

Standard Summary Project Fiche for the Transition Facility

1. Basic Information

1.1. CRIS Number: 2004/016-925/04-01

1.2. Title: Improvement of Public Debt and Cash Management Functions

1.3. Sector: Public Finance

1.4. Location: Ministry of Finance of the Republic of Lithuania

2. Objectives

2.1. Overall Objectives

The overall objective of this **0.59 MEUR Project** is to increase efficiency in public debt and cash management and to fulfil the obligations of membership in the field of public finance and macroeconomic statistics.

2.2. Project purpose

To assist the Ministry of Finance to implement an integrated and comprehensive debt and cash management information system which will improve and strengthen the debt and cash management functions and will increase the quality of public finance statistics.

2.3. Justification

The Comprehensive Monitoring Report on Lithuania's preparation for membership of 2003 (Chapter 12 on Statistics) indicates that “the *acquis* in the field of statistics requires adoption of basic principles such as impartiality, reliability, transparency, confidentiality of individual data and dissemination of official statistics”.

Commitments made in the accession negotiations in the Lithuanian position paper in **Chapter 11 “Economic and Monetary union”**- “the adjustment of the Lithuanian system of statistical data to the EU requirements, a full harmonization of the methodological differences of the public sector in accordance with the accrual principle, meeting all the requirements in the area of budgetary discipline set for the EU member states concerning public debt and government deficit figures”.

The following EC regulations are relevant for this project:

Council Regulation 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community (ESA95).

Council Regulation 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community.

Council Regulation 1466/97 of July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

3. Description

3.1. Background and Justification

Management of the public debt is the responsibility of the State Treasury Department within the Ministry of Finance of the Republic of Lithuania. The aforementioned department is also responsible for cash management and budget forecasting. Previously those functions were separated in two departments, but in order to develop a more integrated asset and liability management framework, to strengthen the communication lines between the Treasury and the Debt management function and to eliminate the duplication of activities the State Treasury and the Public Debt Management departments were merged in February, 2004.

At present, the systems (DMFAS, ACCESS, NAVISION FINANCIALS, MS EXCEL) designed and installed for debt management operate independently; moreover there is no any interface with the Budget or Treasury systems. Furthermore, all cash management calculations are done in MS EXCEL environment, thus entailing high operational risk, that some payments will not be proceeded properly and that statistical figures will not be correct, in such way it will be put on revision several times. The absence of integrated debt and cash management information system also entails high inefficiency in State Treasury daily operations.

The existing debt management information system was established in cooperation with the experts and advisors from international organisations. As the need of more comprehensive and integrated system was realised, there have been many initiatives to start the replacement and implementation of new system for debt and cash management. For example, at the beginning of 2003 the Ministry of Finance initiated the Debt Information System Management project financed from the World Bank Institutional Development Fund Grant. The Specific Objective of this project was to make the assessment of the existing Public Debt Management information system in terms of relevancy, effectiveness, functionality, data security, compliance with the EU requirements, indicate problems and advantages of the used systems, provide with the detail proposals with the cost, time, and other estimates concerning the computer based program(s). The assessment had been undertaken by the external consultant where he recommended that the there should be a major systems project instigated with the primary goal of progressively replacing the existing systems with the integrated front, middle and back office debt and cash management systems that meet basic current needs and provide a platform to satisfy future requirements. However, these initiatives stopped for a time due to the insufficient expertise and resources or due to the fact that there was no well-designed strategy established.

Presently, the Ministry of Finance of the Republic of Lithuania is planning (it has allocated the required funds in Strategic Action Plan of the Ministry of Finance) to acquire from national funds an integrated and comprehensive public debt and cash management system, which will increase efficiency of Treasury's daily operations and will improve reporting to the European Commission and other international and national institutional units. However, before the purchase of such system and in the process of its implementation, there is a demand for external technical assistance, in the presence of the fact, that the Ministry of Finance do not have enough inner resources and professional capabilities for preparation for acquiring and successful implementation of debt and cash management information system.

This project will contribute to the national efforts to improve and strengthen the debt and cash management functions. It is planned, that at the completion of the project, Ministry of Finance will have the operational integrated and comprehensive debt and cash management system that will provide up-to-date and accurate public debt information in a single and logical database with the functionalities for effective cash management to enable analysis and reporting to be undertaken in a timely manner and following the ESA95 (European system of accounts) requirements for the debt accounting.

