



International Monetary Fund - IMF
Regional Technical Assistance Center
 Building Macroeconomic Capacity in East Africa









TSA Modalities and Status in East Africa

Taking Cash Management Forward






Regional PFM Workshop

February 13-16, 2018
 Zanzibar

Overview of the presentation

- Objectives, definition and features of TSA
- Structure and coverage
- Models
- Developing the TSA
- Status of country practices in the region
- Issues and challenges

Common issues in banking arrangements

- Multiple bank accounts in central banks and commercial banks with few automated linkages
- Low collection and payment efficiencies resulting in floats ranging from a few days to months
- Idle cash on bank accounts not remunerated while accounts in deficit attract interest
- Partial or no cash consolidation – difficult to establish “full cash position” of government
 - Impossible to prioritize and control expenditure disbursement
 - Bank reconciliation responsibilities dispersed and neglected
 - Reliance on banking system for fiscal reports and budget performance information
- No formal specification of service standards / expectations



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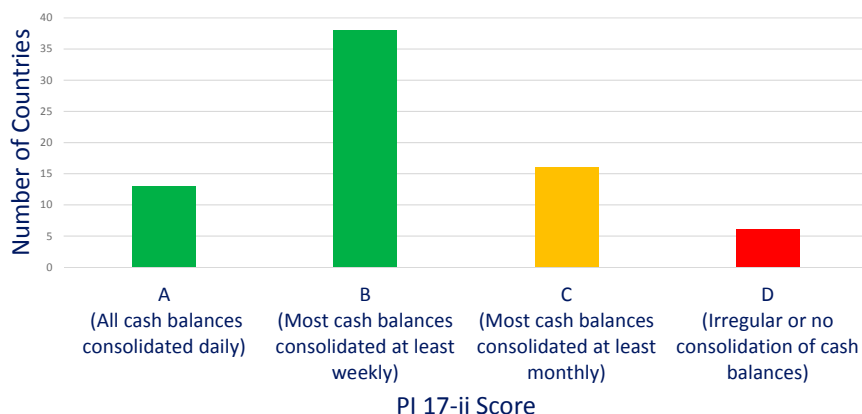
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What do PEFA scores say?

Extent of Consolidation of Government Cash, 2012-16
(73 countries)



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What is Treasury Single Account?

- Unified structure of government bank accounts enabling a consolidated view of government cash resources
 - typically a sub-account structure or network of linked accounts
- Fully fledged TSA provides for:
 - Unified arrangement enabling oversight of cash flows in and out of these accounts and allows complete fungibility of all cash resources
 - MoF oversight on bank accounts of all government agencies
 - Comprehensive consolidation of all government cash resources (budgetary and extra-budgetary)



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Objectives and benefits

- Aggregate controls over government cash resources
- Allows MoF to minimize the volume of idle balances in the banking system with associated cost savings
- Facilitate monitoring and controls, financial planning
 - Complete information about government funds – real time.
 - Helps Treasury to plan and implement budget in an efficient and transparent manner
 - Improves bank reconciliation and quality of fiscal data
 - Minimize transaction costs – efficient remittance of revenue and timely payment of expenses
- TSA cash balance is the important variable for effective cash management



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TSA can work with variety of payment systems/processes

- Centralized processing of invoices or dispersed to entities
- Centralized approval even if processing and accountability are dispersed
- Payment processing centralized within Central Bank or dispersed to the banking sector

But any balance left with the banking system should be swept overnight back into the TSA. It also requires:

- Internal accounting arrangements (and incentives) to minimize levels of idle balances and reduce payment/receipting timing uncertainties
- Bank account structures to net transactions and aggregate the balances into TSA

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TSA and Central Bank

- TSA usually held at the Central Bank
 - Few exceptions mostly in Latin America
 - Central bank provides safe haven for government deposits – no credit risk
 - Efficient management of government liquidity
 - Facilitates coordination of monetary policy with cash management
- Very few countries rely entirely on central banks – usually a mix
 - Reliance on central bank or commercial banks for payments /receipts
 - May depend on central bank's network or capability of central bank's payment system
 - Management of spending unit's credit limits may be by central bank, commercial bank or through the IFMIS

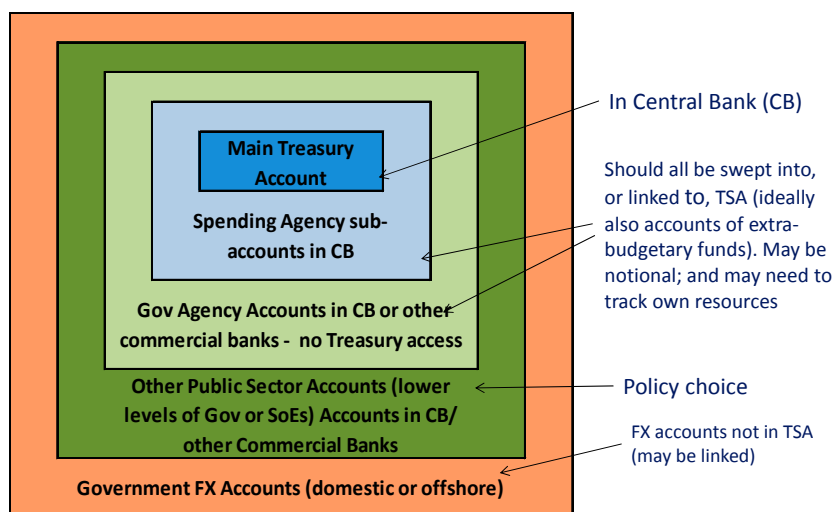
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Pre-conditions for establishing the TSA

- Preparing an inventory of existing bank accounts
- Reviewing and rationalizing the number of accounts
- High-level political support
- Legal and regulatory framework – ensures stability
- Technological requirements
 - IFMIS
 - Banking sector
 - IT infrastructure
 - Interface between Treasury / central bank and banking network
- Interbank settlement systems
- Capacity development of the TSA users
- Comprehensive chart of accounts
 - Enabling appropriate level of control and reporting
 - Ensuring transactional data not lost when bank accounts are closed



Coverage of TSA - ideal type



Implications for managing revenue remittance

- Underlying principle is transfer of government revenues to the main account immediately
- Banks submit account statement to tax authority and MoF for reconciliation with tax payment records (tax authority) and TSA (MoF)
- Pre-validation of revenue deposits to include checking of tax-payer identification and revenue type increasingly done online
- Traditional systems for revenue concentration changing
 - Technologies provide for e-payment of revenue directly into the TSA with transmission of revenue identification data
 - Systems permit direct (straight through) posting of revenue deposits into the tax payer ledger with tax authorities
- Banks are remunerated on a fee based on number of transactions
 - Not by holding the cash for a period – lacks transparency and does not reflect costs
 - Banks should compete for the service



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Implications for managing payments

- Main objective is to pay obligations in timely and secure manner
 - IFMIS; good communication infrastructure; evolution in payment systems; and core banking systems facilitate direct payments
 - Obviate the need for transitory payment accounts (site of idle funds) and role of local treasury branches
 - Larger payments may be handled centrally but smaller ones through zero balanced accounts in commercial banks
- Under decentralized structures, central banks may do very little
 - Credit limit given by Treasury to commercial banks / spending units or managed through IFMIS
 - Central bank receives daily sweeps
- Can donor funded projects be brought under similar arrangements
- Bank system used to facilitate budget controls and reporting -is that changing?
- Automated bank reconciliation



