

FROM POLICY TO PRACTICE: AN IN-DEPTH REVIEW OF GHANA'S EMISSIONS LEVY ACT

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JULY, 2024

IPPG

-2024-

IPPG REPORT

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An In-depth Review of Ghana's Emissions Levy Act**

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Acknowledgement

The authors extend their heartfelt gratitude to everyone who contributed to the development and review of this report. This work would not have been possible without the invaluable insights and feedback from a diverse group of stakeholders. They also acknowledge the significant and dedicated contributions of their colleagues at the International Perspective for Policy and Governance (IPPG), whose expertise and dedication were instrumental in shaping the analysis and recommendations presented in this report. The authors received no financial support for the research, authorship, and publication of this report.

About US

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Suggested Citation

Owusu-Mante, S and Odoi, R.N. "From Policy to Practice: An In-depth Review of Ghana's Emissions Levy Act". IPPG Report, International Perspective for Policy & Governance (IPPG), July 2024.

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Design & Layout

Knockout Concepts (+233-266-272674)

TABLE OF CONTENTS

Abbreviations	I
Tables	I
Figures	I
Key Policy Insights	1
SECTION 1: Introduction & Features of the Act	2
1.1. Main Features of the Act	2
1.2. Summary	4
SECTION 2: Implementing the Emissions Levy Act	5
2.1. Strategy	5
2.2. Policy Design Gaps	6
SECTION 3: Cost of Emissions Levy	8
3.1. CO ₂ e Emissions from Economic Sectors	8
3.2. Combustion Emissions from ICE Vehicles	9
3.3. Dispute Resolution	10
SECTION 4: Conclusion and Policy Implications	11
References	13

ABBREVIATIONS, TABLES & FIGURES

AFOLU	Agriculture, Forestry and Other Land Use
AQI	Air Quality Index
DVLA	Driver and Vehicle Licensing Authority
EFR	Environmental Fiscal Reform
EPA	Environmental Protection Agency
EV	Electric Vehicles
GoG	Government of Ghana
GRA	Ghana Revenue Authority
GHG	Greenhouse Gas
ICE	Internal Combustion Engine
LPG	Liquefied Petroleum Gas
MTRS	Medium-Term Revenue Strategy
NDC	Nationally Determined Contribution
Nox	Nitrogen Oxides
PM	Particulate Matter
WHO	World Health Organization

Table 1: Emissions Levy Rates for Specified Economic Sectors 3

Table 2: Emission Levy Rates for Internal Combustion Engine (ICE) Vehicles 3

Figure 1: Historical Greenhouse Gas Emissions (GHG) by Sector in Ghana (1990-2019) 5

Figure 2: Carbon Tax Rates by Country as of March 2023 (Unit: USD Per tCO₂e) 8

Key Policy Insights

Implementing the Emissions Levy Act:

The Government of Ghana (GoG) must frame the implementation of the Emissions Levy Act around the health and economic benefits of improved air quality to ensure a broader buy-in among citizens and foster a sense of responsibility among those subject to paying the tax. Highlighting these benefits can create a compelling implementation narrative that aligns with the public's values and concerns.

Transparent Implementation and Revenue Allocation:

The government's commitment to transparency is crucial for the success of the Emissions Levy Act. Publishing detailed inventories of companies subject to the levy, their emission levels, and regular reports on the revenues generated and their specific allocations will build public trust and accountability. Additionally, clearly earmarking the levy revenues for environmental management, renewable energy and climate adaptation investments, and public health initiatives will enhance public acceptance and the levy's effectiveness.

Accurate Measurement and Verification of Emissions:

The Act lacks clear guidelines for measuring GHG emissions. The absence of a dedicated body for verifying reported emissions further poses significant challenges to implementing the levy. Establishing robust mechanisms and investing in the necessary infrastructure for accurate and reliable emission assessments will ensure fair taxation and incentivize companies to adopt cleaner technologies.

