



Proceedings from the Fifth National Roundtable in Bulgaria

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Responsible partner: ECONOLER BULGARIA

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FINANCIAL INSTRUMENTS FOR ENERGY EFFICIENCY IN THE INDUSTRY

National roundtable for financing energy efficiency investments
in Bulgaria
29 November 2022
Sofia, Hyatt Regency Hotel and online

<i>161 stakeholder representatives</i>	<i>10 speakers</i>
	<i>76 delegates</i>
	<i>75 participants on-line</i>

Discussion topics:

- Available financial instruments in support of energy efficiency and RES in the industry and SMEs
- Energy management systems in the industry and SMEs

Plenary session:

The national roundtable was opened by Mr. Dragomir Tzanev (EnEffect). He commented how BeSmart has been up to now focused mostly on buildings (public and residential), however there has been gained momentum to introduce the topic of EE in the industrial sector. He expressed his satisfaction at the attendance by representatives of all sectors: Public - Ministry of Innovation and Growth, Sofia and Gabrovo Municipalities, Business/Industry - BIA, Financial sector – Bulgarian Development Bank, UniCredit Bulbank, and First Investment bank, and underlined the importance that taking into account the interests of all stakeholders, when designing national policies and financial instruments, is of utmost importance for the successful transformation of the Bulgarian economy.

Then followed a presentation by Ms. Teodora Polimerova (Sofia Municipality). She commented that the development of the local economy is naturally a priority for the municipality, as they are interested to support the public sector companies (such as utilities) towards the implementation of sustainable energy projects, also improving their financial resilience by saving energy. She added that the state aid rules, when applying for grants for such projects, cause delays in the implementation, and then shared the latest Renewable Energy Sources (RES) projects of the municipality – one at the area of the municipal zoo and one at one of the bigger waste treatment plants (to be accomplished next year).

In his presentation, Mr. Dobri Mitrev (Chair of MB, Bulgarian Industrial Association) mentioned that the current energy crisis has a severe impact on Bulgarian businesses. It has pushed the business to react quickly and be flexible. Now the business needs a secure and low-carbon energy supply, as the cheapest of all is the energy that is not used (saved energy). Mr. Mitrev then commented that becoming less energy-intensive is a guarantee for higher competitiveness, which is the key condition for the success of the Bulgarian economy and one of the most open economies in the EU. He then posited that the Bulgarian industries are ready to engage in EE/RE investments, but the regulatory framework needs to be improved, and administrative barriers to be alleviated. Mr. Mitrev mentioned that research conducted by BIA showed that there are app. 900 administrative procedures related to EE/RE are currently in play on national and local levels.

He concluded his presentation by saying that it is very important to be able to retain skilled employees, who are key to energy transformation and adoption of innovation. His message was that all sectors (government, financial, business) should coordinate and cooperate towards overcoming the existing challenges.

Ms. Milena Popova (Ministry of Innovation and Growth) continued by talking about funding opportunities for sustainable energy projects in the Operational programme “Innovations and competitiveness”. She mentioned that EE/RES has always been considered an important priority when structuring EU programmes in Bulgaria and presented all funding programs supervised by MIG (app. BGN 7 billion in total). She stressed the fact that about 40% of the Economic transformation program under NRRP is earmarked for EE/RE investments, and added that the Ministry is working with the Fund of Funds towards developing various financial instruments for EE projects that will be launched in the next couple of years – blended commercial financing with grants, risk-sharing schemes, etc.

Ms. Sofia Kassidova (Bulgarian Development Bank) talked about good practices for financing sustainable energy projects in the industry. She mentioned that the Bulgarian Development Bank does not compete with commercial banks, but it complements their activities by



channeling resources and securing risk-sharing schemes, stressing that the bank can be an effective financial tool for the implementation of state policies, especially as supporting the green transition is among their strategic objectives. However, she added that projects should meet the EU Taxonomy criteria to be deemed eligible for support. The Bank is now considering the design of a loan product for sustainable energy projects owned by energy communities.

Key quotes from plenary session:

„We should focus on using available program funds as efficiently as possible. As a recommendation, I would say that preliminary consultations are a must for all programs. “

Dobri Mitrev, Bulgarian Industrial Association (BIA)

“More courage and agility are needed from our program designers. We must follow the pulse of the industry and society. We need to escape from the thinking typical of the 2000s.”

Kiril Raichev, Alliance for Energy Efficiency (AEE)

Discussions and conclusions from the parallel sessions:

Parallel session 1: Available financial instruments in support of energy efficiency and RES in the industry and SMEs

Moderated by Dragomir Tzanev

Ms. Vesela Gladnikova (Fibank) presented initiatives for EE/RE lending to private individuals and businesses – part of Fibank's green transition policies. She also mentioned the bank's new sustainable client center building - BREEAM certified as "Excellent", as the bank's aim is to lead their clients towards more resilient practices by example. Ms. Gladnikova then presented their latest lending products:

1. Sustainable future mortgage: purchase of A+, A, or B-class housing. The bank sees strong interest among its customers. Not only lower bills but also improved comfort is a key motivation for investment in highly energy-efficient housing. The bank provides up to 90% of total investment costs, and better loan conditions (lower interest, longer tenor).
2. Green loans to business clients. SMEs are keen to diversify their energy supply and are willing to invest in EE/RE without waiting for grant programs. Solar PV for own use is funded up to 100% of project cost, while PV plants on a PPA basis get 95% financing, and EV/Hybrid cars – get up to 90% of the cost.

