

ZAMFARA STATE GOVERNMENT
ARREARS CLEARANCE FRAMEWORK
(ACF)

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POLICY FORMULATION

SECTION 1

BACKGROUND

An arrears clearance framework is said to be in effect in any level of Government sector all over the world is said to be indebted by its creditors that undertakes a particular contractual work, supplies and services for which payments that have not been made by the due date. The accumulation of expenditure arrears by government reduce their credibility and ratings which may have negative effect on the domestic economy by reducing growth, increasing cost of service and reducing service delivery.

In Zamfara State, the Debt Management Department Office is a specialised Department established in 2008, in the Ministry of Finance charged with general administration of debt related matters and recording of all liabilities of Zamfara State Government and its MDAs. The office has the State Executive, Legislative approval and His Excellency`s, the State Governor endorsement of its **OFFICE LAW**, that gives the legal backing for the establishment of the office on June 13, 2012. The Office is saddled with the following responsibilities as thus:

1. Maintain a reliable database of all loans taken or guaranteed by the State or any of its Agencies.
2. Prepare and submit to the State, a forecast of loan service obligations for each financial year.
3. Prepare and implement a plan for the efficient management of the State`s external and domestic debt obligation at sustainable levels compatible with desired economic activities for growth and development and participate in negotiations aimed at realizing those objectives.
4. Verify and reconcile External debts services guaranteed or directly taken by the State with the Federal DMO.
5. Verify and service domestic debt, guaranteed or directly taken by the Accountant General.
6. On an agency basis, service domestic debt taken by Local Government Council or any of their agencies/organization, where such debts

- guaranteed by the State Government.
7. Advise the State on the re – structuring and re-financing of all debt obligations.
 8. Advise the State on the terms and conditions on which Monies are to be borrowed.
 9. Submit to the State for consideration in the annual budget, a forecast of borrowing capacity Local and foreign currencies.
 10. Prepare a schedule of State obligations such as contingent liabilities, both explicit and implicit and provide advice on policies and Procedures for their Management.
 11. Establish and maintain tripartite relationship between the State.
 12. International Financial Institution/Donor Agencies and Debt Management Office.
 13. Collect, collate, disseminate information, data and forecast on Debt Management.
 14. Perform any other function that may be assigned to it or which in the opinion of the Office are required for the effective implementation of its objectives.
 15. The Office shall administer the debt conversation programme of the State.

PLANNED ACTION TO SETTLE ARREARS

DEVELOPING OF A MULTI YEAR FUNDING FOR CLEARING ARREARS

Expenditure arrears most times occur due to the failure of good financial management, weak budgeting gap in financial reporting, inefficient cash management and inadequate legal frameworks. To ensure reduction of domestic arrears there is need to strengthen the affairs of the State debt management office by ensuring an online comprehensive domestic expenditure arrears register must be maintained and regularly updated by the DMO, the database also shall be robust, containing all the contractors name, Amount, Nature of the goods and services procured and payment history.

The database is to be updated and verified regularly with proper categories due of payments, consequently Zamfara State Government has established prioritization process and due diligence for liquidation of these debts. The creditors for sum of **Twenty Million (N20,000,000.00)** and above are to be online in a public accessible

data base on the web, however, the payment of debts below **Twenty Million (N20,000,000.00)** shall be paid as at when due.

The Ministry of Budget and Economic planning in conjunction with Ministry of Finance is developing a three year **Medium Term Expenditure Framework (METF)** to enhance the annual budget preparations, where provisions are made for MDA`s for project execution and payment of all liabilities emanating from projects.

The full adoption of the Treasury Single account by the Zamfara State Government ensures that all government accounts are streamlined with a single account payments and disbursement. This entails closing on multiple accounts maintained by the MDAs for expenditure. The MDAs will henceforth pass through the single treasury portal of the Ministry of Finance to be forwarded to the office of DMO for inclusion into their data base.

MAJOR SOURCES OF FUNDS

The major sources of funds for settlements of the domestic arrears include **Internally Generated Revenue, transfer from Federation Account (FAAC), Grants and Aids, Federal Government Intervention such as Bailout funds, Budget Support Facility, ECA, Paris Club refunds etc;** due to other competing needs of the State, the proportion of the funds available to clear the arrears on a monthly basis is pegged as thus:

- i. Monthly release of **One Hundred Million Naira (N100,000,000.00)** for the settlement of Gratuity arrears in the State.
- ii. The release of **Five Hundred & Fifty Two Million Six Hundred & Twenty Nine Thousand, Three Hundred & Twenty Three Naira Only. (N552,629,323.00)** for the settlement of contractors arrears.

Commercial Bank Loans: the State also secured funds for developmental projects from Banks and other financial institutions to clear debts and arrears with the professional advice from DMO Abuja at competitive market rates to fund payments of domestic arrears.

Bond Issuance

The other financing options for government are issuance of BOND to finance and re-financing of capital projects and fund budget gaps.

PRIORITIZATION CRITERIA

1. Due to scarcity of funds, the volume of arrears will, be too large to clear on therefore the debt management office will continue to record all domestic arrears as they are incurred for prioritization.
2. The clearance and settlement of domestic arrears shall be prioritised sequential based on size and vintage. However, a combination of criteria adopted depending on the situation, but there is need to ensure an open transparent mechanism to fair all the beneficiaries.
3. An efficient and accurate cash flow forecasting and cash management strategy been put in place to guide the process.

POLICIES AND ACTION TO REDUCE THE STOCK OF DOMESTIC EXPENDITURE ARREARS

In order to settle the Zamfara state Government domestic arrears, the Ministry of Finance has duly put in place measures to ensure reduction in the stock of domestic expenditure arrears on monthly and yearly basis. Some of the measures include:


- i. Strengthen legal and regulatory framework, the State shall empower legal and regulatory framework on financial issues.
- ii. Enhance the credibility and realism of the State`s budget shall include margin to handle the situation of revenue shortfalls.
- iii. Improve accounting and reporting of the State shall ensure proper accounting and reporting.
- iv. The state shall strengthen its commitments controls too effectively limit commitments to approved budget allocation to the availability of actual cash.
- v. The State shall facilitate improved and integrated cash and debt management.
- vi. The State shall enhance oversight of State owned enterprises should the reasons arrears accumulation rest with other parts of the public sector;
- vii. Payment shall be centralised to the State Treasury to prevent arrears as a result of administrative hurdles.

- viii. Establishment of Treasury Single Account (TSA) to reduce State`s reliance on commercial banks loans.
- iv. Upgrading the government financial management information system, the system should handle the entire expenditure chain, including the release of budget funds, commitments against the budget funds, production of purchase orders based on commitments, receipt of invoices within the purchase orders, receipts of goods and services claimed in the invoices, and payment or non-payment of invoices;
- x. Monthly cash management meeting shall be held to guide the government decision on budget fund release.

Further to the above, the Zamfara State Government approved the following funds for the settlement of domestic arrears in the state as thus:

- a. Setting aside **Five Hundred & Fifty Two Million Six Hundred & Twenty Nine Thousand, Three Hundred & Twenty Three Naira Only. (N552,629,323.00)** in 2019 budget estimate for the settlement of contractual and other liabilities recurrent and capital arrears.
- b. Approved the sum of **One Hundred Million Naira (N100,000,000.00)** monthly for the settlement of Gratuity arrears.
- c. Cash management plan that will ensure the reduction in the domestic arrears of the State.

The Ministry of Finance partner with the Ministry of Budget and Economic planning are to prepare and operate a realistic budget that will make provision for the settlement of debt.


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