GHANA TUC PROPOSAL FOR GOVT OF GHANA 2012 BUDGET STATEMENT & ECONOMIC POLICIES

This year marks the sixth year in which the Ghana TUC and its affiliate national unions are submitting inputs into the national budget, and for the sixth time we would like to express our appreciation to government for providing civil society organisations the platform to be part of the budget formulation process.

However, as we noted in our submission for the 2011 budget, the process of submitting input is becoming increasingly cosmetic; there appears to be no real dialogue on economic policy. Economic policy has followed the business as usual mode. Alternative policies suggested by civil society groups and trade unions have not sufficiently received the attention of government. It is doubtful whether government takes the participatory approach to national budgeting seriously. We urge government to demonstrate its commitment by opening genuine dialogue over economic and social policy with interested groups and individuals.

The time is ripe for Ghana to define alternative approach to economic and social policy away from the failed neo-liberal policies that held away over economic management in the last three decades. Ghana TUC is ready to partner government in this pursuit. Government must use the 2012

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budget to set the tone for new thinking on economic policy.

EMPLOYMENT

Each one of our past submissions has touched on employment or more appropriately lack of employment opportunities. We have asked government to, as a matter of urgency, end the obnoxious policy of employment freeze in the public sector; rectify the inconsistency of our trade policy and employment objectives and take steps to abate the growing casualisation and informalisation of employment.

It is our view that government can and must play a more direct role in job creation by offering jobs in priority sectors of the economy such as education, health, infrastructure, water and sanitation and national security. Providing jobs in these sectors will not only help address the employment malaise we face as a country but, equally importantly, it will help address the social needs of the population. The scope for private sector participation in these sectors is limited. Government's direct intervention is therefore justified both on economic and social grounds.

The Ghana TUC also calls on government to do more to support the domestic private sector – the engine of growth. It is inconceivable that our private sector in its current situation can be expected to be competitive both on the domestic and international markets without some form of state intervention on their behalf. The policy of trade liberalization has unduly placed our nascent domestic industry in unfair and unsustainable competition. This explains why so many of our promising industries have been forced to close down sending workers home and exacerbating the jobs crisis. Government must take steps to recalibrate our trade policy to ensure that trade serves the national objective of growing the domestic private sector and creating jobs.

In our submission for 2011, we urged government to move away from inflation-targeting to employment-targeting. Achieving stable and low inflation is necessary but not a sufficient condition for economic growth. Ghana must go beyond this endless game of macroeconomic stability and implement policies that grow the economy and create job. Government must define clear and measurable employment targets in the 2012 budget and channel resources towards their realization. Government must not forget that in the final analysis, its

Government can and must play a more direct role in job creation by offering jobs in priority sectors of the economy such as education, health, infrastructure, water & sanitation and national security.

performance will based on how its policies created or destroyed jobs and less on how it managed to reduce inflation!

We once again call on government to "incorporate measureable employment targets in its economic and social programmes for 2012 and beyond". This should allow us all to track progress on jobs.

The current regime of high lending rates in the face of declining inflation rates cannot be justified on any grounds. It is partly an attempt by the banks to transfer their inefficiencies unto the banking public.

INTEREST RATES

Support to domestic industry must also entail addressing the usurious interest rates being charged by the banks. The ridiculously low deposit rate is militating against government efforts to mobilize savings for national development; people are increasingly investing in non-financial assets such as land. The current regime of high lending rates in the face of declining inflation rates cannot be justified on any grounds. It is partly an attempt by the banks to transfer their own inefficiencies unto the banking public. And as it is, the banks in Ghana are holding the rest of the business community to ransom; they are choking business expansion and growth. There also appear to be collusion among the few banks in the country.

The consistent decline in inflation over the past two and half years and the resilience of the economic fundamentals are enough evidence that the market, left to its own devices, will not correct the abnormally high interest rates. The monetary authorities can no longer stand aloof. Government's direct intervention in the financial market is the only feasible way out. Moral suasion has failed to lower lending rates and narrow the spread between the lending and borrowing rates. Government needs to intervene and do so directly and strategically to prevent the banks from holding the rest of the business community to ransom.

In this regard, we endorse the call by the Institute of Economic Affairs (IEA) for the monetary authorities to regulate interest rate by capping the spread. We go further by proposing that the spread between the deposit and lending should not exceed five percent.

LABOUR MARKET INFORMATION SYSTEM

One of the biggest challenges in Ghana's labour market is the dearth of labour market information. The most recent information on Ghana's labour market is the fifth round of the Ghana Living Standards Survey conducted in 2006. That data set is already outdated and cannot be

The most recent information on Ghana's labour market is the fifth round of the Ghana Living Standards Survey conducted in 2006. That data set is already outdated and cannot be relied on to access the impact of government's policies on employment.

relied on to assess the impact of government's policies on employment. It is ironical that information on inflation is available on monthly basis but employment data cannot be obtained on annual basis. This is the clearest indication that governments over the year have attached less importance to jobs. But as we have noted in this and previous submissions, government's performance will at all times, be measured by the extent its policies create or destroy jobs.

The 2010 Budget Statement and Economic Policy mentioned that government was developing and will soon install a functioning Labour Market Information System (LMIS). Two years on, Ghana continues to lack a functioning labour market information system. The paucity of reliable and up-to-date labour market information persist; yet the 2011 budget was loudly silent on the LMIS mentioned in the 2010 budget.

