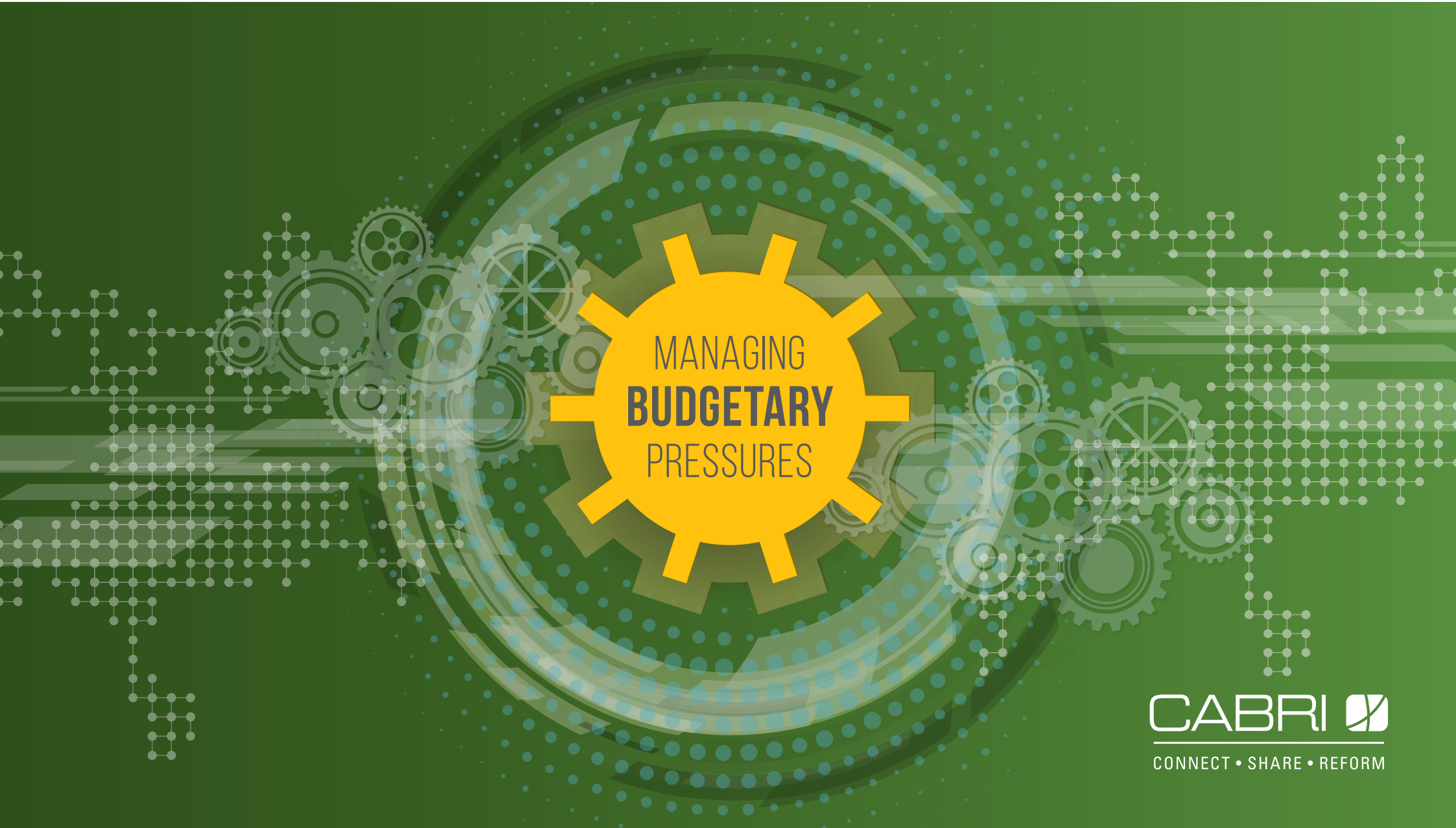
2017 CABRI Conference

MANAGING BUDGETARY PRESSURES

7–9 March 2017
Ouagadougou, Burkina Faso

2017 CABRI CONFERENCE

WHEN DISASTER STRIKES – FISCAL RESPONSES TO NATURAL AND MAN-MADE DISASTERS



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1: MANAGING BUDGETARY PRESSURES – THE 2017 CABRI CONFERENCE

THE CONFERENCE

The ninth CABRI Conference was held in Ouagadougou, Burkina Faso, from 7 to 9 March 2017. Attended by 69 officials from 26 African countries, it examined how governments can prepare for and manage extraordinary budget shocks that threaten budget stability and the financing of service delivery.

