

STRENGTHENING DEMOCRACY IN GHANA: TECHNICAL NOTE

1. The problem: Political transitions in Ghana are fraught with conflict

Ghana is one of Africa's most successful democracies: it already has had a series of peaceful changes of power between parties since elections in 1992 brought the country out of military dictatorship. However, *peaceful* is not the same thing as *smooth*, and several of Ghana's presidential transitions have generated tension and uncertainty. Indeed, these rocky periods have been both a major cause and symptom of political polarization, and are perceived to have threatened the stable political system Ghanaians have worked so hard to create. They also have resulted in widespread misuse and expropriation of state assets – in 2001 for example, at least 24 outgoing public officials had to be prodded publicly to leave their state-provided accommodations, with some forced out by security forces¹. Conversely, members of outgoing administrations have reported suffering treatment akin to those unseated in a military coup or otherwise fearing for their safety during transitions. Overall, as one source notes, “the risk of disorder in Ghana is significantly raised at election time” and soon afterward².

Moreover, a large body of empirical evidence suggests that political instability has a measurable negative economic impact. For example, studies have found that rough political transitions can reduce growth³ and employment⁴, while also causing higher inflation⁵, often with several years of lag time before previous economic trends return. Of course, in one sense, political instability is an inherent feature of democracy, in that a change in government brings uncertainty about the country's direction over the coming years⁶. However, the rough nature of Ghana's political transitions has exacerbated these potential negative effects: one study specific to Ghana, for instance, found a relationship between Ghana's transition years and significantly reduced business performance⁷. Additionally, the coming few years are a particularly sensitive economic time in Ghana, since its recent graduation to middle-income status likely will result in reduced aid flows and less forgiving loan conditions⁸.

2. IEA's contribution: Lead an initiative to develop *legally binding guidelines*

The Institute of Economic Affairs (IEA) is one of Ghana's premier think tanks: in the words of one prominent member of civil society, IEA “has a track record [of] relevant and good work” that allows it to play a “leading role to ensure that democracy is actualized” in Ghana. The institute's research, for example, identified the close relationship between rough political transitions and increasingly dangerous political polarization.

In the early 2000s, after both major parties had lost national elections, policymaker interest in a more structured process for these transitions began to grow. Using its influence as coordinator of the multiparty Ghana Political Parties Programme, IEA led the drafting of a law to regulate the transitions (in the words of one former MP who was heavily involved, “IEA initiated the whole process” – a sentiment echoed in the president's 2009 and 2010 State of the Nation addresses, which mention IEA explicitly). After several years of advocacy and policymaker capacity building – which, according to IEA, “TTI funding has made possible” – IEA convinced Ghana's executive branch and full parliament to consider the draft Presidential

Transition Bill, which provided for measures such as 1) the formation of a transition team with members of both outgoing and incoming administrations within 24 hours of election results certification and 2) a new Administrator-General in charge of overseeing the transition process and the transparent and accountable use of state assets, a topic where IEA sees “enormous scope for efficiency savings.”⁹ Not only did the law pass in March 2012, but it did so unanimously – no mean feat considering that the need for the law was the result of strong inter-party tension. Indeed, another former MP conceded that “the law came together beyond our expectations.”

The law already is having an effect in practice. For example, even though it was only a draft bill during the 2009 presidential transition, interviewees believe it facilitated a smoother and “less acrimonious” transition that year vs. 2001 (the last time the presidency changed parties). Similarly, despite sentiments that “the importance of the 2012 election as a potential trigger of instability in Ghana cannot be overemphasized,”¹⁰ the election and resulting intra-party transition has gone peacefully – again, attributed by interviewees in part to the Act (though admittedly the law has not yet been fully tested, since President John Mahama was reelected).

IEA’s leadership in this policy process represents but one particularly important effort among its many to improve democracy in Ghana. For example, the institute also hosts presidential debates and works to expand women’s participation in the political process. In the words of an editor at Ghana’s largest newspaper, “IEA has helped this country develop its democratic culture so much. The whole country appreciates its role – that is without doubt.”

