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Impact of Treasury Single Account (TSA) Implementation on Bank Liquidity in Nigeria

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Abstract: This paper assesses the impact of TSA implementation on the liquidity capacity of deposit money banks in Nigeria. The specific objectives were to examine the impact of Treasury Single Account (TSA) implementation on banks' current ratio, deposit mobilization and credit creation in Nigeria. The ex-post facto research design was employed and data collected from financial statements and annual reports of ten (10) banks; Access Bank, First Bank, Ecobank, Zenith Bank, UBA, Union Bank, Guaranty Trust Bank, Diamond Bank, Fidelity Bank and Sterling Bank between the period 2010 and 2015. The Augmented Dicker Fuller (ADF) test was employed to test for stationarity (unit root) in the series of data, and the Johenson Co-Integration test employed to test the existence of long run relationship between both dependent and independent variables. Regression Models were formulated and analyzed using Econometric views (Eviews) version 9.5. The statistical technique employed in testing the hypotheses was the student t – test statistic. Findings from the study revealed that Treasury Single Account (TSA) implementation has a negative significant impact on current ratio of banks, positive significant impact on deposit mobilization by banks. However, it has no significant impact on credit creation by banks to the public. Based on the findings it was recommended that Deposit Money Banks should source funds from other sectors of the economy and CBN should go beyond the guidelines and put in place measures to correct any lapses or negative impact of the policy on the banking sector.

Keywords: Treasury Single Account (TSA), Liquidity, Deposit Money Bank, Deposit mobilization, credit creation

INTRODUCTION

Since 1952, banks in Nigeria have experienced several reforms and policies. Many banks did not survive these experiences. The economic status of any nation depends on how stable their banking industry is. In other words, any issue that affects banks also has an impact on the economy of the nation. Until the introduction of TSA in Nigeria, Ministries, Departments and Agencies which generate revenue, have the multiplicity of accounts in commercial banks, use part of the revenue generated to fund their operations and then remit the surplus to the federation account. As a result, agencies pay into government account what they deem fit. The result of this situation includes leakages of funds, embezzlement of public funds, as well as the inability of a government to know the exact amount in her account. Budgets were therefore prepared using false projection leading to poor implementation. However, the greatest beneficiaries of this situation were the banks that relied on the deposits from the ministries (public money) and government borrowings from banks with high- interest rate. Above all, banks no longer care to mobilize money from other sectors of the economy. The balances of account of the government with the banks lay idle in the banks. All these stunted the growth of the economy. The above background resulted in the recent demand by the Presidency that all agencies and ministries should close their accounts with Commercial banks and transfer the balances into federation account with Central Bank of Nigeria. This directive conveyed in a CBN circular was addressed to all Deposit Money Banks (DMB) in Nigeria. The circular no. BPS/CSO/CON/DIR/01/079. Dated: February 25, 2015, was entitled "Commencement of federal government's independent revenue e collection scheme under the single treasury account (TSA) initiative"

The policy of treasury single account (TSA) has its merit of streamlining the process of remittance of revenue generated by various agencies and letting government know at a glance what it has in its account. This looks like a novel idea in an environment in which corruption is prevalent and every loophole for revenue leakages needs to be blocked. The only issue arising from this policy decision is that the change of residence of government funds – the transfer of government related deposits from commercial banks. Over the years, deposit money banks have been the custodians of the Nigerian government fund as the engine of the nation's economy, and consequently, the maintenance of a single account will deprive banks of the free flow of public funds from ministries held by them (estimated at about N2.2 trillion at the beginning of the first quarter of 2015). When such amount of money leaves the system it is obvious that banks will have liquidity problems.

Against this backdrop, this study is geared towards examining the impact of TSA on liquidity of banks operating in Nigeria.

Research Questions

The following questions are asked in order to guide the objectives of the study:

1. What is the impact of Treasury Single Account (TSA) implementation on the Current Ratio (CR) of deposit money banks in Nigeria
2. What is the impact of Treasury Single Account (TSA) implementation on Deposit Mobilization (DM) of deposit money banks in Nigeria?
3. What is the impact of Treasury Single Account (TSA) implementation on Credit Creation (CC) of deposit money banks in Nigeria?

Research Hypotheses

The following hypotheses are stated in null form:

H_0: Treasury Single Account (TSA) implementation does not have a significant impact on Current Ratio (CR) of deposit money banks in Nigeria

H_0: Treasury Single Account (TSA) implementation does not have a significant impact on Deposit Mobilization (DM) of deposit money banks in Nigeria

H_0: Treasury Single Account (TSA) implementation does not have a significant impact on Credit Creation (CC) of deposit money banks in Nigeria

LITERATURE REVIEW

Concept of 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 by way of deposit into commercial banks traceable into a single account at the Central Bank of the country. The policy was introduced to reduce the proliferation of bank accounts operated by MDAs and also to promote transparency and accountability among all organs of the government. The adoption of TSA will involve retail banking which commercial banks can perform. 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 on unspent budgetary allocations is carried forward automatically to another year.

