



Niger State's Arrears Clearance Framework

Debt Management Bureau, Minna

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ACRONYMS AND DEFINITION

APA	Annual Performance Assessment
DLI	Disbursement-linked Indicator
DLR	Disbursement-linked Result
DMO	Debt Management Office – Nigeria
FAAC	Federation Account Allocation Committee
FGN	Federal Government of Nigeria
FMIS	Financial Management Information System
FRA	Fiscal Responsibility Act
FRL	Fiscal Responsibility Laws
FSP	Fiscal Sustainability Plan
FY	Fiscal Year for the Government, running 1 Jan to 31 Dec
GDP	Gross Domestic Product
HFD	Home Finance Department (Federal Ministry of Finance)
IGR	Internally Generated Revenues
IVA	Independent Verification Agent
MDA	Ministries, Departments and Agencies
MTEF	Medium-Term Expenditure Framework
OAG	Office of the Accountant-General
OAug	Office of the Auditor-General
PFM	Public Financial Management
PforR	Program for Results
SFTAS	The STATE’S Fiscal Transparency, Accountability and Sustainability Program forResults
SMOF	STATE Ministry of Finance
TA	Technical Assistance
TSA	Treasury Single Account
WB	World Bank

1 OVERVIEW

1.1 Introduction

Domestic expenditure arrears are financial obligations that have been incurred by governmental sectors in a state or country as a result of non-payment of such obligations, prior to their respective due dates. These arrears, if accumulated, will negatively impact the domestic economy by resulting in decreased budget reliability and flexibility, reduced growth, and more importantly, constitute a greater chance for fiscal crisis. Moreover, finding shows that there is a negative relationship between debt stock (internal and external debt) and gross domestic product, meaning that an increase in debt stock will lead to reduction on the growth rate of the economy.

As a result, there is need to establish working guidelines toward the timely clearance of the domestic arrears.

Due to the need to clear the debt stock arrears and also avoid the accumulation of new arrears, the Niger State Government seeks to employ the **Arrears Clearance Framework** as an ultimate guidance in achieving the overarching objective.

1.2 Scope and Coverage

The Arrears Clearance Framework (ACF) is composed of a set of policy guidelines aimed at addressing the challenges involved in the gradual settlement of accumulated government arrears of Niger State as well as preventing further additions, as well as procedures for managing and settling the domestic expenditure arrears of the State Government.

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

Niger State Domestic expenditure arrears, like other states, result from possible set of financial obligations and causes such as:

- Deferred payment for property capital/infrastructural projects, goods or services.
- Particular legal obligation such as payment of salaries, pension and gratuities.
- Continuing service arrangement such as payment for electricity supply.

However, Niger State's expenditure arrears is composed basically of **Contractors' arrears, Pension and Gratuity arrears** and **Salary arrears**.

1.3 Purpose of the Arrears Clearance Framework(ACF)

This framework document is aimed at providing practical guidance in the identification, recording and management of domestic expenditure arrears in Niger State. It will go a long way in assisting the State to establish processes and systems to reduce its stock of domestic arrears.

1.4 Users of the ACF

This framework is essentially developed for the government of Niger State. However, the staff of MDAs such as Ministry of Finance, Office of the Accountant-General, Ministry of Budget and Planning, Debt Management Bureau, Office of the State Auditor-General, State Procurement Council, Ministry of Works and Transport and other line MDAs, etc., who will be involved in debt management and settlement of arrears at one time or the other will also find it useful.

Furthermore, the framework is to be used in conjunction with other extant public finance laws and regulations, accounting system and procedures manuals in the State.

