

Countering Energy Governance and State Capture Risks in the Western Balkans and Turkey

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Policy Workshop: Strengthening Resilience to Corruption and State
Capture in Southeast Europe

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Brussels, Belgium

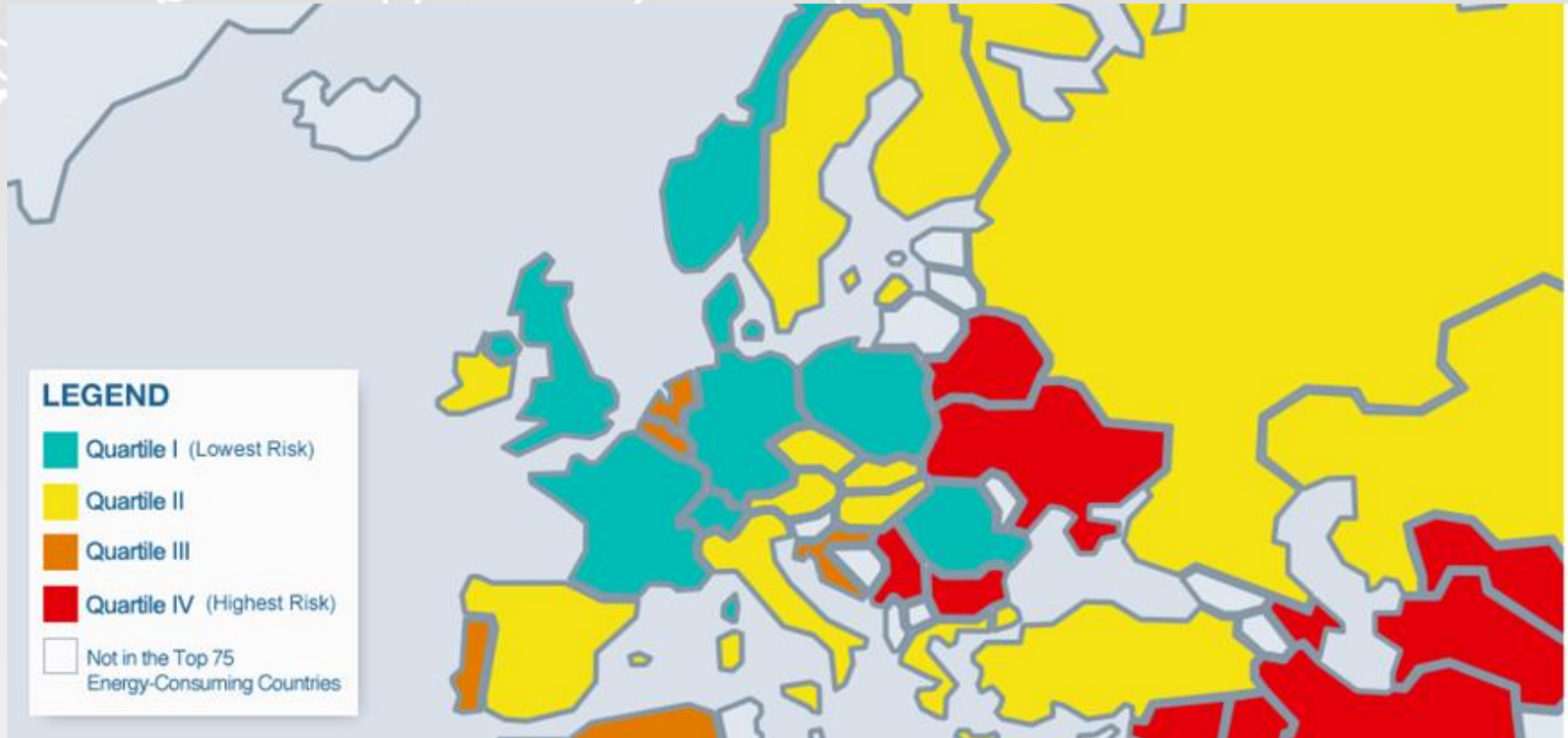


