



**BENUE STATE
GOVERNMENT OF NIGERIA**

ARREARS CLEARANCE FRAMEWORK

31ST DECEMBER, 2020

BENUE STATE GOVERNMENT OF NIGERIA

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ABBREVIATION AND ACRONYMS

| | |
|---------|--|
| OAGF | Office of the Accountant General of the Federation |
| APA | Annual Performance Assessment |
| OAGF | Office of the Auditor General of the Federation |
| CB | Capacity Building |
| DLI | Disbursement Linked Indicator |
| DLR | Disbursement Linked Result |
| DMO | Debit Management Office, Abuja |
| BSGN | Benue State Government of Nigeria |
| FAAC | Federation Account Allocation Committee |
| FGN | Federal Government of Nigeria |
| FMOF | Federal Ministry of Finance |
| FRA | Federal Responsibility Act |
| FRL | Federal Responsibility Law |
| FY | Fiscal year |
| GDP | Gross Domestic Product |
| SHCF | State Honourable Commissioner for Finance (Benue State) |
| IGR | Internally Generated Revenue |
| ISPO | Irrevocable Standing Payment Order |
| IVA | Independent Verification Agent |
| MDA | Ministries, Department and Agencies |
| PFM | Public Financial Management |
| P for R | Program for Result |
| SFTAS | State Fiscal Transparency, Accountability and Sustainability |
| WB | World Bank |

SECTION 1: INTRODUCTION

1.1 Coverage and Scope of Benue State Arrears Clearance Framework Document

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

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

The main categories of Benue State's Expenditure arrears are as follows: contractors' arrears, pension and gratuity arrears, salary arrears and other staff claims.

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

1.2 Purpose of the Framework Document

This Framework documents 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 system to reduce her stock of domestic arrears.

1.3 Users of the Framework Document

This Framework is primarily meant for the Government of Benue State. Besides, the staff of MDAs such as Ministry of Finance and Economic Planning, Office of the Accountant-General, Benue State Planning Commission (BSPC), Budget Department, Office of the State Auditor-General, Benue State Debt Management Office, Public Procurement Commission, Ministry of Works, Transport and Energy 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 the Debt Management Law, Fiscal Responsibility Law, Public Procurement Commission Law and other extent public finance laws, and regulations, the accounting system and procedures manuals in the State.

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1.4 Presentation of Total Stock of Domestic Expenditure Arrears of Benue State Government

Table 1 Breakdown of Benue State Domestic Expenditure Arrears (2016-2020)

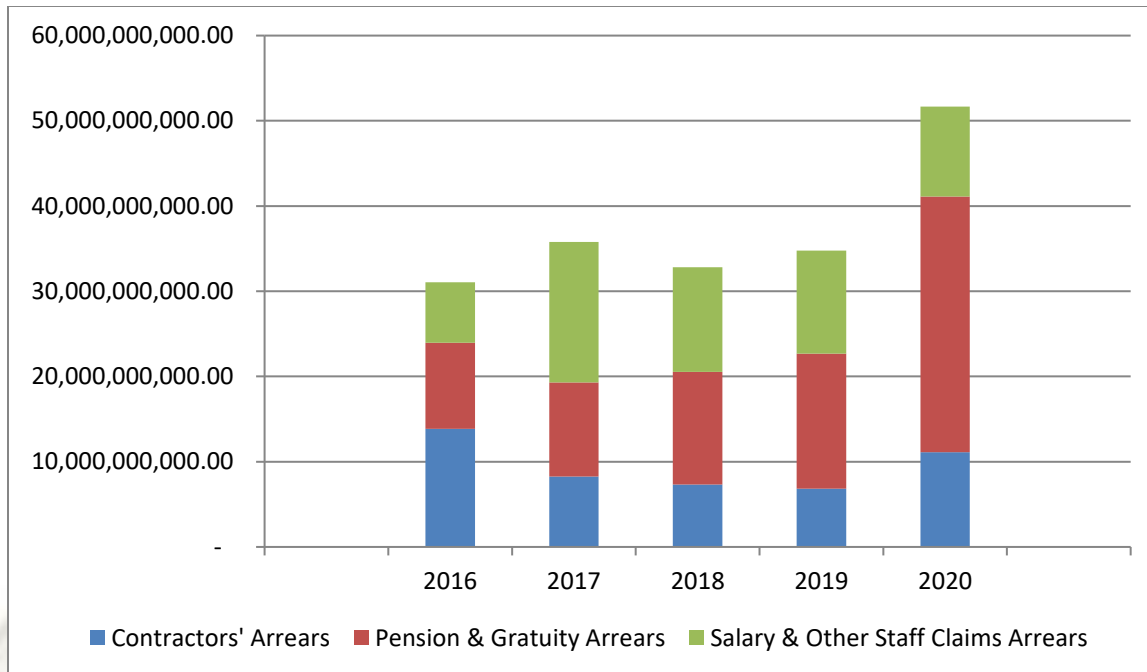
| YEAR END TOTAL STOCK OF DOMESTIC EXPENDITURE ARREARS (2016-2020) | | | | | |
|--|----------------|----------------|----------------|----------------|-------------------|
| DOMESTIC EXPENDITURE ARREARS | 2016 | 2017 | 2018 | 2019 | 2020 |
| CONTRACTORS' ARREARS | 13,873,632,058 | 8,271,685,041 | 7,336,198,415 | 6,827,662,477 | 11,117,759,026.93 |
| PENSION AND GRATUITY ARREARS | 10,071,383,412 | 11,045,569,047 | 13,212,356,841 | 15,839,100,102 | 30,001,503,545.15 |
| SALARY & OTHER STAFF CLAIMS ARREARS | 7,105,324,201 | 16,481,058,984 | 12,264,764,955 | 12,095,932,486 | 10,539,692,431.25 |
| TOTAL | 31,050,339,671 | 35,798,313,073 | 32,813,320,210 | 34,762,695,065 | 51,658,955,003.33 |

