



**BUREAUCRACY, BRIBES, AND BLACKOUTS: THE OTHER SIDE OF GHANA'S
POWER CRISES**

POLICY PAPER

**Ishmael Ackah
Head, Policy Unit,
Africa Centre for Energy Policy,
Accra
Ackish85@yahoo.com**

Abstract

Ghana's power crises has affected businesses, individuals and institutions. Generally, it has been blamed on geographical factors (low water level in the dam), lack of funds to buy light crude oil and unavailability of natural gas. This working paper seeks to examine the impact of lack of transparency especially in procuring thermal plants, attitude of utility staff with regards to bills collection and an inefficient regulator may all have contributed to this crises.

Key words:

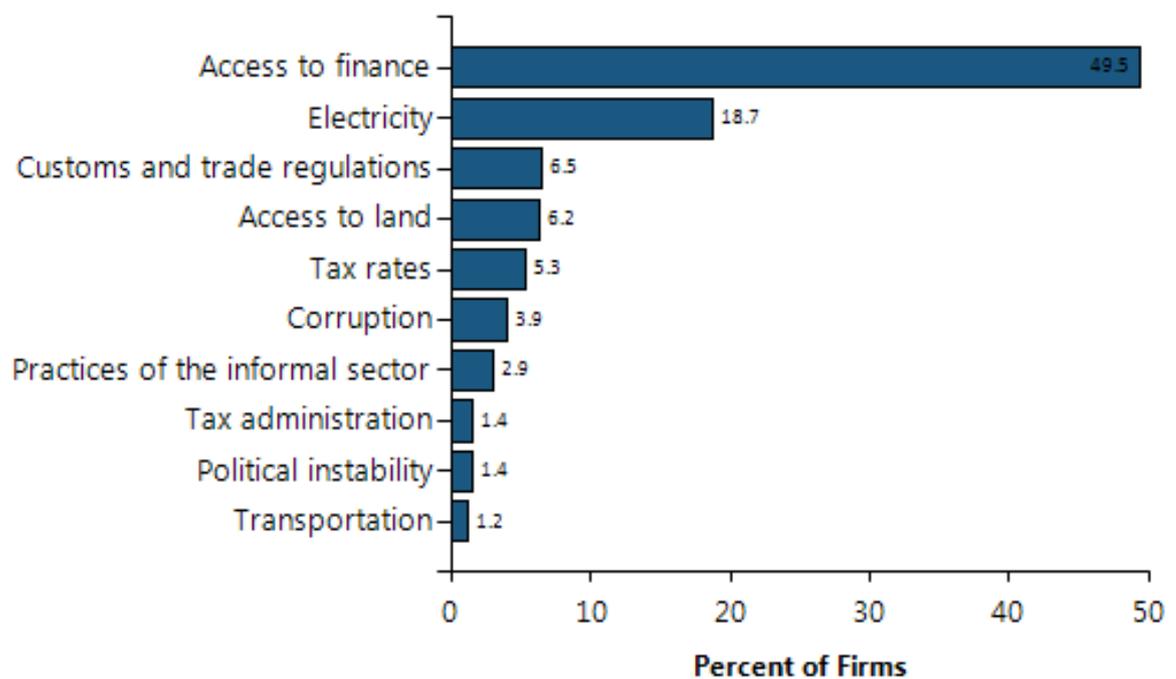
Electricity, Ghana, Power Crises, Transparency

1.1 Introduction

Over the past four years, Ghana has been experiencing the worst load-shedding in the past 60 years. This crises has been attributed to low level of water in the dams, unreliable natural gas supply from the West Africa Gas Pipeline, high technical and commercial losses, financially distressed off-taker and government's unwillingness to pay for power it consumes. Coincidentally, this challenge was started when Ghana started oil production. The question then is, Is oil and gas production a cause or a potential solution to the intermittent power supply? Natural Gas can be a major driver in ending the intermittent power supply due to its environmentally friendliness, the fact that Ghana has huge gas reserve at Jubilee and Sankofa and the easiness with which natural gas can be burnt to produce electricity. *Unfortunately, the issues of transparency, institutional inefficiencies and corruption have been missing from both policy and public discussions.*

The World Bank Enterprise Survey (2014) interviewed 720 firms in Ghana and identified reliable supply of electricity as the number two obstacle facing businesses. In a related study

by the Institute of Statistical, Social and Economic Research (ISSER) in 2015, the intermittent power supply lowers annual sales of a business by 37-48 per cent making the country lose production worth \$2.2 million per day or \$57.2 million per month and \$686.4 million annually. The intermittent power supply has also led to loss of jobs, increased cost of production, psychological and social trauma and increased in crime. For instance, it has been reported that Oil Marketing Companies (OMCs) spend GH ₵100 every month on fuel to power generators. Further, the World Bank estimates that SMEs spend an average of \$64 million every month on fuel for their generators.



Source: World Bank, 2014

2.0 Public Utility Companies

Inefficiencies of public utility companies is a major challenge that has contributed to the current power crises and create rooms for rent-seeking for three reasons. According to the 'Doing Business Report' of the World Bank, Ghana ranks 71 out of 189 countries in terms of getting electricity. However, it takes an average of 77 days to get electricity connection or metre installation after initial application. This gives room for 'connection men' to exploit consumers to FastTrack their electricity connection. Further, it costs about \$1,778 to get electricity connection in Ghana as compared to the OECD average of \$73.2. This huge amount encourages illegal connection and contributes to the high commercial losses. In addition, non-responses to reported faulty metres is a major issue in Ghana. Whilst some employees of ECG will volunteer to clear customer's debt on the post-paid metres for a percentage of the debt, others will not follow-up customers' complaints on faulty metres. Finally, there seems to be no stiffer punishment for workers who engage in fraudulent practices. Most of these fraudulent workers are either suspended, transferred or in some rare cases, prosecuted. These factors have led to high technical and commercial losses. For instance, the electricity company of Ghana (ECG) recorded a system loss of 27% in 2012 (World Bank, 2013). When there is little power to be shared in times of crises, high technical and commercial losses become unpardonable. It was not surprising when ECG declared a loss of \$41.5 million in 2012 and \$60 million loss in 2013 (ECG, 2013). These losses rob ECG the ability to pay the power generators, who also default in paying for gas and oil and eventually lead fuel shortage.

