

NATIONAL ROUNDTABLE ON FINANCING ENERGY EFFICIENCY IN BULGARIA



11 June 2019

Sofia, Bulgaria

Event organised by the Executive Agency for Small and Medium-sized Enterprises (EASME) in the frame of the Sustainable Energy Investment Forums contract funded by the Horizon 2020 programme of the European Union

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As part of the "Smart Finance for Smart Buildings" initiative, the European Commission is organising a series of "Sustainable Energy Investment Forums" to enhance the capacity of and co-operation between public and private stakeholders to develop large-scale investment programmes and financing schemes. The SEI Forums will consist of more than 30 events in up to 15 Member States in 2016-2019; information on past and upcoming events can be found on the [SEI Forums webpage](#).

BACKGROUND TO THE EVENT

An initial regional conference on Financing energy efficiency in Central and South-Eastern Europe, took place in Sofia on 28 June 2018. This event gathered about 150 participants working on energy efficiency finance from the financial sector, national Governments, project developers, the renovation supply chain and local and regional agencies. The presentations and proceedings from that event can be found [here](#).

SUMMARY

The European Commission, in partnership with the UN Environment Finance Initiative and the Bulgarian Ministry of Energy, organised a National Roundtable on financing energy efficiency in Bulgaria, which took place on Tuesday, 11 June 2019. The event was attended by 77 experts from Bulgaria who are engaged in financing energy efficiency from national government, the financial sector, project developers, the renovation supply chain, research and local and regional government.

The objective of the National Roundtable was to build on the dialogue between key Bulgarian stakeholders on how to improve access to finance for energy efficiency investments, and to identify common objectives and potential improvements to be made in the current policy framework and business practices.

The Roundtable split into three working groups, covering European Structural and Investment funds and the Smart Finance for Smart Buildings initiative, public building renovation and Long-term Renovation Strategies and the Energy Performance of Buildings Directive.

OPENING PLENARY

Moderator: Marko Markov, ECONOLER

Bulgarian national context

Nikolay Nalbantov, head of Energy Strategies and Policies for Sustainable Energy Development Directorate

Bulgaria has energy security, energy efficiency, renewable energy and protecting consumers as priority areas of its energy policy. Moving to low carbon energy requires enhanced energy efficiency and energy management, improved infrastructure and markets and the introduction of new services and development of markets.

Energy efficiency is economically beneficial and creates many opportunities. Energy saving is a fast track to achieving better results in climate change actions and will help industry to become more internationally competitive and to develop new jobs.

Bulgaria is seeking to reduce external energy dependence, mitigate climate change and obtain affordable energy for consumers. Households, the services and transport sectors are seeking energy savings. Work is also underway to seek to reduce transmission and distribution losses and to make progress on efficient energy generation.

Against the Clean Energy for All Europeans 2030 targets, an Integrated National Energy and Climate Plan has been developed in compliance with sustainable development principles and guaranteeing national interests. This includes a 27% energy efficiency target for 2030. Additional policies and measures will be developed. 50% energy efficiency improvement in public administration buildings is being sought. Efficient procurement and the industry and energy generation sectors will be targeted. Heat transmission networks will be refurbished. Bulgaria is also working towards the revised Energy Performance of Buildings and Energy Efficiency Directive targets, including a strategy for renovation of public buildings. The Ministry is also working on changing behavior of citizens and businesses. Awareness raising is very important, in particular given the deployment of new technology and the need to improve energy performance of buildings. Low carbon community transition is very important as well as gaining trust of the public.

On financing efforts, Bulgaria will look at coordinating at regional level with other Member States to attract the investments needed for energy efficiency. It is important to introduce real incentives. The Roundtable is another step in the journey to bring public and private sectors together on financing schemes for energy.

European Policy Context

Carlos Sanchez Rivero, Policy Officer, DG Energy, European Commission

It is recognised that as a result of the Clean Energy for all Europeans package that an additional €150 to €200 billion per year need to be invested in energy efficiency. Public money alone will therefore not be sufficient. Available public funding needs to be used to mobilize private financing.

