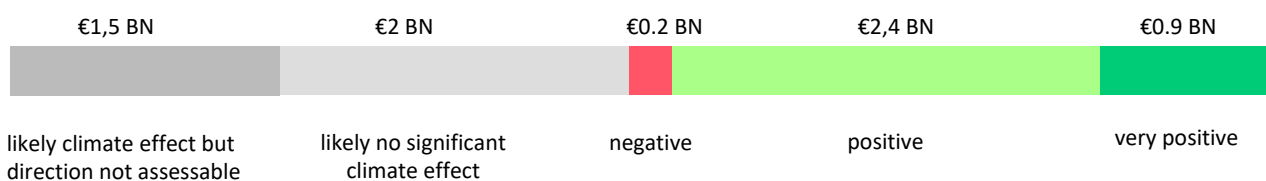


## GREEN RECOVERY TRACKER REPORT: BULGARIA

The first draft of Bulgaria’s national Recovery and Resilience Plan (RRP) was published in October 2020. The plan consisted of four main pillars (Innovative Bulgaria, Green Bulgaria, Connected Bulgaria and Just Bulgaria) outlining recovery measures, as well as funding estimates. The second draft (Version 1.1) of the plan was released in February 2021<sup>1</sup> which is the basis for this analysis.

The Bulgarian RRP comprises measures worth €7.1bn (nearly 10% of domestic GDP) including €5.91bn from the EU Recovery and Resilience Facility. Overall, the plan makes a positive contribution, as our analysis identifies the following spending shares:



### In focus: Green Spending Share

We find that Bulgaria’s draft recovery plan achieves a green spending share of 27%, which is below the EU’s 37% climate-spending benchmark. In contrast, 3% (€0.24bn) of all measures have a negative impact. Furthermore, we find that 21% (€1.52bn) may have a positive or negative impact on the green transition depending on the implementation of the relevant measures, illustrating the importance of further scrutiny during the planning, review and implementation of the recovery measures. The draft RRP also includes some green measures (e.g. the extension of the metro lines in Sofia) that were already planned before the pandemic. Not all elements can, therefore, be counted as additional green investments.

*Our calculation of the green spending share aims to mirror the approach used for the official assessment of national recovery plans, which distinguishes between measures contributing fully to climate mitigation (100% coefficient) and measures contributing partly (40% coefficient). Therefore, we fully count “very positive” measures towards the green spending share, while “positive” measures are weighted using a coefficient of 40%, which is applied to the associated costs. All individual assessments can be accessed via the country page on our website.*

## OUR HIGHLIGHTS

### Good Practice

#### **Stand-alone house energy efficiency measures**

The Bulgarian RRP includes a dedicated programme to finance stand-alone house energy efficiency measures such as the purchase of energy efficient heat-pumps, solar systems for household heat supply and PV systems in buildings that are not connected to heat and gas transmission networks.

### Bad Practice

#### **Support for natural gas pipelines for future hydrogen transport**

Although gas will play a certain role in the medium-term decarbonisation pathways until 2030, the strong focus on gasification of the coal regions without diversified sustainable alternatives could lead to a long-term lock-in of fossil-fuel-based infrastructure and undermine Bulgaria's decarbonisation efforts in the long-term potentially putting its 2050 climate-neutrality target at risk.

### To Our Surprise

#### **Support for the modernization of the power transmission system operator**

The Bulgarian RRP includes a measure dedicated entirely to the modernization and digitalization of the power transmission system operator (€0.26bn).

## GENERAL CONTEXT

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Before the crisis, political discourse in Bulgaria centered on the high level of corruption and Bulgaria's upcoming entry into the ERM II mechanism for accession to the Eurozone.

Both national and EU financial resources were affected by corruption and economic mismanagement scandals in the past, which have enabled the capture of key economic sectors and the expansion of oligarchic networks. This has led to a decline in public trust in the ability of the national administration to appropriately absorb and spend funds. With the upcoming entry into the ERM II concerns have been raised by the public about the effects of the introduction of the euro on prices and purchasing power with the goal of delaying the ERM II entry process.

