

KWARA STATE GOVERNMENT



ARREARS CLEARANCE FRAMEWORK

DECEMBER, 2020.

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Chart 1: Kwara State Domestic Arrears.

ABBREVIATIONS AND ACRONYMS

OAGF	Office of Accountant-General of the Federation
APA	Annual Performance Assessment
DLI	Disbursement Linked Indicators
DLR	Disbursement Linked Result
DMO	Debt Management Office
FRA	Fiscal Responsibility Act
IGR	Internally Generated Revenue
ISPO	Irrevocable Standing Payment Order
IVA	Independent Verification Agent
MDAs	Ministries Departments and Agencies
PforR	Program for Result
SFTAS	State Fiscal Transparency Accountability and Sustainability Program
FGN	Federal Government of Nigeria
WB	The World Bank

SECTION 1. INTRODUCTION

1.1 Coverage and Scope:

This document covers the policy guidelines and procedures for managing and settling the domestic expenditure arrears of Kwara State Government. The State's arrears are financial obligations that have been incurred by Kwara State Government for which payment have not been made as at due date.

The framework is guided by the World Bank and the Federal Debt Management Office's Template for the establishment of Domestic Arrears Clearance Committee (DAC) as well as established best practices in the settlement of State's Domestic Expenditure Arrears.

The main Categories of Kwara State's expenditure arrears are as follows: contractors' arrears, pension and gratuity arrears, judgments debt arrears. The shorter terms: "domestic expenditure arrears", "domestic arrears", and "arrears" used variously in the document refers to Kwara State Government domestic expenditure arrears.

1.2 Purpose of the Framework Document

This framework document is aimed at providing practical guidance in the identification, recording and management of domestic expenditure arrears in the State. This will assist the State to establish processes and systems to reduce her stock of domestic arrears.

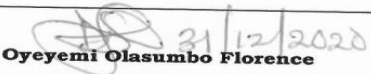
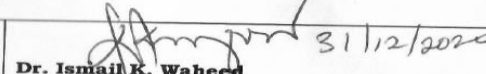
1.3 Users of the Framework Document

This framework is primarily meant for the government of Kwara State. Besides, the staff of MDAs such as Ministry of Finance and Planning, Office of the Accountant-General, Office of the Auditor-General, Ministry of Works, Housing and Urban Development and other line MDAs etc, who may be involved in debt management and settlement of arrears at one time or the other will find it useful

The framework should be used in conjunction with other extant public finance laws and regulations, the accounting system and procedure manuals in the State.

Total Stock Domestic Arrears of Kwara State Government
 Table 1: Breakdown of Kwara State Domestic Expenditure Arrears (2015-2020)

SUMMARY OF KWARA STATE DOMESTIC EXPENDITURE ARREARS FOR (6) YEARS 2015-2020

COA -CODE	DOMESTIC EXPENDITURE ARREARS DETAIL	2020 FINANCIAL YEAR	2019 FINANCIAL YEAR	2018 FINANCIAL YEAR	2017 FINANCIAL YEAR	2016 FINANCIAL YEAR	2015 FINANCIAL YEAR
000000	CONTRACTUAL OBLIGATION	2,884,573,740.12	2,798,835,609.23	1,402,236,358.49	1,545,551,506.08	2,272,583,600.21	3,421,314,514.06
00000	PENSION & GRATUITY ARREAS	14,026,067,147.97	12,480,079,316.78	10,112,998,388.62	7,245,922,038.70	5,108,648,720.61	3,762,942,164.90
00000	JUDGEMENT DEBT	15,466,750.00	12,566,750.00	NIL	NIL	NIL	NIL
	ANNUAL TOTAL	16,926,107,638.09	15,291,481,676.01	11,515,234,747.11	8,791,473,544.78	7,381,232,320.82	7,184,256,678.96
NOTE: THE ARREARS FIGURES REPORTED IS IN (#) AND IT IS THE TOTAL AMOUNT OF EACH TYPES OF ARREARS AS PER DOMESTIC DATABASE FOR THE YEAR ENDING 31 ST DECEMBER , 2020							
 Oyeyemi Olasumbo Florence Hon. Commissioner of Finance & Planning Kwara State				 Dr. Ismail K. Waheed Accountant-General Kwara State			

