

Kaduna State Government



Arrears Clearance Framework

June 2021

Contents	2
Abbreviations and Acronyms	3
1 INTRODUCTION	4
1.1 Introduction	4
1.2 Coverage and Scope of the Framework:	5
1.3 Purpose of the Framework Document	6
1.4 Users of the Framework Document	6
1.5 Presentation of the State’s Domestic Expenditure Arrears.....	6
1.6 Description of the State’s Policy on Arrears	6
2 PLANNED ACTIONS FOR SETTLEMENT OF KADUNA STATE DOMESTIC EXPENDITURE ARREARS	8
2.1 Principles guiding the Arrears Clearance Strategy	8
2.2 Key Actions for each Step of Arrears Clearance Strategy	8
2.2.1 Stocktaking:	8
<i>Verification</i>	9
<i>Classification</i>	11
2.2.2 Prioritization of Arrears for Clearance	11
<i>Prioritization Criteria/Approaches between Types of Arrears</i>	11
<i>Prioritization within types of arrears with rationale:</i>	12
2.2.3 Liquidation	12
3 ORGANIZATION/INSTITUTIONAL ARRANGEMENT	16
3.1 Composition/ Membership.....	16
3.2 Objectives	16
3.3 Frequency of Meetings.....	16
3.4 Reports.....	17
3.5 Relationship with Arrears Clearance Framework.....	17
4 Approval of Arrears Clearance Framework	18

Abbreviations and Acronyms

OAG	Office of the Accountant General
APA	Annual Performance Assessment
OAuG	Office of the Auditor General
DLI	Disbursement-linked Indicator
DLR	Disbursement-linked Result
DMO	Debt Management Office - Nigeria
FGN	Federal Government of Nigeria
FMIS	Financial Management Information System
SMOF	State Ministry of Finance
FRA	Fiscal Responsibility Act
FRL	Fiscal Responsibility Laws
FSP	Fiscal Sustainability Plan
FAAC	Federation Account Allocation Committee
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
PFM	Public Financial Management
PforR	Program for Results
SFTAS	The State's Fiscal Transparency, Accountability and Sustainability Program for Results
TA	Technical Assistance
TSA	Treasury Single Account
WB	World Bank

