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TECHNICAL ASSISTANCE REPORT—STRENGTHENING CASH MANAGEMENT

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Uganda

Strengthening Cash Management

Amitabh Tripathi and John Gardner

Technical Assistance Report | August 2016

INTERNATIONAL MONETARY FUND

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Building macroeconomic capacity in East Africa

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ABBREVIATIONS AND ACRONYMS

AFE	AFRITAC East
AGO	Accountant General's Office
BoU	Bank of Uganda
CMC	Cash Management Committee
CPD	Cash Policy Department
DB	Directorate of Budget
DD&CP	Directorate of Debt and Cash Policy
DEA	Directorate of Economic Policy
DP&ID	Debt Policy and Issuance Department
FAD	Fiscal Affairs Department (IMF)
GoU	Government of Uganda
IFMS	Integrated Financial Management System
LG	Local Government
MDA	Ministries, Departments, and Agencies
MoFPED	Ministry of Finance, Planning and Economic Development
MOU	Memorandum of Understanding
PFA	Public Finances Act, 2015
PFM	Public Financial Management
PFMA	Public Finance Management Act, 2015
PS-ST	Permanent Secretary/Secretary to the Treasury
SLA	Service Level Agreement
TA	Technical Assistance
TSA	Treasury Single Account
UCF	Uganda Consolidated Fund
URA	Uganda Revenue Authority

I. INTRODUCTION

1. **At the request from the Ministry of Finance, Planning, and Economic Development (MoFPED), East AFRITAC (AFE) fielded a technical assistance (TA) mission to Kampala during June 20–July 1, 2016.** The mission comprised Amitabh Tripathi (AFE Public Financial Management Advisor) and John Gardner (Expert).[1] It provided practical assistance to the MoFPED on strengthening cash management. Box 1 summarizes the mission's findings and recommendations, whilst the remainder of this aide memoire provides more detailed analysis.

Box 1. Uganda: Summary of Findings and Recommendations

The institutional structure for cash and debt management has been officially approved. This has enabled the formal establishment of a Cash Policy Department (CPD) with a suitable level of staff to be recruited in FY2016–17. With significant delay expected to Cabinet approval of the cash management policy document, it is important to define and promulgate the roles, responsibilities and working relationships of the CPD and MoFPED is in the process of developing Guidelines for this purpose. The CPD has created a cash flow forecasting spreadsheet template and has been using it to get an understanding of the cash position of government.

Based on a review of the progress, the following key recommendations are made to further strengthen the cash management function:

- Finalize and issue the Guidelines with the approval of PS/ST as soon as possible.
- Start implementing the Action Plan for strengthening cash management (Appendix I).
- Establish a high-level cash management committee to provide the necessary authority to the CPD in maintaining its relationships, in constantly improving the cash flow forecasts, and in operating active cash management transactions.
- Improve cash flow forecasting by capturing actual outturn data alongside the forecast data in order to analyze forecast errors; making sure that all significant cash flows are covered and consistent with IFMS scope; and the timeframe conforms with the existing quarterly cash limits and the AGO weekly cash movements.
- Formulate and start implementing a capacity building program for MDAs in order to explain the objectives of cash management and the benefits which good forecasting can bring.
- In the medium term, when cash flow forecasting has gained sufficient accuracy, the CPD must prepare for active cash management operations which will consist of short-term borrowing and investment. An appropriate cash buffer level needs to be calculated which will define the necessary money market transactions to smooth government cash operations.
- Negotiate with the BoU to enable market-based term deposit facilities to be utilized and coordinate with the Debt Policy and Issuance Department on borrowing needs.

[1] Mr. Tripathi was in mission station from June 20–24, 2016.

A. Background

2. **This mission was one of a series planned to assist the MoFPED in improving the management of its cash resources.** It follows on, most recently, from an AFE mission in June 2015 which made recommendations for: (i) extending the Treasury Single Account (TSA) arrangement by including selected donor funded and local government accounts; (ii) concluding a memorandum of understanding between MoFPED and Bank of Uganda (BoU); and (iii) finalizing and implementing the Cash Management Policy and Procedures Manual to progressively improve the reliability of cash flow forecasts.[2]

3. **Some progress has been recorded since June 2015.** In particular, the Cabinet has approved the MoFPED restructuring proposal including the establishment of the Debt and Cash Policy Directorate. The Cash Policy Department (CPD) has developed draft guidelines for cash management operations including defining the role and responsibilities of different stakeholders and has conducted benchmarking trips to South Africa. Cash flow forecasting templates have been developed for capturing forecast and actual data for revenues, expenditures and financing. The CPD has identified sources of forecast and actual data and started using these templates to get an understanding of the consolidated cash position of government. The MoFPED considers it an opportune time to assess progress, identify any emerging issues and review its plans. Accordingly, it has requested AFE to provide guidance in these areas. The mission was considered timely as its findings will inform the process for operationalizing the CPD.

B. Mission Methodology

4. **The scope of the mission was confirmed during an initial meeting with the Director, Debt and Cash Policy.** It was agreed that the mission would review the institutional arrangements and plans for developing the cash management function; advise on the processes and templates for constructing and managing a comprehensive cash plan; and provide practical training to the staff of the CPD. The mission assessed the progress and plans and identified emerging issues through document review and discussions with different stakeholders.

5. **The mission acknowledges the cooperation and assistance provided by and the discussions held with the senior officials of the MoFPED.** The mission benefitted from its meetings with Isaac Mpoza, Director, Debt and Cash Policy; Lawrence Semakula, Accountant General; Lawrence Kiiza, Director of Economic Affairs; and members of staff from these Directorates. It also held useful discussions with the Director and other officials from the Banking Operations Department of the BoU. The information shared during these meetings enhanced the mission’s understanding of the progress achieved and the outstanding issues and thus informed its conclusions. The findings and recommendations in the report were validated during extensive discussions with the officials of the Debt and Cash Policy Directorate and presented in a wrap-up

[2] Guy Anderson and John Gardner; *Uganda: Reviewing the TSA and Improving Cash Management*; AFE; June 2015.

workshop for stakeholders, chaired by Mr. Keith Muhakanizi, Permanent Secretary/Secretary to the Treasury (PS/ST). The mission is grateful to David Wamai, Assistant Commissioner CPD, for coordinating its work.

