proof of the balances.
B. The Fund should communicate more frequently with the risk management group at the Ministry as to their surplus and current credit ranking trends.
C. The Fund should make a greater effort to collect the balance in arrears due from the MOA.
D. The Ministry of Finance should let the Fund accumulate a sufficient surplus so that they can conduct their business without undue risk of calling on government support. The recent history is that the MOF reclaims a dividend and occasionally part of their retained earnings as money to be put back in the general budget.
E. The MOF should outsource all loan monitoring activities for AFMRA to the Turto Bankas (the Asset Bank which is owned by the Ministry of Finance) which will send a summary monthly report in Excel format to the Guarantees Department. At this point, the responsibility for credit work and an examination of the Fund's finances and prospects moves to this entity.

The situation with SODRA is different. In examining the social security law in Lithuania, we see that SODRA is responsible not only for old age income maintenance, but also paying for maternity leave, disability, unemployment payments, medical insurance, funeral grants, and child care benefits. Even with a 34%tax rate for the Agency, the deficit is deep and structural. The Agency has been running a deficit for several years. The total debt of SODRA as of March 1, 2001 was 413 million Litas. In the past, the agency used to borrow from banks and the loans were mainly short term loans with high interest rates. Recently, two loans have been on lent to SODRA by the MOF. Last year the MOF on lent to them 25 million Euros (90 million Litas at that time) and so far this year 17 mm Litas. Out of those 413 million Litas, 312 million Litas is a loan with the guarantee of the MOF and 101 million Litas is in the form of an overdraft with the commercial banks (direct credit line). Since the benefits promised under the system have to be paid, the agency will run a deficit until taxes are increased or benefits are reduced. It may also change with the implementation of a broader pension reform that is planned to begin next year. However, since the Pillar 3 private funds have had little success here, this process may be a slow one. The financial future of the agency will also improve slightly when the social security tax compliance people, who are working in the STI, increase contribution payments.

Regarding monitoring and reporting, SODRA submits a monthly report to the MOF on how much of each loan was paid out and how much interest was paid on the loan. Monitoring here has less meaning since expenditures are basically set in stone. The debt can never be paid back by the agency which should be recorded realistically by the MOF as borrowing to satisfy the general government deficit. The Government has taken steps that should reduce the deficit, including reducing benefits and raising the retirement age as well as moving SODRA tax compliance people to the STI. This will not solve the problem. Over time, we recommend the following changes be made in the structure and financing of SODRA:

A. The scope of the agency's social support needs to be reduced to one of providing old age benefits, disability payments, and some family income maintenance arrangements.
B. The tax compliance rate on the social security must be increased at the same time the tax rate is lowered. Since the employer pays virtually all of the tax now, some burden should be shifted to the employee.
C. The changes in the level of support for old age must be accompanied by pension reform so that more private savings will be available to fund retirement.
D. The long term goal of these changes would be to eliminate the deficit and produce some surplus if possible.

It is recommended that SODRA should be moved to the state budget. The problem of the deficit awaits overall pension reform. The borrowing function on behalf of the agency should be performed by the MOF for its deficit on the benefit accounts. The agency also engages in short term borrowing through the overdraft method with commercial banks. The agency pays benefits on the first of the month and receives its contributions around mid-month whereupon SODRA addresses the timing difference with bank overdrafts. We recommend that this stop. All borrowing, regardless of purpose, should be carried out by the MOF and go through the Debt Department. Bank loans are always more expensive than the borrowings of the Central Government so there is no need to waste more government funds by having an overdraft mechanism. The MOF should develop a program of borrowing for the agency as part of its regular offerings. All of these loans are part of the general government debt. The current plan is to move SODRA to the state budget in 2002. It is important that the timetable for this be met. An officer of the Debt Department should continue to make sure that the projects to carry out this change are monitored to ensure the timetable for transition is met over the coming year. Since the IMF has an agreement on deficit limits for SODRA, financial discipline should be enforced for that reason alone.

Appendix A:

SECTION A - DESCRIPTION/STATEMENT OF WORK

I. BACKGROUND

USAID has supported a number of critical efforts in public finance since 1992. An important part of those efforts was aimed at implementation of Treasury system and improvement of public debt management. On implementation of those tasks, a senior advisor has worked on interim basis with the Ministry of Finance. This assistance was provided through a 632(a) Interagency Agreement between USAID and Treasury (1994 – 1999) and through PSC with USAID (1999 – 2000). During this time, major reforms and overall development of Treasury and debt management sectors were implemented with the senior advisor guidance, including initiation of Lithuanian National Treasury system (referred to in Lithuania as Government Budget, Accounting and Payment System), development of the domestic securities market, development of a centralized payment system, cash forecasting system, and other.

Due to the impact from the Russian crisis, changes at the Ministry of Finance staff, and evolving Ministry strategy, implementation of the initiated reforms significantly slowed down in 1999. In such a situation, the years 2000 and 2001 become crucial for the financial systems and practices which have been developed in part, and adopted in part, to be largely completed and integrated with each other to create a stable, workable system of controls and financial discipline, and financially stabilize the government. Given Lithuania's current financial profile, the time is convenient to institute these measures, which in earlier times was not possible or possible only slowly and piecemeal.

II. SCOPE OF WORK

The Senior Treasury and Debt Management Advisor (STDMA) will be responsible for financial stabilization of the Government's fiscal sector by stemming losses and promoting financial controls and discipline. Emphasis will be on the continued development of the Government Budget, Accounting and Payment system (the Treasury) and its sub-systems, as well as on other measures which introduce structure and control, and which make Government financial management less costly and more secure.

The STDMA will provide policy and program support to the Ministry of Finance for the following tasks:

PROJECT 1: Proposing and advocating better financial management practices that would be implemented government-wide. This will involve clarifying the Ministry of Finance's government-wide financial management regulatory role, and better integrating financial functions that are now viewed as discreet.

Better financial management will include promoting time value of money measures, such as zero balancing Government depository accounts at the end of each day and transferring the funds into the Treasury Main Account so that funds are available for use more rapidly. The Tax Inspectorate accounts have the most problems in this area because of municipal sharing, but they should be the first to be zero balanced because of the large amount of money involved. STDMA will focus on revenue collection and activities of the State Tax Inspectorate and provide recommendations that will help to improve cash concentration abilities. SDMA will also provide recommendations for improvement in Bank procedures when necessary.

As debt management after borrowing/lending is integrated into the Treasury System, the functions of the two Departments involved will also have to change. Financial planning is now inhibited to the extent that the Government's debts and liabilities and due dates and amounts of loan repayments are not yet fully known or documented. STDMA efforts will include an investigation of the methods of monitoring guarantees and contingent guarantees, examination of procedures for DAMFAS and making recommendations.

PROJECT 2: Assisting on the Public Debt Law and Regulations on the Use of Money Market Funds for public monies.

The Ministry of Finance has drafted the Public Management Law that has to be presented to the Parliament in February 2001. The SDTMA will arrange the translation of the law, analyze and provide recommendations for improvement of this law.

There are also existing Regulations on Use of Money Market Funds, and the STDMA will analyze Regulations and provide recommendations on their use.

PROJECT 3: Assisting with development and refinement of centralized reporting, so there is adequate transparency and better management information.

The SDMA will be assisting on accounting changes when required, e.g., the transition to accrual accounting which will reflect liabilities which do no appear in a cash basis accounting system.

The accounting module of the Treasury creates an entire framework in which expenditures can be analyzed for reasonable and necessary use, fraud, misuse, imbalance, etc. Treasury generated figures, which are always considered more reliable than non-system generated financial figures, will also provide more credible figures for international credit ratings and foreign borrowing. This should reduce the cost of borrowing for Lithuania in the long run.

PROJECT 4: Developing a Government-wide framework of financial controls and discipline, by focusing on the expansion of Treasury system and its sub-systems.

The goal is to institutionalize the Treasury system. This requires getting the Treasury system to a stage where (1) a decent set of financial controls is in place, (2) Lithuania can generate reliable and credible financial reports from Treasury information, (3) not one cent of government funds is lost or unaccounted for, (4) Ministries cannot overspend their budgets, and (5) centralized payments are made directly to vendors.

The STDMA will make recommendations to accelerate integration of the Debt Management Department with the Treasury Main account. This will assist full development of the Treasury System. The Treasury system is known in Lithuania as the Governmental Budget, Accounting and Payment System. The broad Treasury system makes funds available sooner and for a longer period of time, thus reducing borrowing needs, reduces the cost of financial transactions, and includes a set of checks and balances which minimize inappropriate or fraudulent expenditures. In the future, it will also be able to offset overdue amounts due the Government, and thus facilitate debt collection.

PROJECT 5: This project will entail improving the capacity to monitor borrowing and other commitments of public entities, including Sodra (social security administration) and the Agri-Food Market Regulation Agency (AFMRA).

The STDMA will provide recommendations covering monitoring requirements as well as policy suggestions and training. The work will follow the specific details agreed to by the Government of Lithuania with the World Bank.

Level of Effort:

The estimated level of effort is 75 days.

The STDMA shall make approximately six (6) trips to Lithuania to accomplish these projects for a total of 75 billing days. During the first trip, the STDMA shall conduct an inventory of the status of the Treasury System within the Ministry of Finance and recommend an action plan to accomplish the outlined projects.

After each trip the STDMA will provide the Project Officer with a trip report in which major accomplishments on the implementation of the above mentioned tasks will be described. Each report shall be submitted within two weeks after each trip.

II. DELIVERABLES

The STDMA shall prepare an outline/plan for five projects, recommendations on the Public Debt Law, and five "surveys"/analyses (7 – 10 page each) for each of the five projects mentioned above. The "surveys"/analyses for each project will include the background and the current status (including impediments) as well as the priorities/next steps recommended by the STDMA. These "surveys"/analyses shall include recommendations about organizational changes, short and long terms requirements, training needs, laws and regulations which need to be modified or written, etc.

ESTIMATED SCHEDULE:

Deliverable	Estimated Schedule
Outline/Plan	December 22, 2000
Public Debt Law Review/Recommendations	March 9, 2001
Draft "surveys" on four remaining projects	May 1, 2001
Final five project "surveys"/analyses	June 22, 2001

SECTION B - DELIVERIES OF PERFORMANCE

B.1. Period of Performance

The effective date of this Purchase Order is on/or about September 15, 2000 and the estimated completion date is one year thereafter. All required deliverables are due no later than the completion date.

B.2. Place of Performance

Performance of the services required by this Order shall take place in Vilnius, Lithuania and the U.S.

SECTION C - Contract Administration Office

C.1 The Cognizant Contract Administration Office for this Order is the Contracting Officer, RSC Budapest.

C.2. Technical Directions

Performance of the work hereunder shall be subject to the technical directions of the cognizant Project Officer (Section F.1.). As used herein, "Technical Directions" are directions to the Vendor which fill in details, suggest possible lines of inquiry, or otherwise complete the general scope of work. "Technical Directions" must be within the terms of the Purchase Order, shall not change or modify the terms in any way, and shall not constitute changes (as described in the clause of this Purchase Order entitled "Changes-Fixed Price, (FAR 52.243-1)", which may only be accomplished by the Contracting Officer. The Vendor shall comply with the clause of this contract entitled "Notification of Changes (FAR 52.243-7)" within seven (7) days.

Appendix B:

LAW ON THE PUBLIC DEBT OF THE REPUBLIC OF LITHUANIA

August 22, 1996, No.1-1508
Vilnius
Amended on July 7, 1999, Law No. VIII-1298

Article 1. Purpose of the Law

This Law regulates the relations that involve the public debt and government's claims to the debtors and debtors the fulfillment of whose obligations was guaranteed by the government based on loan agreements and agreements that involve government guarantees, as well as on other binding debt instruments.

Article 2. Major Concepts of the Law

1. **Public debt** - the total debt, internal, as well as foreign, of the Republic of Lithuania.
2. **Internal debt** - the total amount of financial obligations in local currency based on loan agreements, also on agreements that involve government guarantees or other binding debt instruments pursuant to which funds were received but have not been repaid or capital assets or services have been received but have not been paid for, also the debt of guarantee institutions and insurance companies, founded based on this law, to banks indicated in a guarantee or insurance agreement, that shall be calculated in accordance with the norms approved by the Government of the Republic of Lithuania or its delegate institution, as well as financial obligations indicated in the laws of the Republic of Lithuania, that have not been carried out.

3. **Foreign debt** - the total amount of financial obligations in foreign currency based loan agreements, also on agreements that involve government guarantees of other binding debt instruments pursuant to which funds were received but have not been repaid or capital assets or services have been received but have not been paid for, also the debt of guarantee institutions and insurance companies founded based on this law, to banks indicated in a guarantee or insurance agreement, that shall be calculated in accordance with the norms approved by the Government of the Republic of Lithuania or its delegate institution, as well as financial obligations indicated in the laws of the Republic of Lithuania, that have not been carried out.

4. **Internal creditors** - legal or natural persons of the Republic of Lithuania or companies that do not have the rights of the legal person that have lent funds based on the loan agreement or other binding debt instruments.

5. **Foreign creditors** - foreign countries, international financial organizations, foreign banks, other legal and natural persons that have lent funds based on the loan agreement or other binding debt instruments.

6. **Foreign loan** - monetary funds, capital assets or services that on behalf of the government were received from internal or foreign creditors based on loan agreements or other binding debt instruments, that shall be repaid in foreign currency.

7. **Internal loan** - monetary funds, capital assets or services that on behalf of the government were received from internal or foreign creditors based on loan agreements or other binding instruments, that shall be repaid or paid for in local currency.

8. **Loan with government's guarantee** - monetary funds, capital assets or services received by legal or natural person of the Republic of Lithuania or by the company that does not have the rights of the legal person, from internal or foreign creditors based on loan agreements or other binding debt instruments, the fulfillment of whose obligations was guaranteed by the government.

9. **Government's guarantee** - financial obligations of the Republic of Lithuania to repay the loan in full or part of it, as well as cover other expenses related to the loan to an internal or foreign creditor for the debtor the fulfillment of whose obligations was guaranteed by the Government if the debtor fails to fulfill his obligations in full or fulfills only part of the obligations indicated in the loan agreement of other binding debt instruments.

10. **Government's guarantee for liabilities of guarantee institutions or insurance companies based on guarantee agreements or insurance agreements** - a commitment of the Republic of Lithuania to fulfill all financial obligations of the guarantee institution or insurance company whose fulfillment of obligations, based on guarantee or insurance agreements, is guaranteed by the government, provided the guarantee institution or insurance company fails to partially or in full fulfill obligations indicated in guarantee or insurance agreements.

11. **Securities of the Government of the Republic of Lithuania** - obligations to repay the received credit, issued by the Government of the Republic of Lithuania on behalf of the Republic of Lithuania, that can be sold on a secondary securities market if the requirements of the issue do not establish otherwise.

12. **Debtor** - The legal or natural person of the Republic of Lithuania or company that does not have the rights of the legal person who, based on the agreement that the latter has concluded with the government or based on other binding debt instruments, received a loan and made commitments to the government regarding its use or repayment

13. **Debtor the fulfillment of whose obligations is guaranteed by the government** - the legal or natural person of the Republic of Lithuania or company that does not have the rights of the legal person that received a loan based on a signed agreement with an internal or foreign creditor or on other binding debt instruments, the fulfillment of whose obligations is guaranteed by the government.

14. **Guarantee institution or insurance company the fulfillment of whose obligations is guaranteed by the government** - the legal person founded by the Government of the Republic of Lithuania, that insures banks that loans given to legal persons, companies that do not have rights of the legal person or natural persons based on guarantee or insurance agreements, will be repaid and the fulfillment of whose financial commitments is guaranteed by the government.

15. **Local currency** - Litas that is a monetary unit of the Republic of Lithuania.

16. **Foreign currency** - currency commonly used in one, two or more foreign countries, including the euro (common currency of the Economic and Monetary Union) and SLR (Special Lending Right, The International Monetary Fund).

17. **Currency of the Loan** - foreign or local currency in which the loan shall be returned by the debtor, as well as interest or other payments indicated in the loan agreement.

