

**Presentation for CABRI's 7th Network Engagement of Public Debt Managers in Africa  
A virtual Meeting – 13<sup>th</sup> April 2023**

**By**

**Joseph A Thullah, PhD**

**Assistant Director, Public Debt Division. Ministry of Finance, Sierra Leone**



**Questions to Address**

- ❖ The impact of Eurobond Issuance in the African Economy
- ❖ How do African governments use active debt management, especially switches or debt exchanges – where shorter-dated bonds about to redeem are exchanged for longer-dated bonds to manage refinancing risk?
- ❖ Are these debt exchange operations (switches) used as a cash management tool, a debt management tool or a risk management tool, or all?
- ❖ Can these active debt management techniques apply uniformly to both external and domestic debt?
- ❖ What are some of these indicators and how well do they instil discipline and foster closer working relationship between various units in Debt Management Offices in achieving the common debt management objective(s)?

## Key Issues of Discussion



- ❖ The impact of Eurobond Issuance in the African Economy
- ❖ Explore How Governments are addressing roll-over, debt refinancing and fiscal risks related to Eurobond issuances and what more can be done ?.
- ❖ Share Lessons on the application of various active debt and risk management strategies such as debt exchanges (or non-credit event debt restructuring or reprofiling) or **debt buy-backs** in managing and/or reducing government refinancing risk.
- ❖ Discuss Indicators (and/or risk benchmarks) countries are using to monitor and report on government's refinancing risk, which can impact positively on debt sustainability analysis, sovereign risk and rating analysis.

## Issues to Discuss

- ❖ Debt-Buy Back Operations in Sierra Leone (1996-2002 )
- ❖ Sierra Leone's HIPC's implementation experience (2003-2006)
- ❖ Public Debt - Composition, Stock and Maturity Structure (2003-2021)
- ❖ Discuss How Government have been addressing roll-over, debt refinancing and fiscal risks ( As related to T-Bonds Issuances in the Domestic Market and What more can be done ?
- ❖ Various active debt and risk management strategies such as Debt Exchanges (Restructuring or Profiling of Domestic Debt Instruments), debt buy-backs in managing and/or reducing government refinancing risks.
- ❖ Sierra Leone's Debt sustainability Analysis-Formulation Experiences, Results and Implication for Debt Managers
- ❖ Discuss Debt Indicators (and/or risk benchmarks) we have been using to monitor and reporting on Public Debt and refinancing risk, which can impact positively on debt sustainability analysis, sovereign risk and rating analysis.
- ❖ Recommendations

# Three(3) Debt Buy-Backs in Sierra Leone

- **External Commercial Debt Buy-Back** - 1<sup>st</sup> carried out in 1996- external debt reduction with a negotiated and agreed discount of 10 cent per 1 dollar - 90% discount was achieved with a 100% rate
  - The data reached an all-time high of 29.431 USD million in 1995 and a record low of 0.000 USD million in 2016.
  - Sierra Leone SL: External Debt
  - 2<sup>nd</sup> External Commercial Debt Buy-Back was initiated in 2009 -Debt Relief Facility (DRF) preparation Grant was received in the sum of \$ 950 thousand to recruit the experts ( Legal and Senior Finance Advisor to work on the proposal but was stall after three years of preliminary work by both the team in the world bank and on our side.
- **Domestic Debt Buy Back** - Also in 1996 and augmented in 2002.