C. Mission Outputs

6. **The output from the mission comprised:** practical guidance on development of the cash management guidelines; discussion and training on cash forecasting templates; a wrap-up workshop with senior officials of the MoFPED; and this aide memoire, which following this introductory section is structured as follows:

- ***Section II –*** reviews the current regulatory framework and institutional arrangements for cash management.
- ***Section III –*** considers the draft cash management guidelines and makes recommendations for strengthening the institutional arrangements
- ***Section IV –*** reviews the cash forecasting template designs and suggests measures for improving cash forecasting and management
- ***Appendix I:*** Action Plan – Strengthening Cash Management
- ***Appendix II:*** Draft Cash Management Guidelines
- ***Appendix III:*** Sample Terms of Reference for Cash Management Committee
- ***Appendix IV:*** Institutional Roles in the Cash Management Process

II. REGULATORY FRAMEWORK AND INSTITUTIONAL ARRANGEMENT

7. **The institutional structure for cash and debt management has been officially approved.** The Cabinet, as part of the restructuring of the MoFPED, has approved the establishment and structure of the Directorate of Debt and Cash Policy.[3] The approved structure is substantial and, for the CPD, exceeds the maximum that would be necessary for the department when it is fully operational.[4] The approved positions are to be filled in a phased manner and the budget for FY 2016/17 has provisions for the recruitment of fourteen positions including a Commissioner and Assistant Commissioner. The approval also requires that the recruitment priority is accorded to these positions by the Ministry of Public Service.

[3] Since the primary functions of both cash management and debt management are operational, it is recommended that consideration is given to changing the names of this Directorate and its departments from "Policy" to "Management."

[4] The approved structure has positions for a Commissioner, two Assistant Commissioners and 29 other technical staff.

8. The PFM Act (2015) provides a reasonable basis for cash management, oversight and monitoring of banking arrangements for the GoU. Section 33 of the Act requires the PS-ST to prescribe the framework within which votes shall conduct their banking and cash management. It also requires the votes to submit their cash flow plans to MoFPED; PS-ST to issue the annual cash flow plan for GoU that shall form the basis for quarterly spending limits for MDAs; and has provisions for in-year revisions to the cash flow plan. The Regulations to the PFM Act have not yet been issued but the latest version that was shared with the mission does not provide adequate guidance to the manner in which the cash management function is expected to be operationalized.[5] Additional subordinate-level legal documentation is required to define the roles and responsibilities comprising government cash management.[6]

9. The cross-cutting nature of the cash management function requires clear articulation and understanding of the institutional roles and relationships by stakeholders. It requires timely sharing and analysis of information and coordination between the different stakeholders within MoFPED, the BoU, the URA, and MDAs. In Uganda, it becomes more critical as the new CPD will have to establish new relationships with these stakeholders and play a coordinating role.

10. Considering that the PFM Act preceded the establishment of the Debt and Cash Policy Directorate it is important to formalize the cash management mandate at the earliest. The formal cash management policy document is being considered by the cabinet but this process is expected to take a long time before formal approval. Therefore, the CPD is in the process of developing operational guidelines for this purpose.[7] The PS-ST, in terms of Section 33 of the PFM, is authorized to approve these guidelines which should provide a sound basis for the operations of the CPD.[8] At this early stage, it is important that the guidelines are finalized and approved at the earliest so that the cash management function is precisely defined and clearly understood.

11. The main functions of the CPD would include the following:

- Developing effective cash management policies and procedures including legal and administrative processes for short-term borrowing and investment activities.
- Developing cash flow forecasting capability in the Directorate and amongst MDAs.
- Developing capacity to perform active short-term cash management market operations.

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[5] The Public Finance Management Regulations (Draft January 18, 2016).

[6] Subsequent to the mission, MoFPED shared the draft Treasury Instructions with FAD. Comments have been provided by FAD/AFE on the set of Instructions that include a section on cash management and banking arrangements. Further work is required by MoFPED to reflect and include the role and responsibility of the Debt and Cash Policy Directorate in the proposed Treasury Instructions.

[7] Draft Cash Management Guidelines, MoFPED, June 2016.

[8] These should also be referred to in the proposed Treasury Instructions that are being drafted by the MoFPED.

- Coordinating with development and expansion of the TSA system and monitoring the scope of longer-term cash flow forecasting profiles.

The guidelines should specify the technical aspects of the functions of the department and document the core work processes, identify the sources of information and prescribe periodicity of information sharing by stakeholders with CPD. Section III of this aide memoire provides detailed guidance on the proposed cash management guidelines.

12. The guidelines should also clarify the institutional roles and relationships of the CPD with other MoFPED directorates and other stakeholders. Under current arrangements, the Directorate of Economic Affairs (DEA) is responsible for preparing the monthly revenue forecasts and global expenditure forecasts; the Budget Directorate consolidates the cash plans submitted by the MDAs and issues quarterly spending limits as decided by the Cash Flow Committee, based on the revenue projections and quarterly cash flow plans received from the MDAs; and the Accountant General's Office (AGO) issues warrants against which payments are processed. The AGO, on the basis of expected short-term expenditure commitments, draws down weekly from the Uganda Consolidated Fund (UCF) to the TSA holding account in BoU to enable processing of payments. Some of these functions would, in future, need to be performed by the CPD and there is a need to review, realign and define some of these roles and responsibilities. Further to the approved guidelines, MoFPED Circulars and Instructions will be necessary to ensure that ongoing relationship obligations are effective. Appendix IV provides a matrix of the suggested institutional roles in the cash management process.

