Improving cash management through effective co-ordination

The Mauritian experience

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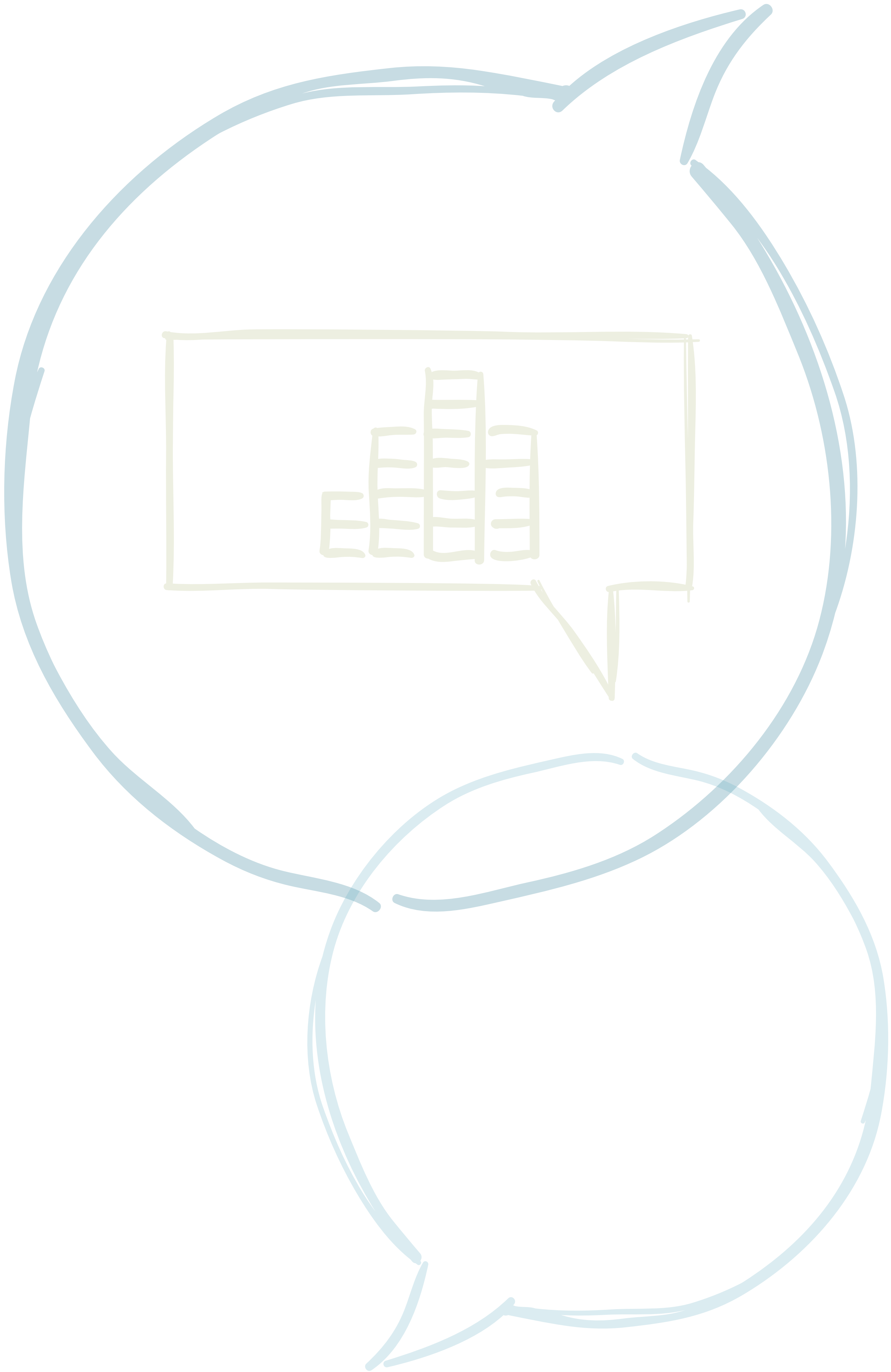
Acronyms and abbreviations

