

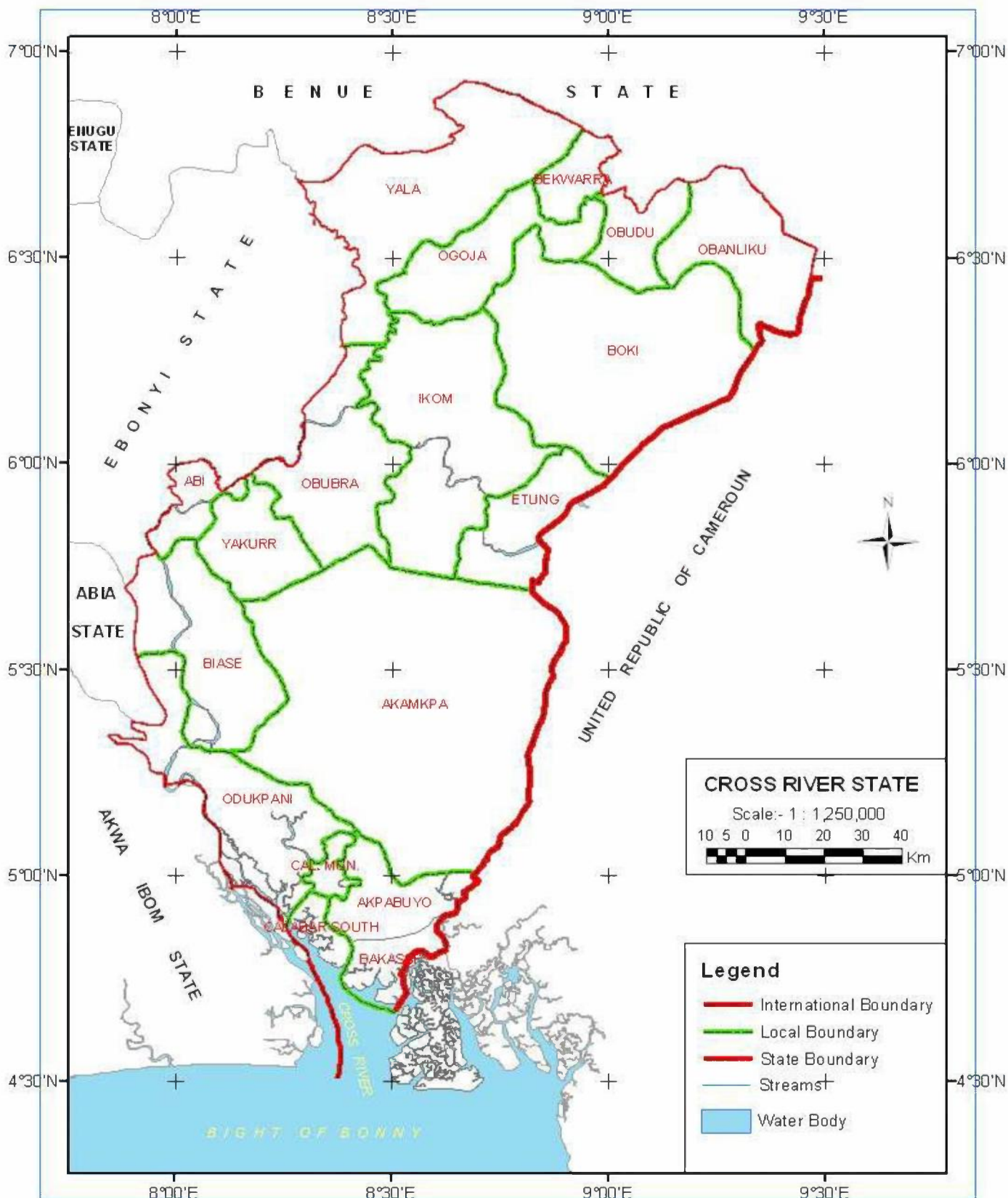


2023

**REPORT OF THE
CROSS RIVER STATE DOMESTIC EXPENDITURE ARREARS
CLEARANCE FRAMEWORK (CRS-D EACF)**

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CONTENT	Pages
1. Introduction	
1.1 Coverage and Purpose	4
1.2 Authenticated Records and Clearance Framework	5
1.3 Description of the State’s Policy on Arrears	6
2.0 Planned Action for Settlement of Cross River State Domestic Expenditure Arrears	7-10
2.1 Principles Guiding the Arrears Clearance Strategy	7
2.2 Action for Each Step of Arrears Clearance Strategy	7
3.0 Prioritization Criteria for Arrears Clearance	11
3.1 Prioritization Criteria	11
3.2 Prioritization within Types of Arrears	12
3.3 Prioritization Across Types	12
4.0 Institutional Arrangement	13
4.1 Description for the Implementation of the Framework	13
4.2 Objectives and Responsibility	13
4.3 Specific Activities	13
4.4 Monitoring and Reporting	13
4.5 Membership of the Committee	14
4.6 Committee’s Secretariat	14
4.7 Powers and Authorities of the Committee	15

1.0 INTRODUCTION

The Domestic Arrears Clearance Framework is a measure or ease of gradual settlement of the state financial obligations and a means of reducing of accumulated arrears and prevention of further financial arrears. It is an obvious means of reducing the State debt exposure and its attendant risk. It is very obvious that our inability to manage our debt will impede on the principle of Public Financial Management (PFM) enshrined by World Bank Group and Debt Management Department, Abuja .

The overall aim of the Arrears Clearance Framework is therefore to ensure that all maturing financial obligations of Government are gradually paid to avoid accumulation of arrears as well as guide against possible mechanisms that will result into arrears. This idea of developing an Arrears Clearance Framework will help in curbing excesses in spending thereby maintaining macro-economic stability that will eventually lead to growth and transparency.

