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Effect of Treasury Single Account on the Liquidity of Deposit Money Banks in Nigeria

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Abstract: *The directive by the federal government that treasury single account be fully implemented which led to the closure of more than ten thousand bank accounts and the sudden withdrawal of over two trillion naira from money deposit bank is worrisome. There is great fear that the liquidity base which is the life line for the survival of every corporate entity will be affected. The main objective of this study is to review the theoretical and empirical literature on the effect of the implementation of Treasury Single Account (TSA) on the liquidity of deposit money banks (DMB) in Nigeria. Recycling on previous studies on the subject matter, this study concludes that the implementation of treasury single account will adversely affect the liquidity of deposit money banks in Nigeria. The study therefore recommends that DMBs in Nigeria should refocus on their core mandates which include collecting deposit funds and other valuables from private individuals and corporate bodies, (not necessarily government funds) for safe keeping. The study also recommends that DMBs should embrace the business of intermediation to create wealth and jobs for the economy and in the process earn profit for themselves, to make up for the liquidity gaps that are created by the implementation of TSA. Again the study recommends for further investigation to be carried out on the relationship between TSA and the liquidity of money deposit banks in Nigeria using performance facts and figures to really determine the extent of the effect.*
Key words: *Treasury Single Account, Liquidity and money deposit banks.*

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I. Introduction

1.1 Background to the study

Treasury single Account (TSA) is a unified structure of government bank accounts that gives a consolidated view of government cash resources. It is a Public Accounting System under which all government revenue, receipts and payments are collected and disbursed within one single account, usually maintained by the country's Central Bank. The purpose is primarily to ensure accountability of government revenue, enhanced transparency and avoid undue delay in the remittance of government revenue. The maintenance of a treasury single account will facilitate effective cash management by eliminating idle funds usually left with different deposit money banks and in a way minimizes the borrowing costs. (IMF: 2010).

Section 80(1) of the 1999 constitution of Federal Republic of Nigeria as amended provides that "All revenues, or other monies raised or received by the Federation (not being revenues or other monies payable under this constitution or any Act of the National Assembly into any other public funds of the federation established for a specific purpose) shall be paid into and form one consolidated revenue fund of the federation" how ever successive governments have continued to operate multiple bank accounts for collection and spending of government revenue in flagrant disregard to the provisions of the constitution which requires that all government revenue be remitted into a single account. It was not until 2012 that government ran a pilot scheme for a single account using 217 ministries, department and Agencies (MDAs) as a test case. The pilot scheme saved Nigeria about five hundred billion naira from frivolous spending. The success of the pilot scheme motivated the government to fully implement TSA leading to the directive to banks to provide the technological platform that will help accommodate the TSA scheme.

The directives by President Mohammadu Buhari that all government revenues should be remitted to a treasury single Account is in consonance with this programme and in compliance with the provisions of the 1999 constitution (CBN 2015). Until the introduction of TSA in Nigeria, Ministries, Departments, and Agencies (MDAs) that generate revenue have multiplicity of accounts in the deposit money banks (DMB), use part of the revenue generated to fund their operations and then remits the surplus to the federation account. As a result agencies pay into government account what they deem fit. Under this situations, some MDAs became richer than government. The result of this situation there was Leakage of public funds, embezzlement of public funds, and the inability of government to know the exact amount in its account. Budget were therefore prepared using false projections leading to poor implementation. However, the greatest benefiaries of this situation were the DMB that relied on the deposits from these MDAs (pubic money), and the government was on the lossing side as it ends up borrowing from these same DMB with high interest rate. Above all, banks no longer care to mobilize deposits from other sectors of the economy. The account balances of the federal government in the DMB lay idle in those banks. All of these has stunted the growth of the Nigerian economy. The above background resulted in the recent directive by the Presidency that all MDAs should close their accounts with DMB and transfer the balances into federation account domiciled with Central Bank of Nigeria (CBN.2015)

The implication of these directives is that the DMBs will now act as collection agents. This means that DMBs will continue to maintain revenue collection accounts for MDAs but all monies collected by these banks will have to be remitted to consolidated Revenue Accounts with the CBN at the end of each banking day. In other words MDAs accounts with DMBs must be zerorised at the end of every banking day followed by a complete remittance to the TSA of all revenues collected. This also implies that DMBs will no longer have access to the cash float provided by the accounts they maintain for MDA's

Limitations

Readers should be informed that in the course of the study very litle literature has been reviewed basically due to the fact that the policy in nigeria has beeen implemented not long ago and the literature available is scanty.

