

The Phare logo consists of the word "Phare" in a white, sans-serif font on a black rectangular background. In the top right corner of the black rectangle, there is a small white graphic of a flag with stars, similar to the European Union flag.

**SUPPORT TO EUROPEAN INTEGRATION IN LITHUANIA (SEIL)**  
**PHARE PROJECT, CONTRACT NO LI/19701**  
**European Committee under the Government of the Republic of Lithuania**

**MINISTRY OF FINANCE OF THE REPUBLIC OF LITHUANIA**

SUB-PROJECT

**SUPPORT FOR**  
**POLICY IMPACT ANALYSIS /**  
**BUDGETARY IMPACT**

FINAL REPORT

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**SUPPORT TO EUROPEAN INTEGRATION IN LITHUANIA (SEIL)**  
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**SUB-PROJECT: SUPPORT FOR THE ANALYSIS OF BUDGETARY IMPACT OF  
LITHUANIA'S INTEGRATION INTO THE EU**

**Short-term experts: Rauno Lämsä, Turo Hentilä**

**Summary / Conclusions**

of project expert report submitted on September 1<sup>st</sup> to Lithuanian Ministry of Finance. The report is based on data submitted by the the Ministry of Finance and by the European Commission. Other Phare experts have equally submitted comments. In the Ministry of Finance an eight member expert group co-operated with the external experts. The experts work in the Ministry of Finance in Finland but the calculations and recommendations are presented as independent experts views.

The membership of the European Union will have noticeable impacts in various sectors of Lithuanian's society. The final result of the accession negotiations will define the exact magnitude of these impacts. These impacts on different sectors can sometimes be measured explicitly in economic terms but often they cannot be put in budgetary terms.

As a whole the EU membership will have implication for revenue collection, for expenditure management (budget execution) and accounting, and for national budget planning (revenue, expenditure and the fiscal stance). Because of the degree of political and public interest, the Lithuania's systems for dealing with the public finance consequences of the EU membership should design to maximise transparency.

Even with the limitations mentioned above the budgetary impacts of the EU-membership are usually of great interest to a new Member State. And even after the first years of the membership the budgetary impacts are followed closely by many groups (i.e. politicians, civil servants, opponents of the membership, mass media etc.).

Budgetary impact of the EU-membership can be estimated in many ways. The basic model is the one where all the budgetary flows between the EU budget and the national budget are first identified and then estimated in budgetary terms. This basic model represents in a way a rather narrow viewpoint since, in addition to the direct money flows between the EU budget and the national budget, there can be changes for example in relation to tax revenue or national aid schemes due to the EU-membership.

The estimation based on the basic model is however very important before and during the membership. It is the estimation derived from this basic model which will most likely play a big role at the end of the accession negotiations. And it was this basic model which was the centrepiece of the attention when the EU's financing system was last (in Berlin European Council 24.-25.3.1999) changed.

For the case of Lithuania the short term experts and the Lithuanian authorities agreed to use as a working hypothesis the date 1.1.2004 as a first day of Lithuanian's membership. Even though the acquis in various sectors of EU legislation has been agreed over the period 2000-2006 it is still very difficult to make firm estimates of the budgetary flows involved after the Lithuanian's membership. One reason for this is that the economic parameters (i.e. growth of gross national product, value added tax base) can change even significantly from the assumptions which have been used in the estimations. The other reason is that the outcome of the accession negotiations is far from being clear: we do not yet know, what community financial instruments will be applied for the new Member States especially in the agricultural sector. Therefore it must be emphasised that there might very well be good reasons to change the estimations along the way towards year 2004.

Above all experience shows that it is difficult accurately to predict the Lithuania's net receipts in any future year. This recalls the Treasury programme for the domestic consequences of the EU membership a particularly volatile of national public expenditure arithmetic. Consequently, the estimation and the figures presented here must be seen as a "snapshot" or as a "overview" of today.

The short-term experts made two estimations for the budgetary impacts. The first one is as far as possible based on the current acquis communautaire. On the basis of the financial perspectives for 2000-2006 agreed in Berlin European Council 24.-25.3.1999 it seems however that the acquis communautaire as such would not be applied to agricultural or structural support in the first year of the membership. Therefore this "acquis option" represents in a way ideal or long-term outcome. The second estimation is made from the starting point of how much money is available (on the basis of the Berlin European Council agreement) for enlargement; this option is called "more realistic option".

The outcome of the estimation shows that with the "more realistic option" Lithuania would in the first membership year receive approximately 450 million euros (1700 million litas) from the EU budget. At the same time its payments to the EU budget would be approximately 170 million euros (640 million litas). This would mean positive net balance of approximately 280 million euros (1060 million litas). This positive balance of 280 million euros equals 2,0 % of the Lithuanian's GDP. After 4-5 years of the Lithuania's accession to the EU the receipts from the EU budget might rise to about 3 300-3 7000 million litas and correspondingly the Lithuania's net receipts could be 2 800-3 200 million litas.

It is necessary to emphasise clearly that the presented estimations are purely technical in nature. The real figures will be depended on results to be achieved during the actual accession negotiations and later the Lithuania's ability to apply and utilise possible resources from the EU budget.

The co-financing share of the regions and private sector is estimated to rise to over 100 million litas in the first year and after 4-5 years roughly about to 300-500 million litas. The short-term experts recommend strongly that the regions and private sector in Lithuania will be ready to allocate more co-financing resources than the estimated ones from the beginning of the Lithuania's accession to the EU. It is necessary to emphasize that the regions and private sector are able to benefit greatly from the available EU budget resources in the future. The dynamic growth effects through the Lithuania's State budget will be remarkable. The question is about the willingness and readiness of the Lithuania's regions and private sector to promote new kind of enterprise and research ideas and innovative regional development projects. It is question about the advantage of the whole Lithuania. In reality there could be lack of good project ideas.

Regarding the payments to the EU first and most, joining the EU means taking the Treaty commitment to pay contributions to the EU as required by Community law. The Act empowers

the Ministry of Finance to pay contributions direct to the Commission, without a specific Parliamentary procedure where the demand to pay is lawful. In addition responsibility for the collection of traditional own resources involves respecting complex EU rules which do not always sit easily with national procedures or appear cost-effective.

Budgetary flows between a new Member State and the EU budget will not come easy. There must be a firm, dedicated and timely sufficient preparation before the membership. And after setting up the organisation and the structure of the administration the maintenance and the well-functioning of the system is equally important in order to ensure that all the possibilities offered by the Union can be fully utilised. According to the views of the short-term experts it is highly important to improve the overall coordination within the Lithuanian administration. It is supportive that the Lithuanian authorities under the guidance of the Ministry of Finance will create an integrated system of the administrative procedures for national co-financing as well as monitoring and reporting structures by the end of year 2001. The NPAA should be integrated to the Public Investment Program and to the State's budget as soon as possible. The Public Investment Program should incorporate into the State's budget from the budget year 2002. All relevant extra-budgetary funds covering national co-financing procedures should also be included into the State's budget from the budget year 2002.

A number of specific bodies should be created for handling EU expenditures and requirements where the Community rules require or scale or complexity of the Community finance operation make that sensible. The most significant of these are the agencies that handle agricultural finance. The independent internal audit units must to be established in all relevant administrative units as soon as possible. The short-term experts note that significant improvements of the control and planning systems have been already implemented in Lithuania; clear progress has been achieved.

It seems evident that there is further need to amend and revise thoroughly the just approved Budget Law in order to meet more practically the EU requirements. It is well justified that the clarification and the necessary separation of the roles and responsibilities of the State and municipalities in the budgeting process and in the legislative form should be carried out as soon as possible. There is strong need to include the provisions of the definition of the national co-financing sources to the Budget Law in order to have well functioning financing system before the full implementation stage of the pre-accession funds. It is recommendable that the Budget Law will be revised in such a way that will make it possible for the ministries to prepare an operational and financial plan for each administrative sector. To create the possibility to use transferable appropriations and possibility of authorisation to make commitments in the budgeting process is linked to the national co-financing issues. The payments of the EU programs should be channelled through the same system as the national ones.

Budgetary flows between a new Member State and the EU budget will not come for free either. As a rule the money received from the EU budget requires national co-financing. This is very important factor to bear in mind. The co-financing requirement is a new element compared with the former Phare instrument where national co-financing requirements were very limited if not totally absent. Already with the new pre-accession instruments the Candidate States will face challenging task of providing sufficient national co-financing for Sapard-, Ispa- and Phare-projects. And as the membership approaches it is very easy to predict that the Candidate States ability to provide co-financing for the pre-accession instruments will be one important, if not decisive, factor determining the magnitude of support mechanisms as a new Member State.

The short-term experts made an estimation for the national co-financing need as well: the "more realistic option" would require approximately 240 million euros (900 million litas) of national co-financing. After 4-5 years of the Lithuania's accession to the EU need of national co-financing amounts approximately 1 800-2 000 million litas. The share of the State's budget's co-financed share is estimated to raise up to about 800 million litas in the first year and over time up to 1 500

million litas.

Considering the existing budget restrictions there seems to be a clear risk of the lack of national co-financing potentially leading to sizeable under-use of the pre-accession funds available from the EU. The short term experts state on the assessment of necessary public finance that there will be almost sufficient national co-financing resources if the present national agricultural development programme appropriations could be reallocated to the different agricultural schemes within the EU membership. Particularly there will be a significant need to increase national co-financed resources for the implementation of the structural action programmes. Taking into account possibilities to utilise the extra-budgetary funds from year 2002 in the State's budget need for the additional State's money amounts over 500 million litas within 4-5 years after the Lithuania's accession to the EU.

In this context, the short-term experts have presented 67 recommendations to the Lithuanian authorities. The recommendations try to explain what steps the Lithuanian authorities should take in order to be ready to make full use of the potential budgetary flows from the EU budget. The recommendations try to explain also what changes the Lithuanian authorities may need to make in their administration in order to ensure that the financial obligations of the EU membership are respected. Finally, the recommendations try to explain what steps the Lithuanian authorities should take in order to best defend and argue for their views when they sit themselves in the tables where the decisions concerning EU's budgetary policies are made.

Some of the recommendations are more urgent or more important than the others. In the short term experts' view especially the following recommendations are the most urgent to implement:

- To begin the preparatory work concerning the implementation and application of the own resources system; including estimates for the VAT base and GNP base (recommendations 2, 7, 8)
- To set up a coordinating working group concerning the own resources matters under the Ministry of Finance (recommendation 10)
- To create under the guidance of Ministry of Finance an integrated system of administrative procedures for national co-financing, monitoring and reporting (recommendation 13).
- To define the sources of national co-financing in legislature form (recommendation 15).
- To integrate the Public Investment Programme to the decentralised planning system and consequently to the State budget (recommendation 16).
- To clarify the links of National Programme for the Adoption of Acquis (NPAA) to the Public Investment Programme and to State budget (recommendation 17).
- To further reduce the extra budgetary funds by amending the Budget Law (recommendation 18).
- To clarify and separate the roles and responsibilities of the state and municipalities in the budgetary process by amending the Budget Law and other relating regulations (recommendation 24).
- To include the provisions of national co-financing to the Budget Law (recommendation 25).
- To create transferable appropriations ant to make possible to make commitments by amending the Budget Law (recommendations 29 and 31).
- To assess whether any changes are needed in order to make sure that all the payments carried out by the Treasury can be done by the same payment system (recommendation 39).
- To amend the current procedures where there are two different management system for EU funds and national funds (recommendation 40).
- To begin the preparatory work in the Ministry of Finance with an aim to strengthen the coordination of work done by different departments and different units (recommendation 43).
- To begin the preparatory work in the Ministry of Finance with an aim to set up a EU secretariat directly under the Minister of the Finance and the State Secretary (recommendations 45 and 46).

- To create a clear institutional set up within the government responsible for harmonising internal audit/control functions (recommendation 52).
- To transfer the Audit Division of the Treasury Department to the independent unit under the Secretary of the State (recommendation 53).
- To establish independent internal audit units in relevant administrative units (recommendation 54).
- To determine the framework and procedures for the design and implementation of the ex ante, ongoing and ex post financial control system of those programmes which are using the EU financing (recommendation 56).
- To clarify the State Control Office's functions from the Constitution's point of view (rec. 60).

## **PART I:**

# **OVERALL FRAMEWORK OF THE BUDGET FLOWS BETWEEN EU BUDGET AND LITHUANIAN STATE BUDGET**

## **INTRODUCTION**

According to terms of reference of the SEIL project's sub-project (Support for Policy Impact Analysis / Budgetary Impact) the tasks number 1 and 2 of the external short-term experts are:

(1) "... to produce an inventory of all main dimensions to be analysed when creating an approach to study state budget impact and to develop a system to manage the interaction between the national budget and the EU financial system"

(2) "... to discuss and analyse the Lithuanian situation against the needs, in particular to analyse the first two priority areas of budgetary impact:

- transfers from the Lithuanian State budget to the EU and transfers from EU to the Lithuanian State budget;
- of Lithuanian co-financing needs in the EU"

During the first mission to Vilnius on the 11<sup>th</sup> of April it was agreed that in connection with the task number 1 **an overall framework of the budget flows between EU budget and Lithuanian State budget** would be drawn up by the short-term experts.

In the following pages the relevant background information concerning this overall framework will be discussed and finally the overall framework is presented in annex 2 and 3. In annex 2 all the relevant Lithuanian ministries which could be involved in the overall framework are presented and in annex 3 the short term experts have indicated which specific budget lines these ministries could use/create for these purposes.

In addition to the overall framework (arrow-tables) the short term experts have made an estimation of Lithuania's net position in relation to the EU-budget (annex 4). The working hypothesis is that Lithuania would become a member of the European Union 1.1.2004. **It must be strongly emphasised that the estimation of the Lithuanian's net position does not in any way reflect the opinion of the short term experts concerning results to be achieved during the actual accession negotiations. Nor can the estimation be seen as a justification for certain treatment during the accession negotiations. The estimation is purely technical exercise carried out by the short term experts.**

In annex 5 the short term experts have presented the assumptions and clarifications concerning the estimation on net position.

## **I. WHAT IS THE FINANCIAL PERSPECTIVE AND THE LINK BETWEEN THE FINANCIAL PERSPECTIVE AND THE BUDGET**

The financial perspective (FP) shows the maximum amount and the composition of foreseeable Community expenditure. The budgetary authority (Council and European Parliament) and the Commission agree on the financial perspective in the form of Interinstitutional Agreement (IIA). In concluding the agreement these Institutions agree in advance on the main budgetary priorities for the following period.

The FP (total sum of payment appropriations) must always comply with the ceiling of Community own resources as decided in the form of Council decision (the present own resources ceiling is 1,27 % of the Community GNP).

The first Interinstitutional Agreement was concluded in 1988 (for the period of 1988-1992). As the application of the first IIA and the FP proved a success, the Institutions again adopted this approach and on October 1993 concluded a new IIA (for the period of 1993-1999).

The third FP (for the period of 2000-2006) was agreed by the Berlin European Council on March 1999 and the IIA in force (published in the Official Journal of the European Communities; C 172/18.6.1999) was concluded by the Council, European Parliament and the Commission on 6.5.1999.

The financial perspective for the period 2000-2006 was agreed in constant 1999 prices. As stipulated in the IIA the FP is adjusted each year technically to take account the movements in GNP and prices. This means that the ceilings actually applied are somewhat higher than originally agreed in the FP (this difference is illustrated in section V).

In addition to the FP for the 15 Member States (Annex I of the IIA in force) the Institutions agreed to include in the present IIA a financial framework for the EU of 21 Member States.

The FP is broken down to categories/headings each of which have an expenditure ceiling (the present FP is broken down to seven categories) expressed in commitment appropriations. These ceilings are binding to the parties of the IIA and during the annual budgetary procedure the actual amounts for the budget must respect the ceilings of FP.