It is pertinent to note that the accumulation of expenditure arrears if not checked may result to very serious debt overhang on the domestic economy and will also impact negatively on the fiscal policy, aggregate demand and will potentially affects or impede on macro-economic stability

1.1 COVERAGE AND PURPOSE

This document provides policy guidelines and procedures for managing all verified and authenticated expenditure that has been in arrears in Cross River State books.

The framework is guided by the ***World Bank and the Debt Management Office (DMO), Abuja's template for the establishment of the Domestic Arrears Committee (DAC)*** as well as establish best practices in the settlement of the State's Domestic Expenditure Arrears. The Coverage will be on Contract Arrears, Pension and Gratuity Arrears, Salary Arrears, and Judgment Debts.

The domestic Arrears Management framework helps in the identification, recording, and management of the domestic expenditure arrears of the State. It will also assist in establishing processes and systems to manage and reduce validated domestic arrears over time, and also complement other existing policies and provisions in existing financial legislations, extant circulars and financial rules and regulations.

In the course of the exercise, a technical committee was setup by the Commissioner of finance with the mandate to collate the established database of expenditure arrears for periodical reviews and updates so that the document will become a reference one for the PFM and other MDAs. This document will also be relevant to the State Economic Team: Ministry of Finance, Office of the Accountant General, Auditor-General, Budget Office, Debt Management Office, Planning Commission, etc.

1.2 AUTHENTICATED RECORDS AND CLEARANCE FRAMEWORK

From the available records, the established Stock of contract arrears as at year end 31st December, 2022 amounted to N39,123,760,294.05, Pension and Gratuity is N13,671,462,665.66 Judgment debt Arrears is N32,043,765.76 these are partly inherited from previous regime and partly under the current administration.

The table below shows the breakdown of all verified and authenticated domestic arrears that are to be reviewed and updated from time to time.

