

# IMANI Alert: Bawumia's Speech: Separating Partisan Politics from Public Policy

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**On 8<sup>th</sup> September, 2016, Dr. Bawumia, the NPP's running mate in the upcoming 2016 presidential elections delivered a seminal speech in Accra.**

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The speech followed a pattern Dr. Bawumia has become notable for: a masterful blend of solid policy and hardcore politics that is often difficult to untangle by objective Ghanaians seeking to rely on the technocratic experience of the former senior Bank of Ghana official to make sense of Ghana's economic situation in an unbiased, non-partisan, manner.

As some of our readers know by now, IMANI is, in keeping with past tradition, strongly focused exactly on this issue: filtering out partisan and self-serving opinions and claims from solid facts in the promises and policy proposals being made by politicians in the lead up to the 2016 elections.

In this short brief, we shall be attempting to assist Ghanaians sift through some of the many claims made by Dr. Bawumia to see where the facts completely agree with him and where his interpretations of data are so partisan as to warrant caution on the part of observers.

We have in recent times experienced a strange upsurge in accusations that we are much too hard on the NPP, and that by subjecting NPP's policy proposals and promises to rigorous scrutiny we are letting the NDC off lightly. This accusation is of course patently false and ridiculous. No organisation in Ghana can claim to have subjected the NDC's programs to examination more than IMANI. Whether it was the Ghana Gas Plant, the CDB loan, the Sekondi Industrial Estate, or the Komenda Sugar Factory, IMANI has always been at the forefront of the critical quest of demanding accountability from the government of the ruling party. IMANI has been fearless in holding all parties in Ghana to account since our founding in 2004.

The other issue that sometimes come up is whether we discourage policy proposals by painstakingly examining clear promises whilst ignoring hazy ideas or failing to criticise parties that produce no proposals at all. Of course, as a 'think tank' focused on policy, evaluation of policy proposals is our natural terrain. The more objective and concrete a policy proposal the more effective we are in our critique. However, the truth is that for those voters for whom policies matter, a concrete policy heavily critiqued is certainly better than hazy ideas or no ideas at all.

It is absurd to think that such voters will penalise parties that dare put out concrete policies and strive to make our politics one of a competition over facts and policies while rewarding parties with zero concrete policies or merely hazy ideas.

Clearly, therefore, our work can never serve to damage those parties that contribute to making Ghana a place where superior political programs triumph over empty emotion and cheap slogans.

This short brief is in three parts. Firstly we shall catalog some of the key criticisms made by Dr. Bawumia of the current government and its programs where in our view the facts and data used were unfairly manipulated to serve a partisan agenda (let's call these criticisms 'category A').

Secondly, we shall catalog other key criticisms where the facts available offer no other conclusions other than those reached by Dr. Bawumia (let's call these 'category B').

Then lastly we will look at Dr. Bawumia's key prescriptions (made on behalf of the NPP). Some of our checks of these promises draw on whether the data underpinning the proposals come largely from category A or category B. Using this distinction, we will share our opinions of the positive potential and/or risks and pitfalls of these prescriptions.

## 1. Unfair Interpretations of Data for Partisan Advantage

1. **Claim:** The NDC has over the 8 years it has ruled Ghana since 2009 amassed and spent **12 times** the nominal resources that the NPP had over its 8 years of rule.

**Comment:** By using the 'nominal' measure of the resources, Dr. Bawumia cleverly exaggerates the actual difference between the amounts obtained by the NDC compared to the NPP. If we factor in inflation (in both dollar and cedi terms), exchange rate depreciation and other 'time value of money considerations' such as interest differentials, the difference between the GHS 20 billion Dr. Bawumia claims the NPP secured and the GHS 248 billion he allocates to the NDC has to be adjusted. The complexity of the calculation stem from the fact that one has to compound the computation cumulatively from 2000 to 2016 Q3 in order to obtain the real multiple, which is about **3 times** in 2007 historical US dollar terms. This is still very significant (and the point that commodity prices have been more favourable to the NDC than to the NPP is also largely fair), but obviously the multiples are not exactly what Dr. Bawumia insist they are.

2. **Claim:** NPP increased minimum wage by 240% over its 8 year period. Conversely, income inequality worsened by 5% under John Mahama.