Addressing Financial Barriers to Clean Transport Alternatives:

While the levy on ICE vehicles aims to reduce pollution and encourage the adoption of EVs, financial barriers remain a significant hurdle. The high cost of EVs and limited financing options in Ghana may impede the transition to cleaner alternatives. Implementing supportive policies, such as subsidies for EV purchases or investments in EV infrastructure, will be vital in overcoming these barriers.

Integrating Dispute Resolution Mechanisms:

The absence of provisions for dispute resolution within the Act could lead to increased litigation and delays in resolving grievances. Amending the legislation to include specific mechanisms for arbitration or the establishment of a dedicated tribunal will streamline the process for addressing disputes and enhance the Act's overall effectiveness.

Section 1

Introduction and Main Features of the Act

Ghana's 2020 updated Nationally Determined Contribution (NDC) commits to several policy actions aimed at achieving absolute greenhouse gas (GHG) emission reductions of 64 MtCO₂e and avoiding at least 2,900 premature deaths per year through improved air quality.

In line with its commitment to curb pollution and reduce GHG emissions, the Government of Ghana (GoG) has enacted the Emissions Levy Act, 2023 (Act 1112). This Act imposes a levy on carbon dioxide equivalent (CO₂e) emissions from specified sectors of the Ghanaian economy and on combustion emissions from gasoline and diesel vehicles.

The Act also serves as a policy instrument to implement the Environmental Fiscal Reform (EFR) envisaged by Ghana's Medium-Term Revenue Strategy (MTRS 2024-2027). The goal of the EFR is to develop climate-friendly and environmentally sustainable policies that encourage the adoption of alternative and renewable energy sources while addressing harmful activities, such as those causing pollution.

With the introduction of this levy, Ghana becomes the third African country to implement a form of carbon tax, following South Africa and Mauritius. The President of Ghana assented to the Act on December 29, 2023. The Act was gazetted on December 29, 2023, and became effective on February 1, 2024.

This policy report provides an in-depth analysis of Ghana's Emissions Levy Act, 2023, examining its objectives, key features, and potential impacts on reducing GHG emissions and improving air quality. The report also identifies critical implementation challenges, design gaps, and the necessity for transparent revenue allocation to enhance public acceptance and effectiveness. Through this comprehensive review, the report aims to offer valuable insights into how Ghana can leverage the Emissions Levy Act to achieve its environmental and public health goals while promoting sustainable economic development.

1.1 Main Features of the Act

1.1.1 Imposition of an Emissions Levy

The Act imposes a levy on Co₂e emissions from specified sectors of the Ghanaian economy, including the construction, manufacturing, mining, and energy sectors. Additionally, the Act imposes a levy on emissions from internal combustion engine (ICE) vehicles.

1.1.2 Rates of Levy Imposed

The rates imposed on emissions from the specified sectors of the economy and ICE vehicles, are detailed in Table 1 and Table 2, respectively.

Table 1: Emissions Levy Rates for Specified Economic Sectors

Co2e Emissions from Economic Sectors		
Sector	Emissions	Rates
Construction	Co2e	GHS100 (\$7.9) ¹ per tonne of emissions per month
Manufacturing	Co2e	GHS100 (\$7.9) per tonne of emissions per month
Mining	Co2e	GHS100 (\$7.9) per tonne of emissions per month
Energy (Oil and Gas)	Co2e	GHS100 (\$7.9) per tonne of emissions per month
Energy (Electricity and Heating)	Co2e	GHS100 (\$7.9) per tonne of emissions per month

Table 2: Emission Levy Rates for Internal Combustion Engine (ICE) Vehicles

Vehicle Type	Emissions	Rates
Motorcycles & Tricycles	Combustion Emissions	GHS 75 (\$6) per annum
Motor Vehicles, Buses, and Coaches up to 3000 cc	Combustion Emissions	GHS 150 (\$12) per annum
Motor vehicles, buses, and coaches above 3000 cc	Combustion Emissions	GHS 300 (\$24) per annum
Cargo trucks and articulated trucks	Combustion Emissions	GHS 300 (\$24) per annum

1.1.3 Tax Base

The tax base for the imposition of the levy is the aggregate of GHG emissions attributable to a person, expressed as the Co2e of GHG emissions resulting from fuel combustion, industrial processes, and fugitive emissions.