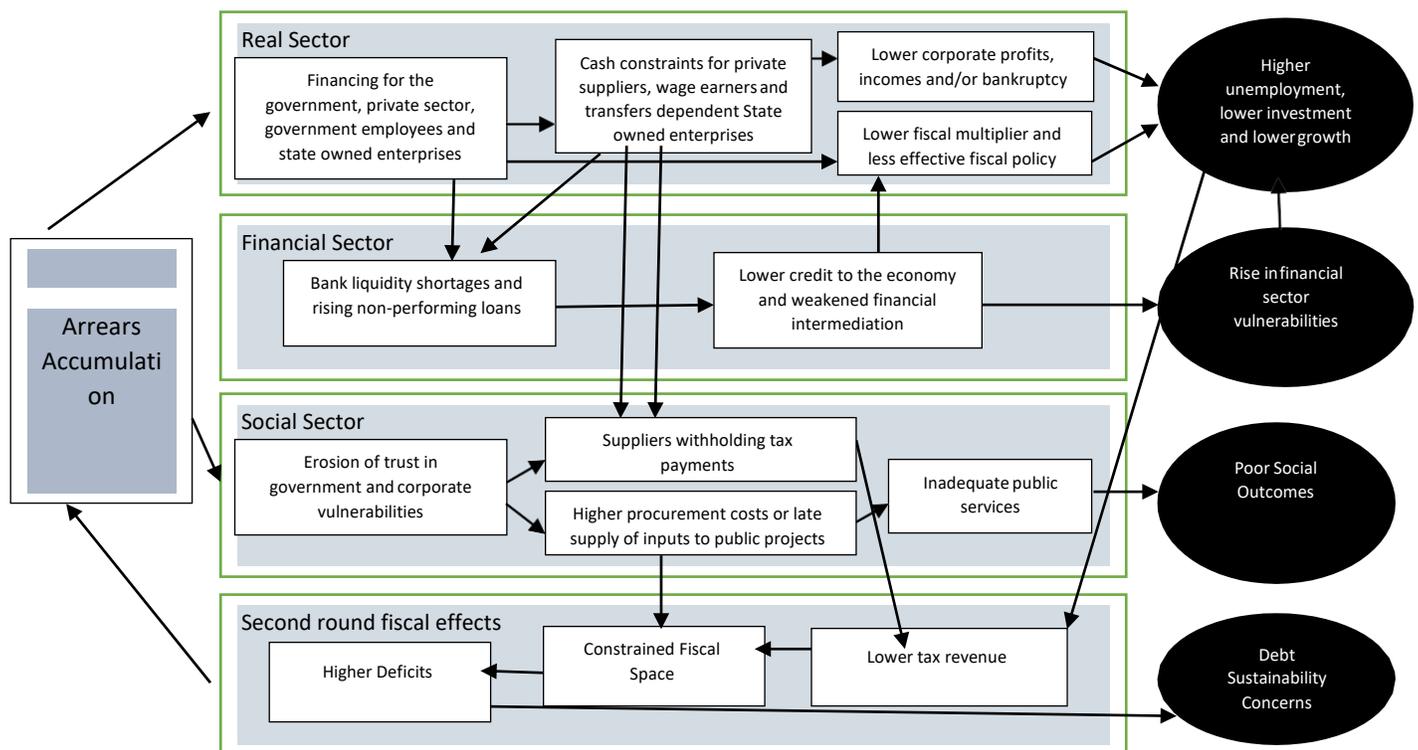
1 INTRODUCTION

1.1 Introduction

The Arrears Clearance Framework is aimed at addressing the challenges involved in the gradual settlement of accumulated government arrears of the state as well as preventing further additions. This is in recognition of the fact that government expenditure arrears are one of the most common problems in Public Financial Management (PFM). The planned actions encapsulated in the arrears clearance framework is designed to be consistent with maintaining macroeconomic stability, anchored on inclusive growth and transparent implementation.

The accumulation of expenditure arrears by governments can have a serious negative effect on the domestic economy; a large flow of arrears may disguise the true size of government deficit, significantly reduce the impact of fiscal policy on aggregate demand and potentially undermine macro-economic stability, hence, the control and clearance of arrears have to be given a priority.

The following schematic by IMF depicts the various impacts of arrears accumulation on the various sectors and their economic outcomes. The framework is guided by the guidelines of the World Bank, the International Monetary Fund on Domestic Debt Management as well as the Federal Government of Nigeria Debt Management Office (DMO) along established world best practices in the settlement and clearance of domestic expenditure arrears.



1.2 Coverage and Scope of the Framework:

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

These payments may have been overdue based on the following:

- Specific contractual commitment such as payment for construction of a road
- Particular legal obligation such as payment of salaries
- Continuing service arrangement such as payment for electricity supply
- Paucity of Fund

As such, the main categories of State's expenditure arrears are as follows:

- Contractual arrears,
- Salary arrears (there are currently no salary arrears),
- Pension and Gratuity arrears.

The shorter 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 after the date on the invoice or contract, 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 a series of payments. They may or may not involve a contract, but they are often based on a legal obligation.

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.

1.3 Purpose of the Framework Document

This framework document provides a clear set of policies, principles and a multi-year financing plan for the clearance of the existing portfolio of Expenditure Arrears.

1.4 Users of the Framework Document

The framework is primarily meant for the government of Kaduna State and the Liquidity Management Committee (as described in section 0). Besides, the staff of MDAs such as Ministry of Finance, Office of the Accountant-General, Planning and Budget Commission, Debt Management Department, Office of the State Auditor-General, Bureau of Public Procurement, Ministry of Works, Housing and Urban Development and other line MDAs, etc., who may be involved in debt management and settlement of arrears at one time or the other will find it useful.