3. The projected result: A more stable democracy with better use of state assets

To understand the Presidential Transition Act’s potential impact, rough estimates were developed using existing data and assumptions about how the policy might affect Ghanaian society. The appendix details how these estimates were created. To summarize, two separate estimates were created. First, this case looks at the more modest – but also more readily measurable – impact of the creation of the Administrator-General on the transparent and accountable use of public assets during the transition: for example, it is expected that the law will result in streamlined transition teams and reduce the incidence of political appointees being given unauthorized perks from the public coffers. Second, recognizing that the law’s most important impacts likely are on the broader functioning of Ghana’s political system, the case includes an estimate of the economic effects of greater stability, based on recent research on the relationship between stability and growth (that estimate is admittedly somewhat speculative – hence the use of a large range below). This approach led to the following estimates of the Act’s projected results:

- **\$1.3 million** direct public savings from the next four transitions, as a result of the Administrator-General’s oversight (net present value), such as from smaller transition teams and fewer officials overstaying their tenure in state-provided accommodation.
- **\$0.4-1.4 billion** in potential additional gross domestic product (GDP) – or avoided loss in GDP – over the next four political terms as a result of greater political stability (also net present value)

4. The return on investment (ROI)

IEA’s contributions were influential throughout the policy change process and required an investment of only 3 person-years and roughly \$100,000. To estimate its return on investment (ROI), the \$900 million in additional GDP (using the midpoint of the range above) was divided by the \$100,000 IEA investment. The result is an ROI of about **\$9,000 in additional GDP from greater political stability per dollar spent by IEA.**

Of course, IEA is not solely responsible for these benefits. Understanding the portion IEA contributed toward the projected results helps illustrate its true ROI. Experts suggest a relatively constant set of conditions for policy change that an organization like IEA might influence. Tracking these conditions before and after IEA became involved provides a rough picture of the think tank’s contribution.

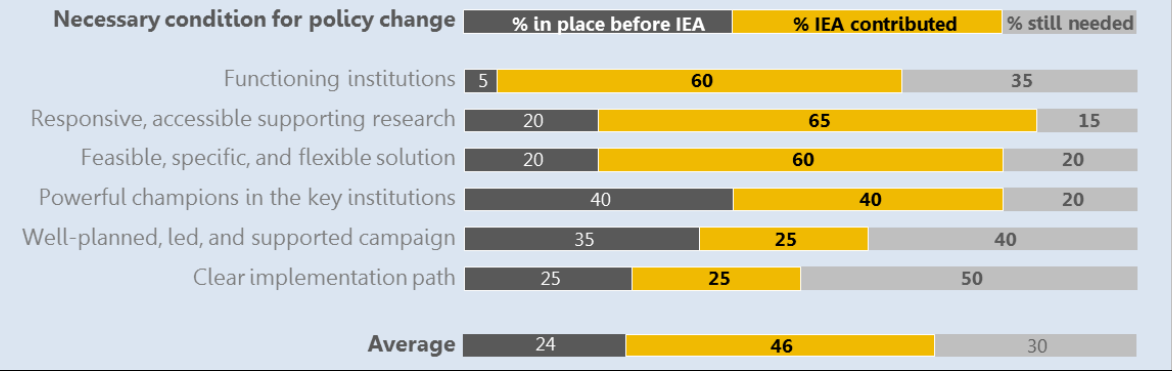
IEA staff and outside experts were asked to rate these conditions on a 1-5, “very low” to “very high” scale for each condition’s status before IEA began leading the initiative on a transition law and afterwards, now that the law has passed and begun implementation. The averages of their responses are shown in Table 1.

