Treasury Single Account (TSA) as a Strategy for Blocking Revenue Leakages: Lessons from Kaduna, Kano & Niger States
Treasury Single Account (TSA) as a Strategy for Blocking Revenue Leakages: Lessons from Kaduna, Kano & Niger States

About BudgIT

BudgIT is a civic organisation driven to make the Nigerian budget and public data more understandable and accessible across every literacy span. BudgIT’s innovation within the public circle comes with a creative use of government data by either presenting these in simple tweets, interactive formats or infographic displays. Our primary goal is to use creative technology to intersect civic engagement and institutional reform.

Country Director: Gabriel Okeowo

Research and Policy Advisory Team: Iniobong Usen Vahyala Kwaga, Oluwatosin Iseniyi, and Damilola Onemano

Concept & Design: Maxwell Adetoye

Contact:
info@yourbudgit.com +234-803-727-6668, +234-908-333-1633
Address: 55, Moleye Street, Sabo, Yaba, Lagos, Nigeria

© 2022 Disclaimer: This document has been produced by BudgIT to provide information on budgets and public data issues. BudgIT hereby certifies that all the views expressed in this document accurately reflect our analytical views that we believe are reliable and fact-based. Whilst reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors or for any views expressed herein by BudgIT for actions taken as a result of information provided in this Report.
# Table of Content

<table>
<thead>
<tr>
<th>Section</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>04-05</td>
</tr>
<tr>
<td>Introduction</td>
<td>06-07</td>
</tr>
<tr>
<td>Purpose of Fiscal Reforms and TSA in Nigeria</td>
<td>08-09</td>
</tr>
<tr>
<td>PFM Paradigms at the State Level</td>
<td>10-12</td>
</tr>
<tr>
<td>Conclusion and Challenges</td>
<td>13-15</td>
</tr>
<tr>
<td>Recommendations</td>
<td>17-18</td>
</tr>
</tbody>
</table>
Executive Summary
Providing a public policy context for the growing problems of infrastructure deficit and poor socioeconomic indicators in Nigeria, the Research and Policy Advisory team at BudgIT Foundation, via this brief, highlights the essential requirements of improved fiscal management practices. It outlines the emergence of fiscal reform and hones in on the TSA as a form of that practice at the national level. It then drills down to TSA reception by states (Kano, Kaduna and Niger), addresses the political economy issues of TSA uptake and comments on whether its full or partial use contributes to blocking revenue leakages and improved fiscal transparency.
Introduction
Introduction

The adoption of the Treasury Single Account (TSA) by the national and some subnational governments in Nigeria, as part of public financial management (PFM) reform, can assist in improving savings¹ and budgeting, reduce potential for misallocation or theft of resources via unclear cash management practices² and promote transparency and accountability.³ The need to grow Internally Generated Revenue (IGR), improve public savings, which can be directed to building infrastructure, is nontrivial, as every naira is crucial. About 85 million Nigerians do not have access to electricity.⁴ In addition, it has been revealed that 69.2% of the nation’s road network is untarred.⁵ The federal government recently stated that the country’s infrastructure gap would require $2.3 trillion dollars to close.⁶

The need for infrastructure is compelling, as there is a relationship between access to infrastructure and economic growth.⁷ Looking at the economic indicators of the states under review, the National Bureau of Statistics (NBS) identifies Niger as having a poverty rate of 66.11%, Kano with a rate of 55.08% and Kaduna a rate of 43.48% (National average is 42.46%).⁸ The urgency to plug revenue leakages creates a demand for efficient public cash management and comprehensive implementation of TSA practices. Several definitions of a TSA exist, but the central thread is that a single account, protocol or location for collection of government receipts, serves for better monitoring and management of funds.⁹ Optimal PFM practices generally have the potential to not only plug leakages¹⁰ but improve fiscal space for all levels of government.¹¹

Poverty rate according to the National Bureau of Statistics

- Niger: 66.11%
- Kano: 55.08%
- Kaduna: 43.48%

*National Average 42.46%

⁶ This amount seems to be disputed, as the global ratings agency, Moody's puts the figure at $3 trillion dollars. Be this as it may, the Federal Ministry of Finance, Budget and National Planning. (2020, October). The Revised National Integrated Infrastructure Master Plan (2020-2043), at p. 15. Available at: https://ngfrepository.org.ng:8443/bitstream/123456789/2776/1/final%20EDITED%20VERSION%20OF%20NIIMP%20-%2012th%20Jan.%202021.pdf. Date accessed-29/08/2021.
⁸ The federal government recently stated that the country’s infrastructure gap would require $2.3 trillion dollars to close.⁹ See “135,000km road network in Nigeria un-tarred- ICRC”, by the News Agency of Nigeria, on September 7, 2017. Available at: https://www.icrc.gov.ng/135000km-road-network-nigeria-un-tarred-icrc/. Date accessed-29/08/2021.
¹⁴ See the Federal Government of Nigeria. National Bureau of Statistics (NBS) identifies Niger as having a poverty rate of 66.11% (National average is 42.46%). See the Federal Government of Nigeria. National Bureau of Statistics (NBS) identifies Kano with a rate of 55.08% and Kaduna a rate of 43.48% (National average is 42.46%).
Purpose of Fiscal Reforms and TSA in Nigeria

