

Roles and Responsibilities in Government Payments

Introduction

This document will discuss the roles and responsibilities of payments stakeholders in the processing of government payment transactions. Recommendations will be made based on the norms for processing government payments in other countries. Specific reference will be made to the handling of payments and collections specific to a finance ministry.

Roles and Responsibilities of Government Payments/Collections Stakeholders

Central Bank

In the case where the central bank is the banker for the government or at least maintains government accounts, the central bank has a direct role and responsibility for handling payments and receiving collections on behalf of the various Ministries in the country. Payments made by the Ministries are drawn on accounts held at the central bank. The actual payment mechanisms vary by country depending on the existing payments infrastructure. The types of payments processed vary greatly from payment of salaries, pensions and suppliers to the collection of taxes, customs duties and other government functions. The instruments also vary greatly from the use of credit and debit cards for consumer and small business transactions to direct credits for payment of salaries to debit and credit transfers for larger organizations and between government entities.

In countries where government funds are held in the private banking sector, this responsibility is handled by the commercial bank. The types of transactions are the same and are handled in the same manner through the existing domestic payment systems. In the United States the federal government uses the ACH Network overseen by the National Automated Clearing House Association (NACHA). The United States Treasury publishes a document called the “Greenbook” that provides details on federal ACH processing. As it uses existing payment networks it is largely focused on exception processing. The contents of the “Greenbook” are listed below.

Green Book - Table of Contents

1. Enrollment
2. ACH Payment Processing
3. Nonreceipt
4. Returns
5. Reclamations
6. Notification of Change
7. Collections
8. Contacts
9. Glossary
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The important point is that in both cases domestic payment systems are utilized for the actual payment and collection functions. One of the primary reasons for this is that there is such a wide variety of payment and collection types (B2B, B2C, G2C, G2E, G2B etc) that it would not make sense to replicate what already exists in the private sector for payments processing. In order to support government payments, there must be the ability to process credit and debit transfers and direct debit and credit transactions. These payment types are typically handled in an automated clearing house (ACH). The United States uses the ACH Network that is governed by the National Automated Clearing House Association (NACHA).

Ministry of Finance

The responsibilities described on the Egypt Ministry of Finance website are similar to those of most Finance Ministries throughout the world. The following is an excerpt from the Egyptian Ministry of Finance website.

“The Egyptian Ministry of Finance plans prepares and manages the Government of Egypt’s budget and public debt. This is carried out by preparing legislation, planning revenues and expenditures, managing and supervising the budgetary spending process and preparing a framework for economic policy and development. We analyze and design tax policies, customs duties and tariff policies, and other types of public income. We also analyze and guide the public expenditure system. We develop policies on domestic and international finance. We also monitor macroeconomic, macro-fiscal and financial developments in order to provide policy advice on a wide range of economic issues.

Egyptian MOF Objectives:

- Maintaining a stable macroeconomic/macro-fiscal framework.
- Maintaining sound public finances
- Securing a competitive and efficient private sector led economy that provides expanding economic and employment opportunities for all through easing distortions in the incentives system by:
 - Promoting a fair and efficient tax and benefit system with incentives to work, save and invest;
 - Promoting trade liberalization with a view to promoting economic efficiency and international competitiveness and thus create a stronger basis for long-term economic expansion through:
 - Proceeding with tariff liberalization in line with WTO obligations and trade agreements.
 - Simplifying and liberalizing customs procedures
 - More efficient government spending
 - Improving the quality and the cost effectiveness of public services”

Most Finance Ministries around the world focus on the same types of issues as described above. As regards payments and collections, most Finance Ministries have centralized accounting systems that track all payment transactions as part of the financial management system. This is typically a centralized system with network connections to all of the ministry branches.

Payment requests are entered from each site and approved centrally. Payments are typically to employees, pensioners and suppliers. These would typically be handled as an ACH transaction that would debit the ministry account held at the central bank and credit the account of the beneficiary. This suggests that employees and pensioners have individual bank accounts. In order for this to work in Egypt it would require opening customer accounts that do not currently exist. In many countries, employees are given the option of being paid electronically through an individual bank account or by cheque. Most people opt for the individual account as they receive their money in a much shorter timeframe. These are issues that can be worked out over time in Egypt.

Collections are typically handled on a departmental basis and then consolidated in the financial management system. These would include collections of tax revenues, customs duties and the like. Most ministries around the world are moving to the delivery of web based services for government information. The momentum for e-government has increased dramatically to the point where many ministries provide these capabilities. In the case of Ministries of Finance, most are developing websites for customs that handle documentation and payment and the ability to submit and pay taxes electronically. Both of these are supported by the existing payments infrastructure whether payment is made through a credit transfer or a traditional card based transaction in the case of an individual. The key point here is to differentiate between the facilitation of the payment by providing the ability to initiate a transaction online and the actual processing of the payment. The processing of the actual payment would be performed through the existing payment mechanisms (Cards or ACH),

Ministries are starting to see significant savings through the use of web-based services. An example of such a solution is the one described below for Australian Customs.

