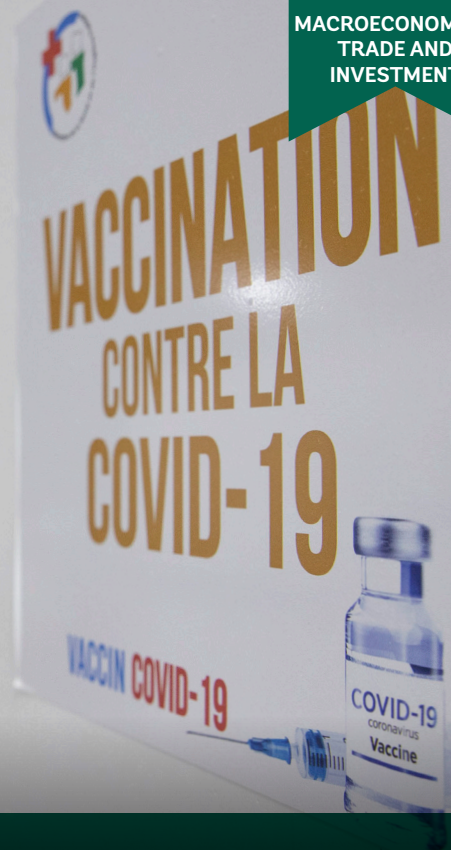




MACROECONOMICS,
TRADE AND
INVESTMENT



MACROECONOMICS, TRADE AND INVESTMENT

EQUITABLE GROWTH, FINANCE & INSTITUTIONS INSIGHT

Government Expenditure Arrears Accumulation During the COVID-19 Period An Update

Eric Lacey
Joseph Massad
Massimo Mastruzzi
Robert Utz



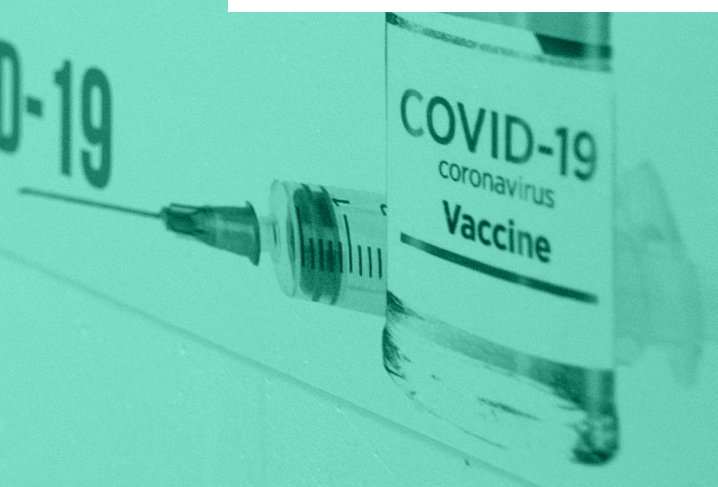
ABSTRACT

Economic shocks and crises typically lead to a sharp increase in government expenditure arrears with corrosive effects on the economy.

In order to assess the evolution of government expenditure arrears during the COVID-19 crisis, the World Bank collected information on public expenditure arrears in client countries in June 2020. The results of this initial data collection exercise are reported in an MTI Insight Note (An Overview of the Potential Impact of the COVID-19 Crisis on the Accumulation of Government Expenditure Arrears), which also discusses the definition of government expenditure arrears, measurement and reporting issues, the main drivers and economic consequences of arrears accumulation, and options for preventing and managing arrears accumulation. This note presents an update based on information available by February 2021.

VACCINATION
CONTRE
COVID-19

VACCIN COVID-19



Some rights reserved.

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Nothing herein shall constitute or be considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.

Rights and Permissions



This work is available under the Creative Commons Attribution 3.0 IGO license (CC BY 3.0 IGO), <http://creativecommons.org/licenses/by/3.0/igo>. Under the Creative Commons Attribution license, you are free to copy, distribute, transmit, and adapt this work, including for commercial purposes, under the following conditions:

Attribution—Please cite the work as follows: World Bank. 2021. “Government Expenditure Arrears During the COVID-19 Period - An Update” MTI Insight. World Bank, Washington, DC. License: Creative Commons Attribution CC BY 3.0 IGO.

Translations—If you create a translation of this work, please add the following disclaimer along with the attribution: *This translation was not created by The World Bank and should not be considered an official World Bank translation. The World Bank shall not be liable for any content or error in this translation.*

Adaptations—If you create an adaptation of this work, please add the following disclaimer along with the attribution: *This is an adaptation of an original work by The World Bank. Views and opinions expressed in the adaptation are the sole responsibility of the author or authors of the adaptation and are not endorsed by The World Bank.*

Third-party content—The World Bank does not necessarily own each component of the content contained within the work. The World Bank therefore does not warrant that the use of any third-party-owned individual component or part contained in the work will not infringe on the rights of those third parties. The risk of claims resulting from such infringement rests solely with you. If you wish to reuse a component of the work, it is your responsibility to determine whether permission is needed for that reuse and to obtain permission from the copyright owner. Examples of components can include, but are not limited to, tables, figures, or images.

All queries on rights and licenses should be addressed to World Bank Publications, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; e-mail: pubrights@worldbank.org.



Contents

1. Introduction	7
1.1. Description of Data Collection Exercise	8
1.2. Summary of Results	9
2. Conclusions	11
3. Appendix 1: Country Information	12
3.1. East Asia and the Pacific	12
3.2. Europe and Central Asia	14
3.3. Latin America and the Caribbean	16
3.4. Middle East and North Africa	18
3.5. South Asia	19
3.6. Sub-Saharan Africa	20
4. Appendix 2: Template for the Collection of Information on Government Expenditure Arrears	24
5. Appendix 3: Countries for Which Information on Government Expenditure Arrears has been Received	25

MTI INSIGHT

10.





Government Expenditure Arrears Accumulation During the COVID-19 Period - An Update

>> INTRODUCTION¹

Economic shocks and crises typically lead to a sharp increase in government expenditure arrears with corrosive effects on the economy. In order to assess the evolution of government expenditure arrears during the COVID-19 crisis, the World Bank collected information on public expenditure arrears in client countries in June 2020. The results of this initial data collection exercise are reported in an MTI Insight Note ([An Overview of the Potential Impact of the COVID-19 Crisis on the Accumulation of Government Expenditure Arrears](#)), which also discusses the definition of government expenditure arrears, measurement and reporting issues, the main drivers and economic consequences of arrears accumulation, and options for preventing and managing arrears accumulation. This note presents an update based on information available by February 2021.

The main objective of the government expenditure arrears monitoring exercise is to identify broad global trends in the accumulation of government expenditure arrears due to the COVID-19 pandemic in EMDEs and thus help identify potential systemic economic and governance risks associated with the accumulation of arrears. Another objective of the exercise is to raise awareness among World Bank country economists of the need to closely monitor government expenditure arrears in an environment where fiscal pressures are high and to lay the foundations for a more systematic approach to the monitoring of government expenditure arrears and assistance to strengthen government systems for monitoring and reporting of government expenditure arrears.

1. The note was prepared under the supervision of Chiara Bronchi (Practice Manager, MTI) and draws on inputs from country teams which are gratefully acknowledged. Ana Bellver, Jasmine Chakeri, Doerte Doemeland, Sandra Hlivnjak, Tetiana Kovalchuk, Sandeep Mahajan, Rita Ramalho, and Signe Zeikate, provided helpful feedback on the draft note.

>>> DESCRIPTION OF DATA COLLECTION EXERCISE

The present note summarizes the results of a second round of the data collection exercise which took place in February 2021. World Bank country economists were again requested to complete a standardized data template (Annex 2). During the second round, information for 61 countries was obtained, compared to 37 countries during the first round (Table 1). Of the 61 countries, only 34 countries provided sufficiently recent information to allow an assessment of developments during the COVID-19 crisis.

Data are drawn from government publications and statements. However, since the objective of the exercise is to collect recent information that reflects the impact of the COVID-19 pandemic, arrears data have typically not yet been audited or undergone a verification process. Given that definitions of when accounts payable become arrears are country specific and that country systems for monitoring and reporting of arrears are often weak, the information presented needs to be interpreted with care and can at best be considered as providing a preliminary indication on the likely impact of the pandemic on the accumulation of government expenditure arrears.

In the following, we discuss trends emerging from the quantitative information obtained for the 34 countries in more detail. An annex provides more detailed country information by region, including qualitative information provided by country economists covering all 61 countries.

