



E3G

**REPORT** NOVEMBER 2024

# FINANCING BULGARIA'S GREEN TRANSITION POLITICAL AND FINANCIAL CATALYSTS FOR A SUSTAINABLE ECONOMY

**GENADY KONDAREV AND JUREI YADA**





# E3G

## About E3G

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

[www.e3g.org](http://www.e3g.org)

### Berlin

Neue Promenade 6  
Berlin, 10178  
Germany  
+49 (0)30 2887 3405

### Brussels

#SustainableHub  
Rue du Commerce 72  
Brussels, 1040  
Belgium

### London

4 Valentine Place  
London SE1 8QH  
United Kingdom  
+44 (0)20 7038 7370

### Washington

1800 M St NW  
Suite 530  
Washington DC, 20036  
United States  
+1 202 466 0573

© E3G 2024

## Copyright

This work is licensed under the Creative Commons Attribution-NonCommercial-ShareAlike 4.0 License.

You are free to:

- > Copy and redistribute this work in any medium or format.
- > Alter, transform, and build upon this work.

Under the following conditions:

- > You must give appropriate credit, provide a link to the license and indicate if changes were made. You may do so in any reasonable manner, but not in any way that suggests E3G endorses you or your use.
- > You may not use this work for commercial purposes.
- > If you alter, transform, or build upon this work, you must distribute your contributions under the same license as this work.
- > For any reuse or distribution, you must make clear to others the license terms of this work.
- > Any of these conditions can be waived if you get permission from the copyright holder.

Your fair use and other rights are in no way affected by the above.



### Cover image

Provardia, Bulgaria. Photo by Dannyel Spasov via Unsplash



E3G

---

**REPORT** NOVEMBER 2024

**FINANCING BULGARIA'S GREEN TRANSITION**  
POLITICAL AND FINANCIAL CATALYSTS FOR A  
SUSTAINABLE ECONOMY

**GENADY KONDAREV AND JUREI YADA**



E3G

---

## Acknowledgements

Tsvetelina Kuzmanova made a significant contribution to the writing of this report prior to leaving E3G.

The authors would like to thank all those organisations that provided their valuable input to this research in various ways. This briefing benefited greatly from a preliminary round of interviews conducted with experts and representatives from Bulgaria representing a range of sectors, including the financial industry, asset management, relevant state bodies, businesses impacted by new regulations (such as the CSRD and EU Taxonomy), and civil society organisations with various areas of expertise. We are grateful for the time and the insights shared by these individuals.

We would like to extend special thanks to those who agreed to be named for their valuable contributions: Julian Popov – Former Minister of Environment and Water of Bulgaria, and the team of MOVE.BG: Sasha Bezuchanova – Chair of MOVE.BG and Marin Marinov – Head of MOVE.BG Green Program.

The views expressed as well as any errors in this paper are the authors' own.

A special thanks to colleagues within E3G who contributed to this briefing: David Nemecek, Kate Levick, Manon Dufour, Marc Weissgerber, Danièle Gibney and Isabel Syrek. A special thanks to Mary Davis for copy-edit support.



E3G

---

## CONTENTS

About E3G .....	2
Copyright .....	2
Acknowledgements .....	4
CONTENTS.....	5
SUMMARY.....	6
<b>CHAPTER 1 THE BENEFITS OF THE GREEN TRANSITION FOR BULGARIA.....</b>	<b>9</b>
1.1 Geopolitical benefits – a model of success for Eastern Europe .....	9
1.2 Socio-economic benefits – improved economic growth and health outcomes .....	11
1.3 Financial benefits – reduced exposure to climate change risks.....	12
1.4 Action towards a sustainable economy.....	13
<b>CHAPTER 2 MOBILISING POLITICAL SUPPORT FOR THE TRANSITION .....</b>	<b>14</b>
2.1 The need for political pragmatism and cooperation.....	14
2.2 The importance of better administrative coordination .....	16
<b>CHAPTER 3 HARNESSING PUBLIC FINANCE BEYOND EU FUNDING.....</b>	<b>18</b>
3.1 The impact of green public spending .....	18
3.2 Defence spending and operations as a catalyst for sustainability .....	19
3.3 The role of public banks in supporting the green transition .....	19
3.4 Implementing tax incentives and regulations .....	21
<b>CHAPTER 4 ENHANCING PRIVATE FINANCE FLOWS FOR THE TRANSITION .....</b>	<b>23</b>
4.1 Enable a greater private sector role .....	23
4.2 Mobilise the middle class and SMEs.....	25
4.3 Cultivate a culture of sustainable investment.....	26
4.4 Expand the role of the financial sector.....	29
4.5 Encourage institutional investment .....	30
4.6 Promote energy communities .....	32
4.7 Extend ESCO model energy efficiencies to the private sector .....	34
<b>CHAPTER 5 PROMOTING INTERNATIONAL ENGAGEMENT AND MEMBERSHIP IN GLOBAL INITIATIVES .....</b>	<b>37</b>
CONCLUSION .....	38

---



E3G

---

## SUMMARY

Bulgaria's green transition offers powerful geopolitical, socio-economic and financial advantages. Yet, the nation is facing substantial obstacles and lagging behind other Central and Eastern European countries. To secure a sustainable future, Bulgaria must take decisive action – both politically and financially – to build a stronger economy, enhance living conditions and promote a healthier environment. Achieving these goals hinges on mobilising robust political support for the transition, tapping into public finances beyond EU funding, boosting private investment, and fostering international engagement through participation in global initiatives.

Bulgaria should view the green transition as a strategic economic necessity, not just as a cost or an environmental requirement. Notwithstanding its limited fiscal space, investing in sustainable practices will bring benefits in the form of competitiveness – especially in construction and manufacturing – and public health. It will also bring the country in line with EU directives, and support its ambitions to adopt the euro and join the Organisation for Economic Co-operation and Development (OECD). Indeed, Bulgaria could be a regional leader in climate initiatives, if it capitalises on opportunities such as the possibility of switching from coal to renewable energy, without reliance on gas.

Bulgaria must also take the risks of climate change seriously if it is to put its financial system on a stable footing for the long term. Its exposure to climate hazards such as floods and extreme heat poses significant financial risk. Increasing the resilience of its system will better allow it to weather these storms, as well as increase its attractiveness as an investment market.



E3G

---

Bulgaria needs to take decisive action to remove the barriers hindering its green transition, in four areas:

1. Mobilising political support for the transition.
2. Harnessing public finance beyond EU funding.
3. Enhancing private finance flows for the transition.
4. Promoting international engagement and membership in global initiatives.

### **Mobilising political support for the transition**

- > It is vital that political parties work together to establish long-term strategies, to be followed even under caretaker governments – or Bulgaria risks losing EU funding for the green transition.
- > Creating a dedicated Climate and Transition Ministry could provide the necessary channel to develop and manage a coherent, long-term vision.

### **Harnessing public finance beyond EU funding**

- > Mandating green public procurement can help mainstream sustainability across sectors and ensure consistent demand for green products and services. Integrating sustainability into defence spending will contribute significantly to environmental goals.
- > The role of public banks should be expanded to include more comprehensive support for green projects, which in turn will facilitate private sector involvement.
- > A wider range of tax incentives and regulations is needed to promote sustainable practices. Support mechanisms should be available to help energy-poor households participate in the energy transition.

