PROPOSAL FOR THE 2017 BUDGET STATEMENT AND ECONOMIC POLICY OF THE GOVERNMENT OF GHANA

FEBRUARY 2017
INTRODUCTION

The NPP Government will present its first Budget Statement and Economic Policy to Parliament on 1st March, 2017. Obviously, the expectations are very high. Fundamentally, we expect policies that will return our economy to a growth path that will empower as many Ghanaians as possible to get out of poverty.

In this submission we would like to draw government’s attention to some important aspects of our economy relating to employment, labour administration, earnings, pensions, taxation, housing and the IMF-sponsored Extended Credit Facility (ECF), and the proposed privatization of ECG.

We trust that these proposals will receive the government’s attention because they provide a good basis for engagement between government and labour on these and other issues affecting workers and their families.

We note that the NPP Government has honoured the agreement on the 12.5% increase in salaries for public sector workers on the Single Spine Salary Structure (SSSS) for 2017. We find this commendable. We urge government to follow that path.

EMPLOYMENT

The lack of decent employment, especially for young people, remains the greatest challenge facing Ghana. The NPP captured the employment challenge in its manifesto as follows:
“Millions of Ghanaians wake up each day to the soul-destroying reality of joblessness, and they spend their energies looking for non-existent jobs.”

In our previous proposals, we lamented the fact that in election periods the employment challenge is elevated as the topmost priority of all competing parties. But once elections are over, employment is quickly relegated to the fringes of economic policy. It is our fervent hope that things will be different this time.

The first issue about employment has to do with the declining share of the formal/decent jobs in total employment. Currently, less than 2 million Ghanaians are engaged in formal employment out of the estimated 13 million in the working-age population. This means about 11 million are in informal employment which is characterized by low earnings, poor health and safety standards and no access to social security.

The second relates to the growing casualization and fixed-term employment even for jobs that are permanent in nature. The third issue is the neglect of employment in macroeconomic policy, due, partly to IMF-sponsored programmes which tend to regard employment as the residual outcome of economic growth.

We would like to propose to the NPP Government to make job creation the main priority in its economic policy. We expect to see employment targets in the 2017 budget. Tax policies, investment policies, procurement policies, and trade policies should all focus on creating jobs for Ghanaians, especially the youth. We agree with
those who believe that, in the medium to long-term, job creation is “essentially a private sector activity”. In this regard, creating sustainable employment requires massive support for domestic industry. Building a dynamic private sector will be central to overcoming the employment challenge. We expect government to announce in its first budget, measures that will create the right environment for business to thrive.

We expect measures that will bring down cost of borrowing. It is impossible for businesses to expand and create more decent jobs at such ridiculously high interest rates in the range of 30 to 40 percent. At these rates, the rest of the business community is essentially working for the banks. It is, therefore, not surprising that the banks in Ghana are the only businesses making profits.

We cannot continue to appeal to the moral conscience of profit-seeking banks to reduce interest rates. This approach has failed to bring down cost of borrowing. Let us try other more effective policies.

Reducing government’s domestic borrowing can help, but it may not resolve the perennial problem of high interest rates. The previous NPP administration cut domestic borrowing to the minimum, but average lending rate remained relatively high. The high interest rates reflect general lack of trust in the system which makes borrowing and lending a very high risk business. We need to restore trust in the economy. That means all institutions connected to the financial system, either directly or indirectly, must function effectively. The banks have often raised the issue of cost of funds,
which reflect the general lack of loanable funds (financial savings) compared to the demand for funds. The low savings rate itself reflects the low deposit rate paid by the banks. At such ridiculous deposit rate, most Ghanaians with excess funds are rather saving in non-financial assets (such as land and buildings) depriving the economy of financial savings.

In the short to medium term, we may need some strategic interventions in the money market by both the fiscal and monetary authorities. Such interventions could consider the possibility of capping the spread between the lending and deposit rates. Government could also consider re-capitalizing the public banks and use them as the anchor to drive down interest rates. Perhaps, some lessons from Brazil under President Lula da Silva and from other such progressive governments around the world can help.

Another important area that needs attention is our national trade policy. It is the considered view of the TUC that the national trade policy disadvantages domestic industry and it is not in sync with the national objective to develop the private sector for employment creation. Ghana cannot create employment in the right quality and quantity unless we can produce for ourselves a significant proportion of what we consume. We need to extend every conceivable support to the domestic private sector to be able to achieve that objective. The private sector in Ghana faces too many constraints. In such situations, what some countries have done was to find ways of shielding domestic firms that are vital sources of employment from the external competition. Our trade policy does
the opposite: it overexposes our weak and fledgling private sector to external competition.