Note:

The increments in the domestic debt data for the contractors' as well as pension and gratuity arrears were due to the verification and validation of these debt data conducted during the first quarter of 2020, by the State Domestic Arrears Committee to align with the Internal Arrears Database.

Source: **Benue State Debt Management Office.**

BENUE STATE INTERNAL DOMESTIC ARREARS



1.5 Description of the State's Policy on Arrears

Benue state Government shall adopt the following measures to clear her existing arrears and prevent accumulation of new one:

- i. Strengthen legal and regulatory framework. The State shall empower her legal and regulatory framework on financial issues;
- ii. Enhance the credibility and realism of the State's budget. The State's budget shall be a realistic plan for expenditure based on conservatively estimated revenues and the borrowing limit shall include a margin to handle the situation of revenue shortfalls;
- iii. Improve accounting and reporting. The State shall ensure proper accounting and reporting system;
- iv. The State Government shall strengthen her commitment controls to effectively limit commitments to approved budget allocation and to availability of actual cash;
- v. The State shall facilitate improved and integrated cash and debt management;
- vi. The state shall enhance oversight of state-owned enterprises should the reasons for arrears accumulation rest with other parts of the public sector;
- vii. Establishment of Treasury Single Account (TSA) to reduce State's reliance on commercial bank loans;
- viii. Payment shall be centralized to the State Treasury to prevent arrears as a result of administrative hurdles;
- ix. Upgrading the Government financial management information system. The system should handle the entire expenditure chain, including the release of budget funds,

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commitment against the budget funds, production of purchase orders based on commitments, receipt of invoices within the purchase orders, receipt of goods and services claimed in the invoices, and payment or non-payment of invoices;

- x. Monthly Cash management meeting shall be held to guide the government decision on budget fund releases.



SECTION 2: PLANNED ACTIONS FOR SETTLEMENT OF BENUE STATE

DOMESTIC EXPENDITURE ARREARS

Benue State Multi-Year Plan is the financial plan of the State for clearance of her stock of arrears based on the total fund available in the State's budget year and the budget year to come.

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 or Donor;
- Borrowing from the Commercial Banks;
- Bonds;
- Debt Servicing Account Funds.

SECTION 3: PRIORITIZATION CRITERIA FOR ARREARS CLEARANCE

Until recently, there was no comprehensive effective sub-national arrears clearance strategy in Nigeria. To varying degrees, Benue State like other states has institutional mechanisms for prioritizing the payment of domestic expenditure arrears. The volumes of the arrears of most states are usually too large to be cleared within a fiscal year.

Benue State Government shall adopt the approach/criteria number one stated below in deciding between types of her domestic expenditure arrears to be paid based on the availability of funds while for a particular or within type of arrears, the State shall adopt the criteria/approach of paying contractors arrears that bear penalties for late payment in order to reduce the cost to the State; paying the largest salary arrears, pensions and gratuities injury (in terms of delay) and paying the largest judgment debt injury (in terms of delay) is addressed first, that is date missed or payment was due.

3.1 Prioritization Criteria/Approaches between Types of Arrears

APPROACH 1

Allocation of available fund based on the approved monthly cash flow among the types of the arrears in proportion to their share of the total outstanding stock of arrears.

APPROACH 2

Allocation of available fund based on the approved monthly cash flow on a particular type of arrears.