Energy Security Challenges for SEE

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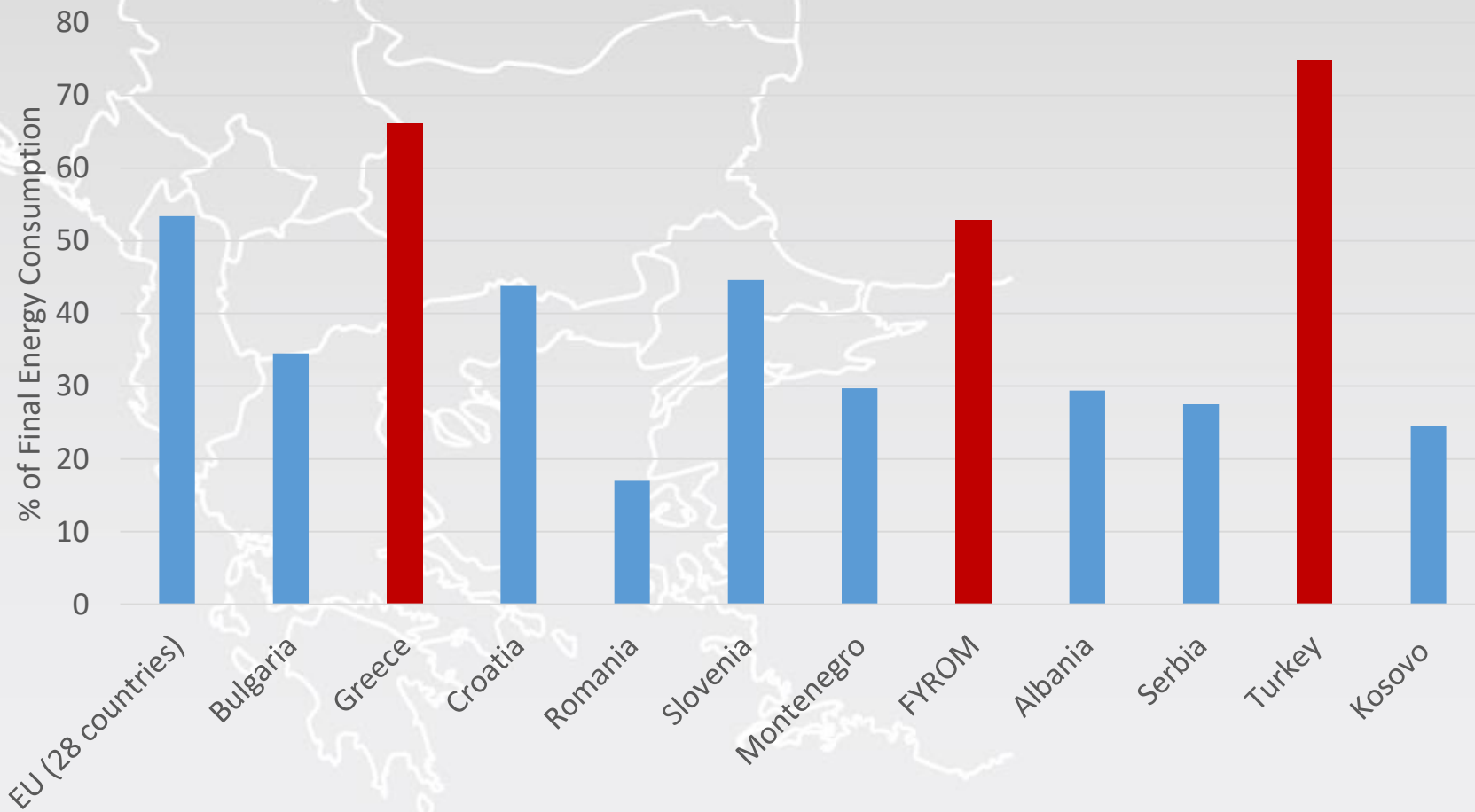
- Excessive dependence on energy imports
- Reliance on a limited number of energy suppliers
- High energy poverty levels
- Unsustainable energy intensity and demand
- **Persistent Energy Governance and Corruption Risks**

