Implementation of Treasury Single Account and Strengthening of Cash Management in Vietnam
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This Policy Note provides a review of progress in implementing a Treasury Single Account (TSA) system in Vietnam, the remaining challenges and obstacles, and how to overcome these for further TSA and cash management reforms. It was prepared as part of the Economic Management and Competitiveness Credit (EMCC) Programmatic Analytical and Advisory work to help the Government of Vietnam’s efforts to improve public finance management. The adoption of a TSA is a policy action under the EMCC.

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## Abbreviations

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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>BIDV</td>
<td>Bank for Investment and Development of Vietnam</td>
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<td>CB</td>
<td>Commercial Bank</td>
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<td>EMCC</td>
<td>Economic Management and Competitiveness Credit</td>
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<td>FIs</td>
<td>Financial Institutions</td>
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<td>G2P</td>
<td>Government to Person</td>
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<td>GL</td>
<td>General Ledger</td>
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<td>HQ</td>
<td>Head quarter</td>
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<td>IBPS</td>
<td>Interbank Payment System</td>
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<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IT</td>
<td>Information Technology</td>
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<td>PEMNA</td>
<td>Public Expenditure Management Network</td>
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<td>POS</td>
<td>Point of Sale</td>
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<td>SBV</td>
<td>State Bank of Vietnam</td>
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<td>SOCB</td>
<td>State-owned Commercial Bank</td>
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<td>ST</td>
<td>State Treasury</td>
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<td>TABMIS</td>
<td>Treasury Accounting and Budget Management Information System</td>
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<td>TCS</td>
<td>Tax Collection System</td>
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<td>TSA</td>
<td>Treasury Single Account</td>
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<td>VBARD</td>
<td>Vietnam Bank for Agriculture and Rural Development</td>
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<td>VND</td>
<td>Vietnamese dong</td>
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1. **The State Treasury (ST) System in Vietnam was established in 1994 to provide essential finance management services to the Government.** The State Treasury has consolidated payment processing and custody of government cash for budget operations at four levels of government: (i) central; (ii) provincial; (iii) district; and (iv) commune through a network of offices operating down to the district level to provide walk-in access for government agencies. ST offices use the services of the State Bank of Vietnam (SBV) – the central bank, having presence in the center and provincial centers – for operations of the central and provincial treasury offices, and four state-owned commercial banks (SOCBs) for State Treasury operations in districts.

2. **The State Treasury applies budget and payment controls, when processing spending unit payment requests in accordance with State Budget Law provisions.** To improve its operations and support effective budget management and efficient budget execution, ST has recently successfully deployed the Treasury Accounting and Budget Management Information System (TABMIS) in all 1,500 treasury offices and financial agencies across all 63 provinces/cities, enabling the government to plan, execute and monitor the state budget through a centralized financial management information system, on a transparent and real-time basis.

3. **Vietnam has made progress in improving oversight and control over cash balances for the State Budget.** Spending units are no longer permitted to maintain their own bank accounts. Instead, cash balances are held by the State Treasury at the State Bank of Vietnam (SBV) and four State Owned Commercial Banks (SOCBs), resulting in reduced fragmentation in handling government receipts and payments. Despite this, the current arrangement still falls short of a Treasury Single Account (TSA) as government cash held at different levels and branches of the SBV and SOCBs is not centrally consolidated on a daily basis, leaving substantial idle cash holdings at about 700 Treasury offices, which earn below market interest rates. Lack of information on these cash holdings has led to additional borrowing to cover for perceived cash shortages, which in turn raises public debt servicing costs.

4. **In response to this, the Government of Vietnam has embarked on reforms to adopt a TSA and strengthen overall cash management.** State Treasury has been proceeding with the consolidation
of payment arrangements based on the concept of the TSA and developing plans to start active cash management. These plans are now a top priority because all treasury offices have started using TABMIS for budget control, payment and receipt processing and accounting since October 2012.

5. **This Policy Note provides an overview of the State Treasury system in Vietnam; it reviews the progress in establishing a TSA**, including against benchmarks of international good practice, and makes recommendations for priority next steps. The note concludes with a review of cash management functions. It is a product of ongoing discussions between the World Bank, Development Partners and the Ministry of Finance (MOF) as part of policy dialogue under the Vietnam Economic Management and Competitiveness Credit.

6. **The strategy of the State Treasury is to consolidate banking arrangements in SBV and each of the four SOCBs separately with the State Treasury balances being cleared to a single account at each of these banks.** So instead of having one TSA at the Central Bank as is usual the case of most countries, the Vietnam TSA model includes five accounts for the operations in national currency. TSAs cover all budget operations of the central government as well as all three levels of sub-national governments. The number of State Treasury accounts holding idle cash balances will be reduced from over 700 to 5 once the bilateral payment arrangements are fully implemented.

7. **So far, the consolidation of bank balances at four SOCBs has been completed, while delays have occurred with the consolidation of accounts in the SBV.** Up to date, the bilateral payment system between the State Treasury and commercial banks has been fully implemented throughout the networks of four SOCBs. The State Treasury at the central level (Hanoi) and its offices at six other large cities/provinces have established connectivity to SBV’s Interbank Payment System (IBPS). Rolling out of TSA to remaining SBV provincial branches is being held up by some unfavorable cash collateral requirements imposed by the SBV and the IBPS’s inability to meet ST accounting information requirements for reconciliation. The State Treasury has been actively engaged with the SBV to overcome these hurdles for achieving full roll out of TSA arrangement by the end of 2014.

8. **Implementation of TSA is helping the State Treasury to realize a range of benefits, namely:** (i) complete and timely information on the government cash resources, (ii) comprehensive budget appropriation control, (iii) improved operational control, (iv) reducing fees and transaction costs, (v) improved quality of bank reconciliation and government fiscal data (vi) enabling efficient

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1 This Note covers only VND Dong Accounts only. State Treasury has around 20 foreign currency accounts and plans to move to consolidate these one the consolidation of VND Accounts has been completed.
cash management, (vii) facilitating efficient payment mechanisms, and (vii) reduced liquidity needs.

9. The implementation of five main accounts for the TSA management would provide reasonably good arrangements for cash pooling and government cash management. Additionally, the cash requirement for this arrangement would not substantially differ from an arrangement with one consolidated account in the SBV. The bilateral payment system with SOCBs provides good service for the State Treasury at low cost while the SBV collateral conditions for the State Treasury’s participation in IBPS are imposing substantial cost for ST. Furthermore, SOCBs benefit from attracting additional business interested in fast and efficient clearing of payments with the government, while offering essential services to the State Treasury free of charge. Although State Treasury seems to be comfortable with the current arrangements, it may find difficult to support multiple payment systems in the future.

10. The current TSA arrangements are presenting a number of challenges. Typically TSA is placed in the central bank because of several important benefits. Despite earlier consideration to follow the international common practice, State Treasury has opted for proceeding with the model of consolidating government cash holdings in the SBV and also in four SOCBs. Holding government accounts in the central bank would allow avoiding credit risk exposure related to engagement with commercial banks. By placing cash balances in the SOCB, the Government has implicitly increased responsibility for the performance of SOCB. State Treasury cash holdings in commercial banks would also affect the efficiency of coordinating monetary and fiscal policies.

11. There are issues with other aspects of treasury operations. Decentralized payment processing to State Treasury district offices increases the workload in the State Treasury compared to an option of a single clearing center. So far efforts in improving public financial management have focused on meeting the operational requirements of State Treasury, while process and controls improvement for budget units is still pending. Furthermore, the Ministry of Finance is planning to further modernize the revenue collection arrangements by using dedicated revenue accounts once the revenue agency’s accounting systems have been upgraded. Finally, the use of cash in transaction processing remains significant.