1.1.4 Assessment of Levy Payable

The Act empowers the Commissioner-General of the Ghana Revenue Authority (GRA) to assess the levy to be imposed. This assessment must be conducted in collaboration with other relevant government agencies.

Taxpayers in the specified sectors are required to file an estimate of the levy payable for each year of assessment with the Commissioner-General of the GRA by the end of the first month of the year. The Commissioner-General may request additional information from the taxpayer. The estimate to be filed must be in a form prescribed or directed by the Commissioner-General.

¹Exchange rate of \$1.00 to GHS 12.54 (Bank of Ghana Daily Interbank FX Rates, 8th March, 2024 - <https://www.bog.gov.gh/treasury-and-the-markets/daily-interbank-fx-rates/>)

1.1.5 Submission of return and time for payment of Levy

The Act requires taxpayers subject to the levy in the specified sectors to submit a return to the Commissioner-General stating the quantity of emissions and the levy payable for each month. This return must be submitted by the last working day of the month immediately following the reporting period. Once the levy is assessed, the Act mandates that payment be remitted to the Commissioner-General by the last working day of the month following the assessment month.

For motor vehicle levies, the Act stipulates that individuals must remit payment to the GRA on or before renewing their road-use or roadworthiness certificates. Accordingly, the Driver and Vehicle Licensing Authority (DVLA), as mandated by Ghanaian law, is required to issue these certificates only upon verification of levy payment.

1.1.6 Authority to Collect the Levy

The Act entrusts the GRA with the pivotal responsibility of collecting the levy.

1.1.7 Payment into the Consolidated Fund

The Act mandates that all levies collected pursuant to its provisions must be deposited by the Commissioner-General into the Consolidated Fund.

1.1.8 Administration of the Levy

The administration of the levy is to be governed by the provisions of the Revenue Administration Act, 2016 (Act 915) as amended.

1.1.9 Power to make regulations

The Act empowers the Minister of Finance to promulgate regulations through legislative instruments. These regulations may address matters such as amending the schedule to the Act, revising the rates of the levy, and modifying the sectors and motor vehicles subject to the levy.

1.2 Summary

The Emissions Levy Act, Act 2023 (Act 1112) imposes a levy on Co2e emissions from specified sectors of the Ghanaian economy, including construction, manufacturing, mining, and energy, as well as on emissions from internal combustion engine vehicles. The GRA is responsible for assessing and collecting the levy, with all collected funds deposited into the Consolidated Fund. Taxpayers must file annual estimates and monthly returns detailing emissions and levies payable. Additionally, the Act mandates that the DVLA issue road-use certificates only upon verification of levy payment.