III. STRENGTHENING INSTITUTIONAL ASPECTS

13. Whilst the detailed cash management policy is being approved at a higher government level, the CPD needs to ensure that its functions are recognized and authorized operationally across government.[9] Many of these functions entail direct relationships with agencies inside and outside the MoFPED and it is important that the department is seen to be authorized to establish and maintain these contacts. As described above, an approved set of guidelines should serve this purpose. The mission has assisted in drafting such guidelines for approval by the PS/ST and these are given in Appendix II.

14. The guidelines, as drafted, provide an overview of the concept and primary objectives of government cash management with particular reference to cash flow forecasting. They then detail the scope of borrowing and investing operations which are used to meet anticipated temporary cash shortages and surpluses. The guidelines describe and, once approved, will authorize establishment of the necessary relationships which are needed to build

[9] The mission was informed that the proposed cash management policy would require Cabinet's approval.

cash flow forecasts for the whole of the government included in the scope of the cash management modeling. Important relationships are also required which are distinct from the data forecasting role. These include the BoU, the Cash Management Committee (CMC), the Debt Policy and Issuance Department (DP&ID), and the AGO.

15. The concept and primary objectives of government cash management have been described in detail in previous FAD/AFE TA reports.[10] It is very important, however, that the corresponding relationships are built on the understanding of the role and objectives of good cash management. The primary objective is to allow spending agencies to make their appropriated budget expenditures at the most effective time without being constrained by cash rationing activities or the build-up of expenditure arrears. It is vital that MDAs put in the required effort to provide the CPD with accurate and updated expenditure forecasts in order that the cash management objective is achieved. If MDAs fully understand this objective and the path to achieving it, they will be more inclined to work at producing the required forecast information. The inclusion of these factors in the guidelines should assist in ensuring that this understanding becomes widespread.

16. The guidelines include a brief description of the way in which short-term borrowing and investment activities are used to ensure that cash is available to meet the primary cash management objective and is invested efficiently when in surplus. Additionally, a section outlining the essential requirements (or pre-conditions) for effective cash management is provided. This discusses the need for a comprehensive legal framework; the TSA banking structure to be defined as the scope for cash management activity; an effective payment and accounting system; MDAs to have the capacity and capability to produce regular updated accurate expenditure and revenue forecasts; and effective relationships to be built and maintained.

17. The guidelines describe the principle relationships which are needed for good government cash management. Where the focus is on cash flow forecasting, the relationships approved within the guidelines state that the counterparties should provide these forecast data to the CPD when required and in the format specified. These counterparties comprise the DEA and URA—for revenue forecasts; the Budget Directorate—for budget execution information; the MDAs – for their expenditure forecasts; the DP&ID—for information on planned debt raising and debt servicing; the AGO—for short-term forecasts and actual outturn data.

18. The guidelines also describe the role of the CMC and its relationship with the CPD and other counterparties. In the medium term, this role tends to be crucial and must be well understood in order for government cash management to function effectively. The CMC is a high-level committee which acts as the body providing ongoing authority to the work of the

[10] *Reviewing the Treasury Single Account and Improving Cash Management*; Anderson, Gardner IMF-FAD/AFE July 2015: *Implementing the Treasury Single Account and Cash Management Functions*; Anderson, Gardner IMF-FAD/AFE October 2014.

CPD. In this role, it should receive reports from the CPD regarding the accuracy of cash flow forecasts received and the reasons for all significant deviations from forecast. These reports should show whether the deviations were avoidable or unavoidable and what action should be taken by the counterparty if avoidable. Despite the existence of an approved set of guidelines, it will still be necessary to instruct MDAs to work harder to provide accurate forecasts and it will take the high-level authority incumbent in the CMC to achieve this when forecasts are proven to be inaccurate for avoidable reasons.

19. The CMC will also have responsibility to provide guidance to the CPD relating to active cash management market operations. Once cash flow forecasts are deemed to be sufficiently accurate by the CMC, the CPD will need to propose making short-term borrowings—usually most effectively through issuance of cash management T bills—and short-term deposits to earn remuneration on idle cash balances. These transactions should initially be approved in advance by the CMC. The CMC would also need to be involved in negotiations with the BoU regarding the availability of term deposits at the central bank.

20. Many central banks do not willingly propose to offer the government a term deposit facility but there is little reason behind this reluctance. Once government cash flow forecasts become reasonably accurate, they should be provided regularly to the central bank to assist in the operation of monetary policy. Periods during the fiscal year when short-term cash surpluses are anticipated should be compensated by utilizing term deposits for the requisite duration. If these deposits are taken out of the TSA structure at the central bank and placed on deposit with commercial banks, *ceteris paribus*, the central bank will need to drain them by performing open market operations. These cost the central bank an interest rate quite close to the amount being earned on the term deposit. It saves a lot of work, transactional costs, and credit risk exposure if the surplus cash stays on term deposit at the central bank. Such factors need to be discussed with the BoU in order to set up the facility to make term deposits.

21. When government cash flow forecasts are reasonably accurate, the short-term borrowing and investment activities are designed to maintain as stable a balance in the TSA structure as possible. This action, in turn, ensures that the BoU can understand very closely the effect of all government transactions on financial sector liquidity and the state of monetary policy. Since in many countries, including Uganda, the government is by far the largest cash operator in the economy, this knowledge is very important and will assist the central bank greatly in its operation of monetary policy.

