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THE LIFE AFTER THE NATIONAL RECOVERY AND RESILIENCE PLAN: A STRATEGIC VISION WITH PRACTICAL IMPLICATIONS AT THE LOCAL LEVEL

National roundtable for financing energy efficiency investments in Bulgaria

5 October 2023

Sofia, BIA SKY Office building and online

<i>133 stakeholder representatives</i>	<i>16 speakers</i>
	<i>54 delegates</i>
	<i>63 on-line participants</i>

Discussion topics:

- Present and future of financial instruments to support the clean energy transition
- Solutions to support sustainable energy investments at local level

Plenary session:

The national round table on "Financing Investments in Energy Efficiency in Bulgaria" was opened by Mr. Dragomir Tzanev (EnEffect). He introduced the discussion by mentioning that there is a delay in the implementation of the Climate and Energy Plan. The market is moving faster than the public sector reforms, and there is a huge interest in the renovation programme for multi-family residential buildings (MFB), but public resources are scarce.

Mr. Julian Popov (Minister of Environment and Water) said that many reforms are currently underway, triggered by the EU or by the needs of the business. He mentioned that introducing reforms is not a question of capacity but of political will and cooperation between business and government. Public funds should cover up to 25% of the total renovation cost, the rest should be mobilized by the private sector, and apartment owners should co-finance the renovation of the buildings they live in. Mr. Popov noted that only energy poverty should be subsidized. Another problem, he mentioned, is the issue of empty apartments, and Mr. Popov said that online participation of owners of empty apartments should be allowed to improve decision-making (the new Condominium Ownership Management Act allows this). In his view, political will and determination are essential. Mr. Popov also mentioned that in order to increase the pace of the energy transition, it is necessary to mobilize the administration as well as the culture of the owners of the apartments in the MFB, activating their personal finances and not waiting for the state to renovate their homes. He added that there are now modern forms of condominium decision-making through online voting and attendance and that there are opportunities for payback of investment similar to ESCO schemes that leverage savings from energy efficiency (EE).

Mr. Martin Vladimirov (Center of the Study of Democracy) said that they are doing a study on sectoral scenarios for achieving carbon neutrality by 2050. The study looked at different scenarios that cover data from 5 key sectors (industry, energy, transport, buildings, and agriculture). Mr. Vladimirov mentioned that the carbon neutrality roadmap is currently under review by the government, but it only addresses energy production and does not address energy demand. It also ignores many other sources of carbon emissions. The main assumptions of the scenarios are: phasing out coal (2030-2035 in different scenarios); increasing RE; and reducing end-use. Only the most ambitious scenario (deep decarbonization) leads to full carbon neutrality by 2050. Mr. Vladimirov said that final energy consumption should also be reduced by 30% by 2050 (mainly electricity will be consumed, with gas and liquid fuels receding). He added that coal plants will be closed earlier than expected due to high carbon costs, and will be replaced with a balanced mix of RE. Another important aspect of reducing carbon emissions is to increase carbon sequestration capacity by at least two times through grasslands, wetlands, forests, and reduced logging. The key for reducing GHGs in the buildings sector, according to Mr. Vladimirov, is the overall reduction of final energy consumption and the shift from carbon fuels to electricity and decentralized RE capacity. To achieve this, a change in consumer behavior is also needed. Mr. Vladimirov added that electrification of public transport is inevitable and people need to replace their private cars with public transport, which requires regulatory reforms and infrastructure development. According to Mr. Vladimirov, the government at this stage ignores the importance of EE and focuses only on energy production, which is a key problem for the timely achievement of the targets.

According to Ms. Angelina Boneva (Deputy Minister of Regional Development and Public Works), EE in construction should be a topic that unites the entire political spectrum, as its

importance is undeniable. She added that a large part of the citizens still expect 100% grants, and only a small part of the society and businesses are ready to switch to financial instruments. There is a need to gradually reduce subsidies until they are completely phased out. Ms. Boneva added that the MRDPW is trying to take the next steps by securing funding for the 20% deductible required by the second phase of the program. She noted that no applications have yet been submitted for this phase. The MRDPW is working with the World Bank and the ESCO Association (Alliance for Energy Efficiency) to develop mechanisms for 20% co-financing by condominiums. In the future, this financing model will be extended through the National Decarbonisation Fund (NDF), which will take a much more flexible approach to the market, including a variable share of subsidies. Ms. Boneva also said that ESCOs and guarantee schemes are being considered as a source of this 20% co-financing. A budget has also been secured by EU funds for the regional information centers (28 across the country) to enable them to partially fulfill the functions of the EE One Stop Shop. Synergies will be sought with local expert ecosystems and centers.