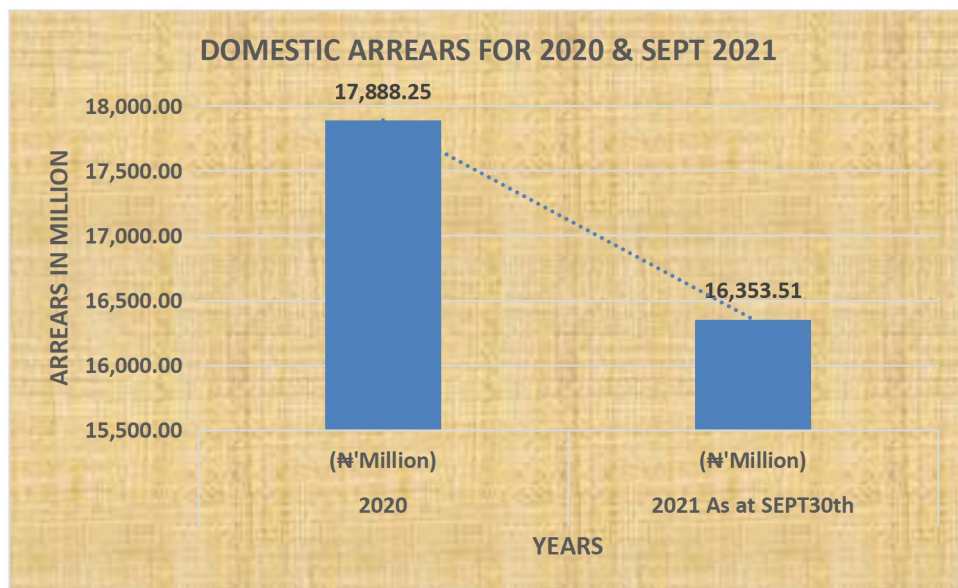
1.5 Niger State Domestic Expenditure Arrears

Table 1: Breakdown of Niger State Domestic Expenditure Arrears (2017 -2021)

NIGER STATE DOMESTIC EXPENDITURE ARREARS TREND					
ARREARS TYPE	2017	2018	2019	2020	2021 As at September 30th
	(₦' Million)	(₦' Million)	(₦' Million)	(₦' Million)	(₦' Million)
Contractors' Arrears			9,124.67	1,281.73	1,246.99
Pension Arrears & Gratuity	743.39	8,436.85	12,764.35	16,016.60	14,516.59
Salary Arrears	0	0	0	589.92	589.92
ANNUAL TOTAL	743.39	8,436.85	21,889.02	17,888.25	16,353.51

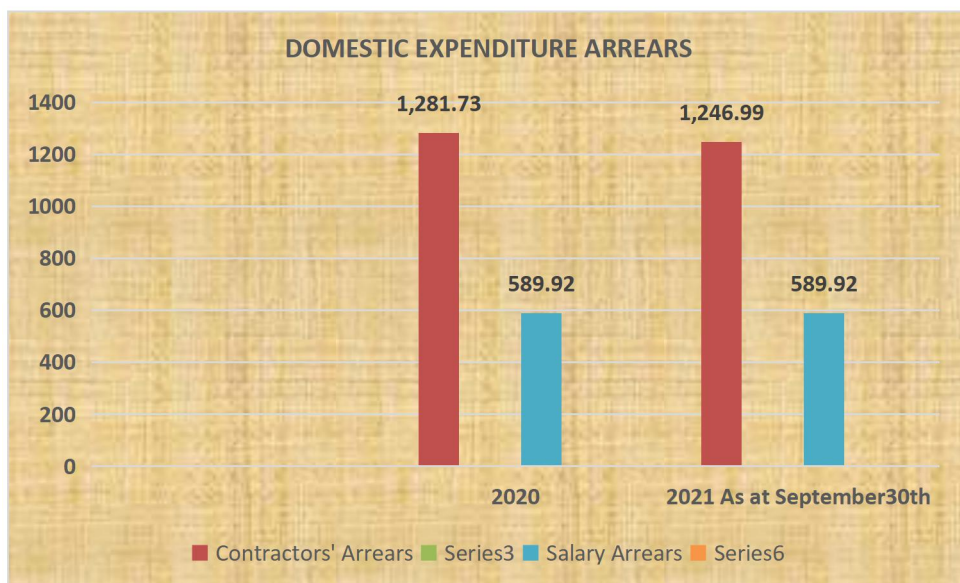
Source: Niger State's Debt Management Bureau

Figure 1: Total Domestic Expenditure Arrears



As presented in Figure 1, the total domestic expenditure arrears experienced a slight decrease from a value of ₦17,888,248,971 in year 2020 to ₦16,353,505,018 in year 2021 as at September 2021. Further critical examination reveals that there had been an approximated decrease of 8.58% in the total domestic expenditure arrears from 2020 to 2021.