From a green transition perspective, the coal phase-out and the EU's climate neutrality goal have been controversial topics in the political and general public debate. The government has been concerned that the coal phase-out could endanger Bulgaria's energy security and that decarbonisation is not consistent

with the existing socio-economic conditions in Bulgaria. However, studies have shown that it is not the decarbonisation of the electricity sector that is driving up the wholesale electricity prices but the increasing price of the ETS quota, a key cost component in the generation of electricity in Bulgaria due to the overreliance on lignite burning for power generation.<sup>2</sup>

A possible coal phase-out can not only be linked to environmental concerns like air pollution and the current emissions levels but also to the economic restructuring of the coal regions and the government's capacity to mobilise and use new EU funds (in particular the Just Transition Fund) efficiently for this purpose.

The Bulgarian recovery plan prioritises large infrastructure projects (e.g. building infrastructure for the transmission of hydrogen produced from gas in the coal regions that could lead to a long-term lock-in fossil fuel infrastructure) and the proposed large-scale energy-efficiency renovation programs that do not reflect the highest climate ambitions. Large energy infrastructure projects, such as the Russia-driven Belene Nuclear Power Plant and the Turkish Stream gas pipeline, increase the risks of locking-in carbon-intensive energy infrastructure and diverting essential resources away from renewable energy investments and the decentralization of the electricity supply.

<b>Context indicators<sup>3</sup></b>	<b>Bulgaria</b>	<b>EU average</b>
GDP (2019)	<b>61.2 bn €</b>	
GDP (per capita, 2019)	<b>8780 €</b>	<b>31130 €</b>
GDP (per capita, 2020, provisional)	<b>8750 €</b>	
Debt (% of GDP, 2019Q4)	<b>20.2 %</b>	<b>77.6 %</b>
Debt (% of GDP, 2020Q3, provisional)	<b>25.3%</b>	<b>89.8%</b>
Unemployment Rate (December 2019)	<b>3.3 %</b>	<b>6.5 %</b>
Unemployment Rate (August 2020)	<b>4.2 %</b>	<b>7.7 %</b>
Unemployment Rate (December 2020)	<b>5.9%</b>	<b>7.5%</b>
Real GDP forecast for 2020	<b>- 7 %</b>	<b>- 8.3 %</b>
Real GDP forecast for 2021	<b>+ 5.3 %</b>	<b>+ 5.8 %</b>
Total recovery spending	<b>€7.1 bn</b>	
EU recovery funding (grants only, current prices)	<b>€5.91bn</b>	

## KEY FOCUS AREAS OF THE BULGARIAN RECOVERY DEBATE AND THE RECOVERY PACKAGE

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The Bulgarian government has focused on restoring ‘economic growth potential’ after the COVID-19 crisis and ensuring future “resilience to its negative impacts on society and [the] economy”<sup>4</sup>. There is a clear intention to improve the fundamentals of Bulgaria’s pre-COVID-19 economy and not just to recover from the crisis at hand. Modernisation and internationalization aims have been set out within the RRP, as a ‘strategic goal of the Bulgarian government’ to attain the ‘convergence of the economy and incomes to the EU-average.’

The Council of Ministers launched the first version of the RRP for public consultations in October 2020. Several interested stakeholder organisations and individuals have sent comments and submitted their official positions to the official website for public consultations. Furthermore, various ministries organised virtual expert-oriented consultations, where interested stakeholders could also provide their input, comments and suggestions.

The political debate on the recovery measures centered on three main issues:

- The RRP’s energy efficiency and renovation measures do not reveal a desire to increase the ambition of already-existing transition trajectories.
- Renewable energy associations and environmental NGOs highlighted the need to improve the regulatory framework for promoting the role of prosumers and energy communities in the energy transition.
- The vagueness of the proposed national decarbonization fund has been criticized. There is limited knowledge of the scope, vision or criteria for the use of the fund

Version 1.1 of the Bulgarian plan was published in February 2021 without a second round of public consultations. The “Green Restart” Coalition criticised the lack of transparency and dialog with stakeholders<sup>5</sup>.