Mr. Ivaylo Alexiev (SEDA) spoke about the opportunities for maximum utilization of energy from RES. He said that combining EE and RE is key to achieving national targets. The legislative amendments facilitate the installation of RES for self-consumption, which is a great first step. However, seasonality and the dependence of RE production on weather conditions create obstacles. According to an SMA study, households meet only 20-40% of their energy needs from their own RES. Mr. Alexiev added that the new RE Law already defines energy cooperatives, which allows the sharing of the energy produced. He also said that "virtual metering" and/or an appropriate calculation mechanism for benefit sharing should be introduced for the needs of the MFB. It is not economically viable to build a parallel grid in the MFBs. Mr. Alexiev said that it is necessary to finalize the by-laws in relation to the introduction of smart meters, the regulation of energy cooperatives, the structuring of local accounting, the possibility of exchanging data through an online platform, and the relationship with energy distribution companies must be settled. One-stop shops will be key to providing comprehensive services to municipalities, but it takes time to build capacity and establish partnerships with business.

Mr. Dobri Mitrev (BIA) said that it is the business that brings innovations and investments, not the authorities. According to him, investments in RE, decarbonization, and EE are currently the focus of business. But business needs to partner with local authorities and this partnership is highly valued and sought. Mr. Mitrev added that final energy consumption in the industrial sector in Bulgaria has been reduced by over 23% from 2007 to 2021. This shift requires significant investment and the inflow of foreign investment has been decreasing over the last 2-3 years. The reasons for this are COVID, the war in Ukraine, and local political instability. Private money seeks stability and predictability. Mr. Mitrev also said that a lower administrative burden and a predictable legislative framework are key to attracting more investment. ESG requirements are also contributing businesses to be more considerate about their GHG footprint. Some of the largest Bulgarian companies are using entirely or predominantly RE (either through their own capacities or by purchasing certified RE). Mr. Mitrev added that business does not wait for the state to impose obligations, but moves based on market needs.

Key quotes from plenary session:

„Bulgaria has a lot to achieve in the area of the green deal, but we cannot exclude that this has a large social and civic component for which the right approach has to be chosen.“

Angelina Boneva, Ministry of Regional Development and Public Works

„We are moving rapidly in the direction of creating conditions for the implementation of renewable energy cooperatives. There are absolutely no technical obstacles. All technical solutions are available in Bulgaria.“

Ivaylo Aleksiev, SEEA

„The general role of business is to create wealth. It is business that creates innovation. In fact, this is its greatest role - both investment and innovation are made by enterprising people.“

Dobri Mitrev, Bulgarian Industrial Association

Discussions and conclusions from the consecutive sessions:

Technical session 1: Present and future of financial instruments to support the clean energy transition

Moderated by Marko Markov

The session started with presentations by representatives of the Fund of Funds, the BBD, FIB, and UBB.

Ms. Dochka Vassileva from the Fund of Funds opened the session by saying that 100% subsidies are an obstacle to promoting financial instruments and attracting private resources from commercial banks. Ms. Vassileva gave a brief overview of the past programming period 2014-2020, mentioning that 25 projects in private, and public buildings, student hostels, etc. were implemented with the help of the Urban Development Funds. For the next programming period, more than 2 billion BGN are earmarked, which will be mainly allocated to increase the competitiveness of enterprises and for regional development. Ms. Vassileva added that financial instruments, equity investments in start-ups, grants, guarantees, etc. will be provided. The possibility to apply for a grant and a financial instrument in one operation will be created. Ms. Vassileva also said that urban development funds will play a crucial role in the next programming period in the territory of 10 large and 40 small municipalities. The grant will be 40% and the rest will be in the form of a financial instrument. The scope will be broad: municipalities, companies, public-private partnerships (PPPs), and individuals, as well there is a possibility for MFBs to be financed. Ms. Vassileva said that technical assistance (grant) will be provided for the preparation of the investments, and when a result is achieved, part of the credit will be transferred as a grant or added as part of the investment in case there is no alternative for implementation.