The Ghana TUC urges government to provide resources for the completion of the LMIS. Government must also resource agencies and institutions such as the Labour Department and the Ghana Statistical Service (GSS) to feed the LMIS with reliable and up-to-date labour market information.

GHANA'S STAKE IN GOLD MINING

Gold Mining in Ghana faces both a reality and perception problem. The perception among Ghanaians is that mining in general and gold mining in particular has not paid its fair contribution to national development. A consensus is emerging that mining companies are fleecing this country. Slowly, that perception is crystallizing into reality.

The revelation that Ghana's 10 percent Free Carried Interest in Mining Leases has been varied to a level where the country now has zero percent share in five mining companies is alarming and must be a wake up call. We acknowledge the efforts by the Minister of Finance to get this situation rectified and to restore the country's 10 percent share in the operations of these companies. We, however, admonish government to take a broader view of gold mining and how it can be restructured to aid national development.

In this regard, the Ghana TUC is calling for urgent and complete overhaul of mining laws to safeguard both national and mining community interests. Both the Minerals and Mining Law, 1986 (PNDCL 153) and the Minerals and Mining Act, 2006 (703) are relic of old horse when foreign interests dominated and determined national policies. They do not reflect national interests. The restoration of our 10 percent Carried Interest will not secure for us true benefits from our gold resources. This share must be increased to reflect current trends. Botswana retains 50 percent share in all mining operations. We have to go the same way if the legacy of gold mining in the one hundred years is to be reversed.

The policy of giving mining companies a 10 year tax holiday must be discontinued immediately. In addition, the Ghana TUC is proposing that government imposes a windfall tax on gold mining companies. With gold prices at their highest level in decades and projected to increase further, the people of Ghana must share and benefit from the windfall. Revenues from the windfall tax can be used to improve social and economic infrastructure in mining communities.

OIL AND GAS REVENUE

In our submission for the 2011 budget we endorsed the proposed Public Interest Accountability Committee (PIAC) to overesee the management of Ghana's oil resources. The Ghana TUC has noted the inauguration of the committee. We urge government to provide the committee with the

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necessary resources and to facilitate its work.

The Ghana TUC reiterate its position that the Petroleum Accounts be made to operate along the lines of the GETfund, funding specific projects and programmes within a national development framework. The TUC's position is that transfers from the petroleum account into the consolidated fund should not exceed 50 percent in any fiscal year.

THE SINGLE SPINE SALARY STRUCTURE (SSSS) AND PUBLIC SECTOR PAY

The Ghana TUC once again commends government for the bold decision to implement the single spine. We urge the Fair Wages & Salaries Commission to ensure that all public sector institutions that remain outside the spine are brought on board without further delay.

However, as events of the past year have shown, the Single Spine Pay Policy (SSPP) in itself will not guarantee adequate compensation for public sector workers. The agitations of workers in the education sector following their migration unto the Single Spine Salary Structure early this year is an indication that the SSPP will not address all the challenges associated with public sector pay. Almost two years into the implementation of the SSPP, salaries continue to lag behind the prevailing cost of living. Relative to our incomes, the cost of living is high. And this is regardless of whether inflation is falling or rising. The Salary of the typical public sector worker is not sufficient to allow him/her to rent a decent accommodation, feed the family, and pay for transport, school fees and healthcare. For the average worker, whether inflation is single or double digit, the fact is their salaries do not allow them to meet the basic needs of their family.

The solution lies in implementing a living age policy as part of the SSPP. The social partners have gone far in the determination of a living wage for a worker with a family of four. The Ministry of Employment and Social Welfare (MESW) should

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activate the tripartite dialogue on the living wage. This will help the address the perennial problem of low incomes that has dogged the public service for decades.

The current regime of high lending rates in the face of declining inflation rates cannot be justified on any grounds. It is partly an attempt by the banks to transfer their inefficiencies unto the banking public.

TAXATION

In the 2011 budget, government announced a number of initiatives to promote SME development. These initiatives include strengthening of NBSSI and EMPRETEC, promoting agro-processing and entrepreneurial skills among others. In the same budget government announced several taxes that can potentially affect the operations of SMEs and businesses in general. For instance, in 2011, airport taxes were increased for both international and domestic travels. There was a new environmental tax of 20 percent on plastic packaging materials. Gift taxes increased from 5 percent to 15 percent and taxes on imported rice and poultry went up to 35 percent. There was also the abolishing of tax holiday incentive for Ghanaian real estate developers, an extension of the communication tax to all companies in the industry, an increase in vehicle income tax, repeal of tax holidays for hotels and hospitality industry, an increased in tax stamp for the informal businesses and the increase in the toll booth fares.

In the view of the TUC, these numerous taxes can directly or indirectly affect businesses and defeat government's own objective of growing local businesses to foster employment creation. At the same time, taxes on the operation of the multinational corporations remain at their historic low levels while some even continue to enjoy generous tax exemptions. For instance, how can the mining sector which is dominated by multinational companies continue to enjoy tax holidays while that of the hotel and hospitality industry be repealed?

In spite of these taxes, the TUC is concern about the poor service delivery by utility providers in particular including frequent power cuts and water shortages which affect both businesses and households.

CONCLUSION

The TUC acknowledges progress on the macro-economic front including the relatively stabilized currency, low inflation, falling policy rate and other fiscal disciplines. That said, we would like to emphasize the point that a good macro-economic achievements which does not reflect in the living standard of Ghanaians leaves much to be desired.