Table 1

Arrears Type in Naira	New Arrears at December 31, 2021	New Arrears at December 31, 2022	Arrears at Dec 31, 2021	Outstanding Arrears at December 31, 2023	Arrears incurred in 2025 (Flow)	Settled (Paid) in 2022 (Flow)	Arrears at December 31, 2022 (Stock)	Change in Arrears Between December 2018 and December ,2022	Percentage change in Arrears between Dec 31, 2021 and Dec 31, 2025	R M KS
Contact Arrears	31,336,652,449.83	7,787,107,844.22		39,123,760,294.05			39,123,760,294.05	7,787,107,844.22	25 percent	
Pension and Gratuity				13,671,462,665.66			13,671,462,665.66			
Judgment Debt	32,043,765.76			32,043,765.76			32,043,765.76			
Total Arrears	31,368,696,215.59	7,787,107,844.22		52,827,266,725.47			52,827,266,725.47	7,787,107,844.22		

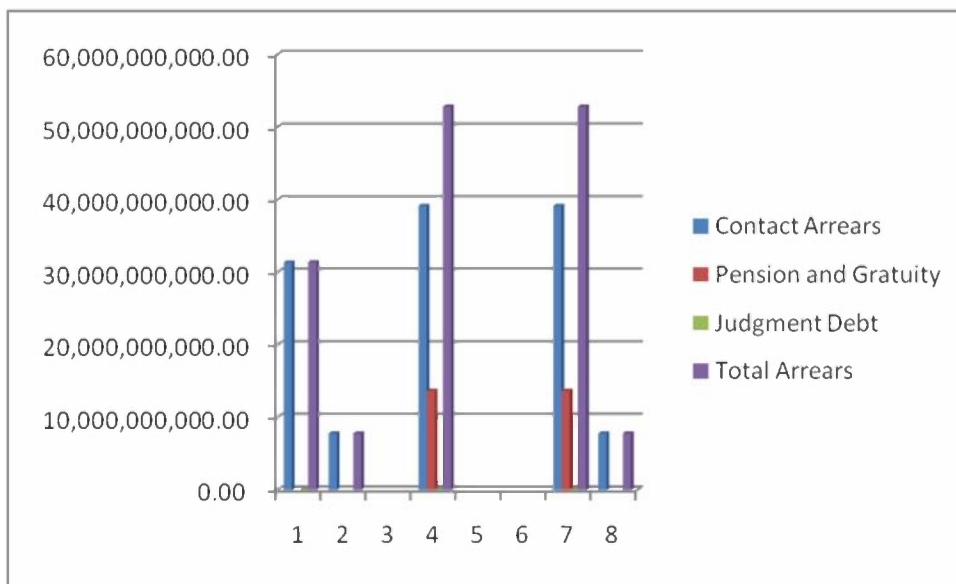


Table of Domestic debt

It is believed that the enormous outstanding arrears will be validated by the Committee for approval and subsequent payments. The Technical Committee will also be responsible for verifying and authenticating claims not previously captured before their inclusion in the database and review/update of the online published data. All the verified and authenticated arrears are recorded in the books of Debt Management Department of the Governor's office.

The gradual liquidation plan will serve as the financial plan for clearance of validated stock of arrears based on the total fund available in the State's current budget year and the budget year to come. Consequently, the state Government plan to liquidate the arrears in four (4) years using fund from statutory federal transfers, internally generated revenues and/or borrowings from Commercial Banks.

1.3 DESCRIPTION OF THE STATE'S POLICY ON ARREARS

The following measures should be adopted by the State to clear the existing domestic arrears and prevent accumulation of new arrears:

1. Strengthen legal and regulatory framework. The State shall empower its legal and regulatory framework on financial issues.
2. Enhancing the credibility and realism of the State's budget. The state's budget shall be a realistic plan for expenditure based on conservatively estimated revenues based on robust assumptions and forecasts in the fiscal frameworks.
3. Improved Accounting and Reporting. This implies that the State shall ensure proper accounting and reporting system are put in place at all times.
4. Strengthen Commitment Controls to effectively limit commitments to approved budget allocations and to availability of actual cash with improved integrated cash and debt management.
5. Effective oversight of state-owned enterprises to prevent accumulation of arrears.
6. Enforcement of Treasury Single Account **(TSA)** to reduce State's reliance on commercial bank loans and the prevention of accumulated arrears.
7. Monthly cash management meeting shall be held to guide government decisions on all inflows.
8. Implementation of the State Cash Management Strategy to ensure liquidity is readily available to meet the cash obligations as they arise through accurate and timely short term estimates of cash inflows and outflows.

