



Cash Management Practices in APEC Economies

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Asia-Pacific Economic Cooperation | Advancing Free Trade for Asia-Pacific Prosperity

Two Key Questions

1. What are the key elements of effective cash management?
2. What are sound international practices, and the experiences in APEC economies?

Objectives of Cash Management

Overriding Objective: Ensuring Cash is Available to Meet Commitments

Other Objectives: *must be subject to overriding objective*

- Economising on cash within government
 - saving costs and reducing risk
 - to borrow only when needed
- Managing efficiently the government's aggregate short-term cash flows
 - both cash deficits and cash surpluses
 - maximize returns on idle cash
- In such as way as to also benefit
 - debt management
 - monetary policy
 - financial markets (market liquidity and infrastructure)

Approaches to Cash Management

Traditional (Passive) Approach

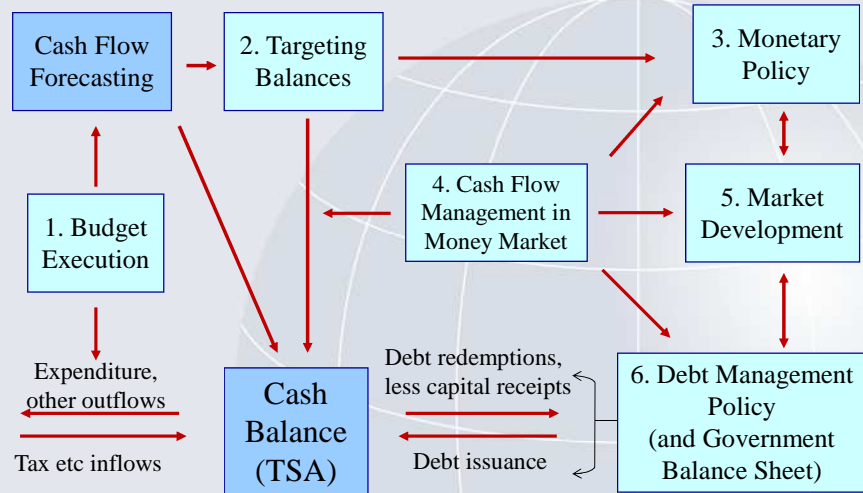
- Essentially passive
- Monitoring cash balances, maintaining cash buffer to handle both volatility and unanticipated outflows
- If necessary restraining / slowing expenditures or delaying bill payments - cash "rationing" is not cash management

Modern (Active) Approach

- Managing cash more actively
- Trying to smooth weekly or daily cash flow by more active borrowing and lending in money market
- Allows lower average cash buffer
 - with benefits to other policies
- Gives tools to protect expenditure plans from cash flow volatility

OECD, middle-income countries (especially in Europe), and some APEC countries are moving toward a more active approach

Policy Interaction



Cash Management Definitions

“Having the **right** money in the **right** place at the **right** time to meet government’s obligations in the most cost-effective way”

“The strategy and associated processes for managing cost-effectively the government’s short-term cash flows and cash balances, both within government, and between government and other sectors”

Two Key Public Policy Objectives

Fiscal

To ensure that line ministries or departments and government agencies manage their cash balances effectively so that the government does not have “**surplus**” cash on hand

Monetary

To neutralize the impact on the domestic banking sector of the government’s cash flows, ensuring that:

- there are no large and unpredictable changes in liquidity in the banking system
- monetary policy is not undermined

Public Financial Management (PFM)

- At the heart of PFM reform of government cash management is:
 - An efficient government **budget and accounting** system (**i.e. FMIS**)
 - Medium Term Fiscal and Expenditure Framework (MTFF/MTEF) with sound policies and procedures for accurate and timely:
 - monitoring and controlling government expenditure
 - forecasting government revenue
 - Treasury Single Account (TSA)

