

The Treasury Single Account (TSA) as an Instrument of Financial Prudence and Management: Prospects and Problems

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Abstract

The Treasury Single Account (TSA) was recently implemented fully in the Nigerian economy by the present government in order to ensure prudence and probity in the management of financial resources. With the TSA government expects to block all loopholes and leakages of financial resources of the government and also ensure a robust financial management system. The paper therefore provides the conceptual meaning of the TSA and also gives its expected benefits to the economy of Nigeria such as enhance system of financial management and control, unification of various Accounts of government, reduction of the costs of government borrowing and ensuring of optimum utilization of government financial resources. The paper also analyses the objectives of the TSA systems and its various Accounts such as TSA main account, Subsidiary Account, ZBAs, Transit and Imprest Account among others. The paper finally discusses the prospects of the TSA system and its challenges and concludes that the system requires political will, honesty and determination so as to overcome the various challenges identified in the paper in order to achieve the expected benefits of the system

Keywords: Single treasury account, probity, financial prudence and accountability

1. Introduction

The background of Treasury Single Account (TSA) is in accordance with Executive Order No. 55 (2011), which stipulated that the Bureau of Treasury (BTr) shall operate a Treasury Single Account (TSA) to receive remittance of collections of internal revenue taxes/customs duties from Bureau of Internal Revenue (BIR)/Bureau of Customs (BOC) authorized agent banks as well as other National Government Agencies from authorized government depository banks. The TSA, which shall be maintained at the Central Bank of Nigeria (CBN), will align the government policy of greater financial management and control of its cash resources and allow the unification of the structure of government bank accounts to enable consolidation and optimum utilization of government cash resources (Boulder, CO: West view. Sun Editorial (2015).

A treasury single account (TSA) is an essential tool for consolidating and managing governments' cash resources, thus minimizing borrowing costs. In countries with fragmented government banking arrangements, the establishment of a TSA should receive priority in the public financial management reform agenda. Drawing on the lessons of the Fund's work in several countries in establishing a TSA, this paper explains its concept, essential features, problems and potential benefits. It also discusses its prospects for financial prudence and effective and efficient management of resources available.

2. What is TSA?

A Treasury Single Account (TSA) is a unified structure of government bank accounts that gives a consolidated view of government cash resources. Based on the principle of unity of cash and the unity of treasury, a TSA is a bank account or a set of linked accounts through which the government transacts all its receipts and payments (Lienert 2009). The principle of unity follows from the fungibility of all cash irrespective of its end use. While it is necessary to distinguish individual cash transactions for control and reporting purposes, this purpose is achieved through the accounting system and not by holding/depositing cash in transaction specific bank accounts. This enables the treasury to delink management of cash from control at a transaction level. The basic three essential traits of TSA are First, the government banking arrangement should be unified, to enable ministry of finance (Mof) (or treasury) oversight of government cash flows in and out of these bank accounts. A unified structure of government bank accounts allows complete fungibility of all cash resources, including on a real-time basis if electronic banking is in place. The TSA structure can contain ledger sub-accounts in a single banking institution (not necessarily a central bank), and can accommodate external zero-balance accounts (ZBAs) in a number of commercial banks. Second, no other government agency operates bank accounts outside the oversight of the treasury. Options for accessing and operating the TSA are mainly dependent upon institutional structures and payment settlement systems. Third, the consolidation of government cash resources should be comprehensive and encompass all government cash resources, both budgetary and corresponding cash flows are subject to budgetary control or not (Yusuf and Chiejina, 2015).

3. OBJECTIVES OF TSA

The primary objective of a TSA is to ensure effective aggregate control over government cash balances. The consolidation of cash resources through a TSA aggregate control of cash is also a key element in monetary and

budget management. There are other objectives for setting up a TSA. They include: minimizing transaction costs during budget execution, notably by controlling the delay in the remittance of government revenues (both tax and nontax) by collecting banks, and making rapid payments of government expenses; facilitating reconciliation between banking and accounting data; efficient control and monitoring of funds allocated to various government agencies; and facilitating better coordination with the monetary policy implementation. Lastly, the specific objectives are as follows:

- To provide greater transparency in the Public Financial Management (PFM);
- To gain greater clarity to national financing needs and the management of the public debt;
- To increase fiscal savings (less transaction charges, more revenues);
- To improve financial markets;
- To provide more accurate accounting and improved reporting.

