Kosovo Energy Corporation
Debt Collection Strategy

Presented by Mr. Bekim Jakupi
Problem Background

WHAT is the problem?

- Kosovo Energy Corporation (KEK) is facing major difficulties collecting its outstanding receivables
- As of 31st December 2009, KEK consumers owe €350 million
- KEK receivables accumulated since year 2000
- Continuously growing receivables are having major negative impacts upon KEK state of affairs
Problem Background

Movement of Receivables 2000-2009

Years

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009

€ millions

0 50 100 150 200 250 300 350 400

0 89 134 165 207 222 253 279 311 350
Problem Background

**WHY is this happening?**

- Non-payment of electricity is an accentuated practice in Eastern Europe

- In Kosovo, non-payment of electricity still a common practice

- Other reasons that contributed to non-payment culture:
Problem Background

Other reasons that contributed to non-payment culture:

- Transitional difficulties
- War aftermath
- Weak law enforcement by judiciary
- Weak support from other enforcing agencies i.e. Kosovo Police Force
Problem Background

WHO owes to KEK?

- Consumer groups that owe to KEK:
  - Household consumers- single & two tariff groups
  - Commercial consumers- single & two tariff groups
  - Flat rate consumers – those paying a flat fee of €20, €50, €70 depending on the size of their respective homes
- Industrial consumers have no outstanding debt
**Problem Background**

*HOW is this affecting KEK and its Stakeholders?*

- KEK liquidity jeopardized due to an ever increasing receivables balance

- KEK borrowed at rates from 7.00 – 12.00% due to insufficient liquidity, hence high cost of credit

- KEK assets impaired due to low level of collections in accordance with International Accounting Standards (IAS) 36 Rule
Problem Background

- Approaching privatization may find KEK undervalued as result of low level of collections being experienced by KEK.

- “KEK has a large number of uncollected invoices and without doubt this will have an impact on the price of KEK” (Rudina Heroi, a GAP Institute Researcher, Debts Decrease the value, Lajm Newspaper, page 7, 7th April 2010)

- Low KEK privatization proceeds negatively affect Kosovo Consolidated Budget (KCB)
Approach to solving the problem

Initially, categories of debtors were analyzed based on parameters such as:

- Type of consumer
- Amount of debt owed to KEK

KEK generally classifies consumers in four main groups:
- Industrial
- Business
- Household
- Flat rate (households)
- Budgetary consumers
Approach to solving the problem

- According to data obtained from KEK Customer Care Package (CCP) Module:
  - Industrial € 11 million
  - Business € 44 million
  - Household € 300 million
  - Flat rate (households) € 17 million
  - Budgetary consumers € 1,6 million
  - TOTAL € 373,6 million

- Note: Due to accounting adjustments and inadequate data for year 2000-2001, receivables are restated at € 350 million and could be restated again.
Project Findings

Receivables due from Household Consumers

<table>
<thead>
<tr>
<th>Year</th>
<th>Single Tariff (4/01)</th>
<th>Two Tariffs (4/02)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>€50,000,000</td>
<td>€0</td>
</tr>
<tr>
<td>2003</td>
<td>€100,000,000</td>
<td>€50,000,000</td>
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<td>2004</td>
<td>€150,000,000</td>
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<td>2005</td>
<td>€200,000,000</td>
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<tr>
<td>2006</td>
<td>€250,000,000</td>
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<tr>
<td>2007</td>
<td>€300,000,000</td>
<td>€250,000,000</td>
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<tr>
<td>2008</td>
<td>€350,000,000</td>
<td>€300,000,000</td>
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<tr>
<td>2009</td>
<td>€400,000,000</td>
<td>€350,000,000</td>
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</tbody>
</table>

