



**BORNO STATE GOVERNMENT  
NIGERIA**

**2020**

**ARREARS CLEARANCE FRAMEWORK**

**FEBRUARY 2021**

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## 1.0 INTRODUCTION

Government expenditure arrears are financial obligations that have been incurred by any level of the public sector for which payments have not been made by the due date. Expenditure arrears are a subset of payables that have remained unpaid beyond a specified due date for payment. In cases where no due date is specified, arrears are defined as payables that have remained unpaid after a specified number of days after the date on the invoice or contract, in accordance with a law, regulation, government payment policy, or local practice. Government Expenditure Arrears becomes one of the major challenges in public financial management (PFM).

The accumulation of expenditure arrears by governments can have a serious negative effect on the state economy. According to Diamond and Schiller (1993), a large flow of arrears may disguise the true size of the government deficit, significantly reduce the impact of fiscal policy on aggregate demand, and potentially undermine macroeconomic stability. The economic consequences of persistent arrears accumulation by governments can reduced economic growth; increased cost of service provision; reduced or interrupted public service delivery; reduced confidence in fiscal policy; and second-round fiscal costs etc.

## 2.0 WHY GOVERNMENT EXPENDITURE FALLS INTO ARREARS

A government liability falls into arrears, when refund is due and the deadline for payment has passed, through the following:

- a. Compensation paid to individuals or transfers to households in the form of wages, salaries, social benefits, and pensions;
- b. Payment to commercial contractors for provision of goods, services, or fixed assets;
- c. Consumption of public utilities, such as electricity, water, and telephone, for which there are general payment procedures applicable to all consumers;
- d. For mandatory transfers to statutory funds (such as social security funds) or local governments;
- e. or tax refunds owed to taxpayers, such as value added tax (VAT) rebates or income tax refunds; and,
- f. Payment of interest or principal on government debt or other liabilities.

## 3.0 ROOTS OF THE EXPENDITURE ARREARS?

The accumulation of government expenditure arrears can be caused by acute government liquidity shortages, inadequate monitoring and reporting of arrears can complicate prevention and management. The most common causes include:

- a. Formulation of unrealistic budgets
- b. Lack of commitment control
- c. Poor cash management

- d. Delays in processing of payments
- e. Deliberate deferral of payments
- f. Inadequate sanctions

#### **4.0 BORNO STATE'S POLICY ON EXPENDITURE ARREARS**

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 system and processes to facilitate reduction of her stock of domestic expenditure arrears. The state government needs to adopt measures to clear and control the increase of Expenditure arrears through the followings:

- a. Strengthening the legal and regulatory framework
- b. Enhancing the credibility and realism of the budget
- c. Improving accounting and reporting
- d. Strengthening commitment controls.
- e. Improving cash and debt management
- f. Enhancing oversight of subnational governments and state-owned enterprises.
- g. Implementing other technological solutions
- h. Upgrading the government financial management information systems.

#### **5.0 SCOPE OF THE ARREARS CLEARANCE FRAMEWORK COVERAGE**

The coverage of the Borno State Arrears Clearance Framework, the main categories of Borno State's expenditure arrears are:

- a. Contractors' Arrears;
- b. Pension and Gratuity Arrears; and,
- c. Salary Arrears and other claims.

#### **6.0 BORNO STATE DOMESTIC EXPENDITURE ARREARS**

Borno State's Domestic Debt stood at N89,049.42 Billion in 2020 compared to N83,386.19 Billion in 2019, which represent an increased by N5,663.23 Billion or 6.79 percent, respectively. The Total Domestic Arrears decreased in N40,307.38 Billion or 48.34 percent in 2019 to N24,780.20 or 27.83 percent in 2020. The decline was attributed largely due to principal repayment of Contractors Arrears - N9,719.55 Billion, and Pension & Gratuity Arrears - N6,117.95 Billion during the year (2020).