We cannot be happy for achieving middle income status when unemployment keeps growing and a large proportion of Ghanaians do not have access to basic social amenities such safe drinking water and decent housing among others. We have always emphasized that the single most effective panacea to eradicating poverty is through the creation of decent jobs for all. We will continue to advocate for abandonment of inflation-targeting. We are in favour of employment-targeting policies. This, in our view, will be a more sustainable way of fulfilling the better Ghana Agenda.

GHANA TUC PRESS STATEMENT

ON THE OCCASION OF 2011 WORLD DAY FOR DECENT WORK

October 7 each year, marks World Day for Decent Work. This day has since 2008, been marked by workers around the globe in different ways to bring to the fore, the decent work agenda. This year's theme for the World Day for Decent Work is *"Decent Work and the Informal Economy"*. The Ghana TUC in solidarity with workers around the globe issues this statement in support of those who are locked up in precarious and informal economy work.

Decent work refers to opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity. The Decent Work agenda rests on four (4) main pillars namely; Rights at work, Employment, Social Protection and Social Dialogue. The essence of decent work is to ensure sustainable economic and social development. The absence of decent work has pushed millions of the working people of the world into the informal economy.

In Ghana over 80 percent of the workforce are locked up in low productivity employment in the informal economy. The last three decades has witnessed accelerated growth of informality in the Ghanaian economy. This accelerated growth of the informal economy occurred at a time of remarkable economic growth averaging about 5 percent. Ghana's economic growth can be described as jobless growth as it has failed to translate into higher (quantity and quality) formal sector job creation. Recent estimates show that annually, about 250,000 young men and women enter the Ghanaian labour market. Out of this number, only about 2 percent get employment in the formal sector. The rest are compelled to seek employment in the informal sector since it is costly to remain unemployed given the absence of social protection for the unemployed. The rapid informalization of employment in Ghana is a reflection of macroeconomic policy failure i.e., structural adjustment, neoliberal economy paradigm, inflation targeting, trade and financial over liberalization.

In Ghana, as in many developing economies, research has shown that informal economy work is precarious work and characterized by significant decent work deficits. Wages are generally low in the informal economy as over half of informal economy operators earn below the minimum wage. Most informal economy operators have no social protection against work injury, loss of income due to sickness or old age. In addition, informal economy operators hardly participate in decisions which affects their lives.

As a country, we need to review our economic and trade policies and reconcile them with our economic and social aspirations. Ghana TUC calls for a look at the conditions under almost 9 million Ghanaians in the informal sector work. These men and women who are compelled to operate in the informal economy need work and income security, they need social protection and representation.

BLENDING THE INTERESTS OF STAKEHOLDERS IN THE MINING INDUSTRY TOWARDS OPERATIONAL EXCELLENCE

A SPEECH DELIVERED BY BROTHER KOFI ASAMOAH, SECRETARY-GENERAL AT THE 10TH QUADRENNIAL DELEGATE CONFERENCE OF GHANA MINES WORKERS UNION - AUGUST 22, 2011

Brother Chairman, General Secretary, Deputy General Secretary, Executive Committee Members, Executive Board Members present, Brothers and Sisters, Ladies and Gentlemen, on behalf of the Executive Committee and on my own behalf, I bring you warm greetings from the membership of the Ghana TUC and the working people of Ghana. Let me congratulate you for your hard work in the last quadrennial which has enabled your union to meet its constitutional obligation of organizing this impressive and well-attended conference. Bringing together such large numbers of delegates including international guests in a conference of this nature is not an easy task. The financial and human resources, the logistics and the organisational skills required in putting together this conference is unquantifiable. But in keeping with our tradition of demonstrable commitment to internal democracy, you have always gone the extra mile in mobilising resources in pursuit of your constitutional mandates. And as always, I must say I'm impressed.

Your conference is coming off at a momentous time in the history of mining. Gold prices are at their highest level in many decades ... now hovering around US$1,900. With the turmoil in financial markets and the Euro crisis, gold prices are projected to hit about US$3,000 per ounce by the close of the year.

The Presenter

Brother Chairman, let me hasten to remind all present, of the enormous sacrifices the leaders of this great union and their support staff have made in making this conference a reality. To them I say Ayeeko!

