

THE UNITED REPUBLIC OF TANZANIA



MINISTRY OF FINANCE AND PLANNING

REVISED STRATEGY FOR MANAGEMENT OF ARREARS

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ABBREVIATIONS AND ACRONYMS

ACGEN	Accountant General
CB	Commissioner for Budget
CBMS	Centralised Budget Management System
CCS	Control System
CMF	Cash Management Function
DCF	Development Cooperation Framework
IAG	Internal Auditor General
ECAs	Export Credit Agencies
EFDMS	Electronic Fiscal Device Management System
FY	Fiscal Year
GePG	Government e-Payment Gateway System
IFMS	Integrated Financial Management System
MDAs	Ministries, Departments and Agencies
MoFP	Ministry of Finance and Planning
MTEF	Medium Term Expenditure Framework
PFM	Public Finance Management
PMG	Pay Master General
RSs	Regional Secretariats
PEFA	Public Expenditure and Financial Assessment
GoT	Government of Tanzania
TSA	Treasury Single Account

EXECUTIVE SUMMARY

Government expenditure arrears are financial obligations that have been incurred by the Government through its operations that remain unpaid beyond the financial year of occurrence. It excludes unpaid claims aging over 30 days or 90 days for goods and services and construction works, respectively falling within the current financial year. Arrears have continued to be a challenge on government budget management despite of the ongoing Public Financial Management (PFM) reforms to improve the legal and regulatory framework on budget management, financial management, internal controls, accounting system and fiscal reporting. In view of the above, the Government of Tanzania (GoT) through the Ministry of Finance and Planning (MoFP) has decided to review the Arrears Management Strategy dated April, 2018 with a view of formulating a new one so as to enhance arrears management.

The New Arrears Management Strategy covers the following areas: Introduction; Impact of Arrears to the economy; Status of Arrears; root causes of occurrence and accumulation of arrears; measures to be taken to control accumulation of arrears and roadmap to clear existing arrears to a manageable level.

The Arrears Management Strategy provides measures and actions for clearing off the existing stock of arrears and preventing the creation and accumulation of new ones in the short- and medium - term period. Specific interventions focus on strengthening the legal and regulatory framework, enhancing the credibility and realism of the budget, improving accounting and reporting, strengthening commitment controls, improving cash management, enhancing oversight function across public entities, and upgrading of an integrated financial management system.

Further, the strategy provides a roadmap of three years to clear the existing stock of arrears amounting to 3,228.82 billion shillings as of June, 2022 of which verified unpaid arrears is 1,057.64 billion shillings and unverified arrears 2,171.18 billion shillings. It is expected that the revised road map on Arrears Management Strategy will enable the government to pay and prevent accumulation of expenditure arrears to an acceptable level of 2% of annual budget by June, 2026.

1.0 INTRODUCTION

Government expenditure arrears are financial obligations that have been incurred by the Government through its operations that remain unpaid beyond the financial year of occurrence. It excludes unpaid claims aging over 30 days or 90 days for goods and services and construction works, respectively falling within the current financial year. Arrears continues to be a challenge to the government despite the ongoing Public Financial Management (PFM) reforms to improve the legal and regulatory framework on budget management, financial management, internal controls, accounting system and fiscal reporting. In recognition of this challenge, the Ministry of Finance and Planning developed a Strategy for Management of Arrears in 2018. This strategy was a government means to manage arrears in a structured manner and enhancing expenditure controls and budget reliability among others, avoiding the accumulation and creation of new arrears. The strategy focused on arrears generated at Central Government (Ministries, Independent Departments and Agencies and Regional Secretariats). A roadmap to implement the strategy was set within medium term period towards manageable level of arrears.

Despite of the implementation of Arrears Management Strategy of 2018, the Government has continued to experience creation and accumulation of arrears. This has raised concern among stakeholders on the effectiveness of the existing arrears management strategy. In consideration of this concern the Government through, the Ministry of Finance and Planning has decided to review the existing strategy and come up with a new one.

The revised strategy covers status of arrears, causes of occurrence and accumulation of arrears, impact of arrears to the economy, measures to control accumulation of arrears and a roadmap to clear existing stock of arrears.