> > >

TABLE 1 - Summary Information on Data Collection Exercise

REGION	# OF COUNTRIES THAT RESPONDED DURING FIRST ROUND	# OF COUNTRIES THAT RESPONDED DURING SECOND ROUND	# OF COUNTRIES WITH INFORMATION ON ARREARS (BASED ON 1ST AND 2ND ROUND REPORTING) BEFORE AND DURING THE COVID-19 PERIOD	# OF COUNTRIES THAT SAW INCREASE IN ARREARS DURING THE COVID-19 PERIOD	# OF COUNTRIES THAT SAW DECREASE IN ARREARS DURING THE COVID-19 PERIOD	# OF COUNTRIES THAT HAD NO CHANGE IN ARREARS DURING COVID-19 PERIOD
EAP	4	11	2	1	0	1
ECA	1	12	11	6	2	3
LAC	11	10	7	3	2	2
MENA	5	5	1	1	0	0
SAR	0	8	1	1	0	0
SSA	16	15	12	3	5	4
Total	37	61	34	15	9	10

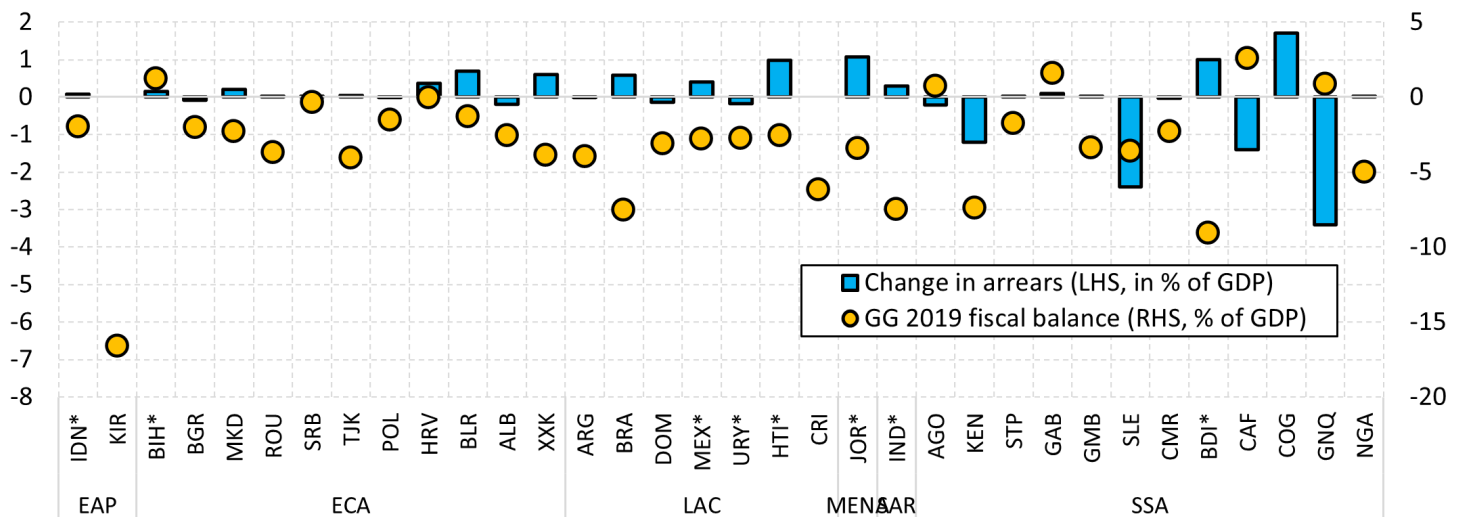
Source: Information provided by World Bank country economists

>>> SUMMARY OF RESULTS

Overall, the information collected so far does not show a significant or widespread increase in arrears during the pandemic. Nineteen of thirty-four countries (56%) reporting recent changes in arrears levels reported either no change or a decrease in levels, and some decreases were significant. Figure 1 below shows decreases of greater than 1% of GDP in Kenya, Sierra Leone, Central African Republic, and Equatorial Guinea. However, monitoring and reporting of government expenditure arrears is typically weak and information often surfaces only with significant delays, if at all. However, it is important to note that a large number of countries did not have up-to-date information on government expenditure arrears. Together with the preliminary nature of data for countries that published some information on government expenditure arrears, this leaves the possibility that as more governments are able to publish more comprehensive information on public expenditure arrears, the impact of the COVID-19 related fiscal pressures on the accumulation of arrears may be larger than what is visible from current data. For example, Sierra Leone and Liberia accumulated substantial arrears during the Ebola Pandemic (2014-2016), while arrears stock taking took place a few years after the pandemic and was conducted through a separate data call outside the regular budget reporting.

> > >

FIGURE 1 - Change in Arrears Levels During the Pandemic



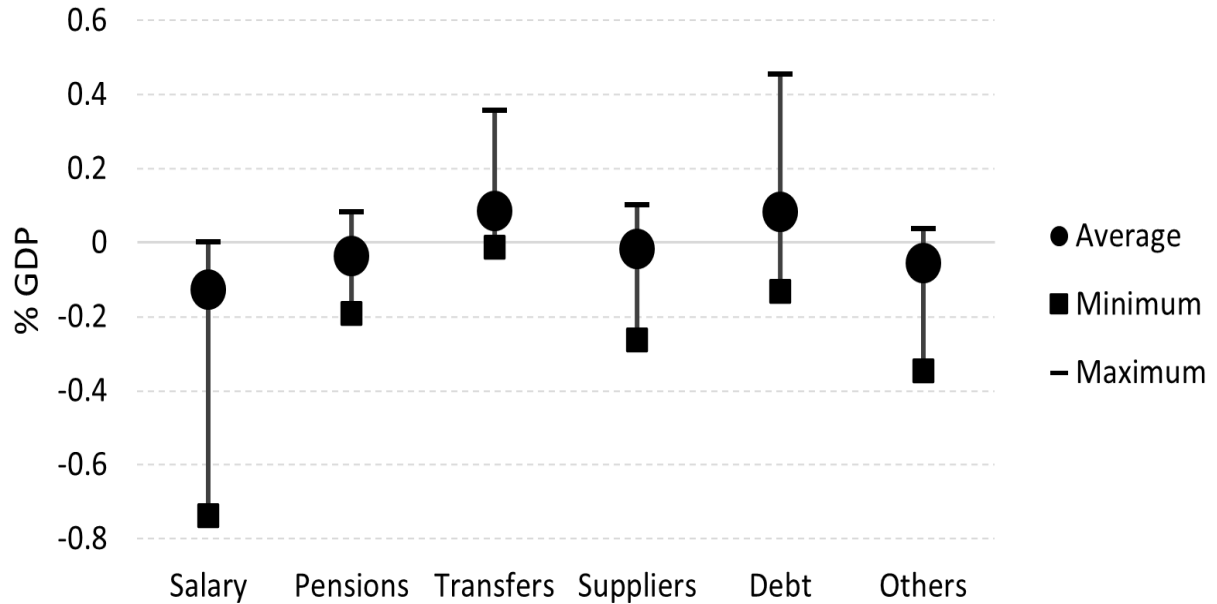
Note: Dates for pre and post covid vary. Change in arrears data returned for 34 countries. GG refers to General Government. 2019 fiscal data are used to estimate relative size of arrears for each country and therefore how problematic arrears are.

*Arrears figures are for a subcategory of arrears (salaries, pension, transfers, etc.).

Sources: WB BOOST Staff Calculations based on WB Country Economist Data/emails and IMF WEO October 2019 Vintage.

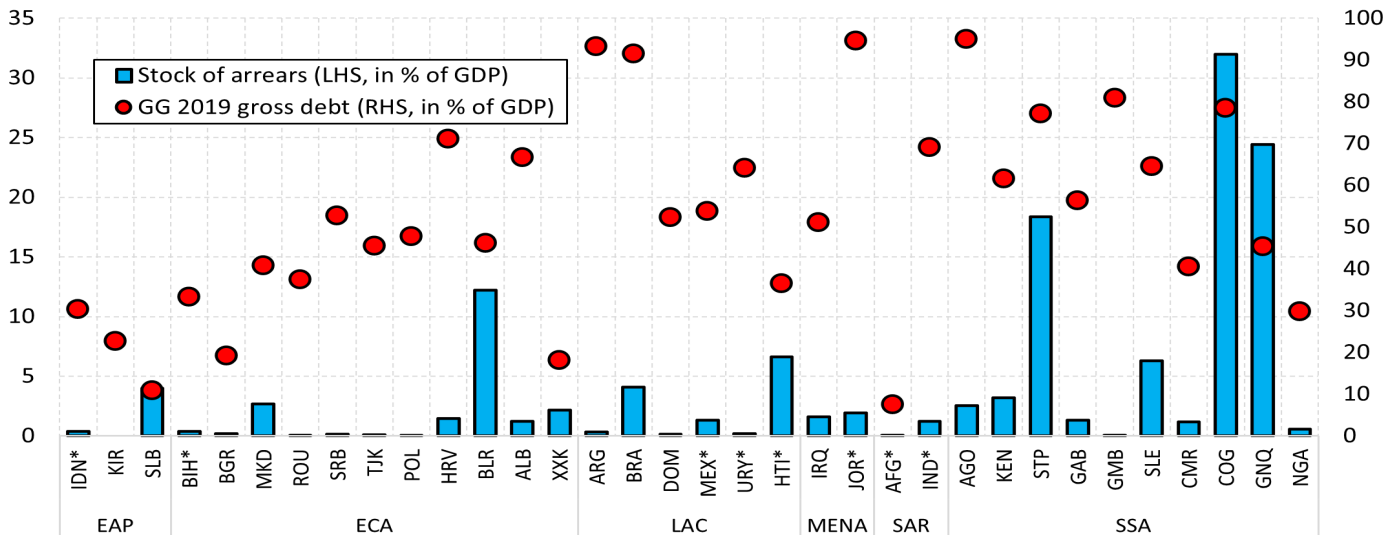
Nonetheless, arrears crept upwards in fifteen countries. For most countries, disaggregated data are not available on changes in arrears, although country teams suggest a large share of the increase in unpaid liabilities is owed to suppliers. Figure 2 shows data for the seven countries which reported disaggregated arrears data during 2020. Among reporting countries, the subcategories under which arrears appear to have accumulated the most are transfers and debt, although this sample is not representative. The pandemic and was conducted through a separate data call outside the regular budget reporting.

FIGURE 2 - Change in Arrears Levels During the Pandemic, Disaggregation



Stocks of government expenditure arrears remain elevated in some countries. Sao Tome and Principe, the Republic of Congo, and Equatorial Guinea have levels above 15% of GDP (Figure 3). Even countries with comparatively lower levels of arrears struggle with debt more broadly. Some countries which are not depicted below do not have an estimate of their arrears stocks, but anecdotal evidence suggests levels may be high.

