Turning an Agency Around: Lessons from Ghana

The Bank supported a comprehensive overhaul of Ghana's power distribution utility, the Electricity Corporation of Ghana (ECG), in the mid-1980s. Institution-building achievements during project implementation were none too impressive, but the project began a continuing institution-building process that has transformed ECG. While ECG still has weak points, it is now a much better organized, managed, and performing institution that is providing improved service to many more customers with a much reduced staff.

Project goals

The $49 million Power System Rehabilitation Project, supported by a $28 million IDA credit (approved 1985, closed 1991), financed the rehabilitation of the power distribution system of ECG and technical assistance for organizational change at the agency.

By the early 1980s, ECG's distribution facilities were old and had been poorly maintained for years; its system was over-loaded, with concomitant energy losses and voltage reductions, and often equipment failures led to power cuts or rationing. Six previous credits to Ghana's power sector had not succeeded in introducing organizational reforms in ECG. The agency's problems were compounded by wider problems in Ghana's economy which, after years of economic mismanagement and decay, was close to collapsing.

In 1985, a new government and the Bank agreed to pursue the reform of the power sector as a key part of the economic adjustment process.

The institutional aspects of this project sought top-to-bottom change in ECG, including organizational restructuring, new management practices and operational procedures, and improvements in recruitment, personnel, and training that were designed to reduce overstaffing and to upgrade skills at all levels. A twinning arrangement with the Electricity Supply Board of Ireland provided assistance for the system rehabilitation work and for improvements in organization, management, and personnel training.

Strengthening and stabilizing the finances of the sector was at least as urgent. Hence the project sought to establish a rational and systematic basis for tariff adjustment, and to improve ECG's financial management and performance.

Physical works were implemented expeditiously by a project unit that was, in effect, a self-governing enclave. The project unit was located in its own quarters, had its own staff, and was managed, de facto, by a consultant serving as project director. Wherever feasible, work was done under turnkey type contracts with the suppliers responsible for installation.

Financial aspects

Covenants targeted the three areas most critical to the sector's financial health: tariffs, ECG's growing customer receivables, and its mounting arrears. But none of the covenants in these areas was complied with fully or promptly.

EGC's financial situation continued to worsen, and new solutions and new targets had to be worked out in the context of later projects. This disappointing experience partly reflects the depth and intricacy of the sector's financial problems and partly the lack of sufficient will to address them—whether on the part of the government, to keep raising tariffs; of ECG, to maintain pressure on collections; or of the Bank, to enforce covenants.
Progress has been made since this project was completed, but tariffs, receivables, and arrears remain at the heart of Bank's concerns about sector finances. The experience emphasizes that utilities are unlikely to achieve the financial autonomy they need if they are to operate commercially and be free from government interference unless a transparent regulatory process can replace a political one.

The project reversed the deterioration in the distribution system and dramatically improved the quality of service. But it did not permanently reduce the persistently high losses of power from the system. Its initial success in improving the reliability of power supply unleashed suppressed demand which soon outran the capacity of the new facilities.

Institutional change

The project’s institution-building efforts succeeded in the area of utility management. They proceeded in three phases:

- At first it was proposed to merge ECG into the Volta River Authority (VRA), the autonomous and well managed generation and transmission agency. But with strong opposition from the two agencies, this proposal was dropped.

- Then the government took drastic action. It dismissed ECG’s top management and put the consultants in charge until Ghanaian replacements were available. It appointed a strong board of directors—ECG’s first—to oversee and work with the consultants. During this period, order was restored to the day-to-day management of the company, and long-term programs were begun to resolve its organizational, operating, and staffing problems.

Elements of success

- Desperate circumstances. The agency was clearly in extremis. It was understood that action was urgently needed, for the future of both the agency and the sector.

- Strong commitment by the government. Ghanaian “ownership” was critically important to the institution-building effort. The consultants could only function so effectively because they had the necessary authority, capability, and back-up.

- Commitment to proceed with shock therapy. The government’s decision to put the consultants in charge supplied a critically needed initial boost to the institution-building effort. It provided ECG with new, competent leaders devoted to reform in the only way this could be done quickly. And to the company’s staff and to the public, it signalled the beginning of a new order.

- Ample technical assistance, effectively channeled. Technical assistance played a critical role in this project. It deserves much of the credit for organizational restructuring, financial management, reduction of overstaffing, and training.

- High calibre of new staff. Newcomers brought ECG greater skills, a commitment to reforms, and better morale. ECG’s image changed from that of a dying organization to one that was on the way back, offering attractive opportunities. Today, ECG’s managers report they have no difficulty attracting well-qualified recruits in all areas, with the possible exception of finance.