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OPERATIONAL PERFORMANCE OF GHANA AIRWAYS: A REVIEW OF THE AUDITOR GENERAL'S REPORT

INTRODUCTION

The State-owned airline, Ghana Airways, was created in 1958 soon after the country gained independence. It was the first national airline in sub-Saharan Africa when it began its operations, but for a number of years it has been on a downward spiral. Several African nations now have superior airlines, including Ethiopia, Kenya, and South Africa. In recent years Ghana Airways has been plunged into a severe crisis that has culminated in a partnership between the Government of Ghana and Nationwide Airline of South Africa, in an attempt to improve performance. This paper examines inefficiencies in the operations of Ghana Airways as highlighted in the Auditor General's Report (1996-1997). It also provides policy recommendations on improving Ghana Airways operational efficiency and overall performance.

OPERATIONAL INEFFICIENCIES

In accordance with Article 187(5) of the Constitution, the Auditor General in 1997 submitted a report to Parliament on the operational performance of statutory bodies, including Ghana Airways Ltd. Table 1 presents data on revenue and expenditure for 1996 and 1997, and Table 2 summarises the financial position of Ghana Airways for the corresponding years. The tables reveal in detail the operational results as reported by the Auditor General. The operational performance of Ghana Airways is thus examined by analyzing expenditure patterns, revenue, investment, bad debts, long-term loans, net asset depletion and other liquidity problems.

i) Expenditure Patterns

From Table 1 we observe that there was an increase in total expenditure of 36.5 percent between 1996 and 1997. Direct Operational Expenditure and General Administrative Expenditure increased by 28.6 and 58 percent respectively. Notable contributors to this significant rise in expenditure includes the increasing number of employees, expensive procurement of equipment, high hotel bills, unaccounted sales of tickets by local travel agents, and an ambitious route expansion programme. More recently, in 2002, the airline had a high

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staff to aircraft ratio of 282, compared to 199 at Dutch carrier KLM and 167 at British Airways. The increasing number of employees unmatched by increasing numbers of aircraft has affected Ghana Airways' efficiency, and this is reflected in its high recurrent expenditures. This reveals the laxity in the operational practice of the airline, which helped to plunge the airline into its present crisis.

The airline was also faced with the situation whereby individuals took centre stage in most of the procurement of equipment, particularly the Engineering Department. Such procurements were often in excess of what the airline had budgeted for, and to serve personal rather than company interests.

TABLE 1: REVENUE AND EXPENDITURE, GHANAIR

REVENUE	1996 (In Billion cedis)	1997(In Billion cedis)	INCREMENT (%)
Turnover	126.5	194.7	53.9
Pool Revenue	11.2	14.2	26.7
Commercial Freight	10.1	14.3	41.6
Other Services	8.8	21.1	139.7
Total	***156.6***	***244.3***	**56**
EXPENDITURES	**1996(In Billion Cedis)**	**1997(In Billion Cedis)**	**INCREMENT (%)**
Direct Operational Expenditure	113.8	146.3	28.6
General & Admin. Expenditure	42.4	67	58
Total	***156.2***	***213.3***	***36.55***
Tax Component	23.2	30.22	30.26
Profit After Tax	**-22.8**	**0.7805**	103.4
Deficit/Balance B/F	-6.1	-28.7	**370**
Income Surplus A/C	**-28.7**	**-27.9**	-

TABLE 2: FINANCIAL POSITION OF GHANAIR

FINANCIAL POSITION	1996 (In Billion Cedis)	1997 (In Billion Cedis)	INCREMENT (%)
Fixed Assets	51.3	63.1	23
	(In Million Cedis)	(In Million Cedis)	
Capital Work-In-Progress	246.2	246.2	
Investments	90.7	82	
Deferred Expenditure (Amortised over a 5-yr period)	529	41.2	
	(In Billion Cedis)	(In Billion Cedis)	
Current Liabilities - Current Assets	26.2	17.9	
	(In Billion Cedis)	(In Billion Cedis)	
LONG-TERM LOANS	0.4	24.8	
NET ASSETS	**25.6**	**20.8**	**-18%**

Ghana Airways has a policy of providing accommodation for passengers whenever flights are delayed, cancelled or when they have layovers in Accra. For this reason, the airline has agreements with certain hotels. A recent forensic review of the system in place revealed that some of the hotels, taking advantage of the poor control exhibited by management officials, presented excessively high bills to the company (Ghana Review, May 2003). The Reservations Officer approved payment of such bills without a thorough check of the charges.

ii) Revenue

From Table 1 we observe an increase in turnover of 53.9 percent between 1996 and 1997. In 1997, revenue increased by 56 percent, which was a laudable performance. This increase was a result of prudent policy measures undertaken by management through enhanced income generating activities. For instance, revenue from commercial freight and other services increased by 41.6 percent and 139.7 percent respectively over 1996-1997.

