SIERRA LEONE DEBT SITUATION 2020

A Call for Debt Relief, Cancellation, Transparency and Accountability

Public Debt Coalition

October 2021

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Sierra Leone Debt as of end December 2020	
Total Debt Stock	Le 30.71 trillion (US$3 billion)
Total External Debt Stock	Le20.05 trillion (US$1.96 billion)
Total Domestic Debt Stock	Le10.66 trillion (US$1.04 billion).
Total Bilateral Debt Stock	$241.10 million
Total Multilateral Debt Stock	US$1,538.38 million
Total Commercial Debt Stock	$179.43 million
Total Debt Servicing	Le2.55 trillion
Remaining Maturity Period	57.8% above 10 years

INTRODUCTION

In a bid to help Sierra Leone tackle its external debt problem, as a means of helping the country address its development challenges, a diverse group of organizations (Budget Advocacy Network, Christian Aid, Action Aid and Oxfam) that work in Sierra Leone have come together, as concerned organizations to offer support to the people of Sierra Leone and its government in their bid for expeditious and full debt cancellation. To achieve this objective, the four organizations came together to act in a coordinated fashion that will advocate and campaign for speedy and full debt relief and cancellation for Sierra Leone and lobby international financial institutions (IFIs), multilateral creditors, bi-lateral creditors, private creditors and external creditor governments to cancel Sierra Leone's debts.

The coalition sought an in-depth situational analysis of the looming debt crisis with a focus on the latest debt situation. This report analyzes and builds understanding of the drivers of rising debt burdens, the implications for tax and spending in Sierra Leone, and the potential for actions – both in strengthening transparency of overall debt burdens, and also managing negative impacts. The analysis will inform CSOs, development and donor partners, private institutions and other partners on the need for debt cancellation for Sierra Leone, with a focus on improving society in line with climate change and debt justice.

TOTAL PUBLIC DEBT

Sierra Leone's total public debt as at the end of 2020 amounted to **Le30.71 trillion (US$3 billion).** This amount is **bigger than the entire 2019, 2020 and 2021 government budget.** In terms of GDP the total public debt is **74.24** percent. External debt accounted for **Le20.05 trillion (about US$1.96 billion)** and domestic debt gone to the tune of **Le10.66 trillion (US$1.04 billion).** Figure 1 shows the share of external to domestic public debt.

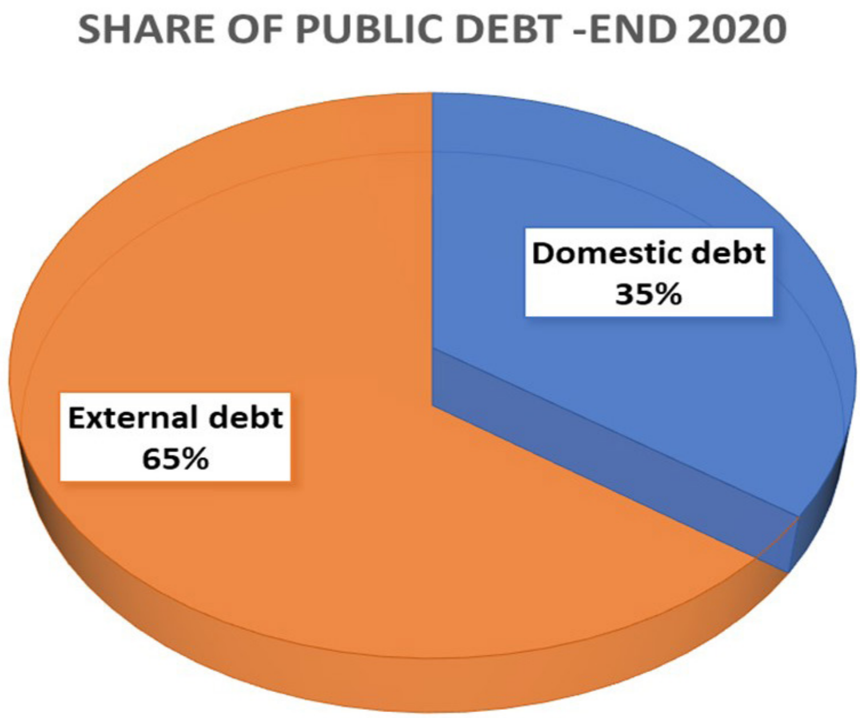


Figure 1: Share of Public Debt
Source: Public Debt Bulletin 2020

The Government of Sierra Leone has been borrowing to meet its development objectives of providing public infrastructure and projects across specific sectors in line with its development plan. The growth in domestic debt in recent years has also been due to the issuance of treasury bonds to refinance the stock of verified domestic suppliers' and contractors' arrears