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

1.5 Presentation of the State's Domestic Expenditure Arrears

Over the past six years, the trend of the Kaduna State Domestic Expenditure arrears is shown below:

Figure 1 Trend in Arrears

KADUNA STATE DOMESTIC EXPENDITURE ARREARS						
BREAKDOWN OF KADUNA STATE DOMESTIC EXPENDITURE ARREARS (2015-2020)						
	2015	2016	2017	2018	2019	2020
CONTRACTORS' ARREARS	21,543,316,472.33	15,797,351,065.77	22,983,569,929.04	30,202,630,124.29	16,389,982,023.58	10,496,921,208.51
PENSION AND GRATUITY ARREARS	3,087,380,849.19	15,594,915,643.25	21,237,358,443.58	21,195,799,628.68	23,174,258,554.56	19,128,103,208.76
SALARY ARREARS AND OTHER STAFF CLAIMS	-	-	-	-	-	-
JUDGEMENT DEBTS	-	-	-	-	-	-
	24,630,699,336.52	31,392,268,725.02	44,220,930,389.62	51,398,431,770.97	39,564,242,597.14	29,625,026,437.27

Source: Kaduna State Debt Management Office

Accumulation of arrears over the period 2015-2018 is largely due to the decline in FAAC revenues as a result of the global economic down-turn and the delay in approval of the \$350 million loan from the World Bank.

1.6 Description of the State's Policy on Arrears

The Kaduna 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:

- 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 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 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** to one 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 SETTLEMENT OF KADUNA STATE DOMESTIC EXPENDITURE ARREARS

This 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 favoritism and corruption in the selection of creditors to be paid.

2.1 Principles guiding the Arrears Clearance Strategy

The following key factors will guide the arrears clearance strategy:

- **Comprehensiveness** -The arrears clearance strategy 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 should be transparently stated and adhered to.
- **Credibility** - To demonstrate commitment to addressing the root causes of the problem, the strategy includes 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 make adequate provision for the cash cost of arrears clearance.
- **Verification** - Arrears have been verified to ensure that only valid claims are cleared.

2.2 Key Actions for each Step of Arrears Clearance Strategy

As a comprehensive, transparent, and credible arrears clearance, the following steps have been and will be undertaken:

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

These are discussed in more detail in the following sections

2.2.1 Stocktaking:

A thorough and regular Stocktaking of Arrears has enabled the Kaduna State Government to understand the extent, composition and the age of the state government's unpaid bills and prioritize their clearance.

Stock taking of arrears is being undertaken on monthly basis. It is done before Liquidity Management Committee (LMC) meeting.

The government has prepared a data base of all apparent claims and a regular reporting framework should be instituted. The data base has enough information to allow for proper definition and

classification of arrears into categories for proper evaluation.

As presented in Figure 1, the stock of expenditure arrears as at the 31st December 2020 was 29,625,026,437.27 comprising 19,128,103,208.76 in Pension and Gratuity, and 10,496,921,208.51 in Contract Arrears.

Verification

After the collection of the data on outstanding stock of arrears, the data is verified to ensure that they are genuine claims to avoid payment of fraudulent claims. This activity is undertaken by the Ministry of Finance, Accountant General's Office.

Step 1. Collection of unpaid invoices: The initial responsibility for producing the necessary documentation rests with the chief financial officer of the entity. The responsibility for the proof of validity of claims without proper documentation rests with the claimant. Only original documents are accepted, not photocopies, to avoid fraudulent claims.

Step 2. Verification of claims: Arrears are subject to tests to verify their existence, value, and age of the debt.

