



# United Energy Distribution Company of the Republic of Georgia

## Turning round a company to restore light and life to Georgia

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**Alexander Khetaguri**  
First Deputy Minister of the Ministry of Fuel and Energy of Georgia

### Executive summary

**In the former Soviet republic of Georgia, PA Consulting Group is transforming a bloated, corruption-ridden central part of the Georgian economy – the state-owned electricity company. It has been turned around in two years, helping to improve Georgia’s economy, providing better access to electricity and raising living standards, especially in the poorer regions of the country.**

In 2003 PA Consulting Group took over executive control of the United Energy Distribution Company (UEDC) of Georgia. UEDC was the country’s largest electricity utility, serving 70% of its territory. It was also notorious for corruption, too many staff, an ineffective workforce, and mismanagement – in all, a major contributor to Georgia’s energy crisis.

Often braving personal danger, PA battled corruption throughout the company and improved its performance, reducing staff levels by one-third. UEDC has given customers a more reliable supply. It is now paying its taxes and foreign suppliers in full, and paying higher salaries in full and on time. It has repaid debt and is re-investing to improve customer service. UEDC’s new anti-corruption stance has inspired others. All this was achieved with only minimal external investment.

It is exceptional for a consulting firm to manage an electricity utility. With UEDC, PA has given the world a lesson in the value – and necessity – of proper management in turning round any troubled organisation.



**Untangling the corruption and complexity of the Georgian electricity system**

“ . . . before PA came, electricity would come like a "new moon", or even less often. The worst thing was that we had power for only one or two hours a day. That was the only time you could cook food and it was like a contest: you had to do it during a certain time, otherwise your family would go to bed hungry.

“ Everything changed on their [PA's] arrival. . . . those people have kept their promise.”

**Eter Tsitsikashvili**  
a grandmother residing in Old Rustavi

## Project background

### Client organisation

The United Energy Distribution Company (UEDC) is a state-owned electricity distribution company. PA has a contractual relationship both with its owner, the Georgian government, and the US Agency for International Development (USAID) which is sponsoring the project. PA was selected by USAID through competitive tender.

### The problem/opportunity

In 2002, the Georgian government approached the US government for help in running the plagued utility, a recent consolidation of 59 smaller companies.

UEDC was a financial, technical, and operational disaster. Hugely indebted and largely incapable of collecting charges for electricity supplied, it could not pay its taxes, borrow funds or even use a bank account, let alone attract new investment. Earlier government attempts to privatise the company's assets had failed.

UEDC suffered from massive endemic corruption. Employees were paid erratically and often had to give kick-backs to their supervisors to keep their jobs. With average salaries as low as \$50 per month, UEDC lacked suitable human resources and found it hard to recruit new talent. The former management had no accurate headcount of employees. It reported 3,200 but PA found almost twice as many on the payroll.

UEDC's responsibility included minority ethnic groups, lawless areas and many impoverished customers. Its service was terrible. Some customers had no electricity for most of the winter: those who did usually had up to six hours' supply each day but sometimes zero. Few customers had anything approaching 24-hour supply of electricity, unless they stole it. Even in summer, daily supply disruptions were common. The company had no means of paying for any additional electricity supply. Its infrastructure had seen little investment, or even basic maintenance, in many years. More often than not, faults were repaired by customers themselves.

With UEDC's problems worsening an existing national energy crisis, PA was asked to step in.

### Project objectives

In 2003, PA contracted to manage the UEDC for an initial period of 18 months (later extended by another 24). The major objectives of the management contract were to:

- enhance the commercial and technical operation of the company
- improve financial management and accounting systems, billing and collection, increase revenue and reduce cash shortfalls

“During the energy crisis in the early 90s, people got used to living in darkness. The energy company often couldn’t supply customers with electricity, which reflected on the collection rate. It was very difficult to work in the sector; we sometimes used our own money to solve problems.

“Since PA’s arrival, we are able to provide an almost 24-hour electricity supply. In July, the collection rate reached 96%. Employees have higher salaries, new transportation and offices equipped with the latest computer technologies. I’d like to express my gratitude to each and every member of PA – you revived our hopes.”

