



KEBBI STATE ARREARS CLEARANCE FRAMEWORK

The Arrears Clearance Framework (ACF) is aimed at addressing the challenges involved in the gradual settlement of accumulated government arrears as well as preventing further accumulation of such arrears. This is in recognition of the fact that government expenditure arrears are one of the most common problems in Public Financial Management (PFM).

It is not a crime to incur debt as government all over the world incur debts to cover shortfalls on budgets and other expenditure over and above incomes inflows. But it is pertinent to prevent the accumulation of such debts as it reduces the ratings and credibility of government and on the long run, may have negative effects on its economy, thereby reducing its growth and retard service delivery.

Kebbi State Government has approved the establishment of a Domestic Arrear Clearance Committee as an institution charged with the overall arrears clearance process, including recording, verification, classification, reporting, prioritization and clearance of government domestic expenditure arrears in the State as recommended by World Bank.

The Committee is to be reporting its findings directly to the Governor via the Honourable Commissioner for Finance.

The membership of the Committee as approved by His Excellency is as follows:

S/NO.	TITLLE	POSITION
1.	Honourable Commissioner Ministry of Finance	Chairman
2.	Permanent Secretary Ministry of Budget	Member
3.	Deputy State Accountant General	Member
4.	Director of Finance Pension and Gratuity	Member
5.	Director Inspectorate (Internal Auditor)	Member
6.	Director Debt Management	Member
7.	SFTAS Focal Person	Member
8.	Director Final Account	Member
9.	Chairman Due Process	Secretary
10.	Auditor General	Observer

The Committee shall:-

- ✓ establish a Secretariat to support its work using existing Staff or Units within the Office of the Accountant General and the State's Debt Management Department Office.
- ✓ have delegated authority to request any and every information it requires in order to carry out its functions from the MDAs.
- ✓ be able to incur expenditures, including the engagement of professional assistance in the course of executing its role and these expenditures must be incurred through the procurement processes.

The Arrears Clearance Committee should, as an institutional arrangement:-

- 1 oversee arrears liquidation to ensure the consistent application of the principles of the framework.
- 2 should ensure that payments are made in accordance with the agreed prioritization criteria.
- 3 should receive reports from spending units (MDAs), and prepare periodic (Monthly or quarterly) reports to the Ministry Of Finance and the Governor's office on the performance of entities on payment of arrears.

The overall responsibilities of the Committee shall include the following:

- Implement and from time to time review the State's Arrears Clearance Framework (ACF), including policies on prioritization and clearance of arrears
- Introduction of specific guidelines setting out the roles and responsibility of individuals and institutions for the recording, verification of domestic arrears on agreed recording templates,
- The creation, maintenance and regular (monthly) update of an accurate internal domestic expenditure arrears database and the publicly accessible online version of the database,
- Oversight of the overall recording, verification and reporting process for domestic expenditure arrears.
- Ensure adequate classification of the arrears for prioritization purposes,
- Provide accurate monthly, quarterly and annually reports that present the true position for verified domestic arrears and the progress made in implementing the State's ACF

Kebbi State in addition to the already Established **Treasury Single Account (TSA)** that facilitate the

effective management of cash flows and ensure centralization of payments to the State's Treasury has identify measures to be adopted in preventing the accumulation and clearing of domestic arrears;-

- i. **Strengthen legal and regulatory framework.** A framework should define payment terms, when in arrears, reporting requirements as well as the necessary controls at the budget stages of authorization, commitment and payments with appropriate provisions for breaching sanctions;
- ii. **Enhance the credibility and realism of the State's budget.** The State's budget shall be a realistic plan. The Ministry of Budget and Economic Planning in conjunction with Ministry of Finance is developing a Medium Term Expenditure Framework profile (MTEF), to enhance the annual budget preparations, where provisions are made for all MDA's for project execution and payment of all liabilities emanating from such projects.
- iii. **Improve accounting and reporting.** Arrears clearance require adequate, timely and reliable information about their size, composition and impact through government accounting systems that recognize expenditure commitments, liabilities and payments;
- iv. **Improved and integrated cash and debt management** that ensure liquidity to meet cash obligations as they arise through accurate and timely short term estimates of cash inflows and outflows;
- v. **Upgrade the government's financial**

management information systems to one that is capable of controlling the main stages of budget execution that handles the entire expenditure chain, including the release of budget funds, commitments against the budget funds, production of purchase orders, receipt of goods and services claimed in the invoices, and payment or non-payment of invoices;

- vi. **Implement technological solutions to control expenditures** that historically contribute to the accumulation of arrears.

