

By: Centre for Environmental  
Management and Sustainable  
Energy (CEMSE)



# PRIVATIZATION OF ELECTRICITY COMPANY OF GHANA (ECG)



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## INTRODUCTION

For decades, state-owned enterprises (SOEs) played pivotal roles in the economies of developing nations, emerging as engines of industrialization and public service delivery (Ferdiana, 2022). However, as time progressed, the promise of these enterprises often gave way to systemic inefficiencies, mounting debts, and unsustainable subsidies. From mismanagement and political interference to structural rigidity, the shortcomings of SOEs became glaring, catalyzing a global shift toward privatization as an alternative strategy.

In developing countries, several governments have over the past three decades considered privatization of state enterprises (Nhema, 2015). Privatization represents a transformative approach to reimagining public services and enterprises through private-sector participation (Sheshinski & Lopez-Calva, 2003). One of the sectors, which has suffered major setbacks, is the power sector. This has been the case especially in developing countries where the sector faces several challenges including a lack of sufficient low-cost wholesale power supply, high technical and commercial losses, and a lack of investment in generation and distribution infrastructure (Nagpal et al. 2021).

In Ghana, the Electricity Company of Ghana (ECG), which is the main distributor of electricity, has been crippled by several impediments such as financial strain, including a drain on public funds, mounting debt, rising tariffs, and a lack of investment (Ackah et al. 2021). The country as a result struggled with intermittent power supply and extended blackouts termed “dumsor”. Despite different possible approaches in resolving the power supply challenges, the problem persists. Currently, the government is considering the privatization of ECG as a means to provide efficient services to the people of Ghana which we believe is the best way forward considering all other options that have woefully failed in the past..

Given the ongoing power distribution challenges, this paper advocates and makes a strong case for the privatization of ECG. It explores the rationale behind privatization, the potential models Ghana can adopt, and recommendations for effective implementation. The analysis draws on the 2019 data, which marks the year the Government of Ghana (GoG) launched the Energy Sector Recovery Program (ESRP) to engender financial sustainability in the energy sector. Data from 2019 to 2023 was utilized to assess the investment in ECG, its operational and financial performance, and government’s support to the company.



## JUSTIFICATIONS FOR PRIVATIZATION OF ECG

There have been a lot of conversations surrounding the privatisation of ECG even before and after the energy minister's announcement of the government considering private sector involvement in ECG. Mainly, groups such as Independent Power Generators (IPGs), Public Utility Workers Union (PUWU), and some energy experts are strongly opposed to the decision. Former Managing Director of the ECG, Samuel Dubik Mahama, for example argued that private sector participation is already integrated into the company's operations and questioned the need for additional privatization. The PUWU also raised concerns over potential negative impacts on the rights of its members, the electricity sector, and public welfare. Additionally, the scandal of the Power Distribution Company (PDS) has also been used as a case against privatization. The CEO of IPGs also raised concerns that privatization may risk the accessibility, affordability and stability of electricity services.

Although these concerns are directly against the government's position, it is necessary to direct the government on some of the important matters that must be considered in the decision making and approach of handling the privatization. This is useful in making sure that all groups and stakeholders mutually benefit.

## CURRENT PROBLEMS WITH ECG

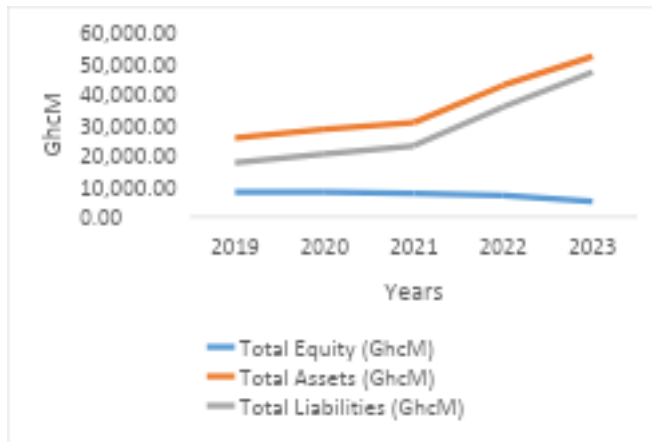
Persistent challenges have marred the efficient distribution of electricity which have led to the calls for privatization of ECG. These include declining total equity or investment in the company, poor financial and operational performance, lack of government support and poor corporate governance structure.