The nomenclature of the budget itself consists of several hundred budget headings which all fall into one of the categories/headings of the FP. This ensures that during the budgetary procedure the compliance of the budget with the FP can be effectively followed and ensured.

## **II. STRUCTURE OF THE FINANCIAL PERSPECTIVE**

### Financial Perspective (EU-15)

<u>Heading 1</u> AGRICULTURE	<u>Heading 2</u> STRUCTURAL OPERATIONS	<u>Heading 3</u> INTERNAL POLICIES	<u>Heading 4</u> EXTERNAL ACTION	<u>Heading 5</u> ADMINISTR ATION	<u>Heading 6</u> RESERVES	<u>Heading 7</u> PRE- ACCESSION AID
<u>Sub-Heading 1a</u> COMMON AGRICULTURAL POLICY	Structural Funds, Cohesion Fund				Monetary reserve  Emergency Reserve  Loan guarantee Reserve	Agriculture,  Structural instruments,  Phare
<u>Sub-Heading 1b</u> RURAL DEVELOPMENT AND ACCOMPANYIN G MEASURES						

### Financial Framework (EU-21)

<u>Heading 1</u> AGRICULTURE	<u>Heading 2</u> STRUCTURA L OPERATIONS	<u>Heading 3</u> INTERNAL POLICIES	<u>Heading 4</u> EXTERNAL ACTION	<u>Heading 5</u> ADMINIS TRATION	<u>Heading 6</u> RESERVES	<u>Heading 7</u> PRE- ACCESSION AID	<u>Heading 8</u> ENLARGE MENT
<u>Sub-Heading 1a</u> COMMON AGRICULTURAL POLICY	Structural Funds, Cohesion Fund				Monetary reserve  Emergency Reserve  Loan guarantee Reserve	Agriculture,  Structural instruments,  Phare	Agriculture  Structural operations  Internal policies  Administra tion
<u>Sub-Heading 1b</u> RURAL DEVELOPMENT AND ACCOMPANYIN G MEASURES							

### **III. STRUCTURE OF THE GENERAL BUDGET**

General Budget of the European Union for the financial year 2000

#### **GENERAL STATEMENT OF THE REVENUE**

#### **STATEMENT OF REVENUE AND EXPENDITURE BY SECTION**

Section I: European Parliament

- Revenue
- Expenditure

Section II: Council

- Revenue
- Expenditure

Section IV: Court of Justice

- Revenue
- Expenditure

Section V: Court of Auditors

- Revenue
- Expenditure

Section VI: Economic and Social Committee

- Revenue
- Expenditure

Section VII: Committee of the Regions

- Revenue
- Expenditure

Section VIII: European Ombudsman

- Revenue
- Expenditure



**V. THE GENERAL BUDGET FOR THE FINANCIAL YEAR 2000 (COMPARED WITH THE FINANCIAL PERSPECTIVE FOR EU-15)**

<b>EUR million</b>			
	<b>Adopted budget for year 2000</b>	FP for year 2000 in current prices	FP for year 2000 in 1999 prices (=original Berlin figures)
1. Agriculture	<b>40 994</b>	41 738	40 920
Common Agricultural Policy	<b>36 889</b>	37 352	36 620
Rural development & accomp. measures	<b>4 105</b>	4 386	4 300
2. Structural Operations	<b>32 678</b>	32 678	32 045
Structural Funds	<b>30 019</b>	30 019	29 430
Cohesion Fund	<b>2 659</b>	2 659	2 615
3. Internal Policies	<b>6 027</b>	6 031	5 930
4. External Action	<b>4 805</b>	4 627	4 550
5. Administration	<b>4 704</b>	4 638	4 560
6. Reserves	<b>906</b>	906	900
Monetary reserve	<b>500</b>	500	500
Emergency reserve	<b>203</b>	203	200
Loan guarantee reserve	<b>203</b>	203	200
7. Pre-Accession Aid	<b>3 167</b>	3 174	3 120
Agriculture (Sapard)	<b>529</b>	529	520
Pre-accession structural instruments (ISPA)	<b>1 058</b>	1 058	1 040
Phare (applicant countries)	<b>1 580</b>	1 587	1 560
Total Commitment Appropriations	<b>93 281</b>	93 792	92 025
Total Payment Appropriations	<b>89 387</b>	91 322	89 600
Payment appropriations as % of GNP	<b>1,11 %</b>	1,12 %	1,13 %
Available for accession	0	0	0
Agriculture	0	0	0
Other expenditure	0	0	0
Ceiling on Payment Appropriations		91 322	89 600
Ceiling on Payment Appopr. as % of GNP		1,12 %	1,13 %
Margin for unforeseen expenditure	0,16 %	0,15 %	0,14 %
Own resources ceiling	1,27 %	1,27 %	1,27 %

Structure of the section III (Commission) of the general budget of the European Union:

- Revenue
- Expenditure
  - Part A: Administrative appropriations
  - Part B: Operating appropriations

According to the general budget for financial year 2000 (adopted on 16.12.1999) the operating appropriations "cover operating expenditure directly related to the objective of the relevant programme or action, including expenditure on evaluation and technical and administrative assistance benefiting partners only."

Part B (operating appropriations) of the Commission's budget is further divided as follows:

<u>Subsection</u>	<u>Title</u>	<u>Appropriations in year 2000 (expressed as commitment appropriations; mill. euros)</u>
Subsection B1	European agricultural guidance and guarantee fund; guarantee section	41 469
Subsection B2	Structural operations, structural and cohesion expenditure, financial mechanism, other agricultural and regional operations, transport and fisheries	32 250
Subsection B3	Training, youth, culture, audiovisual media, information and other social operations	831
Subsection B4	Energy, Euratom nuclear safeguards and environment	95
Subsection B5	Consumer protection, internal market, industry and Trans-European Networks	1 162
Subsection B6	Research and technological development	3 630
Subsection B7	External actions	7 023
Subsection B8	Common foreign and security policy	47
Subsection B0	Guarantees and reserves	2 069

## ***PART II:***

# ***RECOMMENDATIONS OF THE SHORT TERM EXPERTS FOR BUDGETARY IMPACT ANALYSIS WITHIN THE PHARE PROJECT LI/E19701 CONTRACT***

## **I. BACKGROUND - GENERAL STANDPOINTS**

### **1.1. Aspects of the nature of EU budgetary procedures**

Although the *acquis communautaire* in the field of the EU's budgetary provisions does not impose any certain model for the working, administration and procedures of the candidate State's public finances, every appropriate step must be taken to guarantee the sound financial management of the Union's budget resources. It is explicitly stated in the article 280 of the Treaty that in the broader sense, compliance with the EU's budgetary and specially financial control and audit requirements is one of the essential obligations of the EU membership.

The Member States had earlier a wide measure of freedom to decide on the best way of integrating the flows of funds from and to the EU budget with their own national finances. The situation has been changed. Nowadays the body of the regulations and decisions governing the organisation and working of the Union's budget and particularly of the sectoral policies attempt to impose specific mechanisms of budgetary management at the national levels. Notably the reforms of the agricultural policies and the structural funds policies have been introduced with the aim of increasing accountability and value for money. The above mentioned reforms have obliged to develop the national budgetary rules and procedures.

Accession of the Candidate State will be a key element in a process of a fundamental reform of the national financial systems. It is necessary for the Candidate State to prior to accession develop its budgeting procedures and financial management with a view to smooth and flexible adjustment to the requirements of the EU membership.

Which are the practical reasons for more flexible budgetary procedures and management both at the EU level and the national level in the near future? Firstly the concern for improved effectiveness requires an orientation towards a more results-oriented management system instead of paying attention to the inputs. The concern for value for money and results should be reflected in all parts of the budgetary process from budget preparation, structure and presentation of the budget, financial management and accounting, until to financial control and discharge procedure. Secondly it has become clearer over time that the budgetary procedure cannot be separated from the management procedures.

It can be said that the budgetary procedures have become closer to the management procedures. As a background for this process it is the fact that all the EU's budget revenue originates from the Member States. In addition the Member States execute about 80 percent of the expenditure though the Commission retains ultimate responsibility for implementing the EU budget.

From the EU point of view it is important to ensure that the same safeguards, measures and controls are applicable to the EU as to national budgetary funds. The Treaty requires without doubt Member States to be equally conscientious in the protection of the EU and national financial interests.

The essential drivers behind the budgetary reforms at the national levels have been the following matters:

- \* strengthening the frame budgeting and expanding the result-based budgeting within the public sector;
- \* more flexibility in using appropriations;
- \* simpler budget structure by reducing the amount of budget items and integrating some appropriations with each other;
- \* insisting on performance measures and productivity improvements;
- \* more flexibility: a large scale decentralisation in creating and withdrawing posts and vacancies; and
- \* expanding the net based budgeting.

The Commission's administrative reform and above all the introduction of the Activity based Budgeting for 2001 EU budget procedure will affect greatly on the needs to reform the budgetary procedures and the implementation of the spending policies at the national level. Activity Based Budgeting is to provide a common framework for planning, budgeting and management that will permit a more coherent and integrated model of these procedures making them more rational and transparent.

## **1.2. Remarks on EU budgeting systems in Lithuania**

This chapter 1.2 of the text is based on the version submitted by the Lithuanian authorities.

### **1.2.1. Budgeting system of the EU structural funds in Lithuania**

During the period 2000-2006 financial assistance from the European Communities to the candidate countries of Central and Eastern Europe will be provided through three instruments: the PHARE programme (Council Regulation (CR) No.3906/89), ISPA (CR 1267/99) and SAPARD (CR 1268/99). Assistance will be co-ordinated in accordance with Council Regulation 1266/99.

According to "Memorandum of Understanding on Establishment of the National Fund" signed on 10.12.1998 between the European Commission and the Government of Lithuania, a "National Fund" (NF) has to be established as a central treasury entity within the Ministry of Finance (MoF) through which the Community Funds are channelled towards the Recipient (the Republic of Lithuania). In the Memorandum there are determined the main responsibilities and functions of Lithuania. The "National Fund for Assistance programmes from the European Commission" has been established as a separate division under the Treasury Department of the MoF by Government Decree, No. 498 of 29.04.99. The Government has appointed Vice Minister of the MoF as National Authorising Officer (NAO). The EC will conclude (in 2000) with the Lithuania Financing Memoranda for the each financing instrument determining the annual financial commitment of the Community and all financing responsibilities of the Lithuania including a co-financing.

### **1.2.2. The National Fund system**

The National Fund (NF) has been established as a division under the Treasury Department at the MoF. The Head of the Treasury Department is responsible for the day to day management of the NF and reports directly to the NAO. Two accounting officers of the Accounting Division of Treasury Department have been nominated to handle functions of the NF according to the Decree of the Minister of Finance on establishment of the NF in the MoF.

Financing Memorandas for the Implementation of Phare/ISPA/SAPARD projects through the Implementing Agency (IA) or Central Finance and Contracts Unit under the MoF (CFCU) [CFCU - an implementing body within the national administration in charge of tendering, contracting and payments for institution building projects and other projects if so specifically provided. For these projects the technical implementation is carried out by a Senior Programme Officer. IA - an implementing body within the national administration in charge of tendering, contracting, payments and technical implementation of Investment Support projects and other projects if so specifically provided.] shall be established between the NAO and the Programme Authorising Officers of the IA /CFCU, and endorsed by the EC. Each Memoranda shall have a separate NF Account which shall have sub-accounts from which the IA and CFCU will be entitled to execute payments. Account holder of sub-accounts is the NF. The NF is authorised to make any transactions to the IA/CFCU relating to any of the Accounts by transferring funds from related Accounts to requested sub-accounts. The IA/CFCU will submit transfer request to the NF according to its cash flow estimates. The Payment Order is submitted by the NF to the Foreign Currency Operation Division of the Accounting Department of the Bank of Lithuania. The request for advance payments and replenishments to the NF from the EC must be certified and approved by the NAO and submitted to the Commission through the EC Delegation together with notification stating that the Account in the Bank for the respective Memoranda has been opened and with supporting documentation, as set out in the Memorandum of Understanding.

The internal control of the transactions of the NF is established in accordance with the general procedures for the Treasury Department. The Audit Division in the Treasury Department of the MoF is responsible for acting as the internal audit unit in exercising a permanent function of surveillance as well as in independent appraising of the adequacy, quality, and execution of the NF and CFCU internal control systems. It reports and provides objective and independent information to the Minister of Finance on the activities and the internal control of the NF and CFCU. The Internal Audit Units in relevant Ministries have the responsibilities to execute the functions of the Internal Audit for the relevant IAs. The State Control office has the authority to carry out external audit of the NF and IA.

The NAO ensures that the reporting and financial management procedures are respected and that a proper reporting and project information system is functioning. The NF maintains a financial reporting system for all EU funds. For the purpose of reporting, the current financial reporting system of the European Commission, Perseus, shall be installed within all the IAs and the NF. For each Account and sub-account, the Accounting Division of the Treasury Department has to prepare a bank reconciliation form at the end of each month. The bank reconciliation has to be included in the supporting documents to the Perseus report.

### **1.2.3. National co-financing system for the structural funds**

Lithuania shall provide national co-financing implementing the relevant signed Financial Memorandum. For national co-financing for EU structural financial instruments PHARE, ISPA and SAPARD could be used state budget funds as well as funds which are not included in the state budget, such as municipalities budgets, privatisation fund and loans. Parliament of Lithuania could approve appropriations (for co-financing) by separate article of the appropriate year law for approval state budget and municipal budgets financial indicators, according implementing institutions responsible for appropriate EU financial structures [Phare - Ministry of Public administration and local authorities; SAPARD - Ministry of Agriculture; ISPA - Ministries of Transport and Environment].

To include and budget needed national funds (for co-financing) for the appropriate year,

institutions, which are responsible for the implementation of the appropriate EU financial structures, shall submit budget requests according the order set by the Government Resolution “On approval of the Plan of the Preparation of the appropriate year Draft State Budget of the Republic of Lithuania and Draft Financial Indicators of the Municipal Budgets“. In the case, if it would be impossible to submit concrete projects in time, responsible institutions could submit budget request for absolute amounts for co-financing, which could be revised according appropriate order under state budget and state investment programme preparation. If the national co-financing funds will be public investment, it will be managed according (approved by Government Resolution) planning, use, accounting and control procedures of the public investment. In the other than investment case funds will be managed by the Budget execution and monitoring rules (approved by Government Resolution). Ministry of Foreign Affairs as it is co-ordinator of the EU technical assistant to Lithuania (according Government Resolution of 1999) could inform Ministry of Finance about planned amounts for appropriate year of EU funds by separate EU financial structure.

#### **1.2.4. Custom duties**

In Lithuania, applicable rates of custom duties are regulated by Resolution No. 268 of the Government of the Republic of Lithuania dated 24 March 1997 “On the Procedure of Regulation of Exports and Imports in the Republic of Lithuania“, which approves the rates of custom duties on imported and exported goods. The above mentioned Resolution also approves a list of duty-free goods imported within quotas issued by ministries, a list of duty-free goods imported within quotas issued by ministries and other public authorities, a list of states, the goods of origin of which are subject to conventional import duties, a list of states, the goods of origin of which are subject to preferential import duties, and a list of states, with which the Republic of Lithuania has concluded free trade agreements.

Custom duties are administered by the Customs Department under the Ministry of Finance and collected to the state budget. 245 million Litass (65 million Euros<sup>\*</sup>) were collected in 1998, 193 million Litass (51 million Euros) in 1999, and 150 million Litass (40 million Euros) are planned to be collected in 2000.

