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Case Study

EVN in Bulgaria (B) - Engaging the Roma Community



Case Study

EVN in Bulgaria (B)* – Engaging the Roma Community

„As an energy and environmental services provider, we fulfil the daily needs of our customers. Through our reliable and high quality services, we make a sustainable contribution to their quality of life.“—EVN corporate policy statement

“I want to live like a normal human being and not like in the dark age”,—Mehmet Denev, a Stolipinovo resident who won a court case against EVN on the grounds of ethnical discrimination of the prevailing electricity regime.

Stefan Szyszkowitz, Managing Director of EVN Bulgaria, a subsidiary of the Austrian energy provider EVN, was nervous. He was walking to the office building of EVN close to the historic center of Plovdiv, Bulgaria’s second largest city, when a horse cart was passing by. Horse carts are still the typical vehicles of the Roma minority in Bulgaria and a quite common sight in Plovdiv that is home to Europe’s biggest Roma ghetto Stolipinovo. This afternoon Szyszkowitz would meet some of the most influential Roma leaders in this settlement. He wanted to discuss EVN’s plans on how to improve the supply of electricity to the inhabitants of Stolipinovo after long years of a tight electricity regime that only supplied electricity during the night—leaving an estimated 70,000 people without the possibility to cook, heat or switch the lights on during the day.

It was early July in 2007 and the air was stuffy, Szyszkowitz didn’t like the idea of going to Stolipinovo. He knew the quarter only from the outside but he had heard the stories from his technicians about angry mobs, broken sewage systems, inadequate water supply and garbage that piled up on the streets because the municipal waste collections had stopped to service Stolipinovo. However, Szyszkowitz knew that EVN had arrived at a turning point, a crucial moment for the success or failure of his plans on how to deal with this complex and emotional situation.

This case was prepared by Barbara Coudenhove-Kalergi and Christian Seelos as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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*...this case should be used together with the case: *EVN in Bulgaria (C) – Making it work*. EVN in Bulgaria cases (B) and (C) can be used as standalone cases or together with the following case which is available from IESE Business School Publications (<http://www.iese.com/en/>): *EVN in Bulgaria (A): “Eastern Fantasy” Meets Eastern Reality* (SM-1565-E).

EVN had inherited this problem from the old Energy Distribution Company of Plovdiv as part of the acquisition of two distribution companies in Southeastern Bulgaria in 2004. But now, Stolipinovo was EVN's problem. It was not the only challenge that EVN faced in Bulgaria. Already after a few years of operating the company was cornered on all sides with every step being watched very closely¹. EVN could not afford to lose any more credibility. Municipal elections were scheduled later that year which usually meant that rivaling political parties would readily exploit any opportunity to frame a foreign company as a scapegoat for all kinds of local problems.

Stefan Szyszkowitz knew this meeting had to be successful but wondered whether he could reason with the Roma. This was a discriminated population group that has been displaced, segregated and oppressed for centuries. They were the poorest of the poor in Bulgaria. Would they be willing and able to pay if EVN decided to improve the much needed electricity supply? If left unresolved, would EVN be judged as an accomplice to a growing humanitarian disaster in one of the youngest member states of the European Union? And how would this affect EVN's business strategy in the country and the region?

Bulgaria's Electricity Supply Challenges

In many countries of the former Eastern bloc the energy industry played an important role in the national ideology. Electricity was seen as a symbol of the social compact between state and citizen as well as a practical necessity for industrialization and thus progress. Electricity presented the good life². This attitude was also true for Bulgaria. During the communist regime and the Russian influence Bulgarian engineers were trained in the Soviet Union, the utilities were state-owned and promoted as the nation's pride in the public. *"Each year in June the day of the electrical engineer was celebrated. The Bulgarians took great pride in their electro-technical competence and were very self-confident"*, observed Stefan Szyszkowitz. In addition, Bulgaria has traditionally been a significant net exporter of power to the neighboring countries.

However, due to rapid industrialization, irrational energy use, energy waste and the fragile transmission network the electricity supply was highly unreliable. This caused a growing sense of disillusionment with the communist party already in the mid eighties. In most large towns an electricity regime of three hours on and three hours off for at least six days a week was introduced, but even these supplies could not be guaranteed and the power was frequently suspended without warning. "The dark nights played a prominent role in the demoralization of society and in the draining away of faith in a system which after forty years of socialism was not able to guarantee a normal daily life."³ The socialist economy responded to the emerging shortages in the only typical way for that system—by building new capacities. The construction and commission of four additional reactors in Kozloduy, Bulgaria's biggest nuclear power plant, also strengthened Bulgaria's role as net exporter of energy⁴. Kozloduy later became one of the critical issues of Bulgaria's negotiations when the EU made the shut down of the nuclear power plant a precondition to the country's EU membership. The government agreed reluctantly to the closure of the two oldest reactors by 2002 and reactors three and four until 2006.

¹ *EVN in Bulgaria (A) – East Fantasy Meets Eastern Reality, 2011, IESE Business School Case SM-1565-E.*

² *The World Bank, 2006, Reforming Power Markets in Developing Countries.*

³ *Crampton R.J., 2007, The Oxford History of Modern Europe: Bulgaria, p374.*

⁴ *Business Insights, The Eastern European Electricity Market Outlook, 2009.*

Power-sector reform⁵

Due to the gradual disruption of the relationship with Russia, the power sector reform became indispensable. It should pave the way to an effective privatization of the state-owned utilities. Part of the appeal of the privatization was the money to be earned by the state as well as desperately needed investments in the infrastructure of the networks to attract investments mainly to reduce commercial and technical losses and to bring effective management into the companies. This meant breaking-up the state monopoly represented by the National Electric Utility NEC, which owned almost all nuclear, hydro and pumped hydro power plants in Bulgaria and controlled 87.9% of total capacity.