### **Enhancing private finance flows for the transition**

- > Businesses, small and medium-sized enterprises (SMEs) and the middle class all have a role to play in the transition. Government can create an environment to encourage and support their participation by providing financial and regulatory support, and information and training.
- > Sustainable investments can be encouraged by adopting a regulatory framework to encourage the development of sustainable financial products.



E3G

- 
- > The financial sector's role should be expanded to give businesses more targeted regulatory support in complying with the EU sustainable finance framework.
  - > Local energy communities and Energy Service Company (ESCO) models are nascent initiatives in Bulgaria that are worth helping to grow.

**Promoting international engagement and membership in global initiatives**

- > By joining initiatives like the Network for Greening the Financial System (NGFS), Mission Innovation, and C40 Cities, Bulgaria can not only demonstrate its commitment to climate action, but also benefit from shared resources and support to accelerate its transition.





E3G

---

# CHAPTER 1

## THE BENEFITS OF THE GREEN TRANSITION FOR BULGARIA

If Bulgaria can successfully navigate its green transition, it could reap significant geopolitical, socio-economic and financial benefits, potentially influencing the entire Eastern European neighbourhood. Given that sustainability is a key driver of global economic dynamics,<sup>1</sup> Bulgaria's ability to achieve this transformation will be critical to securing its future prosperity and relevance on the world stage.

### 1.1 Geopolitical benefits – a model of success for Eastern Europe

Bulgaria has the opportunity to emerge as a regional leader in climate initiatives. Effective green transition will allow the country to serve as a model for the West Balkans and potential European Union (EU) enlargement candidates, guiding their own green transitions.

Bulgaria's location at the easternmost edge of the EU and its position in the Balkan region gives it significant strategic geopolitical importance and a relevant position in discussions on EU enlargement, an issue that has gained prominence in recent years. The debate over a two- or multi-speed Europe has underscored the problem of regional disparities, making Bulgaria's progression towards sustainable development a matter of political priority within the EU.<sup>2</sup>

Despite this strategic importance, Bulgaria is currently lagging behind in the planning of its decarbonisation efforts and financing the transition.<sup>3</sup> This has

---

<sup>1</sup> World Economic Forum, January 2024, **Why 2024 is the year sustainability develops a credible business case.**

<sup>2</sup> Free Europe Radio, Bulgaria, 20 September 2023, **EU at four speeds: Where will Bulgaria be according to the project of France and Germany.**

<sup>3</sup> European Commission, 2021, **Transitions Performance Index (TPI).**



E3G

---

resulted in an increasing sense of exclusion from Europe's shift towards a sustainable economy.<sup>4</sup> The success or failure of climate initiatives in Bulgaria, as well as in other Central and Eastern European (CEE) countries, will serve as a critical litmus test for the EU's broader climate goals, particularly the European Green Deal. Demonstrating the feasibility and scalability of such initiatives across diverse member states is crucial for the EU's climate agenda. Success in Bulgaria could influence neighbouring countries and shape the energy and industrial landscape of the region. If Bulgaria can emerge as a regional leader in climate initiatives, its progress could serve as a model for the Western Balkans and future EU enlargement candidates, guiding their own green transitions.

As a relatively recent entrant to the EU in 2007, Bulgaria also brings unique perspectives and challenges to the table. Its status as a latecomer in energy transition actions presents both a challenge and an opportunity. Bulgaria has the chance to rapidly adopt new technologies and practices, potentially leapfrogging traditional, fossil fuel-dependent economic models. For example, plans for converting coal power plants to gas were never fully implemented which has so far prevented Bulgaria from gas lock-in. This has led to a shrinking role for coal in power generation and gradually transformed the coal fleet into seasonal capacity with low usage before their eventual retirement.<sup>5</sup> This limited reliance on gas presents an opportunity for a smoother and less challenging transition towards phasing down and eventually phasing out of the use of fossil gas. However, despite these opportunities, Bulgaria remains behind in economic development and the shift to sustainable energy sources. Addressing these gaps is crucial for national prosperity and also for the broader EU objective of fostering cohesion and equitable development among member states.

Bulgaria's ambitions to join the Organisation for Economic Co-operation and Development (OECD) and adopt the euro further highlight the importance of aligning with European and global standards.<sup>6</sup> Membership of the OECD and adoption of the euro will signal economic progress as well as demonstrating Bulgaria's commitment to international best practice. This will significantly boost the country's international standing, improve the business environment and attract foreign investment.

---

<sup>4</sup> OBC Transeuropa, August 2024, **Bulgaria and Hungary's Reluctant Green Transition**.

<sup>5</sup> Evgeny Ahmadzai, Capital, 2024, **2023 Energy Charts: Coal and Export Crash, Renewables Record**.

<sup>6</sup> Ministry of Foreign Affairs, Republic of Bulgaria, 2023, **Why Bulgaria Aims to Become a Member Of OECD**.

---



E3G

---

## 1.2 Socio-economic benefits – improved economic growth and health outcomes

The green transition is a strategic economic necessity, given its projected impact on economic growth and resilience, and on health outcomes for the population. For Bulgaria, the green transition and innovation should be seen as a strategic economic necessity, not just as a cost or an environmental requirement. The sustainable transition will reduce dependence on fossil fuels, lower energy costs and improve environmental sustainability. Reducing air pollution, for example, is expected to improve public health significantly. This has been a pressing issue, with air pollution contributing to over 11,000 premature deaths annually in Bulgaria.<sup>7</sup> Recent reports suggest that an early closure of the coal capacities of Bulgaria, and replacing them with renewable energy capacity, could prevent as many as 3,600 premature deaths over the Balkans and save up to EUR 10 billion in health costs.<sup>8</sup> The health benefits of the green transition are estimated to be two to six times greater than the systemic costs of decarbonisation, underscoring the value of moving towards a sustainable economy.

The green transition is expected to stimulate growth in the construction, manufacturing and related service sectors while leading to a decline in the coal industry and impacting utilities through energy efficiency measures. Bulgaria's Long-Term Strategy estimates that total system costs between 2030 and 2050 will range from EUR 172 to 189 billion, depending on different scenarios.<sup>9</sup> Approximately two-thirds of these costs will be directed toward transforming the transport sector, with 13–14% allocated to households and 17% to the industrial sector.

Given its status as the poorest EU member state, Bulgaria faces limited fiscal space to finance its green transition. Nevertheless, maintaining competitiveness through innovation and sustainable practices is essential for long-term economic resilience and growth. Despite financial constraints, investing in sustainable technologies and practices aligns with EU directives and would position Bulgaria to compete more effectively on the global stage. This is particularly relevant as the EU seeks to enhance its competitiveness against global initiatives like the United States' Inflation Reduction Act (IRA). Bulgaria currently ranks lowest

---

<sup>7</sup> Climateka.bg, February 2024, **The Health Cost of Air Pollution**.

<sup>8</sup> Centre for Research on Energy and Clean Air, 2024, **Air quality impacts of delaying coal power plant decommissioning in Bulgaria**.

<sup>9</sup> European Commission, 2022, **Bulgaria's Long-term Climate Change Mitigation Strategy By 2050**.

