



Issues in Cash Management and Forecasting

Tirana, Albania
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The Evolving Role of the Treasury in Cash Management

Traditional Role

- Control over spending through monthly cash plans
- Frequently also has a role in some form of ex-ante control
- Prioritizing Payment Decisions - Cash Rationing
- Role driven by sub-optimal information on cash flows and large dependency on manual controls

Evolving Role

- Shift towards system based controls and automation (IFMIS)
- Enhanced settlements for collection and payment in some cases "Real Time"
- Just-In-Time cash management – Treasury's Role is to ensure cash is available rather than rationed
- Cash forecasting more critical
- Strengthened links to Debt Management – Asset/liability management



Strengthening Cash Management is important for ALL PEMPAL Countries

- Ensuring the Fundamental elements for strong cash management are in place
- Developing at least two primary cash management models
 - (1) Tracking the Underlying Cash Balance
 - (2) Forecasting the Balance of the TSA
- Determining the Cash Buffer – minimum cash held to overcome forecasting risk
- Actively monitoring the cash situation and taking early corrective action



There are different Realities for PEMPAL Countries

Some countries are running large cash deficits – cash rationing has unfortunately become the normal response

Some countries are running ongoing surpluses and are more focused on how to improve investments and reduce costs – but is enough focus given to optimizing returns on cash?

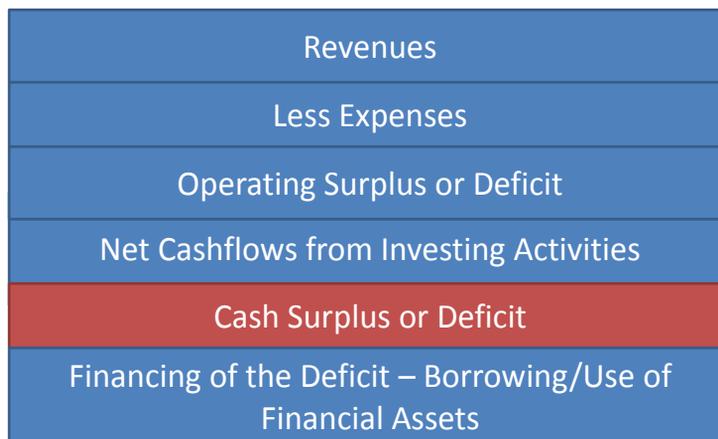


What are the Common Fundamental Requirements for Effective Cash Management?

