



Zanna Mustapha Legacy Estate Phase I

ARREARS CLEARANCE FRAMEWORK

June 2019

**DEBT MANAGEMENT DEPARTMENT
MINISTRY OF FINANCE , BUDGET & PLANNING
BORNO STATE**

Contents

Glossary	3
Background	5
Introduction	5
Planned Actions to clear Arrears	7
Multi year funding plan to clear arrears	7
Economic policy Framework and selected policy reform measures	9
Debt Management	10
Expenditure Rationalization	10
Efficient collection of mine-related revenues	10
Human Development	11
Prioritization Criteria for Arrears to be settled in the implementation of the ACF	12
Institutional Arrangements for overseeing the implementation of the ACF	13

Glossary

AfDF African Development Fund
AMCON Assets Management Corporation of Nigeria
ATM Average Term-to-Maturity
ATR Average Term-to-Refixing
BAS Bond Auction System
BOF Budget Office of the Federation
BMSC Bond Market Steering Committee
CBN Central Bank of Nigeria
CLM Contingent Liability Management
CMC Cash Management Committee
CLMC Cash and Liquidity Management Committee
CRF Consolidated Revenue Fund
CRR Cash Reserve Requirements
CSCS Central Securities Clearing System
DAS Dutch Auction System
DMDs Debt Management Departments
DMO Debt Management Office
DRSD Debt Recording and Settlement Department
DSA Debt Sustainability Analysis
EMIT Economic Management Implementation Team
FDI Foreign Direct Investment
FEC Federal Executive Council
FGN Federal Government of Nigeria FIRS Federal Inland Revenue Service
FLAC Fiscal and Liquidity Management Committee
FMDA Financial Markets Dealers Association
FMF Federal Ministry of Finance
FRA Fiscal Responsibility Act, 2012
FRN Federal Republic of Nigeria
FSS Financial System Strategy
GDP Gross Domestic Product
GS Government Stockbroker
HMF Honourable Minister of Finance

ICM International Capital Market IFC
International Finance Corporation
IMF International Monetary Fund
IPPIS Integrated Personnel Payroll Information System
ISA Investment and Securities Act, 2007
ISPO Irrevocable Standing Payment Order
IT Information Technology
MDAs Ministries, Departments and Agencies
MDD Market Development Department
MDGs Millennium Development Goals
MFPC Monetary and Fiscal Policy Coordinating Committee
MPR Monetary Policy Rate
MTDS Medium-Term Debt Management Strategy
MTEF Medium-Term Expenditure Framework
NAICOM National Insurance Commission
NASS National Assembly
NBS National Bureau of Statistics
NDMF National Debt Management Framework
NEMT National Economic Management Team
PDMI Public Debt Management Institute
PDMMs Primary Dealer Market Makers
PENCOM National Pension Commission
PMD Portfolio Management Department
SEC Securities and Exchange Commission
SND Sub-national Debt
SNGs Sub-national Governments
SPD Strategic Programmes Department
SPG Special Programmes Group
TBs Treasury Bonds
TCs Treasury Certificates
TSA Treasury Single Account
US\$ United States Dollar
WB World Bank

Background

Introduction

The Borno State Debt Management Office (DMO) was established by Executive Council resolution of the Borno State Fiscal Responsibility 2005 .

This is with the aim of managing the State debt and arrears situation by: -

- (i) Establishing and operationalizing a Debt Management Office;
- (ii) Undertaking a validation and reconciliation exercise of Borno State's internal and external debt database with all creditors;
- (iii) Negotiating with creditors and the development partners for arrears clearance, debt relief and new financing; and
- (iv) Leveraging Borno State's natural resources in pursuit of debt relief.

This is with the aim of achieving the following objectives amongst others to:

- i. Make public debt management a visible instrument for growth, development and poverty reduction;
- ii. Maintain public debt sustainability; and,
- iii. Strengthen the existing legal, institutional and policy frameworks for efficient debt management in the State.