Turnover of trade with states, with which Lithuania has concluded free trade agreements, accounts for 73 per cent of the total foreign trade turnover. Currently, Lithuania is a party to free trade agreements with the European Union, the European Free Trade Association, Latvia, Estonia, Poland, the Czech Republic, Slovakia, Slovenia, Turkey, the Ukraine and Hungary (came into force on 1 March 2000). Lithuania is now negotiating free trade agreements with Romania and Bulgaria. We expect to finalise the negotiations by the end of the year. By the data on foreign trade, imports from the European Union member-states accounted for 50 per cent of the total imports in 1998 and 49 per cent in nine months of 1999. Goods imported from the EU member-states are subject to lower import duties or to a zero rate of the import duty.

At present, Lithuania attributes the status of the most favoured nation treatment (on the basis of bilateral agreements on trade-economic co-operation or unilaterally) to Australia, Byelorussia, Bulgaria, Georgia, India, Japan, the United States of America, Canada, Kazakhstan, China, Cyprus, Korea, Cuba, Moldova, Romania, Russia, Uzbekistan, Hungary and Vietnam. Turnover of trade with the countries, with respect to which the status of the most favoured nation treatment is applied, accounts for 8 per cent of the total foreign trade turnover. After Lithuania becomes a member of the World Trade Organisation (WTO), the status of the highest favour will be automatically applied to all WTO members.

#### **1.2.5. Sugar**

Sugar market in Lithuania is regulated by the Sugar Law enacted by the Parliament of the Republic of Lithuania on 27 April 1995. The purpose of the Law is to set the relations between the participants of the sugar market and public authorities. In the Republic of Lithuania, growing and processing of sugar beets, purchase and sale of locally produced sugar, import and export of sugar, raw sugar and sugar products, with respect to which sugar regime is applied, are regulated by the state and performed under the sugar regime approved by the Government of the Republic of Lithuania or by other institution authorised by the Government.

Sugar from sugar beets is produced and the relations between sugar beet growers are set taking account of the quotas for sugar beet growing, buying-up and processing.

In 1998, Lithuania produced about 121 thousand tons of sugar. In 1999, the quota for sugar production was 112 thousand tons, but the actual production reached 116.5 thousand tons. Sugar production quota for 2000 is 112 thousand tons.

### **1.2.6. Collection of GNP payments**

GNP-payments, obtained applying the rate, determined pursuant to the budgetary procedure in the light of the total of all other revenue, to the sum of all the Member States' GNPs, are to be collected to the State budget of Lithuania. The amount, collected as GNP-payments, shall be transferred from the State budget to the EU budget.

### **1.3. The Member State as contributor to the EU budget**

The decision made in 1994 concerning the Member States' contributions laid down the revenue, own resources which finances the EU's budget. The EU's expenditure is covered by different sources of revenue:

- \* the traditional own resources (custom duties, agricultural levies, levies on sugar)
- \* the value-added tax payment
- \* the GNP-based payment.

From Lithuania's point of view the VAT contribution and the GNP-related contribution are new items of expenditure. Furthermore the EU's traditional own resources are in practise the EU's sources of revenue which Lithuania will collect for the Union and from which it retains a collection fee. Collecting custom duties and agricultural levies included in the EU's traditional own resources for the EU means that Lithuania cannot retain any of revenue from these.

## **II. RECOMMENDATIONS OF THE SHORT TERM EXPERTS**

Due to the restricted tasks of the short term experts the recommendations don't cover all of the budgetary matters nor overall assessments of the different needs in order to develop the Lithuania's State budgetary systems and procedures.

### **2.1. The overall framework of budgetary flows**

It is highly supportive that the Candidate State will obtain all relevant and sufficient information on budgetary impact of the EU integration well before its accession to the EU. Whereas every policy impact analysis has a financial or administrative and economic or overall, whether private or public cost impact analysis, the budgetary impact analysis deals with the overall transfers of money between the Lithuanian and EU budgets, and with the national co-financing component.

Special attention has to be paid to the priority areas of the budgetary impact, namely to

\* transfers from the Lithuanian State budget to the EU and transfers from the EU to the Lithuanian State budget and

\* the Lithuanian co-financing needs of the EU financed projects.

It is well justified to develop a system to manage the interaction between the national budget and the EU financial system.

Within this project the overall framework of the budget flows between the EU budget and the Lithuanian State budget has been drawn up and presented in annex 2 and 3 of part I. In addition the short-term experts have tried to make an overall estimation of the Lithuania's net position in relation to the EU budget in annex 4 of part I.

The short-term experts emphasize need to have a well coordinated monitor system of the budgetary impact of the EU membership.

### **Recommendation ( 1):**

Firstly the short-term experts state that the global framework presented in annex 2 and 3 of part I and the list of possible budget articles in the recommendation (23) seems reasonable to adapt into the Lithuania's State budget. The short-term experts have tried to create a simple and flexible budgetary system which makes possible to take into account rapidly changing circumstances if necessary.

According to the annex 4 of part I Lithuania will be a clear net receiver from the EU budget.

The preliminary calculations and estimations show that Lithuania has to contribute approximately 600 million litas to the EU budget, its so-called "own resources" in the first membership year.

The returns from the EU might amount an annual average of about 1600-1800 million litas during the first membership year. After 4-5 years of the Lithuania's accession to the EU the receipts from the EU budget might raise up to about 3300-3700 million litas.

The short-term experts state the Lithuania's net receipts from the EU budget could be roughly about 1000-1300 million litas in the first membership year and over time after 4-5 years the total net amount could be 2800-3200 million litas.

The short-term experts - as independent researchers - emphasize clearly that the presented estimations are purely technical in nature. The real figures will be depended on results to be achieved during the actual accession negotiations and the Lithuania's ability to apply and utilise possible resources from the EU budget.

It is also worth to notice that it is only question about the budgeting process and budgetary impact, not economic impact.

Correspondingly significant amount of national co-financing is needed. The short-term experts estimate that need of national co-financing amounts totally 900-1000 million litas in the first membership year and after 4-5 years approximately 1800-2000 million litas. The share of the State's budget's co-financed share is estimated to raise to about 800 million litas in the first year and over time up to 1500 million litas.

The co-financing share of the regions and private sector is estimated to raise up to over 100 million litas in the first year and after 4-5 years roughly about to 300-500 million litas.

The short-term experts recommend strongly that the regions and private sector in Lithuania will be ready to allocate more co-financing resources than the mentioned ones from the beginning of the Lithuania's accession to the EU. The experts emphasize that the regions and private sector are able to benefit greatly from the available EU budget resources in the future. The question is the willingness and readiness of the Lithuania's regions and private sector to promote new kind of enterprise and research ideas and innovative regional development projects. It is question about the advantage of the whole Lithuania.

## **2.2. Payments to the EU budget**

### **For evaluation of payments of VAT to the EU budget**

According to the Lithuanian's authorities information current laws regulating VAT collection and accounting are:

1. The Organic Budget Law of the Republic of Lithuania sets that VAT receipts are accounted for within the State Budget.
2. Law of the Republic of Lithuania on Value Added Tax defines the objects of the tax, tax-payers, rates, tax benefits, tax calculation rules, etc.
3. Tax Administration Law of the Republic of Lithuania sets the rights and responsibilities of the tax administrator in administering VAT receipts.

VAT payments are not imposed on persons, whose income (revenues) in the last 12 months from goods sold and services rendered constituted less than 10 thousand Litas. Persons, whose income (revenues) in the last 12 months from goods sold and services rendered exceeded the amount of 10 thousand Litas, may get registered as VAT-payers and pay the tax into the budget.

VAT benefits are set in Article 4 of the Law of the Republic of Lithuania on Value Added Tax. VAT is not paid on:

- Health-care services rendered by state and municipal public or budgetary health-care institutions, veterinary services rendered by state veterinary institutions, medicine (including veterinary), medical equipment and raw materials used for production of medicine.
- Services provided by kindergartens, retirement home for old age and disabled people.
- Services of education, training and studies as well as non-commercial cultural services provided by education institutions.
- Postal services (except for parcel forwarding and telecommunication services).
- Financial services provided by insurance institutions, banks and other credit institutions, turnover of securities and lotteries.
- Coffins, wreathes, temporary tombstones, burial services.
- Printing, publication and dissemination of magazines, newspapers, books (except those of erotic or violative character), as well as paper for newspapers.
- Services and actions, on which a stamp duty and/or consular taxes are collected.
- State property under privatisation.
- Works and services rendered to conventional religious communities and which are paid for using donated funds.
- Rent of dwelling houses and apartments.
- Rent of land.
- Services rendered by conventional religious communities of Lithuania, for which funds are donated.
- Conventional items of fine arts.
- Scheduled passenger transportation services.

- Levies for such services as management of sea and air flights and air-navigational services.
- Works of construction, renovation, insulation and designing of dwelling houses, including construction of engineering networks.
- Goods bearing a UNICEF logo.
- Works of renovation and preservation of cultural valuables financed from the state and municipal budgets.
- Goods sold in duty-free stores.
- Such services rendered by co-operative companies to their members as processing of milk, cattle and other agricultural raw materials, cultivation, sowing, taking care of crops, harvesting.

VAT rates:

- 0 on exported goods;
- 18 per cent - on all goods and services;
- 9 per cent - by farmers in main cases.

In evaluating the future VAT payment base in 2004, we will follow the principle that all VAT benefits that are inconsistent with the 6<sup>th</sup> Directive will be eliminated and only those benefits that are provided for in the 6<sup>th</sup> Directive will be maintained.

**Recommendation ( 2):**

Payments to the Commission of the own resources should be handled centrally by the Ministry of Finance of Lithuania. This could in practise minimise the risk of errors which could lead to mismanagement and to corrections. It ensures that the Ministry of Finance will be able to learn of contentious matters. It also assists the Ministry of Finance in forecasting the volume and timing of the contributions to the EU. Particularly this is an important aspect in the Lithuanian national budgetary planning.

The preparatory work concerning the implementation and application of the own resources system within the Ministry of Finance should start as soon as possible. The own resources system should be fully ready and implemented by the Lithuanian accession to the EU.

**Recommendation (3):**

It is worth to notice that the VAT and GNP payments are estimated and planned within the framework of the EU's budgetary procedure. In the Own Resources Committee of the EU Commission (ACOR) the Lithuanian delegation should be composed of a mixed Budget/Economic Forecast team from the Ministry of Finance and Ministry of Economics.

The necessary training in order to participate to the above mentioned meetings should carry out in due time before the accession, at least about an half year before the accession.

**Recommendation (4):**

The VAT contribution and the GNP based contribution should technically processed as new items of the expenditure in the State's budget. It is appropriate that these payments to the EU budget are to budgeted as a whole to one budget line under the Ministry of Finance's administrative sector.

The proposed structure should be ready from the Lithuanian accession date to the EU.

**Recommendation (5):**

Lithuania will receive a 25 per cent collection fee for collecting the traditional own resources. This fee is appropriate to include to the Ministry of Finance's administrative sector as a miscellaneous revenue, therefore there is a need for creating a budget line for that purpose in the revenue side of the Lithuanian State's budget.

It is necessary that the proposed budget line is applicable from the Lithuanian accession date to the EU.

**Recommendation (6):**

It is justified that the Department of Customs under the Ministry of Finance collects the duties and agricultural levies directly and credits those resources directly to the EU by-passing the national budgetary procedures.

Similarly, it is justified that the Ministry of Agriculture collects levies on sugar and credits those resources directly to the EU by-passing the national budgetary procedures. At the present the role of the Ministry of Agriculture is in this context practically only the the monitoring one. It is justified to simplify the whole procedure covering also the collection and credit functions.

The short term experts state that the proposed system is most simple to apply in practise. It is possible that the resources of the duties, agricultural levies and sugar will be credited by the State's budget, but this kind of circulation seems to be heavy. To credit the above mentioned resources directly to to the EU will mean a need to revise the current Budget Law. In this way it is possible to avoid problems between the treasury Law and the Budget Law.

**Recommendation (7):**

It has to be noted that the VAT based payment is the most complicated and requires new calculations and specially good statistical documentation. This requires to improve practical cooperation between the Ministry of Finance and the Department of Statistics of Lithuania. It is important to review the methods and statistical data needed, well before the first report on the calculation of the VAT-base is submitted to the Commission. The collection system of the VAT does not need to be more tough although the the taxes are credited further.

Well before accession Lithuania needs a good estimate of the VAT own resources. If the current VAT system is already similar to the EU VAT directive, it may be possible to calculate them according to the procedure which is foreseen by the regulation 1553/89.

After a reliable calculation of the VAT base is done for the first time the future VAT own resources can be estimated in a similar way, as for the VAT itself, by using the forecast of the development of the relevant economic aggregates in the calculation.

**Recommendation (8):**

The proper process of estimation and budgeting by the national authorities of GNP/GNI contribution should involve by providing them with the statistical data supplied to Commission by the Department of Statistics. The Ministry of Economics should provide the appropriate

information on the macroeconomy and growth rate forecasts for supporting data supplied by the Department of Statistics.

The readiness to implement these requirements should be full before the accession to the EU.

### **Recommendation (9):**

According to the short term experts' primary view it is wise to set up a separate unit within the budget administration/sector of the Ministry of Finance to co-ordinate all actions in the connection with the calculation, reporting and payment of the own resources. This kind of the "Own Resources Unit" could be founded within the separate EU budget unit of the budget department of the Ministry of Finance. It is important for work on the contribution to be co-ordinated in its entirety. This could afford an opportunity not only to obtain an overall picture, but also to create a good interface for the Commission.

If it is not possible to create a separate unit for the own resources system, it is appropriate, "as a second best solution", to set up at least a coordinating person "EU own resources expert" in order to ensure the smooth and complete functioning of the system.

The separate unit or the EU own resources experts should be in full function at an half year before the Lithuanian accession to the EU.

### **Recommendation (10):**

The Own Resources system is as a whole a very complicated and requires several competences. Agricultural policy, customs, economic forecast, payment systems, indirect taxation and statistics are among the competencies concerned. Therefore it is highly important to have a coordination working group of the Own Resources matters under the Ministry of Finance and under the guidance of the Budget Department as soon as possible already in year 2000.

### **Recommendation (11):**

The short term experts invite Lithuania's Ministry of Finance to closely follow up any future changes of the EU financial system in order to adapt its own mechanisms if necessary. The EU's Council has accepted the common position on the new Own resources decision in May 2000. The purpose is that the Member States will ratify the new decision by the end of 2001. The new decision are to be studied and taken into account within the Lithuanian preparation of the accession procedure and negotiations.

### **Recommendation (12):**

The control modules developed by the Member States in coordination with the Commission in the framework of the Joint Audit Initiative for improving national administration systems for establishing the EU own resources should be taken into account.

## **2.3. National co-financing systems**

To organise properly co-financing procedures and implementing agencies are in practise preconditions within the process of achieving EU funding which means among other things

Phare-, ISPA- and SAPARD appropriations. National co-financing procedures in the field of the EU co-financed programs are not in sufficient way defined. The short term experts note that the Lithuanian co-financing of the EU structural programs will mainly originate from the State budget. Presently, public investments are planned through the Public Investment Program. The present status of monitoring, follow-up and evaluation of the EU co-financed expenditures in Lithuania is generally speaking weak.

It is justified to have an overall view on the following aspects concerning arrangements for national co-financing:

- \* what kind of procedures there will be in using national co-financing
- \* what kind of decision making structures there will be
- \* who is deciding on what and where
- \* what kind of payment structures there will be
- \* what kind of monitoring and reporting structures there will be used
- \* how the audit and control functions should be organised and by whom.

In addition especially the question of national co-financing sources under SAPARD, ISPA and PHARE should be solved as soon as possible so that all relevant development work can be done before the implementation stage of pre-accession funds of 2000.