Article 3. Major Provisions of Public Borrowing and Guarantee Issuance

1. A decision on:
1) the extent of public loans shall be approved by the Seimas based on the proposal of the Government of the Republic of Lithuania, while confirming the annual state budget or by passing other laws.
2) the acknowledgment that the government's financial obligations shall be considered the public internal or foreign debt shall be executed by the Seimas based on the proposal of the Government of the Republic of Lithuania. The Law shall contain the amount of the loan, maturity date, as well as other major requirements related to the loan.
2. Internal and foreign loans on behalf of the Republic of Lithuania shall be taken, as well as government guarantees for internal and foreign loans shall be granted by the Government of the Republic of Lithuania in accordance with the amount limits of loans prescribed in the laws of the Republic of Lithuania and with procedures indicated in Articles 5, 6 and 7 of this Law.
3. The Ministry of Finance shall represent the Government of the Republic of Lithuania in managing the public debt, which based on the decision of the Government of the Republic of Lithuania shall:
1) borrow financial resources on local or foreign markets by taking loans, issuing securities of the Government of the Republic of Lithuania or other binding debt instruments;
2) establish parameters of securities of the Republic of Lithuania, as well as conditions for their issuance;
3) conduct operations with securities of the Republic of Lithuania on local and foreign markets;
4) finance governmental programs out of the borrowed funds;
5) conclude delegation agreements with the public stock company *Turto bankas* on the Ministry of Finance delegating them management of certain loans. Loans whose management shall be delegated to the *Turto bankas,* as well as procedures for their management shall be prescribed by the Government of the Republic of Lithuania. Delegation agreements with the company *Turto bankas* shall be signed by the Minister of Finance or an official of the Ministry of Finance delegated by the Minister of Finance.
4. The Ministry of Finance shall:
1) manage public debt accounting and financial statements;
2) register all local and foreign loans, loans issued with the government's guarantee, as well as other debentures;
3) keep the originals of all loan agreements and all government's guarantees issued.
4) analyze and plan the need for loans, prepare drafts of borrowing programs;
5) monitor issuance, repayment and use of loans and fulfillment of other financial obligations related to loans;
6) conduct analysis of the financial situation of debtors or the debtors the fulfillment of whose obligations was guaranteed by the government;
7) group loans and other financial obligations, analyze the need for special provisions for bad debts or bad debts with government's guarantees in accordance with the norms set forth by the Government of the Republic of Lithuania regarding special provisions for bad debts;
8) reconcile loan balances with creditors at the end of the fiscal year.
5. Expenditures related to administration of foreign, as well as internal loans and revenues received from debtors based on agreement related obligations, shall be incorporated into the state budget.

6. In order to fulfill government's financial obligations arising from relations regulated by this law, all possible revenue resources of the government shall be used including newly incurred financial obligations of the government.
7. The government's debt may be incurred by signing loan agreements, issuing government's guarantees, issuing securities or other binding debt instruments.
8. Current and future assets of the government may not be used as a pledge to insure the fulfillment of government's financial obligations.
9. Reserves of gold and foreign currency of the Bank of Lithuania may not be used as a pledge to insure the fulfillment of government's financial obligations. The Bank of Lithuania shall not be held responsible for financial obligations of the Republic of Lithuania, unless the Bank of Lithuania itself incurs such obligations or such obligations are prescribed in the laws of the Republic of Lithuania.
10. The Government of the Republic of Lithuania may use loans only for purposes indicated in this Law.
11. Foreign, as well as internal loans received on behalf of the Government of the Republic of Lithuania may be given by the government to legal and natural persons of the Republic of Lithuania or companies that do not have the rights of the legal person, unless the loan agreements establish otherwise. Loans agreements with creditors shall be signed by the Minister of Finance or an official of the Ministry of Finance delegated by the Minister of Finance.
12. All debtors and the debtors the fulfillment of whose obligations is guaranteed by the government shall repay the loan in a timely manner, pay interest and fulfill other obligations indicated in the loan agreement.
13. Debtors and debtors the fulfillment of whose obligations was guaranteed by the government, excluding commercial banks, without a written approval and without coordinating the below actions with the Ministry of Finance or with the public stock company *Turto bankas* when the latter company manages the loans delegated to them by the Ministry of Finance, shall not have the right to perform the following actions:
    1) to reorganize the company;
    2) to reduce the authorized capital;
    3) to sell or in other way pass to others, lease or pledge its long-term assets;
    4) to warrant or guarantee the fulfillment of obligations of other entities with his/her assets;
    5) give loans (with the exception of short-term trade credit);
    6) make investments using the assets acquired for the loan received, into other economic entities;

Article 4. Purpose for Public Borrowing and Issuance of Government's Guarantees

On behalf of the Republic of Lithuania the Government may take loans or issue government's guarantees related to loans to be used for the following purposes:
1) <u>to finance state budget deficit and to balance State Treasury's cash flows;</u>
2) to finance government's investment and to replenish the working capital of companies;
3) to cover expenses related to the public debt and cover the public debt;
4) to cover debentures of state funds, as well as to balance cash flows of the funds;
5) for other purposes established in a separate law.

Article 5. Foreign Loan

1. <u>A decision on taking a foreign loan exceeding 40 million litas, with the exception of the loan taken in order to finance state budget deficit, to balance cash flows of the state Treasury and</u>

for other purposes indicated in the State Budget Law of a respective year shall be passed, based on the proposal of the Government of the Republic of Lithuania, by the Seimas by passing a separate law. Amounts of loans shall not exceed the limits established in the laws of the Republic of Lithuania.

2. A decision on taking a foreign loan that equals or is less than 40 million litas or a loan the purpose of which is to finance state budget deficit, to balance cash flows of the state Treasury or for other purposes indicated in the State Budget Law of a respective year, shall be passed by the Government of the Republic of Lithuania or its delegate institution. Amounts of loans shall not exceed the limits established in the laws of the Republic of Lithuania.
3. Foreign loan agreements and other binding debt instruments are commercial agreements. The foreign loan agreement or other binding debt instruments shall be signed by the Minister of Finance or an official of the Ministry of Finance delegated by the Minister of Finance. Based on the proposal of the Minister of Finance, foreign loan agreements or other binding debt instruments may be signed by other government officials that have received an authorization by passing a resolution of the Government of the Republic of Lithuania.
4. The legal approval of the foreign loan or on other binding debt instruments shall be given in a written form by the Minister of Justice or an official of the Ministry of Justice delegated by the Minister of Justice.
5. All foreign loan agreements, ratified by the Seimas of the Republic of Lithuania and regarding which decrees of the Seimas of the Republic of Lithuania have been passed, or not ratified and regarding which there were no specific decrees passed any specific decisions of the Seimas of the Republic of Lithuania shall be binding.
6. A foreign loan shall be taken, and received and repaid through the government's fiscal agent, i.e. a Lithuanian bank or other banks.
7. Procedures for giving a loan and repaying it, as well as functions and responsibilities of institutions taking part in the process shall be established in a joint resolution of the Government of the Republic of Lithuania and the Council of the Bank of Lithuania.

Article 6. Internal Loan

1. Agreements on internal loans and other binding debt instruments shall be signed by the Minister of Finance or an official of the Ministry of Finance delegated by the Minister of Finance.
2. Non-tangible securities of the Republic of Lithuania issued in local currency shall be recorded in securities accounts that shall be maintained in accordance with the laws of the Republic of Lithuania, other legal acts and procedures set forth by the Public Stock Company Lithuanian Central Depository.
3. Based on the procedures established by law the Ministry of Finance shall have the right to choose a fiscal agent for the execution of issuance operations of securities of the Government of the Republic of Lithuania. With approval of the Ministry of Finance, the fiscal agent may establish procedures for execution of these operations.
4. Procedures for giving and repaying of internal loans, as well as functions of institutions participating in the process shall be prescribed by the Government of the Republic of Lithuania.
5. Procedures for issuance and circulation of internal loans issued in the form of securities of the Government of the Republic of Lithuania shall be prescribed by the Government of the Republic of Lithuania.

Article 7. Loan with Government's Guarantee

1. Decisions on granting the government's guarantee regarding an internal or foreign creditor based on the loan agreement that exceeds 40 million litas, shall be passed by the Seimas of the Republic of Lithuania based on the proposal of the Government of the Republic of Lithuania.
2. Decisions on granting the government's guarantee for the loan that is given by the internal, as well as foreign creditor based on the loan agreement, that is equal or less than 40 million litas, shall be passed by the Government of the Republic of Lithuania in accordance with the State Budget Law of the Republic of Lithuania of a respective year and other laws.
3. The government's guarantee shall be signed by the Minister of Finance, while, on the request of the creditor, the legal approval of the guarantee granted shall be given by the Minister of Justice or an official of the Ministry of Justice delegated by the Minister of Justice.
4. Procedures for granting government's guarantees for a foreign loan received, procedures for receiving and repaying the foreign loan with the government's guarantee, as well as functions and responsibilities of institutions participating in the process shall be established by a joint resolution of the Government of the Republic of Lithuania and the Council of the Bank of Lithuania.
5. Procedures for issuance of the government's guarantee for the internal loan received, procedures for receiving and repaying the internal loan with the government's guarantee, as well as functions and responsibilities of institutions participating in the process shall be established by the Government of the Republic of Lithuania.

Article 8. Founding of Guarantee Institutions or Insurance Companies and Government's Guarantee for Obligations of Guarantee Institutions and Insurance Companies in Pursuance with Guarantee or Insurance Agreements

1. The Government of the Republic of Lithuania shall have the right to found guarantee institutions and insurance companies that would guarantee to banks the repayment of loans given to legal persons, companies that do not have the rights of the legal person or natural persons, based on guarantee or insurance agreements, if there are funds appropriated for the implementation of certain programs in the budget of that year or in other governmental funds. Insurance companies shall be founded and the statutes shall be confirmed in pursuance with the Insurance Law of the Republic of Lithuania.
2. A decision on granting the government's guarantee for obligations of the guarantee institution or an insurance company in accordance with guarantee or insurance agreements shall be passed by the Government of the Republic of Lithuania. The total amount of government's guarantees granted by the Government of the Republic of Lithuania for the obligations of guarantee institutions and insurance companies shall not exceed the limits indicated in the state budget of a respective year, while the government's guarantee for the obligations of each guarantee institution and insurance company, based on guarantee or insurance agreements, shall not exceed the amount that would suffice to cover the funds allocated by the Government of the Republic of Lithuania for insurance payments and guarantee payments.
3. Agreements with guarantee institutions or insurance companies, in pursuance with the procedures set forth by the Government of the Republic of Lithuania, shall be signed by the manager of the guarantee institution or insurance company. The government's guarantee for the financial obligations that will be incurred by each guarantee institution or insurance company in a respective year based on guarantee or insurance agreements, shall be signed by the Minister of Finance. Guarantees and insurance granted by guarantee institutions or insurance companies founded by the Government of the Republic of Lithuania based on guarantee or insurance agreements shall have the same status as the government's guarantee.
4. The guarantee institution or insurance company in carrying out programs implemented by the government, shall, in accordance with procedures prescribed by the Government of the Republic of Lithuania, analyze applications of legal persons, companies that do not have the

rights of the legal person and natural persons in order to guarantee to banks giving loans that the loans will be repaid, shall keep the record of guarantee and insurance agreements concluded, shall monitor the implementation of business plans submitted, and shall resort to sanctions against debtors who do not abide by the provisions of guarantee or insurance agreements.

5. Supervision of activities of guarantee institutions shall be conducted and the responsibilities of such institutions shall be established by an agency delegated by the Government of the Republic of Lithuania.
6. Supervision of activities of insurance companies shall be conducted in pursuance of the Insurance Law of the Republic of Lithuania.
7. The guarantee institution and insurance company not later than 3 months after the end of the fiscal year shall produce to the Government of the Republic of Lithuania their financial report and audit report.
8. Provided the loss of the guarantee institution or insurance company reaches a quarter of their authorized capital amount, the Government of the Republic of Lithuania shall suspend granting of new guarantees or conclusion of new insurance agreements.

Article 9. Monitoring of Financial Activities of Debtors and the Debtors the Fulfillment of Whose Obligations was Guaranteed by the Government

1. Debtors and the debtors the fulfillment of whose obligations was guaranteed by the government, with the exception of budget supported institutions and municipalities, shall be obliged to submit:
   1) an audit report before getting a loan - to the Ministry of Finance;
   2) an audit report on their activities for the period for which the loan was given - to the Ministry of Finance or the public stock company *Turto bankas* when the *Turto bankas* was delegated to manage the loans handed over by the Ministry of Finance. Audit reports on the activities of other periods shall be submitted under the request of the Ministry of Finance or the public stock company *Turto bankas.*
2. Audit may be conducted by an audit company that has a license granted by the Ministry of Finance, unless the laws stipulate otherwise.
3. Audit services shall be rendered based on the agreement between the audit company and the debtor or the debtor the fulfillment of whose obligations was guaranteed by the government. The services shall be paid for out of the funds of the debtor or the debtor the fulfillment of whose obligations is guaranteed by the government.
4. Governmental control institutions shall have the right to inspect the economic and financial situation of debtors and the debtors the fulfillment of whose obligations was guaranteed by the government, as well as to examine the reception, distribution, use (whether they are used according to the prescribed purpose) and repayment of all foreign loans taken on behalf of the government or loans taken with the government's guarantee.
5. The debtor or the debtor the fulfillment of whose obligations was guaranteed by the government shall submit to the Ministry of Finance or the public stock company *Turto bankas* when the *Turto bankas* was delegated to manage the loans handed over by the Ministry of Finance, to audit companies and to Governmental control institutions, documents that the above institutions are asking for within the timelines indicated by the above institutions, the procedures of submission of which are prescribed by the Government of the Republic of Lithuania.

Article 10. Sanctions

1. Provided the debtor fails to fulfill his financial obligations related to the loan agreement or agreement of repayment of the loan indicated in Paragraph 8 of this Article, the Ministry of Finance shall collect interest for each day of delay. The amount of interest shall be computed by dividing the average annual interest rate of the calendar quarter paid for the securities of the Government of the Republic of Lithuania in litas the maturity of which is not longer than one year, by 365. The interest amount may be increased by increasing the average annual interest rate prescribed in this paragraph by 10 percentage points and by dividing the product by 365. This action shall be confirmed by the agreement on repayment of the loan or debt. In those cases when the loans were delegated to be managed by the *Turto bankas*, the Government of the Republic of Lithuania shall have the right to release the debtor from the penalty interest computed but not remitted for the loans that were not repaid in a timely manner and for interest on loans that was not paid, or to suspend the calculation of penalty interest to debtors.
2. The Ministry of Finance shall collect the loan (debt) that was not repaid when due or part of it, unpaid interest, penalty interest and other payments indicated in loan agreements of agreements of repayment of the loan, from the debtor's bank accounts without suing for claims.
3. If the debtor does not have sufficient funds to cover the amounts to be collected, other assets of the debtor shall be seized, i.e. bank accounts shall be levied and other assets shall be seized and sold in accordance with the procedures set forth by the law, in order to fulfill all financial obligations based on loan agreements or agreements on repayment of loans, as well as to pay penalty interest and to refund the government for all expenses incurred as a result of the debtor's failure to fulfill his financial obligations.
4. If the debtor the fulfillment of whose obligations was guaranteed by the government, fails to fulfill his financial obligations set forth in the loan agreement, as a result of which the government as a guarantee provider, has to fulfill said obligations, the Ministry of Finance acting as a manager of the guarantee shall in the form of a reverse claim, collect from the debtor the fulfillment of whose obligations was guaranteed by the government, all direct and indirect costs related to the fulfillment of said obligations without suing for claims.
5. Provided the funds of the debtor the fulfillment of whose obligations was guaranteed by the government are not sufficient to cover all direct and indirect costs, indicated in paragraph 4, bank accounts of the debtor the fulfillment of whose obligations was guaranteed by the government shall be levied or other assets seized and sold pursuant to procedures set forth in the law in order to cover all expenses incurred by the government as a result of the debtor's, the fulfillment of whose obligations was guaranteed by the government, failure to fulfill his obligations.
6. Decisions of the Ministry of Finance on collection of funds of the debtor or the debtor the fulfillment of whose obligations was guaranteed by the government, by levying bank accounts or seizing other assets, shall be passed over for implementation within 3 years since they were passed.
7. Provided the actions prescribed in paragraphs 2, 3, 4 and 5 of this Law are not effective, as a result of which the obligations fail to be fulfilled, the Ministry of Finance shall have the right to go to court asking for the initiation of bankruptcy proceeding against the debtor or the debtor the fulfillment of whose obligations was guaranteed by the government. The debtor or the debtor the fulfillment of whose obligations was guaranteed by the government shall be informed by the Ministry of Finance in a written form of its intention to go to court asking for the initiation of bankruptcy proceedings against him. The notice shall indicate the financial obligations that the debtor or the debtor the fulfillment of whose obligations was guaranteed by the government, fails to fulfill and contain a warning that if the obligations are not fulfilled within the period indicated in the notice, the Ministry of Finance will address the court on initiating bankruptcy proceeding against the debtor.
8. Given the Government of the Republic of Lithuania decides that for social or/and economic purposes it is reasonable not to initiate bankruptcy proceedings, not to compute penalty

interest, or decides to suggest to the debtor to review initial provisions of loan agreements and to sign an agreement with the Ministry of Finance of changing the conditions of the agreement or the agreement of loan repayment, and after the obligations of the debtor for the fulfillment of which the government's guarantee was received, the Ministry of Finance will ask the debtor to sign an agreement with the Ministry of Finance on loan repayment and will prescribe conditions for loan repayment, the Ministry of Finance shall evaluate financial impact of such a decision and the amount necessary to be allocated in the next year's state budget (if the result would affect more than one year - the amount necessary to be allocated shall be reflected in the state budget of each following year).

