



# NASARAWA STATE GOVERNMENT

NASARAWA STATE ARREARS CLEARANCE FRAMEWORK

2020.

*Amunfole*  
29/12/20  
HOC

## ARREARS CLEARANCE FRAMEWORK

### 1.0 INTRODUCTION

The Arrears Clearance Framework is designed to address the challenges involved in the gradual settlement of accumulated government arrears of Nasarawa state. In the bid to achieving this, His Excellency Engr. Abdullahi A. Sule, the Governor of Nasarawa State set up a Debt Arrears Committee (DAC), headed by the Honourable Commissioner of Finance, Budget & Planning to ascertain, verify and authenticate available records of Domestic Expenditure Arrears comprising of all financial obligations, that have been incurred since the creation of Nasarawa State for which payments have not been made.

### 1.1 COVERAGE AND SCOPE OF THE FRAMEWORK

This document covers the policy guidelines and procedures for managing and settling the domestic expenditure arrears of Nasarawa State Government.

The State's arrears are financial obligations that have been incurred by Nasarawa State Government for which payments have not been made.

1.1.1 These payments may have been overdue based on the following:

- Specific contractual commitment such as payment for construction of roads
- Particular statutory obligations such as payment of salaries, pensions and gratuity.
- Continuing service arrangement such as payment for electricity supply
- Paucity of Fund as at dates of completion or execution of projects.

1.1.2 The main categories of State's expenditure arrears are as follows:

- ❖ Contractual arrears,
- ❖ Salary arrears,
- ❖ Pension and Gratuity arrears.
- ❖ Other arrears

The terms: "domestic expenditure arrears", "domestic arrears", and "arrears" used variously in the document refer to State Government domestic expenditure arrears.

**Expenditure arrears** also describe **payables, liabilities and commitments** which have remained unpaid, beyond a specified due date of payment and where no due date is specified, have remained unpaid after a specified number of days beyond the date on the invoice or contract document, in accordance with a law, regulation, government payment policy or local practice.

**Commitments** are explicit or implicit agreements to make payments to another party in exchange for supply of goods and services or of fulfilling other conditions. Commitments can also be of a continuing nature that requires series of payments. They may or may not involve a contract, but they are often based on legal obligations.

*Handwritten notes:*  
 10  
 abic  
 Hoc  
 120

**Liabilities** relate to commitments and are established when one is obliged under specific circumstances to provide funds or resources to another party. Liabilities include outstanding debt, leases and provisions, as well as payables for provisions of goods and services rendered. The liability arises when a third party satisfies the terms of the contract or similar arrangement. Not all commitments however, become liabilities.

**Payables or Creditors** are a subset of liabilities for which the related goods or services have been provided by a third party but not yet paid for by the recipient. A payable is created when an invoice or bill is approved for payment and has been recorded as an outstanding liability awaiting payment.

## 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.

The framework is primarily meant for the Nasarawa State Government. Besides, the staff of Ministries, Departments and Agencies (MDAs) such as Ministry of Finance, Budget & Planning, Office of the Accountant-General, Debt Management Department, Office of the State Auditor-General, Bureau of Public Procurement, Ministry of Works, Housing and Transport, Bureau for Pension as well as other line MDAs, who may be involved in debt management and settlement of arrears.

