

Prevention and Management of Government Expenditure Arrears

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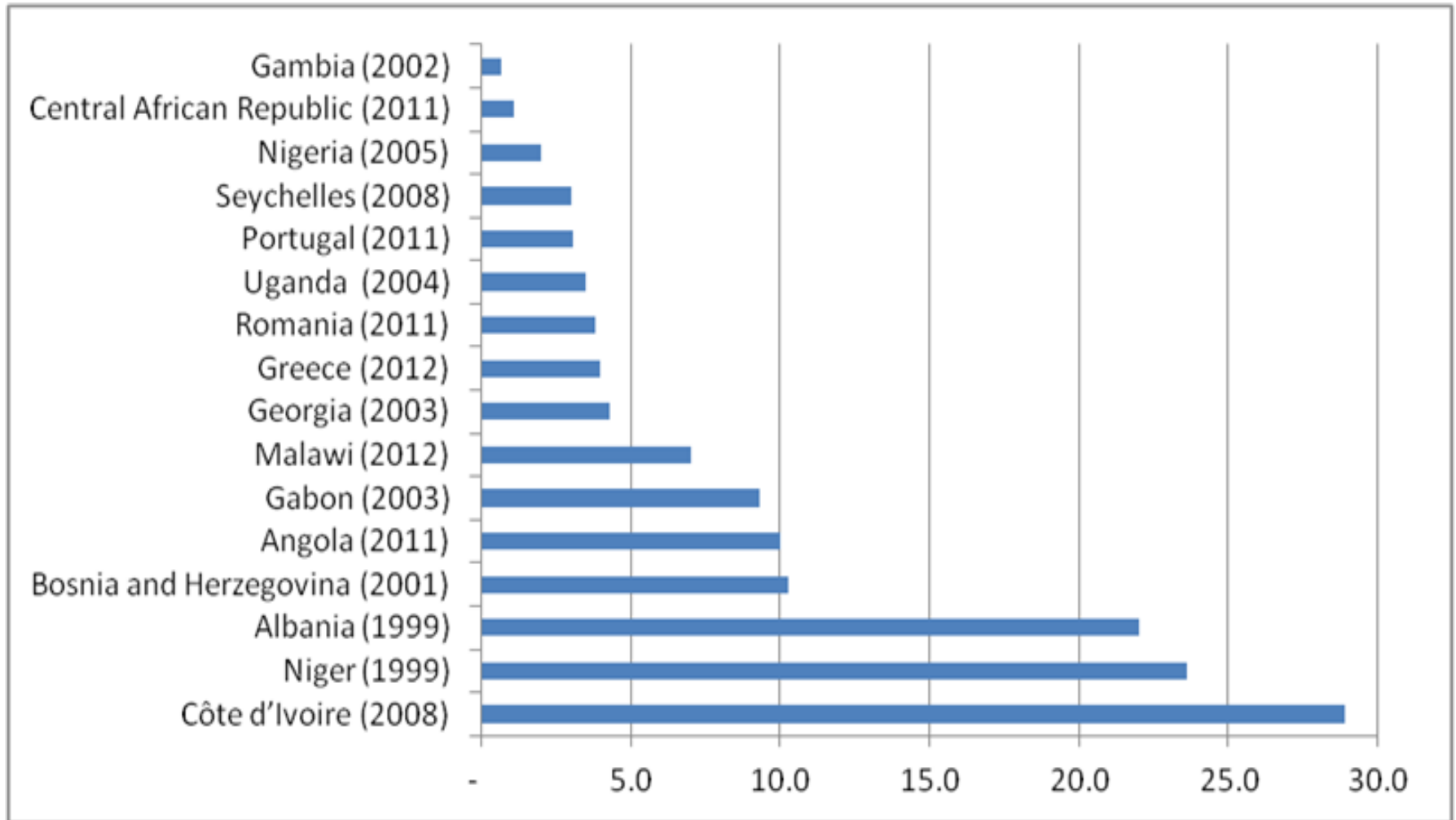
- **Definition and typology of expenditure arrears**
- **Economic impact of chronic expenditure arrears accumulation**
- **Underlying causes of expenditure arrears**
- **Mechanisms for preventing and controlling expenditure arrears**
- **Strategies for managing and clearing expenditure arrears**

Definition: Expenditure Arrears

Government expenditure arrears are financial obligations that have been incurred by any level of the public sector for which payments have not been made by the due date