9. Given the loan (or part of it) was not used for the purpose indicated in the agreement, all the amount that was used for the purpose different than that indicated in the agreement shall be returned to the Government's Treasury account. The debtor shall pay a penalty that equals to 10 percent of the loan (or part of the loan) used for the purpose different than that indicated in the agreement. Provided the loan with the government's guarantee (or part of it) was used for a purpose different than it was indicated in the agreement, the debtor the fulfillment of whose obligations was guaranteed by the government, shall pay a penalty that equals to10 percent of the loan.
10. Given the debtor fails to use up the loan funds for the purpose indicated in the agreement for longer than 6 months, he has to pay a penalty that equals to the amount of loan interest for that period prescribed in the agreement and return all the amount that was not used for the purpose indicated in the agreement.
11. Sanctions incurred based on Paragraphs 9 and 10 of this Article shall be imposed by Government control institutions pursuant to procedures established by law.
12. Given the debtor fails to return the amounts indicated in Paragraphs 9 and 10, the Ministry of Finance without suing for claims shall collect those amounts from the debtor's bank accounts. If the debtor's funds are not sufficient to cover the amounts to be collected, those funds shall be collected from other assets of the debtor.
13. All sanction payments shall be remitted to the Government Treasury account. Funds from this account may be used for fulfillment of all financial obligations arising from the relations regulated by this Law, and shall not be included into the state budget at the end of the fiscal year.
14. If the debtor or the debtor the fulfillment of whose obligations are guaranteed by the government in a timely manner fails to submit necessary documents (the report on the use and repayment of loans pursuant to the procedures established by the Government of the Republic of Lithuania, Economic financial report and other documents related to its economic activities) to the Ministry of Finance or public stock company *Turto bankas* when the *Turto bankas* manages the loans handed over to them from the Ministry of Finance, or if they provide incorrect information or without approval perform actions that according to the Paragraph 13 of Article 3 of this Law need to get approval from the Ministry of Finance or the public stock company *Turto bankas,* he shall be held responsible pursuant to procedures prescribed by the law.

Article 11. Accountability

1. At the end of the fiscal year the Government of the Republic of Lithuania, together with the report on the implementation of the state budget of the Republic of Lithuania, shall submit to the Seimas the report of the public debt.
2. The State Controller's office of the Republic of Lithuania shall examine the report on the public debt prepared by the Government of the Republic of Lithuania and, together with the conclusion about the annual report on the implementation of the state budget, shall submit to the Seimas the conclusion regarding the public debt.

I promulgate this Law of the Seimas of the Republic of Lithuania passed.

PRESIDENT OF THE REPUBLIC VALDAS ADAMKUS

Appendix C: **John Wetherhold Comments on the Public Debt Law**

TO: **R. Lygis**

FROM: **John Wetherhold**

RE: **Comments on the Lithuanian Public Debt Law**

DATE: **February 7, 2001**

COMMENTS ON LAW ON PUBLIC DEBT OF LITHUANIA

GENERAL

The purpose of the law should be clearly stated. It should be simple and short, e.g. "This law establishes a framework for the issuance of domestic and foreign debt of the Republic of Lithuania. It reaffirms that the direct and guaranteed obligations are full faith and credit instruments of the Republic of Lithuania. It also outlines the duties of various Government entities in issuing, recording, monitoring and servicing the Debt of the Republic of Lithuania."

Article 2

These are not major concepts of the law. They are definitions of legal terms used in the Draft Law. They should be short, clear, and unequivocal. Numbers 2, 3, 10, and 13 are particularly obtuse.

Article 3

The first three points regarding provisions on public borrowing need to be shortened and administrative details deleted. Number 1 (2) goes into the detail that the Law shall contain the amount of the loan, maturity date, and other details. This should not be in a framework law. The procedures outlined in 3(5) should be in a MOF regulation.

Point 4 is very important. One of the things a Debt Law should do is enhance and clarify the role of the Minister of Finance. He should be the only one to approve guarantees, issue government securities, maintain debt registries, and manage the Treasury account. His role should come first in this article. If you want to include the methods of guarantee issuance you should do so after the MOF role is explained.

Number 6 is implicitly understood. If there is no real legal question addressed here, this should be dropped. Also with 7. Could the limitation on pledges of present and future government assets be put in regulations from the MOF. Number 13 does not belong in a Law. There is nothing wrong with the procedure, but it should be a regulation or administrative procedure of the MOF. Is 12 really necessary in a Law.

Article 4

This should be moved to the front of the law. In (5), cite which law is referred to.

Article 5

The idea of having a separate law for each amount above USD 10mm in the foreign loan area is a policy question. It is unwieldy. Seimas oversight may be needed, but there is no need for a separate law here in our opinion. (1-2) Number 3, why do other government officials become involved in foreign loans?

Article 6 Internal Loan.

This section in 1, 3, 4, and 5 seem to repeat sections and procedures which have been established in other Articles.

Article 7

Article 7 of the Lithuanian draft begin a discussion of guarantees, contingent guarantees, and procedures for handling them. Although this lengthens the law, it is best that all of these legal requirements be in one piece of legislature. As we note elsewhere, many of specific administrative procedures and rules related to guarantees, contingent guarantees, and on-lending could be better put in MOF regulations.

Article 8

The founding of financial insurance companies and guarantee facilities should be part of the Insurance code. The title clearly states that the article is about the founding of guarantee Institutions and Insurance Companies in pursuance with guarantee or insurance agreements.

Article 9

This material could be part of the Ministry of Finance regulations on direct guarantees and on-lending from international institutions.

Article 10

This material has no place in a general framework law on the Public Debt. These sanctions and methods to recover funds from delinquent debtors under government guarantees belongs in the regulations of the MOF regarding on-lending and guarantees.

Article 11

This is fairly standard and could be placed at the end of the draft law as it is now..

COMMENTS

I have still no examples of public debt laws except that from Jordan and Bulgaria. In addition to the overkill of words in the Lithuanian law, I find a few basic ideas missing. The law should bolster the Minister of Finance as the sole keeper of the flame on the public debt. The Central Bank may act as fiscal agent, but the other tasks related to controlling, planning, monitoring and paying the debt belong to the MOF.

The level of detail in some of these articles is mind-numbing, they belong in regulations or procedures. The idea of having a separate law for all foreign loans above $10mm US which includes administrative details is not sensible.

A review of the Bulgarian draft is instructive. While not every section could be adopted by Lithuania, there are many useful ideas and a much better sense of organization than that which exists in the Draft Lithuanian Law. The purpose of the Law, the granting of authority to borrow, is stated directly in Article one. Article 2 is a good idea, but optional in this form.

Article 3 in the Bulgarian Draft specified the Budget Law as the place for the statement of limitations. Article 2 is simply a definition of legal terms in the Lithuanian Draft. These are wordy and unclear in some cases. Look at Article 4 in Chapter one of the Bulgarian Draft to see clearly and briefly described legal terms.

Chapter 2 of the Bulgarian draft identified the Minister of Finance as the sole person who can determine the terms of the Public Debt. An important part of the Public Debt Law is to clarify and enhance the Minister of Finance as the center of activity and information on all Public debt issues.

Chapter 3 of the Bulgarian draft unlike the Lithuanian draft state the authority of the MOF to provide State Loan Guarantees. Note Article 1 C which requires all Ministries to provide copies of the Loan Guarantees to the MOF. It is assumed that there is a review of legal euro-integration requirements before an External State Loan Guarantee can be made. Note that in E of Article 1, the Minister of Finance is identified as the key party in duly approving an external Loan guarantee. Article 2 of Chapter 3 in the Bulgarian Draft allows the MOF to adopt regulations governing the procedures for State Loan Guarantees. The law is lengthy enough already and administrative and operational details etc. should not be in the body of the law, which is difficult to modify, but in regulations approved by the Minister of Finance.

Chapter 4 of the Bulgarian draft has three critical elements for any Sovereign Debt law stated clearly and strongly. I do not see these elements in the Lithuanian Law. These are: 1. State debt is sovereign debt and represents the full faith and credit of the Republic. 2. The Budget Law shall have a continuing appropriation every year to pay the amounts required to meet the sovereign obligation. 3. All State debt creates a first claim against the general account of the MOF. Chapter 5 goes into more detail than we like, but the description in Article 2 (Bulgaria) of Chapter 5 is very clear and thorough. (k) of that Article is a good addition.

I have nothing to add to Chapter 6 of the Bulgarian draft. It could be included in the Lithuanian draft. Chapter 7 discusses another important mechanism. We presume that a current inter-agency agreement exists between the Lithuanian MOF and the Central

Bank. However, this covers the most important matters contained in such an agreement. Chapter 8 of the Bulgarian draft is not necessary.

The Bulgarian draft has chosen to include State Loan Guarantees in Chapter 9. If this topic is to be included, the chapter is well laid out and includes the role of the minister, the nature of guarantees, record keeping, oversight, termination, payment and recovery on the guarantee. I believe Chapter 10 is useful, although it might be put in the MOF regulations. The description and role of the two separate debt registries is clearly explained. Article 4, the annual report on operations is optional here.

Chapter 11, which discusses local debt probably should be avoided in the Lithuania law. Chapter 12, which identifies possible conflicts with other national laws describes the priority of this law clearly. It is always good to set the effective date very clearly.

The draft regulations in the Bulgarian draft are not templates, but show how important procedures can be put in MOF Regulations.

A reading of the Public Debt Law of Jordan is useful. The unusual brevity is helpful, but other more substantive things like the acknowledgement of the full faith and credit of the sovereign debt are omitted. Limitations on issuance are stated directly in the law, which we do not like. The use of Bearer Bonds has generally ceased in most countries. Since the Central Bank does the issuance and management of the Public Debt, the role of the Minister of Finance is not as clear or as powerful. He is consulted and his recommendation is sought on several matters, but that is all. Issues of Guarantees and support of municipalities are not mentioned in this basic framework law.

Appendix D:

TO: Daiva Kamarauskiene

FROM: John Wetherhold

DATE: March 26, 2001

RE: Some ratios used in Municipal Analysis

We have ordered a book on Municipal bonds which has a good section on credit analysis and a comprehensive list of financial statistics that should be followed. In the meantime, if you were asked for some measures to judge the creditworthiness of municipalities, we would start with these. We assume that the figures are available to do the calculations and that fair comparisons can only be made within townships of larger population subsets. The Fiscal Indicators section lists a series of financial "indicators" or measurements designed to assess the basic fiscal position of each unit of government. Figures are obtained from the Comptroller of the local government as well as Census data.

The general fund is used to account for all financial resources except those required to be accounted for in another fund. Special Funds are legally restricted funds used to pay for specified purposes. Special funds are legally restricted funds used to pay for specified purposes. Special funds also include the general funds of all blended component units. These two funds indicate the majority of stable operating funds for local governments.

- Beginning Fund Balance for FY xx: The amount of general and special funds the government had at the beginning of the fiscal year. This number can be compared to the Ending Fund Balance for FY xx to measure growth.

- Per Capita Beginning Fund Balance: The beginning fund balance divided by population.

- Revenue Collected During FY xx: The general and special funds collected including local government taxes, intergovernmental receipts, and other funding sources such as fees, charges, and interest.

- Expenditures During FY xx: The total of general and special fund expenditures By function. This field is operating expenditures.

- Per Capita Revenue: Revenue divided by population.

- Per Capital expenditures: Expenditures divided by population – this represents the amount in taxes paid by each resident.

- Revenues over (under) expenditures: The total of general and special fund expenditures subtracted from general and special fund revenues. If the figure is a positive number, the government collected enough revenue during the fiscal year to pay for services provided.

- Ratio of Fund Balance to Expenditures: Represents the amount of general and special fund expenditures divided by the fund balance. Each government should have a least a three month reserve (33% of expenditures) and generally no more than a two year reserve.

- Ending Fund Balance for FY xx: The general and special fund revenues minus expenditures plus adjustments, plus the previous year's fund balance. This should always be positive.

- Per Capita Ending Fund Balance: The general and special revenues fund balance divided by population. This is the amount in reserve funds each resident paid.

DEBT BURDEN

- Outstanding Debt for FY xx: Debt that a government owes for all fund types. Debt instruments include revenue bonds, general obligation bonds, alternate bonds, contractual commitments, and others.

-
- Per Capita Debt: Total Debt divided by the population. This represents the amount in debt that each resident represents.

-
- General Obligation Debt over Assessed Valuation: Governments are often restricted (or should be) based on the Assessed Value of the property being taxed. This ratio is the percent of debt the unit is carrying.

OTHER

- Interest coverage figure: Total interest payments in Litas for all funded debt over general revenues for FY xx. Should be a low percentage.

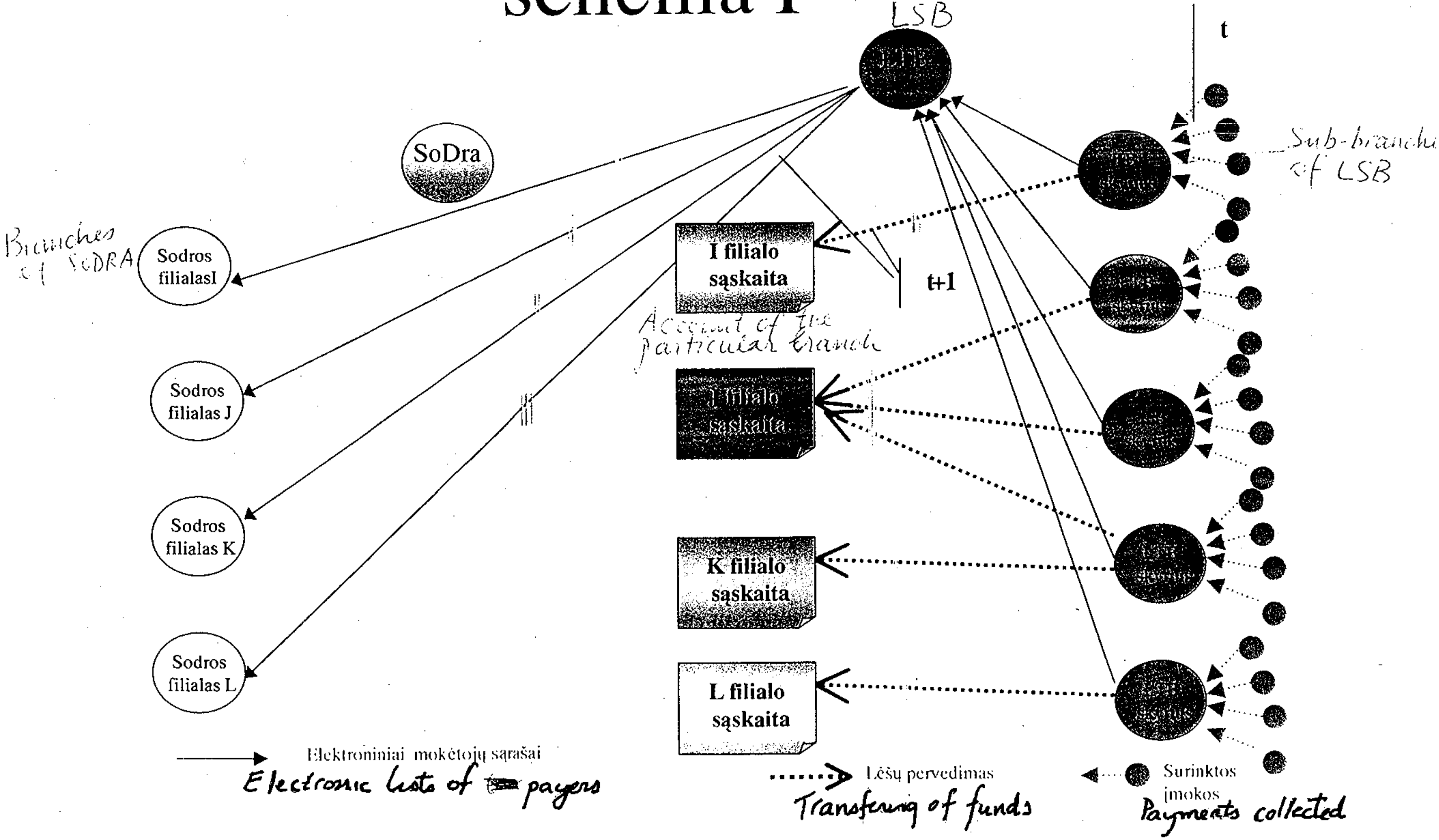
  These figures should be figured and compared for all municipalities in a similar population category. They can be compared relatively and as an absolute number. The process also forces the financial analyst to examine a number of municipal income statements and balance sheets and give him an opinion of the quality of the preparation of each entities financial statement.

