



OFFICE OF THE HONOURABLE COMMISSIONER
MINISTRY OF FIANNCE, IMO STATE
4, STATE SECRETARIAT COMPLEX, OWERRI, IMO STATE, NIGERIA

IMO STATE

**ARREARS CLEARANCE
FRAMEWORK**

(ACF)

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1.0 INTRODUCTION

1.1 Coverage and Scope of Imo State Arrears Clearance Framework Document:

This document covers the policy and procedures for managing and settling the domestic expenditure arrears of Imo State Government. The State's arrears are financial obligations that have been incurred by Imo State Government for which payment have not been made by the due date. The accumulation of these expenditure arrears however reduces the credibility and rating of the State and which may have a negative effect on the domestic economy.

This Framework is therefore guided by the World Bank and the Debt Management Office's (DMO, Abuja) templates for the establishment of Domestic Arrears Committee, as well as establish best practices in the settlement of the State's domestic expenditure arrears.

The main categories of Imo State's expenditure arrears are as follows: Contractors Arrears, and Pension and Gratuity Arrears.

The terms "domestic expenditure arrears", domestic arrears" and "arrears" are used interchangeably in the document to refer to Imo State Government Domestic Expenditure Arrears.

1.2 Purpose of the Framework Document:

This Framework document is aimed at providing practical guidance in the identification, recording and management of domestic expenditure arrears in the State. This will assist the State to establish processes and systems to reduce her stock of domestic arrears, while providing room for feedback mechanism from the contractors and interested parties thereby increasing the public participation in governance.

1.3 Users of the Framework Document:

This Framework is primarily meant for the Government of Imo State. Specifically, the staff of MDAs such as Debt Management Department, Office of the State Accountant General, Ministry of Budget and Economic Planning, Ministry of Works, Ministry of Education, Ministry of Public Utilities, Office of the State Auditor General, Bureau for Public Procurement, and other line MDAs that may be involved in debt management and settlement of arrears at one time or the other will find it useful.

The Framework should be used in conjunction with other extant Public Finance Laws and Regulations, the accounting systems and procedures manuals in the State.

1.4 **Presentation of Total Stock of Domestic Expenditure Arrears of Imo State Government:**

S/ N	DOMEST IC EXP. ARREAR S	2015	2016	2017	2018	2019
1	Contractors Arrears	20,551,138,982.43	18,051,138,982.00	26,176,084,997.43	7,210,501,235.19	58,334,455,045.99
2	Pension & Gratuity	760,407,616.91	720,780,384.86	400,104,101.34	580,056,766.48	19,889,241,413.19
	Total	21,311,546,599.34	18,771,919,366.86	26,576,189,098.77	7,790,558,001.67	78,223,696,459.18

1.5 **Description of the State's Policy on Arrears:**

Imo State Government shall adopt the following measures to clear her existing arrears and prevent accumulation of new ones:

- i. Strengthen legal and regulatory framework. The State shall empower her legal and regulatory framework on financial issues;
- ii. Enhance the credibility and realism of the State's budget. The state's budget shall be a realistic plan for expenditures based on conservatively estimated revenues. The borrowing limit shall include a margin to handle the situation of revenue shortfalls;
- iii. Improve accounting and reporting. The State shall ensure proper accounting and reporting;
- iv. The State Government shall strengthen her commitment controls to effectively limit commitments to approved budget allocations and to availability of actual cash;
- v. The State shall facilitate improved and integrated cash and debt management;
- vi. The State shall enhance oversight of the state owned enterprises should the reasons for arrears accumulation rest with other parts of the public sector;
- vii. Establishment of Treasury Single Account (TSA) to reduce the State's reliance on commercial bank loans;
- viii. Payment shall be centralized to the State's Treasury to prevent arrears as a result of administrative hurdles;
- ix. Upgrading the government's financial management information systems. The system should handle the entire expenditure chain, including the release of budget funds, commitments against the budget funds, production of purchase orders, receipt 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 and fund releases.

2.0 **PLANNED ACTIONS FOR SETTLEMENT OF IMO STATE DOMESTIC EXPENDITURE ARREARS**

Imo State multi-years' plan is the financial plan of the State for clearance of her stock of arrears based on the total fund available in the State's current budget year and the budget year to come.

The State Government shall clear her arrears using funds from any of the following sources:

- The Internally Generated Revenue of the State,
- Grants from the Federal Government or Donor funds;
- Bonds

Note:

- Beyond this, a certain percentage (**Suggestion:** 20% - 30%) of the State's monthly IGR shall be devoted for this arrears clearance and as consistent as possible.
- A designated **ACCOUNT** (DOMESTIC DEBT FUND ACCOUNT) will be opened to warehouse this set aside funds from which payment will be made for the settle of the arrears either quarterly or half yearly.
- The Account could however be allowed to generate more revenue, by way of Fixed Deposit or any, which must not be more than 3-6 months.