In April 2000 the seven state-owned power distributors and the independent power generation companies, including Kozloduy and the thermal power plants Maritsa East, were thus separated from the NEC and registered as legal enterprises. In autumn of the same year a State Commission on Energy Regulation was set up responsible for electricity prices of the energy carriers, licensing and permits for energy facilities. NEC was transformed into the national power transmission company, acting as a so-called Single-Buyer, i.e. purchase electricity from the independent producers and sell it to the utilities that, in their function as distributors would sell the power to the end-users.

Even though the power sector reform was deemed a success in general, several issues were insufficiently tackled.

1. *Economic issues*

A transparent and independent pricing policy as one of the most important objectives of the reform was missed. In fact, the State Commission on Energy Regulation remained largely financially dependent on the state budget. Moreover, the reform started with the freezing of electricity prices for final customers, not allowing the market mechanism to form competitive and cost-covering prices. In addition NEC continued to export energy to neighboring countries like Greece or Turkey at cheaper rates than to the domestic customers thus undermining the market mechanism.

At the same time the independent power distributors could not procure the necessary collection rates of electricity bills. Generally 30% to 35% of electricity was lost in the frail transmission network or due to theft. A large portion of the outstanding payments belonged to the municipalities financed by the state budget, which in turn relied in part on the revenue of the NEC operations.

2. *Environmental issues*

The environmental issues posed a substantial challenge to the reform efforts—mostly in relation to projected high costs in dealing with environmental destruction rooted in the transition period. The communist five-year-plans had not been geared towards making production cleaner or repairing ravages already caused. Sofia and the surrounding areas remain today one of the most polluted regions in the country. According to a World Bank study published in 2000 the Bulgarian energy industry was the biggest source of air pollution, the total investment costs of meeting the EU requirements for the rehabilitation of the thermal power plants up to the year 2010 were estimated with 1.6 billion USD at a minimum. As so often there are intrinsic trade-offs between Bulgaria's objective to ensure least cost energy supply to the country and staying a dominant energy supplier in the region at the same time, minimizing its dependence on energy imports, and meeting national and international environmental commitments.

⁵ Main Sources: Doukov, 2001, *Bulgaria Power Sector Reform*; Austrian Energy Agency: enercee.net.

3. *Social issues*

The social impact of the power sector reform was never subject of any specific studies and seemed not to be considered in relation to the reform. However, the social challenges are critical. The Bulgarian end-users are not only faced with relative high costs of energy but at the same time burdened by low household incomes. Low-income households accounted for 38% of the total in 2000. They spent 14% of their income on energy. International benchmarks such as the UK energy poverty threshold of 10% are categorizing a large share of the Bulgarian population as energy-poor⁶. In the same year 20% of the households relied on social assistance for covering energy costs.

4. *Non-payments and electric power theft*⁷

According to the World Bank, the electricity market in Bulgaria has one of the highest hidden costs among EU member states. These hidden costs include poor bill collection rates or excessive technical losses and losses due to theft. The amount of unpaid bills is a result of both household and business indebtedness. In 2005 the EDCs lost between 20% and 23% of distributed electric power due to technical losses or thefts.

Theft of electricity in Bulgaria is generally carried out by companies and by households at an approximate rate of 1:5. In 2003 about 50 Million Euro losses from electricity thefts have been registered with average losses accounting for 6% to 7% of distributed energy⁸. Reportedly, small energy intensive companies or production facilities, restaurants, hotels are among the most frequent violators. *"After the privatization the technical losses were discussed in one of the working groups set up for the integration process. The Austrians could not grasp that the majority of the technical losses was due to energy theft. They couldn't believe that this was even possible. For them it was a completely new problem and they had no ready solution"*, said Anton Gramatikov, director of the metering department. A particular problem faced by the EDCs in Bulgaria was the en-mass non-payment of electricity bills in neighborhoods populated by the Roma ethnic minority such as Stolipinovo in Bulgaria's second largest city Plovdiv. See *chart 1*.

Roma "The People"⁹

The Roma are considered as the European Union's largest and most vulnerable ethnic minority group. Although precise figures are unavailable it is estimated that about 10 million Roma live in Europe as a whole—a population size higher than that of a number of European Union member states. However, Roma-related issues remained overwhelmingly absent from the political agenda in most of the EU member states until the beginning of the 21st century, when the rights and living conditions of Roma were incorporated into the EU accession process of the new member states of Eastern Europe, such as Bulgaria.

As an endogamous culture with a tendency to self-segregation, the Roma have generally resisted assimilation into other communities in whichever countries they have moved to, the positive aspect being that they have managed to successfully

⁶ See www.poverty.org.uk.

⁷ See: *The Energy Sector in Bulgaria, Major Governance Issues 2010*.

⁸ *Novinite.com*, 8 January 2004, *BGN 100 M Annual Losses of Power Theft in Bulgaria*.

