



## ENERGY AND GOOD GOVERNANCE IN BULGARIA: TRENDS AND POLICY OPTIONS

### *Press Release*

On January 18, 2011, the [Center for the Study of Democracy](#) presented its latest report [Energy and Good Governance in Bulgaria: Trends and Policy Options](#), which reviews the major issues affecting the strategic, institutional, and legal framework of the Bulgarian energy sector.

The report notes a number of positive changes in the energy sector governance in the past year. More concretely, the Bulgarian government has shown a greater commitment to transparency in the decision-making process, as revealed by its engagement in open public discussions of energy-related issues. The inclusion of different stakeholders in the decision-making process has substantially increased compared to previous practice, as evident in the case of developing the new energy strategy for Bulgaria. The government has also been able to stop the outflow of budget resources into large infrastructure projects with questionable effect for the country's energy security. However, progress in addressing the acute problems of governance failure accumulated in the Bulgarian energy sector over the past twenty years have remained slow. Solving some of the most pressing governance deadlocks should be the government's top priority in 2011. Below is a summary of the major findings and recommendations of CSD's [Energy and Good Governance Report](#).

An analysis of the management of state-owned enterprises and key energy projects has revealed a complete disregard for basic rules for accountability and control over the past decade. The latter has harmed taxpayers and consumers, threatened the financial stability of state-owned enterprises, and jeopardized the energy security of the country. In essence, the failure of the entire monitoring, regulatory, and compliance control system has been exposed, including its political leadership, the internal control units within individual companies, and the independent regulator. It is, therefore, necessary that the implementation of large-scale infrastructure projects be reassessed on the basis of a cost-benefit analysis centered on the country's energy security.

## Energy Strategy

A clear medium to long-term energy strategy outlining valid and realistic priorities should be at the basis of the decision-making process in Bulgaria's energy sector. Currently, the strategic planning in the Bulgarian energy sector is characterized by a lack of proper strategic and financial justification for pledged goals, which exposes public policies to capture by private interests.

## Legal Framework

The bulk of Bulgaria's legislation has been transposed from regulations in more advanced countries. This, together with the relatively limited national experience with implementation, has resulted in substantial discrepancy between legislation and practice. It has also provided ample opportunities for the capture of the (weak) administration by (strong) corporate interests. To overcome the above tendencies, the Bulgarian government needs to undertake sizable investments in strengthening the regulatory and governance capacity in the energy sector of the country.

## Institutional Structure

The organizational structure of the country's energy sector governance is characterized by natural (geographical) monopolies on the one hand, and by fragmented management of state-owned assets on the other. The management of the energy sector is entrusted to various ministries, agencies, departments, and state-owned enterprises, often with overlapping responsibilities and conflicting interests. The resultant blurring of responsibilities renders it unclear whether the principal, the holding, or the company level management is responsible for the state and development of the state-owned enterprises. Two key energy enterprises – the National Electric Company (NEK) and Bulgargaz – are in dire financial state despite cutting their expenses in 2010. These enterprises are unlikely to be able to take on new investments without seriously harming their financial state. In addition, the independent expertise and expert capacity of the regulator – the State Energy and Water Regulatory Commission - are not guaranteed.

## Energy Infrastructure Projects

The construction of new generating capacities is among the activities most prone to corruption worldwide. During the past decade, the experience with managing large energy infrastructure projects in Bulgaria has pointed to major corruption-related risks and deficiencies:

- The projects challenge the national economy's absorption capacity and exceed the Bulgarian government and administration's management capacity;
- The projects involve considerable and poorly accounted for consulting fees and support sizeable lobby groups that often cover up existing conflicts of interest and obstruct independent and impartial analysis;
- Projects are usually signed on a bilateral basis with countries that are characterized by higher corruption risks than Bulgaria, and with companies that are subject to no international ethical standards.

Belene Nuclear Power Plant (NPP) is the largest infrastructure project in Bulgarian history. It epitomizes the full range of opaque practices observed in the energy sector and the management of state-owned enterprises over the past twenty years. The project feeds a strong nuclear energy lobby that strives to monopolize public debate and policies on nuclear energy. As a result, while supportive of nuclear energy, Bulgarians are the least informed citizens in the EU as regards the facts and risks associated with nuclear energy. In addition, the NPP Belene project is based on misleading market demand forecasts, while the final project costs are likely to explode to EUR 10 – 12 billion. A project of such proportions may seriously threaten the long-term financial stability of the country.

### **Public Procurement**

Approximately 56 % of all procedures for awarding public procurement contracts in the energy sector are non-competitive. If the contracts awarded without a public procurement procedure are added to this number, it becomes apparent that avoiding market competition is the rule rather than the exception in the energy sector in Bulgaria. Moreover, numerous violations of procedures have been found in almost all of the awarded public procurement contracts in the energy sector. Such violations include unjustified expenses for consulting services, a disproportionate concentration of state-owned energy enterprises' funds into a handful of banks, or inappropriate use of special public procurement.

### **Setting Priorities**

Considering the limited resources of the national economy, Bulgaria needs to prioritize the order and importance of implementing key infrastructure projects. Using a cost-benefit analysis centered on energy security clearly demonstrates the order in which projects should be implemented:

#### *Gas*

- Developing Bulgaria's own gas reserves in the Black Sea shelf and exploring other local alternative energy resources;
- Connecting the national gas system with neighboring countries' systems (gas interconnectors);
- The Nabucco project, which contributes to the diversification of both gas sources and supply routes, and is financially supported by the EU;
- Building a LNG terminal at the Black Sea coast or jointly with Greece and/or Turkey at the Aegean Sea coast. This would ensure considerable flexibility of supply, though at a comparatively high cost;
- The South Stream project, which contributes to the diversification of gas supply routes only.

#### *Electricity*

- Promoting energy efficiency and rehabilitation of existing generating capacities, rather than building new capacities;
- Developing the national electricity grid to reduce power failures and towards introducing smart grid solutions;
- Prolonging the life of NPP Kozloduy before building the new NPP Belene.

## Recommendations for better energy sector governance:

- Reconsider the allocation of responsibilities and activities between the line Ministry and BEH; eliminate duplicate functions and blurring of responsibilities that are characteristic for the sector; cut the extraneous expenses of state-owned enterprises to optimize their financial performance;
- Create a publicly available online energy information system and database;
- Develop a system for financial control of all activities in the sector, including financial audits of state enterprises; maintain a registry of public procurement contracts of state-owned energy enterprises;
- Introduce an annual energy policy review by the National Assembly that includes: evaluation of policy implementation vis-a-vis stated priorities, assessment of the financial standing of state-owned energy enterprises, and outline of next year's priorities;
- The decisions concerning major investment projects in the energy sector must be based on comprehensive and transparent financial, economic, social, and environmental impact assessments;
- Investigating and prosecuting abuses in the energy sector involving the mismanagement of large infrastructure projects or state enterprises;
- Introducing a system for monitoring of project implementation and public procurement in the energy sector; developing a set of corruption risk indicators, such as:
  - Unjustified and/or unexpected increases in state-owned enterprises' expenses;
  - Unwarranted decreases in state-owned enterprises' profits coupled with suspicious increases in the profitability of related lines of business;
  - Changes in the management team immediately before and/or after parliamentary elections without clear justification;
  - Multiple consecutive public procurement procedures with one and the same subject;
  - Unjustified termination of public procurement procedures;
  - Using one and the same experts/consultants in various assignments;
  - Systematic avoidance of open, market-based procurement procedures, etc.

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