FIGURE 3 - Arrears Stocks During the Pandemic



Note: Latest dates for stock vary (Dec-20, Jun-20, Mar-20), but all are during the pandemic.

Stock of arrears data returned for 34 countries. GG refers to General Government. 2019 fiscal data are used to estimate relative size of arrears for each country and therefore how problematic arrears are. Net debt data not available for most countries. Gross debt is used instead. *Arrears figures are only for a subcategory of arrears (salaries, pension, transfers, etc.). Sources: WB BOOST Staff Calculations based on WB Country Economist Data/emails and IMF WEO October 2019 Vintage.

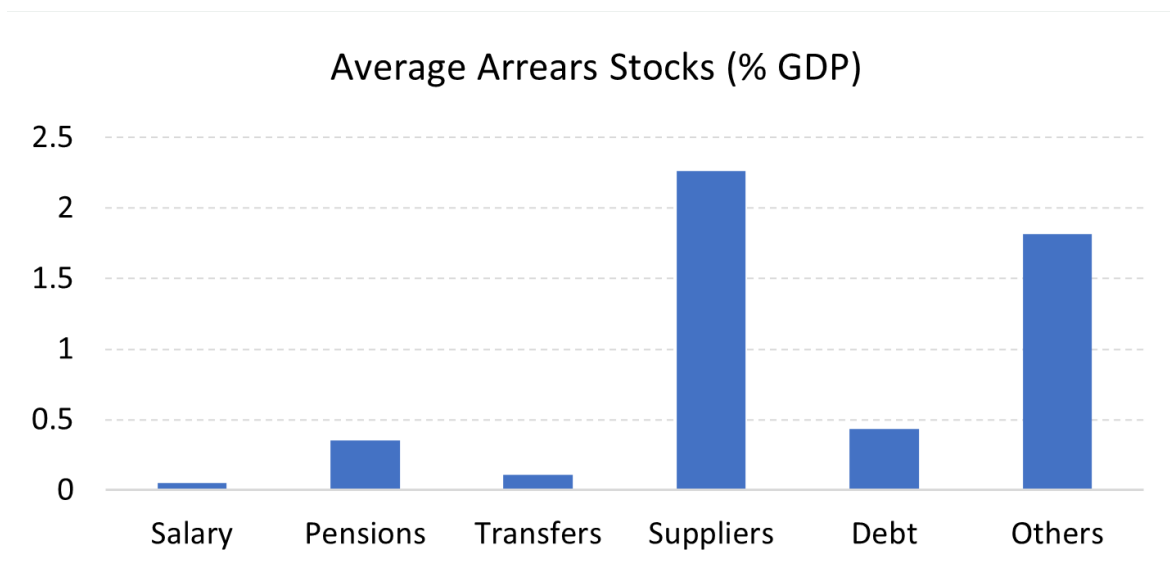
*Arrears figures are only for a subcategory of arrears (salaries, pension, transfers, etc.).

Sources: WB BOOST Staff Calculations based on WB Country Economist Data/emails and IMF WEO October 2019 Vintage.

For the 17 countries which reported disaggregated stocks of arrears during the pandemic, it appears the highest share of unpaid liabilities is owed to suppliers (Figure 4). The “others” category commonly captures capital spending, as well as other unspecific subcategories of arrears.

> > >

FIGURE 4 - Arrears Stocks During the Pandemic, Disaggregated



Source: Information provided by World Bank country economists

>> CONCLUSIONS

Government expenditure arrears remain significant in many countries, but the “expected” widespread and significant increase in government expenditure arrears during the COVID-19 crisis is not yet visible. Given the time-lags between fiscal pressures and the emergence of arrears as well as delays in the reporting of government arrears, we would have expected to see more arrears accumulation during the second round survey, which was done about a year after the start of the COVID-19 crisis, compared to the first survey, which was done only a few months into the crisis. Aside from the obvious interpretation that the crisis has not resulted in widespread accumulation of government expenditure arrears, there is always the possibility that arrears still remain hidden due to weaknesses in monitoring and reporting spelt out in our earlier paper.

The data collection exercise was hampered by the lack of regular and standardized reporting on arrears by many governments. We plan to undertake another data collection exercise around September 2021, which will not only benefit from more time since the outbreak of the COVID-19 crisis, but also from greater sensitization of country economists to the monitoring of government expenditure arrears.

>> APPENDIX 1: COUNTRY INFORMATION

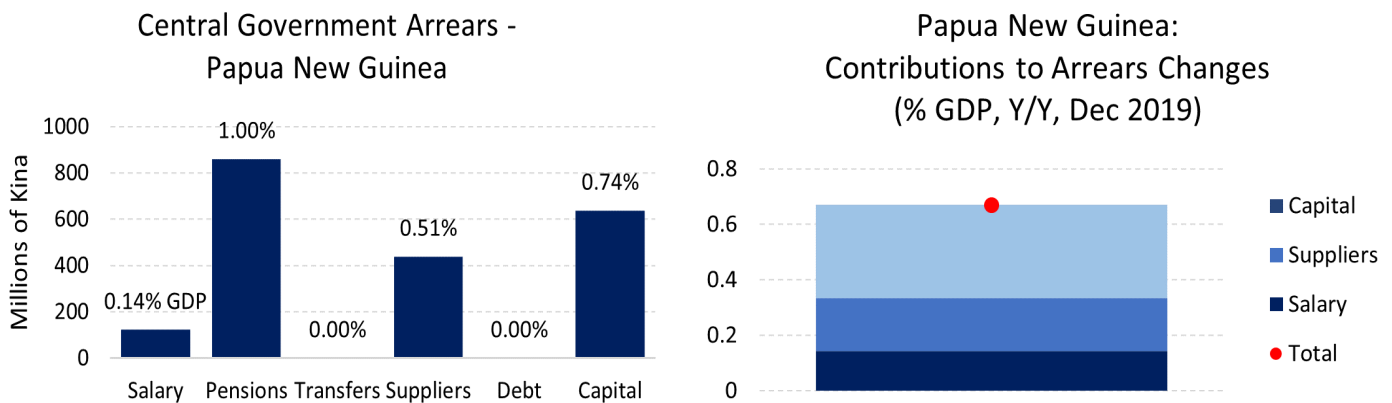
This annex presents qualitative information provided by country economists during the second round of the government expenditure arrears information gathering exercise. It complements quantitative information provided and presented in this report and provides commentary on the evolution of arrears and government reporting on arrears.

>>> EAST ASIA & THE PACIFIC

Indonesia's unpaid liabilities totaled 60.4 trillion rupiah (0.39% of GDP) in June of 2020, up from 47.8 trillion rupiah in December of 2019. This figure covers a tiered electricity subsidy that started in April 2020 and was extended to March 2021, in addition to standing price compensation to two SOEs, which occurs when the estimated market price for electricity and fuel is higher than the regulated retail price. Government Regulation No. 45/2013 requires the line ministries to settle any billing rights or invoices no later than 30 calendar days from the day the complete billing proofs are received, or otherwise the government can be penalized for the delays in the payment of its obligations. To account for this, Indonesia has classified these arrears as expenditures with delays. The implementation of a full accrual accounting system since 2015 requires the recording of arrears under Accounts Payable. All expenditure arrears in the form of third-party liabilities are classified as short-term liabilities that need to be paid in less than one year. Historically, the expenditure arrears have been cleared within the regulated timeframe. However, the Financial Report does not disaggregate expenditure arrears by economic category (there is only a disaggregation by line ministries).

Malaysia reports no arrears of any kind as of 2019.

Papua New Guinea reported arrears accumulation over two billion kina in 2019, or 2.4% of GDP. This includes an increase of over one half billion kina (0.7% of GDP) in 2019. Most of the increase is attributable to capital and supplier arrears, while most of the stocks are unpaid pensions originally due before 2019.



According to Micronesia's latest PEFA assessment: "outstanding payments are treated as payables under current liabilities. However, at present, the Department of Finance and Administration does not collect comprehensive data on the age of outstanding payments. The FMIS includes information on outstanding invoices (accounts payable), measured currently from the date that the invoice is received for payment by the Department of Finance. While the system is configured to enable payables to be tracked potentially for periods of 30, 60, 90 and 120 days after receipt, this feature is not used systematically, and, in practice, an analysis of such data generated by the system showed that the information has significant gaps and is thus non-comprehensive."

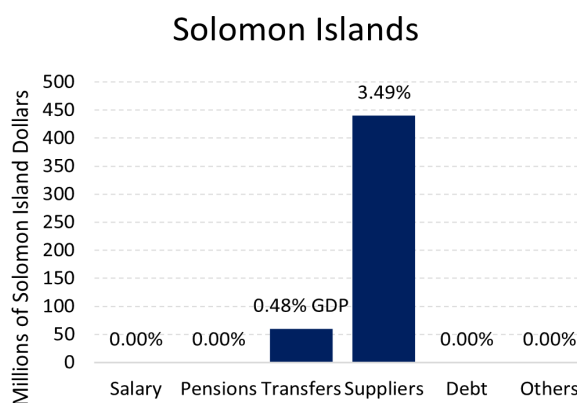
According to the 2021 budget, Kiribati reports no arrears of any kind as of November 2020.

According to the latest PEFA assessment in the Marshall Islands: “Under RMI’s accruals system, outstanding payments are treated as payables under current liabilities. However, The Ministry of Finance (MoF) does not collect data on the age of outstanding payments. While the MoF includes in the Appropriation Act an expenditure line for the settlement of prior-year liabilities, this allocation represents a flow (i.e. as opposed to a stock) item, and, in the absence of data on the proportion that it represents of the total stock of arrears, it is not possible to calculate the stock of arrears. Thus, there are no reliable data for monitoring the stock of expenditure payment arrears.”