## FINANCING AND ADDITIONALITY OF BULGARIA’S RECOVERY PACKAGE

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The announced recovery measures are funded through a mix of EU funds, instruments and projects, such as the Recovery Fund, the Just Transition Fund, the Cohesion Policy and the InvestEU programme. The recovery process will also entail additional measures in the operational programmes for the management of the Bulgarian budget in the Multiannual Financial Framework.

The draft plan announced the launch of a national decarbonisation fund, which is to be set up as part of the recovery process to finance investments in renewable energy, energy efficiency and other low-carbon technologies. This will be sourced from EU funds, the national budget, as well as from international financial institutions, however, the details of the funding opportunities (scope and criteria for the use of the fund) are largely unclear.

## GOVERNANCE OF THE RECOVERY PACKAGE

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The Bulgarian RRP explicitly states that its objective is to lay ‘the foundations for a green and digital transformation of the economy, in the context of the ambitious goals of the Green Deal’. The strategic document outlines the measures that contribute towards a circular economy and are explicitly linked with European legislation for a climate-neutral economy. The draft plan also refers to Bulgaria’s Long-Term National Strategy to support the renovation of the building stock and energy efficiency. However, there is no reference to the National Energy and Climate Plan (NECP) or other climate-related plans and obligations but the implicit targets to be achieved by the energy efficiency funding streams are in line with those in the energy efficiency pillar of the NECP.

The programme explicitly defines its overarching green target as requiring 37% of resources to be spent on initiatives furthering a green economic and social transition. It suggests measures that will contribute towards the achievement of the European Green Deal targets.

## NOTEWORTHY SHORT-TERM LIQUIDITY AND STATE AID DECISIONS (“COMPANY BAIL-OUTS”)

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During the pandemic, two major social regulations were introduced to limit unemployment and ensure the continuation of business activities. The first was the 60/40 rule which mandated that the government will cover 60% of workers' wages in a type of furlough scheme to reduce the burden on employers. The second scheme provided direct grants of €148 each month to all companies regardless of size and including the self-employed in sectors worst hit by the outbreak e.g., tourism, transport and leisure-related businesses. Both schemes were co-financed by the European Social Fund. There have been various other social support measures that have sought to reduce the burden on industry such as direct grants to farmers from the State Fund for Agriculture and the deferral of concession payments by airports in Burgas and Varna to address liquidity needs. A moratorium, or credit break, has been established on bank loan payments for up to 6 months with a deadline set for the end of March 2021. Another measure has been the issuance of interest-free loans to employees on unpaid leave, the self-employed and seasonal workers (up to €3536, with extended deadline for applications up to the end of June 2021). A total of €0.1bn has been aside for this scheme. The government has also given extensions on unpaid utility bills and tax relief to households with disabled children.

Further important short-term liquidity and state aid measures include:

- The Bulgarian government increased the capital of the state-owned Bulgarian Development Bank by €0.36bn. This amount was divided into €0.26bn for corporate loan guarantees issued by commercial banks and €0.1bn for interest-free loans to employees on unpaid leave.
- Further €0.18bn were given for direct grant support to SMEs during the crisis, which have seen their revenues collapse due to the COVID-related economic restrictions.
- €0.51bn was provided for additional business lending through the Fund Manager of the Financial Instruments in Bulgaria.

## DEEP DIVE: THE MOST IMPORTANT RECOVERY MEASURES AND HOW WE ASSESS THEM

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### The most important measures with an effect on the green transition are:

- **Energy efficiency measures in the “Low Carbon Economy” program (€1.84bn).** There is a dedicated program to finance energy efficiency measures for stand-alone houses (€0.02bn, very positive) such as the purchase of energy efficient heat pumps, solar systems for household heat supply and PV systems in buildings that are not connected to heat and gas transmission networks. The proposed mechanism to finance energy efficiency and RES projects, as well as the establishment of one-stop-shops to lower the administrative burden for households and companies are all very positive elements of the recovery plan. However, most of the measures lack specific details and targets. The energy efficiency measures are also allocating funding to already-existing programs for buildings renovation.
- **The Transport Connectivity Program (in total €0.92bn; very positive)** puts a strong emphasis on the digitalization and modernization of railway infrastructure, which has been largely neglected in the past, and on building sections of Line 3 of the Sofia metro. However, more funds have to be dedicated to such measures given how out of date current rail infrastructure is. The program on urban mobility puts a big emphasis on greening public transportation in Sofia but does not allocate resources for transport projects in other big cities in Bulgaria that are also developing economically such as Plovdiv, Bourgas and Varna, as well as upgrading and expanding the transport infrastructure in the Northern part of Bulgaria, which is less interconnected than the South.
- **Development of three funds (Technological Modernisation; Green Transition; Support for Digitalization of Enterprises (in total €0.88bn)) to follow up on the objectives of the previous Economic Transformation Program.** These funds aim to facilitate the needed transition to a circular economy with recycling technologies, standardization and eco-innovation as well as guaranteeing industrial symbiosis. The Green Transition Fund (€0.25bn, very positive) aims to support industry, including SMEs, in implementing solutions towards a sustainable circular economy, so they can become more energy and resource-efficient.
- **Design, build and commission infrastructure adequate for transmission of hydrogen and low-carbon gaseous fuels for supply of power stations and other consumers in Bulgaria's coal regions (€0.24bn, negative).** This measure, despite its stated aim to support the development of a hydrogen infrastructure, is most likely to support an increased use of natural gas in at least the short- to mid-term, especially with regards to the use of natural gas for power generation. Officials have stated that this infrastructure could be initially used for fossil gas, not hydrogen, until hydrogen technologies will be commercial. This creates a significant risk for a natural gas lock-in of the whole energy system.
- **Establishment of national decarbonisation fund:** This fund aims to support investment in low-carbon initiatives via sustainable and targeted financing. Four phases have been defined: i) Technical support for consultations on the establishment of the Fund, DG Reform, EC (Q1/2022),

ii) Drafting proposals for regulations establishing the rules for the structuring and operation of the fund (Q4/2022), iii) Institutionalisation of the Fund (Q1/2023), iv) Conducting an information campaign to promote the Fund (Q2/2023).

**The package furthermore contains a significant number of measures that do not directly relate to the green transition but are still important and potentially transformative, such as:**

- Social inclusion (in total €0.49bn) of vulnerable groups (people with disabilities, elderly people and children, persons and families in a disadvantaged situation, etc.) and improving the quality and extending the scope of the social services, introduction of integrated approaches in the provision of social services alongside the development of integrated services.
- Measures to advance the digital transition within the program “Digital Connectivity (in total €0.51bn)
- Measures included in a program on “Education and skills” (in total €0.77bn) that includes among others measures to improve e-learning and further digital technologies and improvement of the infrastructure. However, it is very generic and not defines priority areas. A dedicated sub-programme about skills readjustment and in particular capacity building for green economy jobs is lacking.
- Additional funding for the healthcare system in the “Health” program (in total €0.34bn) such as modernizing facilities, equipment and introduction of new technologies and development of various health treatments.

*A further overview of the most important measures by sector can be found in the annex, below.*

#### **IMPORTANT CLIMATE POLICY DECISIONS TAKEN DURING THE CRISIS AND RECOVERY PERIOD**

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During 2020 no legislation was adopted regarding climate policy in Bulgaria.

**ANNEX: MOST IMPORTANT MEASURES OF THE RECOVERY PACKAGE BY SECTOR**

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**Sector** Most important measures with effect on green transition

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**Energy**

- Establishment of national decarbonisation fund
- Energy-efficient municipal outdoor artificial lighting systems (€0.18bn, positive)
- Mechanism to finance energy efficiency and RES projects together with electricity bills
- Design, build and commission infrastructure adequate for transmission of low-carbon gaseous fuels (and hydrogen) for supply of power stations and other consumers in Bulgaria's coal regions. (€0.24bn, negative)
- Scheme to support pilot projects for production of green hydrogen and biogas. (€0.04bn, very positive)
- Preparing and adopting a National Roadmap to improve the conditions for unleashing the potential of hydrogen technologies and mechanisms for production and supply of hydrogen
- Support producers of energy from RES - develop, facilitate and accelerate international trade in guarantees of origin
- Digital transformation and development of information systems and real-time systems of the Electricity System Operator in the conditions of low-carbon energy sector (€0.26bn, very positive)