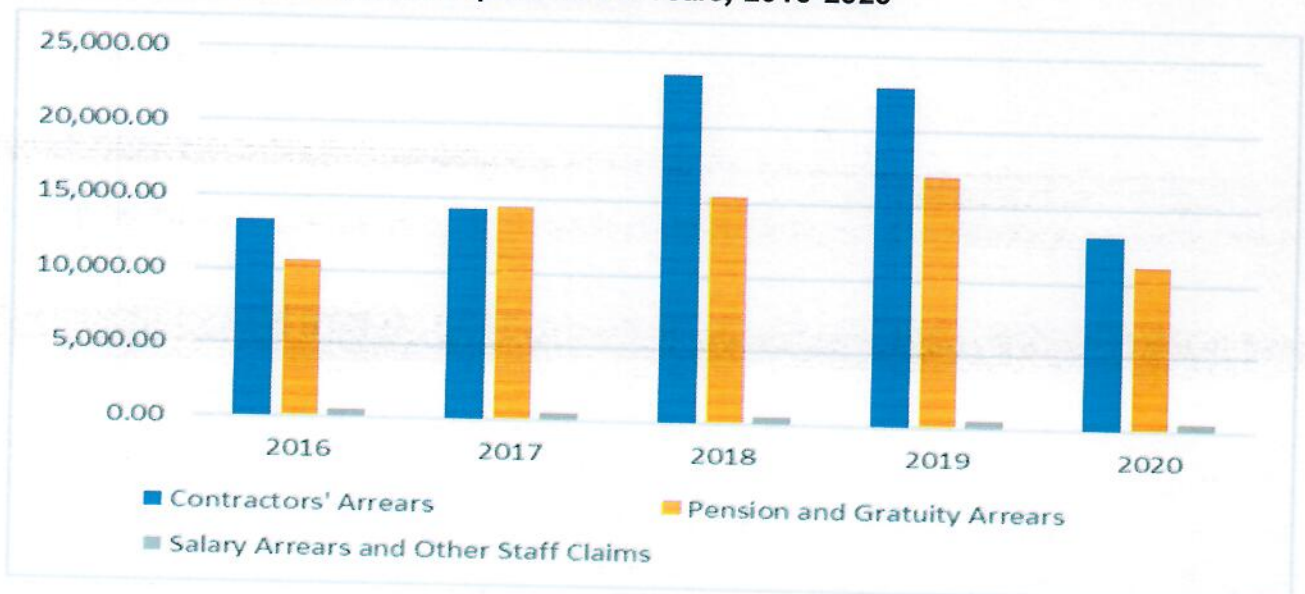
## Borno State Domestic Debt Stock, 2016-2020 (NGN' Billion)

	2016	2017	2018	2019	2020
Contractors' Arrears	13,305.15	14,320.76	23,580.28	22,897.97	13,178.41
Pension and Gratuity Arrears	10,576.57	14,376.57	15,336.57	16,893.14	11,085.52
Salary Arrears and Other Staff Claims	516.27	516.27	516.27	516.27	516.27
<b>Total Arrears</b>	<b>24,397.99</b>	<b>29,213.60</b>	<b>39,433.12</b>	<b>40,307.38</b>	<b>24,780.20</b>
<i>as % of Total Domestic Debt</i>	78.88	40.16	48.51	48.34	27.83
<b>Other Domestic Debt</b>	<b>6,531.44</b>	<b>43,527.98</b>	<b>41,849.36</b>	<b>43,078.81</b>	<b>64,269.22</b>
<i>as % of Total Domestic Debt</i>	21.12	59.84	51.49	51.66	72.17
<b>Borno State's Domestic Debt Stock</b>	<b>30,929.43</b>	<b>72,741.58</b>	<b>81,282.48</b>	<b>83,386.19</b>	<b>89,049.42</b>

Source: Borno State's DMO

The state government under the Contractors' Arrears paid off N9,719.55 Billion in 2020, as part of the effort to clear the state's contractors' arrears. Borno state has redeemed N6,117.95 Billion from the Pension and Gratuity Arrears in 2020.

