

Technical Note

Zero Balance Drawing Account for Budget Users¹

In many countries, there is the proliferation of government bank accounts, which are used by line ministries and agencies to conduct their transactions. A common arrangement in some anglophone African countries is the practice of making regular (often monthly) transfers from the main exchequer account to accounts operated by spending ministries. The size of these transfers is often based on expected outflows (expenditures) during the month or on the basis of commitments². In the latter case, if these commitments do not materialise until subsequent months, the accounts are saddled with idle balances, which can build up during the year. When these balances are outside of the control of the Treasury, the Treasury is forced to borrow. Where these accounts are with commercial banks, the Treasury borrowing is funded by these very same idle balances, leading to a distorted yield curve for Treasury bills and bonds and a sub-optimal borrowing cost for the Treasury. The solution to this problem is to operate these accounts as zero-balance accounts (ZBAs)—accounts that may have positive or negative accounts during the course of a day (for receiving revenues or making payments), but at the end of each business day, positive account balances are swept into the main treasury account at the central bank, and negative balances are reimbursed from it. Establishment of such a “treasury single account” (TSA) system is facilitated when government payments are automated -- traditional payment instruments are replaced with electronic funds transfer mechanisms, linked to a government-wide computerized financial management system. While the authorities of many countries decide to establish a TSA, existing realities are that line ministries and agencies continue to issue their own cheques (drawn on their own accounts and active balances), either to suppliers or for petty cash purposes. With line ministries having become used to managing their own bank accounts, there are instances of resistance to centralizing these under the Treasury.³ An approach that

¹ This note has benefited from helpful comments from Messrs. Ian Lienert and Duncan Last of the Fiscal Affairs Department of the International Monetary Fund.

² This should eventually be based solely on projected cash flows.

³ In one instance, the objection to the introduction of a TSA was that, once the Parliament has approved the appropriation of funds to various ministries and the Exchequer has released those funds, the Treasury or Ministry of Finance should not have access to it. In the extreme, this is a management issue and need not necessarily be a hindrance to the introduction of TSA, which can be so implemented as to overcome these objections.

East AFRITAC has been advocating to countries in the region is to adopt the ZBAs as described in this technical note, which is consistent with the adoption of a TSA.

A Zero Balance Drawing Account (ZBA) is a banking arrangement often utilized to make payments, but does not require the maintenance of any type of running balance in the account. In operationalizing this arrangement, the funding of ZBA is obtained from another account – a concentrated or master account such as the Exchequer Account – from which an automatic transfer is effected in an amount only large enough to cover the payments. Under this arrangement, ZBAs become the vehicle against which debts can be charged for a specific time period before the concentrated or master account pays the debt, leaving the ZBA once again with zero balance. The maintenance of the ZBA and concentration accounts at the same place – central bank – ensures that funds can be transferred in real time or at least on the same business day.

The ZBA arrangement is an efficient way to manage government accounts and to facilitate cost-effective implementation of national budget. With the initiative implemented at a central bank (as the statutory banker to the government), ZBA arrangements make it possible for the government to manage its net cash flows more efficiently through the TSA held at the central bank. Apart from the resultant efficiency gains, the underlying netting possibilities allow for more astute management of cash balances whereby resources need to be positioned in the account only as and when they are required to be paid out as part of the various ministries' settlement of spending commitments.

An important feature and advantage of this arrangement is that, ministries and government departments do not have to position funds in advance to meet their day-to-day and varying expenditure commitments. Instead, they can continue to make payments, underwritten by the main TSA. As a control mechanism and, consistent with the varying expenditure intensities of different ministries and departments, spending (or credit) limits are established for each entity. These limits can be determined for each budget user on the basis of forecasted expenditure requirements for a defined period or on the basis of historical expenditure patterns adjusted for trend growth in the budget and seasonality elements. These limits can be set up on a monthly basis, with the size of the limit ideally determined by projected cash payments instead of by expenditure commitments. Special care is taken to ensure that these expenditure commitments truly reflect institutional capacity to implement projects. Typically, these limits are prepared by the ministries/departments and submitted to the Accountant General for consolidation. To formalize the process, the consolidated limits and the underlying processes would be vetted, overseen and approved by an Exchequer Committee. Once thus established, responsibility for managing resource deployments consistent with these limits⁴ then shifts to the ministries/departments.

⁴ The limit so established also takes into account the nature of the payment instruments. For example, in the case of cheques, the life and aging pattern are also taken into account in determining specific credit limits. It is

(continued)

At this stage, the agreed monthly limit for each ministry/department is communicated by the Accountant General to the central bank as the basis for setting the credit limit on the ministry's bank account. The central bank then applies the approved/authorized limit to each account with the opening balance in the account being zero (hence the term zero-balance account). The ministries/departments can then issue cheques and other payment instruments up to the value of its own credit limit. At the central bank, at the end of each business day, a standing payment order settles the consolidated debits on all the individual accounts against the main Exchequer Account, thereby restoring the individual account balance to zero. To ensure that the monthly credit limit is not violated, the credit limit for each ministry/department is then adjusted by the value of their debits. The adjusted credit limit becomes the binding constraint relative to the expenditure for the remainder of the month. With each successive day's expenditure being cumulatively applied against the credit limit, at the end of the month, the adjusted credit limit also becomes zero.⁵ A sequence of accounting transactions under zero-balance drawing account arrangement is in Table 1.