The modern roles of government are to ensure the security of lives and property and the optimal distribution of resources; essentially to correct inefficiencies and inequities of the market where it is unregulated (yet, the reverse can be the case: [Wagner, 2004])\(^{12}\). With the normalisation of developed countries’ PFM/Public Expenditure and Financial Accountability (PEFA) practices in developing countries, the latter began considering efficiency principles. However, for Nigeria, corruption and inefficiency have plagued public financial management for decades.\(^13\)

Recently, the nation’s House of Representatives,\(^14\) claimed the federal government may have lost as much as $30 billion dollars in annual federal tax revenue between 2015 and 2019.\(^15\)

The above losses could have been identified (an inter-agency and extra-agency audit would have exposed losses within a reasonable time of their occurrence-though the auditors would have no power to stop them\(^16\)), via calculated cash management practices. The importance of cash management (a practice flowing from the use of the TSA) in terms of broader savings and blocking of leakages are well documented.\(^17\) The latter highlights the management function having the potential to unlock benefits of using a TSA. This also underscores the importance of leadership (or ‘Political Will’ in Nigerian discourse\(^18\)); a key node within the management function.\(^19\) This is because TSA protocols are only as effective as their enforcement: where a daily cash call or remittance is unenforced, heads of revenue generating agencies have an incentive to underreport or simply not comply.\(^20\) However, the reasons for underreporting or non-compliance in turn depend on the institutional environment\(^21\) and actor incentives.

---


\(^{13}\) Peters argued that the behaviour of public bureaucrats is directly related to the broader public culture of any state and makes the point that: “The moral orientation of the society toward management and impersonal authority in formal organisations also affect the behaviour of public officials.”


\(^{17}\) See New Fetter Lane, London EC4P 4EE.

\(^{18}\) Peters argues that the behaviour of political bureaucracy is directly related to the broader political culture of any state and makes the point that: “The political orientation of the society toward management and impersonal authority in formal organisations also affect the behavior of public officials.”

In the recent past, international donor organisations became aware that public financial sector efficiency and effectiveness was lacking in developing countries and pushed for mainstreaming of PFM practices.\textsuperscript{22} These "effective practices" straddle financial, monetary and fiscal policy, debt management and cash management. Hence, leading to the introduction of the TSA, among other things, as a management practice\textsuperscript{23} to reduce the incidence of leakage and leave more revenue available for the government. At the federal level in Nigeria, the legal requirement of a single account across MDAs was not “new” as the federal government, as early as 1999 did have a single account into which all monies it earned were meant to be paid.\textsuperscript{24} However, it would be years before the full adoption of this provision was implemented.\textsuperscript{25}
Treasury Single Account as a Strategy for Blocking Revenue Leakages: Lessons from Kaduna, Kano & Niger States

Though Nigeria operates a federal system, there is much to be desired regarding the ‘fiscal’ arrangement, as state governments often manage their economies with heavy dependence on revenue from the federation account. Eventually, the World Bank funded a $1.5 billion dollar State Fiscal Transparency, Accountability and Sustainability (SFTAS) program-for-Results; a renewed effort by the Federal Government to incentivise and nudge States to adopt a common set of fiscal behaviour aimed at attaining fiscal sustainability. The programme combines selected actions from the Fiscal Sustainability Plan (FSP) and the Open Government Partnership (OGP) agenda to form incentivised PFM reform actions (called Disbursement Linked Results). One of the key reforms under the program required States to institute a functional TSA, covering a minimum of 80% of State government finances by 2021 and the account should be premised on a formally approved cash management strategy. It should be noted that, the adoption of TSA at the federal level (via a pilot program in 2012) led to the saving of about N500 million naira which was what influenced its gradual implementation (it was only mandated as federal policy in 2015). In fact, between 2016 and 2018, as a result of adoption of the TSA by MDAs and the introduction of the ‘Cashless policy’ (with its underlying framework), States and the F.C.T saw their IGR improve from N820.74 billion naira to N1.1 trillion naira. Normatively, with its numerous advantages, TSA uptake ought to be straightforward but this is often not the case in the real-world. Yet the importance of effectively managing state finances cannot be more vital than now and with unemployment and underemployment being precariously high, the manner in which states handle their fiscal practices is being called into question. The chart below shows where the states under review stood in 2020, compared to national averages.