⁹ *Main Sources: The National Deliberative Poll: Policies towards the Roma in Bulgaria, 2007; The Situation of Roma in an Enlarged European Union, European Commission 2004; Crampton R.J., 2007, The Oxford History of Modern Europe: Bulgaria; Petrova D., 2004, The Roma: Between a Myth and the Future.*

preserve their distinctive and unique culture. The price of this cultural persistence, however, has been isolation from the surrounding population and has made them vulnerable to being stereotyped. Discrimination against and stereotyping of Roma is still widely spread and permeates many aspects of life, including education, employment and housing¹⁰. The poverty of many Roma communities, which is even more obvious in ghettos, contributes to general resentment, as Roma are perceived as parasites living off state welfare payments, thieves, etc. In summary, the persistent disadvantages in education, which limit future opportunities and access to the labor market, the poor health service and the inadequate housing and marginalization of settlements characterize the situation of the Roma population in Europe.

Roma in general are not a homogeneous group. The diversity among Roma populations is tremendous and ranges from the various dialects of the Romany language to the proportions living in cities, integrated neighborhoods, or segregated rural settlements. Also, Roma are not a united community but rather are divided into many subdivisions—depending, for example, on their exact descent or language and religious affiliation. This diversity creates significant challenges regarding research and the collection of quantitative and qualitative data on the Roma population. Information or reliable and exact data on true Roma living conditions and poverty is often scarce and fragmented making it extremely hard to develop policies for this community.

The Roma of Bulgaria—the socio-economic context¹¹

It is estimated that about 800.000 Roma live in Bulgaria—the official census of 2001 reports only 370,000 or 4.68% of the total population. The difference is attributed to a large number of Roma self-identifying as Bulgarians or Turks. The Bulgarian Roma were primarily nomadic or semi-sedentary until 1958, when the Communist regime launched a campaign of forced assimilation, restricting their traditional customs and forcing them to settle down. The Communist government also banned the public use of the Romany language¹². The so-called “process of revival” in the mid-1980s in which Turks and the Muslim Roma were forced to adopt Bulgarian names was followed by a period where the official position more or less even denied the very existence of Roma in Bulgaria. During the socialist-era policies of resettlement, assimilation programs or employment provision, Roma communities became heavily reliant on state social support. Despite extensive involvement in the shadow economy, Roma households are still heavily dependent on welfare payments today.

See table 1 and chart 2.

In Bulgaria, the long and painful transition from a planned state economy to a free market has hit the Roma the hardest. When subsidies of state-owned enterprises were slashed, it was often Roma who were the first to be dismissed. Many have never recovered from the economic restructuring. The community’s geographical isolation increased resulting in negative effects on Roma’s ability to find jobs. Many Roma neighborhoods turned into ghettos, which were abandoned by most state institutions, making access to administrative, medical and other services very difficult. A large number of young Roma dropped out of school, causing functional illiteracy that again hampered labor market integration and led to more poverty¹³.

¹⁰ Ringold D., Orenstein M., Wilkens E., 2005, *Roma in an Expanding Europe, Breaking the Poverty Cycle*, Worldbank, p13.

¹¹ *Main Sources: EURoma Report, Roma and the Structural Funds, 2010; Ringold D., Orenstein M., Wilkens E., 2005, Roma in an Expanding Europe, Breaking the Poverty Cycle, Worldbank; Revenga A., Ringold D., Tracy W.M., Poverty and Ethnicity, A Cross-Country Study of Roma Poverty in Central Europe, 2002 World Bank.*

¹² Crompton R.J., 2007, *The Oxford History of Modern Europe: Bulgaria*, p440.

¹³ EDIS S.A., 2007 *European Survey on Health and the Roma Community*, p97.

In 1992 the term Bulgarian Ethnic Model (BEM) emerged and soon became part of the political rhetoric. This coincides with the signing of the association agreement of Bulgaria with the EU, which insisted on including an article safeguarding the human rights of ethnic minorities¹⁴. Even if it is true that many positive steps have been taken to protect the Roma's ethnic and cultural identity—also under the watchful eye of the EU—Roma have largely remained at the very bottom of Bulgarian society.

No voice—no power

The Roma population is poorly represented in the Bulgarian political system. The Roma community has never managed to unify behind one Roma party to attend and participate at the National Assembly, despite potentially having more than enough votes to do so¹⁵. This damages the situation of Roma on a national and local level even further, as they have almost no political power to voice their concerns. Also, the non-Roma parties have generally ignored Roma issues, even though Roma-dominated organizations have supported the election of municipal councilors in many municipal elections. Every post-Communist election has also seen the open buying of Roma votes by competing non-Roma politicians offering cash handouts, food, jobs, and promises of other post-election services and benefits to Roma voters, for example, the cancellation of their electricity bills.

The Roma housing situation¹⁶

Roma never were landowners and therefore possessed limited economic resources. They continued to be poor under the era of central planning and had no property to reclaim when post-communist restitution began. As a result, Roma migration to urban and suburban areas intensified, leading to the expansion of ghettos with all the corresponding social consequences¹⁷.

A relatively high percentage of the Roma population lives in inadequate housing conditions such as sub-standard housing or shantytowns. Bulgaria particularly stands out in comparison with other CEE countries with a large Roma population. According to the Bulgarian National Statistical Institute, almost half of the Roma population in Bulgaria still lacked running water in their homes in 2001 and was forced to use water from street pipes or wells. Most Roma neighborhoods have damaged sewage systems or none at all, and this increases the risk of infectious diseases and epidemics such as hepatitis. Overpopulation in Roma neighborhoods and homes is the norm. Often more than three generations live under the same roof. As most municipal authorities have left Roma neighborhoods there is no control over illegal construction and use of sidewalks and streets for building on¹⁸. The majority of the buildings in Roma ghettos are built illegally, making it very difficult for the utility services to reach customers. Some housing projects aimed specifically at Roma actually maintain the isolation and segregation of these communities¹⁹.

