



IMO

**STATE ARREARS RECORDING,
VERIFICATION AND CLEARANCE
REPORT
(SARVCR)**

May, 2021

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1.0 INTRODUCTION

Domestic borrowing is a necessary fiscal tool that governments (national & sub-national) undertake to finance infrastructural development & budget deficit. However, it is the duty of a responsible government to effectively manage its debt profile.

The essence of the **State Arrears Recording, Verification & Clearance Report (SARVCR)** is to make sure that arrears are being defrayed in a planned manner. The framework will serve as a focal instrument, dictating the process of recording, verifying and clearing domestic expenditure arrears in a transparent prioritization mechanism.

2.0 INSTITUTIONAL ARRANGEMENT FOR DOMESTIC ARREARS CLEARANCE

In furtherance of implementing the framework, a Committee was constituted to process every element of Domestic Expenditure Arrears in accordance with acceptable guidelines and standards.

To this regard of strengthening the recording, verification and reporting therefore, the Committee is saddled with the responsibility of ensuring proper and adequate overall arrears clearance process, including recording, verification, classification, reporting, prioritizing and clearance of the government domestic arrears in the State with the intention of achieving the SFTAS DLI 8.

3.0 FUNCTIONS OF DOMESTIC ARREARS COMMITTEE

The functions of the Committee thus include the followings:

- i. Introduction of specific guidelines setting out the roles and responsibilities of individuals and institutions for recording of domestic arrears. These Primary Record Holders for each type of arrears shall also be given specific reporting requirements and agreed timelines for submission to the Domestic Arrears Committee on a monthly basis.
- ii. Introduction of specific guidelines setting out the roles and responsibilities of individuals and institutions for the verification of domestic arrears balance e.g. Internal Auditors and inspectorates. This will include reporting requirements, using a validated copy of the agreed recording templates and

- any supporting schedules and timelines for submission to the Committee monthly.
- iii. The creation, maintenance and regular monthly update of an accurate internal domestic expenditure arrears database and the publicly-accessible online version of the database.
 - iv. 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.
 - v. Ensure adequate classification of the arrears for prioritization purposes.
 - vi. Develop the State's Arrears Clearance Framework (ACF) including policies on prioritization and clearance arrears.
 - vii. 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.
 - viii. Provide data/documentation to support the verification of SFTAS DLI 8, including the State's Arrears Recording, Verification and Clearance Report.
 - ix. The Committee shall report directly to the State Governor through the Honorable Commissioner for Finance who also is the SFTAS focal person.

4.0 SPECIFIC ACTIVITIES

- i. Development of Domestic Arrears Framework
- ii. Recording, Verification, Validation, Reporting of Domestic Arrears Expenditure
- iii. Development of a comprehensive Domestic Arrears database
- iv. Development of a credible Domestic Arrears Clearance timetable in a transparently prioritization framework
- v. Implementation of record management guidelines procedures
- vi. Establishment of an adequate internal control mechanism
- vii. Creation of a publicly accessible online version of the state's domestic arrears database

5.0 REPORTING RESPONSIBILITY

The Committee shall directly be supervised by the Honorable Commissioner for Finance. Every report shall be submitted to the Executive Governor of the State through the Honorable Commissioner for Finance as well as comply with the provisions of the Fiscal Responsibility Law.

6.0 GUIDELINES ON DOMESTIC ARREARS CLEARANCE FRAMEWORK

The state government will employ the following measures to ensure that accumulated domestic arrears are reasonably cleared and further to ensure that new ones are eliminated or prevented from adding more burden to the finances of the State.

