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The raging “Dum–Cov” crises conversation – an analysis of causes, effects and interventions by respective governments

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Category: Features
The whole world is in comatose. Initially viewed as a public health concern, the emergence of Coronavirus (Covid–19) is taking an economic dimension with unprecedented economic effects on countries. Following its outbreak in China, Covid–19 has spread across almost every part of the globe with higher deaths in US, Italy, Spain, China, South Korea among others. Indeed, this pandemic has proven to be much dangerous than previous outbreaks (like the Severe Acute Respiratory Syndrome in 2003) with long–term negative economic impacts occasioned by lockdowns, job losses, productivity cuts and revenue headwinds.

In fact, the current Covid–19 is often compared to the global financial crisis that started in the US in 2008. While there were noticeable signs of possible crisis in the build–up to the global financial crisis, the Covid–19 crisis is distinct with no noticeable warning/signs except rapid spread and exponential number of infection cases. Indeed, the severe negative effects of the Covid–19 have led analyst like Professor Campbell Harvey of the National Bureau of Economic Research, USA to call the current crisis as the “Great Compression”. The world’s first largest economy (the US) saw their economy shrinking by 4.8% with the second largest economy, China, registering a contraction of 6.8% in the first quarter of 2020.
While Africa may not have felt the brunt of the global financial crisis due to the relatively under-developed financial markets and limited inter-connectedness with the developed economies, the continent cannot be immune from the effects of the Covid-19. The Covid-19 pandemic has largely manifested beyond public health concerns into an economic and labour market shocks, significantly disrupting supply chains and employment.

For instance, apart from job and productivity losses, the collapse in the oil prices in April, 2020 would definitely have a negative effect on government revenues and economic growth. The African Union estimates that, economic growth in Africa will drop to between −0.8% and −1.1%. Similarly, recent estimates provided by the United Nations Economic Commission for Africa (UNECA) suggest that, in a best-case scenario, Africa’s average GDP growth for 2020 will drop by 1.4%. However, in a worst-case scenario, overall growth in the continent is projected to contract by up to 2.6% in 2020. What does this imply? Using UNECA’s figures, the implication is that, economic growth of a typical African country is expected to fall ranging between 1.4% and 2.6% this year.
How does this concern Ghana? The 2020 Budget Statement presented to Parliament on 13th November, 2019 anticipated that the country will grow by 6.8% (including oil). However, given the current Covid-19 crisis, this growth rate is now expected to be 5.3% (at best) and 4.2% (at worst). These dynamics will also play out in other African countries. In fact, even the advanced countries are not spared.

In Ghana, this form of systemic crisis may not be new with regard to the economic effects. It is on record that the country experienced severe power outages from 2012 to 2016 under the past government. This energy crisis resulting from erratic power outages was popularly called Dumsor. Interestingly, “Dumsor” made it into Wikipedia. At least, the Dumsor lasted for four years.

**Socio-economic effects of Dumsor and COVID-19**

The socio-economic effects were dire. The Institute of Statistical, Social and Economic Research (ISSER) provided comprehensive estimates of the costs. They relied on a sample of more than 1,250 Small and Medium Enterprises (SMEs) across all the regions in Ghana. Even in the midst of the Dumsor, annual revenues of these businesses dropped by about 37% to 48%. In simple terms, a profitable small business which was earning 1,000 Ghana Cedis could no longer earn even more than 630 Ghana Cedis. Businesses lost about $686.4 million each year because of the Dumsor. ISSER further estimates a loss of between $320 million and $924 million per annum in productivity and economic growth due to the current power crisis. Job losses and productivity shortages were the order of the day.
I still remember an industrious friend of mine who established a small printing press in one of the tertiary institutions in Northern region. He had bigger dreams of seeing his business grow due to the demand of printing and photocopying at the tertiary level. Unfortunately, Dumsor killed his dreams as he could not bear the productivity loses and associated costs. My friend’s shop is now being used as a warehouse to store cement.

Among others, I personally still remember getting my tilapia rotten in my fridge as a result of the Dumsor. My former office was also running on a giant generator and all office work had to stop by 5:00pm. The fortunate small businesses and other households were using the “apass-my-neighbor-type of generators” while others had no electricity at all.

In one of Aljazeera’s reports, they noted that, “Dumsor affects everybody. Families and businesses, hospitals and universities, factories and shopping malls. The private and the public”. It was therefore not surprising, in March, 2015, the Bank of Ghana announced that, the country’s growth rate had reduced from 7.3% in 2013 to 4.2% in 2014 (a drop of 3.1%) due to the Dumsor and the associated higher input costs.