There may be other qualitative or unusual circumstances which affects the numbers and the analyst should look behind the numbers to the quality of administration, the quality of financial controls, and the certified audit results.

ppendix E

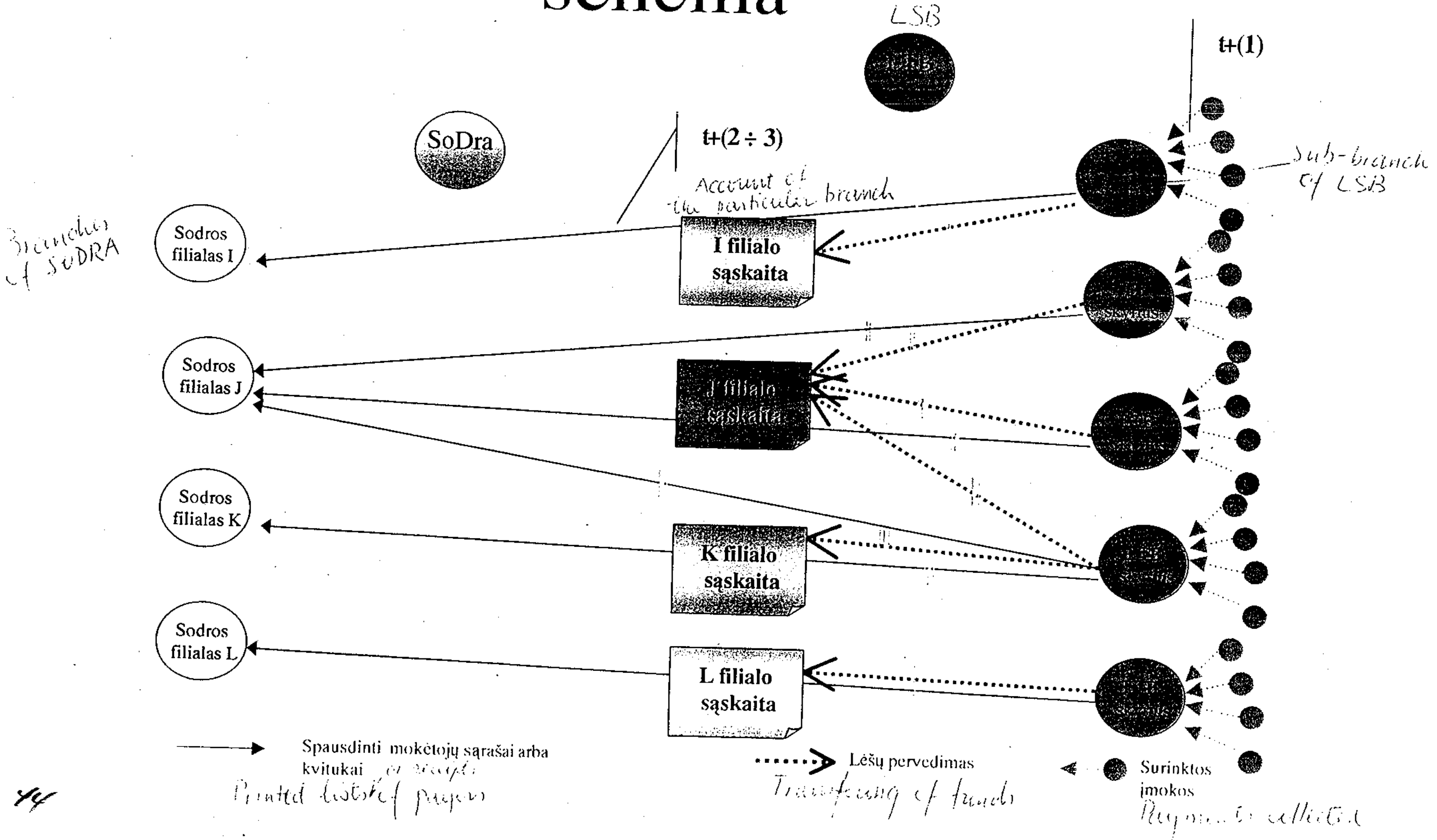
Proposed Chart for Collection of Payments

Įmokų surinkimo siūloma schema I



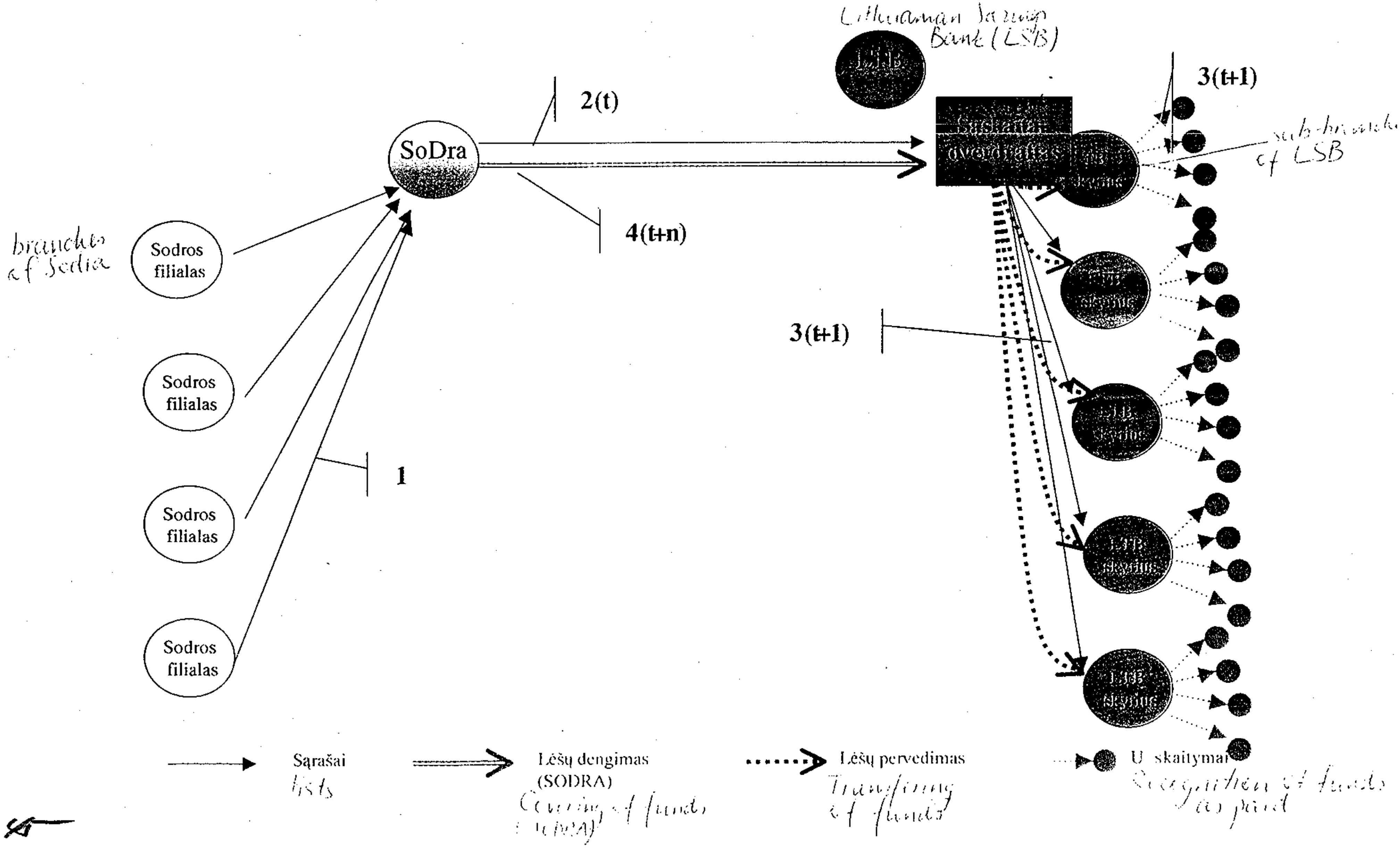
Current Chart for Collection of Payments

Įmokų surinkimo dabartinė schema



Pension Payment Chart

Pensijų mokėjimo schema

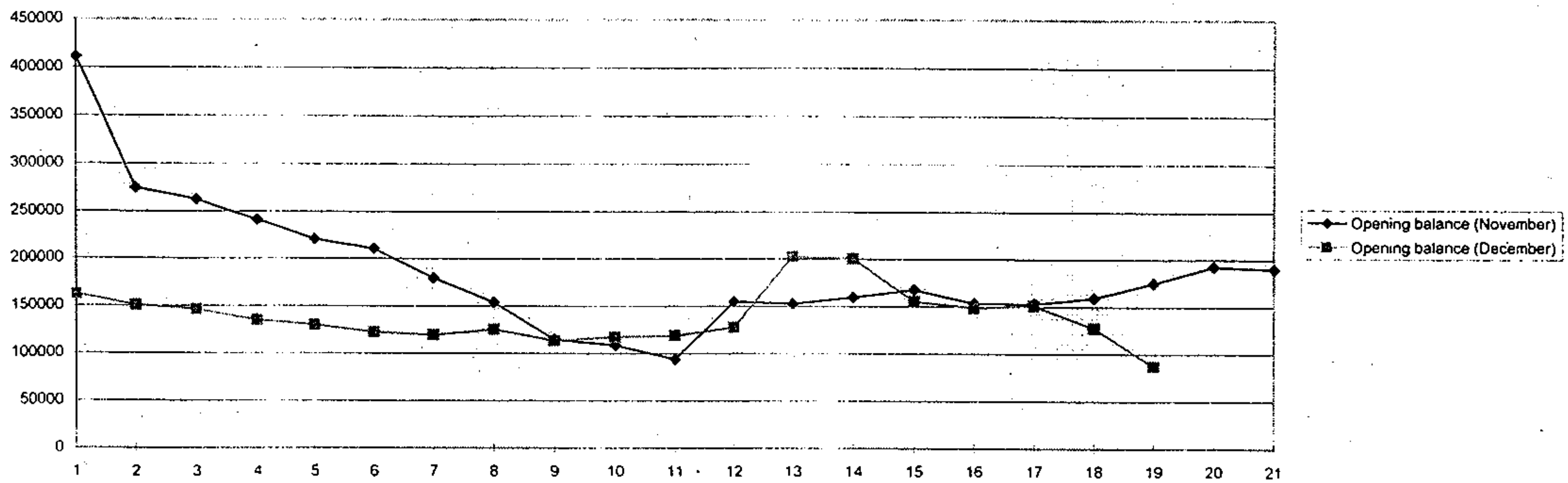


Appendix F

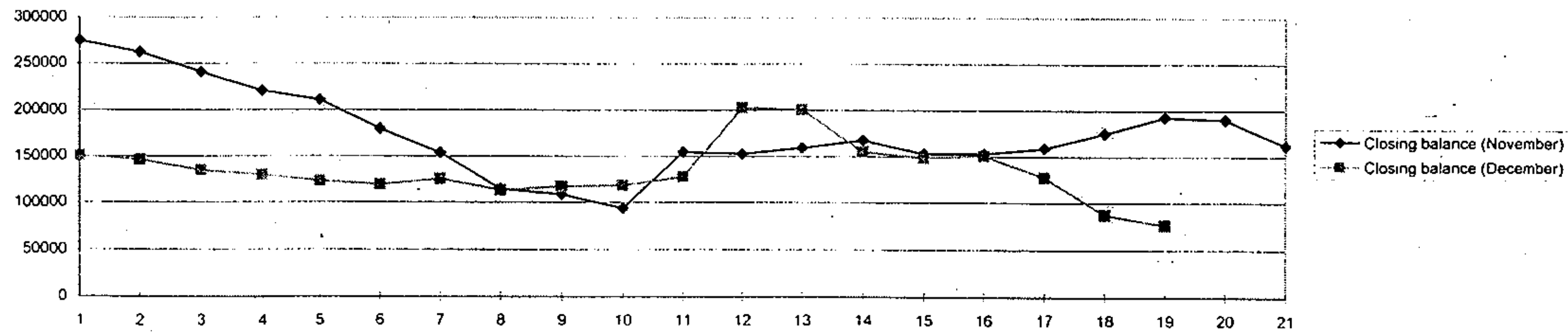
REPORT ON GOVERNMENT'S CASH FLOWS

	1	4	5	6	7	8	11	12	13	14	15	18	19	20	21	22	27	28	29		
1 Cash balance at the beginning of day																					
Forecast																					
Adjustment																					
Opening balance (November)	411197	274835	262712	241178	220591	210705	179570	153826	114713	108553	93725	154816	152609	159455	167468	153115	152873	159224	174845	192378	189819
Opening balance (December)	162002	150534	146215	134736	129892	122490	119253	125338	113339	117438	118656	127600	202733	200549	155104	148573	150721	127338	86995		

2 Deposits
Forecast
Adjustment
Actual balance
3 Loans repaid to the government
Forecast
Adjustment
Actual balance
4 Interest paid to the government
Forecast
Adjustment
Actual balance
5 Other revenues
Forecast
Adjustment
Actual balance
6 Foreign loans repaid
Forecast
Adjustment
Actual balance
7 Interest paid on foreign loans
Forecast
Adjustment
Actual balance
8 Domestic loans repaid
Forecast
Adjustment
Actual balance



9 Interest paid on domestic loans
Forecast
Adjustment
Actual balance
10 Other expenditure
Forecast
Adjustment
Actual balance
11 Loans given by the government
Forecast
Adjustment
Actual balance
12 Domestic loans received
Forecast
Adjustment
Actual balance
13 Foreign loans received, assigned for
Forecast
Adjustment
Actual balance



14 Cash balance at the end of the day																					
Forecast																					
Adjustment																					
Closing balance (November)	274835	262712	241178	220591	210705	179570	153826	114713	108553	93725	154816	152609	159455	167468	153115	152873	159224	174845	192378	189819	162002
Closing balance (December)	150534	146215	134736	129892	122892	119253	125338	113339	117438	118656	127600	202733	200549	155104	148573	150721	127338	86995	76072		
DEBT BALANCE OF THE DAY																					

Appendix G:

Feasibility Study

Interface between Navision GBAP and Debt Management System

Prepared by:

Merkantildata
Per Andersen
July 1999

Table of contents

1. Introduction

This Feasibility Study have as its primary object to describe a possible interface between the Governmental Budgeting, Accounting and Payment system Navision GBAP and the Debt Management System DMFAS.

The study includes a description of the overall functionality in the integration together with proposals for business procedures to support the integration. A more detailed description of the technical integration will be provided in the form of a separate functional specification.

Information to this Study are obtained from the following sources:

- Interviews with Mr. Carsten Nielsen, Senior Adviser from the Danish Ministry of Finance
- Interviews with Mr. Lukas Tursa, Department Manager from the Lithuanian Ministry of Finance
- Mr. G. Teeling from UNTAD
- Presentation of the DMFAS application
- DMFAS 5.1 Technical Documentation

One of the main objectives of the integration is to keep it "simple". As a consequence transfer of data between the GBAP system and the DMFAS system is suggested to use file transfer (format must be ASCII-files).

If GBAP at some stage is to be based on Navision Financials and MS SQL server 7.0, as opposed to Navision, it will be possible to access heterogeneous data (the DMFAS Oracle database) through e.g. Replication Services or transparent gateway.

The Feasibility Study is prepared by:

Merkantildata
Lautrupvang 6
2750 Ballerup
Denmark

Phone	+45 70 10 80 80
Fax	+45 44 83 67 66

Contact person:

Team Manager
Per Andersen

Direct phone	+45 44 78 67 25
E mail	pan@merkantildata.dk

2. Systemoverview

Three modules; DMFAS, Navision GBAP and Integration can describe set-up of the system under investigation. This set-up can be shown by the following illustration;

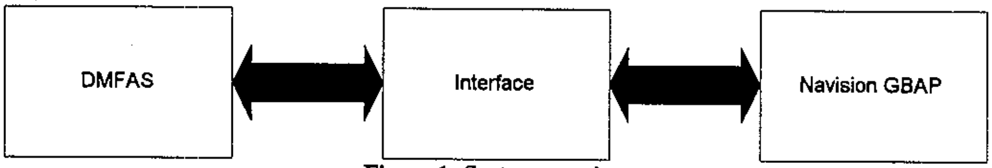


Figure 1: Systemoverview

2.1 DMFAS

DMFAS is a Debt Management System, developed and maintained by UNTAD in Geneva. DMFAS is based on Oracle developments tools and database. The present version of DMFAS is 5.1.

2.2 Interface

The role of the interface module is to establish an appropriate link between DMFAS and GBAP. The interface module should be composed by the following elements;

- Information flow
- Interface module in DMFAS
- Interface module in GBAP
- File handling (placement, naming conventions, file transfer etc.)
- File structure (ASCII, file layout, field format, identifiers etc.)

2.3 Navision GBAP

Navision GBAP is a Governmental Budgeting, Accounting and Payment system developed by Merkantildata in co-operation with the Danish Ministry of Finance and the Lithuanian Ministry of Finance. Navision GBAP is based on Navision version 3.5x which is a character based standard accounting package from Navision Software A/S. This package contains a wide range of functionality structured in modules e.g. Finance Accounting, Accounts Receivable, Accounts Payable, Inventory and Fixed Assets. Navision is a fully integrated client server system with approx. 20.000 installations worldwide.

Navision GBAP exists both in a Lithuanian version (operational) and an English version (development). Present version of Navision GBAP is 2.30.

For more general information about Navision, please visit www.navision.com.