AGO	Accountant General's Office
BOM	Bank of Mauritius
CABRI	Collaborative Africa Budget Reform Initiative
CDMCC	Cash and Debt Management Co-ordination Committee
CM	Cash Management
CMU	Cash Management Unit
CSBRG	Committee on Short-Term Borrowing Requirements of the Government
GDP	Gross Domestic Product
GOM	Government of Mauritius
IFMIS	Integrated Financial Management Information System
KRR	Key Repo Rate
MACSS	Mauritius Automated Clearing and Settlement System
MDAs	Ministries, Departments and Agencies
MOFED	Ministry of Finance and Economic Development
MRA	Mauritius Revenue Authority
MTEF	Medium-Term Expenditure Framework
OECD	Organisation for Economic Co-operation and Development
PDM	Public Debt Management
PDMU	Public Debt Management Unit
PEFA	Public Expenditure and Financial Accountability Framework
PFM	Public Financial Management
TAS	Treasury Accounting System
TSA	Treasury Single Account



1. Introduction

This case study focuses on the Government of Mauritius' (GOM) cash management (CM) setup and practices, and aims to document how the small island nation has been able, over the years, to improve CM through effective co-ordination among the budgetary, CM and debt management functions.[1]

CM is often described as 'having the right amount of money in the right place, at the right time to meet government obligations in the most cost-effective way' (Storkey & Co Limited, 2001). One of the core objectives of CM is the timely provision of funds to finance government expenditure. However, modern CM goes beyond this primary goal and includes policy and strategic objectives such as:

- *Achieving cost effectiveness* by minimising financing costs and maximising returns on cash balances. This is achieved by eliminating large, idle cash balances so that the government needs to borrow only when it is absolutely necessary and when investing surplus balances.
- *Managing risks*, particularly refinancing, credit and market risks.
- *Co-ordinating with and supporting other financial policies*, such as developing the short-term money market, reducing the liquidity impact of budget deficits/surpluses, facilitating monetary policy and enhancing the transparency of government financial flows.

Modern CM, thus, requires more active involvement of the Treasury, including close co-ordination with a large number of stakeholders such as ministries, departments and agencies (MDAs) as well as the entity responsible for public debt management (PDM). Greater analytical capability and access to more advanced technological platforms are also essential.

The link between CM and various macroeconomic policies is illustrated in Figure 1.

The Mauritian economy in brief

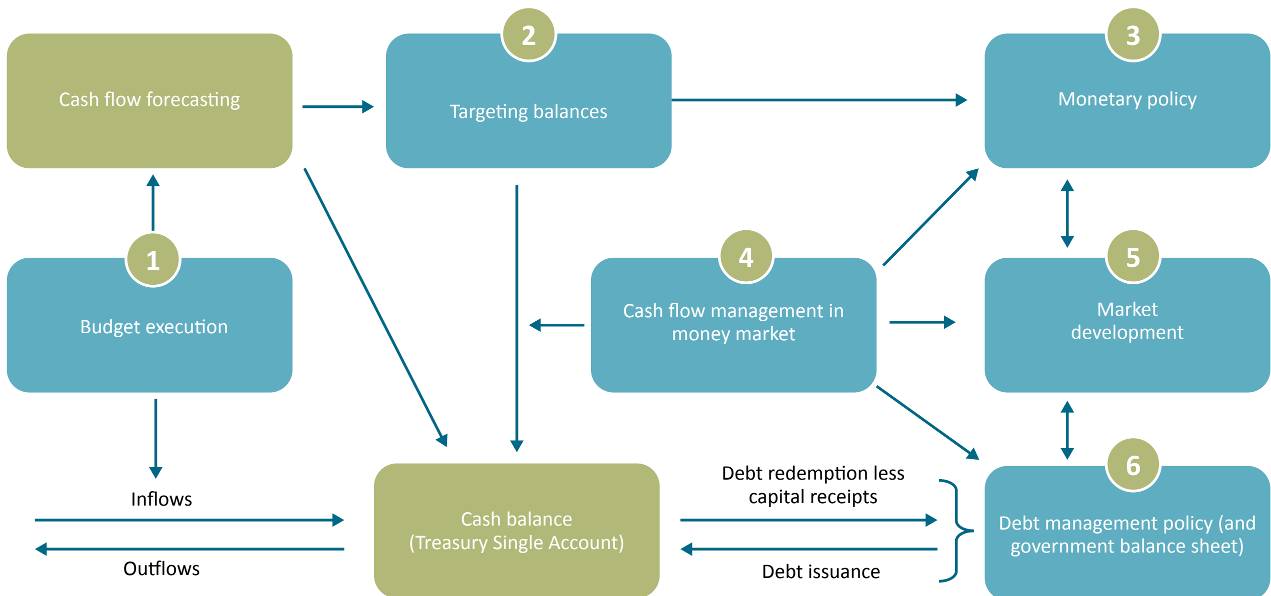
Since gaining independence in 1968, Mauritius has achieved a remarkable economic transformation from a low-income economy largely dependent on sugar exports to an upper middle-income country with a fairly diversified economy that also relies on tourism, textiles, banking/financial services and business process outsourcing. This shift has greatly improved the country's resilience to external shocks. Mauritius now aspires to reach high-income status by the end of the next decade, if not earlier.