Stock of Arrears in selected countries

Arrears as % of GDP

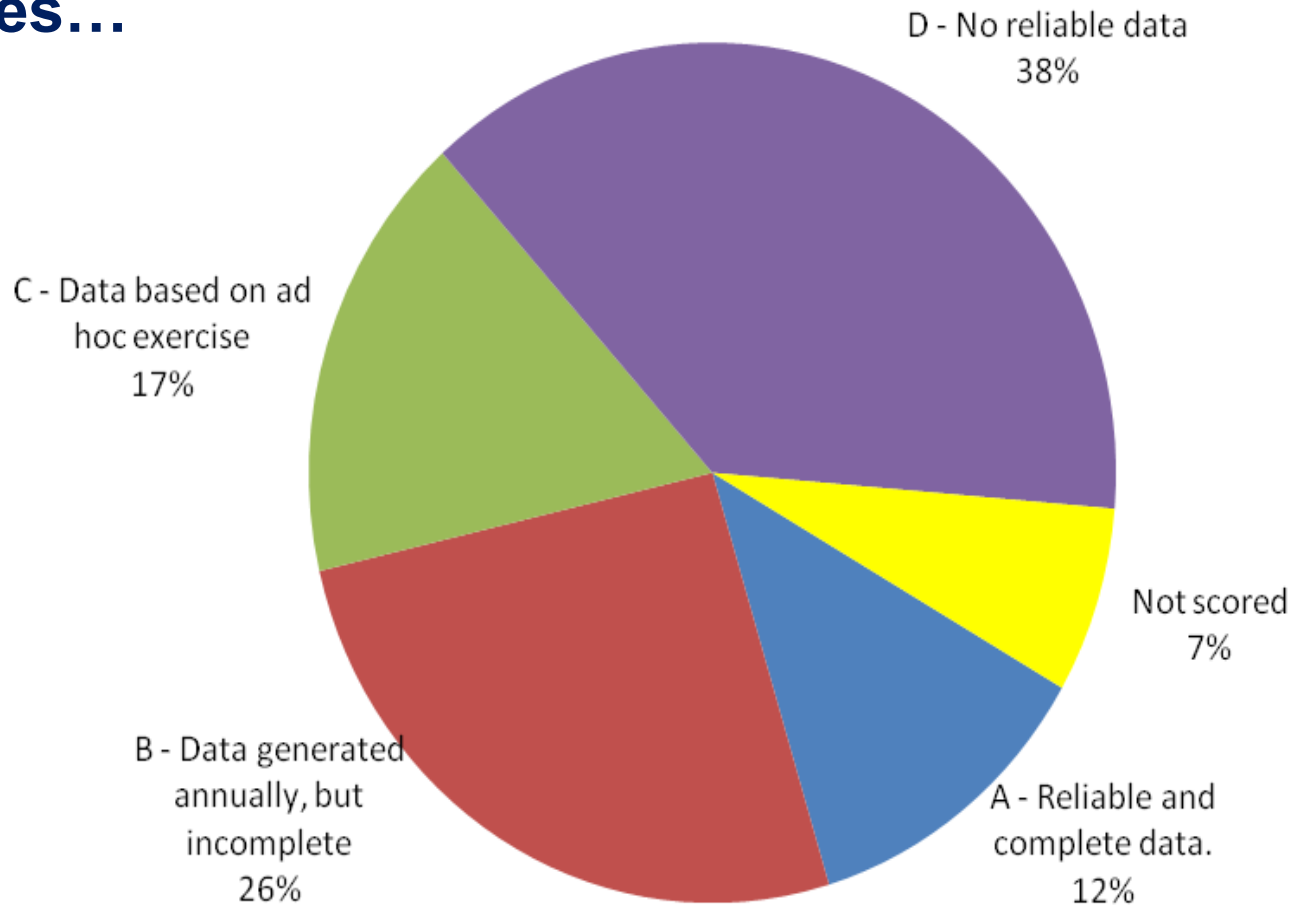


Economic Impact of Arrears

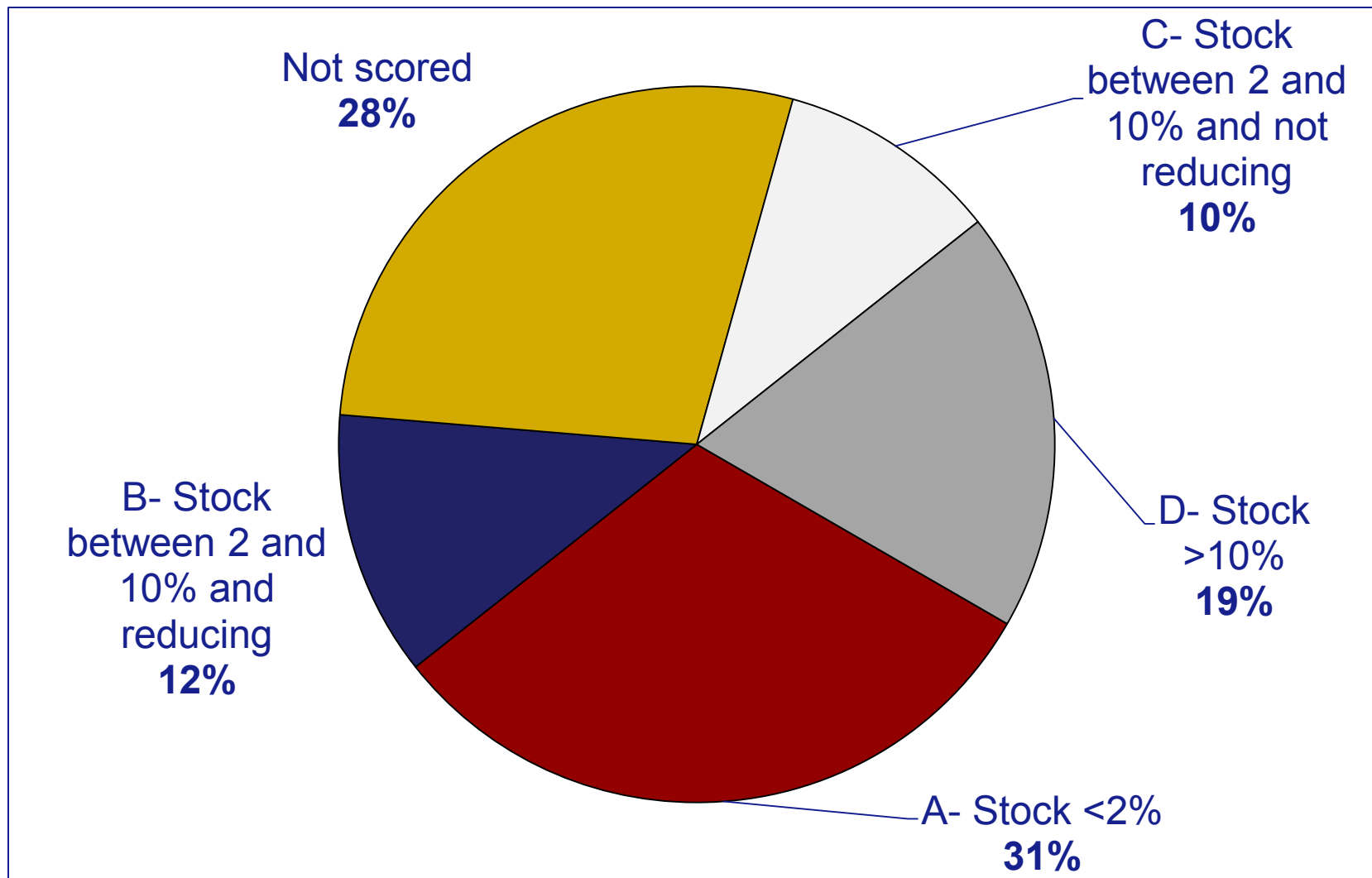
- **Increased cost of service provision** - Government suppliers mitigate risks and opportunity cost of delayed payments by adjusting their initial prices upward.
- **Reduced or interrupted public service delivery** - As the cost of supplies rise, governments with limited resources may be forced to reduce the amount of supplies purchased and/or the volume of service provided. Suppliers themselves may require that government pay for goods and services in advance, that quantities supplied be limited, or that delivery of further supplies or services be made dependent on the payment of outstanding amounts.
- **Increased rent-seeking** - Chronic payment delays also increase the incentives for rent-seeking and collusion between government and suppliers, as the latter seek to accelerate payment or circumvent expenditure control procedures.

Availability of Information on Arrears

PEFA scores for 121 countries...



PEFA-Stock of Arrears as % total expenditure



Typical due date for payment

Governments are good in collecting taxes, but not that good in paying their obligations!