That was successfully subscribed by domestic suppliers creditors -

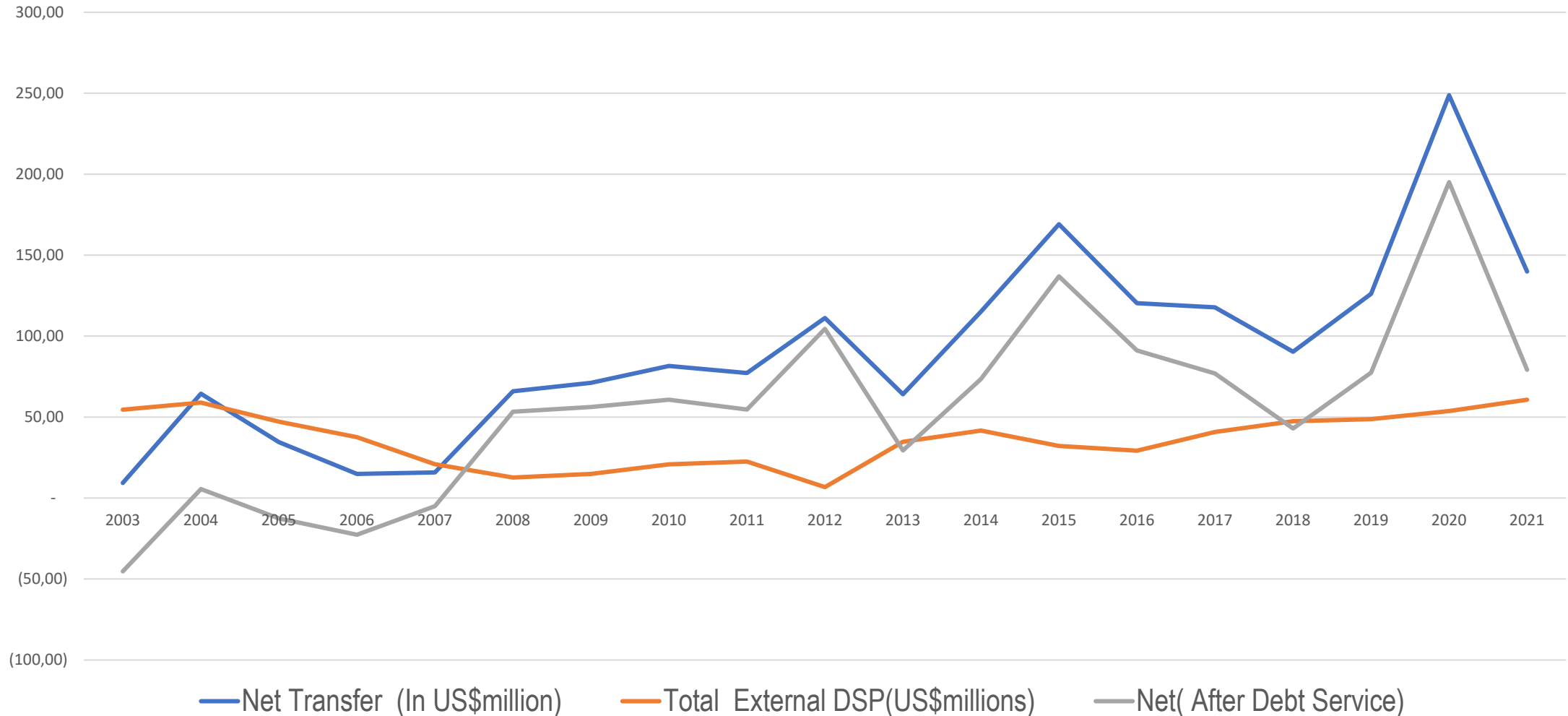
The debt were categorised into three: **Tender, LPO, Sole Sourcing** These debt were discounted at 45% on Tendered , 35% on LPO and 15% on Sole Sourcing respectively. This was augmented in 2002/ 2006.( Just after the 10yrs Civil Conflict)
- **Domestic Debt Buy Back** \_recently in 2017 - Domestic Arrears Clearance Strategy formulated
- The strategy replicated previous domestic debt hair cut but does not enjoyed a 100% acceptance this time. Government has revised the strategy and now waiting for implementation



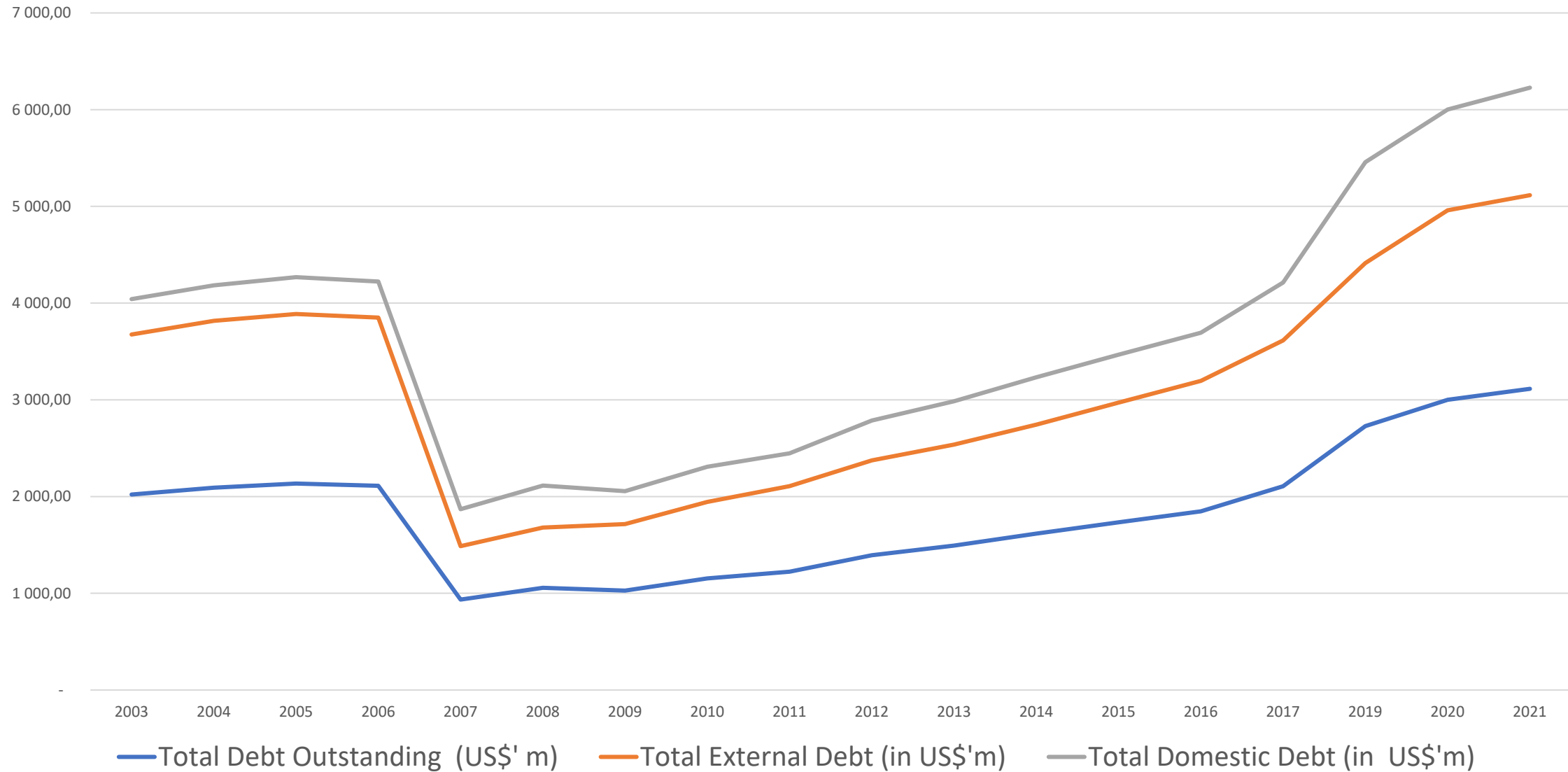
## Sierra Leone's Experiences with Debt Relief Initiative 2002 - 2021

