

<b>1. Project Name</b>
<b>Economic Transformation Programme</b>
<b>2. Description of the project (objectives, main activities).</b>
<p><i>Main Challenges</i></p> <p>Small and medium enterprises play a major role in the development of the Bulgarian economy. In Bulgaria, SMEs contributed to 75.7% of total employment and 65.3% of value added in the economy in 2018<sup>1</sup>. They were of great importance for the growth and competitiveness of the European and Bulgarian economies, as a key source for the creation of jobs, entrepreneurial ideas and innovations. In this aspect, the efforts of our country to quickly recover our economy after the crisis are directly dependent on the effective support of SMEs, because they are most sensitive to crises and changes in the business environment.</p> <p>Bulgarian SMEs continued to experience difficulties in terms of their competitiveness on the regional, intra-European and global markets, mainly due to:</p> <ul style="list-style-type: none"> <li>- high production costs and the need to optimize production chains;</li> <li>- the use of obsolete technologies for performing production processes;</li> <li>- the lack of sufficient production capacity to meet market demand;</li> <li>- the need to improve the quality of manufactured products in sectors with export potential.</li> </ul> <p>Effective support for the development of Bulgarian SMEs was essential and was an important topic in economic policy. In times of crisis caused by the coronavirus, SMEs needed support to raise capital or credit resource. This would enable them to acquire new technologies and management systems, which would have a positive impact on their production efficiency and competitiveness, and their access to markets. Last but not least, the need to invest in the technology, knowledge and skills needed to tackle the challenges of overcoming climate change had to be taken into consideration.</p> <p>The data from the EC Report on the situation of SMEs showed that Bulgarian SMEs had difficulties in finding financing, which led to lower levels of investment, and a significant part of enterprises reported a shortage of financing in the period 2017-2019. This is why, support to stimulate private investment in the short term through grants under the Recovery and Sustainability Facility and medium-term financial instruments under the Programme Competitiveness and Innovations in Enterprises 2021-2027 is necessary.</p> <p>A significant problem for the slower recovery from the crisis was the low level of digitalization of enterprises. The Digital Economy and Society Index (DESI) indicated that Bulgaria significantly lagged behind in terms of digitalization of the economy, ranking 28th in <b>Integration of Digital Technologies</b> – a level well below the EU average. Businesses found it difficult to take advantage of the opportunities provided by online commerce: only 7% of SMEs made sales online (compared to 18% on average for the EU), 3% of all SMEs made cross-border sales, and only 2% of their turnover was from online trade. The low level of digitalization of enterprises in Bulgaria required measures to be taken to implement modern technologies and solutions and the level of technologies used. In order for the implementation of digital technologies and solutions to be successful, the benefits needed to be visible at every moment of the transformation process. This required a step-by-step approach to enterprise development.</p>

<sup>1</sup> European Commission, 2019. *2019 SBA Fact Sheet Bulgaria*. Brussels: European Commission.

Another significant problem of Bulgarian enterprises was the low level of resource productivity. In 2019, the resource productivity in Bulgaria remained the lowest both among the member states, as well as compared to the EU average, and amounted to 0.3288 EUR/kg, compared to 2.1 EUR/kg for the EU28. Despite these low levels, the resource productivity in our country in 2019 increased by 35% compared to 2000. It seemed that this growth in resource productivity is not enough and measures are needed to support Bulgarian SMEs.

Bulgaria is the most carbon-intensive EU Member State, with the intensity of greenhouse gas emissions in the Bulgarian economy as at 2016 was 4.3 times higher than the EU average, with a minimal reduction of the gap in this respect by only 5.7% for the last ten years. The of CO<sub>2</sub> emissions intensity measured the amount of CO<sub>2</sub> emissions per unit of value added (within the Eurostat Environmental Accounts system<sup>2</sup>). When decomposing the carbon intensity by economy sectors, it was obvious that the high values were not only due to the energy mix. According to data from Eurostat, in 2016, in terms of carbon intensity of sector D "Production and distribution of electricity and heat and gaseous fuels", Bulgaria ranked second in the EU with a ratio of 3.3 times above the EU27 average. At the same time, the carbon intensity of production (sector C "Manufacturing") was in fourth place with a ratio of 2.6 times above average, and the carbon intensity of the transport sector was in third place with a ratio of 3.4 times above average.