22. Whilst the CMC will provide high-level access to relationships with the BoU, an ongoing relationship is also necessary. This relationship should also be included in the guidelines in order that it is maintained as expected. Normally, a memorandum of understanding between the MoFPED and the BoU would explicitly define the service relationship of the BoU with the DEA, AGO, CPD, and the DP&ID. Previous FAD/AFE missions have emphasized the finalization of an updated memorandum of understanding and provided guidance on its scope. This agreement should set out the principles of the relationship between MoFPED and BoU, and develop a service level agreement covering the banking arrangements, including the computation of and compensation for the UCF/TSA and government cash positions and charges for retail services being provided by the BoU. In the interim, while the MOU is finalized, it is also considered important to specify in the guidelines what is expected from the cash management relationship directly.

23. A primary task of the CPD during the early stages of formulating cash flow forecasting will be to build capacity amongst relevant stakeholders. This will incorporate explaining the objectives of cash management and how they will be of benefit to efficient execution of the budget. Revenue projections and debt issuance and debt servicing plans are already available from the DEA/URA and the DP&ID. However, the MDAs only provide block quarterly expenditure estimates which are used by the Budget Directorate to set quarterly spending limits. This information is not sufficiently granular to be of use for cash flow forecasting and active cash management.

24. Once the primary objective of cash management is understood by the MDAs, they should appreciate that provision of accurate and updated expenditure forecasts will obviate the need for spending limits in the long run. If this expectation can be fostered, the MDAs can build the capacity to generate and provide expenditure forecasts in the format prescribed by the CPD. Such capacity building is a difficult task and will need to utilize much of the enhanced CPD workload over the medium-term.

25. MDAs have been significantly constrained by cash rationing in the past. This has led to standard 'games' being played when they have been asked to provide expenditure estimates. Rather than these being realistically based upon the efficient timing of budget spending requirements, MDAs have tried to second-guess the expected budget constraints. Typically, this leads to heavy front-loading of expenditure estimates in order to try to ensure that cash constraints further into the fiscal year can be met through higher cash limits in the earlier months. This, if successful, can lead to idle cash resources and constraints in areas of government business where cash limits had to be reduced to meet the front-loading requests.

26. It will be very difficult to persuade MDAs to change their behavior by providing estimates of expenditure timing which would precisely match their budget service delivery needs. MDAs will believe that such realistic estimates will be used by the Budget Directorate to reduce cash spending limits in future quarters when other, unexpected payments become known. This 'chicken-and-egg' situation is often very difficult to overcome and requires high-level commitment from the MoFPED—such as can be derived from the CMC—in order to convince MDAs that, in the future, realistic forecasts will be honored but that unrealistic estimates will be penalized.

27. Previously, it has only become evident that front-loading is taking place later in the year, once quarterly limits are compared to outturns. However, as described in the following section, it will be task of the CPD to constantly monitor forecast expenditures and revenues against actual outturns. This monitoring, and its subsequent reporting to the CMC, can be effective in quickly highlighting poor, or contrived, forecasts. As the credibility of the annual budget improves in Uganda, a spending agency which provides good forecasts of how it realistically needs to make expenditures throughout the fiscal year, should be assured that there will be no constraints on its plans. With efficient cash management, short-term borrowing can be used to meet temporary cash shortages which will be repaid as budget revenues catch up with spending.

28. MDAs can be made aware that their spending needs, if realistic, will be met only if they can show that their forecasts are accurate. If the CPD reports to the CMC that an MDA has made, in the recent past, significant errors in its forecasts, it will need to be told that no such assurances will be forthcoming until its spending projections closely match its actual requirements. CMC should be empowered to take these decisions.

IV. CASH FLOW FORECASTING MODEL

29. The cash flow forecasting model which has been developed by the CPD demonstrates an excellent start to the cash flow forecasting project. It is based on various models which have been supplied by previous FAD/AFE missions, US Treasury TA, and by benchmarking visits to South Africa. The broad structure of the model is suitable for inputting revenue, expenditure, and debt forecasts, aggregating these in net form, and using opening balances in the bank account structure to produce a profile of available cash resources across the forthcoming periods.

30. There are, however, several shortcomings in the design of the forecasting model, in its scope of operation, and the data which is currently being used:

a. The model currently contains forecast data for revenues and expenditures[11] for future time periods but these are overwritten as actual outturn data is input and the forecasts are lost. This does not allow forecast error analysis which, as has been described above and in detail in previous TA reports, is vital to ensuring that forecasts are realistic and continuously improving. It is recommended that the templates are expanded to include, alongside the forecast data, columns for the actual outturn information and for the level of forecast error. Templates demonstrating this extra level of detail have been provided by the mission.

b. At present, the forecasting model utilizes the entire chart of accounts classification from the IFMS to record forecasts and actual information. The forecasts are made purely by using seasonal trend analysis from previous years' actual outturns as recorded against the classification within the IFMS. For future use, the model should, in many classifications, use forecast data from the MDAs directly without comparing to seasonal trends of previous years. This methodology will require a far more aggregated structure than the whole

[11] 'Revenues and expenditures' includes all budget deficit financing operations and debt servicing costs.

(maximum granularity) chart of accounts classification since it will involve too much work to gather such detailed forecasts and analyze forecast errors systematically. It is necessary for the CPD to balance the level of granularity (or disaggregation) against the work which may be unnecessarily required—see (c) below.

c. The training and formatted templates given to MDAs to provide accurate, timely, and updated forecasts should focus on more aggregated groups of expenditure classifications than currently used. These need to be carefully chosen and structured in order to capture the most volatile and uncertain spending needs. Expenditures which are constant throughout the year (e.g., some types of remuneration) or those having a very clear seasonality year after year without much variation from trend (e.g. some education or agricultural spending) can be input in aggregate form using the annual budget overlaid with the appropriate seasonal patterns across the coming year. Highly variable spending, on the other hand, is only fully known by the MDA involved and must be forecast by the agency responsible for the expenditure planning. This is particularly applicable to capital expenditures. The format in which forecast information is requested from the MDAs must, therefore, be carefully thought out and constructed.

