

MICAT Weekly Press Briefing

Statement on the Economy, Ebola Financing and Accountability and Transparency Issues

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Distinguished Ladies and Gentlemen of the Press:

Before I begin, I would like to pay homage to a fallen friend, brother and colleague from the Ministry of Finance & Development Planning (MFDP), Mr. Zoegar Jaynes, who passed away a few days ago. Zoegar was a dedicated staff of MFDP and a professional journalist, and we are deeply saddened by this loss; I, therefore, ask you to join me in a moment of silence in remembrance of him.

[SILENCE]

May his soul rest in perfect peace.

Let me now thank you, members of the press, for the valuable contributions you have made and continue to make in our collective fight to defeat a common enemy – the Ebola Virus Disease.

With your critical coverage and reports, we have managed to improve our response efforts and can truly see the fruits of these engagements. The battle is not yet won; so we must keep engaged and strengthen our resolve to fight till our country is declared Ebola free.

Distinguished Ladies and Gentlemen of the press, we as a nation and people are going through a very difficult period when our efforts to recover from past trials, consolidate the dividends of peace and build a strong and diverse economy still titter on the brink of instability as a result of the prolonged presence of the Ebola Virus Disease on our shores.

Notwithstanding this looming threat, we cannot afford to lose sight of our responsibility to effectively govern and remain fully accountable to our people.

The successes we have seen in the field owing largely to our health care workers and the resilience of our communities, must invoke a renewed sense of national urgency to deal with the governance issues that all but exposed our country during these trying times.

On behalf of the President, we will be formally releasing three key documents consistent with our responsibility under the Public Finance Management Law, and in line with our expressed commitment to remain open, transparent and accountable to our people on the use of public money and resources.

In this regard, I am pleased to announce the release of the first quarter fiscal outturn covering the period July 1st to September 30th 2014 and the First Quarter Consolidated Fund Account.

The release of these instruments is consistent with the provisions of the Public Financial Management (PFM) Act, 2009, and its attendant Regulations; and in compliance with Cash Basis International Public Accounting Standards (Cash-IPSAS) adopted by the Government of Liberia.

Under the provisions of the PFM Act, my office is required to prepare unaudited quarterly interim accounts of the National Budget to be submitted to the President, Legislature and the General Public, forty-five days after the end of the quarter to which it relates.

Ladies and Gentlemen of the Press, we will also release today for your information, the Ebola National Financing Report, reflecting contributions and expenditure on core Ebola response activities, in line with the National Ebola Response Plan.

But first, I would like to reflect a little on the impact of the continued presence of the Ebola Virus Disease on our economy.

Economic Outlook

Before the Ebola outbreak, our economy was projected to grow at 5.9% in 2014, down from 8.7 percent in the year prior. In the early stages of the crisis, we worked with the International Monetary Fund (IMF) to measure the effect of the economic slowdown resulting from the outbreak; and we revised our projection to a roughly 2.5 percent growth rate. As the situation worsened, our projection hit one percent. Today, that projection has been further revised to a negative (-) 0.4%.

In other words, the impressive real GDP growth rate that Liberia sustained over the last few years, which was approaching nine percent just one year ago, has now dipped into negative territory, signifying the shrinking of our economy. The worst affected sectors are agriculture and fisheries, mining and panning, which are projected to decline by 4.3 per cent and 5.9 per cent respectively, down from -0.3 per cent and 49.5 per cent respectively.

With economic activities expected to further deteriorate in the remaining months of 2014 – and likely even worsen in 2015 – our growth rate for next year is still subject to revision.

This massive decline in economic activities can be attributed, in part, to external factors, particularly a 41.2 per cent decline in the price of rubber (from US\$126.8 per pound in 2013 to US\$74.6 per pound as of September 2014) and a 39.2 per cent decline in the price of iron ore (from US\$135.4 per MT in 2013 to US\$82.3 per MT as of September 2014) as a consequence of the economic slowdown in China as well as an appreciation of the US dollar, which is up 2.5 per cent.