According to the latest PEFA assessment in Tonga: “There are no available data on the value of arrears as Treasury systems do not capture accounts payable when goods and invoice are received and, as such, data on the value and age profile of arrears are not reported.”

The Philippines was able to decrease its stock of arrears between 2018 and 2019 by 14 billion pesos (0.08% of GDP) to about 450 billion pesos (2.5% of GDP). Unpaid arrears are partly the responsibility of the central government (0.92% of GDP), local government (0.45% of GDP), and government-owned corporations (1.13% of GDP). The Philippines Public Expenditure and Financial Accountability (PEFA) report in 2016 identified the Accounts Payable item in the government’s financial statements as an indicator for Stock of Expenditure Arrears. These payables pertain to accounts that have been outstanding for over two years with no actual claims, administrative or judicial, being filed against them or are not covered by contracts which, under Section 98 of Presidential Decree 1445 of the Government Auditing Code of the Philippines, should be reversed. However, according to the PEFA report, true arrears may only be a part of this total amount.

By the end of 2020, the Solomon Islands had accumulated SBD 500 million (4% of GDP) in arrears. The 60 million dollars in transfers (see adjacent chart) relates to delayed payments to the national transport fund and the Pacific Games fund. Those payment arrears have since been cleared in 2021. The remaining SBD 440 million involves SBD 100 million in processed payments that were cancelled and returned to the ministries and an estimated SBD 340 million in other payments. The latter payment arrears were built up due to the fact that from November 9th 2020 until year-end, the Treasury only made payments related to COVID, essential services and payroll. All other payments were not processed.



Thailand does not face liquidity constraints as a result of the pandemic, implying arrears do not accumulate at a faster rate than normal, if at all.

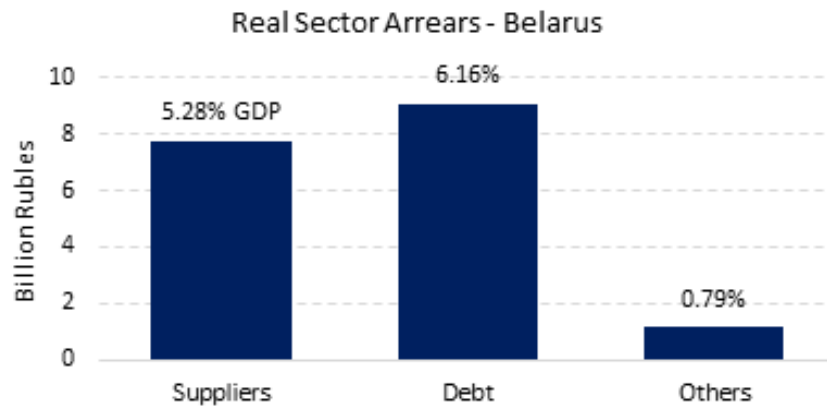
According to a 2019 audit report, Timor-Leste’s general government arrears stocks stood at 27.8 million USD (1.7% of GDP).

Arrears data are not reported in Fiji, Tuvalu, Palau, Vanuatu, and Nauru.

>>> EUROPE AND CENTRAL ASIA

Albania's arrears stocks contracted by 0.18% of GDP in the first three months of calendar year 2021, resulting in stocks of 20.8 billion lek (1.2% of GDP).

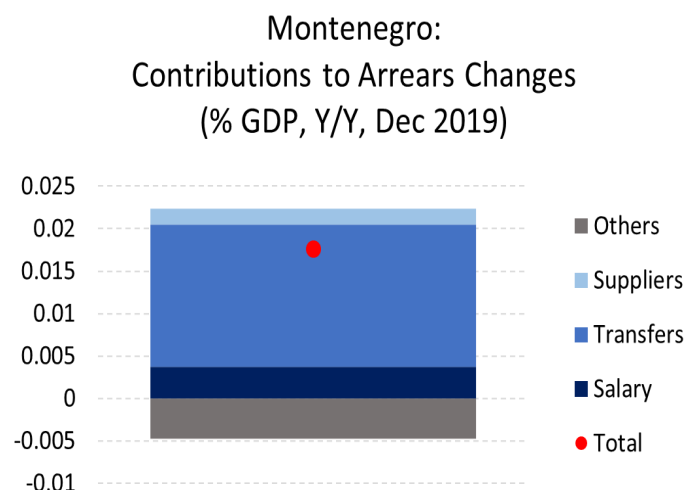
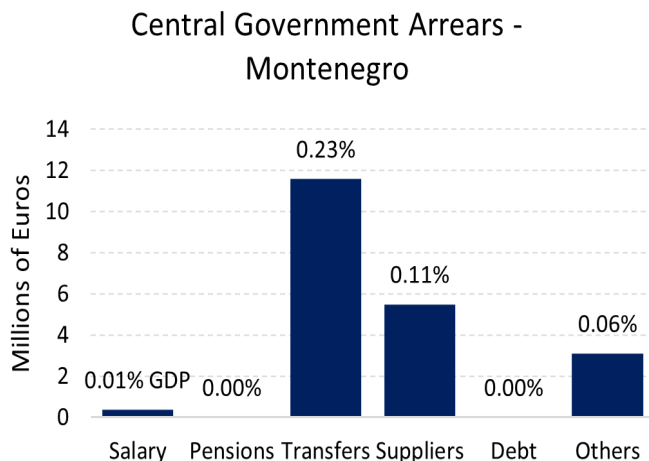
Belarus reported an increase of 0.7% in arrears levels throughout the first three months of calendar year 2021, resulting in stocks of 18 billion rubles (12.2% of GDP).



Bosnia and Herzegovina reports an overall increase in arrears of 49 million marks (0.15% of GDP) from September 2020 to December 2020. The WBG group is designing a DPL targeted at health-sector arrears, which decreased slightly over the same period to 117 million marks (0.36% of GDP), although this only applies to two-thirds of the country. The largest arrears pertain to mines, roads, and the health sector.

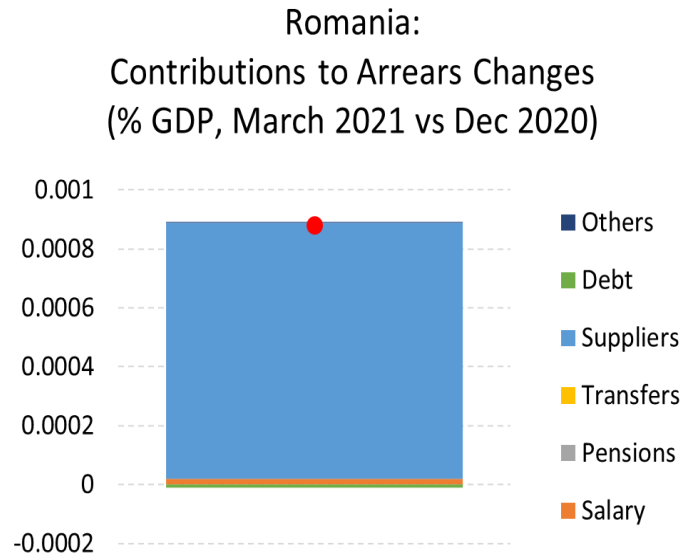
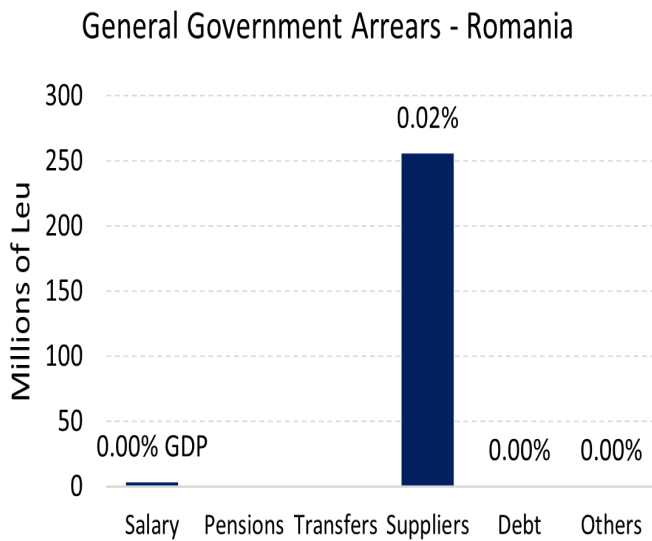
Bulgaria's arrears have declined over the past 12 months, reaching about 221 million lev (0.19% of GDP) in Q3 of 2020, down from 311 million in Q3 of 2019. The majority of arrears are owed by local governments, totaling 140 million lev. Arrears tend to fluctuate within a narrow band.

The latest figures (2019) on Central Government arrears in Montenegro show stocks of 20.6 million euros, or 0.4% of GDP, up from 19.4 million euros in 2018. There are concerns over the accuracy of arrears data at the local level, but the best figures from 2018 show local government arrears close to 83.5 million euros (2% of GDP). State-owned enterprise arrears exist, but the Ministry of Finance does not compile statistics on them.



Poland reported a slight decrease of 0.01% of GDP in total arrears stocks throughout 2020, resulting in stocks of 1.7 billion zloty (0.07% of GDP) in December 2020. In Poland, the vast majority of matured payables (obligations whose payment deadline has passed and which have not been time-barred or written-off) are connected to the health sector.

Romanian general government arrears nearly totaled 260 million leu (0.02% of GDP) in March 2021, marking an increase of 0.01% of GDP since 2019. Nearly all arrears are to suppliers, as are the majority of increases since December 2020.