12. To address these challenges and to further improve the efficiency of TSA operations, a set of reform priorities and strategy is recommended. They are grouped into short-term (next 1-2 years) and medium term (beyond two years) activities. Medium term priorities include important strategy considerations to be examined as soon as possible, while their full implementation might go beyond the short-term two-year horizon.
Short term priorities (1-2 years)

i. The immediate focus of TSA development would be to complete consolidation of the government bank accounts that is already underway. The obstacles for efficient use of SBV’s IBPS by State Treasury should be removed to enable completion of roll out of TSA to all State Bank of Vietnam branches.

ii. The State Treasury would need to develop and launch Treasury e-portal for budget units to access and use treasury information systems and services for further optimization of public financial management processes.

iii. The rationale for dedicated revenue collection accounts and options for meeting the revenue accounting requirements through regular payment system (IBPS) data format should be reviewed. The TSA coverage should be extended, through amendments of appropriate legislations, to include all general government funds, adding all extra-budgetary funds, autonomous (extra-budgetary) agencies, excluding government corporations.

Medium term priorities (beyond 2 year horizon)

i. The State Treasury, when planning major upgrade of IT systems, should consider centralizing the clearing through the main account in the center.

ii. The State Treasury in cooperation with other stakeholders should consider rationalizing the payment controls with extending the delegation of control authority to budget units, starting with certain thresholds. The delegation of control should go hand in hand with progress in establishment of a sound internal control at the budget units.

iii. The State Treasury should improve payment systems and expand usage of plastic payment cards for the petty cash and travel payments operations to reduce transactions in cash, while improving the availability of electronic records for upload on the government accounting and financial management systems.

iv. The State Treasury should also explore the options for reducing gradually the number of servicing banks to further reduce the fragmentation of the government cash balances.

13. Cash Management Reform. The State Treasury Development Strategy until 2020 approved by the Prime Minister in 2007 stipulates that State Treasury would assume the responsibility for managing the State Treasury’s financial resources safely and efficiently. However, the busy agenda of implementing TABMIS as well as the drive for devising approaches for TSA have postponed the State Treasury’s efforts to develop cash management capacity and effectively assume this responsibility. The benefits of substantial efforts made in consolidating government cash resources have not yet fully materialized due to insufficient investment in cash management capacity. State Treasury does not yet have the necessary resources
and authority for increasing the efficiency of managing government cash resources. So far State Treasury has been focusing on processing of government transactions, performing budget controls, accounting and reporting. The capacity and the facilities for cash management are yet to be developed. Moreover, the State Treasury has not been given the authority to perform active cash management – the transactions in assets and liabilities, which would allow earning interest from investing temporarily idle financial assets.

14. **Recently the State Treasury has taken a number of important steps to move towards establishing a cash management function within the organization.** The Legal Department of State Treasury central office has been charged with putting in place the preparatory steps for implementing the cash management function. ST has drafted a number of proposals for legislative changes to enable active cash management. The staff of ST has also started studying the patterns of cash flows, while formal cash flow projections have not yet been launched. Other studies, study tours and professional exchanges within the framework of the Public Expenditure Management Network in Asia (PEMNA) have helped develop the understanding of key requirements for active cash management.

15. **In developing cash management capabilities, it is recommended that the ST focus on three key areas:** (i) Developing cash forecasting function, (ii) Developing instruments for financial asset and liability management and (iii) Establishing appropriate organization structure, staffing, and legal basis of operation. Key recommendations for each of these areas are summarized below.

16. **Cash forecasting function.** Providing timely information on cash flows and positions to the management is an immediate priority in developing the cash forecasting function. A first step should be producing cash projections for the current fiscal year with a monthly breakdown and three-month rolling cash projections by day, using historical patterns and debt payment schedules. State Treasury should develop the facilities for extracting necessary data from TADMIS into Excel to assist its staff to analyze the actual performance, assess the deviations, simulate and format the projections for presentation. State Treasury should compare actual budget performance against the projections to draw lessons and refine the forecasting methodology. To smooth cash out-flow, State Treasury should require budget spending units booking with 2-3 business day notification funds for large value transactions out of the ordinary spending pattern to accommodate big value outflows.

17. **Instruments for financial asset and liability management.** Different instruments for financial asset and liability management should be developed to enable saving on net borrowing cost and ensuring that funds could be raised quickly, if the cash outlook changes abruptly. State Treasury
should consider offering interest on deposits in its accounts, if the funds deposited do not originate directly from the government general resources (tax and other funds received in the general fund). Furthermore, government domestic security repurchase agreements should be implemented to provide safety of investment and, potentially, better interest income compared to commercial bank deposit rates.

18. Organization structure, staffing, and legal basis of operation. In the medium term, it would be more appropriate to keep all domestic financial asset and liability functions in State Treasury to allow development of a comprehensive organization structure and staffing under a single management. The consultation regarding changes in the cash flow patterns and their impact on the State Treasury operations and budget management should be considered through a Cash Management Committee. State Treasury should appoint risk management staff as a separate function to provide the State Treasury management with independent risk management assessment separately from other analysis and considerations. State Treasury should aim for a dynamic organization structure and ensure intensive hiring effort and continuous training, merit-based appointment and promotion for the staff engaged with the cash management functions. And finally, State Treasury should adopt a cash management capacity building and training plan.
A. Background and Motivation

19. **Vietnam has made progress to improve oversight and control over cash balances for the State Budget.** Spending units are no longer permitted to maintain their own bank accounts. Instead, cash balances are held by the State Treasury at the SBV and four State Owned Commercial Banks. This has reduced fragmentation in handling government receipts and payments.

20. **The current arrangement however falls short of a Treasury Single Account (TSA), which has led to inefficiencies in the management of cash balances and higher than necessary borrowing costs.** Government cash held at different levels and branches of the SBV and SOCBs is not centrally consolidated on a daily basis. This leaves substantial idle cash holdings at about 700 Treasury offices, which earn below market interest rates. Lack of information on these cash holdings has led to additional borrowing to cover for perceived cash shortages, which in turn raises public debt servicing costs.

21. **In response to this, the Government of Vietnam has embarked on reforms to adopt a TSA and strengthen overall cash management.** This has been a key area of dialogue between the Development Partners and the Ministry of Finance, and is also one of the important policy actions supported under the Vietnam Economic Management and Competitiveness Credit.

22. **This Policy Note provides an overview of the TSA and cash management reform process, and makes recommendations for next steps.** It is the product of ongoing discussions between the World Bank and the Ministry of Finance. Part B provides an overview of the State Treasury system in Vietnam; part C reviews the progress in establishing a TSA, including against benchmarks of international good practice, and makes recommendations for priority next steps; part D concludes with a review of cash management functions.
B. Overview of State Treasury System in Vietnam

23. The State Treasury (ST) of Vietnam since its establishment in 1990 has been ensuring the management of the State Budget and government finances. Specifically, State Treasury has consolidated payment processing and custody of government cash for budget operations at four levels: (i) central; (ii) provincial; (iii) district; and (iv) commune. State Treasury has offices operating at three levels: (i) central, (ii) provincial, and (iii) district to provide walk-in access for government agencies.

24. State Treasury ensures proper custody of government financial assets through collection of funds due to the government, including tax and customs revenues, as well as processing of payments on behalf of the budget. State Treasury accounts for the collected budget revenues shares these receipts according to the rules and rates stipulated in the State Budget Law (2002), as well as decisions passed by Provincial Councils. The revenue sharing arrangements differ from province to province and district to district reflecting differences in revenue raising capacity as well as different spending needs of the respective government levels. State Treasury also processes payments upon budget unit requests. State Treasury operations cover all operations of the state budget except the Social Insurance Fund and the Health Insurance Fund, which manage their finances independently.

