



19th September 2024

Press Statement:

ECG’s “Galamsey” on Ghana’s Budget Reaches a Crescendo

After numerous warnings about the mismanagement of the Electricity Company of Ghana (ECG), it is becoming clear that the carefully maintained façade through media campaigns and celebrity endorsements by the company’s management is starting to crumble, revealing a concerning reality that threatens not just the existence of the company but the sustainability of the country’s budget.

For the past few years, the public has been shouldering the financial burden of subsidising ECG’s operations, raising serious concerns about the political will to reform the utility company and push it to operate with a business-oriented mindset. Despite longstanding signs of inefficiency, politicians have failed to take decisive action to fix ECG.

Since the inception of the IMF program in 2022, a major condition was for the government to establish systems to eliminate the recurrent under-recoveries borne by the budget by:

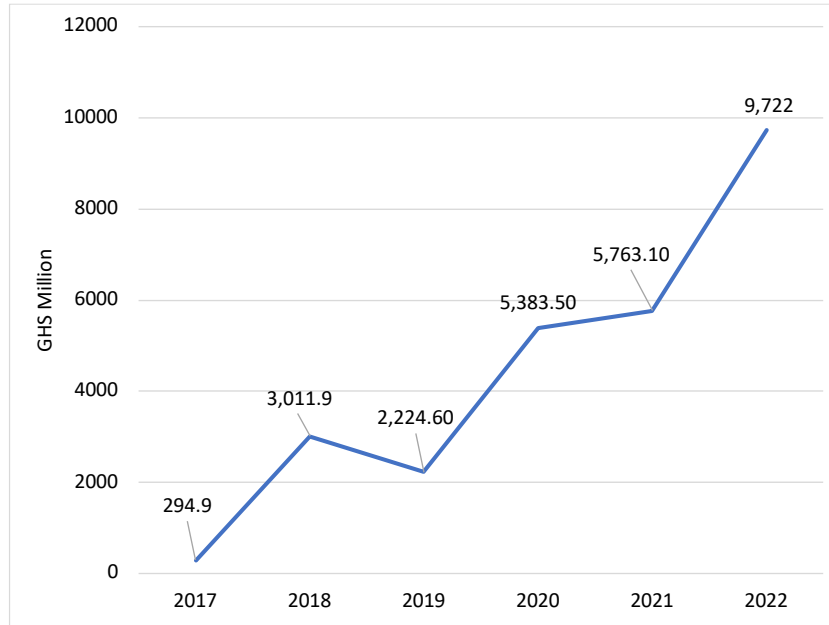
1. Programming for the under-recoveries in the budget.
2. Taking corrective actions to prevent the materialisation of the under-recoveries.

However, there has been no sign of improvement, contrary to what the company makes the public believe. The major challenge of the company has been:

1. Revenue collection

ECG does not collect enough revenue to account for power sales. This situation has worsened over time despite claims that the company is doing better. Between 2017 and 2022, ECG’s losses increased from about GHS 295 million to about GHS 9.7 billion.

Figure 1: Trend of ECG's Net Losses (2017 – 2022)



Recent reports published by the PURC show that under-recoveries between August 2023 and July 2024 amount to about GHS 13.6 billion. The average collection rate within the period was an abysmal 43% (Table 1).

Table 1: ECG's Revenue Collection Rate (August 2023 – July 2024)

| Month | Revenue Collection Rate |
|---------------|-------------------------|
| Aug-23 | 40% |
| Sep-23 | 43% |
| Oct-23 | 34% |
| Nov-23 | 51% |
| Dec-23 | 49% |
| Jan-24 | 41% |
| Feb-24 | 42% |
| Mar-24 | 50% |
| Apr-24 | 42% |
| May-24 | 40% |
| Jun-24 | 44% |
| Jul-24 | 43% |

This poor performance raises doubt about the efficiency of the touted digitalisation efforts to bring more revenue through the new ECG PowerApp introduced in January 2023. This new app replaced the “ECG Power” app, which had operated before December 2022. The data in Table(1) and Figure (2) above shows revenue performance has been worse over the period because, on evidence, the switch of the apps was procurement-

driven rather than an efficiency measure. We will explain why in subsequent sections, and a full review of the contract will be published soon.

2. Accounting for revenue collected.

From the first point, it is evident that revenue performance is abysmal. Even more egregious is that ECG fails to account for the limited revenue it collects properly. Following the recent validation of ECG's revenue collection by PwC, it became evident that the simple directive by PURC and the President of Ghana for the company to operate a single account to ensure visibility of total collection and onward transmission to the value chain participants was not complied with. Rather, ECG operated 61 accounts through 16 banks and would not make details of those accounts visible to auditors.

Therefore, the PURC's letter to the Energy Minister is a rehash of an old problem known to all the players in the sector, including the Minister. In fact, the PURC had written earlier to the President to highlight the same issues but got no results. What makes the Commission think it will get results from the Ministers remains rather curious. This also highlights how toothless politics has rendered the PURC to the extent that it cannot sanction utilities that are flagrantly abusing regulation and have become ungovernable. In its letter to the Minister, ECG is literally begging for transparency from ECG and proposing policy reforms to address regulatory failures.