Overview	
The Australian Customs Service needed to refresh its legacy systems and replace them with a modern, flexible IT platform to keep pace with changes in international business practices. It needed to create a secure, Web-based "single face of government" for the import/export industry.	
Business need:	Replace legacy systems with a modern and accessible IT platform to keep pace with changes in business and communications practices, and introduce a single, integrated face of government for the import and export of goods to manage ever-increasing trade processing volumes
Solution:	An integrated solution featuring an electronic cargo management system using a secure, multichannel communications and data transformation gateway leveraging IBM hardware, software and services
Benefits:	Ability to rely on an Internet-based gateway to provide secure access to support international trade, enhance risk assessments, offer customers transaction-related flexibility and provide an integrated interface point with other government agencies

This is but one example of how a ministry might improve the quality of and cost effectiveness of public services. Developing capacity in e-government in Egypt is already underway in some of the ministries. An assessment of the ministries in Egypt would likely turn up additional opportunities for e-government.

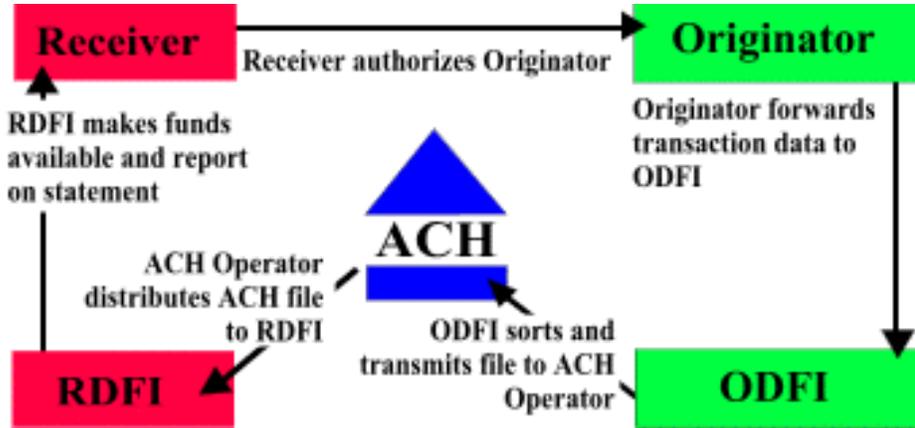
Automated Clearing House

The Automated Clearing House (ACH) is an important player as it is the basic infrastructure that supports all of the aforementioned types of payments with the exception of card payments, which are settled through the systems provided by companies like Visa and MasterCard. As mentioned earlier, the primary services provided through the ACH are debit and credit transfers and direct debits and credits. This handles the vast majority of both government payment and collection transactions. Egypt will need to develop this capability possibly through a centralized clearing house function owned by the government (CBE and MOF) and commercial banks. This is a popular model that is being used around the world. In the United States, the ACH processes the following types of transactions in the following manner:

ACH payments in the U.S. include:

- Direct Deposit of payroll, Social Security and other government benefits, and tax refunds;
- Direct Payment of consumer bills such as mortgages, loans, utility bills and insurance premiums;
- Business-to-business payments;
- E-checks;
- E-commerce payments;
- Federal, state and local tax payments.

In the U.S. the number of ACH payments originated by financial institutions increased to 8.05 billion in 2002, up 13.6 percent from 2001. These payments were valued at \$21.7 trillion. Including payments originated by the Federal government, there were a total of 8.94 billion ACH payments in 2002 worth more than \$24.4 trillion.



Originator - Any individual, corporation or other entity that initiates entries into the Automated Clearing House Network

Originating Depository Financial Institution (ODFI) - A participating financial institution that originates ACH entries at the request of and by (ODFI) agreement with its customers. ODFI's must abide by the provisions of the *NACHA Operating Rules and Guidelines*

Receiving Depository Financial Institution (RDFI) - Any financial institution qualified to receive ACH entries that agrees to abide by the *NACHA Operating Rules and Guidelines*