PFM Paradigms at the State Level

Though Nigeria operates a federal system, there is much to be desired regarding the ‘fiscal’ arrangement, as state governments often manage their economies with heavy dependence on revenue from the federation account. Eventually, the World Bank funded a $1.5 billion dollar State Fiscal Transparency, Accountability and Sustainability (SFTAS) program-for-Results; a renewed effort by the Federal Government to incentivise and nudge States to adopt a common set of fiscal behaviour aimed at attaining fiscal sustainability. The programme combines selected actions from the Fiscal Sustainability Plan (FSP) and the Open Government Partnership (OGP) agenda to form incentivised PFM reform actions (called Disbursement Linked Results). One of the key reforms under the program required States to institute a functional TSA, covering a minimum of 80% of State government finances by 2021 and the account should be premised on a formally approved cash management strategy. It should be noted that, the adoption of TSA at the federal level (via a pilot program in 2012) led to the saving of about N500 million naira which was what influenced its gradual implementation (it was only mandated as federal policy in 2015). In fact, between 2016 and 2018, as a result of adoption of the TSA by MDAs and the introduction of the ‘Cashless policy’ (with its underlying framework), States and the F.C.T saw their IGR improve from N820.74 billion naira to N1.1 trillion naira. Normatively, with its numerous advantages, TSA uptake ought to be straightforward but this is often not the case in the real-world. Yet the importance of effectively managing state finances cannot be more vital than now and with unemployment and underemployment being precariously high, the manner in which states handle their fiscal practices is being called into question. The chart below shows where the states under review stood in 2020, compared to national averages.
Fig. 1 Unemployment and Underemployment figures for the states

Unemployment and Underemployment in Q4, 2020

<table>
<thead>
<tr>
<th>State</th>
<th>Unemployment</th>
<th>Underemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaduna</td>
<td>44.65</td>
<td>22.65</td>
</tr>
<tr>
<td>Kano</td>
<td>31.2</td>
<td>25.36</td>
</tr>
<tr>
<td>Niger</td>
<td>38.8</td>
<td>23.44</td>
</tr>
<tr>
<td>National Av.</td>
<td>33.3</td>
<td>22.8</td>
</tr>
</tbody>
</table>

SOURCE: NATIONAL BUREAU OF STATISTICS
At the level of state implementation of the TSA, the author has gathered that states generally tend to see the TSA as a mere monitoring tool, as opposed to a set of accounting, managerial and financial protocols. However, states under review all have a Fiscal Responsibility Law (similar to the national Fiscal Responsibility Act), though the laws exist in varying degrees of comprehensiveness. At least 80% of all states do not run a full TSA (i.e., the full set of SFTAS practices and requirements) and in 2018 only 4 states met the SFTAS scoring criteria. However, despite the fact that most states (and their MDAs) operate several bank accounts, this ipso facto, does not run counter to the essence of the TSA, as accounts can be supervised by a single protocol (or be domiciled in a ‘main IGR’ account). In fact, the general practice is for treasury authorities to effect a “sweep” (an electronic pull of all monies owed the state the state government) of the accounts of revenue bearing agencies, periodically to the main ‘IGR account’ and it is the latter that receives all VAT, IGR and FAAC. However, this is not airtight as it has been observed that for many states, the bulk of revenues (i.e., from the MDAs) do not go to a TSA.

From the states under review, only Kaduna (the sole state in the federation) has met SFTAS requirements for 2 years in a row. In fact, not only does Kaduna have an operational TSA (the latter, a build up from years of tax reform within the state) it has a functional computer dashboard, called the ‘Kaduna State Government Trackpay’, that shows the state’s fiscal balances in real time. For Kano, no Cash Management Strategy has been published and it has no computer dashboard but it does have a relatively functional TSA with First City Monument Bank.

However, states under review all have a Fiscal Responsibility Law (similar to the national Fiscal Responsibility Act), though the laws exist in varying degrees of comprehensiveness. At least 80% of all states do not run a full TSA (i.e., the full set of SFTAS practices and requirements) and in 2018 only 4 states met the SFTAS scoring criteria.
Niger state has no comprehensive Cash Management Strategy and its TSA covers only 9% of total government finances.\(^{42}\) The Niger state government operates multiple accounts but has an account into which only IGR is remitted (their dashboard only monitors IGR).\(^{43}\) The state also has a ‘Statutory account’ with Zenith Bank, into which FAAC and VAT are pooled.\(^{44}\) From the above data, the state with the best performance is Kaduna. However, the more interesting question is why this state of affairs exists (and persists) among the states.\(^{45}\) Could this be tied to leadership or are there more factors at play? In the main, though there are obvious benefits of using TSA protocols, state executives must be careful not to create new problems out of old ones. This can, for example, play out where agencies transparently remit monies but are ignored when making requests for regular (or even emergency) funding, burying them under mountains of bureaucracy.\(^{46}\)