2.0 IMPACT OF ARREARS TO THE ECONOMY

The creation and accumulation of arrears have negative impacts to the Public and Private Sectors, as well as to the economy as a whole.

2.1 Impact to the Public Sector

- a) Arrears increases the costs of government operations due to penalties on delayed payments. Payment of penalties diverts public funds that could have otherwise been utilized for provision of other public services and hence increase fiscal deficit;
- b) Arrears increases cost of goods and services as suppliers try to mitigate the risks and opportunity cost of delayed payments by adjusting their prices upward which increase government expenditure;
- c) Delayed payment of arrears for ongoing projects may cause contractors to stop or delay construction activities and hence impact negatively on infrastructure development which may lead to increased cost of the projects; and
- d) It may lead to decrease on public investment due to increased borrowing costs from financial Institutions.

2.2 Impact to the Private sector

The private sector is the main provider of services to the Government and to the general public at large. Delayed payments of arrears may result on the followings:

- a) Overdue arrears may reduce the private sector's ability to provide services to the Government and the General Public owing to the impact on their resources being tied-up by the Government in the form of arrears;
- b) Private Sector as an engine of growth may fail to play this vital role as a result of reduced investment due to lack of capital;
- c) Increase non-performing loans in the banking sector due to failure of private sector to service the loans acquired from financial institutions; and
- d) Increase of risk premium by financial institutions due to fear of loans defaulting.

3.0 STATUS OF ARREARS

The trend on annual stock of expenditure arrears from 2018 to end of June 2021 has averaged at 3,895.14 billion shillings being 12% of government expenditure as shown in Table 3.1 below. While the trend of utility arrears shows a decrease over period of four years, arrears on other categories indicates no significant changes.

Table 3.1: Trend on Stock of Arrears from 30th June, 2018 to 30th June, 2021

S/N	CATEGORIES	AS AT 30TH JUNE, 2018	AS AT 30TH JUNE, 2019	AS AT 30TH JUNE, 2020	AS AT 30TH JUNE, 2021	4YEARS AVERAGE
1	GOT Expenditure	31,959,896,076,986	32,475,928,482,418	33,105,409,815,195	34,879,792,957,999	33,105,256,833,150
2	Supplies (Goods & Services)	1,563,251,014,680	2,861,503,067,894	2,653,296,897,977	2,299,840,305,243	2,344,472,821,449
3	Utilities	198,260,485,480	152,858,542,404	193,982,738,047	188,361,381,501	183,365,786,858
4	Construction Works	1,150,392,168,365	1,058,074,210,099	757,437,682,199	1,280,731,968,276	1,061,659,007,235
5	Staff	283,341,416,048	291,216,813,705	329,398,117,241	318,625,784,329	305,645,532,831
Total Arrears		3,195,245,084,572	4,363,652,634,101	3,934,115,435,464	4,087,559,439,349	3,895,143,148,372
% to GoT Exp.		10%	13%	12%	12%	12%

3.1 Status of Arrears as at 30th June, 2021

The unverified arrears as shown by the Accounting Officers in their Financial Statements as at end June 2021 amounted to 4,087,559,439,349.44 shillings. On the other hand, the verified arrears were 439,420,863,360 shillings while unverified arrears was 3,648,138,575,988.91 shillings. The arrears include suppliers and services providers, staff claims and contractual obligations. The breakdown of the arrears by aging is shown on Table 3.2.

Table 3. 2: Status of Arrears as at 30th June, 2021 (aging Analysis)

S/N	CATEGORIES	TOTAL (TZS)	<30 DAYS AMOUNT	> 30 < 60 DAYS AMOUNT	> 60 < 90 DAYS AMOUNT	> 90 < 365 DAYS AMOUNT	> 365 < 2 YEARS AMOUNT	ABOVE 2 YEARS AMOUNT
1	Supplies (goods & services)	2,299,840,305,242.94	75,040,906,974.11	328,127,821,082.25	635,604,468,048.76	91,728,200,992.38	456,617,062,846.96	712,721,845,298.48
2	Utilities	83,342,647,432.34	4,682,490,533.86	7,290,199,116.32	11,153,398,549.65	15,078,137,328.92	27,331,115,472.21	17,807,306,431.37
3	Office Rent	105,018,734,069.07	194,107,895.54	1,329,983,095.59	6,263,725,236.75	6,327,295,564.30	69,699,951,629.16	21,203,670,647.73
4	Construction Works	1,280,731,968,275.86	2,843,179,157.32	65,166,240,990.81	252,773,789,186.36	268,207,540,277.57	426,842,445,782.29	264,898,772,881.51
5	Staff	318,625,784,329.23	6,308,747,324.18	16,267,995,654.52	23,361,336,785.00	13,898,882,911.53	80,215,716,685.37	178,573,104,968.63
	GRAND TOTAL	4,087,559,439,349.44	89,069,431,885.01	418,182,239,939.49	929,156,717,806.52	395,240,057,074.71	1,060,706,292,415.99	1,195,204,700,227.72

