



# Proceedings from the Second National Roundtable in Bulgaria

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# THE ROLE OF THE FINANCIAL INSTITUTIONS FOR THE GREEN ENERGY TRANSITION: DO NATIONAL POLICIES PROMOTE NEW BUSINESS OPPORTUNITIES OR IMPEDE MARKET DEVELOPMENTS?

## National roundtable for financing energy efficiency investments in Bulgaria

**29 November 2021, 09:00 – 13:00**  
**Velingrad, “Infinity” hotel and online**

<i>95 stakeholder representatives</i>	<i>10 speakers</i>
	<i>20 delegates</i>
	<i>70 participants on-line</i>

### Discussion topics:

- Existing financial instruments for EE and RES projects;
- Quality assurance for EE project financing;

### Plenary session:

The national round table "The role of financial institutions for the green transition" was opened by Mr. Dragomir Tzanev (EnEffect). In his speech, he emphasized that in addition to the expectations for a minimum European standard for buildings renovation, the zero energy buildings concept as a construction standard after 2030 is already high in the public agenda. Mr. Tzanev also pointed out that some of the biggest banks in Bulgaria are interested in developing a range of various lending products targeting energy efficiency (EE) investments.

Mr. Ivaylo Alexiev (SEDA) also welcomed the participants. He noted that the investment volume needed to achieve the national EE goals far exceeds the capabilities of both the national budget, and the European operational and cohesion programs. Mr. Alexiev stressed that it is important to mobilize the private capital, which can only be done through market-based instruments. In his opinion, there should be a transition from grant-based schemes to entirely commercial EE financing instruments. Therefore, according to Mr. Alexiev, the role of the banking institutions in the process of building stock renovation in Bulgaria is extremely important.

From the subsequent speeches of the financial sector representatives, it became clear that the Bulgarian financial institutions are aware of their role in the green transition and are working hard to include attractive EE lending products to their portfolio.

### Key quotes from plenary session:

"The role of the banking sector is very important and very specific. First of all, we have to secure the funding for this green transition, and it could be done through the capital markets and financial institutions. The financing model is already set by the EC Action Plan... Small and medium-sized enterprises will also have a key role in the sustainable transition to greener economy. The available public resources, including European funds, must be blended with private sector financial instruments. The time for 100% grants has expired."

**Sofia Kasidova, Bulgarian Development Bank**

"Indeed, we have created a market momentum, which I hope will be used in the best way and will contribute to overcoming all the accumulated problems, meeting all needs and delivering effective solutions. Keeping this momentum will allow both the public and the private sector to make a big step towards using financial instruments in the coming years. The time for 100% grant funding of EE is receding."

**Nadia Dankinova, FLAG Fund**

"When investing in EE, it is important to have a good technical assistance, because the idea is to achieve savings that can pay off the investment and improve the financial performance of the project."

**Galya Vasileva, Energy Efficiency Fund**

## Discussions and conclusions from the parallel sessions:

### Parallel session 1: Existing EE and RES financial instruments

Moderated by Mr. Dragomir Tzanev

The session was opened by Mr. Dragomir Tzanev (EnEffect), who after some short remarks gave the floor to the panellists. Mr. Lyudmil Tzanev (Unicredit Bulbank) started with a short presentation on the bank's sustainable development initiatives. He paid special attention to the product "Green Mortgage", which is part of Unicredit Bulbank's portfolio. This product offers preferential loan terms and conditions when buying a home in a highly efficient building - class A or higher. Mr. Tzanev also pointed that borrowers who are buying apartments in a class A or higher building enjoy additional financial incentive - exemption from local property taxes for a period of seven years. In addition to the Green Mortgage, Unicredit Bulbank is offering a number of other lending products for EE investments, targeting not only the retail but also SME and Corporate clients.

Mr. Kiril Velichkov from United Bulgarian Bank (UBB) continued the session with a presentation of his bank's approach to sustainable development, part of which is a portfolio of financial instruments the bank is offering to its borrowers. Mr. Velichkov stated that the

role of well-designed instruments is very important for funding the green transition. He then presented an EE product for single-family residential buildings, which provides funding for EE measures aiming at achieving minimum energy class C. As a prerequisite for loan approval, the EE measures should be prescribed in an energy audit report. The product offers favourable loan terms to the borrowers. The main advantage is the low collateral requirements (in some cases the loan can be unsecured). Upon commissioning of the EE project, a verification audit is being performed to confirm that the measures have been properly implemented.