Below are the arrears as at 30th June 2019 : -

Contractors	-	N28,119,253,157.95
Pension & Gratuity	-	N
		17,087,032,676.07

Table 1 Debt Position as at 31st December 2018

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Debt Sustainability Analysis			
A	DSA RATIO SCENARIOS:	SUSTAINABILITY THRESHOLDS	As At 31st December 2018
	Solvency Ratios		
1	Total Domestic Debt/Total Recurrent Revenue	51%	50%
2	Total Domestic Debt/IGR	160%	651%
3	Total External Debt/Total Revenue	51%	7%
4	Total Public Debt/Total Revenue	98%	56%
5	Total Public Debt/State GDP	0%	No State GDP Available
	Liquidity Ratios		
6	External Debt Service/Total Revenue	10%	0.17%
7	Total Debt Service/Total Revenue	15%	12%
8	Domestic Debt Service/IGR	10%	163%
B	PUBLIC DEBT DATA AS AT 31st DECEMBER 2018		2018 Actual
1	Total Domestic Debt		44,433,124,297.58
2	Total External Debt		6,341,619,693.00
3	Total Public Debt		50,774,743,990.58
4	Total Domestic Debt Service 2018		11,124,107,207.27
5	Total External Debt Service 2018		155,828,918.00
6	Total Public Debt Service		11,279,936,125.27
C	STATE GDP FOR 2018		
1	State GDP		

Planned Actions to clear Arrears

Multi-year funding plan to clear arrears

The Borno State Government has resolved to clear its debt stock arrears. The State is committed to boosting internally generated revenue and to reduce as much as possible the accumulation of new arrears and to succeed in the implementation of necessary reforms. Furthermore, arrears clearance is also central to the debt relief process for any Country or State; without comprehensive debt clearance of arrears organisations, progress cannot be made in the development of the State. With strong economic policy and foresight, the State is bound to achieve its developmental objectives.

Table 2: Borno State Macroeconomic Framework

Macro-Economic Framework			
Item	FY 2020	FY 2021	FY 2022
National Inflation	11.70%	11.30%	11.40%
National Real GDP Growth	2.50%	2.40%	2.70%
Oil Price Benchmark	\$55.00	\$60.00	\$60.00
Oil Production Benchmark(MBPD)	2.1	2.2	2.2
NGN:USD Exchange Rate	305	305	305
Other Assumptions			
Mineral Ratio	35%	36%	38%

Table 3: Borno State Medium Term Fiscal Framework

Recurrent Revenue	2020	2021	2022
Statutory Allocation	41,970,833,348.00	47,956,323,780.00	51,331,397,593.00
VAT	11,628,531,206.00	12,608,223,498.00	13,831,195,629.00
IGR	10,786,129,680.00	12,404,049,132.00	14,264,656,502.00
Excess Crude/Other Revenue	8,000,000,000.00	8,000,000,000.00	8,000,000,000.00
Total recurrent Revenue	72,385,494,234.00	80,968,596,410.00	87,427,249,724.00

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Recurrent Revenue	2020	2021	2022
CRF Charges	20,566,606,059	21,574,907,310	23,223,841,365
Personnel	21,840,436,669	22,495,649,769	23,170,519,262
Overheads	17,531,382,022	17,706,695,842	17,883,762,801
Total	59,938,424,750	61,777,252,921	64,278,123,428
Transfer to Capital Account	12,447,069,484.00	19,191,343,489.00	23,149,126,296.00

Capital Receipts	2020	2021	2022
Grants	5,100,000,000	5,300,000,000	5,250,000,000
Other Capital Receipts	3,500,000,000	4,000,000,000	4,000,000,000
Total recurrent Revenue	8,600,000,000	9,300,000,000	9,250,000,000

Reserves	2020	2021	2022
Planning Reserve	2,651,030,211	2,519,350,762	2,259,934,472
Total Reserves	2,651,030,211	2,519,350,762	2,259,934,472