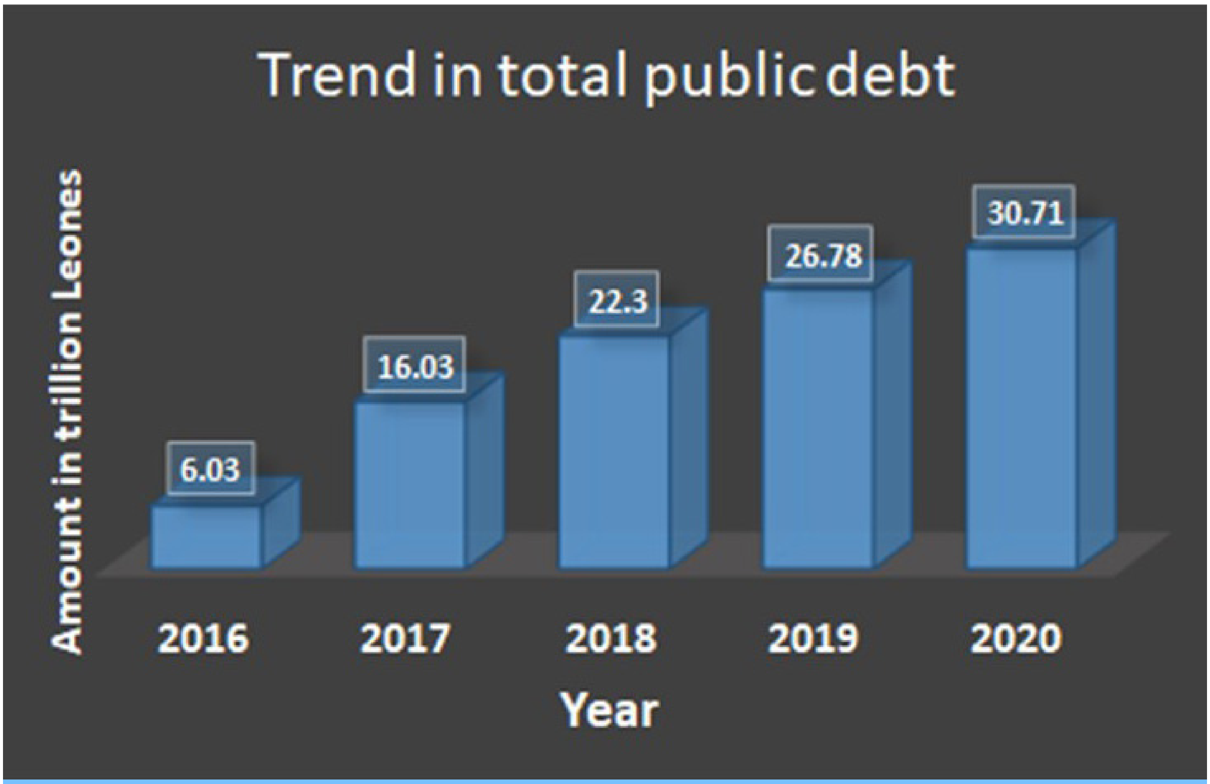


Figure 2: Trend in public debt
Source: Public Debt Bulletin 2020

From December 2019 to December 2020, pubic debt increased by 14.69 percent. This was as a result of domestic borrowing to implement the national budget and net external disbursement to implement donor financed projects across sectors nationwide. The IMF's disbursement of $ 142 million under the Rapid Credit Facility (RCF) to minimise the impact of CoVID-19 on the economy was also a main driving factor.

[1] Public debt bulletin 2019 and 2020

MULTILATERAL DEBT BY CREDITOR

By end of 2020, multilateral creditors accounted for 78.4 percent (US$1,538.38 million) of the total stock of external debt. Table 1 shows the amounts owed to multilateral creditors.

