

10 June 2016

Overview of proposed privatization of Electricity Sector in Ghana
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June 2016

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1. Structure of electricity industry

Generation, transmission and distribution have been unbundled. Generation is done through the public sector as well as through Independent Power Producers. Transmission is through the Ghana Grid Company (GGC); while distribution is the responsibility of the Electricity Company of Ghana (ECG) in the south of the country, and Northern Electricity Distribution (NEDCo) in the northern part of the country. Both ECG as well as NEDCo are now facing privatization in the form of a long-term concessionaire.

2. Privatisation being driven by USA

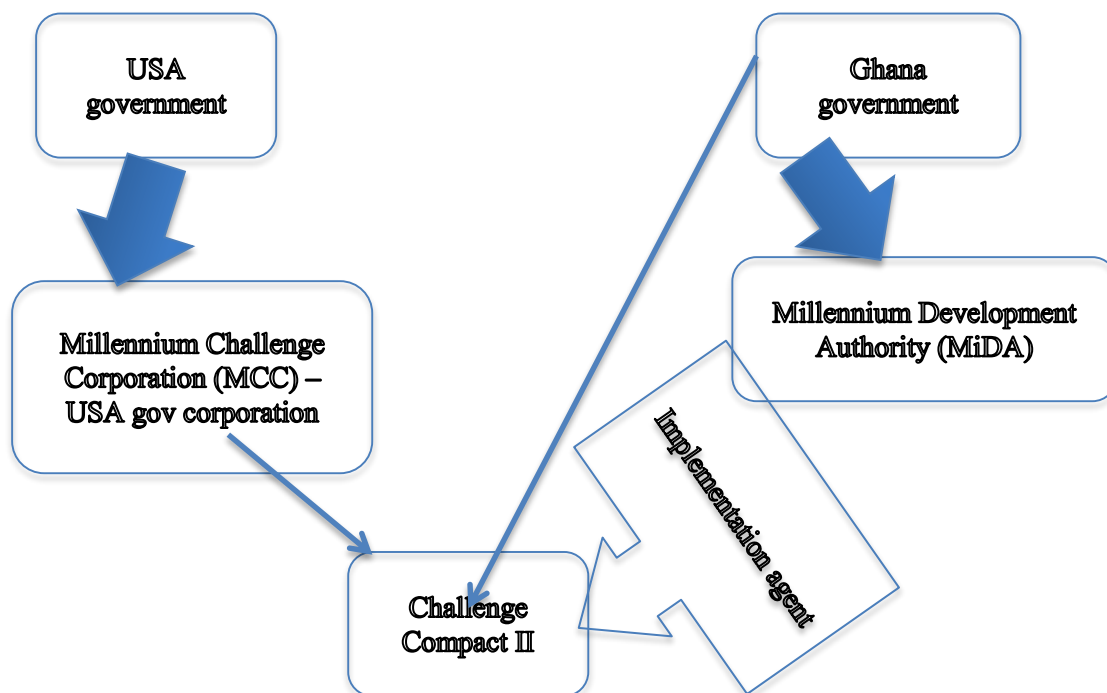
The privatization of ECG and NEDCo is being driven by the United States of America primarily through the Millennium Challenge Compact II, as well as through Power Africa. Compact II is an agreement reached between the USA, acting through the Millennium Challenge Corporation (MCC) – a USA government corporation; and the Ghanaian government. The implementation of the Compact is managed through the Millennium Development Authority (MiDA) - a Ghanaian government corporation which implements public and donor funded programs to reduce poverty through economic growth.

The Millennium Development Authority (MiDA) was established in order to:

To oversee, manage and implement the Programmes under the Millennium Challenge Account for poverty reduction through economic growth as set out in each agreement between the Government of Ghana and the Millennium Challenge Corporation acting for and on behalf of the Government of the United States of America and for any other national development programme of similar nature funded by the Government of Ghana, a Development Partner or both and to provide for related matters.¹

The Compact is worth \$498.2million, and focuses exclusively on the power sector in Ghana. It is to be used, among other things, to increase the efficiency of ECG and the Northern Electricity Distribution Company, through restructuring these entities to operate along private sector principles.

The Challenge Compact, also known as the Millennium Challenge Compact, is a critical Power Africa partner. Power Africa is a United States government led partnership, launched in June 2013, which is meant to bring more electricity to Africa, with a strong emphasis on private sector participation.



The two tables below set out the involvement of various USA initiatives in the distribution and generation sector in Ghana.

