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“Renovation of social housing: financing and policy options in Bulgaria”

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The main financing and policy options, dealing with the renovation of social housing (multifamily residential buildings) in Republic of Bulgaria, are signed by the provisions of the Energy Efficiency Law , the National Program for building renovation, the Strategy for financing the building insulation, the modern financial instruments submitting loans for EE in buildings, the Bulgarian Energy Efficiency Fund and other mechanisms for stimulating these activities.

Amongst all abovementioned the adopted National Program For Renovation of Residential Buildings In Republic of Bulgaria is of highest national significance, considering not only its large time horizon and exactly determined priorities, but also all existing relevant

bottlenecks before its successful completion, clearly stated as well. The concise description from the side of its creators – the leading Ministry of Regional Development and Public Works (MRDPW), briefly envisages the following important issues.

On January 20th, 2005, the Government adopted the National Program for renovation of the residential buildings in Republic of Bulgaria (the Program).

The Program priority is the panel residential buildings and foresees within the 2006 – 2020 period 684 683 dwellings to be renovated, of which 362 792 are Panel, 152 686 – Ferro-concrete and 169 205 – Massive. The total value of the Program implementation needed financial resources is amounting to 4 150 000 thousand BGN. The State will support the panel dwelling proprietors by means of direct subsidy of 20% from the renovation total value. The direct State subsidy increases smoothly from 13 000 thousand BGN in 2006, to 130 000 thousand BGN in 2020. The Program implementation is assigned to the Minister of Regional Development and Public Works who coordinates the relevant activity among all Administrations and other interested parties. Every year the Minister of Regional Development and Public Works proposes, within the framework of the budget procedure, planning of the needed Program implementation direct State subsidies. The conditions and order of the subsidy allocation are determinate by the Council of Ministers. In MRDPW, a specialized unit will be created to allocate to municipalities the adopted budget subsidies for residential buildings renovation, based on adopted respective investment projects, submitted by the municipalities.

Municipalities actively participate in the residential buildings renovation process. With decision by the respective Municipal Council is created Municipal Association (MA) as a legal person, to support methodically and technically the activity on the organization and implementation of investment projects for residential buildings renovation, with participation of: the Municipality, Condominiums – legal persons, energy service companies (ESCOs), banks and other interested persons. The MA elaborates proposals for project areas (districts in the residential complexes) for implementation on the Municipality territory of investment projects for residential buildings renovation; assigns projects by means of competition; finances the project implementation and is responsible for spending the State subsidy for every specific project.

The dwelling owners establish and register legal person to represent the respective Condominium; participate in the created by the Municipality Public-Private Partnership in the form of the MA; are financially responsible for the renovation (financially supported with State measures, tax alleviations and subsidy inclusive); cooperate with Municipalities in the maintenance of the newly allotted public green spaces as a result of the performed residential complex restructuring; participate in the new administration of Condominium management and maintenance. The invested by the proprietors' means are gradually recovered as a result of consumed energy expenditures reduction from 35 to 40% and of the real estate tax exemption for determinate period of time, in accordance with Art. 24, Paragraph 1, items 18, 19 from the Local Taxes and Fees Act.

The Program foresees additional possibilities to alleviate the financial burden of proprietors: Conclusion of energy performance contracts with ESCOs, in return for the condition companies to receive for determinate period of time the difference of payment for the energy consumed – prior and after their intervention; Conclusion of contracts for renovation with companies, in return for the condition companies to acquire the property right on newly constructed projects, as a result of building extensions or super structuring, or additional building up, provided that town planning arrangement possibility and proprietor agreement exist. Proprietors of dwellings renovated, after implemented Municipal “Programmes for restructuring and renovation of residential complexes”, acquire ownership

on the adjacent to the building land after differentiation of a separate “Regulated landed property” following the respective residential complex restructuring, which considerably raises the market value of the property after its renovation.

The Program foresees proposals for legislative amendments in connection with the legal, institutional and financial-credit system improvement. Concretely it envisages that:

- “Up to 20% of the cost of common renovation work, isolation and strengthening of social housing stock will be covered by the state budget” - this is envisaged in the “National programme for renovation of residential buildings” in Republic of Bulgaria. The programme is elaborated by MRDPW and approved by CM in 2005.
- Priority – panel residential multiflat buildings in Bulgaria – 18 900 buildings, located in 120 residential complexes in the country with nearly 800 000 flats. Built in the years 60-80 of last age . 96,5% of them private.
- During the period 2006 – 2020 it is planned to renovate 684 683 flats, of which 362 792 of panel type, 152 686 Ferro- concrete type and 169 205 are massive.
- Total value for necessary finance resources equal to 4 150 000 000 leva.
- Direct subsidy from state budget to owners of panel buildings equal to 20% of the total value of renovation.
- Direct state subsidy will be flatly increasing from 13 mln leva in 2006 to 130 mln leva in the year 2020
- Participation of municipalities, created Municipal association (MA), consisting of municipal servants, Condominiums- legal persons, ESCO, banks, others. The MA elaborates proposals for separate renovation projects, assigns projects via competitions, finances its implementation and is responsible for spending state subsidy. An example of PPP. Dwelling owners establish and register legal person to represent respective Condominium and are responsible for financing the renovation, supported by state measures, tax alleviations and subsidy.

An important condition for the real execution of this programme will be the implementation of the **Law for floor property**, which will put the legal basis for the state subsidy for retrofitting of social housing and the real implementation of the NPRBS in Bulgaria. It is expected to be accepted by Parliament by the end of 2006.