### Trend in Borno State Domestic Expenditure Arrears, 2016-2020



## 7.0 STRATEGIC GUIDE TO CLEAR GOVERNMENT EXPENDITURE ARREARS

Government must identify the causes and design the measures to address the accumulation of arrears, it needs to develop a strategy to eliminate the outstanding stock. 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.

- b. Transparency - The clearance of arrears should proceed according to a public timetable, and criteria for prioritizing clearance should be transparently stated and adhered to.
- c. Verification - Arrears should be verified to ensure that only valid claims are cleared.
- d. 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.
- e. Realism - The government's annual budget and medium-term fiscal projections should make adequate provision for the cash cost of arrears clearance.

A comprehensive, transparent, and credible arrears clearance strategy should typically follow five steps: stocktaking, verification, classification, prioritization, and liquidation.

## **8.0 ECONOMIC POLICY FRAMEWORK AND SELECTED POLICY REFORM MEASURES**

The Medium Term Plan (MTP): 2021-2023 -The Medium Term Plan (MTP) is the premier economic and social policy framework set out to support the restoration of economic stability and growth in Borno State. This framework has been developed on the foundations laid down and the 3 year Macroeconomic Policy and Budget Framework. The MTP sets out clearly the national priorities and investment programs for 5 years, from 2018 to 2022. The main target of the MTP is to ensure that the economy remain on a sustainable growth. The focus of the plan is on inclusive growth and balanced development. To attain objectives of the MTP, a number of reform measures are being implemented.

## **9.0 MULTI-YEAR FUNDING PLAN TO CLEAR ARREARS**

The Borno State Government has resolved to clear its debt stock arrears. The State is committed to boosting internally generated revenue and reduce as much as possible the accumulation of new arrears and to succeed in the implementation of necessary reforms. Furthermore, without a comprehensive debt clearance of arrears no meaningful development can be achieved in the State. With strong economic policy and foresight, the State is bound to achieve it's developmental objectives.