Budget Control v Cash Management

Budget & Financial Control

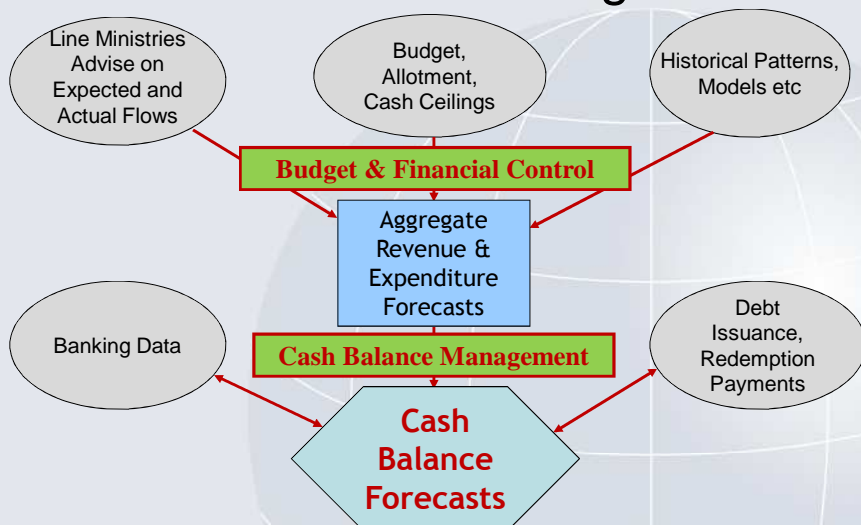
- Revenue and expenditure budgeting
- Control against budget appropriation and warrants
- Comptrollership or financial control over payments and receipts
- Government accounting
- Financial reporting

--FMIS--

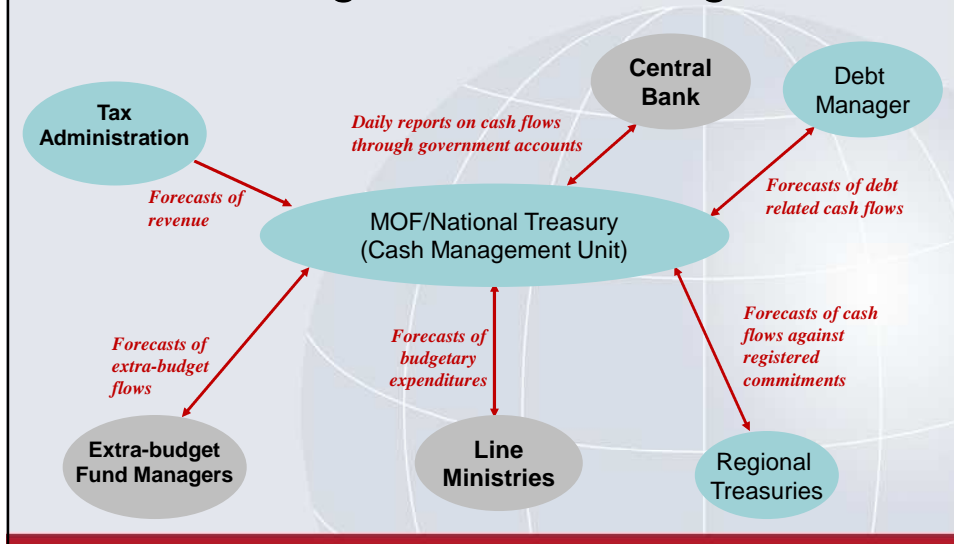
Cash Balance Management

- Cash flow forecasting
- Maintenance of bank accounts and relationships
- Efficient and timely processing of payments and receipts
- Management of government float and working capital
- Minimization of transaction and interest costs