Section 2

Implementing the Emissions Levy Act

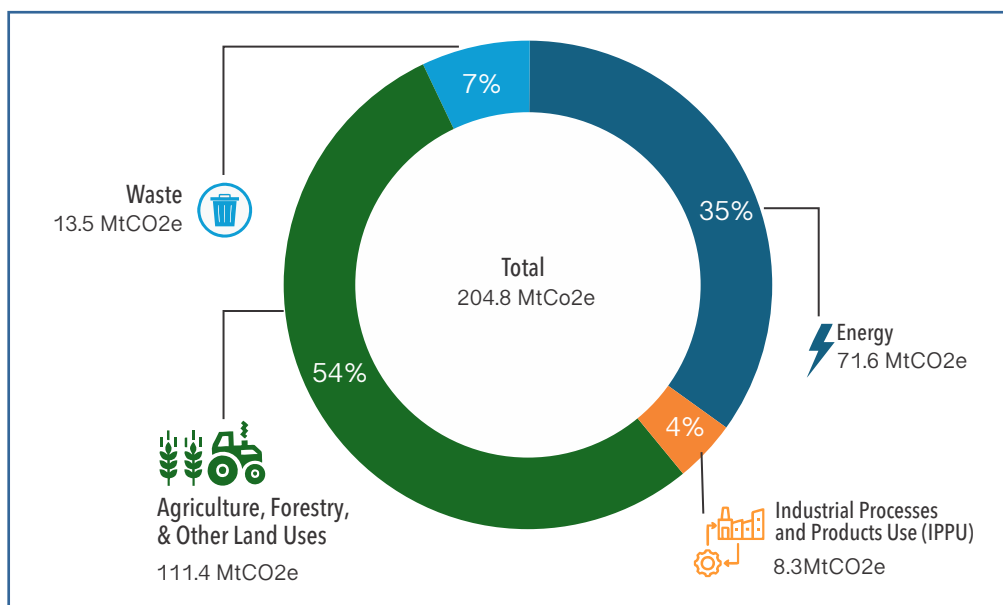
Globally, carbon taxes are used to discourage pollution and carbon emissions. These taxes not only act as a deterrent but also spur innovation by incentivizing research, investments, and the deployment of more efficient and low-emission technologies (Kotchen, 2023). Thus, carbon taxes are generally considered effective tools for meeting domestic emission-mitigation commitments (IMF, 2019). Accordingly, Ghana's Emissions Levy Act aims to promote the use of eco-friendly technology and clean energy, improve environmental management, and locally control general levels of air and water pollution. However, the extent to which Ghana's Emissions Levy Act can propel the nation towards a sustainable low-carbon or low-pollution economy remains uncertain.

2.1 Strategy

Ghana, like many African nations, contributes minimally to GHG emissions. In 2019, Ghana's total GHG emissions were estimated at 59.8 MtCO₂e, representing a 16.3 percent increase from the 2016 levels (EPA, 2020). Despite this notable rise, Ghana's GHG emissions constitute approximately 0.03 percent of global emissions (Climate Watch, 2024). Given the negligible scale of Ghana's emissions, the strategy adopted for the implementation of the Emissions Levy Act will be crucial to its effectiveness and success.

Historically, Ghana's GHG emissions have been predominantly driven by agriculture, forestry, and other land uses (AFOLU). Since 1990, AFOLU has accounted for over 50 percent of the country's GHG emissions (EPA, 2020). To achieve substantial GHG emission reductions, Ghana must be committed to effectively implementing its 2016 Reducing Emissions from Deforestation and Forest Degradation (REDD+) Strategy.

Figure 1: Historical Greenhouse Gas Emissions (GHG) by Sector in Ghana (1990-2019)



Source: Authors with data from EPA, 2022

The REDD+ strategy outlines measures to significantly reduce emissions from deforestation and forest degradation while enhancing carbon stock through sustainable forest management. In 2023, Ghana received \$4.8 million from the Forest Carbon Partnership Facility for reducing approximately 972,000 tons of carbon emissions through REDD+ (World Bank, 2003).

This demonstrates that a dedicated implementation of REDD+ policies and regulations can be a powerful approach to lowering Ghana's GHG emissions. For Ghana to make a substantial contribution to global emission reductions, it sounds to reason that the country must be committed to the effective execution of its REDD+ strategy.

Air pollution is Ghana's second most significant health threat, causing approximately 28,000 premature deaths annually (WHO, 2020; CAF, 2022). The current PM_{2.5} concentration in Ghana is 1.5 times above the limit recommended by the World Health Organization's (WHO) 24-hour Air Quality Guidelines (AQI, 2024). In February 2024, Accra, the country's capital, recorded the worst air quality in the world, with pollution levels nearly twice as harmful as New Delhi's (Open Democracy, 2024) and 49.6 times higher than the WHO guidelines (CNR, 2024).