3.1.1 Description of Verified Arrears

Verified arrears as at 30th June, 2020, comprised categories of staff claims, suppliers of goods and services, contractors, utilities and others as indicated in table 3.3 below.

Table 3.3: Categories of Verified Arrears as at 30th June, 2020

SN	Category	Amount in Shillings
1	Staff claims	24,257,028,150.16
2	Suppliers	386,109,898,065.10
3	Contractors	69,048,948.50
4	Services Providers	28,984,888,196.33
Total		439,420,863,359.65

3.1.2 Description of Unverified Arrears

As at 30th June, 2020 unverified arrears amounted to **3,648.1** billion shillings. The arrears comprised categories of staff claims, suppliers of goods and services, contractors, utilities and others as indicated in table 3.4 below.

Table 3.4: Categories of Unverified Arrears as at 30th June, 2020

SN.	Category	Amount in Shillings
1	Staff	294,368,756,178.84
2	Suppliers	1,913,730,407,177.90
3	Contractors	1,280,662,919,327.50
4	Utilities	159,376,493,304.67
Total		3,648,138,575,988.91

3.1.3 Trend on Arrears payment

Government has continued to allocate budget to pay verified arrears covering major categories of supplies of goods and services, utilities, construction works and staff claims. As per instruction issued by Paymaster General through circulars, Accounting Officers have responsibility to verify and pay arrears that have not been submitted for verification by IAG.

Therefore, the overall arrears paid by Government in a respective year includes amount verified and paid by Accounting Officers as indicated in table 3.5 below:

Table 3.5: Trend of overall arrears payment from 2017/18 to 2020/21 (Shs)

END OF FY	CATEGORIES	PAID (TREASURY + AOs)
June, 2018	Supplies (goods & services)	165,327,293,777
	Utilities	128,363,581,351
	Construction Works	603,326,038,198
	Staff	136,206,789,291
	Total	1,033,223,702,617
June, 2019	Supplies (goods & services)	370,508,605,100
	Utilities	182,997,652,149
	Construction Works	605,545,395,449
	Staff	201,185,761,359
	Total	1,360,237,414,056
June, 2020	Supplies (goods & services)	519,454,541,806
	Utilities	201,068,143,347
	Construction Works	609,117,992,259
	Staff	267,293,490,809
	Total	1,596,934,168,221
June, 2021	Supplies (goods & services)	606,011,389,420
	Utilities	333,246,931,723
	Construction Works	1,074,663,678,444
	Staff	336,644,069,205
	Total	2,350,566,068,792

3.2 Status of Arrears as at end June 2022

During the period of 1st July 2021 to 30th June, 2022, the arrears paid amounted to 772.87 billion shillings being equivalent to 42 per cent of the cumulative accepted unpaid arrears of 1,830.5 billion shillings.

The stock of unpaid arrears as at 30th June, 2022 was 3,228.82 billion shillings of which unpaid verified arrears amounted to 1,057.64 billion shillings and unverified arrears amounted to 2,171.18 billion shillings. The detail of status of arrears is as shown in table 3.6 below.