d. At present, there is a need to precisely define the scope of the forecast modeling being performed. It is important to be certain that the 'pool' of available cash resources[12] being modeled is fully understood in the context that, once its scope is defined, all inflows and all outflows are contained in the model and that any flows which are either wholly inside the 'pool' or wholly outside it are excluded from the modeling. It appears that the main bank account structure which, as an aggregated whole, forms the 'pool' is well constructed in the existing model. The 'stock' of cash resources is well defined but the flows may not be. Checks need to be performed on the consistency of all flows being modeled. In particular, budget expenditures which take the form of cash transfers can be problematic. In the case of local governments, care must be taken to include the detailed expenditures of those within the IFMS—and therefore within the scope of the cash flow model—and ignore their associated transfers since these would be wholly inside the coverage of the 'pool.' In contrast, for local governments which are not fully within the scope of the IFMS, only their transfers should be included in the model being expenditures of the agency making the transfer payments since this is the only flow which moves directly out of the 'pool'.

e. Although seasonal patterns and direct forecasts can be derived from historical data and MDAs, the budget execution process still relies on quarterly spending limits provided through the DEA and the Budget Directorate. The timeline of the modeling must therefore be narrowed down to that applicable to reality. It is still relevant to model cash flows further out than the current quarter but it must be understood that these will need to be changed—possibly radically—once the quarterly spending limit is produced. The DEA and the Budget Directorate take account of the projected quarterly cash requirements of the MDAs but will

[12] In many countries, this is the TSA but in Uganda it is the aggregate of several BoU accounts including, *inter alia*, the UCF and the TSA accounts.

constrain the overall envelope for expenditures to fit within the forecast revenues and debt issuance for the quarter at hand. In the future, once forecasts are accurate and active cash management operations are commenced, there should be no need for the quarterly cash limits to constrain budgeted expenditures since shortages will be met by short-term borrowing. Before that point is reached, however, the modeling should take account of the cash limits.

f. Weekly transfers made by the AGO from the UCF to the TSA accounts are based on known payment instructions and invoices already within the IFMS. Consequently, there is no need for the timeframe of the model to include the nearest week. It should therefore initially concentrate its coverage on the timeframe of two weeks to three months from the present.

31. In addition to configuring the cash flow forecasting model, medium-term preparations should be made for performing active cash management operations. These will include:

a. Preparing reports on cash flow forecasts to the CMC including recommendations for action to be taken to improve forecast accuracy and for active cash management money market transactions.

b. Calculating an appropriate buffer level of cash to be maintained which will guide the determination of the sizes and terms of active cash management instruments.

c. Coordinating with the DP&ID on issuance of T bills for cash management purposes and ensuring that the money market is aware of such transactional activity when it starts.

d. Coordinating and negotiating with the BoU on managing market-related interest earned on term deposits for cash management purposes.

Appendix I. Uganda: Action Plan for Strengthening Cash Management

Short Term 1 to 3 months	Medium Term 3 to 12 months	Long Term 1 to 3 years
Finalize draft of formal CPD Guidelines and send to PS/ST for approval and distribution.	Devise Financial Circulars to formalize the CMD relationships and requirements with external MDAs for approval by PS/ST and distribution.	Review institutional aspects of forecasting data relationships and improve as necessary.
Continue to develop cash flow forecasting spreadsheet templates to facilitate daily monitoring of cash flows and error analysis	As actual data is available, enter into model and analyze errors. Report significant errors to CMC with reasons and recommended action to be taken where avoidable.	
Make rigorous consistency checks on the pre-defined scope of bank account structure of the model to ensure that there is no double counting or exclusions of transactions		Increase scope of model as IFMS and TSA is rolled-out to include more LGs and donor accounts and projects.
Agree on timescale to be used for detailed forecasting—initially two weeks to three months is recommended. Include further out forecast data for reference.	Retain single quarter basis but start modeling development expenditures on half-yearly basis and report to CMC on results.	Extend forecasting base to two quarters and then to full year basis. Once sufficiently accurate, recommend that CMC amends cash limits timing accordingly.
Refer recommended terms of reference and membership of CMC to PS/ST for approval.	Commence CMC meetings with CPD as secretariat. CPD report on forecasting results of cash resource profile for quarter ahead and error analysis of previous quarter for action.	
Contact all revenue, expenditure, and debt counterparties to discuss format required for data requests.	Arrange capacity building and guidance sessions with major spending MDAs to assist with developing the required forecasts. Commence receiving all necessary forecast data for input to model. Continue historic seasonal analysis for comparison purposes.	Analyze whether seasonal projections are becoming more accurate than direct input.
Commence discussions with BoU to arrange for short-term market-based term deposits when suitable. PS/ST to formalize this agreement.	Towards end of full year, determine whether forecast accuracy is sufficiently accurate to commence active cash management operations for short-term borrowing and investing.	When feasible, commence active cash management activity, by determining a suitable cash buffer level to be maintained and to guide borrowing and investment amounts—with tenors determined by forecasts

Appendix II. Uganda: Cash Management Guidelines

MINISTRY OF FINANCE, PLANNING, AND ECONOMIC DEVELOPMENT

Table of Contents

1.0. INTRODUCTION

1.1. The government of Uganda continues to face intense pressure on their cash flows in the face of constrained revenues and the need to meet increasing statutory and social responsibilities.

1.2. To address this issue, the government has been undertaking Public Financial Management Reforms (PFM) of which the Integrated Financial Management Information System (IFMS) and Treasury Single Account (TSA) are major components to strengthen financial and cash management systems. This is consistent with the Public Finance Management Act 2015 and the constitution of the Republic of Uganda 1995 which provides the framework for conducting cash management.

1.3. To effectively implement these reforms, the government has recently restructured the Ministry of Finance, Planning and Economic Development to create a cash management department under the Directorate of Debt and Cash policy to perform the cash management function.