25. State Treasury offices use the services of the State Bank of Vietnam (SBV) – the central bank, having presence in the center and provincial centers – for operations of the ST central and provincial offices, and four state-owned commercial banks (SOCBs) for operations of its offices in districts – with a total of more than 700 bank accounts. Each ST district office may open one VND account in one of the SOCBs. The SOCBs providing services to the State Treasury are the following:

- Vietnam Bank for Industry and Trade (Vietinbank) – about 100 accounts;

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2 ST has the general responsibility for the financial asset management related to the government budgetary operations, including the requirements for managing the revenues that budget units collect in cash. Some government-wide financial assets, e.g. equity in state-owned enterprises is managed by other government agencies.
- Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank) – 10 accounts;
- Bank for Investment and Development of Vietnam (BIDV) – about 50 accounts;
- Vietnam Bank for Agriculture and Rural Development (VBARD) – about 560 accounts;

26. **State Treasury district offices also conduct vault operations providing customers a window for cash deposits and providing cash to budget units for withdrawal.** Cash transactions have been reduced and limited to payments of less than VND 5 million. All payments above VND 5 million should be settled through bank transfer (direct deposit to beneficiary’s bank account – except when the beneficiary does not have bank/State Treasury account(s)). Tax payments as well as penalty and other revenue payments (in cash or by bank transfer) are collected in commercial banks and at Treasury offices. However, the Treasury is now authorizing commercial banks where it has accounts to collect State budget revenues and administrative fines and penalties. The use of cash has been reduced over the past years especially in larger centers. Though there are still not many alternatives to using cash in more remote areas.

27. **Implementing the Treasury Accounting and Budget Management Information System (TABMIS) has been a key step towards improving State Treasury operations and supporting its role in effective budget implementation and execution.** TABMIS is now operational in all intended 1,500 treasuries and financial agencies across all 63 provinces/cities, 37 central ministries and 3 provincial sector departments. TABMIS enables the government to plan, execute and monitor the state budget through a centralized financial management information system, on a transparent and real-time basis. TABMIS general ledger provides new improved information on the status of the government financial operations shared from a single database, thus enabling better cooperation among different State Treasury offices, specifically ensuring accuracy in the budget allocations and up to date status on the budget execution performance.

28. **State Treasury applies budget and payment controls, when processing spending unit payment requests.** The State Budget Law (2002) stipulates State Treasury responsibility and authority to perform control of expenditure and to reject payment requests that are not compliant. Budget units submit supporting documents together with the payment requests. The controls verify that payments are within the approved budget, supporting documents are attached, the payment has been properly authorized by respective officials of the spending unit, and the payment complies with applicable cost and spending norms. A process chart is provided in **Appendix I**.

29. **State Treasury has been using the Tax Collection System (TCS) application for...**
accounting information on tax receipts in four SOCBs. Banks record data on taxpayers and the type of revenue collected. This enables State Treasury to properly account for the receipts and provide the necessary information for the sharing of revenues among different budgetary levels – center, provincial, district, and commune. The tax sharing ratios as noted above may differ from location to location. A process chart is provided in Appendix II.

30. **State Treasury has been further developing its services in accordance with the State Treasury Development Strategy until 2020 approved by the Prime Minister in 2007.** State Treasury is aiming to collect all revenues in, and processing all expenditures through, a system of centralized/concentrated payment accounts, supported by a consolidated computerized system with improved accounting, controls, and taxpayer services in the collection and payment process. In cash management, the State Treasury has been charged with safe and efficient management of the entrusted funds and government debt.

31. **State Treasury has been proceeding with the consolidation of payment arrangements based on the concept of the TSA and developing plans to start active cash management.** These plans have become important priority since all State Treasury offices have now been using TABMIS for budget control, payment processing and accounting.
C. Progress in setting up a Treasury Single Account (TSA)

Current status

32. **The State Treasury has decided to consolidate banking arrangements in each of the five banks used for treasury operations.** In particular, the State Treasury balances would be cleared to a single account at each of these banks at the end of every business day, covering transactions processed until 3.30pm (later to be extended to 4pm). Transactions processed after the cut-off time would be attributed to the account of the next business day (but the commercial banks still have to record and account for the transactions in the State Treasury accounts in the business day).

33. **The State Treasury at the level of the central State Treasury and seven provincial offices has established connectivity to an Inter-Bank Payment System (IBPS) for the last two years already.** The payment services have been fast and efficient, though the arrangement has not been further rolled out for several reasons. SBV operates only in Hanoi and provincial centers. It is planned to consolidate the provincial operations into five regional offices of SBV. SBV requires State Treasury to maintain holding deposit reserves with SBV to secure the settlement for the transaction processed through IBPS. Unlike commercial banks the State Treasury has been required to keep cash balance as collateral instead of securities. Moreover, SBV does not provide retail services to the public to receive government tax and other revenue deposits, while transfers (especially of State budget revenues) initiated to State Treasury accounts in SBV do not meet the State Treasury accounting requirements (because information format standard of IBPS is not compatible with that of TCS/State Budget revenue collection application of the State Treasury).³

34. **The State Treasury has implemented a set of reformed payment services with all four SOCBs.** The arrangement specifically includes the following features:

- The bank provides Treasury offices with electronic interface providing for convenient integration with TABMIS;
- Treasury offices prepare payment vouchers in TABMIS based on budget unit payment requests subject to approval by a Chief Accountant of the ST office;

³ See more on SOCB services for the ST on revenue collection in 26.
Prepared and approved in TABMIS payments are transferred in batches to the bilateral payment system through its interface with TABMIS and approved by Chief Accountant and Director of respective Treasury office – both by electronic signature assigned by the bank; Upon approval by both of these State Treasury officials, the bank would process the payments as direct deposit to recipient bank account; Any receipts to tax account would be recorded in the TCS; Erroneous payment instructions would be returned to the budget units (wrong recipient account number or account closed would be rare errors); State Treasury would be able to monitor the status of the payment instructions to the bank (accepted, executed, rejected) as reflected in the bank statement; State Treasury would run the interface between TABMIS and the bilateral payment system with the bank to update the bank statement, which ensures automatic reconciliation of transactions during the day; State Treasury would confirm the transactions in the bilateral payment system with the bank to close the transactions for the day and to confirm the closing balance of the State Treasury office; State Treasury office balance with the bank is cleared to the SOCB’s HQ to the overall balance and reported to the central ST; Each State Treasury office launches operations for a new day with a zero balance.

35. The TSA arrangements have been in the process of implementation. Key milestones of the roadmap have been the following:

- The bilateral payment system has been implemented in Vietinbank (pilot completed in mid-October 2013) and roll out is fully completed by end of 2013;
- The implementation of the bilateral payment system for BIDV, Vietcombank and VBARD has been fully implemented by end of June 2014;
- The rollout of the SBV’s IBPS to State Treasury provincial level branches has been completed for seven large provinces/cities and full roll out is expected to complete by end of 2014, subject to a number of important agreements with SBV still pending.

36. The State Treasury evaluates the bilateral payment implementation as a success. Key comments have been the following:

- Consolidating cash at the central level and improving the liquidity of the whole State Treasury system;
- Rapid, accurate, safe and less time-consuming, less effort-consuming payments;
- State Treasury offices have been able to reduce the trips to bank for delivering payment instructions and collecting
bank statements and associated vouchers;
- State Treasury offices have been able to reduce the number of payment vouchers from four to two thanks to the electronic format of the vouchers for the bank, thus saving papers and their costs;
- No need to follow account balance for guidance for the payment processing, thus removing the liquidity constraints;
- The response time of core systems, including TABMIS, bilateral system with the bank and TCS should be improved to allow smooth processing of transactions.

**Vietnam TSA arrangements in the international context**

37. The TSA arrangements are a key element of treasury reforms to ensure aggregate control over government cash resources and enable better cash management. This section looks at State Treasury achievements against international good practice in setting up a TSA. See Appendix III for a summary of the analysis.

38. Consolidating government cash resources in five main accounts across five banks is a major step ahead, which brings a number of benefits as well as challenges. The expected benefits would come from better service provision and reduction of cost. The management of government cash resources among five accounts will require slightly higher operational balances and extra effort in managing the arrangement on the side of State Treasury and the servicing banks.