Table 3.6: Stock of Arrears as at 30th June, 2022

	Category	Amount in Shillings
1	VERIFIED UNPAID ARREARS AS AT JUNE 30, 2022	1,057,644,886,802.43
2	UNVERIFIED ARREAS AS AT JUNE 30,2022	2,171,179,832,139.57
TOTAL STOCK UNPAID AS AT JUNE 30, 2022		3,228,824,718,942.00

4.0 ROOT CAUSES OF OCCURRENCE AND ACCUMULATION OF ARREARS

Accumulation of arrears can be traced along various stages of the expenditure management cycle. The weaknesses leading to arrears accumulation includes mismatch of expenditure estimates and actual revenue collection, ineffective cash management, lack of commitment controls, delays in processing payments, deferral of payments, or inadequate sanctions for noncompliance. Structural causes of arrears accumulation may include the followings:

4.1 Mismatch of Expenditure Estimates and Actual Revenue Collection

The resource envelope involves tax and non-tax revenue sources, grants and domestic and foreign loans. Availability of financial resources is of important in facilitating execution of Government budget. On other side, revenue projections have been used as a basis for monthly funds allocation. However, monthly actual collections have been persistently below monthly expenditure projections, hence resulting into unhonoured exchequers leading to arrears creation. Therefore, this mismatch between expenditure commitments and revenue realization is primary cause of arrears accumulation.

4.2 Ineffective Cash Management

Cash management is necessary because there is mismatch between the timing of payments and the availability of cash. A well-established Cash Management Unit (CMU) and centralized government cash balances through Treasury Single Account (TSA) are prerequisite for effective Cash Management. Despite the fact that CMU is place the analysis shows that there is still a problem of aligning cash flow forecasting, exchequer releases and cash available for meeting government obligations.

4.3 Ineffective use of Financial Management Information System (FMIS)

FMIS support the automation and integration of public financial management processes from budget formulation to reporting to improve the efficiency and equity of government transparency and accountability. Ineffective use of FMIS allows spending entities to enter into commitments outside the system that may cause generation of arrears.

4.4 Expenditure Allocations and Commitments

Fund allocation to Accounting Officers, as per Section 44 (2) of the Budget Act, Cap 439, is determined by the Annual Cash Flow plan. Monthly revenue projections have been considered when issuing exchequers to spending entities. However, when such revenue projections are not met, this will create arrears as spending entities create expenditure commitments from issued exchequers.

4.5 Multi-Year Commitments

Some projects are executed in multi-year contracts modality and should be considered in the resource envelope during planning and budgeting each year of project implementation. When spending entities do not budget for ongoing multi-year projects, the government may fail to honour accruing certificates on time thus resulting into arrears accumulation at the end of financial year.

4.6 Non-compliance and Enforcement of Financial Laws

Public finance management is not limited to funds mobilisation and allocation but compliance with public finance management legal framework. Budget Act, Cap 439 details the relevant stages of budget formulation, implementation and monitoring of which, when adhered to, arrears creation may be minimised. However, there has been a short fall in enforcement of implementation of the act such as Accounting Officers entering into commitment without taking into consideration budget and cash availability, leading to arrears creation. Although, the act provides for penalties for noncompliance, experience shows that, such penalties have not been implemented.

4.7 Timing of Arrears Verification

Verification of arrears is primarily the responsibility of Accounting Officers. However, due to weaknesses observed on the claims submitted for payment including lack of supporting documents, the GoT decided to centralize verification of arrears through the Internal Auditor General's office. Notwithstanding the importance of arrears verification, the timing of the exercise has been constrained by low capacity in terms of limited number of Internal Auditors to expedite the verification. With the current Audit work load, the IAG takes five (5) months after the closure of the financial year to complete and submit verification report. This results into delays in clearing the arrears which may attract penalties and eventually escalating the stock of arrears.

4.8 Operational Challenges

Managerial and administrative operational challenges contributing to arrears accumulation includes;

- i. Inadequate transparency and accountability on budget management process whereby funds are allocated to non-core functions of the institutions during budget preparations and or funds received are deviated to unintended expenditure,
- ii. Misfunctioning procurement process in terms of timing, pricing, service and goods delivery, invoicing and payment,
- iii. Weakness on mechanism to institute penalties for noncompliance to regulatory framework and procedures including staff travel away from working station, promotion and transfer,

- iv. Weakness on records and data management coupled with minimum use of ICT based systems, and
- v. Delays on processing claims and effecting payment on bills for utilities.