Arrears are verified using the following guidelines:

- **The legal validity of the payable** is 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 is applied to officials, and a legal assessment should 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 is verified. In case of doubt or for material transactions, delivery is reconfirmed by requesting information from the supplier. For goods and services, the financial records of the supplier are asked to show that amount was registered as a receivable in their accounts. In cases of salary arrears, payroll records are 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 is required.
- **Invoices and supporting documentation are checked** to verify the value of the amount payable. Invoices must contain the following information at a minimum:
 - The amount,
 - 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 doubt, a cross-check with suppliers' financial statements is made. Entitlement arrears should be computed by the line ministry or agency and provided to the Ministry of Finance. The local government ministry should be responsible for the collation of arrears of data for all the local governments.

The Arrears Database

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

- **Age of Debts:** The database captures the original due date on each invoice, and arrears are 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 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 is used as a proxy for the due date.

- **Debtor:** The database captures 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 captures 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 facilitates rapid administrative clearance of the latter.

- **Economic category:** The database classifies 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 captures 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 is checked** by reference to the invoice and other supporting documentation. A confirmation from the supplier is obtained in contentious cases.
- **The Ministry of Finance**, taking full account of the legal framework with respect to disclosure of taxpayer records, undertakes checks with the revenue authority to ensure that suppliers are registered taxpayers and determine whether they are delinquent in tax payments.

Step 3. Categorization of claims: Based on this review of validity, each claim is 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 may 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 should 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 adjudicator.

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

Step 5. Rejection of invalid claims: The government formally notifies 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.

Classification

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

- **Contractual terms:** The database captures any relevant contractual information including, for example, whether the outstanding balance results in interest and/or penalties for non-payment.
- **Payment status:** The database captures 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 includes 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 include litigation and potential socio-economic impacts.

The database is kept up-to-date showing the discharge of arrears and any subsequent additions to the stock. All stocks of accounts payable are classified as liabilities, further classified as either domestic or foreign, and included in the government's measurement of gross debts.

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

2.2.2 Prioritization of Arrears for Clearance

Prioritization is done in two stages:

Prioritization Criteria/Approaches between Types of Arrears

Two approaches were considered:

- **Approach 1:** Allocation of available fund among the types of the arrears in proportion to their share of the total outstanding stock of arrears; and
- **Approach 2:** Allocation of available funds on a particular type of arrears.

Kaduna State Government aims to clear each classification of arrears proportionately (see details on MTEF / budgetary provisions below), i.e. Approach 1 above.

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	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

Prioritization for settlement of arrears for contractors is based on ongoing work first followed by first-in-first-out in terms of completed work while for Pension and Gratuity it is the oldest first.

2.2.3 Liquidation

The payment or liquidation of obligations begins after establishing and publishing the criteria for prioritizing arrears for clearance, establishing a budgetary provision (and associated cash plan) and achieving sufficient revenue performance to implement the budget.

The Liquidity Management Committee: The Liquidity Management Committee oversees arrears liquidation to ensure the consistent application of the principles of the framework, along with its broader duties in relation to cash management.

More details on the Liquidity Management Committee are contained in section 0.

Multi-Year Plan: Kaduna State Government has produced a three-year rolling MTEF since 2015. Whilst the MTEF does not include specific provisions for clearance of arrears, it does provide an analysis of existing debts and forecasts for financing needs over the three-year time frame covered. Within the annual budget, Kaduna State includes specific provisions for the clearance of Contract Arrears – for example in the 2021 budget there is a specific provision of N1.880 billion for Payment of Liabilities. This was based on an estimated closing balance of contractor arrears as at the end of 2020 of N9.4 billion, and a provision to clear 20% of this in 2021 (the final level of arrears was marginally above this). It is in the intention of the State to clear 20% of outstanding arrears (as at 31st December the previous year) in each fiscal year over the period 2021-2024. Actual arrears clearance in 2020 was 25%.

No specific provision is made in the MTEF nor the budget for clearance of Pension and Gratuity Arrears – there clearance is coded within the broader provision for these classifications of expenditure in the budget. However, specific operational provisions are made (see following section).