Data Source: KEK Customer Care Package Module (CCP)
Project Findings

Receivables due from Industrial and Commercial consumers

Accumulated receivables on year to year basis

Data Source: KEK Customer Care Package Module (CCP)
Project Findings

Receivables due from Budgetary Consumers

Data Source: KEK Customer Care Package Module (CCP)
For further diagnostics, debtors were categorized based on the amount they owe:

- € 0 - 1,000
- € 1,000 - 2,000
- € 2,000 - 3,000
- € 3,000 - 5,000
- € 5,000 - 10,000
- € 10,000 - 50,000
- € 50,000 & above

This analysis was undertaken to evaluate in which of categories above debtors fall, since the higher the debt the more difficult to collect.
Project Findings

Accumulated Receivables as per Debtor Category

<table>
<thead>
<tr>
<th>Categories of Debtors in Euro's</th>
<th>2002</th>
<th>2003</th>
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<th>2005</th>
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<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tr>
<td>0 - 1,000</td>
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<td>1,000 - 2,000</td>
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<td>2,000 - 3,000</td>
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<td>3,000 - 5,000</td>
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<td>5,000 - 10,000</td>
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<td>10,000 - 50,000</td>
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Data Source: KEK Customer Care Package Module (CCP)
Main Findings:

- Consumers owing € 0-1,000; € 1,000-2,000; €2,000-3,000 show a decline during 2008 & 2009 nevertheless represent the largest portion of overall debt, approximately € 220 million:
  - € 0 -1,000 group owes € 81 million
  - € 1,000 - 2,000 group owes € 79 million
  - € 2,000 - 3,000 group owes € 60 million

- Consumers owing € 3,000-5,000 have not improved hence their debts continue to rise, € 74 million in the end of 2009
Project Findings

- The number of those owing € 5,000-10,000 continue to increase very slowly, € 28 million in the end of 2009.

- The number of those owing € 10,000-50,000 continue to increase very slowly, € 10 million in the end of 2009.

- The number of those owing € 50,000 & above have continuously increased until 2008; during 2009 have decreased from € 18 million to € 15 million.

- About half of debtors owing € 3,000-5,000 are commercial consumers.
Project Findings

- Households represent the other half of those owing €3,000-5,000.

- Flat rate consumers shows a very slight increase – their overall debt is low.

- Commercial consumers debt continues to rise.

- Budgetary consumers owe KEK €1.6 million (KEK has had always difficulties collecting from budgetary consumers).

- Industrial consumers do not owe KEK.
Main reasons KEK consumers refrain from paying regularly their electricity bills:

- High unemployment, as per Statistical Office of Kosovo unemployment in 2008 was 47.5% (no current data available)

- Lack of Institutional support, of 7000 cases reported to Courts by KEK – only 2% have been dealt with to date

- KEK employee-customer relationship very often is built on corrupt exchanges and/or family links
Appraisal of Findings

Implications to KEK resulting from low level of collections:

- High level of KEK receivables triggered impairment wiping off approximately 75% of total KEK value from €1.1 billion to €250 million (KEK Incorporation, Financial Due Diligence Report as at 1st January 2005 by Deloitte CE)

- Lack of liquidity forces KEK to borrow, often with high interest rates

- Kosovo Consolidated Budget fails to collect VAT and taxes attributed to the KEK outstanding receivables
Contributory factors to the problem:

- High unemployment, 47.5% in 2008 and growing
- Petty corruption, (Case 2010/AO/04, KEK Audit Department, dated 16th March 2010)
- The larger the debt the less willingness and capability to service the debt
- Consumers willing to enter in corrupt exchanges to avoid paying their bills
Contributory factors to the problem:

- Commercial consumers escape paying their debt to KEK by:
  - Announcing bankruptcies
  - Shifting their place of operations
  - Commercial consumers often pay only part of their debt to avoid being cut-off the electricity supply
Conclusion and Recommendations

KEK has made many attempts to increase its collections by undertaking:

- Major marketing campaigns
- Collective cutoffs from electricity supply
- Court suits
- Payments in installments

NONE PROVED SUCCESSFUL !!!
Conclusion and Recommendations

WHAT should be done?