3. Information flow

The integration between DMFAS and GBAP handled in this document concern budget, loans, creditor, customer and payment information.

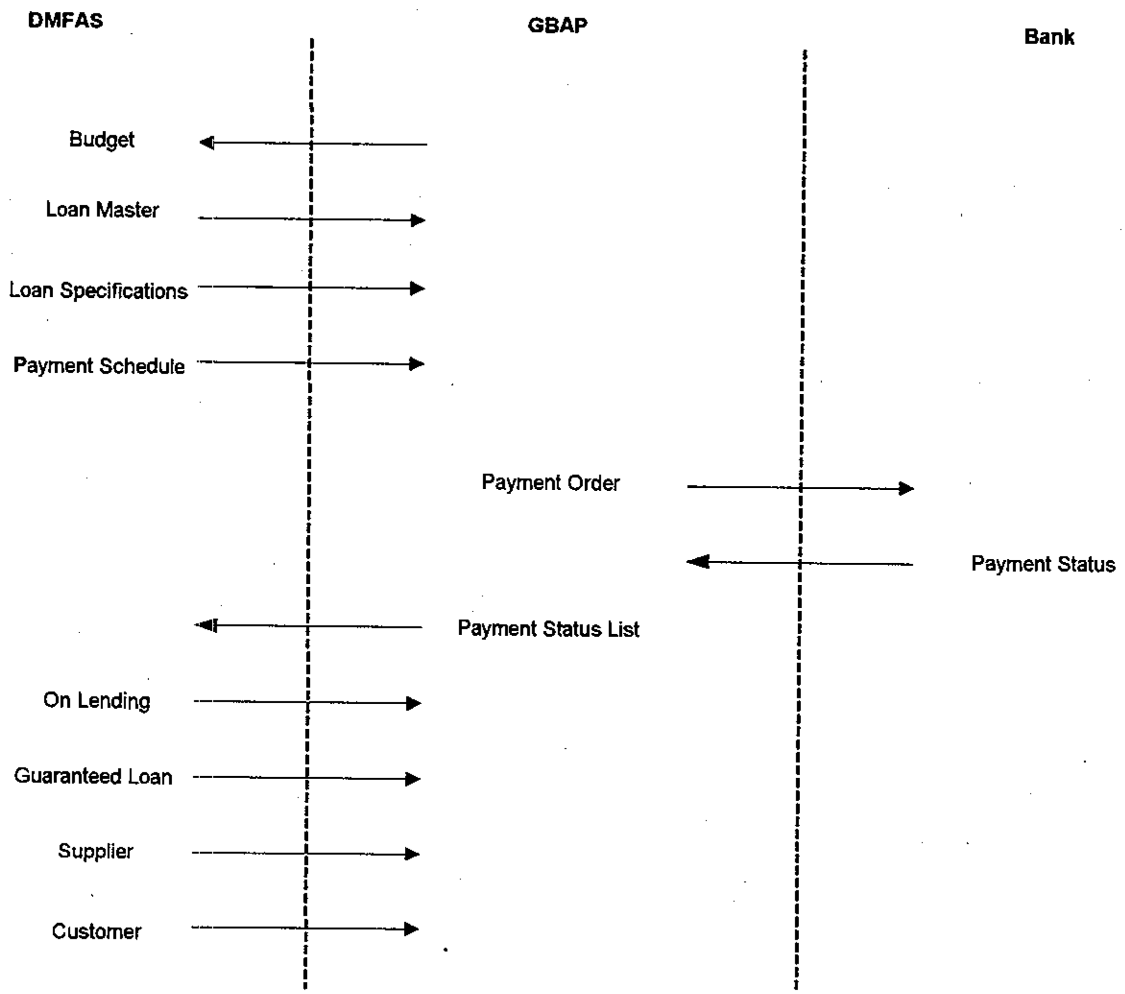


Figure 2: Overwiev of information flow

4. Budget Information

Budget information within GBAP is divided into finance act, control budgets, approved budgets (finance act for following fiscal years) and budget proposals (general budgets).

The finance act is created and maintained in Ministry of Finance. From Ministry of Finance the finance act is distributed to Line Ministries and to Spending Units, working as appropriation managers. Budget information from one or more of the appropriation managers should be distributed to DMFAS.

4.1 Information Flow

The budget information is extracted and exported from Spending Units working as appropriation managers. Following this the budget information is imported and registered in DMFAS.

The following diagram can illustrate this information flow for the budget information;

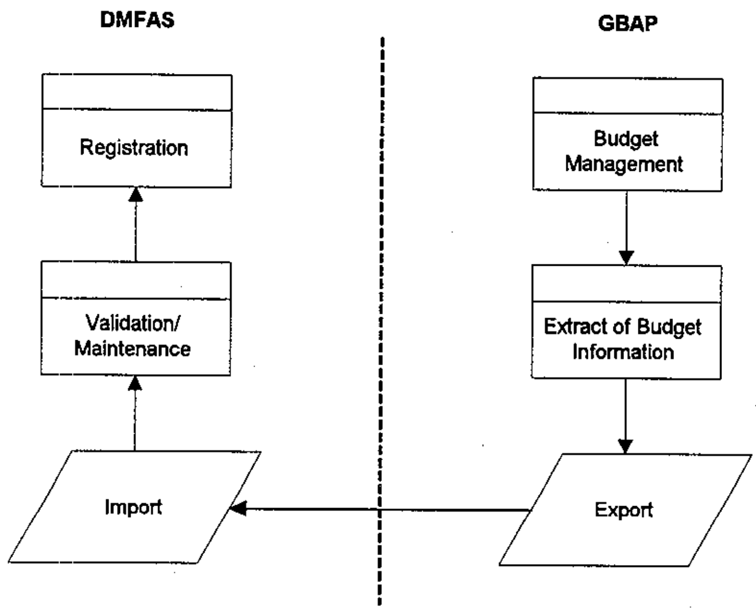


Figure 3: Budget information flow

When budget information is extracted in GBAP, it should be possible to make partial extractions. Also it should be possible to add comments, both to specific budget specifications but also to the extract as a whole.

In DMFAS it is recommended to use shared budget information for information only, or in other words, to establish a set of procedures and rules to ensure that budget information is maintained in GBAP only. This recommendation is applied to avoid confusion and to make sure that budget information is consistent in the two systems.

4.2 Budget information

Each budget in GBAP is represented by a budget header and a number of budget specification lines. The information of interest for DMFAS is located in the budget specification lines.

Information scheme			
GBAP Table	**GBAP Fields**	**DMFAS Fields**	**DMFAS Table(s)**
Finance Budget Entry	-Project Code -Economical Classification -Functional Classification -Date -Amount		BUD_ALLOCS BUD_LINE_ACCS BUD_PERIODS TRA_BUD_LINES

Table 1: Scheme for shared budget information

Most likely user defined fields have to be established in involved DMFAS table(s) to allow information about Project Code, Economical Classification and Functional Classification to be stored appropriate. Possibly also description fields (names) from GBAP should be included.

Mr. Lukas Tursa, Department Manager from the Lithuanian Ministry of Finance and Mr. Carsten Nielsen, Senior Adviser from the Danish Ministry of Finance, have informed that approximately 10 different Project Codes, 5 different Economical Classifications and only one Functional Classification will be used at a short term.

4.3 GBAP Changes in short

To enable this information flow for budgets, some modifications to GBAP and DMFAS is needed. Needed modifications to DMFAS are not further handled here.

The modifications needed in GBAP are mainly a range of new facilities.

<u>Budget extract</u>
A facility for extracting selected parts of a budget (a certain budget area). It should be possible to use Project Code, Economical Classification, Functional Classification and Date as filters against budget specification lines.

<u>Budget comments</u>
A facility making it possible to add an unlimited number of texts lines as comments to budget specifications and/or the whole budget extract. The comments can be used for informational purposes in DMFAS.

<u>Export</u>
The I/O module in GBAP must be expanded with an export for handling budget information to be transferred to DMFAS.

5. External Loan

All relevant information about external loans is registered and maintained in DMFAS. This includes basic loan information, loan terms, amortisation schedules, disbursements and payments. The role of GBAP will be to handle payments for a subset of the external loans in DMFAS and to facilitate loan reporting and validation within GBAP.

A loan registered within DMFAS is described as
"A legally binding document which obligates a specific value of funds available for disbursements, once certain preconditions have been meet. The amounts disbursed is to be repaid in accordance with the terms set out in a repayment schedule or a promissory note."

As a first step it is planned to use GBAP for handling amortisation (as commitments), repayments (as request for payments), commissions and penalties. It is assumed that this different transaction types is already represented in the payment schedule in DMFAS, using appropriate type identifiers.

Currently it is not planned to handle arreas within DMFAS.

5.1 Structure of loan information in DMFAS

Basic loan information is registered and maintained in a loan master table. Related to the loan master is a long range of tables containing supplementary information as loan details, reference information, loan amendments, budget, participant's etc.

Each loan is divided into one or more tranches. Each tranch is then further detailed into payment schedules, information about real payments and information about interest.

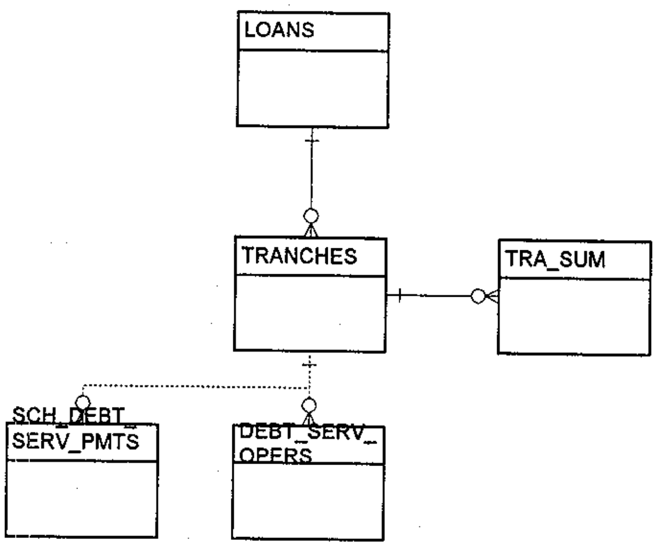


Figure 4: Structure of relevant loan information in DMFAS

As can be seen from the ER diagram in figure 4, information of relevant for the initial integration between DMFAS and GBAP can be located to only a few tables.

DMFAS tables	
DMFAS table name	Description
LOANS	Each loan is identified by a unique loan ID. The Loans table contains information about loan amount, base currency of loan, various date information's, reference to creditor, various loan types and groups and possible remarks and comments.
TRANCHES	A set of disbursements under a loan, the repayment under which is under their own specific financial terms. A tranche represents a distinct part of a loan as defined by the creditor in the detailed payment schedules agreed with the debtor. Each individual amortisation defined by the creditor is represented by an individual tranche in DMFAS.
TRA_SUM	Tranche summary table. Gives a summary of the tranche with totals of its amortisation schedule i.e. of disbursements, of interests, of principal and of commission. The table also contains information about date of the latest real principal and interest payment, tranche status information etc.
SCH_DEBT_SERV_PMTS	Scheduled payments of principal and interest to the creditor as prescribed in the amortisation table. Includes status information about the actual payment.
DEBT_SERV_OPERS	This table contains information about the financial operations which reduces the outstanding balance of a loan i.e. information about amounts paid, dates and currencies. Also appropriate information to link the payments back to the scheduled payments is included in the table.

Table 2: Description of relevant tables in DMFAS

5.2 Information flow

The information flow between DMFAS and GBAP regarding loans can be divided into three groups;

- Loan information (from DMFAS to GBAP)
- Scheduled payments (from DMFAS to GBAP)
- Actual payments (from GBAP to DMFAS)

The information flow for each of those three groups will be further detailed in the following chapters, together with description about needed changes within GBAP.

Generally a new debt management module is needed within GBAP to allow the requested flow of loan information between DMFAS and GBAP. Due to the new module, parts of the loan information will be redundant. For this reason it is strongly suggested only to maintain shared information in DMFAS to avoid dataconflicts and errors.

5.2.1 Flow of loan information

The table structure of the new debt module in GBAP is build similar to the structure within DMFAS.

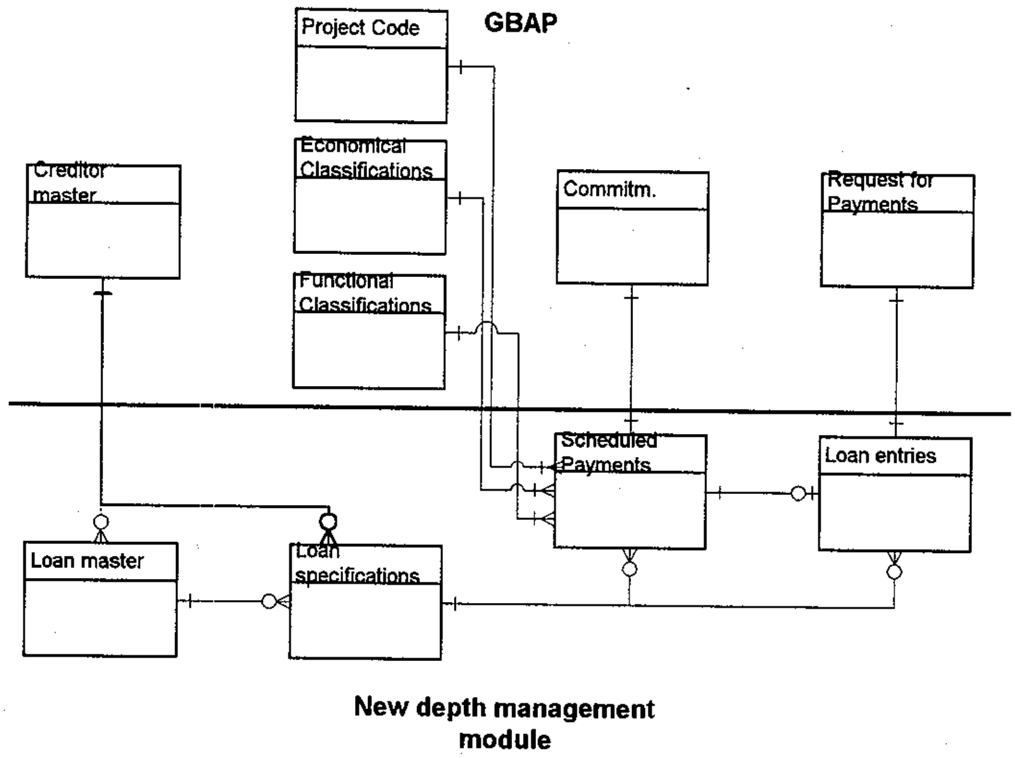


Figure 5: Structure of relevant loan information in DMFAS

DMFAS tables	
GBAP table name	**Description**
Loan master	Each loan is identified by a unique loan ID. The same loan ID should be used in DMFAS and in GBAP. The loan master contains a relevant subset of information from DMFAS. This includes loan amount, base currency of loan, various date information's, reference to creditor, various loan types and groups and possible remarks and comments.
Loan specifications	A tranche represents a distinct part of a loan as defined by the creditor in the detailed payment schedules agreed with the debtor. Each individual amortisation defined by the creditor is represented by an individual tranche in DMFAS. Each tranche or specification have the following characteristics; One currency, Financial terms or Payment schedule for repayment
Scheduled Payments	Contains the payment schedule for the tranche (both unpaid and paid). The scheduled payment is the down payment of the principal and payment of interest. Due date is calculated according to DMFAS amortisation table. Information in scheduled payments is used for budgeting cash flow, reporting cash flow, making payments and validation of actual payments. Scheduled payments should also be represented as commitments, to engage the budget control appropriate.
Loan entries	This table contains information about the financial operations made from scheduled payments. When a scheduled payment is due, a request for payment is generated and the payment procedure within GBAP is executed.

Table 3: Description of relevant tables in DMFAS

Loan information is created and maintained in DMFAS. From DMFAS the relevant information is extracted and exported to the SU account in GBAP, handling loan and loan payments. Based on available information about number of loans and number of tranches, it is suggested to extract all relevant information each time an export is made, no matter if the information have been changed since last export or not. Also it is suggested to establish a log in GBAP making it easy identify and present changes to loan information imported into GBAP.

Based on table structure in DMFAS and GBAP the information flow for loan information can now be set up.

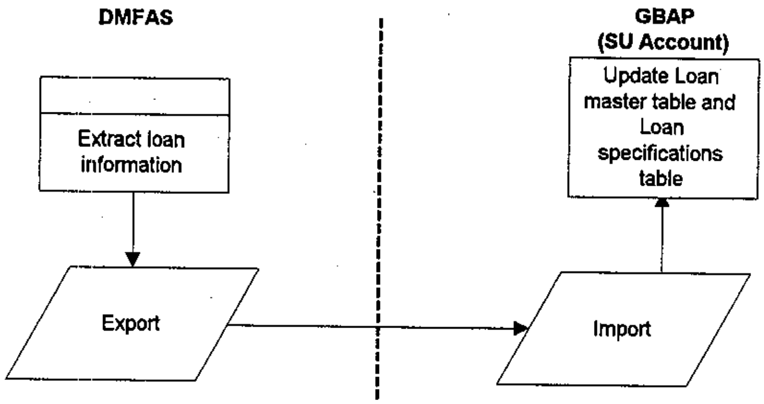


Figure 6: Loan information flow

The loan master and the loan specifications must be related to a creditor within GBAP. See chapter 7 regarding integration of creditor master table in DMFAS and GBAP.