- 1996 the HIPC was launched- At the decision point in February 2002, the Executive Directors agreed that Sierra Leone qualified for debt relief under the Enhanced HIPC Initiative- S/L was amongst the 38 LICs that met the completion point criteria.
- Subsequently, the MDRI- effort to minimize debt burden and enhance poverty reducing activities- through utilisation of debt relief from the Multilateral, including, IDA, the IMF and the ADF of about US\$556.2 million in NPV terms over 50 years  
<https://www.bing.com/search?q=ssierra+Leoen+total+dbet+relief+under+the++Hipc+initiative&form=ANNTH1&refig=541c4a7f7adc48c6bb45255fbb130a2c>
- In NPV terms, the stock of debt was reduced from US\$1,197.6 million at end-2005 to US\$483.0 million at end-2006 after HIPC relief and to US\$110.0 million after MDRI. Sierra Leone's external debt burden indicators fall to levels significantly lower than the average of low-income countries.
- External Debt to GDP dropped from over 220% of GDP in 2003 to about 43 % of GDP in 2007; and In the long-term, the NPV of debt-to-exports ratio was expected to increase gradually, but will remain below 70 percent.

# Net Transfers Before/After HIPICs 2003-2021



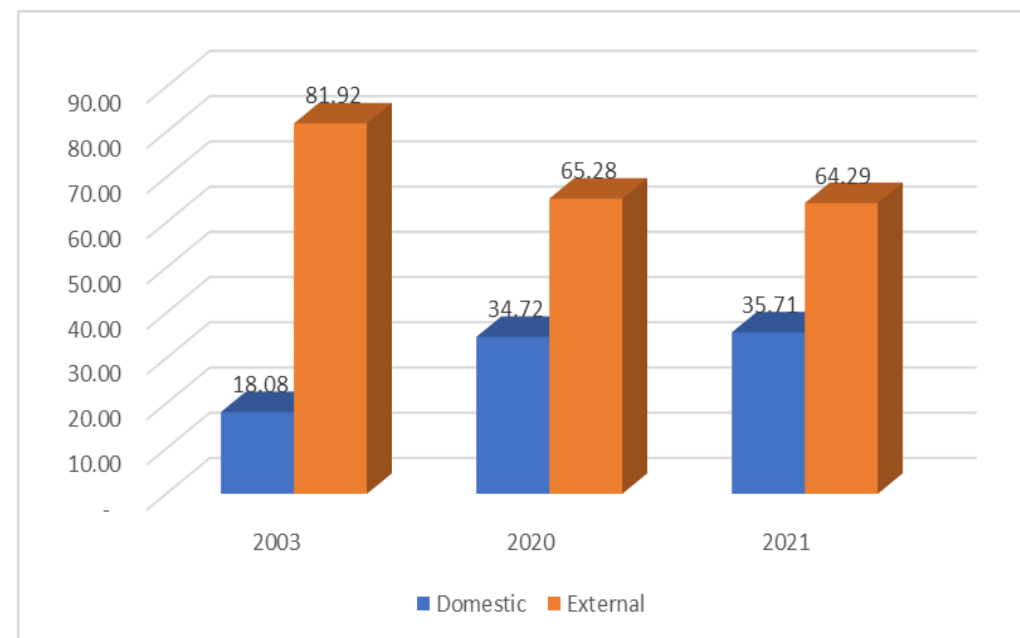
# Trend in Public Debt 2003-2023 (In US\$ millions)