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Implications for aggregate cash position

- Government cash position is calculated on aggregate TSA balance
- Consolidated daily position of all operational accounts should net off all cash balances both positive and negative
- Interest charged in any separately maintained overdraft is minimized
- Ideally the central bank will charge market related interest on any consolidated negative balance and pay similar interest on positive balances.
- Temporary in-year overdraft for cash management purposes – compliant with EAMU requirements
- Arrangement also for the government to pay market fees for the banking services provided by the central bank



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Structure of TSA: Centralized

- Centralized payment authority
 - Implies no need for ministry bank accounts
- Different structures for the TSA – in the simplest version:
 - No account sub-structure; all deposit and payment processed through a single bank account
 - Requires a developed IFMIS (robust internal controls/security, workflows, well defined roles and responsibilities, and sanctions)
 - Classification structure and chart of accounts embedded in IFMIS used to control payments against released budgets and to account for transactions against specific purposes and funds
 - Centralized bank reconciliation



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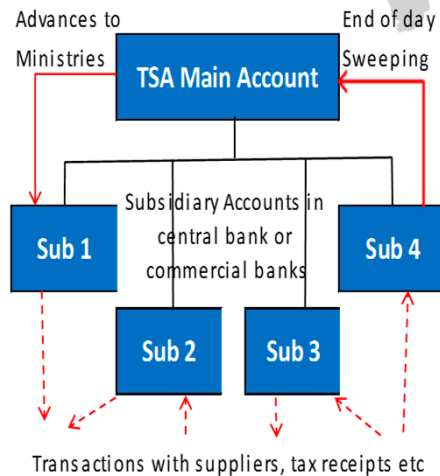
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The need for Sub-Accounts

- Sub-accounts are needed to
 - control expenditure of entities with cash or credit limits
 - allow entities with legal authority to retain self-generated funds or to maintain EBFs
- TSA subsidiary accounts are not separate bank accounts but linked to and within the TSA main account
- Balances on these accounts may be rolled up to present the single cash position for cash management purposes



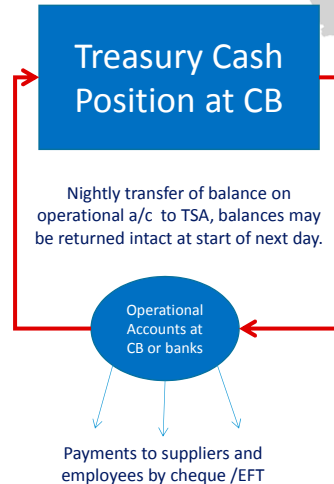
Structure of TSA: Dispersed

- Dispersed payment authority
- Different models internationally
 - **Cash releases to individual entity accounts; swept back to TSA at end of the day (ZBAs)**
 - TSA has use of the cash overnight
 - At the start of the business day, the unchanged balance is transferred back to the spending entity's account
 - **Credit limit given to the central bank or commercial banks for each spending entity**
 - Avoid cash with commercial banks
 - TSA retains all moneys until required to settle obligations
 - **Just-in-time**
 - Cash transferred on days when payments are expected to be made



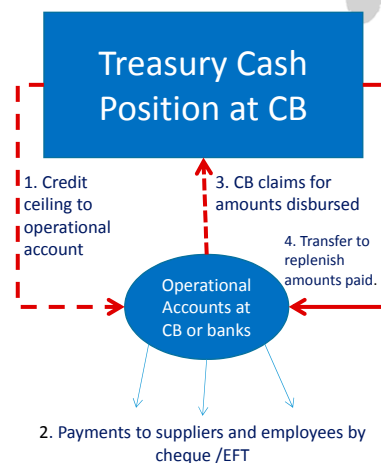
ZBA - sweeping arrangements option

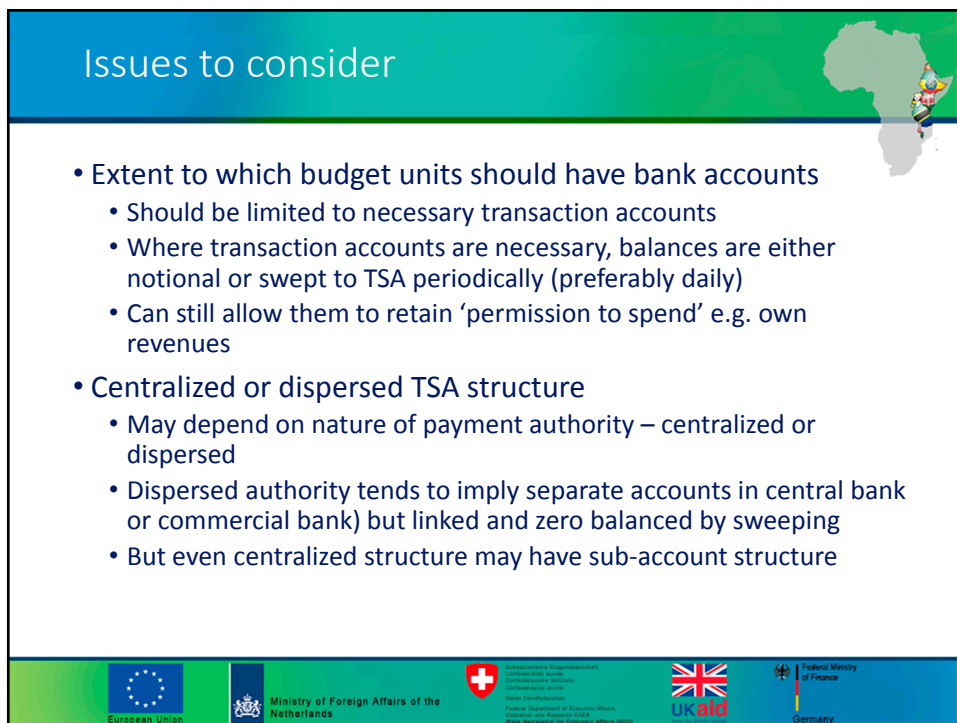
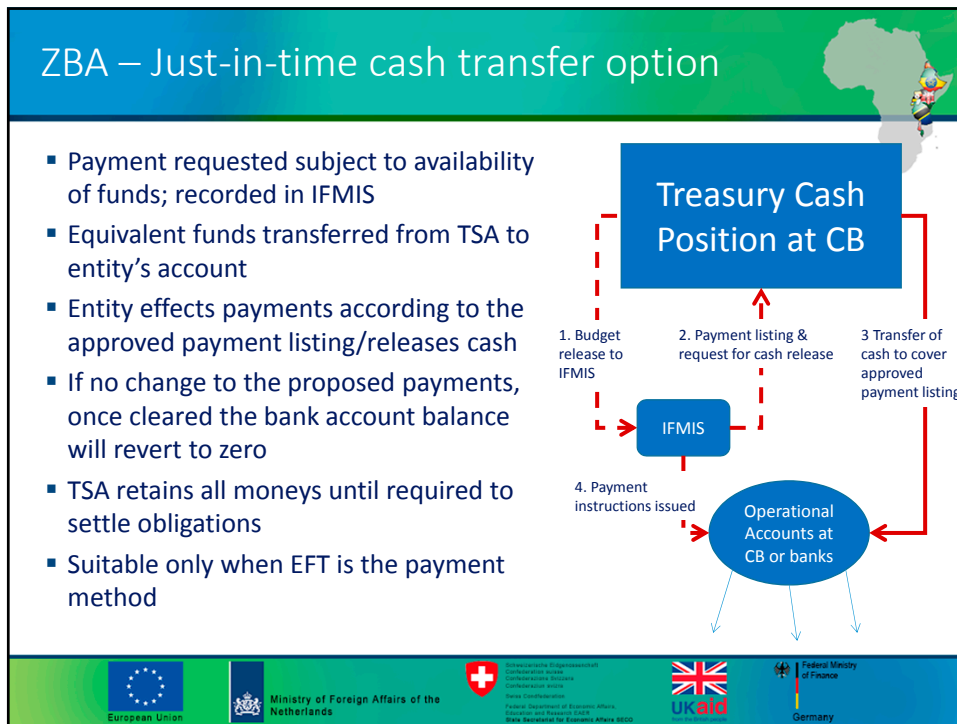
- Cash releases to individual operational spending entity accounts
- Payments made by the entity not exceeding cumulative cash releases
- At close of business day, the CB or bank transfers the balance on the account to TSA
- TSA has access to the balance overnight to reduce its borrowing /overdraft requirements
- At start of the next business day, unchanged balance is transferred back to the entity's account