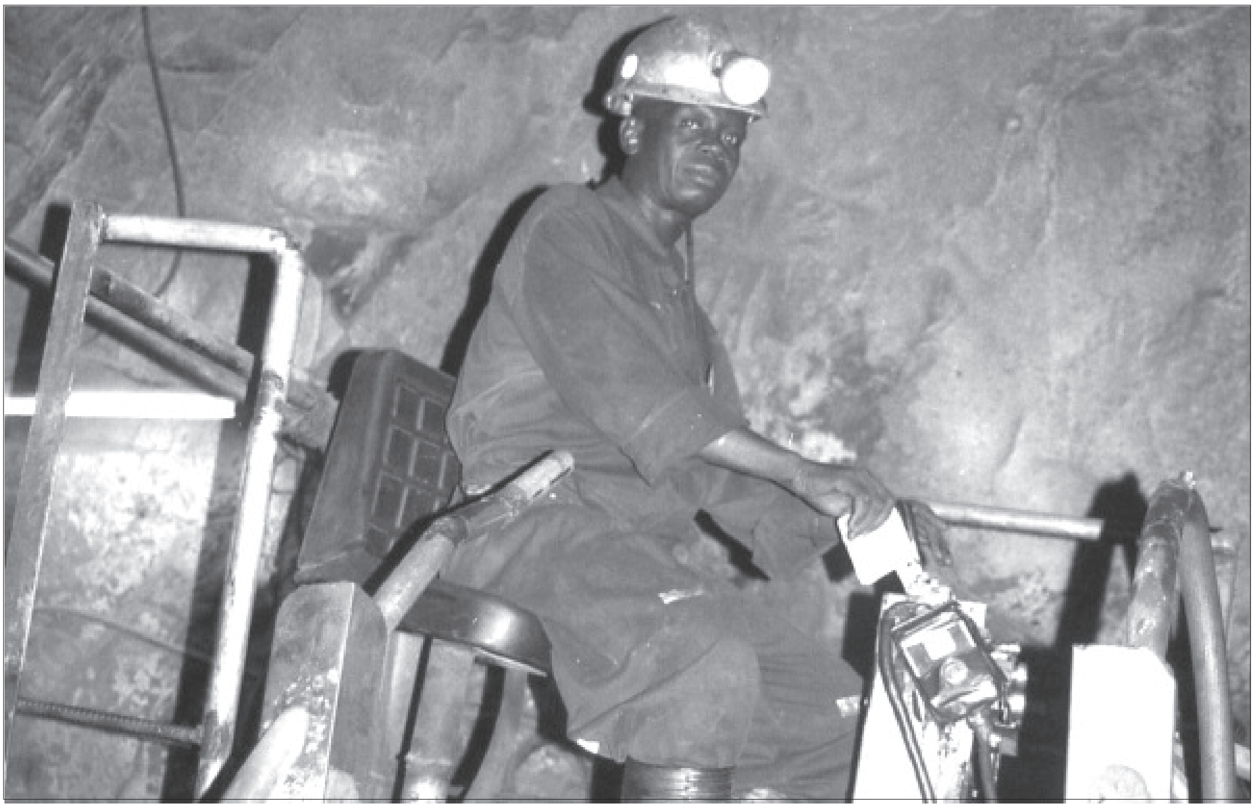
No one can deny the importance of mining in the economy of Ghana. Currently, the sector is the single largest contributor of royalty, accounting for an average of about 98 percent of the total royalties paid to government over the past 10 years.

Brothers and sisters, your conference is coming off at a momentous and exciting time in the history of mining. Gold prices and indeed prices of most metals are at their highest level in many decades. Gold price is now hovering around US$1,900. With the turmoil in financial markets and the Euro crisis, gold prices are projected to hit about US$3,000 per ounce by the close of the year. A decade ago in the year 2000 gold was around US$400 per ounce. This is truly an exciting moment for mining!

Brother Chairman, ladies and gentlemen, despite these favourable statistics, there also appear to be an emerging national consensus that mining has not contributed much to national development. It is about time that view is confronted either with the right facts or a radical overhaul of mining rules as they relate to national and community interests. It is for this reason, Brother Chair, that I find the theme of your conference: "Blending the Interests of Stakeholders in the Mining Industry towards Operational Excellence" very appropriate and timely. The theme is forward looking and shows that the union has its ears on the ground.

Comrades, no one can deny the importance of mining in the economy of Ghana and that of mining communities. Currently, the sector is the single largest contributor of royalty, accounting for an average of about 98 percent of the total royalties paid to government over the past 10 years. With an average growth rate of 7 percent in the last decade, mining accounts for about 7 percent of Gross Domestic Product (GDP). The contribution of the sector to foreign exchange is the highest among all other sectors. In addition, because mining companies frequently operate in remote and deprive communities they are often compelled to construct roads which help to open up these communities. Through corporate social responsibility activities, they provide schools, clinics and other important amenities that go a long way in improving the lives of people in mining communities.

Brother Chair, all that much is acknowledged! However the popular perception remains that mining is not paying its fair contribution to the national development efforts. It is ironical that a sector that contributes about 7 percent to GDP

