



Proceedings from the Sixth National Roundtable in Bulgaria

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Contents

Plenary session:.....	4
Key quotes from plenary session:	7
Discussions and conclusions from the consecutive sessionc:.....	8
Consecutive session 1: The transition towards co-financing by the owners for the implementation of the national renovation programmes	8
Consecutive session 2: Financing instruments in support of new energy efficient buildings.....	9
Plenary session – The Role of the Local Governance for Achieving Sustainable Built Environment.....	10

FINANCING FOR ZERO-ENERGY BUILDINGS AND BUILDING RENOVATIONS

National roundtable for financing energy efficiency
investments in Bulgaria

1 – 2 June 2023

Burgas, Expo Centre "Flora" and online

<i>120 stakeholder representatives</i>	<i>16 speakers</i>
	<i>42 delegates</i>
	<i>62 participants on-line</i>

Discussion topics:

- The transition towards co-financing by the owners for the implementation of the national renovation programmes
- Financing instruments in support of new energy efficient buildings

Plenary session:

The national round table titled "Financing for Zero-Energy Buildings and Building Renovations" was opened by Mr. Dragomir Tzanev (EnEffect).

Ms. Chanka Koralska (Deputy Mayor of Burgas Municipality) shared that all educational buildings in Burgas were renovated thanks to the various national and EU programs. She pointed out that people still relied on the local authorities to understand all existing opportunities for financing their EE projects and that they still thought the government should pay 100% of the investment cost despite their enjoying the savings and improved comfort.

Ms. Koralska added that it would take additional efforts to encourage citizens to co-finance and that a long term and affordable mechanism for borrowing was something still missing. She provided some examples with on-bill or on-tax models and pointed out that the National Decarbonization Fund (NDF) was something expected to commence in the very near future.

Ms. Silvia Rezessy (Policy Officer, DG ENER) emphasized how important is the transformation of the EU's energy system, in view of future energy and climate crisis as well as reducing and phasing out the overreliance on Russian energy imports. EU has developed a comprehensive set of programs – REPowerEU, Gas storage regulations, etc., resulting EU-wide in the reduction of imports from Russia by 80% and of the overall energy consumption by 20%. Furthermore, Ms. Rezessy shared that a cap on gas and oil prices had been introduced, doubling the efforts in RES investments.

It was also mentioned that the building stock was a key segment to pay attention to as approximately 1/3 of energy consumption was coming from there (24 billion m² across the EU). That is why buildings had a key role in Fit for 55 package. Then, Ms. Rezessy pointed out the main priorities of the new Energy Performance of Buildings Directive (EPBD) – Renovation, Decarbonization, Modernization and system integration, and Financing. She added that the energy performance certificates were expected to be issued based on harmonized methodology across the EU.

Mr. Petar Vitanov (MEP) commented that the Social-climate Fund (SCF) was based on achieving the goals of the Green Deal. It was part of a post-industrial revolution aiming at transforming the EU economy. He added that it rested on 3 pillars – sustainability, social affordability, and economic transformation. It was mentioned that the social price of the Green Deal was very important. Mr. Vitanov also said that the SCF would address the social cost of the green transformation by reducing the footprint of transport and buildings. It was also added that the Fund was established based on the emission trading scheme amendments and that it would finance energy and transport vulnerable people and micro companies. The funds could be directly granted to people, e.g., to address energy poverty, or to fund initiatives that aim to support building renovation and accessible and sustainable transport. Mr. Vitanov stressed that the member states should develop national climate-social plans outlining the mechanisms of use of the social-climate fund (e.g. direct grants or initiatives).

Ms. Zaritsa Dinkova (Former Deputy Foreign Minister and Adviser to Radan Kanev, MEP) stressed that the new regulations needed to find a way to blend direct subsidies and commercial finance in order to leverage the limited public resource (grants – only to socially vulnerable groups). She shared that, together with Mr. Kanev, they worked on a pay-as-you-save model (the repayments were not to exceed the achieved savings).

Ms. Dinkova said that the EE renovation process in the EU went slower than anticipated and that more activities and financial instruments were needed to be offered by the Member States, as well as awareness-raising initiatives.

It was also added that the limited capacity of the construction and financial sectors were posing a risk to achieving the ambitious goals. Furthermore, achieving the goal for renovation of 15% of the least efficient building stock, Ms. Dinkova said that we needed to build capacity among the technical ecosystem and build awareness, as well as strong monitoring of the achieved results.

