

Hakijamii Research Paper

Treasury Single Account (TSA): Way to Tame Corruption in Kenya

Author: Geoffrey Kerosi

Author's Email: geoffrey@hakijamii.com;

Economic and Social Rights in Kenya

¹ The views expressed in this paper are those of the author and do not necessarily reflect those of Economic and Social Rights centre (Hakijamii). Any errors are sole responsibility of the author.

Contents

Table of Contents

LIST OF ACRONYMS	3
1.0 Executive Summary	5
2.0 Objectives of this Study	8
3.0 Research Methodology	8
4.0 Significance of the Study	8
5.0 Scope/Limitations of the Study.....	8
6.0 Principles of an effective TSA	8
7.0 Types of Bank Accounts Structure	9
7.1 Distributed bank accounts Structure	9
7.2 Centralized bank accounts Structure.....	9
7.3 Bank Accounts Structure with both distributed and centralized features	9
8.0 TSA Success Stories	12
8.1 Indonesia.....	12
8.2 France.....	12
8.3 United Kingdom.....	12
8.4 Nigeria.....	12
8.5 India	12
9.0 Conclusion	13

LIST OF ACRONYMS

IFIMS – Integrated Financial Management Information System

ZBA- Zero-Balance Account

PFM – Public Finance Management

RTGS – Real Time Gross Settlement System

EFT – Electronic Funds Transfer

TSA – Treasury Single Account

RTGS – Real Time Gross Settlement Systems

MDAs –Ministries, Departments and Agencies

What does the law say about TSA?

Definition

The following extracts from the Public Finance Management Act 2012 is the legal basis for the establishment of TSA in Kenya. This is an essential pre-condition for a robust and stable banking system.

“Treasury Single Account” –

- a) In relation to the national government, means a centralized bank account system where all deposits and payment transactions are processed for State Departments, Commissions and Independent Offices, and any national entity which draws directly from the Consolidated Fund;*
- b) In relation to the county government, means a centralized bank account system established in each county where all deposits and payment transactions are processed for county departments and any other county entity which draws directly from County Revenue Fund;*

Banking arrangements for national government entities

28. (2) The National Treasury shall establish a Treasury Single Account into which all revenues received by national government entities shall be deposited and from which all payments of money to or on behalf of the national government entities shall be made.

28. (3) The Treasury Single Account shall not be operated in any manner that prejudices any entity to which funds have been disbursed.

Banking Arrangements for county government and its entities

119. (2) As soon as practicable, each County Treasury shall establish a Treasury Single Account at the Central bank of Kenya or a bank approved by the County Treasury through which payments of money to and by the various county government entities are to be made.

119. (3) The Treasury Single Account shall not be operated in a manner that prejudices any entity to which funds have been disbursed.

1.0 Executive Summary

Globally, the financial sector contributes to the general wellbeing of mankind. World leaders are always seeking for safer financial systems to avoid crisis. In 2010, the US enacted the Dodd Frank Act. This is a very important law that promotes financial reforms.² In his research Peterson (2011) pointed out that public sector reforms are common in Africa. Only few countries such as Ethiopia have transformed the public finance management systems to match international standards. This has an effect of increased aid flows into those countries.³

Since the promulgation of the new Constitution of Kenya in 2010 a number of public sector reforms have taken place. The constitution introduced the Public Finance Management Act 2012 and created new institutions: Office of Controller of Budget and Commission on Revenue Allocation (CRA). This was aimed at promoting efficiency in the finance sector at the national and county levels. In August, 2014 the national government introduced IFIMS to digitalize government transactions. Currently, the National Treasury⁴ is exploring the possibility of establishing the Treasury Single Account (TSA).

The International Monetary Fund (IMF) defines a Treasury Single Account (TSA) as a unified structure of government bank accounts enabling consolidation and optimum utilization of government cash resources. The TSA separates the control of cash at the transaction level as well as overall cash management. This means that the TSA is a bank account or a set of bank accounts linked to each other. The government uses the account/accounts to transact all payments and receipts and it is able to get the consolidated view of its cash position at the end of each business day. This banking system for government transactions is majorly based on the principles of fungibility of all cash its end use notwithstanding.