Statement of the Problem

Before the introduction of treasury single account DMBs fed fat on the "float" created by the duplicated and unaccounted MDAs accounts (Adeola. 2016). However with the introduction of TSA, deposit money banks are now the collecting agents of CBN which means that they are now required to remit all the revenues collected from MDAs at the end of each banking day. The question now is "what will be the liquidity positions of the DMBs now that TSA is in force? What should be done by the deposit money banks to improve their liquidity now that, TSA is in force? It is against this background that this study seeks to review empirical literature to establish and affirm the effect of the implementation of TSA on the liquidity of DMBs in Nigeria in previous studies.

Objectives of the Study

The objective of this study is to review the theoretical, conceptual and empirical literature on effect of treasury single account on the liquidity of deposit money banks in Nigeria to ascertain the research gap in past studies.

II. Methodology

This is basically a review paper on the effect of treasury single account on the liquidity of deposit money banks. It employs the secondary source of data collection by making use of the available literature on treasury single account.

This paper is structured into five sections, section one presents the introduction, section two has the methodology, section three provides the review of related literature which has theoretical frame work, conceptual clearifications and empirical studies conducted on the effects of treasury single account on the liquidity of deposit money banks In Nigeria. While section four and five has conclusion and recommendations respectively, based on the findings of the review.

III. Review Of Related Literature

Theoretical Frame Work

Public Finance Management Theory

This theory assumes that all aspects of financial resources – mobilization and expenditure should be well managed in government for the benefits of the citizenry. It includes resources mobilization, prioritization of programmes, the budgetary process, efficient management of resources and exercising control to guide against threats. The purpose of treasury single account primarily is to avoid misapplication of public fund (Grubber,2005). This theory comformes with the study as TSA is concerned with the consolidation and prudent management of public funds for the benefit of the citizenry.

Agency Theory

This theory was propounded by Jensen and Meckling (1976), the theory emphasized that a relationship between one person (the principal) and the other (an agent) whereby the latter engage the former to perform some services on his behalf that involves delegating some decision making authority to the agent. The said relationship should be based on trust; this is also known as fiduciary duties. Fiduciary duty is a duty imposed upon certain persons because of the position of trust and confidence in which they stand in relation to another.

Emanating from agency theory is the issue of accountability which arises right from the moment someone has been appointed or elected to exercise a mandate as an agent or trustee on behalf of another to oversee the affairs relating to the office. The relationship between the agent (office holder) and the principal automatically creates a social contract between them. On this basis, the office holder must regard the contract as bringing to bear on him an inescapable obligation to stand ready and willing to be answerable for all his actions and inactions, both good and the bad on a consistent basis (Akpa, 2014).

Treasury single account was adopted in Nigeria primarily to ensure accountability, enhanced transparency, and to avoid undue delay in the remittance of government revenue (Adeolu. 2015). This theory also is inline with the study as TSA is an issue of accountability as a measure of stewardship in the agency relationship between government as an agent and the citizens as the principal.

Stakeholder Theory

This theory was propounded by Freeman in 1984, it assums that the adoption of treasury single account by the Federal Government is as a result of the pressure from the stakeholders/citizens to serve as anti corruption strategy. It also suggested that the government will responds to the concerns and expectations of powerful stakeholders/citizens and some of the responses will be in the form of strategic opinions. Stakeholder's theory also alines with the study as it provides rich insight into the factors that motivate government into the adoption and implementation of TSA as a policy in Nigeria.

Modern Monetary Theory (MMT)

Modern monetary theory (MMT) or modern money theory, also (known as Neo-chartalism) was proposed by Georg Friedrick Knapp (1905). It is a macro economic theory which describes and analyz modern economies in which the national currency is flat money, established and created by the government.

The key insight of MMT is that "monetarily sovereign government is the monopoly of it currency and can issue currency of any denomination in physical or non physical forms.