These data showed that the enterprises in Bulgarian economy, and the industry in particular, would be disproportionately affected compared to most EU countries by changes in the field of environment and climate envisaged by the EC, resulting from the European green deal, due to the significant share of energy-intensive industry and small contribution to the Union's total emissions. Timely measures were therefore needed to support **carbon and energy-intensive industries** that prevented carbon leakage.

The specific actions that needed to be taken to strengthen the production capacity of Bulgarian enterprises for recovery after the crisis included:

- 1) Provision of grants and financial instruments for technological modernization and manufacture of new products and services.
- 2) Provision of grants and financial instruments to encourage SMEs to introduce new digital technologies and solutions, specialized hardware and software to increase the level of digitalization of enterprises.
- 3) Improve of energy and resource efficiency, increase of the use of renewable energy sources and improvement of the SMEs' capacity in connection with the transition to a circular and low-carbon economy.

**The main objective of the Economic Transformation Programme** was to provide targeted support for the rapid recovery of Bulgarian micro, small and medium enterprises in the main problematic areas that slow down the transformation to a digital, low-carbon and resource-efficient economy for the purpose of overcoming the negative consequences of the economic crisis caused by the COVID-19 pandemic. The focus of the efforts was to provide timely support to Bulgarian SMEs to restore their resilience under the new circumstances.

*The programme consisted of three funds:*

**Fund 1 – Technological modernization**

**Fund 2 – Green transition**

**Fund 3 – Digitalization**

Each of the components contained different directions with a clearly defined purpose.

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<sup>2</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Climate\\_change\\_-\\_driving\\_forces#CO2\\_emission\\_intensities\\_of\\_economic\\_activities](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Climate_change_-_driving_forces#CO2_emission_intensities_of_economic_activities)

### *Description of activities*

#### **Fund 1 – Technological modernization**

The main objective of the support under this fund is related to the provision of grants to SMEs for the purpose of improving their competitiveness and creating the potential to maintain presence on existing markets and enter new ones (regional, national, international ones) and, as a result, the improvement of the market presence and the export potential of Bulgarian SMEs.

This would be achieved through investments in the implementation of technologies aimed at increasing the efficiency of the production process, achieving higher productivity, reducing production costs and optimizing the production chain.

The expected effect was the increase of added value, active involvement in all stages of the value chain and increase of competitiveness.

In both areas of support, the use of energy efficient technologies, as well as ones aimed at applying the principles of the circular economy, would be promoted as a horizontal priority.

#### **Area 1 Next Generation Modernization**

The procedure will focus on providing support to high technology companies from the nationally defined priority sectors of the National Strategy for Small and Medium Sized Enterprises 2021-2027 (NSSME) for introduction of new technologies and technological update of the production process with next-generation know-how, software and machines.

#### **Area 2 New Technologies and Equipment**

The procedure will focus on providing support to medium and low-tech companies included in priority sectors at regional level in the National Strategy for Small and Medium-Sized Enterprises 2021-2027 for introduction of new technologies, know-how and/or innovation, and purchase of new technological equipment to gain market innovation advantage, product customization, flexibility, efficiency and originality to diversify their production.

Focus of support:

- For Area 1, SMEs according to the priority economic activities identified and derived in the NSSME 2021-2027<sup>3</sup>;
- For Area 2, SMEs according to the needs and potential for specialization in each individual field at NUTS 3 level, identified in the NSPSME 2021-2027 (according to Annex 1)<sup>4</sup>;

#### **Fund 2 – Green Transition**

The objectives of Green Deal for achieving climate neutrality and circular economy require full mobilization of industry, incl. SMEs. The transition to a circular economy is an opportunity to introduce sustainable and job-creating activities in SMEs that benefited the economy and the environment. The results achieved so far by Bulgarian companies in terms of resource efficiency, energy efficiency and greenhouse gas emissions are far from optimal. In this context, the purpose of this fund is to support SMEs in implementing solutions in the field of circular economy, so that they will become more energy and resource independent, as well as to prepare them to face the challenges of the economy's green transition and carbon neutrality.