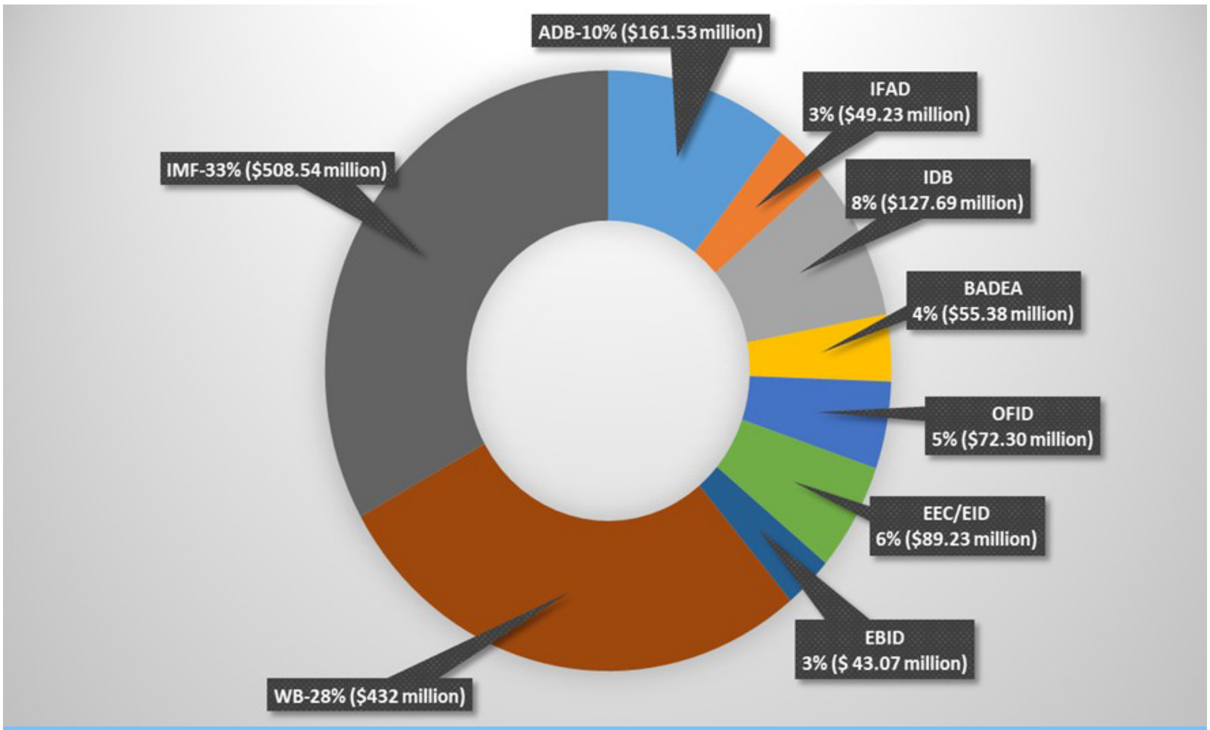


Figure 3: Share of External debt –Multilateral
Source: Public Debt Bulletin 2020

BILATERAL
DEBT BY CREDITOR

Sierra Leone external debt owed to bilateral creditors amounted to $241.10 million in 2020. In 2019 it was $ 219.5 million. Figure 4 shows the share of each bilateral institutions.