Energy Security Status Quo



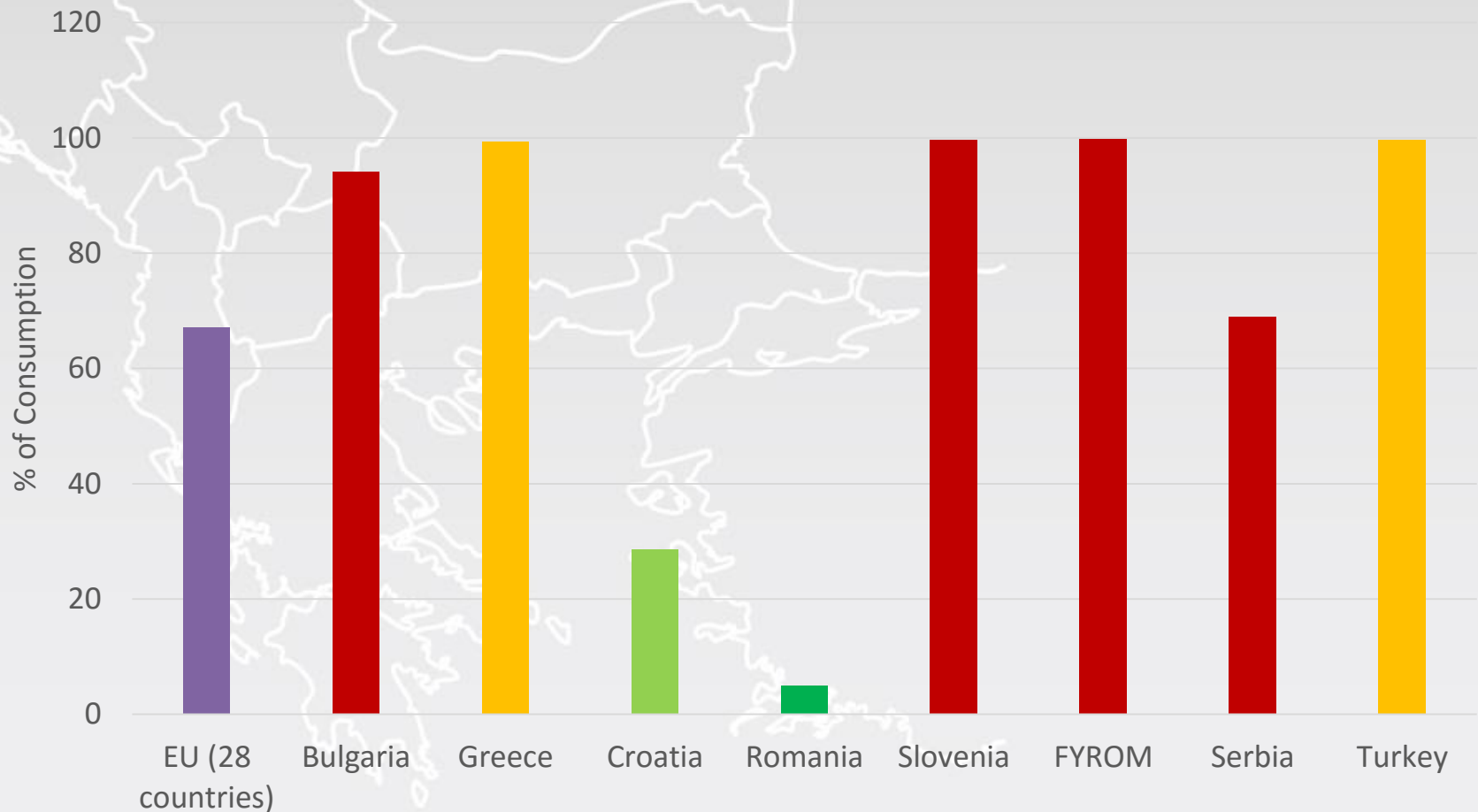
Source: International Index of Energy Security Risks