3.0 PRIORITIZATION CRITERIA FOR ARREARS CLEARANCE

Until recently, there was no comprehensive effective sub-national arrears clearance strategy in Nigeria. To varying degrees, State has institutional mechanisms for prioritizing the payment of domestic expenditure arrears. The volumes of the arrears of most states are usually too large to be cleared within a fiscal year.

Imo State Government shall adopt any of the following criteria/approaches in deciding which of her domestic expenditure arrears to be paid.

3.1 Prioritization Criteria/Approaches between Types of Arrears

APPROACH 1: Allocation of available fund among the types of the arrears in proportion to their share of the total outstanding stock of arrears.

APPROACH 2: Allocation of available funds to a particular type of arrears at a time or one after the other.

4.0 ORGANIZATIONAL/INSTITUTIONAL ARRANGMENT

4.1 Description of the organizational/institutional arrangement for implementation of the framework.

Imo State is a participant in the Federal Government of Nigeria (FGN) and World Bank multi-year (2018-2022) program to support Nigerian states to strengthen fiscal performance and sustainability. One of the disbursement linked indicators under the program (DLI #8) requires states to establish a database of verified domestic arrears, establish an arrears clearance framework (ACF) setting out the procedures to clear the stock of arrears, and implement the ACF.

To this end, a committee known as the Domestic Arrears Committee shall be put in place as an institutional arrangement to be in charge of the

overall arrears clearance process, including recording, verification, classification, reporting, prioritization and clearance of government domestic expenditure arrears in the State and oversee the work of the State towards achieving the SFTAS DLI N8. The terms of reference guiding the work of the committee are as follows:

4.1.1 **Objective and Responsibilities of the Committee**

The Committee shall support the Permanent Secretary Ministry of Finance in its responsibility for accurate recording, verification and reporting of domestic arrears balances across all types. The Committee should ensure that the arrears are adequately classified for prioritization purposes, develop the Arrears Clearance Framework (**ACF**) and produce the State Arrears Recording, Verification and Clearance Report (**SARVCR**).

Its duties will include, but not limited to, the followings:

- Introduction of specific guidelines setting out the roles and responsibilities of individuals and institutions for recording of domestic arrears, i.e. the roles and responsibilities of each Primary Record Holder (the entity primarily responsible for keeping the records for each type of arrears). This will include specific reporting requirements (that is, the use of agreed timelines for submission to the Committee (e.g. **monthly**).
- Introduction of specific guidelines setting out the roles and responsibilities of individuals and institutions for the verification of domestic arrears balances, i.e. the roles of designated officers or verifiers. This will include reporting requirements (a validated copy of the agreed recording templates and any supporting schedules) and timelines for submission to the Committee (e.g. **monthly**).
- The creation, maintenance and regular monthly update of an accurate internal domestic expenditure arrears database and the publicly-accessible online version of the database with a feedback mechanism in place.
- Oversight of the overall recording, verification and reporting processes for domestic expenditure arrears to ensure that they meet the requirements of DLI 8 as described in the SFTAS Verification Protocols.
- Ensure adequate classification of the arrears for prioritization purposes.
- Develop the State's Arrears Clearance Framework (ACF) including policies on prioritization and clearance arrears.
- Provide accurate monthly, quarterly and annual reports that present the true position for verified domestic arrears and the progress made in implementing the State's ACF.
- Provide data/documentation to support the verification of SFTAS DLI 8, including the State's Arrears Recording, Verification and Clearance Report.

4.2 **Supervision and Reporting Arrangement**

The Committee shall report directly to the State Governor through the Honourable Commissioner for Finance who also is the SFTAS focal person.

4.3 **Committee Membership:**

The membership of the Committee shall include:

- The Honourable Commissioner for Finance (Chairman)
- The Accountant General of the State (Secretary)
- The Permanent Secretary of Ministry of Finance
- The Chief Executive/Accounting Officer of Pension Board
- The Director/Head of Debt Management Department
- The Chief Executive of Bureau of Public Procurement
- The Auditor General of the State
- The Executive Chairman Imo Internal Revenue Service
- The Director of Budget (Min. of Planning and Budget)

4.4 **Committee Secretariat:**

The Committee shall have a secretariat established as a meeting point at the discretion of the Honourable Commissioner or within the office of the State's Debt Management Department.

4.5 **Powers and Authorities of the Committee:**

The Committee shall have the authority to request, any and every, information required to carry out its functions.

The Committee will be able to incur expenditures, including the engagement of professionals in the course of executing its duties.

4.6 **Feedback Mechanism:**

The State government shall provide an interaction base for all enquiries and complaints; and response given as quickly as possible via our website-

www.imostate.gov.ng or feedback@imostate.gov.ng



Chuck O. N. Chuckuemeka MBA, CPA, FCA, CGMA

Commissioner for Finance