1.4. The Secretary to the Treasury, in exercise of his powers as provided in Public Finance Management Act 2015, section 11, subsection 2 and section 33, subsection 1, hereby issues the following guideline on the management and operation of the cash management.[1]

2.0. OBJECTIVE, SCOPE AND COMMENCEMENT OF THE GUIDELINE

2.1. The primary purpose of this guideline is to provide a clear framework to support the successful implementation of cash management based on internationally-accepted principles, banking arrangements, operational processes and IT infrastructure. It is intended to improve the accuracy of government cash forecasting, provide more proactive cash management during the financial year to ensure that appropriation drawdowns can be based on votes' actual cash needs rather than cash rationing restrictions, and operationalize a process for investing temporary cash surpluses.

2.2. The cash management guideline will apply to all appropriation-supported MDAs in the general government sector.

2.3. This guideline is effective upon the date of issuance and will be reviewed annually or when deemed necessary by the Secretary to the Treasury.

[1] These guidelines shall be supplemented by the Treasury Instructions that are being drafted by the MoFPED.

3.0. CASH MANAGEMENT CONCEPT

3.1. The aim of implementing a cash management system is to ensure that there exist sufficient cash resources available to meet government expenditure requirements in terms of its social and economic responsibilities. In this context, the effective management of cash, including the provision of accurate daily/weekly/monthly cash flow forecasting, has implications for surplus cash balances and/or short-term borrowing costs. Cash flow forecasting enables the determination of investment or borrowing requirements.

3.2. From an overall government cash management perspective, cash resources are held within the Uganda Consolidated Fund and Treasury Single Account bank account structures at the Bank of Uganda until they are required to make expenditures which have been appropriated through the budget process. Effective cash management therefore enables the allocation of vote's appropriation across the financial year to closely match required expenditures.

4.0. CASH MANAGEMENT OBJECTIVES

Cash management is primarily designed to enable good understanding and management of the amount of government cash resources in its bank accounts throughout the financial year in order to:

i. Ensure cash availability for efficient budget execution;
ii. Promote efficient management of anticipated short-term domestic borrowing requirements at minimal cost;
iii. Allow optimal investment of projected short-term cash surpluses; and
iv. Determine and maintain an optimal cash liquidity reserve in the government bank accounts to meet unanticipated requirements during the financial year.

5.0. INVESTMENT AND BORROWING.

Credible budget formulation will ensure that the projected revenues plus approved budget deficit financing would be sufficient for annual budget execution without additional borrowing, However, during the year, timing mismatches will inevitably occur between required expenditure payments on the one hand, and revenue collection and deficit financing on the other. Short periods will exist during which it will be necessary to borrow to meet expenditures as they are planned. These periods are counteracted by other in-year times during which excess cash is built up as revenues flow in excess of expenditures. At such times, the short-term cash management borrowings will be paid off and surplus cash reserves will need to be invested for a reasonable return until they are required again for budget execution purposes.

The Public Finance Management Act 2015 and its Regulations provide a legal framework for short-term cash management borrowings. The Secretary to the Treasury will issue separate guidelines to manage the process of short-term investment of surplus cash resources within the financial year.

6.0. CASH MANAGEMENT ESSENTIAL REQUIREMENTS

Implementation of cash management requires the following:

i. A legal framework including policies, cash management processes, financial regulations, and treasury circulars which provide a conducive environment and guidance to ensure effective cash management operations;
ii. All public monies are under the direct control of government;
iii. Government banking arrangement are consolidated to enable the Secretary to the Treasury to have full oversight of government cash flows across bank accounts;
iv. A harmonized receipt and payment system which allows comprehensive reporting of government execution transactions;
v. MDAs which have financial management processes, procedures and systems necessary to support the successful implementation and operation of cash flow forecasting and cash management—MDAs should understand clearly that the end result of their good cash flow forecasting will lead to the ability to make expenditures as they are required by the MDA but that poor forecasting will result in cash rationing and expenditure constraints**;**
vi. Effective relationship management to ensure the accurate and timely provision of information to the Cash Policy Department by all involved counterparties.

7.0. CASH MANAGEMENT STAKEHOLDERS; ROLES AND RESPONSIBILITIES.

The success of cash management requires the effective collaboration of several different stakeholders, during the implementation of the initiative.

8.1. CASH POLICY DEPARTMENT (CPD).

The CPD as part of the Directorate of Debt and Cash Policy in the MoFPED is charged with:

i. Ensuring that government has efficient cash management policies and operating procedures in place including a definition of the scope and coverage of cash management operations.
ii. Building capacity in, and assisting with, the preparation of accurate and updated cash plans for all votes.
iii. Consolidation of cash plans and forecasts to prepare an overall government cash flow forecast on a monthly and weekly basis.

iv. Prepare regular and timely cash flow projection reports that reflect budget compliance
v. Coordinating cash management so as to implement issued in-year budgetary spending limits.
vi. Prepare a strategy for managing projected short-term cash shortages and surpluses.
vii. Coordinate services relating to cash management operations with the AGO and the BoU; and ensure that cash flow forecasts are provided to the BoU for monetary policy purposes.
viii. Participate in committee meetings held at the BoU and the URA which relate to cash management operations and policy.

8.2. CASH FLOW COMMITTEE/CASH MANAGEMENT COMMITTEE (CMC)[2]

A high-level CMC is a vital requirement in the development of the government cash management function. The CMC will provide the CPD with the necessary authority to demand more accurate cash flow forecasts from MDAs and other stakeholders. The CMC will manage the institutional changes which occur once cash flow forecasting has become sufficiently accurate and money market transactions are undertaken for cash management purposes. The CMC will determine the timing of the movement from cash rationing to effective cash management in order to meet the primary objective of allowing spending units to manage their budget execution efficiently. The CMC should:

i. Maintain the current approval process for issuing quarterly budgetary cash limits with the objective of reviewing this process as cash flow forecasts improve sufficiently;
ii. Review the monthly/weekly cash flow forecasts produced by the CPD;
iii. Develop the policy for investment of temporary cash surpluses;
iv. Approve investment and borrowing recommendations of the CPD based on the net position and its cash flow forecasts;
v. Include the following Members: Permanent Secretary/Secretary to the Treasury (Chair); Deputy Secretary to the Treasury; Accountant General; Director Economic Affairs; Commissioner General Uganda Revenue Authority; Director Budget; Deputy Governor and Director Banking Operations, BoU; Director Debt and Cash Policy. CPD is the Committee secretariat and technical advisor.
vi. The Committee may call representatives of MDAs to attend meetings to discuss cash flow forecasts and outturns;
vii. Any other responsibilities as assigned by the Secretary to the Treasury from time to time;
viii. This committee will meet at least once every month and more frequently if needed.