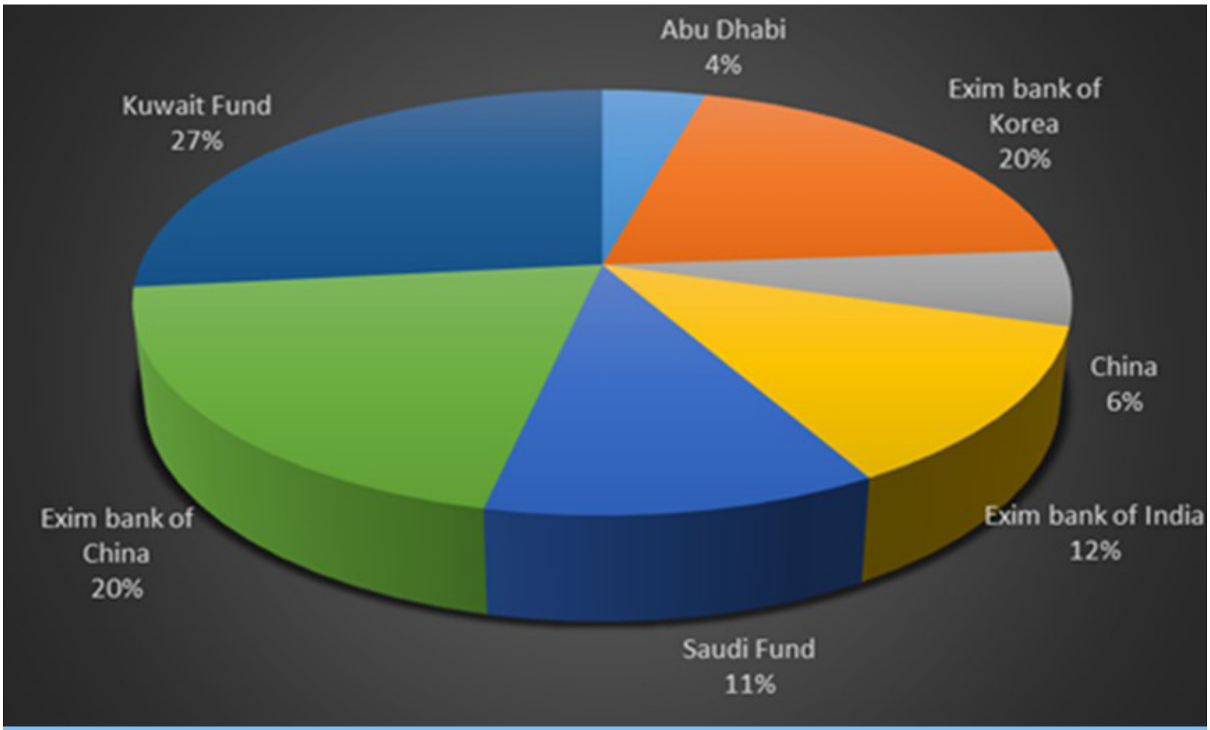
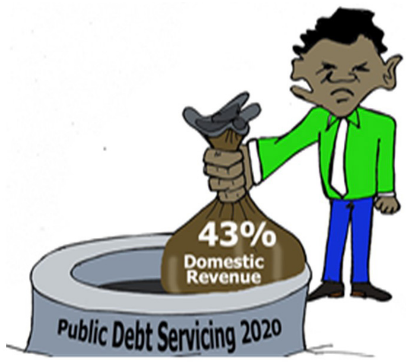


Figure 4: Share of bilateral creditors
Source: Public Debt Bulletin 2020

COMMERCIAL DEBT

The country's commercial external debt stock at the end of 2020 amounted to $179.43 million compared to $ 186.50 million in 2019. This decreased by 3.8%.

DEBT SERVICE PAYMENT



Sierra Leone' total debt service payments (external and domestic) increased from **Le1.48 trillion** in 2019 to **Le2.55 trillion in 2020**. This amount is **43% of the total revenue collected in 2020.**

The amount of money paid to multilateral creditors for debt servicing in 2020 was US$83.01 million (Le830.09 billion). **This amount can pay salaries for additional 3,000 nurses for 6 years. Hence, reducing the high nurse-patient ratio in Sierra Leone which is very critical for human capital development. In 2019, Sierra Leone's debt service was US$33.18 million (Le297.41 billion).**

Total debt service to commercial and bilateral creditors amounted to Le 185.67 billion ($ 18.54 million) in 2020 compared to Le 154 billion ($16.87 million) in 2019. **This amount can pay salaries for additional 1,500 teachers for 5 years.**

Note: Exchange rate is a key driver for the increase in external debt service payment.

MATURITY PERIOD

A high proportion of debt maturing within a shorter period of time poses higher liquidity and refinancing risks than a debt that is maturing at a longer period of time. As of end 2020, 57.8 percent of the stock of external debt have remaining maturity of above 10 years. Although it reduced from 60.1 percent end 2019, the more than 50 percent is indicative of the concessional nature of the overall external debt stock in Sierra Leone. Debts with remaining maturity between 5 and 10 years accounted for a share of 28 percent end of 2020, an increase from 26 percent in 2019. This was as a result of the huge disbursement made by the IMF in 2020 (about US$142 million) whose maturity period is 10 years, unlike World Bank and African Development Bank loans with maturity period of up to 38 years.