In 2007 64% of the Bulgarian Roma population lived in neighborhoods with poor health conditions and 34% in areas separate from surrounding cities or in the cities themselves²⁰ where they are concentrated in ghettoized neighborhoods such as

¹⁴ Crompton R.J., 2007, *The Oxford History of Modern Europe: Bulgaria*, p438.

¹⁵ Hajdinjak M., 2008, *Political participation of minorities in Bulgaria*, p17.

¹⁶ *Main Sources: European Union Agency for Fundamental Rights FRA, 2009, Housing Conditions of Roma and Travellers in the European Union; EDIS S.A., 2007, European Survey on Health and the Roma Community.*

¹⁷ UNDP, 2002, *Roma in Central and Eastern Europe, Avoiding the Dependency Trap*, p15.

¹⁸ EDIS S.A., 2007 *European Survey on Health and the Roma Community*, p98.

¹⁹ FRA 2009, *Housing discrimination against Roma in selected EU Member States—An analysis of EU-MIDIS data*, p19.

²⁰ EDIS S.A., 2007 *European Survey on Health and the Roma Community*, p25.

Fakulteta in Sofia, Nadejda in Sliven, Komluka and Meden Rudnik in Burgas and Stolipinovo and Sheker Mahala in Plovdiv.

Energy supply and bad debts in Roma neighborhoods²¹

Many people in Bulgaria fail to pay their electric bills, and many of them are Roma. Bad debts in terms of electricity or water bills have existed for years in Roma neighborhoods. The accumulating debts posed a growing economic problem for the utilities that serve Roma settlements all around the country. The roots of the problem are multi-dimensional. Since the fall of the communist regime there had been almost no new investments in the communal infrastructure. Technical connection to electricity or heating networks was particularly difficult, if not impossible, in the settlements mainly inhabited by Roma or Turks. This structural situation, combined with the existing bad socio-economic situation, led many Roma to steal electricity by illegally tapping the grid. This again led to frequent blackouts because of the instability of the grid, and subsequently to an unreliable supply. At the same time, as bills remained unpaid, the utilities have had no capital to invest in the upgrading or renovation of the electricity infrastructure, which has led to a further downgrading in service quality.

There are two quick answers one hears when asking why the Roma in Bulgaria do not pay their electricity bills: first, they are too poor, and second, they are manipulated by political forces. However, it is not that simple. Failure to pay is not only due to factors like affordability, the general income situation or a household's budgeting and management skills. The reasons also lie in the dynamics within the community and a general feeling of being treated unfairly by general society and its institutions:

Bad debts—a sociological phenomenon²²

“The Roma people in Stolipinovo feel very powerful because they are large in numbers. They live in a city within a city. When they are isolated like this, they only follow their own rules. Even the police hasn't dared to go into this ghetto. But if they live in smaller settlements or if they live in mixed districts with non-Roma families, then they abide the rules of society”,—Anton Gramatikov, director of the metering department of EVN Bulgaria.

Some Roma simply refuse to pay, for example, when they know that many of their neighbors are refusing to pay, or because their electricity lines have been tapped by neighbors who run up their bills. Some Roma do not pay because they believe they are being unfairly overcharged by the electrical utility company or by its corrupt employees.

The endemic non-payment reveals a complex process of social, economic, and psychological factors leading to the refusal to pay. A research study by the Open Society Institute OSI reveals how a vicious circle is kicked off: Deprivation and prejudice lead to the segregation of the already marginalized Roma minority. As a result, they lose effectively most of their links and bridges to other segments within society. At the same time they are deprived of effective access to institutions and authorities. The only thing that holds the community together is its close internal links. When the payment of utility bills appear against such a background and in the context of poverty, the absence of immediate punishment for non-payment can lead to a process that normalizes non-payment as accepted behavior and even a group norm²³.

²¹ Source: if not stated otherwise Report PR Agency ICONA.

²² See Pallai K., 2009, *Who decides? Development, Planning Services and Vulnerable Groups*, OSI.

²³ Pallai K., 2009, *Who decides? Development, Planning, Services and Vulnerable Groups*, OSI, p8.

Ineffective responses and growing tensions

“The Roma were blamed for stealing the electricity. The truth is, the stealing happened everywhere, the Bulgarians did it, too! But the electricity company decided to install the meters on poles 15 meters high in special boxes, which are secured and locked. The consumers were actually prevented from tracking their consumption; they did not know how much energy they were using. In the end it’s a matter of trust. If you don’t trust, you don’t pay,”—Daniela Michalova, a lawyer working for the Open Society Institute.

The electrical utilities responded in a variety of ineffective ways to the Roma failure in paying their bills. In districts where the companies were technically able to cut off electricity to individual customers, Roma had illegally reconnected their houses, bypassing electric meters. Therefore the electricity meters, some of which are more than 30 years old and very easy to manipulate, were installed on exterior boards that were fixed on poles at about 15 meters above the ground. *“The Roma destroyed the boards and the meters, and illegally connected themselves to the electricity lines,”* remembered Anton Gramatikov. *“They are very creative. The high poles were no real obstacles for them, but it made them angry. They attacked the electricians, for whom it became dangerous to go into Stolipinovo or other Roma ghettos.”* However, the installation of the electric meters on high poles became common practice in Roma neighborhoods in all Bulgarian cities, and the meters turned into a much-contested symbol of discrimination and distrust among the Roma.

