

Indonesia Cash Management

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Cash Management - Indonesia Scope



- Indonesia cash management network 33 regional
- 177 treasury local office.
- 22.000 spending unit around the country

Reform in Public Financial Management



- ❑ After Asian crisis (1998), Ministry of Finance Republic of Indonesia has started public financial management reform.
- ❑ Enacted new law to support the reform, among others:
 - 1999: Decentralization Law
 - 2002: Government Securities Law
 - 2003: State Finance Law
 - 2004: - State Treasury Law
 - Audit of Management and Accountability of State Finance Law
- ❑ Reorganization of Ministry of Finance Treasury Structure in 2006 create new Directorate General i.e.:
 - DG Budget (Budget Formulation and Preparation)
 - DG Treasury (Budget Execution and Treasury Management)
 - DG Debt Management (Management of Loan and Government Securities)
 - DG State Asset and Receivable (Management of Fixed Asset and Receivable)
 - DG Fiscal Balance (Management of Transfer Fund to Local Government)

Liquidity Management Function



DG Treasury **(Cash Management Directorate)**

- Managing Government Fund (Domestic currency and FX)
- Managing Government Account in Central Bank and Commercial Bank
- Cash Planning and Forecasting
- Cash Placement and Investment

DG Debt Management

- Raise Financing
 - Issuance Govt Securities
 - Issuance Islamic Govt Securities
 - Foreign and Domestic Loan
- Debt Portfolio Management
 - Debt Strategy
 - Liability Management
 - Debt Repayment
 - Debt Statistic
- Managing Contingent Liability (Guarantee)

Cash Management Before Reform



Before 2009, cash management was not implemented. It was cash administrative functions :

Payment systems

- Payment made through commercial banks as partner of 177 local treasury offices
- Cash was deposited in many unconsolidated accounts as buffer cash and unremunerated.
- Cash flows and cash balances are very difficult to be controlled and monitored
- Government did not pay anything for services provided

The Revenue System

- Revenues is recieved through “perception banks” as partner of 177 local treasury offices
- Cash from revenue system was transfered to The Central Bank twice a week
- Government did not pay anything for services provided

Cash balances at central bank

- All accounts at central bank was not remunerated

Cash balances at commercial bank

- Accounts for revenue and expenditure was not remunerated
- Other accounts was remunerated at minimal rate depending on the amount of cash balance
- Difficult to monitor cash balance

Cash forecasting was not available

- Government has no information on future cash flow from revenue, expenses and financing
- Large amount of cash deposit (idle cash) in Bank Indonesia and commercial banks in anticipation of future expenditures

Foreign exchange management was not available

- No preparation to meet future obligation in foreign currencies

Cash Management after Reform



1. Implementation of treasury single account

Payment system

- No cash float in any commercial banks,
- Funding provided five times a day, excess balances swept back into TSA account at central Bank at the end of working day.
- Government pays for services provided