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3.2 Prioritization Criteria/Approaches within Types of Arrears

| CRITERIA/APPROACHES | RATIONALE | REQUIRED DATA |
|----------------------------|---|--|
| CONTRACTORS | | |
| Ongoing works first | Ensures ongoing works are completed | Status of project construction |
| Largest first | Largest injury (in terms of arrear value) is addressed first | Value of outstanding arrear |
| 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 of outstanding arrear |
| Oldest first | Creditor 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 |
| SALARIES | | |
| Oldest first | Largest injury (in terms of delay) is addressed first | Date missed payment was due |
| 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 arrear |
| Equal percent to all | All Staff receive something regardless of when salary payment was first missed or level of salary | Amount owed to each staff |

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| | | |
|------------------------------------|---|-------------------------------|
| PENSIONS AND GRATUITIES | | |
| Oldest first | Largest injury (in terms of delay) is addressed first | Date missed payment was due |
| Equal percent to all | All pensioners receive something, regardless of when they retired | Amount owed to each pensioner |
| JUDGMENT DEBTS | | |
| Oldest first | Largest injury (in terms of delay) is addressed first | Date missed payment was due |
| Equal percent to all | All claimants receive something when contract falls due | Amount owed to contractor |



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SECTION 4: ORGANIZATIONAL/INSTITUTIONAL ARRANGEMENT

4.1 Description of the organizational/institutional arrangement for implementation of the Framework.

Benue State is a participant in the Federal Government of Nigeria (FGN) and World Bank multi-year (2018-2022) program to support Nigerian States to strengthen fiscal performance and sustainability. One of the disbursement-linked indicators 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, a committee known as the Domestic Arrears Committee has been put in place as institutional arrangement to be in charge of the overall arrears clearance process, including recording, verification, classification, reporting, prioritization 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 Objective and Responsibilities of the Committee

The committee shall support the Permanent Secretary for Finance in its responsibility for accurate recording, verification and reporting of domestic arrears balance across all types. The Committee should ensure that the arrears are adequately classified for prioritization purposes, develop the ACF and produce the State Arrears Recording, Verification and Clearance Report. Its duties will include, but are not limited to, the following:

- Introduction of specific guidelines setting out the roles and responsibilities of individuals and institutions for the recording of domestic arrears. i.e. the roles and responsibilities of each primary Record Holder(the entity primarily responsible for keeping the records for each type of arrears). This will include specific reporting requirements (i.e. the use of agreed recording templates and any supporting schedules) and timelines for submission to the committee (monthly).
- Introduction of specific guidelines setting out the roles and responsibilities of individuals and institutions for the verification of domestic arrears balances i.e. the role of internal Audit (State Audit), Inspectorates, and contracted consultants. This will include reporting requirements and contracted consultants (a validated copy of the agreed recording templates and any supporting schedules) and timelines for submission to the Domestic Arrears Committee (monthly).
- The creation, maintenance and regular (monthly) update of an accurate internal domestic expenditure arrears database and the publicly-accessible online version of the database.

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- Oversight of the overall recording, verification and reporting processes for domestic expenditure arrears to ensure that they meet the requirements of SFTAS DLI#8 as described in the SFTAS verification protocols.
- Ensure adequate classification of the arrears for prioritization purposes.
- Develop the State's Arrears Clearance Framework (ACF), including policies on prioritization and clearance of arrears.
- Provide accurate monthly, quarterly, and annual reports that present the position for verified domestic arrears and the progress made in implementing the State's ACF.
- 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 for domestic arrears.
- b) Adoption and implementation of verification guidelines for all types of domestic arrears.
- c) Establishment of a consolidated internal domestic arrears database.
- d) Establishment of a publicly-assessable online version of the database.
- e) Reporting of valid and verified domestic arrears to end-users.
- f) Development of the 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 Governor through the Honourable Commissioner for Finance and Economic Planning, keeping the appointed SFTAS focal persons informed.

4.4 Membership of the Committee

The membership of the Committee will be as follows;

- Commissioner of Finance and Economic Planning (Chair)
- PS- Ministry of Finance and Economic Planning (Member)
- Rep. Accountant-General of the State (Member)
- Rep. PS, Ministry of Works, Transport & Energy (Member)
- Rep. PS, Benue State Planning Commission (Member)
- Rep. PS, Bureau of Administration (HOS) (Member)
- Rep. Auditor General, State Audit (Member)
- Director General, Public Procurement Commission (Member)
- Director, Treasury (Office of the Accountant General) (Member)
- Director General, Benue State DMO (Member)

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- Director, Accounts and Finance (MOF) (Member/Secretary)

The Committee will also include the SFTAS focal persons and any other individuals to be so appointed by the Chair.

4.5 Committee Secretariat

The Committee shall establish a Secretariat to support its work using existing Staff or units within the Benue State Debt Management Office.

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.

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



Honourable Commissioner for Finance and Economic Planning

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