<sup>3</sup> The specific codes of economic activity according to NACE.BG-2008 of the priority sectors at the national level are set out in Annex 1 hereto;

<sup>4</sup> The specific codes of economic activity according to NACE.BG-2008 of the priority sectors for each field at NUTS 3 level are set out in Annex 1 hereto;

## Area 1 Decarbonization

Due to the expected increase in connected renewables with uneven and intermittent electricity (solar photovoltaic) generation regime, in line with the targets for the share of renewable energy sources and to ensure the system security, it is necessary to mobilize significant investments to increase its flexibility, including energy storage technologies and facilities, flexible capacity and demand management. In terms of electrical energy storage, the possibilities included supporting the combination of new RES for own needs with local electrical energy storage facilities depending on the appropriate technological solution for the respective projects.

The purpose of this Area is to contribute to the achievement of the above solution, according to which the construction of new capacities for electricity from renewable energy sources on a market basis would be combined with local storage of this energy.

In this regard, SMEs would be provided with the opportunity to acquire assets related to the installation of electricity systems from renewable energy sources for personal consumption, in combination with facilities for local storage of produced energy with intermittent and uneven operation.

The pilot scheme would focus on investment projects providing the possibility of storing electrical energy in combination with a PV generator with a power ratio of not more than 1: 2 (battery-to-generator) and a planned duration of output power of at least for 1 hour.

Combining the two types of investment would help meet the Energy union's goals of secure, sustainable, competitive and affordable energy, as well as scientific research, by attracting investment. The decentralization of the electricity supply system would be encouraged, while at the same time the distribution of the allocation of its management costs to consumers would be avoided.

The scheme excludes batteries for storing e for vehicles (electric cars, etc.), which were planned to be supported under other projects.

Given the time horizon of the Recovery and Sustainability Plan, candidates could be expected to be companies that introduce RES generation facilities for own consumption with an uneven and intermittent electricity generation regime (solar photovoltaic energy, wind, etc.), keeping in mind that such projects have a competitive advantage vis-à-vis the investments aimed at sales on the wholesale electricity market.

Focus of support: SMEs from all sectors except enterprises in sector D "Electricity, gas, steam and air conditioning supply"

## Area 2 Circular and Low Carbon Economy

The purpose of this Area was to create conditions for more environmentally friendly production oriented towards the principles of the circular economy for enterprises generating high levels of CO2 emissions.

The activities in this Area are related to providing support for optimization and implementation of environmental solutions and technologies, as well as capacity building for more efficient management, reduction and processing of waste generated in the production of enterprises in the **carbon-intensive economic activities of sector C Manufacturing of the Bulgarian economy**. Economic activities generating greenhouse gas emissions in sector C Manufacturing.

According to Eurostat data for 2019 all economic activities in sector C generate greenhouse gas emissions.

As a result of the support provided, companies in these sectors would have access to new technologies and solutions that would make their production more environmentally friendly and lower its emission levels, and hence make them more sustainable in terms of their activities in the context of the Green Deal.

Focus of support:

- SMEs with economic activities in sector C Manufacturing generating greenhouse gas emissions;

### **Fund 3 Support for Digitalization of Enterprises**

Increasing the competitiveness of Bulgarian SMEs and the production of high value-added goods and services has been a major policy of the Bulgarian government over the last decade. The globalization of markets and industries required a reform to transform the economy to make industry greener and more digitalized. Moreover, the current crisis has shown that digital technologies are helping SMEs withstand the negative effects of the pandemic by optimizing their production, maintaining access to markets and increasing their efficiency.

The main purpose of the support under this fund is related to accelerating the process and increasing the level of digitalization of Bulgarian SMEs. This will be achieved through the introduction of digital technologies in enterprises and the creation of conditions for the provision of one-stop-shop services in the field of digitalization. The expected effect is through the support of enterprises to increase the level of integration of digital technologies in their activity and to become more prepared for the adoption of technologies from Industry 4.0.

