

21% VAT on electricity tariff retrogressive

• Makes Ghana unattractive in regional electricity market

By Dr Elikplim Kwabla Apetorgbor

IT is essential for policymakers to carefully assess the broader economic consequences of the 21 per cent VAT imposition on end user electricity tariffs and consider a more balanced approach that protect the sustainability of the power sector, support economic recovery, stability and industrialisation.

In line with the efforts being made towards economic recovery, imposing a 21 per cent VAT on electricity consumption in Ghana can be counterproductive and have countless adverse effects on the overall economy and the electricity sector of Ghana.

These include reduced demand and increase in compensation for idle charge. To cope with higher costs, households might reduce their energy usage, which could lead to under-utilisation of essential appliances, affecting their quality of life and productivity.

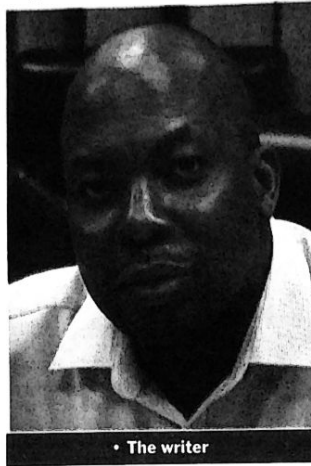
Higher prices can lead to a decrease in electricity consumption as consumers and businesses seek to minimise costs. This reduced demand can affect the overall revenue generation of the sector.

Consumers and businesses might shift to alternative energy sources such as solar to reduce dependence on the grid, which could lead to under-utilisation of existing infrastructure and challenges in grid management.

The principal effect in this circumstance is the upsurge in the compensation for idle capacity to the Independent Power Producers (IPPs).

Impact on economic growth

High electricity costs can be a deterrent to economic growth. Industries and businesses facing high



• The writer

operational costs due to expensive electricity may reduce production, delay expansion, or relocate to areas with cheaper energy costs.

Reduced spending power due to higher utility bills can contribute to a slowdown in economic activity, as consumer spending is a key driver of economic growth.

The increased cost might push more households into energy poverty, where a significant portion of their income is spent on energy bills, leading to tough choices between electricity and other necessities.

Elevated tariffs can exacerbate energy poverty, where a significant portion of the population cannot afford adequate energy services. This leads to broader social issues and can widen economic disparities.

Investment disincentives

High tariffs can deter investment in the sector. Potential investors might be cautious about entering a market where high costs could lead to reduced demand or regulatory interventions.

Utilities may face financial stress if high tariffs lead to bill defaults, late payments or increased instances of electricity theft.

If the electricity sector is not able to balance the revenue from high tariffs with investment in infrastructure, it could lead to quality of service issues, such as frequent outages and poor maintenance.

If a significant number of consumers move to off-grid solutions, it could lead to instability in the electricity grid due to fluctuating demand and supply patterns.

Regulatory, political challenges

High tariffs can lead to regulatory and political challenges, including public discontent, protests and pressure on governments to intervene, which can lead to regulatory uncertainty.

In regions where electrification is still underway, high tariffs can be a significant barrier to extending electricity services to underserved or rural areas.

The increased cost of electricity can contribute to inflation. Since electricity is a fundamental input for many sectors, its cost increase can cascade through the economy affecting prices.

The West Africa Power Pool (WAPP) or Regional Electricity Market (REM) in view of the imposition of VAT on end-user electricity tariffs could make the country less attractive within the context of the mission of the West African Power Pool (WAPP) or the regional electricity market for several reasons.

Higher Prices for Consumers: The imposition of VAT increases the cost of electricity for consumers in Ghana. This could make Ghana less competitive compared to neighbouring countries in the WAPP that have lower electricity

costs.

Investors and businesses often seek locations with lower operational costs, including energy expenses.

At a stage where the Regional Electricity Market is through so much competition with regard to tariff affordability, Ghana is walking out of competition. This is very injurious to economic recovery.

Reduced Cross-Border Energy Trade Appeal: If Ghana's electricity becomes more expensive due to VAT, it could reduce the attractiveness of the country as a trading partner within the regional electricity market.

Neighbouring countries might prefer to engage with partners offering more competitive prices. It is the country's goal to make Ghana a net exporter of power and the electricity hub of West Africa, hence the collaborations with the IPPs to invest in the generation infrastructure.

Impact on Regional Competitiveness and Potential Disincentive for Foreign Investment: Ghana's overall competitiveness in the region could be affected. High electricity costs can influence not just the energy sector but also manufacturing, services and other sectors that are significant for the economy.

Investors often consider energy costs when making investment decisions. Higher electricity costs in Ghana could discourage foreign direct investment, which is crucial for economic growth and development.

Strain on Regional Integration Efforts: The WAPP aims to create an integrated regional electricity market. Disparities in energy pricing due to VAT could create imbalances and strain these integration efforts.

Challenges in Achieving Economies of Scale: The regional power pool's effectiveness relies on economies of scale and the efficient distribution of energy resources across borders. Different tax regimes, such as Ghana's VAT on electricity, could complicate these dynamics.

Understanding these implications is crucial. It's not just about domestic policy but also about how these policies position Ghana within the larger regional energy landscape.

Balancing domestic fiscal needs with the goals of regional energy integration and competitiveness is a key in this context.

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