SUBSIDY FOR ELECTRICITY CONSUMERS WELL-INTENTIONED BUT COULD

WORSEN THE ALREADY UNSUSTAINABLE POWER

SECTOR SITUATION

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The President of Ghana in his sixth national update on government's efforts to fight COVID- 19 announced electricity subsidies for Ghanaians as one of the impact-mitigation measures of government. This policy is well intentioned to support Ghanaians, particularly the poor and vulnerable, who are faced with significant socioeconomic risks, resulting in part, from their reliance on daily wages and loss of economic livelihood. ACEP is of the considered view that not everybody captured in the subsidy needs it. Rather, the measure further endangers the sustainability of the power sector now and in post COVID-19.

The Power sector is reeling in debt, with no end in sight for debt accumulation. The current outstanding debt to Independent Power Producers (IPPs) stands in excess of US$1billion. Last week, Government had to intervene to pay for unpaid gas utilized for power generation to the tune of US$100 million to avert a calamitous action by the OCTP pertness to drawdown on World bank guarantees for the projects. This picture is gloomy enough, without exhausting all the challenges in the power sector, for careful consideration of actions that further worsen the financial sustainability of the sector.

The President announced a complete waiver of the electricity bill of lifeline1 consumers of electricity and 50 percent reduction in electricity bill for all other consumers using March 2020 bill as the benchmark. This reduction in electricity tariff will be effective for April, May and June. This means that the cost of electricity waived by the president for each lifeline consumer is GHS18.4 per month for three months (GHS55.2 for the period). On the other hand, all consumers above the lifeline consumption will benefit from tariff reduction equivalent to 50 percent of their consumption for March irrespective of how much they consumed. For example, a residential consumer who consumed GHS5,000 in March will enjoy GHS2500 reduction in his/her bill for April, May and June (a total of GHS7500 for the period). This is highly regressive and poorly redistributes national resources in favour of the rich.

The challenge Ghana has had with electricity subsidy for the vulnerable in society is poor targeting. A large proportion of households described by the president as "the poorest of the poor" do not benefit from lower lifeline tariffs because many of them live in compound houses. These people consume higher than the base unit of 50kwh a month, rendering the poor unable to enjoy the lifeline tariff. Rather, consumers who are able to procure separate meters and stay within the 50kw consumption band, typically not the poor, benefit from the lifeline tariff.

Implications of the Subsidy

The total subsidy that will result from the policy intervention is about GHS3 billion. This constitutes about 2.7 billion in tariffs and about GHS300 million in Value Added Tax (VAT). The Tariff component will have to be paid to the power sector by government. If government does not pay, the sector’s liquidity situation will worsen.

This policy also further deepens the budget deficit which is estimated to be about GHS9.7 billion. If government intends to add GHS3 billion from the power sector, it will require another revision of the fiscal numbers presented to Parliament.

Recommendations

ACEP recognizes that the COVID-19 pandemic has impacted many businesses and livelihood which require direct support from the government. It is, however, important to note that people will be impacted differently. This requires proper targeting to provide the right support and reduce wastage arising from supporting people who may not need the support. ACEP is of the view that the effective approach for government are;

1. **Make lifeline consumption free for everyone.** This ensures that at least everybody has the option to enjoy electricity for the most essential purposes. Any consumption above lifeline should be paid for by the consumer. The burden on government for this approach will be GHS92 million a month, significantly lower than the GHS1 billion under the proposed policy. This generates a saving of GHS2.1 billion which can be used for other interventions to mitigate the impact of COVID-19
2. **Government should quickly map out large households in poorer communities who do not benefit from lifeline tariff because they are too many on a single meter.** This will ensure proper targeting of the most vulnerable in society for the intervention. The current implementation of the lifeline policy is known to be ineffective at targeting the poor in society. This means that further efforts are required to ensure that the poor can be supported in this era.
3. **Government should spend part of the proposed expenditure on electricity consumers to identify and support those most impacted by the Pandemic.** There are citizens who have lost their jobs and require urgent support while they look for another job. These people can be identified through GRA systems and working with employers who have laid off staffs. Many Trotro drivers and petty traders are also out of business and require support from government. The GHS2.1 billion is more than enough to provide direct cash transfers of GHS 200 for 3 million impacted citizens for three months. It is therefore pointless to rather target the rich through electricity tariffs

4. **Government should summon the creativity of the citizens to find appropriate mitigations strategy for the times.** Mapping out the vulnerable and the most affected is a non-negotiable exercise to be effective with interventions. The Pandemic is still evolving and requires efficient resource utilization to prepare for the worse-case scenario. In the era of technology, many software engineers in the country are capable of supporting government to identify and target the right people. Government should open up and welcome cheaper solutions to map out those who need support the most.

Signed

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