Globally, TSA has been implemented with a high level of success in Indonesia, United Kingdom, Sweden, India, France and most recently in Nigeria. These nations adopted the TSA in order to do away with the idle cash balances in the government bank accounts. They realized that idle bank balances in commercial banks are never idle for those banks. They are used to extend loans to their customers.

In Kenya, the discussions on the Treasury Single Account started way back in 2013. No action has been taken so far. In 2015, an article appeared in the The EastAfrican newspaper titled “*Kenya to Launch Treasury Single Accounts in fight against graft.*” In this article, the Cabinet Secretary for Finance expressed his intention to implement the TSA in Kenya as part of the effort

² Financial Times: <https://next.ft.com/content/f58d854e-82db-11df-b7ad-00144feabdc0>

³ Person, S. (2011). Reforming Public Financial Management in Africa. Harvard Kennedy School. Retrieved from: https://dash.harvard.edu/bitstream/handle/1/4669673/RWP10-048_Peterson.pdf?sequence=1

⁴ Kenya’s national treasury is headed by a Cabinet Secretary

to the curb the rampant corruption in Kenya.⁵ The establishment of treasury single account is part of the public Finance Regulations 2013 which were formulated to strengthen the effectiveness of Public Finance Management Act 2012.

The implementation of Treasury Single Account had been suspended in 2013 in favor of other Information Technology-enabled payment solutions that were adopted by the government. These were the IFMIS and internet banking that were adopted by Central Bank of Kenya. The IFMIS was launched in August, 2014 to monitor how ministries, departments and other state agencies spend funds on a real-time basis in order to improve budget implementation.

Currently, there is fear among commercial banks because they believe that they will lose billions of shillings as deposits if the TSA is adopted. This is unfounded because the cash will keep flowing in the economy. The government does not want to have huge bank balances lying idle at the numerous government bank accounts. In another publication by the Business Daily newspaper in 2015, the National Treasury directed State Corporations to be prepared to adopt the TSA in order to reduce borrowing costs.⁶ The state corporations hold huge sums of money in their short-term deposits or as funds invested in Treasury bills and bonds even as they continue receiving budgetary allocations from the national treasury.

The table below shows huge bank balances of unused funds at the counties as at the end of FY 2014/2015. This is the kind of problem that the TSA is expected to do away with:

ACTUAL CASH BALANCE BROUGHT FORWARD FROM FY 2014/15 FOR EACH COUNTY

NO.	NAME OF COUNTY	BALANCE BROUGHT FORWARD (Million Ksh)
1.	Baringo	831.91 Million
2.	Bomet	42.50 Million
3.	Bungoma	-
4.	Busia	469.12 Million
5.	Elgeyo Marakwet	292.59 Million
6.	Embu	842.88 Million
7.	Garissa	463 Million
8.	Homa Bay	6.99 Million

⁵ Anyanzwa, J. (2015, November 28). Kenya to launch Treasury Single Accounts in fight against graft. *The EastAfrican*, Retrieved from <http://www.theeastafrican.co.ke/news/Kenya-to-launch-Treasury-Single-Accounts/-/2558/2975646/-/n3sj4l/-/index.html>

⁶ Odhiambo, A. (2015, January 27). State Firms ordered to give up idle cash held in banks. *Business Daily*, Retrieved from <http://www.businessdailyafrica.com/State-firms-ordered-to-surrender-idle-cash-held-in-banks/-/539546/2603286/-/x1h12c/-/index.html>