Revenue system

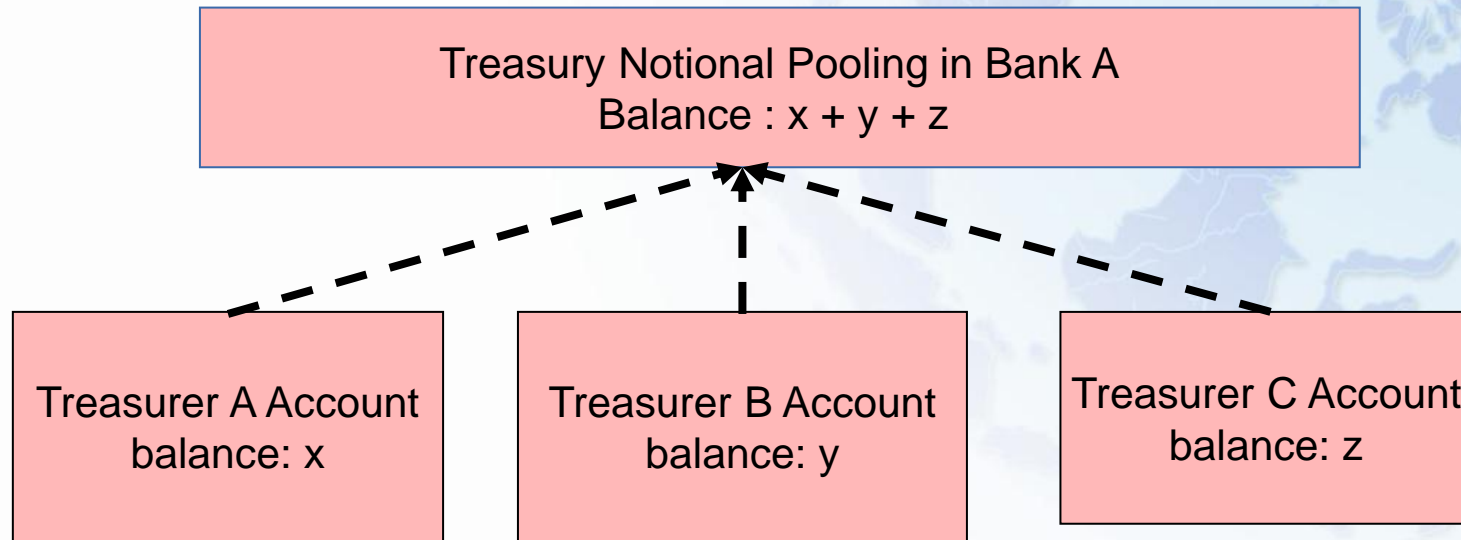
- No cash float at any commercial banks, at the end of working days balances swept into TSA account at central Bank
- Government pays for services provided

Benefits from treasury single account :

- Better accountability and reporting
 - Cash balance can be monitored and reported through Bank's Cash Management System
- Better control of cash flow
 - Funds provided as needed and revenue swept to central bank, no cash float
- Higher return
 - At the end of working day balances swept into TSA account at central Bank → increase government revenue from central bank

Cash Management After ... (cont'd)

2. Implementation of Treasury Notional Pooling



Balance from all revenue & expenditure treasurers' accounts are virtually consolidated at the end of the day. The balance is remunerated by the bank in accordance to the agreements stated in the contract.

Benefits of Treasury Notional Pooling

- Higher return
 - Virtual account of TNP receive higher interest rate
- Better accountability and reporting
 - Cash balance can be monitored and reported through Bank's Cash Management System
- No expenses
 - No charge for TNP