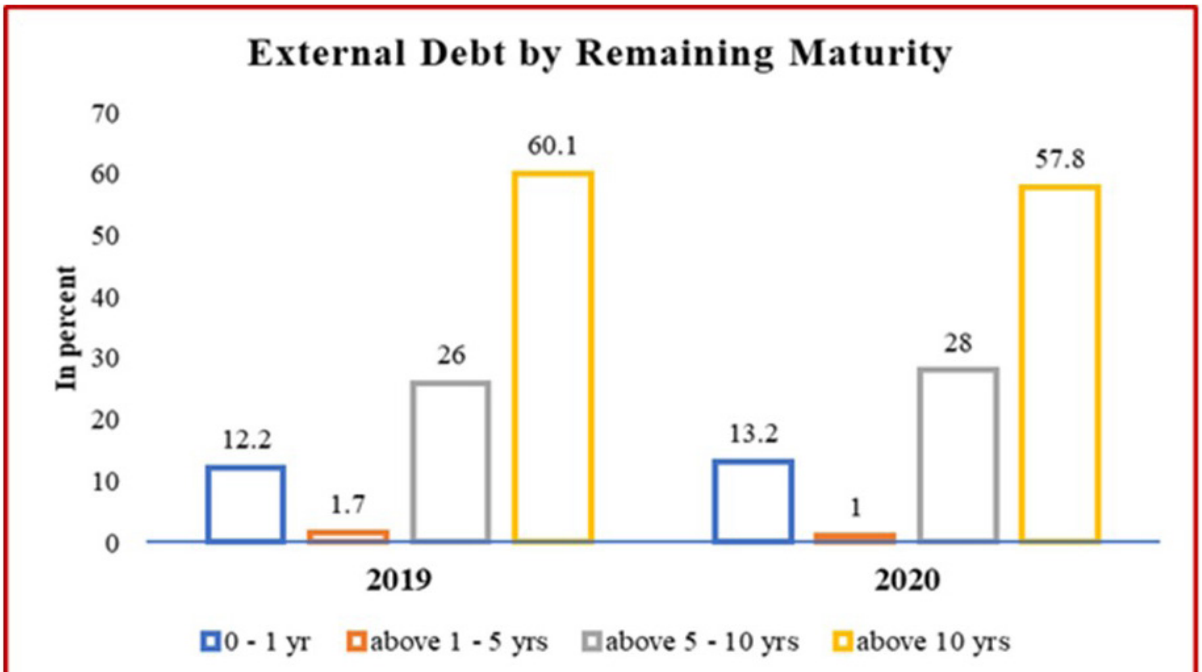


Figure 5: External Debt by Remaining Maturity
Source: Public Debt Bulletin 2020

LOAN DISBURSEMENT BY SECTOR (2016-2020)

The Government of Sierra Leone over the years have been contracting loans for development projects across sectors to include, Agriculture, Road Construction, Health and Social Welfare, Rural Development, Telecommunications, and others. Before 2018 loan disbursements have been averaging US$100 to US$120 million per year . Loan disbursements have been averaging US$100 to 120 million per annum period to 2016. The average loan disbursement between 2016 to 2020 increased to US$177 million, largely driven by the exceptional disbursement from the IMF in respect of cushioning the impact of the Covid-19 pandemic on the economy.

Total loan disbursement for 2020 reached US$267.5, moving from US$157.1 million in 2019, an increase by 70.3 percent, mainly as a result of the IMF disbursement mentioned above. As reflected in the analysis of debt stock by economic sector basis and Table3.2 in Section 3, Budget Support

Table 1: Actual Disbursements by Sector from 2016 to 2020 (In Million USD)

	2016	2017	2018	2019	2020	Average 2016 to 2020	Change 2019 to 2020
Agriculture	10.77	16.93	8.35	14.82	10.06	12.19	-32.1%
Balance of Payment	66.37	53.54	-	-	21.61	28.30	0.0%
Budget Support	3.50	22.74	24.09	21.32	142.00	42.73	566.1%
Education & Training	2.91	11.49	16.10	15.54	-	9.21	-
Energy (Electricity)	8.05	47.41	46.67	45.63	42.63	38.08	-6.6%
Health & Social Welfare	1.54	3.49	5.22	8.36	21.42	8.01	156.2%
Rehab. & Reconstruction	9.86	3.86	10.95	17.57	4.37	9.32	-75.1%
Road Construction	20.43	13.91	21.85	19.36	5.84	16.28	-69.8%
Rural Development	1.00	2.01	1.93	5.98	1.04	2.39	-82.6%
Telecommunications	6.13	1.36	0.28	-	17.73	5.10	-
Water Supply	7.38	4.00	6.74	8.48	0.75	5.47	-91.2%
Total	**137.94**	**180.74**	**142.18**	**157.07**	**267.46**	**177.08**	**70.3%**

Table 1: Actual Disbursements by Sector from 2016 to 2020 (In Million USD)
Source: Public Debt Bulletin 2020

The above picture shows that less external borrowing is sourced to invest in the social sector, as Low-Income Countries, including Sierra Leone, depend on grant resources to finance the development of the social sectors. This has to be critically assessed by the Government of Sierra Leone and consider the need to source external borrowings for only self-liquidating projects in the social sector where applicable.