Figure 2: Categorical Domestic Expenditure Arrears



The chart above displays the arrears categories and their figures for years 2020 and 2021. It shows that a slight decrease of the Contractors' Arrears, pension and gratuity in 2021 when compared with the 2020 value, while the salary arrears remain the same. The total Domestic Expenditure arrears decrease from ₦17,888,248,971 in 2020 to ₦16,353,505,018 in 2021.

1.6 Description of Niger State's Policy on Arrears

Niger State's Policy on Arrears is aimed at controlling the accumulation of arrears whilst ensuring measures that clear existing arrears.

The following measures will be adopted in this regard:

- i. **Strengthen legal and regulatory framework.** The framework shall 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 breachingsanctions;
- 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 systems that recognize expenditure commitments, liabilities and payments;
- iv. **Strengthen commitment controls** to effectively limit commitments to approved budget allocations and to availability of funds;
- v. **Facilitate 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;
- vi. **Enhance oversight of the State-owned enterprises** through governance frameworks that require timely payment of bills, regular monitoring and reporting of liabilities to reduce implicit contingent liabilities;
- vii. **Establish Treasury Single Account (TSA)** for effective management of cash flows and ensure that payments are centralized to the State's Treasury to prevent arrears as a result of administrative hurdles;
- viii. **Upgrade the government's financial management information systems** so 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;
- ix. **Hold regular Liquidity Management Committee (LMC)** meeting to guide government decisions on budget and fund releases;
- x. **Implement technological solutions to control expenditures** that historically contribute to the accumulation of arrears.

2 PLANNED ACTIONS FOR CLEARANCE OF NIGER STATE DOMESTIC EXPENDITURE ARREARS

In the bid to settle the accumulated domestic expenditure arrears, Niger State seeks to utilise the Arrears Clearance Framework which will communicate to stakeholders the government's plan, timetable and criteria for the liquidation of arrears, thereby minimizing any possibility for any perception of favoritism and corruption in the selection of creditors to be paid.

2.1 Principles Guiding the Arrears Clearance Framework

The following vital principles are to guide the Arrears Clearance Framework;

➤ **Comprehensiveness:**

The arrears clearance framework will apply to all outstanding payments incurred by all parts of the public sector, whether in the State government, or State-owned enterprises.

➤ **Transparency:**

The clearance of arrears will proceed according to a public timetable, and criteria for prioritizing clearance which will be transparently stated and adhered to.

➤ **Credibility:**

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

➤ **Realism:**

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

➤ **Verification:**

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

2.2 Steps and Vital Actions for the Arrears Clearance Framework Implementation

The vital steps required for a comprehensive, transparent, and credible Arrears Clearance Framework are as follows:

2.2.1 Stocktaking:

A stocktaking of arrears will enable Niger State government to understand the extent, composition and the age of the unpaid bills and prioritize their clearance. Also, the State Government will come up with a time table which shall be communicated for the stocktaking exercise, and a clear definition of the information requirements will be provided to all relevant stakeholders/institutions.

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

The government will prepare a database of all apparent claims and a regular reporting framework shall be instituted. The database will 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 will 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 will 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 will be verified to ensure that they are genuine claims to avoid payment of fraudulent claims.

This activity shall be undertaken by the State Auditor-General's Office, an inspectorate or internal audit function in the Ministry of Finance, or private audit firms, depending on the legal, institutional arrangements and capacity available. All reports and relevant information will be provided to the external auditor.

This process will include the following steps:

Step 1. Collection of Unpaid Invoices: The initial responsibility for producing the necessary documentation will rest with the **Chief Financial Officer** of the entity.

The responsibility for the proof of validity of claims without proper documentation will rest with the claimant. Only original documents will be accepted, not photocopies, to avoid fraudulent claims.

Step 2. Verification of Claims: Arrears will be subject to tests to verify their existence, value, and age of the debt.

Step 3. Categorization of Claims: Based on this review of validity, each claim will 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.

Step 4. Appeals from Claimants: Holders of contestable claims shall be invited to provide further documentation 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 will rest with the claimants, and the government may decide to settle them in the future on a case-by-case basis, based on the recommendations of the external auditor or independent arbitrator.

Claim holders will have the right to appeal the external auditor or independent arbitrator's decisions through the judicial system.

Step 5. Rejection of Invalid Claims: The government will 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.