Over the past three years, the economy has grown steadily at around 3.8 percent per annum. On the external front, although the current account balance shows a deficit in 2018 (an estimated -6.2 percent of GDP) due to a negative balance of goods and services, the overall balance of payments showed a surplus of 2.5 percent of GDP in the same year.

Approximately 83 percent of the country's public sector debt is domestic and the remainder external. As at the end of December 2018, public sector debt was 64.9 percent of GDP. This is due to an ambitious investment plan in infrastructure. In the 2019/2020 budget, the government announced plans to prepay some of its external debt to reduce public sector debt to 60 percent of GDP by the end of June 2021.

1 This case study was written by Mr José Maurel, public debt management consultant (Mauritius) for the Collaborative Africa Budget Reform Initiative (CABRI). The consultant would like to thank Mr Johan Krynauw (CABRI) and Mr V Mohajur (Ministry of Finance and Economic Development, Mauritius) for their support as well as all the government officials who were interviewed and/or provided inputs and comments. Responsibility for the views expressed in the case study and for any errors rests with the consultant.

Figure 1: Cash management interaction with other policy areas



Source: Williams (2010)

The case study analyses CM in Mauritius within a public financial management (PFM) context. It reviews the legal, regulatory and institutional frameworks for PFM, with a special focus on CM, discussing how cash forecasting is performed and describing the co-ordination mechanism that exists among key stakeholders. Although individual countries inevitably have their own characteristics and challenges with regard to CM, some of the lessons that can be learnt from Mauritius may be of value to other developing and emerging economies.

Mauritius has achieved a remarkable economic transformation from a low-income economy largely dependent on sugar exports to an upper middle-income country with a fairly diversified economy

2. Public financial management in Mauritius

Following macroeconomic shocks in the mid-2000s, the GOM embarked on a set of reforms aimed at fiscal consolidation, improving trade competitiveness and the investment climate as well as public sector efficiency. The government gradually modernised its PFM capability and in 2004/2005 introduced the medium-term expenditure framework (MTEF) approach on a pilot basis for two sectors. The framework was progressively extended to other sectors over the following years and, by 2007/2008, all ministries and departments were preparing their budgets using the MTEF. At the same time, the government adopted programme-based budgeting.

The government has also invested in a modern integrated financial management information system (IFMIS). Since 1999, all government accounting is undertaken within the Treasury accounting system (TAS), which is based on Oracle Financials. TAS connects the Treasury to all important MDAs, including the Mauritius Revenue Authority (MRA). In addition, TAS is connected to the Treasury Single Account (TSA), which is operated by the Bank of Mauritius (BOM). It is by way of this architecture that the Treasury can exercise absolute control of fund movements and is able to monitor revenue and expenditure on a daily basis. The Treasury also ensures that there are no idle cash balances in bank accounts by undertaking regular sweeps to the TSA.

In the area of monetary policy, the BOM introduced a new framework in 2006, replacing the Lombard rate with the key repo rate (KRR) as the main interest rate for signalling purposes. This allows the BOM to increase or decrease liquidity in order to fix the overnight interbank interest rate within a certain band or corridor.

