

PRIVATE ENTERPRISE FOUNDATION
(PEF)



POSITION PAPER
TO THE

GOVERNMENT OF GHANA
ON

THE ESTABLISHMENT OF A FRAMEWORK FOR
COMPENSATING PRIVATE BUSINESSES FOR
PUBLIC UTILITY AND PUBLIC SERVICE
DELIVERY FAILURES

©June 2008

WE members of the Private Enterprise Foundation made up of the Association of Ghana industries (AGI), Ghana National Chamber of Commerce and Industries (GNCCI), Ghana Association of Bankers (GAB), Federation of Ghanaian Exporters (FAGE), Ghana Employers Association (GEA), Ghana Chamber of Mines (GCM) **and others, consisting of** major identifiable private sector associations and entities, representing their member companies and professional bodies including Insurance companies, building and civil engineering firms, contactors, manufacturers, consultancy service providers, hospitality industries, importers and exporters, etc.;

Taking into consideration the fact that the declared vision of Government is the achievement of a **Golden Age of Business through** the development of the private sector as the engine of growth;

Being also aware of the fact that Ghana, as nation, has been facing severe constraints and challenges in the public utility services sector, and in the provision of public services;

Do hereby acknowledge the considerable effort being undertaken by Government to establish a favorable macro-economic environment in support of the private sector.

Taking however into consideration the results of a series of studies that have been commissioned by PEF, between 2003 and 2007, on the impact of power outages and water supply shortages on the operation and performance of private sector businesses, showing that the frequent disruptions in the provision of public utilities and shortfalls in the provision of government services especially the undue delays in government payments to private sector business operators, are having a devastating effect on private businesses especially on Small- and Medium-scale enterprises (SMEs). Our studies revealed in particular that:

1. Public Utility Services

1.1 Power supply*

Of 82 industrial enterprises surveyed in 2007,

- Only 7 had constant supply of electricity in 2005;
- Over 73% suffered drastic and 27% marginal reductions in productivity and turnover;
- Over 75% suffered frequent and 25% marginal breakdown of equipment;

- Over 63% were unable to meet their production targets;
- Over 80% suffered drastic increases in operational costs.

(* Source: Diawuo, K and E.K. Anto (2007), Developments in the Power Sector and their Impact on the Manufacturing, PEF, Accra)

1.2 Water supply**

Of 21 industries surveyed in Accra, Tema and Kumasi,

- All the industries surveyed in Accra, Tema and Kumasi experienced interruptions in water supply in 2003;
- In 2005, 95 % experienced up to three and 50% up to ten interruptions in water supply a week;
- In 2006, 93% experienced up to three and 7% more than 4 interruptions a week.

(**Source: Nyadziehe, T and C.S.K. Kpordzie (2007), Developments in the Water Sector in Ghana from 2004 to 2006, PEF, Accra)

2. Public Service delivery

- In spite of the on-going public sector reforms, including the issuing of service charters by public sector agencies, the quality of public service delivery remains unsatisfactory, being very bureaucratic and cumbersome and open to petty corruption;

3. Government Payments

- It is noted that, in line with the existing Financial Administration Regulations, government payments have to go through as many as 13 steps at the minimum, involving several different officials acting in different agencies and capacities. The procedure therefore tends to be rather unintelligible, non-transparent, unpredictable, cumbersome and full of excessive delays.

4. Impact of poor service delivery

Our studies further show that the quality of public utility service delivery and government services to the private sector is generally poor and has resulted increasingly in businesses incurring huge unplanned costs.

We note also, that the impact of the poor service delivery is multi Dimensional, having immense financial, economic, social; legal and political implications for the private sector in particular and therefore the economy as a whole.

For industry in particular, poor and unreliable service delivery by the public utilities has a very devastating impact, because, it

- affects profitability and growth of businesses through loss of production and therefore inability to meet production targets;

- leads to frequent breakdown of equipment and corresponding increases in costs of repair, maintenance and replacement;
- Results in increased operational costs;
- causes under-utilization of installed capacity;
- reduces ability to compete domestically and internationally and also to attract adequate levels of foreign investment;
- leads to redundancy, laying-off of staff, and increasingly;
- leads to bankruptcy and eventual collapse of small and medium-scale businesses.