For self-protection, the electricity distributors eventually started to collectively cut off electricity supply in whole districts or blocks without distinguishing between residents who paid their bills and those who failed to pay. This led to more unrest, as regularly paying households were also “punished”, among them ethnic Bulgarian families. *“We pay our bills regularly but we get no electricity because of the Roma. They have brought us back to the 18th century,”* said furious Diana Ilieva after the power cuts in 2002 that affected about 300 households of non-Roma families living in Stolipinovo²⁴.

Stolipinovo—a special conflict area

“During 2002 the Roma ghettos in Bulgaria began to resemble enclaves of the third world in a country that dreams of joining the first world.”²⁵

The majority of Roma living in the southeastern territory of Bulgaria, the operating area of EVN, are concentrated in the towns of Plovdiv and Sliven. According to the official census, around 27,000 Roma live in the Plovdiv region with a total population of over 700,000 people. However, the real numbers of Roma in Plovdiv are estimated much higher and is considered to be close to 80,000. This figure represents 11% of the population of the Plovdiv region and around 20% of the population of the town of Plovdiv. Plovdiv is home to four districts that are mainly inhabited by Roma: Stolipinovo, Sheker Mahala, Hadji Hassan Mahala and Arman Mahala—the biggest being Stolipinovo. The number of its inhabitants is estimated to be around 35,000 during summer, with almost double the figure in winter due to migration patterns. *“Even though Stolipinovo is a desperate place to live, many people move there during the winter months”,* explained a Bulgarian consultant for EVN. *“Some Roma even use it as a resource and make a business out of it. They ‘collect’ and charge other Roma for using the water and the electricity.”*

²⁴ Quoted by the Associated Press AP on 21 February 2002, *Power cuts spark Roma riot, Sofia Echo*.

²⁵ Bulgarian Helsinki Committee, 2002, *Human Rights in Bulgaria in 2002, Annual Report*, p24.

Stolipinovo is considered the most problematic Roma district in Plovdiv, partly because of its sheer size but also because of the particularly depressed socio-economic situation of its residents. It is estimated that the unemployment rates in Stolipinovo reach up to 90%, according to information of the Employment Agency Plovdiv, and 97% of those 90% do not qualify for welfare subsidies.

Moreover, the housing situation in Stolipinovo is acute. People live either in run-down blocks built in the communist era or houses, many of which are illegally built with no connection to water, sewage, electricity or gas for heating. Illegal construction presents a potential danger for inhabitants because of bad construction materials and static stability, and of streets obstructing emergency services and exits as well as the provision of utilities. Garbage is not collected in Stolipinovo by the city, resulting—together with an inappropriate and patchy sewage system—in bad water quality and the danger of infection and epidemics²⁶.

The political game

In Stolipinovo yet another dimension added to the complexity of the situation. During Bulgaria's transition from the communist regime to democracy and consequent democratic elections, the votes of the Roma and Turkish minorities became valuable, particularly on a municipal level. Because of their weak socio-economic situation the Roma are easy to manipulate. Many observers claim that parties of all political camps have paid for Gypsy votes with cash and food supplies, or by bribing Roma with festivals and conferences. Various political forces have lured in the Roma population with promises to improve their living conditions.

In Stolipinovo the major bait was the cancellation of accumulating debts for electricity bills. This created and fostered a sense of immunity from punishment among the irregular payers. In addition, the exertion of political pressure of the political decision maker on the EDCs to play along was well established, originating in the culture of dominant political influence in the former state-owned enterprises.

The genesis of the electricity regime

On 21 February 2002, the long-lasting conflict between the state-owned electricity supplier in Plovdiv and the Roma in Stolipinovo finally erupted into violence. When the utility disconnected the whole neighborhood after unpaid bills dating back several years reached a multi-million leva (the Bulgarian currency) mark, riots broke out. Outraged Roma erected roadblocks with garbage cans and started to throw stones at cars passing by²⁷. *“What happened is a sad epilogue of a policy of manipulation, demagoguery and compromise that had been conducted over the past four, five years. The debts of the Roma residents were not collected so that the ruling political force in Plovdiv could win the votes of the people living in the Roma residential areas. The problem of paying the money was being settled by a telephone call by the former district governor and of ex-mayor,”* commented the regional coordinator of the Internal Macedonian Revolutionary Organization IMRO on the events in Stolipinovo²⁸. The disturbances went beyond any previous incidents in terms of numbers of demonstrators and readiness for violence. *“The Bulgarians will regard the Taliban in Afghanistan as angels if they leave us in darkness,”* threatened an angry Roma resident in connection with cut-off electric power supply of the residential areas of Stolipinovo and Sheker Mahala. This eruption of violence and the fear of repeats forced the public authorities to seek a way out of the dilemma.

²⁶ Nahabedian M., 2002, *the Roma in Plovdiv*, European Center for Democracy and Solidarity.

²⁷ Sofia Echo, 21 February, 2002, *Power cuts spark Roma riot*.

²⁸ Research PR Agency ICONA.

Local authorities, executives of EDC Plovdiv and representatives of the protesting Roma reached an agreement by which the power supply debtors in the Roma suburbs were to pay 10% of the amount due for January accounting for 299,000 leva (134,000 USD). According to EDC Plovdiv's executive director, the company was prepared to restore the power supply if the agreement was honored and the sum agreed was paid²⁹. The agreement seemed of little value. Only a few weeks later five power supply posts were destroyed in the residential areas Hadzhi Hassan, Arman Mahala and Stolipinovo.