9.	Isiolo	36 Million
10	Kajiado	984.8 Million
11	Kakamega	1.680 Billion
12	Kericho	425.18 Million
13	Kiambu	2.6 Million
14	Kilifi	2.1 Million
15	Kirinyaga	1.16 Billion
16	Kisii	617.47 Million
17	Kisumu	1.37 Billion
18	Kitui	2.07 Billion
19	Kwale	1.84 Billion
20	Laikipia	334.21 Million
21	Lamu	300 Million
22	Machakos	538 Million
23	Makueni	2.42 Million
24	Mandera	2.11 Billion
25	Marsabit	500 Million
26	Meru	656.22 Million
27	Migori	80.58 Million
28	Mombasa	-
29	Murang'a	432 Million
30	Nairobi	-
31	Nakuru	1.85 Billion
32	Nandi	432.31 Million
33	Narok	56.03 Million
34	Nyamira	788.73 Million
35	Nyandarua	591.03 Million
36	Nyeri	5.66 Million
37	Samburu	355.38 Million
38	Siaya	290 Million
39	Taita Taveta	42.96 Million
40	Tana River	404.05 Million
41	Tharaka Nithi	278.71 Million
42	Trans Nzoia	451.26 Million
43	Turkana	2.45 Billion
44	Uasin Gishu	1.07 Billion
45	Vihiga	4.33 Million
46	Wajir	670.51 Million
47	West Pokot	200.93 Million
TOTAL		32.548 Billion

Source: Office of Controller of Budget reports

Compiled by: Economic and Social Rights Center (Hakijamii)

2.0 Objectives of this Study

The objectives of this study are:

1. To explore the features, benefits and demerits of the Treasury Single Account.
2. To identify the effects of adopting the Treasury Single Account on the banking sector in Kenya?
3. To identify the implications of Treasury Single Account on economic development in Kenya by highlighting the success stories in other countries?

3.0 Research Methodology

This study was undertaken through use of secondary data. Review was done on relevant Treasury Single Account content that we hope will work to inform Kenyan policy-makers.

4.0 Significance of the Study

The following are the significance of the study:

1. The findings of this study will help educate the general public on the benefits of Treasury Single Account to Kenya's economy. It will also offer an explanation on its temporary effect on the banking industry.
2. The research will also serve as a resource base to other scholars interested in carrying out further research in the field.

5.0 Scope/Limitations of the Study

Limited financial resources tend to affect the efficiency of the researcher in his effort to source for relevant materials or literature. Time constraint: the researcher will engage in the Treasury Single Account research while handling other duties at work.

6.0 Principles of an effective TSA ⁷

- ❖ **TSA should have comprehensive coverage:** It should cover all government spending units both budgetary and extra-budgetary. This is used to make sure that all government resources are consolidated. The IMF indicates that it is not advisable to include public corporations in the TSA system. The inclusion of the corporations will limit their operational independence. Secondly, their inclusion will blur the boundary between public sector and government sector.

⁷ Pattanayak, S., Fainboim, Y. I., & International Monetary Fund. (2010). *Treasury single account: Concept, design and implementation issues*. Washington, D.C.: International Monetary Fund.

- ❖ **Unified government banking arrangement:** This is a pre-requisite to ensure that the Ministry of Finance/national Treasury has an oversight over the government cash flows.
- ❖ **No other government agency should be allowed to operate bank accounts outside the oversight of the treasury.** The treasury is the chief financial agent of the government.

7.0 Types of Bank Accounts Structure

The bank account structure under the TSA can either be distributed or centralized; alternatively it can have features of both.

7.1 Distributed bank accounts Structure

This structure is used successfully in Sweden. Under the structure there are several bank accounts opened with commercial banks. The accounts are operated by different spending agencies with negative and positive account balances in the accounts is netted into the TSA main account. Movement of money into and out of the commercial bank accounts take place twice a day. The consolidated cash balance at the end of each day is reported to the TSA main account.

7.2 Centralized bank accounts Structure

In a fully centralized TSA structure, there is a single account. This can be with or without sub-accounts usually at the central bank. This is operated by a centralized authority or regional units. The spending and revenues transactions are tracked, accounted for and managed through a well developed accounting system.

7.3 Bank Accounts Structure with both distributed and centralized features

The fully centralized and distributed structures and fully distributed structures are the two ends of possible continuum of bank account structures. There would be several combinations of the two. In these arrangements, it is important that any balances left with the banking system are swept overnight back into the TSA.