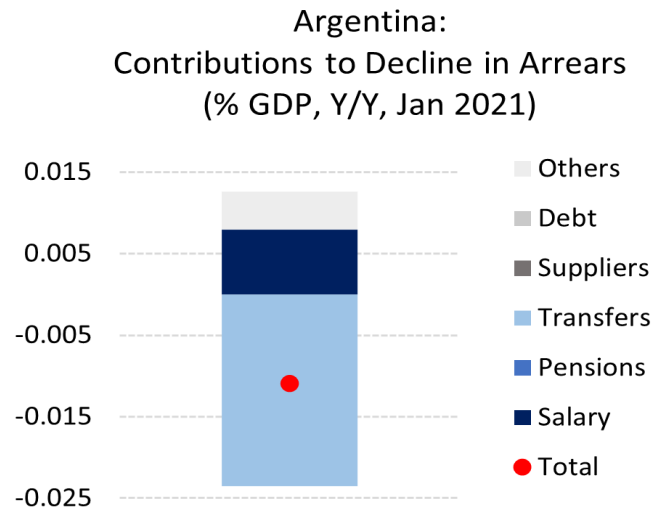


Serbian central government and social insurance fund arrears ticked upwards between December 2019 and September 2020, from 5.8 billion dinar to 6.7 billion dinar (0.12% of GDP).

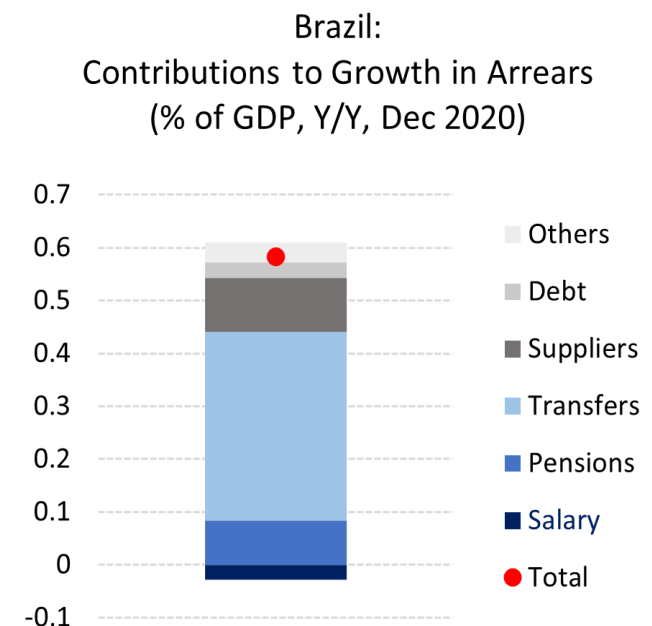
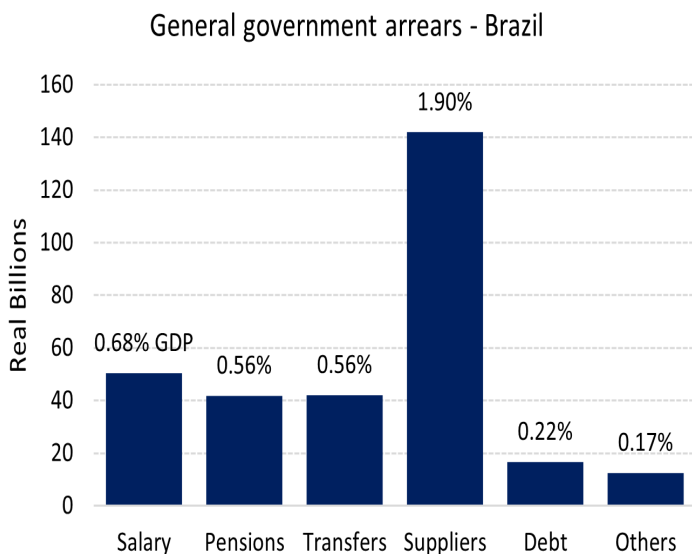
Tajikistan's arrears stocks increased from 46.9 to 78.9 million somoni (0.1% of GDP) between December 2019 to November 2020.

>>> LATIN AMERICA AND THE CARIBBEAN

Argentina's central government saw little change to its level of arrears from January 2020 to January 2021. The total change in arrears over this period was a reduction of 0.01% of GDP for a total stock of 0.32% of GDP. This reduction came entirely from clearing overdue transfers by 0.02% of GDP, though salary and other arrears grew very slightly. The central government data do not cover public sector agencies which are part of the federal budget (e.g., SOEs, Social Security Agencies, Fiduciary Funds) which constitute between 50 and 60% of the federal budget, and sub-national administrations. It should be noted that three provinces are in virtual default, so while arrears at the central government is not significant, it remains an issue for local governments.



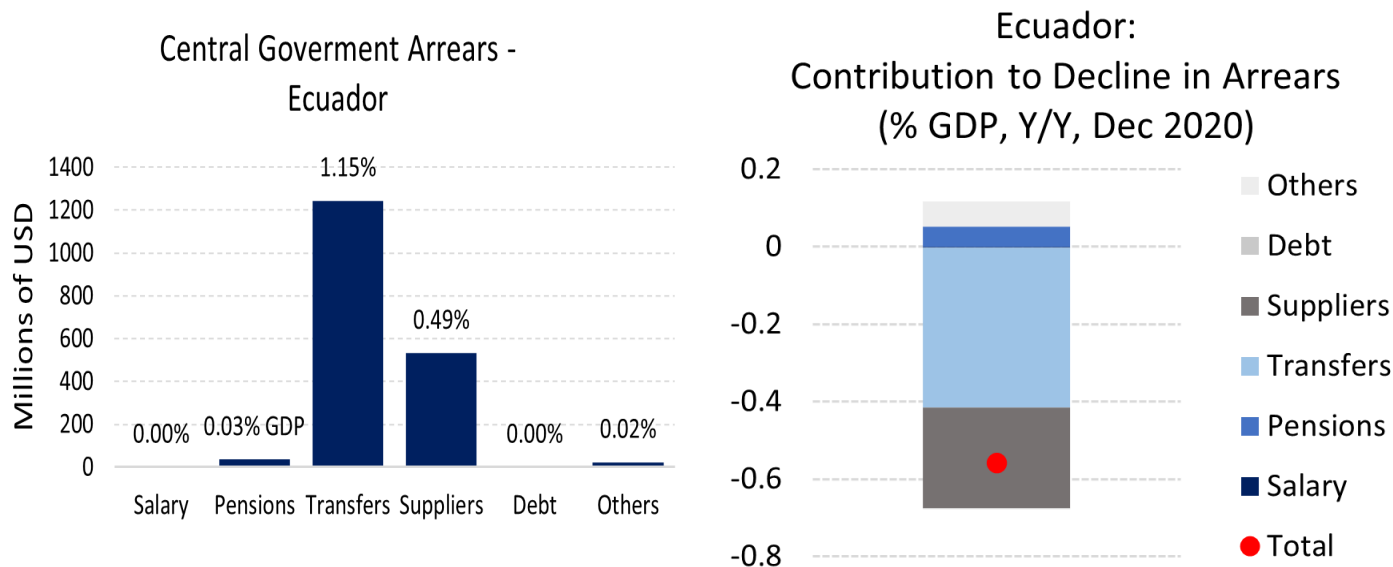
Brazil saw an increase in arrears of almost every type, though consistently small, adding to the country's significant stock of arrears. The largest increase, for transfers, grew by 0.4% of GDP. Brazil's arrears are subject to revision as the payments can be made in 2021 (e.g., for public wages earned in December 2020) or entirely canceled, if the good or service was not effectively purchased. While the growth in arrears was not large at 0.6% of GDP, the current figure for total stock of arrears amounts to 4.1% of GDP. Almost half is with suppliers.



Arrears are negligible in Chile, the crisis has not led to increased payment arrears, and the government has centralized payment processing to accelerate payment. The government has the liquidity to meet its payment obligations and, in fact, paid public procurement in advance, as part of the first response package. Furthermore, the government has created a centralized payment process to reduce payment processing times. While there were some delays when the pandemic started, payment times normalized and by August the time elapsed between the accrual of the invoice and its cancellation had been reduced from 48 to 14 days.

The Dominican Republic halved its arrears between December 2019 and December 2020. Over this period, it reduced its level of arrears by 0.13% of GDP leaving the current stock of arrears at 0.14% of GDP. These data include the government arrears from SOEs, including electricity generation companies.

Ecuador made large strides to paying off its arrears in 2020, though arrears still total 1.7% of GDP. Arrears peaked in mid-2020, yet the central government of Ecuador was able to reduce its amount of arrears by 0.56% of GDP through December 2020. Ecuador's current stock of arrears are composed mostly (68%) of transfers and a smaller fraction (29%) with suppliers. Between December 2019 and December 2020, the government of Ecuador was able to decrease arrears from transfers (0.41%) and with suppliers (0.26%). Over the same period, arrears from pensions (0.05%) and other categories (0.07%) increased.



Mexico only reported data for a single SOE, PEMEX, which has incurred arrears with suppliers. Its arrears grew by 0.4% of GDP between December 2019 and December 2020, for a total stock of 1.3% of GDP. Despite this growth in arrears for PEMEX, other SOEs, such as the Federal Electricity Commission (CFE), had a normal payment behavior during the same time period indicating the likelihood of a localized issue for PEMEX.

The COVID-19 crisis has not led to an increase in arrears in Peru as the government continues to have savings and ample liquidity. While there are some payment arrears at the subnational level, these are the legacy of the past failures of the local authorities to pay social security contributions for their employees many years ago and are not affected by the ongoing crisis.

