



PEMPAL TREASURY COMMUNITY OF PRACTICE (TCOP)

Thematic Group on Cash Management

Videoconference held jointly with the World Bank's Public Expenditure and Financial Management Community of Practice (PEFM-COP)

September 28, 2022

Introduction

1. This joint virtual event was arranged to hear views from invited experts on the findings of the TCOP 2021 Treasury Single Account (TSA) and Cash Management Survey.
2. The videoconference (VC) was attended by 25+ officials¹ from 11 PEMPAL countries (Albania, Azerbaijan, Belarus, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Moldova, Tajikistan, Turkey, and Uzbekistan) and around 30 participants from the World Bank. Observers from the Hungarian Debt Management Agency also joined the session. The meeting was facilitated by the World Bank resource team, including Ms. Elena Nikulina (TCOP Resource Team Leader), Ms. Yelena Slizhevskaya (TCOP Resource Team Member), Ms. Galina Kuznetsova (Head of Secretariat), Ms. Anara Tokusheva (PEMPAL Secretariat), Mr. Mike Williams and Mr. Mark Silins (TCOP thematic advisors)

Opening Remarks

3. **Mr. Oleksii Balabushko**, World Bank Lead Governance Specialist and Co-Chair of the World Bank's PEFM COP, welcomed participants to the meeting on behalf of the PEFM COP. The Survey of ECA countries' practices had wider relevance across many economies; and the initiative of PEMPAL TCOP to have this joint session was very welcome.
4. He stressed the importance of government cash management and the relevance of the forthcoming discussion. One of the lessons of the COVID-19 pandemic across all regions had been the central role of efficient cash management; countries had both to secure the timely availability of resources and to ensure that they were used properly. He also introduced the Bank resource team and thanked all the discussants for accepting the invitation to join the discussion.
5. **Ms. Nikulina** also welcomed the participants on behalf of the World Bank resource team working with the PEMPAL TCOP and outlined the work of the thematic group on cash management. The TCOP comprised representatives from national

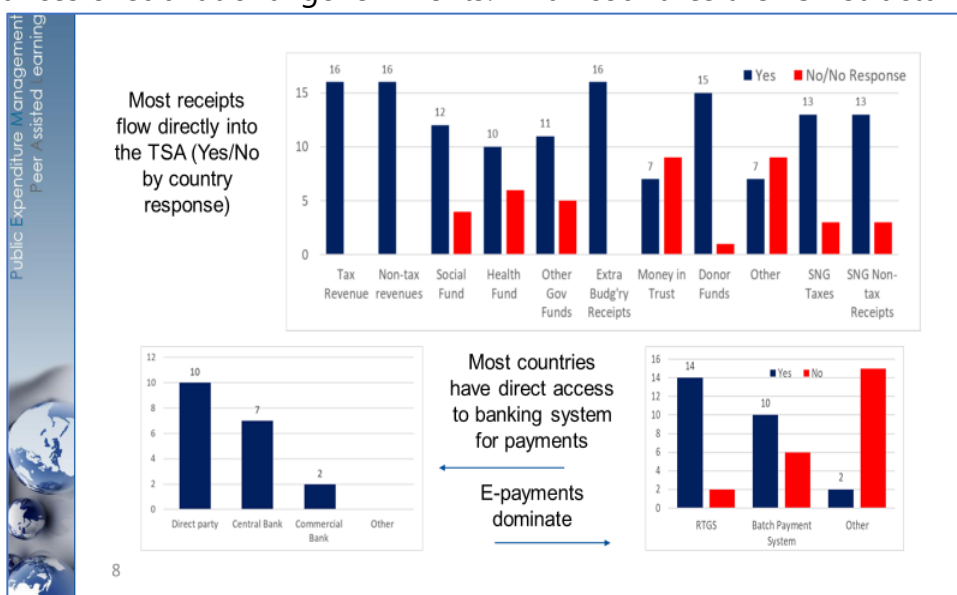
¹ The number includes only those who provided full contact details

treasuries and finance ministries. The cash management group had been established in 2016 and had had regular collective meetings prior to the pandemic. However, it had still been possible to continue meetings remotely, with strong feedback from members on their usefulness. The first TCOP survey of members' TSA and cash management practices had been conducted in 2016, the 2021 survey retained the same core questions but was more extensive. Responses had been received from 16 members of the group; and it had been gratifying that several had noted the contribution of the work of the thematic group and exchanges with colleagues in helping them to develop their cash management functions.