ZBA – disbursement limit option

- Credit ceilings limit issued to CB or bank IFMIS monitors available appropriation
- Credit limits are cumulative during FY, reverting to zero at year end
- Entity makes payments that will reduce the amount of available credit. CB, bank and IFMIS prevent limit being exceeded
- At close of business day, bank claim reimbursement from TSA for payments made
- TSA retains all money until required to settle obligations





Developing the dispersed model: policy choices

- **Cash or credit limit?**
 - Credit limit avoid cash transfers – lower transactions costs, lower control and audit requirements
- **Who manages spending entity's transactions?**
 - Central bank or commercial banks – the commercial banks usually have lower unit costs than central banks
 - MoF or spending entity should reimburse provider whether bank or CB
 - Interest should be paid on cash balances – gives the right economic signals, interest also charges on overdraft
 - Commercial banks should compete for government business
- **Who controls the credit limit?**
 - Commercial banks or central banks; or ideally through the IFMIS that restricts payments within the credit limit



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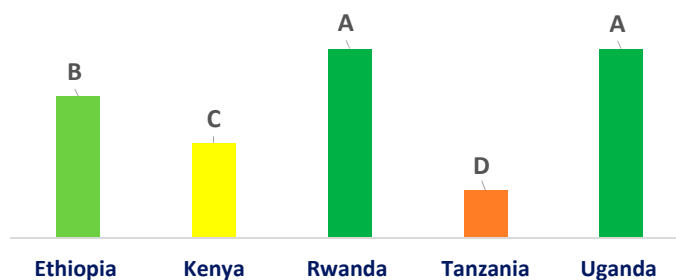


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PEFA Scores: Consolidation of cash PI 21(i)



Latest PEFA scores for Kenya, Rwanda, Tanzania and Uganda on the PEFA 2016 framework. The Ethiopia assessment is from 2015 and based on the older PEFA framework.



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Eritrea

- Cash management at an early stage
- Each budgetary unit has its own bank account
- Financial regulations require:
 - MoF to monitor and regulate opening of new bank accounts
 - Treasury maintains a listing of the bank account
- Procurement and installation of IFMIS being planned
- Environmental constraints
 - Poorly developed banking infrastructure
 - Payment systems
 - Sub-optimal IT infrastructure



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Ethiopia

- Banking arrangements have features of international good practice
 - Central Treasury Account at National Bank of Ethiopia
 - ZBA at the Commercial Bank of Ethiopia for entities funded by central accounts at CBE
 - CTA and ZBAs together constitute the TSA arrangement
- But no aggregation of federal cash balances as balances at NBE are not swept back to CTA at the NBE
- Central account at CBE is funded when funds are released and not when payments are due
- Substantial number of accounts outside TSA
 - Deconcentrated public bodies outside Addis
 - Entities holding separate bank accounts for self-generated revenue
 - Deposit Accounts; extra-budgetary funds; project accounts
 - Regions (Regional Central Account) not linked to CTA at NBE



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Kenya

- PFM Act 2012 defines TSA as a centralized bank account system
- TSA arrangements include the Exchequer Account, Debt management account, and the MDA payment accounts at the CBK
- Recent automation of the exchequer releases have enabled just-in-time funding for MDA payments and reduced idle funds
- NT plans to move to a central payment account for MDAs
- Plans also extend to:
 - Extra-budgetary funds, SAGAs
 - project and special deposit accounts
 - Counties who currently have accounts with commercial banks
- Remaining issues
 - Lack of clarity in the definition / relationship between the consolidated fund, national exchequer account and TSA in PFMA
 - Calculation of overdraft interest – positive cash balances of operational bank accounts should be netted against the negative overdraft amount
 - Just-in-time funding can eventually support the TSA sub-account structure



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Malawi

- Reasonably sound TSA structure
 - Most central government revenue and expenditure flow through MG1
 - Structure of central payment system (CPS) accounts and MDAs holding account at central bank
 - Donor funded accounts; regional and council government accounts at RBM linked to operational accounts in commercial banks on credit ceiling authority
 - Aggregate cash position consolidates all accounts at RBM
- Issues:
 - CCA related commissions tend to be high and monitoring of ceilings is cumbersome
 - Once EFT is implemented fully – projects and local authorities can make payments directly from their holding accounts at the central bank
 - Some donor accounts have no holding accounts at central bank
 - MDAs accounts at commercial banks – being reviewed and rationalized.



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Rwanda

- Operates the TSA that allows aggregation of cash balances
 - Treasury Main Account and linked sub-accounts for MDAs and District
 - Outstanding balances of sub-accounts transferred at close of business day and reversed the next day
 - Commercial banks transfer revenue to RRA account at NBR which is linked to the Treasury Main Account as is the MDAs own revenue accounts
 - MINECOFIN does centralized payment using EFT
 - Donor funded project accounts at NBR and included in TSA arrangements
 - Bank account management entrusted to PS-ST and has been delegated to the Accountant General. Treasury manages and monitors the listing of all bank accounts.