Furthermore, inadequate monitoring and reporting of arrears do weaken fiscal control and reporting both payment and accounting for. Also, inadequate internal control and reporting constraint availability of information for managerial decision on clearing existing arrears. Other operational challenges include insufficient reconciliation and updating of data between Accountant General's Department, Internal Auditor's General Department, Government Budget Division and Accounting Officers. There is also a mismatch of arrears categorization between the Accountant General's Department and Internal Auditor's General Department. These challenges affect prompt decision making as they require reconciliation and harmonization before payments are made.

5.0 CLEARING EXISTING STOCK OF ARREARS

5.1 Arrears Payment Plan

Government will continue to implement administrative measures as outlined in budget speech to raise funds for clearing the stock of arrears amounting to 3,228.82 billion shillings. Plan to pay expenditure arrears will involve annual budget allocation. The segregation of arrears by categories for payment plan is as indicated in table 5.1 below.

Table 5.1: Category of Arrears for Payment as per June, 2022 (shs)

Category of arrears	Amount claimed	Amount paid	Balance	%age Paid
Verified arrears	1,157,258,170,955.49	772,873,201,998.52	384,384,968,956.97	67%
Unverified arrears**	2,125,087,831,309.03	-	2,125,087,831,309.03	0%
Court judgement claims	935,668,909,294.00	588,344,774,581.00	347,324,134,713.00	63%
Contractual arrears	364,970,720,301.00	-	364,970,720,301.00	0%
Medical bills	17,642,659,155.00	10,585,595,493.00	7,057,063,662.00	60%
Sub Total			3,228,824,718,942.00	

** 86% of unverified arrears is projected to be accepted.

The arrears amounting to 3,228.82 billion shillings, of which 851.7 billion shillings is for MDAs and RSs as per June, 2022 will be paid through annual budgetary allocations both at institutional level and centrally. The projected budget allocation by MDAs and RSs to clear arrears is set at 40% in 2022/23, 40% in 2023/24 and 20% in 2024/25 so as to clear their stock of arrears within the proposed road map. Centrally, in 2022/23 annual budget allocation for arrears payment is set at 430.0 billion shillings. From 2023/24 on ward, budget allocation will be increased to a tune of 600.0 billion shillings to pay arrears to be verified annually from the stock of unverified amounting to 2,125.09 billion shillings.

5.2 Proposed Road Map

Government expenditures is projected to grow by 5% from 2022/23 onwards. This provides a strong ground to increase on annual budget allocation for arrears payment to 600.0 billion shillings from 2023/24 onwards.

It is envisaged that, by 2024/25 the existing stock of arrears amounting to 3,228.82 billion shillings will be reduced to 1,598.82 billion shillings being equivalent to 4% of the annual expenditure. The roadmap for arrears clearance plan is as shown in **Table 5.2** below.

Table 5. 2: Proposed Roadmap for Clearance of Existing Arrears

YEARS	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26
GoT Expenditure	37,980,601,000,000	41,063,915,000,000	43,117,110,750,000	45,272,966,287,500	47,536,614,601,875
Existing Arrears*	4,001,697,920,941	3,228,824,718,942	2,798,824,718,942	2,198,824,718,942	1,598,824,718,942
Arrears Paid/ Target	772,873,201,999	430,000,000,000	600,000,000,000	600,000,000,000	600,000,000,000
Stock of Verified Arrears	3,228,824,718,942	2,798,824,718,942	2,198,824,718,942	1,598,824,718,942	998,824,718,942
%age of GoT Expenditure	9%	7%	5%	4%	2%
*Note: Existing Arrears includes verified and unverified.					

According to Public Expenditure and Financial Accountability (PEFA) performance indicator (P1- 22), the acceptable level of stock of arrears to score grade A ranking is 2% of total government expenditure in at least two of the last three completed fiscal years. Taking into consideration of the proposed short and medium-term measures to be taken, the updated roadmap indicates that the baseline stock of 3,228.82 billion shillings will be reduced to 1,598.8 billion shillings equivalent to 4% and 998.8 billion shillings equivalent to 2% of annual budget thus enabling the Government to improve scores on PEFA PI-22 to grade B and grade A by June, 2025 and June 2026 respectively. This strategy put in place measures that includes fast tracking verification and payment plan to clear existing stock of arrears and prevention of creation or accumulation of government expenditure arrears as elaborated in chapter six below.