The multi-year plan below provides the actuals and proposed budget provisions for the period 2020-2024. The 2020 figures are based on the accountant general's reports, the 2021 figures are based on the approved 2021 budget (appropriations law) and the 2022-2024 figures are based on the provisional 2022-2024 MTEF (as at 21st June 2021). There is a provision for budgetary (expenditure) adjustment in 2021 based on current forecast debt service (provided by the Debt Management Department of Kaduna State Government), which is considerable higher than the 2021 budgetary provision. This issue will be rectified via budgetary adjustments in July 2021 to reduce expenditure levels to balance the budget providing for the necessary debt service provisions.

The figures in the final 2022-2024 MTEF may change, however the intention remains to reduce arrears by 20% per year over the period. And updated multi-year plan will be published once the 2022-2024 MTEF is finalized and approved.

Figure 2 Multi-Year Plan

KADUNA STATE					
Simplified Multi-year funding plan for clearing domestic expenditure arrears					
SUMMARY BUDGET FRAMEWORK					
Billion Naira	Fiscal Year				
	2020 Actual	2021 Budget	2022 Projection	2023 Projection	2024 Projection
Total Budget Revenue and Grants	156,889,143,522.15	170,815,015,580.11	167,087,490,044.00	137,240,411,931.00	157,620,657,848.00
<i>Total Net FAAC allocation exc VAT</i>	48,077,355,428.42	50,137,175,430.94	54,191,174,470.00	61,783,679,926.00	75,625,989,083.00
VAT	20,553,733,168.76	19,800,660,740.50	25,245,125,872.00	28,576,601,092.00	32,381,537,852.00
IGR	50,768,523,407.34	50,699,968,192.68	61,106,180,521.00	36,000,000,000.00	40,000,000,000.00
<i>Grants and Other Revenue (inc. one-off items such as Paris Club refund)</i>	37,489,531,517.63	50,177,211,215.99	26,545,009,181.00	10,880,130,913.00	9,613,130,913.00
Total Budget Expenditure	188,272,770,791.69	233,585,183,131.86	183,312,447,276.68	149,374,952,586.65	150,664,718,644.28
<i>Personnel Cost and Pensions</i>	47,084,028,567.81	40,685,131,275.08	41,353,446,378.60	41,651,602,789.28	44,346,282,231.42
<i>Other Recurrent (Overheads, Transfers) exc. interest payments</i>	34,828,639,307.64	34,046,635,021.47	21,989,658,095.14	19,287,390,393.22	18,343,488,790.36
<i>Interest Payments & other recurrent debt charges</i>	4,469,130,000.00	5,820,635,497.83	6,143,235,056.31	6,406,076,145.84	6,501,097,263.25
<i>Capital expenditures</i>	101,890,972,916.24	162,510,816,039.07	113,826,107,746.64	82,029,883,258.31	81,473,850,359.25
<i>Expenditure adjustments (to achieve budget target)</i>	0.00	-9,478,034,701.60	0.00	0.00	0.00
Overall Balance	-31,383,627,269.54	-62,770,167,551.74	-16,224,957,232.68	-12,134,540,655.65	6,955,939,203.72
SUMMARY Borrowing, Financing and Debt Stock					
Billion Naira					
Fiscal Year					
	2020 Actual	2021 Budget	2022 Projection	2023 Projection	2024 Projection
Gross and Net Borrowing Needs					
(1) Overall Balance	-31,383,627,269.54	-62,770,167,551.74	-16,224,957,232.68	-12,134,540,655.65	6,955,939,203.72
(2) Investments - Accumulation of financial assets	0.00	0.00	0.00	0.00	0.00
(3) Debt Amortization (exc Arrears Clearance)	3,829,816,719.90	7,157,399,203.76	9,510,550,894.55	11,949,977,506.94	12,798,857,992.39
