# THE NEXUS OF TREASURY SINGLE ACCOUNT POLICY IN NIGERIA: AN EXPLORATORY DISCOURSE

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**Abstract**

The article examines the nexus of Treasury Single Account (TSA) Policy in Nigeria a developing economy. Generally, government banking arrangements have been seen as important factor in managing and controlling government's cash resources. This is achieved by establishing a unified structure of government bank accounts via a Treasury Single Account (TSA) system. A TSA is a desirable prerequisite for modern cash management and is an effective tool to establish oversight and centralized control over government's cash resources. It provides a number of other associated benefits and thereby enhances the overall effectiveness of a Public Financial Management (PFM) system. Again, incrementalism theory developed by Lindblom and Woodhouse serves as the theoretical underpinning for this discourse. From the foregoing, it is obvious that the primary benefit of TSA is the mechanism it provides for proper monitoring of government receipts and expenditure. In the Nigerian case, it has helped to seal up most if not all the leakages that have been identified as the bane to the growth of its economy. Before the commencement of the TSA policies there exist a situation where MDA's manage their finances with independence as a resort and remit limited revenue to government treasuries. Hence, under a properly managed TSA, this is constrained as agencies of government are meant to spend in line with duly approved budget

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provisions and to remit appropriately. It is therefore recommended that the maintenance of a single account for government will enable it monitor fund flow as no agency of government may be allowed to maintain any operational account outside the oversight of the appropriate agency of government.

**Keywords**: Cash Management, Government Banking, Economic Growth, Treasury Single Account, Nigeria.

**JEL Classification**: G28, O42.

## 1. Introduction

Government financial and banking arrangements are important factor in managing and controlling government's cash resources. They are critical for ensuring that (i) all tax and non-tax revenues are collected and remittance are made correctly in a timely manner; and (ii) government cash balances are optimally managed to reduce borrowing costs. This is achieved by establishing a unified structure of government bank accounts via a treasury single account (TSA) system. A TSA is a prerequisite for modern cash management and is an effective tool for the government to establish oversight and centralized control over its cash resources. It provides a number of other benefits and thereby enhances the overall effectiveness of a Public Financial Management (PFM) system. The establishment of a TSA should, therefore, receive priority in any PFM reform agenda.

It is important to note that the introduction of the TSA policy in Nigeria has generated a lot of debate both positive and negative. However, it is observed that prior to the introduction of TSA policy various MDAs and public institutions are known to have operated multiple accounts with banks and other financial institutions. This approach is not only against public sector financial management ethics it is also against international best practices. None implantation of the TSA policy has given room for accountability problems both in receipt and in expenditure terms. In 2015, there was a change of government and the high point of this is to curb leakages, corruption and agencies operating multiple accounts. The major approach towards curbing multiple accounts system, financial corruption and leakages is by introducing the TSA policy. The objective therefore of this study is to elucidate the contextual relevance of TSA, its benefits and the need to educate aggrieved because of its novelty.

## 2. Treasury Single Account in Context

The contextual issues of Treasury Single Account system is ventilated upon in this section. The place of TSA in Public Financial Management, the meaning and relevance of TSA,and the principles of TSA are discussed in this section of the paper.

### 2.1. TSA in Public Financial Management Systems

If a country has a disjointed system for handling government receipts and payments through the banking system, it is a critical PFM weakness that needs to be addressed. A country with fragmented government banking arrangements pays for its institutional deficiencies in multiple ways. First, idle cash balances in bank accounts often fail to earn market- related remuneration. Second, the government, being unaware of these resources, incurs unnecessary borrowing costs on raising funds to cover a perceived cash shortage. Third, idle government cash balances in the commercial banking sector are not idle for the banks themselves, and can be used to extend credit. Draining this extra liquidity through Open Market Operations also imposes costs on the Central Bank.