Overall Energy Dependence



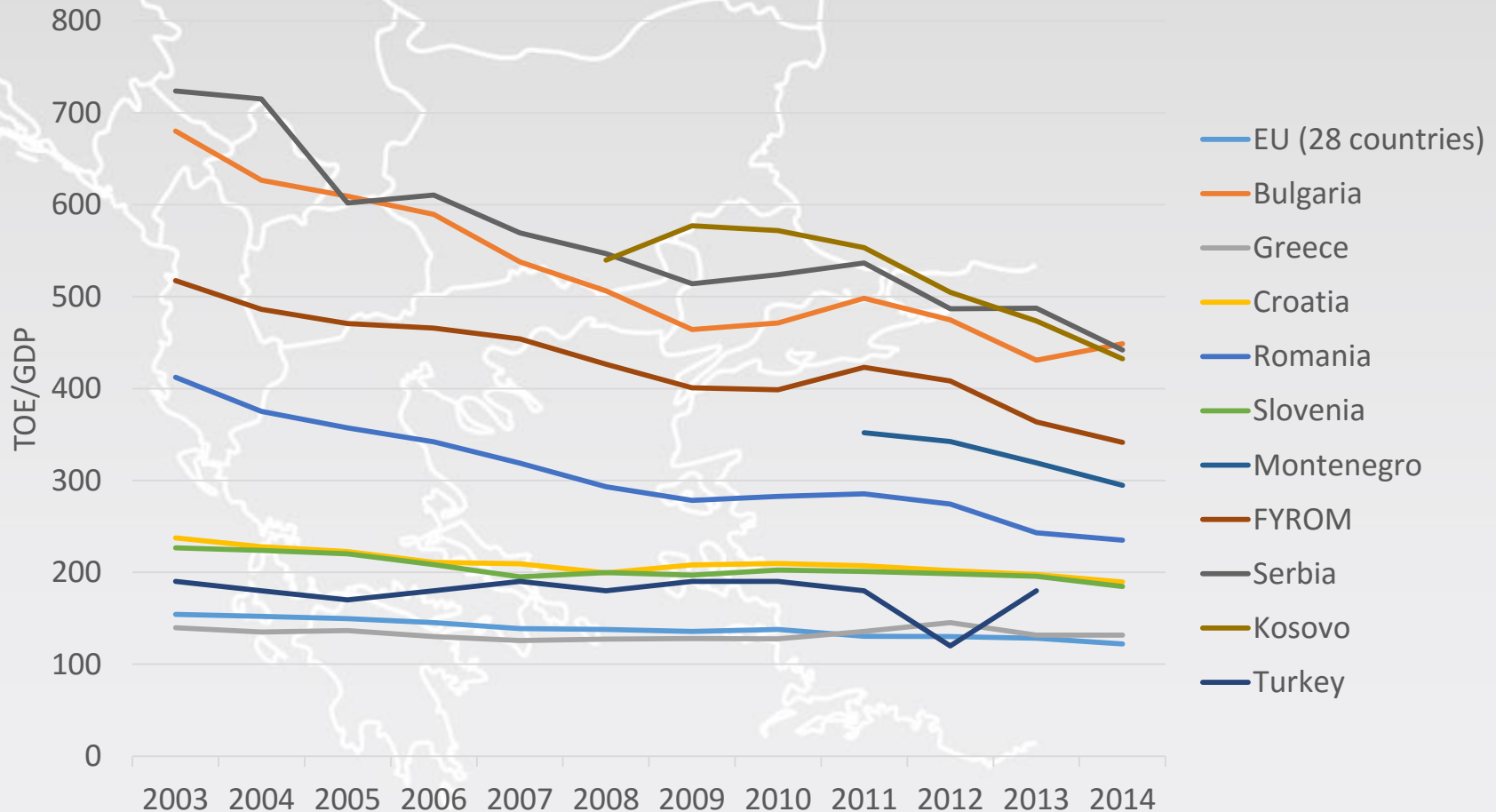
Source: Eurostat

Excessive Natural Gas Dependence



Source: Eurostat

Low Energy Efficiency



Source: Eurostat

A white outline map of Southeast Europe is centered on a light gray background. The map shows the borders of countries in the region, including Greece, Bulgaria, and parts of Turkey and the Balkans. In the top right corner, there is a decorative graphic consisting of overlapping blue triangles of various shades.