The current trade policy is based on the erroneous view that open borders are good for economic growth because our enterprises will have access to a larger world market. It is also argued by adherents of open-border policy that external competition unleashed by liberalization will provide the discipline our domestic firms need to enhance their own ability to compete. But there is enough evidence to show that this trade policy has ruined most of our local companies. There is no way to create export champions out of our domestic firms when they are beaten even on the domestic market. Definitely, our struggling businesses need the home market as preparatory grounds before launching onto the world market. We are beaten because the foreign competing firms have been in the business longer than most of our domestic companies. But most importantly, the foreign companies that we consider as competitive are recipients of massive amounts of subsidies, either directly or indirectly, which allow them to sell below their true costs of production. In fact, what the trade policy (together with other domestic policies) has succeeded in doing is to make imports very lucrative compared to domestic production. We are expecting the first NPP Government Budget to reverse this.

We are aware of the constraints imposed by the world’s trading system. We are equally aware of the reliefs offered by the system to developing countries like Ghana. It is important that we take advantage of these reliefs. For instance, by our current commitments within the World Trade Organisation (WTO), we can
raise import tariffs on several agricultural related products in the event of an import surge that threatens domestic livelihoods. We can raise import tariffs on poultry products from the current 20 percent up to 99 percent, which is our current bound tariff for poultry and most other agricultural commodities. Raising import tariffs will create incentives for domestic production of goods that are currently imported.

We fully support the Government’s “One District One Factory” initiative because it will decentralize new investments away from Accra, Kumasi and Takoradi to other parts of the country. But this initiative may not be successful unless the national trade policy is re-calibrated to create room on the domestic market for the emerging factories.

We also urge government to seriously consider sub-regional and regional markets. Ghana definitely has to take full advantage of the continental free trade area in Africa. We are more likely to be successful on the African terrain than elsewhere.

The TUC holds the view that, given the scale of the employment crisis that confronts the nation and the dangers it poses to national security, it is important that government intervenes by directly offering jobs in some social sectors such as education, health and security. The government must provide immediate job opportunities for the thousands of recently trained nurses and teachers. Some of these trained nurses and teachers have been at home for close to three years. They are losing their human capital at a time when classrooms and clinics in remote corners of Ghana
are without teachers and nurses. We expect government to increase the numbers in the security forces, particularly the police, to assure citizens of maximum security.

**TAXATION**

NPP’s position on taxes is very clear. The idea of shifting the “focus of economic management from taxation to production” was emphasized throughout the campaign towards the 2016 general election. It is true that businesses and in fact Ghanaians are saddled with too many taxes. We also believe that some of these taxes are actually a nuisance. They do not bring in the expected revenues but have the potential to deter not only production but also economic agents from formalizing their activities. Also, excessive taxation has the potential to encourage evasion and avoidance.

Government has made clear its intentions to either abolish or reduce some of these taxes. In particular, government has promised to slash the corporate tax rate from 25 to 20 percent. From employment creation perspective, we urge government to proceed with caution and to be strategic in its tax concessions. It is a fact that excessive taxation can discourage economic activities and employment creation. But lower taxes do not automatically guarantee employment creation. Economic history has many examples of how tax concessions have failed to create employment. For example, if government offers tax incentives to companies that are importing and selling non-essential goods, Ghana loses twice – first, we lose jobs because those goods are made elsewhere and we lose potential tax revenue from import duties.
We would like to propose that the proposed corporate tax concessions must be tied to job creation so that only companies creating jobs or have the potential to create jobs here in Ghana will qualify for the tax concession. For example, companies that employ fresh graduates could be offered even more generous tax concessions if they keep their employment levels high over a specified period. A blanket or across-the-board tax reductions may reduce government revenues without necessarily inducing employment creation.

To be fair to workers, the TUC also urges government to consider reducing personal income taxes (Pay-As-You-Earn). We suggest that the tax-free threshold should be raised to GH¢12000 per annum. In other words all workers earning up to GH¢1000 per month should not pay income taxes. After all workers are paying VAT and other indirect taxes on almost all what they consume. The current tax-free income threshold of GH¢2,592 per annum means even very poor workers in the formal sector who are earning GH¢216 per month are being taxed when their counterparts in the informal economy who could be earning higher incomes are left off the hook. This is a very unfair tax system.