The transportation, industrial, and energy sectors contribute to more than 50 percent of Ghana's air pollution each year. In light of this context, framing the implementation of the Emissions Levy Act in terms of the health and economic benefits associated with improved air quality could garner broader public support and foster a heightened sense of accountability among those obligated to pay the tax.

2.2 Policy Design Gaps

Crafting a carbon tax requires lawmakers to provide clarity on several fundamental policy and implementation measures. This clarity is crucial to ensure that the carbon tax is implemented efficiently and effectively, thereby achieving its intended objectives (Metcalf, 2016). Ghana's Emission Levy Act lacks key implementation mechanisms that outline essential processes for the successful execution of a carbon tax. Below are some of these implementation gaps:

2.2.1 Measuring GHG Emissions

Ghana's Emission Levy Act lacks guidance on how industrial and energy generation companies should accurately measure their emissions. Additionally, it is unclear whether any specific body or agency in Ghana is responsible for verifying the GHG emissions reported by these companies. The Act allows for self-emission assessment, which raises concerns about the accuracy of the data to be reported.

Companies may underreport their emissions to reduce their tax liability or due to a lack of scientific methods for measuring emissions. Conversely, there is also the risk of over-reporting emissions, leading to overpayment of taxes. While this might increase government revenue, it imposes a higher financial burden on consumers, who ultimately bear the cost of the taxes paid by companies.

To bridge this gap, it is imperative for the government to invest in and develop the requisite infrastructure to enable companies to accurately, reliably, and scientifically assess their GHG emissions. Such measures will establish an equitable framework for the payment of emission levies, incentivize the adoption of cleaner technologies, and ensure that companies investing in sustainable practices are not disproportionately taxed compared to those continuing to operate with carbon-intensive technologies.

2.2.2 Revenue Allocation Options

A pivotal element of a carbon tax is the strategic allocation of its revenues (Klenert et al., 2018; Steekamp, 2021; Maestre-Andrés, 2021). Similar to other forms of government revenue, there is no consensus on the optimal use of carbon tax proceeds by governments. While fiscal experts often advocate for integrating these funds into general government revenue, empirical evidence suggests that public acceptance of a carbon tax significantly increases when the expenditure of these proceeds is clearly delineated (Bowen, 2015; Carattini et al., 2018).

Experts and academics suggest several key strategies for utilizing carbon tax revenues to enhance public acceptance of the tax. These strategies include offsetting the new burdens imposed on consumers, producers, and the broader economy; funding additional initiatives to reduce greenhouse gas emissions; mitigating the adverse effects of climate disruption; and addressing key societal concerns using the revenue (Marron and Morris, 2016; Carattini et al., 2018; Maestre-Andrés et al., 2021).

Ghana's Emissions Levy Act lacks provisions for the specific allocation or expenditure of the tax revenue. Under the Act, all levies collected are to be deposited into Ghana's consolidated fund. Established by Ghana's 1992 Constitution, the consolidated fund serves as a repository for all government revenues and monies raised or received on behalf of the state. Consequently, the revenue generated from the emissions levy will be integrated into the nation's broader revenue stream, available for funding public expenditures as determined by the government.

To enhance public acceptance and ensure the effectiveness of the tax, the government must adopt an amendment to the Act that clearly defines the utilization of the levy's revenue. Specifically, the revenues generated from the levy should be allocated to government initiatives focused on environmental management, climate change mitigation, and adaptation. This approach will create a dedicated pool of public capital to support the government's efforts in:

- Improving air quality,
- Addressing premature deaths and other health challenges caused by air pollution,
- Building climate-resilient infrastructure, and
- Investing in renewable energy and sustainable transportation infrastructure.

By clearly earmarking these funds, the government can foster greater public trust and ensure that the levy contributes meaningfully to critical environmental and health objectives.