Ms. Gladnikova concluded that the Bulgarian business is ready to invest in EE/RE, but the market transformation is contingent on 3 key pillars: (i) regulatory improvement, (ii) human capital development, and (iii) technology evolution.

Next was the presentation of Mr. Emil Dzhahov (UniCredit Bulbank). He said that technologies evolve really fast, and business have to adapt. Quick evolution is followed by improved financial viability of technologies, outlining that now RES (PV specifically) is by far the cheapest technology for energy production and financial institutions are realizing this and developing their strategies accordingly. Mr. Dzhahov said that banks are now refocusing from financing carbon-fueled energy to sustainable energy finance, adding that UniCredit Bulbank has financed RE projects for over BGN 0.5 billion. However, the biggest impediment for businesses is not access to capital, but administrative procedures. Next, he commented on ESGs, which are enhancing their interest in EE/RE projects, and concluded stating that, overall, sustainable energy investments enjoy lower interest rates.

Discussion:

Mr. Dragomir Tzanev posed the first questions for discussion to the financial sector representatives regarding the extent the past 2 years of different crises have impacted their lending product portfolios and to what extent the government decisions influence banks' policies. Ms. Gladnikova answered that the crises of the past 2 years resulted in their clients' speeding up decision-making and seeking sustainable energy solutions. She shared the observation that clients have started looking towards highly efficient technologies more frequently. This will inevitably make businesses more resilient in the long term – as it is evident, unfavorable conditions contribute to quick adaptation and innovation, she added.

Mr. Dzhahov from UniCredit also joined in, stating that the banks are tracking the market evolution and are learning to adapt their offerings along the way. They have refocused to support industries in growth and with the potential for sustainable future development.

The following question for discussion was related to the financial institutions' opinions about the coming national and EU funds, and whether they are considered as competition. UniCredit's representative responded that high grant intensity may be detrimental, but reasonable grants create excellent opportunities for the financial sector to build their products on. Wrong messages and unrealistic expectations may be created through ill-calculated grants, and the public funding can be used more prudently through dedicated guarantee schemes to allow businesses better access to funding.

The representatives of FIB and UniCredit Bulbank concurred that banks follow the market and because the demand is for RE, they focus there. However, banks neither have the capacity, nor the knowledge to sell EE to their clients. This should be part of the national / EU programs' priorities.

Ms. Galia Vasileva (Executive Director of EERSF) outlined the products offered by the Fund. EERSF offers technical advice, which makes their product more comprehensive as compared to the purely financial offerings of commercial banks.

Mr. Dzahov (UniCredit Bulbank) concluded that the healthy competition between the financial institutions is good for the clients and the market as a whole. Banks are closely following the trend so we will keep lending to green projects.

Ms. Gladnikova (FiBank) added that all market stakeholders should make use of the possible synergies. The businesses can benefit from the capacity of local experts to develop viable and bankable projects.

Parallel session 2: Energy management systems in the industry and SMEs

Moderated by Stanislav Andreev

Mr. Stanislav Andreev (EnEffect) opened the discussion by describing the main pillars of an effective energy management system in industrial enterprises: (i) conducting a high-quality energy audit, (ii) implementing an energy monitoring system, and (iii) skilled staff that is able to analyze data and draw conclusions from it. Unfortunately, as Mr. Andreev explained, the quality of energy audits has been gradually deteriorating for the last few years. The sole purpose has shifted from identifying real long-term benefits for the clients to a pure bureaucratic effort that provides eligibility for EU subsidies and grants.

Mr. Anton Ivanov (Bulgarian Energy and Mining Forum) stressed on the importance of proper data management in the industry and SMEs, e.g., maintaining history of data entries, and applying a systematic approach to data collection and handling. Mr. Ivanov pointed to solar PVs as an example of well-developed technology; actively financed by banks because of their ability to assess associated risks with it and estimate its value. Key analysis for the profitability of such investments is conducted by reading the hourly consumption of the beneficiary, which allows optimal parametrization of solar PV. Mr. Ivanov continued that in that way it would be possible to attract financing directly from investors as well, i.e., by backing the investment opportunity with robust analysis. Some examples of joint initiatives between building owners,

which buildings were appropriate for the installation of rooftop solar, and consumers were provided to the audience, along with projects' competitive financial parameters.

Ms. Admiria Bushnyaki (European Center for Quality) shared some insights about the DEESME project and the ways it helps enterprises assess the additional benefits EE investments bring, e.g., increased safety and comfort, higher production quality, better process optimization, and less scraps, etc. Ms. Bushnyaku noted that 25 enterprises in Bulgaria had already been advised. She also outlined the steps of DEESME methodology: (i) basic analysis, (ii) energy analysis, (iii) business model improvement analysis, and (iv) additional benefits analysis.