## Composition of Public Debt in Sierra Leone

Items	2003	2020	2021
<b>Total Public Stock (in Le'mn)</b>	<b>5,122,240.58</b>	<b>30,709,753.08</b>	<b>35,395,920.34</b>
Treasury Bills	327,069	6,316,133.65	8,407,875.00
Medium Term Bond (5yr)		810,977.03	733,003.71
1 Yr Bond		-	-
1.4yr - 1.9yr Bonds		161,313.50	-
2 Yr Bonds		235,883.95	317,597.85
2.4 Yr Bond		48,154.22	25,067.06
3 Yr Bonds		314,722.83	358,874.24
10 yr Bond		26,250.00	18,750.00
<b>Suppliers/Ex-Ambassador/Parastatals/Arrears</b>	<b>68,600</b>	<b>2,507,779.85</b>	<b>2,582,695.62</b>
Wansa	-	-	-
Judgement Debt owed to Thunderball		26,313.39	-
W&M Advances		213,568.64	196,193.52
Remaining NNIB	530,233	-	-
Bridge Loan		-	-
<b>Domestic Debt (Le'Million)</b>	<b>925,902.18</b>	<b>10,661,097.05</b>	<b>12,640,056.99</b>
<b>Domestic Debt in USD (Million)</b>	<b>365.24</b>	<b>1,041.66</b>	<b>1,111.87</b>
<b>External Debt Stock (Le'mn)</b>	<b>4,196,338.4</b>	<b>20,048,656.0</b>	<b>22,755,863.4</b>
<b>Multilateral</b>	<b>2,426,128.2</b>	<b>15,744,754.01</b>	<b>17,970,939.21</b>
<b>Bilateral</b>	<b>1,121,210.0</b>	<b>2,467,535.66</b>	<b>2,874,704.92</b>
<b>External Private Creditors</b>			
<b>External Private Suppliers</b>	<b>649,000.2</b>	<b>1,836,366.37</b>	<b>1,910,219.22</b>
<b>Commercial Banks</b>	-		-
<b>Bond Holders</b>	-		-
<b>External Debt (Leone)</b>	<b>4,196,338.4</b>	<b>20,048,656.0</b>	<b>22,755,863.4</b>
<b>External Debt (USD)</b>	<b>1,655.33</b>	<b>1,958.89</b>	<b>2,001.70</b>
<b>Total Debt Outstanding (Le'm)</b>	<b>5,122,240.6</b>	<b>30,709,753.1</b>	<b>35,395,920.3</b>
<b>Total Debt Outstanding (US\$' m)</b>	<b>2 020.57</b>	<b>3 000.56</b>	<b>3 113.57</b>

## Proportion of Dom & Ext Debt to Total Public Debt 2003-2021



### Key Issues to Note

1. Government Public Debt Consist of Domestic and External Debts with various specific characteristics
2. Government has not yet issue International /Euro Bonds like other HIPC
3. Proportion of Domestic Debt seem to increase
4. No new Commercial Debt has been contracted since HIPC and that our External Creditors are mainly Bilateral/ Multilaterals that offers concessional credits– IMF/World Bank , ADB/ IsDB



## KEY DEBT RATIOS IN SIERRA LEONE

	2003	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2019	2020	2021
External Debt/GDP	180.33%	25.95%	25.83%	32.63%	32.80%	30.72%	27.71%	26.59%	28.55%	31.76%	41.63%	42.70%	44.00%	48.47%	49.71%
Domestic Debt/GDP	39.79%	17.99%	18.00%	16.15%	15.07%	11.76%	11.65%	11.40%	12.41%	12.73%	15.36%	16.95%	27.24%	25.77%	27.61%
Total Debt/GDP	220.12%	43.94%	43.83%	48.79%	47.87%	42.48%	39.36%	37.99%	40.96%	44.49%	56.99%	59.65%	71.24%	74.24%	77.33%
External Debt/Total Debt	81.92%	59.05%	58.93%	66.89%	68.53%	72.31%	70.40%	69.98%	69.71%	71.38%	73.05%	71.59%	61.77%	65.28%	64.29%
Domestic Debt/Total Debt	18.08%	40.95%	41.07%	33.11%	31.47%	27.69%	29.60%	30.02%	30.29%	28.62%	26.95%	28.41%	38.23%	34.72%	35.71%
Debt service/DBR	69.19%	29.55%	22.22%	19.55%	23.23%	22.99%	20.97%	18.44%	16.91%	13.89%	11.55%	25.21%	27.54%	37.65%	32.54%
Domestic Int./DBR	21.11%	17.97%	16.42%	11.84%	14.42%	16.24%	13.60%	11.89%	8.20%	6.18%	4.87%	16.09%	16.47%	19.78%	16.38%
External debt service/Export	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Domestic Debt/GDP	39.79%	17.99%	18.00%	16.15%	15.07%	11.76%	11.65%	11.40%	12.41%	12.73%	15.36%	16.95%	27.24%	25.77%	27.61%