At the present most of the financial sources are administrated and monitored by different authorities. The overall and global monitoring of the used EU funds as well as the other financial resources are complicated. At the same time the management of a project with mixed financing is difficult because the payment requests should be sent to different authorities with different procedure and timing. Above all the follow up of the eligible expenditures is problematic and unclear.

### **Recommendation (13):**

The short-term experts stress clearly that there is not available at this moment any coordinated and overall information on the national co-financing of the Lithuanian EU-projects, particularly on the pre-accession funds in the Budget Department of the Ministry of Finance. It is impossible to monitor and have a clear breakdown of the national funding to the different EU-programmes.

At the present the Ministry of Public Administration Reforms is the central coordinating unit. The Ministry of Foreign Affairs is charged with the pre-accession funds and the Ministry of Economics is responsible for the investment program and thus the ISPA projects. The short-term experts note that the current global monitoring system of the used EU funds is scattered. It is not sufficiently efficient.

It is highly supportive that the Lithuanian authorities under the guidance of the Ministry of Finance will create an integrated system of the administrative procedures for national co-financing as well as monitoring and reporting structures by the end of year 2001. The short term experts state that all the financial sources of the national co-financing should be collectively monitored by the Ministry of Finance. Simultaneously the timetable of the EU funding and national co-financing should be made more coherent as well as the national co-financing procedures with the EU procedures.

### **Recommendation (14):**

It is recommended that provision of adequate funds to meet the EU programmes cofinancing obligations should be reserved within the Lithuanian state budget. The provisions of adequate funds to meet SAPARD, ISPA and PHARE co-financing obligations require to be carried out

already in year 2000.

Additional sources of funds would be available from the regional budgets (including the budgets of the local municipalities) and from the private sector. These funds would be included in the explanatory notes of the budget justifications of the relevant budget appropriations.

It is necessary to take into account that in accordance with the Council Regulations the Community Funds cannot replace funding available in Lithuania, notably in the field of the structural actions.

**Recommendation (15):**

The short-term experts state that the inclusion of the funds of the regional budgets as national co-financing requires an amendment to the just approved Budget Law. It is necessary to clarify the roles of the State and the local municipalities in the budgetary process, which also concerns the roles and responsibilities to finance EU projects, notably pre-accession projects under SAPARD, ISPA and PHARE. The regions would benefit greatly from the pre-accession funds and later particularly from financing of the structural actions. In that respect it is appropriate in early stage to define the role and responsibilities of the region budgets and local municipalities in relation to the State budget.

The short-term experts recommend firmly that the question of the definition of national co-financing sources should be solved in legislative form as soon as possible, even in year 2000 in order to have well functioning financing system before the full implementation stage of pre-accession funds.

**Recommendation (16):**

The short-term experts strongly recommend that the investment program should be integrated to the decentralised planning system where the line ministries should have a stronger position in the process of setting ministerial priorities. Integration of the investment program to the other planning activities and incorporation into the State budget is one of the central pre-requisites to the successful implementation of the EU structural actions and programs. The multi-annual character of the Public Investment Programme should be guaranteed to ensure the development and implementation of long-term investment policy; today the Public Investment Program works practically on the annual basis particularly due to the budgetary restrictions.

The Ministry of Finance should start preparatory work in cooperation with the Ministry of Economics to incorporate the investment program into the State's budget already in autumn 2000 in order that the proposed integration process will be ready by the budget year 2002.

**Recommendation (17):**

It has to be noted that the national programme for the adoption of the acquis NPAA has not at the present any clear links to the Public Investment Programme nor to the State's budget. It is the task of the Ministry of Finance to clarify how the NPAA shall be integrated. Simultaneously it is important to give responses in which way the financing of the NPAA could be ensured in the Lithuanian State budget. This clarification should be carried out already by the end of year 2000.

**Recommendation (18):**

The short term experts consider that the clear reduction of the number of the extra-budgetary funds and the inclusion of these expenditures into the State budget under the budget lines of the responsible line ministries or spending agencies will clarify the co-financing procedures and increase the transparency of the budgetary system.

The short-term experts note that there are remarkable volumes of extra-budgetary funds outside the State treasury systems; including social security, transport, privatisation funds, local government etc. It is necessary that all the relevant extra-budgetary funds covering national co-financing procedures should be included into the State's budget from the budget year 2002. Especially the extra-budgetary funds in the field of transport, privatisation, regional development and local government are to be transferred in the proposed manner. This requires to amend the Budget Law and other relating regulations by the end of year 2001.

### **Recommendation (19):**

The short-term experts state that it is obligatory to allocate national co-financing for certain agricultural supports, notably for environment scheme, LFA-scheme, afforestation support and early retirement support.

It is notable that the implementation of the EU's structural actions requires national co-financing roughly about 40 % of the totals. It is estimated that it is appropriate to reserve about 80 % of the whole national co-financed resources of the structural actions in the State's budget.

The short-term experts also recommend that sufficient national co-financing resources for the implementation of the projects of the EU's internal policies will be reserved in the State's budget. The mentioned projects might be the ones of education, culture, employment, transport, enterprises etc.

### **Recommendation (20):**

The short-term experts estimate that there is need for national co-financing as follows:

\* national co-financing shares of agricultural supports amount approximately 400 million litas in the state's budget

\* national co-financing shares of structural actions

	in the first year	after 4-5 years
- in the State's budget	360 million litas	1150 million litas
- regions and private sector	90 million litas	300 million litas

\* national co-financing shares of internal policies (share for TEN projects undefined)

- in the State's budget	40	80 million litas
- regions and private sector	20	40 million litas.

## **2.4. Set of budget lines and articles in the State budget**

The short term experts note that the structure of budget shall be defined by Act and decree on State budget and the budgetary practise. Recent trend has been towards greater flexibility and reducing the number of budget items. Increase of flexibility and the reduction of budget lines enables to provide more strategic view, less detail and avoid micro-management. At the same time the Ministry of Finance is able to focus more on macroeconomic policy and enhancement of efficiency.

### **Recommendation (21):**

The short term experts regard that it is appropriate to take as a key principle increasing of flexibility and the reduction of the amount of budget lines in the budgeting, particularly in the forthcoming budgeting of the EU funds and related national co-financed resources. This means that the current budget structure and lines should be rationalised into fewer budget lines mainly in all the relevant administrative sectors within 3-4 budget years.

### **Recommendation (22):**

The short-term experts recommend to establish only one coordinative expenditure budget line for each relevant line ministry in the Lithuania's State budget. The proposed budget line would comprise all the purposes of the EU projects which a relevant ministry should finance; for example the budget expenditure line of the Ministry of Transport and Communications would comprise following purposes:

- financing participation by the ministry of Transport and Communications to the structural funds programmes
- financing participation by the Ministry of Transport and Communications to the cohesion fund projects
- financing of TEN-projects (transport, telecommunication)
- financing of research and development projects.

The breakdown of the amounts of the different purposes in the mentioned budget line is possible to present in the allocation plan within the explanatory note. By establishing the allocation plan it is possible to assess how the appropriation under the item in question would be distributed between various purposes. The whole amount of the budget appropriation is justified to present in the binding section of the budget line.

It is justified that this kind of expenditure budget line is so called estimated appropriation and at same time would comprise an authorisation to make commitments, particularly in those administrative sectors which are charged with the implementation of the structural actions.

The proposed framework of the expenditure budget line would it make flexible to change the amounts of the various purposes during the budget year concerned. It would also make benefits to the whole budgeting process.

The short-term experts recommend to utilise same kind of principle in establishing necessary budget lines in revenue and expenditure sides for the appropriations of the structural actions. It is worth to avoid to create too scattered system. In that purpose the experts regard that revenues from the EU's structural operations would be allocated directly only to one ministry's revenue section in the Lithuania's State budget. Correspondingly expenditure of the structural operations would be placed to the ones ministry's administrative sector. With this kind of structure it will be provided possibilities to have efficient coordination and monitor system.

### **Recommendation (23):**

The possible budget lines involved in the transfers between the EU and Lithuania has been dealt in the annex 2 and 3 of part I. Because of the clarity the possible list of the various budget lines is repeated here as follows. Naturally the list is not exhaustive.

The Lithuanian State budget:

Revenue side:

Ministry of Finance:

- \* Collection fees of the EU's traditional own resources
- \* Revenue from EU's Structural Funds; by breakdown
  - Revenue from the ERDF
  - Revenue from the EAGGF-guidance
  - Revenue from the FIFG
  - Revenue from the ESF
- \* Revenue from the Cohesion Fund

Ministry of Agriculture:

- \* Revenue from the EAGGF guarantee (direct aids and accompanying measures including environment scheme, LFA support and afforestation scheme)
- \* Revenue from the EAGGF guarantee, "Intervention Fund" administered by the Market agent production market negotiating agency
- \* (Poss.) Other revenue from the EU in relation to agriculture (revenues from research projects, accounting data functions, veterinary, fishery surveillance etc)

Other ministries:

- \* If there are other revenue concerning different administrative sectors, those revenue could be placed to the revenue budget lines of other revenue under the relevant administrative sector; for example revenue from the LIFE-program under the Ministry of Environment.

Expenditure side:

Ministry of Foreign Affairs.

- \* Multilateral development aid; payments to the European Development Fund
- \* Salaries of the Lithuanian European Parliament's members (not paid to the EU budget; therefore it does not exist in annex 3)

Ministry of Finance:

- \* Payments to the EU (VAT and GNP payments to the EU)
- \* Lithuania's contribution to the EIB
- \* The EU's participation to the structural funds programmes and to the Community Initiatives (possibly 4 budget lines)
- \* The EU's participation to the cohesion fund programmes
- \* Expenditure of the national experts seconded to the EU (not paid to the EU budget; therefore it does not exist in annex 3)

\* It is justified that expenditure caused by the EU's various programmes would be taken into account in the budget line of Ministry of Finance's operational expenditure (need of EU's information policy), of the Department of Customs' expenditure (EU's customs actions), of the Department of Statistics' expenditure (EU's statistical projects). The mentioned expenditure could be placed into the budget line for coordinated national co-financing of the Ministry of Finance (proper proposal later).

Ministry of Education and Science/Ministry of Culture.

\* In the relevant budget line it is appropriate to take into account some need of the EU's vocational training, cultural and educational projects, European schools, V framework research programmes' financing etc. The mentioned expenditure could be placed into the budget line for coordinated national co-financing of the above mentioned ministries (proper proposals later).

Ministry of Agriculture:

\* The EU's direct support (financed by the EU)

\* Intervention measures financed by the EU

\* Environmental support (same budget line comprises EU and national co-financing)

\* LFA support (same budget line comprises EU and national co-financing)

\* Afforestation support (same budget line comprises EU and national co-financing)

\* In the relevant budget line it is appropriate to take into account some need of control, statistical and information projects, veterinary and fishery associations' actions etc.

Arrangements of the budget lines for the coordinated national co-financing taking into account the context of the recommendation (22):

\* the State's financing share of the EU's programmes provided by the Ministry of Economics

\* the State's financing share of the EU's programmes provided by the Ministry of Finance

\* the State's financing share of the EU's programmes provided by the Ministry of Agriculture

\* the State's financing share of the EU's programmes provided by the Ministry of Social Security and Labour Protection

\* the State's financing share of the EU's programmes provided by the Ministry of Internal Affairs

\* the State's financing share of the EU's programmes provided by the Ministry of Public Administration Reforms

\* the State's financing share of the EU's programmes provided by the Environment

\* the State's financing share of the EU's programmes provided by the Ministry of Education and Science

\* the State's financing share of the EU's programmes provided by the Ministry of Culture

\* the State's financing share of the EU's programmes provided by the Ministry of Transport and Communications.

## **2.5. Budget rules, arrangements and procedures - the Budget Law**

The Draft Law amending the Law on Budget of the Republic of Lithuania had been passed to the Parliament in early spring 2000. It was approved by the Parliament on 11 July 2000. The Parliament made one significant change to the Draft Law included in annex A. The change which concerns article 3.4 was to postpone the inclusion of the transport extra-budgetary funds into the State's budget until year 2002. The short term experts note that the approved Law comprises reforming of the budgetary structure with a view to improve planning, management, control and public awareness of the resources of the budget system, with a view to promote independence of municipal budgets and to eliminate some lacks of the current Budget Law.

The short term experts note that the approved Law aims at stipulating among other things the following changes:

- \* to promote a possibility of multi-year budget planning
- \* to introduce a program-based budget formation
- \* to reduce management of extra-budgetary funds of the State
- \* to develop the systems of expenditure control and budget management, and
- \* to specify in more detail the responsibility of the State organisations in the budgetary process and
- \* to improve the expenditure control system.

The short term experts point out that the the purpose of the new Law is to define the content of the state and municipal budgets. The goal of the Law is to guarantee that the formation and execution of the state and municipal budgets are directed towards the achievement of the overall economic and social welfare. The experts also take into account that the Law on Methodology for Setting Revenues to Municipal Budgets defines sources of revenues to municipal budgets and sets procedure for calculation, approval and transfer of grants allocated from the state budget to municipal budgets. Furthermore the Resolution of 1998/04/28 establishes procedure for the municipal usage of bank credits, withdrawing from and granting of loans. Pursuant to this resolution a municipality may borrow for financing projects stipulated in the State investment program, municipal investment projects and short term needs for budget execution and covering debt.

According to the short term experts' view there should be stronger political support to carry out on the budgetary reform and thus the qualitative improvement of the Budget Law.

In the forthcoming years before the Lithuania's accession to the EU it is evident that there is further need to revise thoroughly the Budget Law in order to meet more practically the EU requirements. It is to be noted that the Commission's administrative reform, including reforms on activity based management and activity based budgeting, is very soon at the implementation phase.

The new Budget Law aims at introducing a three-year budget planning among other things by basing on the system of legal acts, main indicators of the national budget and programs and expenditure budgets submitted. It is important to clarify the section of the operational and financial planning in the Budget Law.

In the Member States the Treasury functions are secured by various institutional and procedural ways. All Member States are obliged to adapt their legislation in accordance with the *Acquis communautaire*, i.e. to adjust their national legal regulations to the legislation set of the EU.

**Recommendation (24):**

The implementation of the public administration reform creates the fundamental prerequisites for the sufficiency of administrative capacity for the application of the acquis. It is supportive to prepare a package of draft acts relating to the public administration. For clarifying responsibilities and tasks of the different regional bodies it is recommended to separate the contents of the State and municipal budgets from each other in the Lithuania's Budget Law. This means that there is a need to pass a separate Draft Act on budgetary rule for territorial budgets. At the present, even the just approved Budget Law is not sufficient clear; there is some kind of confusion on that point which are the roles of the State and municipalities in budgeting process in Lithuania.

Referring to the recommendation (15) it is well justified that the clarification and the necessary separation of the roles and responsibilities of the State and the municipalities in the budgeting process and in the legislative form, i.e. by amendments of the approved Budget Law and other closely relating regulations, should be carried out as soon as possible, at least in year 2001.

**Recommendation (25):**

The short term experts state clearly that there is strong need to include the provisions of national co-financing to the Budget Law. This is the fundamental change compared to the present rules and regulations.

The proposed legislative amendment should be implemented very quickly, already in year 2000 referring to the immediate needs and contents presented in the recommendations (13), (14), (15), (19) and (20).

If the quick legislative change is not possible, the short-term experts regard that the second solution could be to create special budgetary rules for setting rules of national co-financing.