As such the government has an unlimited capacity to pay for the things it wishes to purchase and to fulfill promised future payments, and has an unlimited ability to provide funds to other sectors, thus insolvency and bankruptcy of government is not possible.

MMT stipulated that, a sovereign government typically has an operating account with the country's central bank. From this account, the government can spend and also receive taxes and other inflows (Scott Fullwilter, 1914). MMT is based on a detailed empirical account of the "operational realities" of interactions between the government and it central bank and the deposit money banking sector.

MMT shows that it is relevant to aggregate the central bank and the treasury into a government sector that finances itself through monetary creation such that financial position of the treasury and the central bank are so intertwined that both of them are constantly in contact in order to make fiscal and monetary policies run smoothly. This theory also falls inline with the study subject, as the rationale behind TSA also make the responsibilities of the national treasury and the central bank intertwined.

Conceptual Framework

Treasury Single Account (TSA)

Treasury Single Account (TSA) is one of the financial policies implemented by the federal government of Nigeria to consolidate all the revenue from all the ministries, departments, and agencies (MDAs) in the country. This ensures that all cash deposit by MDAs into Deposit money banks from revenues generated are traceable into a single account domicile with the Central Bank of Nigeria. The policy was introduced to reduce the proliferation of bank accounts operated by MDAs and also to promote transparency and accountability among all MDAs of the government. Tayo (2015) in Kanu (2016) "posited that TSA is the Federal Government independent Revenue e-collection initiative that will automate Revenue Collections of MDAs to directly be paid into the Federal Government consolidated Revenue Fund (CFR) account maintained by the CBN through the Remita e-collection platform and other electronic payment channels".

The adoption of TSA will involve retail banking which deposit money banks can perform. It includes: collection of taxes/levies and disbursements of funds as well as payment of salaries to civil servants.

As a public accounting system, the primary aim of TSA is to ensure accountability of government revenue, enhance transparency and avoid misapplication of public funds. It is to ensure that transparency of unspent budgetary allocations are carried forward automatically to another year.

Section 80 (1) of the 1999 Constitution as amended states that "all revenues or other monies raised or received by the Federation (not being revenue or other money payable under this Constitution or any Act of the National Assembly into any other public fund of the Federation established for a specific purpose) shall be paid into and form one Consolidated Revenue Fund of the Federation". Successive governments have continued to operate multiple bank accounts for the collection and spending revenue, thereby disregarding the provision of the constitution which require the remittance of all the revenue into a single account.

It was not until 2012 when the government at the time ran a pilot scheme for a treasury single account using 217 MDAs as a test case. The exercise saved Nigeria about ₦500 billion in frivolous spending. The success of the pilot motivated motivated the federal government to fully implement TSA. Sequel to the above the government issued a directive to DMBs to provide technological platform that will help to accommodate the TSA. The Central Bank opened a Consolidated Revenue Account to receive all government revenue and effect payments through this account. All MDAs hence expected to remit money collected in to this account through the individual deposit money banks, who act as collection agents. Although, deposit money banks will continue to maintain revenue collection accounts for MDAs but all monies collected by these banks will have to be remitted to the Consolidated Revenue Accounts with the CBN at the end of each banking day. In other words, MDAs accounts with MDBs must have zero balance at the end of every working day by a complete remittance to the TSA, of all revenues collected. The implication is that banks will no longer have access to the floating cash provided by these proliferated accounts maintained for the MDAs.

According to IMF (2010), full-fledged TSA shares three essential features:

First, the government banking arrangement should be unified, to enable the ministry of Finance (MOF) (or treasury) to have an oversight responsibility for, over government cash flows in and out of these bank accounts.

Secondly, no other government agency operates bank accounts outside the treasury single account arrangement.

Thirdly, the consolidation of resources should be comprehensive, and encompass all funds both budgetary and extra-budgetary.

Therefore, the TSA is a payment system in which all revenues due to the government are paid into a unified account domiciled with the CBN. Its objective is to ensure fiscal discipline and transparent management of the nation's finances. (CBN,2015).