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Tanzania

- Centralized majority of government bank accounts at BoT
 - Daily transfer of revenues by commercial banks to TRA holding account at BoT
 - EFT for all payments for most of the central government
 - Extending EFT to sub-treasuries and LGAs through bank accounts at BoT
 - Multiple bank accounts at BoT and commercial banks
 - Outside of consolidated cash position: special funds, deposit, public and statutory corporations
- On-going initiatives
 - On-going review / closure of accounts at commercial banks
 - AccGen has established mechanisms for monitoring and overseeing accounts at the commercial banks
 - Public / statutory corporations instructed to open accounts at BoT
 - MoFP - BoT considering adoption of an appropriate TSA structure



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Uganda

- Established a core TSA for budgetary central government covering domestic revenues, expenditures and financing
 - Comprises of UCF receives tax, non-tax revenue and receipts from T-Bills and T-Bonds issued for fiscal purposes
 - TSA holding account funded by transfers from UCF (quarterly limits)
 - Sub-accounts for each entity funded just-in-time from TSA holding account
- Supported by changes made by MoF and BoU
 - Roll-out of IFMIS and linkages with BoU systems
 - Establishment of centralized payment system and use of EFT
 - Daily sweeping of balances from TSA sub-accounts
- Plans to extend it to local government linked to IFMIS roll-out;
- Donor projects – limited progress AfDB; Int. Fund for Agri. Dev
- Scope to further rationalize the number of TSA holding accounts



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Issues and challenges - Design

- Designing a TSA - define scope / structure of TSA in a policy document
- Developing a strategy with prioritized actions
 - Focus on potentially risky accounts with significant balances
 - Target commercial bank accounts of spending agencies, EBFs
- Distinguishing between authority to spend and physical location of cash
 - Developing an accounting system that clearly and accurately identifies cash balances of each entity
 - Developing a functionality in IFMIS to maintain ledger sub-accounts with corresponding credit limits
 - Establishing legal authority to pool cash (consider fiscal autonomy of entities)
- Assure spending entities that cash will be available when needed
 - Developing superior cash forecasting and management capabilities to meet cash needs of all entities



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Issues and challenges – Coverage

- Scope should initially include Ministries with other entities coming later.
 - **Extra-budgetary funds** – at central bank and outside of Consolidated Fund. TSA should allow aggregation of balances while recognizing their legal separation and where agreed respecting the requirements for ring-fencing the balances.
 - **SAGAs** – receiving funding from the national budget (hospitals, schools, commissions) should form part of the TSA. Consideration should be given to the nature of their operation.
 - **SOEs** – that are profit oriented and government financial entities should be left outside the TSA
 - **Donor accounts** – specific reporting requirements and project implementation needs. Establishing procedures and demonstrating efficacy of the country systems takes time.
 - **Local governments** – depends on their level of autonomy
- The exact phasing would vary across countries.



Issues and challenges – Enablers

- National payment systems
 - An interbank settlement / clearing system
 - Real time gross settlement system at the central bank for high value transactions
 - Commercial bank and Treasury connected to the RTGS
 - Development of a small payment clearing system
- Banking sector
 - Interconnectivity of banks/branches and implementation of core banking solutions that is able to support multi-layered bank account structure
 - Internet banking platform with Treasury as a participant
- IFMIS and integration with banking system
 - Electronic transaction processing and payment system e.g. IFMIS interfaced with banks to enable straight through processing
 - IFMIS general ledger system to keep track of cash flows through the TSA
- These provide options for:
 - Reducing the number of bank accounts
 - Faster / just-in-time transfer of funds that minimizes idle balances
 - Easier consolidation of government cash balances



Issues and challenges - Framework



- MoU between MoF and central bank dated and need to be revised:
 - Reflect on-going and planned changes in the business process
 - Extension of TSA to entities LGs, donors, EBFs and EBU
 - Support centralized payment systems and linking of IFMIS with banking applications
 - Important to formalize appropriate protocols ensure coordinated operations
- MoU should cover:
 - Management and operational roles around banking arrangements
 - Definition of government cash positions
 - Treatment of an compensation for TSA position –payment of interest on government deposits and fees and charges to be paid to central bank
 - Could consider incorporating regional harmonization requirements e.g. phasing out of bank lending to government entities
- Framework for management and oversight of accounts in commercial banks
 - MoU - standardized service and transparent fees
 - Penalties for delays and under performance
 - Monitoring accounts and balances
 - Rationalizing their number – options for sweeping or zero balance arrangements




Conclusions



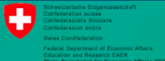


- TSA - preferred bank account arrangement for managing government funds and cash
- Advantageous for countries with less developed PFM systems and /or problems with financial integrity and transparency
- Embodies three key principles: unified structure, treasury oversight and comprehensive coverage
- Coverage improved incrementally - even a core TSA will result in immediate gains and tangible benefits
- Important step in developing efficient cash management capacity
- Usually takes a structure that is supported by the available banking technology
- Can operate equally well under both centralized and decentralized accounting systems
- Establishment of a TSA is best integrated with other treasury and accounting reforms




Thank you



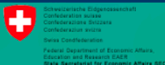



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Issues for discussions

- Does a TSA reduce accountability and compromises fiscal control?
- Does the TSA demand centralized transaction processing?
- Will treasury reconciliation workload increase?
- Is the TSA able to cater for operations in remote locations?
- Are there pre-conditions for introducing a TSA?
- What would represent a core TSA?
- How far should TSA extend?

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Workshop: Taking Cash Management Forward

Session 6 – Overcoming the challenges preventing a fully comprehensive TSA

Wednesday, February 14th, 2018

Per-Olof Jönsson
 Stone Town, Zanzibar



Cash Management - Overview

- Task: Government cash management should ensure that funds are available in a predictable and smooth manner for government operations to enable effective and efficient service delivery. This requires:
 1. Cash flow forecasting and planning
 2. Integrated cash and debt management
 3. Active liquidity management
 4. **Efficient banking and payment arrangements**
- Main objective: Minimize costs within a prudent risk level



Cost minimization with a Treasury Single Account (TSA)

- Since the borrowing cost typically is higher than the return on cash deposits the basic cost minimization technique is to reduce the cash balances to the extent possible and thereby also reduce the debt
- In a cash constrained environment lower cash balances makes it possible to increase the payments. In developing countries this has often been a key incentive
- In order to reduce the cash balances a centralized pool of liquidity should be established. This will reduce the amount of cash needed for Government operations and make it possible to maximize the return on the cash balances
- This is achieved by establishing a Treasury Single Account (TSA) which is a standard financial technique used by governments as well as corporates



Other objectives and benefits

- Other objectives:
 - Minimize transaction costs during budget execution;
 - Facilitating reconciliation between banking and accounting data;
 - Efficient control and monitoring of funds allocated to various government agencies; and
 - Facilitating better coordination with monetary policy implementation.
- The benefits of a TSA stem from its objectives:
 - Allows complete and timely information of government cash resources;
 - Improves appropriation control;
 - Improves operational control during budget execution;
 - Enables efficient cash management
 - Reduces bank fees and transaction costs
 - Facilitates efficient payment mechanisms
 - Improves bank reconciliation and quality of fiscal data
 - Lowers liquidity reserve needs.