Ms. Dinkova completed this by stressing that innovation in the construction materials and processes was very important and that digitalization was key. Lastly, she pointed out that training technicians in applying EE materials and measures was something that should become part of the EPBD.

Mr. Assen Gasharov (EIB) stated that the EIB has blended EU funds with its own funds to design climate-related and EE financing instruments. He added that in 2022 the EIB has deployed over EUR 19 billion for energy projects, of which nearly 5 billion had been directed to EE. He commented that the bank aimed to mobilize private resources tenfold its own resources. He shared that in the future off-balance sheet financing would be playing an ever-growing role (ESCO, EPC, on-bill, etc.) in meeting the growing capital demand for EE renovation.

Mr. Gasharov continued discussing the greatest funding demand in Bulgaria in the residential sector, underlying the necessity of innovative financial instruments to bridge it. He added that the shift from grants to commercial mechanisms was key. During the presentation, he also pointed out that the local banks should be supported through risk alleviation instruments, and a potential guarantee scheme could be the InvestEU sustainable guarantee. In that reference, it was emphasized that the EIB offered a 3-pillar approach: Lending, Blending, and Advising.

Mr. Gasharov concluded by sharing that the EIB did direct lending for large-scale investments (tens of millions of EUR), intermediated through local banks, blended with ESIF grants. He also added that the EIB did also guarantee schemes through the InvestEU Fund and that it offered TA grants for project development, capacity building, etc. (e.g., ELENA, JASPERS, EIB Advisory hub).

Ms. Dochka Vasileva (Fund of Funds) presented the future financial instruments in the process of development by the fund under the 2021-2027 financial framework. She shared that the fund was still negotiating with the EU Fund management authorities in Bulgaria so things were still a work in progress. Ms. Vasileva added that the Development of Regions program would fund a new fund for sustainable city development which would be targeting EE in public, private buildings, and dormitories. She clarified that Fund of Funds did not plan to set up a dedicated EE Fund, but EE would be financed as part of other programs.

Ms. Vasileva pointed out that the blended instruments (up to 50% grants and loans) were the main innovation for the period. She outlined three types of grants: (i) technical assistance, (ii) capital rebate (against higher than planned EE performance – higher than class B or 30% GHG reduction), and (iii) capital subsidy (100% grant – for vulnerable clients).

Ms. Vasileva revealed that the sustainable city fund would be offered in the 50 largest cities in Bulgaria. She added that, as usual, the commercial part of the instruments would be with affordable terms – lower interest rates, longer durations, etc. She also shared that additionally to the EE measures beneficiaries would be able to include constructive measures, EV

charging points, etc., and that energy audits would be required. Ms. Vasileva lastly said that the time frame of the fund was still unclear, but not earlier than 1 year from that day anyway. She clarified that the total budget of the fund was BGN 277 million in loans and 184 million in grants, but the EE earmarked portion is still unclear.

Ms. Mariana Iteva (Veolia Bulgaria) presented what Veolia offers to its clients - a range of solutions for resource efficiency and climate-resilient investments. She explained that the company had set its efficiency KPIs and had committed to phasing out all operations worldwide that involve the use of coal. Ms. Iteva emphasized that Veolia invested heavily in solutions related to geothermal energy, water-to-energy, waste heat recuperation, biomass, solar PV, and waste-to-energy (RDF). She added that the company is committed to improving the EE of its clients, the reliability of energy supplies, and reliable Operations & Maintenance of the energy network.

Being part of EVN Group, Ms. Lubka Vasileva and Ms. Violeta Amzina (EVN Bulgaria) presented the company as an energy distributor in South-eastern Bulgaria and a district heating operator. It was outlined that EVN had experience with the implementation of EE projects but could not tap into the EU funds (being a large corporation), which would have led to the realization of bigger projects.

Ms. Vasileva and Ms. Amzina shared that they were piloting a one-stop-shop approach for EE services. They added that good planning and coordination were key for the robust development and implementation of EE investments.

As an obligated party under the National energy saving scheme, EVN has been struggling to figure out ways and mechanisms to achieve the set targets. As an example, it was said that direct measures to end clients were too costly and that the option to inject capital into the Bulgarian EE Fund was not working due to a lack of approved methodology. In the end, the different services provided by EVN were outlined, such as energy and solar audits, measurement and Verification of savings, energy monitoring, and reporting.