Section 3

Cost of Emissions Levy

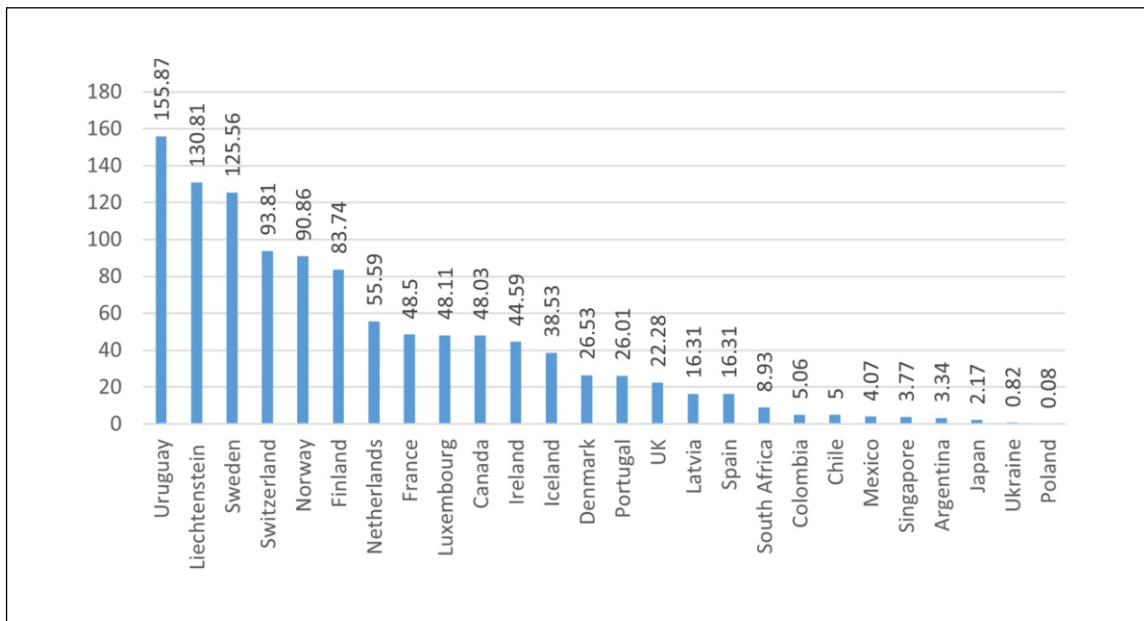
3.1 CO₂e Emissions from Economic Sectors

While there is no consensus on the best pricing of a carbon tax, the theoretical ideal is for the carbon price to reflect the social cost of carbon². For instance, if the social cost of emitting one ton of CO₂ is \$150, then the carbon tax should be set at \$150 per ton. However, accurately determining the social cost of carbon presents significant challenges. In practice, carbon tax prices are often set at levels that policymakers believe will best achieve either domestic revenue mobilization targets or emission reduction goals.

Figure 2 indicates that carbon tax rates in emerging and developing economies, including South Africa, Argentina, Mexico, Chile, and Colombia, are below USD 10.00 per tonne. This suggests that Ghana's rate of USD 7.9 per tonne of CO₂e is consistent with rates observed in similar economies. Presently, it is challenging to determine whether this rate is perceived as fair or burdensome for taxpayers in the construction, industrial, and energy sectors.

However, concerns have been raised regarding whether government agencies liable for the levy will fulfill their tax obligations. Additionally, there are apprehensions about the GRA or the government possessing a comprehensive database of all potential companies in the construction, manufacturing, mining, and energy industries that are subject to the levy.

Figure 2: Carbon Tax Rates by Country as of March 2023 (Unit: USD Per tCO₂e)



Source: Statista

²The social cost of carbon (SCC) is an estimate of the cost, in dollars, of the damage done by each additional ton of carbon emissions.