**Tariel Mazmishvili**  
UEDC Regional Manager

- assist the company to observe market rules and meet wholesale electricity consumption targets
- help the government rationalise the energy sector, attract investment and eventually privatise UEDC.

### Scale of consulting intervention

An average of five expatriate consultants worked full-time at UEDC, alongside 30 PA employees recruited locally. PA staff comprise the top three layers of management in the organisation.

### Approach proposed by consultants

#### How innovative was it?

It is exceptional for a consultancy to take over direct management of any energy utility, or indeed any organisation in such dire straits as the UEDC. Donor support for transitional economies usually consists of technical or advisor assistance, but with UEDC, for almost the first time, USAID financed a management team to achieve aggressive reforms.

PA’s results in UEDC were achieved with very limited external investment. Under PA, UEDC achieved a collection rate superior to a more favourably located Georgian competitor, Telasi, which had received more than 50 times as much investment.

PA was especially innovative in blending established management approaches with a unique understanding of Georgian cultures and conditions:

- PA successfully pioneered communal metering – UEDC customers taking joint responsibility for paying for electricity recorded via a single meter. Although Georgian customers steal from state enterprises it is taboo to steal from neighbours



**Georgia’s Prime Minister and PA’s Dean White installing the last communal meter**



**A UEDC customer  
(the Samebi-  
Kazbegi Church)**

- PA replaced an extremely hierarchical management system (characteristic of Georgian state organisations) with clear levels of management responsibility and accountability
- Recognising the exceptional diversity of UEDC's customers, especially the Azeri and Armenian communities, PA encouraged each of the UEDC's regions to pursue its own PR and outreach efforts
- In rebuilding the UEDC's inadequate IT systems, PA devised customised options to meet uniquely Georgian factors – multiple languages, telecommunications problems, lack of IT skills.

### Application of management skills/knowledge

Headed by a senior PA consultant, the management team comprises individuals with unique consulting experience in areas such as criminal justice, prosecution and human trafficking, as well as specialists in human resources, IT, financial management, customer service and outreach, forensic auditing and engineering. The team's skills were hand-picked to tackle the company's major challenges, especially corruption, and allied to PA's 10 years' experience of doing business in Georgia.

The PA team immediately took full management control and executive authority, initially staffing all key positions including general director, chief financial officer, technical director, director of legal and regulatory affairs, director of human resources and administration.

To grip UEDC and apply their experience in fighting corruption, PA's team put in new processes and functions. For the first time they established which staff had authority to execute contracts and undertake legal proceedings. They restored UEDC's ability to use the banking system (and thereby avoid handling cash). They established a commercial security service to undertake surprise audits of books and records, launch 'midnight raids' on facilities, and follow through on any suspicions about possible embezzlement or mismanagement. PA also rotated individuals – especially if they had been in post for a long time and taken no leave – knowing that corrupt employees like to stay in position to avoid detection.

PA applied its human resources skills to reduce the company's labour force, leading to a turnover of almost 70% of the company's original 6,200 employees. Employees now stand at around 4,000. A more attractive salary structure, combined with objective criteria for dismissal, helped to secure trades union support for the downsizing. Recruitment has improved, as PA has overcome the company's poor reputation.

“ At the peak of the energy crisis, Kutaisi, our regional capital, was dead, businesses could not function. I led demonstrations throughout the city against the electric company.

“When the consultants came, metering started, illegal connections were cut, power started to flow. I took a job at the company, hoping to contribute to the positive changes. For a year we battled corruption, energy theft and threats from criminal gangs.”

“ Today I am proud, Kutaisi is alive again. It has power, business is developing, and its people are grateful to my PA colleagues, both Georgian and foreign, my idols of professionalism, my idols of heroism, my idols with their love for Georgia. . .”