### **Decline in Total Equity**

Total equity is the sum of the investment made by shareholders and retained earnings over time. Shareholders' injection of capital and retained earnings have declined from 2019 to 2023. From Figure 1 below, the total equity of ECG has declined in the last five years from Ghc8.05 billion in 2019 to Ghc5.01 billion in 2023 representing a decline of about 37% between 2019 and 2023. On average, Total Equity declined by about Ghc760.012 million (10.42%) annually. This is caused by annual liability growth of about 28.83% (Ghc7,382 million) compared to the Total Asset annual growth of 19.97% (Ghc6,621.96 million). The decline in Total Equity is likely

due to the rapid increase in Total Liabilities outpacing the growth in Total Assets (See Graph 1).

**Figure 1: Total Equity of ECG from 2019 to 2023**

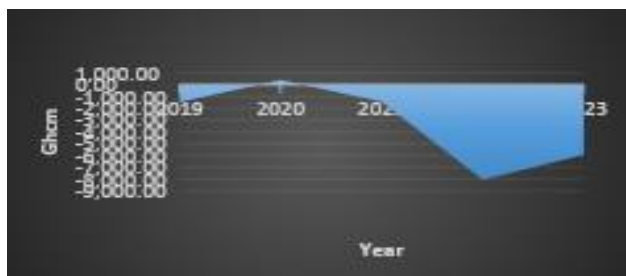


*Source: State Ownership Report, 2023*

## Financial Performance of ECG

The financial performance of ECG is assessed using the profitability of the company from 2019 to 2023. According to the State Ownership Report of 2023, profitability of the company has declined by an average of Ghs1,124.60 million representing an annual average decline of about 39.18% within the period (see Graph 2). In 2022, the company made a net loss of about Ghs8 billion which is the highest in the last five years as established by the State Ownership Report. The Ghs8 billion net loss is contradicted by the Auditor General in their 2022 Report on the Public Boards, Corporations, and Other Statutory Institutions for the period 31<sup>st</sup> December, 2023, which puts the Net Loss in excess of Ghs2 billion. In each case, the financial position of the company is worsened, and for that matter retards investment into the company to improve efficiency and effectiveness. Consistent net loss of ECG could put a strain on its cashflow, affecting its operations and ultimately reducing investor confidence to inject new capital.

**Figure 2: Trend of profitability from 2019 to 2023**



*Source: State Ownership Report, 2023*

## Operational Performance

The operational performance of the sector is assessed using the system losses of ECG from 2019 to 2023. The highest system losses of 30.6% was recorded in 2022 and the lowest, 24.9% in 2019. The average percentage change of system losses is 2.6% per annum. The trend shows an upward pattern from 2019 to 2022, followed by a decline in 2023 (See Graph 3). Ghana's system losses are higher than the Public Utility Regulatory Commission's (PURC) benchmark of 21.4% as at 2022. The variance between PURC benchmark and actual losses implies that the company is inefficient operationally, and this is caused by inability to resolve issues of dissipation of power in distribution lines and transformers; issues of power theft, huge arrears, and poor metering system. Such operational inefficiencies need to be resolved by capital and infrastructure injection. However, ECG is liquidity constrained.

**Figure 3: Trend of System Losses from 2019 to 2023**



**Source: Energy Statistics, 2024**

Note: Ghana has higher system losses (26.9%) compared to Kenya (23.47%) and Uganda (17.3%), which demands urgent attention.

