Issues Affecting Cash Flow Management - Negative Impacts and Potential Solutions

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PFM, Foundation for Public Governance
Issues Affecting Cash Flow Management - Negative Impacts and Potential Solutions

Objectives:
- To have sufficient cash to timely meet obligations
- Minimize borrowing costs; maximize returns on surplus cash
- To neutralise the impact of the government’s cash flows on the domestic banking sector

What happens when it goes wrong?
Why does it normally go wrong?
Getting the TSA / IFMIS configuration right
Key techniques to mitigate key risks
Implementation challenges
Discussion
What happens when it goes wrong...

Collection of estimated revenue and grants

<table>
<thead>
<tr>
<th>Billion Shillings</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
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<tbody>
<tr>
<td>2011/12</td>
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<td>2012/13</td>
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<td>2013/14</td>
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- Revenue - estimate
- Revenue - actual
- Grants - estimate
- Grants - actual
- Total revenue + grants - estimate
- Total revenue + grants - actual
What happens when it goes wrong...

**Cash rationing** -
- Very disruptive to programs
- High corruption potential
- Likely to undermine budget priorities
- Increases in prices
- Last resort liquidity management
Why does it normally go wrong?

<table>
<thead>
<tr>
<th>Reason</th>
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<tr>
<td>Unreliable budgets → significant in-year adjustments to budget allocations</td>
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<tr>
<td>Inaccurate cash flow forecasts</td>
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<tr>
<td>Under collection of revenue</td>
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<td>Ineffective commitment controls → expenditure arrears</td>
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<td>Inability to raise debt or bridging finance</td>
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<td>Ineffective payment systems</td>
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<tr>
<td>Uncontrolled bank accounts → idle cash balances → unnecessary borrowing costs</td>
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<tr>
<td>TSA / IFMIS configuration wrong</td>
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</table>
Getting the TSA wrong.....

1. Payment Order and Invoice submitted
2. Approved Payment Request
3. Transfer letters to CBL
4. Payment Message
5. Direct payment to beneficiary account
7. Manual / Automatic Reconciliations

MoF
Central Treasury

Line Ministry IFMIS Ledger

Consolidated Fund IFMIS Ledger

Sub-Accountancy IFMIS Ledger

Commercial Bank #1

Comm. Bank #1 Branch Offices

District Councils

Individuals and suppliers

Tax Payers

Comm Bank #X

Comm Bank #X Branch Offices

District Spending Units

Sub-Accountancies

Treasury Network

Line Ministries

Maseru Spending Units

Treasury Network

Consolidated Fund

Central Treasury

ACH RTGS

Banking System Network

SWIFT

Document/info flow

Financial transactions

Payment Order and Invoice submitted

Approved Payment Request

Transfer letters to CBL

Manual / digital TSA Statements

Manual / Automatic Reconciliations

Payment Message
Fixing the TSA / IFMIS configuration

1. Payment Order and Invoice submitted
2. Approved Payment Request
3. EFT instructions to CBL
4. Payment Message
5. Direct payment to beneficiary account
6. Digital TSA Statements
7. Automatic Reconciliations

MoF
Central Treasury

Consolidated Fund
IFMIS Ledger

Secure VPN

Central Bank
ACH RTGS

TSA

Banking System Network

Commercial Bank #1 Network
Commercial Bank #X Network

Comm. Bank #1 Branch Offices
Comm. Bank #X Branch Offices

Individuals
Suppliers

District Councils (Supported by Sub-accountancies)

Ministry of Local Government

Other Line Ministries

Maseru and District Spending Units

Treasury Network

Document/info flow
Financial transactions
Key techniques to mitigate risks

**Treasury single account / IFMIS configuration**

- Integrated set of bank accounts under Treasury management; sweeping
- Treasury control over opening, accounting and reconciliation of bank accounts
- Payment processing – electronic payments and reconciliations

**Credible budgets, supported by credible cash flow forecasting (also linking work plans to procurement plans and commitments)**

**Warrants (authorized draws on Consolidated Fund)**

**Commitment control & accounting**

**Debt issuance - short term instruments**

**Intergovernmental arrangements**
South Africa - Intergovernmental Cash Management Arrangements

South African Reserve Bank

Corporation for Public Deposits (Subsidiary)

Sub-National Governments

State-Owned Entities

National Government

Invest

Bridging finance borrowing
<table>
<thead>
<tr>
<th>Implementation challenges...</th>
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</thead>
<tbody>
<tr>
<td>Political commitment</td>
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<tr>
<td>Identification of and control over bank accounts – Ministries / Departments / Funds / Public Entities</td>
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<tr>
<td>Forecasting revenue and cash requirements (by linking work plans, recurrent costs, procurement plans &amp; contract commitments)</td>
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<td>Time lags between revenue collection and banking</td>
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<tr>
<td>Reliable data - timely bank reconciliations</td>
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<td>Integration of data, processes and systems (getting the GL complete, especially when doing cash accounting)</td>
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<tr>
<td>Off budget donor funding</td>
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<tr>
<td>Integration of debt and cash management functions</td>
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Thanks for your time!