Ms. Sofia Kasidova from the BBD said that their bank works under special government mandates, offering EIB-guaranteed loans for competitiveness, sustainability and innovation, private equity, venture investing in start-ups, and others. The BBD provides up to 100% financing for projects related to NRRP.

Ms. Vesela Gladnikova from FIB continued the discussion by saying that FIB is developing a roadmap for achieving carbon neutrality by 2050. They have plans to increase their portfolio of green investments by €500 million over the period 2023-2050. FIB has developed a detailed Green Finance Framework. It includes 10 eligibility criteria for green projects: green buildings, EE, RE, and others. The framework has been assessed by an external company and it has been determined as compliant with the Green Bond Principles 2021 and the Green Credit Principles 2023. The bank's ESG products include loans for the purchase of electric vehicles, RE, financing for women entrepreneurs, and financial education for children and adolescents. Ms. Gladnikova added that the driver for clients and for FIB is not the discount on their financial products, but the long-term savings and benefits for their clients.

Mr. Kiril Velichkov (UBB) continued by saying that sustainable development is a priority of the KBC group. The bank has a Green Committee and corporate social responsibility is at the forefront of their work. Mr. Velichkov said that they are actively working to promote best practices, research supply chains, and help identify opportunities with customers. As examples of this, he mentioned partnerships with specialists, an agri-calculator available, etc. The Bank's exposure is BGN 3 billion, with nearly 40 financial instruments, including green guarantees under InvestEU and green investments under NRRP. Mr. Velichkov answered a

question on the potential for the MFBs, which in his view is huge, but there are still a number of formalities to be clarified such as the approach to be followed to secure the co-financing in the absence of own funds.

Ms. Gladnikova from FIB said that support for RE in households has a social focus as well and to increase customers' understanding of the benefits of this type of investments, FIB is willing to engage in awareness-raising campaigns. According to Ms. Gladnikova, the lack of activity under Phase II of the MFAB program, which has an 80% grant, is most likely due to households waiting for a new 100% grant program to be announced. Typically, individuals and small businesses become active when grant funding is announced. Larger businesses are more dynamic and act all the time.

During the discussion in the room, it was mentioned that residential and corporate finance instruments need to be clearly separated. Additionally, different approaches are needed in their design and delivery.

Concern was shared that the time to invest is very short, only 3-4 years, due to delays of various kinds.

Recommendations were made to improve coordination between public and financial institutions.

It was concluded that capacity needs to be increased substantially at the point of sale - one-stop shops, financial intermediaries, etc.

Conclusions from the first session:

- 100% subsidies are a barrier to attracting private investment and financial instruments from commercial banks.
- Sustainable development is important for banks and is embedded in their strategies. In addition to offering a variety of financial instruments for green investments, banks are making efforts to reduce their carbon footprint.
- The potential for sustainable investment in MFABs is high.
- Investments in RE in households also have a social focus – raising customer awareness is of utmost importance.
- Coordination between public and financial institutions needs to be improved, and the capacity in sales needs to be increased.

Technical session 2: Solutions to support sustainable energy investments at local level

Moderated by Dragomir Tzanev

Ms. Mariana Hanamova from CleanTech Bulgaria started the session. She said that they will develop different types of financial products within the scope of a new project. In this regard, they will collect feedback from citizens, financial institutions, and intermediaries, as well as engage experts.

Ms. Tzveta Nanyova from BACC said that a structure to assist apartment owners through the process of developing and financing EE projects is vital. The proposed approach of 28 regional information centers financed through EU will not be sufficient to solve the problems faced by owners because they do not have the internal capacity to do so. Ms. Nanyova added that a pilot one-stop shop has been set up under the SHEERNov project in cooperation with Sofia Municipality. It is designed to offer comprehensive services for the EE projects of the MFBS and has sufficient expertise to provide the necessary comprehensive services (technical, administrative, and organizational support). Beneficiaries are required to pay a small fee for the services. In addition to other services, the pilot one-stop shop will connect eligible projects with financial institutions. Ms. Nanyova announced the continuation of the initiative under the newly-started SHEERNov+ funded by LIFE Europe that will build on this pilot and develop the capacity of 6 more one-stop shops across Bulgaria. On the other hand, she said that households have specific needs for support, such as project preparation, budget structuring that takes into account what has been done so far, and how to distribute the loan repayment among owners (the floor area, ideal parts, or other way). Ms. Nanyova said that condominiums need to take into account that they have an obligation to implement the prescriptions in the technical passport within a certain timeframe and that energy audits have an expiration period of 4 years.