Last year, The EU published a 2050 vision, a long term strategy, which showed that radical transformations are necessary to maintain our economies. €200-230 billion per year of investment will be needed in the residential building sector alone, the majority of this in energy efficiency. The Strategy is built on seven pillars, of which the first one is energy efficiency. A solid financial proposal and a convincing consumer offer are needed in order to raise building renovation rates.

Revisions to the Energy Efficiency Directive have provided a reinforced policy framework, based on the three pillars of the Smart Finance for Smart Buildings policy. In 2018, the Energy Performance of Buildings Directive was revised and the updated version has now entered into force. This means that there is now a new EPBD that requires Long Term Renovation Strategies with strengthened provisions on supporting investments, new EED targets containing an extension to Article 7 on Energy Efficiency Obligations and revised Eco-design and Eco-labelling requirements are expected to be published in July 2019 in the EU Official Journal.

All of this will be supported by increased effort on climate change in the next Multi-annual Financial Framework. 25% of the overall budget is earmarked for climate action under structural funds. Under the LIFE programme, there will be capacity building and policy support, including new a programme on clean energy transition, energy efficiency and renewable energy sources use. Partial political agreement was reached in March 2019. In addition, there will be continued European Structural and Investment Funds, plus InvestEU (a continuation of the Juncker plan) as a guarantee mechanism, which will be structured into four different windows. Energy Efficiency will be in the infrastructure window (€11.5 out of €38 billion).

There are three pillars to Smart Finance for Smart Buildings

1 – more effective use of public funds – Smart Finance for Smart Buildings promotes this and an increase in the use of financial instruments, including more use of Energy Performance Contracting on public buildings.

2 – Assistance and Aggregation – Project Development Assistance and one stop shops. Aggregation is important for projects/programmes to reach a size that's attractive for the financial sector.

3 – de-risking – including the work of the [EEFIG](#) group, and [DEEP](#) database as well as the [EEFIG underwriting toolkit](#).

A relatively new development is the Smart Finance for Smart Buildings Guarantee Facility, which is supported by multiple funds and can provide loans plus grants. The Facility is designed to help financial institutions offer attractive rate loans to end users thanks to the risk sharing mechanism.

There has also recently been considerable work on one-stop-shops, offering a single entry point to cover the whole customer journey for building renovation. This includes an [overarching review](#) by the European Joint Research Centre.

Simeon Shenev, Team Leader for Bulgaria, DG REGIO, European Commission

For the current 2014-2020 funding period under the European Regional Development Fund, European Social Fund and Cohesion Fund, €352 billion is available for the entire period. The Cohesion and ERDF funds provide €250 billion for the entire EU. These funds are managed under shared management, with the Commission responsible for proper allocation, but actions being the responsibility of Member States. They represent an important part of the EU 2020 strategy for smart, sustainable and inclusive growth.

There are 11 Thematic Areas for ERDF funds, with Objective 4 being a shift towards a low carbon economy, which is where energy efficiency is included. There are mandatory requirement to invest a certain amount of funds in a low carbon economy. For less developed regions, this percentage is 20%. This equals €23 billion under objective 4, which comes up to €40 billion including sustainable urban transport. When compared to the previous 2007-2013 period, this represents a dramatic evolution. Up to 2010, investment in energy efficiency and renewables had a threshold. Since 2010, rules have been changed to make it mandatory to invest in this objective.

In the 2014-2020 period, the amount of funding going in to energy efficiency is significantly higher, €18 billion in total. This has led to works on nearly 1 million households and 3.3. million energy users being connected to smart grids. The entire investment is close to €26 billion and up to now, absorption of those funds is approximately 67%. While at programme level, energy efficiency funding has increased by a factor of three between spending periods, for some individual countries, this increase is 80 times.

For Bulgaria, under the Operational Programme regions in growth, €320 million is being invested in energy efficiency. This allocation is managed by the Bulgarian Ministry of Regional Development as well as by the Bulgarian fund of funds. When compared to other Member States, Bulgaria's allocation of funds to energy efficiency is slightly lower than expected. Programmes include replacement of obsolete boilers and investment in waste management and waste processing plant with cogeneration.