Chart 1. Revenue Circuit

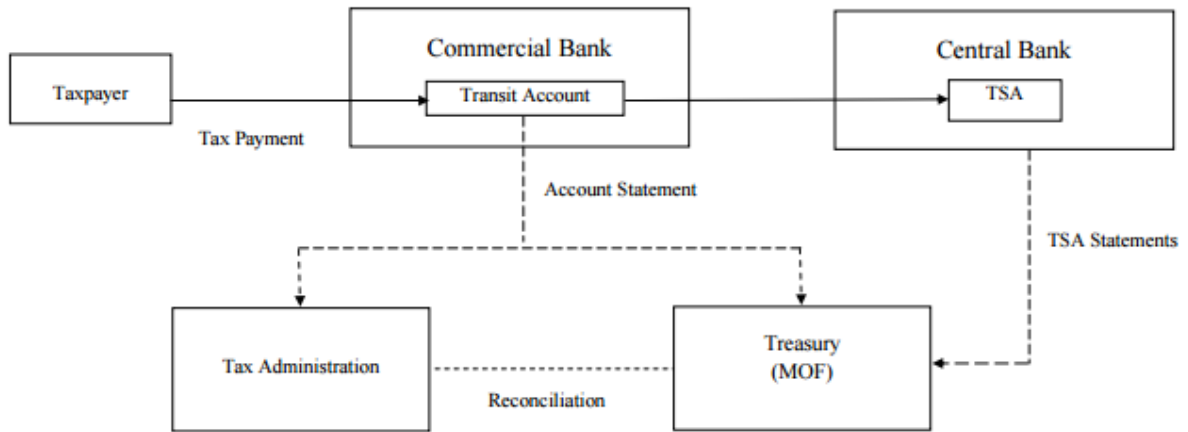


Chart 1: Shows how revenue is collected under the Treasury Single Account System

From the diagram above the citizens pay tax to the transit account at designated commercial banks. These taxes are regularly remitted to treasury single account at the Central Bank. This is most at the end of the business day or more frequently if the RTGS is in place. At the end of each working day, the commercial bank submits an account statement to the tax authority and the TSA help in reconciliation.

Chart 2. Centralized Payments by the Treasury from the TSA

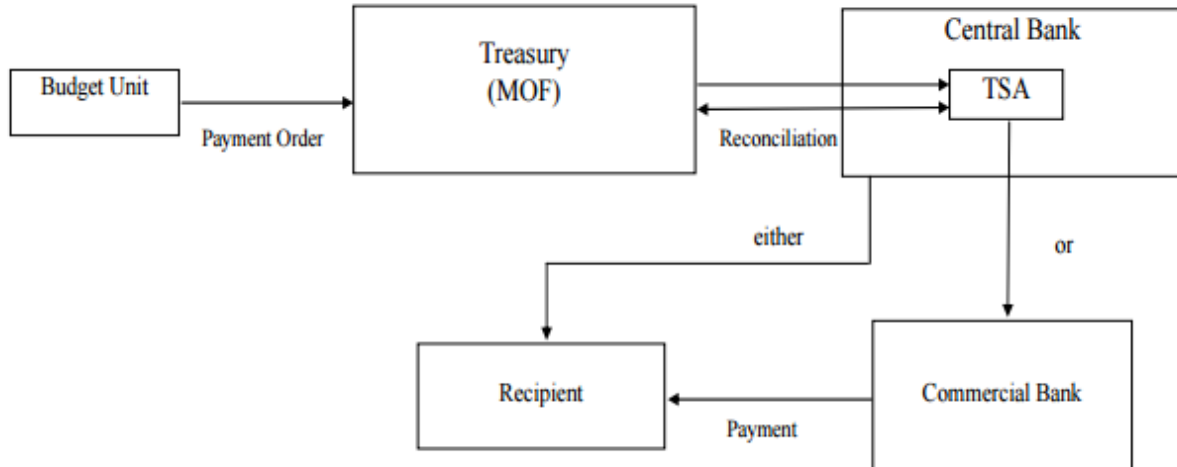


Chart 2: shows how payments are made under the TSA system⁸

The payments disbursements are important under TSA to facilitate timely payments for government obligations. This system helps in reducing incidences of fraud and theft. In countries like Kenya where IFIMS is in place, payments will be faster because the payment system can be automated. The payments are made into the beneficiaries' bank accounts. This technique is very efficient and reduces the chances for fraud and theft. Many countries in developing countries pay in cash and check which leads to delays in disbursements.