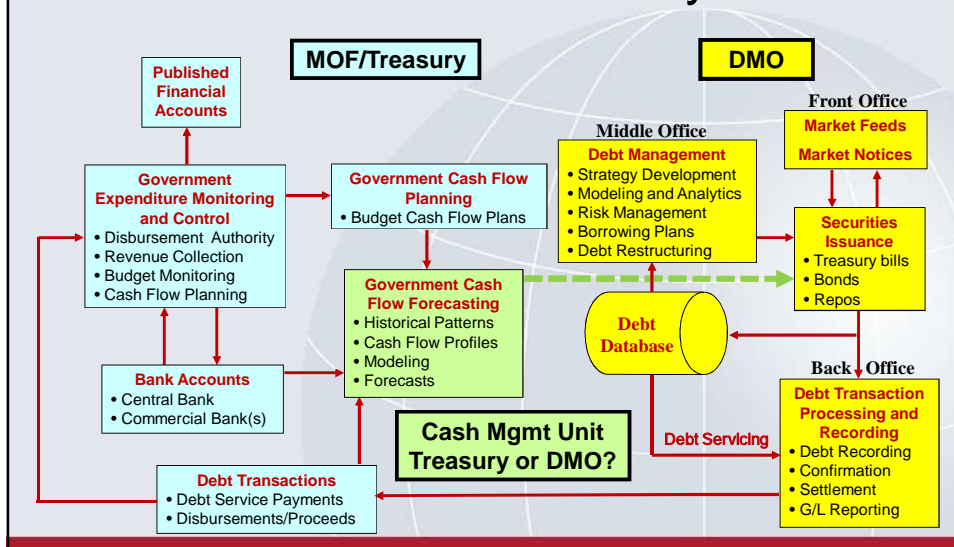
Cash Balance Forecasting



Cash Management Planning

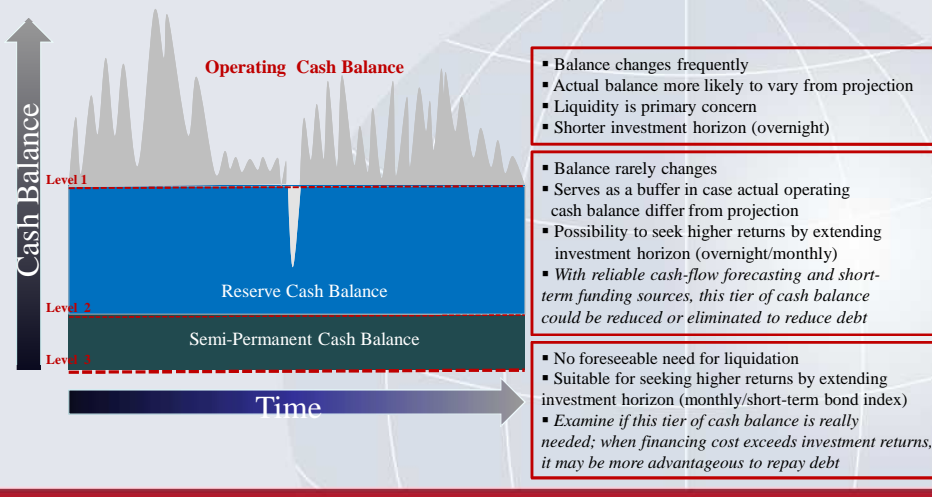


Institutional Structures & Systems



Cash Balance Sub-Portfolios

Allocating cash into 2-3 tiers of sub-portfolios according to different liquidity needs



Cash Balance Targets

- On a survey of 22 OECD countries, 16 maintain a target cash balance
- Types of target are diverse
 - Minimum floor
 - Maximum ceiling
 - Different objectives and incentives
- Target cash balance level depends on
 - Fiscal position and its long-term trend
 - Source of cash balance (e.g. if it is debt-funded)
 - Accuracy of cash flow forecasts
 - Short-term funding availability (and reliability)
 - Cost of carry (the difference between investment return and funding cost)
 - Risk tolerance

Examples from APEC Economies

Australia
A\$750mn ± A\$250mn

USA
US\$5bn (US\$7bn when there is high tax volatility)

Features of the More Advanced Countries across the APEC Region

1. Centralization of government cash balances and establishment of a TSA structure
2. Clear understanding on the coverage of the cash planning framework
3. Ability to make accurate projections of short-term cash inflows and outflows
4. An adequate transaction processing and accounting framework
5. Timely information sharing between the central Treasury, revenue-collecting agencies, spending ministries and/or Treasury branch offices
6. Appropriate institutional arrangements and responsibilities
7. Utilization of modern banking, payment and settlement systems
8. Use of short-term financial market instruments for cash management
9. Integration of debt and cash management

Best Examples from APEC Economies

Australia
Canada
Japan
New Zealand
Singapore
USA

Features of the Less Advanced Countries across the APEC Region

1. Banking system is underdeveloped or underutilized
2. Payments are made in checks and/or banknotes
3. Multiple government bank accounts exist
4. Daily balances in all government accounts are unknown
5. Unnecessary borrowing occurs
6. Cash flow forecasts are not prepared
7. "Cash management" is mainly about expenditure control
8. Expenditure arrears have arisen
9. IT systems are underdeveloped
10. Lack of personnel with skills for modern cash management and understanding of importance of cash planning
11. Revenue collection remunerated through days at which resources are maintained deposited in the banks
12. Non-transparent or inadequately remunerated services provided by the Central Bank
13. Central Bank manages government liquidity (invests, etc.) and not the Treasury
14. Deposits at the Central Bank are not remunerated

PFM Cash Management Reform Programs

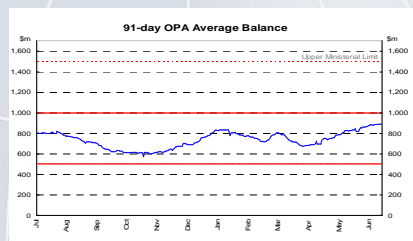
P R China
Indonesia
Mexico
Peru
Philippines
Viet Nam