- a. A realistic budgetary provision measures shall be employed to ensure that budgeted allocations are judiciously applied for the purpose it was budgeted for and further ensure that adequate budget discipline is exercised.
- b. Institutional frameworks will be deepened to ensure that implementation of this strategy have a broader coverage and a better legal and regulatory functionality.
- c. The existing Treasury Single Account policy shall be continuously deepened to ensure that more monies are swept into the Account for efficient application in-order to reduce commercial borrowings.
- d. Proper and adequate record keeping and timely financial reporting will be employed through the application of the State integrated Financial Management Information and in relations to the requirements of the International Public Sector Accounting Standards (IPSAS) and other best practices.
- e. Continuous utilization of the integrated financial information management system and other technological solutions in processing financial transactions for the entrenchment of transparency and accountability in the system.
- f. The state Government shall continue to reinforce the fiscal control mechanism to effectively implement the debt sustainability protocols.
- g. The State Government will ensure that the cash management policy, Fiscal Responsibility Law and debt management law will continuously be

implemented and harnessed to enhance integrated cash and effective debt management.

- h. A centralized payment system shall be embraced and midwifery by the office of the Accountant -General in order to monitor and prioritize payments, primarily to reduce the accumulation of domestic arrears and encourage effective and efficient management of liquid assets.
- i. The State Government shall continue to come up with policies and programmes that will facilitate clearing domestic arrears expenditures.
- j. The State Government shall exercise oversight roles on Ministries/Parastatals/Agencies and other institutions of the State to ensure a timely expenditure arrears clearance to avoid being defaulted or failed into arrears falling into arrears financial transactions.
- k. Adequate fiscal rules and controls mechanism shall be implemented in the arrears accumulation and clearance processes.
- l. A comprehensive fiscal report shall be published in a quarterly manner to provide information on commitment, liquidation cancellation, extension and payment on the Ministry of Finance webpage and updated quarterly.
- m. Adequate verification measures shall be undertaken to ensure that only valid claims are recorded and cleared.
- n. The State Government shall implement a transparent and credible procurement process based on the State procurement law and other policy guidelines.

7.0 POLICIES & ACTIONS TO DETERMINE & VERIFY ARREARS

The following policies and actions are employed to determine and verify arrears:

1. MDAs collate information on outstanding arrears and prepare consolidated reports or databases.
2. Collated and consolidated records and database are sent to the Domestic Arrears Expenditure Management Committee for verification based on the following criteria:
 - a. If the transaction was duly authorized by a responsible officer.
 - b. If it was in accordance with authorized Public Finance and Procurement Laws, Rules and Regulations.

- c. If it was consistent with budgetary authorization.
 - d. If the transaction reflects a valid change on the Public purse for which commensurate goods or services have been received by the Government.
 - e. If the transaction was executed in line with applicable terms and conditions.
3. After the Domestic Arrears Expenditure Management Committee has verified the claims, the claims are further classified as Valid, Contestable or Rejected. However, only valid claims are presented for payment. The contestable claims are further presented for review if the need arises.
 4. Presented claims for payment in the Office of the Accountant-General shall be done based on the ACF strategy and guidelines.
 5. A monthly or quarterly report of all arrears cleared and outstanding shall be prepared and reported.

8.0 REPORT OF IMO STATE ARREARS, RECORDING, VERIFICATION & CLEARANCE FRAMEWORK

The table below shows the progress made by Imo State Government towards their achievement of the objectives of the State Arrears Recording, Verification and Clearance Report (SARVCR) SFTAS DLI 8.

S/N	Domestic Arrears DLI #8 checklist of key steps	Status	Successes	Challenges
1.	A domestic arrears committee established with Clear TORs and authority			
2.	All domestic arrears should be recorded in an internal domestic areas database that has updated on the total stock (recommended on a monthly basis)			
3.	An arrears verification process is in place and arrears categorized into valid contested and rejected			
4.	A published-accessible arrears database online Including the following information; total			

	contractors arrears, total pension and gratuity arrears, total salary arrears: and a list of names of contractors which recognized arrears exceeding 20 million naira			
5.	The website supporting the online publicly accessible areas database shall contain an electronic link that permits contractors to query or verify the claims			
6.	The State Arrears Clearance Framework is established online containing the planned action to settle arrears. 1. The plan action to settle arrears. 2. An explicit prioritization of expenditures arrears to be settled.			
7.	Clearance of arrears is implemented in accordance with The ACF			
8.	At least 5% decline in the stock of total domestic expenditure arrears at end of FY 2021 compared to FY 2020 (areas which have been verified and valid across all categories)			