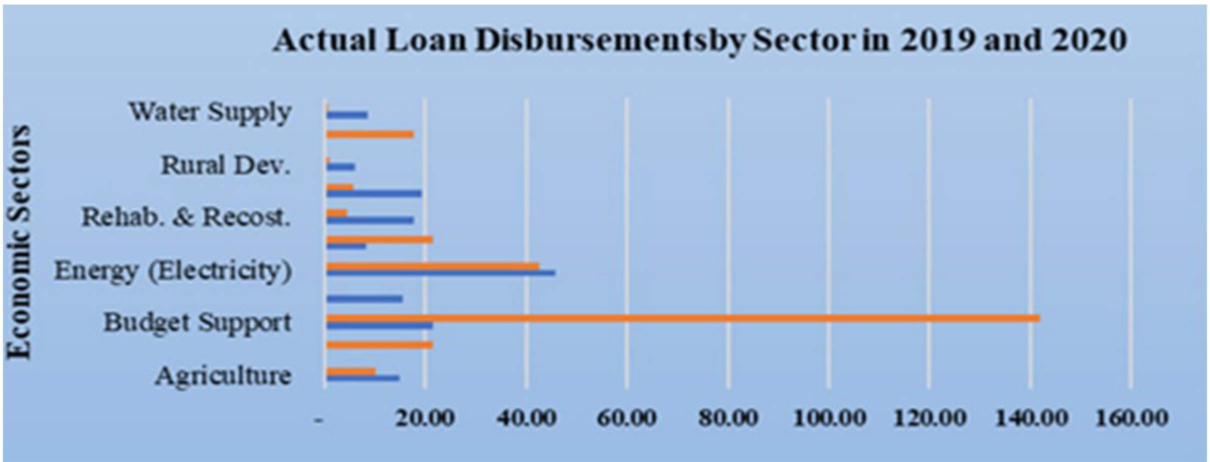


Figure 6: Actual Loan Disbursement by Sector in 2019 and 2020
Source: Public Debt Bulletin 2020

[2] According to officials from the Public Debt Management Division.

WHY DEBT RELIEF OR CANCELLATION FOR SIERRA LEONE

In 2015, the country was hit by twin shock (Ebola and fall in iron ore prices) which makes the economy to contract by 15.5%. In 2020, the country was also hit by the COVID-19 which saw a negative growth of 2.2%. The total debt stock as of end 2020 is more than the entire government budget for 2019, 2020 and 2021.

The implication is that the public debt of Sierra Leone is already exposed to a high risk of debt distress for which sound actions should be pursued to make it sustainable. The call for external debt cancellation is a viable option that should also be considered on the backdrop of the impact of the Covid- 19 pandemic on poor countries. High debt burden limits socio-economic growth and development of nations with no exception to Sierra Leone. The implications of the high debt service obligations on social sectors in Sierra Leone is therefore presented in figure 7 below.