APEC Country Example: Australia

- Primary cash management objective:
 - “ensure the Australian Government has sufficient funds to pay its payment obligations as and when they fall due”
- Reserve Bank of Australia (RBA) manages net position in OPA (TSA)
- Transaction processing through RBA and commercial banks where necessary
- Bank accounts:
 - administered receipts
 - administered payments
 - departmental receipts and payments
- Sweeping of commercial bank accounts to the OPA each night
- Australian Office of Financial Management (AOFM) responsible for cash balance forecasting & management
- AOFM's cash management operations:
 - forecasting the OPA cash balance at the Reserve Bank of Australia on a daily basis
 - when the OPA cash balance is forecast to be negative issuing short-term debt securities (Treasury notes) to fund the expected shortfall
 - investing excess OPA cash balances
- RBA provides Federal Government:
 - banking services—the aggregate OPA balance or daily cash position
 - short-term investment facilities (overnight deposits and term deposits)
 - overdraft facility
- Department of Finance & Deregulation manages transfers to departmental and agency bank accounts using the Cash and Appropriation Management System (CAMS)
 - AOFM receives information for forecasting end-of-day balances

APEC Country Example: Australia

- **Official Public Account average balance:**
 - Ministerial (Policy) Limit: Rolling 91-day average balance less than A\$1,500mn
 - Operational Limit: 91-day average upper limit A\$1,000mn, lower limit A\$500mn – therefore, central target of A\$750mn
- A\$750mn is considered an appropriate “liquidity buffer” to allow for volatility in revenue and expenditure
- Interest is paid on OPA balances at the Reserve Bank of Australia at the Overnight Cash Rate



Source: Australian Office of Financial Management

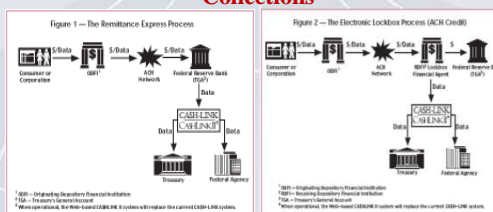
APEC Country Example: USA

- Purpose of cash management
 - to eliminate idle cash balances
 - to deposit collections timely
 - to properly time disbursements
- Federal Reserve Bank (FRB) of NY manages net position in TSA
- Transaction processing through FRB of NY, other FRBs, and commercial banks where necessary
- Interest incentives and penalties
- An automated system called CASH TRACK is used to help monitor cash movements
- Information is also captured daily from the CASH-LINK system

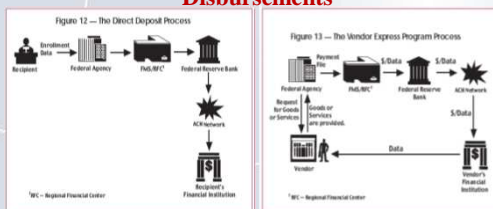


Details are available in *Cash Management Made Easy*

Collections



Disbursements



APEC Country Example: China

- Reform of cash management started in 2000 at both central and local government levels, although progress has been slow particularly across local governments
 - MoF and PBoC issued the “Pilot Programs of Treasury Management System Reform” with approval of the State Council in 2001, which proposed to establish a treasury management system based on TSA
 - By the end of 2009, 36 provinces, special municipalities and separate planning cities together with more than 320 cities and 2100 counties, and over 310,000 primary budgetary units have implemented Treasury Centralized Receipts and Payments System reform and established a TSA
- Challenges continue with the need to strengthen
 - Budget management
 - Cash flow forecasting
 - Management of cash flows and balances including debt and investments
 - Clarity of responsibilities between government and central bank (PBoC)

APEC Country Example: Mexico

- Reform of cash management is with the Federal Treasury (*Tesorería de la Federación* or *TESOFE*)
- TSA in place, but short of international sound practice
- Program for further reform of cash management began in 2010 with help from IMF
 - Review of the Treasury Law and supporting regulations
 - Expand coverage of the TSA
 - Improve cash flow forecasting
 - Set an optimal target cash balance
 - Move towards more active management of cash flows
 - Move to more closely align cash and debt management
 - Develop operational risk management framework including a business continuity and disaster recovery plan
 - Make greater use of electronic payments and collections

APEC Country Example: Peru

- Reform of cash management is with Dirección General de Endeudamiento y Tesoro Público (DGETP)
 - Merger of Treasury and Debt Management in 2011
- Modern Treasury Systems Law since 2006
- TSA well developed since introduced in 2008
 - Over 80% of budget flows through TSA
- Project for further reform of cash management established in 2011 with help from IMF
 - Decision making committees to be introduced
 - Review of the Treasury System Law and supporting regulations
 - Improve cash flow forecasting
 - Set a minimum cash flow buffer
 - Move towards more active management of cash flows
 - Formulate the structure between DGETP and central bank

PFM Cash Management Reform process is similar in other countries to Mexico and Peru under IMF reform programs