The government gradually modernised its public financial management capability and in 2004/2005 introduced the medium-term expenditure framework approach

3. Legal and regulatory PFM framework

A sound legal and regulatory PFM framework is a precondition for effective CM. The framework defines the objectives of various PFM functions, including CM, and provides the governance structure and respective authority and accountability of the various institutions involved, thereby avoiding duplication. Over the past decade or so, and in line with the evolution of PFM, many countries have reviewed their legal and regulatory framework for better alignment with best practice and to improve effectiveness, accountability and transparency.[2]

Mauritius has put in place a solid legal and regulatory PFM framework. While some countries have opted for a consolidated PFM law, Mauritius relies on a hierarchy of 'cascading' and well-articulated laws which, in the area of finance, include: (i) the Constitution (Sections 103 to 110), (ii) the Finance and Audit Act (1982 as amended), and (iii) the Public Debt Management Act (2008 as amended).[3]

Day-to-day PFM operations are detailed in the secondary legislation – regulations and financial instructions under the Finance and Audit Act – as well as various operational manuals that spell out responsibilities and everyday procedures in more detail. In addition, instructions and directions are issued from time to time to spending ministries and departments to update the regulations or to deal with new circumstances arising.

One advantage of such a 'layered' legal framework is that it allows lower-level processes and operations to be fine-tuned in the light of experience, while bearing in mind the provisions and spirit of primary legislation but without having to amend the latter, which would require a lengthier and more complicated process. There is a dedicated committee (the Financial Management Review Committee) that meets weekly to review, update and consolidate the financial management manuals and various financial instructions that are issued to deal with specific cases.

Chapter X of the Mauritian Constitution deals with finance. In terms of Section 103, it establishes a single consolidated fund into which '[a]ll revenues or other money raised or received for the purposes of the Government...shall be paid into and form one Consolidated Fund'. The Constitution also provides for:

- The conditions under which withdrawals can be made from the consolidated fund
- How expenditure from the consolidated fund should be authorised (appropriated).

With regard to public debt, Section 109 of the Constitution states that:

> *(1) All debt charges for which Mauritius is liable shall be a charge on the Consolidated Fund.*
>
> *(2) For the purposes of this section, 'debt charges' includes interest, sinking fund charges, the repayment or amortisation of debt, and all expenditure in connection with the raising of loans on the security of the revenues of Mauritius or the Consolidated Fund and the service and redemption of debt thereby created.*

The Finance and Audit Act (1982) expands on the provisions of the Constitution with regard to the operations of the consolidated fund, including powers of the Minister of Finance, allowed advances from the consolidated fund, and so on.

Specific provisions for cash management are detailed in Chapter 20.6 of the Financial Management Manual and Kit

2 According to the GOM Financial Management Tool Kit, accountability in the public sector means that those responsible for implementing policy are required to account for their actions to the nation, through the Legislative Assembly and specifically through scrutiny by the Public Accounts Committee. In practice there are two main aspects to the government's accountability framework. The first concerns the methods by which public funds are made available and the second concerns the ways in which control is exercised over the use of these funds.

3 Other PFM-related acts include the Public Procurement Act (2006 as amended). There is no consolidated act dealing with revenue, but rather separate legislation covering customs, value added tax, income tax, and so on.

(Volume I). The specific duties and responsibilities of the Accountant General in respect of CM, as provided in the kit, are as follows:

- Determining the government's cash requirements and ensuring that sufficient funds are available to meet the payment obligations of the government as they fall due
- Ensuring that proper CM systems are in place in all departments for the efficient and effective use of cash resources
- Maintaining the government's main bank account (General Account 001) with the BOM and monitoring bank balances of departments
- Authorising the opening of bank accounts by departments
- Monitoring the operation of district cash offices.

When Mauritius passed the Public Debt Management Act in 2008, it effectively consolidated a host of individual pieces of legislation while simultaneously modernising the provisions thereof. Section 3 of the Act empowers the Minister of Finance to raise funds in the name or on behalf of the government as well as to approve guarantees. The Act also allows the minister to delegate these functions at his or her discretion. The need to have an operational debt management strategy in place is also imbedded in the law.

A sound legal and regulatory public financial management framework is a precondition for effective cash management

4. Institutional framework

Best practice in CM calls for the integration of cash and debt management, which sometimes leads to the merging of cash and debt management units in order to maximise efficiency and co-ordination. This has been the trend in developed countries including those belonging to the Organisation for Economic Co-operation and Development (OECD). Such a configuration provides for the existence of a single 'front office' to interact with market participants and execute transactions, while the analysis and determination of the government's borrowing requirements are conducted by the 'middle office'.