Key quotes from the plenary session:

“It is up to the people to realize and be proactive towards achieving the national decarbonization goals... Authorities should play complementary role and enhance the process... Unfortunately, the second phase of NRRP comes before the mechanisms for ensuring the co-financing are in place. People may not be able to bring in the equity stake.”

Dragomir Tzanev, EnEffect

“We see interest in EE among the citizens as the awareness of the multiple benefits is growing... We should keep pushing toward the popularization of EE despite the political instability and the delays in NRRP over the past 2 years.”

Chanka Koralska, Burgas Municipality

Discussions and conclusions from the technical sessions:

Technical session 1: The transition towards co-financing by the owners for the implementation of the national renovation programmes

Mr. Dobromir Vassilev (Director of the Housing Policy Directorate, Ministry of Regional Development and Public Works) shared that the first phase of the Multifamily apartment building renovation program of the National Recovery and Resilience Plan (NRRP) is soon to close. He continued that the second phase (providing an 80% grant) will follow right afterwards through 16.01.2024. He also said that legal amendments in the Condominium Act were then being discussed to unlock the EE renovation potential.

Mr. Vassilev said that the eligibility criteria are the same for both phases – energy audits and constructively sound buildings could be financed. He added that approx. 3 million sq. meters of buildings should be renovated and that about 3,000 buildings had applied for phase I, pointing out that the applications were for 4 billion BGN, while the available funding is BGN 1.1 billion. He shared that the Ministry had held numerous meetings with local financial institutions that had expressed interest in securing the co-financing, adding that the 20% could also come through ESCO.

Mr. Vassilev pointed out that it was still unclear if funds from REPowerEU would be redirected towards EE and that funds from the national budget were not expected to complement the pool. Furthermore, he stated that the NDF should be the leading financial mechanism in the future to enhance the transition from 100% grants towards a more balanced blending approach.

Ms. Tzveta Naniova (BACC) asked what would happen to projects that had applied but not qualified for funding, to which Vassilev shared that part of those that had not qualified for phase I would resubmit for phase II and that the rest should seek NDF support.

Ms. Chanka Koralska (Municipality of Burgas) commented that local authorities relied on the central government to solve the issues with insufficient funding for all applicants (out of 214 applicants in Burgas the resource earmarked for the municipality would allow renovation of just 40-45 buildings). She expressed her hope that the buildings from the reserve list from phase I would be prioritized in phase II so that the municipality could clearly communicate that and not lose trust already built in local communities.

Mr. Vassilev answered that the documents for phase II were identical to phase I so the buildings from the reserve list would not have to make extra effort, but all would be required to apply again.

Ms. Koralska expressed hope that the results of the evaluation of phase I would be completed within 4 months (as the Ministry targets) so that buildings from the reserve list could prepare and submit for phase II on time.

Ms. Tzveta Naniova commented that the lack of financial instruments to secure the 20% co-financing would be an impediment. She continued that while the national target for renovation in the residential sector was 19 million sq. m. till 2030 and the NRRP aimed at securing financing for 3 million only, it was more than obvious that coordinated measures for mobilizing

private capital were needed. Ms. Naniova said that the H2020's SHEERenov project had demonstrated that there was a large number of buildings that were willing to contribute substantially, but there was a need for specialized intermediaries (OSS, not solely municipalities). She advised that the OSSs should not only provide information but also services for project development. Ms. Naniova concluded that people were not reluctant to contribute to EE renovations as long as there were no specialized financial instruments available.

Mr. Jordan Nikolov (Renovate Bulgaria) said that the main bottleneck was the lack of adequate financial schemes (apart from the grant programs), as well as the lack of skilled EE professionals. He added that the capacity developed during the National program was lost – the lack of continuity was hurting the market. Mr. Nikolov advised that mandatory professional facility management would alleviate part of the problems. He pointed out that the state should also focus on single-family houses where the energy issues were even greater than in the multifamily sector.

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

- Currently, just ESCO is available as a mechanism to cover the required 20% co-financing from condominiums under phase II of the NRRP.
- The national programs should be better structured and supported by public authorities so that necessary financial instruments, as well as other prerequisites, are in place when needed.
- Lack of skilled construction workers and mandatory professional facility management are among the problems that are currently hurting the wider renovation uptake.