Looking to the future, the view is that cohesion policy looks stable, with close to €73 billion overall for the next funding period. Yet again, there will be a focus on the low carbon and climate neutral economy. There will be a strong link between the European semester and cohesion policy. The previous 11 objectives will be consolidated down to 5. All climate, energy and environment activity will fall under thematic objective 2, with a sub-item on promoting energy efficiency measures. For countries with GNI below 75% of EU average, 35% of the total budget should be invested under thematic objective 2. There will be a more stringent approach to measures regarding climate and energy efficiency.

The European [semester report for Bulgaria](#) was issued on 27 Feb 2019. This report considers energy efficiency as requiring major investments in order to reduce air pollution, as well as the need to increase investment in SMEs and in public buildings. These considerations should be taken into account when drafting Operational funding Programmes for the forthcoming EU budget funding period. The report also contains a specific country recommendation on including energy efficiency as a priority for Bulgaria.

Cohesion policy has been an important driver of action on sustainable energy investment. There are two important questions now; How to optimize energy efficiency investments? and How to mobilise private finance? There may be scope for optimisation of management of funds at programme level, which would be welcome, particularly if more complex financial instruments will come into play.

Financial Sector Perspective

Nadya Dankinova, Executive Director of FLAG Fund and of Sustainable Cities Fund

The critical point on the energy efficiency investment debate is how the available limited public funds could be combined with the considerable private funds in the market, to implement projects in the best possible way. The combination of multiple funds allows for more favorable conditions than just market funds. This has been the case for longer than 15-20 years and the mix of funds gives price efficiency. Public funds are provided at low cost, so loans made are at lower price than market financing. Due to available Technical Assistance funding, financial institutions are able to recruit external expertise and deliver support.

Improvement of the quality of the urban environment has been a key objective. This area of activity includes renovation of buildings, and development of clean transport. Funds have been made available to improve energy efficiency in university student housing and in single family residential buildings, as these sectors had not been covered by finance from either public or private sectors.

There are important outreach and communication issues to address. Some students rejected programmes to improve student housing because their rent would go up by 5-10 Bulgarian Lev, in spite of the improvements in quality of life and comfort. Solutions need to be properly represented in the market. There is a need for a single clear voice on how big the need is.

Funds are very fragmented in Bulgaria, the country should have solutions that are consistent. It is not possible to shift from 100% grant funding to 100% commercial loan financing. End users who are interested in the Sustainable Cities Fund's products ask about the percentage of available grant support. People say that they expect to benefit from 100% grant financing programs in future, so they will probably wait and postpone their energy efficiency related investments. Entirely commercially financed programmes are hard to accept currently, because Bulgarian households are accustomed to associating energy efficiency with governmental grants. The Sustainable Cities Fund hopes that the European Commission will help them to find models that are sustainable, sufficient and that can be applied. In any case, during the next EU funding period 2021-2027 a clear line should be drawn between types of projects that are eligible for grant financing and types of projects that are subject to commercial financing through financial instruments.

TOPIC GROUPS

A. EUROPEAN STRUCTURAL AND INVESTMENT FUNDS AND THE SMART FINANCE FOR SMART BUILDINGS INITIATIVE

Moderator: Marko Markov, Senior Energy Efficiency and Renewable Energy Finance expert, ECONOLER

European funding for Energy Efficiency in Bulgaria

Marko Markov, Senior Energy Efficiency and Renewable Energy Finance expert, ECONOLER

Presentation [here](#).

Financial Instruments for Energy Efficiency with the Support of European Structural and Investment Funds 2014-2020

Dimitar Cherkezov, Head of Operational Programs Unit, Bulgarian Fund of Funds

Presentation [here](#).

Key Points from 2018 Public Conference

Session 3A - Making energy efficiency investible

- We need to use a common language in communication between project developers and financiers.
- In order to lower administration costs, standardization is key. This would also give confidence to the banking sector. The Investor Confidence Project is a groundbreaking project in this context.
- Individual and specialised funds (as distinct from banks) can be a great new actor. Even though the banks may have a greater understanding of energy efficiency issues, these funds can be leaders.

Background

The Public Conference of 28 June 2018 included presentations giving an overview of European Structural and Investment Funds in Bulgaria (available [here](#)), and overview of financing and progress against targets ([here](#)).