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

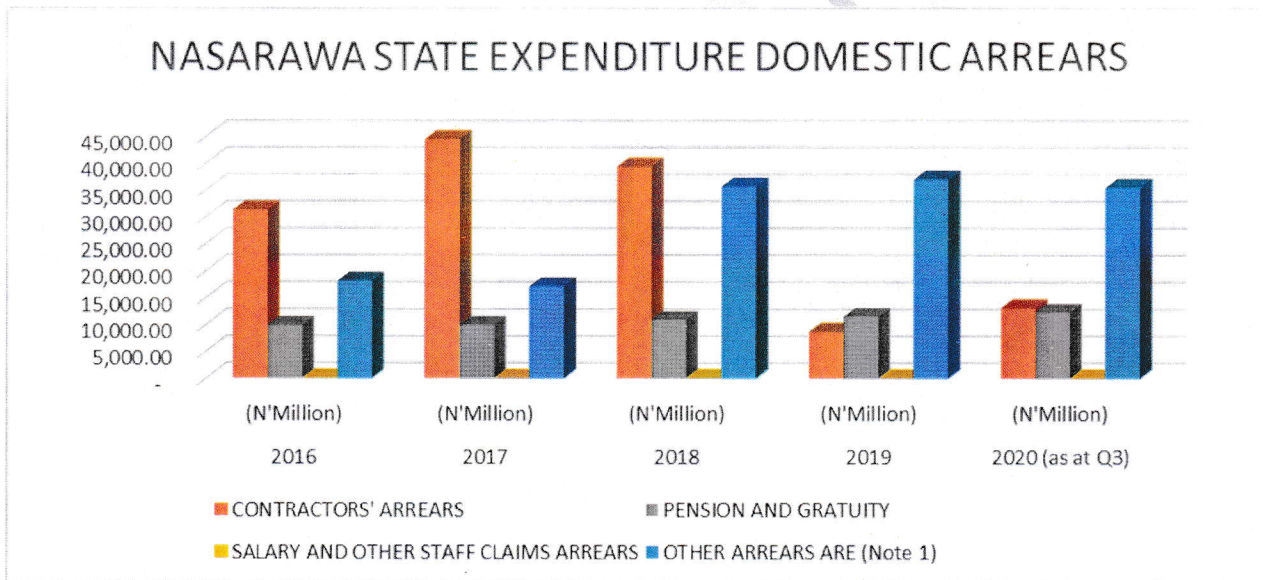
## 1.4 Presentation of the State's Domestic Expenditure Arrears

Over the past five years, the trend of the Nasarawa State Domestic Expenditure arrears is shown below:

NASARAWA STATE ARREARS CLEARANCE FRAMEWORK

ARREARS TYPE	2016	2017	2018	2019	2020 (as at Q3)
	(N'Million)	(N'Million)	(N'Million)	(N'Million)	(N'Million)
CONTRACTORS' ARREARS	31,186.01	44,356.57	39,263.36	8,654.49	13,076.42
PENSION AND GRATUITY	9,792.34	9,881.23	10,810.95	11,456.81	12,244.85
SALARY AND OTHER STAFF CLAIMS ARREARS	-	-	-	-	-
OTHER ARREARS ARE (Note 1)	18,055.40	17,049.50	35,556.35	36,874.38	35,388.78
<b>TOTAL DEBT STOCK</b>	<b>59,033.75</b>	<b>71,287.30</b>	<b>85,630.66</b>	<b>56,985.68</b>	<b>60,710.05</b>
<b>Note 1: OTHER ARREARS:</b>	<b>18,055.40</b>	<b>17,049.50</b>	<b>35,556.35</b>	<b>36,874.38</b>	<b>35,388.78</b>
a. Commercial Bank Loan	-	-	-	-	-
b. Govt. to Govt. Bailout	3,856.57	3,769.04	23,264.78	21,110.08	21,053.10
c. Judgement Debts	596.64	517.51	486.01	51.47	14.05
d. Other Liability (Serv. & Furn.)	-	-	-	-	-
e. Excess Crude Loan	9,845.12	9,643.32	9,422.59	9,181.15	9,117.33
f. Bond	3,757.08	3,119.63	2,382.97	6,531.68	5,204.30

The key features of the arrears can be depicted graphically as follows:



1.5 Description of the State's Policy on Arrears.

The Nasarawa State's Policy on Arrears is aimed at controlling the accumulation of arrears while at the same time ensuring measures that clear existing arrears. The following measures will be adopted in this regard:

- 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 and sanctions;
- ii. **Enhance the credibility and realism of the State's budget:** The State's budget shall be a realistic plan for expenditures based on conservatively estimated revenues based on robust assumptions and forecasts in the fiscal frameworks;
- iii. **Improve accounting and reporting:** Arrears clearance require adequate, timely and reliable information about their size, composition and impact through government accounting system that recognize expenditure commitments, liabilities and payments;