Table 1: IEA’s contribution to the Presidential Transition Act

Condition	Before (1=very low, 5=very high)	After
Functioning institutions: The relevant legislative, legal, and regulatory institutions are functioning sufficiently for research and advocacy to be effective	1.3	3.5
Responsive, accessible supporting research: The solution is supported by compelling, data-driven evidence that can counter opposing arguments and sway decision-makers	1.7	4.4
Feasible, specific, and flexible solution: A feasible solution has been developed and shown to produce the intended benefits, with acceptable alternatives if the exact proposal is untenable	1.7	4.2
Powerful champions in the key institutions: Decision-makers who can overcome the opposition support the solution and its underlying principles	2.5	4.3
Well-planned, led, and supported campaign: Advocates assemble resources, a pragmatic and flexible strategy, and a supportive public or other allies	2.3	3.3
Clear implementation path: The implementing institutions have the commitment and the capacity to execute the solution	2.0	3.0
Average	1.9	3.8

Translating these results into percentages (1 = 0%, 5 = 100%) generates the estimates shown in Figure 1. Averaging all the conditions together suggests that IEA’s contribution would be roughly 45 percent (46 percent in Figure 1). That produces **an ROI of roughly \$4200 in additional GDP per dollar that IEA spent,** assuming success is achieved.

Figure 1
IEA’s contribution to the Presidential Transition Act



Note that this includes adjustments that reduce the ROI to account for the remaining uncertainty. For example, uncertainty still exists in the sense that the Act has not yet been fully tested by a change of power. This uncertainty is illustrated by the bars in Figure 1 labeled “% still needed”. The crude average of those bars is 30 percent, reducing the current likelihood of success (LOS) to 70 percent. To be precise, then, IEA’s estimated contribution to “success so far” is 46 percent divided by 70 percent. As a result, the ROI cited above is actually the cost-benefit multiplied by IEA’s contribution to success thus far, then multiplied by the LOS, as illustrated in Figure 2 (discrepancies are due to rounding). This methodology is conservative if full success is achieved, as it assumes IEA makes no contribution to any of the work that is still needed.

Figure 2
IEA’s return on investment

$$ROI = \frac{\$900M \text{ benefit}}{\$100K \text{ cost}} \times \frac{46\% \text{ contribution}}{70\% \text{ LOS}} \times 70\% \text{ LOS} \approx \$4200$$

Appendix: Details on the results estimates

This section details the projected results estimates, beginning with the estimate of direct public savings from the Administrator-General’s oversight, followed by the estimate of additional GDP from greater political stability.

Direct public savings from the Administrator-General’s oversight

This estimate was calculated using the following baseline assumptions and data:

- The estimate takes into account three forms of direct savings from the Presidential Transition Act: a streamlined transition team, fewer ministers and other appointees continuing to receive public benefits (e.g., government-provided housing) beyond their

legally approved tenancy, and fewer unauthorized recipients of those benefits. There are at least two other possible savings that are excluded here, as data needed to estimate their costs are limited: less expropriation of public assets (e.g., ministers selling themselves government-provided houses for less than market value) and lower costs of keeping government buildings in good condition as a result of prompt maintenance by the Administrator-General.

- The 2009 transition team consisted of 151 members who received total honoraria of roughly GHC 289,000¹¹. This suggests an honorarium of GHC 1860 per member. Assuming honoraria kept pace with inflation, one honorarium in 2013 would be GHC 2900¹². Using an exchange rate of 1.9 GHC per USD, this suggests that the honorarium for one member of the team in 2013 is \$1500.
- Assume that with the creation of the Administrator-General, the size of the transition team drops by half to 75 people. According to IEA, the team could be even smaller, but this conservative estimate is sensible given that the Administrator-General may require some additional public resources to support the transition team (its base costs will come from existing government resources, such as for ministries).
- Assume that a transition team is needed every four years, even if a president is reelected, since many appointed positions change hands.
- Benefits for high-level appointees are estimated to cost GHC 4300, or \$2300, per month. This is based on GHC 2000 for furnished accommodation, GHC 500 for utilities, and GHC 1800 for six support staff at GHC 300 each (cook, steward, gardener, and a three-person security team)¹³.
- Assume that without the law, 18 appointees on average would receive these benefits for three months beyond their term. This is based on 24 in years with transfers of power¹⁴, half that in years of a party's reelection, and the assumption that presidential power changes parties every two elections (i.e., every eight years).
- Assume that without the law, three unauthorized officials would receive comparable benefits for the entire four-year term (the party chairman, party general secretary, and one other person, such as the president's child). According to IEA, this is conservative.
- Assume that the law's impact begins in 2013 and continues for four terms. Likewise, assume the financial figures above stay constant in real terms. However, a ten percent annual discount rate is applied to account for risks over the coming years, such as the potential for changes in political will or unforeseen difficulties in implementation.