The Strategy for financing building isolation was approved by Council of ministers at the end of 2005. and is within the frames of the National programme. The commitment of state budget concerning this strategy depends on the priority groups of buildings:

- The residential buildings under NPRBS – subsidies from the state budget equal to 20% of the project value;
- State owned buildings, under the EEL for mandatory certification – fully 100 % subsidies.
- Municipal buildings – covers the means necessary to do the mandatory energy audits and certification under the annual targeted programmes approved by CM , at minimum price for energy audit of 1 BGL per sq.m. defined in the NPRBS.
- Parameters of the priority groups of buildings:
- **State** – for 15 years totally 508 buildings at the value of 147 104 mln leva , for 2007 – 10 units at the value of 2 896 mln. leva)

- **Municipal** – for 15 years period totally 3454 buildings at the value of 597,691 mln leva, for 2007 about 70 - 12113 mln leva.
- **Residential** - for 15 years totally 650 981 dwellings at the price of 2,490,000 billion leva, only for 2007 - 10 510 at the value of 40 200 mln leva,
- For the state and municipal buildings :The ministries, regional governors, municipal councils and mayors elaborate and execute EE programmes (Art.. 7, 8, 9 and 10 of the EEL);
- The central executive powers, regional governors and other state bodies compose every year targeted annual programmes for EE and submit to the AEE to be generalized - Art. 11 of EEL. These programmes are financed by State budget (Art. 11, para 2 of the EEL).

The **New finance approach** experienced in Bulgaria since two years is the EBRD credit line for EE in household in close cooperation with EEA, MEE and EU to support Bulgarian government for improving its energy strategy and EE. Additional grant support is provided by IFK.

Its scheme consists of the following two components :

Credit line EBRD household + grant from IFK, from which:

- 24,7% - share of Bulgarian households in FEC, distributed as follows:
- 34,7% for electricity, 20,5% for heating energy, 17,1% coals, 26,3% wood, 1,3% liquid fuels, 0,1% natural gas.

EBRD is financing with 50 mln euro EE projects at household via opening of CL in a couple of Bulgarian banks for purchasing and installation of devices, equipments and materials.

The international Kozlodyi Fund is submitting 10 mln grant from IFK for finance structuring of the projects:

- Reassuring subsidy = 20% from the capital loan, but up to 850 €
- Technical assistance delivered
- Scope of loans: 500÷5000 euro for 5 years.
- Credit receivers: household, associations of energy consumers- floor owners.

The **Technological scope** of projects , eligible under this credit line are the following ones:

- isolation (walls, roofs, framework windows);
- glass packages (EE window frames);
- EE gas boilers and heaters ;
- EE stoves and biomass boilers ;
- solar collectors for hot water;
- Thermal pumps fro heating and cooling;

About 20 000 projects will be financed by now ;

Status by now of the Credit Line:

- Submitted loans – 9,7 mln leva
- Submitted grant – 1,7 mln leva

- Distribution :
- 55% for replacement of windows framework
- 10% for thermal pumps
- 11% - gas boilers
- 14% - wall isolation

Complete information may be found on **Website** - www.reecl.org

The Energy performance contracting in Bulgaria is a new contemporary economic mechanism for implementation of EE measures, which is at its start phase of implementation. The big potential for energy services is an attractive piece for more and more new market players. What is the real status by now:

- There are a couple of ESCO companies, most of which are branches of large international energy services companies, dealing in other sectors as well.
- There are a few refitting projects in Sofia, executed in the towns of Sofia, Plovdiv and Radomir.
- The size is small – in the scope of 60-80 000 euro..
- The realized savings of electrical and thermal energy are about 40%.
- The Pay back period is from 5 up to 7 years.
- As usual the reimbursement is achieved via the realized savings.

Another finance incentive is the **tax exemption** for receiving a category of certificate for energy performance of buildings. **The Law for local taxes and fees**, Art.24,1,18 envisages real estate tax exemption for old dwellings with certificates, issued under the EE law and the Ordinance for building certification for a duration of :

- 10 years at certificate category A ;
- 5 years at certificate category B

The Bulgarian EE Fund, a private-public partnership formation, is established under the EE Law in September 2005 and is in statute an independent juridical person with revolving character and a capital basis of 17 mln euro , which will deliver a non- free support for the realization of EE projects in the form of loans and/or guarantees (approximately 1:1). in the following sectors of energy consumption ::

- buildings,
- industrial processes,
- municipal sites ,
- equipments
- and any other cases of end energy consumption

The Terms for selection of **eligible projects** are to :

- have at least 50% from revenues of each project should be generated from measured savings of energy;
- to implement already proved technology
- size of projects : from 15 000 to 1.5 mln leva
- own participation of credit receiver:
- more than 25% at financing from BEEF only
- pay back period ≤ 5 years

More information may be received at www.bgeef.com.

Within the whole process of building renovation there are a number of additional options for both contractual parties, leading to the necessary large scale professional building renovation, to obvious environmental benefits and to the accompanying renovation of all building adjacent areas. For the ESCOs this would be the management, within their contract period, of a number of useful (and often totally missing) public functions, of all municipal and renovation waste (for local waste-to-energy generation purposes) inclusive. For r building owners - this should be their effective representation within the framework of a future Bulgarian Property Federation, which would be professionally responsible not only for the building renovation, but for the entire life of the building. The ultimate aim of all them is to have professionally renovated built environment of social housing (or of any other buildings), together with all their adjacent territories.

Our final conclusion would be: - if any National financial and policy option, strategy, plan and/or measure is to be practically and successfully implemented, especially in the Building renovation area, they are to be followed by the respective and workable lawful, structural, institutional, administrative, organizational, technical and technological provisions and/or dispositions.