---



E3G

---

among EU member states in sustainable competitiveness indicators, highlighting the need for compelling alternatives to foreign competition and clean tech subsidies that could otherwise draw away capital and innovation. By aligning with the EU's broader strategy to counteract the competitive pressures from global initiatives like the IRA, Bulgaria stands to benefit from EU support and funding aimed at promoting sustainable development and enhancing its competitiveness. Bulgaria and other CEE countries can modernise and green their industries, thereby boosting their economic influence, through the implementation of the Net-Zero Industry Act (NZIA) and the upcoming Clean Industrial Deal. The NZIA aims to strengthen Europe's clean technology manufacturing capacity by supporting renewable energy, energy storage and low-carbon industries to achieve net-zero emissions by 2050. Meanwhile, the Clean Industrial Deal – currently in development – seeks to complement this by establishing a cohesive framework that incentivises clean energy investments, enhances sustainability in production and drives competitive advantage for European industries on the global stage. Together, these initiatives provide CEE countries with strategic opportunities to develop greener industrial capabilities and integrate them into broader EU market goals. This alignment can help Bulgaria attract foreign investments, create jobs and drive technological advancements. Ultimately, these efforts will ensure that Bulgaria remains relevant in the rapidly evolving global economy.

### 1.3 Financial benefits – reduced exposure to climate change risks

The green transition will enable Bulgaria to reduce its exposure to the financial risks posed by climate change. Like many CEE countries, Bulgaria is increasingly vulnerable to **physical** risks (such as extreme weather events and water stress) and **transition risks** linked to its reliance on emission-intensive industries. Bulgaria faces a high level of physical climate risk, particularly from natural hazards such as river flooding, urban flooding and wildfires. The country is also at medium risk of water scarcity and extreme heat. One of the most significant climate threats is flooding, which affects approximately 80,000 people and costs USD 400 million in GDP annually.<sup>10</sup> With the frequency and severity of climate-related disasters such as heatwaves and droughts projected to rise significantly,<sup>11</sup> the financial stability of Bulgaria is at risk. The 2022 European Central Bank

---

<sup>10</sup> World Bank Group, 2021, [Climate Risk Country Profile: Bulgaria](#).

<sup>11</sup> Climate Change Knowledge Portal, [World Bank's Climate Change Knowledge Portal: Bulgaria](#).

---



E3G

---

climate stress test highlighted that the Bulgarian banking sector is lagging in the adoption of climate risk management practices.<sup>12</sup> Despite Bulgaria joining the Single Supervision Mechanism in 2020, its financial system remains underprepared for the mounting threats posed by both physical climate impacts and the transition to a low-carbon economy.

To safeguard financial stability and ensure long-term economic resilience, Bulgaria's financial regulators and central banks should take decisive action. Addressing these risks would protect local financial institutions and position Bulgaria as a stable market for banking groups and investors, ensuring access to finance for green projects and economic growth.

## 1.4 Action towards a sustainable economy

Bulgaria stands to gain significantly from transitioning to a sustainable economy. However, several factors have hindered this shift: a limited understanding of the benefits of green transition, insufficiently ambitious plans for change and the impact of political instability in the country. As a result, Bulgaria is lagging behind other Central and Eastern European countries in this crucial economic transformation.

In this context, decisive action is vital to accelerate Bulgaria's green transition and close the gap with its regional peers. The following key political and financial factors encompass both domestic and international dimensions, addressing the core challenges and opportunities for Bulgaria that should be addressed:

- > Chapter 2: Mobilising **political support** for the transition
- > Chapter 3: Harnessing **public finance beyond EU funding**
- > Chapter 4: Enhancing **private finance flows** for the transition
- > Chapter 5: Promoting **international engagement** and membership in global initiatives

---

<sup>12</sup> European Central Bank, July 2022, **2022 Climate Risk Stress Test**.



E3G

---

## CHAPTER 2

# MOBILISING POLITICAL SUPPORT FOR THE TRANSITION

Bulgarian political parties should find common ground in their domestic disputes to avoid losing EU funds designated for the green transition. The involvement of retail investors and private actors who have been driving progress in the absence of consistent government action and legislative support will also be crucial.

### 2.1 The need for political pragmatism and cooperation

Given the current political instability, it is essential that Bulgarian political parties work together to achieve consistent government action and legislative support. Without this, Bulgaria will risk losing EU funds designated for the green transition.

In 2020, the government of Prime Minister Boiko Borissov was ousted following years of national turmoil marked by widespread corruption scandals, allegations of massive misuse of public funds and a decline in media freedom. These issues culminated in large-scale protests across the country, with citizens calling for transparency, judicial reforms and an end to political favouritism and oligarchic influence. The European Commission had also criticised Bulgaria for failing to address these deep-rooted problems, further fuelling public discontent. The subsequent Covid-19 pandemic, Russian war in Ukraine and energy shortages, and the cost-of-living crises severely tested the political establishment and diverted political attention and actions away from the sustainable transition. At the same time, Bulgarian society has remained fragmented around the paths forward for Bulgaria's economic and social development.

Political pragmatism is therefore crucial for Bulgaria's successful transition to a green economy. The significant political turmoil, frequent changes in



E3G

---

government and accompanying instability have resulted in inconsistent policy-making and delayed reforms. For example, Bulgaria has not yet introduced a fully liberalised energy market. This step, already significantly postponed for a decade, was to be implemented in 2024 but was delayed for another year on political grounds.<sup>13</sup> In addition to the deadlock on progressing with reforms and EU legislation transposition, Bulgaria has had a low absorption rate for Cohesion Policy funds. Furthermore, since 2021 Bulgaria has gone through multiple general elections. A seventh round took place in October 2024 that failed to offer a resolution to the political crisis. These deep-seated political challenges hinder the continuity of long-term strategies, including those related to sustainability and decarbonisation efforts.

This political instability not only affects the pace of the green transition but also poses a risk to accessing critical EU funds, such as those from the Recovery and Resilience Facility (RRF) and the Just Transition Fund (JTF) which have conditions attached. It is not easy to estimate the level of funding at stake but it is in the range of billions of euros. Politicians and economists have warned that almost all the grant allocation under the RRF and over EUR 1 billion under the JTF are at risk.<sup>14</sup>

The low absorption rates of Cohesion Policy funds under the current Multiannual Financial Framework programming can only partially be explained by the delayed programming. By April 2024, only 4% of the EU funds had been absorbed by Bulgaria.<sup>15</sup> Without these funds, Bulgaria's economy will struggle to make the necessary investments to transition to a sustainable future. These EU funds, including EUR 11 billion of Cohesion Policy funds and EUR 5.5 billion grants under the RRF, are equal to approximately 7–8% of Bulgaria's annual public spending. While the immediate loss of substantial part of these funds might not be acutely felt, it would create an incremental backlog over time, impacting the country's ability to invest in critical infrastructure and sustainable development. It would also leave a bitter long-term mistrust in the use of public support. Many actors invested years of preparation for their projects and planning in order to use funding that may not be available or will have to be provided from national funds, adding to the national budget deficit.

---

<sup>13</sup> National Assembly of the Republic of Bulgaria, 25 April 2024, **The National Assembly decided to postpone the liberalization of the electricity market for household consumers by one year**

<sup>14</sup> Deputy Prime Minister Lyudmila Petkova claims at least 1 bn EUR is at risk under the RRF during an interview for Bulgarian National Television, 27 September 2024.