**Comment:** In 2001, when the NPP took office, the minimum wage was 5500 old Ghana Cedis (dollar equivalent of \$0.8). By end 2008 when their term came to an end, it was GHS 2.25 (\$1.9). Using the US Fed's Funds Rate and historical inflation rates to reset the value to 2001 constant rates indicate a real value of about \$1.5. So Dr. Bawumia is not dead-on accurate, but his general point is valid. The NPP did roughly double minimum wages between 2001 and end-2008 in constant US dollar terms. The NDC, on the other hand, started with a rate of \$2.1 in 2009 and is

ending its term with a minimum daily wage of \$1.9 (lower dollar inflation and treasury rates account for the lower discount factor). In effect, wages for the lowest earners in the economy have been stagnant under the NDC. So why are we still saying that Dr. Bawumia's point is nevertheless unfair. Because growth in minimum wages does not automatically remove **inequality**. If the wage growth among upper-tier earners increase more dramatically, which is likely to be the case given the GDP shifts witnessed over the period, then inequality could actually have increased. The truth is that GINI index information on Ghana is generally of such poor quality that one cannot make conclusive points on this matter one way or the other.

3. **Claim:** Ghana made the most progress in human development terms (using the Human Development Index) between 2001 and 2010 in sub-Saharan Africa. The growth differential has however declined from 1.33% (2001 to 2010) to 1.13% (2010 to 2014) under the NDC.

**Comment:** This is one of the claims we really struggled with. Ghana experienced a shift in our HDI score from 0.485 in 2000 to 0.554 in 2010 and is currently scoring around 0.581. Zambia, for instance, experienced a shift from 0.433 to 0.555 over the same period. Botswana experienced a whopping shift from 0.561 to 0.681. It is clearly inaccurate to argue that under the NPP Ghana experienced the highest improvement in sub-Saharan Africa on this measure, nor is it entirely clear that the figures show a dramatic decline since 2010.

4. **Claim:** 66% of Ghana's debt was accumulated under President John Mahama over the course of just 3.5 years. NDC has borrowed \$39 billion in the last 8 years (2009 to 2016). By December 2016, they would have borrowed \$42 billion (using the prevailing exchange rate).

**Comment:** As we will show below, Dr. Bawumia chooses whether to use constant USD dollars or historical dollar rates depending on which point he is canvassing. This can be somewhat arbitrary. Clearly, if he uses current USD as he does with great skill in computing the current debt to GDP ratio, then he has to peg the debt borrowed by the NDC according to the current dollar value (in line with the debt servicing burden) and if he did that he will have to benchmark 2012 USD values with current USD values. In this respect, it is simply not possible for the NDC to have borrowed \$39 billion if the total debt stock is \$26 billion (which is how we get the 71% debt to GDP ratio Dr. Bawumia mentions, and which we comment favourably on below). Also if the debt stock at end-2012 was \$18 billion, then President Mahama can only be said to be responsible for 31% of Ghana's total debt stock. This figure is indeed high, since the base is debt owed from Independence. But the full shock is somewhat tempered by the fact that we have also experienced debt forgiveness as a country in the past. To obtain a composite figure of debt since

independence, defaults and forgiveness would have to be factored into the mix, which will further reduce the total percentage. For example \$4.6 billion debt forgiveness was recorded in 2006 alone. Adding that amount alone back into the stock would increase the total base by nearly 20% and reduce the total amount of money borrowed under President Mahama as a percentage of accumulated stock since independence to about 23%, which, high as it is, is not nearly as dramatic as 66%.

5. **Claim:** The NPP brought down the treasury bill rate (we assume he is referring to the average 91-day rate) from 42% in early 2001 to 24% by the time it left office in 2009. This is far better than the NDC's performance.

**Comment:** This whole line of analysis is a bit contentious. In January 2009, when the NDC assumed office, the treasury bill rate reached a monthly high of about 28%. This is roughly comparable to the rate at the end of 2001. In between 2001 and 2015, the rate has fluctuated quite erratically. Dr. Bawumia would have to compute complex mean rate variables for the two periods he is comparing rather than try to use two arbitrary points in time to make his point.

6. **Claim:** Average lending rate is now about 40%, which is worse than the situation under the NDC.

**Comment:** This is another claim that is rather hard to ground without complex mean rate analysis over aggregate periods. The CEPA graph below depicting average lending rates between the beginning of 2006 and the end of 2014 shows that on average the rate dynamics have been tepid and hard to compare secularly.

7. **Claim:** Non-performing loans have risen from 11.2% in May 2015 to 19.2% in May 2016. Major banks have seen NPLs quadrupled. This situation is worse under the NDC than it ever was under the NPP.

**Comment:** This is another one of those situations where Dr. Bawumia makes use of actual facts but strips them out of context to the point where some of the saliency in his argument is lost. It is true that over the last year the banking sector has been experiencing considerable distress. But a trend analysis will need more than what Dr. Bawumia offers. According to the World Bank, non-performing loans in Ghana have vacillated between 19.6% in 2001 and 16.2% in 2009, and then fallen to 11.3% in 2014 and is in fact now threatening to break the 20% barrier by the end of this year. Much more complex analysis would be required to determine the administration whose tenure has recorded the worst trends in aggregate.