Ms. Eleonora Ivanova from the Bulgarian-Romanian Chamber of Commerce and Industry spoke about the STAGE project, which is designed to help European SMEs in the process of transition to green business. The project connects businesses with consultants (sustainability advisors), financial institutions, and investors. The overall aim of the STAGE project is to develop the professional ecosystem across the EU. It offers project development grants to potentially eligible enterprises so that bankable green investment projects can be prepared. These projects would then need to be financed either by banks or private investors/funds. Additional advisory services will be provided to 20 of the best-prepared projects, so enterprises can raise additional funding and scale up.

Mr. Todor Popov from Gabrovo Municipality said that municipalities are also interested in combining public and private resources to accelerate the process of decarbonization. This is something that should be accompanied by a strong information campaign, and Gabrovo Municipality is already working in the direction, and has a number of initiatives aimed at stimulating green investments. The municipality managed to communicate the first phase of the MFABs rehabilitation program, while working with its citizens to move to a 20% co-financing scheme. Interest among building owners has been high, and the municipality is using its existing energy center to improve building renovation projects with EE components. According to Mr. Popov, timely provision of information to citizens is key to the overall information campaign. The municipality is currently working on the development of an energy cooperative (pilot for Bulgaria).

Mr. Stanislav Andreev (EnEffect) presented a project that aims to develop the energy cooperative in Gabrovo. He said that there are no ready-made PPP models or ones that can be used by citizens. Two models used by the Gabrovo Landfill and a MFAB were presented,

and in both cases, the investments made better returns than depositing the money in a bank. Mr. Andreev said that in the case of the MFAB, a heat pump is being installed for general use and the building's existing piping system will be utilized (unused due to the shutdown of the Gabrovo CHP). In the case of the landfill, RES is installed which is used by the municipal consumers.

During the discussion that followed, it was shared that having a register of professional house managers would be very useful. It was also mentioned that it is important that the association unanimously adopts methods for reporting the energy used by heat pump/CHP. In case of non-payment, the general procedure should be followed to collect the dues. There are always challenges in implementing innovative models, but this starts with a small number of interested participants.

Conclusions from the second session:

- The creation of a structure to support apartment owners in the process of developing and financing EE projects is of vital importance.
- It is necessary to increase the internal capacity of the owners.
- Combining public and private resources is of great importance for decarbonization, but this must be complemented with an information campaign.
- There is a great need for the development of energy cooperatives and presentation of PPP models.
- There is a need for a register of professional house managers and the unanimous adoption of methods for energy accounting and collection of due amounts.

Closing plenary: Do we have a better vision for systemic financing of sustainable energy after public financial resources are exhausted?

In the last session, Ms. Kamelia Georgieva (NTEF) spoke about behavioral models which are as important as technical solutions in EE. According to her, lower grant amounts can still make projects viable. The average grant rate for NTEF-funded projects is less than 20%, so public resources can be more prudently used. She confirmed that even partial grants generate strong interest among the final beneficiaries.

Mr. Kiril Raichev (Alliance for Energy Efficiency) said that there is a mutual understanding between public authorities, the financial sector, and the professional ecosystem in the EE field. He added that before proposing ESCO as a model to provide the co-financing component, there should be a clear agreement on the structure of this model and the modalities of implementation. Mr. Raychev said that there is a lot of experience in grant-making but little experience in ESCO/commercially based models, which is unfortunate given Bulgaria's role in the early and mid-2000s as a pioneer in ESCO initiatives in Europe.

Mr. Raychev shared some of the recommendations of the technical groups so far, which include the application and adaptation of the experience in Latvia and Poland in terms of blending ESCO with a grant, use of competitive dialogue in public tenders to seek the best solution for unit investment savings rather than lowest cost, creation of a public registry of qualified EE service providers and a number of others. These recommendations are published on the AEE website and the BeSmart project.