Technical session 2: Financing instruments in support of new energy efficient buildings

Mr. Plamen Mavrov and Mr. Emil Cholakov (ProCredit Bank) presented the social and environmental aspects of the ProCredit Bank business model. They pointed out that the bank was pursuing not only financial but also E&S performance and that the companies that received funding from ProCredit Bank were required to adhere to high E&S standards (this assessment was part of the overall credit assessment). They said that the bank also led by example – they first implemented the green and social requirements themselves., e.g., the bank was using an electric fleet, solar roofs for its branches, and implemented high energy standards for its buildings. Mr. Mavrov and Mr. Cholakov explained that they had excluded a huge number of non-environmental friendly industries from their portfolio. They added that the bank has built substantial internal capacity for the technical assessment of green projects and was providing advisory services to its clients. It was also pointed out that the bank was preferentially financing buildings with min. energy class B and that they were also offering dedicated loans for RES for their own consumption. It was added that electric vehicles and related charging infrastructure were also subject to specialized lending products offered by the Bank.

Lastly, Mr. Mavrov and Mr. Cholakov shared that lending to condominiums was complicated due to a lack of collateral, but government-backed risk-sharing schemes would help the banks, who were otherwise willing to tap into the huge lending potential for EE renovations.

Mr. Dorin Beu (Romanian Green Building Council) started his presentation by explaining that having a healthy, comfortable, and safe environment is equally important as an energy efficient one for the well-being of homeowners. He stated that was the reasoning behind the development of a new financial product offered by banks under the name of Smart Finance for Smart Families. Mr. Beu clarified that by following a predefined set of requirements, one could optimize her total cost of monthly ownership by taking into account not only mortgage payment, but energy, health, and repair costs as well. Mr. Beu concluded that if banks, developers, and buyers were following such philosophy and the guides that they had developed under their project, it might lead to lower mortgage rates.

Ms. Aglika Georgieva (Deloitte Bulgaria) explained that requirements for reporting green taxonomy-aligned investments, as well as socially responsible activities were mandatory for banks and large corporations and that starting from 2028 SMEs would also be required to report. For banks, she added that the Green Asset Ratio coefficient was something that reflected the degree of achievement of their green objectives. Ms. Georgieva shared that risk assessments had started to include a review of sustainability criteria when new construction, renovation, and/or acquisition transactions were approved.

Ms. Meredydd Evans (U.S. Department of Energy, Washington Office) presented recent developments in Energy Service Performance Contracts (ESPCs) in the USA. She explained that the ESPCs were divided into two components – an energy-saving one, which was paid for by the client with energy savings, and a decarbonization one, which exceeds what could have been paid with energy savings. Ms. Evans explained that additional sources of funding were utilized for payment of the decarbonization component such as grants, subsidies, reaching 15%-20%, various incentives, green bonds, as well as capital injections. She added that alternative approaches for financing decarbonization were also tried, e.g., CO₂-pricing and claiming cost savings from it besides energy ones.

Lastly, Ms. Evans discussed the benefits of the introduction of building performance standards, green banks, weatherization assistance, and state utility retrofit programs.

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

- Government backed risk sharing schemes will unleash financing to condominiums according to the banks;
- Total cost of home ownership can be optimized if costs for energy, repairs, health, and mortgage are taken into account as a whole;
- The ESCO model in the US is starting to include guarantees for decarbonization, besides the ones for energy savings.

Plenary session – The Role of the Local Governance for Achieving Sustainable Built Environment

Several key programs and initiatives were presented during the session on the 2nd of June. First, Mr. Tzanev presented the NECPlatform whose mission was to enable intensive dialogue among the main stakeholders involved in the development of national energy efficiency programs. Next, Mr. Dukov from the Ministry of Regional Development and Public Works presented some details of the forthcoming Regional Development Programs. Ms.



Pishmisheva, Project Coordinator of the Covenant of Mayors – Europe concluded the first part of the session by elaborating on the importance of municipalities in the EU energy transition.

The second part of the program started with a presentation by Mr. Tzekov from the National Trust Ecofund. Mr. Tzekov stressed some new initiatives that included compatibility of NTEF's financial instruments with the ESCO model, as well as products targeting the social sector.

Ms. Tsarev from FLAG Fund presented a new financial product, still under development and part of an ongoing H2020 project, that incorporates a technical assistance component and a loan for the needs of financing EE/RES projects in municipalities.

The session was completed with the seminar from Mr. Gasharov from the EIB about the ELENA facility. He provided plenty of examples of projects supported by ELENA in the EU and expressed his belief that soon ELENA would have its first project in Bulgaria as well.