According to Onyekpere, [1] a 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.

For Chukwu, [2], a Treasury Single Account (TSA) is a network of subsidiary accounts all linked to a main account such that, transactions are effected in the subsidiary accounts but closing balances on these subsidiary accounts are transferred to the main account, at the end of each business day. With the implementation of the Treasury Single Account, Ministries, Agencies and Departments (MDAs) will maintain their individual accounts with the commercial banks, but daily funding of their disbursements are made from the central or main account, which is resident with the Central Bank, just as their closing balances at the end of day are transferred to the main account.

Bank Liquidity

According to Global Association of Risk Professionals [3], liquidity is a bank's capacity to fund increase in assets and meet both expected and unexpected cash and collateral obligations at a reasonable cost and without incurring unacceptable losses. Bank Liquidity simply means the ability of the bank to maintain sufficient funds to pay for its maturing obligations. It is the bank's ability to immediately meet cash, cheques, other withdrawals obligations and legitimate new loan demand while abiding by existing reserve requirements.

According to Nwaezeaku [4], liquidity in banking measures the availability of cash and the rate at which current assets are converted into cash to meet ordinary and extra – ordinary request. Several scholars have viewed liquidity as a measure of bank's bargaining power and strength. One of the views is that, the more effective a deposit money bank is in managing its liquidity, the stronger its ability to provide loanable funds. Adequate liquidity enables a bank to meet three risks namely: Time risk (which is the ability to compensate for non-repayment of funds. That is, if the borrower defaults their commitment at a specific time), funding risk (which signifies the ability to replace net out flows of funds, either via usual withdrawals of retail deposits or non-renewal of wholesale funds), lending risk (which denotes ability to meet occasional withdrawals of funds from cogent customers). Monitoring deposit money banks' liquidity reduces the possibility of raising loans under unfavourable loan agreements, restrictions and at a high interest bearing costs. Liquidity management in deposit money banks also reduces the incidence of bankruptcy and liquidation which are simply the result of illiquidity, and thereby, help to protect customers' deposits. To simply conclude, liquidity helps to enhance and maintain public confidence of depositors and the financial markets. If the financial market perceives a bank to have liquidity problems, the bank may not be permitted to raise further funds and if allowed, it will be at an increased rate (premium). Also, liquidity monitoring also serves as a tool through which over-liquidity and under-liquidity, which can pose negative impact on profitability can be avoided.

In the study of the determinants of liquidity and their impact on financial performance in Nepalese commercial banks by Sushil and Bivab [5], the results of regression analysis showed that capital adequacy, bank size, share of non-performing loans in the total volume of loans and liquidity premium paid by borrowers had negative and statistically significant impact on banks' liquidity.

Effect of TSA on banks liquidity and performance

A good number of people in Nigeria is unserved by the bank, many lack access to financial services, and some have no opportunity to save or invest their resources, yet banks have relied all these years on government revenue to build their liquidity. Kanu & Oyims, [6] observe that "in most developing countries, the formal financial system reaches only to top 25 per cent 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.

Head of strategy, BGL Plc, Olufemi Ademola in Vanguard News (2015) reported that the banks have been accused of not carrying on the proper business of banking but are involved in "cash round-tripping" by taking funds from the government and using the same funds to invest in government bonds and treasury bills, thus making huge returns without risking their capital. With the implementation of the TSA, banks will need to conduct proper financial intermediation and find innovative ways to improve liquidity and returns. It would be tough at the initial stage but with time, they will adjust, easing the pressures on banking sector liquidity.

Abe [7] agreed with Ademola, saying the banks will now go back to their core business of lending to the economy. Rather than the banks firing their staff, banks will need more staff to go on deposit mobilisation. He described some newspapers that banks are firing staff as a result of the implementation of the TSA as very unprofessional and added that the dust raised by the TSA is yet to settle, and so it will be improper for banks to begin any sack when they do not know the next step of the central bank. He is positive that banks that know their business will always survive, saying that the big oil companies also bank with the banks.

Irrespective of how tough the TSA policy will be on banks, it will perhaps compel the banks to focus on the funds of the real sector of the economy, rather than spending much on Federal Government projects, Oil & Gas Transactions, Forex dealings, etc. Any commercial bank 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 banks should understand the aim of establishing banks. The Government is not only customer banks have. The issue of banks chasing government money at the expense of other clients especially in the sector of the economy is a questionable commentary on the performance of the banks.

METHODOLOGY

This research employed the *ex-post facto* design. The population of the study is made up of banks quoted on the floor of the Nigerian Stock Exchange (NSE) between the period 2010 and 2015.

