

Energy and Good Governance: Public Procurement in Energy in Bulgaria

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PRESENTATION



Ruslan Stefanov
Director, Economic Program

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CSD Services and activities

	<h3>Research</h3>	<ul style="list-style-type: none"> • Economic • Sociological • Legal
	<h3>Public awareness</h3>	<ul style="list-style-type: none"> • Conferences • Round-tables • Media training
	<h3>Policy impact</h3>	<ul style="list-style-type: none"> • European Commission • Bulgarian government • Foreign governments

CSD Funding, support, and clients



Directorate General "Justice Freedom and Security":
contract research, AGIS , ISEC, FRA



FP7 Research: public confidence in justice;



Anti-corruption in security forces; Good governance in
energy



Over \$6 million in grants on economic development, anti-
corruption, crime research



Criminal justice reform, organised crime research



Crime-victims surveys (ICVS, IBCS)



CSD/NUPI Good governance in energy objectives

Sustainable Development and Good Governance in the Energy Sector

Macro Level:

Improvement of governance through impact on strategic documents and policy making

Mezzo Level:

Impact on policy instruments through work with the public administration

Micro Level:

Consultation and advice on governance risks in projects

Achieved Impact

October 5,
2009

Bulgarian
National
Assembly:

Opened a
public debate
on energy
sector reforms

November 23,
2009

Bulgarian
National
Assembly:

Took part in
the National
Energy
Strategy
Hearing

2010

Participant
in the
European
Nuclear
Energy
Forum;
initiator of
the EITI

January 18,
2011

Bulgarian
National
Assembly:

Policy forum
presenting the
report on
good
governance

May 2011

Bulgarian
National
Assembly:

Policy forum
presenting the
report on
green energy

Extensive media coverage of all events and publications

The energy sector of Bulgaria: overview

- Complex challenges and a multitude of pressures
- Lack of transparency
- Lack of governance and expert capacity
- Lack of clear and effective decision-making process

LEAD TO:

- Bad governance, incl. financial, public procurement, and state enterprises
- High corruption risk
- Policy issues that are hard to identify and manage
- Low long-term potential, incl. R&D investment erosion

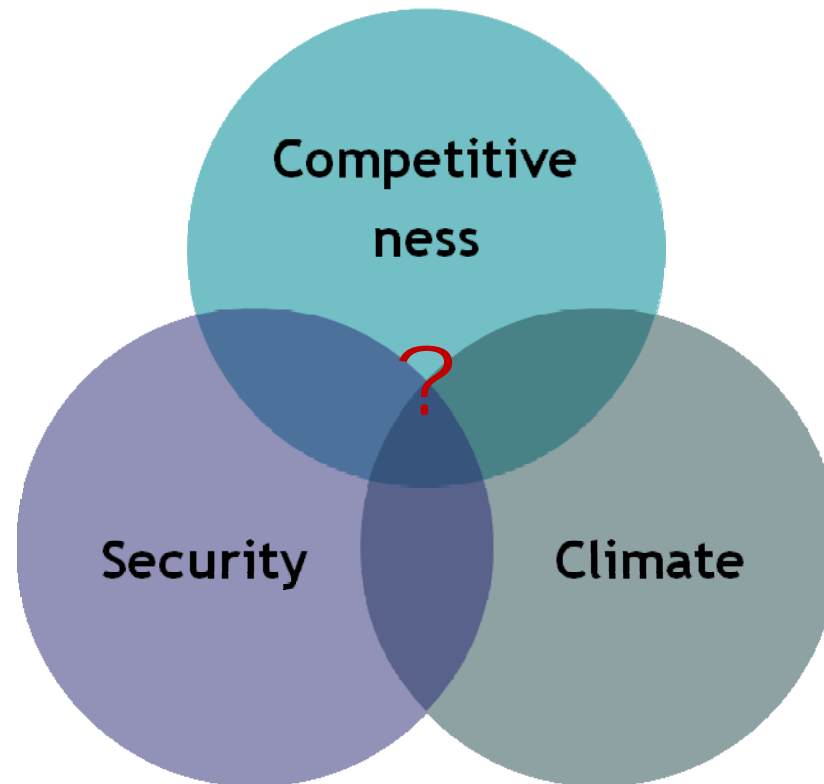
NEED FROM:

- Energy is a key sector for the Bulgarian economy (1/4 of all public procurement procedures)
- Strategic decisions are pending
- Bulgaria is a key regional player

NEED FROM:

- A constant demand/pressure for good governance and transparency
- Expertise
- Independent, data-driven advice and policy development
- Benchmarking and use of best international practices

EU multiplicity of goals: mission impossible?