The massive decrease in the prices of the country's primary commodities has resulted in a 31 per cent and 81 per cent decrease in export earnings from rubber and iron ore, respectively.

Moreover, the average inflation rate is projected at 11.4 per cent for 2014, up from 7.6 per cent for 2013, while the end-of-period inflation rate for 2014 is projected at 14.7 per cent, up from 8.5 per cent in 2013.

The domestic causes of the economic decline are even more taxing, as total government revenue and grants are projected at 27.4 per cent of GDP for FY 2014/15, down from 29.9 per cent of GDP for FY 2013/14; while total expenditure plus net lending for FY 2014/15 is projected at 28.6 per cent of GDP, down from 31.4 per cent of GDP for FY 2013/14.

The overall fiscal balance including grants for FY 2014/15, therefore, registers a projected deficit of 1.2 per cent of GDP, as compared to a deficit of 1.6 per cent for FY 2013/14. The overall fiscal balance, *excluding* grants for FY 2014/15, reflects a projected deficit of 4.9 per cent of GDP as compared to a deficit of 4.0 per cent for FY 2013/14.

Owing to this widening fiscal deficit, the public external debt for FY 2014/15 is projected at 14.3 per cent of GDP, as compared to 11.6 per cent of GDP for FY 2013/14; while the central government domestic debt for FY 2014/15 is projected at 15.0 per cent of GDP, as compared to 16.6 per cent of GDP for FY 2013/14.

Grants for 2014 are projected at a deficit of 36.5 per cent of GDP, as compared to a deficit of 34.6 per cent of GDP for 2013; while the current account balance for 2014 (excluding grants) is projected at a deficit of 84.4 per cent of GDP as compared to a deficit of 83.9 per cent for 2013. This implies that grants are crucial to stabilizing our current account balance.

We can attribute the significant decrease in the current account balance to deterioration in the trade balance, from a deficit of 29.9 per cent of GDP in 2013 to a deficit of 38.2 per cent of GDP in 2014.

This is due to a decline in exports from 28.5 per cent of GDP in 2013 to 20.6 per cent of GDP in 2014, and a nominal increase in imports from 58.4 per cent of GDP in 2013 to 58.9 per cent of GDP in 2014.

As a result, the country's gross official reserves for 2014 are projected at US\$322.6 million as compared to US\$393.1 million for 2013, thus representing a decrease of about 17.9 per cent;

In summary, our economy is undergoing serious stress as a result of this crisis and the need to intervene in further stabilizing our already fragile economy cannot be overemphasized.

Economic Stabilization and Recovery Plan

We have, therefore, been working with our colleagues in Government and our development partners to address some of the vexing issues undermining our trade position and our overall economic strength. The result is the development of an Economic Stabilization and Recovery Plan (ESRP), designed to mitigate the effects of the slump in economic activities in the short term, and institute measures to restore the economy to its former trajectory of sustained, rapid growth, consistent with our medium and long term development goals.

The ESRP, which will be launched by early January, is projected to cost the Government roughly US\$174.0 million. The Government is fully committed to investing its meager resource envelope, to demonstrate ownership of this Plan, while we also engage our development partners to support it directly through our national budget. In fact, we have already mobilized some resources to this effect, while a significant gap remains.

Our strategy is to invest the US\$174.0 million in activities that restore the provision of basic services currently suspended or limited as a result of the crisis, as well as provide avenues for the increase of the formerly vibrant economic activity. The funds will be allocated as follows:

1. We will invest US\$60.0 million in revitalizing the health sector and improving basic health service delivery throughout the country, in addition to ongoing support to the sector to eradicate Ebola;
2. US\$30 million in support to the educational sector, to reduce the illiteracy rate and enhance our national human capacity development efforts – a necessary recipe for poverty reduction;
3. US\$25 million towards conditional cash transfers, to provide a social safety net for the significant portion of our populace affected by the Ebola Virus Disease crisis; and
4. US\$35 to the agriculture sector, which is the lowest hanging fruit to our economic growth and development. This investment will serve to enhance our food security and create jobs;
5. We will also invest US\$10.0 million into the activities of the domestic private sector, our engine of growth, to reverse the slowdown in economic activity and create jobs;
6. Another US\$10.0 million will be invested in developing the ICT sector, to promote innovation and efficiency in our economy; and
7. The remaining US\$4.0 million will be invested in road maintenance equipment, to improve the country's road network and thereby enhance the farm to market value chain.