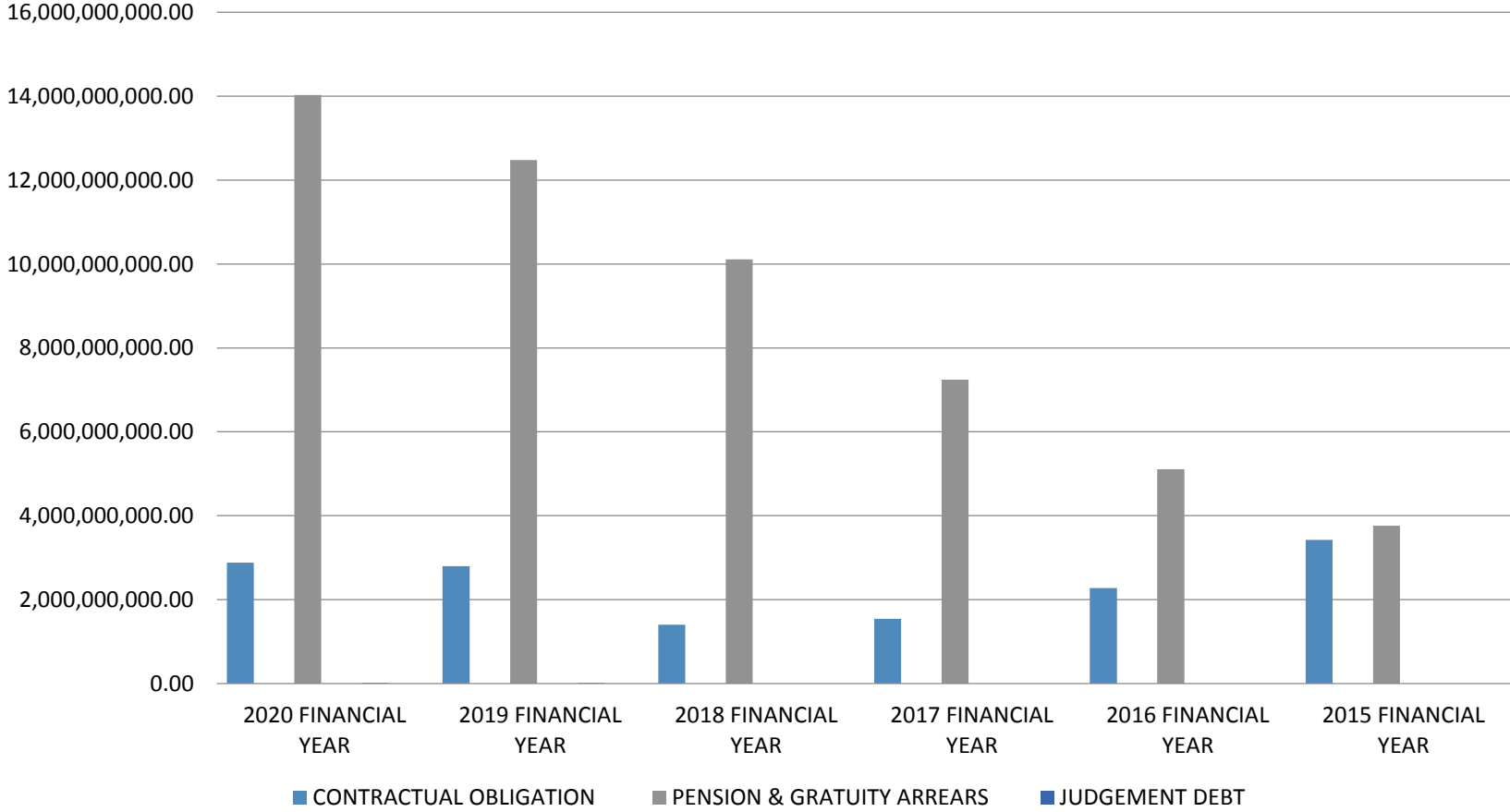
Total Stock Domestic Arrears of Kwara State Government

Table 1: Breakdown of Kwara State Domestic Expenditure Arrears (2015-2020)

YEARLY COMPARATIVE ANALYSIS OF KWARA STATE DEBT STOCK.