Location of the TSA

- In most countries the TSA resides in the central bank.
- In theory, the main TSA may be held at a commercial bank
- However, establishing the TSA in the central bank has several advantages:
 - Provides a safe haven for government cash deposits which minimizes credit risk exposure.
 - Aids the efficient management of government liquidity; and facilitates the central bank's coordination of its monetary policy operations with the government's cash and debt management functions.
 - Facilitates settlement of large payments.
 - Gives finance/treasury unambiguous control over all government balances
 - Avoids risk of affecting competition amongst banks.
- But, even where the TSA is held in the central bank, some government transactions will be handled by commercial banks.
- Sometimes the central bank refuses to manage retail bank operations for the government in case commercial banks have to conduct these operations on behalf of the central bank

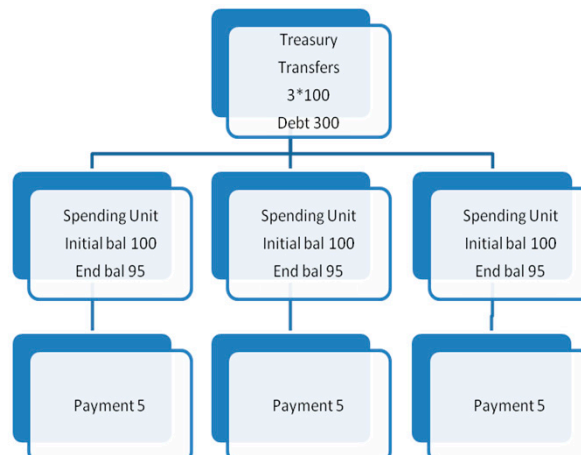


TSA definition by IMF

- "a unified structure of government bank accounts that gives a consolidated view of government cash resources"
- "the primary objective of a TSA is to ensure effective aggregate control over government cash balances"
- there should be no idle balances on government bank accounts
- Thus, TSA can be accomplished in a multitude of ways



Banking without TSA

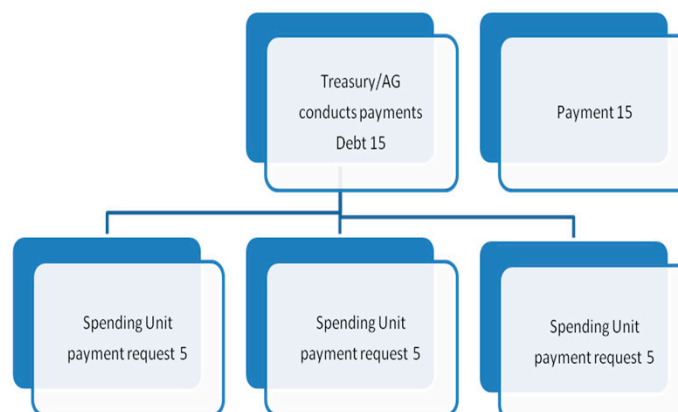


Banking without TSA

- The cash balances are financed with debt. Costly!
- Spending is limited to the amount on the bank accounts. Does not require an IFMIS



Standard TSA

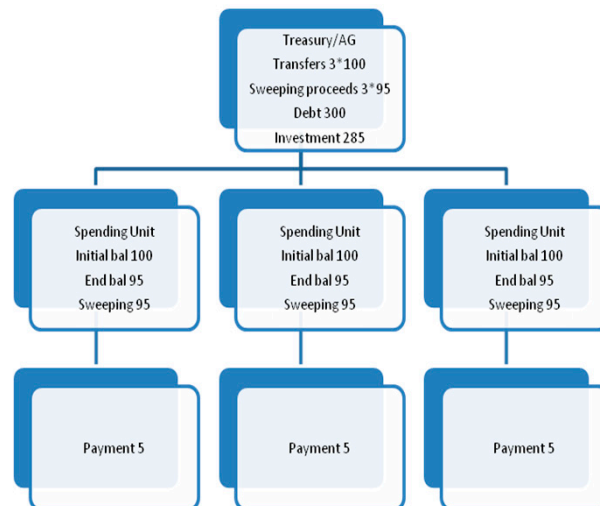


Standard TSA with centralized payments

- The standard TSA solution with centralized payments requires less cash balances and therefore implies less debt. Cost effective!
- The standard TSA solution is supported by standard IFMIS configuration whereby line ministries submits payment requests electronically in the system, within specified limits, for payment processing by Treasury sending payment orders electronically to the Central Bank
- Could also be established without the support of IFMIS provided there is a network of treasury offices for the line ministries to access. In this case the spending control is conducted by the treasuries



Sweeping Arrangements

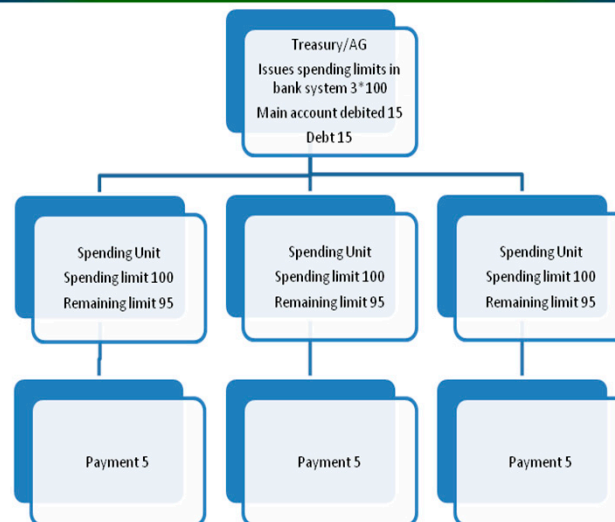


Sweeping Arrangements

- Sweeping arrangements are based on standard banking technologies. Do not require an IFMIS.
- Funds are transferred to line ministries bank account. At the end of the day the outstanding balances are swept back into the Treasury bank account.
- Cost effectively if the cash swept back to Treasury can be used to reduce the debt the same day.

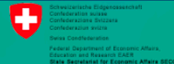


Zero-balance accounts



Zero-balance accounts

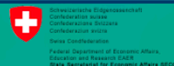
- The zero-balance account (ZBA) model is managed through the bank and typically requires modification of the banking software. An IFMIS is not required
- Treasury issues spending limits to the line ministries ZBA. The line ministries can make payments up to the limits. The actual payments are debited the Treasury account on a daily basis
- Many types of ZBAs exist. One is the cash-just-in-time model requiring an IFMIS but a minimum of modifications in the banking software.
 - Before a payment is conducted it is posted in the system by the line ministry. The Treasury transfers the corresponding cash amount to the line ministry's bank account. When the funds are credited to the bank account the payment will be executed



The choice of TSA model is influenced by country specific considerations

Assessment of overall banking and payment technologies in the country. How are payments conducted? Cash, cheques, electronic bank transfers, mobile phone money

- Cash is simple but costly and risky
- Cheques are better but still costly
- Electronic bank transfers are generally regarded most cost effective but requires sophisticated banking technologies (core banking systems reaching out to all bank branches and payment systems for large and small value payments)
- How are banking services provided in rural areas?



The choice of TSA model is influenced by country specific considerations, cont..

Which Government entities are making payments and collecting revenues?

- Is the Treasury making all payments to final beneficiaries? Maybe with assistance from regional and/or local Treasury offices or
- Are the spending units making the payments to the final beneficiaries?
- Are the revenue agencies collecting the taxes into own bank accounts and then transferred to Treasury or are the taxes paid directly to Treasury?

Availability of Government systems supporting payments, e.g. IFMIS

Government bank accounts in Central Bank and/or in commercial banks (state owned banks?)



Frequently raised issues regarding TSA

- *Requires an IFMIS*
- No, not true. TSA much older than the IFMIS concept. TSA can easily be implemented using standard banking techniques, e.g. sweeping
- *A centralized TSA reduces spending units control of payments*
- No, not true. Even though spending units typically prefer having funds in own bank accounts they realize they have no guarantee that their bank accounts will be funded from the Treasury in case of cash shortages
- *Reduces banking sector liquidity*
- The overall banking sector will probably not be affected by the implementation of a TSA since the withdrawn cash balances in the commercial banks should be compensated for by decreased domestic borrowing. The TSA implementation could have an impact on individual banks used to a large extent for government payments, e.g. state owned banks.