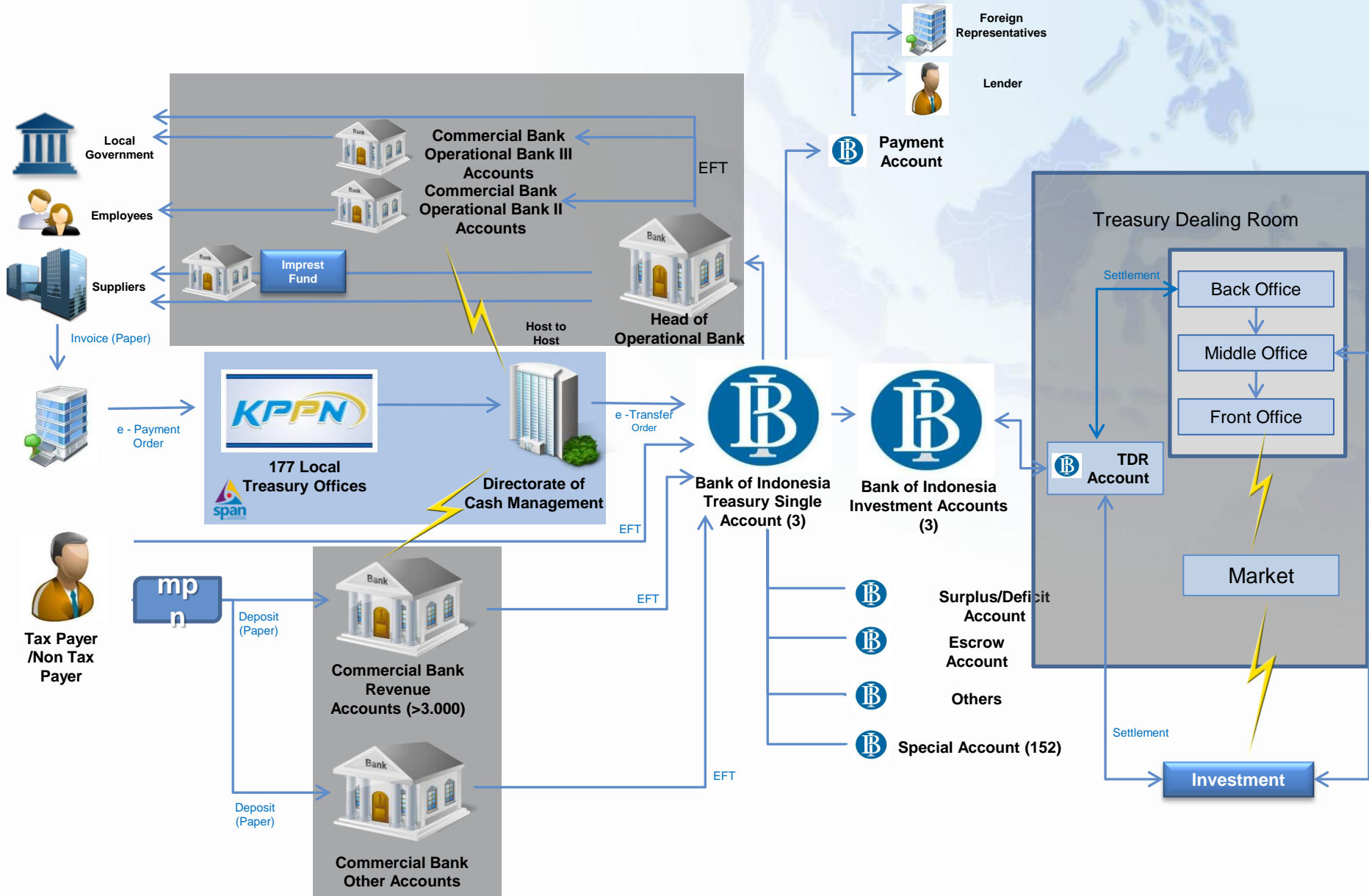
Cash Management After ... (cont'd)



3. Short term investment/placements

- ❑ Placement at central bank
 - Placement in IDR and foreign currencies
 - Remunerated at 65% of home currency rate
- ❑ Placement at commercial banks
 - Remuneration depend on rate offered by bank
 - Requires coordination with central bank
- ❑ Short term investments in government bond
 - not yet implemented
- ❑ Reverse repo
 - A purchase of government securities with an agreement to resell them at a specific rate, at specific future date. Essentially a loan of security at a specific rate.
 - not yet implemented

