Strengthening Liquidity and Risk Management

- Financial Planning and Work Plans
- Cash flow plans and Management
- Liquidity and Indebtedness Management
- Risk Management and Internal Guidelines

Financial Planning

- Financial planning includes the preparation of an annual cash plan and a budget implementation plan, monthly cash plans, and in-month forecasts.

Budget implementation plan and cash plans

- Annual cash plans must be prepared in advance, and should set out projected monthly cash inflows, cash outflows and borrowing requirements

Annual Cash Plans Must be:

- Update projections for the entire fiscal year on a quarterly bases; and
- Update projections for the succeeding month on a monthly basis.

Preparation of Cash plan and its updating should be done in coordination between

- The Treasury Department
- Budget Department and
- Tax Administration Department

- Treasury Department prepares both the budget implementation plan and the overall cash plan on a pure-cash basis.
- In some countries, the Budget Department prepares a budget implementation plan, which can include gross flows (e.g., wages, including income taxes), then the Treasury Department prepares a cash plan showing cash flows.

- Close coordination between the Budget Department and the Treasury Department is required when planning budget implementation.
- The budget implementation plan and the cash plan must be fully compatible.

Budget Implementation Plan

- The budget implementation plan must be consistent with the budget, prepared in advance, and communicated to spending agencies.
- The preparation of the budget implementation plan should be driven by the budget, not by cash management concerns.

- The budget implementation plan should take into account the timing of payments and payment obligations arising from commitments over the fiscal year
- It should consider the schedule of disbursements for investment projects, which are not equally distributed by month.
- The plan must be rolled over quarterly, to allow for changes in the macroeconomic environment and progress in budget implementation.

Revenue Forecasts

- Forecasts of the monthly distribution of revenues should be prepared and updated regularly, preferably every month.
- Preparation of monthly revenue forecasts should be carried out by the Tax and Customs Administration Departments, in close co-operation with the Treasury and the departments responsible for macroeconomic analysis.

- revenue collections need to be monitored along the major tax categories and adjusted to reflect changes in the assumptions underlying the forecasts.
- In-year revenue forecasts must be based on revenue assessment and tax collection reports the results of economic surveys, etc.
- Short-term forecasting tools, such as short-term macroeconomic models and tax forecasting models, are also helpful.

The Cash Plan

- The cash plan shows forecasts of financial flows before new borrowing, including reimbursements of loans or bills due from the government, repayment of arrears, and drawings on loans already contracted
- The plan should be rolled over every three months, and the projections systematically updated every month.
- Monthly forecasts of cash outflows should be derived from the budget implementation plans

- The preparation of monthly cash outflow plans requires good monitoring of both payments and obligations.
- Preparing monthly cash outflow plans is more of a Treasury task than a budgeting task.
- Borrowing plans are derived from the monthly forecasts of cash inflows and outflows.

In-month Forecasts

- The in-month distribution of cash flows must be estimated in order to determine the timing of government borrowing and Treasury bill auctions;
- Within a centralised payment system, the treasury should focus on making forecasts of large payments and prepare only rough estimates of other payments.
- In-month revenue forecasts is better undertaken by the tax administration department than the treasury,
- In-month forecasts should be reviewed and updated every week by a treasury committee.

Cash Management

Cash Management is having the right amount of money in the right place and time to meet the government's obligations in the most cost-effective way.

Purpose of Cash management

- controlling spending in the aggregate,
- implementing the budget efficiently,
- minimising the cost of government borrowing, and
- Maximising the opportunity cost of resources.

Benefits of Cash Management

- Efficient cash handling and control systems increase certainty that payments are made properly by the due date; and that receipts are passed without delay to the responsible bodies.
- Minimizes the volumes of idle cash held by government bodies, and avoiding unnecessary borrowing;
- Improve linkage of government accounts; improves visibility of flows; and reduces risk

- Promote efficient use of wide range of financing instruments such as Treasury bills and other short term borrowing;
- Minimise transaction costs; and facilitate borrowing at the lowest available interest rate investing in revenue-yielding paper.
- Help to make payments on a timely basis by tracking accurately the dates on which they are due.

Treasury Single Account

TSA is an account or set of linked accounts through which the government transacts all payments;

- Keep operating cash balances to a minimum in order to minimise borrowing costs or maximise interest-bearing deposits,
- Avoids idle cash balances in spending agency accounts and reduce cost of borrowing

Debt Management

Good public debt management

- Help countries reduce their borrowing cost
- Contain financial risk
- Develop their domestic debt market/financial system
- Facilitate maintaining financial stability

- Only one government authority responsible for fiscal management should be authorized to borrow (i.e., the Minister of Finance)
- Regulations can also provide for the amount of borrowing, which must conform to the annual budget
- Regulation provide guidance on the types of instruments and selling techniques that the government can use depending on developments in financial markets

Risk Management and Internal Guidelines

- Risk Management: A process to identify, assess, manage, and control potential events or situations, to provide reasonable assurance regarding the achievement of the organization's objectives (Institute of Internal Auditors-IIA)

Risk Management Process

The systematic application of management policies, procedures and practices to the activities of:

- Communicating and consulting
- Establishing the context
- Identifying
- Analyzing
- Evaluating
- Treating
- Monitoring and reviewing risks

Communicating and Consulting

- Consult with internal and external stakeholders
- Plan for communication and consultation
- Communicate issues relating to the risk itself, its causes, its consequences (if known), and the measures being taken to treat it
- Communication and consultation should facilitate truthful, relevant, accurate and understandable exchanges of information, taking into account confidentiality and personal integrity.

Establishing the Context

- Establish the external context
- Establish the internal context
- Establish the context of the risk management process
- Define the risk criteria

Risk Assessment

- Risk identification
  - External risks
  - Internal risks
- Risk analysis
  - Strategic risks
  - Operational risks
  - Financial risks
  - Compliance risks
  - Risk Register

Risk Assessment

- Risk Evaluation
  - High
  - Medium
  - Low

Risk treatment

Risk treatment is the process of selecting and implementing measures to modify the risk

- Avoidance
- Mitigation
- Sharing
- Acceptance

Monitoring and Review

- Reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place

Recording the risk management process

- In the risk management process, records provide the foundation for improvement in methods and tools, as well as in the overall process

Thank you