**Complete and timely information on the government cash resources**

39. Before the transition to the new bilateral payment system State Treasury offices used to receive bank statements the next business day. There is a requirement however to maintain cash balances on the bank account of each of the State Treasury offices to ensure uninterrupted processing of payments. The balance of transactions during a day may shift depending on the expenditure processing or revenue inflows. It is not always possible to rely on TABMIS ledger value for the State Treasury office bank account, while it may assist an ad hoc projection for the account balance.

40. After transition to the new bilateral payment system, State Treasury offices are able to track the progress of payment transactions during the day on a real-time basis and to confirm the bank statement at the time set for closing transactions. The State Treasury office starts the day with a zero balance and the balance is cleared from the bank branch to the SOCB HQ. The State Treasury office normally would reconcile the transactions with TABMIS records on the next business day. The State Treasury center is now able to monitor the total balance of cash resources with each of the SOCB on a real time basis and confirm the outstanding balances at the end of day, after all State Treasury offices have confirmed the end-of-day balance and the balance has been cleared with the SOCB HQ.
Appropriation control

41. TABMIS provides for comprehensive budget appropriation controls and the TSA arrangement ensures that no bank accounts are left outside the State Treasury control. Central TABMIS database ensures the integrity of the appropriation records as well as proper budgetary control, while processing payments against the appropriations.

Operational control

42. The State Treasury has effective control over the funds in the TSA according to the State Budget Law’s requirement that all budget revenues and payment requests are brought to the State Treasury. The State Treasury has effective authority to enforce the consolidation of budget revenues. The State Treasury is also specifically responsible for the management of the State Budget funds. However, its authority to borrow for liquidity-gap-closing purposes and to invest temporarily idle cash balances for active cash management has yet to be specifically established.

43. The centralization of payment controls under the State Treasury provides a greater degree of flexibility for designing and implementing government controls in the payment process so as to strike a good balance between the authority delegated to the budget units and the controls performed by the State Treasury. International trends are moving toward extended delegation of control to budget units and reduction of excessive burden of centralized controls once well-functioning monitoring mechanisms are put in place. The reforms should be implemented based on the country’s specific circumstances and control risk assessment. Future directions for control would be guided by a drive to reduce payment processing costs and to rely more on computerized controls on the treasury side. These reforms should be implemented in tandem with efforts to improve internal audit function at the budget units.

Enabling efficient cash management

44. Although the State Treasury has been able to operate with a smaller level of idle cash balances than before, the conditions for effective cash management have not been established yet. The ST has until recently focused its efforts on development of effective TSA and consolidation of bank balances, while important components of the cash management system have yet to be developed. Operation with reduced cash balances has been achieved through better monitoring of State Treasury cash balances and improved cash balances data collected from servicing SOCBs daily. More discussions on improving cash management follow in a separate section of this note.

45. Analytical capacity to support active cash management is being developed in the State Treasury. An important indicator of progress here is the development of cash projection capacity to support the analysis of government cash flows, as well as to determine and target the cash balance for the
required level to ensure smooth government payment. Reliable cash projections would help providing advice to the management with regards to decisions on employing appropriate instruments of financial asset and liability management to adjust the actual cash balances for achieving the target.

46. **Effective consultation mechanisms to review cash projections and to recommend management actions in the State Treasury have not yet been established.** Formal consultation arrangements to engage the representatives of key revenue agencies, the budget, and debt officials do not exist. These arrangements would assist in reviewing cash flow developments; help explain whether deviations from the cash flow projections are permanent or temporary in nature; determine the required target cash balance; evaluate the risks for maintaining the government liquidity at the required level; and coordinate between the borrowing and short-term financial investment activities.

47. **The State Treasury has not yet developed the financial asset and liability management instruments to enable it actively manage the overall cash position for achieving the target level of the State Treasury cash balance.** The existing instruments – government domestic debt securities are mostly used for financing the budget deficit, while the State Treasury demand deposits in banks (non-term deposits) earn interest at levels that are substantially lower than the cost of financing the deficit. The treasury bills have been underused due to the current definition of public debt which includes treasury bills to a total debt stock and subject them to a threshold to limit borrowing.

**Reducing bank fees and transaction costs**

48. **Consolidated management of government cash under the State Treasury allows for centralized negotiation of service terms and charges.** The State Treasury enjoys free of charge payment and collection services from SOCBs, while SBV charges remain at the general level. Relatively high SBV charges for IBPS use discourage banks and the State Treasury from expanding the use of these services resulting in cost per transaction at relatively high level.

49. **The State Treasury should be able to negotiate better service terms and charges for SBV services.** It does not matter from a broader point of view whether ST pays higher charges for the SBV services because increased revenues of SBV ultimately mean higher profit payment to the State Budget at the end of the fiscal year. Most importantly SBV should perform its functions efficiently and ensure equally low costs for the services provided to financial institutions and ST. Inefficiencies in SBV operations would result in increased costs for the economy and reduced budget revenues. However, the SBV would better achieve its monetary policy objectives, if in exchange the services they offer for using modern payment systems are provided at reasonably low fees and with favorable conditions.
**Facilitating efficient payment mechanisms**

50. There are multiple benefits for the government, its agencies, and the end users from using modern payment mechanisms as these become available. The government involvement usually benefits all payment system participants because the government participation would substantially increase the usage of modern systems and thus driving down the unit cost.

51. State Bank of Vietnam through the IBPS has improved payment facilities for commercial banks and provided faster and secure payment services for the bank clients. IBPS has prompted commercial banks to improve their systems and opened the way for the State Treasury to proceed with the upgraded TSA arrangements.

52. The State Treasury has also implemented internal clearing system for payments among ST accounts, which do not require separate instructions to banks for processing. All transactions that do not impact the balance accounts that the State Treasury has in banks could be easily processed as internal book entry without requiring bank service.

**Improved quality of bank reconciliation and government fiscal data**

53. The State Treasury ensures bank reconciliation next business day for the transactions processed after the cut-off time of the previous day (all transactions prior to the cut-off time is reconciled in the transacted day). The State Treasury matches the payment transactions processed with the record in TABMIS and marks the transaction reconciled. The timely bank reconciliation ensures high reliability of the fiscal data reported on cash basis.

**Reduced liquidity needs**

54. The bilateral payment system provides most significant reduction in the liquidity needs for the individual State Treasury offices. State Treasury district offices after implementation of the bilateral payment system rely on the balance of ST funds in the Head Quarter of the serving SOCB (instead of being dependent on their own account balances at the local branches of the SOCB as was the case before) and start operations with zero balance at the beginning of a business day.

**Improved coordination of fiscal and monetary policy**

55. The consolidation of the State Treasury cash balances in five accounts after completing the implementation of TSA activities will facilitate better information on the status of government finances. Currently the State Treasury has a daily update of its cash position available next business day. SBV receives monthly data from commercial banks that allows SBV monitoring the level of government balances. Close cooperation and regular consultations between the State Treasury and SBV would improve coordination of fiscal and monetary policies.
Pros and cons of placing TSA in the central bank

56. Typically in most countries the TSA is placed in the central bank because of several important benefits. Despite earlier consideration to follow the common international practice the State Treasury has opted for proceeding with the model of consolidating government cash holdings in the SBV and also in four SOCB. See table in Appendix IV comparing typical considerations for placing the TSA in the central bank with the Vietnam context.

Safe haven for the government cash resources

57. Holding government accounts in the central bank helps avoiding credit risk exposure related to engagement with commercial banks. The State Treasury is reducing these risks with the consolidation of operations to a single account for each SOCB. The State Treasury will have more flexibility managing the liquidity in the servicing bank after the consolidation of the accounts. However, the risks of dependency on the bank’s liquidity still remain high. Most importantly, the State Treasury would face serious challenges, if it will need to reduce liquidity in a bank that is facing credit problems. Furthermore, a bank having serious customer confidence problems may face other problems in providing uninterrupted services to the State Treasury.

