

GHANA

Removal of fuel subsidies

In 2004, faced with persistently high oil prices, Ghana experienced serious fiscal constraints and was forced to discontinue subsidizing petroleum products. The government launched a poverty and social impact assessment (PSIA) for fuel, including all stakeholders. The PSIA found that price subsidies predominantly benefitted the better-off in society. When the government eliminated fuel subsidies in 2005 and set price ceilings in line with world prices, leading to a 50 percent price increase in fuel, the government simultaneously launched a campaign explaining the need for price rises and announcing mitigation measures. These measures included the elimination of government run primary and junior secondary school fees and a programme to improve public transport. As a result of adequate compensation measures, the transparency of the process of removing subsidies and the public information campaign, the public generally accepted the measures despite opposition from trade unions.

Further developments illustrate that policy reform is an ongoing process rather than an on-off activity. When the population was faced with high food and energy prices from 2006 to 2008, the government was forced to intervene to keep prices at acceptable levels. Facing high and increasing fuel and food prices, Ghana froze price ceilings between May and November 2008, and also introduced mitigation measures focusing on energy conservation. Ghana continued to reduce fuel taxes even after the oil price collapsed in late 2008, lowering fuel taxes in March 2009 as part of a pledge to alleviate the financial burden on its citizens (Kojima 2009, *Ghana News* 2009 quoted in Kojima 2009). However the financial burden of keeping fuel prices low has been so great that Ghana was forced to close its refinery from February to October 2009 due to high levels of debt (Reuters, 29.10.2009).

Impact on biodiversity

The impact of removing fuel subsidies on biodiversity is indirect working through the links between fuel subsidies increasing fuel consumption increasing GHG emissions and pollution with negative effects on biodiversity via the negative impacts of climate change and contamination of ecosystems from pollution. Moreover, investment in transport-related infrastructure in economies which have fuel subsidies will be greater than is socially optimal and results in too much conversion of natural areas and in habitat fragmentation.

Replicability

Experience has shown that removing fuel subsidies is difficult due to vested interests which resist reform. The early positive experience of Ghana suggests that making the public aware of precisely who benefits from fuel subsidies can be critical for minimizing resistance from vested interests. Successful elements of this strategy can also be found in the Indonesia case.

Lessons learned

Policies aiming at reducing or removing subsidies can be more effective if the public understands who is receiving the subsidy and how much.

Compensatory spending should be transparent, immediate, effective and pro-poor.

Sources: ESMAP (Energy Sector Management Assistance Programme) (2006) cited in Bacon and Kojima (2006); Bacon and Kojima (2006); Kojima (2009).

