

ENERGY GOVERNANCE FACT SHEET: BOSNIA AND HERZEGOVINA

Last updated: 15 April 2016

KEY ISSUES:

- Corruption risks are highest in the allocation of permits for the construction of power plants and the extraction of mineral resources. There is lack of transparency in granting easement rights for the exploitation of renewables.
- Corruption risks exist also in the processing of documentation, payment of incentive price to eligible producers, and concluding agreements with market participants.
- Public procurement and large infrastructure projects in the energy sector lack transparency.
- Underdeveloped legal framework and no consistent energy strategy and plans, in particular across the different entities of the federation.
- Energy projects are managed inefficiently, allowing for many corruption risks and waste of public resources.
- There is no centralized information sources on the overly-complex licensing process, which precludes external oversight.

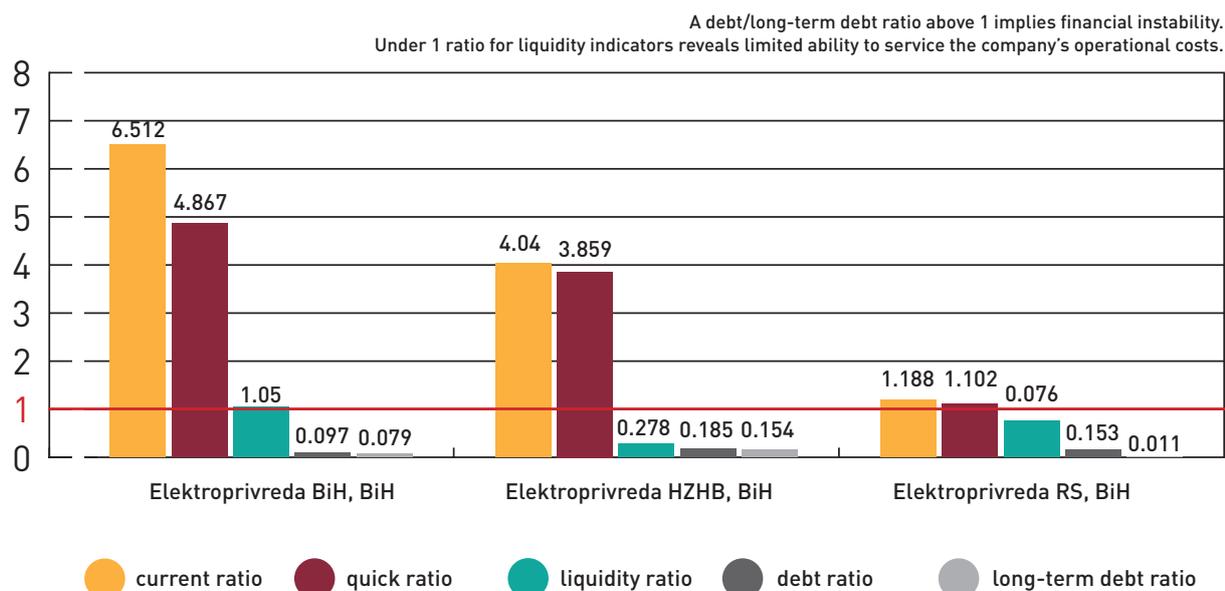
SOURCE: Regional Energy Governance and State Capture Assessment Report, SELDI, 2016.

**TABLE 1: State of electricity sector liberalisation
(eligibility, market opening, price regulation and unbundling)**

Price regulation	All electricity tariffs are administratively regulated. There are no plans for liberalizing prices.
Eligibility	From 1 January 2015 Bosnia and Herzegovina is in line with Directive 2009/72/EC in terms of eligibility.
Market opening	Trading still takes place between the dominant utilities and registered traders. The retail electricity market is divided along the borders of the four utilities. All consumers in Bosnia and Herzegovina (save two large companies) are captive.
Unbundling	The transmission system operation in BiH is legally and functionally unbundled from generation and supply activities governed by the entities. But, the current system does not comply with the Directive 2009/72/EC. The unbundling of distribution system operators in the Federation of Bosnia and Herzegovina is not completed. The distribution system operators for EP BiH and EP HZHB are unbundled from supply only in regard to accounts. In Republika Srpska, the distribution system operator is legally and functionally bundled with the supply in all five distribution subsidiaries of EP RS, while only accounting unbundling is applied.

SOURCE: Progress Report on the Implementation of the Energy Acquis of the European Energy Community, 2015.

CHART 1: Financial Ratios (2014)



SOURCE: Author's calculations based on the Annual Financial Reports of the SOEs

TABLE 2: Energy Acquis Implementation by Measure

Primary Laws	No Progress
Complementary Legal Acts	Progress on Track
Organised Day-Ahead Market	No Progress
National Balancing Market	Progress on Track
Price Deregulation	No Progress
DSO Unbundling	No Progress
TSO Unbundling	No Progress
NRA Independence	Dependent

SOURCE: European Energy Community Progress Report, 2015.

POLICY RECOMMENDATIONS:

- Allow electricity supply switching by final consumers, which are currently locked in by the four regional utilities.
- Adopt market rules to facilitate the creation of a balancing market and trading platforms.
- Speed up ownership unbundling to split generation (production of electricity) from distribution companies. Currently, only accounting unbundling has been applied in all jurisdictions.
- Introduce systemic risk and performance control over the management of state owned-enterprises and public procurement.

SOURCE: Regional Energy Governance and State Capture Assessment Report, SELDI, 2016.

PUBLIC PROCUREMENT:

BiH adopted the Law on Public Procurement in 2014, which increased the fines for non-compliance of bidders and their managers. The new Law is based on EU Directives and harmonized with EU practice. Unfortunately, the level of transparency has not been increased. While this has been a step in the right direction, it is problematic that not all procurements get published. What is worse, contracts that use an open procedure are published in the BiH Official Gazette, and more recently - on the e-procurement web page of the Public Procurement Agency, however this is not mandatory for some of the less competitive and transparent methods (e.g. competitive request, direct agreement, etc). The Law also allows for the use of negotiated procedure in cases where institutions have to obtain product or service urgently, when they purchase from one dealer, or when two open procedures have closed with no winning bidders. Many institutions do not provide annual procurement plans, which means a lot of the procurement is conducted ad hoc without previous market analysis or preparation of proper tender specification.

SOURCE: Regional Energy Governance and State Capture Assessment Report, SELDI, 2016.



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