However, in most emerging and developing countries the CM function involves strong working relations between the Treasury and the debt management entity (which are both located within the Ministry of Finance),[4] with the central bank playing a front-office role for issuing securities for cash management purposes and advising on liquidity aspects.

This is the arrangement in Mauritius. As described above, responsibility for both cash and debt management resides within the Ministry of Finance and Economic Development (MOFED), the Accountant General's Office (AGO) being responsible for CM, while debt is managed in the Public Debt Management Unit (PDMU), which is part of the Public Finance and Budget Management Directorate within the MOFED. The two main reasons behind the choice to retain separate units for CM and PDM is that: (i) the structure has been working well and, therefore, there is no compelling reason for change, and (ii) the AGO is responsible for effecting payments and this ensures prompt fund payments and transfers.

Within the AGO, the Cash Management Unit (CMU) is responsible for:[5]

- Preparing cash-flow forecasts for the government
- Monitoring the cash-flow position of the government
- Assisting the MOFED with the determination of the borrowing requirements of the government
- Providing funds to self-accounting ministries/ departments
- Exercising general supervision over the receipts, expenditures and other disbursements of the government.

Managing public sector debt and developing active debt-management strategies are core functions of the MOFED, which is assigned to the PDMU. The unit was established in 2002 as part of a decision to reform public debt management. It ensures co-ordination among the various stakeholders and manages the loan contraction and debt management processes. As part of its back-office functions, the DMU maintains a centralised database of the country's debt (both external and domestic), which is used to generate debt service forecasts for the purposes of both debt servicing and CM (as well as producing and disseminating debt statistics). The PDMU is also responsible for the elaboration and regular updating of the medium-term debt management strategy.

As the country's central bank, the BOM's main responsibility is formulating and executing monetary policy consistent with stable price conditions. In so doing, the BOM keeps a close watch on the level of liquidity in the financial sector and intervenes whenever necessary to maintain it at the desired level mainly by issuing its own securities. With regard to CM, the BOM participates in the two committees dealing with cash and debt management co-ordination (see below). In addition, as the government's banker, the BOM performs a front-office role on behalf of the government in the issuance of government securities.

4 The relationship between CM and PDM is important because: (i) the debt is often the largest financial liabilities portfolio in a country and payments must be made on time, and (ii) poor cash management may lead to a need to borrow.

5 *Treasury: Annual Report on Performance for the Fiscal Year 2016/17*.

5. The budgetary process

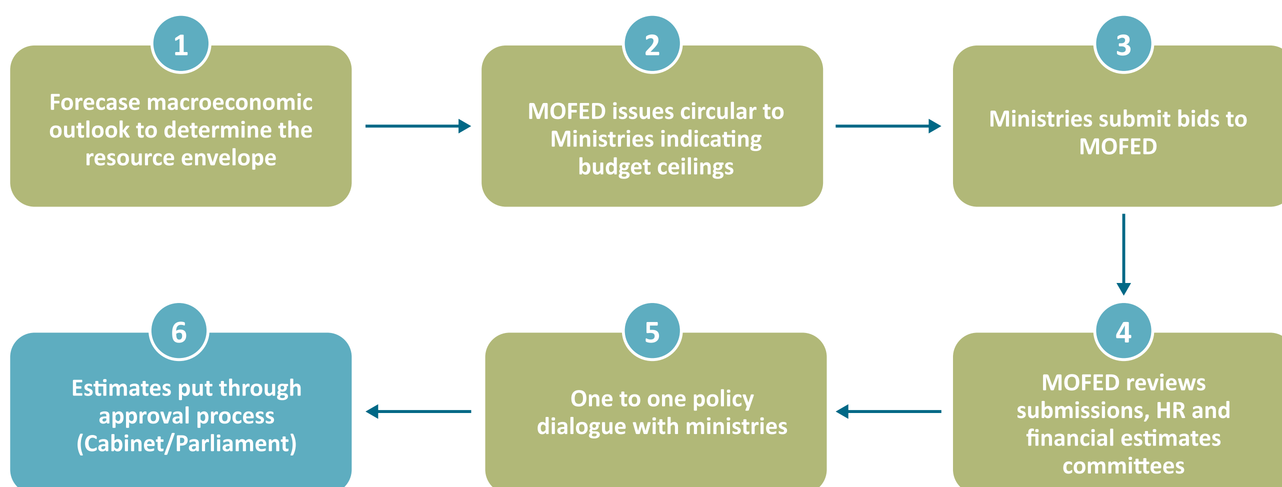
Any analysis of a country's CM setup ought to consider the budgetary process. CM does not happen in isolation; it is part and parcel of the budgetary function. Often, difficulties that are encountered in relation to CM can eventually be traced back to weaknesses in the budgetary process, including budget preparation and execution. Therefore, effective CM is not possible if the budget is not credible.