[2] Sample terms of reference and membership is provided in Appendix 3 of this report and could be included in the Guidelines.

8.3. VOTES/AGENCIES

Cash flow forecasting can be a mix of historical seasonal analysis and information on current plans for the financial year ahead. Where cash rationing has been in place, however, it distorts historical spending patterns and often makes this technique inappropriate. In this case, the most accurate information on budget expenditure forecasts must be derived from the spending units themselves. The votes/agencies should be aware of the primary objective of good cash management and be prepared to make efforts to provide accurate and updated cash flow forecasts to the CPD. This necessitates them to:-

i. Provide accurate and timely information as prescribed by the CPD from time to time;
ii. Prepare and submit to CPD monthly cash flow projections in the format prescribed by the CPD including a disbursement profile and having the flexibility to amend forecasts and profiles at any time during the year to reflect changed circumstances and significant unforeseen cash flow requirements;
iii. Maintain or designate a help desk to coordinate cash flow forecasting capacity building and development, communicate regularly with the CPD, and respond to any cash management issues or queries as may arise;

8.4. DEPARTMENT OF ECONOMIC AFFAIRS

Since cash management is designed to deal efficiently with in-year timing mismatches between revenues and required expenditures, accurate and updated revenue forecasts are vital to its effectiveness. The cash flow forecasting necessary for cash management operations focuses on aggregated projections of revenues rather than individual items. The macroeconomic function of the Ministry of Finance is usually the most appropriate source for such comprehensive forecasts. It should therefore:

i. Provide accurate and timely revenue projection information as requested, and in the format provided, to the CPD from time to time;
ii. Contribute to the development of cash management policies in coordination with the CPD.

8.5. DIRECTORATE OF BUDGET

The Directorate of Budget usually has the most direct links with votes/agencies when they formulate their budget plans. Their assistance in the requisite relationships between the CPD and the agencies is important. It is also sometimes necessary for the Directorate to control budget execution due to unforeseen circumstances. Information on these interventions needs to be included in the cash flow forecasts of the CPD. It is important that the Directorate should:

i. Provide accurate and timely information as requested by the CPD from time to time on the annual cash plans by vote and mid-year updates;
ii. Provide to CPD the quarterly vote's expenditure limits and any further budget execution controls being planned.

8.6. ACCOUNTANT GENERAL'S OFFICE (AGO)

The AGO is a vital relationship for the CPD. It effects government transactions and maintains the government budget execution records. Access to these is important for CPD forecast error analysis and seasonal projections. The AGO manages the government banking arrangements and access to these balances is necessary for active cash management operations. The AGO, in turn, should make use of CPD short-term cash flow forecasts in order to ensure expenditures are paid in an efficient manner. The AGO should:

i. Provide accurate and timely information as requested by the CPD from time to time;
ii. Coordinate and communicate developments of TSA policy and framework with the CPD;
iii. Ensure the CPD has access to IFMS database and real-time access to bank statements;
iv. Provide input to development of cash management policies.

8.7. DEBT POLICY AND ISSUANCE DEPARTMENT (DP&ID)

Coordination of cash and debt management is important in several ways. Debt management operations are often the largest contributors to government cash flows and must be planned in advance. Coordination of projected in-year cash shortages and surpluses with debt management activity can reduce costs significantly. Active cash management transactions with the money markets should be handled through the DP&ID which has the required expertise. The DP&ID should:

i. Provide accurate and timely information as requested by the CPD from time to time;
ii. Provide weekly and monthly debt servicing and transaction projections;
iii. Coordinate Treasury bill and other borrowing arrangements to meet cash management requirements;
iv. Coordinate short-term money market investment arrangements if necessary to meet cash management requirements

8.8. BANK OF UGANDA (BoU)

The BoU is the government banker and is therefore crucial to the operation of active cash management. The government, in turn, is often the largest transactor of cash flows in the financial system. Coordination of budget execution and monetary policy operations is important. The BoU should:

i. Provide accurate and timely information as requested by the CPD from time to time;
ii. Provide the CPD with real-time access to the daily cash balances on the government accounts in coordination with the AGO;
iii. Consult with CPD on short-term borrowing to meet projected cash shortages.
iv. Agree CPD policies on short-term investment of cash surpluses.

8.9. UGANDA REVENUE AUTHORITY (URA)

The URA has regular information on the status of revenue collection relating to its budgetary targets. This information can assist in improving cash flow forecasting. The URA should:

i. Provide accurate and timely information as requested by the CPD from time to time;
ii. Ensure timely transfer of revenue from the collection accounts to the UCF within 24 hours.

9. GUIDELINE REVIEW

This guideline is subject to periodic review by the Secretary to the Treasury.

10. GLOSSARY

Cash rationing – control of the amounts and timing of budget expenditures to fit anticipated revenues.

Cash flow forecasting – aggregation of the planned and projected revenues, debt transactions, and expenditures across a defined section of the government broken down by day/week/month/quarter which affect the expected cash resources available.

Cash resources – the amount of cash held in a defined set of government-controlled bank accounts which receive budget revenue and debt-related inflows and from which budget expenditures are paid.