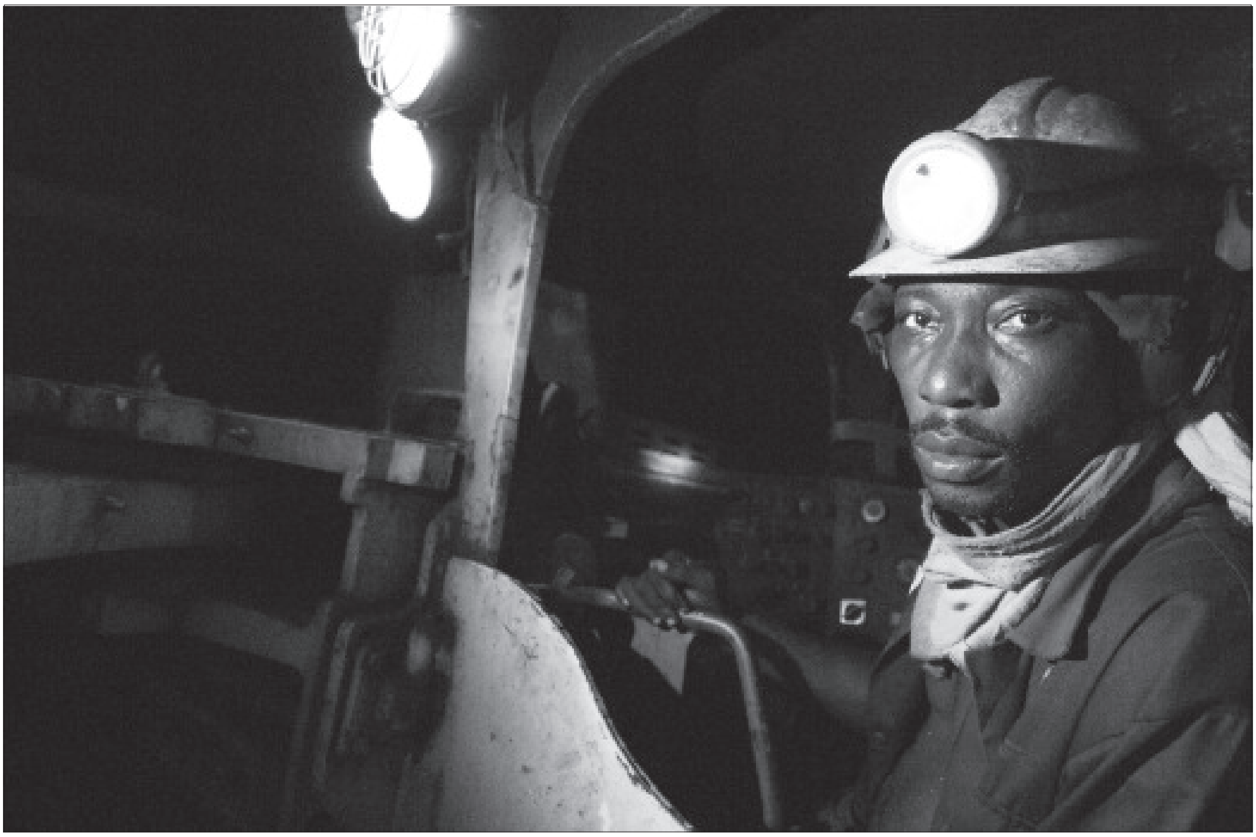


provides employment to less one percent of the total workforce.

Brothers and sisters, it is not enough for anybody to explain that mining is a capital intensive activity. The switch from labour-intensive and environmentally-friendly underground mining to surface mining explains the decline in the contribution of mining to total employment. We know that the switch involves the use of modern technology which boosts production and profitability. But it appears the change process in particular for mining communities was not well managed. The consequence is the ever growing army of illegal miners whose activities impact negatively on the operations of mining companies. What could the mining communities have done to provide communities with alternative livelihoods that would ensure that young people in the communities would not have embarked on these dangerous and environmentally destructive activities?

Ladies and gentlemen, in spite of all the hype about mining, average earnings in the industry comes seventh and is below average earnings in the fishing and education sub-sectors. That is very surprising but it is the 2006 data from the Ghana Statistical Service. Even more surprising is the level of pay inequities in the mining industry particularly between so-called expatriate staff and locals. It is unacceptable that within the same mining industry,

The switch from labour-intensive & environmentally-friendly underground mining to surface mining explains the decline in the contribution of mining to total employment. The switch involves the use of modern technology which boosts production and profitability. But the change process, in particular for mining communities, was not well managed.



Even more surprising is the level of pay inequities in the mining industry particularly between so-called expatriate staff and locals. It is unacceptable that within the same mining industry, someone will be earning almost US$40,000 per month while others are earning below US$500.

someone will be earning almost US$40,000 per month while others are earning below US$500. Such huge inequity is obscene irrespective of the qualification and experience of the various recipients. It is for this reason that I laud the initiative of the leadership of the union in their "Agenda 500" which aims at ensuring that no miner in Ghana earns below US$500. I urge management to support the initiative as part of measures to reduce inequities and clean up the image of mining.

Brother Chair, after more than a century of mining I find it objectionable that we continue to rely on expatriates. It is important that stakeholders in the industry work together to ensure that going forward we do not need to rely on such huge numbers of expatriate staff. Conscious efforts need to be made to transfer technology and build local capacity. That will be a more lasting corporate good.

Ladies and gentlemen, these and many more issues should guide you as you go through the important exercise of electing your leaders for the next quadrennial. I encourage you to choose the men and women with demonstrable ability to inspire and unite members around the common good: to improve the standard of living of mine workers and also ensure that mining contributes positively to national development.

On this note, I wish you a very fruitful conference.

EXPANDING SOCIAL PROTECTION

THE ROLE OF SOCIAL PENSIONS

by Kwabena Nyarko Otoo, Director, Labour Research and Policy Institute, Ghana TUC

Ghana's economy and society has undergone tremendous changes in the last three decades. The country has achieved modest but consistent growth, averaging 6 percent since 1984. This has enabled the country to significantly reduce levels of poverty. Head count poverty has fallen from over half of the population in 1992 to about a quarter in 2006. The incidence of extreme poverty also declined from about 36 percent in 1992 to 18 percent in 2006. The extreme poor are those who are not able to meet their basic nutritional requirements even when they devote their entire consumption budget to food.

In addition to the remarkable decline in income poverty, Ghana has also significantly improved access of its population to social services. There has been improvement in the number of households with access to safe drinking water, using adequate toilet facilities and having access to electricity. Enrolment rates at all levels of education have improved and greater proportion of the population now have access to health facilities. The introduction of the Capitation Grant and the School Feeding in the education sector and the National Health Insurance Scheme (NHIS) in the health sector has considerably increased the access of the population to these services.

