BREAK-OUT SESSIONS ON KEY BUDGET EXECUTION ISSUES

Managing Cash for Effective Budget Implementation

Senior officials from the Ministry of Health (MOH) were just leaving, after an hour long meeting with the Minister of Finance. Ms. Irina Tomic, the Minister's senior advisor, was staying behind with the Assistant Ministers for Budget and Treasury to discuss an appropriate response. It was not uncommon for ministries to complain about the level of their budget allocation, but this time was different. Officials from MOH had nothing negative to say about the absolute level of their budget allocation, what bothered them was that the actual amount received consistently fell short of the planned level. Equally troublesome for them was that they did not have a reliable estimate of when funding would be available during the year. Planning within the ministry had become ad hoc because of unanticipated cut backs that would occur during the year. Even when funds were eventually released toward the end of the year, the ministry felt that it was too late to be used effectively.

This was the second ministry in two months to raise the issue with Ministry of Finance (MOF). Officials from the Ministry of Agriculture (MOA) had also come to complain that their procurement needs had certain peak periods of the year, and that MOF was not providing adequate funding to fulfill their procurement plans. According to MOA, they would enter into agreements with suppliers early in the year, only to find that payments to the suppliers were held up by the Treasury for lack of funds. The ministry officials were aware of the MOF's guidance about controlling arrears, but they did not believe it was their fault. The officials acknowledged that they were frustrated, and at some point, they usually stopped sending the invoices to Treasury until they felt there was some liquidity available to pay them.

The Assistant Minister for Treasury explained to the line ministries that international agreements required them to keep the fiscal deficit for the year within a certain range. There was limited cash available, he explained, and the MOF was determined to manage cash flows closely. He went on to say that each month a special committee would meet to discuss what the spending priorities should be for that month. What could not be paid that month would be considered again in the following period. MOF had a clearly established set of priorities; it made sure to pay wages and salaries for public servants, interest on debt, and social welfare payments (such as pensions, veteran's benefits, etc.). For other categories like maintenance and operations, they would be paid out of what was left; capital investment expenditures were the lowest of among the priorities. According to the MOF's data, the level of arrears had been relatively contained as a result of these policies.

Irina agreed with her colleagues that fiscal control was essential, but she also knew that the current practices could be improved. In principle, line ministries submitted their annual procurement plans to the MOF for review, and the Budget department would provide a 12-month calendar of spending limits for each ministry. In practice, the actual spending levels during the year varied considerably from the planned amounts. Some of the change might have been due to changes in the fiscal situation during the year. But that wasn't a very satisfying response. The revenue forecasting department was working quite well, and she knew that aggregate revenues for the year almost always came in at the planned level. It seemed that the problem was on the expenditure side.

Irina had always been told by the Treasury that they did extensive cash planning, but she had never really taken a close look at it. How could should tell whether it was really effective or not? The data needed to do a good cash plan was spread out across the MOF's different departments. There was not a financial management information system that captured it all in one place. So, doing any comprehensive projection of cash inflows and outflows would really mean working across departments. But in the brief time that Irina had been at MOF she knew that many of the departments (including Treasury, Debt, and Revenues) tended to work independently and did not communicate with each other.

Irina knew that some of the complaints of MOH were valid. Payments made by Treasury did not necessarily match with what Budget had authorized earlier. By the time the Budget office made adjustments in commitment levels, it was very disruptive to the MOH's ability to follow through on activities that had been planned at the beginning of the year. In some cases, the uncertainty and the cancellations increased the cost of their procurement. External partners had raised the concern several times that MOH needed to be more concerned about the efficiency and effectiveness of expenditures.

Fiscal discipline and cash control had been the top priorities for as long as Irina had been in the MOF. There was some success to show from it; the MOF had hit its fiscal target for each of the last three years. But was there a possibility that in the effort to control monthly cash levels, MOF was sacrificing some other economic benefits? When Irina had first come to the MOF two years ago she talked to the Minister about using short-term debt instruments to smooth the expenditure levels throughout the year. At that time, he was worried that it would open the door to excess spending and put the agreed deficit target at risk.

What also angered MOH was that at the end of the year, they would see from the annual report that their budget was reduced, while funding had increased to other ministries. MOH claimed that their promised level of funding was being squeezed out at Treasury because of so-called "urgent" needs or other unplanned activities from a few powerful ministries. Budget department had authorized a certain level of commitments, but in the interim new priorities would arise and Treasury would respond by delaying payments for ministries like Health and Agriculture.

Put yourself in Irina's position and discuss the following issues:

1. What is an appropriate level of predictability for MOF to offer line ministries about funding levels (e.g., monthly, quarterly, semi-annual)? How can the MOF and the line ministries work together effectively to develop meaningful commitment ceilings and realistic cash plans?
2. What are some possible reasons why funding for MOH is being squeezed out by unplanned expenditures from other ministries? What steps could be taken to reduce the pressure on Treasury to respond to "emergencies"?
3. What issues should the Minister consider in deciding whether to continue the practice of monthly cash rationing? What are his alternatives for achieving both predictability and fiscal discipline?
4. What are some of the main challenges in putting together a comprehensive and realistic cash plan?