### Borno State Government Summary Medium Term Budget, 2021-2023

	2021 Budget	2022 Budget	2023 Budget	2020 Revised Budget	
<b>A.</b>	<b>Internally Generated Revenue (IGR)</b>				
	Internal Revenue Service	8,735	8,500	10,000	9,903
	Ministries/Departments/Agencies	3,282	3,574	3,933	7,713
	Boards and Parastatals	4,586	5,112	5,866	790
	<b>Total Internally Generated Revenue</b>	<b>16,603</b>	<b>17,186</b>	<b>19,799</b>	<b>18,407</b>
<b>B.</b>	<b>Federation Account Allocation Revenue</b>				
	FAAC Allocation	46,154	51,040	54,294	31,856
	Value Added Tax (VAT)	16,110	16,995	18,781	12,220
	Special Fund (EXCESS CRUDE)	4,520	4,520	4,520	3,364
	<b>Total Federation Account Allocation Revenue</b>	<b>66,785</b>	<b>72,555</b>	<b>77,594</b>	<b>47,440</b>
	<b>Current Domestic Aid/Grant</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	Grants from Local Governments	8,971	10,430	11,830	0
	FGN Grant - Federal Share of Pension	167	175	184	0
	<b>Total Current Domestic Aid/Grant</b>	<b>9,138</b>	<b>10,605</b>	<b>12,014</b>	<b>-</b>
	<b>Total Recurrent Revenue (including Current Grants)</b>	<b>92,526</b>	<b>100,346</b>	<b>109,407</b>	<b>65,846</b>
<b>C.</b>	<b>Estimated Recurrent Expenditure</b>				
	Personnel Costs (Ministries/Departments)	33,766	33,448	33,661	29,003
	Overhead Cost (Ministries/Departments)	23,424	22,260	23,216	19,233
	Consolidated Revenue Fund Charges	151	151	151	151
	Gratuity	5,790	5,000	5,000	6,210
	Debt Service Expenditure	6,000	7,000	7,300	1,427
	<b>Total Recurrent Expenditure</b>	<b>69,131</b>	<b>67,859</b>	<b>69,328</b>	<b>56,023</b>
<b>D.</b>	<b>Recurrent Surplus</b>				
		<b>23,395</b>	<b>32,487</b>	<b>40,080</b>	<b>9,823</b>
<b>E.</b>	<b>Capital Receipts</b>				
	Opening Balance	10,984	4,496	2,463	2,500
	Recurrent Surplus (Transfer from CRF)	23,395	32,487	40,080	9,823
	Internal Grants & Aid	33,726	31,298	29,798	12,706
	External Grants & Aid	48,430	45,137	38,287	7,400
	Internal Loans - FGN Reconstruction Loan	15,000	0	0	0
	Internal Loans - Access Bank & Others	24,945	12,500	13,000	9,500
	External Loans	13,584	4,750	5,000	1,500
	Other Capital Receipts	9,197	2,988	5,700	500
	Covid-19 Response Grants - Internal	0	0	0	8,910
	(Financing Gap)/Surplus	-0	0	0	0
	<b>Total Capital Receipts (including Recurrent Surplus)</b>	<b>179,261</b>	<b>133,655</b>	<b>134,327</b>	<b>52,839</b>
<b>F.</b>	<b>Capital Expenditure</b>				
	Administration Sector	7,864	7,655	8,181	3,649
	Economic Sector	97,504	69,277	66,798	29,801
	Law & Justice	721	669	579	261
	Social Sector	73,173	56,054	58,770	19,128
	<b>Total Capital Expenditure</b>	<b>179,261</b>	<b>133,655</b>	<b>134,327</b>	<b>52,839</b>
<b>G.</b>	<b>BUDGET SIZE</b>				
		<b>248,393</b>	<b>201,514</b>	<b>203,654</b>	<b>108,862</b>
	<b>Capital to Recurrent Ratio</b>	<b>72.17</b>	<b>66.33</b>	<b>65.96</b>	<b>48.54</b>

Debt Management - To address the debt and arrears situation, Government adopted an Accelerated Arrears Clearance, Debt and Development Strategy with the following key policy elements:

- a. Establishment and operationalization of a Debt Management Office;

- b. Undertaking a validation and reconciliation exercise of Borno State's internal and external debt database with all creditors;
- c. Negotiating with creditors and the development partners for arrears clearance, debt relief and new financing; and
- d. Leveraging Borno State's natural resources in pursuit of debt relief.

**Expenditure Rationalization** - In view of the expenditure overrun on the wage bill, Borno State Government plans to introduce the general freeze on civil service recruitment, with dispensations on critical areas and with warranted Treasury and relevant Public Services Commissions concurrence; restrained foreign travel accompanied by other cost cutting measures, such as, forward purchasing of tickets and; prioritized settlement of domestic arrears.

**Human Development** - Borno State Government has instituted policies that enable the participation of women and youth in mainstream economic activities. Adoption of a number of National policies has been followed by establishment of several funding facilities such as the Youth Development Fund, Mining Industry Loan Fund, Women Development Fund and SME Fund to facilitate access to skills training, affordable credit, as well as creation of employment opportunities.

## **10 PRIORITIZATION CRITERIA FOR ARREARS CLEARANCE**

The prioritization of the Borno State's arrears clearance framework is to be based on transparent criteria, depending on the nature of the arrears. The following are the approaches and priorities of the arrears clearance:

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

Borno State Expenditure Arrears was N24,780.20 Billion as at end-2020 compared to N40,307.38 Billion as at end-2019, which represents a decrease of N16,051.28 Billion or 39.82 percent. The decline in expenditure arrears was mainly due to reduction of contractors arrears amounting to N9,719.55 Billion or 42.45 percent and pension and



gratuity arrears amounted to N6,177.95 Billion or 36.57 percent, all of which was cleared in 2020 by state government.

## Prioritization Criteria for Arrears to be settled in the implementation of the ACF

The committee adopted the following prioritization criteria for Borno State Government.

