CASH POLICY MANAGEMENT IN UGANDA

Shared with

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Position Paper 14

These proposals were made by Uganda Debt Network (UDN) in April 2018

Introduction

Good cash management ensures public money reach es the right place, at the right time (ODI, 2016) and the Ministry of Finance, Planning and Economic Development (MoFPED) sets cash limits on a quarterly for spending agencies using aggregated monthly estimates. Spending agencies then submit expendi ture plans for approval consistent with the limits to the Budget Directorate, prior to releases taking place. While the Cash Management Policy may only controls overall fiscal discipline, and not a tool for delivering budget credibility (ensuring that the budget is implemented as planned at sectoral level), its application involves supervising government cash in or- der to maximize its availability for proper investment. Since the MoFPED is in the process of formulating a Cash Management Policy, UDN wished to share proposals for adoption into the policy which will ensures that overall Government spending and borrowing during the financial year remain within the limits set in the approved budget.

UDN Overview

UDN is a national policy advocacy organization that promotes and advocates for poor and marginalized people to participate in influencing poverty focused policies, demand for their rights and monitor service delivery to ensure prudent, accountable and transparent resource generation and utilization.

UDN VISION

A Uganda where public resources are prudently, sustainably and equitably managed.

UDN MISSION

To generate advocacy expertise that influences people-based and accountable public resource management in Uganda.

Proposals

1) Objective

The Cash Management Policy should focus on establishing sound cash management practices to ensure efficient utilization of cash flows and balances both within government and between government sectors in a manner consistent with the overall national strategic goals and development agenda. This will entail reviewing cash balances for Ministries Departments and Agencies' (MDAs') during the year and to adjust appropriation as required, in order to encourage efficient cash management to a predetermined working cash limit. The Cash Management Policy should apply to all appropriation-supported MDAs.

2) Cash account management:

The Policy should adopt the principles provided for in Section 33 in the Public Finance Management Act (2015) to ensure effective management, oversight and monitoring of cash flow arrangements for all public entities. The policy should guide on limits and designate periods of operation for reference by MDAs and all other appropriation supported agencies within which cash flow functions can be managed e.g planning and setting a working cash limit is a good practice. This will also enhance the ability to make accurate projections of short-term cash inflows and outflows.

3) Effective Coordination:

Effective coordination between parties subject to the Cash Management Policy should be provided for and upheld through regular meetings and information sharing between relevant institutions; e.g MoFPED, cash managers, Uganda Revenue Authority, Bank of Uganda and spending agencies. Clear roles of such implementing agencies have to be highlighted for avoidance of overlapping activities and responsibilities. Separation of the functions of authorization and control of government's cash flows from those that carry out settlement and payment of transactions will enhance efficiency. This measure will also act as a check and balance. For instance, the policy should;

- Consider a provision on how the Bank of Uganda must constantly advise the Secretary to the Treasury on adequacy of cash balances in the Consolidated Fund bank account, any sub accounts and special accounts.

- Clearly stipulate the responsibilities of the Debt and Cash Policy Directorate

4) Cash Management Department:

The Policy should encourage efficient cash management by the relevant Unit in Treasury to;

a) Prepare regular/periodic cash flows based on inputs from spending entities and submit a report to the Treasury Management Committee showing actual out turn compared to the planned cash flows, variances and measures in case of negative variances. This will help provide guidance on any decision making processes.

b) Prepare consolidated annual cash flows based on the annual budget with regard to submissions provided by public entities.

5) Cash Limits:

The policy should recommend minimum and maximum limits of cash positions to be maintained within agreed periods, e.g. quarterly as there is need to provide tight controls over the cash flows within government entities. The policy should suggest measures of addressing non-compliance of set standards with punitive action to ensure adherence and also incentives for efficient cash management through all levels

6) Timeline:

The policy should highlight timelines within which specific activities should be accomplished through the financial year; eg

i) Preparation of disbursement profiles and net appropriation forecasts for the new financial year.

ii) Reviewing cash balances of individual MDA with regard to the working cash limit threshold to help determine whether they still have surplus cash by comparing the working cash limit to cash balances.

iii) The Expenditure Review Committee may use the findings for consideration during annual bud- get process consultations.

7) Management of Surplus Cash to the Consolidated Account:

The policy should provide guidance on how an MDA's surplus cash will be handed in the event that the agency is audited at the end of a financial year and there was surplus resources. Government now operates a Treasury Single Account System, a good practice for cash management which allows the Ministry of Finance to minimize the volume of idle balances in the banking system. Any unspent/sur- plus cash would be recommended for transfer to the Consolidated Account in line with a relevant policy and the entity/party who should have Account access and Authorization at the required time must be clearly defined. However, this treatment should be subject to the provisions in the PFMA 2015 as in section 32

(1) Excess cash could be considered as a possible source of funding for new agen- cy initiatives or in response to agency requests for additional recurrent funding.

8) Surplus Cash Transfers

The MoFPED has previously transferred MDAs' budget allocations in the guise of seeking approval for supplementary budgets to support ex- penditures in other MDAs which precipitates the principle of suppres- sion. The policy should clarify on the modalities of transferring allocated funds from one MDA deemed to have excess funds in a given period to another or to the consolidated Account. However, this should be the last resort for cash transfers.

9) Consistence with other Policies

For consistency, the policy should work hand in hand with other policies in place to enhance each other's performance eg; PFMA (2015); Monetary pol- icy and other objectives for the control of financial sector liquidity, interest rates and inflation; Debt management policy; Financial market development policies; Budget Process, among others.

10) Review of the cash management policy

A timeframe should be set for reviewing the policy given the dynamic environment within which it will operate. This will give room for updating it frequently to match best international cash management practices.

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