Frequently raised issues regarding TSA

- *Issues related to commercial banks participation in Government revenue collection and payments*
- The banks' costs should be compensated for by fees and not float. The banks may also raise issues related to the credit risk of the government, e.g. may be unwilling to participate in a ZBA model without having the corresponding funds
- *How to provide banking services to remote government offices*
- If the central bank does not have a wide network of branches it may be necessary to utilize commercial banks. Should the volumes be low and the banking infrastructure be weak it may be appropriate to fund these commercial bank accounts without a sweeping arrangement in place. In many countries also the commercial bank network is weak outside the Capital making it difficult to provide efficient Government payment services to the public. In some countries mobile phone fund transfers are used



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Frequently raised issues regarding TSA

- *How to incorporate donor funds?*
- Donors often requires that their funds are deposited into separate bank accounts managed by the Project Implementation Unit. It is often possible to persuade the donors to deposit the Central Bank but it may be difficult to integrate the funds in a TSA arrangement. Budget support should be included in standard TSA arrangements
- *Scope of the TSA*
- The TSA should at least include the entire Central Government bank accounts in local currency. A wider scope may be desired including maybe local governments and semi-autonomous bodies but if Government SOEs are conducting operations under commercial conditions they should typically be excluded from the TSA



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Frequently raised issues regarding TSA

- *Issues with Central Bank*
- If Central Bank provides a credit facility to the Government it is often linked to the net position of the Government, in case transferring Government funds from commercial banks to the Central Bank may increase the space for providing credits within the statutory limit. Thus, Central Bank should consider not providing credits up to the legal limit.



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Country experiences - A

- Payments have gradually been transferred from MDAs (CoBs) to Treasury (Central Bank). Most payments are now conducted by the Treasury, based on physical payment orders delivered by MDAs, but some “petty cash” payments are conducted by the MDAs directly from bank accounts funded by the Treasury. The IFMIS is not effectively rolled-out to MDAs
- The country has made significant progress in many aspects of the payment and banking arrangements.
 - Almost all revenues are paid directly into the TSA and all revenues are collected electronically.
 - Salary payments are made as direct fund transfers to the employees’ bank accounts.



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Country experiences - A

- However,
- Central Bank provides limited services, no remuneration and no overdraft and as a consequence no direct financial benefits for the Government of the reformed banking arrangements
- The current arrangements include MDA bank accounts in commercial banks. These bank accounts need to be incorporated into the overall Central Bank arrangements in order to meet the requirements of a TSA.
- Cash flows from SOEs and from donors are included in the TSA. This improves the accounting; however since these deposits should be made available on demand they imply a significant liquidity risk. This risk would be reduced if the funds were going in and out of the TSA immediately and automatically.



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Country experiences - A

- The TSA reforms as well as the overall reforms of the financial administration with the implementation of the IFMIS have been slower than expected. For the TSA and IFMIS success, the Government should have a better project management structure including a dedicated project manager and an appropriate structure of committees overseeing the activities. A realistic time table for the reforms of TSA and IFMIS projects is urgent.
- In the long run a traditional TSA model should be implemented supported by the IFMIS



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Country experiences - B

- Most payments conducted by Treasury, initiated through the IFMIS, but some payments for “petty cash” and priority projects (escrow accounts) are conducted by MDAs from own bank accounts (mainly in Central Bank) funded by Treasury
- Recommended to review and reform the IFMIS configuration ensuring that a centralized payment function is established for the core budget institutions, including
 - IT audit
 - Mapping of processes and procedures with an aim of establishing effective procedures with high internal control
 - Adapting the IFMIS configuration to the new procedures



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Country experiences - B

- The Government should take advantage of modern payment techniques, including:
 - Initiating the use of EFT made possible through the RTGS implementation. The Treasury should make payments directly crediting the bank accounts of the beneficiaries
 - The Revenue authority and MDAs should also require that all revenues are credited to their bank account in CoB to be transferred to the Central Bank
 - The Government should also expand its utilization of the mobile money system, ensuring efficient payments also to government staff and suppliers located in areas far from any bank branch or ATM



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Country experiences - B

- Many TSA options, but in order to provide some financial benefit for the Government two main options have been identified
 - Option 1. Traditional two-way sweeping of MDA accounts (for donor funds after consent by respective donor) into the main account at the end of each day (reducing the overdrafts)
 - Since overdrafts will be reduced at the end of the day (and be comfortable within the limits for overdrafts) it should be possible for Central Bank to extend the overdrafts during the day
 - Option 2. Sweeping one way into the main accounts and based on requests, supported by cash plans, the funds are paid back again.



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Country experiences - B

- Option 1, Pros
 - Simple way of utilizing idle funds for increased expenditures. Minimal administration, only requires a cautiously determined overdraft limit during the day
- Cons
 - Requires consent from Central Bank



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Country experiences - B

- Option 2, Pros
 - Direct utilization of idle funds
- Cons
 - Administratively cumbersome both for Treasury and the MDAs. Requires more staff in Treasury and cash plans on daily basis and currently even the monthly cash plans have quality problems. The funds swept should be properly accounted for. An IT system supporting the operations needs to be developed
 - A big machinery for limited financial benefits
 - Just like in option 1 not all funds can be used since the funds should be made available on demand and other financing options are limited
 - May be less appealing for donors



European Union



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Country experiences - C

- Most payments conducted by MDAs from bank accounts funded by Treasury
- Almost all Government bank accounts in commercial banks have been closed
- The banking account structure in Central Bank is complex constituting close to 2000 bank accounts and without automatic transfers of funds to a main account
- SOEs are also part of the TSA
- Aggregation of balances is made for the purpose of calculating the outstanding amount of Central Bank credits vs the credit limits
- The transfer of Government funds from CoBs to the Central Bank has made it possible to get more credits from the Central Bank



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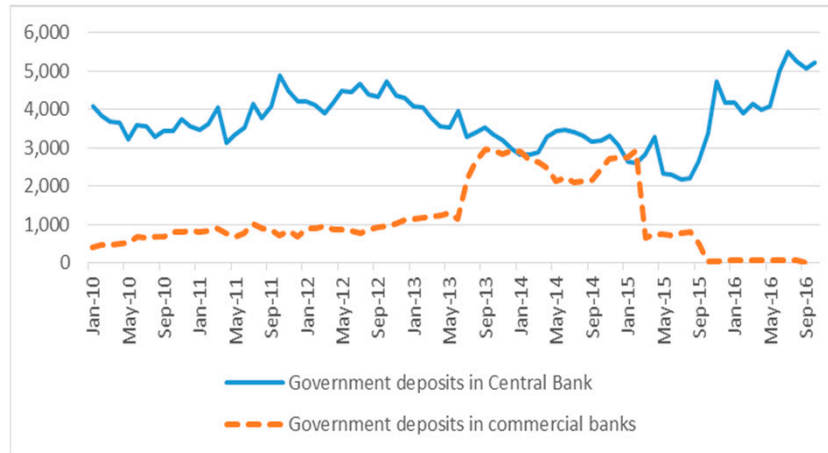
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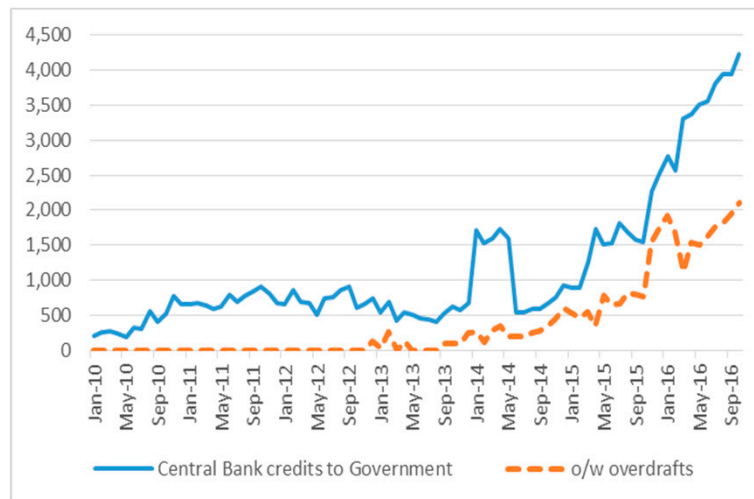
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Country experiences - C