Efficient management of government liquidity and coordination of macroeconomic policies

58. By placing cash balances in the SOCB, the Government has increased responsibility for the performance of SOCBs over the normal level of guarantees provided by the deposit insurance scheme. In case of SOCBs facing liquidity problems the pressure on the State Budget cash balances held with the banks will increase as these balances constitute an important source of fund for addressing the liquidity and capital gaps. Implicit government guarantees for SOCBs would cause larger budget exposure than the normal costs under the engagement with the deposit insurance scheme, because the State Treasury deposit amounts in the SOCBs normally exceed the ceilings insured by the deposit insurance.

59. The implementation of five main accounts for the State Treasury banking arrangements will improve the conditions for cash pooling and government cash management, while the cash requirement for this arrangement would not substantially differ from the arrangement with one consolidated account in the SBV. The State Treasury would need to ensure that the balances in separate banks are sufficient for smooth payment processing. Ensuring separately the liquidity in five bank accounts would add to the administrative cost and slightly increase the overall liquidity requirements to cover the time needed for processing the interbank transfers. Specific arrangements for payment prioritization would assist the State Treasury in case that
it is operating with very low overall cash balances.

60. **State Treasury cash holdings in commercial banks would undermine the efficiency of coordinating monetary and fiscal policies.** This arrangement would have more direct impact on SBV operations rather than on the State Treasury ones. SBV should therefore proactively engage with the MOF on improvement of the coordination of monetary and fiscal policies and suggest appropriate ceilings of government cash holdings in SOCBs so as to reduce the cost of implementing monetary policy. Appropriate interest reward of State Treasury balances in SBV would provide added stimulus for improving the coordination. Increased cooperation between the SBV and the State Treasury towards achieving full objectives of the TSA and ensuring complete realization of its benefits should be made a top priority.

**Cost efficient government payment clearing arrangements**

61. **The bilateral payment system provides good service for the State Treasury at a low cost contrary to the SBV conditions for the State Treasury participation in IBPS.** SOCBs benefit from attracting additional business interested in fast and efficient clearing of payments with the government, while offering essential services to the State Treasury free of charge.

62. **SBV conditions for participation in the IBPS are imposing substantial cost for the State Treasury.** The variable cost based on the transaction value processed through high value payment system unlikely reflects SBV cost to provide this service. Moreover, meeting the SBV reserve requirements for participation in IBPS provides about one quarter cost recovery for the State Treasury as a difference between the interests paid by SBV on non-term deposits and the borrowing cost of T-bills.

63. **The State Treasury may find it difficult to support multiple payment systems in the future.** The current payment arrangements may prevent the State Treasury from setting up a centralized clearing system with one clearing center covering the payment needs of all State Treasury offices through vouchers processed in TABMIS. Such commercial bank-style architecture may turn out to be the most efficient tool for ensuring comprehensive and cost effective banking requirements for the State Treasury. The cost efficiency here would include the reduced cost of performing tasks within the State Treasury.

**Clarity of banking arrangements**

64. **The agreements between the State Treasury and banks regarding the use of the bilateral payment systems have been fixed in writing, while SBV applies general conditions of the IBPS to the State Treasury.** The State Treasury has been happy with the agreements on operating the bilateral payment system, while it has objections to the terms of cost and the reserve requirements for participating in the IBPS.
Remaining challenges and obstacles

65. Decentralized payment clearing by State Treasury district offices involves a number of inefficiencies, mostly in terms of increased workload in the State Treasury compared to an option of a single clearing center. The adopted approach for TSA seems to replicate the existing financial management arrangements without high level reengineering to improve the efficiency and to centralize the functions so as to reduce the costs for the government financial management. Decentralized payment and receipt clearing services at the State Treasury result in increased costs because of higher workload to conduct repetitive payment clearing transactions at different offices of the State Treasury. Moreover, maintaining multiple ICT systems in the State Treasury offices at all levels instead of concentrating all functionality in TABMIS also adds costs.

66. Typically a centralized payment clearing for the State Treasury would mean centralizing the payment clearing function in one location and providing this service to all offices of the State Treasury. A centralized payment clearing system could serve as a backbone for conducting of all banking operations, while the payment approval could be decentralized and located as per the established payment control requirements. The centralized payment clearing system would collect the approved payment vouchers from TABMIS and process automatically without separate approval by the officers of the central office of the State Treasury. Centralized clearing would also further improve financial controls in the State Treasury and provide workload savings through automated reconciliation of the processed transactions and returning erroneous payments to the originators for correction. Improved set of accounts might help automatic posting of receipts to the Treasury accounts.

67. The efforts in improving public financial management so far have been focusing on meeting the operational requirements of the State Treasury, while process and controls improvement for budget units is still pending. State Treasury online access to bank services is bringing efficiency gains primarily in the State Treasury, while budget units benefit only from the reduction in time to be informed about their payment transactions executed. The tools for online services to budget units are being developed, while the functionality offered remains limited.

68. Consideration has been given to further modernize the revenue collection arrangements using the dedicated revenue accounts pending the upgrade of the accounting systems for the revenue authorities. The detailed accounting and reconciliation responsibilities for transactions on these accounts would be delegated to the revenue authorities. Cash deposits would be reconciled immediately at the resources of the State Treasury, while the actual balances would be swept to the State Treasury account at the end of the day. The State Treasury would have on-line access to the transaction data on revenue accounts. The State
Treasury should ensure that the dedicated revenue accounts remain closely integrated with the rest of the treasury accounts to ensure that the accounting controls and the cash management arrangements remain adequate and in line with the further reform steps and automation of the government financial management processes.

69. **The use of cash in transaction processing remains significant in some locations, which is delaying the modernization effort.** Cash facilities continue to be provided even in State Treasury offices located in large centers, where modern payment options are widely available. The use of cash involves substantial control and operational risks for the government and hinders efforts to enhance transparency and improve government revenue collection.

**Priority TSA reforms and strategy**

70. Priority TSA reforms and strategy are grouped into short-term (next 1-2 years) and medium term – (beyond 2 year horizon) activities that should be considered to achieve efficient TSA operation.

**Short term priorities (1-2 years)**

71. The immediate focus of TSA development would be to complete consolidation of the government bank accounts that is already underway.

72. **Enabling and stabilizing bilateral payment system with four SOCBs for all district State Treasury offices according to the TSA roadmap would be the top priority for consolidating government cash balances from 700 bank accounts to four main accounts in SOCBs.** Implementation of bilateral payment system with four SOCBs provides the State Treasury with substantial operational benefits and helps improve conditions for successful cash management. This would reduce manual routine works in producing payment instruments, delivering these to banks, collecting hard copy bank statements, and reconciling the bank statements with TABMIS ledger record. Particular attention should be paid to improve the capabilities of the involved ICT systems to enable stable user access and to meet user expectations regarding the systems’ response time.

73. **Developing and launching Treasury e-portal for budget unit access to TABMIS data and services would further optimize public financial management processes.** Particular improvements for budget units should be expected from (i) online access to expenditure progress reports and transaction details; (ii) providing cash flow information (for revenues or expenditure exceeding thresholds specified by the MOF); (iii) exchanging other information, including commitment data and cash management information; (iv) reporting to the State Treasury the accounting data for government consolidated financial statement preparation\(^4\); and (v) preparing payment requests in budget units. The State Treasury

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\(^4\) This would enable ST to perform the newly assigned State Accountant General Function.
has not yet considered the latter because the existing financial controls are based on manual review of original supporting documents, while approving payment transactions. However, the State Treasury may wish to start with allowing budget units to make electronic submission of payment requests to the State Treasury while embarking on the modification of the control requirements as a separate exercise. This step would enable involvement of the budget units in the earlier stage of the automated budget management process. This also saves the payment processing workload for the State Treasury, ensuring that payment voucher is entered only once at the point of inception in the budget units without having to re-type it in State Treasury offices.