The inability of government Ministries, Departments, and Agencies (MDAs) or Metropolitan, Municipal District Assemblies (MMDAs) to pay for services rendered by private sector operators on schedule

- affects adversely the cash flow of businesses;
- affects the ability of businesses to service loans, pay salaries, wages and benefits of employees, buy materials;
- Leads to bankruptcy and eventual collapse of the business.

In this regard, we note that in spite of the grave consequences of unreliable and poor utility services and delays in public payments, there exists no consistent and coherent framework for indemnifying private business operators or protecting them. On account of this, the Private Enterprise Foundation with the support of the BUSAC Fund commissioned a survey of 82 business enterprises to obtain their views on the matter. The overwhelming majority expressed the opinion that there was a need to establish a framework mechanism of redress such as a compensation scheme, to compensate enterprises who suffer losses on account of poor service delivery by public utilities and the public service as well as undue delays government payments.

PEF has also held consultative stakeholder meetings with members and other stakeholders in Kumasi, Takoradi and Accra. The views emanating from those meetings confirmed the results of our survey. Participants overwhelmingly supported the establishment of a mandatory compensation scheme focusing initially on areas where loss and damage resulting from poor services are greatest.

RECOMMENDATIONS

We, members of the Private Enterprise Foundation and others, taking cognizance of the outcome of our studies, survey and stakeholder consultations, do hereby make the following recommendations for the consideration of Government:

1. Public Utility Service Delivery

- 1.1. MoFEP, C&AG Department and PEF should jointly undertake urgently extensive public education on the existing Financial Administration Regulations and the public payment procedures and requirements;
- 1.2. Government should facilitate the signing of Service Level Agreements between the Public Utilities and the private sector.

2. Delivery of Public Services

- 2.1. Government should support business associations and public sector agencies to elaborate binding Citizens Charters which go beyond service charters to ensure accountability and commitment to proper business relations between business entities and consumers of their services including public sector institutions.

3. Government Payments

- 3.1. Government should streamline the payment process with a view to making it less cumbersome, more transparent with clearly defined steps and binding timeframes to render it more private sector friendly; the services of PEF may be enlisted in this regard
- 3.2. In order to facilitate payments to the private sector Government should implement a Fiscal Decentralization programme.

4. Establishment of a Compensation Scheme

- 4.1. In view of the fact that a compensation mechanism already exists in the PURC Act, Government elaborate a consistent and coherent framework and policy for regulating comprehensively compensation in business dealings in Ghana including workers compensation, consumer redress and other compensation schemes especially for the public utilities sector in collaboration with the Private Sector;
- 4.2. Government should establish a mandatory compensation scheme covering all sectors of the economy to be operated by an independent, legally constituted body/agency and jointly funded by Government and the private sector;

4.3. Government should work out details for establishing a Compensation Fund to be managed by the proposed agency to be responsible for implementing the compensation policy and scheme in collaboration with the Private Sector.

CONCLUSION

PEF acknowledges that the introduction of a full-fledged compensation scheme will need a lot of thoughtful planning. We however believe that although the existence of such a compensation scheme would encourage accountability and excellence in service delivery, it would be used primarily as a last resort. Instead of adjudicatory processes, speedy alternative dispute resolution and arbitration mechanisms should be encouraged.

Based upon the evidence available, we also do, hereby, make a strong case was made for providing adequate resources to the public utility service providers to improve their performance considerably in order to reduce the need for payment of compensation. In that regard, the involvement of banks and other financial institutions in pre-financing or co-financing utility and other development projects to ease the financial burden on Government should also be considered.

Finally: We members of the Private Enterprise Foundation and others, wish to reiterate our continued support for Government's efforts to develop a strong, efficient and competitive private sector in Ghana. It is in this spirit that we present this position paper in the strong belief that the recommendations contained herein, if implemented, would go a long way to alleviate the major factors constraining a proper take-off and growth of the private sector in Ghana and the achievement of the goals of government's Private Sector Development Policy. **We therefore look forward to a meeting, in the foreseeable future, with Government to discuss our concerns and proposals.**