The discovery of oil and gas in commercial quantities is expected to usher the country into further transformative change that will affect the lives of all Ghanaians. But as expected, in a market-based economy that has witnessed relentless rollback of social programmes not all Ghanaians have benefited from

The Author

the generalized reduction in poverty. And going forward, not all Ghanaians can be expected to benefit from the exciting changes that lie ahead of the country unaided unless purposeful interventions are made on behalf of the unfortunate members of society. This paper argues for well-structured interventions

In addition to the remarkable decline in income poverty, Ghana has also significantly improved access of its population to social services. There has been improvement in the number of households with access to safe drinking water, using adequate toilet facilities and having access to electricity.

This paper argues for well-structured interventions towards expanding pension coverage to all Ghanaians that require income protection in old age. The focus is on the elderly in society who exit the labour market without any formal social protection rights and who by virtue of the withering of the traditional extended family support system are living in squalor.

towards expanding pension coverage to all Ghanaians that require income protection in old age. The focus is on the elderly in society who exit the labour market without any formal social protection rights and who by virtue of the withering of the traditional extended family support system are living in squalor.

EXISTING SUPPORT TO THE ELDERLY

Worldwide and historically, countries have relied on contributory social insurance schemes – social security – to provide income support to elderly members of society. The rationale is to prevent poverty and destitution among the elderly. The situation is no different in Ghana. The country instituted a non-contributory pension scheme, the so-called 30 in the early 1950s. But coverage was limited to few formal sector workers employed in the public sector. The institution of the Social Security and National Insurance Trust (SSNIT) pension and the subsequent reforms (in 2008) that have established three-tier pension scheme have been geared towards expanding coverage, among other objectives. In particularly, the new Pension Act incorporates a separate pillar, the third tier that is targeted at the informal economy operators, providing them formal access to social security.

However, coverage of social security continues to be limited to only few privileged individuals employed in the formal sector. The vast majority of the workforce employed in the informal sector is not contributing to social security and thus not accruing pension rights. Currently, just about one million workers are contributing and acquiring pension rights out of a workforce of about 12 million. Part of the problem is the continued reliance on contributory schemes as a vehicle for expanding coverage. This is unsustainable given that larger proportion of the working population is in the informal sector and more than half have no discernible employer-employee

relationship. In such situations, it is difficult if not impossible to enforce contributions. The SSNIT informal sector pension has just 90,000 contributors out of the estimated 10 million people in the informal economy. The problem is made worse by the low levels of earnings in the informal economy; majority of workers there do not earn enough to cover their basic subsistence making it difficult for them to save towards pensions. Besides, incomes in the informal economy can be so irregular as to hamper uninterrupted contributions.

Going forward would require different mechanisms and approaches to expanding coverage; one which relies on a combination of contributory and non-contributory schemes. There is an urgent need to do this. Thanks to economic growth and improved education and healthcare, more and more people are living longer. At the same time, as we have noted, the informalisation of employment has precluded the expansion of the formal social security system. The aged are therefore caught in a cycle of demographic deficit. With reduced - or no - earnings from work, and increasing expenditures resulting from vulnerability to sickness and disability, our elderly folks face greater risk of poverty than other members of society. In Sub-Saharan Africa, the evidence is that households with older people tend to be poorer than the general population. In a study of national poverty rates in 15 African countries, Kwakwani and Subbarao (2005) found that in all of the countries poverty rates are higher in households with elderly people than those without older people. It is equally true that there is significant poverty among other age groups, for example the youth and children who live in poorer households.

For the elderly access to pensions can make a big difference in mitigating their vulnerability to poverty. In Ghana as in much of Africa, however, less than 10 percent of persons aged 60 and above have access to any form of pension. For young people the most sustainable way to address poverty is to build their human capital and facilitate their access to decent employment. With decent employment, young people can afford to enrol in contributory social security schemes and accumulate pension rights. However, the past 30 years of neo-liberal policies have made decent employment a rarity in Ghana. Nearly all new jobs are being created in the informal economy where earnings are low and workers there are unable to afford to contribute to social security schemes.

TAKING CARE OF THE ELDERLY – THE ROLE OF SOCIAL PENSIONS

It is now universally agreed that traditional social insurance schemes – earnings-related contributory pensions - cannot be relied on to close the coverage gap and provide income security either to the elderly or active members of society who are in need of such protection. Contributory social insurance schemes were set up under the assumption that as economies grow more people will have formal wage/ salary employment. Indeed, the various ILO Recommendations on social security made reference to contributory social insurance, ultimately regarding it as the medium to expand coverage of social security to a greater number of the population.

In Sub-Saharan Africa, the evidence is that households with older people tend to be poorer than the general population. In a study of national poverty rates in 15 African countries, Kwakwani and Subbarao (2005) found that in all of the countries poverty rates are higher in households with elderly people than those without older people.

Despite recent reforms, the existing contributory schemes remained largely ill-equipped to cover the large sections of the population trapped in informal employment. In other parts of the world, there has been a proliferation of non-contributory schemes otherwise known as social pensions.