<sup>15</sup> Romyana Gocheva and Raya Lecheva, Capital.bg, 23 April 2024, **Bulgaria has only 4% absorbed European money since 2021**



E3G

---

## Recommendations

- > **Recommendation 1: Foster cross-partisan support for decarbonisation.** Sustainability and economic modernisation are in Bulgaria's national interest. It is vital that political parties should work together to implement consistent policies, regardless of the party in power.
- > **Recommendation 2: Establish a long-term vision even under caretaker governments.** Given the frequency of caretaker governments in recent years, it is important that these interim administrations adhere strictly to EU sustainability directives and continue to progress towards decarbonisation, even if these directives have not yet been transposed into national legislation. This will help prevent backsliding on critical reforms and maintain Bulgaria's eligibility for EU funding.

## 2.2 The importance of better administrative coordination

A coordinated approach across government bodies is vital to a centralised long-term vision for Bulgaria's green transition and improved efficiency. The fragmented approach to the green transition across various government bodies has led to inefficiencies and lack of a centralised vision. Take, for example, the policies related to the heating and cooling of buildings, and energy efficiency measures in buildings. This is under the competence of the Department for Housing Policy (under the Ministry of Regional Development and Public Works). Despite this, the Ministry of Energy does not leverage data on building energy and fuel consumption to its full potential. This oversight results in missed opportunities to balance the energy system more effectively, reduce dependence on carbon-intensive energy sources, and decrease reliance on imported energy. The lack of coordination between these government bodies hinders the achievement of broader energy and environmental objectives.

Similarly, the Ministry of Environment and Water is tackling heating and cooling from a clean air perspective, but the climate angle is not significantly considered. Furthermore, there is insufficient focus on the need of energy for buildings from the perspective of energy system integration. Establishing a dedicated and empowered Climate and Transition Ministry could provide the necessary administrative channel to coordinate policies, secure funding and guide private





E3G

---

sector initiatives. Such centralisation would ensure a coherent and long-term vision for the transition.

## Recommendations

- > **Recommendation 3: Establish a dedicated Climate and Transition Ministry.** Creating a central ministry dedicated to climate and transition issues could provide the leadership and coherence needed to coordinate Bulgaria's green efforts. The ministry would act as the focal point for all transition-related policies, ensuring that initiatives are aligned with Bulgaria's long-term strategic vision and that resources are allocated effectively. This ministry could also serve as the main interface with EU bodies and other international organisations, streamlining Bulgaria's engagement in global sustainability initiatives.
- > **Recommendation 4: Develop a centralised vision and monitoring mechanism.** Introducing a centralised system for monitoring the implementation of green transition policies would allow tracking of progress across various ministries and ensure that all actions contribute to the overarching goals of decarbonisation and sustainability. A centralised monitoring mechanism would help identify bottlenecks and areas needing improvement, enabling timely adjustments and better resource management.
- > **Recommendation 5: Promote inter-ministerial collaboration.** Encouraging more robust collaboration among ministries through regular inter-ministerial meetings and joint task forces focused on key areas of the green transition could help integrate policies and the exchange of best practices. This approach would allow challenges to be addressed collectively and foster a more unified approach to sustainability.



E3G

---

## CHAPTER 3

# HARNESSING PUBLIC FINANCE BEYOND EU FUNDING

Bulgaria has several powerful tools at its disposal to drive the green transition beyond relying solely on EU funding. These include leveraging green public procurement, aligning defence spending with sustainability goals, using public banks to finance sustainable initiatives, and implementing a comprehensive framework of tax incentives and regulations to accelerate the shift towards a more sustainable economy.

### 3.1 The impact of green public spending

Green public procurement is a powerful yet underused tool in Bulgaria's transition to a sustainable economy. As the largest consumer in the economy, the government has the purchasing power to drive demand for green products and services, setting a precedent for the private sector. However, without mandatory requirements, public officials often avoid incorporating green procurement rules due to the perceived complexities and potential challenges in the procurement process.

Like many other countries, Bulgaria can significantly boost its green transition by implementing comprehensive green public procurement practices that extend beyond the green components required by EU funding. Using its commitment to net-zero government operations through its membership of the Net-Zero Government Initiative, Bulgaria has the opportunity to transform its procurement practices to support broader environmental and economic goals. By embedding sustainability criteria into public procurement, the government can stimulate market demand for green products and services, encouraging businesses to innovate and align with sustainability standards.



E3G

---

## 3.2 Defence spending and operations as a catalyst for sustainability

Defence is a substantial part of national budgets and can be a significant catalyst for sustainability. In alignment with the EU Climate and Defence Roadmap, Bulgaria has formulated a Strategy for the Preparedness of the Defence Forces for Climate Change.<sup>16</sup> This strategy lays the groundwork for integrating sustainability into defence operations, which includes reducing carbon footprints and enhancing energy efficiency within military operations.

Considering the expected increase in defence spending across Europe and Bulgaria's commitment to meeting the NATO target of allocating 2% of GDP to defence, the integration of green procurement into defence can be a powerful driver of sustainable practices. This approach also enhances operational efficiency and resilience by taking into account climate change, one of the most potentially disruptive and challenging issues of our time. As the recently published 'The future of European competitiveness: Report by Mario Draghi' suggests, defence and security spending may have to be ramped up well above the 2%, highlighting the need to align with the sustainability goals.<sup>17</sup>

## 3.3 The role of public banks in supporting the green transition

Public banks play a critical role in supporting the green transition by financing sustainable initiatives, including those that have higher risk profiles or are not yet commercially viable. The Bulgarian Development Bank (BDB), for example, offers specialised credit lines for renovation programmes which support the implementation of energy efficiency measures in buildings. Moreover, Bulgaria's plan to transform the Bulgarian Energy Efficiency and Renewable Energy Fund into a National Decarbonisation Fund with a target size of EUR 3.5 billion further underscores the importance of public banks in channelling this funding for the green transition.

Public banks can act as catalysts for private investment by providing the necessary initial funding and financial incentives to de-risk green projects. By working in partnership with multilateral development banks like the European

---

<sup>16</sup> Ministry of Defence of Bulgaria, 2024, **Strategy for the Preparedness of the Defence Forces for Climate Change**.

<sup>17</sup> European Commission, September 2024, **The future of European competitiveness**, Part A.



E3G

---

Bank for Reconstruction and Development and the European Investment Bank, these institutions can offer technical support, enhance transparency and mobilise additional resources. The involvement of public banks ensures that financial resources are aligned with national and EU climate goals, thus driving a more robust and coordinated approach to sustainability.

## Recommendations

- > **Recommendation 6: Mandate green public procurement.** The legislator should introduce regulations that make green procurement mandatory for all government contracts, including defence spending. This can help mainstream sustainability across various sectors and ensure consistent demand for green products and services.
- > **Recommendation 7: Integrate sustainability in defence.** Full implementation of the Strategy for the Preparedness of the Defence Forces for Climate Change and the use of defence procurement as a vehicle for sustainable innovation will contribute significantly to environmental goals. It will also improve operational efficiency and energy independence.
- > **Recommendation 8: Strengthen the role of public banks.** The mandate of public banks like the BDB should be expanded to include more comprehensive support for green projects. Banks must have the capacity to provide long-term, low-interest financing and guarantees for sustainable initiatives, facilitating private sector involvement.
- > **Recommendation 9: Leverage multilateral partnerships.** The national and local governments and large private actors should actively engage with multilateral development banks to co-finance green projects. These partnerships can bring in technical expertise and additional funding, amplifying the impact of national initiatives and ensuring alignment with international best practices.