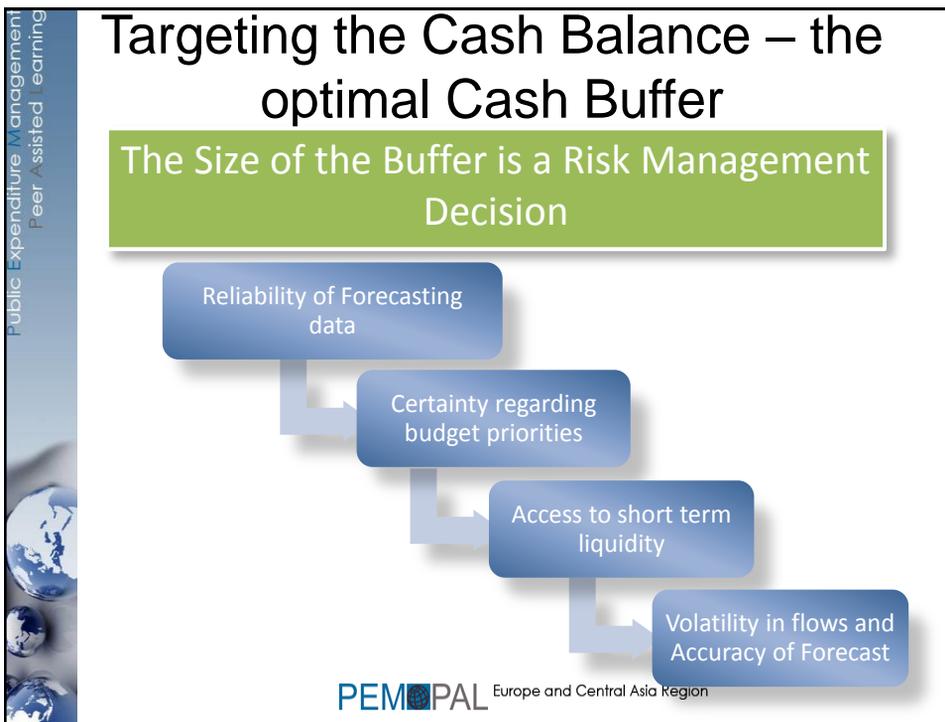
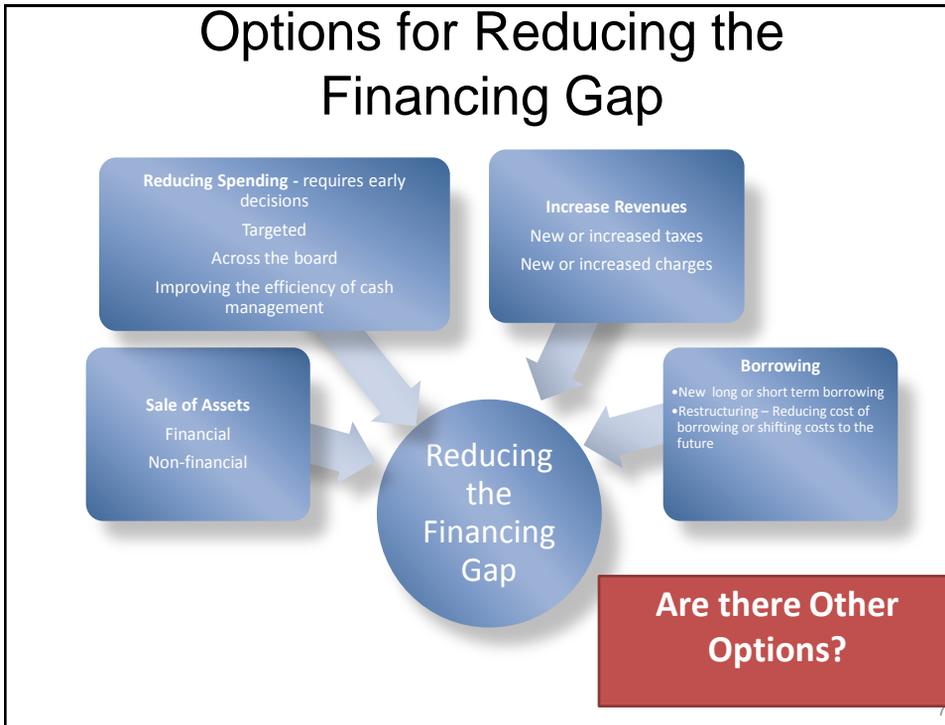
- TSA
- IFMIS
- Commitments and Accounts payable
- Daily Settlement systems – elimination of cash floats
- Integrated CoA including cashbook accounting
- Cash Management Unit to actively monitor and analysis cash position – Not Budget Execution Control
- Actively monitoring the two models
- Strong links to Debt Management



What is the Financing Gap?



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Public Expenditure Management
Peer Assisted Learning



Optimizing Cash Balances and Investments

- **Elimination of Idiot Balances - Consolidation**
- **Sensible Investment is as important as sensible borrowing** – the skill required are strongly related.
 - It is generally agreed that different budget entities should not borrow for government.
 - Why then would we allow different entities to invest funds?(or not invest as is frequently the case)
- **Quality Forecasting Information is also Key for good investment decisions**
- **Access to shorter term securities is important for more active cash management**



Moving to Active Cash Management

Rough tuning

- Offsetting inflows and outflows
- medium term securities – 3-12 months

Fine Tuning

- Shorter term securities – 1 month or less
- REPOS and reverse REPOS
- Development of secondary markets
- Tapping
- Commercial Paper



Who should be responsible for Cash Management?

Not one answer

- However, a modern treasury function depends on accurate cash-forecasting and therefore it is a sensible institutional arrangement.
- If debt management is not part of the Treasury strong links between the two institutions is critical
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A Clear Sequencing

Ensuring the fundamentals are in place first

Improve capacity in using models including analysis of trends and refinement of the model issues and assumptions

Overtime shifting to processes that optimally manage the existing cash situation

Target a cash balance and cash buffer

Rough tuning/Fine Tuning

ACTIVE CASH MANAGEMENT



Questions

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