Mr. Konstantin Kirov presented the experience of ProCredit Bank with green investments. The first steps in this direction were taken in 2006. One of the eco-friendly products offered since 2016 (EcoMobility) is designed to finance acquisition of electric vehicles. Mr. Kirov said that before offering the product the bank has added some EVs to its fleet to learn about the benefits of electric cars. ProCredit bank does also support its customers by providing financing for EE improvements in buildings and replacement inefficient production machines and equipment. To be more effective in offering specialized lending products the bank first tested the concept by first investing in the renovation and certification of its own buildings before launching the EE products in the market. According to Mr. Kirov, the goal of the bank's team was to go through all the steps of project development and implementation and learn about the potential difficulties that customers may encounter. The accumulated knowledge is now allowing the loan and risk officers better understand the risks associated with EE investments and to help their clients avoid project failures.

The three presentations were followed by a discussion in which the in-person and online participants took part.

The representative of Unicredit Bulbank shared that the bank is currently developing an initiative aimed at multi-family residential buildings, which could later evolve into a financial product to meet their renovation needs.

Mr. Raytchev spoke about the vision and policies of KBC Group and its representatives in Bulgaria in the field of green development and confirmed that other products in the field of energy efficiency and renewable energy are currently being developed.

Mr. Kirov spoke about the process of EDGE certification of the ProCredit Bank head office building and the need of precise selection of a contractor when implementing and financing EE and RES projects.

Based on the discussions, it could be concluded that the banks are becoming the main channel for communication with citizens about the current market opportunities for EE improvements - subsidies, financial instruments, eligibility requirements, expected benefits and more. By having a branch network throughout the country, they become information centres and partners for their customers.

Additionally, the banks have a high degree of trust from their customers. This may compensate the lack of such trust in construction companies and government institutions as well as in the overall benefits from EE investments, as large number of people in Bulgaria are still sceptical about the real advantages. The participants once more emphasized on the need for a national information campaign to explain the benefits of EE to increase citizens' confidence.

The main conclusions made at the end of the session were as follows:

- Based on SEEA's statistics, only 7% of all buildings commissioned in 2019 are of energy class A or higher, while the rest barely cover class B. Financing instruments, such as green mortgages, will stimulate the demand for efficient buildings, which, in turn, will spur the supply of such buildings. At present, the energy performance indicator is not a decisive factor in making a purchase decision.
- It is necessary to simplify the procedures for issuing permits for installation of charging stations for electric vehicles. To date, there are examples that this process takes almost a year. The problem is similar with the procedures of issuing permits for the construction of solar PV systems for own consumption.
- It is necessary to improve the programming of grant instruments (shift from 100% subsidy to blended financing). They should be targeting sectors with low liquidity, and not those with sufficient financial support. Another improvement could be the grant component to defray support activities related and contributing to EE (energy audit, technical support, monitoring of results, etc.).
- Communication between different stakeholders needs to be improved. The benefits of EE are still unclear to citizens. There is a lack of a comprehensive information campaign which would boost the confidence and engage all stakeholder groups.
- Legal regulations should be changing in a timely manner following the new business models in the EE sector. To date, this is not happening, which is delaying the utilization of the latest technical and organizational developments and the benefits they offer (e.g. regulation on energy cooperatives, zero consumption directive, etc.).

## Plenary session 2: Quality assurance for financing EE projects

Moderated by Mr. Stanislav Andreev

The main focus of this session was the need of tools that can ensure quality and prove the results of EE projects in order to attract additional private investment and take advantage of the new opportunities that the EU funds and programs create. The relationship between such instruments and the financial risk assessment of EE projects was also subject to discussions during the session.

After a short introductory speech, the moderator gave the floor to Mr. Ivaylo Alexiev (Executive Director of SEDA), who presented the latest trends in energy performance certificates for buildings at EU and national level. The second speaker - Mr. Kamen Simeonov (EnEffect) outlined the good practices and lessons learned from the Green Mortgages initiative. Unfortunately, it has been found that while in several neighbouring countries the financial products based on energy certificates are working well and attract great interest from end-users (borrowers) and financial institutions, while the Bulgarian market for green mortgages is still underdeveloped, and the role of energy certificates in making financial decisions is insignificant.

Mr. Marko Markov (Econoler SA) presented the main steps and principles in the preparation of financial analysis of EE and RES projects. His presentation compared the similarities and differences in the financial evaluation approach of such projects, the key phases of the financial analysis process, as well as the limitations on the in-depth economic benefits assessment that the specific traits of EE impose. In his presentation, Mr. Markov emphasized on the need for easily accessible and structured information on the energy performance of buildings, which will enhance the quality of EE financial analysis and will render the outputs more reliable.