E3G

---

## 3.4 Implementing tax incentives and regulations

Currently, Bulgaria lacks a comprehensive range of tax incentives to effectively drive the green transition. While some local measures exist – such as property tax breaks for energy-efficient buildings – they are limited in scope and fail to address broader sustainability goals.<sup>18</sup> These measures are insufficient to generate the large-scale adoption of renewable energy technologies, energy efficiency upgrades or electric vehicles (EVs). The absence of robust national fiscal incentives has slowed progress, leaving Bulgaria lagging behind other EU countries where such incentives are helping accelerate the green transition. For instance, in Poland, excise tax exemptions and income tax deductions have made EV purchases more affordable.

Without a similar national framework, Bulgaria’s progress in promoting green technologies and sustainable practices will remain limited. A more extensive set of tax incentives that aligns with the EU’s sustainability objectives could help make the adoption of green technologies more financially accessible, particularly for individuals and businesses hesitant to make significant upfront investments. Additionally, by linking municipal charges to environmental impact – such as basing waste management fees on the volume of waste produced – Bulgaria could foster more sustainable behaviours at the local level. The introduction of green public procurement incentives could further strengthen demand for eco-friendly products and services. These targeted measures, when combined with support mechanisms for energy-poor households, would create a holistic approach to driving the green transition, making it more inclusive and impactful. Therefore, a set of clear recommendations should be considered to address these gaps and drive Bulgaria towards a more sustainable future.

### Recommendations

- > **Recommendation 10: Introduce comprehensive tax incentives for sustainable practices.** Bulgaria should implement a wider range of tax incentives that align with the EU Taxonomy and encourage sustainable investments. These could include tax breaks for individuals and businesses investing in renewable energy, energy-efficient technologies and EVs. Providing such incentives would make sustainable choices more financially attractive and accessible, driving adoption and supporting the green transition.

---

<sup>18</sup> Ministry of Finance, Republic of Bulgaria, **Real Estate Tax**.



E3G

- > **Recommendation 11: Link municipal charges to environmental impact.** Reforming municipal tax structures would encourage sustainability at the local level. For instance, waste management taxes could be adjusted based on the quantity of waste produced or the adequacy of waste separation. Such measures would incentivise households and businesses to reduce waste and adopt better waste management practices, contributing to a more sustainable environment.
- > **Recommendation 12: Develop incentives for green public procurement.** In addition to private sector incentives, the government should implement tax incentives that encourage public entities to engage in green procurement practices. These could include tax deductions for organisations that prioritise the purchase of sustainable goods and services, helping to create demand for green products and driving the market towards sustainability.
- > **Recommendation 13: Support mechanisms for the energy poor.** Targeted support mechanisms for the procurement of energy should ultimately be limited to the energy-poor households would ensure that they can participate in the green transition without financial hardship. These mechanisms could also include higher share of subsidies or rebates for green energy or energy-efficient home upgrades and renewable energy installations. Those falling outside the definition of energy poor – and particularly those not facing a severe crisis – must be exposed to price signals.



E3G

---

## CHAPTER 4

# ENHANCING PRIVATE FINANCE FLOWS FOR THE TRANSITION

Bulgaria's green transition will require significant private sector involvement and investment to succeed, especially as the country currently lags behind other EU nations. A greater role for private sector initiatives is needed, supported by a regulatory and financial environment that encourages sustainable initiatives. By mobilising the middle class and small-to-medium enterprises, Bulgaria can tap into vital resources for its sustainability goals. Additionally, fostering a culture of sustainable investment and expanding the role of institutional investors will be crucial in driving meaningful change across the nation.

### 4.1 Enable a greater private sector role

Despite lagging behind other EU countries and limited public sector support, the private sector in Bulgaria has shown initiative in driving the green transition. Their role should be acknowledged and supported, including by the state, as they can drive innovation and set standards that encourage broader participation in sustainable practices.

Some prominent examples of the private sector driving Bulgaria's green transition include following:

- > **Net-Zero Industrial Zone Trakia:** The Trakia Economic Zone (TEZ)<sup>19</sup> is a significant example of a private sector initiative aiming for sustainability. As one of the largest industrial zones in Eastern Europe, TEZ's commitment to becoming carbon-neutral by 2040 demonstrates the feasibility of aligning

---

<sup>19</sup> Trakia Economic Zone, 10 May 2022, EU regions in the transformation towards a climate-neutral future – **Case 5: Climate-neutral economic zone in Plovdiv (Bulgaria).**



E3G

---

industrial development with environmental, social and governance (ESG) principles. The zone's comprehensive 12-point plan focusing on green energy, energy efficiency and zero-carbon technologies serves as a model for other businesses in Bulgaria and the region. The success or failure of TEZ will provide valuable insights into the practical implementation of large-scale sustainable projects.

- > **TOKI:** TOKI is an energy trading company that fits the role as an energy aggregator. TOKI helps integrate small renewable energy producers with consumers, optimising the balance and efficiency of the energy market. By supporting decentralised energy production and providing access to broader markets, TOKI contributes to the growth of sustainable energy sources in Bulgaria. This model supports the green transition by bridging the gap between energy demand and supply, thus promoting more efficient use of renewable energy.
- > **Eldrive and Spark EV Car Sharing:** Eldrive's network of EV charging stations and the Spark EV car sharing service illustrate the role of innovative business models in promoting sustainable transportation. These initiatives not only support the adoption of electric vehicles by ensuring the availability of charging infrastructure but also encourage shared mobility, reducing the carbon footprint of urban transport. The success of Spark in expanding operations beyond Bulgaria to Lithuania and Romania highlights the potential for regional cooperation in advancing sustainable mobility.

The success of such private initiatives depends on a supportive regulatory and financial environment. While private sector leadership is crucial, it is not a substitute for the role of the state in providing clear, consistent policies and incentives that encourage sustainable business practices. The state should play an active role in supporting these efforts through legislation, financial incentives and public–private partnerships. State actors should unequivocally support new sustainability regulations, articulating them not as burdensome external requirements but as opportunities to align with global best practices and enhance Bulgaria's competitiveness.

Moreover, private sector initiatives should be encouraged to broaden their scope beyond the minimum required regulatory compliance. By integrating sustainability deeply into their business models, Bulgarian companies can create a robust competitive edge. This would involve developing and promoting sustainable products and adopting green procurement practices. Fostering a culture of sustainability also requires active engagement with stakeholders,





E3G

---

including employees, customers and suppliers. By doing so, the private sector can catalyse wider societal changes, making sustainability a norm rather than an exception.

## 4.2 Mobilise the middle class and SMEs

The involvement of middle-class citizens – through their savings and investments – and small-to-medium enterprises (SMEs) is essential for the success of Bulgaria’s green transition. These groups represent a significant portion of the economic landscape and have the potential to drive substantial change. For example, SMEs as part of the Bulgarian economy are employing over 75% of the workforce and generating 65% of the country’s added value. SMEs are 98% of the export companies and are responsible for 50% of Bulgaria’s exports.<sup>20</sup> However, their participation in sustainability initiatives has been limited, largely due to a lack of awareness, access to finance and opportunities to invest in the green economy.

Currently, a significant challenge is the perception that investments in sustainability are merely costs rather than opportunities for economic and personal financial growth. Changing this perception through the right narrative and education is crucial to mobilising the middle class and SMEs. By promoting the long-term economic benefits of the green transition, policymakers can encourage more active participation from these groups.