- iv. **Strengthen commitment and controls:** To effectively limit commitments to approved budget allocations based on availability of funds;
- v. **Facilitate improved and integrated cash and debt management:** The framework will ensure liquidity to meet financial obligations as they arise through accurate and timely short-term estimates of cash inflows and outflows;
- vi. **Effective monitoring of state-owned enterprises and Institutions:** Laying proper regulatory framework that requires timely payment of bills, regular monitoring of activities, projects and programmes and reporting of liabilities to reduce government's debts;
- vii. **Establish Treasury Single Account (TSA):** For effective management of cash flows and ensure that payments are centralized to the State's Treasury to block leakages and ensure prudent management of financial resources, among others.
- viii. **Upgrade government's financial management information system:** This is aimed at regulating every stage 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;
- ix. **Hold Monthly Liquidity Management Committee (LMC) Meetings:** These meetings are to guide government decisions on budget and fund releases;

## 2.0 PLANNED ACTIONS FOR CLEARANCE OF NASARAWA STATE DOMESTIC EXPENDITURE ARREARS.

The Arrears Clearance Framework is designed to address the causes for the accumulation of arrears and eliminate the outstanding stock. This framework will communicate to stakeholders the government's plan, timetable and criteria for the liquidation of arrears, thereby minimizing any possibility for any perception of favouritism and corruption in the selection of creditors to be paid.

### 2.1 Principles guiding the Arrears Clearance Strategy

The following key factors should guide the arrears clearance strategy:

- **Comprehensiveness**

The arrears clearance strategy should apply to all outstanding payments incurred by all parts of the public sector, whether in the state government, or its own enterprises.

- **Transparency**

The clearance of arrears should proceed according to approved public timetable, and criteria for prioritizing clearance which would be transparently stated and strictly adhered to.

- **Credibility**

To demonstrate commitment to addressing the root causes of the problem, the strategy should include measures to avoid the accumulation of new arrears, and Ministries or Agencies that fail to implement these measures should be penalized appropriately.

- **Realism**

The government's annual budget and medium-term fiscal projections should make adequate provision for the cash cost of arrears clearance.

*Handwritten notes:*  
 11/2/20  
 Hoc  
 [Signature]

• **Verification**

Arrears should be verified to ensure that only valid claims are cleared.

**2.2 Key Actions for each Step of Arrears Clearance Strategy**

A comprehensive, transparent, and credible arrears clearance strategy should typically follow these five steps:

- Stocktaking,
- Verification,
- Classification,
- Prioritization, and
- Liquidation.

**2.2.1 Stocktaking:**

A thorough Stocktaking of **Arrears** would enable the state government to understand the extent, composition and the age of the state government’s unpaid bills and prioritize their clearance.

The state government would come up with a time table which would be communicated for the stocktaking exercise, and a clear definition of the information requirements would be provided to all relevant stakeholders/institutions.

There would be a cut-off date for inclusion of new arrears which would be established to encourage timely reporting and avoid the generation of fraudulent claims.

The government would prepare a database of all apparent claims and a regular reporting framework would be instituted. The database would have enough information to allow for proper definition and classification of arrears into categories for proper evaluation. Sanctions for non-reporting, fraudulent, and incomplete reporting of arrears would be announced and enforced. Using the information produced from the database, a review of the types of arrears, the age of the debts, and the spending agencies generating the arrears would be undertaken. This will help to identify the underlying causes and the specific corrective actions required to address them. The review will also help to assess whether the problem is restricted to past events, or whether the problem persists.

**2.2.2 Verification:**

After the collection of the data on outstanding stock of arrears, the data would be verified to ensure that they are genuine claims to avoid payment of fraudulent claims. This activity can be undertaken by the state Auditor General’s Office, an inspectorate or internal audit function in the Ministry of Finance, Budget & Planning, or private audit firms, depending on the legal, institutional arrangements and capacity available. All reports and relevant information would be provided to the external auditor.