Budgetary pressures are an unavoidable consequence of allocating scarce resources between potentially limitless societal needs. Ministries of finance routinely contend with budgetary pressures during the preparation and approval of public budgets, as well as when managing ordinary deviations from planned revenues and expenditures during the year. Countries with stronger budget institutions are better able to manage this year-to-year budgetary pressure than countries with weaker systems – that is, more fragmented budget processes and less robust revenue and expenditure forecasting, cash management, in-year control, and accounting and reporting systems.

The conference's focus, however, was neither on these routine pressures, nor on how to build the strong budget institutions needed to best manage them. Rather, the overarching question for the 2017 CABRI Conference was how governments can better prepare for and manage extraordinary pressures that either arise suddenly or build up over several years, without veering towards unsustainable debt or disrupting service delivery. It aimed to explore successful ministry of finance strategies for managing these pressures and achieving budget credibility. Key to understanding the pressures is that context matters.

The sessions were structured to allow senior budget officials to reflect on the budgetary pressures they have faced, how they managed them and what they learnt. Almost all the conference sessions presented a country case study followed by contributions from other countries from the floor. Sessions that followed this structure focused on managing the impact of natural and man-made disasters on countries' revenues and expenditures; managing the impact of macroeconomic shocks on countries' revenues; and managing large budgetary demands that have built up over years.

A fourth set of pressures – the pressures that result from the realisation of off-budget contingent liabilities – were discussed through a fictitious case of a large bailout for a public water utility company. Participants had to identify what their responses would be and discuss how the case reflected experiences in their countries.

These substantive sessions were bookended by an introductory panel discussion that considered why many African countries are vulnerable to budgetary pressures and the importance of managing them, and a concluding session that examined common responses and approaches to being better prepared for crises. A copy of the conference programme and all materials can be found at www.cabri-sbo.org

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MANAGING THE BUDGETARY IMPACTS OF THE EBOLA CRISIS IN LIBERIA

THE CALM BEFORE THE STORM: LIBERIA'S CONTEXT AND FISCAL SPACE

Civil conflict dominated 14 years of Liberia's recent history, leaving the country with poor infrastructure (including poor health facilities), high poverty rates, and internal displacement. The post-conflict, democratically elected government sought to reverse this trend and tackle these developmental challenges. With the help of development partners, the government implemented various programmes to build Liberia's health infrastructure, educational systems and the many other sectors neglected during the conflict. Yet, the country's healthcare infrastructure still lacked inputs necessary to provide basic healthcare, let alone manage an epidemic.

The stability after the civil war allowed Liberia to focus on its economy, which mainly comprises mining (iron ore, diamonds and gold), agriculture and agroforestry (palm oil and rubber), and services. The rise of commodity prices between 2010 and 2014 drove Liberia's real GDP growth up to 8.7% in 2013. This expansion of the economy increased government revenue, allowing the government to invest in infrastructure projects.

While these much-needed investments spurred economic growth, Liberia remained a poor country, relying heavily on development partners and remittances. Specifically, the resulting increases in government revenue were not enough to bridge the infrastructure gap, including repairing hospitals that were damaged in the civil conflict and, importantly, generating a reliable power supply throughout the country. The private sector, public healthcare and educational facilities relied on generators, resulting in rising operational costs as the price of petrol rose. This severely limited private-sector diversification, including the expansion of manufacturing. In addition, Liberia's lack of paved roads constrained its most promising sectors – agriculture and agroforestry – by limiting local, regional and global market access. All of these factors meant that before the pandemic struck, government revenues still relied heavily on the mining sector.[4]

MONROVIA: CALM TURNS INTO A STORM

The Ebola outbreak in West Africa started in Meliandou, Guinea. Liberia's first two cases of Ebola were confirmed in March 2014 in the Foya district of Lofa county, near the border with Guinea.[5] As more cases of the Ebola virus were reported in Monrovia and other parts of the country, officials turned to the country's only large referral hospital: the John F. Kennedy Medical Centre. Unfortunately, this hospital was heavily damaged during the civil conflict and never repaired. The country did not have the necessary facilities to deal with Ebola. As the World Health Organization reported: "No hospital anywhere in the country had an isolation ward. Few medical staff had been trained in the basic principles of infection prevention and control. Facilities had little or no personal protective equipment – not even gloves – and virtually no knowledge about how to use this equipment properly."[6]

The lack of capacity to handle the first reported cases of Ebola created the conditions for multiple chains of transmission. Healthcare staff, patients, visitors, relatives who cared for patients, ambulance and taxi drivers, and neighbours became transmitters of Ebola, affecting entire neighbourhoods. The number of cases grew exponentially, putting severe stress on already strained resources. By September 2014, Ebola had reached a critical level, having infected almost 2 000 people and claimed the lives of over 1 000. "By that time, 14 of the country's 15 counties had