Tsa and Banking Sector

The banking sector is the engine of any nation's economy. In Nigeria, deposit money banks have been the custodians of government funds. Therefore, with the maintenance of a single account, banks will be deprived of the free flow of funds from MDAs.

Indeed, it is estimated that deposit money banks held about ₦2.2 trillion public sector funds at the beginning of the first quarter of 2015. When such amount of money leaves the system is obvious that liquidity issues will be raised. When one considers the fact that each time the monthly federal allocation is released, the banking system usually expirience flow of liquidity, and as soon as this public sector fund dries up, it result to iliquidity with attendant increase in interbank lending rates. The banks must be affected, when such high revenue generating parastatals like the NNPC ejects their accounts from the DMBs. As a matter of fact, deposit money banks stand to lose immensely from the implementation of TSA. This is because insufficiency of available cash in the banking system, results in a surge in money market rates during the period, as banks source for funds to cover their poor liquidity positions. Indeed, the Nigerian banking industry, on an aggregate basis, would be affected regarding deposits and funding cost structure. As a matter of fact, TSA generated much fear in the banking industry even before its implementation. The fear is that with the high Monetary Policy Rate at 13%, Cash Reserve Ratio (CRR) at 20% and 75% available for private and public sector deposits respectively, its implementation would not be favorable to DMBs.

Irrespective of how tough this policy will be on DMBs, it will perhaps compel the banks to focus on the mobilizing funds from the real sector of the economy. Any DMB that fails to operate based on the core banking functions for which they were licensed must definitely close shop. This will cause heavy downsizing of staff, thereby increasing the unemployment rate in the country. Managements of DMBs should understand the aim of establishing banks.

A good number of people in Nigeria are unserved by the DMBs, many lack access to financial services, and some have no opportunity to save or invest their resources. To affirm this, Kanu & Oyims (2015) observe that "in most developing countries, the formal financial system reaches only to top 25 percent of the economically active population" According to the authors, 75 percent of the people were left without access to financial services apart from those provided by money lenders and families. The issue of the non accessibility to financial service cause poor economic sustainability and rural development in Nigeria.

The adoption of the TSA is in the greater interest of the states, as it will pave way for the timely payment and capturing of all government revenue in a single government treasury account, without the intermediation of multiple banking arrangements as had been the case. Moreover, embracing the scheme can help reduce the mismanagement of public funds by revenue-generating agencies, as well as check excess liquidity, inflation, high interest rates and round-tripping of the government deposits. The use of multiple bank accounts left room for the misappropriation of huge sums of money belonging to all levels of government in the country. It encouraged unbridled corruption in the management of public finances, with the result that all tiers of governments became heavily cash-strapped.

Empirical Review

Few studies have been carried out on the effect of Treasury Single account on the liquidity of the deposit money banks. These studies are reviewed below:

Kanu (2016), examined the impact of Treasury Single account on the economy, she employed a cross-sectional survey design for her study. The population of the study was made up of twenty four DMBs in Nigeria, out of which ten were selected as sample for the study. Data was collected through primary source, while chi-square was employed as a statistical tool for analysis of the data. The result obtained confirmed that the implementation of TSA in the public accounting system impacted negatively on the liquidity base and performance of banking sector in Nigeria. She therefore recommended that, the government through the CBN should come up with an arrangement to addressing the negative impact of the policy both in the banking sector and the economy at large.

In a statement issued by the Afrinvest Group, a Lagos-based financial investment house, said 'whilst the directive issued came as the first official statement by the presidency on the TSA, the Nigerian National petroleum corporation (NNPC) had earlier began withdrawing its funds from banks for retirement into CBN." According to the group,this had an impact on liquidity level in the banking system, resulting in a surge in money market rates during the period as banks scrambled for funds to cover their liquidity positions. With the TSA implementation now extended to all MDAs, the Nigerian banking industry, on an aggregate basis, would be affected in terms of deposits and funding cost structure (Okwe,2015).

In a related development, Chukwu (2015) In Eme, Chukwurah, and Iheanacho (2015) posits that he do not envisage any major challenge in the full implementation of TSA, given that the test run has been on for more than two years and the IT platform on which it rides on has been tested and found to be robust. The challenge would have come from those who were benefiting from the previous suboptimal system, but with the new sheriff president Mohammadu Buhari, on the saddle and his no nonsense approach to corruption, I cannot imagine any civil servant trying to sabotage the implementation of TSA. .