Arrears will be verified using the following guidelines:

- **The legal validity of the payable** shall be verified by checking that the transaction was duly authorized by a responsible officer in accordance with authorized public finance and procurement laws, rules, regulations and consistency with budgetary authorizations.

Where this is not the case, appropriate sanctions will be applied to officials, and a legal assessment will be made as to whether the claim is valid.

● **Evidence that the goods were delivered and services were duly received** and accepted by a responsible officer shall be verified.

- ✓ In case of doubt for material transactions, delivery will be confirmed by requesting information from the supplier.
- ✓ For goods and services, the financial records of the supplier can be asked to show that amount was registered as a receivable in their accounts.
- ✓ In cases of salary arrears, payroll records shall 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 produced by relevant experts shall be required.

● **Invoices and supporting documentation will be checked** to verify the value of the amount payable.

Invoices should contain the following information at a minimum:

- ✓ The amount,
- ✓ The supplier,
- ✓ The reference to the contractor
- ✓ 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 doubt, a cross-check with suppliers' financial statements shall be made.

Entitlement arrears shall be computed by the line ministry or agency and provided to the Ministry of Finance. The Local Government ministry will be responsible for the collation of arrears of data for all the local governments.

2.2.2.1 The Domestic Arrears Database

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

● **Age of Debts:** The database will capture the original due date on each invoice, and arrears shall be classified according to how long they have been overdue such as:

- ✓ One to three months,
- ✓ Three to six months,
- ✓ Six to 12 months, and
- ✓ More than 12 months.

Older arrears should 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 shall capture the government entity incurring the liability, classified by institutional group (The State government, Local government, MDAs, extra-budgetary fund, or State-Owned enterprise).

- **Creditor:** The database will capture the creditor's name classified by type:
 - Employees,
 - Private individuals,
 - Private businesses,
 - Financial institutions,
 - The State government,
 - Local government,
 - Extra-budgetary funds, or
 - State-Owned enterprise.

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

- **Economic category:** The database shall classify arrears into economic categories, such as compensation of employees, acquisition of goods and services, transfers, acquisition of nonfinancial assets, and acquisition of financial assets.

- **Currency:** The database shall 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 shall be checked** by reference to the invoice and other supporting documentation. A confirmation from the supplier will be obtained in contentious cases.

- **The Ministry of Finance**, taking full account of the legal framework with respect to disclosure of taxpayer records, will undertake checks with the revenue authority to ensure that suppliers are registered taxpayers and determine whether they are delinquent in tax payments.

2.2.3 Classification

Once collected and verified, the data of the arrears shall be analyzed and classified for the purposes of arrears clearance. A **database of valid outstanding payments** shall be established and maintained centrally by the Ministry of Finance.

This can be a resource-intensive and time-consuming exercise, requiring dedicated staff resources. A practical approach will be to focus in the first instance on large claims, gradually expanding the coverage of the database.

- **Contractual terms:** The database shall capture any relevant contractors' information including, for example, whether the outstanding balance results in interest and/or penalties for non-payment.

- **Payment status:** The database shall capture the total amount due on the invoice, amounts already paid, amount outstanding, and any rescheduling, discounting, or factoring of the unpaid obligation.

- **Risk of non-payment:** The database shall include a risk assessment of further payment delays. For example, if civil servants are not paid, this could be a potential for industrial action; if 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 will include litigation and potential socio-economic impacts.

When the database has been established, the Ministry of Finance or its agency shall keep it up-to-date showing the discharge of arrears and any subsequent additions to the stock. All stocks of accounts payable will be classified as liabilities, further classified as either domestic or foreign, and included in the government's measurement of gross debts.

Payments in arrears shall be included as a memorandum item to the government's Balance Sheet.

2.2.4 Prioritization of Arrears for Clearance

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

The prioritization of arrears clearance will 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, shall be prioritized.
- **Age of Debts:** Older obligations shall have priority over newer obligations.
- **Cost:** Arrears that accrue interest and penalty charges shall have priority.
- **Risk:** Arrears that may result in legal action, disruption of essential services, or cost escalation of future supplies to government will be prioritized.
- **Currency:** Payment of foreign currency denominated debt shall be prioritized if domestic currency devaluation is outpacing domestic inflation.
- **Creditor:** The government will prioritize the clearance of intra-government debts, as this can be done administratively through the annual budget at minimal net cost.
- **Value:** The government shall grade the debts according to their amount. Whereas large amounts are placed in the lower rung of the ladder, smaller amounts shall 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 will 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 will comprise representatives from relevant departments, receive reports from spending units, and prepare periodic (for example, quarterly) reports to the Ministry of Finance on the performance of entities on payment of arrears.