As we mobilize this funding, we are also working with infrastructure contractors resume their infrastructure rehabilitation work, which is crucial to jump-start our economy. They earlier stalled these activities, citing the *force majeure* clause in their contracts, due to the Ebola outbreak.

First Quarter Fiscal Outturn

Ladies and Gentlemen of the Press, while we make these plans, you will no doubt recall that we are still working with the National Legislature on the Draft National Budget for FY 2014/15.

As you also recall, the original Draft Budget we submitted for this fiscal year amounted to US\$559.35 million, as compared to an approved amount of US\$582.93 million for FY 2013/14. However, due to the Ebola Virus Disease (EVD) epidemic and its associated additional spending pressures, we have recently submitted a revised draft appropriation of about US\$605.9 million, which is being matched against a resource envelope of US\$521.2 million. This reflects a funding gap of US\$84.7 million.

The revised resource envelope of US\$521.2 million consists of US\$339.2 million in tax revenue (representing 65.1 per cent of the envelope); US\$56 million in non-tax revenue (10.7 per cent); US\$35.06 million in grants (6.7 per cent); US\$75.9 million in on-budget borrowing (14.6 per cent); and US\$15 million in contingent revenue (which is 2.9 per cent of the resource envelope).

Actual revenue collected during Quarter One of this fiscal year (July 1, 2014 to September 30, 2014), which excludes borrowing, amounted to US\$124.9 million. This represents 20.6 per cent of the revised draft appropriation but 24.0 per cent of the revised resource envelope. Of the realized amount, tax revenues accounted for 77.1 per cent, while non-tax revenues and grants accounted for 12.9 per cent and 10.1 per cent respectively.

Overall, budget execution remained relatively strong in the first quarter. Out of the US\$605.9 million revised total appropriation, US\$116.2 million (or 19.2 per cent of total appropriations) was allotted during that period; and of the allotted amount, US\$105.5 million was committed, representing 17.4 per cent of the total appropriations and 90.8 per cent of the total allotments. The quarter under review saw a relatively high rate of budget execution in terms of economic classifications (such as the compensation of employees, the use of goods and services, and the provision of social benefits).

On the whole, however, the first quarter budget execution for FY 2014/15 faced a number of challenges, particularly the slowdown in economic activities as a consequence of Ebola outbreak. The rapid spread of the disease drastically reduced the country's GDP growth rate, decreasing revenue collections and a ballooning public expenditure demands.

Delays in the timely passage of the National budget, have added to these challenges, triggering the activation of the 1/12th fiscal rule mainly to fund recurrent expenditures. Despite these challenges, however, Government remains committed to our National Vision of achieving sustained economic growth and development through people, products and processes.

Ebola Financing

The outbreak of the Ebola Virus Disease (EVD) was not foreseen during the formulation of the original draft National Budget; and its severity has proved to be unprecedented.

While we have made significant strides towards eradicating the disease, much more remains to be done, within a direly limited fiscal space. We are, therefore, grateful to our development partners, local and international NGOs, the foreign and domestic private sector, and generous individuals from

whom we have mobilized significant resources in cash and in-kind, to support the fight against the disease.

In demonstration of our gratitude to our supporters, and in keeping with our commitment to transparency and accountability, we are compelled to provide the general public and the donor community with comprehensive information on the amount of resources that have been generated for Liberia so far, and where these have been directed.

As at 31 October 2014, the Ebola Trust Fund received a total of US\$14.282 million in both US dollars and Liberian dollars. Of this amount, US\$8.387 million has been disbursed to and/or on behalf of various Government entities.

More than US\$4 million was disbursed to the Ministry of Health; more than US\$2 million toward security operations; and US\$745,000 toward response and burial activities.