### Key Issues to Share

1. Debt Sock Increased
2. All the Solvency and Liquidity Ratios Deteriorated, growing from baseline position to unacceptable level

RISKS INDICATORS BASED ON LATEST MTDS, COVERING 2020-2025



Risk Indicators		2020	As at end 2025			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		66.1	64.3	64.7	63.0	64.9
Present value debt as percent of GDP		53.5	53.4	53.9	49.1	54.0
Interest payment as percent of GDP		3.2	4.6	4.8	3.4	3.9
Implied interest rate (percent)		4.8	7.5	8.2	5.6	6.7
Refinancing risk	Debt maturing in 1yr (percent of total)	19.8	40.0	28.6	19.4	18.7
	Debt maturing in 1yr (% of GDP)	18.9	25.7	18.5	12.3	12.2
	ATM External Portfolio (years)	11.4	11.5	11.5	12.0	10.3
	ATM Domestic Portfolio (years)	1.8	0.8	1.29	1.34	1.3
	ATM Total Portfolio (years)	9.3	6.9	7.1	9.0	7.9
Interest rate risk	ATR (years)	9.3	6.9	7.1	9.0	7.9
	Debt refixing in 1yr (percent of total)	19.8	40.0	28.6	19.4	18.7
	Fixed rate debt incl T-bills (percent of total)	100.0	100.0	100.0	100.0	100.0
	T-bills (percent of total)	14.0	33.5	19.4	11.8	11.8
FX risk	FX debt as % of total	69.0	56.9	56.5	71.7	73.4
	ST FX debt as % of reserves	19.7	25.5	25.5	25.5	25.5



# Medium Term Cost and Risks Target 2021-2025

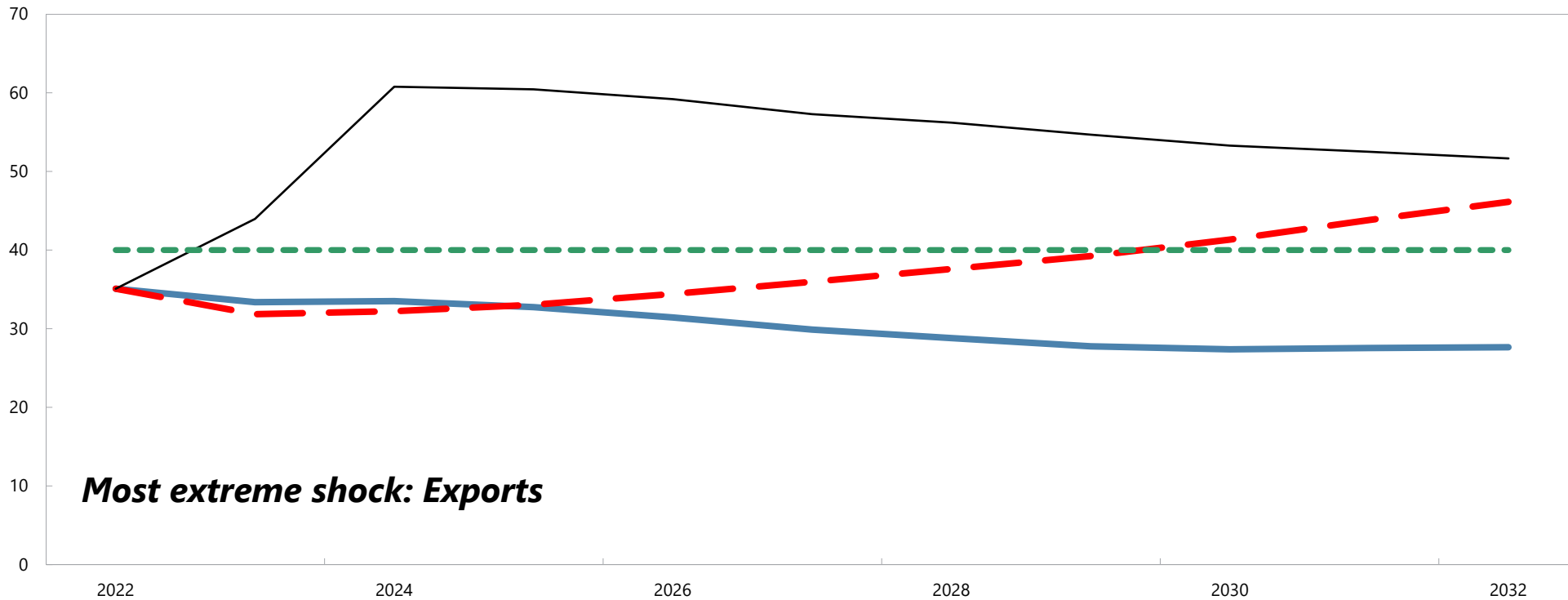
Goal	Indicator	Baseline	Target /1
Reduce debt burden	Present value of debt to GDP	53.5%	49.1%
Manage FX risk	FX debt (as % of MTDS debt)	69%	≤ 70%
Domestic Market Development	Domestic Debt (as % of MTDS debt)	31%	≥ 30%
Manage refinancing risk	Overall ATM (years)	9.3	≥ 10
	Debts Maturing in 1 year (as % of GDP)	18.9%	≤ 12.3%
Manage interest rate risk	Fixed rate debt (% of MTDS debt)	100%	100%
	T-bills (% of total debt)	14.0%	11.8%