The Survey Results

6. **Mr. Mike Williams** presented the results of the 2021 survey. He noted that the objective was to benchmark the TSA and cash management practices within the PEMPAL community; and to identify good peer practices and promote Treasury reforms in the member countries. The underlying cash management model had three main pillars: (i) the development of a TSA giving the Treasury a consolidated view and control of government cash resources; (ii) a cash flow forecasting capability, to support the action necessary both to ensure that sufficient funds were available to facilitate the budget and to use cash efficiently; and (iii) more active cash management, using short-term borrowing and lending instruments to smooth cash flows somewhat. Mr. Williams stressed the distinction between cash plans and cash flow forecasts. Both were important, but cash flow forecasts must focus on what will happen not what should happen.

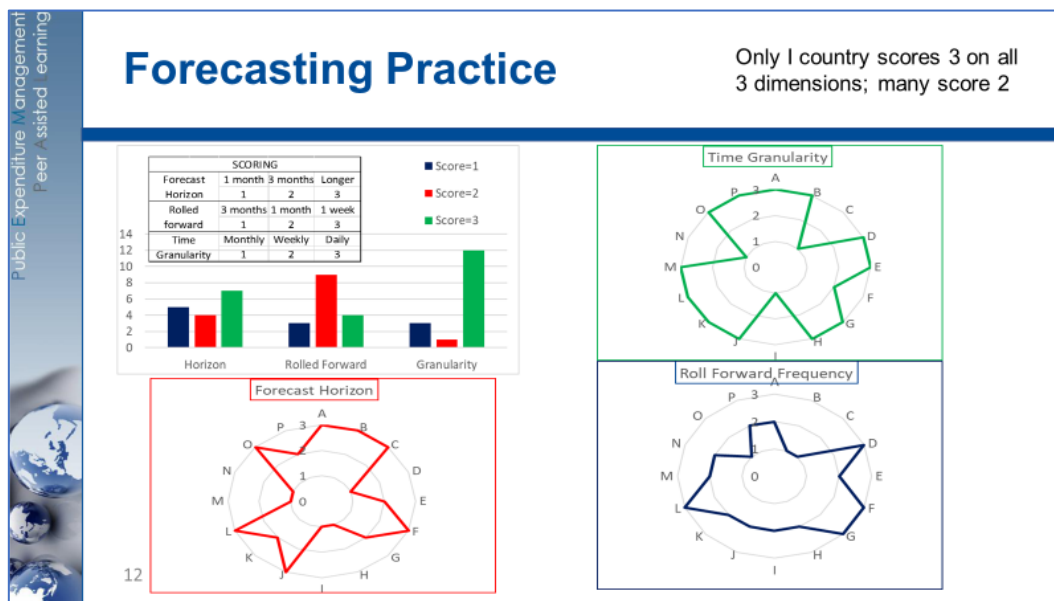
7. In relation to the TSA, Mr. Williams reported a solid core of sound practice among the group. All countries had a TSA in the central bank, with 13 also including the balances of subnational governments. In all countries the TSA structure allowed



the simultaneous separation and control of funds with increasing use made of the integrated financial management information system (IFMIS) for this purpose. Tax and non-tax revenues flowed directly into the TSA in all countries, with payments being mostly made directly from the TSA and not through commercial banks. It was striking that 13 of the 16 respondents were members of their own real-time gross settlement system (RTGS) allowing them to make payments directly – as summarised in the above slide.

8. Continuing, Mr. Williams noted that there was nevertheless room for improvement. Coverage was incomplete with some budgetary, extra-budgetary, donor and trust funds still outside the TSA. Most countries had documented their relationship with the central bank but only 10 of the 16 received interest on at least some cash balances at the central bank, and then not always at the full market rate.

9. Turning to the wider cash management function, Mr. Williams suggested that, although most countries had reported a cash management objective, they were often ill-defined or imprecise, with most focusing on supporting budget execution rather than also the efficient use of cash. Only three countries had a formal target for the cash buffer, even though more were likely to have a buffer target in practice. All countries did, however, have some forecasting capability, although that did not of itself imply good performance. Several countries scored highly on three measures of forecast capacity: the forecast horizon, the frequency of the roll forward, and time granularity – see slide – although only one country scored highly on all three dimensions.