[4] *Ibid.*
[5] *World Health Organization (2015) One year into the Ebola epidemic: A deadly, tenacious and unforgiving virus, http://www.who.int/csr/disease/ebola/one-year-report/liberia/en/.*
[6] *Ibid.*

reported confirmed cases. Some 152 healthcare workers had been infected and 79 of them had died, representing a significant loss of talented and dedicated doctors and nurses at a time of immense need."[7]

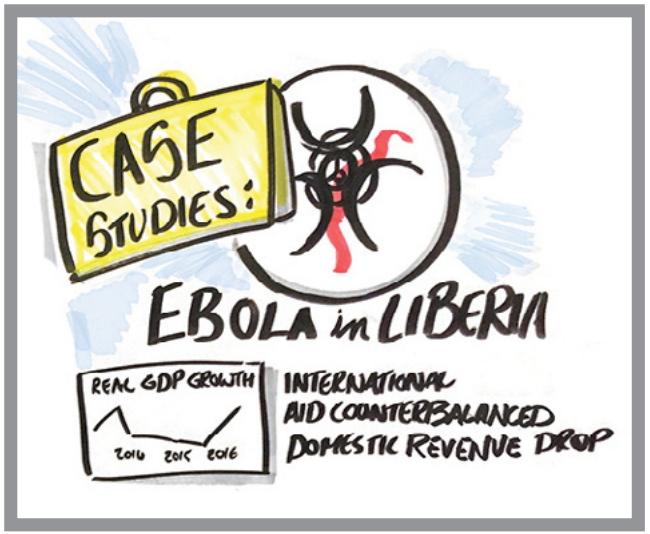
Given these circumstances, with their revenue implications and expenditure demands, how did the Liberian government manage the crisis?

NATIONAL EBOLA RESPONSE STRATEGY: COPING WITH THE EBOLA CRISIS

On 26 July 2014, President Ellen Johnson Sirleaf declared Ebola a national emergency and established the Ebola National Task Force.[8] The taskforce comprised representatives from the health sector and the national security forces, as well as officials from the Ministry of Finance and Development Planning. To stem the outbreak, this National Task Force instituted the following:

- Borders were closed.
- A curfew was instituted from 9:00 PM to 6:00 AM.
- Compulsory health screening was introduced for people entering and leaving the country.
- Communities affected by Ebola were quarantined.
- Cremation of people who died from Ebola was made mandatory in Monrovia.

The government viewed the public health crisis as a matter of national security. Managing the risk of the crisis was



essential to the country's economic and social fabric. What were the fiscal measures that the Liberian government needed to implement to manage the risks posed to the public finances as a result of the crisis?

THE FINANCE MINISTRY'S ROLE IN MANAGING THE CRISIS

The biggest pressures on the budget started before the 2014/15 National Budget was passed. To respond to the Ebola outbreak immediately, the Ministry of Finance and Development Planning submitted the 2014/15 Budget to the National Legislature much earlier than expected. This budget increased allocations to health, infrastructure and security to address the immediate demands to manage the Ebola outbreak. On-budget expenditure increased by 60% for staff, medication and equipment. Additionally, the government issued an executive order that suspended duties on imported supplies related to Ebola. Infrastructure spending increased by 111% to provide roads for healthcare workers to reach the most remote parts of the country. Spending in the security sector increased by 26% to enforce the curfew and secure quarantined areas. Overall, total government expenditure increased by 24% in the fiscal year.

The Ebola outbreak in Liberia severely affected the country's revenues. Production in the mining, agriculture, agroforestry and services sectors declined by 8%. How was the Ministry of Finance and Development Planning able to manoeuvre in this severely constrained fiscal space? It minimised costs by suspending all capital investment projects, except those directly linked to the Ebola fight. This was also done to avoid the meltdown of the country's financial sector. Government contractors seek financing from banking institutions prior to receiving payment from the government. If all projects were suspended, the risk of government contractors not paying the financial institutions would have been high: this was a factor in protecting infrastructure spending. Furthermore, the ministry reduced the recurrent operational costs of ministries, agencies and commissions to only salaries by

[7] *Ibid.*
[8] *Ministry of Finance and Development Planning (2014) The government of Liberia and development partners' contributions in response to the Ebola crisis.*

having civil servants stay at home. Ministries, agencies and commissions involved in the response effort were not affected by this policy directive. While these measures compensated somewhat for the loss of revenue, they were insufficient to meet the scale of the crisis.

To meet the costs of the Ebola response, the Liberian government worked with development partners. External revenue in the form of grants allowed the government to increase Ebola-related public spending. The Ministry of Finance and Development Planning established the National Ebola Trust Fund to "pool resources from the Government of Liberia, corporate and development partners, as well as ordinary citizens and friends of Liberia, to effectively combat the Ebola outbreak."[9] At the height of the crisis, the Ministry of Finance and Development Planning operated out of the Ministry of Health to cost the response, monitor expenditure, and be able to respond better to constantly changing demands. Regular meetings with the Cabinet, the Economic Management Team, as well as the budget and finance officers in the ministries, agencies and commissions allowed the ministry to provide fiscal updates, adapt/review existing policy measures and monitor policy measures.

