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Ebola Virus Disease Outbreak (EVD) is overstressing the fiscal capacity of Governments in Guinea, Liberia and Sierra Leone

1. Context

1. The Ebola virus disease (EVD) outbreak in the Mano River Union countries of Guinea, Sierra Leone and Liberia is one of the most complex developmental challenges in recent times. In addition to truncating the appreciable economic growth of the past decade and worsening the unemployment situation in these countries, it is particularly imposing a serious stress on the fiscal capacity of governments.
2. The new waves of EVD are completely different in scope and in depth, partly because of cultural and institutional interplay, and partly because these countries are socially and economically integrated with their neighbours. There are more cases and associated fatalities in eight months than the combined 20 episodes of EVD outbreak since 1976. What looked like a manageable phenomenon on 25 March (86 cases and 60 deaths and localized in Guinea) has become an issue of monumental proportion (9,062 cases and 4,542 deaths – now spreading beyond borders) as of 12 October, with Guinea, Liberia and Sierra Leone as the epicentres.ⁱ
3. The fatality rate ranges from 36.4 per cent in Sierra Leone to around 58.0 percent in Guinea and Liberia. The improved management of the outbreak over the past months has substantially reduced the fatality rate from an average of about 70.0 percent over the past three months. Most of the dead are women and around two-thirds of those infected are in the most economically active age group (15-50 years). The disease has taken a toll on the health system, with four doctors and more than 30 nurses among the dead in Sierra Leone, and 92 health workers in Liberia. As health workers fall ill and die, and the EVD grows exponentially, these countries' capacity to manage the disease becomes overwhelmed.
4. EVD weakens the ability of governments to manage their revenues, expenditures and public debts to meet national health, social and development obligations without jeopardizing macro-economic stability. How has the Ebola crisis affected the revenue generation, expenditure expansion, infrastructure spending prioritization, and public debt positions in Guinea, Liberia

and Sierra Leone? This Policy Brief looks at the impact of EVD on the fiscal space in these countries.

How has EVD crisis affected revenue generation, spending priority and public debts?

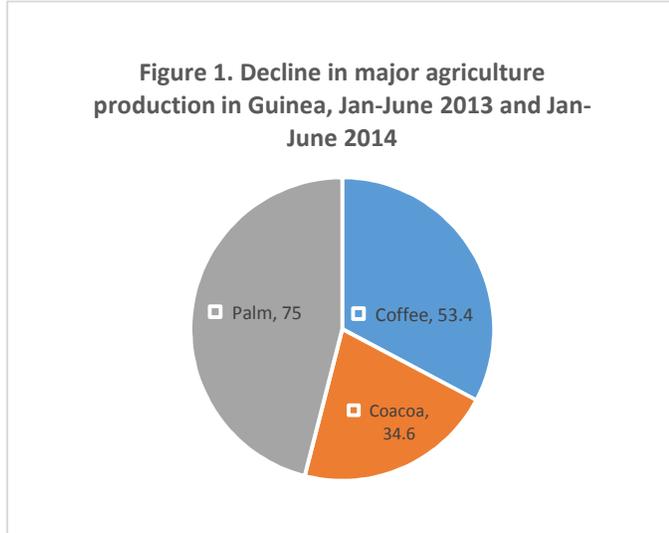
5. The Ebola crisis weakens the capacity to optimally generate revenues and puts pressure on public expenditures. It reduces revenue through cuts in economic activities and employment, and a reduction in tax compliance. It also increases expenditure, especially through awareness raising and sensitization, logistics and supplies, sanitation, and incentives to health workers as well as social protection responses from governments. Arising from the widening gap created between declining revenue and rising expenditures, public debt increases and the ability of these countries to grow out of aid is further weakened.

Capacity to generate tax and non-tax revenues is weakened

6. The decline in production and related economic activities, the resultant job losses and evacuation of expatriate workers take a substantial toll on the revenue collection of governments through a reduction in personal income tax and company income taxes. The uncertainty created by EVD has further weakened tax compliance in these countries. Government revenues from taxes, tariffs and customs from leading sectors such as tourism, agriculture, manufacturing and mining are threatened by risk aversion behaviour resulting from restrictions on movement of people and goods.
7. Tourism, an important source of government revenues, has been seriously hit by EVD. In Sierra Leone, the hotel occupancy rate dropped by 50.0-60.0 percent and the number of visitors to the country, which rose from around 5,500 in February to over 8,200 in April, fell considerably to less than 2,000 in August 2014. The number of weekly flights dropped from 31 until August to only six by 1 September. In Liberia, the average hotel occupancy also dropped from over 70.0 percent before the crisis to about 30 percent in September 2014, while the number of weekly commercial flights dropped from 27 between January and August to only six from the beginning of September. A similar trend is observed in Guinea: in Conakry, the hotel occupancy rate fell by half to less than 40 percent compared to an average of 80 percent before the crisis. Because taxes are paid based on rate of occupancy and number of visitors, this has led to substantial losses in revenues.