4. Accounts under TSA system

4.1. TSA Main Account.

This is the treasury's account with the central bank, which consolidates the government's cash position. It is the main TSA account when the TSA arrangement in a particular country consists of a set of linked accounts. Cash balances in all other linked accounts are swept into this account. In other words, all government receipts finally flow into, and all disbursements are met from, the central TSA account.

4.2. TSA Subsidiary Accounts or Sub-accounts.

These are not separate bank accounts per se (in the sense of holding individual cash balances), but are special sub-accounts within the main TSA account. This is basically an accounting arrangement to group together a set of transactions and allows the government to maintain the distinct accounting identity or ledger of its budget organizations (line ministries/agencies) effectively. A cash disbursement ceiling for each entity can be enforced against these ledgers. Balances in these accounts are netted off with the TSA main account for cash management purposes.

4.3. Transaction accounts.

Sometimes government bank accounts that are justified for retail transaction banking operations are opened separately and structured as transaction accounts. These separate transaction accounts could be opened for government entities that need transaction banking services, but do not have a direct access to the TSA main account or a subsidiary account, and/or specific category of operations (e.g., special funds). A transaction account could take the form of a zero-balance account or an imprest account.

4.4. Zero-balance accounts (ZBAs).

Where transactional accounts are necessary, these are generally opened on a zero-balance basis, i.e., end-of-the-day cash balances in these accounts are swept back into the TSA main account periodically (preferably daily). Such accounts opened in commercial banks are used for disbursements or for collection of government revenues (particularly nontax revenues). At the end of the day, all revenues collected would be deposited in the TSA. The commercial bank would honor payments of the respective agency, and would be reimbursed by the TSA overnight. ZBAs have many similarities with special credit line arrangements, where budget agencies are provided spending credits towards the amount of payments they can make within a specified period, to be reimbursed by the TSA in the central bank. A ZBA also has the benefit that it bypasses the normal interbank settlement process for each individual transaction, which is often time consuming in developing countries, and ensures same-day settlement on a net basis for all receipts and payments passing through the accounts.

4.5. Imprest accounts.

These transaction accounts can hold cash up to a maximum authorized amount and are recouped from time to time. Such accounts might be necessary in some cases, particularly when there is only limited availability of interbank settlement facilities. However, the number of imprest accounts should be kept to a minimum and the strategy should be to progressively transform these accounts into zero-

4.6. Transit accounts.

These accounts are not meant for day-to-day transaction banking operations of government units. A transit account simply serves as a transit for eventual flow of cash into the TSA main account. Transit accounts might be necessary for major revenue streams to monitor their collection and remittance by the banking system and to facilitate revenue sharing (formula-based sharing from a common pool of resources) between tiers of government in a federal system in line with constitutional provisions.

4.7. Correspondent accounts.

A separate ledger account is opened for each correspondent. The correspondent entity has real-time information on the balances it maintains in the TSA. There should be safeguards to ensure that each correspondent government is provided with the funds needed to implement its own budget in a timely manner. The central bank (which maintains the accounts in the TSA) has the obligation to make payments to the extent of the balances available in a correspondent's account. (Including the required ex ante control for authorizing payments).

5. The Framework for the Establishment of TSA

Establishing a TSA usually requires a legal basis to ensure its robustness and stability. Being legally recognized the following are some of the requirements needed to put in place (Simon, H. A. 1997).

5.1. Preparing an Inventory of Existing Bank Accounts.

In countries with a fragmented government banking arrangement, the process of establishing a TSA should start with a census of all the existing bank accounts of government which should be prepared (including their nature, type, and cash balances). This would facilitate identifying bank accounts for eventual closure/merger with the TSA.

5.2. Political Support.

Establishing a TSA can require hard decisions, such as closing the existing bank accounts of budget organizations (outside treasury control) that can provoke powerful opposition. For success, the highest levels of government must explicitly and strongly support a TSA reform. Cabinet decisions to initiate and reinforce the reforms are helpful.

5.3. Legal and Regulatory Requirements.

The legal framework should be amended, as necessary, to allow for the establishment of the TSA. The establishment of a TSA must be accompanied by the closure of irregular bank accounts of ministries and budget units, and legal authority for opening government accounts should be vested in the MoF.

5.4. Technological Requirements.

The technological feasibility and capacity of the banking system to participate in the operation of a TSA, and to report on TSA transactions, should be established. In fact, a decision on TSA could trigger the acquisition of necessary technology by the banking system as the banking services will be remuneration based.