Partner	Sub-Sector	Involvement in Sector
USAID	Generation	<ul style="list-style-type: none"> • Providing consultants to undertake due diligence and prioritization of 23 licensed IPPs using least-cost criteria in consultation with World Bank and the Government • Providing technical assistance to the Ghana National Gas Company, developing the Gas Sector Action Plan, advising on commercial, financial and securitization issues
Power Africa	Generation	<ul style="list-style-type: none"> • Providing potential transaction support for IPPs
USTDA	Generation	<ul style="list-style-type: none"> • LNG reverse trade mission in 2013 • Potentially funding power park feasibility study
US Dept. of Energy	Generation	<ul style="list-style-type: none"> • Supporting development of Energy Efficiency and Demand Side Management Project
Sustainable Energy for All (SE4ALL)	Generation	<ul style="list-style-type: none"> • Renewable Energy: double the share of renewable energy in the world’s energy mix • Energy Efficiency: double the pace at which the world improves its energy efficiency.

Source: Millennium Challenge Compact Agreement

PSIRU University of Greenwich Partner	Sub-Sector	Involvement in Sector
USAID	Distribution	<ul style="list-style-type: none"> • Funding integrated resource plan • Providing technical assistance for change management within ECG
Power Africa	Distribution	<ul style="list-style-type: none"> • • Funding Private Sector Participation workshop • • Potentially providing transaction support for IPPs
USTDA	Distribution and Transmission	<ul style="list-style-type: none"> • • Providing technical assistance to NEDCo for assessing management and operations capabilities, business and investment planning; and developing financing and implementation strategies for the investment plan • • Funding ECG Smart Grid applications feasibility study • • Funding the Aboadze-Domunli-Prestea Transmission Line feasibility study
US EXIM	Distribution	<ul style="list-style-type: none"> • Funded \$350 million Self-Help Electrification Program which focused on rural electrification.
Sustainable Energy for All (SE4ALL)	Distribution	<ul style="list-style-type: none"> • Energy Access: ensure universal access to modern energy services, to include electricity and clean cooking facilities

3. Challenge Compact II

Ghana Challenge Compact II will focus specifically on addressing the constraints to the supply of adequate and reliable power. The specific projects and programmes it will implement are:

- ECG financial and operational turnaround project
- NEDCo Financial and operational turnaround project
- Regulatory strengthening and capacity building project
- Access project
- Power generation sector improvement project
- Energy efficiency and demand side management project
- Monitoring and evaluation and economics
- Environmental and social performance
- Social and gender integration

The first two – the financial and operational turnaround project are very similar and involve restructuring the two entities to run on “sound commercial principles through

- strengthening the governance and management of ECG by bringing in an acceptable ECG PSP Provider through a form of Private Sector Participation”
- and infrastructure and foundational investments designed to reduce technical, commercial and collection losses and improve service quality”.

In other words, the Compact is designed to privatize distribution through bringing in a private sector partner. Under the project “Power generation sector improvement project”, the aim is to open up the generation sector and make it attractive for private investment. The full agreement is at: http://www.mida.gov.gh/pages/view/A_GH_CompactII.pdf

4. Companies involved:

There are already 46 companies that have expressed interest in the concession for ECG.ⁱⁱ The government published a Request for Expression of Interest (RfEOI) for private sector participation in ECG involving management, operation of and investments in the electricity distribution system of ECG through a long term concession. The full list of the 46 companies can be found at:

http://www.mida.gov.gh/pages/view/ECG_CONCESSION_EOI_LIST_04_11_16.pdf/31/news

The companies include:

- Three South African companies – Total Utilities Management Services; MAT Technologies Consultancy and SIRIS Engineering; Power Meter Technics (Pty) Ltd & Pricoil Ghana Limited
- Indian company – Tata Power Company Limited
- Philippines – Manila Electric Company
- France – EDF International Networks
- Canada – Manitoba Hydro International

- Dubai – ENGIE Limited
- United Kingdom – Actis GPLLP
- Nigeria – Sahara Power Group Limited
- UK – CDC Group PLC
- Seven USA companies

Many of these companies are already active in the energy sector in other countries in Africa.

Manitoba Hydro has a management contract for the Nigerian Transmission Company.

Tata Power Company Limited is involved in one of the privatized Distribution Companies in Nigeria.

Actis is involved in Morocco, Uganda, Cameroon.

Sahara Power is involved in Nigeria in the following privatized entities:

- owns 70% stake in Egbin Thermal Power Plant
- owns a 60% stake in Ikeja Electricity Distribution Company
- owns a 70% stake in First Independent Power Ltd which has four power plants in Nigeria.