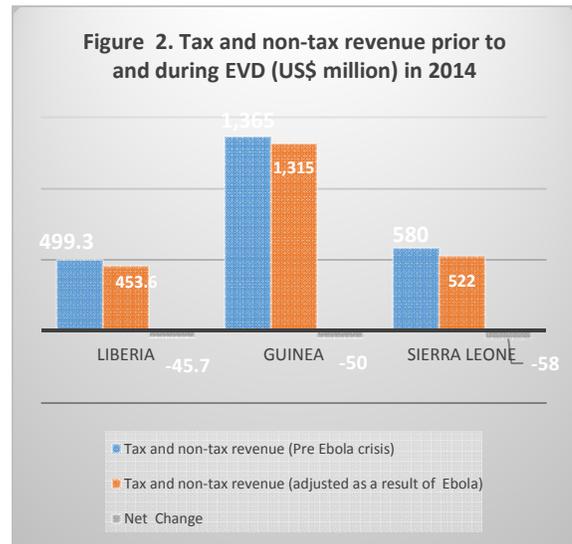
8. The disruptive impact on revenues accruing from agriculture exports will be felt most in Sierra Leone, where agriculture accounts for 57.0 percent of GDP, followed by 39.0 percent in Liberia and 20.0 percent in Guinea.ⁱⁱ

In Sierra Leone, for instance, cocoa and coffee production, which account for 90.0 percent of agricultural exports, has stalled due to people abandoning their farms.ⁱⁱⁱ In Liberia, production and shipment of rubber, the single most important agricultural



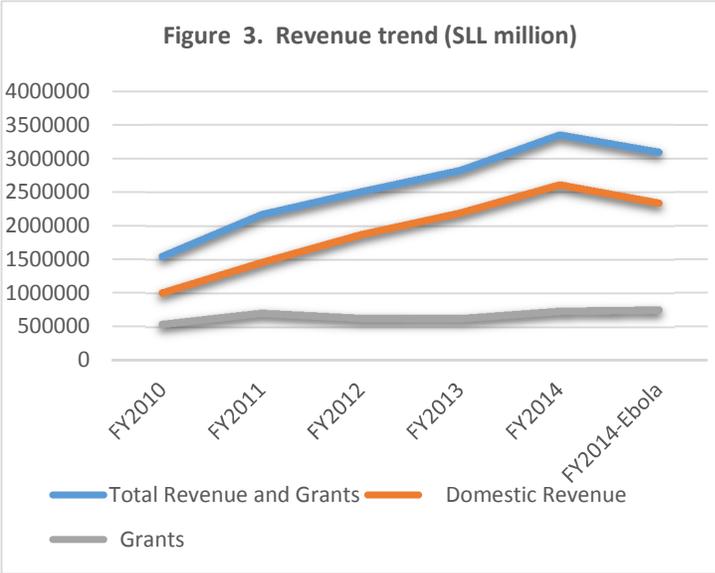
export for the country, have been seriously affected by EVD because of the reduced mobility of the workforce and the difficulty in getting the products to the ports due to the quarantine zones. The initial projection for rubber exports for 2014 (US\$148 million) has been estimated to drop to \$118.4 million, representing a reduction of around 20 percent. Figure 1 shows how key export commodities such as cocoa and palm oil have been badly hit in Guinea.

9. The mining sector, an important source of revenue in Sierra Leone and Liberia, also faces a significant disruption due to the repatriation of personnel and travel restrictions. In 2013, in Liberia, this sector accounted for 17.0 percent of GDP and 56.0 percent of total exports (\$559.0 million). It contributed 16.0 percent to GDP in Sierra Leone. The potential additional revenues from the recent expansion of industrial and mining sectors are at risk due to the scaling down of operations by key investors such as the China Union, Acerlor Mital, as well as the Australia and Canada firms in Liberia and Sierra Leone.^{iv}



10. The overall tax and non-tax revenues shortfall resulting from the EVD outbreak appears relatively small in absolute figures – from \$45.7 million in Liberia to \$58.0 million in Sierra Leone (Figure 2), but it is relatively big as a share of GDP. As of September 2014, revenue shortfall as a share of GDP varies from 0.77 percent in Guinea to 1.26 percent in Sierra Leone and 2.04 percent in Liberia. This could have serious implications on fiscal sustainability of governments.