Bulgaria has submitted its draft National Energy and Climate Plan to the European Commission. The Plan identifies the following financing measures, including Union support and the use of Union funds at national level:

Financial mechanisms used to encourage energy efficiency improvement measures:

- Energy Efficiency and Renewable Sources Fund
- Operational Programme 'Innovation and Competitiveness' 2014—2020;
- Operational Programme 'Regions in Growth' 2014—2020;
- National Programme for Energy Efficiency of Multi-Family Residential Buildings;

- National Trust Ecofund – Investment Climate Programme;
- Rural Development Programme 2014—2020;
- Residential Energy Efficiency Credit Line Programme;
- Operational Programme ‘Transport and Transport Infrastructure’ 2014—2020;
- European Economic Area Financial Mechanism 2014—2021.

The draft plan also notes that investment needs will be analysed before the final version is submitted to the EC (due at the end of 2019).

Given the significant size of the public funding available through European Structural and Investment Funds and their material impact on national investments, the [Smart Finance for Smart Buildings communication](#) that was released as part of the Clean Energy for All Europeans policy package makes it clear that the aim of the initiative is to “maximise the use of available public funding via financial instruments addressing identified market failures and by better targeting grants towards vulnerable consumers”. One pillar of Smart Finance for Smart Buildings contains related actions to encourage more effective use of public funding. The Roundtable discussions could address this topic.

Questions to guide discussion

- A1. The public conference identified that project developers and financiers needed to develop a common language and to understand better each other’s perspectives. What work is needed in Bulgaria to enable this to happen? Which agencies and institutions could lead such a task?
- A2. The potential for greater standardisation was also identified. What kinds of tools need to be developed and how can these be supported? What are the immediate next steps and who should be responsible?
- A3. Specialist funds were identified as a new key player in the field of sustainable energy finance. How can they be brought into the dialogue about energy efficiency financing in Bulgaria?

B. RENOVATION OF PUBLIC BUILDINGS

Moderator: Emil Pashov, Financial and Marketing Coordinator, Bulgarian Energy Efficiency Fund

ELENA - Facilitating Investment in Energy Efficiency

Assen Gasharov, European Investment Bank

Presentation [here](#).

Alliance for Energy Efficiency

Presentation [here](#).

Kiril Raytchev, Chairman, Alliance for Energy Efficiency in Bulgaria

Key Points from the 2018 Public Conference

Session 2B - Energy renovation of public buildings and the role of ESCOs

- The participants in this session felt strongly that financing energy efficiency is possible, with market-based schemes and with fewer grants. Grant free options are possible and could ease the public sector finance burden. The market overview presented showed a declining ESCO market over the past ten years.
- It was expected that the new EIB and Eurostat guidance document would have an important impact in the development of the Energy Performance Contracting market.
- If 1Mwh coming from grants requires twice that in investment from the ESCO market, then investing in ESCOs is important to be able to fill this financing gap.

Background

The context for this topic is set by the revised [Eurostat guidelines](#) and the Eurostat and EIB [Practitioner's Guide](#) on the Statistical Treatment of Energy Performance Contracts.

The Public Conference of 28 June 2018 included presentations giving an [overview of the guidance on the statistical treatment of Energy Performance Contracts](#), as well as with coordination through one stop shops in [Liege](#) (BE) and [Sofia Energy Centre](#) and results from [EnEffect](#) project on public building renovation to lower municipal energy consumption.

The Eurostat Guidance note from 2017 opened the way for 'off-balance sheet' treatment of Energy Performance Contracting (EPC) in the public sector. The practitioner's guide translates a set of general rules into concrete provisions and covers typical contract provisions and structures. The Guide is official Eurostat guidance and the reference point for Eurostat advice and decision on EPCs. Eurostat rules relate to statistical treatment in government accounts and are based on the principle of 'economic ownership'. These are not to be confused with legal ownership, accounting rules/practices and budgeting and the Guide does not deal with value for money or bankability. In addition to the Guide, the European Investment Bank can provide support for lending, blending and advising, for example on combining EIB finance with EU budget and other sources and through the European Investment Advisory Hub ([EIAH](#)) and [FI-compass](#).