Finally, as a last sanction, the neighborhood was put on a regime—electricity supply was cut off from 8 am until 7 pm—in order to protect the EDC from more excessive losses. Stolipinovo was soon regarded as a lost cause.

Stolipinovo – looking for a way out

"We have inherited a disaster"—Stefan Szyszkowitz

"We became aware of the importance of Stolipinovo when the media began to hunt us and we didn't know how to react properly to their accusations. Facts just didn't count anymore," said Stefan Szyszkowitz as he recalled the events. Suddenly Stolipinovo emerged as the most important question of economic future for the company, its image and its long-term strategy in Bulgaria, inseparably linked to the question of social responsibility.

After bad press regarding the court decision on the discrimination issue was reported in one of the leading Austrian newspapers in December 2006—triggering even more bad press in Austria—, Rudolf Gruber, EVN's chairman of the supervisory board, urged to take action and assured the full backing of the board.

Risky customers

The issue of "risky customers", as the non-paying customers mainly living in Roma ghettos were called, was not new to the Bulgarians who worked for EVNs predecessor. To learn about the dimension of the risky customers on EVN's territory, the customer service center organization KEZ carried out an analysis of the neighborhoods regarding their risk potential. The analysis included questions about topics such as safety, the height at which the meters were installed, and an assessment by KEZ regarding the level of tension and the risk of escalation:

24 out of 27 KEZ reported that in 147 neighborhoods with 99,000 customers, 50,500 could be classified as risky customers—this corresponds to 51%.

In 85 neighborhoods the quota of risky customers was over 50%, and in 76 neighborhoods the meters were installed higher than two meters off the ground.

41 neighborhoods were classified as having a "very high" risk of social tension and escalation regarding maintenance of the electric installations, and 70 neighborhoods were classified to have a "high" risk. See *chart 3*.

The data found for Stolipinovo was the most disturbing:

- Of the 5,500 electronic meters installed in an area of 1.7 sq.m., 3,400 were sabotaged or destroyed. 2,000 houses were not connected to the grid at all.
- The electric infrastructure consisting of 17 transformer substations and 112 km of electricity lines was found to be in a bad and neglected state.
- The transformer substations were easy targets for continuous vandalism. Maintenance was impossible without police protection.

²⁹ *Sofia Echo*, 21 February, 2002, *Power cuts spark Roma riot*

- The accumulated bad debts amounted to 6 Million Euro, with a collection rate of only 3%.
- EVN estimated that it had to invest around 34,000 Euro in the maintenance of the electricity supply and around 17,000 Euro in the security measures
- Yearly energy consumption was estimated to be 50 GWh. Technical losses in Stolipinovo amounted to 41%.

A technical approach

Even though the Bulgarians were well aware of the high-risk customer problem, a solution had never been prioritized or promoted either due to political pressure and/or lack of leadership. Nevertheless, in 2003 one of the predecessor companies of EVN, EDC Stara Zagora, installed electronic meters with distant meter reading and built-in relays to turn on or cut off the electricity to reduce the presence of employees and prevent social conflicts and attacks in Roma neighborhoods. The new meters were installed at eye level to make maintenance more convenient. In order to prevent tampering or vandalism a security firm was recruited. It turned out that this concept unintentionally also led to a higher collection rate.

This important lesson provided a strong argument for the technical concept EVN developed to replace the old meters and repair the grid as well as transmission substations. In May 2006, a proposal on how EVN could proceed in the seven most risky Roma neighborhoods was submitted to the management board. See *chart 4*.

To build a sustainable economic model five targets were set for the investment to pay off. The new technical solution should lead to

- an increase of collectability of the electricity bills up to 100%,
- a reduction of energy consumption between 30% and 50%,
- a reduction of technical losses to 10%,
- a payback-rate of the old debts of about 15% and
- the acquisition of new customers by preventing illegal tapping.

Moreover, in its proposal the technical working group listed the following “non-economic” reasons to justify the investments³⁰:

- Legal requirements: We don’t have the right to cut off customers who are paying their bills regularly.
- We have to create conditions for the equal treatment of customers. Special rules or exemptions for non-paying customers will lead to the assumption that some customer groups are privileged. This will undermine the payment practices of paying customers.
- The current situation of differing customer treatment leads to political speculations and social tensions.
- The current situation has a negative impact on the image of our company.

Getting in contact with the Roma—a viral approach

“It is a legend that all Roma have tribal leaders. In Stolipinovo they are totally unstructured. The only thing that holds them together is their belief that they cannot leave Stolipinovo.”—Stefan Abadjiev, EVN consultant

At the same time Stefan Szyszkowitz still had no idea with whom to negotiate in the Roma community in Stolipinovo. *“Their claim to leadership is built on mutual dependencies, economic power and rivalry. The biggest risk for EVN was to step into*

³⁰ EVN Bulgaria, 2 May, 2006, *Implementation Strategy of the Technical Concept in the Risky Quarters*.

an unknown situation and get involved in any of the ongoing political, religious or internal fights”, said Szyszkowitz. Several attempts to find influential but trusted personalities failed, as political groups tried to influence any discussion in their interest.