**Recommendation (26):**

Concerning financing mechanisms, new rules are to bring additional changes: the main goal shall be to adapt the rules more closely to the environment, which is usual the one in the EU Member States. The second, not less important point is the need of documenting programmes, which use public funding. Above all the budgeting horizon has been shifted; the Lithuania's State budget should be based on the mid-term projection (3-4 years) of the macroeconomic and fiscal development in order to stabilise the basic budget indicators. This could enable the assessment of changes of policies in connection to the mid-term stability of the budget development. The present procedure does not correspond to the definition of financial planning in the EU. Financial plans do not fulfil the monitoring function of the public budgets deficit, they are not being set up for a period longer than one year according to the Budget Law.

To develop the budgeting process in the framework of assessment of economic prospects is to carried out before the Lithuania's accession to the EU.

**Recommendation (27):**

It is recommendable that the Budget Law will be revised in such a way which will make possible for the ministries to prepare an operational and financial plan for its administrative sector (for

example 1+3 years). The role of the line ministries would be to prepare ceilings of its administrative sector. The Law could be clarified by stating that the Government agencies shall plan their activities and finances several years ahead. More detailed provisions about said planning can be issued by decree. The purpose of the operational and financial plans are to link operational policy of each Ministry/agency to the general strategic policies of the Government (support operational and financial performance), to link economic policy-making to the guidance of administrative branches and agencies (to provide a basis for preparation of the annual State budget) and to produce information and basis for management of various administrative sectors and government agencies.

The timetable of the implementation of this recommendation would be linked to the implementation of the recommendation (26).

### **Recommendation (28):**

The results of operational and financial planning are the operational and financial plan of the government agencies and the summary of the operational and financial plan for the administrative sector of each ministry. The content of plan should include among other things needs of resources, calculations of the expenditures and revenues of the operations on the standard or regular level and of the resources needed to the new operations and policies. In that way it is possible and more effective to adapt to the new needs of the Lithuania's accession to the EU. It is recommendable that the Lithuanian Government could decide the budget guidelines by administrative sector or by some classification (expenditure ceilings as commitment appropriations) for the planning period on the proposal of the Ministry of Finance and on the basis of the preparation of the Ministry of Finance after consultation of each ministry. The role of line ministries would be to prepare ceilings of its administrative sector. The proposed development of the financial plan and decision-making of of the budget guidelines would make benefits in the purpose of the EU co-financing procedure.

This means need to develop the whole budgetary and financial planning procedure within the Lithuania's Government. The timetable of this recommendation is supportive to connect to the recommendations (26) and (27).

### **Recommendation (29):**

The short term experts point out that the clarification/classification of the types and nature of the the expenditure appropriations in the Budget Law will assist to utilise more easily in practise the EU funds. The experts recommend to include to the Law more precise amendments on the types of appropriations, namely fixed appropriations (unlimited not urgent appropriations), estimated appropriations (limited appropriations) and transferable appropriations. To make the budget appropriation decision more transparent can mean more possibilities to utilise the EU funds in a more flexible way. This means need to develop binding reasoning and explanatory notes of the appropriation decisions in the Lithuania's State budget.

To create possibility to use transferable appropriations in the Lithuania's State budgeting process is linked to the national co-financing issues. Therefore it is justified to carry out the amendment to the Budget Law quickly in year 2000, at least on the part of the definition of the transferable appropriations.

### **Recommendation (30):**

The short term experts recall that the justifications referred to in the above mentioned budget justifications may include an allocation plan assessing how the appropriation under the item in question will be distributed between various purposes. It is preferable that it will be assessed in the future need to include a mentioning of allocation plan to the Lithuania's Budget Law. This could provide further possibilities to allocate in accurate way some of the EU funds.

The implementation of the amendment to the Budget Law would be included to the other relating legislative changes in the future.

### **Recommendation (31):**

It is important that there is the possibility of authorisation to make commitments in the Lithuania's State budget although that is exception to the principle of annuality (as transferable appropriations). Authorisation to make commitments in the budget seems to be as a necessary tool in utilising some of the EU funds in proper way. The short term experts consider that it is highly justified to include possibility of authorization procedure into the Lithuania's Budget Law. According to this intention in connection with the State budget procedure, an authorization limited in amount and purpose may be granted for making contracts and the provision of commitments in the case of which the appropriations for the expenditure incurred are entirely, or to the missing amount, entered in later budgets. The authorization may be used during the financial year covered by the budget in which it is included. This kind of authorization procedure could provide good practical arrangement for the use of the EU structural actions' programmes and for promoting for example TEN projects in the medium term.

It is supportive to implement the legislative amendment of making commitments at the same time as the recommendation (29) i.e. already in year 2000.

### **Recommendation (32):**

It is worth to notice that particularly in the field of the EU's structural actions and internal policies there are needs to allocate the common resources of several ministries. The short term experts recommend that a new classification of joint expenditure would be created within the revision of the Budget Law. According to this procedure joint expenditure for several administrative sectors may be entered separately under one or several main divisions. This amendment could create possibilities to implement new kind of regional development and business projects in the field of the EU structural actions.

### **Recommendation (33):**

According to the Budget Law one of the binding tasks of the appropriation managers is to organise preparation and execution of the programs financed from the State budget and thus to introduce a program based budget formation and procedure. Full use of the program-based budgeting system will require more elaborated technical solutions, including monitoring system, accounting systems, indicator systems etc.

The short-term experts recommend to develop the programbased budgeting system within 3-4 years.

### **Recommendation (34):**

The short-term experts recall that there are highly significant amounts of extra-budgetary funds outside the State treasury systems. The just approved Budget Law aims at reducing management of extra-budgetary funds among other things by including into the revenues of the budget income form services rendered by budgetary institutions. The short-term experts regard this action to be into the right direction.

**Recommendation (35):**

By defining the concept of the appropriation managers and by setting their basic rights, obligations and responsibilities in the budgetary procedure the Budget Law aims to specify responsibilities of the State institutions within the budgetary procedure. The short-term experts state that it is necessary to implement this change in practise as soon as possible.

**Recommendation (36):**

The short term experts note that the Decree of the Regional Policy Guidelines of Lithuania identifies sources of financing for the implementation of the development programs and defines the basic institutional structure within the implementation of structural and regional policy. It is worth to notice that the new Regional Development Law will establish the procedure for the drafting, approval and implementation of the National Plan of Development, regional development plans and other sectorial policies and for the application of the EU structural funds and actions in the near future. It will also establish the role and functions of the Government, County Governors' administration and municipalities. The experts also take into account that the Draft Law on Local Self-Government aims at establishing the general procedure for the organisation and activities of the self-government institutions.

It seems necessary that within the reforming of the above mentioned Laws the contents of the recommendations (13), (15), (16), (18), (22), (24) and (25) should be taken carefully into account. The short-term experts think that it is appropriate to do some changes to the Regional Development Law and other relating legislations on the basis of the proposed recommendations of this project.

**Recommendation (37):**

There are about 1 300 budget institutions and agencies in Lithuania. This kind of structure of the accounting agencies is very heavy taking into account the requirements of sound financial management of the EU funds. On the basis of the current Budget Law there are about 200 appropriate managers. Within this framework it is justified to reduce the number of the budget institutions significantly in coming 2-3 years.

**Recommendation (38):**

The short term expert appreciate that the Lithuanian authorities will develop and harmonize the payment system under the State budget. At this moment the EU support programs are not incorporated into the State budget.

**Recommendation (39):**

The basic standpoint is that the payments of the EU programs should be channelled through the

same system as the national ones. This means that all the payments will be carried out under the Treasury by the same payment system.

It is necessary to implement the proposed principle as soon as possible in year 2000. It could require some changes to the budgetary and payment rules.

**Recommendation (40):**

In connection with receiving the assistance from the pre-accession funds, the Candidate State is expected not to build two separated systems for management of the EU assistance means and public budgets means.

The short term experts clearly stress that financial and budgetary procedures in Lithuania are not in line with the EU requirements multi-annual budget planning, co-financing mechanisms, organisation of financial flows and indirectly commitment and payment procedures etc.

There are different timetables concerning the pre-accession funds and the national co-financing resources. In practise the evident difference could be problematic.

The short-term experts recommend to carry out the corrective amendments to the present procedures by the end of year 2000.

**Recommendation (41):**

The short term experts consider (as a basic rule) that the decision concerning the use of the EU-funds and the national co-financing resources should be done at the same time. The timetable of the different financial sources would be made more coherent. This kind of procedure could guarantee that the both elements of financing are available and the beneficiary will receive both funds at the same time.

It is necessary that particularly the administration and procedures of the EU structural funds and actions will be organised same way in each region in Lithuania.

**2.6. Organisational issues and responsibilities**

At the present the National Aid Coordinator (Ministry of Foreign Affairs) is in principle in charge with organising overall programming, monitoring and evaluation process of the EU funds. The National Authorizing Officer (Vice-Minister of Finance) is responsible of the overall management of the EU funds, requesting and managing EU funds, transferring funds to the appropriate agencies and ensuring financial monitoring.

The following recommendations of the short term experts will be based mainly on the budgetary and financial matters relating to the EU questions and aspects. The recommendations do not concern the matters in the field of the taxation and financial services of the Union.

**Recommendation (42):**

It is justified to have aim at providing the Lithuanian government with a viable system and structure for proper and efficient implementation and administration of the overall EU matters and particularly from the Lithuanian point of view of the financial and budgetary questions. With

regard to the general administration special attention will be paid to enhance the inter-ministerial coordination measures in programming, implementation, monitoring, control and evaluation.

It is recommended that the European Committee starts an overall project to develop interministerial coordination concerning the full implementation of the EU financed projects. This development work concerns initially from the implementation of the pre-accession projects.

**Recommendation (43):**

The short term experts recall that the Ministry of Finance will be responsible for European Union affairs that fall under its jurisdiction, in addition to participating actively in other areas of international co-operation. The role of the Ministry of Finance will be to monitor, analyse and elaborate economic trends in the EU area and to make recommendations and particularly prepare Lithuania's positions in the field of the economic and financial matters of the Union. The Ministry will prepare Lithuania's positions concerning the elaboration, application and monitoring of the EU's budget. It will represent Lithuania in the EU's preparatory work on taxation and tariffs, and contributes its expertise when Lithuania's tax policy objectives are set. The ministry's responsibility will also be for the preparation of financial market actions and legislation.

It is visible that there are strong needs to clarify and simplify the administrative organisation in the connection of the way to handle evident arrangements of the EU financial and budgetary matters and procedures within the Ministry of Finance.

Coordination of the activities between the units within the Ministry of Finance needs an overall strengthening, which is a crucial precondition for the successful EU institution building.

The whole preparatory work is needed to carry out quickly from the year 2000 and to finish roughly about one year before the Lithuania's accession to the EU.

**Recommendation (44):**

It is also highly visible that it will be needed to clarify the divisions of the responsibilities at the ministerial and most senior civil servants level in the Ministry of Finance. It is supportive to call the vice minister for conducting and leading the Lithuania's overall preparation and participation to the work of the Budget Council.

It is recommendable that the second deputy secretary of the Ministry is able to concentrate to the Economic and Financial Committee's work.

**Recommendation (45):**

The Ministry of Finance will be responsible for representing and preparing Lithuania both at the Ecofin Councils' and Budget Councils' meetings. The meetings of the Ecofin Council will be held almost every month. Particularly for the purpose of coordinating matters and procedures of the Ecofin Council's agendas a Secretariat for European Union Affairs under the Ministry of Finance should be set up.

The EU Secretariat should be located directly under the Minister of Finance and the Secretary of the State. The tasks of the Secretariat should be purely coordinative in nature. The tasks would be to co-ordinate preparation of EU affairs for the Ministry's leaders and senior managers and to

assist the Ministry's leaders and senior managers in external contacts related to EU affairs. The line departments should have clear responsibility for preparing the Lithuania's positions on the EU financial and budgetary matters.

The short-term experts regard that at the present there is clear room for coordination of the accession negotiation in the field of financial and budgetary matters which need well coordinated Lithuanian positions. The task of the Ministry of Finance concerns five negotiation chapters. In this context it is recommendable that the EU Secretariat under the Ministry of Finance could be built soon, even in year 2000. It should be created at least about one year before the Lithuania's accession to the EU.

**Recommendation (46):**

The above mentioned recommendation with its guidelines will mean that the role of the International Department will significantly change. It is necessary to consider whether the department could be abolished and its existing tasks could be transferred to the Secretariat to be found and to the other departments correspondingly with their functions.

In this constellation the question is how the existing European Integration Division could be developed and created to the above mentioned EU Secretariat. The preparatory work is to be started as soon as possible.

**Recommendation (47):**

The large range of interests affected by the EU budget and the speed of the response required from the Member State's Permanent Representation in Brussels make it really imperative for Lithuania to have effective procedures in place for co-ordinating the views of the different government services. It is necessary to have flexible inter-ministerial co-ordination concerning on budgetary matters with horizontal nature. Initiatives to bring an effective co-operation between relevant line ministries within the budget affairs would be the supportive practical step in improving the organisation of the EU matters under the Ministry of Finance.

In this purpose it is appropriate to found a coordinative working group on the EU budgetary matters in connection with the work of the Budget Department and particularly its EU budget unit to be founded before the Lithuanian's accession. The EU budgetary working group should compose representatives from all the relevant spending ministries of the EU financial resources. The basic aims of the group could be to assist the Ministry of Finance and the Government in order to define the Lithuanian national positions to most important and highly principle EU budgetary matters and procedures. The most practical task of the working group will be to assist the Budget Department in order to prepare instructions to the Lithuanian representative of the Council's Budget Committee. It is evident that need to co-ordinate the views of the different government services is mostly updated at the first stage of the Lithuanian accession to the EU. Therefore it is supportive that the working group (so called national budget committee) will be able to assist the Budget Department in preparing the necessary instructions on the every week basis from the beginning of the Lithuanian's EU membership.

The proposed working group is recommended to form already within the accession negotiations.

**Recommendation (48):**

The short term experts recall that the Budget Department's primary task in EU affairs will be to formulate Lithuania's position in the European Union budget. The Ministry of Finance shall be

the competent authority in coordination of the EU budgetary process. This means inter alia that the Ministry of Finance and the Budget Department shall confirm the instructions for the Lithuanian representative in the Council's budget committee. When preparing the instructions, Ministry of Finance shall be in cooperation with other ministries through the national budget committee. In the most urgent cases the instructions could be prepared by the sectoral experts in the Ministry of Finance, and then passed as an information to the national budget committee.

#### **Recommendation (49):**

Division of tasks and responsibilities in managing EU support programmes should be specified in order to implement these programmes successfully. At the administrative level most significant risks are related to the fragmentation of the organisational structures and vagueness of the tasks and responsibilities that could create difficulties of coordination both at the intraministerial and interministerial level and accountability.

Particularly concerning responsibilities on the management of the EU structural actions it is not appropriate to have divided responsibilities in the future. That's why the short term experts recommend to have a clear centralised budgeting system of the EU structural actions funds under the administrative sector of the Ministry of Finance. The short-term experts note that the EU funds to Lithuania are presently being channelled to beneficiaries through the National Fund, which has been established in the Treasury Department within the Ministry of Finance in the beginning of 1999. This is an advantage which should be utilised in creating the future system.

#### **Recommendation (50):**

The short term experts regard that the above mentioned aspects need in order to improve and make the whole administrative system and capacity more effective to have a separate administrative project within the central governmental level in Lithuania. This project's main purpose should be to clarify the tasks and responsibilities within the whole EU related administrative organisations and capacity and the Ministry of Finance and line ministries responsible in managing EU support programmes.

It is the task of the European Committee to carry out the proposed project of the overall administrative reform. It is appropriate to link this aimed project together to the general administrative reform.