Oil Sector



High concentration of market power in the crude oil and refining sectors



Low quality of refined products attributed to mixing them with low-quality imports



A significant “grey” segment equaling 1/3 of the market



Natural Gas Sector

High concentration of imports through a single supply route

A monopoly in the oil and gas sectors

Monopsony (a single buyer) in the transit of gas

Lack of leverage in negotiations with the foreign supplier, who is also the sole user of the transit pipelines



Coal Sector

Market Forces

- High concentration of market power in both supply and demand

CO₂

- Difficulties in fulfilling environmental standards
- Costly clean coal technologies

Energy Mix

- Competing with NPPs and TPPs for base capacity



Nuclear Sector

Obscure energy mix

Absence of optimal policy decisions on new generating capacities

Challenge to maintain the know-how and the technological potential

Lack of transparency in financial management

RES Sector



Market bubble (submitted applications for 12 - 14 GW)

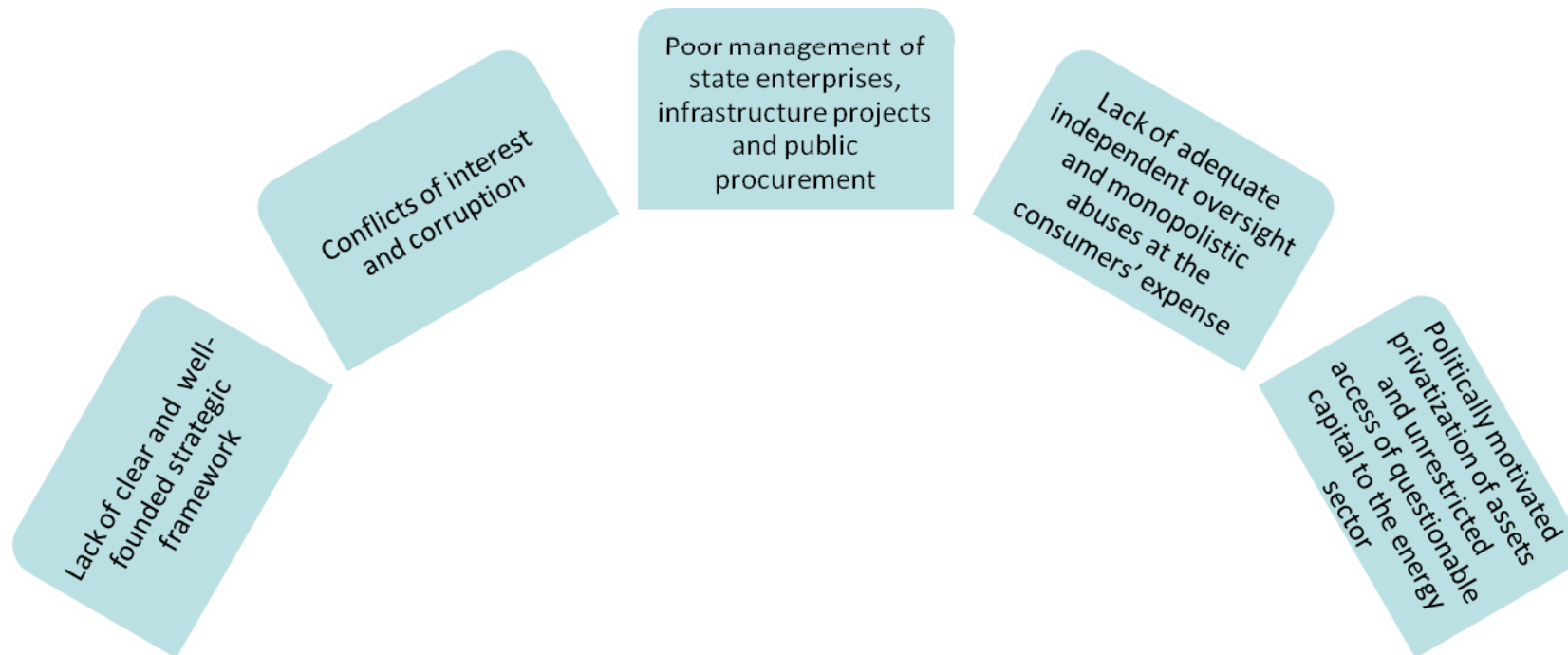


Delayed construction of HPPs due to bad project management



Lack of security for investors, notably due to problems related to connecting to the grid

Main Governance Issues in the Bulgarian Energy Sector



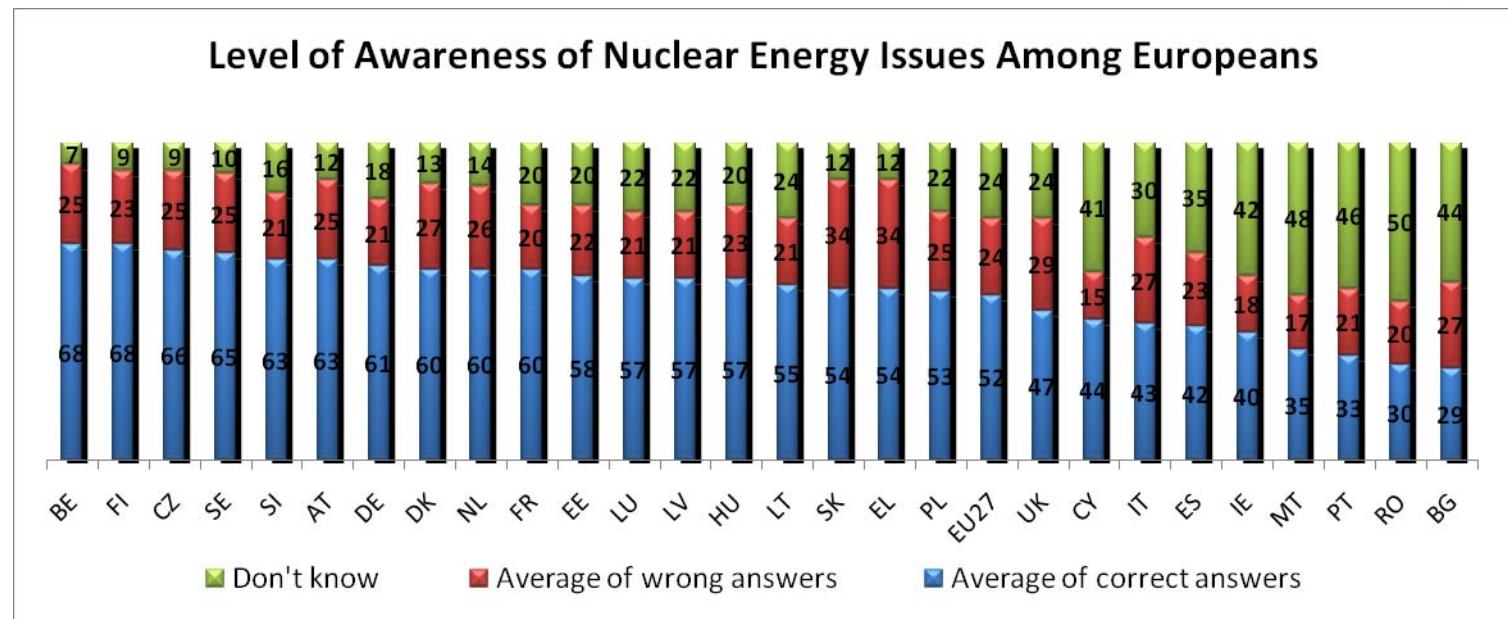
Strategic, Legal, and Institutional Framework