The reports should 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 shall make explicit provision 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

Measures including the centralized management and control of the budget line for arrears repayment shall be put in place to avoid the recycling of arrears (paying old arrears while accumulating new ones). Any payment from this centralized budget will be backed by a list of verified eligible creditors, in line with the priorities of the repayment strategy.

Entities shall be required to provide this information to the Ministry of Finance for budget preparation, medium-term expenditure framework, performance monitoring, and budget release purposes, as well as verification against the database at the time of payment.

A separate control on the remaining stock of arrears shall be kept by the Ministry of Finance to ensure that sufficient provision is made in each subsequent annual budget until all arrears are paid.

Centralization of Payments: Responsibility for payments of arrears shall be centralized. 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 the government's commitment to the arrears clearance strategy and build confidence among suppliers in their subsequent dealings with government.

Netting arrangements: Offsetting the settlement of arrears to the private sector against tax obligations shall not be done; 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 will want to 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 shall be 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.

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**

The stock of arrears could be paid off from FAAC allocation or the State's internally generated revenue, from grants from the Federal Government. They can also be paid immediately by borrowing in the domestic commercial or capital markets (bonds). The proceeds of the borrowing operations would be earmarked for the reduction of the stock of arrears. This option would increase the stock of government debt but would not decrease net worth, as government is explicitly recognizing a liability that existed as an implicit obligation to pay.

If sufficient liquidity is not immediately available, governments shall negotiate a schedule of payments with creditors according to a pre-defined calendar and an agreed interest rate.

This option may be more viable if the stock of arrears is large and the current market conditions are not ripe for the placement of sizeable amounts of new debt, or if doing so would imperil other government short-term macro-economic objectives.

Niger State government may, however, impose a liquidity problem for some creditors that may be unable to wait for payment in tranches. As part of these negotiations, governments may agree to a discount, often termed a haircut; however, this approach shall be treated with caution, since it can have the effect of increasing costs to the government; if suppliers inflate prices for further supplies in anticipation of an expected future discounting.

Arrears or Debt Securitization: The securitization of the arrears, directly transforming them into government debt, shall be considered only as a last resort. The range of securitization options includes issuing promissory notes (discountable by commercial banks that cannot be repurchased by the central bank, as that would lead to monetization of the deficit), marketable treasury bills, or bonds directly to creditors. This approach has the advantage of allowing the government to select the debt maturity structure and repayment profile that best matches its financing needs.

It also gives creditors the opportunity to raise liquidity by trading the titles in the secondary market, possibly at a discount. However, the direct securitization of arrears also has a number of disadvantages.

- Experience suggests that securitization of unpaid bills creates strong moral hazard incentives for government financial managers to continue to commit resources in excess of available appropriations in the expectation that these will eventually also be securitized and paid centrally.
- The securitized instruments almost always trade at a considerable discount which reduces the working capital available to the original supplier compared with cash payment.
- Securitization of the outstanding stock of arrears prevents the government from prioritizing payment of the most urgent arrears as securities are issued to all creditors on equal terms.
- Identifying and settling the stock of arrears between government and State-owned enterprises is necessary to avoid problems of solvency and profitability of enterprises.
- For government, a book entry can be made reflecting all outstanding bills, leaving a single remaining debt that can be resolved through an injection of funds in the State-owned enterprise from the budget and included in the MTEF. If reciprocal payments are owed to government, in the form of dividends for example, these can be netted off against the required cash injection.

