**PEMPAL – TCOP – Thematic Group on Cash management**

***Video Conference, 11 September 2014***

On 11 September, 18 participants from 7 countries took part in a three-hour video conference on cash management. This was the second event for the working group, with the first video-conference taking place in May this year. TCOP Program Coordinator, Elena Nikulina, and TCOP advisors, Ion Chicu and Mark Silins, also participated – Mr Silins by telephone. Mr Chicu facilitated the session, ensuring a strong focus on questions and answers from participants. The agenda of videoconference the list of participants are embedded below.

 

The videolink was centred around a presentation by TCOP member-country, Turkey, on their existing system for cash management and forecasting (embedded below).



Mr Azal Halil delivered what proved to be an interesting and thought-provoking presentation on the Turkish system of cash management. Turkey represents a very good example of a country that is integrating its PFM processes and understands what it means to move from passive cash management to more active cash management. The key messages of the presentation were:

* Cash management is a core function of a well-functioning government PFM system;
* Cash management and forecasting effectively has two main elements. The first is to ensure that forecasted cashflows will be in accordance with budget estimates –Turkey referred here to the cash based primary balance and the need to track whether the deficit or surplus target will be realised. The second element is for liquidity management, which in Turkey involves a rolling three-month forecast of daily cash balances. This is about ensuring that the treasury can execute the budget as planned. Thus short-term borrowing through treasury securities is triggered by these forecasts;
* Turkey also highlighted that forecasting is concerned with cash flows, rather than payments and receipts – while largely these are one and the same thing, a country must exclude anything which does not result in actual cash movement into and out of the TSA. This would include excluding inter-agency payments, transfers between funds in the TSA, tax withholding from the payroll etc;
* Turkey also highlighted the importance of the monthly forecast, which eventually is broken down into weeks and days, as key for early warning regarding the overall budget forecast and cash surplus/deficit target. Early action is more likely to be successful in terms of solving problems. If revenues are below forecast then any late decisions in the year to kerb spending are likely to see arrears accumulate, as commitments will already have been made. Earlier decisions improve the probability that commitments are reduced;
* Turkey also highlighted the need for both formal and informal information exchange with stakeholders. Turkey obtains formal information through a web-portal from 200 entities. In addition, they have regular face to face meetings with key players and discussions regarding trends and issues;
* Cash releases for spending are made based on the requests submitted to the portal and liquidity forecasts. Ideally, all reasonable requests should result in the treasury using short-term instruments to ensure adequate cash is available; and
* Finally, the presentation emphasised the importance of refining the model and testing assumptions. Turkey examines and updates the forecasts regularly and undertakes error and variance analysis as a monitoring tool.

As an indicator of the quality of, and interest raised by, the Turkish presentation, questions came thick and fast, taking up most of the remaining time of the allotted three hours. Mark Silins, who was invited to comment on the discussions, indicated that this was the most participative video-conference in his experience with PEMPAL thus far. He also said that the presentation was an excellent reference point for TCOP countries, which would no doubt benefit from seeing the actual models in more detail. He stated that as a first step, specific software is not a prerequisite for effective cashflow forecasting and management. Many countries, even large ones, can manage (at least initially) using basic spreadsheet software such as Excel. The key is to develop simple models, update them regularly – eventually daily – and ensure they are analysed, undertaking variance analysis, to fine-tune the models.

Mark suggested that it would also be useful to discuss some of the other aspects of cash forecasting in future presentations, such as how a country can adjust their cash position using different debt instruments, and how to target the minimum balance in the TSA [These are achieved through what is termed "active" cash management. A useful reference document on this is a paper by Mike Williams <http://www.imf.org/external/pubs/ft/tnm/2010/tnm1013.pdf>]

In addition to the thematic part of the event participants have launched the discussions on the thematic group Action Plan and the group members’ roles and contribution in organizing the future events. It was agreed that relevant proposals on the Action Plan will be submitted by the group members by September 19th and a draft Action Plan will be developed afterwards.

The next event for the Working Group is scheduled for mid-December 2014.