## 1. Fair Use of Data for Valid Criticisms

1. **Claim:** Ghana's GDP has shrunk by 5% in USD terms under John Dramani Mahama.

**Comment:** This is roughly accurate. World Bank data suggests a fall from \$47.8 billion in 2013 to \$37.9 billion in 2015. In real terms, this exceeds the 5%. Poor petroleum sector performance is only partially to blame. The non-oil economy has been under considerable stress too.

2. **Claim:** Ghana's GDP per capita roughly quadrupled by 4 times under the NPP but has grown by less than 20% under the NDC taking all money value factors into account.

**Comment:** This is generally accurate. Ghana has seen a significant fall in GDP per capita growth since 2013, from 4.77% to 1.52%.

**Caveat:** But it is important to note that there is an aspect of this trend that cuts across Sub-Saharan Africa. Between 2000 and 2008, average per capita income across the region rose from \$505 to \$1140. Between 2008 and end 2015 however the growth has been comparatively lower, from \$1140 to \$1630. Between 2013 and end-2015, it actually fell but not at the same steep rate as Ghana's.

3. **Claim:** There has been a revenue shortfall of about GHS 700 million for the first half of the year.

**Comment:** Dr. Bawumia appears to be using the budget estimate of GHS 11 billion as the benchmark. By that yardstick, he is completely accurate. But he could also have done a cross-year comparison against the 2015 figures and come up with an even higher shortfall of more than GHS 2 billion.

4. **Claim:** A raft of bad taxes have been slapped on goods such as bicycles and ambulances that do not deserve these taxes.

**Comment:** It is indeed true that bicycles now attract a 42% composite tariff when in the past only a 0.5% levy applied. Two issues need to be looked at critically: was this development as a result of a deliberate policy to protect local bicycle assemblers or to harmonise with the ECOWAS Common External Tariff (and does the NPP object to such policies in principle)? Generally open trade benefits almost everyone, but it is important to know whether the NPP will reverse the underlying policies that may have caused this hike or not.

8. **Claim:** Ghana's debt to GDP ratio declined from 189% in 2000 to 32% in 2008. Ghana's total debt has now ballooned from GHS 9.5 billion in 2008 to GHS 105 billion today. The Finance Minister's claim that the public debt to GDP ratio has declined to 63% debt to GDP ratio is plain wrong because had he used the debt stock at the end of Q1 2016 and divided it by the GDP result realised in Q1 2016 he would have obtained 71% in current 2016 dollars.

**Comment:** Most of the figures are about right if one sticks to current USD as we pointed out in the first section of this article. Ghana's public debt did decline from a high of 187% of GDP to 26.2% of GDP in 2006 and then rose to about 32% of GDP in 2008. Since then it has risen, according to IMF calculations, to circa 70.5% of GDP.

**Caveat:** Whist Dr. Bawumia's calculations are quite sound, the formula he proposes, which involves dividing the debt stock as at Q1 of 2016 with the GDP realised over the same period is baffling. If he meant that the Minister should have annualised the Q1 2016 GDP result rather than use the budget projection, then that is simply a question of methodology. As for the Minister's claim that the Debt-to-GDP ratio has declined in percentage terms from 72% to 63%, he presents no data to back this computation which controverts the debt sustainability analysis his own Ministry has been conducting with the IMF.

9. **Claim:** Infrastructure expenditure as a percentage of GDP declined sharply over the period between 2008 and 2015. Interest payments are now higher than capital expenditure. Public Investment into infrastructure is on the decline in Ghana, with capital expenditure as a percentage of GDP having come down from 11% to 5.7% on average. The money being spent on servicing our debt today is greater than the amount being spent on some six important ministries.

**Comment:** This is broadly accurate. The figures are best interpreted through the lens of tax revenues rather than broad GDP however since GDP growth has been quite significant (more than 40% over the same period). Capital expenditure (which captures investments in hard infrastructure) as a percentage of tax revenue did indeed fall from 36.39% in 2008 to 11.82% in 2013. Government is clearly spending more on consumption than on investment. In a similar vein, interest payments as a percentage of total revenue was 15.3% in 2005, down from 42.3% in 2000. The GDP analysis shows a current interest payments to GDP ratio of 6.5% compared to 2.8% in 2008.

10. **Claim:** Cedi depreciation under the NDC has been much higher than under the NPP.

**Comment:** Completely accurate.

11. **Claim:** The use of single-sourcing and non-transparent procurement processes for even, large, capital-intensive, complex, projects has led to billions of dollars being wasted, sometimes in shady deals that suggest corrupt motives on the part of some parties.