Based on the above processes, the **Multi-Year Funding Plan** for clearing the domestic arrears for NIGER State for the years 2020 – 2025 is as shown in the table below:

NIGER STATE
Simplified Multi-year funding plan for clearing domestic expenditure arrears

NOTES
All numbers are presented in billion naira
All input cells are coloured pink
All calculation cells are coloured yellow
All linked cells are coloured blue

Domestic Arrears Clearance Financing Targets	Value	Notes
Finance (some) clearance of arrears from budget surplus?	Yes	
Finance (some) clearance of arrears through formal debt	Yes	
Target domestic expenditure arrears percentage decline (minimum)	10.0%	State Target - shown here is the basic target of the SFTAS DLI#8

Fiscal Projection Assumptions [IF NO STATE MTEF FIGURES AVAILABLE]	Value	Notes
Annual percentage growth in revenue - FAAC and VAT (nominal)	12.5%	State MTEF - shown here is national nominal GDP growth
Annual percentage growth in revenue - IGR (nominal)	20.0%	State MTEF/IGR Policy - shown here is basic target for SFTAS DLI#4 on IGR
Annual percentage growth in recurrent expenditure - non interest (nominal)	5.0%	State MTEF/Fiscal Policy
Annual percentage growth in capital expenditure (nominal)	12.5%	State MTEF/Fiscal Policy - shown here is national nominal GDP growth
Balanced Budget i.e. no budget deficit in the future (budget surplus allowed)	Yes	State MTEF/Fiscal Policy

SUMMARY BUDGET FRAMEWORK	Fiscal Year					
Billion Naira	2020 Actual	2021 Proj	2022 Proj	2023 Proj	2024 Proj	2025 Proj
Total Budget Revenue and Grants	76.24	82.40	81.38	91.94	104.02	112.86
<i>Total Net FAAC allocation exc VAT</i>	33.82	38.05	42.80	48.15	54.17	60.94
<i>VAT</i>	15.87	17.85	20.09	22.60	25.42	28.60
<i>IGR</i>	9.37	11.24	13.49	16.19	19.43	23.32
<i>Grants and Other Revenue (inc. one-off items such as Paris Club refund)</i>	17.18	15.25	5.00	5.00	5.00	
Total Budget Expenditure	73.66	80.98	87.95	99.64	113.13	127.02
<i>Personnel Cost and Pensions</i>	26.22	27.53	28.91	30.35	31.87	33.46
<i>Other Recurrent (Overheads, Transfers) exc. interest payments</i>	12.24	12.85	13.49	14.17	14.88	15.62
<i>Interest Payments & other recurrent debt charges</i>	0.00	1.00	1.00	1.00	1.00	
<i>Capital expenditures</i>	35.20	39.60	44.55	50.12	56.38	63.43
<i>Expenditure adjustments (to achieve budget target)</i>	0.00			4.00	9.00	14.50
Overall Balance	2.58	1.41	-6.57	-7.70	-9.11	-14.16

SUMMARY Borrowing, Financing and Debt Stock	Fiscal Year
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Billion Naira	2020 Actual	2021 Proj	2022 Proj	2023 Proj	2024 Proj	2025 Proj
Gross and Net Borrowing Needs						
(1) Overall Balance	2.58	1.41	-6.57	-7.70	-9.11	-14.16
(2) Investments - Accumulation of financial assets	53.13	63.13	73.13	83.13	93.13	0.00
(3) Debt Amortization (exc Arrears Clearance)	42.88	42.88	42.88	42.88	42.88	2.00
(4) Arrears Clearance	8.23	5.36	5.38	5.34	1.80	0.00
Gross Borrowing Needs (5) = (2)+(3)+(4)-(1)	101.66	109.96	127.96	139.05	146.92	16.16
Net Borrowing Needs (6) = (2)-(1)	50.55	61.72	79.70	90.83	102.24	14.16
Sources of Financing						
Domestic Debt_Total	72.92	0.00	0.00	0.00	0.00	0.00
1. Commercial Bank Loans	8.72					
2. State Bonds	11.97					
3. CBN Development Financing (Agric, Infrastructure, MSMEDF)	0.00					
4. FGN Borrowing	34.35					
5. Domestic Expenditure Arrears	17.88	0.00	0.00	0.00	0.00	0.00
External Debt_Total	26.74					
Asset privatisation proceeds/other funds	2.00					
Total Financing	101.66	0.00	0.00	0.00	0.00	0.00
Financing Gap (Total Financing minus Gross Borrowing)	0.00	-109.96	-127.96	-139.05	-146.92	-16.16
Debt Stock (End of Year)						
Domestic Debt_Total	72.92	12.52	7.14	1.80	0.00	0.00
1. Commercial Bank Loans	8.72					
2. State Bonds	11.97					
3. CBN Development Financing (Agric, Infrastructure, MSMEDF)	0.00					
4. FGN Borrowing	34.35					
5. Domestic Expenditure Arrears	17.88	12.52	7.14	1.80	0.00	0.00
<i>Contractor Arrears</i>	1.28	0.90	0.50	0.14	0.00	0.00
<i>Pension and Gratuities</i>	16.01	11.21	6.40	1.60	0.00	0.00
<i>Salaries</i>	0.59	0.41	0.24	0.06	0.00	0.00
External Debt_Total	26.74					
Total Debt Stock	99.66	12.52	7.14	1.80	0.00	0.00
Total Debt Stock annual change		-87.14	-5.38	-5.34	-1.80	0.00
Domestic Arrears Dynamics						
Annual change in domestic arrears stock (naira billion)	4.00	-5.36	-5.38	-5.34	-1.80	0.00
Annual percentage in domestic arrears stock (%)	-18%	30%	43%	75%	100%	#DIV/0!