The Report concluded that offering discounts as an incentive to encourage debtors to clear their debts could prove successful.

HOW much discount?

50% discount may encourage debtors to settle their debts especially those owing in the regions from € 0 - 3,000 (consumers falling within € 0-3,000 thresholds make up the largest portion of debt, that is € 220 million)
Conclusion and Recommendations

**HOW much discount?**

Other categories (based on amounts owed) should be offered the same discounts. It would be unfair to offer more discounts to those with higher debts.

**WHY 50%?**

The report concluded that:

- 50% is the golden middle
- Most common discount offered across markets
**WHY 50% ?**

The Net Present Value Analysis concluded as follows:

\[
\text{NPV} = \left(\frac{350}{1.12}\right)^5 = €198.6 \text{ million}
\]
\[
\text{NPV} = \left(\frac{350}{1.12}\right)^6 = €177.3 \text{ million}
\]
\[
\text{NPV} = \left(\frac{350}{1.12}\right)^7 = €158.3 \text{ million}
\]
\[
\text{NPV} = \left(\frac{350}{1.12}\right)^8 = €141.3 \text{ million}
\]
\[
\text{NPV} = \left(\frac{350}{1.12}\right)^9 = €126.2 \text{ million}
\]
\[
\text{NPV} = \left(\frac{350}{1.12}\right)^{10} = €112.7 \text{ million}
\]

Thus it is economically viable to offer discounts NOW.
Conclusion and Recommendations

The BENEFITS to KEK:

- This strategy may enable KEK to collect €175 million, that is 50% of €350 million.

- NPV proves it is better €175 million NOW than €112 million after ten years due to loss of money worthiness.

- Better €175 million or less NOW than nothing later, if privatized, the new owners may not be interested to collect old debts.
Conclusion and Recommendations

"Good Response" Scenario

Assumed monthly collections as percentage of total debt
"Weak Response" Scenario

Assumed monthly collections as percentage of total debt
Conclusion and Recommendations

The BENEFITS to KEK:

- Improved liquidity
- Improved asset value
- Improved relationship with its consumers
- Increased capital investment capacity (invest in digital meters)
- Decrease in legal costs associated to Court cases initiated against debtors
Conclusion and Recommendations

The BENEFITS to Consumers:

- 2-3 months free electricity supplies
- Fund digital meters readers
- End the collective power cutoffs
- End to diseconomies caused by power cuts
Conclusion and Recommendations

The BENEFITS to KEK Employees:

- Improved liquidity benefits KEK Finance Division
- Less problems for Feeder Specialists
- Less court cases to deal with – Legal department
Conclusion and Recommendations

The BENEFITS to other Stakeholders:

- Tax authorities could increase their revenues from VAT and Corporation Tax that may arise when debts settled.

- The Ministry of Economy and Finance will be saved from funding the Digital Meter Readers.

- The Courts and Kosovo Police could save on their administrative and operational costs due to reduced interventions on behalf of KEK.
Conclusion and Recommendations

The IMPLEMENTATION:

- Implementing this strategy requires effort from all especially Ministry of Internal Affairs, Ministry of Justice, Ministry of Energy and Mining, Ministry of Economy and Finance and the PM’s Office.

- If KEK Executive Management decides to apply this strategy the following activities should precede:
  - An assessment of the opinion about the issue should be executed, and if the outcome proves positive then,
  - Undertake major campaign and get the discounts rolling.
Conclusion and Recommendations

Limitations faced in the course of this study:

- A research of the opinion as to the attractiveness of this offer could not be done due to the assumption that this could trigger an escalation of non-payment of electricity in the hope of capitalizing on potential discounts offered.

- The data, whether internal (KEK) or external (hard & soft media) often unreliable and scarce.

- Similar situations in the neighboring countries either nonexistent or no data available.
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Thank You