Table 1: Illustration of Zero-Balance Drawing Account Operation

					TSh
Date	Description	Limit	Credits	Debits	Balance
2/8/08	Opening Limit	100,000			0
	Cheque 100001			200	-200
	Cheque 100002			100	-300
	Electronic Transfer			500	-800
	Transfer from Exchequer Account		800		0
	Adjusted Limit	99,200			
3/8/08	Opening Limit	99,200			0
	Cheque 100003			1,000	-1,000
	Counter Withdrawal			200	-1,200
	Cheque 100004			300	-1,500
	Electronic Transfer			1,500	-3,000
	Cheque 100005			700	-3,700
	Transfer from Exchequer Account		3,700		0
Adjusted Limit	95,500				
4/8/08	Opening Limit	95,500			0
				
				

in view of the heightened resource needs of cheques that governments are automating high value payments with electronic payment being the preferred mode.

⁵ The system is so set up as to automatically reject any debit in excess of the credit limit. In such situations, the ministry/department is expected to obtain from the ministry of finance an increased credit limit.

Account Implementation

It is quite likely that the introduction of ZBA arrangement may require some modifications to a central bank's core banking and accounting systems.

Reporting Requirements

To make the whole process more effective as well as to monitor compliance with the credit limit, suitable management reports are developed. Some of these include:

Daily Bank Statement

A daily bank statement is issued to all ministries/department showing the operation of their respective accounts. This statement highlights the opening and closing credit limits, the debits that have come through (and the matching credit from the Exchequer Account) and the adjusted credit limit for the rest of the month. The Daily Bank Statement is also issued to the Central Treasury holding the main TSA. This statement typically reflect all 'end-of-day' standing order payments to the ministries' accounts.

Monthly Bank Statement

A monthly statement is issued to the Central Treasury and all ministries/departments indicating the status of their respective accounts. This is an important tool facilitating the monitoring the evolution of actual monthly expenditures against the established expenditure limits. Over a period of time, this also provides a good estimate of the seasonality and project implementation capabilities relative to the operations of various ministries/departments.

Treasury Single Account

Idle Exchequer Balances and Remuneration

The daily management and remuneration of "idle" balances in the Exchequer Account to are important issues.

Central bank remuneration – one way – temporary in nature

Eventually, the placement of funds in money markets or securities markets (once developed) – the long term solution

Benefits

The ZBA concept may be utilized for several reasons. ZBAs are only one element of a cash management reform that could bring about the following benefits:

- eliminating idle balances in multiple accounts and ensuring that all existing accounts are zero-balanced at the end of each day – thereby simplifying cash consolidation and facilitating centralized cash control but decentralized funds disbursement;
- facilitating the use of funds to cover more strategic operational expenses, improving funds usage,⁶ avoiding overdrafts on subsidiary accounts and allowing for the reduction of in-year liquidity borrowing needs of the government (and the resultant resort to overdraft at the central bank);
- enhancing resource management efficiency by providing greater control over the deployment of resources and ensuring greater certainty of funding for line ministries/agencies;
- reducing management expenses (by eliminating repetitive and costly funds transfer in an environment where bank charges are involved) and allowing for potential remuneration of any aggregate cash balance in the control or master account (if remunerated)⁷;
- promoting ownership and accountability of budget execution; and
- improving systemic liquidity forecasting at the central bank – leading to aligning monetary operations more precisely with liquidity movements and achieving more effective implementation of monetary policy.

Next Steps for Improving Cash Management

Once these ZBAs are up and running, there is a need to:

- improve short-term cash flow projections; and
- abandon any link between monthly expenditure commitments and monthly cash payments.⁸

In Conclusion

The ZBA arrangement can yield immediate improvements to the management of budgetary resources including more efficient use of cash. Under the arrangement, funds will be

⁶ The potential saving can be quite easily computed as the difference between the interest paid out on borrowed funds and lower borrowing that would otherwise have been needed if the available idle balances on line ministry/agency accounts were pooled in the concentrated or master account. Using the T bill rate or the overdraft rate and the average monthly idle balance a rough order estimate of the savings could be computed.

⁷ Assuming that line ministries/agencies are not paid interest on their idle balances, the cash concentration in the TSA could facilitate the capture of this potential interest income.

⁸ In such a scenario, monthly cash payments would be projected on a rolling basis, in the context of forward cash plans of inflows and outflows. These could be: e.g., daily projections for the first month, weekly projections for the second month and monthly thereafter – all consistent with annual budget projections. When this step is taken, monthly ceilings are not needed – spending ministries would be responsible for staying within annual budget ceilings (perhaps a move to quarterly cash ceilings would be prudent as an intermediate step). The main point is that expenditure control arrangements and cash management need to be de-linked.

disbursed from the main Exchequer account at the time that outgoing payments are debited to the ministries' bank accounts. This obviates the need for positioning resources in different accounts and for various projects by different ministries/departments. This arrangement has the effect of concentrating cash resources only on the main Exchequer Account. With the resources now concentrated in the Exchequer Account, the approach also opens the avenue for the more judicious usage of resources and possible reduction of government overdraft.

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