DOMESTIC EXPENDITURE ARREARS DETAILS	2020 FINANCIAL YEAR	2019 FINANCIAL YEAR	2018 FINANCIAL YEAR	2017 FINANCIAL YEAR	2016 FINANCIAL YEAR	2015 FINANCIAL YEAR
CONTRACTUAL OBLIGATION	2,884,573,740.12	2,798,835,609.23	1,402,236,358.49	1,545,551,506.08	2,272,583,600.21	3,421,314,514.06
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JUDGEMENT DEBT	15,466,750.00	12,566,750.00	NIL	NIL	NIL	NIL
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KWARA STATE DOMESTIC DEBT



1.1 Description of Kwara State's Policy on Arrears

Kwara State Government shall adopt the following measures to clear her existing arrears and prevent accumulation of new ones:

- i. The State shall empower her legal and regulatory framework on financial issues by strengthening legal and regulatory framework;
- ii. The State shall ensure that its budget propose a realistic expenditure profile to enhance its credibility and ensure that the borrowing limit includes a margin to handle the situation of revenue shortfalls;
- iii. The state shall ensure proper documentation and recording of her transaction through improved accounting and reporting system;
- iv. The state Government shall strengthen her fiscal control to effectively limit commitments to approved budgetary provision and availability of fund;
- v. The state shall facilitate improved and integrated cash and debt management system;
- vi. Establishment of Treasury Single Account (TSA) to reduce State's reliance on commercial banks loans;
- vii. Payment shall be centralized to the State Treasury to prevent arrears as result of administrative hurdles;
- viii. Upgrading the existing financial management information system to promote transparency and accountability.

SECTION 2. PLANNED ACTIONS FOR SETTLEMENT OF KWARA STATE DOMESTIC EXPENDITURE ARREARS

Kwara State Multi-Year Plan is the financial plan of the State for clearance of her stock of arrears based on the total fund available to the State in the fiscal year.

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

- The State's Internally Generated Revenue;
- Grant from the Federal Government;
- Borrowing from Commercial Banks;
- Bonds

SECTION 3: PRIORITIZATION CRITERIA FOR ARREAR CLEARANCE

Until recently, there is no comprehensive and effective sub-national arrears clearance strategy in Nigeria. To varying degrees, States have institutional mechanisms for prioritizing the payment of domestic expenditure arrears. The volume of the arrears of most States are usually too large to be cleared within a fiscal year.

Kwara State shall adopt any of the following criteria/approaches in deciding which of her domestic expenditure arrears to be paid.

3.1 Prioritization Criteria/Approaches between Types of Arrears

Approach 1:

Allocation of available fund among the types of the arrears in proportion to their total outstanding stocks.

Approach 2:

Allocation of available fund on a particular type of arrears

3.2 Prioritization Criteria/Approaches within Types of Arrears

S/N	CRITERIA/ APPROACH	RATIONALE	REQUIRED DATA
1	CONTRACTORS		
	Ongoing works first	Ensures ongoing works are completed	Status of project
	Largest first	Largest injury (in terms of arrear value) is addressed first	Value of outstanding arrears
	Smallest first	Allows many individual arrears to be paid immediately and Focuses funds on small firms that may be vulnerable to cash flow Problems (assuming most small arrears are owed to small contractors)	Value outstanding arrear
	Oldest first	Creditors who has been waiting longest is paid first	Date missed Payment was First due
	Subject to Penalties First	Paying arrears that bear penalties for late payment reduces cost to state	Contract terms: whether provide for late penalties
2	PENSIONS AND GRATUITIES		
	Oldest first	Largest injury (in terms of delay) is addressed first	Date missed Payment was due
	Equal percent	All pensioners receive something, regardless of when they retired	Amount owed to each pensioner
3	JUDGEMENT DEBT		
	Final judgment	All cases that has been decided upon (judgment delivered) is addressed first Judgment	Delivered first Pay
	Appeal judgment	All appeal cases payment delay till final judgment	Appeal cases give delay in payment