5. What are the energy challenges facing Ghana?

Government has identified the problem as a distribution problem. According to President John Mahama, “there is inefficiency at the downstream distribution of the electricity sector. The system is not working. If it’s not working you fix it by taking risk”.ⁱⁱⁱ This analysis feeds into the government’s argument that ECG is the problem and that to solve the problem, ECG needs to be privatized.

However, there are two other major problems with the electricity sector:

a) Shortage of supply

Currently installed capacity is about 3 000MW of power. The country is slowly shifting from hydropower as main source of energy generation to thermal - which is more expensive. Currently, thermal power generation is 50.1%, hydropower is 49.8% and renewables is 0.1%.^{iv}

The shift from hydropower to thermal has been happening very recently – in 2015 government went for international thermal power contracts totalling over 1000 MW, with about 500MW installed at beginning of 2016, with an additional 462 MW thermal power plant expected to be installed in course of the year.

Current government is arguing that it will not only fix the problem of inadequate power supply in Ghana, but will also make Ghana a “power hub” in West Africa.^v

In the revised budget statement of July 2015, the government announced it was going to add 2300 MW to existing grid - with 1 800MW to be obtained from emergency power barges. But this is expensive energy.

While there has been a shift to thermal power, very little attention has been given to increasing the amount of renewable energy used in the energy mix, despite the involvement of Power Africa which is meant to promote “clean energy”.

b) Non-payment of bills with government entities the biggest defaulter

Government is the biggest defaulter when it comes to not paying its electricity bills – 40% of the unpaid bills are from government entities. In monetary terms, this means that government entities owe close to GHS1 billion to ECG. ECG is now threatening to disconnect government ministries, departments and agencies from 20 June.^{vi}

6. Impact of privatization on tariffs:

Tariffs have already increased nearly 600% over the past decade, and with the privatization of ECG, will likely increase even more as a privatized ECG emphasizes cost recovery and the reduction of technical, commercial and collection losses. The Compact II also involves the replacement of existing credit meters with pre-payment meters.

7. Is ECG being privatized?

The government has given mixed messages about whether they regard the restructuring of ECG as privatization or not. On the one hand, the Deputy Communications Minister, Felix Kwakye Ofori, has said that they are not privatizing electricity; they are simply bringing in private partners.^{vii} This is clearly an attempt to mute opposition to the process as concessionaires and bringing in private partners are forms of privatization. And in fact, the government also recognizes this – at times they justify bringing in concessions by pointing to how successful they claim the privatization of telecommunications was in the early 1990s, despite job losses. “When GT was sold people lost their jobs, but is the company not functioning?”^{viii}

8. Failure of privatization in other countries

Nigeria’s electricity was privatized a few years ago – distribution and generation were broken up into separate entities and then sold off. However, the result has not been an increased supply of electricity, or increased access.

Despite the promises of the private companies involved, and the guarantees provided, the private sector has not invested sufficiently in the energy sector and generation still falls far behind demand. Generated output never rises above 5 000 MW, which is only about a third of peak demand. There are still frequent outages, and continued use of expensive diesel generators.

The Central Bank of Nigeria had to step in to make available bailout loans to many of the newly privatized distribution and generation companies because they were struggling to meet their obligations.

Tariffs have risen sharply as a result of the shift to an electricity market where the tariffs need to be cost-reflective. Many bills are still based on estimates as the programme for installing meters has not unfolded as rapidly as promised – only 4.5% additional meters have been installed for previously unmetered electricity users. This causes enormous problems with people receiving excessively high bills.

ENDNOTES:

ⁱ <http://www.mida.gov.gh/pages/about-us#fndtn-about-mida-2>

ⁱⁱ <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/Gov-t-is-not-selling-ECG-as-NPP-did-to-Ghana-Telecom-Kwakye-Ofosu-446720>

ⁱⁱⁱ <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/Gov-t-is-not-selling-ECG-as-NPP-did-to-Ghana-Telecom-Kwakye-Ofosu-446720>
<http://www.myjoyonline.com/politics/2016/June-12th/ecg-privatization-shift-from-state-monopoly-to-private-monopoly-is-dangerous-mp.php>

^{iv} Energy Commission Ghana (2016) 2016 Energy (Supply and Demand) Outlook for Ghana

^v <http://pulse.com.gh/business/business-growth-trade-minister-blames-ex-president-kufour-for-power-crisis-id5136137.html>

^{vi} <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/ECG-workers-threaten-to-disconnect-Ministries-Agencies-446516>

^{vii} <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/Gov-t-is-not-selling-ECG-as-NPP-did-to-Ghana-Telecom-Kwakye-Ofosu-446720>

^{viii} <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/Gov-t-is-not-selling-ECG-as-NPP-did-to-Ghana-Telecom-Kwakye-Ofosu-446720>