Currently, the maximum income tax rate/margin is 25 percent. We expect it to be reduced to 20 percent. We believe that lower corporate taxes may free financial resources to the private sector to increase production and create more jobs. We also believe that lower income taxes can increase disposable income for workers to increase consumption enhance their well-being and that can also
lead to higher economic growth. Any Attempt to reduce corporate
taxes without corresponding reduction in personal income taxes
will amount to shifting the tax burden on workers and further
redistributing wealth in favour of capital and the wealthy. This will
be unfair.

LABOUR ADMINISTRATION

Labour market institutions are tasked to ensure that there is peace
at the labour front. What we have witnessed in Ghana in the past
several years is the neglect of these institutions by government.
The ministry responsible for labour and its agencies have
continued to suffer systematic underfunding. In 2009, for
example, the Ministry of Employment had a total budget funding
of the Ghana Cedi equivalent of about US$23 million. This reduced
to about US$11.6 million in 2015. The situation is similar for all
agencies under the ministry namely the National Labour
Commission (NLC), Labour Department (LD), and the department
responsible for workplace inspection.

The shortfall in funding has gravely affected labour administration.
The Factories Inspectorate Department, for example, has only
seven inspectors nationwide who are expected to monitor
compliance with basic occupational safety and health across the
country. The National Labour Commission has seven
Commissioners who work on a part-time basis. The seven
commissioners are responsible for resolving all the labour cases in
the whole country. Currently, there are over 500 labour cases
waiting to be resolved by the NLC. But the Commissioners are able
to meet once a week for just about five hours. They have not been
paid for months. The Commission has only one functioning office in Accra. The high frequency of strikes does not surprise those of us who work with the NLC on daily basis. The recent industrial action at the NLC was a reflection of the growing tension between the commissioners and the staff, due, mainly to the lack of funds for operations.

The work of the National Tripartite Committee (NTC) has been reduced to the determination of the national Minimum Wage despite its importance in industrial relations.

Ghana Statistical Service, which provides employment and other labour market data, suffers similar neglect, in terms of access to funds from Government of Ghana. The lack of up-to-date and accurate information on employment is a good indication of the neglect the GSS is suffering. If employment is so important, why is it that the most recent data on employment is found in the employment module of the Ghana Living Standards Survey conducted in 2012/13?

For a very long time, Ghana has failed to invest adequately in the institutions for social dialogue. If we continue to under-invest in social dialogue, we will pay for it in the form of frequent strikes and other forms of industrial actions. We cannot achieve our employment objectives in an unstable industrial relations atmosphere. And, we cannot have industrial peace unless and until appropriate investments are made towards industrial conflict resolution and/or prevention.
We expect Government to announce measures that will address these challenges, especially measures that will strengthen the ministry responsible for employment and labour relations to deal with labour-related challenges and to effectively take charge of the Youth Employment Agency (YEA) and other initiatives that will create jobs for young people.

**EARNINGS**

Earnings remain low in Ghana, even by African standards. The monthly minimum wage for 2017 is GH¢237 (or about US$55). Under the previous NPP administration, the national minimum wage, in dollar terms, increased from US$21.00 in 2001 to US$57 in 2008. The period also witnessed substantial increases in pay for university teachers and health workers. There was genuine attempt by the Kufour administration to raise earnings across the public sector.

The Single Spine Pay Policy (SSPP) was mooted by the NPP administration in 2006 and implemented in 2010. Initially earnings on the Single Spine Salary Structure (SSSS) increased in both nominal and real terms. But since 2012 real earnings for public sector workers have declined considerably. In dollar terms, the base pay on the SSSS declined from US$764 per annum in 2010 (when the Single Spine was introduced) to US$550 in 2016. In 2017, the base pay is pegged at GH¢201 per month, which is lower than the legislated national minimum wage (GH¢237).

We believe that the Single Spine Pay Policy holds the key to addressing the problem of low incomes. The SSPP has been
implemented for the past six years with varying degrees of successes and challenges. A review of the SSPP will be necessary to address the remaining challenges. In particular, government has to pay attention to the monetization policy for the so-called Category 4 allowances/benefits such as housing, electricity, water, telephone, domestic servants, vehicle and drivers. Probably, a few thousand senior public servants are benefiting from these allowance but they cost Ghana a fortune.

There is also the problem relating to overlap of grades on the SSSS which needs further attention. The second phase of the Single Spine Pay Policy involved the implementation of Performance Management Systems across the public sector. We urge government to resource the Fair Wages and Salaries Commission (FWSC) and the Public Services Commission (PSC) to implement that aspect of the Single Spine Pay Policy. This can enhance productivity in the public sector and improve service delivery.