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**Mobility**

- Digitalise rails and energy efficiency in core and extended TEN-T network (€0.14bn, very positive)
- Restructuring and Rehabilitation of key station complexes (€0.04bn in total, very positive)
- Modernisation of traction substations and section posts along the core and the extended TEN-T network (€0.14bn, very positive)
- Provision of sustainable transport connectivity and service through purchase of energy efficient and comfortable rolling stock (€0.16bn, very positive)
- Ensuring sustainable transport connectivity by building sections of Line 3 of Sofia metro (€0.39bn, positive)
- Update the strategic framework of the transport sector
- Integrating sustainable urban mobility into strategic planning for regional and spatial development
- Pilot scheme Green Mobility for renewal of rolling stock for urban and interurban transport (€0.05bn, very positive)



<b>Industry</b>	<ul style="list-style-type: none"> <li>• Updating the strategic framework of the industrial sector</li> <li>• Building a mechanism to attract industrial investments and develop industrial ecosystems</li> <li>• Public support for development of industrial parks and improvement of their infrastructural connectivity (€0.2bn, direction not assessable)</li> <li>• Economic transformation programme (for a technological modernisation fund, a green transition fund and a digitalisation fund) (€0.88bn, direction not assessable)</li> <li>• Large scale deployment of infrastructure (€0.51bn, direction not assessable)</li> <li>• Creating a favourable investment environment to encourage private investments</li> <li>• Develop and implement an effective policy and regulatory framework</li> </ul>
<b>Buildings</b>	<ul style="list-style-type: none"> <li>• Improving energy efficiency in the building stock (€1.1bn, positive)</li> <li>• Developing a definition of “energy poverty” for households in the Energy Efficiency Act for the purposes of financing energy efficiency projects</li> <li>• Finance single energy efficiency measures in one-dwelling buildings and multi-dwelling building that are not connect to heat and gas transmission networks (0.02bn, very positive).</li> <li>• Lower the administrative burden associated with the renovation processes</li> <li>• Programme for construction/further construction/ reconstruction of water and sewerage systems and wastewater treatment plants (€0.3bn, positive)</li> </ul>
<b>Agriculture</b>	<ul style="list-style-type: none"> <li>• Updating the strategic framework in the field of biodiversity</li> <li>• Biodiversity - Ecosystem Approach and nature-based solution</li> <li>• Digitalisation of the farm to fork processes</li> <li>• Measures of the Sustainable Agriculture pillar (€0.45bn, direction not assessable)</li> </ul>
<b>Cross-cutting</b>	<ul style="list-style-type: none"> <li>• Programme for accelerating economic recovery and transformation through science and innovation (€0.16bn, direction not assessable)</li> <li>• Programme for increasing the Innovation Capacity of the Bulgarian Academy of Sciences (BAS) in the Fields of Green and Digital Technologies (€0.02bn, positive)</li> <li>• Implementing a common policy for development of research, innovation and technology towards improved economic and social development of the country</li> <li>• Support for Digitalisation of Enterprises (€0.14bn, direction not assessable)</li> <li>• Modernising facilities, energy efficiency and equipment and introduction of innovative technologies for treatment of the population of major state and municipal medical institutions (€0.3bn, positive)</li> </ul>

*This report was written by Dr. Radostina Primova (CSD) and Magdolna Prantner (Wuppertal Institute). We are grateful to Martin Vladimirov (CSD), Gregori Stefanov, Apostol Dyankov (both WWF Bulgaria) as well as Johanna Lehne, Felix Heilmann (both E3G), Helena Mölter and Timon Wehnert (both Wuppertal Institute) for providing valuable inputs.*

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<sup>1</sup> Website of the Council of Ministers of the Republic of Bulgaria <https://www.nextgeneration.bg/14>

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<sup>3</sup> Eurostat; European Commission (2020). European Economic Forecast; European Commission (2020). Recovery and Resilience Facility – Grants allocation per Member State; own analysis

<sup>4</sup> <https://www.nextgeneration.bg/14>

<sup>5</sup> <https://move.bg/open-letter-march>