Expenditure limits – an amount of a provision under the annual or supplementary estimates which have been allocated by a quarterly expenditure limit issued by MoFPED.

Money markets – domestic markets used for short-term financial transactions: usually Treasury bills for short-term borrowing; and bank call and term deposits or repos for short-term investment.

Scope/coverage – the definition of a set/structure of bank accounts which, in total, establishes the aggregate available cash resources of the government at any one time and therefore defines the extent of cash flow forecasting.

Short term – within the current financial year; usually between one week and six months or less.

Appendix III. Uganda: Sample Terms of Reference for Cash Management Committee

The CMC is a high-level decision making committee for cash prioritization and allocation purposes. It provides and authority for the work of the CMU. A broad framework of the CMC is described below.

Role and objectives of the CMC

- The CMC shall advise the Minister, MOFPED on processes for optimum management of cash.
- It shall provide the government and BoU with revenue and expenditure forecasts and its analysis based on these forecasts. It shall project the financing gap between government inflows and outflows for each quarter, or with such periodicity as may be asked for by the MoFPED
- It shall advise the government and BoU on the best modality for financing the gap.
- The CMC shall work under the overall guidance of the Permanent Secretary/Secretary to the Treasury (PS/ST) and shall take directions from the PS/ST on its mandate and objectives
- The CMC shall not advise the BoU on investment or any other matter vested in BoU by the authority given to it by law.
- The CMC shall issue directives as necessary to MDAs to improve the accuracy of their forecasts.
- The CMC shall decide when the cash flow forecasts are sufficiently accurate that the CPD should commence active cash management operations.
- The CMC shall supervise and approve in advance, as necessary, all active cash management transactions and instruments undertaken by the CPD.
- Membership—the CMC membership shall comprise of the following.
  a. The PS/ST—Chair
  b. Director of Debt and Cash Policy
  c. The Budget Director
  d. The Director of EAD
  e. The AG
  f. A nominee of the BoU
  g. A nominee of URA
  h. A minimum of two nominees of high-spending MDAs
  i. CMC may co-opt any official as a temporary member or an observer
- The secretariat of the CMC shall be the CPD
- Meetings
  a. The CMC shall meet monthly unless otherwise determined
  b. The agenda for the meeting shall be prepared and all information provided to the members at least three work days prior to the meeting
  c. Any member of the CMC may call for such additional information as may be needed.

Appendix IV. Uganda: Division of Roles in the Cash Management Process

MAIN FUNCTIONS	DD&CP	AGO	DB	DEA
(A) • Develop effective cash management policies and procedures. • Prepare cash management Guidelines for issuance by PS-ST. • Devise legal and administrative process for short-term borrowing and investment activities	• Discuss and develop CM policies and procedures in coordination with other stakeholders. • Submit Guidelines to PS-ST for approval and issuance. • Engage in discussions on BoU MoU/SLA negotiations	• Agree policies relating to information sharing; TSA expenditure funding; banking relationships; banking data. • Contribute to BoU SLA negotiations.	• Agree policies relating to information sharing; communication and data requests with MDAs	• Agree policies relating to information sharing and data requests with URA and others. • Contribute to BoU SLA negotiations.
(B) • Develop cash flow forecasting (CFF) capability	• Define coverage and timeframe for CFF. • Develop seasonal analysis for CFFs • Obtain CFFs for tax and non-tax revenues; debt servicing and issuance CFFs; expenditure CFFs. • Coordinate with Debt Policy and Issuance Department (DP&ID) for deficit financing activity to fit with CFF profile • Aggregate CFFs for whole of government (as defined). • Produce TSA/UCF balance profile for timeframe (as defined).	• Provide access to IFMS to determine committed and actual expenditure timings; formulate commitment control data provision by MDAs. • Provide seasonal expenditure historical data for analysis.	• Agree with MDAs access to work, procurement, and cash plans for DD&CP. • Provide information on sectoral expenditure information as required.	• Provide regular information on revenue forecasts for CFF purposes across the fiscal year.
(C) • Establish formal high-level Cash Management Committee (CMC) to control cash management decision-making and active market operations; to provide CM Dept. with necessary authority to obtain requisite timely, updated data.	• Secretariat to Cash Management Committee • Draft and present new Terms of Reference for CMC to PS-ST for establishment. Arrange to meet at least monthly. • When CFFs are suitable, arrange first meeting to establish and accept ToR and Guidelines; decide on appropriate cash limits as recommended from the CFFs. • Advise on short-term market activity to borrow to finance liquidity shortfalls; or invest to manage surpluses	• Attend and present CMC with information on short-term budget execution.	• Provide to CMC the longer term sectoral expenditure plans and forecasts	• Provide to CMC the longer-term revenue and macro forecasts

MAIN FUNCTIONS	DD&CP	AGO	DB	DEA
(D) • Develop capacity to perform active short-term cash management market operations	• Advise AGO on future cash movements required to fund forecast expenditures • In coordination with CMC, DP&ID, and BoU, decide when CFFs are suitably accurate to be used to guide market actions • Through DP&ID, conduct "cash management" T bill issuance with suitable explanation to market of purpose. • Develop active TSA/UCF requisite cash buffer level to absorb CFF errors and shocks which will guide short-term surplus cash investment	• Support DD&CP in developing cash buffer level calculation from historic UCF volatility data • Inform DD&CP information regarding unexpected changes to sectoral expenditure plans.	• Inform DD&CP information regarding unexpected changes to sectoral expenditure plans.	• Inform DD&CP information regarding unexpected changes to revenue forecasts
(E) • Continue to develop TSA system and monitor longer term CFF profiles	• Monitor and investigate the existence of structural (continuing) budget cash surpluses or shortages pointing to non-credible budget formulation • Report and advise CMC on structural cash activity • Develop procedures and plans to handle structural cash activity effectively through investment funds or debt financing			

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