Most fraud cases that have been reported at the national and county governments arise at the issuance, encashment, clearing, check writing and delivery stages. This has proved to be expensive and at times erroneous. In addition to that checks can be altered or simply stolen. The solution is to adopt the TSA and put in place proper checks and balances such as used of passwords, restricted authorization and restricted access to prevent access to initiation of funds transfer systems. This calls for advanced banking and communication system (Real Time Gross Settlement System).

⁸ Pattanayak, S & Fainboim, I (2011) Treasury Single Account: An Essential Tool for Government Cash Management. Technical Notes and Manuals

8.0 TSA Success Stories ⁹

8.1 Indonesia

Indonesia adopted new financial regulations in July 2007. This paved way for the adoption of Treasury Single Account (TSA). The new system greatly reduced the number of bank accounts outside the control of treasury. In 2007, the government of Indonesia carried out a census of government accounts. The outcome was 39,500 accounts were operated by the government. Following this, 6,000 accounts were closed by 2009. The treasury has 178 field offices. The zero-balancing concept was adopted in 2009. The Ministry of Finance signed an MOU with the Bank of Indonesia (BI).

8.2 France

France has a well developed Treasury Single Account (TSA) based at the Banque de France (Central Bank). This TSA is receives balances of municipalities, quasi-government agencies, local authorizes and overseas government spending units. Social security funds are not managed under the TSA. They are banked at the stated-owned savings bank. The government does not have bank accounts with the commercial bank accounts.

The coverage of the French Treasury has been wider than most of the OECD countries. It also covers other public entities such as state-owned enterprises. France has IFMIS in place which includes an interface with the Central Bank or TSA.

8.3 United Kingdom

The balances from central government transactions are aggregated at the TSA (maintained at the Central Bank). All extra-budgetary funds are controlled within the TSA. State Owned Enterprises and local authorities hold their funds in the commercial banks. There are two main government funds in United Kingdom; the Consolidated Fund and the National Loans Fund (NLF).

8.4 Nigeria

The Treasury Single Account ensures that all government revenues and payments are deposited with the Central Bank.

8.5 India

The Treasury Single Account is established at the state and federal level of government. The TSA is operated by the Central Bank of India (Reserve Bank). The bank handles collections, payments, receipts and remittances on behalf of Central government. In remote areas where the

⁹ Pattanayak, S & Fainboim, I (2011) Treasury Single Account: An Essential Tool for Government Cash Management. Technical Notes and Manuals

Central Bank does not exist, the government banking operations are managed by the commercial banks as agents of the reserve bank.

9.0 Conclusion

Progressive governments around the world aim at having efficient banking arrangements in order to efficiently manage resources and maximize on opportunity costs associated with cash management. The fragmented systems of handling government finances have always been too expensive for the tax payers. Remember the example of Kisii County which had 53 bank accounts according to the Office of Auditor General! This calls for a centralized and unified view of all government resources. This means that the government should be able to tell how much money is in her bank accounts at any point in time. The idea of having idle cash in the government coffers belongs to history and the museums. Why should the government go for a borrowing spree when some of her spending units (MDAs) have billions of idle cash? It makes no sense and this practice has to stop! There are numerous advantages associated with the TSA: reduced borrowing costs, improved cash management, better coordination of fiscal and monetary policy and generation of high quality banking and fiscal data. Finally, countries that have implemented the TSA have reported reduced costs of debt servicing costs.



The Director,

Economic and Social Rights Center (Hakijamii)

53 Park Building, Along Ring Road, Off Ngong Road

P.O. Box 11356-00100, Nairobi.

Phone: 020-2726023

+254726 527876

Website: www.hakijamii.com