Governance Deficits and Corruption Risks

Stalled Energy Liberalisation



Energy Soft Measures Implementation

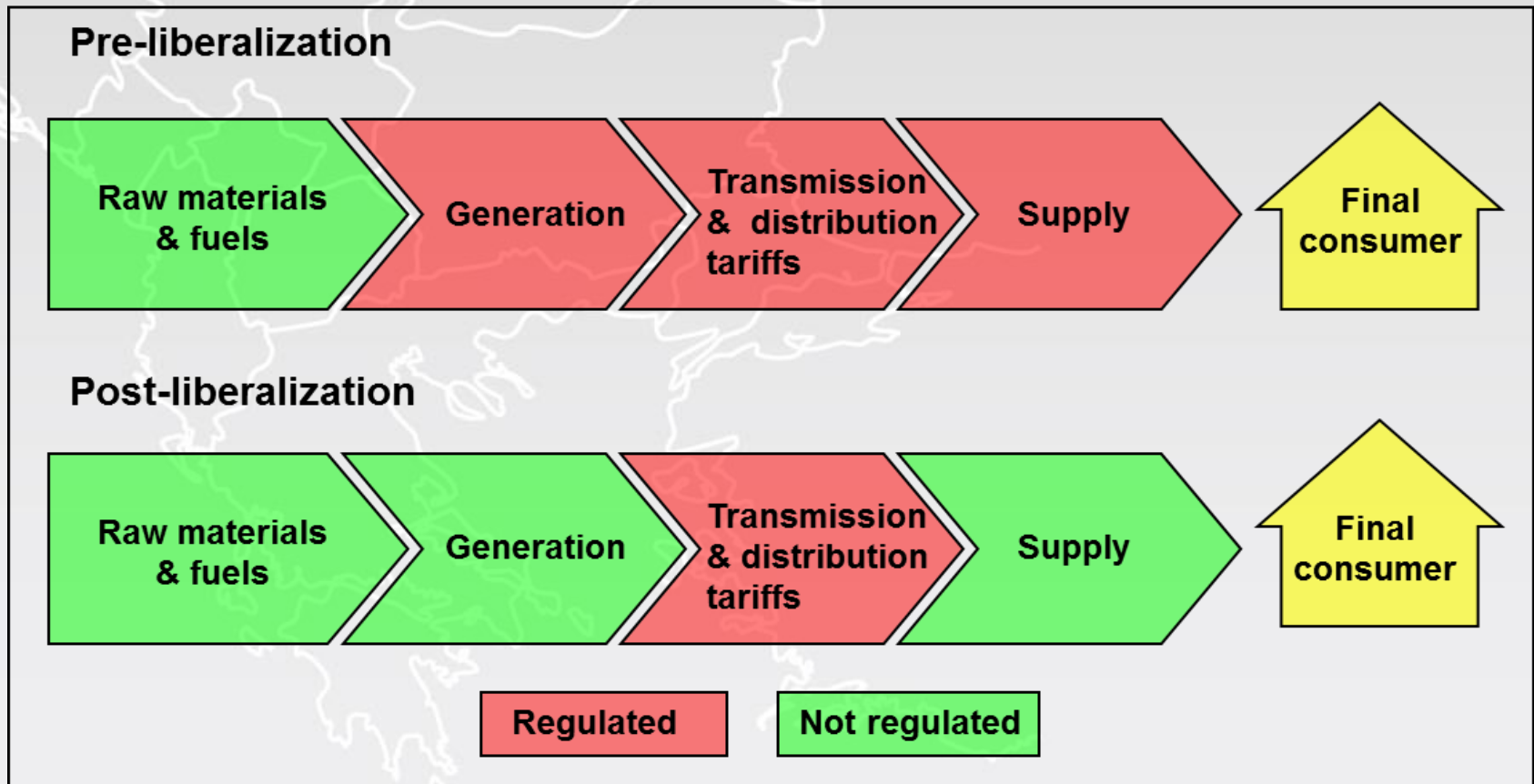
Measure	Albania	Bosnia and Herzegovina	Kosovo*	FYR of Macedonia	Montenegro	Serbia
Primary Law(s)	Accomplished	No progress	No progress	No progress	Significant progress	Accomplished
Complementary Legal Acts	Progress on track	Progress on track	Progress on track	Progress on track	Progress on track	Progress on track
Organised Day-ahead Market	Progress on track	No progress	No progress	No progress	Progress on track	Significant progress
National Balancing Market	Progress on track	Progress on track	Progress on track	No progress	Significant progress	Significant progress
Use of SEE CAO	Significant progress	Significant progress	Pending	Reverse development	Significant progress	Reverse development
Price Deregulation	Progress on track	No progress	No progress	Progress on track**	Progress on track	Significant progress
DSO Unbundling	No progress	No progress	Significant progress	No progress	No progress	Progress on track
TSO Unbundling	No progress	No progress	No progress	No progress	No progress	Progress on track
NRA Independence	Progress on track	No progress	Progress on track	Progress on track	Progress on track	Progress on track

** Except for eligibility

- Reverse development
- No progress
- Pending
- Progress on track
- Significant progress
- Accomplished