A TSA system helps consolidate government cash balances, gives the Agency of Government (Ministry of Finance) oversight of all government cash flows, and brings improvements in budget control and monitoring. It enables regular and effective monitoring of government cash resources by providing complete and timely information. A TSA also facilitates better fiscal, debt management, and monetary policy coordination as well as better reconciliation of fiscal and banking data, which in turn improves the quality of fiscal information. Finally, the establishment of a TSA significantly reduces the government debt servicing costs, lowers liquidity reserve needs, and helps maximize the return on investments of surplus cash (seePattanayak and Fainboim (2010), for a detailed description of benefits of a TSA system).

### 2.2. Exploratory Meaning of Treasury Single Account Policy

A TSA can be defined as a unified structure of government bank accounts enabling consolidation and optimum utilization of government cash resources. It separates transaction level control from overall cash management. In other words, a TSA is a bank account or a set of linked bank accounts through which the government transacts all its receipts and payments and gets a consolidated view of its cash position at the end of each day.

It can be argued that this is a second order effect if the government has issued debt to offset its extra borrowing (as the debt will do the draining). Arrangement for government transactions is based on the principle of fungibility of all cash irrespective of its end use. While it is necessary to distinguish individual cash transactions (e.g., a typical revenue and/or expenditure transaction of a government unit) for control and reporting purposes, these objectives are achieved through the accounting system and not by holding and/or depositing cash in transaction-specific individual bank accounts. This enables the ministry of finance to delink management of cash from control at a transaction level.

In a nutshell, a Treasury Single Account is a public accounting system under which all government revenue, receipts and income are collected into one single account, usually maintained by the country's Central Bank and all payments and disbursements are done through this account as well. The purpose is primarily to ensure full disclosure and accountability of government revenue, enhance transparency and avoid misapplication / misappropriation of public funds. The maintenance of a Treasury Single Account further help to ensure proper cash management by eliminating idle funds usually kept with different commercial banks and in a way enhance reconciliation of revenue collection and payment.

### 2.3. Key Principles of TSA system

The key principles of TSA are founded on three pillars which are elucidated briefly hereafter.

1) The government banking arrangement should be unified, to enable ministry of finance oversight of government cash flows in and out of these bank accounts and allow complete fungibility of all cash resources, including on a real-time basis if electronic banking is in place. Although a 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,these separate accounts should be integrated with a top account (called the TSA main account) usually at the central bank for netting off their balances (usually at the end of each day) to get the consolidated cash position.

2) No other government agency should operate bank accounts outside the oversight of the treasury. Institutional structures and transaction processing arrangements determine how a TSA is accessed and operated (see Section II). The treasury, as the chief financial agent of the government, should manage the government's cash (and debt) positions to ensure that sufficient funds are available to meet financial obligations, idle cash is efficiently invested, and debt is optimally issued according to the appropriate statutes. In some cases, debt management including issuance of debt is done by a Debt Management Office (DMO)
3) The TSA should have comprehensive coverage, i.e., it should ideally include cash balances of all government entities, both budgetary and extrabudgetary, to ensure full consolidation of government's cash resources.

### 3. Theoretical Framework of Analysis

In public policy, Incrementalism refers to the method of change by which many small policy changes are enacted over time in order to create a larger broad based policy change. This was the theoretical policy of rationality developed by Lindblom to be seen as a middle way between the rational actor model and bounded rationality, as both long term goal driven policy rationality and satisficing were not seen as adequate. Put differently, Incrementalism is a theory developed out of the realization that truly rational decision making is practically impossible given the complexity of the policy environment. That is not to say that policy actors do not have the intent to be rational: their decisions are goal orientated and there are processes followed to achieve those goals. But there are many factors that work against scientific rationalism. Eme and Chukwurah, 2015) identified three reasons for departures from complete rationality in decision making. Firstly, rationality requires that all alternatives are known beforehand; yet in reality, only a few alternatives can ever be specified. Secondly, rationality requires a complete knowledge of the consequences resulting from each alternative; yet the complexity of most policy problems make this impossibility. Thirdly, imagining future consequences implies some level of value judgment in the decision; yet values can never be anticipated or completely defined (Simon, 1997:93). Simon introduced the idea of "bounded rationality" in decision making: humans desire true rationality, but due to cognitive limitations and the incompleteness of knowledge, decision making behavior is “satisficing” rather than maximizing benefits over costs. Charles Lindblom adopted Simon’s ideas about decision making and applied them to the policy process.