Borno State Year 2020 and beyond subject to Uncontrollable changes in the Macroeconomic environment: -

Type of Arrears	Total stock at end of 2019	Criteria for allocation among types	PLANNED amount to be cleared in 2020	Prioritization criteria to be applied to arrears within each type of arrears
Contractors Arrears	22,897,968,045.65	35% of monthly net FAAC after Mandatory Payments & Deductions	5,000,000,000.00	Variable (Payment based on Certified level of work done and age of arrears)
Pension and Gratuities	16,893,141,285.35	40% of monthly IGR collection	1,100,000,000.00	FIFO
Salaries arrears	516,273,101.00	5% of monthly IGR collection	250,000,000.00	FIFO
Other				
<b>Total</b>	<b>39,433,124,296</b>		<b>6,350,000,000</b>	

In addition to the above, His Excellency the Executive Governor of Borno State has graciously approved the continuous monthly payment of One Hundred Million Naira (₦100,000,000.00) to offset gratuity arrears, Twenty Five Million Naira (₦ 25,000,000.00) to offset pension

arrears, and another Twenty Five Million Naira (₦25,000,000.00) to offset salary and other staff claims arrears, until all arrears are cleared.

#### Total Borno State's Arrears, 2019-2020 (NGN' Billion)

	Outstanding as at end-2019	Arrears Cleared in 2020	Percentage of Arrears Cleared in 2020	Outstanding as at end-2020
Contractors' Arrears	22,897.97	9,719.55	42.45	13,178.41
Pension and Gratuity Arrears	16,893.14	6,177.95	36.57	11,085.52
Salary Arrears and Other Staff Claims	516.27			516.27
<b>Total Borno State's Arrears</b>	<b>40,307.38</b>	<b>16,051.28</b>	<b>39.82</b>	<b>24,780.20</b>

Source: Borno State's DMO

## 10.0 ORGANIZATION/INSTITUTIONAL ARRANGEMENT

### 10.1 Institutional arrangement for Implementation of the Framework

Borno State is a participant 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 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.

Borno State Government has put in place a Domestic Arrear Clearance Committee as institutional arrangement charged with 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.

### 10.2 Objective 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:

- a. 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,

- b. The creation, maintenance and regular (monthly) update of an accurate internal domestic expenditure arrears database and the publicly accessible online version of the database,
- c. Oversight of the overall recording, verification and reporting process for domestic expenditure arrears to ensure that they meet the requirements for SFTAS DLIs #8 as described in the SFTAS verification protocols,
- d. Ensure adequate classification of the arrears for prioritization purposes,
- e. Develop the State's Arrears Clearance Framework (ACF), including policies on prioritization and clearance of arrears
- f. 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
- g. Provide data/documentation to support the verification of SFTAS DLI #8, including the State Arrears Recording, Verification and Clearance Report.

### 10.3 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, keeping the appointed SFTAS focal persons informed.

### 4.4 Membership of the Committee (Chairman and 10 Members of the SFTAS Steering Committee.

The Borno State Membership of the Committee will be as follows;

- |                            |          |
|----------------------------|----------|
| a. Commissioner of Finance | Chairman |
| b. Accountant-General      | Member   |

- c. SFTAS Focal Officer (PforR) State Focal Officer (PfoR)
- d. Executive Secretary BOGIS
- e. DG BPP
- f. Chairman BO-IRS
- g. Director Treasury Operations
- h. Director Final Accounts
- i. Director Audit and Inspectorate
- j. Director Audit - AuGBOS
- k. Director Debt Management
- l. Director Salary
- m. Auditor-General for Local Governments

#### 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 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 to carry out its functions from the MDAs.

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

#### 4.7 Tenure of the Committee:

The Committee will operate in perpetuity and may be disbanded or reconstituted on the directive of the State Executive Governor.



**UMAR ALI KA'ANA FCNA**  
ACCOUNTANT-GENERAL,  
BORNO STATE