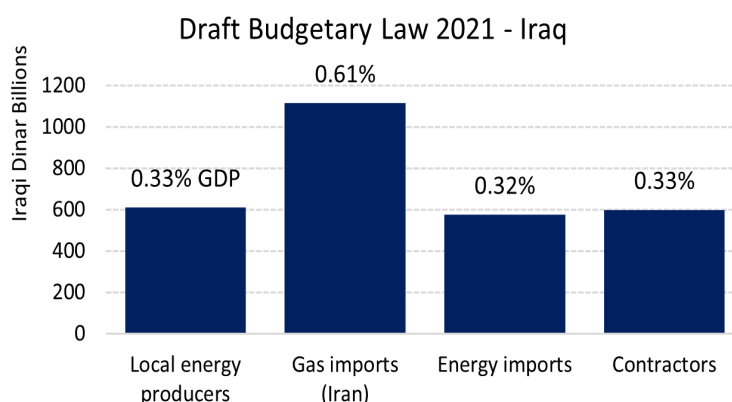
Uruguay's short-term government debt declined by 0.17% of GDP between December 2019 and December 2020. Given the country's current stock of short-term debt (0.21% of GDP) in December 2020, it seems that short-term debt was not a major obstacle for the central government even with the COVID-19 crisis.

>>> MIDDLE EAST AND NORTH AFRICA

In Algeria, government arrears are likely to have risen significantly, although it is not publicly quantified at this stage. Following the 2014-2015 oil crash and the exhaustion of oil savings, the Government incurred large domestic payment arrears, with strong effects on banking liquidity and on the real economy. Those were compounded by the materialization of fiscal risks – including support to SOEs. In 2021, a repeat of this scenario appears inevitable given the severe shock to fiscal revenues, exacerbated by the economic toll of containment measures on SOEs and the cost of fiscal policies to support firms and households. In some sectors, however, the buildup in arrears might be slowed down by the decrease in public consumption and in the consumption of subsidized goods and services (energy, transport, construction, etc.) amid the containment measures and the broader slowdown in economic activity.

COVID-19 is likely to have had a further negative impact on the stock and breakdown of debt in Iran, which was estimated to have reached 52% of GDP as of end March 2020. The Government of Iran (GoI) does not consistently publish debt and hence arrears data. The only exception to this is external arrears which was reported by the Central Bank of Iran to stand at US\$1.3 billion (less than 0.5 percent of GDP) as of end-September 2020. External debt was reported at US\$9.3 billion. Years of economic sanctions and low oil prices have substantially increased fiscal pressure leading to an increase in public sector debt and arrears. While accurate numbers on arrears do not exist, the major part of historical government arrears is reported as being owed to pension funds which has added to their existing problems. The other major group to whom the GoI has fallen into arrears with is the private sector with negative implications for investment.

Most of Iraq's budgetary arrears are due to gas imports from Iran. The remainder of the arrears are expected to be in equal portions to local energy producers, other energy imports, and contractors. The 2021 draft budgetary law states that arrears will total 1.6% of GDP.



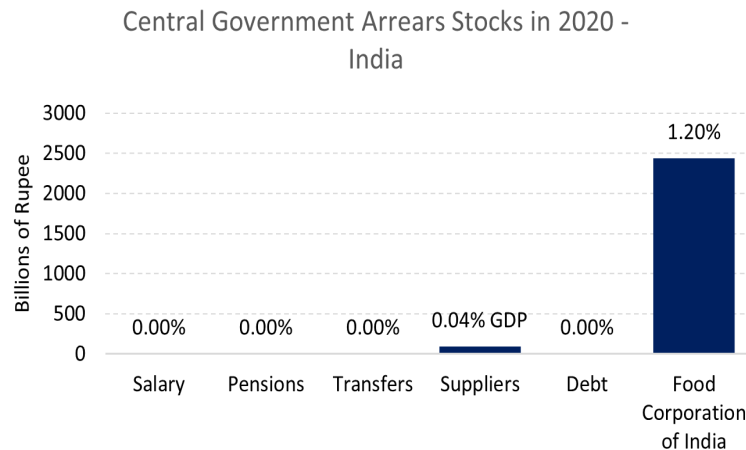
Although Jordan does not publicly report its arrears, available data indicate an increase in arrears, surpassing 1% of GDP between 2020 and 2021. The major sources of arrears include arrears to the energy sector (both legacy and new arrears), legacy health arrears, and arrears for new water projects. The current stock of known arrears amounts to 1.9% of GDP, as of January 2021.

The Government of Morocco does not publish statistics on the stock of payment arrears from the central government, so it is unclear whether public arrears have increased due to the COVID-19 crisis. Despite the lack of reporting, some measures have been adopted such as a 2016 law which establishes well defined limits on the duration of payment delays from the central government. Three main reasons suggest that there has not been a significant increase in payment arrears in the Moroccan case: (i) so far, the COVID-19 crisis has generated only a moderate increase in financing needs; (ii) the government has had very good access both to domestic and external sources of finance; and (iii) the issue of arrears on central government payments has not been in the public domain in recent months. Additionally, payment delays have only declined – from 42 days in December 2019 to 40 days in December 2020. Finally, Moroccan authorities have taken various measures to mitigate the problem of late payments from public companies, including: an online platform for suppliers to present their claims; budget transfers from the central government to public companies to limit arrears; penalizations for payment delays beyond a certain threshold to be paid to the supplier; and targeted support.

>>> SOUTH ASIA

Afghanistan accumulated nearly 300 million Afghani (0.02% of GDP) in unpaid debt service in the context of the Debt Service Suspension Initiative. It did not accumulate any other arrears in 2020.

In 2020, India added 2.5 trillion rupees (1.2% of GDP) in payments owed to suppliers and the Food Corporation of India to estimated stocks of INR 5 trillion in overdue payments to MSME suppliers. India does not have an accrual-based accounting system. Expenses are accounted for only when they are paid out and thus arrears are not recorded in the finance accounts. In an interview in May 2020, the minister for Micro, Small and Medium Enterprises stated that overdue payments to MSME suppliers alone are over INR 5 trillion. However, no authoritative estimate is available. According to the MSME Delayed Payment Monitoring System, delayed payment claims filed by MSMEs totaled 89 billion rupees in 2020, but arrears to other suppliers have likely accumulated as well. The largest source of new arrears were overdue payments from the central government to the Food Corporation of India, a state-owned enterprise responsible for the procurement of grains. These were funded by loans from the National Small Savings Fund and thus, were included in the government's debt but not in the fiscal deficit. The stock of arrears has increased from 0.3 percent of GDP in FY16/17 to over 1.2 percent of GDP in FY19/20. The government has indicated in the budget for FY21/22 that all payment arrears will be cleared in FY20/21 and the practice will be discontinued going forward.



As of 2019, the Maldives had arrears stocks of 2 billion rufiyaa, or 2.4% of GDP. Expenditure arrears are defined locally as expenses posted to the Public Accounting System but not processed for payment. In FY2019, staff payroll, pension, loan obligations were met on time, but not all obligations for purchase of goods and services.

Central government arrears in Nepal 866 million rupee (0.025% of GDP) in 2019, having increased by 1.4 billion rupee since 2018. As per the financial procedure and fiscal responsibility regulation, 2020, outstanding payment can exist for salaries, dearness and local allowance, transfer and travelling expenses, rent, clothing, food, medical treatment, alms for patients and prisoners, retirement benefits, or any amount as per agreement made with any person, firm, organization or company and included in the approved annual program. However, disaggregated data by these categories is not available.

Sri Lankan central government arrears to suppliers totaled LKR 421 billion in 2019. Arrears data are not systematically published in Sri Lanka, although it is discussed publicly when the government changes hands. Although it is a requirement, most important SOEs do not publish annual reports in a timely manner.

There is no publicly available data on public arrears in Bangladesh. The 2016 PEFA (PI-22, score of "D") identified shortcomings in the monitoring of the stock of central government expenditure arrears. These issues have not been resolved. The government's Integrated Budget and Accounting System (iBAS++) does not currently have the capacity to generate reliable arrears data. This would require capturing data on commitments, obligations, and payments (obligations for goods/services received but not yet paid, i.e. arrears). Consolidated data is not available on SOE arrears.

In Bhutan, the MoF does not report central government expenditure arrears, nor arrears from SOEs or from other sources. No exercise has been undertaken, at a central level, to collect the data on the stock of such arrears. The 2016 PEFA score for PI-22, expenditure arrears, is “D”.

In Pakistan, there is no aggregate record of expenditure arrears maintained by the Ministry of Finance. Data on arrears by departments and line ministries can be requested on demand but is not readily available or reported. There is no mechanism of maintaining expenditure arrears in the IFMIS system either as Pakistan follows the system of cash accounting.