Plan Actions

This framework will communicate to stakeholders the government's plans, timetable and criteria for the liquidation of arrears, this will significantly minimise fraudulent clearance exercise. As far the World Bank, the Transparency, Credibility, Comprehensiveness and Realism shall serve as a guide to arrears clearance strategies.

The State plans to do an effective Stocktaking and Verification of all existing Domestic Arrears which will enable the State government to understand the extent, composition and the age of the State unpaid bills and prioritize their clearance. There should be a Time-table, a reliable Data-base and a Cut-off date for inclusion of new arrears in order to encourage timely reporting. The data should be verified to ensure that they are genuine claims to avoid payment of fraudulent claims. This verification exercise/process will be carry out by a committee headed by State Auditor General.

Once collected through stocktaking and verified, the data of the domestic arrears should be analysed and classified for

the purposes of arrears clearance. A database of valid outstanding payments should be established and maintained centrally by the Ministry Of Finance or its agency (Debt Management Department) who should keep it up-to-date showing the discharge of arrears and any subsequent additions to the stock. All stocks of accounts payable should be classified as liabilities, further classified as either domestic or foreign, and included in the government's measurement of gross debts.

Prioritization of Arrears for Clearance

Once a database of valid claims on government has been established, a set of criteria for prioritizing their liquidation should be determined.

Criteria

The prioritization of arrears clearance should be based on transparent criteria; depending on the nature of the arrears, these might include the following:

- **Socioeconomic impact:** Arrears to economically sensitive or vulnerable sectors, such as salaries of low-income workers, pensions, and social benefits, should be prioritized.
- **Age of Debts:** Older obligations should have priority over newer obligations.
- **Cost:** Arrears that accrue interest and penalty charges should have priority.
- **Risk:** Arrears that may result in legal action, disruption of essential services, or cost escalation of future supplies to government should be prioritized.

- **Currency:** Payment of foreign currency denominated debt should be prioritized if domestic currency devaluation is outpacing domestic inflation.
- **Creditor:** The government should prioritize the clearance of intra- government debts, as this can be done administratively through the annual budget at minimal net cost.

Liquidation

The payment or liquidation of obligations can begin after establishing and publishing the criteria for prioritizing arrears for clearance.

As at December, 2020, the State Government has outstanding Arrears of:

1. Contractual Arrears	26,262,396,072.51
2. Gratuity Arrears	5,999,489,445.80

Funding payment of arrears:

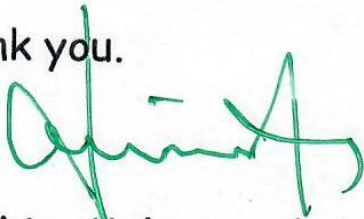
The State Government shall clear her arrears using funds from any of the following sources:

- i. **Statutory Allocation**
- ii. **Internally Generated Revenue**
- iii. **Grants from the Federal Government, and**
- iv. **Loans**

Kebbi State Government has made some provisions as measures to reduce its Domestic Expenditure Arrears. These measures include;

- ❖ Provision of Two Billion Naira (N2,000,000,000.00) for the settlement of Gratuity for the 1st quarter 2021.
- ❖ Provision of One Billion Six Hundred Million Naira (N1,600,000,000.00) for the settlement of Gratuity for the 2nd quarter 2021.
- ❖ Provision of Five Hundred Million Naira (N500,000,000.00) for the settlement of Gratuity for the 3rd quarter 2021.
- ❖ Provision of Five Hundred Million Naira (N500,000,000.00) for the settlement of Gratuity for the 4th quarter 2021.
- ❖ As for Contractual Arrears, the State Government has set aside the sum of Two Billion Naira (N2,000,000,000.00) as provided in the Annual Budget for settlement of Contractual Liabilities based on the criteria listed above. This will be after the authentication and submission of final report by the Arrears Verification Committee headed by the State Auditor General mention earlier.

Thank you.



Ibrahim Muhammad Augie
Honourable Commissioner
Ministry of Finance