(4) Arrears Clearance	9,939,216,159.87	5,925,004,883.45	4,740,003,906.76	3,792,003,125.41	3,033,602,500.33
Gross Borrowing Needs (5) = (2)+(3)+(4)-(1)	45,152,660,149.32	75,852,571,638.96	30,475,512,034.00	27,876,521,288.00	8,876,521,289.00
Net Borrowing Needs (6) = (2)-(1)	31,383,627,269.54	62,770,167,551.74	16,224,957,232.68	12,134,540,655.65	-6,955,939,203.72
Sources of Financing	2020 Actual	2021 Budget	2022 Projection	2023 Projection	2024 Projection
Domestic Debt Total	0.00	0.00	3,500,000,000.00	1,500,000,000.00	1,500,000,000.00
1. Commercial Bank Loans	0.00	0.00	2,000,000,000.00	0.00	0.00
2. State Bonds	0.00	0.00	0.00	0.00	0.00
3. CBN Development Financing (Agric, Infrastructure, MSMEDF)	0.00	0.00	1,500,000,000.00	1,500,000,000.00	1,500,000,000.00
4. FGN Borrowing	0.00	0.00	0.00	0.00	0.00
5. Domestic Expenditure Arrears	0.00	0.00	0.00	0.00	0.00
External Debt Total	35,170,246,491.20	46,916,696,000.00	26,975,012,034.00	26,376,521,288.00	7,376,521,288.00
Asset privatisation proceeds/other funds	0.00	28,935,875,638.96	500,000.00	0.00	0.00
Total Financing	35,170,246,491.20	75,852,571,638.96	30,475,512,034.00	27,876,521,288.00	8,876,521,288.00
Financing Gap (Total Financing minus Gross Borrowing)	-9,982,413,658.12	0.00	0.00	0.00	-1.00
Debt Stock (End of Year)	2020 Actual	2021 Budget	2022 Projection	2023 Projection	2024 Projection
Domestic Debt Total	68,754,361,083.75	59,475,387,165.17	54,958,895,127.01	49,474,452,792.45	44,839,586,030.86
1. Commercial Bank Loans	0.00	0.00	2,000,000,000.00	2,000,000,000.00	2,000,000,000.00
2. State Bonds	0.00	0.00	0.00	0.00	0.00
3. CBN Development Financing (Agric, Infrastructure, MSMEDF)	0.00	0.00	1,500,000,000.00	3,000,000,000.00	4,500,000,000.00
4. FGN Borrowing	39,129,336,666.48	35,775,367,631.35	32,498,879,499.96	29,306,440,290.81	26,205,176,029.55
5. Domestic Expenditure Arrears	29,625,024,417.27	23,700,019,533.82	18,960,015,627.05	15,168,012,501.64	12,134,410,001.31
<i>Contractor Arrears</i>	10,496,921,208.51	8,397,536,966.81	6,718,029,573.45	5,374,423,658.76	4,299,538,927.01
<i>Pension and Gratuities</i>	19,128,103,208.76	15,302,482,567.01	12,241,986,053.61	9,793,588,842.89	7,834,871,074.31
<i>Salaries</i>	0.00	0.00	0.00	0.00	0.00
External Debt Total	215,644,250,669.73	258,757,516,501.09	279,498,465,771.93	297,117,448,762.15	294,796,376,319.01
Total Debt Stock	284,398,611,753.48	318,232,903,666.26	334,457,360,898.95	346,591,901,554.60	339,635,962,349.88
Total Debt Stock annual change	24,641,400,462.45	33,834,291,912.78	16,224,457,232.68	12,134,540,655.65	-6,955,939,204.72
Domestic Arrears Dynamics	2020 Actual	2021 Budget	2022 Projection	2023 Projection	2024 Projection
Annual change in domestic arrears stock (naira billion)	-9,939,216,159.87	-5,925,004,883.45	-4,740,003,906.76	-3,792,003,125.41	-3,033,602,500.33
Annual percentage in domestic arrears stock (%)	25%	20%	20%	20%	20%

As per the above table, the intention is to clear 20% of outstanding arrears (as at 31st December the previous year) each year over the four years covered by the plan. In addition, the State intends to avoid accumulating any further arrears. On successful implementation of the plan, arrears would be reduced from N 29,625,024,417.27 as at 31st December 2020 to N 12,134,410,001.31 by

the 31st December 2024 – a reduction of 60% over the four-year period.