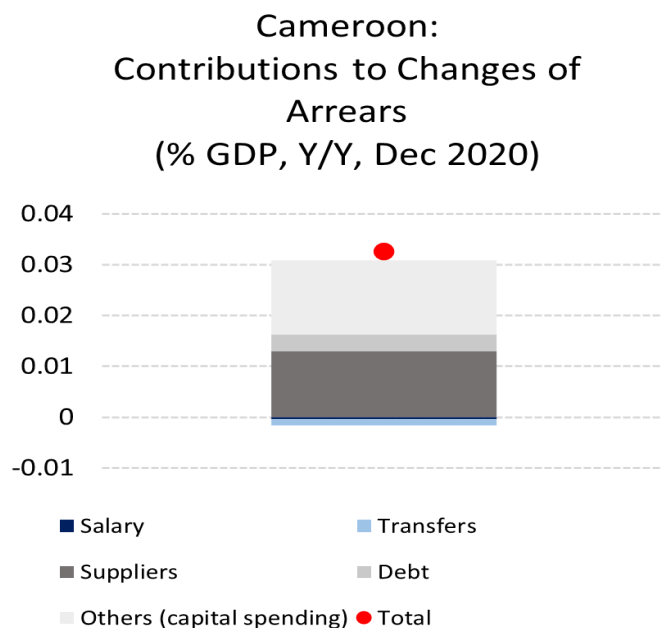
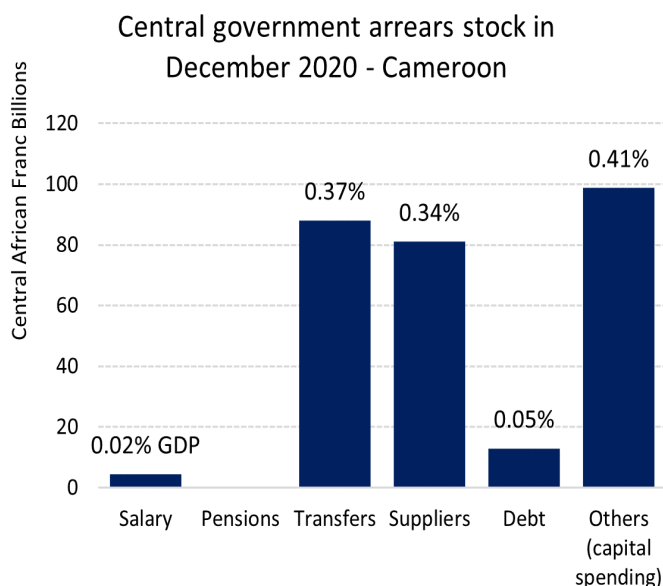
>>> SUB-SAHARAN AFRICA

As of March 2020, Angola’s stock of arrears amounted to 2.56% of GDP. The initial impact of the COVID-19 crisis seems not to have worsened the accumulation of arrears as the Government of Angola reduced arrears by 0.21% of GDP between November 2019 and March 2020.

Arrears with suppliers is the sole source in Benin, and the COVID-19 crisis has not had a significant impact on processing payments. The stock of arrears as of December 2020 amounted to 0.3% of GDP and the Government of Benin was able to reduce its arrears to suppliers by 0.1% of GDP in the 2020.

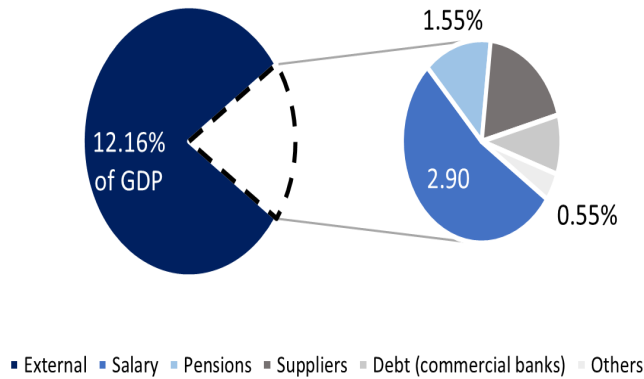
Available data suggest that arrears are high in Burundi. A 2017 commission estimated all government arrears at BIF 270 billion or 4.9% of GDP. Recent reform to securitize arrears up to end-June 2020 left BIF 110 billion (1.8% of GDP) and does not include new arrears incurred beyond FY2018. Errors and omissions in fiscal data are estimated to rise from 1.1% of GDP in 2019 to 1.7% of GDP in 2020 which indicates a simple shift of debt rather than its clearance. During FY2020-21, the Government of Burundi decided to continue securitizing domestic arrears.

Cameroon saw a slight increase of arrears by 0.03% of GDP indicating that the COVID-19 crisis has not had an appreciable effect on the government’s liquidity. By November 2020, the current stock of arrears stands at 1.19% of GDP with the plurality of the arrears incurred by capital spending (0.41% of GDP) and large portions for transfers (0.37% of GDP) and suppliers (0.34% of GDP). Between December 2019 and December 2020, the Government of Cameroon was able to reduce arrears owed to capital spending (XAF 3.5 billion), suppliers (XAF 3.1 billion), debt (XAF 0.8 billion), transfers (XAF 0.3 billion), and salary (XAF 0.1 billion).

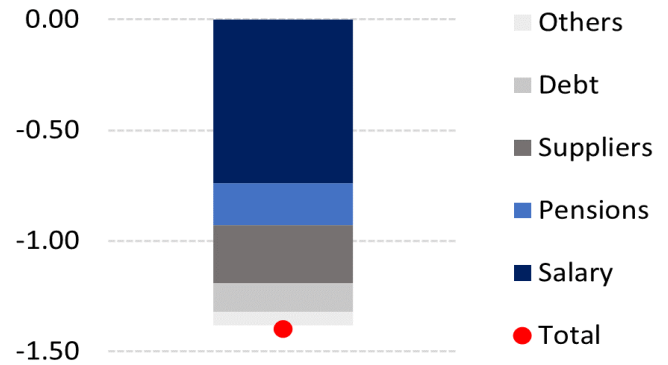


Although Central African Republic's stock of arrears is high (15.1% of GDP), it has reduced arrears by 1.4% of GDP in 2020. Most of Central African Republic's arrears are from external sources (12.16% of GDP), while domestic sources comprise the remainder with over half of domestic arrears from salary payments (1.55% of GDP). All of the government's reduction in arrears were to domestic sources, reducing each type by about a third of the 2019 stock.

Arrears Stocks, 2020

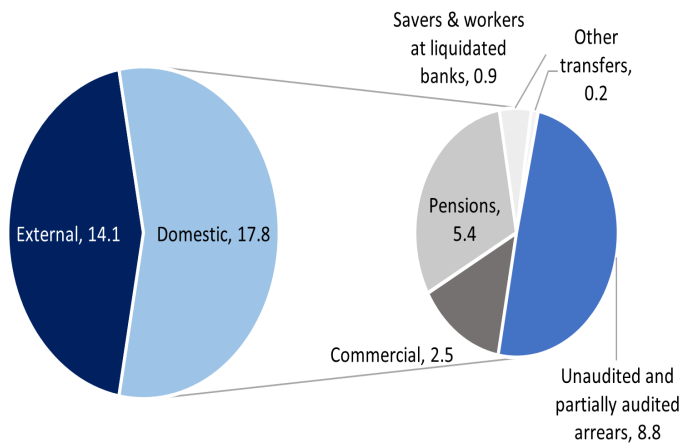


Central African Republic: Contributions to Decline in Arrears (% GDP, Y/Y, 2020)

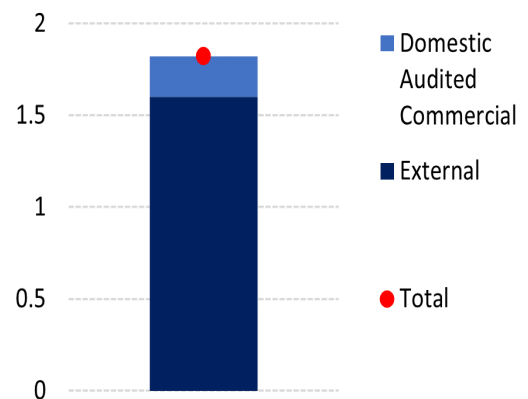


Republic of the Congo has experienced a significant buildup in arrears during the first nine months of 2020, increasing 1.7% of GDP to a staggering 32% of GDP. Over half of arrears are incurred from domestic sources (17.9% of GDP), especially from pensions (5.4% of GDP), though unaudited or partially audited arrears constitute 8.8% of GDP. During this period, external arrears rose by 1.6% GDP while domestically, only audited commercial arrears rose (0.2% of GDP).

Central government arrears - Republic of the Congo (% GDP, Dec 2019 - Sep 2020)



Republic of the Congo: Contributions to Growth in Arrears (% GDP, Dec 2019 - Sep 2020)

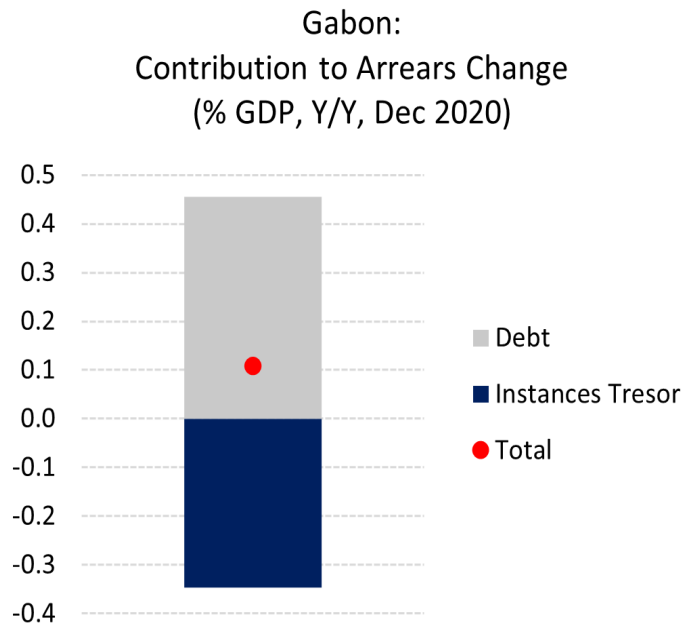
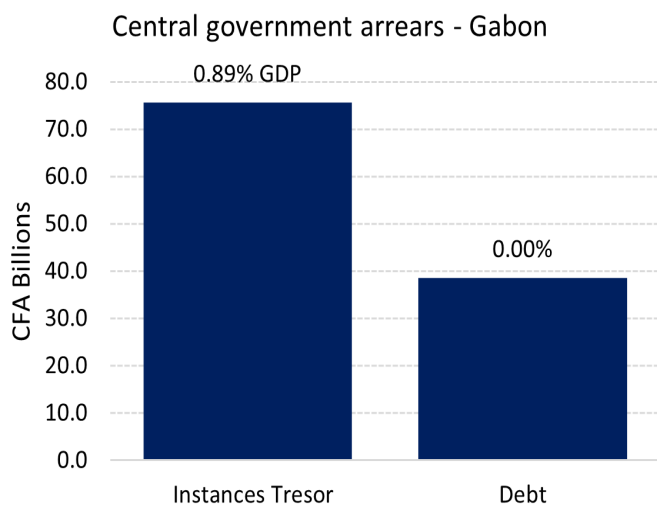


Cote d'Ivoire's program performance target sets a goal of no arrears, which seems to have held as none were reported in June 2020. A related, but not the same, position measures government liabilities to suppliers that are more than 90 days overdue totals 0.4% of GDP in 2020. The authorities insist this is not arrears, and that there are no arrears.