9.0 SOURCES FOR THE SETTLEMENT OF THE STATE’S DOMESTIC ARREARS EXPENDITURE

In a bid to successfully clear the domestic arrears of the State, a multi-year domestic arrears clearance framework will be designed to ensure that in each annual budget, funds shall be appropriated to a dedicated expenditure line based on the available financial resources towards the gradual clearance of arrears expenditure stock.

Sequel to the foregoing, Imo State Government shall clear her arrears through the following sources of fund:

- a. Internally Generated Revenue of the State;
- b. Grants specifically for Arrears Clearance from Federal Government;
- c. Funds from Donor Agencies specifically meant for Arrears Clearance;
- d. Federal Government Bonds;
- e. Assets recovered and declared specifically for domestic arrears clearance;
- f. Borrowing from financial Institutions (where very necessary);
- g. Other sources.

10.0 DOMESTIC ARREARS CLEARANCE ARRANGEMENT

The following strategies will be adopted in the clearance of domestic arrears in the State:

Strategy 1: Provide a monthly Irrevocable Standing Payment Order, a minimum of Six Hundred million naira only (N600,000,000.00) for the clearance of contractors' liabilities from Federated Account Allocation Committee (FAAC).

Strategy 2: Allocation of a minimum of Two Hundred Million Naira only (N200,000,000.00) monthly to Pension and Gratuity alongside the monthly salary payment from FAAC.

Strategy 3: Allocation of available funds from other sources for the clearance of debt in lump sum of verified outstanding domestic stock arrears from one-off capital receipts.

Strategy 4: Allocation of available financial resources to specific types of arrear of public interest from available cash/bank balances.

11.0 IMPLICATIONS OF CLEARING/SETTLING THE STATE DOMESTIC ARREARS EXPENDITURE

In order of the State Government to be more committed to its vision in domestic arrears clearance policy guidelines in the mist of scarce and competing financial resources, the government uses the instrumentality of the State Budget and other relevant policy documents to implement, manage, direct and control the accumulation and settlement of accrued and fresh domestic arrears.

The implication thereon in the clearing/settling the State Domestic arrears expenditures are:

- a. To direct the state government to be more committed and focused on its fund management.
- b. To improves on the credit rating of the State Government by rating agencies.
- c. It improves on the credibility of the State Government and establishes contractors and relevant stake-holders confidence in the State.
- d. It helps the State in managing and clearing future domestic expenditure arrears.
- e. It helps in preventing and controlling expenditure arrears.
- f. It improves the transparency of governance in the State.

12.0 STRATEGIES & MEASURES FOR THE CLEARANCE OF ARREARS

A. STRATEGIES:

S/N	Criteria/Strategies	Rational	Required data	Amount
1.	<p>CONTRACTORS:</p> <p>Ongoing works are paid first</p> <p>Accrued liabilities</p>	<p>To ensure that ongoing projects are completed</p> <p>To ensure that old and critical contractual debts are settled to avoid adverse rating</p>	<p>Position of projects</p> <p>Date of debts are ranked by dates of existence and criticality of job</p>	

2.	PENSION AND GRATUITY:	Those who retired first are paid first	Those who retired first are addressed first	
3.	JUDGEMENT DEBT: (None in the debt profile for now, hence for the future ones)	The judgment debt that entails more conditionality and portends high risk if not immediately settled is paid first	Those that delay in payment could cause a high risk to the States are paid first	
4.	SALARY ARREARS:	Those workers who are old first and suffered most as a result of delay paid first	The date missed payment was due	
5.	OTHER CONTINGENT LIABILITIES:	Contingent liabilities with high risks are considered first	Contingent liabilities with high risks are paid first	

B. MEASURES:

The 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 always be a realistic plan for expenditures and 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 the 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 and strengthening 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. Embracing the use of the Government Financial Management Information Systems: The system should handle the entire expenditure chain, including procurement, the release of budget funds, commitments against the budget funds, production of purchase orders, receipt of goods and services and payments.
- x. Monthly Cash and Debt Management meeting shall be held to guide the government decision of budget, debt servicing and fund releases.