- Strategic planning in the energy sector
 - a mismatch between government's actions and strategic framework
 - lack of financial justification for pledged goals
 - lack of good governance framework and clear long-term goals
- Transposition of EU's legislation – discrepancies between legislation and practice – capture of the (weak) administration by (strong) corporate interests
- Fragmentation of the management of state-owned assets and procurement: various ministries, agencies, departments, and state enterprises with overlapping responsibilities and conflicting interests

Large Infrastructure Projects

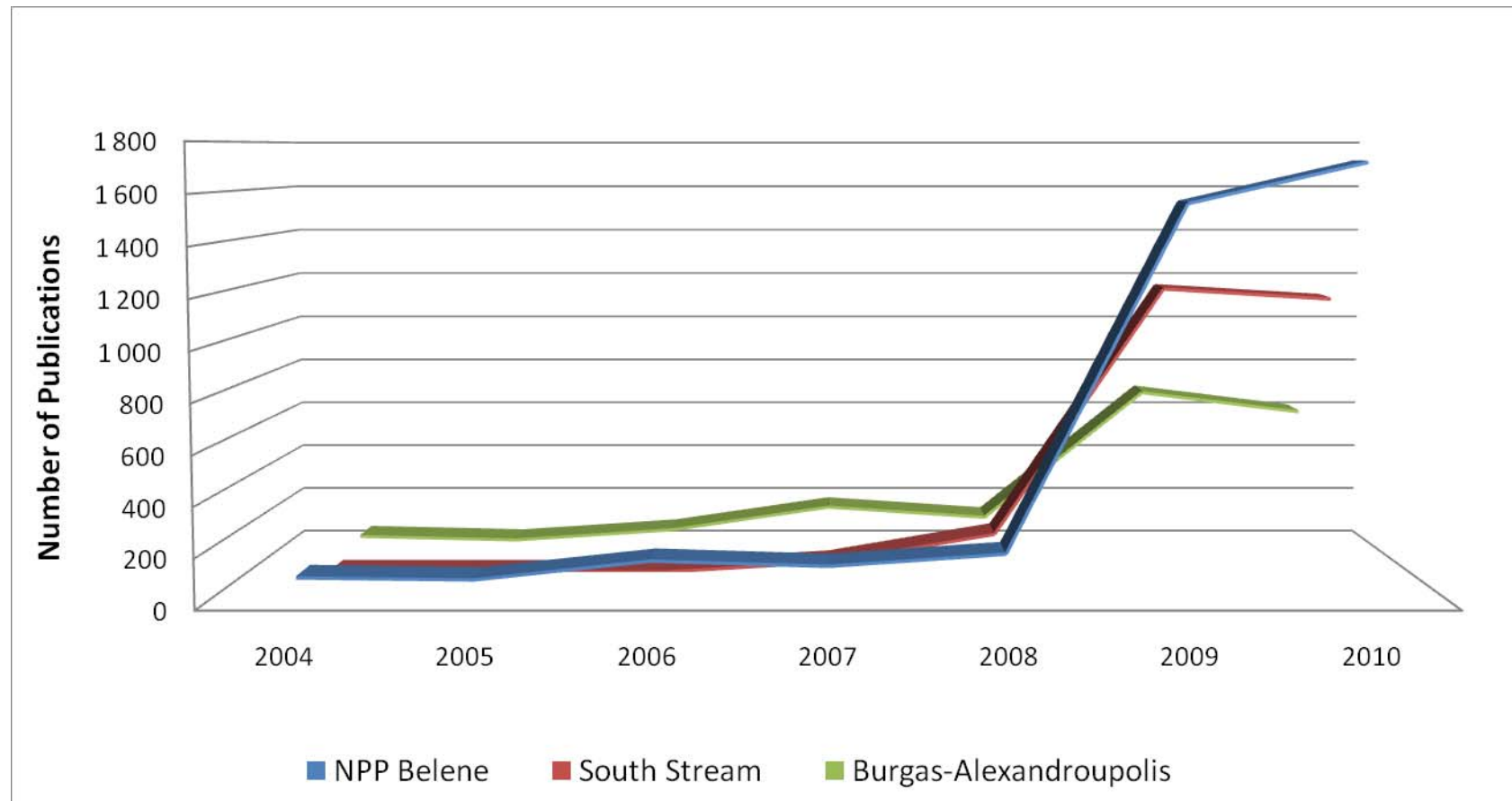
- repeatedly exceeded the country's economic and administrative capacity for managing infrastructure projects
- considerable costs for consulting services and non-transparent accounting; sizeable lobby groups that often conceal conflicts of interest and obstruct independent analysis
- bilateral contracts with countries characterized by higher corruption risks than Bulgaria, and with companies that are subject to no international ethical standards