One effective approach to engage the middle class and SMEs is to establish more accessible pathways to invest in and reap the benefits from sustainable projects. This could include the development of community energy projects, such as local energy cooperatives, that allow citizens to invest in renewable energy installations. Such projects provide a tangible way for individuals and small businesses to participate in the energy transition, generate returns on their investments and feel a sense of ownership over local energy production. Moreover, energy communities can serve as educational platforms, increasing awareness and understanding of sustainable practices.

To facilitate this, the government should establish supportive frameworks that make it easier for SMEs and middle-class citizens to participate in green projects. This could include providing support for complying with regulatory requirements, providing financial incentives, developing guidelines and ensuring that public

---

<sup>20</sup> Ministry of Innovation And Growth, Republic of Bulgaria, 2023, **Small and Medium-Sized Enterprises**



E3G

---

support programmes are accessible to a wide range of participants. Grant programmes – in building renovation, for example – should be designed to allow for various levels of partial private funding, enabling middle-class households and SMEs to top up grants with their own investments. This approach not only leverages public funds but also fosters a sense of involvement and responsibility among participants.

In addition to financial and regulatory support, educational initiatives are vital. Providing information and training on the benefits and opportunities of the green transition can empower SMEs and households to take action. This could involve workshops, information campaigns and the development of resources. These can be delivered by various state and local government bodies as well as non-state actors such as CSOs and associations, or consultancies.

By mobilising middle-class households and SMEs, Bulgaria can create a strong, broad-based coalition that supports the green transition. This would in turn drive demand for sustainable products, services and policies, creating a virtuous cycle that reinforces Bulgaria's shift towards a sustainable, resilient economy.

### 4.3 Cultivate a culture of sustainable investment

A shift in investment culture towards sustainability is necessary to achieving the country's green transition. Encouraging retail investors and smaller businesses to invest in green alternatives can create a strong demand for sustainable financial products. The government should support frameworks that allow retail investors to participate in local green projects, providing transparency and showcasing the impact of their investments. Developing local sustainable portfolios and promoting sustainable international funds will further enhance this shift.

Traditional investment behaviours pose significant challenges to this shift in culture. Bulgarians usually favour assets such as real estate, often purchasing second or third homes to rent out or preserve value. Investment in commodities like oil and gold often carry significant climate and environmental impacts.

This current preference for investing in real estate, automobiles and commodities like oil and gold continues despite the decreasing population, high mortality rates and significant emigration. According to the 2021 census, nearly 40% of homes in Bulgaria are unoccupied, with major cities like Sofia seeing



E3G

---

domestic property vacancy rates of about 25%.<sup>21</sup> This surplus of unproductive assets not only ties up capital that could be invested in more productive, sustainable ventures but also increases maintenance costs and energy consumption, which are typically not aligned with high energy performance standards or circular economy principles.

The lack of sustainable investment options is another significant barrier. Sustainable investment portfolios are virtually non-existent in Bulgaria, with only a few global funds represented by local asset managers. These funds, often managed by international providers like Schroders, do not offer visibility into where and how the funds are invested locally. As a result, potential investors lack a clear understanding of the impact of their investments, which reduces the attractiveness of these products. The limited opportunities currently offered to the average investor to participate in sustainable initiatives hampers the ability to direct substantial capital towards green projects.

There is a growing need to shift investment preferences towards more sustainable alternatives. Household and business savings currently amount to over EUR 65 billion in bank deposits at near-zero interest rates.<sup>22</sup> Redirecting even a portion of these savings into green investments could significantly boost the financing available for Bulgaria's green transition.

Developing local sustainable investment portfolios that focus on green infrastructure, renewable energy projects and sustainable agriculture could provide attractive options for investors seeking both financial returns and environmental impact. These portfolios should be designed to offer transparency, demonstrating and emphasising the local and tangible benefits of the investments. This would help build trust and interest among retail investors, who are currently more familiar with traditional investment options.

## Recommendations

- > **Recommendation 14: Promote sustainable investments.** The government should create a supportive regulatory framework that encourages the development and promotion of sustainable financial products. This framework could include tax incentives for investments in green funds, simplification of investment processes and clear guidelines

---

<sup>21</sup> National Statistical Institute of Bulgaria, 15 November 2023, **Results of the Census of 2021**

<sup>22</sup> CEIC Data, June 2024, **Bulgaria Bank Deposits**



E3G

---

that align with the EU Taxonomy for sustainable activities. Such measures would help make sustainable investments more appealing and accessible to both institutional and retail investors.

- > **Recommendation 15: Encourage local sustainable portfolios.** Asset managers in Bulgaria should be encouraged to introduce local sustainable investment products. These could include green bonds, renewable energy project shares and funds focused on sustainable agriculture and circular economy initiatives. Offering these products locally would give investors a sense of ownership and connection to the projects they are funding, enhancing their willingness to invest.
- > **Recommendation 16: Increase investor education and awareness.** Educational initiatives are essential for informing potential investors about the benefits and opportunities of sustainable investments. This could include workshops, seminars and information campaigns highlighting successful case studies of green investments. By increasing awareness, investors can be better informed about how their financial choices impact the environment and the economy.
- > **Recommendation 17: Leverage technology for transparency and engagement.** Digital platforms, similar to the Oxygen platform developed by the Bulgarian Stock Exchange (see below), can be used to provide detailed information on sustainable investment options. These platforms can offer real-time data on the environmental and social impact of investments, helping to build transparency and trust. They can also facilitate easier access to sustainable investment products, enabling more people to participate in the green transition.
- > **Recommendation 18: Expand access to green financial products.** Banks and non-banking financial institutions should diversify their product offerings. For mainstream sustainable investing, this should include options beyond traditional investments like real estate and vehicles. Products could include green bonds, shares in renewable energy projects and funds focused on sustainable development. Providing a range of options can cater to different investor preferences and financial goals, thereby broadening the appeal of sustainable investments.



E3G

---

## 4.4 Expand the role of the financial sector

The financial sector has a vital part to play and some private investors in Bulgaria have already recognised the significance of green investment. This shift has been driven primarily by adherence to EU regulatory standards and reporting requirements. The Bulgarian Stock Exchange's Oxygen platform was licensed by the Global Reporting Initiative in October 2024.<sup>23</sup> This initiative aims to help companies generate sustainability reports, complying with EU reporting obligation and promoting sustainable business practices. While compliance with the ESG rules may start as a regulatory need, it gradually evolves into a core value for businesses, as has been the case with many rounds of regulation and introduction of standards in the past. State support for these initiatives is essential to reinforce the role of private sector leadership.

In particular, businesses could benefit from targeted regulatory support with the compliance of their obligations under the EU sustainable finance framework, including regulations such as the EU Taxonomy of sustainable activities, Sustainable Finance Disclosure Regulation (SFDR) and Corporate Sustainability Reporting Directive (CSRD). Those EU-level rules are often perceived as an additional reporting burden in Bulgaria and are not fully appreciated for the benefits and additional funding they could attract. The correlation between the regulatory certainty those rules bring and higher demand for sustainable financing is already well established.<sup>24</sup>

For instance, the CSRD presents an opportunity to develop a sustainability-aligned investment culture. This is because it ensures transparency and accountability, providing investors with consistent, reliable data on companies' sustainability practices, which is essential for making informed, responsible investment decisions. Previously, Bulgaria was lagging in the implementation of CSRD and it seemed unachievable. Despite the political instability and frequent rounds of elections, progress has been made by the legislator. As of August 2024, Bulgaria has formally integrated CSRD requirements into its Accounting Act, mandating large companies and entities of public interest to report their sustainability practices. This new regulation is in the early stages of implementation and covers almost 800 Bulgarian companies, aligning Bulgaria with broader EU sustainability objectives.<sup>25</sup> These companies will now undergo

---

<sup>23</sup> Momchil Rusev, October 2024, **'Oxygen' Platform Licensed by Global Reporting Initiative**, Bulgarian News Agency

<sup>24</sup> European Commission, **Taxonomy compendium and stocktake**

<sup>25</sup> Bozhidara Zhivkova, ESG News, March 2024, **How CSRD Will Be Introduced In Bulgaria**



E3G

---

audits that include both financial and non-financial sustainability indicators, marking a major step toward integrating sustainability factors into standard business operations.