**Temur Suladze**  
Head of Sales  
Department,  
West Central Branch  
of UEDC

Finally, PA's legal experts strengthened UEDC's legal operations. Previously the company seemed unable, or unwilling, to defend any court cases. Former managers were alleged to collude with successful plaintiffs to split settlements. In the past year, the UEDC has initiated over 30 prosecutions for corruption and theft, and pursued over 600 cases of electricity theft (versus none prior to our involvement). A handful of former management and staff have been jailed for their past wrongdoings uncovered by our team.

All of these efforts were assisted by PA's unique local knowledge.

## Success factors and challenges

### How were the challenges overcome?

PA found the UEDC without money, without credit, without management systems and controls, without reliable information about its burgeoning staff or its dwindling assets. In tackling its problems, PA's consultants faced abuse, threats and physical assaults. Information was destroyed, facilities were shot at, and attempts to collect bills provoked demonstrations, often backed by prominent politicians. The project sponsor, USAID, considered cancellation.



**Georgia – a difficult environment to work in**

PA's Dean White, who oversaw the engagement and later took over as UEDC's general director, built a highly motivated team with a strong sense of mission towards Georgia. They worked seven days a week, for most of their waking hours. PA's dedication, allied to its local knowledge and sensitivity, created a new spirit in the company and with its customers and stakeholders.

“After PA Consulting took over, working conditions improved, salaries increased and social welfare issues were addressed. The current management of the UEDC is the only one in Georgia to have taken responsibility for paying off salary debts incurred by previous management. The Labour Union expresses sincere gratitude for the professionalism and personal dedication of every member of PA's management team.”

**Lasha Chokheli**  
Chairman of the  
Labour Union



**PA's Tatyana Yamova and Dean White, in formal Georgian battledress, are admitted to the 'Chkorsani', the Georgian equivalent of a Knighthood**

Since Georgia's revolution in November 2004, the initiative has enjoyed greater government support. Local political authorities have lost their jobs for failure to support UEDC's reforms.

#### To what extent were project objectives met?

The project has achieved, or is on course to achieve, all its targeted objectives, including:

- improved financial performance
- more reliable supply
- better service to paying, disconnection of non-paying customers
- increased payments to electricity suppliers
- reduced corruption.

PA's Dean White received the Medal of Loyalty from the Government of Georgia for his services to the energy sector.

#### What were the quantifiable outcomes?

This assignment has delivered substantial benefits to UEDC and its key stakeholders including customers, employees, and the Georgian government.

On average, about 30% more electricity is delivered to customers than in the past through a better ability to manage, and pay for, wholesale electricity supply. People paying in full now have an almost 24-hour supply.

Average salaries have tripled to 280 Georgian Lari (GEL) per month (US\$155, now enough to support a local family). The company pays all salaries in full and on time, something previously unknown. Recruiting has improved.

Monthly collections of payment have risen from 1.3 million GEL monthly (about £380,000) to last August's all-time high of 7 million GEL (about £2.0 million). They should reach 8 million GEL before the end of 2005.

The company has now paid all taxes due; before, it was often unable to pay more than a third of its tax bill in any given month. It has repaid all debts to commercial banks and foreign energy suppliers, amounting to several million UK pounds.

Commercial financing for UEDC would have been unthinkable two years ago, but now KfW, the German development bank, has agreed to a financing package of 25 million Euros. UEDC's performance is making privatisation a possibility at the end of the management contract in late 2006. The government