This process shall include the following steps:

- **Collection of unpaid invoices:** The initial responsibility for producing the necessary documentation should rest with the Chief Financial Officer of the Entity. The responsibility for the proof of validity of claims without proper documentation should rest with the claimant. Only original documents shall be accepted and not photocopies in order to avoid fraudulent claims.
- **Verification of claims:** Arrears would be subjected to various tests to verify their existence, value, and age of the debt.

*Handwritten notes:*  
 11/2/20  
 1400

- **Verification**

Arrears should be verified to ensure that only valid claims are cleared.

## 2.2 Key Actions for each Step of Arrears Clearance Strategy

A comprehensive, transparent, and credible arrears clearance strategy should typically follow these five steps:

- Stocktaking,
- Verification,
- Classification,
- Prioritization, and
- Liquidation.

### 2.2.1 Stocktaking:

A thorough Stocktaking of **Arrears** would enable the state government to understand the extent, composition and the age of the state government's unpaid bills and prioritize their clearance.

The state government would come up with a time table which would be communicated for the stocktaking exercise, and a clear definition of the information requirements would be provided to all relevant stakeholders/institutions.

There would be a cut-off date for inclusion of new arrears which would be established to encourage timely reporting and avoid the generation of fraudulent claims.

The government would prepare a database of all apparent claims and a regular reporting framework would be instituted. The database would have enough information to allow for proper definition and classification of arrears into categories for proper evaluation. Sanctions for non-reporting, fraudulent, and incomplete reporting of arrears would be announced and enforced. Using the information produced from the database, a review of the types of arrears, the age of the debts, and the spending agencies generating the arrears would be undertaken. This will help to identify the underlying causes and the specific corrective actions required to address them. The review will also help to assess whether the problem is restricted to past events, or whether the problem persists.

### 2.2.2 Verification:

After the collection of the data on outstanding stock of arrears, the data would be verified to ensure that they are genuine claims to avoid payment of fraudulent claims. This activity can be undertaken by the state Auditor General's Office, an inspectorate or internal audit function in the Ministry of Finance, Budget & Planning, or private audit firms, depending on the legal, institutional arrangements and capacity available. All reports and relevant information would be provided to the external auditor.

This process shall include the following steps:

- **Collection of unpaid invoices:** The initial responsibility for producing the necessary documentation should rest with the Chief Financial Officer of the Entity. The responsibility for the proof of validity of claims without proper documentation should rest with the claimant. Only original documents shall be accepted and not photocopies in order to avoid fraudulent claims.
- **Verification of claims:** Arrears would be subjected to various tests to verify their existence, value, and age of the debt.

*Handwritten notes:*  
 11/2/20  
 1400  
 11/2/20

2.2.2.1 Arrears would be verified using the following guidelines:

- **The validity of all payable debts** would be verified by checking that transactions were duly authorized by a responsible officer in accordance with public finance and procurement laws, rules, regulations consistent with budgetary authorizations. Where this is not the case, appropriate sanctions would be applied to officials, and a legal assessment carried out to ascertain whether or not the claim(s) is/or are genuine.
- **Evidence that the goods were delivered and services were duly received** and accepted by a responsible officer would be verified. In case of any doubt on material transactions, deliveries would be re-confirmed by requesting for information from the supplier. In addition, records of the supplier can be sought for. In cases of salary arrears, payroll records should be checked to ensure beneficiaries were employed at that time. In more complex transactions, particularly those related to major construction or other investment projects, evidence of certificate of valuation or a completion certificate issued by relevant experts would be required.
- **Invoices and supporting documentation would be checked** to verify the value of the amount payable. Invoices would contain the following information at a minimum:
  - The amount,
  - Transaction Date,
  - The supplier,
  - The reference to the contract or
  - Purchase order or agreement signed by the responsible officials, and
  - The documents confirming receipt of goods or services, such as the inventory records of the purchasing entity.

In case of any doubt, a cross-check with suppliers' financial statements would be made. Also, entitlement arrears would be computed by the line Ministry or Agency and made available to the Ministry of Finance, Budget & Planning. The Ministry for Local Government, Community Development and Chieftaincy Affairs would be responsible for the collation of arrears of data from all the Local Governments in the State.