### Recommendations

- > **Recommendation 19: Provide support for compliance.** The swift implementation of the EU regulatory frameworks that require or incentivise institutional investors to integrate sustainability criteria into their investment decisions must be encouraged. This includes mandatory sustainability reporting under the Taxonomy, SFDR and CSRD. This would increase transparency and accountability, encouraging investments in companies that prioritise sustainability. Policies could also offer tax incentives or subsidies to funds that prioritise green investments. Companies should receive guidance and support to comply with these new reporting requirements, including workshops and access to consulting services specialising in sustainability reporting.
- > **Recommendation 20: Build capacity for non-financial audits.** Given the initial limited scope of these non-financial audits, developing local expertise and capacity is essential. Over time, the audit processes should evolve to provide comprehensive and accurate assessments of companies' sustainability practices. Affordability of the audits should be within reach for Bulgarian companies.
- > **Recommendation 21: Raise awareness and encourage early adoption.** To ensure a smooth transition, companies should be encouraged to adopt CSRD practices early. Awareness campaigns and incentives for early adopters can help integrate these practices into businesses.

## 4.5 Encourage institutional investment

Institutional investors, particularly pension funds, can play a pivotal role in driving Bulgaria's green transition. Their substantial assets and long-term investment horizon make them uniquely positioned to support sustainable development. By strategically aligning their financial interests with sustainability goals, these investors can simultaneously secure stable returns and contribute to Bulgaria's environmental objectives. This approach creates a synergy between



E3G

---

economic growth and ecological responsibility, fostering a more sustainable future for the country.

In addition to pension funds, several other types of institutional investors play significant roles in Bulgaria's financial landscape. Insurance companies manage large portfolios, typically investing in secure assets like government and corporate bonds, though many are beginning to explore green bonds and sustainability-aligned investments. Mutual funds offer various investment options, including equity and bond funds, and are gradually incorporating sustainability criteria due to EU pressures for greener portfolios. Although Bulgaria lacks its own sovereign wealth fund, foreign sovereign wealth funds actively invest in the country, targeting infrastructure, energy and real estate sectors. Development banks, notably the Bulgarian Development Bank (BDB), support national economic goals, particularly green transition projects and small business financing. Private equity and venture capital funds also play a vital role, focusing on high-growth sectors such as technology, renewable energy and infrastructure, fostering innovation within the economy. Real Estate Investment Trusts (REITs) are gaining traction as well, meeting the demands of urbanisation with investments in income-generating properties across Bulgaria. Together, these institutional investors are critical to Bulgaria's market growth and are increasingly aligned with EU sustainable finance mandates.

## Recommendations

- > **Recommendation 22: Facilitate public–private partnerships.**  
Collaborations between institutional investors and public entities to co-fund green projects should be encouraged. Public–private partnerships can de-risk large-scale green investments, making them more attractive to institutional investors. This approach can leverage public funds to attract private capital, effectively increasing the total investment in sustainable infrastructure and renewable energy projects.
- > **Recommendation 23: Develop investment guidelines and tools.**  
Providing institutional investors with clear guidelines and tools for assessing the sustainability of their investments can help investors evaluate the environmental impact of potential investments and align their portfolios with Bulgaria's green transition targets. Training programmes and workshops can also raise awareness among fund managers about the opportunities and benefits of sustainable investing.



E3G

- > **Recommendation 24: Align with international standards and networks.** Participation by Bulgarian pension funds and institutional investors in international networks like the Network for Greening the Financial System (NGFS – see below) and the Coalition of Finance Ministers for Climate Action can provide access to global best practices, research and peer support. This will help Bulgarian investors align with international sustainability standards and enhance their role in the green transition.
- > **Recommendation 25: Promote green bonds and sustainable investment products.** Pension funds and other institutional investors should be encouraged to invest in green bonds and other sustainable financial instruments. These products can offer stable, long-term returns that align with the investment objectives of pension funds while supporting projects that contribute to Bulgaria’s sustainability goals. Green bonds, for instance, have gained popularity globally due to their dual benefit of offering financial returns and supporting environmental projects.

## 4.6 Promote energy communities

Energy communities are gaining popularity across the European Union, offering a valuable model for collective engagement in the energy transition. These initiatives provide retail investors with direct control over local energy projects, fostering innovation and collaboration. Energy communities serve as incubators for new business models and start-up initiatives, while also attracting interest from the financial sector due to their bankable projects.

In Bulgaria, energy communities are still in their infancy, with only a few recent initiatives. The National Energy and Climate Plan (NECP) – including the latest version (June 2024) – has not yet recognised the potential of energy communities, particularly for heating and cooling applications, which limits their integration into Bulgaria’s energy strategy.<sup>26</sup> This in turn limits the opportunity to scale up these initiatives and integrate them fully into Bulgaria’s energy strategy.

A significant barrier to the development of energy communities is the limited sense of shared ownership among municipalities and residents. In contrast with

---

<sup>26</sup> Ministry of Energy, Republic of Bulgaria, June 2024, **The Ministry of Energy and the Ministry of Environment and Water offer for public consultation an updated Integrated National Plan ‘Energy and Climate’.**





E3G

---

many other European regions with strong traditions of local governance, Bulgarian municipalities often lack the autonomy and financial power to invest in or benefit directly from local renewable energy projects. This is due to a centralised fiscal structure where tax revenues primarily flow into the central budget. In contrast, other EU countries have successfully embraced partnerships between municipalities and local energy projects, resulting in tangible benefits for communities. These include financial returns, job creation and increased community involvement in decision-making processes, where the ongoing benefits create a positive feedback loop, encouraging the expansion of energy communities.

Energy communities in Bulgaria should not be limited to small-scale prosumer setups. They have the potential to leverage various financial schemes and collective investments to harness economies of scale. Currently, there are limited options for Bulgarian citizens to become shareholders in large-scale renewable energy projects such as photovoltaic or wind farms. Existing procedures for feeding excess power into the grid are complex and often require on-site consumption of the generated electricity, making it unworkable for most households and limiting the appeal of rooftop solar applications and other small-scale renewable energy solutions.

Despite challenges, Bulgaria's energy transition is progressing. Industries with consistent daytime power consumption have already started investing in their own renewable energy capacities to reduce energy costs, although the full impact of these efforts is not yet quantified. The growing share of solar power (which became the second-largest source of electricity after nuclear in early 2024) and the seasonal shift away from coal indicates significant potential for energy communities to contribute further to Bulgaria's energy landscape.<sup>27</sup>

## Recommendations

- > **Recommendation 26: Facilitate model pilot energy communities.** Bulgaria should initiate diverse pilot projects to demonstrate the viability and benefits of energy communities. These pilots should be designed with replication in mind, focusing on scalability and adaptability to different local contexts. Key success factors include simplifying regulatory frameworks, providing technical support and

---

<sup>27</sup> Balkan Green Energy News, July 2024, [Bulgaria experiences historic power output slump in June](#).