Lindblom claimed that policy makers “muddle through” by making incremental adjustments to policies rather than engaging in a comprehensive and rational process and articulating clearly defined policy goals. Instead, successive comparisons are made to already existing policies and policy makers seek agreement where they can or where they have specific knowledge. Political agreement is emphasized as a strategy, rather than clearly defining policy goals, policy instruments and criteria to measure success. Incrementalism is a result of several issues (Lindblom and Woodhouse, 1993). Incrementalism is commonly employed in politics, engineering, software design, planning and industry. Whereas it is often criticized as "fire fighting", the progressive improvement of product designs characteristic, e.g., of Japanese engineering can create steadily improving product performance, which in certain circumstances outperforms more orthodox planning.

The advantages of incrementalism over other formal systems is that no time is wasted planning for outcomes which may not occur.

First, while democratic political systems provide much opportunity for political exchange, ensure significant liberty and wide participation in policy-making, they are cumbersome and troublesome in a number of respects: elections are inefficient and lack dynamic feedback for real-time public input; the public vote on superficial characteristics; political leaders have little accountability; partisan concerns result “safe” policy areas that maximize re-election possibilities; and the system allows more opportunity to delay policy rather than advance it. These issues reduce policy responsiveness, that is, the ability of a political system to translate citizen need into policy action.

Second, human cognitive ability cannot fathom the very large number of variables and interrelationships that constitute policy decisions: Cause and effect relationships are not apparent; consequences of actions are not predictable; irrational preferences, selfishness, fears, desires and values are not apt to ‘modelling’ or analysis; regardless of analytical power, conflicting beliefs negate the possibility of a single solution; expertise and absolute truth are subjective and value orientated; and while analytical methods are possible, they lack responsiveness and require high level agreement in problem definition.

Third, many policy tasks are essentially delegated to administrative agencies, interest groups, and businesses, especially in technically complex policy areas. Certain interest groups and businesses bring significant organizing ability, financial resources and technical expertise, thus exerting significant influence over policy making as decision makers in the executive and legislative branches rely heavily upon the advice of these experts. On the other hand, bureaucrats may bring technical expertise, but tend to favor continuation of existing practice, stability and policies that favor the organization.

Theoretically, there are several issues with incrementalism as policy theory. Disadvantages are that time may be wasted dealing with the immediate problems and no overall strategy is developed. Eme and Chukwurah (2015) identified them as follows: While it predicts the type of policy change based on certain assumptions about the system and the individual, it falls short of the policy theory criteria specified by Blomquist (2007): incrementalism lacks a detailed description of collective action, institutions, and the boundaries and scope of the theory. In fact, there is justification for labeling incrementalism as more descriptive metaphor rather than scientific theory. The idea seems conceptually intuitive, yet it cannot predict the degree of incrementalism in any policy area (Smith and Larimer, 2009), and there is little agreement over how to operationalize the “increment” other than by examining budget change.

Assuming that an increment can be operationalized, there is no objective standard to determine a value for what counts as an increment and what does not. (See Howlett and Ramesh page 147 on policy change types). Incrementalism relies upon a relatively stable policy landscape, rather than situations where significant new information, problem redefinition or crisis is introduced (Howlett and Ramesh, 2003). Therefore, it cannot account for agenda change as agendas exhibit sharp discontinuous changes in crises, elections, and when new technologies emerge (Kingdon, 1995). In the same sense, incrementalism cannot predict the end of policies. Empirical evidence suggests that policies are subject to relatively frequent punctuations, as expressed in the punctuated equilibrium model developed by

Baumgartner and Jones (1993). Finally, as Lindblom advanced the idea of incrementalism as a normative solution, there are several normative critiques identified. Incrementalism does not incorporate ambitious policy goals, but instead encourages “aiming low.” It promotes short-sighted decision making that may have adverse long term consequences (Howlett and Ramesh, 2003), for example, Scott (2010) uses incremental policy making to explain the unfortunate decisions made in Vietnam, Afghanistan and Iraq, which prolonged both exit and victory. A good example would be in small changes that make way for a bigger overall change to get past unnoticed. A series of small steps toward an agenda would be less likely to be questioned than a large and swift change. An example could is the TSA policy that is been pursued and implemented in Nigeria.