10. Mr. Williams remarked on the range of institutional structures. A strong Treasury had been historically characteristic of many countries in the region with the debt management function developing subsequently. There were other models, but in the majority of countries cash forecasting tended to be responsibility of the Treasury with cash management (i.e. transactions responding to the forecast) straddling both the Treasury and debt management department (DMD). But only 7 of the 16 countries had a formal high-level cash coordination or liquidity management committee to ensure adequate coordination between the functions.

11. In relation to more active cash management, most countries had Treasury bills available as a short-term borrowing instrument, although they tended to be used for debt management rather than cash management purposes. Although the DMD was responsible for debt issuance, in some cases it was the Treasury that invested temporary surplus cash, with risks to consistent market signalling. Not all respondents were able to invest their surplus cash, although about half could with the central bank and half with commercial banks, with some able to do both. Only three countries had repo capabilities.

12. Summarising the main conclusions, Mr. Williams noted the diversity of practice, although there was a solid core of countries which had developed capabilities and mechanisms in line with sound international practice. Several countries reported recent reforms as well as noting the contribution of the thematic group to their achievements – see slide. At the same time, the results suggested that

Some Conclusions

- There is some diversity of practice - to be expected in view of different legal frameworks, institutional and financial structures, and administrative cultures and histories
- At the same time, there is a solid core of countries that have developed capabilities and mechanisms in line with sound international practice.
- Several countries reported recent reforms: including widening or other improvements in their TSA; upgrades in their payments systems to support electronic or faster processing; and cash flow forecasting and cash management reforms. Covid has promoted further or planned changes
- Responses to the survey indicate that for many countries activities of the TCOP Cash Management Working Group have contributed to these achievements

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all countries had at least some need to further develop practices, instruments or institutions. Mr. Williams outlined some potential areas for further comparative and developmental work. These included both the structure and coverage of the TSA;

greater focus on the objective of cash management; the relevance of the cash buffer and how it should be determined; and the capability to invest temporary surplus cash.

13. Ms. Nikulina expressed her pleasure at the reported continuing relevance of the thematic group; and acknowledged the scope for further collective work. For a first comment on the presented results, she introduced **Mr. Ilyas Tufan**, Head of Department in the Ministry of Treasury and Finance of Türkiye, TCOP Deputy Chair and the Leader of the Cash Management Thematic Group.

14. Mr. Tufan welcomed all participants, and those who had contributed to the survey. He thought it was a useful product giving a comprehensive overview. He had been pleased that the thematic group had continued to work through the pandemic. In Türkiye's case, the vision and strategy for the TSA had been presented during the meeting in Ankara in 2016 which had been a good opportunity to discuss plans with experts, and to evaluate different practices. That had been a good example of the usefulness of the group; and he and his colleagues would be pleased to offer an update on the latest progress with the TSA at a future meeting.

15. **Mr. Mark Silins** also thanked all contributors. He noted the significant improvements in most categories covered by the survey, remarking that in some respects PEMPAL countries were ahead of OECD countries. He suggested three interrelated areas for further study:

- Although the coverage of the TSA had improved, it was still not fully comprehensive in many countries, particularly in relation to extra-budgetary funds. There were different policy choices in relation to inclusion of the balances of subnational governments; but it was important also to consider the inclusion of the balances of statutory bodies. Although many such bodies had a degree of independence, they were part of general government, and their balances should be within the TSA. That could be done without impinging on their independence or legal claim to resources, either directly managed through the IFMIS or indirectly through zero balance accounts.
- Reforms are interrelated– quality cash management and forecasting require a TSA which links to a modern e-payment system for inflows and outflows of cash, effective banking arrangements and a well-structured General Ledger to capture cashflows. It is interesting to note that active cash management really requires more than just information on cashflows for forecasters to be able to reliably predict future cashflows. The General Ledger should therefore go beyond cash to include commitments, payables, and receivables, to help improve the analytical

capacity to forecast future cashflows. Thus, extending coverage beyond cash is also key for countries seeking to improve their forecasting reliability.

- Data integrity is essential, both as an input into the cash flow forecasts and more widely to ensure the accuracy of published information and well-founded analytical work. That in turn required effective end-of-day processes to reconcile transactions and balances, and to confirm the validity of the data. The survey results had also helped to draw attention to the potential role of performance management tools which, when used properly, were an important check on data integrity, and underpinned by it.

Panel Discussion

16. Ms. Nikulina, introducing the panel discussion, said that she had put two questions in particular to the panellists:

- Whether the work done by PEMPAL countries resonated with their experience in ECA and other regions.
- Their views on the themes suggested for the future work program of the thematic group.