2.2.2.2 The Arrears Database

To allow for appropriate categorization, the following data would be captured for each outstanding claim:

- **Age of Debts:** The database would capture the original due date on each invoice, and arrears would be classified according to how long they have been overdue:
  - One to three months,
  - Three to six months,
  - Six to 12 months, and
  - More than 12 months.
  - Older arrears would be classified by the financial year in which they were incurred.

If the due date is not recorded in the invoice, the invoice date can be used as a proxy for the due date.
- **Debtor:** The database would also capture government entity incurring the liability, classified by institutional group. (i.e. State government, Local government and state-owned enterprises).

*Handwritten notes:*  
 ✓  
 120



- **Creditor:** The database would capture the creditor's name classified by type:

- Employees,
- Private individuals,
- Private businesses,
- Financial institutions,
- The state government,
- Local governments,
- State-owned enterprises.

Clearly distinguishing extra-governmental and intra-governmental obligations will facilitate rapid administrative clearance of the latter.

- **Economic category:** The database would classify arrears into economic categories, such as compensation of employees, acquisition of goods and services, transfers, acquisition of non-financial assets, and acquisition of financial assets.
- **Currency:** The database would capture the currency in which the obligation was originally denominated so that cash managers can ensure that sufficient foreign exchange is available to meet external arrears.
- **The age of the payable would be checked** by reference to the invoice and other supporting documentation. A confirmation from the supplier would be obtained in contentious cases.
- **The Ministry of Finance, Budget & Planning**, taking full account of the legal framework with respect to disclosure of taxpayer records, would undertake checks with the revenue authority to ensure that suppliers are registered taxpayers and determine whether they are defaulting in tax payments.

**Categorization of claims:** Based on this review of validity, each claim would be categorized as **valid, contestable, or rejected**.

- ✓ Valid claims are those for which adequate documentation exists to recognize a government liability.
  - ✓ Contestable claims are those for which incomplete documentation has been provided.
  - ✓ Rejected claims are those for which legitimate documentation has not been presented.
- **Appeals from claimants:** Holders of contestable claims may be invited to provide further documents to support their claims or have their claims referred for adjudication. Such claims may arise through collusion with government officials or poor record keeping. The burden of proof on the validity of such claims shall rest with the claimants, and the government may decide to settle them in future on a case-by-case basis, based on the recommendations of the external auditor or independent adjudicator. Claim holders shall have the right to appeal the external auditor or independent adjudicator's decisions through the judicial system.
  - **Rejection of invalid claims:** The government would formally notify rejected claimants and state the basis for the rejection. It is essential that government retain full records of decisions made to defend future legal actions by claimants.

### 2.2.3 Classification

Once collected and verified, the data of the arrears would be analyzed and classified for the purposes of arrears clearance. A **database of valid outstanding payments** would be established and maintained centrally by the Ministry of Finance, Budget & Planning. This can be a resource-intensive and time-

consuming exercise, requiring dedicated and committed staff. A practical approach would be to focus in the first instance, on large claims then gradually expanding the coverage.

- **Contractual terms:** The database would capture any other relevant contractual information including, for example, whether the outstanding balance results in interest and/or penalties for non-payment.
- **Payment status:** The database would capture the total amount due on an invoice, amounts already paid, amount outstanding, and any rescheduling, discounting, or factoring of the unpaid obligation.
- **Risk of non-payment:** The database would include a risk assessment of further payment delays. For example, if civil servants are not paid, this could trigger industrial action; or a contractor for a major infrastructure project is not paid, the project may not be completed, or completion may be delayed for many years. Other risk factors would include litigation and potential socio-economic impacts. When the database has been established, the Ministry of Finance, Budget & Planning or its agency would keep it up-to-date showing the discharge of arrears and any subsequent additions to the stock. All stocks of accounts payable would be classified as liabilities and may further be classified as either domestic or foreign, which would be included in the government's measurement of gross debts. Payments in arrears would be included as a memorandum item to the government's Balance Sheet.