#### **Area 1 Support for Digitalization and Cybersecurity**

Activities under Area 1 of the Fund are aimed at providing support for the first level of "Computerization" and the second level of "Connectivity" of the digitalization of companies from all economic sectors. This is expected to be achieved by providing vouchers to SMEs for the implementation of digital technologies and solutions. The scope of the vouchers will also include the introduction of measures to ensure the cybersecurity of enterprises as an important element of the process of digitalization of an enterprise.

Computerization and connectivity are key requirements for the implementation of Industry 4.0 and the transition to higher levels of digital transformation. The initial two stages of digitalization supported in this Area are followed by four additional stages in which the necessary technologies for Industry 4.0 are being developed, for which funding will be provided under the Programme Competitiveness and Innovation in Enterprises 2021-2027.

Focus of support: SMEs from all sectors of the Bulgarian economy.

#### **Area 2 Creation of Digital Innovation Hubs Serving Regions in Bulgaria**

Support in this area complements the construction of the European Network of Innovation Hubs by setting up a local regional network. The initiative will support projects included in the national selection for selection of European digital innovation hubs under the Digital Europe 2021-2027 programme and obtained a "Seal of Excellence" from the EC. Those who successfully pass the selection procedure but have not received funding, will be able to apply for support after adapting their project proposals to the requirements of the scheme that will be launched under this area.

This will increase support for innovation in SMEs in the field of digitalization, introduction of digital technologies, and competitiveness and sustainability of local economies.

The aim is to build and develop a modern innovation infrastructure on a regional basis in the field of digitalization, contributing to accelerated regional economic and social development.

The activities in the Area were aimed at the creation and functioning of a network of digital innovation hubs (DIH) operating on a regional basis, which would be a single point of service for business in the field of ICT. DIH would provide access to expertise, know-how and services in the field of digital transformation,

The Digital Innovation Hubs (DIH) would provide businesses and local governments with innovative digital solutions and integrate them into their day-to-day operations. They would offer the opportunity to experiment with and test new technologies according to the specific needs of each company or institution in the public sector.

Using the available resources, analyzing the needs of the local industry and the public sector in the specific region, each Digital Innovation Hub will determine a leading area of expertise and technological approach and/or sectoral orientation. The expertise of the Digital Innovation Hubs will be developed and complemented by the Digital Europe programme. The Innovation Hubs will support local businesses and the public sector in the region in the process of digital transformation, making them aware of the benefits of and the need for digital technologies and supporting them in the process of their integration into their activities.

Focus of support: organizations / associations dealing with DIH management;

### 3. Beneficiary.

**Ministry of Economy**

### 4. Time schedule for project implementation, including activities, stages<sup>5</sup>. The total period for implementation of the programme is 2021-2026.

#### Fund 1 “Technological Modernization”

Area 1 and 2

The implementation of the activities in both directions will start simultaneously.

<b>Fund 1 Technological Modernization</b>	2021				2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Stage I Preparation and launching of grant schemes																
Stage II Application, assessment and contracting																
Stage III Project implementation																
Stage IV Reporting and payment																

#### Fund 2 “Green Transition”

Area 1 Decarbonization

	2021		2022				2023				2024				2025	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2

<sup>5</sup> The timetable will be relevant for setting intermediate targets under the Recovery and Sustainability Plan and is directly relevant to the release of installments of financial support under the Recovery and Sustainability Fund..

Stage I Preparation and launching of grant schemes																	
Stage II Application, assessment and contracting																	
Stage III Project implementation																	
Stage IV Reporting and payment																	

Area 2Circular and Low Carbon Economy

Fund 2 Green Transition – Area 2	2021				2022				2023				2024				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Stage I Preparation and launching of grant schemes																	
Stage II Application, assessment and contracting																	
Stage III Project implementation																	
Stage IV Reporting and payment																	

Fund 3 “Support for Digitalization of Enterprises“

Fund 3 Digitalization – Area 1	2021				2022				2023				2024			
	Q 1	Q 2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Stage I Preparation and launching of grant schemes																
Stage II Application, assessment and contracting																
Stage III Project implementation																
Stage IV Reporting and payment																

Fund 3 Digitalization – Area 2	2022				2023				2024				2025				2026	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Stage I Preparation and launching of grant schemes																		
Stage II Application, assessment and contracting																		
Stage III Project implementation																		
Stage IV Reporting and payment																		