notably low levels of social awareness



Source: Eurostat

Awareness and Public Debate

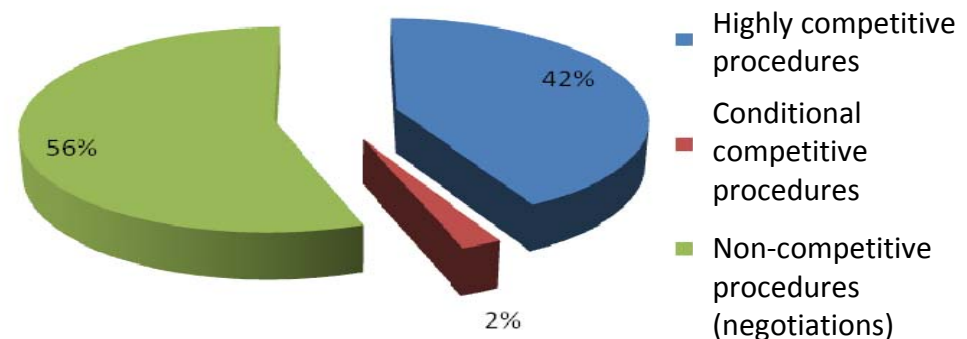


Source: CSD, Ciela.net

Public Procurement – Energy Policy Instruments

- Large energy enterprises are among the top public procurers – 6 of the 10 largest sectoral contracting authorities in the country
- In 2009: 15,431 awarded public procurement contracts for BGN 10.3 billion; 14,017 contracts for 3.6 billion in 2010
- **Avoidance of market competition is the rule, not the exception.** About 56 % of the total number of public procurement procedures in the energy sector are not competitive, and a large number of them are awarded in the absence of any procedure

Favored Public Procurement Procedures in the Energy Sector



Source: CSD using data from the Public Procurement Agency

Public Procurement Issues in the Energy Sector

- Avoidance competitive bidding
- Restrict public access to awarded contracts and their terms
- Negotiations not following procedures, negotiating strategic partnerships bypassing the law, common use of special procurement
- Ambiguous or inadequate control procedures and mechanisms
- Initiating inexpedient (irrespective of public needs) public procurement procedures
- Deliberate manipulations of the procedure, related documentation, technical specifications, or participation requirements, geared towards choosing a pre-selected participant
- Exerting administrative or political pressure
- Breach of trust and undue disclosure of information, etc.

Towards a Better Governance - Recommendations

- Political leadership to reduce its direct involvement in the operational management of energy enterprises and focus on policy development, the provision of public information, and control functions
- **Eliminate duplicate functions** and blurring of responsibility in the state management of the sector; restrict the extraneous expenses of state enterprises to optimize their financial performance
- Create a publically available energy **information system and database**
- Put in place a **financial control system**, including requirements for **financial auditing** of enterprises; create a **registry** of public procurement contracts of state energy enterprises

Towards a Better Governance - Recommendations

- **Annual energy policy review** of the energy policy by the National Assembly, including **evaluation** of policy implementation vis-à-vis stated priorities, assessment of the financial standing of state-owned enterprises, and outline for the following year's priorities
- Decisions concerning major investment projects in the energy sector must incorporate **comprehensive and transparent financial, economic, social, and environmental impact assessment**
- Prosecution of those responsible for the mismanagement of large energy projects and state-owned enterprises
- Introducing a **system for public monitoring** of energy projects and public procurement procedures and contracts, including **corruption risk indicators** in public procurement and the energy sector

Thank you!

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