**PENSIONS**

Like earnings, pensions are quite low in Ghana. Currently, the minimum pension is GH¢276 per month and a very significant proportion of pensioners are actually on the minimum pension. The low pensions reflect the low earnings (as discussed above) but, more importantly, the low level of pensions reflects poor management of pensions.

The ongoing pension reforms were introduced to ensure retirement income security for all workers in both the formal and informal segments of the economy. There are many challenges
relating to both the first and the second tier that need urgent attention. With regard to the Social Security and National Insurance Trust (SSNIT), some investment decisions should be questioned. At the same time we need to check government’s interference in the administration of the SSNIT scheme.

The second tier is still grappling with many challenges, despite some achievements in recent times. Billions of Ghana Cedis are locked up in the Temporary Pension Fund Accounts 1 and 2 at the Bank of Ghana that can be channeled into economic development and job creation programmes. The National Pension Regulatory Authority (NPRA) should be given the independence it needs to regulate SSNIT and the privately-managed second tier schemes in order to avoid crisis in our pension system.

HOUSING

The housing crisis is, perhaps, on the same scale as the employment challenge. Most Ghanaians live in dilapidated houses as revealed by the 2010 Population and Housing Census. For those who live in relatively decent houses, their rent expenditure is skyrocketing. House owners are demanding a minimum of two years rent advance payment from tenants. The Rent Act is violated with impunity because it has become impossible to enforce. The situation is most acute in urban areas particularly in Accra and its environs. The poor housing situation is closely linked with the poor sanitation in our cities.

We suggest that government should work with domestic private sector partners to address the housing crisis.
IMF EXTENDED CREDIT FACILITY PROGRAMME

In April 2015, Ghana started the implementation of another IMF-sponsored programme (i.e., the Extended Credit Facility programme). The objective of the programme was to achieve debt sustainability and macroeconomic stability. The government committed to a programme of front-loaded fiscal adjustment. Under the ECF, IMF is providing a loan of DSR664.20 million or approximately US$918 million.

In return for this amount and for purposes of achieving the objectives of the programme, government also committed to implement a number of austerity policies including revenue and expenditure measures to bring down the fiscal deficits and reduce national debts. The multiplicity of taxes that confront the economy and Ghanaians are part of these measures. On the revenue side, government also committed to reduce real earnings in the public service. The declining real earnings discussed earlier are in fulfillment of these commitments.

The TUC had always maintained our position that IMF programmes cannot solve Ghana’s problems. This position is based on our faith in the ability of Ghanaians to provide home-grown solutions to our problems, if we are given the chance.

We are, therefore, disappointed that the NPP Government is seeking to extend the IMF programme. We had expected government to go through the current programme as quickly as possible and take this country out of IMF programme as Kufour
did in 2006. Our opposition to the IMF stems from the fact that in the last 30 years, or so, our economic and social policies have been determined largely by IMF programmes. But the economy is still in a bad shape. After more than two years of implementing austerity measures (under the current IMF programme), both internal (fiscal) and external (trade) deficits have remained high. The public debt stock has risen above what it was before the commencement of the programme. There is very little to show for the hardships (including the decline in real wages for public sector workers) that Ghanaians have had to endure over this period.

We urge government to end the IMF programme as quickly as possible, so that we can start implementing our own home-grown policies that we can take responsibility for. We do not know of any country that has developed following the policies of the IMF. We doubt if Ghana will be the first country to achieve that.

**PRIVATISATION OF ECG**

The previous government signed an agreement with the Millennium Challenge Corporation (MCC) of the United States of America to privatize Electricity Company of Ghana (ECG), among many other commitments for a grant of about US$500 million. We still hold the view that this is a bad deal.

Our main challenge in the power sector has to do with power supply. If we do not address the supply challenge no Private-Sector-Participation (PSP) can end a looming power crisis. Until we are able to deal with the supply side challenges, a PSP will only bring about increased tariffs and accumulation of profits for a
foreign private operator. We believe that Ghana can deal with these challenges. We urge the Akufo-Addo government to pull out of this deal if the MCC is not willing to review the Compact.

**CONCLUSION**

We can appreciate the enormity of the task ahead but we also believe strongly that, together, we can deal with these challenges. We have already assured H.E. President Nana Akufo-Addo that we are ready to have a meaningful social dialogue with his government on all economic, social and labour issues. We would like to take this opportunity to re-affirm our commitment towards a stronger social partnership. We are confident that he and his government will create the space for such a partnership, not only with labour but also with the business community so that, together, we can turn the economy round onto a path of growth and prosperity for all Ghanaians.