Country experiences - C



Country experiences - C

- However, in other aspects there does not seem to be an effective consolidation of the balances; For instance how much is available for fund releases by the CM committee?
- A “weak” TSA structure, not everyone would agree that it is a TSA structure at all. The funds are not controlled by the Treasury



Country experiences - D

- Decentralized structure; the MDAs are conducting the payments to the final beneficiaries from ZBAs in a commercial state owned bank.
- Monthly credit ceilings, cumulative during the fiscal year, are issued by the Treasury to the MDAs enabling them to make payments through their respective ZBA up to the cumulative ceiling.
- At the close of the business day the value of cleared payments that have been debited to the ZBA will be replenished from the Treasury main account in the bank.
- This account is in turn funded from the Treasury main account in the Central Bank in such a way that a significant balance typically is maintained
- Thus, the Treasury is not getting all financial benefits with the ZBA model



Country experiences - D

- In addition MDAs local offices are not incorporated in the model, but has traditional bank accounts instead. Transfers to regional and local governments are also conducted outside the model
- Different techniques for extending the TSA model are discussed
 - Extending the ZBA model
 - Introduce a sweeping mechanism
 - Develop a traditional TSA supported by the new IFMIS



Thank you!





International Monetary Fund - IMF
Regional Technical Assistance Center
 Building Macroeconomic Capacity in East Africa




Workshop: Taking Cash Management Forward

Session 7 – Recent Cash Management Interventions


Wednesday, February 14th, 2018
 Paul Seeds
 Stone Town, Zanzibar





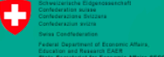







Outline




1. Management and oversight of banking arrangements
2. Planning TSA Reform Activities



Management and Oversight of Banking Arrangements




Central Control on Banking Arrangements

- Most countries have legislation prescribing that authority for opening bank accounts rests with Treasury – sometimes delegated to Accountant General
- Central banks and commercial banks must be aware of this responsibility and comply
- Treasury needs to monitor and engage closely with banks to ensure no unauthorized accounts are opened
- Treasury should set minimum standards for banks to qualify for undertaking Government's banking business



Required Coverage of the TSA

- TSA should incorporate banking arrangements for: MDAs; EBU; DP Funded Projects; Subnational Governments; Social Security Funds, etc.
- SOEs (or Public Corporations) are **not usually** included as part of the TSA on account of the commercial nature of their operations – although this has been achieved in Nigeria
- However, it should be noted that many corporations/parastatals are actually non-commercial in nature and are categorized as EBUs under GFSM2014
- These EBUs should be brought within the umbrella of the TSA
- As far as possible covering all receipts and payments for central government and if possible general government



Special Considerations (1)

- Subnational Governments – should they be part of the TSA? In many countries they are, and ideally they should be
- However in Kenya, Local Counties have full fiscal autonomy enshrined in the Constitution. Each County has its own TSA
- Materiality of cash balances – for example: schools with floats equivalent to \$500 – however, with 40,000 schools the total float is large
- Remote areas without coverage from the central bank forcing use of commercial bank accounts – especially for revenue collection
- DPs insistence on their project funds being held at commercial banks outside the TSA – how can they be convinced to adopt country systems?



Special Considerations (2)

- Inclusion of social security funds and other trust funds in the TSA could be considered, provided that:
 - The accounting system is well developed and adequate safeguards exist to prevent the abuse of trust fund resources
 - It is allowed in the laws
 - government does not use their cash reserves to finance its budget deficits by overlooking the respective trust funds' short-term liquidity needs, long-term liabilities, and statutory obligations to make pension payments
 - Trusts notify the treasury of their future cash outflows
- Off Budget Funds – EBUs and Appropriations in Aid (AiA):
 - ZBA 2-way sweeping of overnight balances?
 - Plan to bring EBUs and AiA onto Budget and into IFMIS
- DPs often prescribe separate systems and bank accounts for their projects - how can we build confidence in country systems?



Inventory of Bank Accounts (1)

- ***You cannot manage what you don't know about***
- Most countries have an inventory list of government bank accounts but is it **fully** comprehensive?
- Require all MDAs, EBUs and other entities to provide a list of all bank accounts
- Engage with the major commercial banks and require disclosure of all bank account
- Challenges:
 - Banks often cite privacy rules preventing them providing information to Treasury on MDA/EBU bank accounts
 - EBUs cite their autonomy as justification for non-disclosure
- Strong laws and strong Treasury can help overcome these challenges



Inventory of Bank Accounts (2)

- The CMU needs authority to challenge continued operation of accounts outside the core TSA:
 - Was the account established with full knowledge and approval of Treasury?
 - Is the account active or dormant? When was it last used?
 - How material are the transactions through the account? If very material it is important to bring within the TSA? If not material, alternative mechanisms for transacting through the established TSA accounts?
 - What is the necessity of the account? Receiving and paying? What is the purpose and justification? Does justification hold up under deep scrutiny?
 - Can the receipts or payments be made using the standard designated accounts (under the umbrella of the TSA)?
 - Are the operations of the Account open and transparent? Are transactions undertaken through IFMIS? Does Treasury get daily position on these accounts?
 - Are there any impediments preventing bringing the account into Central Bank and IFMIS? How can these be overcome?