The sample size of the study was ten (10) quoted companies obtained using the judgmental sampling technique. The selected banks include Access Bank, First Bank, Ecobank, Zenith Bank, United Bank of Africa (UBA), Union Bank, Guaranty Trust Bank (GTB), Diamond Bank, Fidelity Bank and Sterling Bank. The method of selecting these ten banks was due to the fact that the financial information of these banks can be easily obtained, as well as the proximity of the bank to the researcher.

In order to test the impact of Treasury Single Account (TSA) on liquidity capacity of banks in Nigeria, three measures of liquidity, namely, Current Ratio (CR)), Deposit Mobilization (DM) and Credit Creation (CC) were employed as the dependent variables, while the level of Treasury Single Account implementation (TSAI) is the independent variables.

The following regression models were formulated from the variables discussed:

$CR = b0+b_1TSAI +Ei$ ……………… (1)

$DM = b0+b_1 TSAI +Ei$ ……………… (2)

$CC = b0+b_1 TSAI +Ei$ ……………… (3)

RESULTS AND DISCUSSION

Table 1: Regression Result of the significant impact of TSA implementation on CR

Dependent Variable: TSA Independent variable: Current Ratio				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
CR	-0.726387	0.047631	-15.25026	0.0327
C	3.241275	0.774738	4.183702	0.0001
R-squared	0.738552			
Adjusted R-squared	0.621976			
F-statistic	23.25704	Durbin-Watson stat		1.961358
Prob(F-statistic)	0.032687			

Source: Eviews 9.5

Table 1 reveals that there is a negative relationship between TSA implementation and current ratio of banks in Nigeria. This implies that an increase in the implementation of TSA results in a decrease in the current ratio of banks in Nigeria. Stated differently, when other variables are held constant, a one per cent increase in TSA implementation index will decrease CR by 0.726 (72.6%). TSA implementation is therefore said to have a statistically significant impact on CR, viewing the t-statistics.

Table 2: Regression Result of the significant impact of TSA on DM

Dependent Variable: TSA Independent variable: DM				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
DM	0.099462	0.021036	4.728056	0.0393
C	1.518143	0.391294	3.879802	0.0003
R-squared	0.648965			
Adjusted R-squared	0.532568			
F-statistic	8.986176	Durbin-Watson stat		1.946441
Prob(F-statistic)	0.039300			

Source: Eviews 9.5

Table 2 reveals that there is a positive relationship between TSA implementation and deposit mobilization from the public by deposit money banks in Nigeria. This implies that an increase in the implementation of TSA results in an increase in the deposit mobilization by banks in Nigeria. Stated differently, when other variables are held constant, a one per cent increase in TSA implementation index will increase DM by 0.099 (9.9%). TSA implementation is therefore said to have a statistically significant impact on the ability of banks to mobilize deposit from the public.

Table 3: Regression Result of the significant impact of TSA on CC

Dependent Variable: TSA_INDEX				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
CC	-0.001658	0.001481	-1.119625	0.0952
C	2.116647	0.247258	8.560482	0.0000
R-squared	0.040247			
Adjusted R-squared	0.026990			
F-statistic	10.01431	Durbin-Watson stat		2.363973
Prob(F-statistic)	0.095193			

Source: Eviews 9.5

Table 3 shows that there is a negative relationship between TSA implementation and credit creation to the public by deposit money banks in Nigeria. This implies that an increase in the implementation of TSA results in a decrease in the volume of credit created by banks in the long run. Stated differently, when other variables are held constant, a one per cent increase in TSA implementation index will increase CC by 0.001 (0.1%) in the future. TSA implementation is therefore said to have a statistically significant impact on the ability of banks to create credit to the public.

CONCLUSION

TSA has an adverse effect and impact on the current ratio of banks in Nigeria. With the introduction of TSA, the working capital of banks have reduced significantly. Current assets such as Treasury bills and certificates have significantly fallen, impairing the current ratio structure of banks. This significantly threatens liquidity. This implies that TSA implementation has an adverse significant effect and impact on the ability of banks to meet short term financial obligations.

TSA implementation has been found to have a positive relationship with, and significant impact on deposit mobilization of banks from the public. With the transfer of government funds from deposit money banks to CBN, banks have awakened to the reality of financial intermediation. More strategic marketing plans have been put in place to secure and attract deposits from private individuals, business organizations, charity organization, religious organizations, etc.

Finally, TSA implementation, though having a negative relationship with credit creation by banks, it has a weak or very little impact on the ability of banks to create credit. Thus, there has been no significant change in the attitude and ability of banks to create credit in Nigeria.

It is recommended that deposit money banks should adapt swiftly and look inwards to face the core functions for which they were licensed for, and create formidable marketing plans to source for liquid assets and increase their investments. This would help maintain their liquidity.

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