It is important to note, nevertheless, that effective CM is an evolving process as budget credibility is usually built over time. Steps to introduce greater efficiency need not be delayed until the budget is credible. Working towards more effective cash management is a process and contributes towards a more credible budget and vice versa. In practice, if the budget that is approved is not the budget that is spent, then effective CM will be a challenge.

5.1 Budget preparation

The budget preparation process in Mauritius starts in February and can last until June.[6] The process, which is based on the MTEF approach, is summarised in Figure 2.

Figure 2: Budget preparation process



6 Mauritius' financial year runs from 1 July to 30 June.

The budget preparation process in Mauritius is effective, well-documented and follows a well-established calendar. As a result, credible budgets are produced. Budget credibility is an attribute (or dimension) assessed by the Public Expenditure and Financial Accountability Framework (PEFA). This is done by measuring aggregate revenue out-turn compared to original approved budget or the stock and monitoring of payment arrears. As noted in the 2015 Mauritius PEFA:

> *Aggregate fiscal discipline (i.e. the extent to which government is spending within its means) is strongest when budgets are implemented as planned, internal expenditure controls are strong, and there is effective external oversight. In the case of Mauritius, actual expenditures in total are relatively close to planned budgets overall. In some countries, weaknesses in budget credibility potentially undermine aggregate fiscal discipline through overshooting deficit targets or increasing the level of arrears, but these risks do not appear to apply significantly to PFM in Mauritius. Specifically, there are no difficulties with cash flow, nor do there appear to be significant expenditure payment arrears beyond a 12-month horizon. (PEFA, 2015, p. xi)*

Co-ordination for sound CM is required not only when the government's borrowing needs are determined, but right from the time the budget is prepared. To undertake sound cash planning, the Treasury needs to closely co-ordinate with other institutions, such as line ministries and the MRA, which provide data as input for CM analysis and decision-making.

5.2 Cash-flow forecasting

Once the budget has been approved, a standing circular is issued to all MDAs requesting the breakdown, by budgetary item, of yearly estimates into monthly forecasts for submission to the Treasury.

The monthly forecasts are further broken down by the Treasury, firstly, into weekly forecasts for the following 6-month period and entered into the TAS and, then, into daily forecasts in order to be in a position to plan the government's borrowing requirements with even more precision.

Typically, expenditure is more difficult to forecast, except in the case of standard line items like salaries, which can be generated from TAS itself. The breakdown of cash forecast into monthly and daily requirements analysis is undertaken using spreadsheets and is based on the examination of past trends. On the revenue side, a major input is that from the MRA, which provides data on tax revenues (including income tax, value added tax, custom duties, and so on). This can constitute anywhere between 70 and 80 percent of total receipts. Revenue can also exhibit seasonality due to various factors such as VAT and income tax collection due dates.

The daily forecasts are provided to the Committee on Short-term Borrowing Requirements of Government (CSBRG) for cash management purposes as described in the next section.

Co-ordination for sound cash management is required not only when the government's borrowing needs are determined, but right from the time the budget is prepared

6. Exchange of information and co-ordination for improved cash management

Co-ordination for improved CM is required between the cash managers and several other stakeholders:

- The debt management entity, in view of the close link between cash and debt management
- Revenue collecting agencies, such as national revenue authorities
- Line ministries on the expenditure side
- The central bank, in view of the impact CM can have on monetary policy.

Exchange of information on fiscal developments normally occurs daily among technical staff of the MOFED. Key decisions relating to cash and debt management, such as the financing of the government's borrowing needs, are taken up by committees comprising of senior officials of the MOFED, the Treasury and the central bank, which usually provides front-office support.

Cash and debt management co-ordination in Mauritius is achieved through two important committees – the Cash and Debt Management Co-ordination Committee (CDMCC) and the CSBRG.

The CDMCC is the main policy co-ordination forum for debt and cash management, which facilitates the exchange of information on the government's borrowing requirements. It reports to the Financial Secretary and/or Minister of Finance.