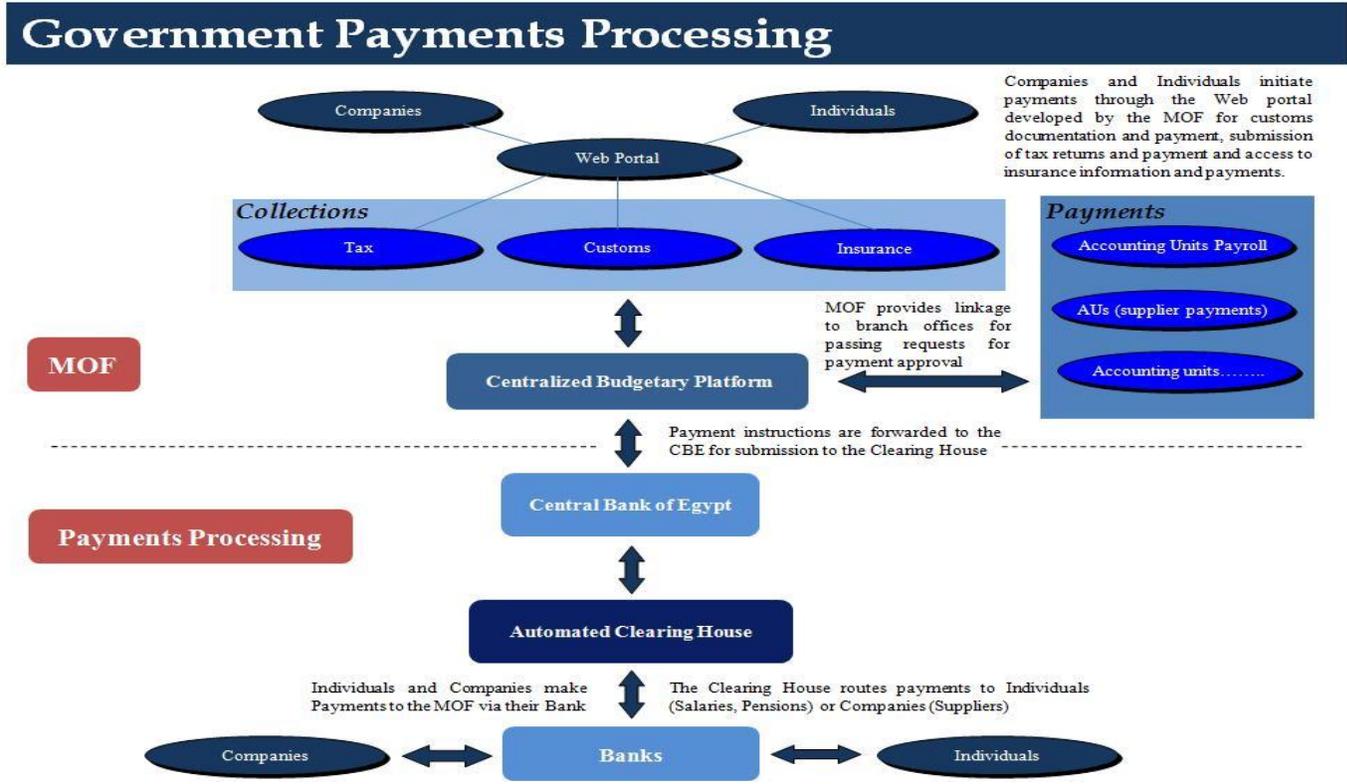
Receiver - An individual, corporation or other entity who has authorized an Originator to initiate a credit or debit entry to a transaction account held at an RDFI.

A suitable organization needs to be defined as the ACH operator. It should be the responsibility of the CBE to encourage the development of a strong ACH capacity as it is the central bank that is chartered with the responsibility for payment systems.

Banks

The commercial banks in a country utilize the domestic payment systems, in particular, the ACH and Card processing capacity to support the needs of their customers which include individuals, companies and government entities. In the model illustrated above, they perform the role of originator and receiver. The use of commercial banks with accounts for individuals becomes the baseline for any developed economy. Deposits held by commercial banks become the basis for lending which in turn develops the economy. The use of electronic payment mechanisms significantly increases the efficiency of payments and speeds the flow of funds within the economy, both of which are important in Egypt.

Proposed Model for Government Payments



The above illustration shows the flow of government payments and collections. Banks and the CBE act as the *Receiving Depository Financial Institutions* (RDFI) and *Originating Depository Financial Institutions* (ODFI). The MOF, companies and individuals are the originators and receivers. The automated clearing house processes the payments for both the initiator/receivers and the receiving and initiating financial institutions.

Conclusions

It is important that Egypt (CBE and MOF) encourage the use of electronic payment mechanisms. Egypt is fortunate that a foundation already exists for automated payments. This needs to be further enhanced to provide full ACH processing capabilities. It is recommended that these capabilities be centralized in a single organization as this will generate significant economies of scale. Its ownership should be both government entities and the commercial banks as it will ensure that it acts in the best interest of the participants and can be easily managed by the CBE and MOF. Government payments represent a significant portion of the payments in Egypt. It is important for the stakeholders in Egypt to come together and determine how to move forward in a cooperative and productive manner.