COVID-19 has not added stress to arrears management in Equatorial Guinea, as the government was able to significantly reduce the amount of arrears. Between December 2019 and September 2020, arrears shrunk by 3.4% of GDP reaching a total of 24.4% of GDP. These data are attributed wholly with suppliers and only cover the central government's liability.

Over two-thirds of The Gambia's latest stock of arrears (0.03%) were incurred in 2020. Arrears accumulated between December 2019 and December amounted to 0.02% of GDP. Given that the total stock is low, this figure is negligible, though the trend is more worrisome. Of the stock of arrears, the vast majority are from salary payments and arrears accumulating from transfers, suppliers, and other sources combine for a mere 8% of current arrears stocks. Furthermore, the arrears to suppliers were the only type of arrears reduced during 2020.

Gabon's arrears totaled 1.3% of GDP in November 2020, of which the majority (0.9% of GDP) was due to "Instances du Tresor". These "Instances du Tresor" cover all unpaid expenditure (apart from debt service) scheduled for the current and previous years. The remaining 0.45% of GDP is attributable to external debt which. Since October 2019, the Government of Gabon decreased its "Instances du Tresor" by 0.3% of GDP, while increasing its debt arrears by 0.45% of GDP, resulting in an overall increase of arrears by about 0.1% of GDP.



Kenya has undergone a significant reduction in arrears between June 2020 and September 2020 which totals 1.2% of GDP. This figure includes national and sub-national governments and does not disaggregate the type of arrears. The stock of arrears in September 2020 stood at 3.2% of GDP, indicating that the reduction of arrears was a policy strategy in the first quarter of FY2020-21.

Data from Nigeria suggest that arrears are a greater concern for sub-national governments than the federal government. As of December 2020, the stock of arrears for the federal government was 0.58% of GDP, while comparable data is only available for sub-national governments as of December 2019 (when it totaled 1.0% of GDP). Between December 2019 and December 2020, the federal government's verified arrears rose by only 0.03% of GDP which hints that the COVID-19 crisis has not significantly affected Nigeria's central government.

In May 2020, Sao Tome and Principe had a stock of arrears totaling 18.4% of GDP. This figure is entirely due to arrears with suppliers. The Government of Sao Tome and Principe incurred arrears amounting to 0.02% of GDP in the first five months of 2020 which indicates that the COVID-19 crisis has not had a significant effect on arrears accumulation, despite the country's large stock of arrears.

Sierra Leone has made significant strides toward paying down its arrears in 2020. From December 2019 to December 2020, the Government of Sierra Leone paid down its arrears amounting to 2.4% of GDP. Despite this significant reduction, the stock of arrears for Sierra Leone still totaled 6.3% of GDP by end of December 2020. The government expects to reduce its outstanding arrears to 5.0% of GDP according to the 2021 budget which suggests that COVID-19 has not worsened the government's liquidity.

Arrears have accumulated in Uganda, despite the government's stated policy to pay them down as a COVID-19 support measure. The full extent is unclear, though authorities suspect additional arrears in the health sector alone could be significant. A new audit will be required, and this may be part of a new IMF program.

>> APPENDIX 2: TEMPLATE FOR THE COLLECTION OF INFORMATION ON GOVERNMENT EXPENDITURE ARREARS

Country	Categories	Stock of Arrears - Latest Available		Indicate which month/quarter	Change in Stock of Arrears		Specify Period of Analysis for Calculating Increase (i.e. Dec 2019 vs. Dec 2020)	Institutional Coverage (Central, General Govt. , Public Sector)	Source of Data (IMF, PER, etc.) Please Provide Link	Other Narrative (arrears definition, what is known, etc.)
		LCU	% GDP		LCU	GDP%				
	Total									
	Salary									
	Pensions									
	Transfers									
	Suppliers									
	Debt									
	Others									

For this round, it would be great to be able to receive **disaggregated information on arrears stock in terms of main economic categories**. However, we understand that in some countries this might be difficult to obtain, in which case any basic narrative or available information would be relevant.

Institutional coverage: Ideally, we would like to receive information on arrears not only for central/federal government, but also for other levels of the public sector, especially SOEs and subnational governments (Column J).

It would also be good to get some information on how arrears are identified in a country, and what is known and what is not. (Column L).

>> APPENDIX 3: COUNTRIES FOR WHICH INFORMATION ON GOVERNMENT ARREARS HAS BEEN RECEIVED

COUNTRY	RE- GION	1ST ROUND REPORTING	2ND ROUND REPORTING	PRE-COVID-19 INFORMATION ON GOVERNMENT EXPENDITURE AR- REARS	COVID-19 PERIOD INFORMATION ON GOVERNMENT EXPENDITURE AR- REARS	PRE- AND POST- COVID-19 QUANTATIVE DATA COMPARI- SON INCLUDED IN ANALYSIS	QUALITATIVE INFORMATION ON ARREARS ACCUMU- LATION (INCLUDED IN APPENDIX 1)
Indonesia	EAP		✓	✓	✓	✓	✓
Kiribati	EAP	✓	✓	✓	✓	✓	
Malaysia	EAP		✓	✓			
Marshall Islands	EAP		✓				✓
Micronesia	EAP		✓				✓
Papua New Guinea	EAP	✓	✓	✓			✓
Philippines	EAP	✓	✓	✓			✓
Solomon Islands	EAP		✓		✓		✓
Thailand	EAP	✓	✓				✓
Timor-Leste	EAP		✓	✓			✓
Tonga	EAP		✓				✓
Albania	ECA		✓	✓	✓	✓	✓
Belarus	ECA		✓	✓	✓	✓	✓
Bosnia and Herze- govina	ECA		✓	✓	✓	✓	✓
Bulgaria	ECA		✓	✓	✓	✓	✓
Croatia	ECA		✓	✓	✓	✓	✓
Kosovo	ECA		✓	✓	✓	✓	✓
Montenegro	ECA		✓	✓			✓
North Macedonia	ECA		✓	✓	✓	✓	✓
Poland	ECA		✓	✓	✓	✓	✓
Romania	ECA		✓	✓	✓	✓	✓
Serbia	ECA		✓	✓	✓	✓	✓
Tajikistan	ECA	✓	✓	✓	✓	✓	✓
Argentina	LAC	✓	✓	✓	✓	✓	✓
Brazil	LAC	✓	✓	✓	✓	✓	✓
Chile	LAC		✓				✓
Colombia	LAC	✓					✓
Costa Rica	LAC	✓	✓			✓	
Dominica	LAC	✓					✓
Dominican Republic	LAC		✓	✓	✓	✓	✓
Ecuador	LAC		✓				✓
Guatemala	LAC	✓					

Haiti	LAC	✓		✓		✓		✓
Honduras	LAC	✓	✓					✓
Mexico	LAC		✓	✓		✓	✓	✓
Paraguay	LAC	✓						✓
Peru	LAC	✓	✓					✓
Uruguay	LAC	✓	✓	✓		✓	✓	✓
Algeria	MENA	✓	✓					✓
Iraq	MENA	✓	✓			✓		✓
Islamic Republic of Iran	MENA	✓	✓					✓
Jordan	MENA	✓	✓	✓		✓	✓	✓
Morocco	MENA	✓	✓					✓
Afghanistan	SAR		✓			✓		✓
Bangladesh	SAR		✓					✓
Bhutan	SAR		✓					✓
India	SAR		✓	✓		✓	✓	✓
Maldives	SAR		✓	✓				✓
Nepal	SAR		✓	✓				✓
Pakistan	SAR		✓					✓
Sri Lanka	SAR		✓	✓				✓
Angola	SSA	✓	✓	✓		✓	✓	✓
Benin	SSA	✓	✓					✓
Burundi	SSA	✓	✓	✓			✓	✓
Cameroon	SSA	✓	✓	✓		✓	✓	✓
Central African Republic	SSA	✓	✓	✓			✓	✓
Chad	SSA	✓						✓
Congo (DRC)	SSA	✓						
Côte d'Ivoire	SSA	✓	✓					✓
Equatorial Guinea	SSA		✓	✓		✓	✓	✓
Gabon	SSA	✓	✓	✓		✓	✓	✓
Guinea	SSA	✓						✓
Kenya	SSA	✓	✓	✓		✓	✓	✓
Mali	SSA	✓						✓
Niger	SSA							
Nigeria	SSA		✓	✓		✓	✓	✓
Republic of Congo	SSA		✓	✓		✓	✓	✓
São Tomé and Príncipe	SSA		✓	✓		✓	✓	✓

Senegal	SSA	✓					✓
Sierra Leone	SSA	✓	✓	✓	✓	✓	✓
The Gambia	SSA	✓	✓	✓	✓	✓	✓
Uganda	SSA		✓				✓