30 days	Afghanistan, Australia, Botswana, Brazil, Dominican Republic, Ethiopia, EU member countries, Grenada, Jamaica, Kosovo, Malawi, Moldova, Seychelles, South Africa, Trinidad and Tobago, Tunisia, Vanuatu
45 days	Costa Rica, Haiti, Lesotho
60 days	Cape Verde, Central African Republic, Guatemala, São Tomé and Príncipe
90 days	Angola, Benin, Burkina Faso, Cambodia, Ghana, Mali, Mauritania, Morocco, Portugal, Senegal
120 days	Niger
Not defined	Albania, Armenia, Bangladesh, Bolivia, Burundi, Cook Islands, Côte d'Ivoire, El Salvador, Gabon, Georgia, Ghana, Guinea Bissau, Haiti, Honduras, India, Lao People's Democratic Republic, Macedonia, former Yugoslav Republic of Macedonia, Madagascar, Mauritius, Mozambique, Myanmar, Nepal, Peru, Philippines, Republic of Congo, Samoa, Republic of Serbia, Sierra Leone, South Sudan, Sudan, Swaziland, Tajikistan, Timor Leste, Tonga, Uganda, Ukraine, and Yemen

Main Causes of Arrears

Stage

Budget
Formulation

- Unrealistic Budgets
- In year variations
- Inadequate provision for multi year commitments