Cash Management System



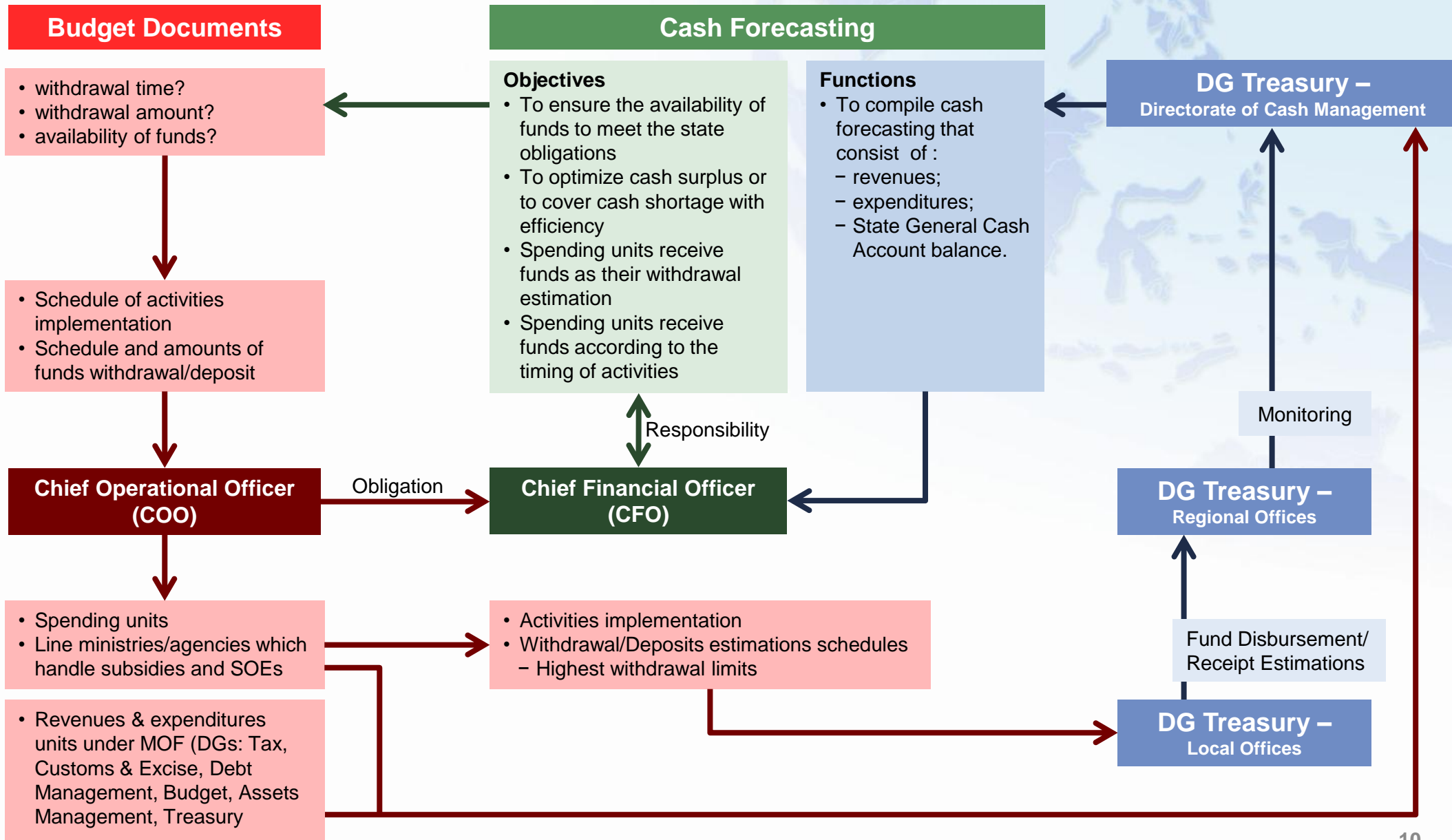


4. Cash Planning

- ❑ Accurately predict cash balances and cash flow from revenue, expenditure and financing
- ❑ Important information before taking actions to optimize cash surplus or to cover the cash shortage
- ❑ To make sure availability of funds to meet future obligations

Cash Management After ... (cont'd)

