

Living Wage Update: February 2021

Ghana, peri-urban, Lower Volta Area



Cost of decent standard
of living for a family

GHC 2,236
(USD 384)



Gross Living Wage per
month

GHC 1,456
(USD 250)



Photo credit: Fairtrade International

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1. BACKGROUND

This report updates the living wage and living expenses for the banana producing peri-urban areas of the lower Volta River area in Ghana.²

The net living wage and living expenses are updated to the study month of the most recent calendar year—February 2021—to take into account the amount of inflation since the original February 2017 living wage study. Without accounting for inflation, the net living wage estimated in 2017 would not be sufficient for workers to have a basic but decent standard of living in 2021 because the purchasing power of the living wage would have decreased compared to what it was in 2017. Similarly, living expenses for a reference family are also updated to February 2021 to account for inflation.

The gross living wage is updated to February 2021 by taking into consideration mandatory deductions from pay on the updated living wage. This is done using February 2021 laws.

2. LIVING WAGE ESTIMATE IN ORIGINAL COUNTRY REPORT FROM MARCH 2016

The original living wage country report estimated the net living wage as GHC 875 in February 2017. This was the required take-home pay for workers for decency in February 2017. The gross living wage, which also takes into account income taxes and mandatory deductions from pay for social security, provident fund and union dues, was estimated as GHC 1,028 in February 2017. The living expenses for a basic but decent standard of living for a reference family in the original country report were estimated as GHC 1,558 in February 2017.

3. INFLATION RATE USED FOR UPDATE

The General Consumer Price Index is collected by the Ghana Statistical Service (GSS). They changed the base year from 2012 to 2018 in August of 2019, but did not provide any overlap in order to facilitate conversion from the old series to the new series, but we pieced together the two series using information about annual inflation between February 2019 and February 2020 from the February 2020 CPI Bulletin.³ This gave us the series shown in Figure 2 further below.

GSS gathers price information from the 10 regions of Ghana, but for this update we use the national CPI, both because the regional CPIs seem to have quite a lot of random error in them, and because none of the regions are representative of the banana growing region in the lower Volta River area of Ghana. This

¹ Prepared by Lykke E. Andersen and Alejandra Gonzales of SDSN Bolivia, with Richard Anker and Martha Anker.

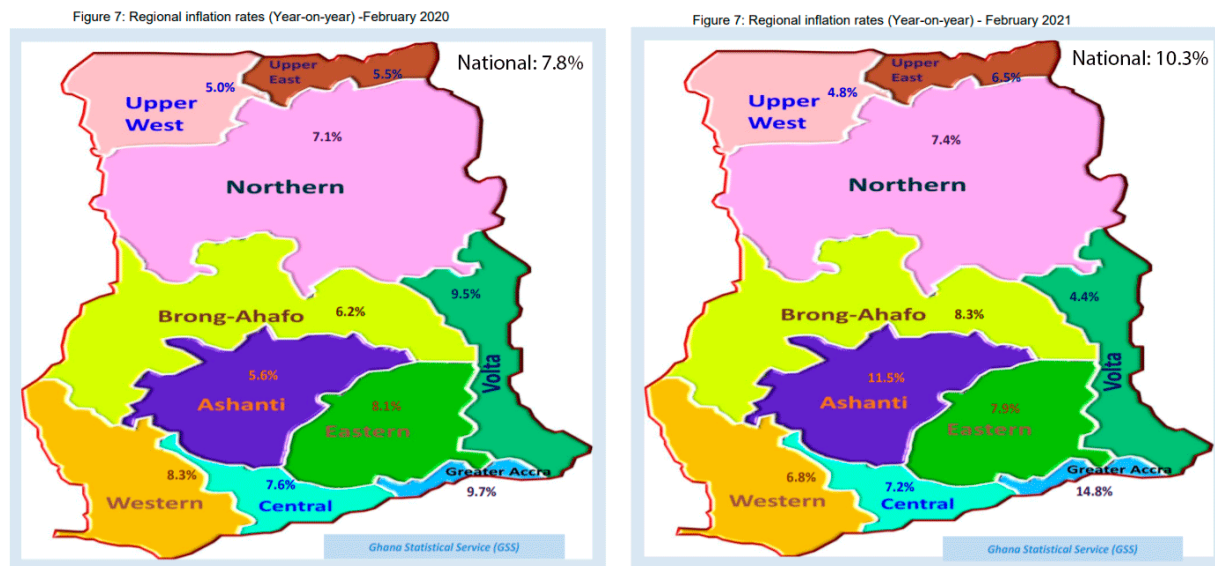
² This is an update to *Living Wage Report: Lower Volta Area, Ghana*, February 2017. Sally Smith with Martha Anker and Richard Anker. <https://bit.ly/35yQhXf>.