6.0 MEASURES TO CONTROL ACCUMULATION OF ARREARS

6.1 General Measures

Measures to enhance management of arrears accumulation require compliance to Legislations and their Regulations which include the Public Procurement Act, CAP 410; the Public Finances Act, CAP 348 and the Budget Act No. 11 of 2015. Additionally, annually the Government issues instructions through Plan and Budget Guidelines and Treasury Circulars to Accounting Officers emphasizing on management of arrears. Areas to be strengthened includes priority to:

- i. Clear existing arrears before entering into new commitments;
- ii. Adhere to the Public Finance Management (PFM) Legal Framework regarding role of budget and internal audit committees at each stage of the budget cycle and reporting requirements; and
- iii. Enhance internal capacity to optimize use of Integrated Financial Management System (IFMS) functionality on expenditure management and reporting.

Furthermore, operational challenges have to be addressed to facilitate timely payment within existing legal framework in the following;

- a) Timely payment of staff claims: compensation paid to individuals in the form of wages, salaries, social benefits, and pensions, an arrear is created as soon as the legally or contractually defined date for payment of the obligation has passed.
- b) Improve documentation of claims; Payment to commercial contractors for provision of goods, services, or fixed assets, expenditure is considered to be in arrears when:
 - i. the goods have been delivered, service rendered, or asset created;
 - ii. an invoice has been received;
 - iii. the good, service, or asset has been verified as successfully delivered; and
 - iv. the payment due date on the invoice or the number of days after which an invoice is to be paid in accordance with a law, regulation, payment policy, or local practice has passed.
- c) Improved cash flow planning; Consumption of public utilities, such as electricity, water, and telephone, for which there are general payment procedures applicable to all consumers, an expenditure is considered in arrears once the due

date for regular payment has passed. Other areas to be considered on cash flow planning includes:

- a. Mandatory transfers to statutory funds (such as social security funds) or subnational governments, an expenditure falls into arrears once the due date for payment specified in the law, regulation, or calendar of transfers has passed;
- b. Tax refunds owed to taxpayers, such as value added tax (VAT) rebates or income tax refunds, the obligation becomes an arrear once the refund is due and the deadline for payment has passed; and
- c. Payment of interest or principal on government debt or other liabilities, an expenditure falls into arrears as soon as the scheduled date for payment has passed.

6.2 Short Term Measures

According to analytical review of the previous strategy developed in 2018, specifically on impact, causes, measures taken to control accumulation and the current status of arrears, the government has decided to outline short-term and medium-term strategies for managing arrears as follows:

Short term measure to be taken by the Government includes the following:

- a) Enhance financial management system (MUSE) to be the only system for recording, payment processing, analysing and reporting of arrears;
- b) Enforce sanctions for the non-compliance of fiscal targets, fiscal rules, or budget execution rules;
- c) Enhance capacity building to users of FIMS;
- d) Enforce compliance to treasury circular and Budget Act, Cap 439, Section 44 (2) on management of arrears that prohibit commitment without availability of fund;
- e) Perform monitoring and evaluation to identify multi-practices among accounting officers including compliance with circular and budget Act that prohibit entering into commitment without availability of fund;
- f) Increase financial resources for verification of current stock of arrears so as to enable IAG and other entities to enhance their capacity;
- g) Institute risk-based verification on electronically filled VAT claims for payment on monthly basis. Furthermore, TRA do net-off VAT refund on funds transferred to consolidated fund to enable timely payment.
- h) Institute pre-paid medical services for any medical referral cases.
- i) Decentralize budget allocation for settlement of arrears to spending entities to make them accountable and remove the appetite of creating new arrears;

- j) Improve reporting format of arrears to include opening balance, new arrears and paid arrears; this will enhance trend analysis of arrears; and
- k) Harmonization of arrears categorization to address mismatch of data across government institutions.

6.3 Medium Term Measures

Medium term measures to be taken by the Government include the following:

- a) Strengthening revenue forecasting in order to match necessary expenditure;
- b) Update internal audit work plans to ensure arrears and commitment controls are included;
- c) Prioritize multi-year commitment controls in line with multi-year contracts;
- d) Strengthening Cash Management Function (CMF) for aligning cash flow forecasting, exchequer releases and cash available for meeting government obligations;
- e) Strengthening recording of arrears and payments into electronic system from initiation. Ensure that the FMIS system captures the due date of all payments and can generate reports on all liabilities by age;
- f) Strengthening Financial Management Information System (FIMS) to disallow spending entities entering commitment outside the system; and
- g) Strengthening internal control system and risk management of arrears on spending entities so as to shorten time for verification.