11. Revenue collection in Guinea in September was only 54.0 percent compared to the initial projection of 67.0 percent. The low performance led to a revision in revenue collection for 2014 from 19.7 to 18.8 percent of GDP. Overall domestic revenues (taxes and non-taxes) in Sierra Leone, based on original projections for the 2014, fell by 10.39 percent (Figure 3) – ranging from 10.07 percent for personal income tax to 20.68 percent for import taxes^v. Also, in Liberia, as of the first week of September 2014, revenue collection fell short of the pre-Ebola forecast by around \$10.00



million, which has made the Government to adjust its September targets downwards – from \$41.7 million to \$26.3 million for September 2014.^{vi} Evidence from the Ministry of Finance, as of the first week of October, indicated that the projected revenue for fiscal year (FY) 2014/2015 is expected to decline by around 19.0 percent from the original projection of \$559.3 million to \$453.2 million (around \$106.1 million) due to an anticipated decline in various taxes and other administrative fees. Several factors contributed to the decline in revenues in these countries: closure of businesses, loss of jobs, evacuation of expatriate staff, reduction in sales of goods and services, restriction of movement and risk aversion behaviour, and a decline in major primary exports.

12. The epicentre countries depend on official development assistance (ODA) as an important source of revenue. Liberia has the highest dependence on ODA, at 50.0 percent of GDP in 2011 (\$185 per capita), compared to 14.0 per cent (\$71 per capita) in Sierra Leone and 4.0 per cent in Guinea (\$20 per capita). The accelerated economic growth experience of the recent past that could have weaned these countries out of ODA orphanage is being reversed. If not effectively controlled, and given the impact of EVD on long term development, these countries are likely to be further enmeshed in aid-dependency syndrome.

EVD imposes exponential increase in recurrent expenditure, often at the expense of infrastructure spending, and in the context of low absorptive capacity

13. Due to the rising trend of EVD in the epicentre countries, an exponential increase in spending is inevitable. To stop the outbreak, treat infected people, provide essential drugs, increase security and prevent outbreaks in non-affected areas, substantial resources are needed for communication campaigns and awareness raising, facilities and equipment, training of health caregivers, and social protection mechanisms, among others. The main challenge is that these countries are experiencing low absorptive capacity. For instance, cost overrun in Liberia is estimated to be about 20.0 percent^{vii}. Addressing the absorptive capacity issues remains imperative.
14. In Guinea, the following were undertaken: three mobile laboratories were set up; two treatment centres were established and are operating; 41 control checkpoints were opened at the borders; and a number of measures were institutionalized at the airport to check the outbreak. The establishment of a response plan in August 2014 included the allocation of \$100 million to contain and provide support to families affected by the epidemic, of which \$34.0 million was set aside for food aid and social protection.
15. The Sierra Leonean Government also established 169 community holding centres for Ebola patients;^{viii} and treatment centres with a total of 1,500 beds. The 1,500 additional treatment centre beds will require a 5,250 healthcare staff;^{ix} equipment and logistics,^x and more laboratories. At least five additional ones are urgently needed since the current four customized Ebola laboratories can only handle about 150 samples per day.
16. The Government of Liberia also set up an Ebola task force, established an Incidence Management Centre focusing on epidemiology, and opened a national Ebola Command Centre to oversee coordination and strategic planning, monitoring and evaluation, including tracking of contacted persons. It also put in place an agricultural stimulus (\$30 million) and an unconditional cash transfer (\$30 million) to people affected by EVD. The Ministry of Health and Sanitation also developed a National Response Plan in May 2014 and dedicated \$1.78 million, which was revised to \$25.9 million in July.
17. Given the expenditure requirements enumerated above, recurrent spending (such as salaries and other running costs) of the three countries have increased – by 6.4 percent in Guinea (around \$70.0 million), by 6.5 per cent in Sierra Leone (around \$37.0 million) and by 15.2 percent in Liberia (\$67.2 million). Evidence from the Ministry of Finance of Liberia further reveals that additional spending pressure resulting from the EVD is estimated at \$79.7 million.

Generally, government expenditure rose to between 27.4 and 30.7 percent of GDP following treatment-related expenditures for the outbreak.

18. In these countries, the increase in spending arose from payment for salaries, operations, maintenance, logistics and public education. Spending on development projects including infrastructure has been sacrificed. The initial estimate of capital spending sacrificed was estimated to \$20.0 million (Liberia) and \$16.0 million (Sierra Leone) to accommodate the health and social responses. In Sierra Leone, this has been revised to \$44.7 million as opposed to the earlier \$31.3 million proposed in the International Monetary Fund's (IMF) revised augmentation programme.