According to an insider, there are three influential groups within Stolipinovo:

- *The “bandits”*: families or groups who have become relatively rich by trafficking drugs, alcohol or humans. Some of them are busy in the scrap-metal business, stealing cables and metal parts for resale.
- *The “rich families”*: families who draw their power from setting up NGOs and benefit from the huge sums of European or US institutions that are flowing into projects labeled “support for Roma”. Critical voices say that the funds are mainly used to build power networks and benefit family members more than the needy persons.
- *The religious communities*: mainly the Protestant and the Muslim faiths have influence in Stolipinovo.

None of them was an acceptable partner for EVN, especially as one of the most influential powers—the Muslim community—is closely related to the political party MRF, which was already infamous for manipulation during election campaigns.

Finally, with the help of Daniela Michalova, a lawyer working with the Open Society Institute and the Helsinki Committee for Human Rights who was experienced in working with Roma, they were able to identify a handful of Roma leaders who assured in a credible way that their agenda was the improvement of the living conditions in Stolipinovo and who were prepared to lobby for this issue in community meetings. Daniela Michalova spoke Romany and managed to convince them to be at least prepared to meet with EVN representatives and discuss their proposition regarding the technical approach. *“It took us a couple of months to find partners who were willing to talk but in the end, it is essential to have the Roma leaders on your side,”* explained Daniela Michalova. *“In Stolipinovo we have identified nine leaders for 35,000 people. Also, the leaders only talk to other leaders.”* Therefore the meeting had to be arranged as senior-level events.

Invest in a “Lost Cause”?

Stefan Szyszkowitz took a deep breath. It was time to go. He checked again the dos and don'ts that Daniela Michalova had written down for the meeting. Show respect, don't refuse anything that is offered, don't put a drinking glass on the floor, don't whisper. He would meet her at the periphery to Stolipinovo where the car could not pass because the illegal building activities left only narrow streets. It was not advisable to leave a company car in Stolipinovo without protection anyway. When he rode through the busy streets of Plovdiv it was hard to believe that a neighborhood like Stolipinovo even existed. However, now he had to deal with it. Many questions arose:

How should he proceed given that the local authorities were not prepared jointly to tackle the problems in Stolipinovo? Should EVN try to go ahead and push the technical solution right away? Or should it continue the electricity regime for the time being and try to get support from other stakeholders? There were indications that the public started to understand the complex situation better and acknowledged a period of grace for EVN to deal with the problem.

Was the technical approach developed by his technicians enough to tackle the complex problem of Stolipinovo? Evidence showed that the new digital meters facilitated the targeting of defaulters and made mass cut-offs needless. The big hope was that the collection rates would go up as a result but how much and for how long?

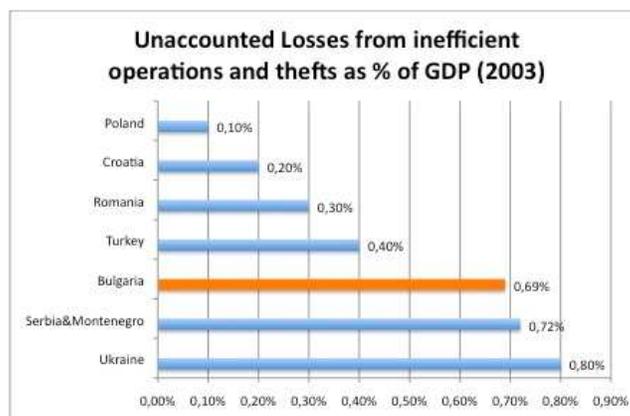
Could he afford to put a huge investment in the grid-renovation of a neighborhood that was seen as "lost cause"? Or should he focus on the modernization of the infrastructure elsewhere in its service area? Would EVN ever be able to earn back these investments? The investment would only pay off if the Roma were 1) willing and 2) could afford to pay their bills. Could he even trust them if an agreement was reached?

How could EVN ensure a sustainable solution in Stolipinovo? Is it even EVNs role to deal with a long-standing local problem like this? What is EVNs responsibility in this conflict?

How would EVNs shareholders react?

Annex:

Chart 1: Hidden Costs in the Energy Sector



Source: Ebinger, J., *Measuring Financial Performance and Infrastructure: An Application to Europe and Central Asia*, World Bank, 2006.

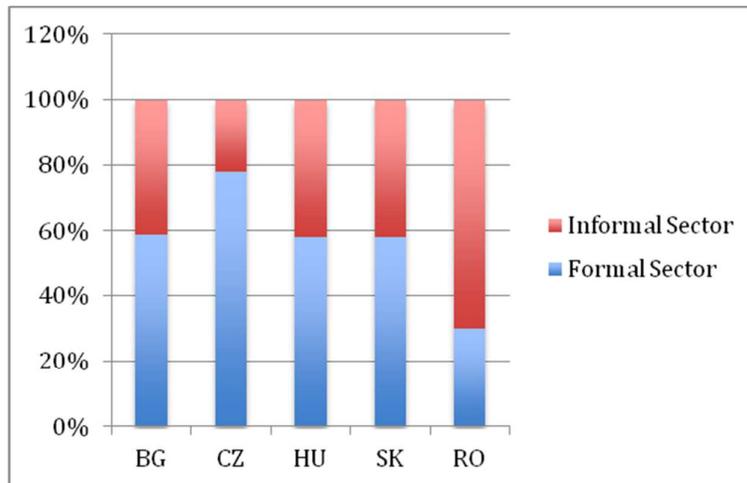
Table 1: Source of Income

Source of income that provides the most money for a Roma household in %

	BG	CZ	HUN	RO
Regular wage jobs	25.9	40.3	14.8	10.6
Occasional jobs	2.5	2.8	3	0.5
Salary/payment for work at a civil organisation	1.1	0.4	0.2	0
Self-employment/own business	2.1	2.8	0.4	1.1
Pensions	26	15.5	23.6	13.3
Unemployment benefits	15.2	23.2	22.4	9.1
Scholarship	0.3	0.6	0.3	0.4
Child support (including paid maternity leave)	15.3	10.6	27.2	25.4
Other	11.6	3.8	8	38.7