The Ministry of Finance & Development Planning has also disbursed US\$0.931 million to six highly affected counties (Bong, Margibi, Grand Gedeh, River Gee, Gbarpolu and Montserrado) for Ebola response-related activities outside of the Trust Fund mechanism. These disbursements were triggered by resolutions of the legislative caucuses of the respective counties.

As at 25 October 2014, total donor commitments for Ebola Response aid that Government has validated with its partners, including disbursements, stands at US\$373.3 million. Of this amount, US\$70.0 million represents additional funding from the World Bank, which has been approved but is not yet finalized.

Excluding that additional World Bank financing, the remaining US\$303.3 million includes a US\$152 million commitment of resources from the United States Government which, at 41 per cent of total commitments, is so far the largest pledge to the Ebola effort in Liberia. This amount includes nearly US\$100 million in in-kind support from the US Department of Defense.

A further 34 per cent of the total funds have been committed for use by United Nations Agencies. 11.5 per cent has been committed by donor partners for use by the Government of Liberia, and the remaining 13.3 per cent is committed for use by NGOs.

Out of the US\$303.3 million, US\$244.7 million has been disbursed by donors to implementing partners or agencies. We do not yet know how much of that has actually been spent locally; however, the amount includes in-kind donations such as supplies and construction activity, amounting to US\$103.5 million. Technical assistance accounted for US\$12.8 million of the total US\$303.3 million, while the remaining US\$127 million as provided as actual cash donations.

Finally, an additional US\$157 million in General Budget Support has so far been committed to the Government of Liberia for FY 2014/15 for sector support and investment in economic stabilization initiatives.

Of this amount, US\$60.6 million has been disbursed into the Government's consolidated account so far, comprising US\$48 million from the IMF, US\$10 million from the European Union, and US\$2.6 million from the United States Agency for International Development (USAID) as a Fixed Amount Reimbursement Agreement (FARA).

We have been keenly following the spirited national conversation surrounding the use of these funds and the accountability for them. I can assure you, Ladies and Gentlemen of the press, that we are

committed to prosecuting any individual and penalizing any entity found to have abused the public trust in the management and operation of these funds.

In order for these proposed interventions to work optimally, it is extremely crucial for all government agencies to change the way we do business. We must accept cuts in our respective budgets and spending plans to ensure that we win the fight against Ebola. This is a difficult pill to swallow for all of us; but we can all agree that the result will be well worth the strain.

We must ensure that the highest priority in Government spending remains the fight against EBOLA, which is contributing significantly to the economic slowdown and posing the greatest threat to the survival of our people. Every dime we invest into this fight, we will earn back when our economy recovers.

Other Issues of Accountability and Transparency

As part of our efforts to enhance our transparency and accountability to you on the use of public funds, we are pleased to be launching three publications aimed at keeping you and the public up to date on the economy, our fiscal situation and the use of public and donor funds to fight the Ebola Virus Disease. These are:

- The Fiscal Outturn Report for Quarter One of FY2014/2015
- The Consolidated Financial Statements for Quarter One of FY2014/2015; and
- The report on the Government of Liberia and Donor's Contributions in response to the Ebola Crisis.

Samples of these documents will be provided to the press, the in the coming week. We will also continue to provide official updates and information regarding our fundraising efforts and expenditure against the Ebola Trust Fund, and we look forward to the day when we can finally announce that this is all over.

As I close, distinguished Ladies and Gentlemen of the press, let me assure you that the Government of Liberia is fully aware of the weaknesses that this crisis has exposed not only in our health system but throughout our governance structure. And it has compelled us to look inward and recognize the dire consequences that emanate from betraying the public trust; and to take concrete measures to strengthen those weak areas, in order to restore public confidence in our government.

This crisis provides a teachable moment in our nation's history, which I hope will deepen our collective desire and commitment to do more for our people, and invest more in our communities than in ourselves.

I look forward to our continued candid public discussion on these issues, and to working with you to ensure that we optimize the use of public funds for the benefit of the Liberian people.

Thank you and God bless you all.