The inefficiency problem does not end at the distribution side alone. At the generation side, there are issues with procurement. How old are the thermal plants we use in power generation? Do we identify generational gap and then advertise for companies to bid to sell their plants or we do sole sourcing? Almost now and then, most of the plants are down to one operational fault or the other. In 2012, the Volta River Authority (VRA) reported a loss of \$28 million. This increased to \$39 million in 2013 (VRA, 2013). Apart from not being profitable, excessive

losses and inability to pay for gas and light crude oil by have the tendency of classified a high risk client.

At the regulatory side, the Public Utility Regulatory Commission seems to lack proper 'punishments' for utility companies that defaults. Again, excessive government interference has transformed an independent entity into 'a government agency'. Recently, a proposed increment of about 51% was differed. However, this will find its way to consumer charges in the near future. Instead of differed payment, can the PURC fine defaulted utility companies? With regards to transmission, how often are maintenance carried? Recently, the Ghana Grid Company announced a year-long maintenance. Can Gridco provide detailed timeliness and explain how these maintenance will affect electricity supply to consumers?

Again, whilst it looks simple on paper, acquiring a licence to produce power in Ghana is not an easy task. I met an investor who has spent the last 5 years in Ghana trying to secure permit for waste to power facility. Excessive bureaucracy is a gateway to rent-seeking and deters investors from investing into the sector.

3. Government's Actions

These notwithstanding, the government has taking several steps to end the power crises. There are two main short-comings of these steps. First, most of these measures are not coordinated and short-term in nature. For instance, the government announced plans of adding 2300 MW to existing grid in the revised budget statement announced in July, 2015. Out of this, 1800 MW were to be obtained from emergency power barges. The challenge is that, power generated from emergency barges are that they are relatively expensive. In addition to this, there are many conditions the government is supposed to meet including capacity charges and escrow accounts, which may put the country in a difficult financial situation especially when then is enough power from the grid. Finally, the agreements, which should have been 2 years or less

are long term in nature, some as long as 10 years. This questions the motive of policy makers especially so far as value for money is concerned. The second issue with government measures to end the power crises has been 'missed deadlines'. There have been many missed deadlines that those who follow the power sector have lost counts whilst those who care have lost confidence in such promises. It seems that what the government provides are '**quantifiable promises with megawatts attached to them**'.

4. The Way Forward

There should be systematic and coordinated steps which provide lasting solution to the power crises. First, the government must take immediate steps to clear all indebtedness to ECG for them to pay VRA, Asogli, Gridco and all the companies they owe. In order to prevent government debt from piling up after this payment, steps should be taken to invest in biomass or methane gas dependent power generation facility for all public secondary schools and universities, to take them from the grid. Further, commercial-oriented government agencies should be made to pay for the power they consume.

Second, the process for procuring thermal plants should be looked at again. The existing plants keep breaking down or decaying over short period of use. Almost all the time, when plant is up, another is down. Apart from its inefficiency, sole sourcing has been identified as a fertile ground for bribery and rent-seeking. There should be a competitive bidding framework with clear incentives to attract good investment into the power sector.

Third, there should be stiffer punishment (not transfer) for management and staff of the public utility companies who engage in corrupt practices such as stealing metres, tampering with metres and conniving with customers to pay minimum charges for debt they owe.

Fourth, customer service of ECG should not be reduced to slogans and mission statements. There should be responsive reactions to customer complaints especially when the customer is reporting under-estimation of electricity bills due to faulty metres.

Fifth, the government should minimise quest for emergency power barges to 500-700MW and rather focus on long term sustainable solution. This may include the development of regasification facility for importation of LNG, a look at waste to energy and other viable sources of renewable energy. We should also consider off-grid generational facilities for rural and island communities and solar for the various irrigation facilities.

Sixth, whereas the government needs to be applauded for taking a bold step to get a concession agreement (this is not the same as privatisation) for ECG, it needs to minimise its interference in the operations of the company, during and after the agreement. There should be plans for good management after the concession has ended so that ECG does not return to the era before the concession. As a first step, appointments to the board and management should be based on merit and technical expertise and not political patronage.

Finally, the process of getting a licence to produce power in Ghana is cumbersome and long. If we are going to attract investors, there should be straight forward, short but value-laden process that helps to get good investments into the power sector.

In a nutshell, the time and process it takes to register a power producing company can lead to rent seeking and should be streamlined to promote investments, government should focus on long term and sustainable solution and minimise the deadlines, let us widen the generational mix and take steps to reduce political interference and commercial losses.

References

Electricity Company of Ghana (2013). '2012 Annual Report & Financial Statements', [Online], Available: <http://www.ecgonline.info/images/Publication/2012%20ECG%20ANNUAL%20REPORT.pdf>

World Energy Council (2013). 'Energy Efficiency Technologies', [Online], Available: <http://www.worldenergy.org/wp-content/uploads/2014/03/EE-Technologies-ANNEX-III-EnergyEfficient-Solutions-for-Thermal-Power-Solutions.pdf>