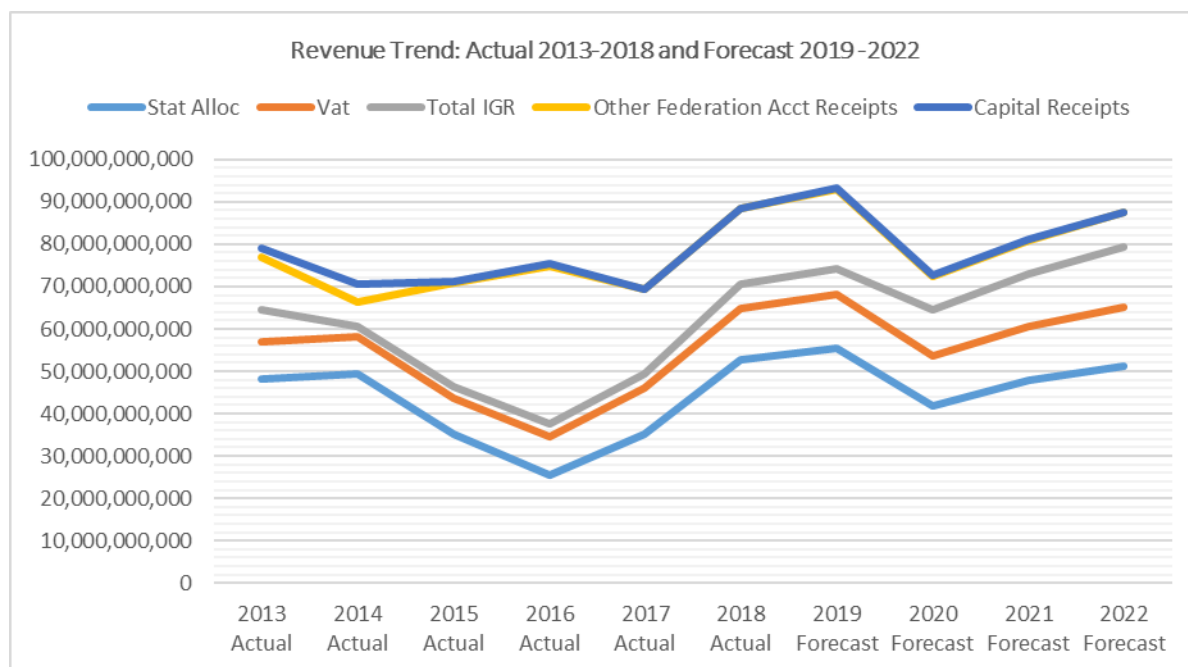
	2020	2021	2022
Capital Expenditure	32,696,039,273	31,071,992,728	34,039,191,824
Discretionary Funds	28,396,039,273	27,371,992,728	31,089,191,824
Non Discretionary Funds	4,300,000,000	3,700,000,000	2,950,000,000

Net Financing	14,300,000,000	5,100,000,000	4,400,000,000
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Total Budget Size	95,285,494,234	95,368,596,410	101,077,249,724
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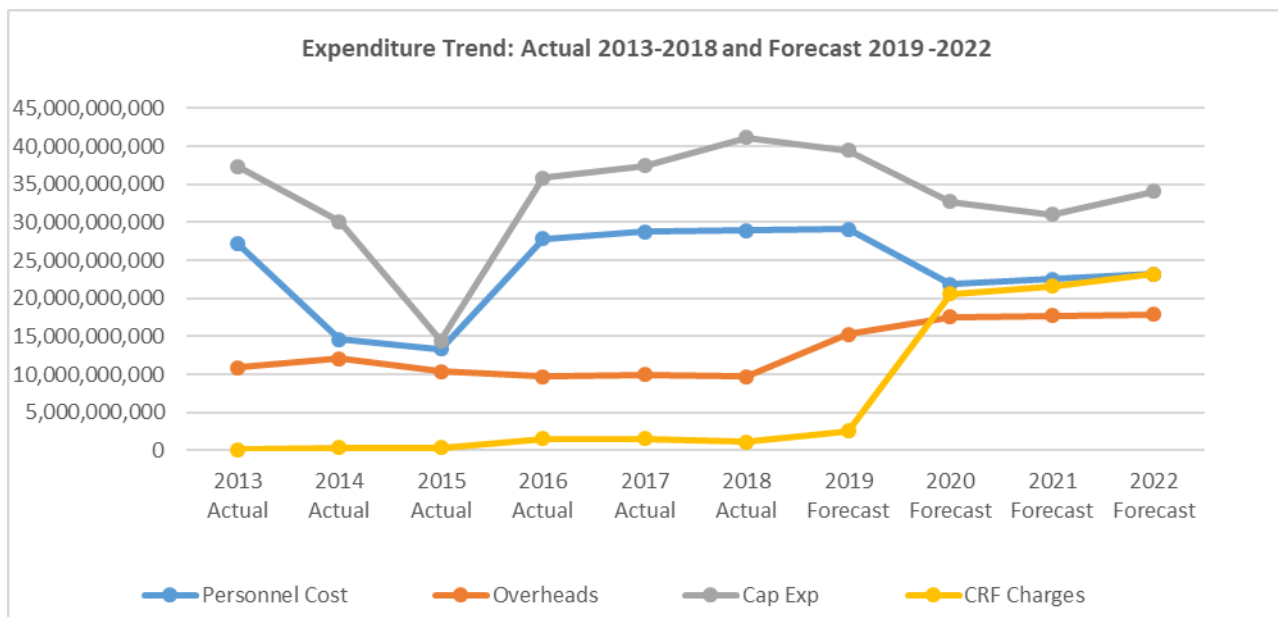
Ratios			
Growth in Recurrent Revenue	7.62%	11.86%	7.98%
Growth in Recurrent Expenditure	2.80%	3.07%	4.05%
Capital Expenditure Ratio	37.10%	35.22%	36.41%
Deficit to Total Expenditure	15.00%	5.35%	4.35%