The committee meets quarterly and comprises eight members, as follows:

- Four representatives from the MOFED, namely the financial adviser (who acts as chairperson), a representative from the PDMU, a representative from the Fiscal Management Unit and a representative from the Revenue Mobilisation Section
- Two representatives from the Treasury (the Accountant General and an officer from the CMU)
- Two representatives from the Bank of Mauritius (Head-Financial Markets Analysis Division and Head-Financial Markets Operations Division).

The CDMCC's terms of reference include:

- Recommending the issuance calendar of government securities at the start of the fiscal year, taking into account the debt management strategy
- Reviewing the issuance plan on a quarterly basis, in the light of actual developments
- Facilitating the exchange of information on fiscal developments and short-term borrowing requirements of the government
- Comparing the actual quarterly borrowing requirements with those forecast for the period and examining the main causes of variations.

The CSBRG, which is a technical committee, meets weekly (on Wednesdays) with a view to determining the short-term rupee cash requirements of the government and the financing thereof through the issue of Government of Mauritius Treasury Bills.[7] The Committee is chaired by a representative of the MOFED, which also provides secretarial support.

The CSBRG comprises seven members: two senior representatives of the MOFED (including the chairperson), one of whom is from the PDMU; two senior representatives of the AGO; and three senior members from the Bank of Mauritius. It has responsibility for four main tasks:

7 Terms of Reference of the Committee on Short-Term Borrowing Requirements of Government.

It examines the rolling forecasts of the government's daily rupee cash requirement for a time horizon of three months or more, which is provided weekly by the AGO

1. It determines the amount, tenors and dates for the issue of GOM T-bills for the coming week or weeks in order to meet the government's borrowing requirements
2. At the end of every month, it determines the range for the issue of T-bills for the coming month(s) to be communicated to the market
3. It takes into consideration the daily liquidity situation in the banking system, which is determined by the BOM so that the amount arrived at via task 2 above can be adjusted by the proposed amount to be issued by the BOM for liquidity management purposes.

The committee decides on the amount, tenor and dates of Treasury Bills to be issued (task 2) two weeks in advance. In doing so, the rolling estimates of daily borrowing requirements are required. However, other factors come into play, including the following: whether the borrowing needs can be met from other sources (e.g. sale of foreign exchange), the issuance plan for medium- and long-term government securities provided by the CDMCC, the country's debt-management strategy, the redemption profile of Treasury Bills, developments in the market for government securities, the need to smooth issuance amounts so as not to create huge swings in amounts to be tendered, and any other policy decision stipulated by the government.

There is a third committee (the Allocation Committee), which meets whenever there is an auction of government securities. This committee has a similar composition to the CSBRG and its purpose is to assess the bids received and decide on the allocation of government securities.

The Cash and Debt Management Co-ordination Committee facilitates the exchange of information on the government's borrowing requirements

7. The Treasury Single Account

All receipts (including tax receipts, disbursements from foreign loans and sales of domestic government securities) and all expenditures are cleared directly via the TSA, which is maintained by the BOM. A minimum cash balance is held by self-accounting line ministries.

The TSA comprises operational accounts of government in both local currency (Mauritian rupees or MUR) and in foreign currencies, namely the United States dollar, Euro, British pound, Japanese yen, South African rand and Swiss franc, in which all revenues of the government are credited and from which all government expenditures and obligations are met. These bank accounts are maintained at the BOM where daily sweeps are carried out. There are also daily sweep arrangements from the bank accounts of the revenue authority to the TSA for all tax collections. All the accounts in the TSA are linked to the Mauritius Automated Clearing and Settlement System (MACSS) of the central bank, which enables the MOFED and AGO to determine with precision the total balance of the TSA and to effect and monitor payments and collections online.

One of the requirements of a TSA is that the coverage should be as complete as possible. However, in practice there are often exceptions. In Mauritius, for instance, a few funds are not part of the TSA. These include special funds, project funds and special accounts, which are set up for specific purposes.

Regular and timely reconciliations of bank and other accounts are undertaken, with relatively limited balances (in value terms) carried forward.

All receipts (including tax receipts, disbursements from foreign loans and sales of domestic government securities) and all expenditures are cleared directly via the Treasury Single Account

8. Use of contingency and cash buffers and instruments used for cash-management purposes

Contingency provisions are made in two ways.