2.0 PLANNED ACTIONS FOR SETTLEMENT OF CROSS RIVER STATE DOMESTIC EXPENDITURE ARREARS

The essence of the Domestic Arrears Clearance Framework is to address all accumulated arrears as well as clear any outstanding arrears. The framework is to be made known to all stakeholders on how Government intends to settle their arrears highlighting the time and possible criteria. This will help to avoid any form of nepotism and favoritism in the cause of selecting creditors to be paid.

2.1 PRINCIPLES GUIDING THE ARREARS CLEARANCE STRATEGY

The following factors should guide the arrears clearance strategy

- ✓ **Comprehensiveness:** The strategy should be used for all outstanding payments incurred by Government, and/or state-owned enterprises.
- ✓ **Transparency:** To ensure that the exercise is devoid of ambiguity, the timetable and the method used in prioritizing the clearance should be transparent and adhered to.
- ✓ **Credibility:** There should be adequate and effective measures in place against the accumulation of arrears and those responsible for such illicit actions are thereby sanctioned.
- ✓ **Realism:** The Government's annual budget and medium term fiscal projections should make adequate provision for the cash cost of arrears clearance.
- ✓ **Verification:** All arrears should be verified to ensure that only valid claims are cleared.

To effectively attain the needed structure, the domestic arrears clearance strategy should adopt the following steps below:

- a. Stocktaking
- b. Verification
- c. Classification
- d. Prioritization, and
- e. Liquidation

2.2 ACTIONS FOR EACH STEP OF ARREARS CLEARANCE STRATEGY

2.2.1 Stocktaking

Stocktaking of Arrears should be carefully handled to enable the State government understand the extent, composition and the age of all unpaid arrears and prioritize for clearance.

The stocktaking exercise requires a timetable and a cut-off date for the inclusion of new arrears to encourage timely reporting and avoid the generation of fraudulent claims.

The Stocktaking will enhance the creation of a database for all claims, their classifications and categories for proper evaluations. Ultimately, this will propel efficiency in timely and regular reporting.

2.2.2 Verification

This is to ensure that only authenticated data collated are verified to avoid payments of fraudulent claims. The activity should be handled either in the Auditor-General's office or the inspectorate unit of the Accountant- General's office and the report should be made available to the Commissioner for Finance, Auditor-General, Debt Management Department and the Accountant General of the State.

This process should include the following steps:

Step 1. Collection of unpaid invoices: The initial responsibility for producing the necessary documentation should rest with the Accountant of that entity, while the responsibility for proof of validity of claims without proper documentation should rest with the claimant. In this case, only original copies should be accepted to avoid fraudulent claims.

Step 2. Verification of claims: The arrears should be subject to tests to verify their existence, value and age of the debt.

The following guidelines are to be used:

- The Legal Validity of the Claims should be carried out to authenticate if the transaction followed laid down procedures.
- Evidence that the goods were delivered and services were duly received and accepted by a responsible officer. The proof should be evidence of certificate of valuation, completion certificate produced by experts should be made available.
- Invoices and supporting documentation should be checked to verify the value of the amount payable.

The invoices should contain the following

- i. The Amount
- ii. The Supplier
- iii. The reference to the contract
- iv. The purchase order or agreement signed by the responsible officer, and
- v. The documents confirming receipt of goods or services, such as inventory records of the purchasing entity.

The Arrears Database

The following data should be captured for each outstanding claim:

- **Age of Debts:** The database should be able to capture the original due date on each invoice, and the arrears should be classified according to how long they have been overdue

- ✓ More than 12 months,
- ✓ Older arrears to be classified by the financial year in which they were incurred

In the event that the due date is not recorded in the invoice, the invoice date can be used as proxy for the due date.