### **2.7. Sound and efficient financial control and management**

From the EU point of view it is important to ensure that the same safeguards and controls are applicable to the EU as to the national budgetary funds. The Treaty requires Member States to be equally conscientious in the protection of the EU funds as national financial interests. The Member State must comply with all relevant EU regulation and decisions about the collection and transfer of the EU budget revenue and proper management of the funds received from the EU budget. It must be vigilant in preventing, detecting and reporting fraud and irregularities against the EU funds. Compliance with the EU budgetary and financial control requirements is one of the basic obligations of the EU membership. The Commission requires a Member State not only to comply with the rules, but to be able to demonstrate after the event that it has done so.

Financial control is a very important area of the EU support programmes and mainly of regional development programmes and their support from the EU funds. Therefore, a great attention should be paid to all activities with the aim to assure financial control, put it into accordance with

all relevant EU rules and regulations and to guarantee smooth implementation of them.

The short term experts note that the Ministry of Finance is responsible for controlling the execution of the Lithuania's State budget. Execution of the municipal budgets is controlled by the control services formed by municipalities of the regions and towns. In addition execution of the State and municipal budgets is controlled by the State Control Department.

According to the Law on State Control the State Control is the highest body performing financial control and supervising the budget's execution before the Parliament. Senior appropriation managers of the State budget are obliged to submit annually to the State Control reports on the execution of the expenditure budgets. The experts recall that the the State Control Office can audit the implementation of the pre-accession funds but has no obligation to do so. In addition it is remarkable that the internal audit bodies are planned to be established for certain agencies.

A well-functioning, modern data-base for the monitoring of the use of the EU funds and other financial resources is one of the significant elements of sound and effective financial management. It requires eminent input of financial and human resources at the beginning. Despite of the significant inputs the establishment of functioning system will save resources in longer time.

**Recommendation (51):**

The Lithuanian authorities should unambiguously note that the correct use, control, monitoring and evaluation of the EU pre-accession funding will constitute a key indicator of Lithuania's ability to implement the financial control acquis.

**Recommendation (52):**

Drawing up the global views on the Lithuania's financial control the short term experts recommend that it is necessary to create in the very short term by the end of year 2001 a clear institutional set up, which should include a central organisation, Ministry of Finance, within the Government responsible for harmonising internal audit/control functions implemented in all budgetary institutions, internal audit units in line ministries and spending agencies, a well functioning system of relations between central organisation and the decentralised units and the clear functional independence of these units as regards to the relevant authorising authorities. It is supportive to link to these reform procedures the significant improvement and completion of the legislative framework for internal and external financial control and the clear separation between internal and external financial control. This lacks shall be filled as soon as possible as regards to the institutions involved in the management of the EU pre-accession funds.

**Recommendation (53):**

Control of the EU funded programmes is very strict and more detailed than control of most national measures. Both the proceeding of projects as well as their results will be monitored carefully. Special emphasis will be put on development of the Independent Financial Control.

In this respect it is necessity that the Audit Division of the Treasury Department will be tranfered to the independent unit under the Secretary of the Ministry as soon as possible in year 2000 because of the used EU pre-accession funds.

**Recommendation (54):**

To organise external and internal auditing at all the levels of the government it seem necessary that auditing and line-administration are clearly separated from each other and auditing is independent from the auditees. The independent internal audit units must to be established in all relevant administrative units by the end of year 2001. Internal audit functions shall be established to an agency if there are reasons to do so with regards to the adequacy and sufficiency of internal control arrangements.

As a whole it should be clarified the role of the line ministries as accounting agency, which in practise should be in charge of cash management, payment transactions, bookkeeping and internal auditing. The line ministries should also be charge of reporting on annual operations of its administrative area and of arrangement the internal supervision. This means that the role of Ministry of Finance in guiding internal audit is to be changed with the amendment of the Budget Law. Internal audit regulations shall include relations to the Community law and generally accepted standards.

**Recommendation (55):**

The short term experts regard as a key principle that internal audit complements and evaluates internal control but can never replace the establishment of adequate internal control structures. Internal audit shall investigate and evaluate the adequacy of internal control and carry out other inspections requested by the management.

**Recommendation (56):**

It is important to determine the framework and procedures for the design and implementation of the ex ante, ongoing and ex post financial control system of those programmes which are using the EU support as soon as possible at least by the end of year 2001.

**Recommendation (57):**

The short term experts recommend that the Lithuanian Ministry of Finance will be designated as single contact point for the EU bodies in charge of the protection of the EU financial interests already in year 2000. Importance of good co-ordination between Lithuania and EU bodies involved in the protection of EU financial interests should be stressed.

**Recommendation (58):**

It seems reasonable to plan to incorporate ex ante controls into the budget implementation process including the EU funds. Lithuania should, in particular, strengthen the Lithuanian's institutions involved in ex ante financial control, notably through the provision of adequate human resources and by ensuring proper co-ordination.

**Recommendation (59):**

The short term experts invite the Lithuanian authorities under the guidance of the Ministry of Finance to take steps to further improve its internal financial control systems, in particular as regards enhancing the functional independence of the institution involved in financial control harmonising control and audit standards and ensuring the adherency of all financial control and

audit units to these standards.

### **Recommendation (60):**

As concerns external audit the short term experts recommend that the State Control Office audits financial transfers between Lithuania and the European Community. The State Control's functions should be clarified from the Constitution's point of view. The overall task shall be to audit the financial management of the State and compliance with the budget. The office's role shall be an independent and neutral government authority by promoting protection of citizens' and taxpayers' interests. The short term experts stress that it is essential for Lithuania to take necessary steps to further develop the State Control Office and to establish procedures for an adequate follow-up of its audit-findings.

The proposed development work would be started at the latest in year 2001.

### **Recommendation (61):**

The short term experts recommend that an overall project for a comprehensive data-base for monitoring the use of the EU funds should be started as soon as possible with inter-ministerial co-operation under the Lithuanian's Europe Committee. Within the proposed project it should also prepare a more comprehensive monitoring and reporting strategy.

It is justified to link the Navision system to to the global framework in longer time. In the short term the Navision system should be extended to include all the necessary information, not only payment information.

### **Recommendation (62):**

The short experts strongly support that performance-oriented management system shall be applied in all administrative branches in Lithuania within 3-4 years.

## **2.8. Assessment of necessary public finance**

The Lithuanian authorities have transmitted the following data on the State budget for year 2000. The figures will indicate the possible amounts of national co-financing. The single budget lines are such the ones which could be used as a national co-financing notably for the implementation of the structural actions programmes.

### **STATE BUDGET-EXPENDITURES 2000**

Thousand Lt

<b>Budget lines by specific chapter</b>	<b>Total</b>	<b>Current expenditure</b>		<b>Capital expenditure</b>	
		<b>Total</b>	<b>Salaries</b>		
<b>I) ENVIRONMENT</b>					
<b>Ministry of Environment</b>	<b>28652</b>	<b>28504</b>	<b>15209</b>	<b>148</b>	
Central institutions operation costs	7090	7090	3597		
State control for environmental protection		14043	13940	7768	103
Control of water fauna and flora	928	923	433	5	

Natural environment and changes	3027	3002	1768	25	
Management of the hydro-graphic net		549	544	313	5
Fauna and flora exposition arrangement		1916	1906	1051	10
Departmental archives	82	82	45		
Transport economy	482	482	234		
Protection of the environmental resources		50	50		
State environmental monitoring	334	334			
Pesticide affairs	100	100			
Environmental quality improvement		51	51		51

#### **Other units related or under Ministry**

Forest department	15751	15352	9045	399	
Hydro-meteorology department	548	538	3762	100	
Geology department	4871	4871	2010		
Territorial planning and construction inspection		598	598	400	

## **II) TRANSPORT**

<b>Ministry of Transport</b>	<b>13676</b>	<b>9290</b>	<b>3240</b>	<b>4386</b>	
Transport national development	506	506			
State reserve formation and protection		260	260		
Improvement of the passenger transportation		5278	892		4386
Central institutions operating costs	4912	4912	3150		
Railway protection and monitoring	2350	2350			
Special attaché delegation		370	370		90

#### **Other related units**

Bridge inspection	148	148	99		
Road transport inspection	5450	5400	3518	50	
Internal water way agency	8136	6099		2037	
Internal water navigation inspection	751	751	500		
Special joint stock company "Lithuanian Railway"	4000	4000			
Railway inspection	300	300	188		
Transport investment agency	291	291	209		
Civil aviation department	1495	1495	1103		
State Ent. Internat. Vilnius airport	62	62			
Air company "Lithuanian airlines"	12471	683		11788	
State Ent. "Lithuanian post"	6650	6650			

## **III) AGRICULTURE**

<b>Ministry of Agriculture</b>	<b>524579</b>	<b>524579</b>	<b>63690</b>		
National agricultural development programme (incl. subsidies)	395516	395516			
Fish resources reconstruction	3906	3906	996		
Fish economy and industry development programme	457	457			
Flora and fauna protection control	2078	2078	1294		
Grains' and their products monitoring		254	254	153	
Control and certification of the seed crops quality	3283	3283	2094		
Plant sort protection	1527	1527	552		
Supervision of the legal acts for strains of cattle	403	403	227		
Land and forest technology					

probation and certification	702	702	410	
Study of the related social problems	181	181	96	
Public relations (publicity)	114	114	34	
Creation of the strategic reserve	3506	3506		
Representation in the international exhibitions and related management	297	297		
Maintenance the agriculture units by literature and other information	268	268		
Organisation of competitions	46	46		
Supervision of the technology	330	330		
Pollution examination	46	46		
Utilisation	1920	1920		
Diplomatic representation management programme	677	677	182	
Professional training	97665	97665	52903	
Farmer training	239	239	125	
Operational costs of the central institutions		10876	10876	4624
National AQUIS programme	288	288		
<b>Other related units</b>				
Integration to EU department	1279	1279	826	
Strains of cattle monitoring unit	1408	1408	914	
Legal and organisation of land exploitation		5386	5386	847
Chamber of Agriculture	2080	2080		
National paying agency	544	544	300	

#### IV) REFORMS AND LOCAL DEVELOPMENT

##### Ministry of Public administration

<b>reforms and local authorities</b>	<b>11084</b>	<b>11084</b>	<b>3038</b>	
Register information system development		407	407	
State service reform	1200	1200		
Communal economy concept implementat.		82	82	
Information system development	1000	1000		
Administrative information system development	350	350		
Information system development in counties (regions)	500	500		
Integral register system development	500	500		
Integral geo-information system development	400	400		
State institution computer system development	650	650		
Information infrastructure development in Baltic countries	470	470		
Competitions and seminars	90	90		
Special attaché delegation	330	330	80	
State administration	3445	3445	2109	
Government representatives' unit	1450	1450	849	
Regional development programme implementation	210	210		

##### Other related units

Standardisation department	2859	2839	1355	20
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Metrological unit	1618	1578	380	40
Metrological inspection	1521	1521	1084	
Learning centre	201	201		
National accreditation bureau	646	620	362	26
Tourism department	1133	1133	320	
State information protection department		389	389	179
Institute on public administration	1371	1371		

### **Recommendation (63):**

One of the most severe problem in the field of national co-financing is the availability of funds. The short term experts recall that as a general requirement the co-financing rate provided by the Candidate State should be at least 25 % of the total eligible public expenditure. Thus there should be enough national financial resources to fulfil the national co-financing requirement followed up by the Commission.

### **Recommendation (64):**

Considering the existing budget restrictions there seems to be a clear risk of the lack of national co-financing potentially leading to sizable underuse of the pre-accession funds available from the Union.

Referring to above presented table of the State Budget expenditure 2000 and to the recommendation (1) and (20) the short-term experts state on the assessment of necessary public finance following:

- \* there will be almost sufficient national co-financing resources if the present national agricultural development programme appropriations (395 million litas) could be reallocated to the different agricultural schemes.
- \* considering the implementation of the different projects of the EU's internal policies there will sufficient co-financing resources of the State budget by reallocation of the relevant current resources in the State's budget
- \* there will a significant need to increase national co-financed resources for the implementation of the structural actions programmes. Taking into account possibilities to utilise the extra-budgetary funds from year 2002 in the State's budget need for the additional State's money amounts over 500 million litas within 4-5 years after the Lithuania's accession to the EU.

### **III. RECOMMENDATIONS CONCERNING THE PRESENT AND FUTURE ACTION PLANS OF THE OFFICIALS UNDER THE MINISTRY OF FINANCE**

#### **Recommendation (65):**

According to the Finnish experience it has proven to be necessary to train possible candidates for working in different committees and working groups of the EU's Commission and Council. The main bodies which need the permanent representatives in Brussels are the Budget Committee and the Financial Counsellors' working group of the Council.

#### **Recommendation (66):**

It is highly supportive that the Lithuanian officials' skills at all levels in the custom administration should be improved. The possible solution is a comprehensive training course in the existing Member State for custom officials. The considerable changes in the customs duties and levies will be happened. It is worth to take into account the considerable behavioural shifts as to where taxes on imports are levied.

#### **Recommendation (67):**

The short term experts have during the detailed workshops in Vilnius, involving both senior and expert level Lithuanian officials, provided available assistance concentrating particularly to the following matters:

- \* advise to turn to Mr. Pekka Pylkkänen, National Board of Customs, on the own resources matters, specially the traditional own resources of duties and levies
- \* advise to take contact to Ms. Leena Seppä, Ministry of Agriculture and Forestry, on the sugar levies
- \* advise to turn to Mr. Markku Puurula and to Ms. Anita Heinonen, Ministry of Finance, on the VAT base calculation and on the interpretation of the instructions of the VAT base calculations.
- \* advise to take contact to Mr. Paavo Kytömäki, Ministry of Finance, on the own resources system as a whole and on the participation and working models of the Commission's Own Resources Committee (ACOR committee) and on the submission of the national forecasts of the VAT and GNP figures to the Commission.

The short term experts have arranged that the Lithuanian officials could take contact to these special experts in the future, and these special experts have promised to help in possible cases in which the Lithuanian officials will need additional information.

The short term experts notice that the Finnish authorities have transmitted earlier the handbook of the calculation instructions on the VAT bases. According to the Finnish experience this document has proven to be very useful handbook to provide the calculations of the necessary VAT bases.

ANNEX A

Draft

LAW AMENDING THE LAW ON BUDGET OF THE REPUBLIC OF LITHUANIA

**Article 1. New edition of the Law on Budget of the Republic of Lithuania**

To amend the Law on Budget of the Republic of Lithuania in the following way:

**“LAW ON BUDGET OF THE REPUBLIC OF LITHUANIA“**

*Chapter 1. General provisions*

**Article 1. The Purpose of the Law**

1. The purpose of the law is to define the content of the state and municipal budgets of the Republic of Lithuania, the legal bases for the collection of revenue and use of appropriations in the budgets, the basic provisions for the preparation, approval, execution, evaluation, and control of the budgets, budget formation and execution procedures, duties, and responsibilities of appropriation managers.
2. The goal of the law is to guarantee that formation and execution of the state and municipal budgets of the Republic of Lithuania is directed towards the achievement of the overall economic and social welfare of the citizens of the Republic of Lithuania and effective use of monetary resources.