3.1.2. Transparency

To address these gaps and concerns, the government must ensure transparency in the implementation of the levy. Carbon taxes, by their very nature, are clear and obvious, thereby fostering transparency. Many regulatory costs accrued by companies aren't visible to the public, and in many cases, the public aren't aware of them. The transparent nature of a carbon tax enables the public to accurately gauge the revenue to be collected and ensures accountability from entities subject to the levy.

In a move towards greater transparency, the GRA, in collaboration with relevant government agencies, must publish an inventory of all public and private companies subject to paying the levy. This inventory must be regularly updated to include new companies with carbon emissions as part of their business operations. Additionally, the government must share information about their levels of carbon emissions, while establishing structures for the scientific measurement and reporting of these emissions. This transparent approach will establish a name-and-shame regime through the levy, encouraging companies to decarbonize their operations.

Additionally, the government must periodically provide detailed reports on the revenues generated through the levy and articulate comprehensive plans for allocating and utilizing these funds. This transparency will foster a robust and accountable framework for Ghana's carbon tax, enhancing public trust and support. Such measures are essential to ensure the practical realization of the levy's policy goals and to promote widespread acceptance and compliance among stakeholders.

3.2. Combustion Emissions from ICE Vehicles

Ghana's emissions levy aims to mitigate combustion pollution from diesel and gasoline vehicles. These vehicles are significant contributors to air pollution, emitting harmful pollutants such as nitrogen oxides (NO_x) and particulate matter (PM). By imposing levies on ICE vehicles, the government seeks to incentivize the adoption of cleaner, more environmentally friendly alternatives, such as electric vehicles (EVs) and hybrids. This strategy aligns with broader climate change and air quality policies (Van Dender, 2019). However, achieving this goal in Ghana faces several challenges.

First, as of 2022, Ghana's vehicular registry encompassed approximately 3.2 million vehicles (GNA, 2023). The distribution of these vehicles by fuel type indicates a predominance of petrol-powered engines (72 percent), followed by diesel (27 percent), and a minor segment utilizing Liquefied Petroleum Gas (LPG). Annually, Ghana imports about 100,000 vehicles, with used cars constituting a staggering 90 percent of these imports (ITA, 2024). This significant figure underscores the role of economic factors in shaping the automotive market dynamics in Ghana, as used cars are more affordable compared to new vehicles. The high percentage of used cars also highlights the limited availability of credit or financing options, which constrains the ability of many Ghanaians to purchase new vehicles.

EVs generally have higher purchase prices than ICE vehicles. This financial barrier suggests that most vehicle owners in Ghana may find it challenging to afford EVs, which could hinder efforts to promote EV adoption. Furthermore, EVs generally exhibit lower depreciation rates compared to ICE vehicles, allowing them to retain their value more effectively. Consequently, used EVs may also be less attractive to Ghanaian consumers because of their relatively high costs.

Secondly, the cost of the levy on ICE vehicles, as illustrated in Table 1, is relatively manageable for the average vehicle owner in Ghana. However, this levy adds to the existing fuel taxes, road-use levies, and high fuel costs, exacerbating the financial burden on Ghanaians' transportation expenses. Although the levy is integrated into the annual vehicle registration cost, compelling vehicle owners to comply with the payments, it is unlikely to incentivize a shift toward sustainable transportation.

The high cost of EVs and other policy barriers further diminish the levy's efficacy as a tool for promoting environmental sustainability. Consequently, civil society groups and the union of commercial and public transport providers in Ghana perceive the levy as an additional burden on citizens rather than a substantive measure toward environmental improvement (BBC, 2024).

3.3. Dispute Resolution

A significant omission in the Act is the lack of a provision for dispute resolution. This absence means that individuals or entities aggrieved by the levy, or its implementation do not have a clear, structured process for addressing their grievances within the framework of the Act. Consequently, those seeking redress for issues related to the levy may have no other option but to seek resolution through the High Courts of Ghana. The High Courts of Ghana have jurisdiction over all civil and criminal matters, including constitutional and administrative issues. They have the authority to interpret and enforce laws, including those related to the Emissions Levy Act.