Despite these measures to contain non-Ebola expenditure and increase external revenue to meet Ebola-specific demands, the government's debt increased to 36% from 27% of GDP as a result of the crisis. The government had to request supplementary budget allocations from the National Assembly, which were granted, including a US$20 million emergency allocation in 2014.

LESSONS LEARNT: HOW BEST TO PLAN FOR FUTURE CRISES?

Managing budgetary pressures like the Ebola outbreak in Liberia provides an opportunity to evaluate how best to mitigate risk in the future. The Ministry of Finance and Development Planning started this process immediately after Liberia was declared Ebola-free in June 2015. The Economic Stabilization and Recovery Plan outlines the Liberian government's approach to better plan for future crises. The approach has two broad strategies: economic diversification to recover economic growth, strengthen resiliency and reduce vulnerability; and strengthening public finances and ensuring service delivery.

Liberia has identified various ways to diversify its economy and revitalise economic growth that is inclusive and creates jobs. These include building an enabling environment for the agricultural and agroforestry sectors. While budgets can still promote tax incentives in the mining sector to maintain existing investments, adding value in the agriculture sector is imperative to reduce Liberia's reliance on mining revenues. To spur innovation and growth in the services and manufacturing sectors, Liberia plans to increase electricity generation and distribution. Addressing road infrastructure needs is also vital to maintaining investors' current investments in the mining sector.

The 2015/16 financial year highlighted the need for economic diversification to strengthen service delivery, and fiscal resilience to reduce vulnerability to external factors. In the aftermath of the crisis, Liberia had to reduce its expenditure by US$13 million in 2015/16 compared to previous estimates, including a reduction of recurrent expenditure by 35%. This was because two factors lengthened the Ebola-associated revenue shortfalls. First, the foreign aid that was so crucial to increase public spending in 2014/15 was reduced by half in 2015/16, before economic activity fully recovered. This showed that assistance provided by development partners is not permanent, and could be considered as a contingency or reserve fund. Second, the Ebola outbreak in Liberia highlighted the vulnerability of revenue from commodities to changes in the global market. Changes in the global price of iron ore and rubber reduced the royalties from minerals by 67% for the 2015/16 financial year. Despite occurring well after Liberia was declared Ebola-free, it served to continue the revenue shortfall caused by Ebola. Thus, budgetary pressures in a country like Liberia are not solely a result of external discrete events like an Ebola outbreak. Economic diversification is crucial protection against these events and other fiscal risks over the long term.

[9] *Ibid.*

Furthermore, the Liberian government realised that improving the health system and addressing other human capital needs was also important to reduce the effects of shocks like the Ebola outbreak. Prior to the crisis, healthcare workers in Liberia were mostly funded by development partners. In Liberia's long-term interests, the government started to place these workers onto government payrolls. While this added additional pressure on already scarce resources in the short term, the intent was to build resilient health systems in the long term. This allows government to have more control over the number of health personnel and to help build stability in the system. Government also realised that reliable energy supply and roads will help improve access to quality health services, and thus help contain future viral outbreaks and limit their cost to public budgets.

Improving healthcare systems can also change cultural attitudes and norms. Traditional burials in Liberia contributed to the spread of the Ebola virus through rituals that include touching the infected cadaver. Public education efforts explaining why these traditions could not be observed during times of crisis helped change traditional practices.

To efficiently meet these additional expenditures, the Liberian government aimed to strengthen public finance by:

- Improving revenue administration to increase tax compliance.
- Enhancing economic governance to ensure accountability in the use public finances.
- Prioritising public expenditure to ensure efficiency in the use of limited resources.

These objectives were highlighted during the Ebola outbreak. According to Alieu Fuad Nyei, Assistant Minister for Expenditure in the Department of Fiscal Affairs, Ministry of Finance and Development Planning, the need for decentralisation is one of the key lessons learnt during the Ebola outbreak. "A higher concentrated government is an inefficient one," he argued during the conference. It is also slow to respond. Decentralised services can respond to crises like an Ebola outbreak faster than the central government, because they are located where the needs are. In the future, improving the coordination with subnational authorities and existing networks will be imperative to fill gaps in service delivery and promptly address crises.

In summary, the Ebola outbreak in Liberia highlighted that the sector service delivery shortfalls that allow crises to balloon are often not solely the result of deficiencies in one sector. Healthcare is not just a health issue. During the Ebola crisis it became clear that the weak healthcare system was compounded by the lack of infrastructure (in health and other sectors), insufficient human capital, weak public education systems and poor central/regional coordination.

> *"Decentralised services can respond to crises like an Ebola outbreak faster than the central government, because they are located where the needs are."*

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