**Comment:** This point cannot be faulted. The \$300 million loss anticipated over the lifetime of the scandalous Ameri deal, in respect of which the President has promised an audit by the PwC, is a clear example of this unfortunate trend.

12. **Claim:** Credit to the private sector has dropped considerably over the past year, while the debt stock of state owned enterprises continue to rise worryingly.

**Comment:** An important point.

### **What we think of Some of Dr. Bawumia's Prescriptions**

1. **Pledge:** Corporate taxes shall be reduced from 25% to 20% in an NPP administration. Capital equipment will be tax free. VAT on imported medicines not produced in Ghana to be abolished. VAT on domestic airline tickets to be abolished. VAT on SMEs to come down from 17.5% to 3%.

**Comment:** The data generally show that lower taxes can spur greater productive investments and thereby help generate economic growth, which in turn can expand revenue intake overall. Dr. Bawumia however needs to clarify whether the proposed corporate income tax rate will be a flat tax rate that cuts across all sectors. Currently, there are sectors that enjoy lower tax rates than the 25%. Hotels, financial institutions and companies listed on the stock exchange, for instance. Does the NPP intend to remove the incentive differential and tax these companies at the flat rate of 20%? What about non-traditional exporters who are taxed at only 8%? In 2010, the government revised the mining tax rate back to 35% after the NPP had brought it down to 25% in 2006. Will the mining sector be affected by the new flat tax rate? Whilst the data does show that lower company taxation is a growth pill, the argument that the NDC's tax hikes have registered no revenue improvements is not entirely accurate. Direct taxes constituted 31.2% of total revenue over the 2001 to 2008 period but they now amount to 41.8%. What no one can dispute is that the burden on business is interfering with private sector growth. The question is whether there would be a short-term drop in revenue and what current government bills the NPP shall drop in the event of such a short-term drop.

2. **Pledge:** 70% of taxpayer funded procurement shall be executed by local companies.

**Comment:** Dr. Bawumia needs to explain how this local content policy will do better given the history of local content policies in this country. Sectoral schemes have so far not been very

effective. On the whole, however, increasing the capacity of local businesses using the public procurement system has strong merits for further consideration.

3. **Pledge:** A ‘fiscal council’ will be set up and anchored in law to oversee medium-term fiscal accountability. The NPP shall assemble a team of experts with diverse experience and skills to address the issue of unemployment through superior economic management.

**Comment:** The fiscal Authorities in Ghana are nominally regulated by Act 335 and Act 654 and their work is impacted by parliamentary oversight and various legal audit frameworks. Is the NPP promising to revive the fiscal responsibility law promised but not delivered in 2007? How will this assembly of experts outperform the old regimes of presidential advisory councils and economic management teams?

4. **Pledge:** \$275M shall be taken from a projected \$1.6BN capital expenditure budget to be handed over to constituencies. Furthermore, three authorities – Northern Development Authority, Middle Belt Development Authority and Coastal Development Authority – shall be created to facilitate broad-based national development.

**Comment:** In the past a number of these authorities have been created for Northern Ghana and parts of the coastal belt. Additional details are needed as to how this new idea will differ from previous ones. What administrative machinery would be put in place in constituencies to spend and oversee the allocated money? How does the NPP hope not to duplicate the activities of the district assemblies leading to additional overhead and operational friction, especially given their promise to see DCEs and MMCEs elected within their first term?

5. **Pledge:** A distributed solar program will be put in place to convert all government facilities to use solar power.

**Comment:** This is another variant of the use of public expenditure to drive specific industrial outcomes, in this case by providing a shot in the arm to the local renewables energy industry. The Energy Commission has indeed been weighing the idea of making the installation of rooftop solar panels compulsory for all new buildings in Ghana, starting with public facilities. Our position remains that the decision to opt for a particular energy source should be based on rigorous cost comparisons across all available sources. If gas-fired, grid, power would be cheaper than solar over the medium-term, then that is what any Government should favour. Cost, at this stage of our national development, should be the primary driver of decision making. Consequently, we await further cost-benefit analysis on this idea.

We used the notes taken during the live broadcast to prepare this short brief. In the event that the written address is made available via the media, we may consider preparing additional commentary.

We want to commend Dr. Bawumia for doing his bit to make this elections about data and facts, and the interpretations and policies that derive from them. Naturally, as a politician he is expected to try and take advantage of the facts and data to advance his political career.



We hope that the NPP, and indeed all political parties, also realise that for a free and fair elections the electorate deserves to be fully informed and assisted to discern fair and unfair exploitation of data so that they can apportion the right amount of credibility to the competing candidates. In that light, the efforts of organisations like IMANI are integral to ensuring a sound campaign process to the benefit of all participants.

Such efforts deserve support, or at least respect, from all true democrats, and we look forward to contributing more of same as the campaign season heats up.