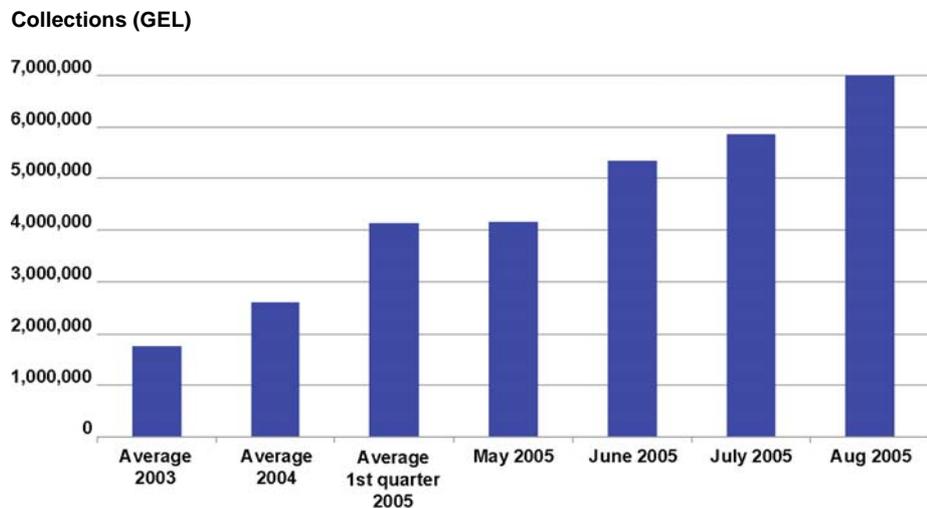
“Once, in midwinter, when the city was completely dark, I was taking home the ‘ration’ – a hot dinner I prepared at my neighbour’s for my grandchildren. In the unlit street I slipped and fell. The dinner spilled. I felt such helplessness I did not want to get up.

“I will never forget that awful feeling. We had no hope. I should be grateful to them [PA], not only me, but the whole district. If it were not for them, children would be cold; many families could have died during those difficult years. . .”

**Eter Tsitsikashvili**  
a grandmother residing in Old Rustavi

anticipates that this could yield an investment commitment of at least 200 million GEL (£58 million) from the private sector.

**Chart shows how collections for electricity supplied have improved since PA began work at UEDC**



#### What were the intangible benefits?

The project brought major social benefits, especially to public health and wellbeing, from a more reliable electricity supply. Public morale has been improved by the sight of a once corrupt company taking an effective anti-corruption stance; this transformation shows what could be achieved at a national level.

#### What were the lessons learnt?

In the past, management contracts for utilities have invariably been given to other (international) utilities; UEDC is believed to be the first given to a consultancy. PA’s success has convinced development authorities that a consultancy’s creativity, aggressiveness and commercial orientation can produce better results.

PA disproved the general belief that a management contract is a second-best solution for an energy utility compared to outright privatisation. Through the management contract, PA developed a kind of partnership with the Georgian government, and undertook reforms that would have been very hard for a private investor, including major reduction of the labour force. PA has demonstrated how to prepare the ground for privatisation.

PA showed that a dedicated, creative team can turn around even the most deeply troubled organisation, rooting out corruption so that honest employees can get on with their jobs.

“More than anything, the UEDC assignment is a lesson in what can be accomplished through excellent teamwork. I'm so proud of the handful of us expats, and our 30 Georgian loyalists. I'd take them into battle anywhere.”

**Dean White**  
PA Consulting Group

Extract from  
**The Messenger,**  
Georgia's English  
language daily  
newspaper

Finally, PA demonstrated that proper management is a prerequisite for improving utilities in developing nations – and should precede large-scale investment.

## The client/consultant relationship

### How did this work?

UEDC is one of several PA engagements in Georgia, where PA has advised the government at the highest levels since 1995. Client relationships – both with the government and USAID (the funding agency) – remain strong and stable. The government demonstrated its satisfaction by requesting a two-year extension to the management contract.

Increasingly, PA is transferring management responsibilities back to local employees – both PA's Georgian team members and managers within UEDC. Originally five expatriates held the top management positions, but now three of these have been assumed by Georgians. By helping to make Georgia self-sufficient in management expertise for the energy industry, PA is supporting the government's aim of industry reform and increasing the likelihood that UEDC's success will be sustained after the end of the management contract.



### Client testimonials

**Alexander Khetaguri, First Deputy Minister of the Ministry of Fuel and Energy of Georgia,** said: “We definitely appreciate the work of the PA/UEDC management team. They took on the challenge of reforming a company that many felt was impossible to turnaround. They have worked in partnership with this government effectively and we consider the reform of the UEDC to be one of the most – if not the most – important successes to date in our energy reform program.”