This could, however, lead to increased litigation, potentially overburdening the court system and prolonging the resolution process. To enhance the effectiveness of the Act and provide a clear path for resolving disputes, it would be beneficial to amend the legislation to include specific mechanisms for dispute settlement, such as arbitration or a dedicated tribunal, thereby ensuring a more streamlined and accessible means of addressing grievances. The dispute resolution provisions of Ghana's Renewable Energy Act, 2011 (Act 832), which include options for arbitration and ministerial intervention, could serve as a useful model for the Emissions Levy Act.

Section 4

Conclusion and Policy Implications

The enactment of Ghana's Emissions Levy Act 2023 (Act 1112) is a significant stride in the country's commitment to addressing climate change and improving air quality. By imposing levies on CO₂e emissions from specified economic sectors and on combustion emissions from ICE vehicles, Ghana joins the global community in the fight against greenhouse gas emissions and the promotion of sustainable practices. However, the success of this Act depends on the government's ability to effectively implement and manage the levy while addressing several critical challenges. The following policy implications and recommendations must be considered:

Implementing the Emissions Levy Act

Framing the implementation of the Emissions Levy Act based on the health and economic benefits of improved air quality can ensure broader buy-in among citizens and a sense of responsibility for those subject to paying the tax. Emphasizing how the levy will contribute to reducing pollution and enhancing public health can help in gaining public support. Additionally, highlighting the economic advantages, such as potential savings in healthcare costs and increased productivity due to better air quality, can appeal to both individuals and businesses.

This approach can foster a collective understanding of the importance of the levy and its long-term benefits, thereby encouraging compliance and cooperation from all stakeholders. By linking the tax to tangible improvements in quality of life and economic well-being, policymakers can create a compelling narrative that resonates with the public and underscores the shared responsibility in addressing environmental challenges.

Transparent Implementation and Revenue Allocation

The government's commitment to transparency is crucial for the success of the Emissions Levy Act. Publishing detailed inventories of companies subject to the levy, their emission levels, and regular reports on the revenues generated and their specific allocations will build public trust and accountability. Additionally, clearly earmarking the levy revenues for environmental management, renewable energy and climate adaptation investments, and public health initiatives will enhance public acceptance and the levy's effectiveness.

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The Act lacks clear guidelines for measuring GHG emissions. The absence of a dedicated body for verifying reported emissions further poses significant challenges to implementing the levy. Establishing robust mechanisms and investing in the necessary infrastructure for accurate and reliable emission assessments will ensure fair taxation and incentivize companies to adopt cleaner technologies.

Addressing Financial Barriers to Clean Transport Alternatives

While the levy on ICE vehicles aims to reduce pollution and encourage the adoption of EVs, financial barriers remain a significant hurdle. The high cost of EVs and limited financing options in Ghana may impede the transition to cleaner alternatives. Implementing supportive policies, such as subsidies for EV purchases or investments in EV infrastructure, will be vital in overcoming these barriers.

Integrating Dispute Resolution Mechanisms

The absence of provisions for dispute resolution within the Act could lead to increased litigation and delays in resolving grievances. Amending the legislation to include specific mechanisms for arbitration or the establishment of a dedicated tribunal will streamline the process for addressing disputes and enhance the Act's overall effectiveness.

In sum, Ghana's Emissions Levy Act 2023 is a landmark policy that underscores the nation's dedication to sustainable development and environmental stewardship. By addressing the identified gaps and ensuring a transparent, accountable, and inclusive implementation process, Ghana can set a precedent for other countries in the region. The successful execution of this Act will contribute to reducing greenhouse gas emissions and improving air quality, promoting public health, fostering economic resilience, and driving the nation towards a sustainable, low-carbon future.

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