



Bosnia – divided powerhouse

| by Anke Truijen

With its untapped coal reserves and landscape of mountains and rivers suited to generating hydropower, Bosnia Herzegovina could become a powerhouse for the region. But the absence of a national energy policy and the ongoing political divisions within the country still look to be an insurmountable hurdle.

‘Our system is unbelievable: at a national level we don’t have a strategy or a policy for the energy sector,’ sighs Mubera Bicakcic, head of the Energy department at the national ministry for Foreign Trade and Economic Relations in Bosnia Herzegovina. ‘And at the moment I don’t see that changing. As a state institution we have no say over the energy sector due to the complex post-war division of power in the country. The real say lies with entities that have rejected the need for a national integrated system.’

The entities to which Bicakcic refers are the Bosnia-Croatian Federation and the (Serbian) Republika Srpska. These mini-states were set up under the Dayton Accord of 1995 that ended the war in Bosnia. Both enjoy a great deal of autonomy from the relatively weak national government.

The national ministry is concerned that the entities have not invested sufficiently in new power plants, long-term energy policy and new legislation. Now Bosnia threatens to run up against electricity shortages over the next few years if they don’t move quickly to put their energy house in order. The ministry’s energy department in the capital of Sarajevo – equipped with more ashtrays than members of staff – can do little more than stand by and watch the way in which the two local ministers for energy and three “ethnic-oriented” electricity monopolies manage their energy sectors.

Recent reports by the International Energy Agency (IEA), a local progress study financed by the World Bank, and the European Union all warn that Bosnia Herzegovina must work towards an integrated energy sector and a national energy strategy. Only then will the country be able to avoid widespread shortages, implement market reforms and safeguard its natural resources and environment. The Bosnian energy sector is regarded as one of the key pillars for economic development and stability. That’s why energy sector reform is also stipulated as one of the conditions for further integration within the European Union. In the present political climate, this looks to be a tall order.

A complex system |

In the former Yugoslavia, Bosnia had a single energy sector controlled by the socialist state. After the war in 1995 its industries were in ruins. Bosnia was carved up along political lines as part of the Dayton Agreement. Under a complex administrative arrangement the three main ethnic groups (Bosnians, Serbs and Croats) were assigned their own regions and governing authorities. And the electricity sector, too, was divided. Three utilities were created along ethnic and geographical lines: Elektroprivreda Bosna i Hercegovina (EPBiH, Bosnian or Muslim), Elektroprivreda Hrvatske Zajednice Herceg-Bosna (EPHZHB, Croatian) and Elektroprivreda Republika Srpska (EPRS, Serbian).

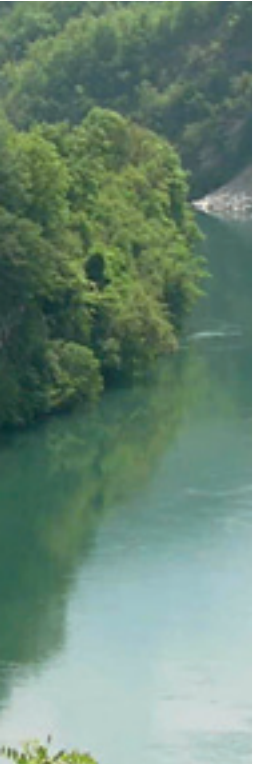


Photo: Anke Truijten

The Federation and the Republika Srpska are responsible for their own electricity generation and distribution. The national ministry for Foreign Trade and Economic relations was assigned a coordinating role, but in practice this has proved hard to realize. The separate entities hardly work together at all. However, there is only one transmission operator and the country also has an independent systems operator charged with safeguarding the continuity of electricity supplies.

The entities do not appear inclined to give up their power. 'The entities, the Federation and the Republika Srpska, own a majority stake in their electricity companies. There's money in the energy sector, and they'd rather keep that at entity level,' explains Davor Bajcs, an energy expert at the Croatian Energy Institute Hrvoje Pozar. Bajcs is one of the co-authors of the World Bank report advising Bosnia on how best to integrate with the European energy market. 'We calculated that it would be much cheaper and economically more attractive to undertake electricity generation and the construction of new plants at a national level,' Bajcs says.