iii) Investment

Investment fell by 10 percent in 1997. Though a feasible and viable venture, the route expansion programme proved to be largely unprofitable. Ghana Airways could have used its expanded operations as a niche to capture more revenue, given the existence of few competitors in the sub-region. However, it is estimated that every trip on these new routes resulted in a loss of approximately $100,000. Due to high debts problems facing the airline, funds that could have been invested into other viable ventures were used for debt servicing. Investments have thus been ill-conceived and often counterproductive, reducing profitability and growth.

iv) Bad debts

A review of the Auditor General's Report also reveals that indebtedness of local travel agents had a significant impact on increasing Ghana Airway's overall expenditure. The absence of Ticket Accounting software for use in the sale of tickets resulted in many instances of local Travel Agents misappropriating revenue generated from such sales. This was a significant lapse in the financial management of the company. Unaccounted sale of tickets are usually written off as bad debts, contributing to the growing volume of bad debts.

v) Increasing long-term loans

Long-term loans increased from 0.4 billion cedis in 1996 to 24.8 billion cedis in 1997. The difference between Current Liabilities and Current Assets declined by 31.7 percent in relation to the value for 1996. What is worrying about these loans is that they increased at an alarming rate. The question that arises how these loans are going to be repaid if they are not used for investment in profitable income generating activities. Increasingly mounting long-term loans creates debt settlement problems that will have a large impact on the financial performance of Ghana Airways. It is worth noting that the 9/11 attacks led to an overall downturn in the aviation business, and has made creditors less ready to renegotiate repayment.

vi) Depleting Net Assets

Table 2 presents information on the financial position of Ghana Airways. Although there was a 23 percentage point increase in fixed assets, the table also reveals an 18 percent decrease in the net assets of the company. The main reason accounting for the depletion of assets is outstanding debt. In recent times, most of the various properties owned by the airline have been mortgaged to creditors. In addition, the rate of depreciation of assets is not being met by funds for maintenance of fixed assets.

vii) Other Liquidity Problems

Irregularities and malfeasance with ticketing, fuel uplift, pricing, and inflated invoices resulting in exaggerated losses and debt are some of the other liquidity problems facing the airline. The issue of free tickets and other facilities, enjoyed by members of staff and their families as well as government officials and related bodies that do business with the airline, is a waste of national resources. Other liquidity issues include current liabilities, which significantly exceeded current assets by 17.9 billion cedis in 1997 as against 26.2 billion cedis in 1996. Though in principle this represents an improvement, this situation needs particular attention.

CONCLUSIONS AND RECOMMENDATIONS

This paper has examined the inefficiency within Ghana Airways as highlighted in the Auditor General's reports for the period 1996-1997. The main issues identified in the report included increasing deficits, low level of investment, the incidence of bad debts, decreasing assets, and increasing long-term loans, among other liquidity problems. In particular, we examined expenditure patterns, investment, revenue generation, management of bad debts, procurement of loans, depletion of net assets and other liquidity issues of concern.

The report revealed lapses in the operations of the airline. These lapses, particularly in the financial management, resulted in the following: increasing deficits, depletion of assets, increase in the incidence of bad debts, rising long-term loans, and low levels of investment. Although total revenue increased substantially in 1996-1997, deficits increased rapidly in the same period. Financial management practices have not always been prudent, resulting in the liquidity problems that Ghana Airways continues to grapple with.

The paper argues that, for the restructuring of Ghana Airways, implementation of sound procedural structures is essential to curtail the misuse and abuse of official privileges. It is also necessary for the airline to increase investment in productive areas in order to generate the needed revenue to meet its outstanding debt.

It is also recommended that staff numbers be curtailed, as this is an important cost affecting recurrent expenditure. There is also a need to for the airline to endeavour to curb airport tax expenditure, arising from aircraft layovers in foreign tarmac. This problem may be resolved through forming an alliance with one of the major airlines. In addition, an alliance with a major airline, as is currently the case with Kenya Airways and KLM, will improve financial performance, quality and timeliness of service.

It is recommended that the airline management put in place a credit policy that will prevent the incidence of mounting bad debts. Viable investment opportunities must be identified in order to generate revenue necessary to forestall future deficits in the Profit and Income accounts. There is a need to increase private sector participation to enhance the operations of the airline. There is also an increasing need to generate more revenue through other profitable high yield income generating activities.

In conclusion, the new management must ensure efficient financial management practice. This requires Ghana Airways to operate as a private firm, with the objective of attaining sound financial performance. This objective can be achieved even as Ghana Airways remains a public enterprise. The panacea is not privatization, but effective management. Monitoring and oversight need to be enhanced in order to ensure that airline staff and local Travel Agents do not act against the interest of the airline. Organizational changes must therefore be adopted in order to ensure efficient system.

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