- **Debtor:** The database should capture the government entity incurring the liability, classified by institutional group.
- **Creditor:** The database should capture the creditor's name classified by type:
 - ✓ Employees;
 - ✓ Private individuals
 - ✓ Private businesses
 - ✓ Financial institutions
 - ✓ The State government
 - ✓ Local government
 - ✓ Extra-budgetary fund, or
 - ✓ State-owned enterprises

There should be a clear demarcation between extra- government and inter-government obligations to facilitate rapid administrative clearance such as.

- **Economic category:** The database should classify the arrears in economic categories such as acquisition of non-financial assets and financial assets etc.
- **Currency:** The original currency which the transaction was denominated should be captured.
- **The age of the payable should be checked** by reference to the documents and other supporting documentation.
- **The Ministry of Finance:** The Ministry should take care of the legal framework with respect to the disclosure of tax records.

Step 3 Categorization of claims: The claims should be classified as valid, contestable and rejected depending on the level of verification carried out.

Step 4 Appeals from claimants: This occurs when contestable claimants are invited to provide evidence to support their claim or have their matter referred for adjudication.

Step 5 Rejection of invalid claims: The government should formally notify rejected claimants and state the reason or basis for such rejection.

2.2.3 Classification: A database of valid outstanding arrears should be established and centrally maintained by the Debt Management Department. The practical approach to this would be to focus on the large claims and gradually expanding the coverage of the database.

The database should capture the contractual information taking cognizance of interest rate and penalties charges for non-payments. The payment status on the invoice should be noted specifying the amount paid, amount outstanding and any rescheduling,

discounting or factoring of the unpaid obligations. The risk factor of non-payments should be considered.

2.2.4 Prioritization of Domestic Debt Arrears for Clearance

Once the database of valid claims has been established for Cross River State, a set of criteria for prioritizing their liquidation or settlement should be determined based on the nature of the arrears. The prioritization should be considered based on the socio economic impact, age of the debts, the cost, the risk, the currency, the creditor, and the value.

2.2.4 Liquidation

The liquidation of arrears begins after the establishment and publication of the criteria for prioritizing it for clearance. The mandate of clearance should be on the “Arrears Clearance Committee” applying the principles of the framework. There should also be adequate provision in the **Medium Term Expenditure Framework (MTEF)** for the clearance of the arrears and the payments should be centralized. Any transaction that would undermine transparency and accountability and provoke moral hazard should be avoided. In most cases, the funding needed for the payment of arrears is source from:

1. Statutory Allocation
2. Internally Generated Revenue
3. Grants from the Federal Government, and
4. Loans

Furthermore, the securitization of arrears directly into government debts should be considered only as a last resort. The range of securitization options includes promissory note, marketable treasury bills or bonds directly to creditors. The advantage here enables government to select the debt maturity structure and repayment profile that best matches its financing needs. This approach will help creditors to raise liquidity by trading their title in the secondary market, possibly at a discount rate.

3.0 PRIORITIZATION CRITERIA FOR DOMESTIC DEBT ARREARS CLEARANCE

The prioritization of arrears clearance should be based on transparency criteria, depending on the nature of the arrears. These would be coordinated by looking at the socio-economic impact, the age of debts, the cost, the risk and the value. The State Government is at liberty to use any of these options for the payment of the expenditure arrears.

3.1 Prioritization Criteria

There would be two criteria for prioritizing the arrears clearance:

The first approach will allocate available fund among the type of arrears in proportion to their share of the total outstanding stock of the arrears, while the second will allocate available fund on a particular type of arrears

3.2 Prioritization within types of arrears

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 value of arrears is addressed first	Value of outstanding Arrears
	Smallest Value First	Immediate payment of individual and small firms arrears	Value of outstanding Arrears
	Oldest First	Creditors are paid on first come basis	Date missed payment was due
	Subject to Penalties First	Paying arrears that bear penalties for late payment reduce cost to the State	Contract terms whether provided for late penalties
2	Salaries		
	Oldest First	Largest value of arrears is addressed first	Date missed payment was due
	Smallest First	immediate payment of individual and 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 Gratuity		
	Oldest First	Largest value of arrears 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 value of arrears 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