74. **The rationale for dedicated revenue collection accounts and options for meeting the revenue accounting requirements through regular payment system (IBPS) data format should be reviewed.** Following options or any combination of them could be considered for future improvement of taxpayer services and reduction of workload for banks and other stakeholders in line with already existing TABMIS and TCS capabilities:

- Assigning location codes to the taxpayers and retaining clear taxpayer register in the State Treasury to allow allocation of the collected revenues;
- Creating a separate online portal for taxpayers, which also could be linked to other online services offered by tax administration or customs administration, allowing the taxpayer selecting the necessary location and revenue type parameters to complete the revenue data entry before the portal would link to the taxpayer’s bank for automatic creation of a payment instrument with the necessary coding for the State Treasury accounting needs.

75. **The TSA coverage in the future should be extended through amendments to appropriate legislation to include all general government funds, adding all extra-budgetary funds, autonomous (extra-budgetary) agencies, excluding government corporations.** The rationale for this step is to enable management of all government cash resources in a centralized manner, while allowing the State Treasury to extend the necessary payment and accounting services to all units of the general government. Any exceptions to this requirement should be authorized by the Ministry of Finance in writing, where it is not practicable for the ST to process payment e.g. government representations abroad or specific types of national security payments, as well as other cases.

76. **The obstacles for enabling efficient use of IBPS by the State Treasury should**
be removed by engaging the State Bank of Vietnam. The State Treasury should develop the negotiating position by persuading SBV to allow ST access to IBPS on beneficial terms, taking into account economy-wide benefits from ST gradually consolidating its balances on the TSA in SBV. International experience also shows that the transition of government payments through IBPS would increase the use of the system substantially and therefore reduce the unit cost of a transaction. The SBV should also be asked to consider accepting a promissory note from the MOF as collateral for the State Treasury participation in the IBPS, if SBV cannot abolish the reserve requirement for any reasons.

Medium term priorities (beyond 2 year horizon)

77. Medium term priorities include important strategy considerations to be examined as soon as possible, while their full implementation might go beyond the two-year horizon.

78. The State Treasury, when planning major upgrade of IT systems should consider that modern payment system technologies usually rely on a financial institution centralizing the clearing through the main account in the center. Such changes allow consolidation and automation of processes, rationalization of internal controls in the State Treasury, as well as the reduction in transaction costs over long term. The key change of the business process would involve central clearance of payment vouchers prepared locally, where bulk of effort could be assumed by systems concentrated in the center. The State Treasury would be able to develop more bank-style services for its clients and the arrangements could further support the automation of routine accounting tasks. See the chart 1 below.
79. **The State Treasury in cooperation with other stakeholders should consider rationalizing the payment controls with extending the delegation of authority to budget units.** The automation of public financial management processes normally leads to revision of the control framework. The State Treasury may wish to consider expanding centralized records in TABMIS to cover all stages of expenditure by adding the phases of commitment, invoice, and goods received to the existing functionalities distinguishing budgets, releases, and payments. Adding the records on commitment, invoice, and goods received would allow the State Treasury to have better accounting information and audit trail for follow up. This would allow extending the delegation of controls to budget units. However, careful testing of the ICT facilities should be conducted to see, if the additional information could be accommodated in TABMIS before the controls could be modified. The State Treasury may consider revising the regulations to allow for reviewing scanned document copies instead of originals, excluding high financial risk cases, to reduce number of visits of the budget units to the State Treasury offices. The establishment of effective internal audit function at the budget units will be critical in making further decisions for decentralizing the controls even if the new task would expand over a longer time period.

80. **Ongoing government efforts to facilitate the development of cashless payments will play a critical role in reducing the costs of government financial management.** Improved payment systems and the expansion of plastic payment card usage for the petty cash needs and travel payments operations in long term would reduce transactions in cash, while improving the availability of electronic records for upload on the government accounting and financial management systems. The transition to plastic cards would allow government units to reduce visits to banks for replenishing their petty cash fund or disbursing travel cash. Point of Sale (POS) terminals would allow budget units to collect revenues from public through plastic card payments instead of using cash. Meanwhile, the advances to plastic card accounts should be carefully managed to ensure that reasonable risk thresholds are not exceeded and recovery could be done from the employee claims on the government. Phasing out cash transactions at the local levels and replacing these with a new petty cash procedure will have critical role for enabling effective centralization of payment clearing services.

81. **The State Treasury should also explore the options for reducing gradually the number of servicing banks to further reduce the fragmentation of the government cash balances.** The reduction of using cash in government receipt collection and payment operations would allow relaying on a smaller number of bank accounts, while providing for the necessary operational flexibility.
D. Strengthening Cash Management

Current status
82. The State Treasury development strategy until 2020 approved by the Prime Minister in 2007 stipulates that the State Treasury would assume the responsibility for managing the State Treasury financial resources safely and efficiently. Busy agenda of implementing TABMIS and rolling it out to all State Treasury offices as well as the drive for devising approaches for TSA have postponed the State Treasury efforts to develop cash management capacity and effectively assume this responsibility. In addition, it has been recognized that cash management reform would have significant implications on the operations of ministries, agencies and sub-national governments, and is closely linked with the revision of the State Budget Law. Therefore, the MOF has decided to postpone the date of submission to the Government of the proposed Decree on Cash Management until when the (revised) State Budget Law is approved by the NA. The Decree is expected to provide essential legal underpinnings for the State Treasury to effectively perform Government cash management.

83. The Legal Department of the State Treasury central office has been charged with the preparation for implementing the cash management function. The State Treasury has drafted a number of proposals for legislative initiative to enable the next steps for active cash management in the State Treasury. The staff has also started studying the patterns of cash flows, while formal cash flow projections have not yet been launched. Other studies, study tours and professional exchanges within the framework of the Public Expenditure Management Network in Asia (PEMNA) have helped develop the understanding of key requirements for active cash management.

84. The MOF has increasingly started to borrow domestically for financing the budget deficit and the government’s ambitious investment program. The MOF has a Department of Debt Management and External Finance charged with responsibilities for managing the external and domestic debt.

Analysis
85. Insufficient investment in cash management capacity prevents the State Treasury from reaping the full benefits of their substantial investment in consolidating government cash resources in the State Treasury. The resources required
for improving cash management would be substantially smaller than the benefits from net interest cost savings and reduced cost for bank services.

86. The State Treasury does not yet have the necessary resources and authority for increasing the efficiency of managing government cash resources. The State Treasury has been focusing on processing government transactions, performing budget controls, accounting and reporting, while both the capacity and the facilities for cash management have not been developed. Moreover, the State Treasury has not been given the authority to perform active cash management – the transactions in assets and liabilities, which would allow earning interest from investing temporarily idle financial assets.

87. Successful cash management in both public and private sectors requires adequate organization structure and capable staff. The State Treasury should consider a three-tier organization structure for the cash management functionality: (i) a front office responsible for preparing and negotiating financial asset and liability management transactions; (ii) a middle office responsible for analytical tasks, including cash flow projections and risk management; and (iii) a back office – responsible for the execution of underlying financial transactions, record keeping, and financial reporting. Clear functional segregation of tasks is important for the learning process and institutional capacity building.

88. Developing cash flow projections is an important primary function that the State Treasury should establish for successful cash management. State Treasury staff should be able to master the cash projections in order to maintain analytical framework for monitoring budget execution and advising the management on necessary actions to be taken upon operational cash surplus or deficit. The cash projections should be considered as a cash management plan instead of focusing on the accuracy of the projections. The comparison of the actual cash flows against the projections (cash management plan) would allow the management to decide on the required action. Materially important deviations from the plan would require modification of the borrowing program or other changes of fiscal plans. The actions should be closely integrated with the management of domestic financial assets and liabilities.