These numbers were combined as follows (discrepancies between the left- and right-hand sides of the equations are due to rounding):

- Use the data and assumptions on transition team size and honoraria to estimate the savings from each transition team due to the law:
 $\$1500 * 151 - \$1500 * 75 \approx \$115,000$ every four years
- Use the data and assumptions on the monthly cost of appointees' public benefits and the appointees who overstay their terms to estimate the now-avoided costs of providing

these benefits in transition years:

$$\$2300/\text{month} * 18 \text{ recipients} * 3 \text{ months each} \approx \$122,000 \text{ every four years}$$

- Use the data and assumptions on the monthly cost of appointees’ public benefits and the number of unauthorized recipients to estimate the now-avoided yearly costs of providing these benefits:

$$\$2300/\text{month} * 3 \text{ recipients} * 12 \text{ months each} \approx \$82,000 \text{ per year}$$

- Add these avoided costs for the next four terms (i.e., sixteen years), noting that 2013 was a transition year:

$$\$115,000 + \$122,000 + \$82,000 \approx \$318,000 \text{ savings in transition years}$$

$$\$82,000 \text{ savings in non-transition years}$$

$$(\$318,000 + 3 * \$82,000) * 4 \text{ terms} \approx \$2.3 \text{ million savings in the next 16 years, undiscounted}$$

- Apply the discount rate starting in Year 2 (2014) to account for future uncertainty:

Item	2013	2014	2015	2016	2017	2018	2019	...	2028	Total
Savings, undiscounted (\$k)	318	82	82	82	318	82	82	...	82	-2300
Savings, discounted (\$k)	318	74	67	62	218	51	46	...	20	-1300

≈ **\$1.3 million direct public savings from the next four transitions**, as a result of the Administrator-General’s oversight (net present value)

Potential additional GDP as a result of greater political stability

This estimate was calculated using the following baseline assumptions and data:

- In 2011, Ghana’s GDP was \$41.0 billion (real 2013 USD). Based on recent real GDP growth rates of seven percent per year, GDP grew to \$43.8 billion in 2012¹⁵.
- Assume real GDP growth rates of five percent per year going forward¹⁶. This is a bit conservative, at least in the near term: the International Monetary Fund (IMF), for example, forecasts 5.7 percent growth in 2017 (and both sources project higher growth before then)¹⁷. This also assumes that these sources do not account for the effects of potential political instability without the Presidential Transition Act.
- In 2011, Ghana’s population was 25.0 million. Recent growth rates have been 2.3-2.4 percent per year, but declining slightly each year¹⁸. This estimate assumes 2.3 percent going forward – i.e., a bit higher than what seems likely. This assumption has the effect of lowering per capita GDP growth, which is conservative because the following assumption focuses on political instability’s effect on per capita GDP growth.
- Recent IMF research suggests that additional political instability – defined as one more executive power change or substantial cabinet reshuffle *per year* – reduces per capita GDP growth by 1.6-2.4 percentage points¹⁹. This estimate uses the low end of that range, which again results in a conservative estimate of the law’s impact.