3.3 PRIORITIZATION ACROSS TYPES

Arrears Type in Naira	Total stock at the end of 2021 Arrears at December 31, 2022	Criteria for Allocation amongst type December 31, 2022	Planned amount to be paid in 2023	Planned amount to be paid in 2024	Planned amount to be cleared in 2025	Planned amount to be cleared in 2026	Planned amount to be cleared in 2027	Prioritization criteria to be applied to arrears within each type of arrears
Contact Arrears	39,123,760,294.05	Proportional to share of total Arrears	7,405,978,525.70	5,628,543,679.57	8,887,174,230.84	9,790,815,145.30	7,411,248,712.64	Size largest first
Pension and Gratuity	13,671,462,665.66	Proportional to share of total Arrears	2587955712	1,966,846,340.85	3105546854	3,421,316,425.63	2,589,797,333.38	100 % of Arrears owed to each
Judgment Debt	32,043,765.76	Proportional to share of total Arrears	6065762.58	4,609,979.58	7,278.815.08	8,019,029.47	6,070,079.05	100 % of Arrears owed to be settle
Total Arrears	31,368,696,215.59		10,000,000,000.00	7,600,000,000.00	12,000,000,000.00	13,220.150,600.40	10,007,116,125.07	

4.0 INSTITUTIONAL ARRANGEMENT

4.1 Description for the implementation of the framework

Cross River State will put in place “Domestic Debt Arrears Clearance Committee” as an institutional arrangement charged with the overall responsibility to draw a road map to clear arrears processes, including recording, verification, classification, reporting, prioritization, and clearance of domestic expenditure arrears in the State. The committee is expected to operate within the principles of the framework by ensuring payments in accordance with the prioritization criteria. Besides, the committee is to receive reports and equally prepare periodic reports to the Governor’s office and Ministry of Finance on the performance of the arrears payments. The report should highlight any non-reporting spending units and recommend remedial actions.

4.2 Objectives and Responsibilities of the Committee

The Committee will support the Debt Management Department 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. Review of the Arrears Clearance Framework for implementation
- b. Regular update of the established database and publicly accessible online version of the database
- c. Ensure adequate classification of the arrears based on the prioritization criteria
- d. Oversight of the overall recording, verification and reporting processes for the expenditure arrears.
- e. Provide accurate monthly, quarterly and annually reports showing the true and fair position of the verified arrears and the progress made.

4.3 Specific Activities

These activities include, but not limited to the following:

- a. Periodic review of the Arrears Clearance Framework
- b. Adoption and implementation of records management guidelines for domestic arrears.
- c. Adoption and implementation of verified guidelines for all types of domestic arrears.
- d. Establishment of a publicly accessible online version of the database.
- e. Reporting of valid and verified domestic arrears to end users

4.4 Monitoring and Reporting

The committee shall report directly to the State Governor through the Commissioner for Finance.

4.5 Membership of the Committee

The membership of the Committee will be as follows:

- a. Commissioner of Finance
- b. Attorney-General
- c. Special Adviser or Head, Debt Management Department
- d. Special Adviser, Budget and Monitoring Department
- e. Special Adviser, Economic Planning
- f. Auditor- General
- g. Accountant- General
- h. Chairman of Internal Revenue Service.

4.6 Committee's Secretariat

The Committee shall establish a secretariat to support its work using existing staff within the office of the Accountant-General, Department of Budget and the State's Debt Management Department.

4.7 Power and Authority of the Committee

The Committee shall have delegated authority to request any and every information relevant to their assignment from all the MDAs.

The Committee will be able to incur expenditures including the engagement of professional assistance in the course of the assignment. All expenditures must be incurred through the procurement systems of the selected institutions.

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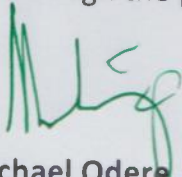
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Hon. Michael Odera, ACA, FCIB, ACTI, FIMC.
Commissioner for Finance.