Inventory of Bank Accounts (3)

- Based on the questions above – develop a standard template for entities to report bank account information:
 - Bank Name, Branch, Account Number (bank approved and pre-qualified)
 - Name of entity operating the account
 - Account Balance – current, and historic (trends) – value of transactions
 - Currency of account
 - Active or dormant
 - Purpose and Justification
 - Account in IFMIS (Y/N)
 - Account part of the TSA (Y/N)
 - Electronic or check payments



Review and Rationalization of Bank Accounts


- Prioritize:
 - Close dormant, irregular and unnecessary accounts; and accounts held with banks not preapproved
 - Accounts with materially large balances – bring transactions into designated accounts which are part of the TSA
 - Reconciliation of all bank accounts
 - Migration of accounts (where possible) from commercial banks to Central Bank
 - Bring all bank accounts into and transacting through IFMIS
 - Incorporation of all accounts at Central Bank into the consolidation and pooling of funds – don't allow Central Bank to "cherry pick"





Use of Commercial Banks

- Unless very well developed TSA and IFMIS already, only where it cannot be avoided: – DP insistence; revenue collection; logistical constraints (remote areas without central bank presence)
- Need commercial banks to meet a minimum set of standards and capabilities:
 - Adequate systems and technology to support TSA needs
 - Support to electronic payments
 - Sweeping of balances, e.g. revenue accounts **swept daily**
 - Shortlist – only pre-approved banks (Government Servicing Banks)
 - Must agree to conditions of Government's standard SLA, including penalties where services fail to meet the standards






Planning TSA Reform Activities

Formally Document the Plans

- Get high level support to impose the change where necessary – adopt formal project management arrangements (accountability for results) – e.g. very successful in Uganda after much opposition
- Phased approach for bringing all bank accounts into IFMIS
- Agree sequencing and timing for rationalizing and closing accounts. Inform account owners early – very important to clarify that TSA is not about controlling their spending
- Plan phased migration of accounts from commercial banks to Central Bank in coordination with monetary authorities
- Negotiate comprehensive SLAs for central bank and commercial banks
- Formal roadmap for prioritized (e.g. materiality) and phased approach for bringing EBU and other accounts into the TSA



Challenges to an effective TSA

- Continued reliance on check payments
- Absence of daily cash balances from banks – usually Central Bank provides but what about Commercial Banks? Do all account users have access
- EBUs outside IFMIS; Many MDAs' accounts not in IFMIS;
- DP transactions not undertaken thro' IFMIS (different from *ex-post* capture)
- No Central Bank presence in some districts (how important local presence with electronic banking?)
- Central Bank does not facilitate holding of payment accounts in foreign currencies – forced to use commercial bank for these



Transacting Through IFMIS

- Establishing a core TSA still possible without an IFMIS
- But oversight and management of bank balances is enhanced through the operation of a well designed IFMIS
- To achieve the benefits **All** Bank Accounts should be setup in IFMIS
- Transact the payments and receipts **through** IFMIS - not just ex-post journals
- Ideally mandate that all bank accounts outside IFMIS will be closed – create an incentive to bring all accounts into IFMIS
- IFMIS also provides fundamental support to electronic payments and bank reconciliation



Service Level Agreement (1)

• Importance of a sound SLA:

- Remunerates the bank transparently for transactions and services undertaken, rather than through sitting on the cash float
- Sets out the minimum standards for service delivery, including penalties for failures, e.g. holding onto Government Cash
- For commercial banks as well as Central Bank
- Must ensure comprehensive coverage as a complete package of services, e.g. banks not allowed to “cherry-pick” just the easier, more lucrative banking services



Service Level Agreement (2)

SLA should include:

- The basis for fees for service and the circumstances that may change them. The fee should reflect the market standard and be charged per transaction.
- The basis for remunerating government balances at the central bank. It is usually linked to the central bank base rate
- Information required on real time for managing the TSA, about the flows to/from the TSA. The agreement should specify the degree of detail of the information provided. Key elements of the daily reports from the banks should include daily opening and closing balances, and a summary of receipt and payment transactions on a daily basis. An appropriate format for monthly aggregate reports should also be developed.



Service Level Agreement (3)

- The turnaround times by the central bank to execute the transactions, either as a fiscal, settlement, or payments agent.
- The management of common operational risks, including the handling of any business continuity issues (caused, e.g., by computer system failure).
- Mechanisms to review (central) bank's performance under the agreement and provisions for compensation in case there is a breach in the agreement.
- Country examples where SLA would help (technology issues):
 - **Malawi** – RBM: providing poor quality data on electronic bank statements; Very protracted discussions to get any improvements; Inability to automate payments in foreign currency (still manual)
 - **Kenya** – CBK: Delays in automating payment advices (still manual) for payments in foreign currency



Establishing a Core TSA (1)

- e.g. New adopters of TSA - Zanzibar and Eritrea:
- Discuss with Central Bank to understand their capabilities to support:
 - Electronic payments and electronic banking
 - Zero Balance Accounts or Sub-Accounts
 - Consolidation of account balances and pooling of funds – fungibility; and provision of daily consolidated bank statements
- Agree on model:
 - Centralized versus decentralized payments
 - MDA still has full responsibility/accountability for payments under the centralized model – this accountability cannot be passed off to Treasury (which merely facilitates the payment within the MDA request)
 - Zanzibar/Eritrea currently central payments



Establishing a Core TSA (2)

- Expedite inventory listing of all bank accounts
- Establish initial core TSA: Main Revenue Receiving Account; Exchequer; Main Payments Accounts; Other Accounts with Large Payments, etc.
- Move these accounts and others to the Central Bank
- Implement/enhance IFMIS, including electronic payments
- Ongoing: Rationalize and close unnecessary or unjustified accounts
- Undertake timely and complete bank reconciliation (for reliable balance figures)
- Agree and sign an SLA with the Central Bank (and other banks)

Get high level sponsorship and project management support



Extending the TSA

- Ensure electronic payments against all accounts: No more check-books
- Implement or update SLA with Central Bank (and commercial banks)
- Where possible, bring all special funds and extra-budgetary funds on budget:
 - This does not impinge their operations or level of autonomy but merely presents their operations more transparently
 - Use Institutions Table (GFSM2014) to identify non-commercial parastatals, i.e. additional EBU's
- Negotiate with DPs for undertaking a pilot for bringing DP funded bank accounts into the TSA



Bringing DP Accounts in TSA

- First bring DP Bank Account into IFMIS, including project commercial bank accounts
- Move from check to electronic payments on these accounts
- For large (mega) projects currently outside IFMIS, setup project bank accounts in IFMIS and give (controlled) access to the project
- ***IFMIS has to be better than manual or small standalone systems***
- Demonstrate effectiveness of controls: Gain DP confidence in country systems



Phased Piloting of DP Accounts in TSA

- Framework agreement between Government and DP
- Could consider a separate bank account specific to the DP at Central Bank and part of the TSA
- Gradually consolidate (phased approach) that DP's projects into the separate bank account – ultimately bringing in all that DP's projects....
- ...Manage through the accounting system rather than through the banking system
- Build on the successes – use flagship projects to herald these successes and bring other DPs onto similar arrangements
- **Kenya example:** Treasury instruction requiring all DP bank accounts held at Central Bank and included in IFMIS



Summary of Core Principles

- (i) The government banking arrangement should be unified to ensure the fungibility of the government's cash resources;
- (ii) No other government agency should be allowed to operate bank accounts without the oversight of the Treasury; and
- (iii) The coverage of the TSA should be comprehensive, encompassing all government cash, both budgetary and extrabudgetary.



Conclusion

- Fragmented banking arrangements hinder effective cash management
- Conversely consolidation and pooling of funds minimizes borrowing costs and facilitates
- Proactive cash management underpins the achievement of the TSA objectives
- Effective aggregate control of cash is also a key element in monetary, debt, and budget management.
- TSA design considerations dependent on country systems and institutions and the maturity of the banking systems



Open Questions?

- Countries at different stages - What can we do next?
- Do we have a formally documented plan or roadmap?
- Are activities ad-hoc or well-planned?
- Other feedback and questions



Thank you!

