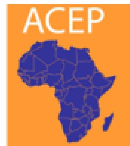

Africa Centre for Energy Policy

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ACEP'S INSIGHTS ON GHANA'S 2025 BUDGET STATEMENT

On March 11, 2025, the government of Ghana presented its Budget Statement, outlining its fiscal and economic policies for the country. For stakeholders in the energy and extractive sectors, understanding the budget's provisions is especially critical, as these sectors are key drivers of national revenue, job creation, and overall economic growth. This ACEP Budget Insights highlights the key proposals from the Budget Statement delivered in Parliament and examines their potential implications for the energy and extractive sectors. It is important to note that this brief may not cover all the proposals presented in the budget. Some of these proposals will be explored in greater detail in separate ACEP reports.

1. Allocation of all Annual Budget Funding Amount (ABFA) revenues to infrastructure projects. This budget proposal marks a departure from previous practices, where 70 percent of ABFA revenues were allocated to public investment expenditure as prescribed by the PRMA, with the remaining portion directed towards goods and services in the selected priority areas. The key advantage of this new approach is its increased focus on infrastructure development, which is essential for addressing Ghana's significant infrastructure deficit.

By allocating all ABFA revenues to infrastructure, the proposal has the potential to expedite critical projects, such as roads, health and education infrastructure, railways, and more. However, to fully realize the benefits of this strategy, careful attention must be given to ensuring transparency, the quality of project delivery and value for money considerations in the procurement and delivery of these infrastructure projects. These issues have been persistent challenges in ABFA-funded projects and must be addressed to achieve long-term success.

2. Reduction of GNPC's Share of Net Carried & Participating Interest (CAPI) from 30 percent to 15 percent.

Under the PRMA, GNPC is entitled to up to 55 percent of net CAPI (Level B financing) from petroleum revenues, in addition to its equity financing costs (Level A financing), for 15 years following its first receipt in 2011. However, in practice, GNPC has received 30 percent of net CAPI, which is allocated to the Corporation for its investments and operational expenses.

Between 2011 and the first half of 2024, GNPC received US$1.32 billion designated for Level B financing out of its total US$2.99 billion receipts. Unfortunately, over the years, GNPC has prioritized growing its general operational expenditure, staff costs, administration cost, capital expenditure, and corporate social responsibility, at the expense of real investments in its core mandate of oil and gas exploration and production operations. GNPC has spent over $US150

million gathering 2D seismic data without drilling a single well to the dismay of everyone familiar with oil and gas operations. The original plan for the Voltaian Basin project was for the Corporation to spend US$60 million for data acquisition and drilling.

While this budget proposal appears to force the Corporation to cut down its expenditures by reducing its share of net CAPI, it fails to consider that GNPC has managed to shield its profitable additional 7 percent interest in the Jubilee field, originally held by JOHL and now managed by its subsidiary GNPC Explorco, from the country's petroleum revenue governance framework. The cumulative receipts from the additional 7 percent interest in Jubilee is about $US418 million as of June 2024. As a result, the Corporation may not be significantly impacted by the proposed reduction and could continue its established and characteristic wasteful spending practices without any significant reforms.

3. Amend the Mineral Income and Investment Fund (MIIF) Act to ensure the 80% Mineral Royalties originally maintained by MIIF is transferred to the Consolidated Fund for infrastructure development.

The MIIF Act and the Fund were initially established to facilitate the Agyapa Royalties deal under the previous administration, a deal that was ultimately rescinded following widespread stakeholder opposition. Despite the failure to implement Agyapa, the government continued to channel about 80 percent of risk-free mineral royalties to MIIF for discretionary investment, funds that could have otherwise supported direct socio-economic investments through the national budget.

Currently, MIIF's operations are characterized by an opaque investment strategy, suboptimal investments, and significant Environmental, Social, and Governance (ESG) risks within its portfolio. Aside from its publicly disclosed US$20 million investment in Asante Gold Corporation, there is limited information on the GHS2.5 billion of mineral royalties the Fund has received to date. This lack of transparency is concerning, particularly given the fiscal deficit faced by the economy and the resulting difficulty in providing essential socio-economic investments aimed at improving the welfare of Ghanaians.

In light of these issues, the budget proposal to amend the MIIF Act is welcomed, with a few key considerations:

a. A comprehensive value-for-money review of all existing MIIF investments, with accountability for Fund managers and prosecution for those found responsible for causing financial loss to the state.
b. A clear and firm commitment from the government to abolish the MIIF Act and disband the Fund.
c. The introduction of a Mineral Revenue Management Act, similar to the PRMA, to govern mineral revenue expenditure and provide transparency, rather than relying on spending from the Consolidated Fund.