3 PRIORITIZATION CRITERIA FOR ARREARS CLEARANCE

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, shall be prioritized.
- **Age of Debts:** Older obligations shall have priority over newer obligations.
- **Cost:** Arrears that accrue interest and penalty charges shall have priority.
- **Risk:** Arrears that may result in legal action, disruption of essential services, or cost escalation of future supplies to government shall be prioritized.
- **Value:** The government shall 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.

Niger State Government shall specifically adopt any of the following criteria/approaches in deciding which of her domestic expenditure arrears are 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 share of the total outstanding stock of arrears.

Approach 2:

Allocation of available fund on a particular type of arrears.



3.2 Prioritization Within Types of Arrears with Rationale:

S/N	Criteria/Approaches	Rationale	Required Data
1	Contractors		
	Ongoing Works First	Ensure ongoing works are completed	Status of project construction
	Largest Value First	Largest injury in terms of arrears value is addressed first	Value of outstanding arrears
	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
	Oldest First	Creditor who has been waiting longest is paid first	Date missed payment was due
	Subject to penalties first	Paying arrears that bear penalties for late payment reduces cost to State	Contract terms whether provided for late penalties
2	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 arrears
	Equal Percent to all	All Staff receive something regardless of when salary payment was first missed or level of salary	Amount owed to staff
3	Pension 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
4	Judgment Debt		
	Oldest First	Largest injury (in terms of delay) is addressed first	Date missed payment was due
	Equal Percent to all	All claimants receive something, regardless of when contracts fall due.	Amount owed to each contractor

4 ORGANIZATION/INSTITUTIONAL ARRANGEMENT

4.1 Description of the Organization/Institutional Arrangement for Implementation of the Framework

Niger State Government has put in place a **Domestic Arrear Clearance Committee** as an 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.

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 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.

4.2 Objective and Responsibilities of the Arrangement:

The Committee will support the Ministry of Finance 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:

- i. Implement and from time to time review the State's Arrears Clearance Framework (ACF), including policies on prioritization and clearance of arrears
- ii. 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,
- iii. The creation, maintenance and regular (monthly) update of an accurate internal domestic expenditure arrears database and the publicly accessible online version of the database,
- iv. Oversight of the overall recording, verification and reporting process for domestic expenditure arrears.

- v. Ensure adequate classification of the arrears for prioritization purposes,
- vi. 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

4.3 Specific Activities

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

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

4.4 Monitoring and Reporting of the Arrangement

The Committee will report directly to the State's Governor through the Honourable Commissioner for Finance.

Membership of the Committee

S/Nr.	TITLE	POSITION
i	Commissioner for Finance	Chairman
ii	Commissioner for Planning	Vice Chairman
iii	Attorney General & Commissioner for Justice	Member
iv	Auditor General	Member
v	Permanent Secretary Finance	Member
vi	Accountant General	Member
vii	Permanent Secretary, Ministry for Local Government & Chairman, Niger State Fiscal Responsibility Commission	Member
viii	Auditor General, Local Government	Member
ix	Director General, Niger State Public Procurement Bureau	Member
x	Director General, Debt Management Bureau	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 Bureau.

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.