After the introductory presentations, the moderator encouraged the participants to provide their comments and suggestions. Many participants attending in-person and on-line took active part in the discussion.

The conclusions made at the end of the session were as follows:

- The certification schemes are regularly being reviewed, but the transposition of EU directives for EE are delayed.
- The building owners are not sufficiently involved in the certification processes, as well as in the process of implementation of EE projects (the latter was especially valid for the National Program for Renovation of Multi-family Buildings).
- Building certificates do not provide enough useful information for owners, who also do not see much benefit in certifying their buildings at this stage.
- There is a need to improve the process of preparing energy audits. Currently, there are too many manual operations required to transfer technical data from the report to the summary and the certificate, leading to frequent errors and poor quality of the certificates. The process of generating a resume and a certificate needs to be automated.
- Some participants warned that trainings and certification exams for energy auditors have not been organized for a long time. This will lead to a shortage of auditors and will hinder the implementation of the national long-term strategy for renovation of the building stock, as well as the investment projects under the National Plan for Reconstruction and Resilience.
- A proposal was made to establish a national advisory council to consider and propose measures for improvement of the energy audits' and energy performance certificates' quality.

### Closing session - Lessons learned and upcoming activities

Moderator: Dragomir Tzanev

At the end of the event, Mr. Tzanev invited the reporters from the two parallel sessions to summarize the discussions and share the conclusions and recommendations made by the participants. Kiril Raytchev presented Parallel Session 1. According to him, an important moment of the session was to understand how Bulgarian banks plan to finance the green transition. The approach adopted by ProCredit Bank - to test the technologies and business models themselves before proceeding with their financing - is really efficient and it is gratifying to see that it is applied in Bulgaria. UBB impresses by combining different mechanisms in one product and adapting the structure of its credit products to the needs of end customers. UniCredit BulBank, for its part, is the first to offer preferential terms for achieving the highest energy classes in the building sector.

Another interesting conclusion from the first session is that there is clearly a pressure to reduce the share of grants and transition to financial instruments. Obviously, grants will be needed in the future, but they should focus on technical assistance for high-quality energy efficiency projects, and not on investment costs.

Poor communication between all market players is still a major obstacle. Improving communication at national, local and media level would improve the credibility of policies and projects in the field and would provoke action and commitment from all market participants. Joining efforts in this direction is very important will require work not only from banks and consultants, but also from the state, using professional communication techniques.

At the end of his speech, Mr. Raytchev outlined the main directions of the participants' speeches for further topics of the discussion. The two most important topics outlined were:

1) Improving the administrative processing of projects. An influx of "green" projects is expected to apply for funding in the near future and regulation should not be a deterrent;

2) The Bulgarian market must be prepared for the adoption of innovative business models that are emerging in Europe. It is necessary to create a favourable environment for the development of models such as energy cooperatives, energy performance contracts, etc. for which banks can create specific products.

A summary of the second parallel session followed, as Mr. Alexander Stankov outlined the main discussion points and the recommendations made by the participants. The observation that the certificates do not provide very useful information for the owners of buildings and sites was confirmed, since they contain specific technical data that is difficult for most owners to understand. Additionally, there is a lack of monitoring of results in the implementation of energy efficiency projects financed through the national budget and European programs. In order to ensure a high quality of implementation, applicable monitoring schemes and tools must be provided, and the owners must be committed to observe the implementation of the measures.

It was also noted that it is much easier for banks to finance RES projects than those for energy efficiency, as less effort is required and higher returns on investment are achieved. Energy efficiency projects are more complex for banks and to increase interest in them, it is necessary to ensure high quality energy audits, as well as an accessible database with information on the actual results of projects, which would facilitate banks in preparing of financial analyses.

Digitalisation has also been affected - SEDA already offers digital tools, but a lack of well-trained staff would be a problem. Mr. Atanas Stoykov (EERSF) shared good examples of stimulating investment in energy efficiency created by the Casa Clima program in Italy. It was pointed out that the implementation of such initiatives in Bulgaria requires the active participation of the Ministry of Regional Development and Public Works, which is expected after the formation of a regular government.

The national round table on "The role of financial institutions for the green transition" was closed by Dragomir Tzanev, who addressed all market participants from the public, private and financial sectors with one key message: to support the development of the EE sector and financing transactions, we need to ensure predictability, transparency and trust in the policies and projects, independently if they are implemented via grants, market schemes or ESCOs.