3.2. Linked Activities

In 2001 the Public Debt Management Department of the Ministry of Finance received the Institutional Development Fund (IDF) Grant of USD 338.000 from the World Bank for Improving the Public Debt and Assets Management Functions in the Ministry of Finance – IDF Grant No. 27413. The Grant was mainly provided for the establishment and development of Risk Management Framework, i.e. training, consultants' services, guidelines, risk management models and procurement of some equipment.

As mentioned in the 3.1 Section, in 2003 the Debt Information System Management project was financed from the above-mentioned Grant to make the assessment of the existing Public Debt Management information system. This project indicated problems and advantages of the used systems and provided with the detail proposals with the cost, time, and other estimates concerning the computer based program(s).

3.3. Results

The following results will be achieved under the activities of this project:

- The requirements for the new debt and cash management information system formulated;
- Fully integrated debt and cash management information system concept and implementation strategy prepared;
- Integration strategy of debt and cash management system with the Treasury system (GBAPS) or other units prepared;
- Study trips to relevant institutions in EU member states conducted;
- The report on review and testing of systems with debt and cash management functionality prepared;
- The documentation for the acquisition of the IT system prepared and the tender dossier filled out;
- The compliance of current IT infrastructure in the Ministry of Finance with the proposed IT systems evaluated and the recommendations prepared;
- The procedure manuals for the operation of the debt and cash management system prepared.

3.4. Activities

The following activities under the Services (Technical Assistance) contract are envisaged:

- Detail analysis of the business processes relating to debt and cash management and formulation of the requirements for the new information system;
- Preparation of the fully integrated debt and cash management system concept and implementation strategy, consistent with the Ministry of Finance IT strategy and infrastructure;
- Preparation of integration strategy of the debt and cash management information system with the Treasury system (GBAPS) or other units and preparation of the interfaces description;
- The study trips to relevant institutions in EU member states in order to examine the debt and cash management systems in operation;
- Review and testing of systems with debt and cash management functionality available in the market;
- Preparation of the documentation (terms of reference, technical specifications) for the acquisition of the IT system and filling the tender dossier;
- Evaluation of compliance of current IT infrastructure in the Ministry of Finance with the proposed IT systems;

- Full assistance in tendering as well as in the decision making process, discussions and optimal solution selection;
- Participation in the implementation process of the new debt and cash management IT system, supervision and co-ordination;
- Participation in preparation of the procedure manual for the operation of the debt and cash management system in the new organisational set up.

3.5. Lessons learned

In the past, there were no Phare projects with the goal to support public debt management functions in the Ministry of Finance.

Taking into consideration implementation and outputs of the previous projects on debt management financed from the other donors it could be assumed that good preparation, qualified knowledge and the experience of the conduction of such projects would lead to the selection and implementation of debt management information system, ensuring that it can meet the requirements established for debt and cash management and fit the timetable needed to meet the decision-support requirements of the public debt management operations. It should also be ensured that the project is designed correctly, control over the project is maintained throughout and expectations are achieved fully.

4. Institutional Framework

The Project's main beneficiary will be the Ministry of Finance. The Government has assigned the management of the public debt and cash funds to the Ministry of Finance. The State Treasury Department within the Ministry of Finance has the responsibility to manage the public debt and cash funds of the state. The State Treasury Department has around 33 staff involved in public debt and cash management across the following divisions: Borrowing and Cash Management Division, Forecasting and Risk Management Division, Accounting Division, Finance Statistics Division. Within the structure of the department, there is also Financing and Payments Division, which is mainly responsible for transferring of the funds to the appropriation managers of the state budget.

In this project Information Technology Department within the Ministry of Finance will be involved as well. The aforementioned department takes the responsibility for IT strategy of the Ministry as a whole, for backing up the acquisitions of systems needed to run any operations of Ministry of Finance and for ensuing daily maintenance.

The project will be coordinated by the working group formed from the Information Technology Department and State Treasury Department.

In order to ensure the compatibility and comparability of the public finance data provided to the European Commission and to the national government, the productive cooperation between other units of the Ministry of Finance and other Government institutions (Statistics Lithuania, Bank of Lithuania) is going to be ensured.

Supervision of the implementation of this project will be ensured through the Steering Committee, which will include representatives from Ministry of Finance, Bank of Lithuania, Statistics Lithuania and observers from CPMA and the National Aid Coordinator.

5. Detailed Budget

| Project Components | Transition Support Facility | | | National Co-financing | IFI | TOTAL |
|--------------------|-----------------------------|----------------------|-----------------|-----------------------|-----|-------|
| | Investment Support | Institution Building | Total TF(=I+IB) | | | |
| Services | | 0.59 | 0.59 | | | 0.59 |
| Total | | 0.59 | 0.59 | | | 0.59 |

6. Implementation Arrangements

6.1. Implementing Agency

The implementing agency will be the Central Project management Agency (CPMA). The CPMA will be responsible for tendering and contracting of the project.