89. The State Treasury’s ability to earn interest on short term financial assets or attract financial resources to close short term financing gaps depends on the development of adequate instruments. The use of ad hoc instruments for financial asset and liability management should be discouraged as it takes time to develop such instruments and assess the benefits, costs, and risks associated with the use of such instruments. The State Treasury should use standard instruments for the financial asset and liability management instead of designing ad hoc instruments, which would
require substantial effort in design process compared to a standard facility.

90. **Risk management is a challenging function to start active cash management.** Risk management does not mean excluding engagement in the transactions, which involve any degree of the risk. It helps State Treasury keeping risks at a manageable level so that appropriate actions could be taken to minimize financial losses. It is advisable to separate the risk management staff from other State Treasury functions to allow the former to focus on preventing the State Treasury incurring substantial losses in the process of active cash management.

91. **Best results can be achieved, if government financial asset and liability management is placed in a single institution and under a single management.** It allows saving scarce resources of qualified staff through appropriate sharing of middle and back office functions as well as better coordination among front office staff. A general practice is to assign a complete set of tasks for all domestic financial asset and liability management to one unit – either in the State Treasury or in the Debt Management Office (DMO), depending on country specific institutional arrangements for debt management. However, if all debt management functions are consolidated in the DMO, the location of the financial asset management function and close coordination with liability management functions would become important. The instruments used for liabilities are mirror image of the instruments for financial asset management and the skill sets required in the front office are the same. The duplication of tasks should also be avoided for the units of the DMO and the State Treasury completing the tasks of the middle and back office.

**Key recommendations**

**Developing cash forecasting function**

92. **The State Treasury, as a first step in developing the cash forecasting function, should primarily focus on producing three-month rolling cash projections by day and cash projections for the current fiscal year with a monthly breakdown.** Using cash flow projections by day should help State Treasury determining the target cash balances at any time of a month, identifying cash balances available for short term investment or required changes to the borrowing program, or taking other measure to ensure smooth payment. The current fiscal year projections with monthly breakdown are important for tracking the budget performance and allowing State Treasury to arrive to independent opinion regarding the feasibility of the fiscal outlook and the requirement for corrective measures to ensure smooth budget execution process.

93. **The State Treasury should verify the cash forecast model with the IMF Government Finance Statistics Manual 2014 edition (GFSM2014) methodology to ensure that a comprehensive analytical framework for the government stocks and flows of financial assets and liabilities is followed.** IMF GFSM2014 provides
comprehensive grouping of assets and liabilities and clarifies distinction among flows and stocks and revenue, expense, assets and liabilities. The State Treasury should aim for gradually developing the capacity to compile the financial balance sheet representing the financial assets and liabilities under the State Treasury custody. This reporting could be further extended to the general government sector in the future.

94. While developing cash flow projections, the State Treasury should start first with using historical patterns and debt payment schedules. Additional data from the revenue authorities and budget units for estimating the key cash flow aggregates may not be very helpful, as these counterparts have different assumptions for the projections.

95. The facilities for extracting necessary data from TABMIS into Excel would be the most practicable tool in assisting the State Treasury staff to analyze the actual budget execution performance, assess the deviations, simulate and format the projections for presentation. Specialized modeling in TABMIS based on actual data may be difficult to develop and may not turn out to be practicable for arriving at cash flow projections quickly, especially taking into account the high workload and the cost of programming such facilities. Moreover, other countries have experienced difficulties in relying on the spending unit cash forecasts, while the Treasury projections based on the patterns of past performance with adjustments for specific current year circumstances have been a better basis for the cash management plans.

96. The State Treasury should compare actual budget performance against the projections to draw lessons and refine the forecasting methodology. This exercise will allow the State Treasury cash forecasting staff to develop the necessary skills quickly.

97. The State Treasury should require budget spending units to book funds with 2-3 business day notification for large value transactions out of the ordinary spending pattern to accommodate big value outflows. This data may assist the State Treasury adjusting the cash projections and making remedial steps, if the cash situation is tight or there is need to liquidate any short term investments.

Developing instruments for financial asset and liability management

98. Different instruments for financial asset and liability management should be developed to enable saving on net borrowing cost and ensuring that funds could be raised quickly, if the cash outlook changes abruptly. Well designed and evaluated instruments for managing financial assets and liabilities will allow the State Treasury to ensure adequate risk management and reduce net borrowing costs in the long term.

99. The State Treasury should consider offering interest on deposits in the State Treasury, if the funds deposited do not originate directly from the government
general resources (tax and other funds received in the general fund). Market rates offered by commercial banks could serve as a good benchmark for setting award rates on non-term deposits in the State Treasury. These deposits should help reducing the needs to issue T-bills and benefiting from gains in interest cost reduction (from the difference between the T-bills rates currently exceeding 4.3 percent and the rates paid on bank deposits currently at 1.2 percent). Alternatively the State Treasury may also offer the facility of term deposits in line with the conditions provided by commercial banks.

100. **Implementation of government domestic security repurchase agreements would provide safety of investment and, potentially, better interest income compared to commercial bank deposit rates.** The use of this instrument could also increase the liquidity and attractiveness of the government securities in the secondary market allowing further potential savings of government interest cost through reduced interest rates offered for the securities.

**Organization structure, staffing, and legal basis of operation**

101. **The State Treasury should consider and discuss with the MOF the challenges for the operational arrangements of financial asset and liability management taking into account the allocation of this function between the MOF Departments and the State Treasury.** In the near to medium terms, the best option would be keeping all domestic financial asset and liability functions in the State Treasury to allow development of a comprehensive organization structure and staffing under a single management. A comprehensive three-tier structure should be considered, including front-office, middle office, and back office with operational cooperation supported by a dedicated MIS. Effective coordination arrangements should be developed, if it would not be feasible to reassign the tasks. Coordination could be ensured through a cash management committee – to ensure sufficient funds in the TSA for meeting the forthcoming government payments and a debt management committee – to schedule the debt issuance and to avoid conflicts between the domestic asset and liability management operations.

102. **A cash management committee for reviewing the developments in cash flows and preparing recommendations for the management action should be considered.** The cash management committee should comprise of the experts engaged in the cash forecasting as well as other critical fiscal management functions – budget, key components of revenue, debt management, to enable timely consultation and understanding of the nature of changes to the cash flows. Temporary deviations should require attention, if these do not result in permanent trends requiring changes to the borrowing plans or the key budget parameters.

103. **The State Treasury should appoint risk management staff as a separate**
function to provide the State Treasury management with independent risk management assessment separately from other analysis and considerations. Developing a comprehensive risk management function will be critical for ensuring that the risks involved with managing government financial assets and liabilities remain manageable and the State Treasury is able to react quickly and effectively to changing circumstances.

104. The State Treasury should aim for a dynamic organization structure and ensure intensive hiring effort and continuous training, merit-based appointment and promotion for the staff engaged with the cash management functions. The civil service pay scale limitations may impose substantial limits to hiring very experienced professionals. Alternatively, the government may need to consider the practice of other countries in setting up a semi-governmental organization with flexible pay structure, if the civil service model for organizing effective cash management is not feasible.