However, economic growth has coincided with a declining share of the labour force in wage/ salaried employment. The share of informal self-employment has continued to expand contrary to expectation. At the same time, coverage of contributory social insurance schemes continue to stagnate and even decreasing. Productivity and earnings of small and medium enterprises in the sprawling informal sector remain too low for firms and workers there to cover the cost of contributory pensions. While enforcement levels remain low, the existing contributory scheme – the SSNIT Scheme – has failed to provide the necessary incentives to induce voluntary participation both in the formal and informal sectors of the economy.

Clearly, and despite recent reforms, the existing contributory schemes remained largely ill-equipped to cover the large sections of the population trapped in informal employment. In other parts of the world, particularly Latin America, there has been a proliferation of non-contributory schemes otherwise known as social pensions. This is motivated in large part by the urgent national imperative to prevent and alleviate poverty among the elderly. Non-contributory schemes also form a major part of the vision that sees social security as a right of all citizens. That vision incorporate bold and comprehensive attempt to turn the theoretical right to social protection enshrined in the constitution of the ILO and in most national constitutions including ours into reality.

GHANA'S CONSTITUTION (1992) ENJOINS THE STATE TO INSTITUTE MEASURES THAT SECURE SOCIAL SECURITY FOR ALL, PARTICULARLY THE POOR

Article 37, Clause 6 Section (a) and (b) under the Directive Principles of State Policy state that the State shall:

a. ensure that contributory schemes are instituted and maintained that will guarantee economic security for the self-employed and other citizens of Ghana;

b. Provide social assistance to the aged such as will enable them to maintain a decent standard of living.

This right as enshrined in the Constitution must be realised. It is the responsibility of the state to bring this about. And it is our view that social pensions can play major in ensuring the realisation of this right.

SOCIAL PENSIONS

Social pensions are retirement income transfers or old age subsidies. The transfers can take place on retirement and/or on attaining a certain eligible age (ex post interventions), or during active life (ex ante interventions). Ex post transfers include transfers that are not linked to contribution histories, called social pensions and transfers within contributory schemes intended to guarantee minimum pension.

Social pensions can be universal or resource-tested. Universal or basic pension are paid to all individuals who reach a pre-determined eligibility age. Resource-tested pensions are conditional on the income level of prospective beneficiaries. An example is minimum pensions that are tested on pension income. Some resource-tested schemes

use a broader set of incomes other than pension income.

Countries are increasingly relying on social pensions to expand access to social protection. Most developed countries have one form of social pension or the other. Among the 30 countries of the OECD, 13 currently are implementing basic pensions, 17 have minimum pensions and resource-tested schemes with some countries combining all three. For example, Japan, Netherlands and New Zealand use minimum pensions while the United Kingdom combines all three schemes.

There are few countries in the developing world that implement social pensions but the approach is gaining importance. A good number of middle-income countries rely on social pensions to expand coverage of social protection. Latin America and the Caribbean have been at the forefront in this area. Non-contributory schemes are implemented in Argentina, Brazil (Bolsa Familia), Costa Rica, Bolivia Mexico (Oppotunidas), Ecuador, El Salvador, Panama and Uruguay. These are countries that already have a relatively higher coverage rate of the contributory systems.

In South Asia, Bangladesh, India and Nepal have introduced social pensions. And in Southern Africa, social pensions exist in Botswana, Lesotho, Namibia, South Africa and Swaziland.

The impacts of social pensions in combating poverty among the elderly have been shown to be positive not just for the elderly but whole families. In Latin America, the countries that first introduced social pensions (Chile, Uruguay, Argentina and Brazil) have low rates of poverty among the elderly (Barrientos, 2007). The elderly in Ecuador are about 1.5 times more likely to be poor than other population groups. In Brazil and Uruguay older people are less likely to be poor compared to other members of the population due primarily to the implementation of non-contributory social pensions. The elderly tend to use the

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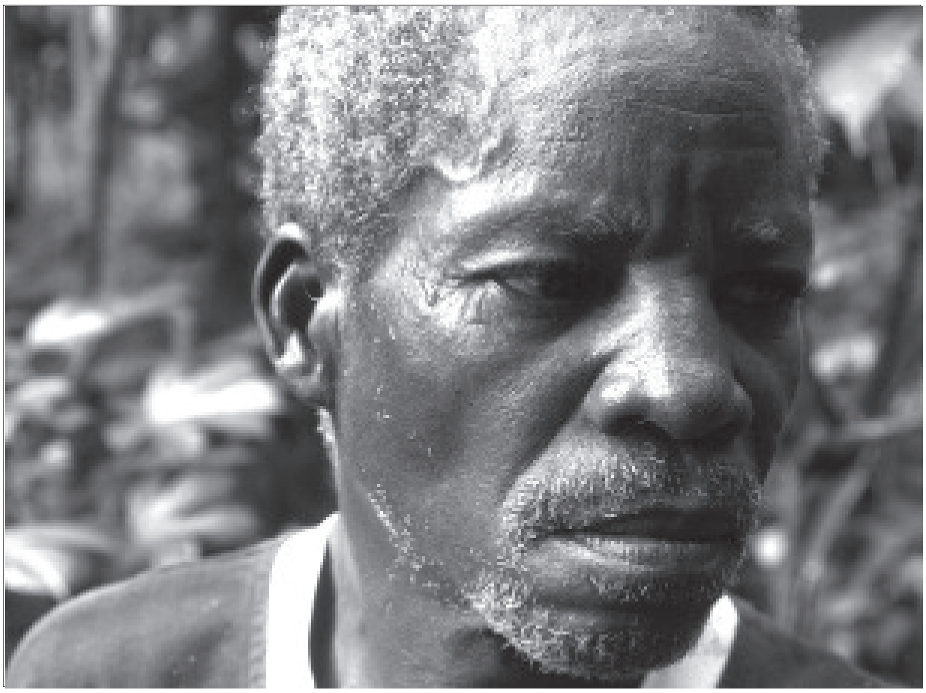

members of the pension scheme with high saving capacity are taxed to finance either the contributions or entitlements of members with low saving capacity.