In Banja Luka, administrative capital of Republika Srpska, economy and energy minister Slobodan Puhalic leafs through the Dayton Accord to show how energy affairs in Bosnia should be regulated. 'In the Accord it was determined that the entities are the exclusive custodians of their natural resources, and therefore of the energy potential,' Puhalic pronounces with some satisfaction. 'The Republika Srpska's electricity system has been restructured in accordance with the Action Plan for the restructuring of the electricity sector in Bosnia. And it works perfectly within the structure of the entities and respects all international norms that have been included in treaties such as the Athens Agreement for a South East Europe Energy Community.'

It seems to work |

At present Bosnia, together with Bulgaria, is a net exporter of electricity in this energy-poor region, where most countries are forced to import power. Coal (almost 60%) and hydropower (almost 40%) are the main natural sources from which Bosnia produces a total of around 13627 GWh of electricity. The small remainder comes from sources such as wood burning and wind.

Two of the three electricity companies – EPBiH and EPRS – are net exporters. The surplus is sold via international tenders. EPBiH, based in Sarajevo, has already attracted three serious bidders for its electricity surplus of 1600 GWh for 2009, valued at around €138 million (roughly €80 per MWh). Last year EPBiH signed a deal worth €54 million to sell 725 GWh.

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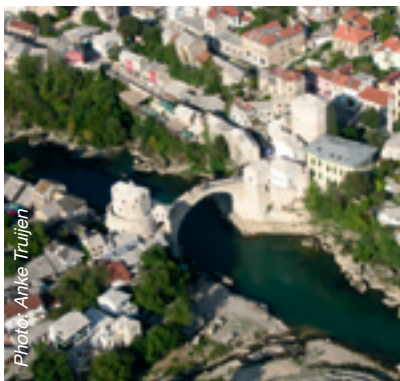


Photo: Anke Truijten

Part of the profits are invested in sustainable energy. The Federation is seeking international partners for the development of ten new hydro-electric power plants.

Republika Srpska (RS) primarily aims at the development of large thermal power plants. In Stanari in the north, the London-based Energy Financing Team (EFT) recently signed a 30-year joint venture agreement pledging to invest almost €700 million in an existing brown coal mine and the construction of a modern coal power plant, due for completion in 2012. Negotiations with the Czech Electricity Organisation CEZ on a deal to invest several million euro in the Gacko thermal power plant in southern Bosnia are currently at a standstill.

Co-director Igor Stancevic of Citadel Financial Advisory, a financial consultancy for privatizations and corporate takeovers in South East Europe, says Bosnia is attractive to investors despite its fragmented market. 'Potential investor targets are the construction of new hydropower plants and 'green field' investments in thermal power plants, as well as investments in the reconstruction of existing power plants.'

Worries |

So what's the problem? Over the past few years political discord and incompetent management has resulted in underinvestment. The Federation's current energy minister Vahid Heco told national television two years ago that the energy blueprint was 'in his head' and not on paper. Now that same minister is warning of electricity shortages in 2012. Critics are concerned about the absence of fundamental strategies, about corruption and about the lack of transparency. All of this could be tackled if Bosnia were to harmonize its energy sector at a national level, they argue.

Mubera Bicakcic of the national ministry's energy department: "The Republika Srpska has drawn up a strategic plan which includes a blueprint for sustainability, but refuses to cooperate with reforms at state level. And the Federation also appears to have a plan but cannot get approval in its ethnically divided parliament.' Critics aver that both strategies are fundamentally flawed as they have not resolved legal shortcomings in the areas of distribution, supply, transmission and regulation. The monopoly position of the utility companies is conducive to corruption. Financial consultant Stancevic says there is little cause for concern. 'Corruption was an issue in the past. Current legislation guarantees a more level playing field. But of course there are many things that can still be improved.'

Stancevic's positive outlook is belied by the view from the ground, which is that of a sector lacking in transparency in which the electricity monopolies abuse their power. Currently the Federation's prime minister Nedžad Brankovic and its energy minister Vahid Heco are the subject of a criminal investigation into corruption. Also under investigation on suspicion of corruption are eleven other senior officials linked to the reform of the Federation's energy sector. The charges include abuse of power and preferential treatment for certain investors.