Why new revenue measures have proved ineffective

For over a decade, ECGs poor revenue performance has been attributable to managerial, financial, and technical inefficiencies. In recent times, the political settlement has nursed and sustained managerial inefficiencies, which have, in turn, worsened the financial and technical challenges of the company. Two prime examples of these political settlement manifestations include:

1. Introduction of the ECG PowerApp

ECG introduced the PowerApp in January 2023 to replace its internally developed app under the pretext that the in-house app could not be improved to deliver efficiency and iterations to incorporate digital payment solutions. In other words, ECGs internal engineers could not integrate payment APIs as explained in the extract of an RTI response to ACEP below:

(c) The ECG App which existed before the introduction on the management platform services was developed and implemented in-house for revenue collection. We would like to clarify that aside from the Telcos charges for using their payment platforms upstream, no payments were made to any other service provider. However, the system had varying form of deficiencies relating to safeguarding the revenue and inability to perform balance management. In addition, the system could not accept internationally recognised card payment systems like VISA, MasterCard among others because the in-house application did not meet the regulatory framework as prescribed by the Payment Systems and Services Act, 2019 (Act 987). To put it in another way, ECG did not have the requisite capacity to operate a payment system or provide a payment service without a payment system licence

issued by the Bank of Ghana (BoG). The alternative was to partner a licensed payment system provider like Hubtel LTD.

Consequently, ECG had to outsource the development and maintenance of its payment system to Hubtel. According to a contract received from ECG, the total cost for the design and development of the platform is about GHS171.8 million. Between November 2022 and December 2023, the cumulative service charge was over GHS100 million. In addition, Hubtel will be paid 0.95% of all revenues collected as service charges. At the time of contract execution, GHS75 million had been paid to Hubtel on the framework cost. This information in the contract contradicts information Hubtel has communicated on its proceeds from the agreement. On March 28th, 2024, eight days after the contract was executed, Hubtel published the cost of developing the payment system at US\$25 million (GHS315 million), of which US\$12 million (GHS151 million) had been paid¹.

Table 3: ECG and Hubtel's Accounts of Cost

| Cost items | ECG Account in the contract | Hubtel's Account |
|--|-----------------------------|------------------------|
| Framework Development | GHS 171.8 million | GHS315 million |
| Service charge | 0.95% of total revenue | 0.95% of total revenue |
| Mobile money and card scheme providers | 0.7% of total revenue | 1% of total revenue |
| Additional charges for transfers to ECG | 0.85% of total revenue | Not stated |

ECG abandoned the internal capacity built to develop and maintain a payment system for an exorbitant development fee and maintenance cost for this hurriedly arranged transaction through a sole-sourced contract. Intriguingly, PURC, which should have accounted for such expenditures in the tariff methodology, is now requesting transparency and access to the contract.

The contract gives Hubtel control over all revenues collected until such a time it is disbursed to ECG. The contract also creates a Fund designed to receive an undetermined portion of revenues collected before the balance is disbursed to ECG. This retention of unspecified amounts from all revenues collected undermines the requirements of the cash waterfall mechanism and efforts under the IMF program to bring visibility to ECG's total revenues.

¹ <https://blog.hubtel.com/hubtel-announces-completion-of-commercial-agreement-with-ecg/>

2. Exchange rate manipulations

One of the major challenges of ECG is its handling of the exchange rate for its transactions. In many instances, the exchange rate reported by ECG to the cash waterfall committee was significantly higher than the inter-bank exchange rate. This exchange rate manipulation created a net exchange loss of about GHS 6.5 billion in 2022 (from GHS 609 million in 2021) and about GHS 7 billion in 2023. ACEP, through the RTI process, requested historical exchange rates used by ECG for its transactions. The company has since May 2024 not been able to supply the requested information, stating in an August 2024 response that:

“...the requested information is quite extensive and will require some time to compile. All efforts are being made to put together the information requested for submission. We acknowledged your forbearance thus far and implore your continued support as we work towards meeting the request.”

This level of manipulation undermines the ability of ECG to pay the value chain and redirect public resources away from legitimate expenditure programmes.

Implications of ECG’s Poor Performance on the Economy

The growing fiscal burden imposed on the economy by ECG’s poor performance has become a ticking time bomb that can undermine the progress made after the domestic and international debt restructuring to keep Ghana solvent. With the level of debt accumulation and the intervention required of the state, it is just a matter of time before Ghana is plunged into another debt crisis. With IPP debt mounting and gas suppliers and transporters demanding payments, the pressure on the government to sacrifice social investment is high.

Already, some IPPs have begun targeting payment guarantees to pay some of their outstanding debt. Karpower, for example, has drawn down about US\$112 million to settle the debt owed to them. On the gas side, drawdowns on Standard Chartered Bank Letters of Credit(LCs) by the OCTP partners have an outstanding balance of about US\$400 million to be settled by the government. The government needs to urgently replenish or stay current with the OCTP partners, failing which subsequent drawdowns will trigger an attack on the World Bank guarantees on the project.

Conclusion and Recommendations

The political lethargy to enable ECG to deliver value to the people of Ghana continues to hurt Ghana’s budget and, by extension, development efforts. The Energy Sector Recovery Program (ESRP) estimates that realised power sector shortfalls between 2019 and 2023 were about US\$8.25 billion. This is a sheer waste of public resources that cannot persist. In light of the above preliminary comments, ACEP recommends the following:

1. PURC should assume its regulatory functions over ECG. Specifically, the Commission should implement aggressive measures to have visibility over how much revenue is collected and spent on:
 - Value chain participants
 - Any other expenditures that may be undermining the sustainability of the sector.

2. PURC should immediately audit the Hubtel contract and verify all the payments made to the company to assure value for money for the country and clarify discrepancies in cash values reported by Hubtel and ECG.
3. The current management of ECG should be relieved of the jobs and immediately replaced with effective and transparent management that would salvage the company and its attendant fiscal burden on the state.

Signed.

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