Another form of social pension that is increasingly gaining popularity around the world is matching contributions. Matching contributions are transfers to individuals conditional on their participation in a given pension plan. Individual contributions are subsidized to enable them meet contribution rates and complete the vesting period. A government may decide to pay 50 percent on behalf of certain individuals or certain groups of workers. Matching contributions have the potential to spur long-term investment and facilitate formal sector work among groups with limited savings capacity. The idea is that some groups of workers, particularly in the informal economy have capacity to contribute but not so much as to meet the vesting period (the minimum years of contribution). For such workers government can induce them to join the pension scheme by subsidizing their contributions. The added value is that beneficiaries would be required to register with some state institutions providing the first

transfers they receive to finance education by paying school fees and cater to the health needs of the larger household.

Social pensions can be implemented even within the contributory pension. For example, given the minimum pensions paid currently by SSNIT (GHC25.00) recipients would find it a lot harder to meet their basic needs. Anecdotal evidence suggests that significant number of pensioners face increasing risks of poverty. The state can and should implement minimum pension guarantee schemes that fixed the minimum pension at a level that will allow our seniors to live dignified life. This can be financed through general revenues in which case the state picks up the bill in excess of what the social security fund can pay. It can also be financed by explicit redistribution within the pension scheme that relies on higher payroll taxes and social security contributions. In this case

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important step towards formalization.

FINANCING

A major challenge that, face low income countries including Ghana as they attempt to implement social pensions is finance. It is perhaps the single most important reason why low income countries like Ghana have not instituted social pensions.

However, the finance or revenue challenge as they relate to social pensions is an over-bloated one. A recent analysis by the International Labour Organisation (ILO) for a number of low-income countries in Africa and Asia has shown that universal old-age pension or social pensions in these countries would cost just about one percent of Gross Domestic Product (GDP). The analysis clearly shows that basic social pensions are affordable for most countries irrespective of their levels of development. A complete package of basic social protection including universal basic old-age and disability pensions; basic child benefits; universal access to essential health care and social assistance in the form of a 100-day employment guarantee scheme would require much higher resources to implement. The resource envelop for this package would range between 3.7 percent and 10.6 percent of GDP in 2010.

A basic old age pension paying benefits equivalent to 30 percent GDP per capita paid to people 65 and older should cost no more than 1 percent of GDP. If persons with serious disabilities are included the annual cost is estimated at between 0.6 and 1.5 percent of GDP. These projections are made for countries like Burkina Faso, Ethiopia, Kenya, Senegal and Tanzania. Surely Ghana is in much better position and can afford to implement such programme for her elderly citizens who have no social security.

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NATIONAL ATTITUDE TOWARDS POVERTY

Implementing non-contributory social pension would in the final analysis be determined by the national attitude towards poverty and the poor. Technocratic analysis can be made and advance sound argument about the need and feasibility to implement such a programme. But, in the end it will be a matter of national debate and choice to implement basic social pension as a priority. The choice is simple: formerly entrust the responsibility for the care of the elderly members of society to the state or continued with the current practice of relying on already over-burdened and eroding extended family support system to take care of the elderly poor.

That choice would be informed largely by the national mood toward the causes of poverty and responses to the poor in society. If (as it is in some countries) poor people are blamed for their own poverty, that they are poor because of laziness and lack of will power then it will be difficult to rally the public behind any programme of social assistance targeted at the poor. In countries with majority of the non-poor population having such attitude to poverty, social pensions are generally limited. On the other hand, if majority of the people view the poor as being victims of unfairness in society, then implementing social pensions should not be a difficult task.

In this paper we argued that while some people experienced poverty in their old age as result of failure to plan for their retirement, for the generality of the elderly poor, poverty is the direct result of broad range of factors over which they have no control. Those factors include broad economic policies that grow the economy without creating jobs in the formal economy. They may include education policies that deny some people access either because they or their parents could not afford the costs or they have no physical access. These factors justify broader societal interventions on behalf of the elderly poor.

CONCLUSION

The basic idea behind social pensions is that the trend of employment over the last 30 years does not favour the continued reliance on contributory social insurance in expanding coverage of social protection. The rise of informal employment particularly self-employment makes it impossible to impose mandates; generally operators in the informal economy earn too little to afford to save towards pensions and their incomes are generally irregular. At the same time, economic growth combined with improvements in education and healthcare has enabled improvements in life expectancy leading to a rise in the population of the aged. The pressures of globalization and urbanization have also contributed to the breakup of the traditional extended family support system. The elderly with no formal social protection support increasingly find themselves facing income insecurity.

Social pensions have emerged as the national response to this quagmire. It is intended among other things to prevent old age poverty. Its basis is that current approaches to retirement income security cover only a minority of the population. The state therefore has both constitutional and moral obligation to provide alternative to the present regime of pensions. That alternative is found in social pensions.

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