4. Increase the Growth & Sustainability Levy from 1 percent on the gross production of mining companies to 3 percent.

The Growth and Sustainability Levy (GSL) was introduced in 2023 to raise revenue for the growth and fiscal sustainability of the Ghanaian economy. The levy is calculated as a percentage of Profit Before Tax for most businesses, with the exception of the extractive sector, where it is based on a percentage of gross production. For the extractive industry, the GSL is effectively an additional royalty demanded by the state.

The average royalty rate in the mining sector is 5 percent of gross production. With an increase in the GSL to 3 percent, the effective royalty rate for mining businesses would increase to about 8 percent. Royalty is the most sensitive fiscal instruments for capturing state rents, and any increase could have negative impacts on project rate of returns, sustenance capital and investments for expansions, as it is applied at the base level of production.

What is certain about this proposal is that the mining businesses with stability agreements are likely to resist the increase as they did with the earlier 1 percent, as it threatens the stability and sanctity of their contracts. This also creates political and fiscal risks that would lead to increased pressure by companies to insist on stability clauses in their mining contracts as a mitigation measure. A high political risk could also lead to divestment of assets from capable and compliant companies to the less capable companies. Rather than signalling arbitrariness, government needs to learn lessons and introduce windfall taxes when the existing mining contracts especially when some of the are running due for renegotiations. Uncertainty and arbitrariness is bad for extractive business.

It is also important for the Ministry of Finance to note that the in-situ gold asset is as important as the investment that produces it. In other words, the gold is only useful when it comes out of the ground: bringing it out costs money. The Ministry of Finance must have equal understanding of how much it costs to produce the gold as its fixates on how much it is sold – the two variables are useful for really understanding the fiscal take.

5. Abolish the 1.5 percent withholding tax on winning of unprocessed gold by small-scale miners.

Excluding the substantial volumes of smuggled gold, the Artisanal and Small-Scale Mining (ASM) sector accounts for around 40 percent of Ghana's total gold output. However, revenues from this sector continue to evade the government. Successive administrations have implemented various tax measures, including a 10 percent withholding tax on gold sales, which was later reduced to 3 percent and then to 1.5 percent. These efforts have been hindered by the government's inability to enforce taxes on small-scale miners in the same way it does for large-scale operators. As a result, about 98 percent of mining revenue comes from the large-scale sector.

The failure to effectively collect the 1.5 percent withholding tax has, understandably, turned it into a nuisance tax. However, the reality remains that 40 percent of Ghana's gold production goes untaxed. If the same tax enforcement applied in the large-scale sector were applied to the ASM sector, the total revenue from mining could have been about GHS18 billion in 2023, with about GHS7.3 billion coming from the ASM sector. Instead, only 2 percent of gold revenue came

from the ASM sector. With more than 2 million ounces of gold depleted from the country's reserves annually through the ASM sector, it cannot simply remain untaxed.

The Ministry of Finance (GRA) and the Minerals Commission must adopt scientific methods to track gold production and ensure the collection of royalties and corporate income tax from the ASM sector. This could be achieved through whistle-blower incentives, voluntary reporting, and stricter sanctions for non-compliance. Additionally, halting the issuance of ASM mining licenses based on political leanings would allow the Minerals Commission to regulate the sector's operations more effectively.

6. Review the Energy Sector Levies Act (ESLA) to consolidate the Energy Debt Recovery Levy, Energy Sector Recovery Levy (Delta Fund), and Sanitation & Pollution Levy into one levy for the energy sector shortfalls and servicing the inherited debt service obligation.

The 2025 budget plans to shoulder an estimated GHS35 billion shortfall from the energy sector, a significant increase from the GHS20.8 billion paid in 2024. This shortfall does not account for the estimated $1.73 billion owed to Independent Power Producers (IPPs) to date. The Energy Debt Recovery Levy (EDRL), imposed as part of the Energy Sector Levies Act (ESLA), was intended to help reduce legacy debt and foreign exchange under-recoveries in the sector over five years. However, after raising long-term bonds to settle legacy debts, ACEP notes that the EDRL's effectiveness in addressing the sector's growing debt obligations has become marginal. Currently, ESLA PLC's receivables are primarily used for coupon payments, bond issuance charges, and administrative expenses, with the legacy debt now largely shifted from the power sector's books to the bond market. The Delta Fund (20p/litre) was also introduced to support capacity charge payments in the power sector and settle bills, including fuel costs.