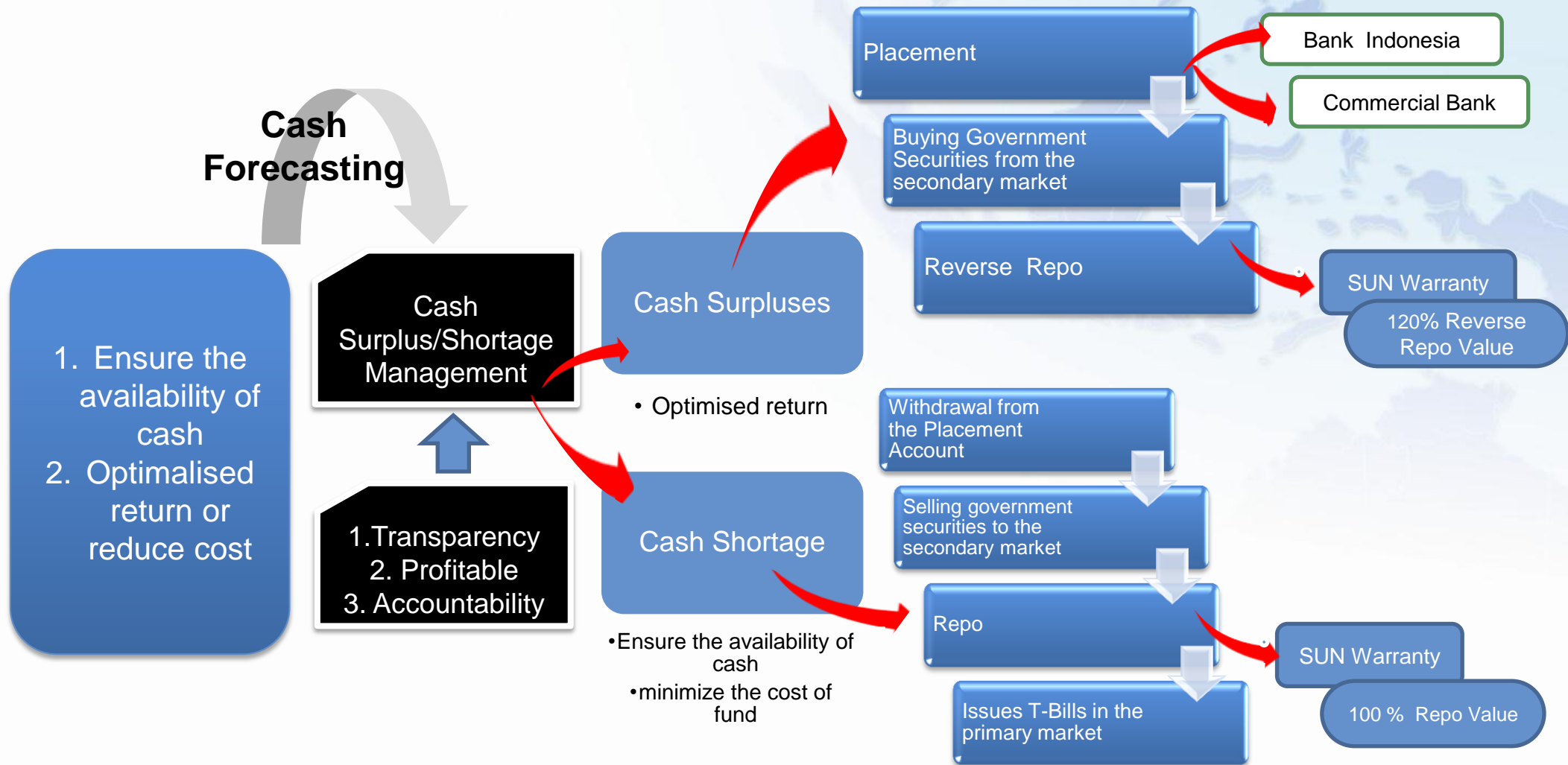
Cash Planning Framework



Cash Management After ... (cont'd)



Short term investment/placements Framework



4. Issues Surrounding Reforms



- ❑ Human resources
 - Selecting, training and maintaining required staff for new responsibilities
- ❑ IT Resources
 - Developing IT to support treasury functions
- ❑ Coordination with Central Bank and DG Debt
 - Making sure treasury policy coherence with monetary policy and debt policy
- ❑ Setting up regulations
- ❑ Change of Mindset
- ❑ Possibility of losses from cash management operation



5. Development of Treasury Dealing Room

- An integrated solution for cash management to ensure availability of funds to meet future obligations
 - to take actions to optimize cash surplus or to cover the cash shortage

6. Development of e-banking

- Bank Indonesia – Government e Banking
 - Electronic banking system provided by Central Bank for cash management (balance monitoring, transactions and reporting purposes)
- Commercial Banks
 - Commercial Banks provide Cash Management System (CMS) for balance monitoring, transactions and reporting purposes.

Coordination Cash Management- Debt Management



- ❑ Framework coordination between Cash Management and Debt Management consist of data sharing weekly and monthly basis. The type of information being shared are :
 - The amount of cash balance
 - Cash Projection daily and monthly- is there any cash mismatch
 - Issuance schedule and target amount of for auction and non auction of Government Securities
- ❑ Debt management and cash management regular meeting
 - ❑ weekly meeting before auction of government debt securities
 - ❑ Monthly meeting at Cash Planning Information network (CPIN) team meeting
 - ❑ monthly meeting at ALM committee secretariate
- ❑ Coordination for managing of Surplus Cash – buy back, early redemption
- ❑ Coordination for Bond Stabilization Framework



**Kementerian Keuangan Republik Indonesia
Direktorat Jenderal Pengelolaan Utang**

Thank You

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