Also information about Economical Classification and/or Functional Classification and Project Code should be attached to the loan specifications. Information about Economical Classification and/or Functional Classification and Project Code can either be extracted from DMFAS as part of the loan information (using information from the budget tables) or it can be added during import in GBAP. Set-up fields in GBAP can be used for this purpose.

5.2.2 Flow of scheduled payments

Payment schedules is created and maintained in DMFAS based on payment terms and amortisation. Some of the most important issues with respect to the integration and dataflow are;

1. Partial payments
2. Rejected payments
3. Initiate Request for Payments
4. Rescheduling of payment plan

1. Partial payments

Partial payments should be handled by DMFAS, e.g. by making a rescheduled payment plan. It is suggested to disallow partial payment in GBAP of payment orders generated from scheduled loan repayments. As a remark it should be mentioned, that arreas can be handled as partial payments i.e. by making a rescheduled payment plan.

2. Rejected payments
Information about payment status should go back to DMFAS. A rejected payment should result in a new payment schedule in DMFAS, and a credit memo in GBAP to settle the unpaid RfP.

3. Initiate Request for Payment
Request for Payments can be initiated from DMFAS or from GBAP or from both systems, based on due date, payment schedule and other relevant information. The most secure solution would be to initiate Request for Payments only if it is requested from both systems.

4. Rescheduling of payment plan
In DMFAS it is possible to reschedule a payment plan. A rescheduled payment plan must be transferred to GBAP to replace the payment plan already issued. Scheduled payments in process (activated as request for payments in GBAP) should be locked in DMFAS, i.e. it should not be allowed to reschedule those.

In addition to those issues it have already been clarified that the number of transactions involved in the integration is relative small and that penalties can be avoided in GBAP by the use of Due Date. Also it have been discussed only to transfer payment schedules for 2 fiscal years to GBAP (current and next) as opposed to transfer payment schedules for the entire lifetime of a loan.

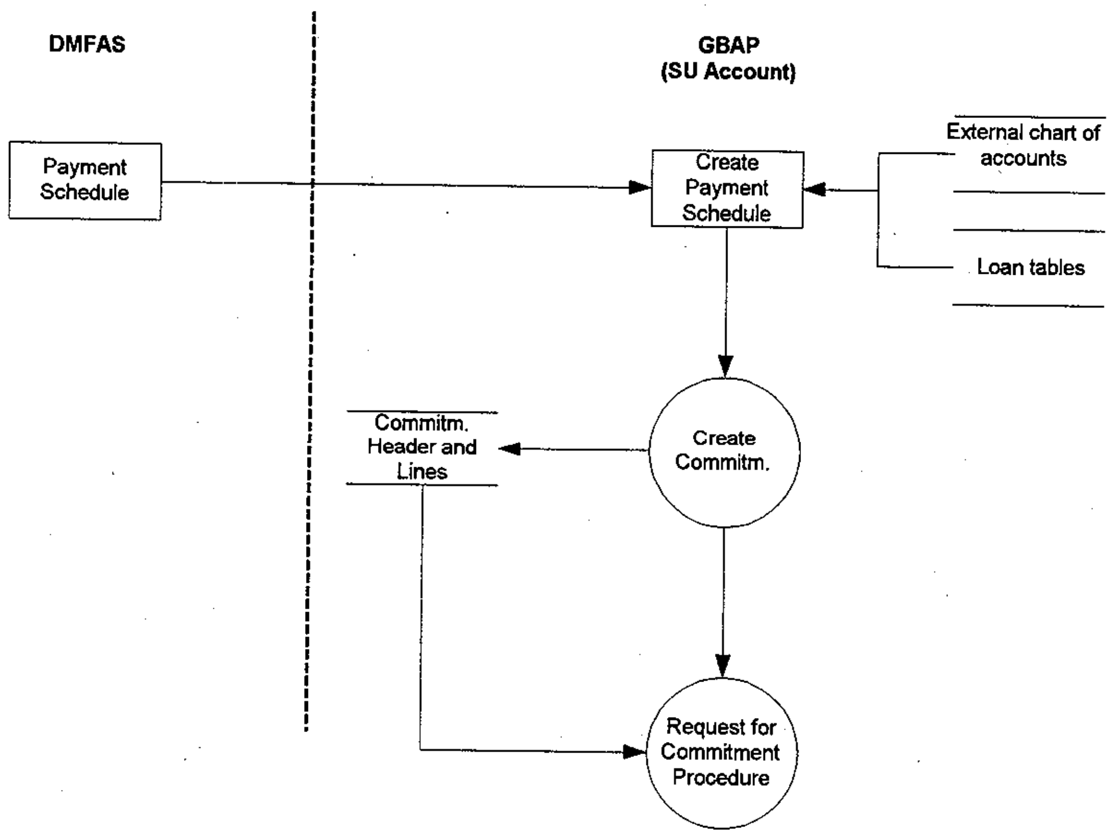


Figure 7: Flow of payment schedule

When the payment schedule is created in GBAP, a range of validations must be executed.

- Loan master and loan specifications must exist

- Various validations against amount scheduled, dates etc.
- Validation against already existing payment plans

One unsolved question is if should be possible to reject commitments that origins from payment schedules in the budget control. As a special purpose Spending Unit account will be used and as request for commitments from DMFAS will be marked, it is suggested to disallow rejection of request for commitments that origins in DMFAS.

In the following description of the payment flow, it is assumed that payments is initiated by DMFAS and confirmed in GBAP.

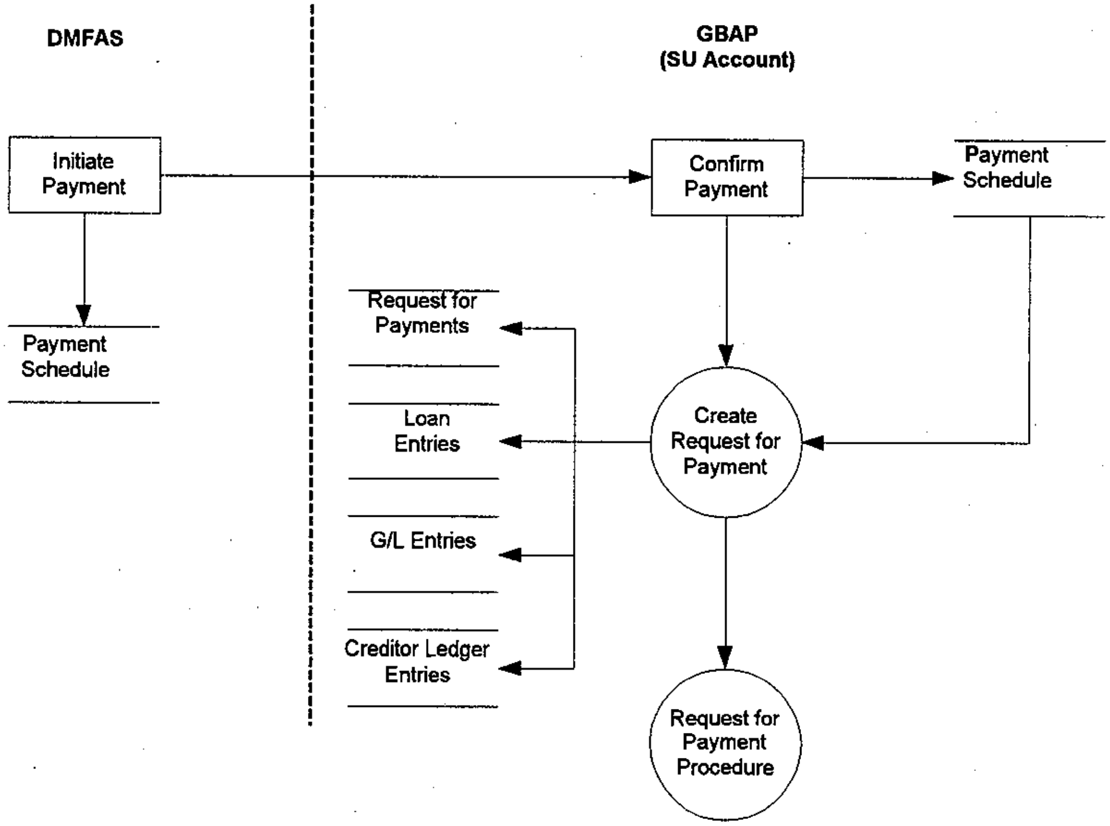


Figure 8: Request for Payment flow

5.2.3 Flow of payment information

When the request for payment is paid in the bank, information about this is imported into the Ministry of Finance GBAP system and from here, back to the SU Account. All this is part of the established request for payment procedure. Due to the integration under investigation, this information should also go to DMFAS.

It is recommended to input payment information into DMFAS manually, at least as a first step. If the information is imported automatically, the risk is that payment information is not validated and handled appropriate.

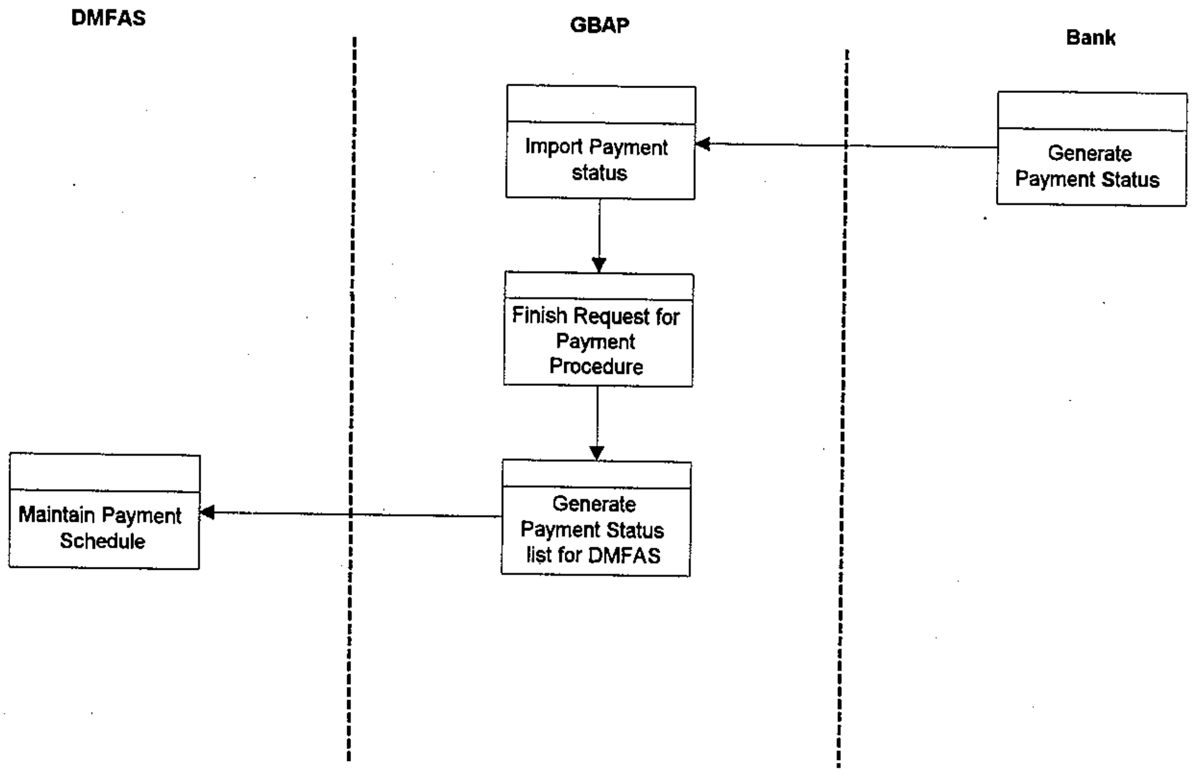


Figure 9: Flow for payment information

6. Guaranteed loans

Guaranteed loans are registered in DMFAS in the same table structure as external direct loans (see chapter 5 for further information about this structure). Information about guaranteed loans and payments in GBAP makes it possible at any stage to see outstanding guarantee. This information can be used for cash management, audit, risk management, statistical purposes etc.

At the present stage it have not yet been clarified at which level information about guaranteed loans and payments should be represented in GBAP. It is assumed however, that information about guaranteed loans will be represented in GBAP only at loan level, i.e. one guarantee amount and one paid amount per loan.

6.1 Information flow

All information about guaranteed loans is created and maintained in DMFAS. From DMDAS the information about guarantee is transferred to the GBAP loan module. It is suggested to transfer all information at each transfer, no matter if the information is changed or not. In GBAP the loans is marked appropriate as guaranteed loan.

7. Creditor Information

As mentioned previously, down payments to a loan will be handled in GBAP by the use of request for payments. Request for payments will be initiated from either DMFAS or GBAP, based on information from the amortisation table, loan terms and other basic loan information.

Request for payments is created as Purchase Orders, which means that information about related creditors, available as part of the basic loan information, will be used. More so, the creditors must exist in the creditor mastertable in GBAP, prior to creation of a purchase order.

To facilitate a more automatic flow for handling repayments to loan, and to ease maintenance of those creditors related to loans, it is considered to import relevant creditor information from DMFAS into GBAP creditor master table.

7.1 Information flow

Creditor information is created and maintained in DMFAS. From DMFAS the relevant information is extracted and exported to the SU account in GBAP, handling loan and loan payments. The creditor information is imported into a worktable, where various part of the information can be validated and maintained. Also it should be possible to add information to the creditor, such as comments and GBAP specific information as posting group.

The information flow for creditor information can be illustrated in the following way;

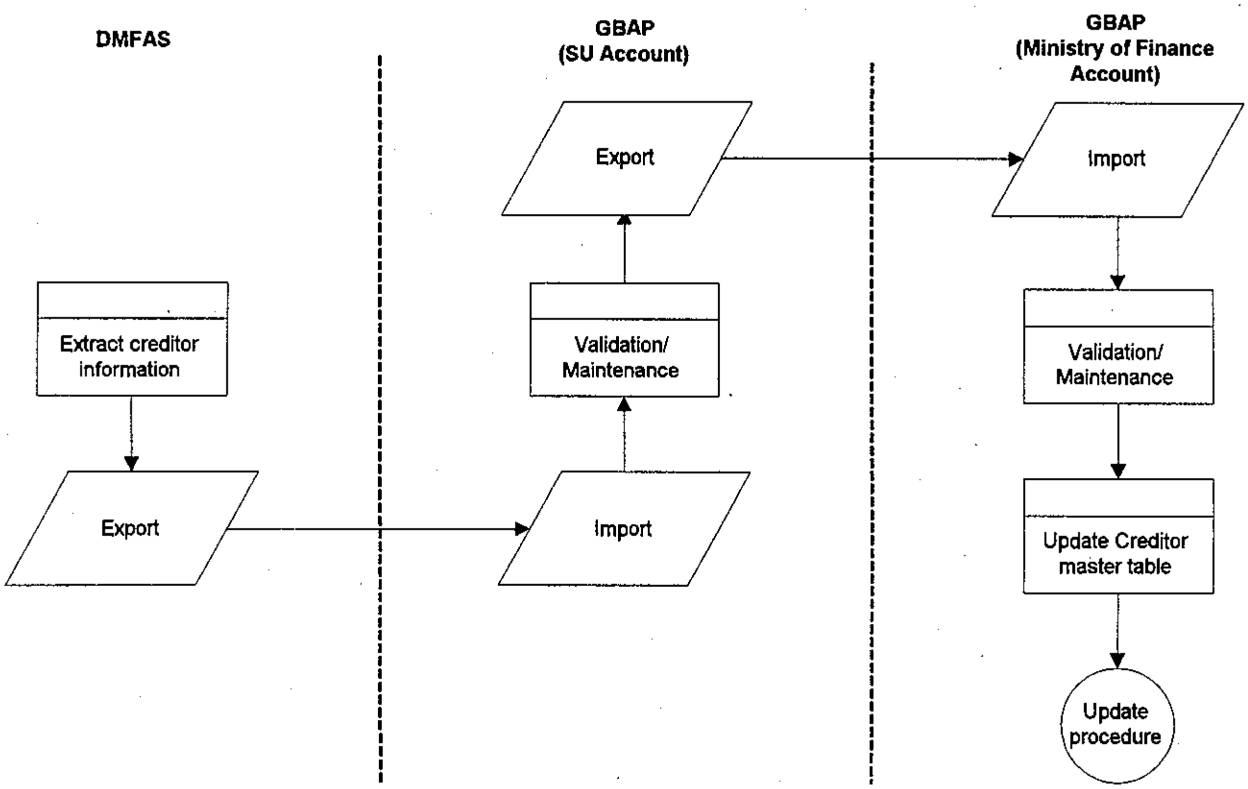


Figure 10: Creditor information flow

Creditor information is exported from the GBAP SU account to the GBAP Ministry of Finance account, where the information again is validated and maintained. Finally the creditor master table is updated and the update procedure handling general information tables can be activated.