Governments financing gap is widening and it is having a toll on public debts

19. The gap between revenue collected and basic needs of government (excluding development spending) as a result of Ebola is around \$113 million for Liberia (5.1 percent of GDP), \$95 million for Sierra Leone (2.1 percent of GDP) and \$120 million for Guinea (1.8 percent of GDP) in 2013 prices.

20. The overall fiscal deficit (spending gap, including development expenditure and grants) is quite high. Overall deficit for Sierra Leone, as a result of EVD, rose by 31.79 percent between April and September 2014. By early October, this was revised from 4.2 percent of non-iron ore GDP to 5.7 percent, while the estimated total grants and loans were also revised from 7.0 percent of non-iron ore GDP to 7.9 percent as a result of the crisis. The Ministry of Finance estimated the financing gap for 2014 at \$100.3 million. There was a funding gap of \$202.6 million in Liberia arising from fall in revenue collection of \$106.1 million and net expenditure pressure of \$96.5 million.

21. The crisis is having a toll on public debts. In September 2014, the IMF granted additional emergency financial aid to Guinea, Liberia and Sierra Leone amounting to \$130.0 million to help respond to the Ebola outbreak – \$41.0 million for Guinea, \$49.0 million for Liberia and \$40.0 million for Sierra Leone. The revised fiscal framework, under the existing Extended Credit Facility with the IMF also provided for additional borrowing of \$17.0 million from the domestic financial market in addition to \$9.2 million previously borrowed. Moreover, there was an agreement to either further borrow \$8 million in the domestic market or undertake a cut in expenditures of the same amount. The World Bank has also approved \$40.0 million for grants and loans for each of the three countries. As of 10 October 2014, the African Development Bank (AfDB), committed \$220.0 million – \$60.0 million through the World Health Organization, \$150.0 million directly to the three countries, and \$10.0 million to mobilize African doctors and health practitioners.

3 Conclusions

22. EVD weakens the ability of the governments of Guinea, Liberia and Sierra Leone to effectively generate tax and non-tax revenues (mostly as a result of risk aversion behaviours). Efforts to contain EVD, treat affected people and provide essential services have increased government expenditure phenomenally. The diverging trend in revenue and expenditures is exposing governments to unanticipated domestic and external debts, which should be guarded effectively to avoid fiscal unsustainability.
23. Risk aversion behaviour, hysteria or panic, is an important channel through which EVD affects the fiscal positions of government. The best antidote for fear or panic is urgent and effective response. The international community must change the narrative that has started to stigmatized people in the Manu River Union.
24. Sacrificing development spending, especially for roads, energy, building schools and hospitals, could truncate peace dividends in these countries. The international community should translate their pledges into commitment to halt the crowing out of infrastructure spending. Development partners' efforts to refocus their programmatic interventions in containing is commendable and should be continued. Efforts to beef up the absorptive capacity of government is also vital.
25. Essential services are needed in quarantine areas and treatment holding centres. It is crucial to invest in building institutional capacity of the health system in order to address the underlying causes and factors that have made it difficult to contain the outbreak. This includes renovating health infrastructure, increasing the quantity and quality of healthcare staff, and investing in the decentralization of health system management.

End Notes

ⁱ The number of people infected per 100,000 population ranges from around 97 (Liberia) to 50 (Sierra Leone) and 17 (Guinea). See *The Economist*, 18-24 October, 2014, p. 60.

ⁱⁱ See the FAO database.

ⁱⁱⁱ Remarks by Sierra Leone Finance Minister Kaifala Marah at the October 11 news conference during the 2014 IMF – World Bank Annual Meetings in Washington, D.C.

^{iv} Sy, A. and Copley, A., Understanding the Economic Effects of the 2014 Ebola Outbreak in West Africa, *African in Focus*, October 1. www.brookings.edu/blogs/africa-in-focus/posts/2014/10/01-ebola-outbreak-west-africa-sy-copley.

^v Data was sourced from the Ministry of Finance, October 2014.

^{vi} World Bank (2014): *The Economic Impact of the 2014 Ebola Epidemic: Short and Medium Term Estimates for West Africa*, 7 October 2014.

^{vii} See IMF (2013): "The Investment Financing-Growth Nexus: The Case of Liberia", IMF Working Papers 13/237.

^{viii} This comprises a minimum of 20 beds in each of their 149 chiefdoms and 20 centres in the western area.

^{ix} This consists of 750 doctors, 3,000 nurses, and 1,500 other support staff consisting in hygienists, counsellors, and nutritionists, among others.

^x This involves a number of operational issues and supplies such as personal protective equipment (PPE), IV fluids, antibodies for superimposed infections, food supplies, 200 ambulances to service the nationwide network of treatment centres and community Ebola care units, 1,000 motorbikes for contact tracers, and 200 utility vehicles for supervisors, surveillance and burial teams, among others.