J D Rogers: Debt reporting in Sierra Leone

Keynote address by Dr J D Rogers, Governor of the Bank of Sierra Leone, at the opening ceremony of the WAIFEM Regional Course on Debt Reporting and the IMF/World Bank Debt Compilers Guide, at the Bank of Sierra Leone recreational complex, Kingtom, 7 August 2006.

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Director General, West African Institute for Financial and Economic Management (WAIFEM),
Officials of the Commonwealth Secretariat &
The International Monetary Fund (IMF),
Distinguished Guests,
Course Participants,
Ladies and Gentlemen.

1.0 Introduction

On behalf of the President, His Excellency, Alhaji Dr. Ahmad Tejan Kabba, the Government and people of the Republic of Sierra Leone, I am pleased to bid you all a warm welcome to Freetown. Let me start by expressing our sincere thanks and appreciation to the West African Institute for Financial and Economic Management (WAIFEM), the Commonwealth Secretariat (COMSEC) and the International Monetary Fund (IMF) for choosing Sierra Leone as the venue for this Regional Course on Debt Reporting and the IMF/World Bank Debt Compilers Guide. The theme of the course is relevant and timely. Let me thank the organizers of the course for this initiative which would go a long way to strengthening overall debt management capacity in the sub-region.

Ladies and Gentlemen,

2.0 Principles for compilation of gross external debt position

The need for comprehensive, comparable, and reliable data on external debt for informed decisions by policymakers, financial markets and other users of economic statistics cannot be over stressed. In other words, quality data are invaluable for sound policy decisions. For example, to enhance comparability across time and across countries, debt compilers must be guided by certain principles. I will proceed to highlight a few of them, mindful of the fact that the expert team of resource persons will provide deeper insights into these and other issues during the course. The major principles include residence criterion, ownership (i.e. time of recording), accrued interest liability, treatment of arrears and valuation.

Residence

Debt liabilities of residents must be owed to non-residents for such liabilities to be classified and included in an economy's gross external debt position. Debt liabilities of residents owed to residents are excluded. Hence the definition of residence is central to the definition of external debt. A resident of an economy is an entity such as a household, corporation, government agency, etc that is capable, in its own right, of owning assets, incurring liabilities, and engaging in economic activities and in transactions with other entities. Residence is defined as a country's "economic territory" which consists of a geographical territory administered by a government and includes, for maritime countries, any islands subject to the same fiscal and monetary authorities as the mainland. However, international (multilateral) organizations are not considered residents of any national economy in which the organizations are located, although employees of those bodies are residents of the national economy. In the same vein, the residence of offshore enterprises is attributed to the economies in which they are located.

Principle of ownership (Time of recording)

The principle of ownership stipulates that the creditor owns a claim on the debtor, and the debtor has an obligation to the creditor. Transactions are recorded when economic value is created, transformed, exchanged, transferred, or extinguished. For example, loan drawings are entered in the accounts when actual disbursements are made, and financial claims are established, and not necessarily when an agreement is signed.

Accrued interest liability

In order to maintain inter-temporal and inter-country comparability of external debt statistics, and to identify the variation introduced by the timing of recording of interest costs that have accrued and are not yet payable, such accrued costs must be included in the gross external debt position. With respect to bonds, the difference between the issue price and face value or redemption value is treated as accrued interest over the life of the bond.

Arrears

When principal or interest payments are not made when due, arrears are created, but are recorded under **other debt liabilities.** But the debt statistics compiler should ensure that the debt is not counted twice by understanding and applying the principle of recording arrears. Otherwise the magnitude of the debt burden would be over stated.

Valuation

The principle of valuation states that the nominal value of a debt instrument reflects the value of the debt at creation; any subsequent economic flows, such as transactions (e.g. repayment of principal); valuation changes including exchange rate and other valuation changes **other than** market price changes. Nonetheless, the compiler must be cognizant of the fact that, among others, the nominal value of a debt instrument could be less than originally advanced (face value) if there have been repayments of principal, debt forgiveness, other economic flows, such as indexation. On the other hand, the nominal value of a debt instrument could be more than originally advanced because, for example, of the accrual of interest costs. Appropriate valuation of debt instruments such as loans would minimize incidence of disagreements between the debtor country and the international community over the magnitude of the country's external debt exposure.

Ladies and Gentlemen,

Benefits of quality debt data

Good quality and comparable external debt data would flow from rigorous application of the principles of debt data compilation. To compromise them risks potential economic costs in terms of vulnerability of the country to solvency and liquidity risks associated with meeting the "true" current and future payments obligations. For instance, the quantum and composition of external debt needs to be measured, valued and monitored in line with best practices. This fosters portfolio optimization and scenario analysis but also identifies potential variability in debt service costs and such other indicators of external vulnerability, notably changes in external prices and terms of trade. Also, good quality data fed into a recording system such as the CS-DRMS would maximize the gains from the use of such a system for improved debt management.

At this juncture, let me take the liberty to highlight the institutional arrangements for sound debt management in Sierra Leone.

3.0 Institutional arrangement for debt management in Sierra Leone

Public debt management in Sierra Leone is governed mainly by the 1991 Constitution and the Loan Amendments Act of 1992 which vest the responsibility for contracting loans in the Ministry of Finance (MoF). However, the Ministry and Bank of Sierra Leone (BoSL) work closely in the execution of the debt management function, namely, loan negotiations, renegotiations, disbursement, amortizations and recording. While the MoF undertakes the policy function in terms of formulation of debt policies, strategies and implementation consistent with the macroeconomic and fiscal framework of the country, the BoSL maintains the database, prepares the foreign exchange cash flow budget, including debt service obligations. This framework has contributed significantly to improving debt management in the country. We will strive to improve on it. Indeed, the framework enhances coordination of the debt management function by the appropriate authorities.

Ladies and Gentlemen,

Like most developing countries, Sierra Leone has been facing a number of problems, particularly those relating to maintenance of quality debt data. These include inadequate resourcing of statistics generating units; low priority attached to data collection; and inefficient institutional arrangements for data collection, processing and dissemination. Others include gaps in data recording; and gaps in debt recording systems.

I am glad to inform you that the present administration has moved consistently and decisively to up-scale general economic and financial data quality by strengthening data information flows both in BoSL and MoF and at the Central Office of Statistics. These efforts have also included working closely with WAIFEM and its technical partners to streamlining the back office functions of the MoF; and enhancing institutional capacity building efforts. Government will continue to keep these measures under constant review, because the process of achieving effective debt management is not like a sprint race, but rather, could be likened to a marathon involving medium to long-term policy thrusts and interventions.

Ladies and Gentlemen,

Over the past couple of minutes, I have attempted to sensitize you on some of the issues that would be dealt with in detail during this course. Even so, I make no pretensions to any exhaustive analysis. I am aware that the expert faculty assembled by the organizers will do just that. All that is left for me to do is to invite you to take maximum advantage of the opportunity presented by this course to strengthen your competencies in debt data compilation in line with best practices.

4.0 Conclusion

Ladies and Gentlemen,

I would be remiss in my duty if I ended this address without expressing the profound appreciation of the Board of Governors of WAIFEM to COMSEC, IMF, and World Bank for their support to WAIFEM in strengthening capacity of countries of its member central banks in the area of debt management capacity building. Before I take leave of you to commence the technical sessions, let me enjoin you to take some time off your crowded schedule to visit some of the tourist attractions in Freetown, and its environs. The Governors look forward toward greater collaboration between WAIFEM and these institutions in the years ahead.

On this note I have the honour to declare the course open.

I thank you for your attention.