Centralization of Payments: Responsibility for payments of arrears is centralized. This is to ensure that payments are made according to the agreed Framework and schedule.

Funding payment of arrears: for Pension and Gratuity arrears, Kaduna State Government deducts N200 million per month from its FAAC allocation whilst the 23 Local Government Councils contribute N300 billion per month collectively via JAAC, thus providing N500 billion per month for Pension and Gratuity Arrears clearance in total.

The State Government sets aside N1bn (One Billion Naira) into a dedicated Capital Account being part proceeds of Value Added Tax (VAT) on a monthly basis received from FAAC allocation to offset part of the contractual liabilities accrued.

3 ORGANIZATION/INSTITUTIONAL ARRANGEMENT

The Liquidity Management Committee is the main organ for managing and implementing this arrears clearance framework.

3.1 Composition/ Membership

The composition of the Liquidity Management Committee is as follows:

a. Commissioner of Finance	Chairman
b. Commissioner Planning and Budget Commission	Member
c. Chief of Staff	Member
d. Permanent Secretary Ministry of Finance	Member
e. Permanent Secretary Planning and Budget Commission	Member
f. Permanent Secretary General Services	Member
g. Special Adviser to the Governor Media and Communication	Member
h. Special Adviser to the Governor Economic Matters	Member
i. Special Adviser to the Governor Project Implementation And Results Delivery	Member
j. Special Adviser to the Governor Human and Community Development	Member
k. The Executive Chairman Kaduna State Internal Revenue Service	Member
l. The Director General Kaduna Geographic Information Service	Member
m. The Accountant General	Secretary

3.2 Objectives

The objectives of the committee are to: -

- Advise the Governor on the liquidity position of the State.
- Recommend funds for allocation to Ministries, Departments and Agencies (MDA's).
- Asses the funding needs submitted by the MDA's through the Cash Management Unit (CMU) in the form of work plans for capital projects and three to six months profiles of budget needs.
- Prioritize allocations based on government's projects in line with the State's Development Plan (SDP).
- Implementation of the Arrears Clearance Framework.

3.3 Frequency of Meetings

The Liquidity Management Committee as specified in the Treasury Single Accounts Operational Manual meets on a monthly basis.

3.4 Reports

The secretariat of the committee is expected to produce a report before the sitting for consideration and to state the status of implementation of the previous committee's approvals and assignments. The secretariat also produces a report after each sitting highlighting considerations/approvals made and on other assignments/issues as directed to further enhance the terms of the committee.

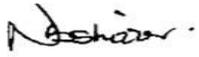
3.5 Relationship with Arrears Clearance Framework

The committee recommended the creation of a sinking fund in respect of the Accrued Staff gratuities and death benefits. The sinking fund was established through the Statutory FAAC allocation on a monthly basis where the State Government contributes ₦200,000,000.00 and the 23 local Government Area Councils jointly contribute ₦300,000,000.00 into a dedicated bank account to defray the liabilities.

The State Government sets aside N1bn (One Billion Naira) into a dedicated Capital Account being part proceeds of Value Added Tax (VAT) on a monthly basis received from FAAC allocation to offset part of the contractual liabilities accrued.

4 Approval of Arrears Clearance Framework

On behalf of the Chairman of the Liquidity Management Committee, I confirm the State's intent to implement the plan as contained in this Arrears Clearance Framework Document.



Shizzer Bada Bsc(Hons.),MBA,CPA(Ireland),FCNA,ACTI,MNIM,ACCA IPSAS Certified
Accountant-General, Kaduna State

Date: 28/06/2021