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Responsibility for technical preparation, control and implementation will remain with the beneficiary, Ministry of Finance of the Republic of Lithuania.

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6.2. Non-standard aspects

There are no non-standard aspects to this project. The rules of EDIS will be strictly followed.

6.3. Contracts

There will be one tender for Services with the 0.59 MEUR value.

7. Implementation Schedule

| Component | Start of tendering | Start of project activity | Project completion |
|-----------|--------------------|---------------------------|--------------------|
| Services | 4Q 2004 | 2Q 2005 | 4Q 2006 |

8. Sustainability

The Ministry of Finance has foreseen the required funds for acquisition of debt and cash management information system and the funds for the further maintenance of the acquired information system. The adequate staff to use the debt and cash management information system has been allocated.

9. Conditionality and Sequencing

Technical Assistance provided under this project is expected to be the prerequisite for acquiring and will come along with implementation of an integrated and comprehensive debt and cash management information system, thus giving the sequencing that Ministry of Finance will purchase the aforementioned system somewhere in the mid of this project.

The project will be executed according to the Implementation Schedule (Annex 2).

Annexes to Project Fiche

1. Logframe Matrix
2. Detailed Implementation Chart
3. Cumulative Contracting and Disbursement Schedule for the Project
4. Reference to Feasibility/Pre-Feasibility Studies
5. List of Relevant Laws and Regulations
6. Summary of the report “Assessment of the Public Debt Management Information Systems of the Ministry of Finance of the Republic of Lithuania”

Annex 1

| LOGFRAME PLANNING MATRIX FOR Project: Improvement of Public Debt and Cash Management Functions | | Project name and number | |
|---|--|--|---|
| | | Contracting Period Expires: 3Q/2006 | Disbursement Period Expires: 3Q/2007 |
| | | Total Budget: 0.59 MEUR | Transition Facility Budget: 0.59 MEUR |
| Overall Objective To increase efficiency in public debt and cash management and to fulfil the obligations of membership in the field of public finance and macroeconomic statistics. | Objectively Verifiable Indicators <ul style="list-style-type: none"> The lower level of idle cash balances in Single Treasury Account The lower discrepancy between initial and revised statistical data | Source of Verification <ul style="list-style-type: none"> The Annual Performance report of the Ministry of Finance The Protocol on the excessive deficit procedure, National accounts (financial account)-reported to the European Commission | |
| Project Purpose To assist the Ministry of Finance to implement an integrated and comprehensive debt and cash management information system which will improve and strengthen the debt and cash management functions and will increase the quality of public finance statistics. | Objectively Verifiable Indicators At the end of project fully operational debt and cash management information system | Source of Verification <ul style="list-style-type: none"> The Annual Performance report of the Ministry of Finance | Assumptions Inter-institutional cooperation between Statistics Lithuania, Bank of Lithuania and the Ministry of Finance |
| Results <ul style="list-style-type: none"> The requirements for the new debt and cash management information system formulated; Fully integrated debt and cash management information system concept and implementation | Objectively Verifiable Indicators <ul style="list-style-type: none"> Written requirements, concept and implementation strategy of debt and cash management system; Written integration strategy of debt and cash management system with the Treasury system or other units; | Source of Verification <ul style="list-style-type: none"> Project progress reports. Project monitoring reports. Project evaluation reports. | Assumptions <ul style="list-style-type: none"> Productive cooperation with the IT department and other units of the Ministry of Finance. There are no significant delays in obtaining the debt and cash management information system. |

| | | | |
|---|--|--|--|
| <p>strategy prepared;</p> <ul style="list-style-type: none">• Integration strategy of debt and cash management system with the Treasury system (GBAPS) or other units prepared;• Study trips to relevant institutions in EU member states conducted;• The report on review and testing of systems with debt and cash management functionality prepared;• The documentation for the acquisition of the IT system prepared and the tender dossier filled out;• The compliance of current IT infrastructure in the Ministry of Finance with the proposed IT systems evaluated and the recommendations prepared;• The procedure manuals for the operation of the debt and cash management system prepared. | <ul style="list-style-type: none">• Written reports on study trips to relevant EU institutions;• Written report on review and testing of systems;• Prepared tender documentation and the tender dossier;• Written report on compliance of current IT infrastructure with the proposed IT systems;• The procedure manuals for the operation of the debt and cash management system. | | |
| <p>Activities</p> <ul style="list-style-type: none">• Detail analysis of the business processes relating to debt and cash management and formulation of the requirements for the new information system;• Preparation of the fully integrated debt and cash management system concept and implementation strategy, consistent with the Ministry of Finance IT strategy and infrastructure;• Preparation of integration strategy of the debt and cash management information system with the Treasury system (GBAPS) or other units and preparation of the | <p>Means</p> <p>Services contract: External advisors and technical assistance: 0.59 MEUR</p> | | <p>Assumptions</p> <p>There are no unexpected delays Fitting the planned time table</p> |