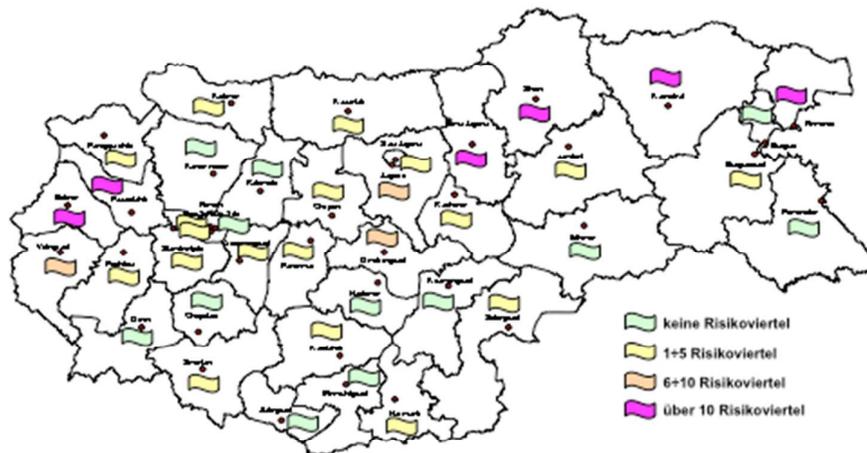
Source: UNDP survey 2004

Chart 2: Formal and Informal sector employment



Source: UNDP, 2002

Chart 3: Risky Customers/Potentials



Source: EVN Bulgaria

- Green flag: no risky neighborhoods
- Yellow flag: 1-5 risky neighborhoods
- Orange flag: 6-10 risky neighborhoods
- Pink flag; over 10 risky neighborhoods

Chart 4: Risky Neighborhoods—Opportunity Overview

No.	Data/Indicators	Units	ERP							Total
			Plovdiv - WV Skopinsvo	Plovdiv - WV Stekera	Stara Zagora - WV Makedonski	Stara Zagora - WV Zora	Burgas - WV Pobeda	Silven - WV Komjuka	Yambol - WV D Sjudimezova	
1	Number of Customers	Number	5,330	810	950	850	790	1,010	990	10,730
BEFORE ACTION										
2	Delivered Energy per Transformer Station per Year	KWh	54,300,000	8,840,000	8,100,000	7,300,000	10,350,000	10,200,000	4,300,000	103,390,000
		Leva	3,118,449	507,681	465,183	419,239	594,401	585,786	246,949	5,937,688
3	Sales Quantity per Year	KWh	34,600,000	6,800,000	5,500,000	5,500,000	3,800,000	4,850,000	1,600,000	62,650,000
		Leva	3,820,532	750,896	673,750	673,750	468,500	934,125	199,000	7,174,513
4	Collection Rate per Year	Leva	38,250	7,509	640,063	579,425	148,960	404,005	7,840	1,826,052
		% of Sales	1%	1%	86%	86%	32%	66%	4%	25.45%
5	Balance of Receivables per 1 Month 2009	Leva	9,707,000	2,067,000	17,000	10,700	143,000	145,000	1,890,000	13,979,700
6	Grid Losses per Year	KWh	19,700,000	2,040,000	2,600,000	1,800,000	6,550,000	5,350,000	2,700,000	40,740,000
		% of energy to be distributed	36.28%	23.08%	32.10%	24.66%	63.29%	52.45%	62.76%	39.40%
OUTCOMES AFTER IMPLEMENTATION OF MEASURES										
7	Delivered Energy per Transformer Station per Year	KWh	38,010,000	6,188,000	6,885,000	5,840,000	7,245,000	7,140,000	3,010,000	74,318,000
		Leva	2,182,914	355,377	395,406	335,391	416,080	410,050	172,864	4,266,082
8	Sales Quantity per Year	KWh	34,209,000	5,569,200	6,196,500	5,296,000	6,520,500	6,426,000	2,709,000	66,896,200
		Leva	3,777,358	614,951	759,071	643,890	798,761	787,185	331,853	7,713,039
9	Collection Rate per Year incl. Old Debts	Leva	3,995,229	676,446	759,071	643,890	878,637	865,904	381,630	8,171,774
		% of Sales	105%	110%	100%	100%	110%	110%	115%	105.85%
10	Grid Losses per Year	KWh	3,801,000	618,800	688,500	584,000	724,500	714,000	301,000	7,431,800
		% of distributed energy	10%	10%	10%	10%	10%	10%	10%	10%
OUTCOMES AFTER IMPLEMENTATION OF PROJECT										
11	Economic Effectiveness of Electricity Sales of Electric Distribution	KWh	0	0	696,500	0	2,720,500	1,576,000	1,109,000	6,102,000
		KWh	16,290,000	2,652,000	1,215,000	1,460,000	3,105,000	3,060,000	1,290,000	29,072,000

Source: EVN Bulgaria