5.5. The Existence of an Interbank Settlement System.

This includes the development of a small payments clearing system, an RTGS at the central bank, and the connection of major commercial banks to the RTGS. This requirement is especially important in case of a decentralized TSA architecture. The treasury could also be connected to the RTGS.

5.6. Appropriate Interface Between the Treasury and the Banking Network.

The interface between the treasury, line agencies and the banking network should be agreed by all the stakeholders and formalized through agreements. Such agreements should provide for the modalities of issuing payment orders/checks, and the arrangements for reporting and reconciliation. An electronic interface between the treasury and the banking network through an IFMIS would facilitate a full-scale centralized TSA. This should be addressed during the conceptual design phase of the TSA and the IFMIS.

5.7. A Comprehensive Chart of Accounts.

With the establishment of a TSA, some information that is currently available from the banking system is likely to be lost. If such data are relevant for budget management purposes, they should be captured through the chart of accounts, which may require modification. This work should also be completed during the conceptual design phase of the TSA and the IFMIS.

5.8. Capacity Development of the TSA users.

The prospective users of the TSA system both within the MoF/treasury and line agencies will need to be trained in the new procedures and applications. Such training should be carefully coordinated with the introduction of the TSA. A user manual on receipt and payment procedures under the TSA system should also be developed.

6. Future Success or Prospects of TSA

Garbade, Kenneth, John C. Partlan, and Paul J. Santoro, (2004) stated the following as some of the benefits of TSA:

6.1. It Allows Complete and Timely Information on Government Cash Resources.

In countries with advanced payment and settlement systems and an Integrated Financial Management Information System (IFMIS) with adequate interfaces with the banking system, this information will be available in real time. A minimum, complete updated balance should be available daily.

6.2. Improves Appropriation Control.

The TSA ensures that the MoF has full control over budget allocations, and strengthens the authority of the budget appropriation. When separate bank accounts are maintained, the result is often a fragmented system, where additional cash resources that become available through various creative, often extra-budgetary, measures augment funds provided for budgetary appropriations.

6.3. Improves Operational Control During Budget Execution.

When the treasury has full information about cash resources, it can plan and implement budget execution in an efficient, transparent, and reliable manner. The existence of uncertainty regarding whether the treasury will have sufficient funds to finance programmed expenditures may lead to sub-optimal behavior by budget entities, such as exaggerating their estimates for cash needs or channeling expenditures through off-budget arrangements.

6.4. Enables Efficient Cash Management.

A TSA facilitates regular monitoring of government cash balances. It also enables higher quality cash outturn analysis to be undertaken (e.g., identifying causal factors of variances and distinguishing causal factors from random variations in cash balances).

6.5. Reduces Bank Fees and Transaction Costs.

Reducing the number of bank accounts results in lower administrative cost for the government for maintaining these accounts, including the cost associated with bank reconciliation, and reduced banking fees.

6.6. Facilitates Efficient Payment Mechanisms.

A TSA ensures that there is no ambiguity regarding the volume or the location of the government funds, and makes it possible to monitor payment mechanisms precisely. It can result in substantially lower transaction costs because of economies of scale in processing payments. The establishment of a TSA is usually combined with elimination of the “float” in the banking and the payment systems, and the introduction of transparent fee and penalty structures for payment services. Many governments have achieved substantial reductions in their real cost of banking services by introducing a TSA.

6.7. Improves Bank Reconciliation and Quality of Fiscal Data.

A TSA allows for effective reconciliation between the government accounting systems and cash flow statements from the banking system. This reduces the risk of errors in reconciliation processes, and improves the timeliness and quality of the fiscal accounts.

6.8. Lowers Liquidity Reserve Needs.

A TSA reduces the volatility of cash flows through the treasury, thus allowing it to maintain a lower cash reserve/buffer to meet unexpected fiscal volatility.

7. Challenges and Problems of TSA

The TSA provides a number of other problems and despite the fact that, it enhances the overall effectiveness of a financial management system. The establishment of a TSA should, therefore, receive priority in any Government reform agenda. According to the directive, this measure is specifically to promote transparency and facilitate compliance with sections 80 and 162 of the 1999 Constitution.

In a statement by Laolu Akande (2015), former Senior Special Assistant to the Vice President on Media and Publicity, all receipts due to the Federal Government or any of its agencies must be paid into TSA or designated accounts maintained and operated in the Central Bank of Nigeria (CBN), except otherwise expressly approved. The presidential directive, in the view of analysts, would end the previous public accounting situation of several fragmented accounts for government revenues, incomes and receipts, which in the recent past has meant the loss or leakages of legitimate income meant for the federation account. President Buhari had earlier promised state governors at the inaugural meeting of the National Economic Council (NEC), in June, that all revenues prescribed for lodgment into the federation account will be treated as such under his watch and that he will ensure strict compliance with all relevant laws on accounting, allocation and disbursement.

