General consensus that the forthcoming elections will yet again (as in 2008) be a closely fought contest between the ruling National Democratic Congress (NDC) and main opposition New Patriotic Party (NPP) has resulted in both parties pandering to populist rhetoric, in the hope of swinging votes in their favour. Consequently, the new government is likely to face challenges in pursuing economic pragmatism while also trying to deliver on promises to satisfy voters’ high expectations.

Domestic disappointment that recent economic successes have yet to be translated into tangible benefits for Ghanaians has seen both the NDC and the NPP keenly promoting social policy reforms as key campaign pledges. Specifically, both political parties have promised to use oil revenues to implement major changes in the education and healthcare sectors, two key areas of concern to voters.

Yet, with oil output below expectation and more investments needed to further develop the sector and indeed build much-needed gas infrastructure, it remains to be seen whether these plans will be put to action – at least in the short term. Moreover, a new government will be loath to withdraw incentives designed to attract rapid investments into the sector, especially at a time when recent discoveries of oil and gas resources in eastern and southern parts of Africa has led to a rise in competition for foreign direct investment (FDI) among countries in the region.

Increasing the state’s share of revenues from the extractive sector remains a viable option, but it is likely to be highly unpopular with existing and prospective investors. Mining companies have already complained about what they perceive to be unfair tax burdens, arguing that they are facing increasing operational challenges, such as illegal mining operations on their concessions and high energy costs, both of which they say cut their profit margins.

While balancing these competing objectives is not necessarily unfeasible, it will require careful management to avoid alienating both domestic and foreign constituencies.

EMPTY PROMISES?

The NDC positions itself as a centre-left party. Yet, in recent years, it has found itself outmanoeuvred on social policy by the centre-right NPP. For example, the National Health Insurance Scheme (NHIS) – by far one of the most significant welfare reforms to be introduced in the country in recent times – was an initiative conceived by former President John Kufuor of the NPP when he was running for presidential office in the 2000 elections. This time round, current NPP presidential candidate Nana Akufo-Addo is promising to introduce free senior high school (SHS) education should he win the election.

For further information:

David Johnson
General Manager, africapractice, Ghana
djohnson@africapractice.com

Asantewa Donkor
Consultant, Accra
adonkor@africapractice.com

Manji Cheto
Consultant, London
mcheto@africapractice.com

www.africapractice.com
However, the NDC argues that such a plan is presently unfeasible given economic realities and therefore Akufo-Addo’s promise is simply a political manoeuvre, rather than an actual commitment. The same argument could have been made about Kufuor’s pledge in 2000 – and indeed it was – but the fact that he kept his promise means that simply relying on ridiculing Akuffo-Addo’s free SHS pledge as fantastical or a “misplaced priority” could indeed backfire on the NDC. Voters are likely to question why a party that claims adherence to social democratic principles is quick to knock down progressive reforms, when it should be advocating them.

Consequently, in what appears to be a recognition of this potentially compromising position, President John Dramani Mahama of the NDC claims that should he be elected into office, he will focus on developing the deficient education infrastructure across the country and on improving standards, adding that these actions are far more effective and realistic actions given current conditions in the country. On health, he has re-affirmed the party’s previous pledge to reform the NHIS, particularly to introduce a one-time premium payment for registration with the scheme. However, for the same financial reason that the NDC discredits the NPP’s education pledge, its own health promise is doubtful. A one-time premium payment is likely to undermine the long-term financial sustainability of the NHIS, especially given its short existence, ultimately causing it to collapse.

OIL REVENUES

Moreover, suggestions that oil revenues could adequately pay for these social projects in the short term are somewhat misleading given current economic realities in the sector. Actual oil output at an estimated 85,000 barrels per day (b/d) remains lower than the initial target of 120,000 barrels per day (b/d) by end-2012. This target was eventually revised down to what has been deemed a more realistic 90,000 b/d, but even this looks less likely to be achieved before the end of the year.

Tullow Oil, the lead operator for Ghana’s main oil producing Jubilee field, has publicly stated that output could reach 120,000 b/d by next year. However, there are still no guarantees there and it would be rather imprudent to make spending projections based on best-case scenarios that have so far not be realised.