Wusu (2015) in Eme, *et al* (2015) adds that the liquidity in the banking system will definitely be affected. This is because once the banks collect government funds, it will be sent directly to the TSA. The free funds some banks used to enjoy will no longer be there, nonetheless, he stressed that the decision to fully enforce the policy would help to ensure the consolidation of government revenue. He pushed further that, prior to the initiative, government funds deposited in DMBs were fragmented, a system that gave room for corruption but now that the TSA is to be fully implemented, it will help to block leakages and uncover idle cash, it will also allow complete and timely information about government cash.

According to Enwegbra (2015) in Eme, *et al* (2015). The policy of TSA posed serious threat With TSA leading to the closure of about ten thousand multiple bank accounts operated by MDAs in deposit money banks,these will eject a lot of cash from the system henc raising liquidity issues for DMBs as such banks will have to wake up from their slumber. This is because the era when government's money is either lent back to government or invested in forex speculations is over. It also means that no longer at bankers' committee meetings should member banks demand that the CBN pursues self-serving high interest rates to their benefits and those of heads of MDAs, who placed public money on their high interest- yielding fixed deposit accounts. With TSA, government can easily guarantine it's revenues, with intended consequences including forcing interest rates to naturally nose-dive since no serious business should be ready to borrow at such double digit rate when the economy is struggling at between four and five percent. TSA is forcing banks to leave their comfort zone caused by dependence on government money to now become as creative and inventive as it is the case in modern economies around the world, which is to seek private deposits through investing in the real sector of the economy. In fact, with economic financialization soon over, bank will discover that their survival is dependent on their embracement of fractional reserve banking, which is leaving a fraction of private depositors funds in reserve while using the main deposits to chase high profit-yielding investments. This means that the era of economic diversification through industrialization will soon begin. What this also means is that at the next Bankers Committee meeting, banks will insist that the CBN revisits its current cash reserve ratio (CRR) on private deposits from thirty one percent to possibly zero percent so that they can begin to attract more private deposits (Okwe, 2015)

Onyekpere (2015) sees the implementation as a blessing in disguise stating that, the implementation of the TSA can not hurt banks, properly so-called. It will only hurt establishments that purport and pretend to be banks but have failed, refused and neglected to understand banking and do what bankers do elsewhere. It is an opportunity for banks to refocus on the original purposes for which they were set up to collect depositors funds (not necessarily government funds), keep them safe, engage in intermediation to create wealth and jobs for the economy and in the process earn profit for themselves. Yes, the idea of sitting idly and expecting rents and unearned income should be gone and gone for good. Good and well managed banks will have no problem with this development.

Garbade (2015) in Kanu (2016) posited that though the implementation of the TSA presents an opportunity for banks to creatively think of other means of raising money, there are fears that the concentration of government funds in the TSA may affect the liquidity of some banks leading to their collapse, and an increase in unemployment, however, while the influence of banks to maintain Government revenues is reduced under a full implementation of TSA, it should be remembered that the funding of projects by the government as well as the sale of treasury bills and bonds approved by the CBN still pass through deposit money banks.

IV. Conclusion

Based on the studies reviewed, the study discovered that the implementation of TSA will negatively affect the liquidity base of DMBs in Nigeria, which failure to properly address may result to the collapes of DMBs that does not have stronge liquidity base and were not properly managed. This may lead to staff retrenchment thereby increasing unemployment figures in Nigeria.

V. Recommendations

In view of the above, the study therefore recommends that DMBs in Nigeria should refocus on their core mandates which includes collecting depositors funds and other valuables from private individuals and corporate bodies, (not necessarily government funds) for safe keeping. The study also recommends that DMBs should embrase the business of intermediation to create wealth and jobs for the economy and in the process earn profit for themselves, to make up for the liquidity gaps that are created by the implementation of TSA.

Going forward more investigations be carried out to really bring out fact and figures on the extent to which the implementation of TSA has negatively affected the liquidity of DMBs in Nigeria.

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