## 4. Treasury Single Account Policy in Nigeria

Treasury Single Account (TSA) is one of the financial policies implemented by the federal government of Nigeria to consolidate all in financial / cash flows from all the Agency of Government, i.e. ministries, departments and agencies (MDAs) in the country by way of deposit into Commercial banks traceable into a single account at the Apex bank of the country i.e Central Bank of Nigeria. The compliance has become a compulsory policy that all the revenue generating MDAs must comply with. These MDA’s have been mandated to channel their earnings into a single account to be domiciled with the Central Bank of Nigeria (CBN).

The enforcement of TSA marks the beginning of MDAs’ retirement of revenues due to the Federal Government into a unified account maintained by the CBN, since 2015. The payment of government revenue into multiple bank accounts operated by MDAs in commercial banks, as obtained under the old order, was discouraged as it is clearly against the Nigerian Constitution which, in Sections 80 and 162, directed that all federally-collected revenues should be paid into the Federation Account. It was a flagrant breach of the constitution that underscores the rot in the management of the country’s finances. It is heartening that this will now be history, going by the efforts of the new administration to implement the TSA policy that was reportedly first recommended by the Federal Government’s Economic Reform and Governance Programme in 2004, but dumped in 2005, following intense pressure from the banking and financial industry. TSA also forms part of the Public Financial Management reforms which falls under Pillar 3 of the National Strategy for Public Service Reforms towards Vision 20:20:20. The Public Financial Management reforms were designed to address impediments to effective and efficient cash management. The February 2015 deadline for the compliance and implementation of the TSA initiative failed. This is because of the continuous Pressure from the Banking and Financial Institution operating in the countrycontinues to mount. The implementation of the TSA policy no doubt revealed/exposed the weaknesses of the Financial and Banking sector in the Nigerian economy, as well as on the reasons of a likely negative impact on the economy as often advanced by the financial / banking institutions which is to their own advantage. Recently, it was also reported that the implementation of TSA would adversely affect liquidity in the banking system and end up putting pressure on interest rates and availability of credit to the economy.

Accordingly, Eme and Chukwurah (2015), the nation's banks would be losing about N2 trillion deposits to the CBN with the implementation of the Treasury Single Account TSA all with the aim of discouraging the government from implementing and enforcing the constitutional mandate for public financial management. Meanwhile, the report on accounts of banks with CBN shows that as at beginning of September (2015) quarter banks' total public sector deposits was N1.3 trillion (Central Bank of Nigeria (2015) page37) but additional net flows from Federation Accounts Allocation Committee (FACC) when added makes it greater. (Okwe et.al, 2015:53, Eme and Chukwurah, 2015). Accordingly, this measure is specifically to promote transparency and facilitate compliance with sections 80 and 162 of the 1999 Constitution. Henceforth, 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 CBN, except otherwise expressly approved.

Again, TSA is a unified structure of government bank accounts enabling consolidation and optimal utilization of government cash resources. It is a bank account or a set of linked bank accounts through which the government transacts all its receipts and payments and gets a consolidated view of its cash position at any given time. This constitutional compliance ends the previous public accounting situation of several fragmented accounts of government revenues, incomes and receipts, which in the recent past has caused the loss or leakages of legitimate income meant for the government. The TSA is therefore a process and tool for effective management of government's finances, banking and cash position. In accordance with the name, it pools and unifies all government accounts through a single treasury account.