Beyond the economic effects, the negative effects of the Dumsor on the healthcare delivery were also felt. In some hospitals which could not run on generators, midwives had to deliver babies using torches or lights from their mobile phones. The implications of the Dumsor for health was also a matter of life and death particularly for patients on ventilators or those in the Intensive Care Units (ICUs). My medical doctor friend tells me that, common equipment in a typical ICU are mechanical ventilators to aid in breathing, cardiac monitors for
monitoring patient’s cardiac condition and other important gadgets all of which depend on constant electricity. Understandably, ICUs are particularly meant to take care of patients with life-threatening conditions, without electricity, you will find the dancing pallbearers (Dada awu) knocking on the door. Life is lost.

The Covid–19 is also associated with productivity and job losses, loss of government revenues, policy uncertainties and painful loss of lives. Indeed, we hear wise men say that, the true length of a frog can be determined when it dies. I strongly believe analysts are currently quantifying the socio-economic costs of the Covid-19 in Ghana.

From the above, one can see that, the negative effects of Dumsor can be likened to that of the current Covid–19 pandemic. Thus, both the past (NDC) and current (NPP) government have each experienced one crisis which I will call Dum–Cov. These twin crises can be argued to be the same in structure and fundamentally different in form.

While Dumsor was “internally–generated and an act of man”, the current Covid–19 is “externally–generated and an act of God”. Given the similarity in the effects, governments’ responses to cushioning the biting impacts on the citizens need nuanced analysis. I turn to putting the respective government policy responses on the scale. I specifically focus on businesses/firms and households given the debilitating effects on these sectors.

**NDC Government’s socio-economic Dumsor intervention**

Undoubtedly, while the past government was unhappy about the Dumsor crisis, there were genuine attempts to bring relief to Ghanaians. However, ISSER in their report noted that, government’s target to resolve the Dumsor by the end of 2015 could backfire, as attempts to bring in emergency power barges from Turkey by ending of April, 2015 to support the electricity supply was missed. The September, 2015 deadline for the arrival of the emergency power barges was again missed with the then Chief Executive Officer of the Ghana National Petroleum Corporation (GNPC) calling on Ghanaians to expect their arrival in October. Even though these emergency power barges were later brought in, there were some issues regarding value for money.

A Turkish energy producer, Aksa Energy was also contracted to build an electricity plant in the country. Unfortunately, the Aksa contract is now a center of corruption. In fact, the Financial Times reported on 21st April, 2020 that, Aksa Energy, had allegedly funneled about $2.5 million in bribes to Ghanaian officials before it was awarded the contract to build an electricity plant. I leave it there since it is above the scope of this write–up.

Beyond this, initiatives regarding how the past government supported households in the midst of the Dumsor is unclear. There are arguments that the NDC government provided tens of thousands of solar lamps to Ghanaians. However, establishing the veracity or otherwise of this claim is difficult as information regarding the specific distribution activities are scanty.

With regard to the firms which also experienced massive negative effects of the Dumsor, there were no specific policy measures to alleviate their plights. It is on record that, while the fortunate few firms and households were running on generators, both electricity and fuel prices were increased. Needless to say that, these increments added more to the injuries of businesses and households despite the apparent heat they were already facing. Cost of borrowing was very high and so were cost of inputs. These higher costs pushed up inflation and cost of living. For most part, government’s response to the Dumsor was inadequate as the axe squarely fell on businesses and households. There were no clear fiscal or monetary policies to cushion the devastating effects.

**NPP Government’s COVID-19 socio-economic intervention**

I now turn to the present government’s policy economic responses to the Covid–19 crisis. To the extent that the Covid–19 crisis is externally–driven affecting almost all countries in the World, governments across the globe will have to think globally and act locally. On this score, assessment of government responses can be examined along fiscal (that is government expenditure and revenue policies) and monetary (that is government policy to control interest rate or money supply) policies. On the fiscal policy side, we can rate the government based on two criteria.
First is the fiscal stimulus and second is the tax exemptions/ waivers. By recognizing the negative effects of the Covid–19 on businesses, government announced on 5th April, 2020 that it is providing a stimulus package of 600 million Ghana Cedis to support SMEs as soft loans. The President further announced that, the loan will have a one–year moratorium and two–year repayment period.

The National Board for Small Scale Industries (NBSSI) have recently announced that, an online portal will be launched for interested SMEs to apply where over 200,000 SMEs are expected to benefit from this package. Again, the President has further announced that the commercial banks, with the support of the Bank of Ghana, have instituted a 3 billion Ghana Cedi credit and stimulus package to help revitalize industries, especially in the pharmaceutical, hospitality, services and manufacturing sectors.

With regard to households, the government is also offering three months free electricity for lifeline consumers and 50% reduction for all other electricity consumers. It is also offering free water supply to consumers for three months. For most part, these packages will go a long way to bringing some relief to Ghanaians.

Even flight passengers who arrived into the country just before the borders were closed to avoid spread of the Covid–19 cases were quarantined and fed at a cost to the government. I remember a friend of mine from Johannesburg, South Africa who was quarantined for 14 days, was praying for an extension of the days so he could enjoy the services that were provided to him.