Fragmentation

Generation and distribution of electricity in Bosnia

Areas of the public utilities

Bosnian:

EP BIH
Elektroprivreda Bosna i Hercegovina

EP BIH
Brcko district

Croatian:

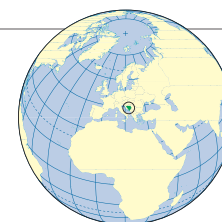
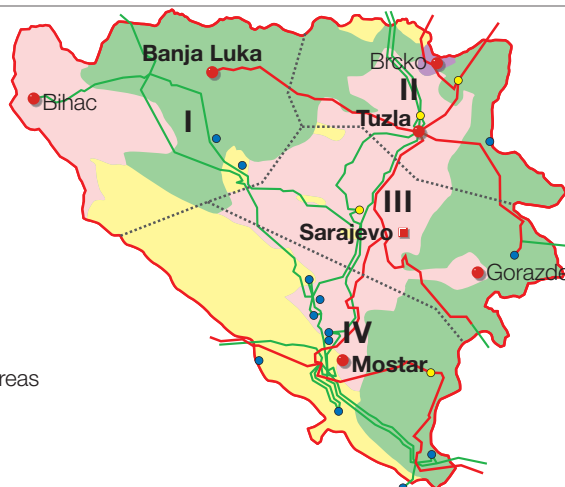
EP HZHB
Elektroprivreda Hrvatske, Zajednice Herceg-Bosna

Serbian:

ERS
Elektroprivreda Republika Srpske

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I Banja Luka
II Tuzla
III Sarajevo
IV Mostar



Power plants

● Hydro
● Thermal

Distribution

— 400 kV
— 220 kV

X&Y Graphics

In Republika Srpska, too, Transparency International has reported illegal privatizations in the energy sector and misuse of public funds. Particularly investors in the smaller hydroelectric project have complained about corruption

Environmental concerns |

Tim Clancy, an American writer and specialist on eco-tourism in Bosnia, gets angry just thinking about the energy sector. 'Bosnia's political elite has focused its attention on the creation of monopolies within the energy sector to finance their parties and to enrich themselves. In doing so they have sacrificed Bosnia's most precious resource – nature.' Clancy came to Bosnia in 1992 as an aid worker. Later he co-founded Greenvisions, an organization working to promote ecological development projects. He says that political leaders have paid no heed to the environment. 'We're not against investing in the energy sector. The only thing we're asking for is rule of law. Legal procedures aren't respected – there's no transparency and no participation by local residents or local government.'

There are also concerns among the local population. In Konjic, a town near Sarajevo on the Neretva river, the construction of two new hydropower plants is being hotly debated. The Neretva's strikingly clear sea-green waters wind through steep cliffs and mountains covered with green forest. Local artists swear by its natural beauty. After the war the local authorities sought to develop tourism around the river. The new hydropower plants would endanger these plans.

'I am concerned because the plans for the new installations lack any kind of solid basis,' says environmentalist Sanjin Dzajic. 'Everyone seems to have forgotten that this area has been designated a protected nature reserve.' On his mountain bike Dzajic cycles the sandy path that flanks the Neretva canyon. There is no sound, other than that of the streaming river and the crickets in the grass. 'The riverbed is quite weak, and in this region you have tectonic forces ranging up to seven on the Richter scale', explains Dzajic. 'Artificial regulation of the water levels here will lead to severe erosion of the riverbanks and that will lead to flooding.' To get to Mostar, with its famous Ottoman bridge, you need do no more than follow the course of the Neretva down to the coast. Several years ago there were such heavy rainfalls that the hydropower plants along the Neretva were unable to cope. The resulting flood demolished dozens of houses in Mostar. Dzajic: 'People here are very skeptical about the construction of new hydropower plants. And as a result of the war many have bonded even more closely with their natural surroundings and would dearly like to preserve them. Local authorities are increasingly sympathetic. But they have to make a choice: to earn money through power generation or from tourism.'

The Federation's Energy Minister Vahid Heco dismisses the eco-concerns in local media with the riposte that modern technologies are so far advanced that no one need fear that electrical energy facilities will adversely impact the natural beauty of the area.

National plan |

The national ministry's energy department chief Bicakcic believes that only pressure from the EU will succeed in improving the Bosnian energy equation. 'As the national government we can do nothing. The EU must force the entities to reform their energy sectors in line with European norms and adopt a national plan.' Investment consultant Stancevic also believes in the desirability of a national strategy. Stancevic: 'Investors will always seek clarity and an efficient system.'

There are some signs of closer cooperation. The two entities plan to build a hydropower plant together on the banks of the river Ugar. And there is some exchange of electricity between the three power companies. But the entities are not inclined to surrender control to a national ministry. Only last September Republika Srpska threatened to pull out of the national transmission organization Elektroprenos BiH. Despite warnings from EU diplomats that this could pose a threat to Bosnia's future membership of the EU, minister Puhac is unruffled. 'It's better to have two optimally functioning transmission operators than a single national organization that doesn't function properly.' ■

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