## CHALLENGES ASSOCIATED WITH PRIVATIZATION

Most governments have privatized government institutions with the idea that it will improve efficiency through the increased investment funding and proper management of the entities. However, privatization has not always delivered the expected results. Most developing countries are cautious when embarking on radical reforms especially in the power sector. In South Africa, despite major power problems, the country failed to fully privatize its distribution companies, leaving almost 60% of its power distribution under the control of the state (Baker & Philips, 2019). Malik (2022) notes that about 30% of power distribution contracts in Sub-

Saharan Africa get cancelled. This is mainly as a result of the lack of proper regulatory framework, political instability and lack of proper investment.

The Nigerian power sector for example, continues to face a decline after the privatization of its electricity generation and distribution companies (Ikeanyibe, 2021) due to inadequate investment and poor infrastructure. In the case of Uganda, after contracting power distribution to a private entity, the country has achieved positive results in terms of increased access rate and power generation. This is despite the significant rise in tariffs (Chimbaka, 2016) and criticisms over high profits and inefficiencies. Tanzania's attempt at privatization was also faced with financial losses, inefficiencies and unreliable power supply.

## PROPOSED MODEL OF PRIVATIZATION FOR GHANA

In the case of Ghana, several models of privatization can be considered to solve the distribution challenges. Amongst these are Public-Private partnership (PPP), Management Contracts, The Concept of Leasing, Divestiture and Concession. Although these models when carefully analysed present solutions to different aspects of the problem, a well drafted PPP agreement will be best suited currently considering the state of ECG.

### Public-Private Partnership (PPP)

Public-private partnerships (PPPs) offer a collaborative approach for privatizing electricity distribution in Ghana by involving private sector expertise in designing, financing, operating, and maintaining energy infrastructure. Similar to Ghana's Accra-Tema Motorway expansion project, PPPs in electricity distribution could share risks between the government and private partners, reducing the financial and operational burden on the public sector. This model leverages private sector efficiency while maintaining public oversight, potentially improving infrastructure quality and service delivery. However, successful implementation requires strong governance frameworks to manage risks, ensure accountability, and sustain public trust in the privatization process.

## RECOMMENDATIONS

### ✓ **Enforcement of regulations:**

Strong and enforceable regulations are critical to the success of privatization in the power sector. The establishment of an independent regulatory institution is essential to oversee the operations and safeguard consumer interests. The government must strictly enforce all the necessary regulations and guidelines to enhance efficiency. Regulatory bodies should be adequately resourced to effectively monitor the performance of distribution companies and ensure compliance with established standards.

### ✓ **Transparency in contract:**

A lack of transparency in contract negotiations often leads to disputes and contract dissolutions in the power sector. Transparency is therefore crucial for building public trust, ensuring accountability, and preventing corruption in operational activities. All relevant stakeholders must be involved in the contract decision-making process, and should understand the terms and expected outcomes of the contract clearly to ensure its widespread acceptance. Furthermore, the government must strengthen institutional capacity to manage privatization processes, ensuring consistency, efficiency, and alignment with public interest.

### ✓ **Focus on Managerial Expertise:**

The success of privatization heavily relies on the skills, leadership and expertise of the management team. Priority should be placed on recruiting qualified and experienced managers capable of effectively directing operations and achieving high level of efficiency. A thorough assessment of the management team's competencies should be conducted to ensure they are well-equipped to fulfill their responsibilities and drive the company's success.

### ✓ **Build Public Trust and Raise Awareness:**

Gaining public trust is essential for the success of privatization efforts. The government should implement a robust public awareness campaign to address any concerns associated with the process. This campaign should emphasize the need for privatization, its potential impact, and the measures in place to protect public interest. A system should be established to gather public feedback to foster a sense of ownership and collaboration among stakeholders.



## CONCLUSION

Privatisation presents the best solution to the current woes of ECG. However, the pathway to achieving the best outcome for the government, private sector and consumers requires a thorough assessment of the best and favorable model. Ghana must take lessons from the successes and failures of other Sub-Saharan African countries and put in place the right regulatory frameworks to ensure that the privatization of ECG produces successful outcomes.

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