Modernizing Treasury Management in the Region
(Success case of Public Finance Management in Phase II)

The region made significant strides in modernizing the treasury management over the 5-year period of Phase II. There has been important efficiency and transparency gains in the use of budgetary funds for the central administration. Looking ahead, some countries need to broaden the coverage of the treasury single account (TSA), improve the treasury's payment systems and governance, while the most advanced countries should refine the management of assets and liabilities within the treasury.

A. Initial situation

1. At the outset of Phase II (July 2014), treasuries suffered from passive cash management and on occasions relied on payment delays to manage cash shortfalls. Key shortcoming included:

- The scope of the TSA was narrowed and lacked focus on financial and operational efficiency. Two countries had no adequate regulations on TSA operation, while the remaining countries failed to fully observe existing regulations;

- Payments were excessively centralized with the Treasurer, who oversaw the operating process, had no well-defined payment schedule nor policy, and relied on the usage of checks and petty cash. Costa Rica was the only country to use purchasing cards for certain payments; and

- Various public agencies collected nontax revenue, using ad-hoc procedures and individual bank accounts; Treasuries conducted their cash programming based on budget execution solely, and did not invest any temporary cash surplus.

CAPTAC-DR technical advice promoted the migration to a TSA, but recommendations were slowly adopted, as countries faced legal obstacles, inadequate financial management systems, and lack of collaboration from other central government agencies. More importantly, key stakeholders were not fully aware of the importance of the treasury's role in a modern public finance management framework. As a result, TA advice lacked traction to foster needed change, and TA recipients failed to reap the benefits of a strong treasury management for the overall public finances.

B. Actions for success

Against this backdrop, the Center refocused the delivery of technical assistance during Phase II. The goal was to raise the understanding of stakeholders on the benefits and implications of modernizing the treasury management. CD interventions became more focused and more adapted to the needs of the treasury to foster capacity building. Interventions then followed broad guidelines:

- Promote the model of treasury management already in place in Costa Rica (a success case in the region at the time), with further improvements based on best international practice;
- Deliver assistance and monitor progress on a more continued basis, while providing training to key treasury officers to facilitate implementation of TA advice; this required a shortening of mission duration while increasing its frequency to accompany countries more closely;
- Develop a baseline, define clear objectives, and monitor progress through agreed logframes. Strategic objectives focus on 4 outcomes and 20 recommended practices in treasury management, while progress is measured using a 4-level notification system inspired by the IMF fiscal transparency evaluation (FTE) framework;
- Strengthen the leading role of treasury on defining training objectives for institutional building; and raise the awareness of other agencies regarding their responsibilities—for instance, the role of the Comptroller and the Judiciary is key to foster compliance with regulations and promote the broadening of the TSA; and
- Encourage necessary changes in the organizational structure of treasuries to enable them to work as private banks in some key functions.

C. Progress achieved

This effort has yielded significant improvements in treasury management during the 5-year period of Phase II, although progress has been uneven in some areas across the region:

- Overall, all countries have put in place adequate legislation to support treasury management development and have introduced a conceptual model of TSA oriented towards financial and operational efficiency. They have also broadened the coverage of the TSA to include all central administration and decentralized institutions; and have developed training programs for officials serving in institutional treasuries;
- Some countries enhanced the efficiency on the usage of public funds. Namely, they now invest temporary cash surpluses from the TSA and have an active cash management policy (Panama, the Dominican Republic), use electronic transfers as the main means of payment (Honduras, the Dominican Republic), and have institutional purchase cards to perform some payments (Guatemala);
- Other countries improved the efficiency of treasury operations. Specifically, they upgraded the cash programming model, including for the institutions incorporated in the TSA (Guatemala, Panama, the Dominican Republic), and introduced a system for the collection of nontax revenue (the Dominican Republic) or are developing one (Guatemala, Honduras, Panama). They also developed a payment policy (the Dominican Republic) and provided participating institutions more flexibility to manage their funds through the TSA (Honduras, the Dominican Republic); and

- A few countries focused on improving the governance of the treasury. They enhanced the organizational structure to assume new responsibilities (Honduras, the Dominican Republic) and designed a business continuity plan (Costa Rica, Nicaragua).

D. Next steps

A key strategic objective for Phase III is to further improve public financial management in the region. This goal hinges upon the continued modernization of the treasuries and the region is well-positioned to move forward based on the following agenda:

- Move forward with the pending agenda of Phase II. Some countries need to broaden the coverage of the TSA to the general government (excluding local governments and public pension funds), enhance the financial and operational efficiency of the treasury, and improve its governance;

- Improve the technical capacity of officials through training in modern treasury management and ensure that this framework is disseminated and well-understood by treasuries and the rest of the general government;

- Clarify the definition of management autonomy at the central government level to differentiate the tasks that rightly fall under the purview of an institution (such as the ability to define own policies and manage its personnel) from the observance of common rules for an effective public financial management (such as disclosing information on assets and liabilities, reducing the usage of commercial bank accounts without approval or awareness of the treasury, and even participating in the TSA);

- Achieve a better dialogue between the Finance Ministry and the Central Bank (the cashier bank of the government) to formally establish interest earnings on deposits and fees for services provided in the context of TSA operations; and

- Consolidate active management of temporary cash surpluses and integrate the management of assets and liabilities within the treasury.