# Latest DSA Results For Sierra Leone May/June 2022

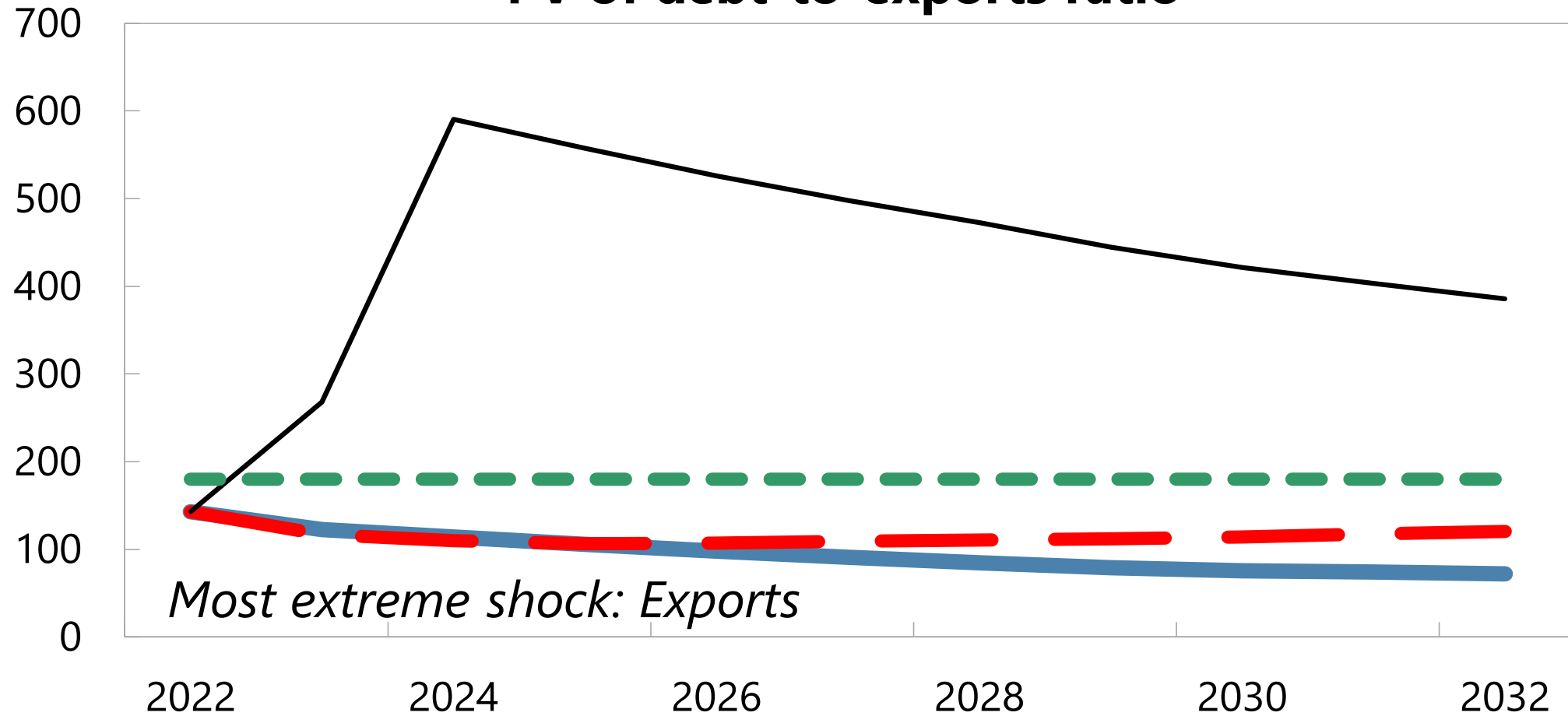
## Baseline Results\_External Debt

### PV of debt-to GDP ratio





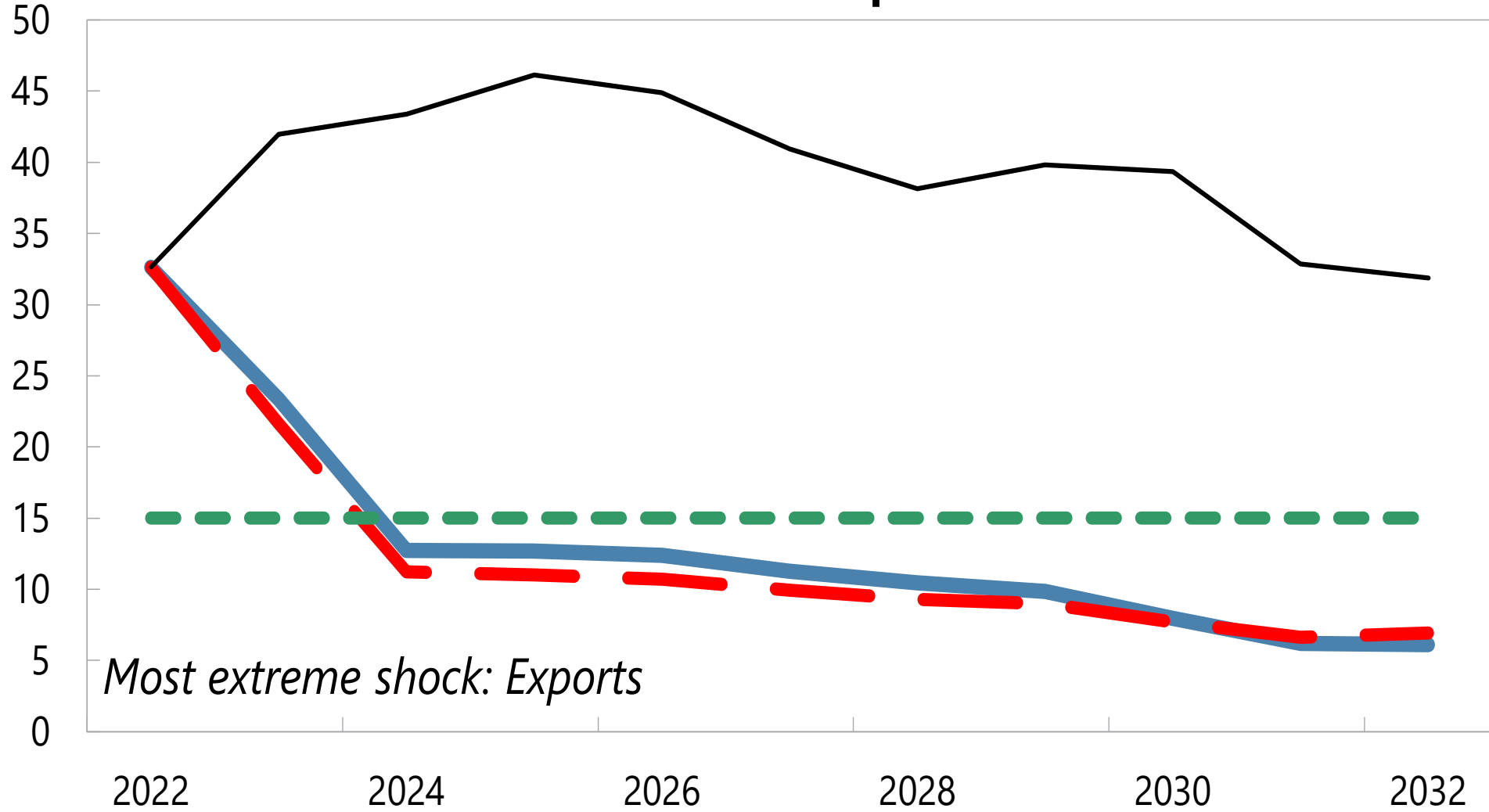
## PV of debt-to-exports ratio



*Most extreme shock: Exports*

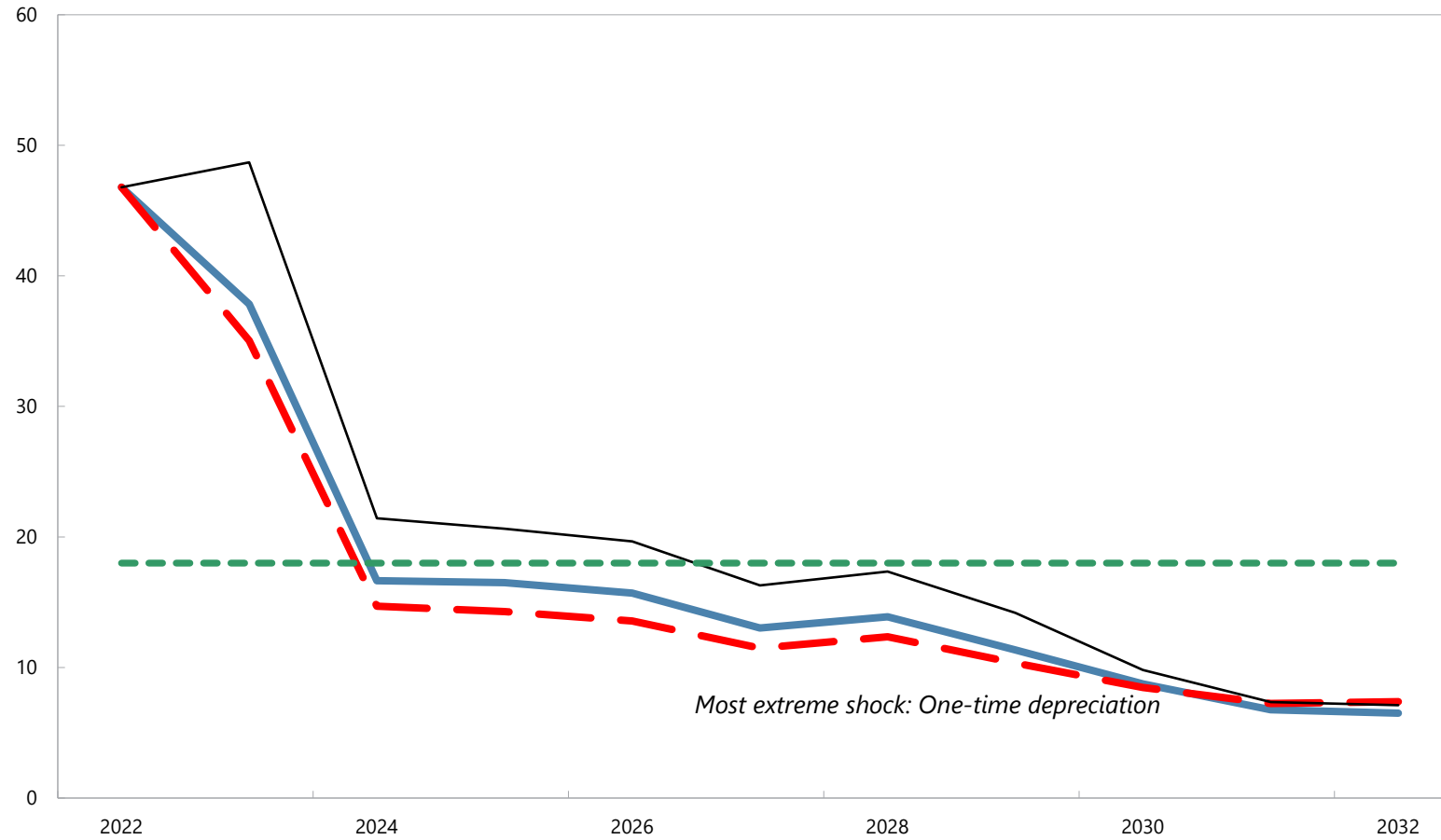


# Debt service-to-exports ratio





# Debt service-to-revenue ratio



# Key Recommendations



- 1) Continue to prioritize mobilization of grant over loans and ensuring that new borrowings meet the concessionality threshold of a minimum of 35 percent grant element.
- 2) Pursue diversification of export base to avoid over-reliance on mineral earnings given the vulnerabilities.