Figure 1: Borno State Revenue Trend



	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Stat Alloc	48,077,351,098	49,370,590,185	35,042,454,739	25,571,573,728	35,228,651,356	52,830,015,263	55,471,516,026.15	41,970,833,348.00	47,956,323,780.00	51,331,397,593.00
Vat	8,980,702,739	8,901,065,003	8,679,926,903	9,070,021,783	10,762,532,482	12,135,358,163	12,742,126,071.15	11,628,531,206.00	12,608,223,498.00	13,831,195,629.00
Total IGR	7,401,650,391	2,362,468,987	2,522,303,132	2,816,027,305	3,388,145,222	5,730,917,357	6,017,463,224.85	10,786,129,680.00	12,404,049,132.00	14,264,656,502.00
Other Federation Acct Receipts	12,370,508,151	5,827,175,947	24,612,866,954	37,457,622,816	19,963,168,450	17,849,658,908	18,742,141,853.40	8,000,000,000.00	8,000,000,000.00	8,000,000,000.00
Capital Receipts	2,291,102,019	4,057,660,573	334,889,928	616,671,026	0	0	196,500,000	196,500,000	196,500,000	196,500,000

Figure 2: Borno State Expenditure Trend



	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast
Personnel Cost	27,206,339,130	14,608,889,579	13,351,239,884	27,835,825,124	28,772,204,986	28,911,243,285	29,100,456,524	21,840,436,669	22,495,649,769	23,170,519,262
Overheads	10,871,687,511	12,111,570,012	10,359,442,021	9,748,906,766	9,971,950,052	9,696,286,382	15,257,825,468	17,531,382,022	17,706,695,842	17,883,762,801
Cap Exp	37,335,109,822	30,110,905,637	14,436,631,698	35,806,343,986	37,460,404,447	41,117,165,894	39,458,789,548	32,696,039,273	31,071,992,728	34,039,191,824
CRF Charges	63,139,428	324,227,049	324,227,037	1,538,518,281	1,526,135,423	1,124,924,432	2,525,654,654	20,566,606,059	21,574,907,310	23,223,841,365

Economic policy Framework and selected policy reform measures

The Medium Term Plan (MTP): 2020-2022 -The Medium Term Plan (MTP) is the premier economic and social policy framework set out to support the restoration of economic stability and growth in Borno State. This framework has been developed on the foundations laid down and the 3 year Macroeconomic Policy and Budget Framework. The MTP sets out clearly the national priorities and investment programs for 5 years, from 2013 to 2022. The main target of the MTP is to ensure that the economy remains on a sustainable growth. The focus of the plan is on inclusive growth and balanced development. To attain objectives of the MTP, a number of reform measures are being implemented.

Debt Management

To address the debt and arrears situation, Government adopted an Accelerated Arrears Clearance, Debt and Development Strategy with the following key policy elements:

- (v) Establishment and operationalization of a Debt Management Office;
- (vi) Undertaking a validation and reconciliation exercise of Borno State's internal and external debt database with all creditors;
- (vii) Negotiating with creditors and the development partners for arrears clearance, debt relief and new financing; and
- (viii) Leveraging Borno State's natural resources in pursuit of debt relief.

Expenditure Rationalization

In view of the expenditure overrun on the wage bill, Borno State Government plans to introduce the general freeze on civil service recruitment, with dispensations on critical areas and which warranted Treasury and relevant Public Services Commissions concurrence; restrained foreign travel accompanied by other cost cutting measures, such as, forward purchasing of tickets and; prioritized settlement of domestic arrears.

Human Development

Borno State Government has instituted policies that enable the participation of women and youth in mainstream economic activities. Adoption of a number of National policies has been followed by establishment of several funding facilities such as the Youth Development Fund, Mining Industry Loan Fund, Women Development Fund and SME Fund to facilitate access to skills training, affordable credit, as well as creation of employment opportunities.

Prioritization Criteria for Arrears to be settled in the implementation of the ACF

The committee adopted the following prioritization criteria for Borno state Government .

Borno State Year 2019

Type of Arrears	Total stock at end of 2018	Criteria for allocation among types	PLANNED amount to be cleared in 2019	Prioritization criteria to be applied to arrears within each type of arrears
Contractors Arrears	23,580,277,354	35% of monthly net FAAC after Mandatory & Deductions	5,000,000,000	Variable (Payment based on Certified level of work done and age)
Pension and Gratuities	15,336,573,841	40% of monthly IGR collection	1,100,000,000	FIFO
Salaries arrears	516,273,101	5% of monthly IGR collection	250,000,000.00	FIFO
Other				
Total	39,433,124,296		6,350,000,000	