The session will hear direct from EIB and a response on how energy services market for public buildings is developing.

Questions to guide discussion

- B1. Given the new statistical guidance issued by Eurostat, how can energy performance contracts best be structured to serve the needs of public authorities?
- B2. What support (technical or project development) is needed to increase deployment of EPCs?
- B3. What is the view of the ESCO sector of Eurostat guidance and the role of the Practitioners Guide and what is needed next to catalyse the sector?

C. LONG-TERM RENOVATION STRATEGIES AND THE ENERGY PERFORMANCE OF BUILDINGS DIRECTIVE

Moderator: Andrew Deacon, Climate Alliance

EU Energy Performance of Buildings Directive – Guidance for Public Officers

Andrew Deacon, Climate Alliance

Presentation [here](#).

On the road to nZEB: Strategic goals and policies at national and local level

Dragomir Tzanev, Executive Director at EnEffect, Center for Energy Efficiency

Presentation [here](#).

Key Points from the 2018 Public Conference

Session 2A - Improving the energy performance of residential buildings

- During this session, a lot of attention was paid to non-financial benefits of energy efficiency improvements (comfort, social implications, health). The different approaches discussed were all a valuable input to improve the energy efficiency measures and expand more holistic programmes for Bulgaria.

Background

During 2018, the Energy Performance of Buildings Directive was amended and constituted an important and concrete first delivery of the 'Clean energy for all Europeans' package. The [revised EPBD](#) covers a broad range of policies and supportive measures that will help national governments in the EU boost energy performance of buildings and improve the existing building stock in both a short and long-term perspective. EU countries will have to establish stronger long-term renovation strategies, aiming at decarbonising the national building stocks by 2050, with indicative milestones for 2030, 2040 and 2050, measurable progress indicators and with a solid financial component.

The amended EPBD introduces several key ways in which the financing of energy efficiency works can be improved. The main changes that have been incorporated are:

Under Article 2a (3) on Long Term Renovation Strategies, Member States are required to actively facilitate actions that will support the mobilisation of investments in energy renovation works:

- a. The aggregation of projects under single or multiple ownership, to make them more attractive to investors
- b. Reducing the perceived risk of energy efficiency financing
- c. Using public funds to leverage private investment
- d. Guidance to show how investments can be made to improve the public building stock
- e. The provision of better advice in the market, such as one-stop shops

A new provision has also been added to Article 10 on Financial Incentives and Market Barriers that requires Member States to link their financial measures to the targeted or achieved energy savings from building renovation.

The renovation strategy should clearly contribute to achieving the energy efficiency targets, as outlined in the National Energy & Climate Plan (NECP).

The Public Conference of 28 June 2018 included presentations on [multi-level governance and energy roadmapping](#) and an [overview of energy efficiency](#) in Bulgaria.

EU countries have until 10 March 2020 to write the new and revised provisions into national law. To assist with this, the European Commission have also prepared [recommendations](#) for implementing the new EPBD provisions on building renovation. BPIE have also prepared [guidance for public officers](#) in navigating new requirements for renovation strategies, with recommendations specifically for Bulgaria. EuroACE have also prepared a [guide](#) to the implementation of the revised EPBD.

Questions to guide discussion

- C1. Which building sectors might feature as key components of the Long Term Renovation Strategy, and which additional policies and measures might be needed to support increased renovation activity?
- C2. How should the financing framework evolve in order to best support the new long-term objectives? Are there new market players that need to be engaged?
- C3. What awareness raising and capacity building is needed in order to encourage building owners and occupiers to bring forward renovation projects? What might be the best mechanisms and agencies to support this work?