Commitment

- Incomplete coverage
- Weak cash management – monthly cash limits

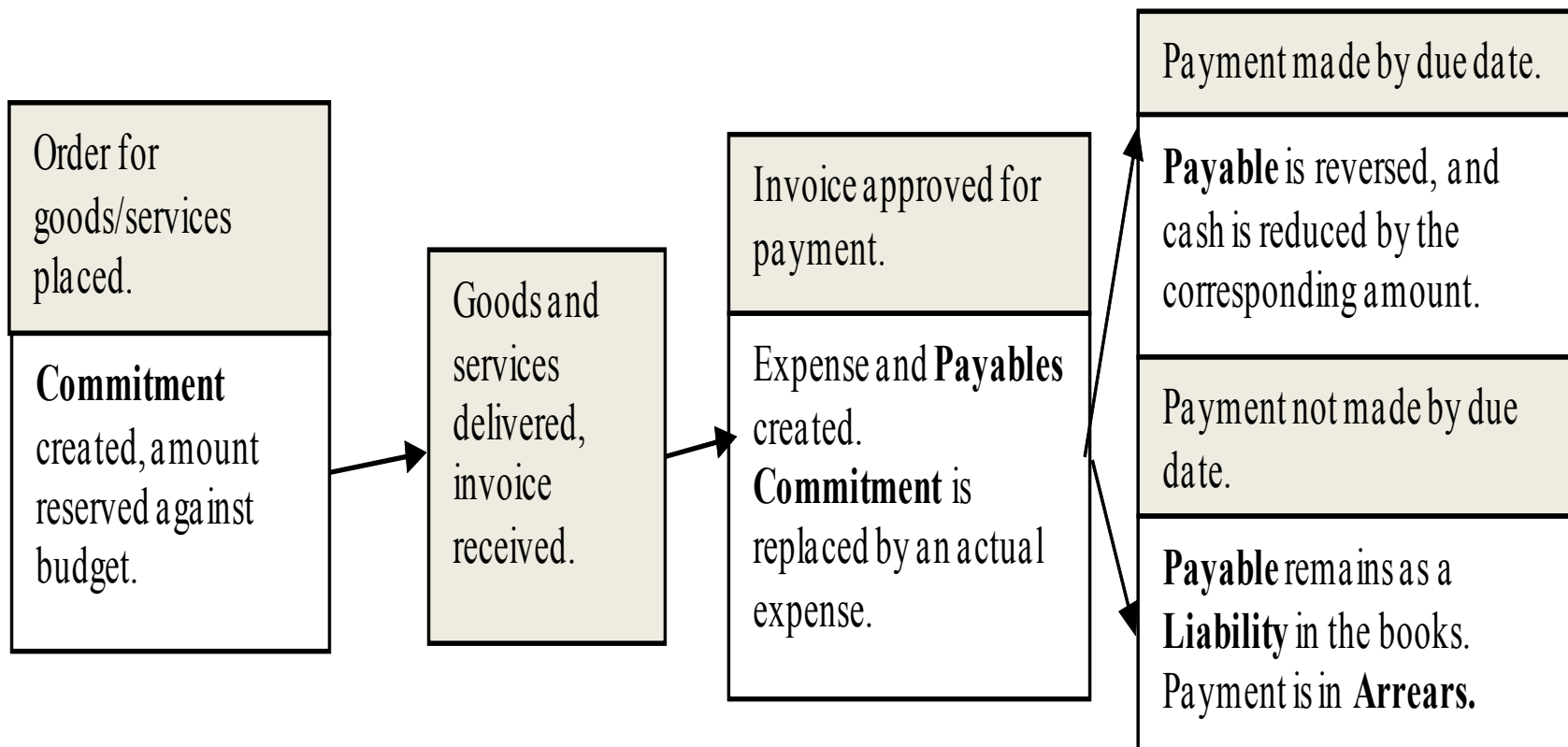
Verification

- Failure to register invoices
- Collusion with suppliers

Payment

- Selective payments
- Administrative delays

Government Expenditure Chain



Relationship between Stocks of Arrears and Commitment Controls

Effective commitment controls lead to lower arrears!

Indicator	PI 20 - (i) Effectiveness of expenditure commitment controls.				
	A	B	C	D	
PI 4 - (i) Stock of expenditure payment arrears (as a % of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.	A	Armenia (2008), Azerbaijan (2008), Brazil (2009), Costa Rica (2010), Ethiopia (2010), Mauritius (2011), Morocco (2009), Norway (2008), Peru (2009), South Africa (2008), Timor Leste (2010), Tonga (2010), Tunisia (2010), Ukraine (2011)	Belarus (2009), Burkina Faso (2010), Cape Verde (2008), Honduras (2009), Indonesia (2011), Kazakhstan (2009), Kosovo (2009), Moldova (2008), Mozambique (2011), Niue (2011), St. Vincent and Grenadines (2006), Thailand (2009), Trinidad & Tobago (2008), Vanuatu (2009)	Benin (2007), Burundi (2009), Cambodia (2010), Dominican Republic (2012), Georgia (2008), Mauritania (2008), Seychelles (2011), Tajikistan (2012)	Maldives (2009), Tuvalu (2007)
	B	Dominica (2010), El Salvador (2009), Mali (2010), Rwanda (2010), Serbia (2010), Zimbabwe (2011)	Madagascar (2008)	Ecuador (2010), Kenya (2009), Russian Federation (2007), Sao Tome and Principe (2010), Senegal (2011)	Lao PDR (2010), Turkey (2009)
	C		Afghanistan (2008), Colombia (2009), St. Lucia (2010), Tanzania (2010)	Chad (2008), Guinea (2007), Haiti (2008), Nepal (2008), Paraguay (2011), Philippines (2010)	Grenada (2010)
	D	Kuwait (2010)	Cameroon (2008), Liberia (2009), Nauru (2010), Niger (2008), Sierra Leone (2010)	Central African Rep. (2010), Cote d'Ivoire (2008), Guatemala (2010), Guinea Bissau (2009), Lebanon (2011), South Sudan (2011), Sudan (2010), Togo (2009), Zambia (2008)	Antigua & Barbuda (2010), Belize (2009), Comoros (2008), Republic of Congo (2006), Ghana (2010), Kyrgyzstan (2009), West Bank and Gaza (2007)

Prevention and Control of Arrears

Strategies to deal with arrears should be tailored to specific circumstances

- **Strengthening legal and regulatory framework**
 - Definitions, sanctions
 - Expenditure controls
 - Reporting
- **Enhancing credibility and realism of the budget**
 - Check that costs are estimated adequately
 - Ensure that risks to the budget are adequately estimated and provided for, using contingency reserves
 - Ensure that outstanding commitments of multi-year investment projects are included in the budget and outer-year forecasts
 - Provide ministries and agencies with greater medium-term certainty

Prevention and Control of Arrears

- **Improving accounting and reporting**
 - Coverage
 - Scope
- **Strengthen commitment controls**
 - FMIS controls, procurement order controls, manual ledgers
- **Improve cash and debt management**
 - Forecasting, short-term borrowing
- **Enhance oversight of subnational governments and state-owned enterprises**
- **Upgrade government financial management information systems**
- **Implement other technological solutions**
 - Prepaid utilities, meters, central purchasing etc

Clearance of Expenditure Arrears

- **Take stock**
- **Verify/audit claims**
 - Identify unpaid invoices
 - Verify and validate claims
 - Classify arrears (vintage, debtor, creditor, economic category, risk, etc.)
 - Assess appeals
 - Reject/accept claims
- **Prioritize payments transparently**
- **Liquidate (payment, debt, securitization)**

Where you can find the TNM on Arrears

blog-pfm.imf.org/.../prevention-and-management-of-government-expenditure-arrears.html