Source: European Energy Community

Power market prior to and after liberalisation



Bad Corporate Governance of SOEs

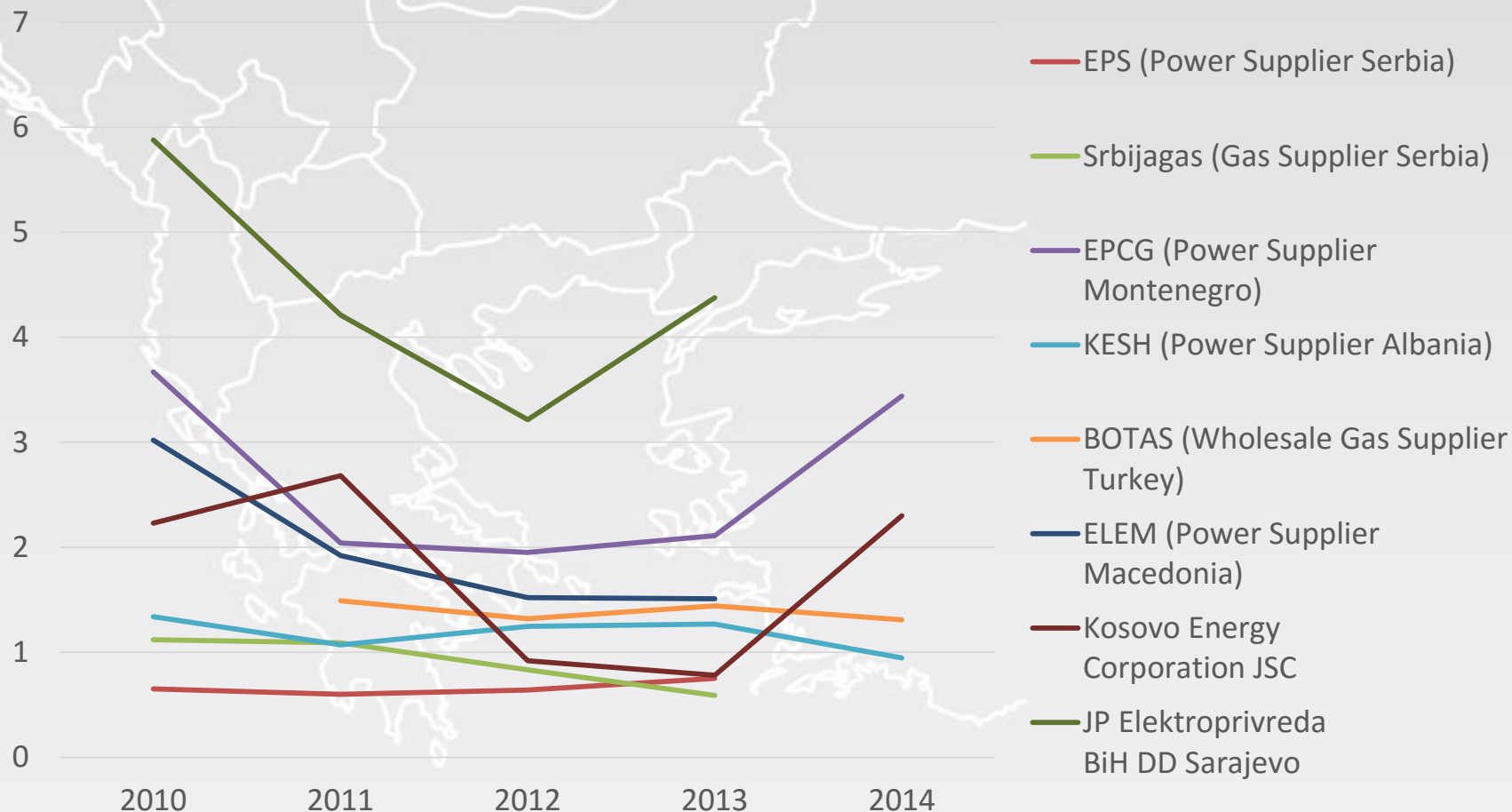
- Political meddling in the day-to-day operations of energy SOEs
- Non-transparent staffing procedures for CEOs and Board of Directors
- Prevalent Political affiliations and conflicts of interest
- Limited transparency and management accountability

Revolving Doors and Political Patronage

Company and Position	Political Relations
Iber Lepenc, Kosovo, chair of board of directors 2008-2010	Fatos Sahiti was advisor to the Minister of Trade, Lutfi Zharku. At the same time, he was also the brother of Lutfi Zharku's wife, who is currently minister of infrastructure
Iber Lepenc, Kosovo, board member	Albiona Maloku, is the sister of Vlora Dumoshi, who is the Chief of Staff of the Prime Minister of Kosovo
Iber Lepenc, Kosovo, board member	Ejup Visoka was the member of LDK Podujevë Branch Presidency since the establishment of LDK
Iber Lepenc, Kosovo, board member	Mehdi Jonuzi was the LDK candidate for mayor in Mitrovicë municipality in the last local elections of 2013
ELEM, Macedonia, chair of the board member	Dejan Boshkovski is a member of the ruling party VMRO-DPMNE
Elektroprivreda BiH, BiH	Member of the Executive Board of ruling party in BiH (SDA)
Elektroprivreda RS, BiH	Member of ruling party in Republic of Srpska(SNSD)
Elektroprivreda HZHZ, BiH	Member of ruling party in BiH (HDZ)
FERK, BiH	Close relative to the Co-president of ruling party in Federation of BiH who is also member of Council of Ministers in BiH (HDZ)
EPS, Serbia, CEO	Aleksandar Obradovic is a member of the ruling party (Serbian Progressive Party).
Srbijagas, Serbia, CEO	Dusan Bajatovic is a vice president of the second largest party in the Government (Socialist Party of Serbia).
EMS, Serbia, CEO	Nikola Petrovic is a close friend of the Prime Minister (he was the best man at PM's wedding, and PM is a godfather to his child)