On tax exemptions/waivers, to recognize the role of the health workers in the Covid–19 fight, government has exempted them from paying tax on their emoluments for three months. In addition, those frontline health workers will further receive additional allowance of 50% of their basic salary from March to June. In fact, as at 6th April, 2020, 24 of out of the 54 African countries including Ghana had announced stimulus package to cushion the effects of the Covid–19 while only eight countries in Africa including Ghana announced tax waivers.

As the number of COVID–19 reported cases continue to rise in some African countries, Central Banks have stepped in to respond with various monetary policy measures to cushion the negative effects. For instance, in Ghana, the Monetary Policy Committee (MPC) of the Bank of Ghana announced a reduction in the policy rate by 150 basis points on Wednesday, 18th March, 2020, as its first response in order to the limit the ramification the Covid–19 is imposing on the economy. This the first time since November 2018 that the Central Bank has reduced the policy rate. This policy direction therefore saw the reduction of the policy rate from 16% to 14% in order to provide ease to the Commercial banks to increase their borrowing to the private sector.

While Ghana is one of the first countries to respond with expansionary monetary policy, other African countries (like Mozambique, Nigeria, South Africa, Kenya and Egypt to mention but a few) have also instituted some monetary policy measures to ease the effects on their citizens. To the extent that the mobile money transfer system is an important part of our financial system owing to the mobile money interoperability system which was launched by the present government, some banks have also been responding by either reducing or getting their entire bank charges on mobile money transactions waived in order to also aid in providing relief to people. I specifically know Zenith Bank Ghana Limited has completely waived fees on mobile money transactions.

Beyond this, the use of the drones in delivering samples for Covid–19 testing is also highly commendable.

I recently had a discussion with a friend from one of the African countries about the Covid–19 and government responses. She said: “Charley, I want to be a Ghanaian”. Why? “Your government is making me jealous. His responses to the Covid–19 crisis are on point. How do I become a Ghanaian?” At that moment, I smiled and felt proud as a Ghanaian.

**In conclusion and probably the verdict**

Undoubtedly, government’s economic policy responses to the Covid–19 have been phenomenal and comparative to several other countries. In some cases, Ghana takes the lead. Indeed, for a small open economy like Ghana to quickly institute such measures, one cannot liken such an economy to a patient gasping for breath in the ICU.
For most part, such expansionary fiscal and monetary policies can only be supported by a robust economy. Given the economic effects of the Dum–Cov, one would have expected the then government to institute similar relief packages to reduce the burden on people. Unfortunately, this did not happen. Interest rates were not reduced. Tax exemptions/waivers/deferment never happened. Probably our dear economy was on cardiac monitors and also needed a stimulus package.

Indeed, the costs of financing these packages during the Covid–19 crisis can be huge. In the US for instance, President Donald Trump recently signed the Bipartisan Budget Act which increased government discretionary spending limits for 2020 and 2021. The Act also temporarily suspends the country’s limit on how much they can borrow for this period thus providing more avenues for the country to mobilize revenue to support their expenditures. Interestingly, some commentators in Ghana argue that, the country quickly rushed to the IMF for borrow.

Indeed, given that the country’s domestic revenue mobilization is low on the back of low economic activities resulting from the Covid–19 pandemic, printing money or borrowing comes as critical source of revenue mobilization. In fact, when economic activities are low, the rate at which money changes hand is low and so, printing money cannot be inflationary especially when the Bank of Ghana is commendably keeping the inflation rate at a single digit. However, given the political nature of Ghana, printing money is not an option. Similar to other countries, Ghana turned to the IMF to borrow. Fortunately, this move is smart as it does not come with interest payments.

We can make assertions regarding governments’ responses to the Dum–Cov. However, the records do not appear to favour the managers of the Dumsor crisis. Sadly, some businesses and households are yet to recover from the brunt of it. While majority are happy with the policy initiatives of the managers of the current economy, we will play the role of Oliver Twist by asking for more.

In addition to identifying the critical sectors of the economy where the stimulus package is most needed, it is imperative for the government to monitor the utilization of the funds in order to ensure that the funds are used to support production. Transparency in the disbursement of the stimulus package is also exceedingly important. Indeed, corporate support to the government in this crisis has been impressive. While it marks some confidence in the economy, it has also brought a different taste to African philanthropy and our reciprocal neighbourliness.

Global economy will bounce back. African economies will bounce back. Ghana’s economy will bounce back. But am I just being too Ghanaian? Probably yes, no or maybe depending on which side of the fence I sit. As a global citizen, I pray for a lasting solution to this Covid–19 crisis. May the Covid–19 patients fully recover. For those who have lost their loved ones, I pray the Almighty God gives the families the strength to contain the lost.

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