105. The State Treasury should adopt a cash management capacity building and training plan. Cash flow forecasting staff will require very strong Excel and numerical skills to ensure effective learning and performance. Good English language knowledge will be instrumental for the legal support and front office staff to enable learning from the international experience and information available over the Internet.
Appendix

Appendix I: Vietnam: Treasury payment arrangements (2014)
1. Budget agency requests payment from respective Treasury office
2. Treasury office posts the payment request to TABMIS after completing the controls
3. Treasury office pass payment instructions to the assigned bank, bank branch, or directly to the Interbank Settlement System after completing the payment and TABMIS controls
4. SBV HQ and SBV branches upon receipt process payment instructions received from the Treasury HQ or from provincial treasury through the Interbank Settlement System
5. Interbank Settlement System receives and directs all interbank and inter-branch payments to respective recipients (the participants of the Interbank Settlement System)
6. CB offices direct out of the office settlements to other CB offices or into Interbank Settlement System
7. CB offices credit the accounts of their respective clients (payees may be suppliers to the government or recipients of other government payments, e.g. salaries, social benefits, etc.) received from the Treasury offices or payments received from other CB offices of the Interbank Settlement System
8. Respective bank branches provide Treasury offices with bank statements for reconciliation

Note: This chart does not cover the cash management arrangements for consolidating the surplus funds on the STV main accounts in respective bank HQs and supplementing the accounts with payment requirements exceeding the available balances.
Appendix II: Vietnam: Treasury revenue collection arrangements (2014)

1. Taxpayer completes tax assessment, issues payment instructions, and provides the information necessary to create a record in the Tax Collection System (TCS) to:
   a. TSA subaccount at a SBV or an office of one of four state-owned commercial banks (Vietcombank, Vietinbank, BIDV, VBARD), if the taxpayer is a client of this bank branch
   b. A bank branch different than the branch servicing the Treasury, where the taxpayer is client

2. The commercial bank branch, different than the bank branch having a TSA subaccount makes transfer of tax to the bank with a TSA subaccount assigned for the revenue collection
3. The bank with TSA subaccounts credits Treasury general transactions account or a separate account opened for the revenue collection at the locations with large number of taxpayers, completes record in the TCS, and at the end of day transfers the balance from the revenue account to the Treasury general transaction account and provides respective Treasury offices with bank statements.

4. Treasury office reconciles the bank statement with the TCS record and creates records in TABMIS. If the revenue is tax and fee, the CB system links directly with TCS to account for the revenue and to share revenue before it is posted in the GL of the TABMIS (through interface between TCS and TABMIS). If revenue is receipt other than tax and fee, the CB transfers the data back to the ST through bilateral payment system (for reconciliation) and from there it is posted in TABMIS (through interface between bilateral payment system and TABMIS - this interface is also used when payment instructions are sent from the ST to CB).

5. Treasury office provides revenue statement for the Revenue authority.

6. The revenue authority clears the taxpayer’s obligation and reconciles with taxpayers as necessary.

7. Treasury office based on revenue sharing arrangements established for respective governments at these levels informs respective government units of the amounts of revenue collected – Central Treasury for the central budget, a provincial treasury – for the central and provincial budgets, and a district treasury for four levels of the government – central, provincial, district, and village.
Appendix III: Vietnam: Achieving TSA objectives against international best practices

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<thead>
<tr>
<th>No.</th>
<th>International perspective</th>
<th>Vietnam status</th>
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<tbody>
<tr>
<td>1.</td>
<td>Allows complete and timely information on government cash resources</td>
<td><strong>Achievement improved after the transition to bilateral payment system.</strong> Bank statements at the ST office level and in the center are becoming available at the end of the business day instead of next business day availability at present.</td>
</tr>
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<td>2.</td>
<td>Improves appropriation control</td>
<td><strong>Achieved.</strong> The ST has implemented appropriation controls, while processing spending unit payments. No state budget operations are executed outside the ST.</td>
</tr>
<tr>
<td>3.</td>
<td>Improves operational control during budget execution</td>
<td><strong>Achieved.</strong> The ST fully controls the budget execution operations.</td>
</tr>
<tr>
<td>4.</td>
<td>Enables efficient cash management</td>
<td><strong>Partially achieved.</strong> Sizable balances are held at commercial bank branches servicing ST district offices. Cash pooling is being achieved at commercial bank HQ as the bilateral payment systems are introduced. TSA covers the majority of the general government funds, while active cash management arrangements and the delegation of authority to ST for cash management and financial investment are still pending.</td>
</tr>
<tr>
<td>5.</td>
<td>Reduces bank fees and transaction costs</td>
<td><strong>Achieved.</strong> The ST has the authority to negotiate and enforce most beneficial terms of banking services for the government.</td>
</tr>
<tr>
<td>6.</td>
<td>Facilitates efficient payment mechanisms</td>
<td><strong>Partially Achieved.</strong> Electronic payment facilities have been implemented according to the TSA Roadmap. Agreements with commercial banks have been reached and roll out of electronic payment to all four SOCBs has been completed by end of June 2014. Electronic payment arrangement for ST is yet to be fully rolled out to all branches of SBV.</td>
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<tr>
<td>7.</td>
<td>Improves bank reconciliation and quality of fiscal data</td>
<td><strong>Achieved.</strong> Bank reconciliation has been enabled to be completed same day (under bilateral payment systems) or next business day (currently manually), enabling reliable government financial data on real-time basis.</td>
</tr>
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<td>No.</td>
<td>International perspective</td>
<td>Vietnam status</td>
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<tr>
<td>8.</td>
<td>Lowers liquidity reserve needs</td>
<td><strong>Achieved.</strong> The liquidity requirements for the execution of the State Budget have been substantially reduced as the result of implementing TSA and TABMIS, while further improvements are expected from cash management reforms.</td>
</tr>
</tbody>
</table>
| 9.  | Facilitates better coordination with the monetary policy implementation | **Substantial improvement in availability of information.**  
The necessary information is compiled daily at SBV and four commercial banks report on monthly basis as part of the compilation of the monetary survey. |
# Appendix IV: Placing the TSA in the central bank – Vietnam context

<table>
<thead>
<tr>
<th>No.</th>
<th>Benefits of TSA with the central bank</th>
<th>Vietnam context</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Provides a safe haven for government cash deposits, which minimizes credit risk exposure.</td>
<td>The risks for budget funds at four state-owned commercial banks substantially depend on the financial performance of these banks. The Government has either full ownership or controlling share in these banks and consequently – increased responsibility for the performance and stability of state-owned commercial banks. The government risk exposure to state owned commercial banks includes both – the cash balances as well as the liabilities for ensuring the banks meeting their obligations against their depositors. The degree of Government’s full or partial control for any of the state-owned banks would be outside control of the ST.</td>
</tr>
<tr>
<td>2.</td>
<td>Aids the efficient management of government liquidity, and facilitates the central bank’s coordination of its monetary policy operations in managing liquidity in the economy with government’s cash and debt management functions</td>
<td>Extensive use of commercial banks and having sizable government deposits with commercial banks reduces the effectiveness of the SBV monetary policy vs. the option of effective TSA in the central bank. Meanwhile, this does not have impact on the ST and MOF operations.</td>
</tr>
<tr>
<td>3.</td>
<td>Can facilitate cost effective banking arrangements and speedy settlements (it might be possible to negotiate with the central bank to act as the clearing house for government operations, which may speed settlement)</td>
<td>Clearing arrangements have been set up with the SBV, while bilateral clearing arrangements are effective with four state-owned banks. ST currently gains from engaging multiple banks to satisfy the immediate (short-term) service needs, while reduced use of the SBV interbank clearing system would keep single transaction cost at the current high level.</td>
</tr>
<tr>
<td>No.</td>
<td>Benefits of TSA with the central bank</td>
<td>Vietnam context</td>
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<td>4.</td>
<td>Allows for clarity of banking arrangements and remuneration policies between the treasury and the central bank (a service level agreement is normally negotiated to clarify obligations and responsibilities when the central bank acts as the clearing house for government operations)</td>
<td>The conditions offered for the ST by the SBV are not satisfactory for the ST, especially regarding the required level of cash holdings and the cost of transaction. Meanwhile, the cost-benefit of maintaining five different clearing systems and five treasury bank accounts should be updated in the future. Multiple service arrangements option remains most feasible until the banking system improves their operations substantially and the government adopts new business processes for receipts and payments.</td>
</tr>
</tbody>
</table>