Discussion:

During the discussion part of the session, both Mr. Andreev and Ms. Bushnyaki confirmed that there was increased activity in the market from clients looking for opportunities to install solar PVs and/or find sources for investments in energy efficiency due to energy high prices.

Mr. Ivanov suggested that subsidies should support investments in EE/RES instead of being provided as an aid to everyone to pay their energy bills. Only in that way, long-term positive effects would be accumulated. Mr. Ivanov concluded that just continuing with the same strategy would suppress any business initiative and stifle the emergence of a functional EE/RES market.

At the end of the discussion, some of the attendees appealed that the subsidy programs design should be much improved and start taking into account assessment indicators of real importance; and leave behind the bureaucratic formal approach.

Closing session – Lessons learned and upcoming activities

Moderated by Dragomir Tzanev

Mr. Tzanev started the session by making a short summary of the key takeaways from the discussions during the day. He made an overview of the first parallel session, noting that the business has increased its interest in new technologies. The availability of specialized financial products covering all aspects related to decreasing carbon emissions are also a positive development, as banks have a higher interest in sustainable investments and better flexibility in terms of clients' requirements and needs, Dragomir added. It was also discussed that financial institutions should supplement the national policies, as well as the understanding that public programs should not create the wrong impressions in clients. Their focus should be on creating engagement and interest, capacity building, and skills development. It was also noticed that technical assistance is considered good for market development. With respect to the European Commission's taxonomy, banks are considering its regulations in their internal rules and requirements, and they are looking for portfolio growth that will meet the EC taxonomy. During the discussion it was also mentioned that integrating RE in projects is important, because the combination of EE and RE provides the most sustainable results, otherwise, it may cost a huge resource to restructure during the process.

Mr. Andreev provided the conclusions from the second parallel session. He mentioned that the energy audit is considered a tool to attract capital, an obligation laid down in the Energy Efficiency Act. The lack of interest is based on low quality, lack of capacity building, and quality solutions, and also lack of motivation for the development of EE measures, mainly because of the low energy prices. An old program for the implementation of energy management systems

was misunderstood. Most of the systems are maintained until the project is completed. Their benefit is that they can provide the possibility for evaluation of real energy usage and savings, which is not the case now. Energy audit, energy management and monitoring systems are the key to assessing the RE investments and whether they are going to be profitable.

Mr. Marko Markov (Econoler) shared his knowledge from international experience in structuring financial mechanisms and EE funds, stating that regulatory issues are commonplace. The lack of people who understand the financial, as well as the technical part of the projects, and the lack of awareness of the industrial enterprise owners are the obstacles that stop the evolution of this market. Mr. Markov also mentioned that financial institutions do not create the market, but rather follow it. He further added that they are not supposed to convince their customers of the necessity and positive effects of EE and RE. However, this should be included as a component of the grant programs, and moreover, it is important for financial instruments to be combined with grants which will support the development of EE/RE projects, but not be in direct competition. Mr. Markov said also that grants need to alleviate the risk of the banks.

Mr. Tzanev then posed a question on the reasons why the ESCO model had not been more frequently applied in the industrial sector, albeit the benefits for the clients, e.g., guaranteed savings, financing energy saving measures, etc. Mr. Raytchev (AEE) elaborated that there were three main reasons for staying behind such a trend: (i) EU operative programs, the major drivers for investments in modernization and energy efficiency in the Bulgarian enterprises, had never been designed to blend with the ESCO model. As a result, the ESCOs had been gradually pushed out from the market, (ii) In comparison with most of the other parts of the EU, Bulgaria had been deemed as a riskier destination for investments. Considering that the ESCO is a financially intensive and long-term business model, i.e., the ESCO had to provide the investment and the client had to pay it back, that fact makes these types of companies less willing to enter the Bulgarian market. Mr. Raytchev added that some renowned ESCO companies were leaving the Bulgarian market for that reason, whereas others just did not start that line of business, and (iii) Industrial equipment had become encapsulated and almost impossible to optimize and manage by third parties. In other words, Mr. Raytchev concluded, as long as the equipment provider was different from the ESCO company, delivering a successful ESCO service would be rather difficult.

In his final remarks, Mr. Raytchev strongly advised that grant and subsidy programs should provide support after results are achieved and proven, e.g., there are verified energy savings. Mr. Raytchev also added that innovative service-oriented business models should become the focus of such programs, gradually shifting our understanding that energy efficiency is just construction works.

Mr. Andreev talked about the reasons why enterprises' owners do not implement EE and RE measures in their enterprises, one of them was energy monthly bills, which cannot justify the investment, compromises on the quality of the implementation aiming at lower price, bureaucracy, lack of awareness for the benefits of the qualitative energy audit.

Mr. Dragomir Tzanev then made closing remarks and the roundtable officially concluded.