13.0 DOMESTIC DEBTS PROFILE ANALYSIS

A. DOMESTIC EXPENDITURE ARREARS REPORT



IMO STATE DOMESTIC EXPENDITURE ARREARS REPORTING

STATE FISCAL TRANSPARENCY, ACCOUNTABILITY AND SUSTAINABILITY PROGRAM FOR RESULTS

S/N	ARREARS TYPE	DEBT OUTSTANDING AS AT 31ST DEC. 2017 (STOCK)	NEW ARREARS INCURRED IN 2018 (FLOW)	ARREARS PAID IN 2018 (FLOW)	DEBT OUTSTANDING AS AT 31ST DEC. 2018 (STOCK)	NEW ARREARS INCURRED IN 2019 (FLOW)	ARREARS PAID IN 2019 (FLOW)	DEBT OUTSTANDING AS AT 31ST DEC. 2019 (STOCK)	NEW ARREARS INCURRED IN 2020 (FLOW)	ARREARS PAID IN 2020 (FLOW)	DEBT OUTSTANDING AS AT 31ST DEC. 2020 (STOCK)	CHANGE IN ARREARS BETWEEN 31.12.2019 AND 31.12.2020	%CHANGE IN ARREARS BETWEEN 31.12.2019 AND 31.12.2020
1	CONTRACTUAL LIABILITIES	5,120,274,394.59	10,089,526,840.60	17,199,300,000.00	7,210,501,235.19	51,121,953,810.80	0.00	58,334,455,045.99	3,697,765,000.00	13,046,341,725.00	48,982,676,320.99	(8,351,578,725.00)	-18%
2	PENSION & GRATUITY ARREARS	3,416,633,494.72	0.00	0.00	3,416,633,494.72	17,272,607,918.47	800,000,000.00	19,889,241,413.19	1,668,689,836.86	5,786,378,565.64	15,771,552,684.41	(4,117,688,728.78)	-21%
3	SALARY ARREARS	469,235,535.33	5,640,379,036.19	5,035,780,652.52	1,073,831,919.00	536,349,806.24	1,610,183,727.34	0.00	991,596,031.21	936,552,586.34	55,043,444.87	55,043,444.87	20%
4	OTHERS												
	TOTAL	9,206,143,424.64	24,729,905,876.79	22,235,080,652.52	11,700,968,648.91	68,952,911,537.51	2,410,183,727.34	78,223,696,459.18	6,358,050,868.07	19,772,274,876.98	64,809,472,450.27	(13,414,224,008.91)	-17%

IWU B. E.