17. **Ms. Yasemin Hürcan**, Regional Public Financial Management Adviser (International Monetary Fund) found the survey to be very useful. There was generally not enough published material documenting the practice and processes of cash management. The full write up of the survey, with the additional explanatory material on cash management concepts, would be helpful to practitioners, particularly those in environments where there was a heavy staff turnover. Future work might usefully also include one-page summaries of the characteristics of each country's cash management function and relevant reforms.

18. Continuing, Ms. Hürcan stressed that the survey's focus on coordination between cash and debt management was important; and the report also highlighted the need for an improved understanding of the objectives of cash management. She noted that the lack of high-level cash management objectives in many countries reflects the situation on how cash management is seen in the region – it is viewed as supporting budget execution or treasury transactions, but not as a policy function. She also suggested the latter to be discussed in more detail at the future meetings. Ms. Hürcan stressed that the core cash management issues should continue to be on the thematic group's agenda, along with the others mentioned in Mr. Williams presentation, in particular the development of cash buffers and the investment of cash surpluses.

19. **Mr. Rama Krishnan Venkateswaran**, World Bank Lead Public Sector Specialist and PEFM-COP Co-Chair noted that the pandemic had underscored the importance of sound cash management. Many of the issues raised by the survey would resonate with those countries with whom he was working in West Africa, who would also benefit from knowledge transfer.

20. Mr. Krishnan drew attention to three institutional aspects of effective cash management:

- The role of the larger sector ministries and agencies was important, since the robustness of cash forecasting and cash management greatly depended on how sector ministries managed this process. Sector ministries expected the Ministry of Finance to keep the rules and provide cash without rationing, and for that large sector ministries should be brought into the process. Strong planning and finance processes in ministries were needed if cash was to be used efficiently across government.
- More discussion was also needed of the appropriate institutional models for efficient cash management. There should be a mechanism to ensure that the ministries' own projections were integrated into the government cash flow forecasts. In some countries cash coordination committees or similar did not include representation from the revenue authority or larger ministries.
- Budgetary discipline was essential. Even when there were good laws in place, there was always a risk that budgetary limits would be overridden as ministers brought forward politically important projects. That in turn undermined the integrity of cash projections and proper institutional structures should be able to address such political distortions.

21. **Mr. Leandro Puccini Secunho**, Senior Debt Specialist, World Bank, remarked on the number of countries in the ECA region that included balances of subnational governments in the TSA. He noted the increasing use of the IFMIS (and ledger codes) but wondered how far the increasing coverage of the TSA ensured that the balances in the TSA were completely fungible; and suggested that that question should be explored in further work. He also expressed some surprise that, despite the experience of the pandemic, only a few countries had a formal cash buffer.

22. Mr. Secunho emphasised the role that business intelligence tools could take in collecting information from ministries in support of cash flow forecasts. The investment of temporary cash surpluses, however, would be challenging for countries

with a small or insufficiently developed money market. He wondered whether there might be scope to develop the regional interbank market.

23. In subsequent comments from participants, **Ms. Mimoza Pilkati**, Head of the Treasury Operations Department in the Ministry of Finance and Economy of Albania, noted that many of the issues raised were also apparent in Albania, and it had been helpful to learn of others' experience. She noted that Albania was trying to improve bottom-up forecasting, with input from ministries, and had identified some pilot institutions. The Treasury was also seeking to improve coordination with the central bank, including in the use of foreign currency swaps. In due course it would look to develop repo in support of more active cash management. Ms. Pilkati also noted the value of the TCOP events which provide a forward look into the development of the treasury functions.

24. **Mr. Talant Keldibekov**, Deputy Head, Central Treasury of the Ministry of Finance, Kyrgyz Republic, also noted interest in foreign currency swaps and their role in managing foreign currency risk.

Conclusion

25. Mr. Balabushko noted that, although much good practice was in place, both active cash management and improved debt and cash management integration were very much on the agenda for the future. In the current financial environment, there would be a continuing requirement for sound practice cash management. He passed on his best wishes to the thematic group in its future work.

26. Ms. Nikulina thanked everyone who had contributed to the discussion, and for the flow of ideas. She looked forward to the work of the group over the year ahead. The next session will be devoted to the recent experience of Turkey in expanding the coverage of the Treasury Single Accounts.