#### 2.2.4 Prioritization of Arrears for Clearance

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

The prioritization of arrears clearance shall 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, would be prioritized.
- **Cost:** Arrears that accrue interest and penalty charges would be given priority.
- **Risk:** Arrears that may result in legal action, disruption of essential services, or cause escalation of future cost of supplies to government would also be prioritized.
- **Currency:** Payment of foreign currency denominated debt would be prioritized if domestic currency devaluation is outpacing domestic inflation.
- **Creditor:** The government would prioritize the clearance of intra-governmental debts, as this can be done administratively through the annual budget at minimal net cost.
- **Value:** Government would grade the debts according to their amount. Whereas large amounts are placed in the lower rung of the ladder, smaller amounts may be accommodated as early as possible.

#### 2.2.5 Liquidation

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

- **The Arrears Clearance Committee:** The Arrears Clearance Committee shall oversee arrears liquidation to ensure the consistent application of the principles of the framework. The committee would ensure that payments are made in accordance with the agreed prioritization criteria. This committee would comprise representatives from relevant Ministries, Departments and Agencies

*Handwritten notes:*  
 10  
 msh  
 HOC  
 12/20

and would receive reports from spending units, and prepare periodic reports to the Ministry of Finance, Budget & Planning on the performance of entities on payment of arrears. The reports would highlight any non-reporting spending units and recommend remedial actions.

- **Provision in the Medium-Term Expenditure Framework (MTEF):** The annual budget and medium-term budget framework would make explicit provisions for the clearance of arrears. The 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.

### 3.0 DEVELOPMENT OF A MULTI-YEAR FUNDING FOR CLEARING ARREARS

The Ministry of Finance, Budget and Planning intends to gather inputs from MDAs and Government Owned Enterprises to develop a realistic Medium Term Expenditure Profile (MTEF) every year where budget provisions will be made to execute projects and to pay debts that may emanate from such projects.

Having adopted the Treasury Single Account (TSA) by the State. Government bank accounts have been streamlined and all multiple revenue accounts with different codes have been closed down. In addition, all revenue generating agencies now pay directly into a common account with agency codes to differentiate which agency of government generate what, in order to measure performance.

Because MDAs don't maintain separate expenditures accounts, all payment requests shall be directed to the State Treasury Office (STO) for payments. STO make use of Account Payable module with a preset suppliers' numbers for processing. All payment requests that were cleared for payments shall be collated and forwarded to DMO to be included in the database.

### 3.1 MAJOR SOURCES OF FUNDS

The State Government projected a 5-Year plan of Revenue expected to come to the State majorly from Federation Account, IGR and Grants. From these funds Government is making a commitment of 12% annually settling the arrears. The 5-Year plan is shown in the table below:

NASARAWA STATE ARREARS CLEARANCE FRAMEWORK

Revenue Source	2021	2022	2023	2024	2025
	N'000,000	N'000,000	N'000,000	N'000,000	N'000,000
1. Gross Statutory Allocation	41,467.26	43,333.29	45,283.28	47,321.03	49,450.48
2. Derivation (if applicable)	0	0	0	0	0
3. Other FAAC transfers (exchange rate gain, augmentation, others)	8,165.10	10,232.50	12,823.37	16,070.24	20,139.23
4. VAT Allocation	12,101.72	13,072.28	14,120.67	15,253.15	16,476.46
5. IGR	16,889.09	18,174.35	19,557.42	21,632.46	23,927.67
6. Capital Receipts					
Grants	238.88	245.81	252.93	260.27	267.82
Sales of Government Assets and Privatization Proceeds	0.00	0.00	0.00	0.00	0.00
Other Non-Debt Creating Capital Receipts	0.00	0.00	0.00	0.00	0.00
Proceeds from Debt-Creating Borrowings (bond issuance, loan disbursements, etc.)	0.00	0.00	0.00	0.00	0.00
<b>Total Revenue Projection</b>	<b>78,862.05</b>	<b>85,058.22</b>	<b>92,037.68</b>	<b>100,537.16</b>	<b>110,261.65</b>

The Arrears framework also has a 5-Year Arrears settlement projection starting from 2021. The arrangement is therefore presented below:

ARREARS TYPE	2021	2022	2023	2024	2025	Total
	N'000,000	N'000,000	N'000,000	N'000,000	N'000,000	N'000,000
CONTRACTORS' ARREARS	3,000.00	3,015.00	3,030.08	3,045.23	986.12	13,076.42
PENSION AND GRATUITY	960.00	964.80	969.62	974.47	979.34	4,848.24
SALARY AND OTHER STAFF CLAIMS ARREARS	-	-	-	-	-	-
<b>OTHER ARREARS:</b>	-	-	-	-	-	-
a. Commercial Bank Loan	-	-	-	-	-	-
b. Govt. to Govt. Bailout	2,242.78	2,254.00	2,265.27	2,276.59	2,287.98	11,326.62
c. Judgement Debts	216.00	217.08	218.17	219.26	220.35	1,090.85
d. Other Liability (Serv. & Furn)	-	-	-	-	-	-
e. Excess Crude Loan	1,079.67	1,085.07	1,090.49	1,095.95	1,101.43	5,452.61
f. Bond	2,716.33	1,529.91	1,533.56	1,557.28	1,471.06	8,808.13
<b>TOTAL</b>	<b>10,214.78</b>	<b>9,065.86</b>	<b>9,107.19</b>	<b>9,168.77</b>	<b>7,046.28</b>	<b>44,602.88</b>

The analysis above indicates that Government planned to pay contractors' arrears on a monthly basis to the tune of N250m translating to an average of N3billion per annum from 2021 to 2024 and climax its payment in 2025 with N986million. The sum of N80m is set aside monthly for the payment of Pension and Gratuity i.e. an average of N960m annually and would go beyond 2025. Similarly, an average of N2.27b per

*10 months to 2020*

annum is planned to settle Government to Government loan (Salary Bailout, Infrastructure Loan and Budget Support Facility). In addition, Government anticipates to pay on the average N1b and N1.76b annually for repayment of Excess Crude and State Bond respectively. Government Plan is to review this framework after 5 years.

**3.1.1 Centralization of Payments:** Responsibility for payments of arrears shall be centralized at the Ministry of Finance, Budget & Planning. This is to ensure that payments are made according to the agreed Framework and schedule.

Reports of payments made against the budget line for arrears in addition to regular fiscal reports will help to demonstrate government’s commitment to the arrears clearance strategy and build confidence among suppliers in their subsequent dealings with government.

**3.1.2 Netting arrangements:** Offsetting the settlement of arrears to the private sector against tax obligations are not advisable; as they undermine transparency and accountability and engender moral hazard. All payments must be accounted for on a gross basis. Any netting off of tax liabilities could undermine tax compliance and encourage the future accumulation of tax arrears.

To avoid liquidity problems in its cash flow, the government would coordinate the payment to suppliers, with payment of their tax obligations to be concomitant, especially in the case of large amounts outstanding. If fiscal space is available and the stock of arrears is small, the best option is to pay arrears in cash either from current receipts or government borrowing. This ensures that governments do not incur further financial penalties or interest and that enables suppliers to rebuild working capital.

**3.2 Prioritization Criteria/Approaches between Types of Arrears**

Nasarawa State Government may adopt either of the following approaches in the settlement of its arrears;

**Approach 1:**

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

**Approach 2:**

Allocation of available fund on a particular type of arrears.

**3.3 Prioritization within types of arrears with rationale:**

S/N	Criteria/Approaches	Rationale	Required Data
1	<b>Contractors</b>		
I	Ongoing Works First	Ensure Ongoing works are completed	Status of Project Construction