DIRECTOR, DEBT MANAGEMENT DEPARTMENT

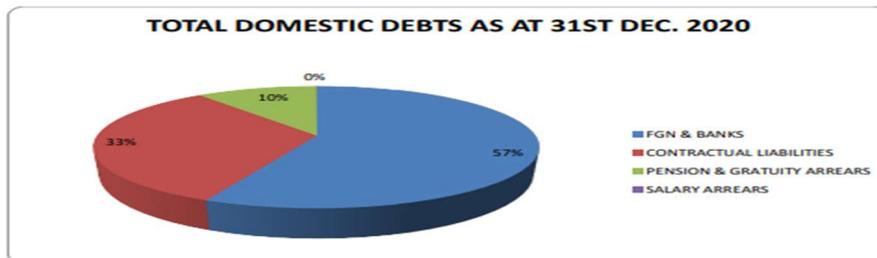
B. DOMESTIC DEBT PROFILE ANALYSIS

IMO STATE DOMESTIC DEBT PROFILE AS AT 31ST DECEMBER 2020

S/N	SOURCES/DEBT	DATE	ORIGINAL AMOUNT ₦	LOAN TENOR (MTH)	MONTHLY DEBT SERVICE (PRIN. & INT.) ₦	(2020) DISBURSED OUTSTANDING/ BALANCE ₦	(2019) DISBURSED OUTSTANDING/ BALANCE ₦	PERCENTAGE REDUCTION
1	SALARY BAIL-OUT (FIDELITY & ZENITH BANK)	26-AUG-2015 & 01-SEP-2015	26,806,430,000.00	240	241,184,408.54	24,353,648,538.82	24,526,643,288.06	0.71%
2	BUDGET SUPPORT FUND	25-OCT-2019	17,569,000,000.00	360	152,567,179.41	17,500,292,959.27	17,530,179,397.28	0.17%
3	FGN BOND (RESTRUCTURED COMM. BANKS LOANS)	SEP-2015	37,116,172,073.53	226	489,166,930.51	34,170,087,847.31	34,911,748,899.87	2.12%
4	EXCESS CRUDE LOAN	01-JUN-2016	10,000,000,000.00	240	89,972,595.59	9,181,151,921.82	9,243,555,406.69	0.68%
5	CBN MSME DEVELOPMENT FUND	01-FEB-2019	1,000,000,000.00		35,508,841.64	173,891,321.67	595,809,268.87	70.81%
6	PURCHASE OF FAAC DISTRIBUTION SOFTWARE	DEC-2020	9,321,595.08	12	776,799.59	8,544,795.49		#DIV/0!
	Sub-total (FAAC DEDs)					85,387,617,384.38	86,807,936,260.77	1.64%
7	CONTRACTUAL LIABILITIES					48,982,876,320.99	58,334,455,045.99	16.03%
8	PENSION & GRATUITY ARREARS					15,771,552,684.41	19,889,241,413.19	20.70%
9	SALARY ARREARS					55,043,444.87		#DIV/0!
	Sub-total (Non-FAAC DEDs)					64,809,472,450.27	78,223,696,459.18	17.15%
	TOTAL DOMESTIC DEBT				1,009,176,755.28	150,197,089,834.65	165,031,632,719.95	8.99%

NOTE:

CBN MSME DEVELOPMENT FUND was omitted in our last report of 2019



Chuck O. N. Chuckuemeka
Chuck O. N. Chuckuemeka MBA, CPA, FCA, CGMA
 Commissioner for Finance

Iwu B. E.
Iwu B. E.
 Director: DMD

14.0 DOMESTIC ARREARS COMMITTEE

The membership of the Committee shall include:

1. The Honorable Commissioner for Finance (**Chairman**)
2. The Director-General, Debt Management Office (**Secretary**)
3. The Permanent Secretary of Ministry of Finance
4. The Chief Executive/Accounting Officer of Pension Board
5. The Accountant General of the State

6. The Chief Executive of Bureau of Public Procurement
7. The Auditor General of the State
8. The Executive Chairman Imo Internal Revenue Service
9. The Director of Budget (Ministry of Planning and Budget)

The Committee shall use its delegated authority to request for all necessary information in order to facilitate the effective discharge of its functions. And in the process of performing its functions, the Committee shall engage the services of professional assistance for web design and management and incur expenditures through the established procurement systems and in line with the annual budget of the secretariat.

15.0 SECRETARIAT

The committee shall have a secretariat established at a meeting point at the discretion of the Honourable commissioner for Finance or within the office of the State's Debt Management Office.

16.0 POWER & AUTHORITY OF DOMESTIC ARREARS 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 expenditure, including the engagement of professionals in the course of executing its duties.

17.0 TENURE OF DOMESTIC ARREARS COMMITTEE

The Committee will operate in perpetuity. However, the State Governor has the discretion to reconstitute or disband the Committee.



Hon. Dr. (Mrs.) Doris N. Uzoka-Anite, CFA
Honourable Commissioner for Finance and
Coordinating Economy