| | | |
|---|--|--|
| <p>interfaces description;</p> <ul style="list-style-type: none">• The study trips to relevant institutions in EU member states in order to examine the debt and cash management systems in operation;• Review and testing of systems with debt and cash management functionality available in the market;• Preparation of the documentation (terms of reference, technical specifications) for the acquisition of the IT system and filling the tender dossier;• Evaluation of compliance of current IT infrastructure in the Ministry of Finance with the proposed IT systems;• Full assistance in tendering as well as in the decision making process, discussions and optimal solution selection;• Participation in the implementation process of the new debt and cash management IT system, supervision and co-ordination;• Participation in preparation of the procedure manual for the operation of the debt and cash management system in the new organisational set up. | | |
| | | |

Detailed Implementation Chart for the Project

| Year | 2004 | | | | 2005 | | | | | | | | | | | | 2006 | | | | | | | | | | | |
|-------|------|----|----|----|------|---|---|---|---|---|---|---|---|----|----|----|------|---|---|---|---|---|---|---|---|----|----|----|
| Month | 9 | 10 | 11 | 12 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| TA | | | | | | | | | | | | | | | | | | | | | | | | | | | | |



design
tendering
implementation

CUMULATIVE CONTRACTING AND DISBURSEMENT SCHEDULE (Transition facility Contribution only –0.59 €Million)

| | 2004 | | | | 2005 | | | | 2006 | | | |
|--|-------|-------|-------|-------|-------|--------------|---------------|---------------|---------------|---------------|--------------|-------------|
| | 31/03 | 30/06 | 30/09 | 31/12 | 31/03 | 30/06 | 30/09 | 31/12 | 31/03 | 30/06 | 30/09 | 31/12 |
| Contracting | | | | | | | | | | | | |
| • Services | | | | | | 0.59 | | | | | | |
| Total contracting (cumulative) | | | | | | 0.59 | 0.59 | 0.59 | 0.59 | | | |
| Disbursement | | | | | | | | | | | | |
| • Services | | | | | | 0.177 | 0.2478 | 0.3186 | 0.3894 | 0.4602 | 0.531 | 0.59 |
| Total disbursement (cumulative) | | | | | | 0.177 | 0.2478 | 0.3186 | 0.3894 | 0.4602 | 0.531 | 0.59 |

Reference to Feasibility/Pre-Feasibility Studies

In January, 2003 the assessment of the public debt management information systems was undertaken by the external consultant Ian Storkey where he evaluated the existing system and prepared the assessment report, indicating problems and advantages of the used computerized systems and giving different scenarios (including development or purchasing of new system) with the cost, time and other estimates for improving Public Debt management information system based on the best market and public debt and cash management practices.

Recommended Indicative Costs

| | EUR '000 |
|--|----------|
| Cost of debt/risk management systems | 900 |
| Implementation costs including customization, reports and training | 500 |

This calculation is based on the following assumptions:

- a comprehensive front, middle and back office debt/risk management system is acquired based on a 20 user license;
- the debt/risk management systems will be installed on the existing network and that there will be no need to purchase additional hardware/software (the cost of hardware is likely to be limited to the addition of 1-2 servers);
- the Ministry of Finance has database software licenses for the system (e.g., Microsoft SQL, Sybase or Oracle);
- the Selection Process & Implementation QA external advisor will be sourced from outside Lithuania, and that the project team resources will be drawn from the Ministry of Finance for the “Reasonable” case;
- external implementation project manager and integration consultants required to develop interfaces across each system and to other systems are engaged under the “Maximum” case.