- 3) Step-up revenue mobilization as current collection efforts is below potential relative to regional average. Increased revenue mobilization is critical to cushion the risk of debt distress in the medium to long-term (Implement Finance Act 2022 and Amended Mines and Minerals Act 2009);
- 4) **Make efforts to complete and implement the Medium-Term Domestic Revenue Strategy- including efforts to collect Domestic Revenue Arrears**
- 5) Carefully implement the domestic arrears clearance strategy and principles 2020-2025 with securitization as last option.
- 6) **Seek non-debt creating financing such as PPP's to finance huge infrastructure project with minimal or no recourse to the national budget.**





# Key Recommendations

- 7) Seek to widen donor base to include non-traditional creditors particularly to guarantee required funding for infrastructure projects under the Medium-Term National Development Plan.
- 8) Continue with fiscal consolidation. Rationalize both recurrent and development expenditure to ensure value for money and guarantee productive returns to build Government's liquidity and solvency capacity to meet debt service payments in the medium to long-term.
- 9) The need to continue to deepen progress on debt transparency and accountability surrounding public debt management in Sierra Leone by simplifying critical debt management report including MTDs and DSA report for the consumption of the general public .
- 10) Improve on innovative financing to support green economy without compromising debt sustainability
- 11) Negotiate a package for relief or cancellation of debt servicing costs.

**THANK VERY MUCH FOR YOUR ATTENTION**

**Thursday, 13<sup>th</sup> April, 2023**