Despite these levies and the millions of Ghanaian cedis collected annually, the debt situation continues to worsen, largely due to the operational and managerial inefficiencies of the Electricity Company of Ghana (ECG). Additionally, the Sanitation and Pollution Levy has faced strong criticism for being used in sole-sourced procurements that have not meaningfully improved urban air quality, managed municipal solid waste, or covered public space disinfection costs as intended.

Consolidating the EDRL, Delta Fund, and Sanitation and Pollution Levy would generate about GHS4.09 billion annually for settling energy sector shortfalls and servicing debt obligations, compared to GHS2.55 billion from the EDRL alone. However, the total amount raised from these consolidated levies is still far from sufficient to cover the GHS35 billion expected shortfalls, indicating that this measure is inadequate to address the energy sector's debt issues. A much bolder approach is needed to address the debt accumulation caused by ECG.

7. Reverse the subsidy on Weighted Average Cost of Gas the granted to some ceramic companies through the Discounted Industrial Development Tariff (DIDT).

The Discounted Industrial Gas Tariff (DIDT) is intended to provide a discounted cost of gas to businesses in order to stimulate industrial growth and development. Ideally, this tariff applies when the discounted gas serves as a primary input in the production process, thereby lowering

production costs. However, in Ghana, the application of the DIDT has deviated from this purpose. Businesses, including ceramics companies, are granted discounted gas, which they use to generate electricity rather than consuming power from the grid. The DIDT for power generation distorts the power market and provides the incentive for many industrial consumers to acquire discounted gas for self-generation rather than consuming power from the grid. This incentive is further heightened by the lack of fairness in granting the DIDT, as the decision is left to the discretion of politicians and vested interests.

Other Energy Sector Measures

The Finance Minister has further indicated some measures worthy of note for resolving the energy sector shortfalls, including:

a. **ECG and NEDCo will implement a number of measures, including metering and the implementation of a Private Sector Participation (PSP) strategy to improve collection efficiency.**

Over the years, both the government and the utilities (ECG and NEDCo) have shown they are unable to effectively address the ongoing debt accumulation challenges, given the current debt levels. ACEP has consistently advocated for private sector participation (PSP) in the management and operation of utilities to address these inefficiencies. ACEP acknowledges that the government has already constituted a technical committee to develop a framework for PSP and including this proposal in the budget signals the government's commitment to the PSP process. However, it is important to exercise caution and learn from past mistakes in previous PSP attempts. Ensuring a competitive and transparent process is crucial to attracting credible private entities that can contribute to the financial and operational turnaround of the utilities.

b. **Implement the Liquid Fuel-to-Gas Swap through an increase in N-Gas supply from the 60 MMscf per day to 100 MMscf to take advantage of cheaper gas prices.**

Given that it is much cheaper and environmentally sustainable to produce power with natural gas than liquid fuels, the proposal to increase N-Gas supply is much favorable for the liquidity and sustainability of the sector. This proposal reverses the previous decision to cap the original N-Gas contract volume at 60MMscf/day from 120MMscf. The success of this proposal is, however hinged on how quickly the liquidity challenges of the power sector is fixed to ensure reliable payments for the gas supplied.

Moreover, it is surprising that the Second Gas Processing Facility and its financing arrangements were not mentioned in the budget, especially considering that the Minister for Energy and the Green Transition recently announced cabinet approval for the infrastructure project. The additional processing facility would enable the country to optimize its domestic natural gas resources by commercializing flared gas. The Ghana Upstream Petroleum Chamber estimates that Ghana lost about US$290 million to the value chain from flared gas in 2023. The past attempt to develop a second train had a price tag of about US$800 million to process additional 150MMcsf. This is more than double the benchmark cost for such a processing plant. Therefore, future attempts require more transparent and competitive award process to ensure the country

is getting value-for-money from the project. Such projects should fall within global benchmarks and not be double the market costs.

c. **Complete the IPP capacity renegotiations to generate some savings through negotiated lower fixed capacity charges and variable O&M charges.**

The proposal to renegotiate existing Power Purchase Agreements (PPAs) to reduce power generation costs has been a recurring feature in budget statements since 2018. However, there has been no transparency about the negotiations and the savings accruing from them. Some of the power companies have already made significant returns on investments from their poorly negotiated original contracts and requires significant recalibration to save the consumer on tariffs. Beyond this, government needs to set up transparent process for competitive procurement of additional capacities.

Signed.

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