

A Peep into the Social Fund

By Laurel Theresa Bain

On the celebration of the 47th anniversary of Independence, on Sunday 7th February 2021, Prime Minister Dr. Rt. Hon. Keith Mitchell unveiled a suggestion for the establishment of a Social Fund [the Fund]. This announcement has led to many queries about the operational aspects of the Fund.

This has compounded ongoing debates on national issues, with no firm closure, holding the population in constant abeyance. At the end of 2020, the repurchase of the WRB shares in GRENLEC by the Government evoked many discussions. In January, it was the non-payment of the agreed four (4) percent salary increase to public officers which remains unresolved. In February, the issue of the Social Fund was added to the mix.

Uncertainties about the Social Fund have arisen because of the failure of the Government to return to the public with information on the nature of the Fund, its management, and operational features. The nation was given a brief introduction to the proposed Social Fund. The need for the Fund was attributed to the continuing impact of the Covid-19 pandemic and the accompanying loss of income for a wide cross-section of the population. The objective of the Fund is to provide income support to those in the population who are hurting due to the Covid-19 pandemic.

It was explained that the Fund will not be established by an Act of Parliament and that it will be financed by voluntary contributions from members of Cabinet and from the working population. The amount of the individual contribution to the Fund will not be defined but will be determined by the contributors based on “their conscience in the context of a Christian society”. The proposal was in search of a creative way of raising financial resources to provide income support to the unemployed and for addressing the plight of the poor and vulnerable.

It is not new for innovative mechanisms for addressing economic and social conditions to emerge, particularly during crisis. There are many examples from past experiences during which innovative ideas evolved to address urgent economic and social issues. The depression of the 1930’s, characterized by declining economic activity and high unemployment, was a turning point for approaches to addressing the impact of economic recessions. Prior to the depression, it was advocated that government should not be deeply involved in the economy. However, to address the economic and social ills of the 1930’s, the economic thought that emerged argued that government should play a greater role, by increasing its expenditure, to stimulate economic growth and reduce unemployment.

A watershed period for the Caribbean was the 1940’s to the 1970’s when economic and social conditions were depressed. The economic thought, at that time, championed government intervention in the economy and the transformation of the economic and social structures, by the generation of adequate capital and the development of systems to direct the capital to economic and socially deserving areas. This approach to the transformation of the economic and social structures was guided by different political philosophy. This was vividly manifested by the contrasting strategies of the Grenada United Labour Party Government and that of the People’s Revolutionary Government.

Innovative ideas to address economic and social dislocations in the past placed a great responsibility on government. This pandemic is unprecedented and requires deep thinking on the models for the development of the economy to allow for sustainable growth, thereby reducing the chronic unemployment and poverty. The pandemic has shown that the thinking underlying the existing model for development needs revamping. It is hoped that a new trend of economic thought will emerge from this crisis.

A Social Fund, while it may provide short term relief to some of the affected, will not address the root causes of unemployment and poverty. The implementation of the Fund to provide support to the unemployed and the poor and vulnerable will be confronted with complexities that need to be resolved before implementation.

The Social Fund, which will not be established by an Act of Parliament, will be outside the realm of the national budget and will not be a direct fiscal policy instrument. The Fund will be a private programme. Therefore, the expenditures from the Fund cannot be defined as government expenditures as all government expenditures must be approved by an Act of Parliament.

Additionally, the contributions from individuals will not be public funds as all government revenues must be deposited in the Consolidated Fund or Special Funds established by an Act of Parliament. Statutory bodies and state-owned enterprises, which are public bodies, are all governed by Acts of Parliament and therefore were not intended to be used to establish the Fund. In the absence of these governance structures for the establishment of the Social Fund, it will be a non-government or private Fund.

As a result, public officials will have no legal authority for the management of the Fund. Specifically, the Accountant General will not be responsible for recording the transactions of the Fund. The Director of Audit will not be required to audit the account and report to Parliament. The Fund will be outside the remit of the Public Accounts Committee. There will be no Parliamentary oversight.

Accountability for the Fund will be determined by the governance structure of the Fund if such is established. In this situation, the contributors to the Fund would be required to be knowledgeable of the laws and regulations that will govern the operation of the Fund. The population that are not acquainted with the legislation will be disadvantaged as they will not have the protection of Parliamentary oversight, as in the case of public funds.

As a private Fund, there will be options for its establishment. It could be implemented through the operations of a private entity that is generally established and governed by the Company's Act. These private companies are governed by a Board of Directors and a managerial staff. Alternatively, the Fund could be operated by the establishment of a 'Not for Profit' organisation. In this case, the process will need to be subjected to the registration and accompanying requirements for approval. The management and operation of the Fund will be governed by rules and regulations that are applicable to NGO's and guidelines as determined by the collective agreement of the contributors to the Fund. The establishment of the Fund, under either of these governance structure, has cost implications and the Fund should only be implemented after a cost benefit analysis has been undertaken.

The objective of the Fund fits in the category of government core responsibility, particularly in this time of recession. It is targeted at assisting the population who are unemployed or suffered from reduction in earnings due to Covid-19. It is seeking to redistribute income from the employed to assist persons that are unemployed or do not have adequate income. While non-government organizations could assist, this is a core function of government that it should implement through its taxing and spending policies. The redistribution of income, particularly during a recession, will not be effective through a private venture. The Government should take full command for comprehensively addressing the economic and social situation. This function should never be outsourced.

Also, a system of voluntary contributions, that is based on one's conscience, is not a sustainable mechanism for financing government activity and particularly the social dislocation caused by Covid-19. The financial contributions will be unpredictable while a reliable and steady flow of funds is needed to provide the income and employment support. The government is expected to manage this redistribution of

income in society by its authority to raise revenue or seek financial resources and to channel these resources to the deserving economic and social areas. The public is kept informed of the efficiency or inefficiency of this redistribution through the approval and monitoring of the budget by Parliament.

The redistribution of income from the employed to the unemployed and other vulnerable groups raises the issues of equity or fairness of the economic system. The notion of equity or fairness must be supported by societal consensus. Therefore, transparency in the operation of income redistribution programmes, which includes social safety net programmes, is required. A comprehensive and accurate system of personal information is needed for the proper targeting of the beneficiaries. This must be accompanied by a robust system for the distribution of benefits. This redistributive responsibility of the government, which requires some societal consensus, should be subjected to Parliamentary oversight.

Closure to budgetary issues could only be achieved by dialogue and consultations based on timely, accurate and comprehensive information and analysis. Consequently, clarity and precision should be applied to the Social Fund which involves the redistribution of income from the employed to the unemployed and other vulnerable groups. This will facilitate fiscal transparency which is a component of good governance. At this time, deep and critical thinking is required to transform the economy based on a sustainable model of development.

Knowledge is power and experience is the greatest teacher.

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Ms Bain has undertaken assessments of the economies of the Eastern Caribbean Currency Union (ECCU) and research on fiscal policy and taxation issues in the ECCU. She is the Author of the books: Fiscal Policy The Economy and The Tax Structure of the Member Countries of the ECCB. Ms. Bain has worked extensively with international development agencies and regional institutions.

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