7.2 Creditor information

Creditor information in DMFAS is represented in a main table supplemented by a range of attached tables. Also in GBAP the creditor information is located in a master table and a range of supplementary tables. Creditor information in GBAP can only be maintained central in the Ministry of Finance account. Creditor information is then distributed from Ministry of Finance to the other GBAP installations.

Information scheme			
DMFAS Table	DMFAS Fields	GBAP Fields	GBAP Table
PARTS	Not identified	-Code -Name	Supplier

Table 4: Scheme for Creditor information to be shared

7.3 GBAP changes in short

To enable this information flow for creditors, some modifications to GBAP and DMFAS is needed. Also the relevant information fields from DMFAS must be identified and described. Needed modifications to DMFAS are not further handled here.

The modifications needed in GBAP are mainly a range of new facilities.

Creditor import
The I/O module in GBAP must be expanded with an import for handling creditor information to be imported from DMFAS.

DMFAS Creditor handling
A new tablesetup where imported creditor information should be placed and maintained. Includes facilities for exporting creditor information from SU account to Ministry of Finance account.

Update Creditor master table in GBAP
Facility for updating creditor master table in Ministry of Finance. Should include a new mark on Creditor master table, identifying if the Creditor origins from DMFAS.

8. Onlending

It should be possible to transfer onlending information from DMFAS to GBAP. The idea of having onlending information in GBAP is primary to use it for accounting and statistical purposes. The actual handling of the loan (payments etc.) should still be located at DMFAS.

8.1 Onlending in GBAP

Onlending information in DMFAS is located in nearly the same tablestructure as external loans, just using various markers and types to differ the two types of loans.

Information concerning loan identification and amounts for onlending purposes are transferred as loan entries from DMFAS to the Navision GBAP loan module. This transfer of information can be either manually or automatically, depending on frequency for update, number of onlending entries, range of information fields that should be included, security considerations etc.

The basic information about the onlending is registered in the GBAP loan module. This includes information as loan identification, who the loan is granted to, loan terms etc. See chapter 5 for further description of this module.

It is proposed to use the customer module within GBAP to register information about borrower, actual amount for onlending and payments to the loan. Information about the onlending amount can be entered as a sales invoice, alternative as a prepayment through the general ledger using account type "Customer". In either case open customer ledger entries will be created. Payments to the loan is registered and posted through general ledger, settling the open customer entry. Information about payments must be updated in both DMFAS and GBAP. This can be done at the same time, alternatively importing information about payments first in DMFAS and then exporting this information from DMFAS to GBAP. In the following description it is assumed that onlending amounts is entered by the use of sales invoices. Also it is assumed that the sales invoice and payments is handled manually based on information from DMFAS.

Information about onlending amount and payments is automatically updated in the GBAP installation at the Ministry of Finance, using the update finance procedure.

8.2 Information flow

It is planned to handle onlending in a SU Account, created for this special purpose.

The information flow needed to establish the onlending amount in GBAP can be illustrated in the following way;

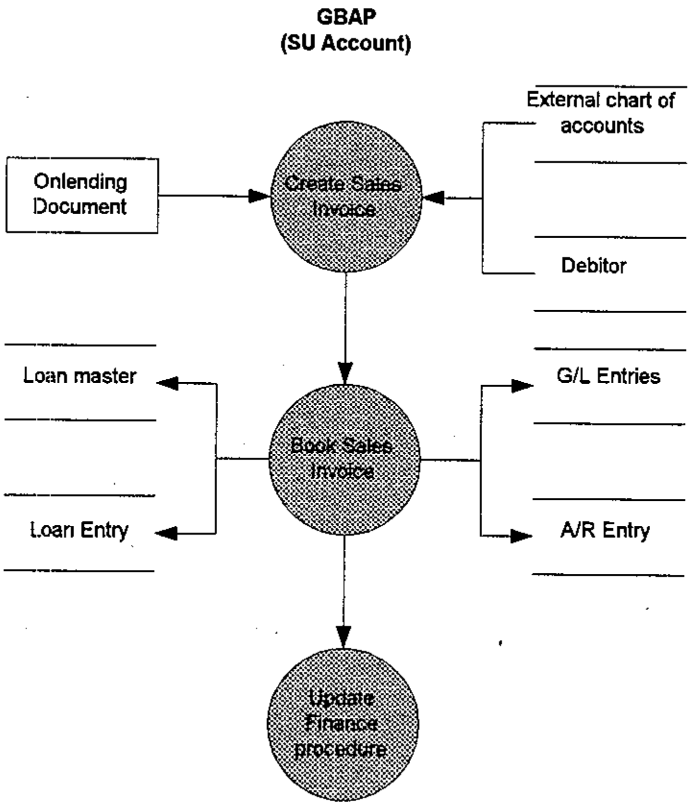


Figure 11: Onlending information flow (creation)

The sales invoice is created based on information from the onlending document (it is proposed to print a document from DMFAS with relevant information about the onlending). The sales invoice is created from within the sales module, using information from the customer master table. One sales invoice should be created per onlending amount. Information on sales header will be borrower (customer), loan identification, loan currency and other type of information to be stored in the loan master table when the sales invoice is booked. Information on the sales line should be amount and specifications of the external chart of accounts economical classification and functional classification.

When the sales invoice is booked, a range of entries will be created. This includes G/L entries, A/R entry and loan entry. At the same time the loan is inserted in the loan master table.

The following information flow is suggested to handle payments;

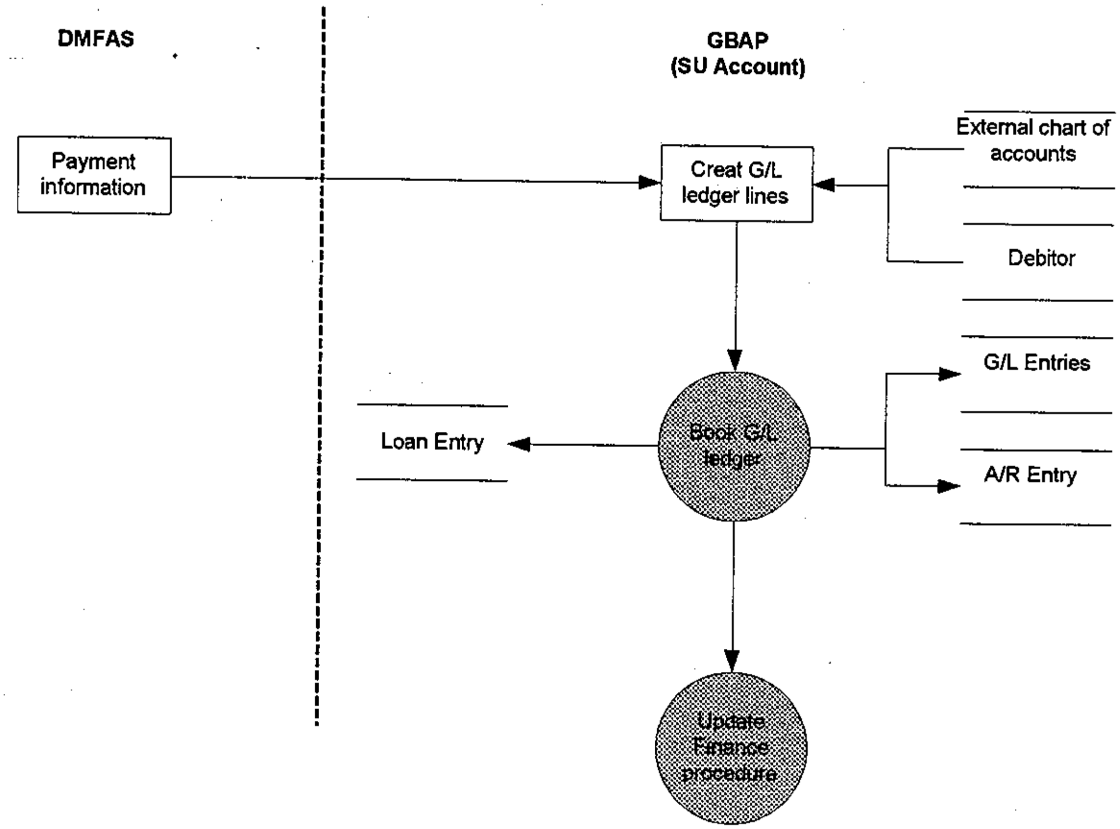


Figure 12: Onlending information flow (payments)

8.3 GBAP changes in short

To enable this handling of onlending in GBAP, some modifications to GBAP and DMFAS is needed. Also the relevant information tables and fields from DMFAS must be closer identified and described. Needed modifications to DMFAS are not further handled here.

The modifications needed in GBAP are mainly a range of new facilities.

<u>Sales invoices</u>
The sales module must be expanded with loan information fields and help facilities for getting default external chart of accounts. Also it must be possible to mark sales invoices created to establish onlending amount.

<u>Booking sales invoices</u>
The booking facility must be adapted, so loan master and loan entries can be created. This also results in the need for further validation when booking, and the need to store specific loan identification on G/L entries and A/R entries.

<u>Creating and booking payments to loan</u>
It must be possible to enter loan information in the general ledger journal and to settle onlending amount against payments in an easy way. Also additional validation regarding free amount against amount on payment should be established.

9. Customer Information

Onleanding will be handled in GBAP by the use of sales orders or prepayments through the general ledger.

To facilitate a more automatic flow for handling onleanding, and to ease maintenance of those customers related to onleanding, it is considered to import relevant debtor information from DMFAS into GBAP debtor master table.

9.1 Information flow

Customer information is created and maintained in DMFAS. From DMFAS the relevant information is extracted and exported to the SU account in GBAP, handling onleanding. The customer information is imported into a worktable, where various part of the information can be validated and maintained. Also it should be possible to add information to the customer, such as comments and GBAP specific information as posting group.

The information flow for customer information can be illustrated in the following way;

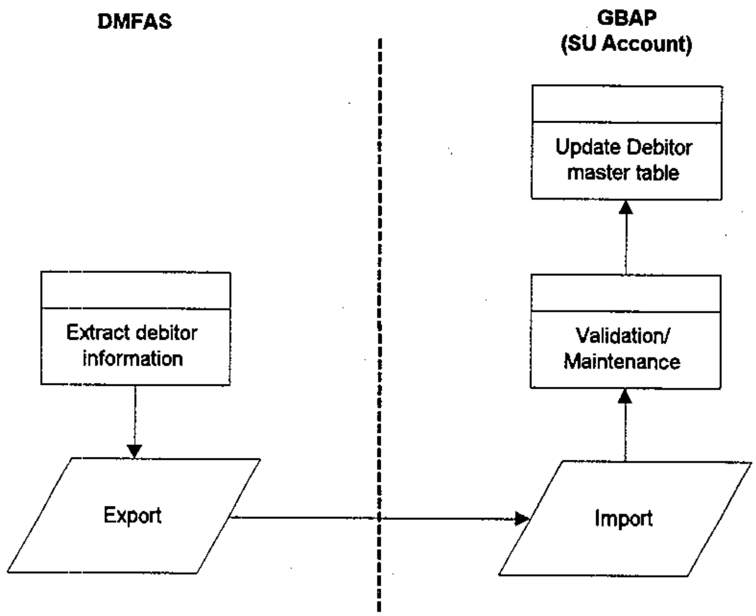


Figure 13: Customer information flow

After validation and maintenance, the customer master table is updated. The update is only made local in the SU account used for handling onleanding.

9.2 Customer information

Customer information in DMFAS is represented in a main table supplemented by a range of attached tables. Also in GBAP the customer information is located in a master table and a range of supplementary tables.

Information scheme			
DMFAS Table	DMFAS Fields	GBAP Fields	GBAP Table
PARTS	Not identified	-Code -Name	Customer

Table 5: Scheme for customer information to be shared

9.3 GBAP changes in short

To enable this information flow for customers, some modifications to GBAP and DMFAS is needed. Also the relevant information fields from DMFAS must be identified and described. Needed modifications to DMFAS is not handled any further here.

The modifications needed in GBAP are mainly a range of new facilities.

<u>Customer import</u>
The I/O module module in GBAP must be expanded with an import for handling customer information to be imported from DMFAS.

<u>DMFAS customer handling</u>
A new tablesetup where imported customer information should be placed and maintained.

<u>Update customer master table in GBAP</u>
Facility for updating the customer master table. Should include a new mark on the customer master table, identifying if the customer origins from DMFAS.

A description of the Lithuania Treasury System

The Steering Committee of the Project on the Government Budgeting, Accounting and Payment system

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A description of the Lithuanian Treasury System

1. Introduction.

On the basis of the seminar on the Treasury, May 28th, 1997, the Steering Committee of the Project on Government Budgeting, Accounting and Payment system has decided to work out a description of the State Treasury of the Republic of Lithuania to distribute as much information as possible, not only to the participants at the seminar, but to all in the government sector. The Steering Committee has found, that there is a great need for a short introduction to the Lithuanian Treasury System.

2. Law of the State Treasury.

On December 20th, 1994 the Seimas of the Republic of Lithuania passed the State Treasury Law (No. I - 712). In pursuance to the Law the State Treasury was established for the management of which the Minister of Finance was authorised to establish the State Treasury Department within the Ministry of Finance.

The State Treasury Law provides that the order of the State Treasury activities shall be established by the Minister of Finance. This order shall be binding on all Ministries, Departments, Institutions of the Government of Lithuania and persons, banks and all economic entities that are involved in the formation and usage of the State budget financial resources and other resources disposed by the Government of the Republic of Lithuania.

The mentioned Law provides that the State Treasury functions shall be the following:

- Management of the State budget financial resources and resources disposed by the Government of the Republic of Lithuania,
- Accumulation of the State budget financial resources and other resources disposed by the Government of the Republic of Lithuania in the Treasury accounts, transference of funds from the accounts, accounting and control of the processes, maintenance and rational usage of funds in the State Treasury procedures;
- State debt management;
- Accounting of financial transactions of the Government of the Republic of Lithuania;
- Accumulation and provision of information on the State budget revenue and other monetary funds managed by the State Treasury according to the established procedure.

The Ministry of Finance has established, in accordance to the law, the Treasury Department who contains of the following divisions:

1. Financial Planning and Analysis Division
2. Accounting Division
3. Budgetary Institutions Financing Division
4. Enterprises and Organizations Financing Division
5. Debt and Funds Management Division
6. Audit Division
7. Division of Functioning and Development of State Treasury Computerised System.

3. The Lithuaniain Treasury System.

3.1 Purpose and functions.

The Treasury has in general following main functions:

- Budget execution and cash management.
- Accounting and reporting governmental financial operations.
- Management of government debt, assets and contingent liabilities.
- Governmental accounting methodology, training and systems development.
- Internal audit.

To fulfil the purposes of the Treasury in Lithuania different kinds of elements have been imported. The must important of these elements are described in the chapter just below. For each element there is a list of the purposes of the introduced element.

3.2 A common government-wide chart of accounts.

The chart of accounts chosen for the general ledger system of the Treasury is based on a detailed Economic and Functional Classification of governments financial transaction standardised by the International Monetary Fund and widely used by countries in West Europe. It is designed to record the following major events in the revenue collection and expenditure processes:

Revenue collection.

1. Assessment and declaration of the payment due to government.
2. Deposit of revenue by the taxpayer or debtor.
3. Receipt of the revenue by the government.
4. Filing of return by the taxpayer.
5. Altered assessment which could result either in further deposit or refund.

Expenditure

1. Appropriations.
2. Allocations or allotments.
3. Commitments.
4. Deliveries.
5. Approval of request for payments.
6. Preparation of payment orders.
7. Payment to suppliers.

Purpose

- Facilitates budget control as the same classification is used for budgeting, and revenue and expenditure transactions.
- The budget allocations can be directly related to the actual expenditures as available in accounts as the general ledger is based on the same classification system.
- The uniform classification system facilitates trend analysis and other forecasting techniques.
- The recording and reporting of the financial position of Government is uniform for all Budgetary Institutions.

3.3 The Treasury Single Account

The Treasury Single Account (TSA) is a single account held by the Ministry of Finance in a bank through which all cash transactions of the government are made. The Treasury performs the functions of the banker to all public entities that are financed from the budget of the central government. The Budgetary Institutions hold their budget allocations in the books of the Treasury and are normally entitled to draw on the Treasury to the extent of available allocations.

Purpose

- The consolidation of cash balances of government agencies in a single account facilitates efficient cash management by the Treasury
- Makes possible the investment of the idle balances in the most profitable manner.
- Makes it possible to borrow funds at the most advantageous rates.