It could be argued that notwithstanding oil output being below target, government revenues are comparatively higher than the pre-oil production years; therefore, such significant spending on social programmes is realistic. However, while there is much more room for increased spending on social programmes, this will also need to be managed alongside other much-needed projects, such as

NATIONAL HEALTH INSURANCE SCHEME (NHIS)

The NHIS was introduced in 2003, replacing the “cash and carry” healthcare system where patients only received care after making full payment for the services to be received. Under the NHIS, anyone is allowed to pay a contribution towards the health fund and he/she is then able to receive treatment for a number of ailments without having to make payments at the point of service.

The National Health Insurance Authority (NHIA) licences, monitors, and regulates the operation of health insurance schemes. There are three main categories of health insurance schemes:

- **District mutual health insurance scheme:** This is the most popular category. This is operational in every district in the country. It is a public/non-commercial scheme and anyone resident in Ghana can register under this scheme. Registration is transferable from one district to another.

- **Private commercial health insurance scheme:** This scheme is operated by approved companies and anyone interested can simply buy insurance for himself/herself and his/her dependants. Commercial health insurance companies do not receive subsidy from the National Health Insurance Fund and they are required to pay a security deposit before they start operations.

- **Private mutual health insurance scheme:** Under this scheme, any group of people (i.e. church or social group) can come together and make contributions to cater for their health needs. Just like the above scheme, private mutual health insurance schemes are not entitled to subsidy from the National Health Insurance Fund.
infrastructure development (roads, power, rail, ports, etc) and economic diversification, particularly for key industries such as manufacturing.

Realistically, the most value that a new government can hope to demonstrate to Ghanaians in the short term, without necessarily being perceived as being unresponsive to domestic concerns, is pushing for increased local participation in the sector, with the focus not simply being on filling quotas, but on producing qualitative and tangible benefits (skills transfer and job creation, partnerships with credible Ghanaian companies, value-addition, etc).

**TAX INCREASES ON THE MINING SECTOR**

In the absence of heavy reliance on oil revenues, the next logical alternative is tax increases in the more advanced mining sector, particularly gold. However, even this is not without its drawbacks. In the last two years, the mining sector has been hit with some major changes in the fiscal regime. In 2010, royalty payments were changed from a range of 3 to 6% percent – most companies often paid the lower-end – to a fixed rate of 5%. In 2012, corporate taxes for firms in the sector increased from 25% to 35% and capital allowance (including for other most foreign companies) was dramatically slashed from 80% to 20%. A 10% windfall tax on profits has also been mooted to take advantage of the rise of gold price on the world market, but a final decision is yet to be reached, even though mining companies continue to lobby against it.

Critics of the government’s approach argue that rather than being too quick to place heavy burdens on the industry, the government needs to find ways of further diversifying its tax base. However, their suggestions that such an approach could lead to the rapid exodus of mining firms from the country is rather overplayed. Gold is a scarce commodity with only five African countries having the resource in a commercial quantity, out of which Ghana offers one of the most stable operating environments – yes, even with its challenges. Consequently, it is unlikely that mining companies will be seeking to make quick exits. Moreover, mining companies’ expectations that the government should continue to maintain its relatively favourable fiscal regime, which could cost the country millions of dollars in lost revenues, is unreasonable.

Nonetheless, while seeking a more equitable share for the state from mining resources is a justified exercise, the government will also need to be sensitive of the sector’s significant contributions to the economy. In 2011 alone, mining firms are believed to have contributed about 360 million dollars in corporate tax – representing about 38.3% of the total company tax collected last year – and a further 540 million dollars (or about 27.6%) of total domestic revenue to the Ghana Revenue Authority (GRA).

**MANAGING A PRO-BUSINESS PENCHANT WITH GROWING DOMESTIC PRESSURES**

Beyond the elections, and irrespective of which party controls both the presidency and parliament, oil and gas and mining firms can reasonably expect the new government to be receptive to their needs and views. Nonetheless, with domestic clamour for greater beneficiation from natural resources on the rise – a phenomenon not only unique to Ghana, but also elsewhere on the continent – it would be naive and unrealistic for foreign investors to expect that policies and fiscal regimes in their respective sectors will remain as enticing as they may have been some decades ago.