List of Relevant Laws and Regulations

Laws and Regulations related to Public Debt management:

1. The Law on the Amendment of the Law on the Public Debt (18/12/2003 No. IX-1917), *which harmonises Public Debt calculation with EC requirements.*
2. The Law on State Treasury (20/12/1994 No I-712).
3. The Resolution of the Government of the Republic of Lithuania on the Approval of the Policy trends of the Government medium-term borrowing (07/01/2002 No. 4).
4. The Resolution of the Government of the Republic of Lithuania on the Borrowing of the Government of the Republic of Lithuania (13/01/2004 No. 29).
5. The Resolution of the Government of the Republic of Lithuania on the Approval of Procedures for the Issue of the Government securities in the International markets, signing other commitment documents and foreign borrowing (20/11/2001 No. 1377).
6. The Resolution of the Government of the Republic of Lithuania on Procedures for Accounting the State Liabilities (07/02/2000 No. 134).
7. The Resolution of the Government of the Republic of Lithuania on the Approval of Procedures for the Government Securities Issue and Turnover (03/12/1997 No. 1329).
8. The Order of Finance Minister on the Approval of Methodology for Public Debt Accounting (14/05/2004 Nr. 1K-189).
9. The Order of Finance Minister on the Approval of Accounting Methodology of Debt Liabilities of Central Government and Social Funds (17/03/2004 No. 1K-086).

The legal basis for public debt management and accounting in the **EC**:

1. The Council Regulation No. 3605/93 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community
2. The Council Regulation No. 2223/96 on the European System of National and Regional Accounts in the Community
3. The Council regulation No.1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

The legal basis related to EC regulations in **Lithuania**:

1. The Resolution No 569 of 16 May 2001 of the Government of the Republic of Lithuania on Implementation of the European System of national and regional accounts in Lithuania

Summary of the report “Assessment of the Public Debt Management Information Systems of the Ministry of Finance of the Republic of Lithuania”

This report presents findings from an assessment of the Information Systems in the Public Debt Management Department (PDMD) (which is recently merged with the State Treasury department) undertaken by Ian Storkey, Director, Storkey & Co Limited for the Ministry of Finance of the Republic of Lithuania.

Specifically, the PDMD sought assistance to make an assessment of the existing Public debt management information system, which is used for managing the public debt and on-lend funds, and provide detailed proposals concerning the computer based program(s) in order to establish a fully integrated and efficiently functioning Public debt management information system (including information systems for the front, middle and back offices).

The assessment of the Information Systems was undertaken during a two-week in country mission from 13-24 January 2003.

The Assessment has concluded that debt/risk management systems are required to support the business needs of PDMD, particularly given the increasing sophistication and new initiatives that are planned for the future.

The PDMD currently uses the computer-based Debt Management and Financial Analysis System (DMFAS), designed and supported by United Nations Conference on Trade and Development (UNCTAD). ACCESS (an in house developed software application using Microsoft Access) is used for the registration of domestic government securities and Navision Financials (an in house developed software application) is used for the accounting and monitoring of borrowed funds. The Middle office is currently not using any specific programs for performing their tasks. Thus, the improvement of the Public debt management information system should facilitate the Ministry of Finance to better manage the public debt, to undertake comprehensive debt analysis, and to produce reports.

The existing debt/risk management systems can be characterised as:

- DMFAS – a debt recording and basic management system;
- Manual Processing – including significant re-keying of information;
- Data Fragmentation – large dependency on multiple databases and Microsoft Excel spreadsheets;
- Lacking Standard Functionality – analytical and processing;
- Lacking Risk Management Capability – limits, risk monitoring and operational risks.

The shortcomings of the existing debt/risk management systems present PDMD with a number of risks. These shortcomings and risks are well known and understood by PDMD staff and management.

Therefore, it is recommended that the PDMD instigates a major systems project with the primary goal of progressively replacing the existing DMFAS, ACCESS and Navision Financials systems within 2-4 years with “open” and integrated front, middle and back office debt/risk management systems that meet PDMD’s basic current needs and provide a platform to satisfy future business needs.

This would involve a four-phased approach:

- Phase one of the project will be to determine PDMD's requirements and select by tender integrated debt/risk management systems to cover front, middle and back office requirements.
- Phases two and three will be to implement the debt/risk management systems selected to provide basic debt/risk management functionality such as deal capture, position keeping, back office processing and basic reporting. This will enable PDMD to move towards a straight through processing environment and improve the efficiency of the overall operation. This will provide PDMD with an accurate level of public debt, both external and internal, as at the current point in time. It will also provide PDMD with the capability to report public debt in a timely and accurate manner for both internal and external purposes.
- Phase four will harness the full capabilities of the debt/risk management systems through the implementation of more middle office functionality. This will enable PDMD to perform more sophisticated risk management and introduce limit monitoring and compliance.

At the completion of the project, PDMD will have debt/risk management systems that provide up-to-date and accurate public debt information in a single logical database to enable analysis and reporting to be undertaken in a timely manner across the whole of PDMD.