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A Call to President Mahama: Retain the Emissions Levy to Fund Ghana's Renewable Energy Future

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Ghana's energy sector faces mounting financial challenges due to heavy reliance on fossil fuel imports, rising debt to independent power producers (IPPs), and an unsustainable electricity pricing model. Retaining the emissions levy and repurposing its revenues into an energy transition fund to finance renewable energy can reduce dependence on costly fossil fuels, expand energy access, and stabilize electricity costs while aligning Ghana's energy goals with global climate commitments. Establishing a dedicated and transparent revenue allocation mechanism through the fund will ensure accountability, strengthen public confidence, and prevent the levy from being perceived as just another general tax.

INTRODUCTION

As President John Dramani Mahama assumes office as the new president of Ghana, his administration has pledged to repeal several taxes, including the emissions levy introduced by the erstwhile New Patriotic Party (NPP) administration. The levy was adopted in 2023 through the enactment of the Emissions Levy Act, 2023 (Act 1112). It imposes charges on carbon dioxide equivalent (CO2e) emissions from key economic activities, including the construction, manufacturing, mining, and energy sectors, as well as emissions from internal combustion engine (ICE) vehicles.

While the repeal of the emission levy, among other levies, aims to alleviate financial burdens on citizens; an intent that likely contributed to President Mahama's decisive electoral victory, this policy brief argues that the emissions levy should be retained and its revenues strategically repurposed as a policy

instrument for mobilizing domestic resources to fund climate action, in particular investments in renewable energy. Retaining the levy would enable the new administration to also fulfill its manifesto commitments on climate action, green growth, and renewable energy development while supporting sustainable economic growth through reliable and affordable energy access to the people of Ghana.

In addition, the effective implementation of the emissions levy can discourage pollution and emissions from industrial, commercial, and vehicular sources, address Ghana's air pollution challenges, and potentially reduce the estimated 28,000 annual premature deaths caused by air pollution in Ghana (WHO, 2020; CAF, 2022).

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Ghana's Energy Sector

Ghana's energy sector faces a financial crisis that threatens its long-term sustainability, efficiency, and ability to drive economic growth. While thermal power has traditionally been a cornerstone of Ghana's electricity generation, its heavy reliance on imported fuels exposes the country to price volatility, supply chain disruptions, and mounting financial strain.

As of September 2024, the country's energy sector debt stood at over $3 billion, owed to independent power producers (IPPs). This financial strain has forced some power plants to shut down operations due to fuel shortages, creating a gap in electricity supply. Investor confidence in the sector has also eroded as the government struggles to honor its power purchase agreements (PPAs) with energy producers.

This crisis is primarily driven by:

- Aging gas pipelines, which disrupt the flow of natural gas from Nigeria, leading to supply shortfalls.
- Dependence on costly alternative fuels such as heavy fuel oils (HFOs) and distillate oils, adding significant fiscal pressure to the sector.
- An unsustainable electricity pricing model, where tariffs are often politically influenced with subsidies and misaligned with actual production costs.

Renewable Energy

Renewable energy offers Ghana a sustainable, cost-effective, and energy-secure path forward. The country is blessed with abundant solar, wind, and hydropower resources that remain largely untapped. Harnessing these resources can meaningfully reduce the sector's financial burden, lessen dependence on imported fuels, and align Ghana's energy sector with global decarbonization goals.

Ghana's daily solar insolation levels range from 4 kWh/m² to 6 kWh/m², with a sunshine duration range between 1800 and 3000 hours per year which offers a high potential for solar electricity generation. Wind energy also holds untapped potential, particularly along Ghana's coastal regions, where wind speeds are favorable for electricity generation (Amo-Aidoo et al. 2022). Integrating wind power alongside solar and battery storage solutions could provide a stable and reliable energy supply for the country. In addition, with its low production costs, renewables can reduce the need for government subsidies to allow electricity prices to more accurately reflect actual generation costs while easing fiscal pressures and improving the financial sustainability of the sector.

The fund could also be used as a risk mitigation mechanism to provide project guarantees, credit enhancement facilities, and finance feasibility studies for renewable energy project to attract private investments.

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Why the Emission Levy Matters for Ghana's Renewable Energy Future:

Revenues from the emissions levy can be strategically allocated to support Ghana's transition to renewable energy to reduce reliance on costly fossil fuel imports and further ensure long-term energy security. A government-managed climate and energy transition fund financed by the levy could be created to serve as a dedicated domestic financing mechanism to accelerate investments in solar, wind, green hydrogen, and other renewables, thereby addressing the structural weaknesses in Ghana's energy sector. This will enable the government to achieve the targeted 1,094.63 MW of installed non-hydro renewable energy capacity by 2030, as outlined in the Ghana Renewable Energy Master Plan (REMP), 2019.

In particular, the fund can be used for:

Direct Investments in Renewable Energy: This includes investments in grid-connected solar, wind, and battery storage systems to complement Ghana's existing energy mix and enhance grid stability.

Investment Risk Mitigation: The fund could also be used as a risk mitigation mechanism to provide project guarantees, credit enhancement facilities, and finance feasibility studies for renewable energy project to attract private investments.

Incentivizing Household Renewable Energy Adoption: The fund can be utilized to incentivize household adoption of solar energy by offering tax incentives, rebates, and subsidized financing, making it more affordable for households to install solar power systems. This will lower electricity costs, expand access to reliable energy, and support off-grid solutions for remote and underserved communities.

Incentivizing Commercial and Industrial Renewable Energy Adoption: The fund can be leveraged to encourage industrial adoption of renewable energy and the electrification of industrial processes by providing tax incentives and financial support for industries to self-generate a portion of their electricity needs through renewable sources. Excess energy generated can be fed into the national grid to contribute to a more stable and sustainable energy supply for the country.

CONCLUSION

Retaining the emissions levy for its revenues to be used in creating a climate and energy transition fund offers a practical solution to Ghana's energy challenges while enhancing financial and environmental sustainability. Redirecting revenues toward solar, wind, and battery storage will reduce reliance on costly fossil fuel imports, stabilize electricity costs, and ease fiscal pressure from subsidies.

The lack of a dedicated allocation mechanism for revenues generated through the levy represents a critical gap that hinders the relevance of the levy and the transparent use of its revenue. Hence, such a fund ensures that the levy's revenues are strategically allocated for maximum impact. Its dedicated use for renewables will enhance transparency and accountability, preventing the levy from being perceived as just another general tax. This, in turn, will boost public confidence and enhance compliance with the levy.

References:

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