6.4 Monitoring and Quarterly Reporting of Arrears

Reporting structure is proposed as one of the monitoring tools for timely identification of critical issues that need management attention. The quarterly and annual arrears report as part of Budget Execution Report (BER) will include item of opening balance, verified, paid, unverified and closing stock of arrears at end of the reporting period. The reporting structure is as presented in table below;

Table: 6.0 Status of Arrears as at end of Quarter

S#	Item	This Quarter	Cumulative in FY
1	Opening balance		
2	Verified Arrears		
3	Paid Arrears		
4	Unverified Arrears		
5	Closing Stock		

7.0 SPECIFIC INTERVENTION IN NEW ARREARS MANAGEMENT STRATEGY

The new Arrears Management Strategy provides measures and actions to facilitate clearing current stock of arrears while instituting control mechanism on factors leading to creation and accumulation of new arrears. The interventions are geared to address short-term, medium term as well as long term issues such includes strengthening the legal and regulatory framework, enhancing the credibility of the budget, improving accounting and reporting, strengthening commitment controls, improving cash management, enhancing oversight function across public entities, upgrading and integrating financial management systems. Specific difference on intervention proposed in the new strategy as compared to the old one is as shown in table 7.0 below

Table 7.0: Comparative Intervention in New Arrears Management Strategy 2022.

S#	Old Strategy -2018	New Strategy 2022
1	Improve budget estimates by concluding negotiations for borrowing and grants by end of January	<ul style="list-style-type: none"> i) Decentralize budget allocation for settlement of arrears to spending entities to make them accountable and remove the appetite of creating new arrears; ii) Strengthening Cash Management Function (CMF) by aligning cash flow forecasting, exchequer releases and cash available for meeting government obligations.
2	Harmonization and automation of arrears recording and categorization	<ul style="list-style-type: none"> iii) Enhance financial management system (MUSE) to be the only system for recording, payment processing, analysing and reporting of arrears. iv) Harmonization of arrears categorization to address mismatch of data across government institutions. v) Address operational challenges through automation including prepaid arrangement on approved commitment such as utilities, promotion and travel on duty.

S#	Old Strategy -2018	New Strategy 2022
3	CBMS to manage multi-year commitment	vi) Prioritize multi-year commitment controls in line with multi-year contracts.
4	Verification exercises was limited to stock of arrears accumulated up to end of June, 2017	vii) Improve quarterly arrears reporting format to include opening balance, new arrears and paid arrears; this will enhance trend analysis of arrears.
5	Role of Internal Auditor General was to ensure Accounting Officers undertake proper verification before payment is made from their budget allocation.	viii) Increase financial resources for verification of current stock of arrears so as to enable IAG and other entities to enhance their capacity. ix) Perform monitoring and evaluation to identify multi-practices among accounting officers including compliance with circular and budget Act that prohibit entering into commitment without availability of fund.
6	Enhance management of commercially viable government parastatals to reduce dependency on subventions overtime.	x) Strengthening internal control system and risk management of arrears on spending entities so as to shorten time for verification.
7	VAT Refund verification was done on hardcopies, fund requested and exchequer released to TRA for payment.	xi) Institute risk-based verification on electronically filled VAT claims for payment on monthly basis. Furthermore, TRA do net-off VAT refund on funds transferred to consolidated fund to enable timely payments.
8	Medical bills invoices were submitted post services for patients approved for referral medical services to pre-contracted overseas Hospitals.	xii) Institute pre-paid medical services for any medical referral cases.

8.0 **CONCLUSION**

Government has reviewed the 2018 Arrears management Strategy and developed a new one which bring on board concrete actions to address root courses, fiscal risk associated with budget execution and provides a revised road map towards achieving sound scores as per PEFA Performance Indicators by 2025/26. The strategy is a living document to guide both government officials and all other stakeholders in public resource management towards achieving national policy objective on economic growth.