**Article 2. Main Concepts of the Law.**

1. Working capital are resources formed from the balance of the budget resources, and when it is not enough - from estimated revenue, and are used in order to cover temporary shortfall of revenues.
2. Appropriations is the maximum amount of resources specified in the Law on the Approval of the State Budget and Financial Indicators of Municipal Budgets, to which an appropriation manager is entitled following the submission of payment requests to the institution managing the state treasury or financial offices of municipalities for the funding of specific programs.
3. General grant are appropriations of the state budget to municipal budgets in order to equalize their tax revenue, to cover differences of the expenditure structure, which result from objective factors not depending on municipalities.
4. The budget year is the year beginning January 1 and ending on December 31.
5. Budget expenditure shall mean used budget appropriations.
6. Budget revenues are receipts from taxes, levies and other revenue sources specified by laws as well as not repayable financial support.
7. Budget surplus and deficit shall be the difference between budget revenue and expenditure.
8. Economic classification is the classification of budget expenditures and appropriations according to the general economic purposes of the funds appropriated.
9. Funding is the transfer of funds to the accounts of appropriation managers' subordinate agencies, or direct payments from budget (treasury) accounts in order to cover their expenditures.
10. Functional classification is the classification of budget expenditures and appropriations according to the function of the state.
11. Capital expenditures are expenditures meant for the formation and acquisition of long-term tangible and intangible assets and accumulation of Government Reserves.
12. Current expenditures are expenditures related to current operations of budget agencies and implementation of programs, without increasing the value of property of those institutions.
13. Planned budget expenditures shall mean approved appropriations.

14. Program is a document of appropriation managers' institution approved by the Government that provides for goals, objectives, and activities for their implementation as well as for outcome measures.
15. Estimates is the document set out in accordance with the economic and functional classification of expenditure and that provides for the expenditure amounts, necessary in order implement programs.
16. Special program is a program approved by the Government, expenditures of which are covered by the public resources or other sources approved by laws or only by sources approved by other laws. (Revenues of state budget agencies received for provided services and revenues administrated by appropriation managers that are to be paid into the budget.)
17. Special targeted grant is state budget resources transferred to municipal budgets and used for the purposes provided for in the laws.
18. Municipal budget is revenue and appropriation plan of a municipality for a budget year.
19. The State Budget is revenue and appropriation plan of the state for a budget year.

### **Article 3. The National Budget of the Republic of Lithuania**

1. The State budget and the municipal budgets shall make up the national budget of the Republic of Lithuania.
2. Revenues of the national budget shall be made up of resources received in the state and municipal budgets, with the exception of borrowed resources. Revenues and expenditures of the state and municipal budgets may only be money.
3. National budget appropriations shall be used for the implementation of the state and municipal functions and programs. Taxes, obligatory payments, and levies collected in the Republic of Lithuania may be allocated only through the National budget of the Republic of Lithuania, State Social Insurance Fund, the Obligatory Health Insurance Fund, Privatization Fund, and Fund for the Decommissioning of the Public Company Nuclear Plant of Ignalina
4. Other resources (except for those belonging to the state budget revenues) from sources approved by laws shall be recorded in the state budget and accumulated for the funding of expenditure of special programs

### **Article 4. Appropriation Managers**

1. Appropriation managers of the state budget shall be managers of public institutions, specified in the state budget approved by the Seimas or appropriations for which were approved by the Government or any other institution that has appropriate authorities as directed by the Seimas. The Government shall approve these appropriations within the limits of appropriation amounts approved by the Seimas
2. Appropriation managers of municipal budgets shall be managers of municipal institutions, agencies as specified in the municipal budget approved by the municipal council, appropriations for which were approved by the municipal board (mayor) as directed by the municipal council. The municipal board shall not exceed the total appropriations amount approved by the municipal council for the implementation of certain obligations.

### **Article 5. The Main Duties of Appropriation Managers**

2. Appropriation managers of the state and municipal budgets shall:
  - 1) Use allocated budget appropriations in accordance with the established purpose for the implementation of the activities and programs of their institution, to allocate budget resources to agencies subordinate to them for the implementation of their operations and programs, achievement of program goals and objectives;

- 2) Establish the expenditure estimates of programs of their subordinate institution within the limits of approved appropriations, including current expenditure, salaries among them, and capital expenditure;
- 3) Organize the formation and execution of programs financed from the state budget; ;
- 4) Be held accountable in accordance with the procedure established by the Government of the Republic of Lithuania or institution authorized by it;
- 5) Control liabilities and carry out the analyses of financial accounting by subordinate agencies;
- 6) Ensure the fairness of the financial and statistical reports of their institution;
- 7) Guarantee the effective and efficient implementation of programs and use of approved appropriations.

2. Appropriation managers of the state budget shall prepare regulations for the number of employees and, in coordination with the Ministry of Finance approve them and use for the implementation of programs of subordinate agencies, if laws do not provide otherwise.

3. Appropriation managers of municipal budgets shall prepare the regulations specified in paragraph 2 of this Article if these regulations are not established by legislation of the Republic of Lithuania and in coordination with the finance office of the municipality approve them and use for the execution of programs.

## **Article 6. Rights of Appropriation Managers**

An appropriation manager of the state and municipal budget has the right:

- 1) during the budget year, not later than 10 days before the end of the quarter, to change the initial purpose according to the economic classification of budget appropriations approved for the operations of their institutions and agencies subordinate to them (appropriation manager of the state budget shall inform the Ministry of Finance and appropriation manager of municipal budget shall inform the Finance office of a municipality in such a case). By doing so an appropriation manager shall not exceed the amount of total appropriation for current expenditure, including salaries. Appropriations for current expenditure, including salaries, are maximum amounts and their saving can be used to fund capital expenditure;
- 2) in coordination with the Ministry of Finance (in case of appropriation managers of the state budget), or with the Finance offices of municipalities (in case of appropriation managers of municipal budgets) to change the quarterly reapportionment of total amount of appropriations for the implementation of program;
- 3) while forming programs and program expenditure estimates, to submit alternative programs and their estimates to the Ministry of Finance of the Republic of Lithuania ; appropriation managers of municipal budgets shall submit them to financial units of municipalities.

## **Article 7. Responsibilities of Appropriation Managers**

In accordance with laws of the Republic of Lithuania appropriation managers of the state and municipal budgets shall be responsible for:

- 1) implementation of programs, compilation and execution, within limits of approved appropriations, of estimates of expenditure; effective and efficient use of approved appropriations in accordance with program goals;
- 2) for the settlements of their institutions with employees, the budget, social insurance institutions, suppliers of all types of energy, services, and goods;
- 3) for the fairness and compliance with accounting data of book-keeping, financial and statistical reports of their institutions;

## **Article 8. Legal Basis for the State and Municipal Budgets**

1. The legal basis for the formation and execution of the state and municipal budgets shall

be the Constitution of the Republic of Lithuania, this law, and the procedures for the formation and execution of the budgets as approved by the Government, annual law on the approval of the state budget and financial indicators of municipal budgets, other legal acts that regulate collection of revenues and financing of expenditures.

2. Decisions of municipal councils concerning approval of municipal budgets for the respective year shall be the legal basis of municipal budgets.

3. The legal basis for the expenditure of agencies subordinate to appropriation managers of the state and municipal budgets shall be expenditure estimates drawn according to their programs and approved by appropriation managers.

## **Article 9. Classification of Revenue, Expenditure of the State and Municipal Budgets**

The same revenue, expenditure classification, established by the Ministry of Finance of the Republic of Lithuania, shall be applied to the state and municipal budgets.

## **Article 10. Borrowing and Lending Relationships between the State and Municipal Budgets**

1. Within the limits approved by the Seimas and in accordance with the procedure established by the Government or institution authorized by it, municipalities may:
  - a) take long-term (of more than one year and the maturity date of which is not the same budget year) domestic and foreign loans or grant guarantees only for the financing of investment projects.
  - b) take short-term domestic and foreign loans (with the maturity in the same budget year) or grant guarantees in order to cover temporary shortfalls of revenue and when municipal current assets are not sufficient for that purpose.
1. In accordance with the procedure established by the Government during the budget year municipalities may take short-term zero interest rate loans from the state budget in order to cover temporary shortfalls of revenue and when municipal current assets are not sufficient for that purpose.
2. Short-term loans of municipalities shall be repaid by the end of the budget year.
3. Appropriation managers of the state and municipal budgets shall not be allowed to borrow resources and undertake debt liabilities on their behalf.
4. Ministry of Finance shall be responsible for the management of government guarantees and loans.

## **Article 11. Publicity of the Information on the Budgets**

1. Information on the formation, approval, execution, evaluation and control of the budgets shall be transparent and public, with the exception of cases of state secrets.
2. The Ministry of Finance shall publish information of the Government of the Republic of Lithuania and executive municipal institutions on the approved budgets, their revenue and appropriations, their execution.
3. Information on the approval and execution of municipal budgets shall be presented by Finance offices of municipalities.

## **Article 12. Requirements for the Adoption of Other Laws**

Tax laws, other laws, and legal acts of the Republic of Lithuania and their amendments that affect revenues, appropriations and public debt of the respective budgets shall come into effect in accordance with the procedure established by laws but not later than the annual Law on Budget.

### **Article 13. Revenue of the State Budget**

Revenue of the State budget of the Republic of Lithuania is made up of:

- 1) Tax revenues;
- 2) Revenues from the state-owned property (with the exception of revenues received in accordance with the Law of the Republic of Lithuania on the Privatization of the State and Municipal Property)
- 3) Revenues received by budget agencies for services provided by them, revenues administered by appropriation managers;
- 4) Revenue from the balances of the state budget resources on current accounts;
- 5) Revenue received from debtors in accordance with contractual obligations;
- 6) Provided not repayable financial support (monetary resources).
- 7) Other payments.

### **Article 14. Appropriations of the State Budget**

2. Appropriations of the state budget shall be used for the implementation of the Constitution and laws of the Republic of Lithuania:
  - 1) implementation of programs as approved by the Government;
  - 2) the implementation of Government obligations,
  - 3) support to the local budgets,

2. Excess or unused payments into the budget, including revenue of state budget agencies received as a result of provided services, meant for the funding of special programs during the current budget year shall be carried forward to the next budget year and remaining amounts of unused appropriations for the funding of to be finished construction projects may be used above the amount of total appropriation amounts approved by the Seimas.

### **Article 15. The Reserve Fund of the Government**

1. Reserve resources of the Government of the Republic of Lithuania shall be planned in the state budget. The reserve resources shall not exceed 1 per cent of the approved appropriations of the state budget. Each year, together with the budget approval, the Seimas will decide upon the specific amount of the reserve. Resources of the Government reserve fund shall be allocated by means of resolutions of the Government.

2. Reserve resources shall be used only for purposes that cannot be foreseen at the time the Draft Law on the State Budget and Financial Indicators of Municipal Budgets is formed and approved. Resources of the fund shall be used in cases of natural calamities and for other needs in accordance with priorities established by the Government.

### **Article 16. Working Capital of the State Budget**

1. Working capital shall be formed in the state budget. The amount of working capital shall be established together with the approved state budget of the Republic of Lithuania.

2. Working capital shall be used to cover temporary shortfalls of revenue and shall be recovered not later than by the end of the budget year.

### **Article 17. The Basic Provisions Concerning the Preparation of the Draft State Budget and Financial Indicators of Municipal Budgets**

2. The draft state budget shall be prepared by the Ministry of Finance.
3. The draft state budget shall be prepared for the period of one budget year and planned for

the period of three budget years in accordance with this law, other laws of the Republic of Lithuania and legal acts, macroeconomic projections of the development of the country, Strategic planning principles, and the approved basic preliminary budget figures, programs submitted by appropriation managers and expenditure estimates of these programs.

4. Appropriation managers shall prepare programs and their draft expenditure estimates on the basis of the strategic goals (priorities) defined by the Government.

#### **Article 18. Submission of the Draft State Budget and Financial Indicators of the Municipal Budgets to the Seimas of the Republic of Lithuania**

1. The Government of the Republic of Lithuania shall submit to the Seimas the draft state budget and financial indicators of the municipal budgets not later than 75 days before the end of the budget year. The Government of the Republic of Lithuania shall also present draft financial indicators of municipal budgets to the Association of Municipalities in accordance with the procedure for the coordination of financial indicators as established by the Government.

2. The draft law on the approval of the state budget and financial indicators of the municipal budgets shall specify:

- 1) The total amount of revenue and its distribution according to the types of revenue.
- 2) Allocation of payments into the state budget that will be used for funding of special programs on the basis of appropriation managers.
- 3) The total amount of appropriations and their distribution by institutions for the implementation of programs approved by the Government. Appropriations shall be allocated for current expenditures (including salaries) and capital expenditures.
- 4) Distribution of the total amount of the state budget appropriations according to the functional classification;
- 5) Resources for the formation (addition) of working capital of the state budget;
- 6) Annual ceiling for the public debt;
- 7) Limit of requested government guaranteed during the budget year;
- 8) Limits of municipal borrowing;
- 9) Amounts of general and target grants to municipal budgets;
- 10) Amounts of budget tax revenues of each municipality;
- 11) Portion (in %) of Personal Income Tax distributed to municipal budgets;

3. The draft annual budget law may contain provisions limiting the right to undertake obligations to use budget expenditure.

#### **Article 19. Documentation Submitted to the Seimas together with the State Budget proposal and Financial Indicators of the Municipal Budgets**

In addition to the State Budget proposal and financial indicators of the municipal budgets the government shall also submit to the Seimas the following documents:

- 12) Explanatory notes to the State Budget proposal and financial indicators of the municipal budgets;
- 13) Draft allocation of state budget appropriations to programs as approved by the Government.
- 14) Data on special provisions in respect of unperformed obligations by borrowers who received loans on behalf of the Government or with the government guarantee.
- 15) The total amount estimated by the state for borrowing from foreign and domestic creditors.
- 16) Output measures of appropriation managers' programs;
- 17) Draft budgets of the State Social Insurance Fund and Obligatory Health Insurance Fund, Estimates of resources of the Privatization Fund, estimates of the Fund for the Decommissioning of the Nuclear Plant of Ignalina.

18) Other documentation established by legislation of the Republic of Lithuania.

## **Article 20. Review and approval of the State Budget Proposal and Financial Indicators of the Municipal Budgets at the Seimas**

1. The Seimas shall review the State Budget proposal and financial indicators of the municipal budgets on the basis of the presentation of the government, recommendations and opinions of Committees of the Seimas, and additional reports in accordance with procedure established in the Statutes of the Seimas.

2. The Seimas shall approve the state budget and draft financial indicators of municipal budgets for the budget year by law not later than 14 calendar days before the start of the budget year. In case of failure to approve the state budget or financial indicators of municipal budgets, procedure established in Article 29 shall apply.

3. The state budget shall be approved in accordance with indicators, specified in Paragraph 2 of Article 18 of this Law.

5. The annual law on the Approval of the State Budget and Financial Indicators of Municipal Budgets may specify limits for the monthly appropriations of the state budget.

### ***Chapter III. Municipal Budgets***

## **Article 21. The Purpose of Municipal Budgets**

1. Resources that are necessary to implement the Constitution of the Republic of Lithuania, functions attributed by laws, and carry out functions and programs delegated by the Government shall be accumulated in the municipal budgets.

2. Each municipality shall have its autonomous budget.

3. Municipal budgets shall be approved in balance.

## **Article 22. Revenue of Municipal Budgets**

Revenue of municipal budgets are made up of:

- 1) Tax revenue collected into the municipal budget in accordance with laws and other legal acts;
- 2) revenues from the municipality owned assets (property);
- 3) fines and revenue resulting from forfeiture according to the procedure established by laws;
- 4) local levies;
- 5) revenues of municipal spending units received as a result of provided services;
- 6) revenues on the balances of municipal funds on current accounts;
- 7) revenue received in accordance with the procedure established by the Government after allocating resources received for the sale or rent of public land for other than agricultural purposes;
- 8) grants from the state budget;
- 9) other revenues established by laws.
- 10) non repayable financial support (monetary resources)

## **Article 23. Appropriations of Municipal Budgets**

Appropriations of municipal budgets shall be used for the implementation of the Constitution of the Republic of Lithuania, the Law on Self Government and other laws:

- 1) to implement functions delegated to municipalities by the state;
- 2) for the implementation of programs.