\(^{42}\) Ibid.
\(^{43}\) Ibid.
\(^{44}\) Ibid.
\(^{45}\) Ibid.
Conclusion and Challenges
Conclusion and Challenges

Will TSA provide as much savings for states as it did for the federal government? It will be difficult to quantify the precise amount but there is no doubt it will be considerable. As at 2016, it was speculated that up to N2.4 trillion naira of public funds was domiciled within commercial banks.47 If one were to control for inflation, the savings would likely be significant.48 Yet, there are always political considerations lurking beneath the surface when analysing public sector reform. What are the incentives and disincentives to enforce TSA practices49 and how can they be reconfigured to allow for a more comprehensive implementation of TSA? Why is Kaduna state currently the best performer among states in the federation and what is it, about the institutional environment50 that predisposes it to being that way? Generally, the incentives, government relationships (inter-government and government relationships with the private sector) and environment determine whether these rules will be adopted or enforced in any form.

A fully functional TSA (as envisioned by SFTAS) exposes the amount of revenue a state has, meaning state governors will be under more pressure from citizens and civil society, to carry out citizen-focused governance as the ‘true’ revenue position of government would be known. In addition, lifting this veil means state executives may have less discretion in sourcing for revenue and short term finance,51 hitherto bordering on government and commercial bank relationships that may be mutually beneficial but detrimental to government transparency and accountability.52 In general, the following (which apply to Nigerian states) are held to be the most critical obstacles to the implementation of functional TSA practices in developing countries: Institutional rigidities;53 Lack of willingness for reform; State of Technology54 and the range of Banking Facilities and Services.55

As at 2016, it was speculated that up to N2.4 trillion of public funds was domiciled within commercial banks.
For change to occur, what is needed is a deeper and more comprehensive understanding of the institutions in operation within these 3 states and states of the federation, in general. Doing so will provide a diagnostic of what obtains and point to realistic and politically feasible entry points for policy change. This is because whatever change is being proposed must take into consideration rigid institutions and the resistance to status quo change. Reformers must accept that institutions tend to change slowly but be optimistic, as incremental and gradual mainstreaming of PFM/PEFA norms via sustained CSO (and the latter’s knack for advocacy, capacity building and awareness creation) and international donor pressure (such as the SFTAS Program) can serve as a ‘solvent’ of sorts, to ease up the stickiness.

Recommendations
Recommendations

1. **ENFORCEMENT OF CASH MANAGEMENT FRAMEWORKS**

State Governors must prioritise the implementation and enforcement of Cash Management Frameworks, in the format suggested by the SFTAS Program, for all the MDAs within the state. This can be enhanced by “formalising service performance standards through a service-level agreement with the banks, and setting up an institutional mechanism to monitor and enforce these standards (for instance using Automatic Exchange of Information, [AEOI] frameworks)\(^\text{57}\)

2. **FULL IMPLEMENTATION OF TSA ACROSS ALL MDAs**

State Governors should insist on the full implementation of TSA as a management and administrative practice, across all MDAs, as this has the potential to free up idle funds that can be used by the state. This can be done by “operationalizing the direct deposit functionality of GIFMIS for remitting the MDAs’ internally generated revenues from collecting banks into the TSA\(^\text{58}\)

3. **COLLABORATE WITH MDAS AND STATE EXECUTIVES TO CREATE TSA AWARENESS**

Program Implementation bodies (in particular SFTAS or the Nigerian Governors Forum and CSOs in the transparency space) should collaborate with compliant state revenue generating MDAs and State executives, to create more TSA awareness\(^\text{59}\) and develop protocols that allow for freer and more timely outflow of monies to the MDAs. It is possible that where MDAs are guaranteed that they will be able to secure monies for their regular operations, they will be more likely to remit monies to a TSA.

4. **STATE HOUSE OF ASSEMBLIES SHOULD GET MORE INVOLVED**

The various State Houses of Assembly should not be left out of the discussion, as they have the mandate to legislate for the state. Where they can be engaged on the benefits of a TSA (and the broader aim of passing public finance legislation, such as a Fiscal Responsibility Law or amending the laws where they already exist), the uptake of the latter will stand a much better chance of being mainstreamed.

---


\(^{58}\) See “The Proof of the Pudding: Strengthening Cash Management in Nigeria” posted by Salawu Zubairu, et al., op. cit.


GOVSPEND.NG analytics is designed to give user-friendly access to information on daily spendings at all levels of government.