³ <https://bit.ly/3fOQCO4>

is a relatively small geographical area within a few hours' drive from the capital, Accra, taking in parts of the Greater Accra Metropolitan Area (GAMA) as well as the Eastern Region and the Volta River Region.

As can be seen from Figure 1 below, Inflation rates can vary substantially between the three regions involved, but over time, these variations tend to cancel out. The average inflation rate for the three regions during February 2019–February 2020 was 9.1%, which is 1.3 percentage points above the national inflation rate, whereas the average inflation rate for the three regions during the period February 2020–February 2021 was 9.0%, which is 1.3 percentage points below the national inflation rate. Thus, it seems reasonable to use the national inflation rate for the update from February 2019 to February 2021.

Figure 1: Regional inflation rates in Ghana (Feb-19 – Feb-20 and Feb-20 – Feb-21)

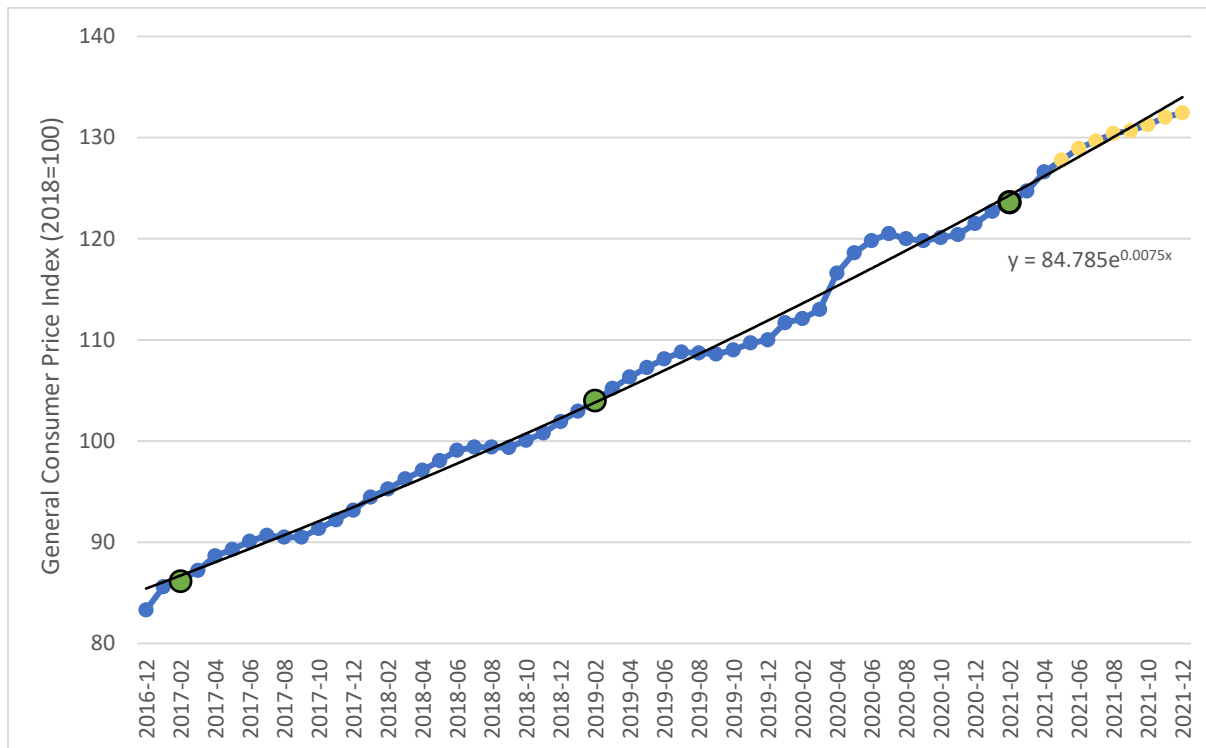


Source: GSS monthly CPI Bulletins (Feb. 2020 and Feb 2021).
https://statsghana.gov.gh/nationalaccount_macros.php?currentpage=1&Stats=MTE2MTIyMjQ5Ni41NjY=&&Consumer%20Price%20Index%20Bulletin.

4. RECENT LEVEL OF INFLATION

Inflation in Ghana has been relatively stable around 9% per year since the original living wage study in February 2017. This is also roughly what IMF forecasts for the year 2021.⁴ Figure 2 shows the General CPI from December 2016 to December 2021 (the last 8 months are forecast using the IMF forecast). The original study month (February 2017), as well as the update months (February 2019 and February 2021), are highlighted with larger green dots.

⁴ <https://www.imf.org/external/datamapper/PCPIPCH@WEO/OEMDC/GHA>

Figure 2: General Consumer Price Index for Ghana, December 2016 to December 2021

Notes: Yellow dots are projected to reach the 9% IMF inflation forecast for 2021.

Green dots highlight the months of the original study and the updates.

Source: Authors' calculations based on CPI data from GSS.

5. MANDATORY DEDUCTIONS