*Handwritten notes:*  
 10  
 m...  
 HOC  
 120

NASARAWA STATE ARREARS CLEARANCE FRAMEWORK

ii	Largest Value First	Largest Injury in terms of arrears value is addressed first	Value of Outstanding Arrears
iii	Smallest Value First	Allows many individual arrears to be paid immediately and focus funds on small firms that may be vulnerable to cash flow problems (assuming most small arrears are owed to small contractors	Value of Outstanding Arrears
iv	Oldest First	Creditor who has been waiting longest is paid first	Date missed payment was due
v	Subject to penalties first	Paying arrears that bear penalties for late payment reduces cost to state	Contract terms whether provided for late penalties
<b>2 Salaries</b>			
I	Oldest first	Largest injury (in terms of delay) is addressed first	Date missed payment was due
ii	Smallest first	Allows many individual arrears to be paid immediately and focuses funds on lowest paid workers that may be vulnerable to cash flow problems	Value of outstanding arrears
iii	Equal Percent to all	All Staff receive something regardless of when salary payment was first missed or level of salary	Amount owed to staff
<b>3 Pension and Gratuities</b>			
I	Oldest First	Largest injury (in terms of delay) is addressed first	Date missed payment was due
ii	Equal Percent to all	All pensioners receive something, regardless of when they retired	Amount owed to each pensioner
<b>4 Judgement Debt &amp; Other Arrears</b>			
I	Oldest First	Largest injury (in terms of delay) is addressed first	Date missed payment was due
ii	Equal Percent to all	All claimants receive something regardless of when contracts fall due.	Amount owed to each contractor

**4.0 ORGANIZATION/INSTITUTIONAL ARRANGEMENT**

Description of the organization/Institutional Arrangement for Implementation of the Framework.

*Handwritten notes:*  
 120  
 HOC  
 120

Nasarawa State Government has put in place a **Domestic Arrear Clearance Committee** as an institutional arrangement charged with the overall arrear's clearance process, including recording, verification, classification, reporting, prioritization and clearance of government domestic expenditure arrears in the state.

The Arrears Clearance Committee shall oversee arrears liquidation to ensure the consistent application of the principles of the framework. The committee shall ensure that payments are made in accordance with the agreed prioritization criteria. This committee shall receive reports from spending units, and prepare periodic (for example, quarterly) reports to the Ministry of Finance, Budget & Planning and the Governor's office on the performance of entities on payment of arrears.

The reports shall highlight any non-reporting spending units and recommend remedial actions.

#### **4.1 Objective and Responsibilities of the Arrangement:**

The Committee will support the Ministry of Finance, Budget & Planning, 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:

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

#### **4.2 Specific Activities**

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

- ❖ Implement and do a periodic review of the ACF.
- ❖ Adoption and implementation of records management guidelines for domestic arrears.
- ❖ Adoption and implementation of verification guidelines for all types of domestic arrears.
- ❖ Establishment of a consolidated internal domestic arrears database.
- ❖ Establishment of a publicly-assessable online version of the database.
- ❖ Reporting of valid and verified domestic arrears to end-users.
- ❖ Produce the State Arrears Recording, Verification and Clearance Report.

#### **4.3 Monitoring and Reporting of the Arrangement**

The Committee will report directly to the State Governor through the Honorable Commissioner

for Finance.

**4.4 Membership of the Committee**

The membership of the Committee will be as follows:

- |  |           |
|--|-----------|
| 1. COMMISSIONER FOR FINANCE, Budget & Planning                   | CHAIRMAN  |
| 2. PERMANENT SECRETARY – Ministry of Finance, Budget & Planning  | MEMBER    |
| 3. ACCOUNTANT GENERAL OF THE STATE                               | MEMBER    |
| 4. DIRECTOR GENERAL – BUREAU OF PUBLIC PROCUREMENT               | MEMBER    |
| 5. AUDITOR GENERAL OF THE STATE                                  | OBSERVER  |
| 6. DIRECTOR, DEBT MANAGEMENT DEPT                                | MEMBER    |
| 7. DIRECTOR GENERAL PENSION BUREAU                               | MEMBER    |
| 8. STATE INTERNAL AUDITOR MINISTRY OF FINANCE, BUDGET & PLANNING | SECRETARY |

**4.5 Committee Secretariat**

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.

**4.6 Power 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.

The Committee will be able to incur expenditures, including the engagement of professional assistance in the course of executing its role. All expenditures must be incurred through the procurement systems of the Ministry of Finance, Budget & Planning.

*Handwritten notes in green ink:*  
 murgu  
 HOC  
 2/20