

Policy recommendations

For the structuring of the National Decarbonization Fund

Developed by the Center for Energy Efficiency EnEffect

CURRENT STATE OF PLAY

The energy efficiency market in Bulgaria continues to primarily rely on grant funding sourced from various programs fueled by the European Structural and Investment Funds, as well as the more recent National Recovery and Resilience Plan (NRRP). While some positive examples exist, such as the Energy Efficiency and Renewable Sources Fund (EERSF) and the Fund of Funds (FoF), which provide loan financing and technical assistance during project preparation, the majority of investors typically wait for new programming periods and associated programs to access financial incentives ranging from 50% to 100%.

This trend extends across public authorities, industrial sectors, SMEs, and increasingly, households residing in multi-family residential buildings. The inadequate coordination among existing financial instruments, coupled with insufficient expertise and technical support across the entire value chain, results in inconsistent implementation processes and subpar project quality, exacerbated by the absence of effective mechanisms to monitor and verify outcomes. Despite recent advancements, such as the 20% co-financing required by the Second Phase of the National energy efficiency programme for residential buildings, Bulgaria's energy efficiency financing landscape necessitates urgent reforms to introduce more sustainable financing mechanisms. These reforms should align with higher energy efficiency targets and aim to attract private investment.

Furthermore, relying solely on limited public resources proves insufficient to meet the ambitious energy efficiency goals outlined in both EU and national plans, especially related to updates in the National Energy and Climate Plan and the Long-term Renovation Strategy. To achieve these targets, it is crucial to establish dedicated financing mechanisms and allocate requisite resources. In this regard, the forthcoming National Decarbonisation Fund (NDF) should function with the specific aim of directing resources towards critical sectors and sub-sectors within the built environment, with a particular focus on residential building stock.

ESTABLISHMENT OF NDF

Considering the existence of well-established financial instruments, capitalizing the NDF is deemed unnecessary, as it would compete directly with existing resources. Instead, there is a clear need for coordination among disparate financial instruments. Establishing the NDF as a coordinating unit within the Council of Ministers, as part of the Consultation Council for the European Green Deal, is proposed. This unit would wield the necessary political influence to facilitate the alignment and distribution of available funds across priority sectors, ensuring the predictability and sustainability of financial instruments.

The NDF should provide a framework and guidance to ministries responsible for developing and managing EE programmes and specialised financial institutions to move towards less grant-intensive and market-oriented support schemes based on higher quality of the projects and verification of results.

ROLES AND RESPONSIBILITIES

The responsibility for capitalisation of the funding lines, quality assurance, monitoring of impact, as well as for the provision of technical assistance should be delegated to the organisations (respective ministries and financial institutions with the needed capacity) which should provide the necessary resources for these activities from available sources (e.g. EIB loan, ELENA Facility) with direct support from NDF. A division within the Ministry of Regional Development and Public Works shall be vested with the tasks of monitoring and evaluation with reporting responsibilities towards the Sustainable Energy Development Agency to the Ministry of Energy and to the Ministry of Environment and Waters. Providing periodic reports subject to control by the Consultation Council of the European Green Deal and its respective commissions.

INNOVATIVE BUSINESS MODELS

Considering support for innovative business models in energy efficiency and renewable energy, there is a need for specialized expertise within financial institutions to develop and offer suitable financial services. Bulgaria possesses a strong foundation in servicing integrated EE projects, particularly through the EERSF, which can serve as a basis for the NDF to bolster the ESCO segment. The NDF can act as an orchestrator and standardizing agent for ESCO projects, aligning market players and ensuring a standardized market for EE/RE projects, crucial for attracting private capital. To enhance support for ESCOs, the NDF could offer preferential discount rates, accept energy savings as primary collateral, provide longer loan terms, and insure ESCO claims, while also guiding beneficiaries through the ESCO approach, establishing quality standards, managing procurement processes, and facilitating economies of scale. This approach aims to prevent mistakes, support ESCO development, and leverage the expertise required for successful project delivery.

FUNDING SOURCES

Considering funding sources for the NDF, the key option identified in the EIB Final Completion Report¹ for a possible funding scenario is the Modernisation Fund. ETS revenues that are managed by Bulgarian Government and Energy Efficiency Obligation Schemes are also available under condition of amending the law. In a longer-term perspective, the Social Climate Fund may also be a suitable funding option.

¹ Bulgarian National Decarbonisation Fund. Final Completion Report - https://www.me.government.bg/uploads/manager/source/FINAL%20REPORT_EIB%20BG%20NDF_Deliverable%207%20Final%20Technical_Report_09012023_1.pdf

ADDITIONAL REMARKS

There are some additional regulatory improvements that can support the establishment and functioning of the NDF, such as amendments to the Energy Efficiency Act and other statutory acts to enhance the energy efficiency obligation scheme and the operations of related funds, framework agreements with financing institutions, enabling public financing institutions to combine grants with loan instruments, enhancing monitoring and evaluation capacity within the Ministry of Regional Development and Public Works, amendments to facilitate ESCO operations, enabling on-bill/on-tax financing schemes for energy efficiency measures, and amendments to the Condominium Management Act to allow homeowners' associations (HOAs) to apply for bank loans.