The advantages and benefits of the TSA are numerous as well as compelling to adopt.

1) The consolidation into a TSA paves way for the timely capture and payment of all due revenues into government coffers without the intermediation of multiple banking arrangements.
2) This prevents revenue leakages in terms of revenue loss and mismanagement by operators of all revenue-generating agencies.
3) With this comes better cash management practices since the Treasury can at all times have an overall view of government's cash position, as against the fragmented positions of different Ministries, Department and Agencies (MDAs), which need to be laboriously pooled together to get the overall picture.
4) This will reduce the cost of borrowing by government and its agencies, as the government will likely be liquid at most times of the year. As hypothetically illustrated and simplified further; t*ake the example of the practice before the TSA, MDA 'A', based on budgetary releases could have surplus cash (meaning cash that is not immediately required) in its bank accounts whilst, MDA 'B', which needs immediate cash for urgent transactions is cash starved and has little or nothing in its account. Although, MDA 'B' has approvals in the budget for transaction, it has no immediate cash. MDA 'B' is likely to borrow from a bank at an interest to carry out the urgent assignment, thereby incurring costs to Treasury, whilst treasury finances lie idle in MDA 'A'. This would no longer happen under an effective TSA policy.*

Prior to the implementation of the TSA, government was incurring finance cost on debit balances in some MDA's accounts while it was earning close to nothing on the credit balances of other MDAs. With the TSA, the net balances on all the MDA accounts will now reside with the Central Bank; hence, the government will avoid incurring interest costs when it has positive net position. Treasury Single Account as a unified structure of government bank account enabling consolidation and optimal utilization of government cash resources. It is a bank account or a set of linked bank accounts through which the government transacts all its receipts and payments and gets a consolidated view of its cash position at any given time. A TSA therefore is considered a prerequisite for modern cash management and is an effective tool for government to establish oversight and centralized control over government's cash resources. In other words, the TSA provides a number of other benefits and thereby enhances the overall effectiveness of a Public Financial Management (PFM) system.The establishment and compliance to a TSA should, therefore, receive priority in any PFM reform agenda.

## 5. Policy Implication of TSA

It is obvious that the primary benefit of a TSA policy implication is the mechanism it provides for proper monitoring of government receipts and expenditure. In the Nigerian case, it will help to block most if not all the leakages that have been the bane of the growth of the economy. Under a properly run TSA, this is not possible as agencies of government are meant to spend in line with duly approved budget provisions. The maintenance of a single account for government will enable government monitor fund flow as no agency of government is allowed to maintain any operational bank account outside the directive of government.

Deposit money banks stand to be affected by the implementation of TSA. This is because of the fact that public sector funds which constitute a large chunk of commercial banks deposit will decline. Indeed, it is estimated that commercial banks held about N2.2 trillion public sector funds at the beginning of sector quarter of 2015. The impact of this quantumamount of money leaving the Banking system can be imagined.The banking system is usually awashed with liquidity and as soon as this public sector funds dries up through withdrawal by the states, liquidity tightens again with interbank rates going up. Of major impact will be the movement of funds of revenue generating parastatals such as the NNPC, out of commercial banks. It will further reduce borrowing from government and also accelerate the provision of infrastructure for its people and economic growth.

## 6. Recommendations and Conclusion

It is therefore recommended that:

1) Government should continue to maintain, enforceand strengthenup the TSA policy.
2) Proper public education and enlightenment should be adequately embarked upon and pursued.
3) Funds accrued via this policy should be properly channeled at providing basic infrastructural facilities such as good transport networks, energy, health, education and housing among others.
4) Breach of the TSA policy directive should be sanctioned and penalized.
5) This policy could be extended to non- governmental organizations of interest to government in order to cub some of their excesses.

Finally, the implementation of this policy is critical towards curbing financial leakages, excesses as in public finance,it eliminates financial indiscipline and ensure adequate fund flow that will be channeled to critical sectors of the economy. Thus guiding government in its spending and receipts towards accelerating the rate of national growth and development.

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