3.4 Treasury Zero Balance Deposit Accounts (TZBDA)

Government revenues, both tax and non-tax, are collected through a network of TZBDAs. Banks operating the TZBDAs are obligated to transfer the balances in these accounts daily to the Treasury Single Account. Once Government revenue is deposited in a designated TZBDA it is legally a part of the Treasury Single Account and therefore only the Ministry of Finance has direct access to such balances.

Purpose

- The Treasury is able to ensure that all government revenues are transferred to government balances immediately .
- The possibility of leakages of government revenues is minimized.
- The procedure ensures that as soon as government revenue is deposited it comes under government and cannot be used without parliamentary approval exercised through budget control.

3.5 The Request for Payment processing system

Budgetary Institutions hold individual accounts (budget allocations) within the Treasury system. The Treasury and the Line Ministries co-ordinate the requirement of funds of the Budgetary Institutions through the system of requests for payments. The Budgetary Institutions submit requests for payments to the Treasury through their line ministries.

These requests for Payments are monitored at the Line Ministry and the Treasury to ensure that the payments proposed conform to the approved budget and they are within the quarterly or monthly financial limits set for the Budgetary Institution. Payments requested by the Budgetary Institutions, which conform to the allocated budget, are made by the Treasury from the Treasury Single Account.

Purpose

- Ensures that funds are transferred out of the TSA only when they are required for making payments.
- Provides a mechanism to ensure that Budgetary Institutions make payments which conform with the parliamentary approvals as prescribed in the budget.
- Enables the Ministry of Finance to co-ordinate the cash requirements of Budgetary Institutions in accordance with the priorities laid down by parliament.
- Assists the Ministry of Finance in formulating optimum borrowing strategies.
- Provides Line Ministries with timely and reliable information on expenditures of the Budgetary Institutions under their supervision.

3.6 Commitments

The earlier expenditure process consisted of only two stages (1) budget allocations and (2) actual payments, and did not report or control commitments and verification of deliveries. In this system shortfalls in revenue collections were accommodated through expenditure cuts only at the payment stage, the last stage of the payment process.

The Budgetary Institutions will now be required to submit information about commitments made by them. Such commitments will be reported to the Line Ministries and the Treasury and will be recorded in the budgetary accounts. The Budgetary Institutions will also be required to report deliveries through specific entries in the accounts.

Purpose

- The Treasury will be able to track commitments and monitor the level and profile of potential obligations and access future needs of cash to fulfil these obligations.
- Government arrears in the budget execution can be exactly calculated and monitored.
- Delayed deliveries can be monitored and the defaulting suppliers tracked as debtors whenever deliveries are not forthcoming.
- The accounting of deliveries will also assist in the proper recording of current and fixed assets.

3.7 Computer - based budgeting, accounting and payment system (GBAP - system)

Treasury operations in the Treasury is based on a computerised budgeting, accounting and payment system. The system has been developed, with Danish government assistance, by modifying a commercial accounting package called NAVISION. The modifications are made to customise the commercial accounting package so that it can perform the functions associated with budget formulation and execution.

The Government Budgeting, Accounting and Payment system (GBAP) is operating in 4 organisational levels:

1. Budgetary Institutions.
2. Line Ministries/Departments.
3. Ministry of Finance/Treasury.
4. The Bank holding the Treasury Single Account.

The GBAP system consists of the following modules:

1. Budget module.
2. Accounting module.
3. Payment module.
4. Revenue module.
5. Fixed asset module.
6. Debtor module.
7. Report generator.

The main ideas in the GBAP system are:

1. Improve cash management.
2. Keep a tight financial control.
3. Deliver actual and reliable financial information to decision makers on all organisational levels.

The improvement in cash management will be achieved through daily revenue and expenditure figures, and through centralised payments directly to suppliers, whenever possible. Payments will be carried out by the Treasury Department in the Ministry of Finance, where a central list of suppliers will be maintained. Other information maintained centrally in the Treasury Department are the economical and functional classifications, as well as a complete list of Budgetary Institutions.

Actual and reliable information will be achieved through the modernisation of the accounting rules and classifications, and a wide implementation of the GBAP system. The GBAP system will be implemented in the 500 largest Budgetary Institutions covering 68% of the budget, where the remaining 1.000 Budgetary Institutions will get access to the GBAP system, either through a geographically close major Budgetary Institutions, or through their Line Ministry/Department.

All information entered in the GBAP system in a Budgetary Institution will be available in the Line Ministry/Department and in the Ministry of Finance on a daily basis. In this way, the Line Ministries and the Ministry of Finance will have the same possibilities to evaluate the financial status of a Budgetary Institution, as the Budgetary Institution itself.

The tight financial control will be kept, by making sure, that no Budgetary Institution will be able to spend more than their approved budget limits through the GBAP system, and by introducing strict control with payments.

4. Relations between the Parliament, the Line Ministries, the Budgetary Institutions and the Treasury

4.1 Relations between the Parliament and the Treasury

The Treasury is responsible for executing the budget approved by the Parliament. The approved budget forms the basis for budget control. The Treasury or the Line Ministries may shift allocations, during the year, within the framework approved by Parliament but have no right to change the framework. It is likely that the Treasury may face a temporary shortage of funds during its day-to-day operations. In such an event the Treasury may, in consultation with the concerned Line Ministry, postpone non-critical expenditure till funds become available either through borrowing or through improved revenue collection.

4.2 Relations between the Line Ministries and the Treasury

The Line Ministries exercise their financial rights at every stage of the expenditure process:

- They play the major role at the time of budget formulation as the line ministries are primarily responsible for suggesting the detailed plans for the expenditures of their subordinate budgetary institutions, within the overall budget frames. The final budget proposals are formulated after consultations between each Line Ministry and the Ministry of Finance.

- The proposals for commitments and requests for payment are routed through the line ministries. They may suggest to the Treasury whether the requests should be accepted, postponed or rejected.
- The Budgetary Institutions and the Line Ministries have complete freedom to choose their own suppliers and enter into contracts in accordance with the prescribed procedures. However, they must keep the Treasury informed about the suppliers selected and the commitments made so that the Treasury can arrange for obtaining and transferring the required funds.
- The Treasury plays the role of an impartial agency co-ordinating the demands for government funds from the Budgetary Institutions and limiting the total demands within the deficit envelope and/or borrowing limits approved by Parliament.

4.3 Relations between the Budgetary Institutions and the Treasury

4.3.1 Requesting funds for purchase of requirements of low value items and payment of salaries and wages

Each Budgetary Institution will be permitted to hold a limited amount of funds in a local bank account to make payments for purchase of low value items required for the day-to-day running of the office or for making advance payments for travel of employees. The limit for such accounts will be prescribed by the Ministry of Finance, Treasury Department in consultation with the Line Ministries and the Budgetary Institution in question and will depend upon the size of the Budgetary Institution. The balance in this account will be replenished from the Treasury whenever the Budgetary Institution presents an account of the expenditure made from the account.

In view of the difficulties in opening separate bank accounts for each employee of Budgetary Institutions, salaries and wages will continue to be paid in cash. The funds required to pay salaries will be transferred once every two weeks to the local bank account of the Budgetary Institutions. The cashier of the Budgetary Institution will then draw cash from the local bank account and pay salaries to the employees.

4.3.2 The Budgetary Institutions and their local bank accounts

The Treasury, in consultation with the Line Ministries, will prescribe a ceiling on the amounts which can be held by the Budgetary Institutions in their local bank accounts. These ceilings, on the amounts required for small expenditures and expenditures on salaries, can be estimated quite accurately on the basis of past trends and the number of employees in each budgetary institutions. The major balances in the local bank accounts will be held for a few days on and after pay day. These balances will be monitored in the Treasury as the Budgetary Institutions are required to register the funds transferred into their local bank accounts, in their general ledger which is automatically copied to the Line Ministry and Treasury.

5. Control Measures in the Treasury System.

5.1 General

The control measures in the Treasury System is a mixture of administrative control in the organisations and automated control in the GBAP system.

The control measures on the above mentioned 3 organisational levels can be divided into 4 categories:

1. Finance Act/Approved Budget Limits.
2. Budget control.
3. Payment control.
4. Audit.

5.2 Finance Act/Approved Budget Limits.

The GBAP system supports the budget cycle with budget proposals submitted by the Budgetary Institutions through their Line Ministries/Departments. The budget proposals will then be concatenated to one budget proposal submitted to the Government/Parliament.

When the Finance Act has been approved, this will be send to the Line Ministries/ Departments. The Line Ministries/Departments will detail the Finance Act to Approved Budget Limits (Control Budget) for each Budgetary Institution (on quarters and full economical classification and full functional classification). The Control Budget is then submitted to the Treasury and the Budgetary Institutions.

After approval of the Finance Act, only the Ministry of Finance can change the figures of the Finance Act (on approval from Parliament).

Only the Line Ministries/Departments can move budget between classifications for their dependent Budgetary Institutions (within the limits set by the Finance Act).

The Budgetary Institutions are not able to change the budget figures.

5.3 Budget control.

Basis for the budget control is the Control Budget, as described in the previous section.

The Control Budget is present at 3 organisational levels in the GBAP system (e.g. Budgetary Institutions, Line Ministries/Departments and the Ministry of Finance).

All payments submitted by a Budgetary Institution (Request for Payments) has to be classified according to functional and economical classification. It is not possible for a Budgetary Institution to submit a "Request for Payment" (RfP) to the Line Ministry, if this RfP exceeds the quarterly budget limits for the actual functional and economical classifications. RfP's are submitted to the Line Ministry/Department.

The Line Ministry/Department has to perform the same budget control as the Budgetary Institution, before passing the RfP's on to the Ministry of Finance (Treasury Department). This is done, to make sure all actual budget changes are taken into account, when passing on RfP's to the Treasury. If a RfP fails the budget control, the Line Ministry can advise the Ministry of Finance to pay or to reject the RfP.

The Treasury Department performs the same budget control, and the Treasury can choose to reject any RfP's which fails this control. The Treasury also have the right to reject payments on other grounds, as well as the right to delay payments.

On all 3 organisational levels, reports presenting the present financial status of a Budgetary Institution are available.

5.4 Payment control.

Apart from the Budget control described in the previous section, payments in the GBAP system have to go through a strict approval procedure on the different organisational levels. The approval procedure is the same, whether the payment is directly to a supplier, or whether it goes to the bank account of the Budgetary Institution for payment of wages for instance.

All persons which have a user code in the GBAP system will have to fill out a User code form, which will show access rights in the GBAP system. The form will have to be signed by the director of the Budgetary Institution. All User code forms are kept in the Treasury Department, with a copy in the Line Ministry.

In a Budgetary Institution a payment (or Request for Payment), has to be approved by two physical persons in the GBAP system, implemented via two user codes/passwords. It is not possible to send a RfP to the Line Ministry without this approval procedure.

Along with the approval procedure in the Budgetary Institution, all RfP's for approval have to be printed on a report (se enclosure 6), which must be signed by the director of the Budgetary Institutions , the Bookkeeper and the person, which approves the RfP in the GBAP system. This report must be kept in the Budgetary Institution, and will be part of the material used for the post audit, performed by the State Control Department.

The Line Ministry is able to check, which user code has approved a certain RfP, and can advise the Treasury Department, whether to pay a RfP.

Approval of RfP's in the Treasury Department is also done by two physical persons. One person will perform a formal control of the RfP's (check information about who has approved it in the Budgetary Institution and Line Ministry etc.), and another person will certify RfP's for payment through the Bank of the Treasury based on the priorities of the Treasury Department.

All RfP's selected for payment, will be electronically submitted to the Bank, but will also be printed in 4 paper copies, which will be signed by 2 persons in the Treasury Department.

5.5 Audit.

5.5.1 General.

The audit, as performed by the State Control Department, will play an important role in ensuring both the quality of the accounting through the post audit of the accounts, and in ensuring, that the Spending Units (Budgetary Institutions) follows the payment procedures, as described by the Treasury in the Ministry of Finance. The present audit, as it is done by the State Control Department, by one or more central audit units, is to make unannounced visits to the Spending Units (Budgetary Institutions), Line Ministries and the Ministry of Finance.

The introduction of the NAVISION system will as shown above strengthen the control with payments, and enhance the possibilities for audit, as well as create a need for additional audit functions (e.g. system audit/internal audit).

5.5.2 Enhanced possibilities for audit

The NAVISION system makes sure, that all payments are kept inside the budget limits set in the Control Budget. The system also make detailed payment information available on the 3 organisational levels, Spending Units (Budgetary Institutions), Ministry and Treasury. In this way, information about all payment requested from a Spending Unit (Budgetary Institution), will before payment, be available in the Ministry and in the Treasury. The payment information includes:

- Spending Unit Code (Budgetary Institution Code)
- Department/Ministry Code
- Persons the Request for Payment is Approved/Entered by
- Supplier
- Payment Date
- Functional Classification
- Economic Classification
- Amount

With this information available in the Ministry and the Treasury, it is easier for the State Control Department to select Spending Units (Budgetary Institutions) for audit visits, for instance based on statistics on uncharacteristic payment patterns per supplier, payment to certain suppliers, uncharacteristic payment patterns over time etc.

There will be (and for some already is) established so-called hot - line services in the Ministries and in the Ministry of Finance. These hot - line services will answer questions from the users regarding the use of the Treasury system, as well as answer questions about budgeting, accounting and payment procedures.

A part of the work for these hot - line services is to register the posed questions with information like:

- Spending Unit Code (Budgetary Institutions Code)
- Department/Ministry Code
- Question asked
- Date for question asked
- Answer given
- Date for answer given
- General area of questions asked

A quantitative and qualitative walk-through of the hot - line statistics will be a valuable basis for selecting Spending Units (Budgetary Institutions), where the employees will need further instruction in the system, for instance through advice from auditors.

5.5.3 System audit and internal audit

Setting up a Treasury system creates a need for auditing the procedures in the system (system audit), as well as a need for strengthening the implementation and audit of procedures around the system (how to use the system).

Audit of procedures in the system, the system audit, will have to be carried out by the Treasury Department in co-operation with the State Control Department. This audit will contain a structured walk-through of:

- Budgeting, accounting and payment instructions connected with the use of the system
- Instructions of how to use the system (user manuals)
- All budgeting, accounting and payment procedures implemented in the system, to make sure, they comply with the instructions
- Security instructions and security measures in the system

The system audit will mostly be performed at the central level of Government, e.g. in the Treasury Department.

When implementing a financial system like the NAVISION Treasury system, it is necessary to make sure, the system is used according to the instructions given by the Ministry of Finance. A part of this is training the users in budgeting, accounting and payment procedures, and how to use the Treasury system. Another part is establishment of advice functions on both system use, as well as budgeting, accounting and payment instructions (hot - line functions etc.).

A third part is to introduce an audit function, which can control, that the procedures are actually followed in the daily work, and that the Treasury system is used correct. This audit (often named internal audit) can only to some extent take place in the Ministry of Finance, most of the work will have to take place in the Spending Units (Budgetary Institutions) and Line Ministries, and should be done in co-operation with the State Control Department.

The Ministry of Finance has based its new internal audit function on the present audit, as it is done by the State Control Department with central audit units with unannounced visits to the Spending Units (Budgetary Institutions), Line Ministries and Treasury Department. This is also what the Danish Ministry of Finance advice to do.

Given the information systems available (the NAVISION Treasury system and the hot - line statistics) for selecting Spending Units (Budgetary Institutions) for visits by auditors, it is believed, that the incorrect use of funds can be minimized in the Spending Units (Budgetary Institutions) using the Treasury system, in relation to the situation today.

5.6 Physical security.

The GBAP system has some additional security features regarding the communication between the organisations using the system. The most important of these security features are:

1. Numbering and identification of files.
2. Encryption of "Request for Payment" files.
3. Use of dedicated lines between Line Ministries/Departments and the Ministry of Finance.
4. Use of "closed user groups" in dial-up lines.

All files created by the GBAP system, and submitted to other organisations, have numbers in sequence per organisation, as well as identification of the sender. The receiving organisation have the same sequence numbers, and only the next number in the sequence will be accepted (with the right identification number).

Files regarding payments send between the Budgetary Institution, Line Ministries/Departments, Ministry of Finance and the Bank are encrypted. The key to this encryption differs from Budgetary Institution to Budgetary Institution, and can be changed from transmission to transmission. Payment order files send to the Bank from the Treasury Department has additional security features, like check sums etc.

The communication network used for the GBAP system is an X.25/X.28 network, which is a highly secure communication protocol. In addition to this, the lines used between the Line Ministries and the Ministry of Finance, as well as the line between the Ministry of Finance and the Bank, are dedicated lines. This means, that the lines are permanently set-up between the locations, and it is not possible for others to interfere in the communication, unless they physically cut the line.

Between Budgetary Institutions and their Line Ministries/Departments dial-up lines are been used, instead of dedicated lines. Dial-up lines as opposed to dedicated lines, are lines where you phone to the destination, and not a permanent connection. With these lines, we use "closed user groups", which means, that the Line Ministry can identify the caller, and if the caller is not a member of the user group, the call will be rejected.

Common for all communication lines are, that the user will have to enter a password, when they start the communication. The password has to be agreed between the sender of information, and the receiver of the information.