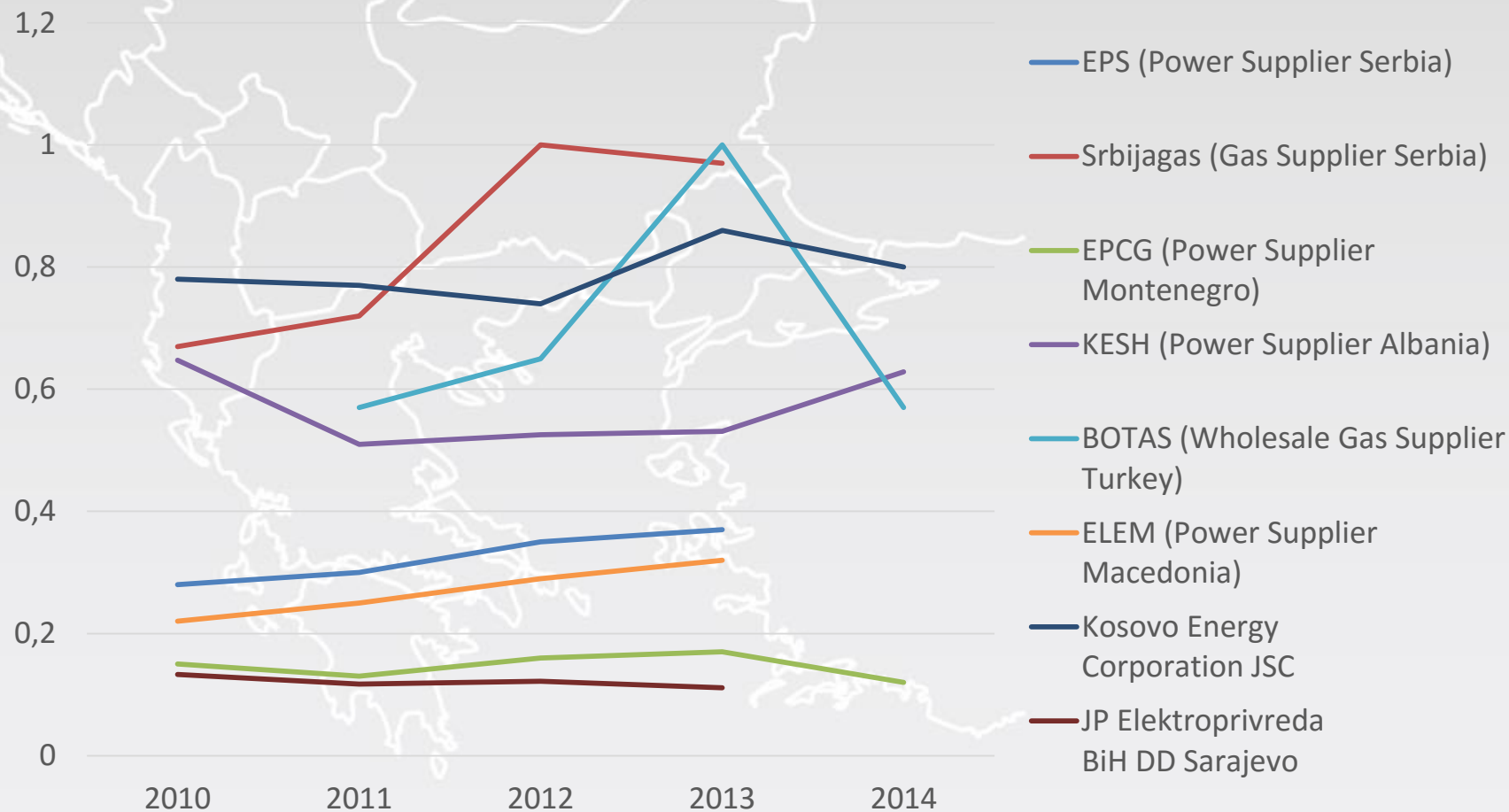
Financial Management

Current ratio of selected SOEs in the area of power production



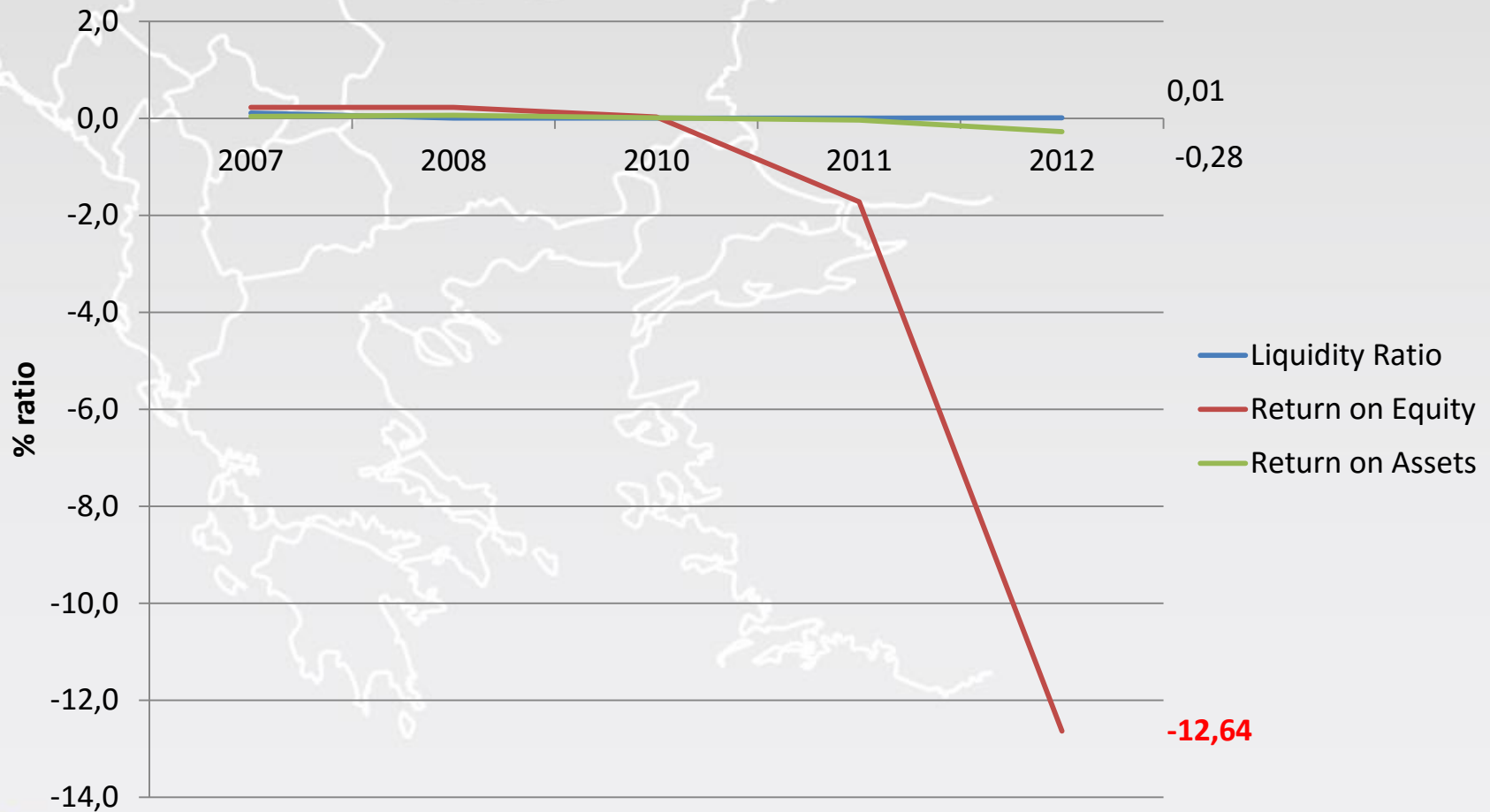
Financial Management

Debt ratio of selected SOEs in the area of power production



Financial Management

Srbijagaz – a case study example of bankrupt and loss-making SOE



Red Flags

- Low current, liquidity and quick ratio means payment trouble
- Large debt to assets ratio – high leverage and lack of long-term sustainability
- Negative return on assets and equity means a loss-making company
- Regulatory regimes subsidizing energy prices remove the SOEs incentives to invest
- Public procurement is marred with corrupt procedures and concentration of tender winners.
- Transparency and accountability are purposefully eroded in the governance of large energy infrastructure projects

Macedonia's power producer and wholesale supplier (ELEM) Procurement

Contracts (2009 – 2014)

No. contracts:	2009	2010	2011	2012	2013	2014	No. contracts ('09-'14)	Total Amount (EUR)	%
Open Procedure	384	406	362	336	214	209	1911	373 432 008	46,8%
Restricted Procedure	13	3	5	1	0	0	22	29 253 698	3,7%
Negotiated procedure without prior publication of a contract notice	39	37	29	82	137	70	394	106 265 053	13,3%
Negotiated procedure with prior publication of a contract notice	3	0	6	3	1	0	13	289 365 123	36,2%
TOTAL	439	446	402	422	352	279	2340	798 315 882	100%

Source: Center for Civil Communications



Thank you !