Section 5 of the Finance and Audit Act caters for unforeseen expenditure in respect of both the recurrent and capital budgets. This is capped at 2 percent of total estimated recurrent expenditure.

In addition, the Bank of Mauritius Act provides for the granting of advances by the BOM to the government to cover shortfalls in cash net cash flows (Ways and Means). This is capped at 10 percent of government revenue (excluding grants and receipts of a capital nature for the current financial year). However, this facility has not been used in recent years.

Given the above-mentioned provisions and the fact that the government can raise the required funding comfortably in the money market, Mauritius does not implement a system of cash buffers.

Currently, Mauritius relies entirely on government Treasury Bills for cash management purposes. These come in three tenors – 91, 182 and 364 days – and are auctioned weekly. The BOM issues a public notice two weeks in advance providing the dates, tenor and amount to be auctioned. Further details are published on the BOM website one day prior to the auction date.

Because the government can raise the required funding comfortably in the money market, Mauritius does not implement a system of cash buffers

9. Conclusion

This case study on Mauritius illustrates some commonly made observations in the literature on government CM. It also considers some less common considerations which may be of interest to lower- and middle-income countries implementing PFM and CM reforms. In particular:

1. The legal framework (including primary and secondary legislation) is very important as it clearly defines the role and responsibilities of key players as well as processes to be followed. However, besides the legal framework, Mauritius' PFM and CM arrangements have two strong points:
   - There is full compliance by MDAs.
   - All procedures are clearly documented and are available on the MOFED website. Moreover, there is a dedicated committee responsible for keeping the documentation up to date. As mentioned in the PEFA 2015: 'Mauritius' public financial management systems are based on a reasonably sound legislative framework, which is supported by a wealth of manuals, financial instructions and circulars. Though some of these are quite dated (with updates issued periodically in the form of circulars), the procedures appear to be well-embedded, and are respected.'
2. A precondition for effective CM is a strong budgetary process. As Daniel Tommasi points out (in Shah, 2007), 'a well-formulated budget can be poorly implemented, but a badly formulated budget cannot be implemented well. Good budget preparation comes first.' Many problems that are considered of a CM nature are often the result of weak upstream budget-preparation procedures. This case study illustrates the point with respect to the importance of the budgetary process.
3. The case study also throws some interesting light on institutional arrangements for cash and debt management co-ordination. While best practice may favour bringing the two functions under one roof, the Mauritian example demonstrates that there is no 'one size fits all' formula. A satisfactory level of efficiency can still be achieved, provided there is strong collaboration among the three key players, namely the Treasury, debt management entity and the central bank. An integrated structure remains the ultimate goal, but such an arrangement can only function in more advanced countries where domestic financial markets are well developed and a more active approach to CM can be implemented.
4. Equally important, however, is the wider co-ordination that must exist among the Treasury and CMU with MDAs, including important ones like central revenue authorities, which all supply data to the for CM purposes.
5. The available technological architecture is also a great enabler for effective CM, facilitating fund transfers, reporting and analysis. This comprises not only government-operated IT systems, such as Treasury and accounting systems, the TSA and so on, but also private banking platforms with which government-wide systems must interface.

Though Mauritius' performance in relation to CM is very commendable, there are areas that could be further improved in the future. For example:

- As the Mauritian money market develops and becomes more liquid, it is reasonable to expect that the MOFED may engage in more active CM and use additional instruments to smooth out fluctuations in the TSA, such as repos and reverse repos.
- Currently, the investment of surplus balances does not seem to be a priority for the government. Therefore, accounts held at the BOM are not remunerated. Other countries practice a more active investment strategy regarding surpluses, including investing these with commercial banks as collateralised short-term deposits.
- Project expenditure is also a difficult component to bring within the CM framework and to forecast for any country. It is an important area for Mauritius, given the massive public sector investment currently underway. Improvements could be achieved through closer co-ordination between the MOFED and project implementing agencies.

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For information on CABRI, or to obtain copies of this publication, please contact:
CABRI Secretariat
Cnr John Vorster & Nellmapius Drive,
Centurion, 0062
South Africa
Telephone: +27 (0)12 492 0022
Email: info@cabri-sbo.org
www.cabri-sbo.org

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