In Ghana, there is a mandatory payroll deduction for the Social Security and National Insurance Trust which amounted to 5.5% of pay at the time of the original study, but which was increased to 6.5% due to an additional COVID-19 levy.⁵ There are also often provident fund deductions (5.7% on average for banana export industry workers). Union dues, when common, also need to be taken into consideration. In the banana sector, for example, union dues of 2% are mandatory. In total, on average, these deductions amount to 13.7% of basic wage (when union dues are mandatory and typical provident funds contributions are made). Payments in kind are not deductible. Although other sectors might not have unions or provident funds, we believe that including enough in a living wage to be able to cover basic provident fund contributions and union dues is reasonable, since provident funds and unions are common in the organized sector in the location and absence of such benefits could be the cause of hardships for workers. For these reasons, we include these payroll deductions in the calculation of gross living wage for the location.

Workers in Ghana also start paying income taxes already from very low levels of income, and workers earning a living wage would pay 0% on the first GHC 319 earned per month, 5% on the next GHC 100, 10%

⁵ <https://home.kpmg/us/en/home/insights/2021/03/tnf-ghana-tax-provisions-2021-budget.html>

on the next GHC 120, and 17.5% on the next GHS 3000.⁶ We calculated that monthly income taxes on the living wage amount to GHS 200.

6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR MARCH 2021

The updated net living wage, or take-home pay, for February 2021 is GHC 1,256. Table 1 provides details of the original and the updated family living expenses, as well as net and gross living wages for the banana producing areas of the Lower Volta area.

**Table 1: Living Expenses and Living Wages for peri-urban Ghana
(in Ghanaian Cedi and US Dollars)**

Currency	February 2017 Original Study Date		February 2021 Latest Update	
	GHC	USD	GHC	USD
Living Expenses for Reference Family per Month	1,558	357	2,236	384
Net Living Wage per Month	875	200	1,256	216
Income Taxes and Payroll Deductions per Month on Living Wage	153	35	200	34
Gross Living Wage per Month	1,028	235	1,456	250

Source: Authors' calculations.

⁶ <https://taxsummaries.pwc.com/ghana/individual/taxes-on-personal-income>