

GREEN economy Ghana

Background

Despite 4 per cent economic growth in 2014, stable political institutions and promising oil, and gas revenue projections, Ghana is facing several challenges in terms of consolidating financial stability and protecting the economy from potential risks such as a large fiscal deficit, which amounted to 12.1 per cent of GDP in 2012, and rising gross domestic debt. While the level of public expenditure in Ghana is not very high comparatively and is balanced between current and capital expenditure, the ratio of total taxes to GDP is still quite low compared to that of other African countries.

At the same time, Ghana is facing serious environmental challenges. According to the *Green Economy Fiscal Policy Scoping Study – Ghana* (UNEP, 2014), the cost of environmental degradation in Ghana amounts to 10 per cent of GDP. Fiscal policies could reduce significant environmental and health impacts while promoting economic prosperity. In particular, adverse subsidies could be removed and environmental-related taxes and other fiscal measures introduced and applied, which could generate additional revenue and create fiscal space for financing the green economy.

Key Green Fiscal Policy Measures

Ghana is currently implementing a number of green fiscal policy measures aimed at promoting the country's transformation into a green economy. For instance, targeted taxes have been introduced to encourage environmental protection, including a 20 per cent tax on plastic materials, penalties on over-aged vehicles and a 52% increase in water tariffs in October 2013, the first in 3 years, so as to reflect the costs of water operations and supply.

Feed-in tariffs (FiTs) were introduced effective September 2013 to promote investment in renewable energy. The FiTs are applicable to wind, solar, hydro, landfill gas, sewage gas and biomass sources. The highest tariff is for solar, at GHS0.43/kWh (US\$0.20) and the rates are valid for ten years. The FiTs were introduced to help meet the government's target of increasing renewable energy from 0.01% of electricity generation to over 10% by 2020.

The government has started allocating a proportion of oil revenues to two sovereign wealth funds: the Ghana Stabilization Fund and the Ghana Heritage Fund. The aim of the funds is to manage current oil wealth for development, social and environmental purposes and to extend the benefits of natural resources revenues to future generations. Commercial oil production, which began in December 2010, offers a chance to increase revenues from exports and enhance domestic energy supply. The most significant source of revenues from the oil sector is a petroleum tax levied on consumer petroleum goods, which generated GHS544 million (about US\$147 million or 4.5 per cent of total tax revenue) in 2012. In addition, the government receives revenues from producers through a petroleum corporate interest tax, surface rentals and royalties from oil companies.

Options for Expanding Fiscal Space for Green Investments

- ▶ Fuel prices in Ghana are determined administratively by the government. When the administered current price, to which a number of taxes and margins are applied to get a retail price, is lower than the reference (ex-refinery) price, a subsidy is paid to the importer and refiner. While the government has increased fuel prices several times in the past by between 15% and 50%, the subsidy still remains due to a cross-subsidization process among fuels and infrequent evaluation of the administered price. The government is committed to a gradual and automatic adjustment to ex-pump fuel price within tolerable price bands, but considerations should be given to a market-based pricing system in order to minimize the amount of subsidies to fossil fuels and reap fiscal and environmental benefits. The recent fall in the international price of oil presents an opportunity to reform the fuel pricing system in Ghana without adverse impacts on the economy or the population.
- ▶ Currently, taxes and fees on fuels is very low, representing 11 per cent of the retail price, since the excises do not take into account the externalities energy products produce, such as greenhouse gas emissions, local air pollution and traffic congestion. To address this challenge, taxes based on the emissions intensity of fuels can be introduced, targeted at transport fuels and significant polluters such as power plants, refineries and industrial firms. However, the increase in fuel excises should be done gradually and in a phased approach in order to contain administrative costs and political resistance.
- ▶ Another fiscal measure to be considered is the reform of the system of vehicle taxation, in order to reduce road transport emissions. The government could introduce a “feebate” system, which combines fees for producers of negative externalities with rebates for car owners that reduce the amount of externalities they produce, with no net fiscal cost on society or net revenue for the public purse. Feebates could be a powerful means of shifting car owners to higher performing vehicles, thereby reducing CO₂ emissions and local air pollution. The additional revenue generated from the feebates could be used to finance green investments, while reducing the tax burden - in particular on labor - and for compensation measures to the most affected households. Given the concentration of expenditure for fuels and electricity in the richest quintiles of the population, the cost of compensation should be reasonably low.

Way Forward

Ghana has an opportunity to implement a number of reforms that could not only reduce the current large imbalance in the government budget but expand fiscal space for development priorities and nurture the environment without adverse impacts on the population. The options outlined in this brief are bold but need to be gradually introduced over the medium- to long-term to facilitate economic and political feasibility. The current decline of international oil prices offers a window of opportunity to reform fuel and vehicle prices in a phased way. At the same time, revenues accruing from commercial oil production in Ghana could be used to boost public expenditure on green investment and promote overall sustainable development. The full application of the Petroleum Tax Income Law should allow the government to collect even more oil taxes in future.