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Business Advisory Council for Southeastern Europe and Eurasia

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FIGHTING AGAINST CORRUPTION IN SOUTHEAST EUROPE: ENERGY SECTOR



About BAC SEE

- Independent network of businessmen and investors in transition economies
- First established as part of the Southeast Europe Cooperative Initiative (SECI) in 1997
- Meshed with Stability Pact for SEE Business Advisory Council in 2002
- Expanded outreach to broader area covered by EU NEAR policies in 2012
- Members: business leaders from different sectors and different countries who volunteer their time and energy in the process




Our rationale

- NOT a project implementing organization
 - A mechanism for advocacy and consultation between governments, the business community and EU/IGOs/IFIs on growth and competitiveness
 - A catalyst in policy dialogue on trade and investment, aiming to create a level playing field for all business actors, in all sectors
 - An instigator of reforms based on common sense, with a view to Euro-Atlantic integration
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Some of our initiatives

- World Bank Trade and Transport Facilitation program in SEE, tackling NTBs – reduced border crossing times, improved security, increased trade volumes, new skills and capacities for 6.500 professionals
 - Excellence in Public Administration
 - Bosphorus Express – time travel for rail freight between Istanbul and Ljubljana reduced by 80%, and frequency of trains up by 300%
 - Center for e-Governance Development
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It takes two to tango




Why does the business community care about the energy sector?

Energy and doing business environment


- Energy security (diversification of supply, eg through renewable resources)
- Energy infrastructure reliability and efficiency: production, transfer and distribution
- Energy costs → production costs
- Small and fragmented markets → all risks above increase

Direct investment in the energy sector

- Investment in construction and management of energy facilities through PPP schemes
- Introduction of innovation and new technological knowhow
- Local capacities



List of scandals, involving highest level of policy and decision makers

- Albania: money laundering and hydro concession
 - Bosnia-Herzegovina: energy trading
 - Croatia: energy trading and bribing
 - Kosovo: political campaign finances and UNMIK/KEK
 - FYROM: electricity trading cartel
 - Montenegro: electricity theft
 - Serbia: mining scandal
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Vienna Western Balkans Summit, August 2015

22. The Western Balkan countries have decided to establish a regional energy market by establishing power exchanges and a regional balancing market as well as making the best use of the already existing Coordinated Auction Office. The Western Balkan countries agree on the priority list of 'soft measures' in energy covering specific national issues to implement the Energy Community *acquis* and have invited the Energy Community Secretariat to take the lead to develop the regional energy market and to help implementing these 'soft measures'. The Western Balkan countries will ensure that these issues are implemented before the next Summit in France.

**These “soft measures” are the equivalent of
non-tariff/non-technical barriers to trade**

Progress of implementation, March 2016

(Energy Community Secretariat)




Energy Soft Measures Implementation

Measure	Albania	Bosnia and Herzegovina	Kosovo*	FYR of Macedonia	Montenegro	Serbia
Primary Law(s)						
Complementary Legal Acts						
Organised Day-ahead Market						
National Balancing Market						
Regional Capacity Allocation						
Price Deregulation						
DSO Unbundling						
TSO Unbundling						
NRA Independence						
Implementation of Inter-TSO Agreements	/	/		/	/	

Critical
 Significant delay
 Insufficient progress
 Pending
 Progress on track
 Significant progress
 Accomplished



In other words:

- Legal and institutional fundamentals are missing
 - Heterogenous developments perpetuate market fragmentation (and all its accompanying weaknesses and risks)
 - Too much subsidizing
 - Too much legislation = too little implementation, esp. when in transmission and distribution operation systems
 - National energy authorities are neither independent, nor efficient
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Can the region afford the costs?

As in all sectors, corruption:

- Drives reputable investors away
 - Raises costs
 - Reduces opportunities for sustainable energy development
 - Wastes resources
 - Distorts markets
 - Diverts public interest towards private interests
 - Biases decision making against rational-sustainability criteria and in favor of vested interests
 - Hurts trust in the rule of law and democracy
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What can be done?

- Professional and financial strengthening of institutions involved in monitoring the energy sector, including the judiciary, customs officers, anti-monopoly commissions, etc
- e-Governance: e-procurement, e-bidding, e-reporting, e-everything
- Less laws and regulations, more implementation
- As in all anti-corruption efforts:
 - Raise public awareness and educate the public
 - Protect whistle blowers and investigating journalists

DAD, I'M
CONSIDERING
A CAREER IN
ORGANISED
CRIME.

GOVERNMENT OR
PRIVATE SECTOR?





Mental footnotes

- How about viewing the business community as part of the solution instead of demonizing it?
- How about coordinating all the different cooks active in the kitchen in an effort to save the broth?
- Can conditionality and front-loading on the rule of law be stricter, but without producing adverse political results?



Thank you!

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