SECTION 4: INSTITUTIONAL ARRANGEMENT

4.1 Institutional Arrangement for Implementation of the Framework

Kwara State is one of the participating States in the Federal Government of Nigeria (FGN) and World Bank multi-year (2018-2022) States Fiscal Transparency Accountability and Sustainability (SFTAS) Program to support Nigerian States to strengthen fiscal performance and sustainability. One of the disbursement linked indicator under the Program (DLI #8) requires the State to establish a database of verified domestic arrears, establish an arrears clearance framework (ACF) setting out the procedures to clear the stock of arrears and implement the ACF. To this end, Kwara State Government has put in place a **Domestic Arrears Clearance Committee** as institutional arrangement charged with the overall arrears clearance process, including recording, verification, classification, reporting, prioritize and clearance of government domestic expenditure arrears in the State and to oversee the work of the State towards achieving the SFTAS DLI #8. The terms of reference guiding the work of the Committee are as follows:

4.2 Objectives and Responsibilities of the Committee

The Committee will support the Accountant-General in its responsibility for accurate recording, verification and reporting of domestic arrears balances across all types. The duties of the Committee shall include, but not limited to the following:

1. Introduction of specific guidelines, setting of roles and responsibilities of individuals and institutions for the verification and recording of domestic arrears on the agreed recording templates,
2. The creation, maintenance and regular (monthly) update of an accurate internal domestic expenditure arrears database and published online version of the database,
3. Oversight of the overall recording, verification and reporting process for domestic expenditure arrears to ensure that they meet the requirements for SFTAS DLI #8 as described in the SFTAS verification protocols,
4. Ensure adequate classification of the arrears for prioritization purposes,

5. Develop the State's Arrears Clearance Framework (ACF), including policies on prioritization and clearance of arrears.
6. Provide accurate monthly, quarterly and annual reports that present true position for verified domestic arrears and progress made in the State's ACF
7. Provide data/documentation to support the verification of SFTAS DLI #8, including the State Arrears Recording, Verification and Clearance Report.

4.2.1 Specific Activities

Specific activities for the committee include but are not limited to the following:

- a. Adoption and implementation of records management guidelines on domestic arrears.
- b. Adoption and implementation of records management guidelines for all types of domestic arrears.
- c. Establishment of a consolidated internal domestic arrears database.
- d. Establishment of a publicly assessible online version of the database.
- e. Reporting of verified domestic arrears to the end-users
- f. Development of the Arrears Clearance Framework (ACF)
- g. Produce the State Arrears Recording, Verification and Clearance Report.

4.3 Supervision and Reporting Arrangements

The Committee will report directly to the State Executive Governor through the Honourable Commissioner for Finance and Planning with the knowledge of the SFTAS Focal Person.

4.4 **Membership of the Committee**

The membership of the committee will be as follows;

HON. COMMISSIONER OF FINANCE & PLANNING	CHAIRMAN
STATE ACCOUNTANT-GENERAL	ALTERNATIVE CHAIR
DIRECTOR CAD-AG's OFFICE	MEMBER
STATE DIRECTOR BUDGET	MEMBER
DIRECTOR DEBT MANAGEMENT	MEMBER
DIRECTOR-GENERAL PUBLIC PROCUREMENT AGENCY	MEMBER
DIRECTOR TREASURY	MEMBER
DIRECTOR AUDIT (OAU-D-GEN)	MEMBER
DIRECTOR PENSION (STATE PENSION)	MEMBER
CHIEF PLANNING OFFICER (DMD, MoF&P)	MEMBER
CHIEF ACCOUNTANT-AG's OFFICE	MEMBER
STATE AUDITOR-GENERAL	OBSERVER

4.5 **Committee Secretariat**

The committee shall establish a Secretariat to support its work using existing staff or units within the office of Accountant General and State's Debt Management Office.

4.6 **Powers and Authorities of the Committee**

The committee shall have delegated authority to request any and every information it requires in order to carry out its functions from the MDAs.


4.7 **BUDGETARY PROVISION**

The committee will be able to incur expenditure, including the engagement of professional assistance in the course of executing its role. All expenditure must be incurred through the procurement system of the selected institution.

4.8 **TENURE OF THE COMMITTEE:**

The committee will operate in perpetuity and maybe disbanded or reconstituted on the directive of the State Executive Governor.

Signed


Oyeyemi Olasumbo Florence
Hon. Commissioner Finance & Planning

Dr Ismail K. Waheed
State Accountant General