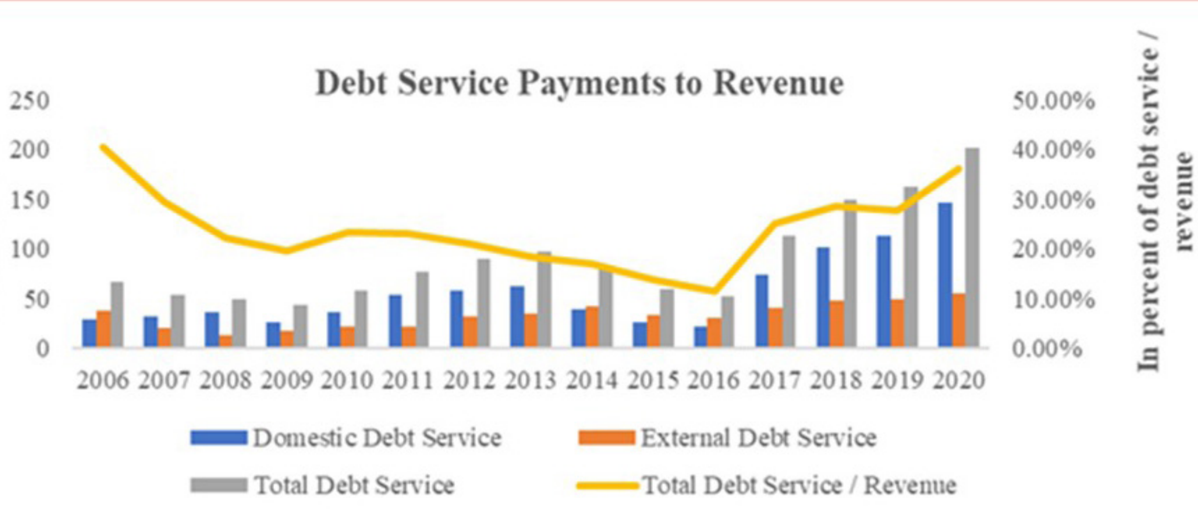


Figure 7: Debt Service Payments to Revenue
Source: Public Debt Bulletin 2020

Total debt servicing as of end 2020 has reached at 43% of domestic revenue. This has shrink the fiscal space for government to spend more on social service delivery especially on human capital development.

From the point of view of this consortium, this justifies the need for debt relief or total debt cancellation. Countries, such as Sierra Leone will find it difficult to surge forward if they continue to attract more interest in servicing due debts for a considerable period of over three decades. It will thwart the migration effort from recurrent to a capital-intensive budget, hence the need for the public debt waiver.

RECOMMENDATION

Request for Debt Relief: The Government of Sierra Leone should join other Low Income Debtor Countries to push for another round of debt relief, stock cancellation, that would free up fiscal space to accelerate spending in the social sectors that would facilitate the attainment of the SGDs. Easing debt service burden would strengthen fiscal policy to promote socio-economic development and prioritise spending on infrastructure to close the huge infrastructure deficit in Sierra Leone without compromising a sustainable debt path.

Pursue sound Debt Management Policies: While seeking for debt relief, the Government of Sierra Leone should strongly pursue the debt policy articulated by the Hon, Minister of Finance in the Government Budget and Statement of Economic and Financial Policies for the Year 2021 that government will (i) continue to seek financing for grant and highly concessional loan; (ii) limit domestic borrowing within sustainable fiscal anchor; (iii) continue to explore non-debt creating financing models such as PPP; and (iv) pay outstanding stock of verified domestic suppliers and contractors arrears subject to availability of budgetary resources.

Debt Relief Campaign by CSO and NGOs: Non-Governmental Organisations (NGOs) and Civil Society Organisations (CSOs) should join global campaign and articulate the need for Low Income Countries including Sierra Leone to benefit from debt relief from creditors in addition to the DSSI and CCRT to free up fiscal space and accelerate spending that will lead to the attainment of the SDGs.

Debt Transparency and Accountability: The Government of Sierra Leone should continue to strengthen public debt management and deepen transparency and accountability surrounding public debt management in Sierra Leone. The regular publication of debt statistical bulletin should be upheld while publishing details of loan contracted including guarantees issued.

Publication of MTDS and conduct of DSA: Government should continually develop and publish Medium Term Debt Strategy (MTDS) and uphold the annul conduct of Debt Sustainability Analysis to assess the exposure to risk of debt distress in the medium to long-term while taking appropriate policy actions to maintain sustainable public debt in the medium to long-term.

Sound Fiscal Policy Management: Government should promote sound fiscal policy management anchored on efficient tax and expenditure systems that would minimize inefficient and unproductive public spending. There should also be in place improved governance that would strengthen public institutions with oversight functions to monitor the quality of public financial management and service delivery.

Prioritises to push at the national, continental, and global levels for reforming of the global debt architecture in a manner that equalises the loan contraction processes – including reform of debt sustainability frameworks and credit ratings assessment. The establishment of an African Accountability Mechanism which acts as the foundation for enhanced transparency, accountability, and governance of Africa's debt architecture .

We urge the **Governments to work with Parliament** to strengthen national legal frameworks to ensure transparency and accountability for sovereign debts negotiations, borrowing and management as espoused in the African Borrowing Charter.

Increase the fiscal space for government to enable them to tackle climate change and SDGs.

[3] https://afrodad.org/campaigns/the-harare-declaration-2021/

Budget Advocacy Network

christian aid

actionaid
SIERRA LEONE

OXFAM
IBIS