Since then the presidency has worked with relevant agencies of the federal government to evolve this policy directive. This directive applies to fully funded organs of government like the Ministries, Departments,

Agencies and Foreign Missions, as well as the partially funded ones, like Teaching Hospitals, Medical Centres, Federal Tertiary Institutions, etc. Agencies like the Central Bank of Nigeria, Securities and Exchange Commission, Corporate Affairs Commission, Nigeria Ports Authority, Nigeria Communications Commission, Federal Airports Authority of Nigeria, Nigeria Civil Aviation Authority, Nigerian Maritime Administration and Safety Agency, Nigeria Deposit Insurance Corporation, Nigeria Shippers Council, Nigeria National Petroleum Corporation, Federal Inland Revenue Service, Nigeria Customs Service, Mining, Minerals and Sustainable Development, Department of Petroleum Resources are also affected. For any agency that is fully or partially self-funding, Sub-Accounts linked to TSA are to be maintained at CBN and the accounting system will be configured to allow them access to funds based on their approved budgetary provisions.

In November 2013, The Central Bank of Nigeria (CBN) called for an urgent implementation of the Treasury Single Account (TSA) in order to properly manage the country's revenue. The CBN stated this in a communiqué at the end of its 235th Monetary (Arabian Journal of Business and Management Review (OMAN Chapter) Vol. 5, No.4; November. 2015).

Policy Committee (MPC) meeting where it noted that "a TSA is an essential tool for consolidating and managing governments' cash resources. In countries with fragmented government banking arrangement, the establishment of a TSA receives priority in the public financial management reform agenda". The CBN lamented that the "erosion of the fiscal buffers through the depletion of the Excess Crude Account (ECA) has further exposed the economy to vulnerabilities while the fall in oil revenue has left capital inflows as the only source of external reserves accretions"(CBN, 2014:20). It also expressed concern that the federal government's debt had also risen phenomenally along with its deposits at the deposit money banks. This, it said, showed the federal government as a net creditor to the system. "This underscores the urgent need for the immediate implementation of the Treasury Single Account. The continued delay in returning government accounts to the Central Bank is adding to the huge cost of government debt due to poor cash flow management," (CBN, 2014:21) the MPC statement added.

Recently, the Office of the Accountant -General of the Federation (OAGF) directed all Ministries, Departments and Agencies (MDAs) of the Federal Government yet to comply with the Treasury Single Account (TSA) regime domiciled at the Central Bank of Nigeria (CBN) to embrace the policy not later than 15th September 2015. By implication, the MDAs were directed to close all the revenue accounts they maintain in different Banks in the country and transfer the proceeds to the TSA.

This no doubt was a move to actualize the promise by the then federal government through the former Coordinating Minister of the Economy and Minister of Finance, Dr. Okonjo- Iweala in October, 2015 to block avenues of revenue leakages to shore up government revenue in the face of dwindling earnings due to falling oil prices.

8. Conclusion

In Nigeria, it is common to find multiple bank accounts in commercial banks belonging to different ministries/agencies, with idle cash deposits sitting there. Many developing and low-income countries have fragmented government banking arrangements that hinder effective cash management and financial prudence. The primary objective of a TSA is to ensure effective aggregate control over government cash balances. The consolidation of cash resources through a TSA arrangement is meant to optimize government cash management. It avoids borrowing and paying additional interest charges to finance the expenditures of some agencies while other agencies keep idle balances in their bank accounts. Effective aggregate control of cash is also a key element in monetary and budget management. Other objectives of a TSA include: reliable and efficient budget execution by minimizing transaction costs; monitoring (and thereby controlling the delay in) the remittance of government revenues (both tax and nontax) by the collecting banks; effective reconciliation between banking and accounting data; efficient control and monitoring of funds allocated to various government agencies; and facilitating better coordination with the monetary policy implementation. Any TSA has at least two central attributes. Firstly, it is a unified arrangement, which enhances the fungibility of the government's cash resources, and implies that no other government agency should be allowed to operate bank accounts without the oversight of the treasury; and Secondly, it is comprehensive, encompassing all government cash, both budgetary and extra- budgetary activities in the Government.

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