## **Article 24. Working Capital of Municipal Budgets**

1. Working capital shall be planned in the municipal budgets. They shall be formed from the budget balance and, when it is not sufficient, from planned revenues. The amount of working capital shall be established in the approved municipal budgets.

2. Working capital shall be used to cover temporary revenue shortfalls and shall be recovered not later than by the end of the budget year.

#### **Article 25. Reserve of the Mayor (Council) of the Municipality**

1. Municipalities shall be allowed to form mayor's (council's) reserve. Each year together with approval of the budget, the municipal council shall establish a specific amount of the reserve. Resources of the mayor's (council's) reserve shall be allocated by the mayor (council) of the municipality.

2. Reserve resources shall be used only for contingency expenditures that cannot be foreseen at the time the state budget is formed and approved. Usually these resources shall be used for liquidation of consequences of natural calamities and ecological disasters.

#### **Article 26. Preparation, Approval of Municipal Budgets and their Submission to the Government or institution authorized by it**

1. Executive bodies of municipalities shall prepare draft municipal budgets on the basis of this Law, laws that regulate revenues of municipalities, financial indicators of municipal budgets approved by the Seimas, Procedure for the Formation and Execution of the budget as approved by the Government or agency authorized by it, other laws, national statistical data, social and economic programs.

2. The executive bodies shall submit draft budgets to municipal councils.

3. The Councils shall review draft budgets on the basis of presentations of executive bodies, recommendations and opinions of municipal committees and in accordance with the regulations of municipal councils.

4. Municipal budgets shall be approved by municipal councils. The budget shall be approved by the decision of municipal council. The budget shall specify:

3) total amount of revenues and their distribution according to types of revenue;

4) total amount of appropriations and their distribution to institutions for the implementation of their activity programs. Appropriations shall be allocated for current expenditure, salaries of which, and capital expenditure;

5) amount of working capital.

5. Municipal councils shall approve budgets within two months after the approval of the state budget and financial indicators of municipal budgets. In case of failure to approve municipal budgets on time, budgets shall be executed in accordance with the procedure established in Article 29.

1. Mayors of municipalities shall submit the approved budgets to the Ministry of Finance.

2. If following two months after the enactment of the Law on the Approval of the state budget and financial indicators of municipal budgets a municipality does not submit to the Ministry of Finance the approved budget, state treasury payments may be suspended in respect of a certain municipality in accordance with the procedure established by the Government.

### ***Chapter IV. Execution of the Budgets***

#### **Article 27. Organization of the Execution of the State and Municipal Budgets; Institutions that Execute the Budgets**

3. Execution of the state budget shall be organized by the Government of the Republic of Lithuania.

4. Implementation of the cash operations of the state budget shall be organized by the Ministry of Finance through credit agencies of the Republic of Lithuania.
5. Implementation of municipal budgets shall be organized by municipal boards (Mayors).
6. Implementation of the cash operations of municipal budgets shall be organized by the Finance offices of municipalities through credit agencies of the Republic of Lithuania.
6. Institutions authorized by laws shall control assessment and collection of taxes and other levies into the municipal budget.

#### **Article 28. Recording of Revenues and Expenditure.**

1. Receipts shall be included into the budget revenue of the respective year until January 10 of the following year, the beginning of transfer of which has been recorded by December 31 inclusively.

2. Amounts paid, the beginning of the transaction of payment order of which has been recorded by December 31 inclusively, shall be included in the expenditure of the respective budgets.

#### **Article 29. Execution of Budgets that were not Approved**

In case of failure to approve the state or municipal budgets on time and if provisions of paragraph 7 of Article 26 do not apply to municipal budgets, monthly expenditures at the beginning of the new budget year until the budget approval shall not exceed 1/12 of the last year's budget expenditures. In this case, expenditures of each appropriation manager each month until the budget approval shall not exceed 1/12 of the last year's budget resources allocated to this appropriation manager and shall be used only for the financing of continuous activities and obligations specified by laws.

#### **Article 30. Use of the Excess Revenue Received by the State and Municipal Budgets during the Year and Appropriations that are no longer valid**

1. The revenue of the state budget received in excess and appropriations that are no longer valid shall be used for the repayment of the public debt and to cover shortfalls of municipal tax revenue.
2. By means of certain decisions the municipal council shall allocate revenue of municipal budgets that were received in excess and appropriations that are no longer valid.

#### **Article 31. Financing of Expenditure of the State and Municipal Budgets in case of Revenue Shortfall before making Revisions of the Budget Law.**

1. If the state budget is not being performed, i.e. the received revenue is less than the planned revenue and this shortfall can not be covered by working capital of the budget, until amendments to the budget law are passed pursuant to the established procedure, financing of programs in accordance with recommendations of the Ministry of Finance will be carried out on the basis of the procedure established by the Treasury Law. This provision shall not apply to resources of special programs if appropriation managers paid them in.

2. In case municipal budgets are not being performed, i.e. they receive less revenue than the estimated amount, appropriations of municipalities shall be financed in accordance with the procedure established by Municipal councils. If it is evident that the revenue plan will not be performed by the end of the year, the Municipality Council, following the Mayor's (the council's) recommendations, shall make a decision concerning financing of expenditure.

3. Amounts of the state and municipal budgets appropriations that are to be transferred to appropriation managers for the funding of special programs shall be reduced by the amount equal

to the actual shortfall of payment (in comparison with the plan) of resources received for provided services and other revenue administered by appropriation managers.

### **Article 32. Returning of Unused Budget Resources and their Recording.**

1. At the end of the year residual amounts of budget resources in the appropriation managers' accounts, with the exception of residual amounts of unused resources for the funding of special programs and unused appropriations for the funding of to be finished construction projects shall be returned to the budget not later than by January 10:

1) the state budget resources shall be transferred from appropriation managers' accounts and accounts of their subordinate agencies to the treasury account;

2) municipal budget resources shall be transferred from appropriation managers' accounts and accounts of their subordinate agencies to the accounts of municipal budgets.

2. Carried forward balances at the accounts with foreign credit institutions of diplomatic offices and military attaches equal of one - month expenditure shall be left for the Ministry of Foreign Affairs and other ministries.

3. Residual amounts of targeted appropriations that were approved for municipal budgets by the annual law on the approval of financial indicators of the state and municipal budgets as well as appropriations that were approved for municipal budgets by certain laws or resolutions and appropriations in the municipal budgets that were not used according to their purpose, shall be returned to the state budget by transferring them from municipal budget accounts to the treasury account.

### **Article 33. Revision of the State and Municipal Budgets during the Budget Year.**

Following decisions of the Seimas, resolutions of the government pursuant laws of the Republic of Lithuania, as a result of which obligations of the current financial year of the state and municipal budgets change, the Ministry of Finance and municipal executive bodies revise the budgets and carry out certain settlements between the state budget and municipal budgets.

### **Article 34. Annual Accountability for the Execution of the State and Municipal Budgets**

1. Annual reports on the execution of the state and municipal budgets shall be submitted on the basis of the budget figures approved in the annual budget law, use of the Government reserve resources, resources of the mayor's reserve and amounts of carried forward excess and unused payments into the state budget meant for the funding of special programs.

2. On the basis of the budget accounting data on the received revenue of the state budget and appropriations used by appropriation managers, estimate execution reports submitted by the appropriation managers, Ministry of Finance shall draw up state budget execution reports.

3. On the basis of the budget accounting data on the received revenue of the municipal budget and appropriations used by appropriation managers, estimate execution reports submitted by the appropriation managers, financial offices of municipalities shall draw up execution reports of municipal budgets.

4. A balance sheet of the execution of a certain budget shall be an obligatory composite part of the annual accountability on the execution of the state and municipal budgets.

5. Execution accountability of the state and municipal budgets shall include the amount of funds borrowed by the state during the budget year and the received amount of earlier on-lent funds to economic entities (below the line).

6. Procedures, size and time terms for drawing up of execution reports of the state and municipal budgets shall be established by the Ministry of Finance.

7. Ministry of Finance shall submit to the Government the annual accountability on execution of the state budget in accordance with the procedure established by laws.

8. Unplanned financial aid (on the basis of charity or direct agreements between appropriation managers of the state budget and domestic or foreign donors) received by agencies financed from the state budget, shall be accounted for in the charity and aid accounts of the state budget agencies.

### **Article 35. Approval of the Annual Reports on the Execution of the State and Municipal Budgets**

1. The Government shall analyze the annual reports on the state budget execution, make certain decisions and submit to the Seimas for approval in accordance with terms and procedure established in the Seimas Statutes.

2. The annual reports on the state budget execution shall be approved in accordance with points 1 - 8 of paragraph 2 of Article 18.

3. Municipal councils shall approve reports on the execution of municipal budgets in accordance with indicators specified in paragraph 4 of Article 26 of this Law.

4. Reports on the execution of municipal budgets shall be submitted to the Institution authorized by the Government in accordance with the procedure and deadlines established by it.

### ***Chapter V. Budget Execution Control and Performance Evaluation***

### **Article 36. Control of the Execution of the National Budget**

1. The State Controller's office and Municipal Control agencies shall conduct control of the execution of the National budget.

2. The State Controller's office of the Republic of Lithuania shall control the execution of the state budget, debts of the state budget, program expenditure structure of appropriation managers of the state budget, the use of the state monetary funds and the Government reserve fund, recording and financial accountability on the state budget resources and use of budget resources received by municipal, religious and public organizations, and execution of municipal budgets, where necessary.

3. Control report should include an evaluation of whether approved appropriations were used for the achievement of program goals, whether appropriations were used in the most effective way, whether there are no violations in the use of appropriations and to what extent program goals were achieved.

4. Execution of municipal budgets, program expenditure structure of appropriation managers of the municipal budget, recording and financial accountability on the municipal budget resources shall be controlled by the Municipal Control Agencies or Controller of a municipality.

5. Internal audit offices shall conduct internal control of the budget programs structure of appropriation managers of the state and municipal budgets.

6. Internal evaluation units shall evaluate the performance of budget programs. The Government of the Republic of Lithuania or institution authorized by it shall establish the procedure for the evaluation of program performance."

### **Article 2. Enforcement of the Law on the Amendment of the Budget Law**

1. The Law on the Amendment of the Budget Law will take effect from the 1<sup>st</sup> of January 2001 (except for Article 2).

2. To propose to the Government to put existing laws and secondary legislation in line with the

Law on the Amendment of the Budget Law of the Republic of Lithuania by December 31, 2000.

3. To establish that revenue of the state and municipal budgets from the sale, or revenue from provided services, shall be included into state and municipal budgets from the 1<sup>st</sup> of January, 2002 (except for payments of special resources by public institutions and control organizations).

I promulgate this law passed by the Seimas of the Republic of Lithuania.

The President of the Republic of Lithuania

ANNEX B

**1. 2000 STATE BUDGET**

**2.1 Revenue of the State's budget for year 2000**

Budget lines	Thousand Lt.	%
Tax revenues	5647652	93.3
Profit tax	290000	4.8
VAT	3655750	60.4
Excises duty	1400502	23.1
Taxes on international trade (Customs duty)	180000	3.0
State fees	108400	1.8
Consul tax	13000	0.2
<b>Non tax Revenue</b>	<b>403436</b>	<b>6.7</b>
Remained profit of Bank of Lithuania	40000	0.7
Natural resource tax	24242	0.4
Tax on fixed state assets	7140	0.1
Interest received from loans given to economic entities	126279	2.1
Stock dividends	20298	0.3
Penalty tax	47345	0.8
Taxes on pollution	5512	0.1
Other non tax revenue	61030	1.0
Contributions of special funds made by State institutions and control organisations	71590	1.2
<b>Total</b>	<b>6051088</b>	<b>100</b>

**2.1 Expenditures of the State's budget for year 2000**

Budget lines	Total	Thousand Lt			
		Current expenditure	Capital expenditure		
		Total	Salaries		
General public services	589043	587028	355145	2015	
Defence	652264	600627	264566	51637	
Public order and safety	918694	895427	610501	23267	
Education	826014	819240	462044	6774	
Health	594835	548805	53666	46030	
Social security and welfare	688773	688773	56916		
Housing and community amenities	82	82			
Recreation, cultural, sports	223484	219573	39303	3911	
Fuel and energy	5775	5775	2957		
Agriculture, forestry, fishing and hunting		577593	535210	56013	42383
Mining, manufacturing and construction		49700	47100	8063	2600
Transportation and communication	57300	39039	8857	18261	
Other economic affairs	65827	64943	37556	884	
<b>Total</b>	<b>6851088</b>	<b>6582699</b>	<b>1981979</b>	<b>268389</b>	

## 2. CO-FINANCING SYSTEMS

All sources and amounts of appropriations for national co-financing will be identified only for the year 2001 (in the 2001 budget); As Financial memorandums for the pre-accession instruments will be sign (between EU and Lithuania) at the end of 2000.

For national co-financing for EU aid structures PHARE, ISPA and SAPARD could be used state budget funds as well as funds which are not included in the state budget, such as municipalities budgets, Privatisation fund, loans. Parliament could approve appropriations (for co-financing) by separate article of the appropriate year law for approval state budget and municipal budgets financial indicators, according implementing institutions responsible for appropriate EU aid structures. To include and budget needed national funds (for co-financing) for the year 2001, institutions, which are responsible for the implementation of the appropriate EU aid structures, shall submit budget requests according the order set by the Government Resolution No. 256 (6 March, 2000) "On approval of the plan preparation of the State budget and municipal budgets draft financial indicators". In the case, if it would be impossible to submit concrete projects in time, responsible institutions could submit budget request for absolute amounts for co-financing, which could be revised according appropriate order under state budget and state investment programme preparation. Ministry of Foreign Affairs as it is co-ordinator of the EU technical assistant to Lithuania could inform Ministry of Finance about planned amounts for appropriate year of EU funds by separate aid structure.

2.1 Indicative EU structural pre-accession aid and national co-financing amounts (according drafts Financial memorandums for the year 2000)

<b>REGIONAL POLICY</b> Euro	(PHARE 2000) 14 mln. Euro	4.6 mln
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<b>AGRICULTURE</b> mln Euro	(SAPARD) 29,829 mln. Euro	9,94
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<b>TRANSPORT ENVIRONMENT</b> (ISPA) 20,8 - 31,2 mln Euro	(ISPA) 20,8 - 31,2 mln Euro	5,2 - 7,8 mln. Euro	5,2 - 7,8 mln. Euro
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2.4 During the period 2000-2006 financial assistance from the European Communities to the candidate countries of Central and Eastern Europe will be provided through three instruments: the PHARE programme (Council Regulation (CR) No.3906/89), ISPA (CR 1267/99) and SAPARD (CR 1268/99). Assistance will be co-ordinated in accordance with Council Regulation 1266/99. According to "Memorandum of Understanding on Establishment of the National Fund" signed on 10.12.1998 between the European Commission and the Government of Lithuania, a "National Fund" (NF) has to be established as a central treasury entity within the Ministry of Finance (MoF) through which the Community Funds are channelled towards the Recipient (the Republic of Lithuania). In the Memorandum there are determined the main responsibilities and functions of Lithuania. The "National Fund for Assistance programmes from the European Commission" has been established as a separate division under the Treasury

Department of the MoF by Government Decree, No. 498 of 29.04.99. The Government has appointed Vice Minister of the MoF as National Authorising Officer (NAO). The EC will conclude (in 2000) with the Lithuania Financing Memoranda for the each financing instrument determining the annual financial commitment of the Community and all financing responsibilities of the Lithuania including a co-financing. The National Fund (NF) has been established as a division under the Treasury Department at the MoF. The Head of the Treasury Department is responsible for the day to day management of the NF and reports directly to the NAO. Two accounting officers of the Accounting Division of Treasury Department have been nominated to handle functions of the NF according to the Decree of the Minister of Finance on establishment of the NF in the MoF.