E3G

---

offering grant and bridge funding, as well as long-term credit or guarantees to ensure project payback.

- > **Recommendation 27: Encourage local investment and ownership.** Local governments and relevant ministries (such as Energy, Regional Development and Public Works, Environment and Water, Agriculture and Forestry, Transport, and Education) should encourage renewable energy developers to structure projects that allow local investors and governments to acquire shares and receive dividends. This approach, especially with developers using public land, ensures that the economic benefits of renewable energy projects remain within local communities, rather than being absorbed into the central government through taxes and royalties.
- > **Recommendation 28: Develop local engagement policies.** Policies should be implemented to encourage active involvement of the local workforce and provide opportunities for public engagement. This can include educational programmes, open-door policies for visiting projects and initiatives that showcase successful energy community models. By fostering a culture of participation and transparency, these policies can build public trust and support for renewable energy initiatives.
- > **Recommendation 29: Simplify grid access and regulatory processes.** Procedures for feeding excess renewable energy into the grid should be simplified and restrictive requirements that limit on-site energy consumption should be removed.

## 4.7 Extend ESCO model energy efficiencies to the private sector

Energy Service Company (ESCO) models, which focus on delivering energy efficiency improvements with performance-based contracts, have been implemented with varying degrees of success in public buildings across Bulgaria. However, attempts to extend these models to private residential buildings have repeatedly encountered obstacles – in particular, a lack of a comprehensive framework to facilitate the combination of grants and debt instruments. Without this framework, it is difficult to finance projects effectively.

A significant challenge to expanding ESCO models to the private sector is the absence of a fully liberalised energy market in Bulgaria. Regulated energy prices



E3G

---

for households create an environment where the financial incentives for energy savings are less compelling, thereby reducing the appeal and viability of ESCO projects. Despite multiple commitments since 2014 to liberalise the energy market, Bulgaria has consistently postponed these plans, with the latest delay extending the timeline to the end of 2025. This regulatory uncertainty has hindered the growth of the ESCO market, limiting the development of energy efficiency projects that could benefit private building owners and contribute to Bulgaria's overall energy transition.

In Bulgaria's current regulatory environment, household energy prices are still controlled.<sup>28</sup> This reduces the economic motivation for private building owners to invest in energy efficiency upgrades. ESCO models thrive in markets where energy prices reflect true costs, providing clear financial savings from efficiency improvements. In a regulated market, the potential for savings is not as pronounced, leading to less interest from private owners and ESCO providers alike.

Moreover, the inability to combine public grants with private debt financing limits the scalability of ESCO projects. A well-structured framework that integrates various funding sources is crucial for the success of these models. Without it, the financial risks are too high for ESCOs to invest in large-scale residential projects. This is compounded by a lack of adequate support mechanisms for vulnerable groups who might face energy poverty, making it challenging to implement ESCO projects on a broader scale without creating inequities.

## Recommendations

- > **Recommendation 30: Prioritise energy market liberalisation.** The Bulgarian government should prioritise the liberalisation of the energy market to create a more conducive environment for ESCO models. By allowing energy prices to reflect true market values, private building owners will have greater financial incentives to invest in energy efficiency. This will, in turn, create a more robust market for ESCOs and encourage the development of innovative financing models that include both public and private funds.

---

<sup>28</sup> National Assembly of the Republic of Bulgaria, , 25 April 2024. [ear](#), 25 April 2024.



E3G

- > **Recommendation 31: Develop a comprehensive framework for ESCO financing.** To successfully expand ESCO models into the private sector, Bulgaria needs a clear framework that allows the blending of grants and debt instruments. This would lower the financial barriers to entry for private building owners and provide ESCOs with the necessary financial security to undertake projects. Such a framework should be designed in collaboration with financial institutions, ESCOs and policymakers to ensure it meets the needs of all stakeholders.
- > **Recommendation 32: Introduce and promote ESCO pilot projects for residential buildings.** National and local governments should introduce and support pilot ESCO initiatives targeting residential buildings. These pilots would serve as model projects, showcasing the benefits of energy efficiency improvements and building confidence among private building owners. Successful case studies will encourage wider adoption and scale-up of ESCO models. Special attention should be paid to ensuring quick scalability and to upfront investment in ESCO companies' soft skills. This is important to ensure that ESCO companies are able to be proactive in offering their services and gather customer feedback efficiently to continuously improve their product.
- > **Recommendation 33: Implement support mechanisms for energy-poor households.** To ensure equitable access to the benefits of ESCO projects, the government should establish support mechanisms that specifically address the needs of energy-poor households. This could include subsidies, grants or low-interest loans that make energy efficiency improvements affordable for all, preventing disparities in access to energy-saving technologies.



E3G

---

## CHAPTER 5

# PROMOTING INTERNATIONAL ENGAGEMENT AND MEMBERSHIP IN GLOBAL INITIATIVES

Engaging with global networks can enhance Bulgaria's capacity to implement effective green transition strategies. Despite the promising local business initiatives, Bulgaria's participation in international sustainability and climate change organisations remains limited. Engaging with global networks can boost existing efforts by providing access to international best practices, peer support and collaborative opportunities.

There are currently several notable gaps in international participation. Bulgarian entities, such as the Bulgarian National Bank and the Financial Supervision Commission, are not members of key international coalitions like the Network for Greening the Financial System (NGFS). The Ministry of Finance and the Ministry of Energy are also not members of initiatives like the Coalition of Finance Ministers for Climate Action and Mission Innovation. No Bulgarian cities are part of the C40 Cities Climate Leadership Group. This lack of engagement and membership limits opportunities for urban sustainability leadership.

### Recommendation

- > **Recommendation 34: Increase participation in international networks.** To enhance Bulgaria's role in the global green transition, it is crucial to increase participation in international networks. By joining initiatives like the NGFS, Mission Innovation and C40 Cities, Bulgaria can benefit from shared knowledge, resources and support, accelerating its progress towards sustainability goals. Engaging in these platforms will also help Bulgaria align more closely with global standards and demonstrate its commitment to climate action.



E3G

---

## CONCLUSION

For Bulgaria to succeed in its sustainable transition, the immediate critical steps are to safeguard the available EU funds and to begin mobilising national and municipal budgets as key drivers, with green public procurement playing a pivotal role in redirecting public spending towards sustainability.

This will send a clear and unequivocal signal to private actors, both large and small. There are already many seeds of change among businesses, which have been crucial sources of sustainable initiatives, particularly during times of political uncertainty, and these efforts deserve more room to grow and be encouraged.

Special attention should be given to engaging retail investors by creating accessible and attractive investment opportunities. This will ensure that SMEs and the middle class are not passive observers, but active participants, with a direct stake in the green transition. Bulgaria can build a sustainable future with shared benefits for all by aligning public and private resources and ensuring broad societal inclusion.

This approach will also strengthen ties with neighbouring EU countries like Greece and Romania. Additionally, Bulgaria can drive positive change towards sustainability in the broader region of EU-aspiring nations. Only by mobilising political support and harnessing public and private finance, together with increased international engagement, will Bulgaria be in a position to benefit from the significant geopolitical, socio-economic and financial benefits of a sustainable economy.