CLOSING PLENARY

Report back from topic groups

Group A - European Structural and Investment funds and the Smart Finance for Smart Buildings initiative

- Grants are good, but they should target those that really require additional support. This depends a lot on structural fund Managing Authorities for the forthcoming EU funding period. The Bulgarian Fund of Funds can be used as an instrument for energy efficiency financing by deploying blended grant and commercial financing products, thus leveraging the available public funds.
- On moving from grants to financial instruments, there needs to be a distinction between the sectors that need grant support, those where a mix of grants and financial instruments are appropriate and sectors funded entirely by private finance. Identifying which fits best where will be a key responsibility of those agreeing the Operational Programmes for the coming funding period e.g. The Ministry of Regional Development and Public Works. The banking sector, NGOs and others should be involved in developing Operational Programmes for the next funding period.
- Structured templates for ESCO contracts should be put in place to help the private sector. Such structured instruments would raise confidence in the ESCo sector and Energy Performance Contracting and reduce transaction costs and lower the cost of finance.
- The methodology used to evaluate energy savings should be simplified and made more flexible, while at the same time being more standardized, so as to become more attractive for the financial sector.
- The public sector identified the need for more flexible legislation to enable joint procurement procedures and longer term EPC contracts. This would enable the use of market mechanisms in municipal projects.

Group B – Public Building Renovation

- Municipalities can benefit from the EU ELENA funding instrument (in spite of its €30 million threshold for minimum project size). In order for it to be deployed in Bulgaria though, there is a need for the market to conduct energy audits of potential opportunities and to start bundling opportunities together.
- There is the lack of aggregators in the market to apply the new Eurostat/EIB guidance and to work on Energy Performance Contracts.
- Specifications for works should be amended so that for completed buildings, ESCo contractors should have to maintain them even after the end of the renovation process. Often, though, the information regarding Energy Services Companies is insufficient. Simplification of Energy Performance Contracts might be needed, to avoid additional work and cost on the side of banks. Such activity would help to make these projects more palatable to the finance sector.

C. Long-term Renovation Strategies and the Energy Performance of Buildings Directive

- There is still a significant job to do on awareness raising, so that demand for energy efficiency finance increases. Costs and resources needed for this work should not be underestimated.

- More in-depth monitoring and evaluation of previous renovation schemes is needed, both to identify good practice and successes as well as to learn from mistakes
- At an individual project level, organizational, legal, communication and financial barriers exist, and these should be tackled together rather than individually. These barriers are most present in multi-family apartment buildings
- There has not been an effective mechanism to engage Bulgarian commercial banks. There is the potential for the Bulgarian Energy Efficiency Fund to play a role here.
- There are a range of market actors that have been under-represented in thinking about building renovation in Bulgaria. These include municipalities, engineers and architects chambers, facility management associations, civil society and the media.
- The social dimension is important and there is a need to help those who are less well off. This is particularly the case for insolvent individual apartment owners within multi-family blocks.
- A clear direction on long-term policy for 2030, 2040 and out to 2050 is needed to set the overall framework for the approach to building renovation

Reaction from an invited panel

EASME, European Commission

Most of the challenges identified are shared across multiple Member States, so Bulgaria is not alone in this regard. The focus for future events should turn more towards identifying solutions as well as raising problems. The series of Sustainable Energy Investment Forums events will continue, and Bulgarian representatives should feel free to invite EASME to organize an event again in future. There is support and expertise available to invite experts from other countries to share good practice. Delegates should look at Horizon 2020 funding programmes, which cover many of the topics discussed, including heating and cooling, renovation strategies, consumer behaviour, energy poverty, ESCo contracts etc, as well as projects with local governments, and work with financial solutions like green mortgages and asset valuation of energy renovation. Project Development Assistance support is also available for local government.

Municipality of Gabrovo

The Municipal Eco-Energy network was established in Gabrovo, who are also part of the Covenant of Mayors. Public Private Partnerships have an important role to play in sustainable energy investment, as does work on joint public procurement. Joint public private efforts to build market confidence are needed and there needs to be greater understanding of the potential for the deployment of financial instruments.

Bulgarian Fund of Funds

Energy efficiency, whether financed through grants or financial instruments should not be the only objective of renovation projects. If the return on investment is over 20-25 years then it is necessary to think twice about how and why investments are made. Investors should think about financial viability and consider carefully return on investment on the basis of energy savings alone. There is a need to strike a balance between grants and financial instruments. Communication between Structural Fund managing authorities and the European Commission should take this into consideration and try to find the right balance point. When looking at the big picture, energy efficiency is a priority for Bulgaria.