- Assume that a rough transition in Ghana is the equivalent of an *extra* power change or cabinet reshuffle in that year. Assume further that rough transitions only occur when the presidency changes parties, and that this happens once every two elections (i.e., every eight years). In other words, without the new law, rough transitions would be estimated to lower Ghanaian per capita GDP growth by $1.6 / 8 \approx 0.2$ percentage points per year. However, for simplicity, assume the law's impact is immediate (as interviewees believe), even though the incumbent president was recently reelected.
- As in the other estimate, assume that the law's impact begins in 2013 and continues for four terms, but apply a ten percent annual discount rate to account for the law's uncertain future impact (e.g., if political will changes or unforeseen implementation obstacles arise).

These numbers were combined as follows (discrepancies between the left- and right-hand sides of the equations are due to rounding):

- Use the assumed GDP growth rate with the law, the assumed population growth rate, and the effect of political instability to determine the per capita GDP growth rates with and without the law:
 $(1.05) / (1.03) \approx 2.6\%$ per capita GDP growth rate with the law (i.e., without additional political instability caused by rough presidential transitions)
 $2.6\% - 0.2\% \approx 2.4\%$ per capita GDP growth rate without the law (i.e., reduced growth due to additional political instability from further rough transitions)

- Use those estimates and assumptions, as well as the estimate for 2012 GDP, to compare expected GDP over the next four political terms with and without the law:

$$\sum_{t=2013}^{2028} \$43.8B * 1.05^{(t-2012)} - \sum_{t=2013}^{2028} \$43.8B * (1.024 * 1.023)^{(t-2012)} \approx \$2.1 \text{ billion in additional GDP from greater stability, undiscounted}$$

- Finally, apply the discount rate to account for future uncertainty, including in Year 1 (2013), since GDP is produced throughout the year. This breaks out as follows:

Item	2013	2014	2015	2016	2017	2018	2019	...	2028	Total
GDP, with law (\$B)	46.0	48.2	50.7	53.2	55.9	58.6	61.6	...	95.5	1087
GDP, no law (\$B)	45.9	48.2	50.6	53.1	55.7	58.5	61.5	...	95.3	1085
Difference, undiscounted (\$M)	88	93	97	102	107	112	118	...	184	-2100
Difference, discounted (\$M)	80	77	73	70	67	64	61	...	40	-900

$\approx \$900$ million in additional GDP (net present value).

However, due to the particularly speculative nature of this estimate, it is presented using a wide range: **\$0.4-1.4 billion in additional GDP from greater political stability.**

Any estimate of this nature leaves out opportunity costs for which it is difficult to account. For example, the Ghanaian government could have applied the resources (financial and otherwise) it is investing in smoother transitions toward other political stability initiatives.

Conversely, the estimates include several conservative assumptions. For example, as mentioned above, the first estimate excludes at least two categories of savings the Administrator-General will generate that are harder to measure. Similarly, both estimates ignore the law's effects from 2009-2012, even though several interviewed experts believe the law was having an impact even before it passed. Overall, then, these estimates should simply be considered attempts to paint a rough picture of the magnitude of IEA's impact on important Ghanaian policy – and on the resulting social outcomes.

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- ⁹ The Ghanaian Times (2012). "Presidential Transition Act, a hallmark of cross-party efforts – IEA", March 23.
- ¹⁰ Throup 2011.
- ¹¹ Parliament of Ghana (2009). *Parliamentary debates: official report*, Jun 17.
- ¹² The World Bank Group (2012). World Development Indicators.
- ¹³ Estimates provided by IEA.
- ¹⁴ Okine 2001.
- ¹⁵ World Bank Group 2012.
- ¹⁶ Ernst & Young (2012). *Rapid-growth markets forecast – summer edition*. <http://www.ey.com/GL/en/Issues/Driving-growth/RGM-forecast---summer-2012>.
- ¹⁷ IMF (2012). *World economic outlook: growth resuming, dangers remain*. <http://www.imf.org/external/pubs/ft/weo/2012/01/>.
- ¹⁸ The World Bank Group 2012.
- ¹⁹ Aisen and Veiga 2011.

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IEA, 2012.

Redstone Strategy Group, 2013.