#### 4.1. When can the project implementation start at the earliest upon its approval?

The indicative start of the activities by areas is as follows:

Fund 1: 2nd quarter of 2021

Fund 2, Area 1: 1st quarter of 2022

Fund 2, Area 2: 4th quarter of 2021

Fund 3, Area 1: 3rd quarter of 2021

Fund 3, Area 2: 2nd quarter of 2022 - after the end of the election process under the Digital Europe 2021-2027 programme - third quarter of 2021

#### 5. Indicative financial resource by activities, including sources of financing (national budget, European funding, private funding, IFIs).

Activity	NB	EU	Private	IFI	Total
<b>Fund 1</b>					
Area 1		380 000 000	570 000 000		950 000 000
Organisation and management costs		20 000 000			20 000 000
<b>Total Fund 1</b>		<b>400 000 000</b>	<b>570 000 000</b>		<b>970 000 000</b>
<b>Fund 2</b>					
Area 1		10 000 000	10 000 000		20 000 000
Area 2		227 500 000	227 500 000		455 000 000
Organisation and management costs		12 500 000			12 500 000
<b>Total Fund 2</b>		<b>250 000 000</b>	<b>237 500 000</b>		<b>487 500 000</b>
<b>Fund 3</b>					
Area 1		216 500 000			216 500 000
Area 2		21 000 000	21 000 000		42 000 000
Organisation and management costs		12 500 000			12 500 000
<b>Total Fund 3</b>		<b>250 000 000</b>	<b>21 000 000</b>		<b>271 000 000</b>
<b>Total Programme</b>		<b>900 000 000</b>	<b>828 500 000</b>		<b>1 728 500 000</b>

In BGN

#### 5.1. Indicatively allocation of the financial resource, depending on the type of expenditure:

*To determine the size of the individual funds, the available amounts and information on similar procedures funded under OPIC 2014-2020 have been taken into consideration* (procedures for the improvement of the production capacity in SMEs, development of energy and resource efficiency in SMEs).

##### **Fund 1 Technological Modernization**

Total amount of investments for the period – **970,000,000 BGN**.



Co-financing from the Recovery and Resilience Facility – **400,000,000 BGN, incl. 20 000 000 BGN organization and management costs** (5% of the amount from the Facility).

Area 1 – 130,000,000 BGN (35% of the resources for Fund 1)

Area 2 – 250,000,000 BGN (65% of the resources for Fund 1)

Costs at the level of the final recipient – SMEs

- Physical capital (purchase of machines, equipment and facilities representing tangible fixed assets) - 90%
- Technology (costs for acquisition of IFA (intangible fixed assets)) (purchase of specialized software, representing an intangible fixed asset) - 10%

Costs for the purchase of second-hand fixed assets, purchase of land and buildings, purchase or rental of vehicles and equipment will be ineligible.

In the period 2014-2020, two procedures were funded under OPIC with similar subject and beneficiaries - BG16RFOP002-2.001 "Improving the production capacity of SMEs" and BG16RFOP002-2.040 "Improving production capacity of small and medium-sized enterprises (SMEs)", announced in 2015 and in 2018, respectively. The purpose of both procedures was to improve the production capacity of small and medium-sized enterprises in order to increase their competitiveness and strengthen their export potential. The procedures were aimed at enterprises from the priority sectors of the National Strategy for Promotion of SMEs for the period 2014-2020, which could benefit from support for the acquisition of tangible and intangible fixed assets for expansion of production, diversification of activities, and launching new activities.

The requested aid in both cases was 665 million BGN, the total project value was 1-1.1 billion BGN, with an average intensity of 60%, state aid regime "*regional investment aid*" and the average value of the aid per project was 470 thousand BGN. The number of applicants was 1,327 in 2015 and 1,532 in 2018. The aid was envisaged to be provided under a *de minimis* regime under the recovery plan, with an average intensity of 40%. To cover the same investment projects, with an average intensity of 40%, funds in the amount of approximately 400 million BGN would be needed.

The distribution of the funds is based on the ratio of the aid requested by eligible beneficiaries under the two procedures (34-66 and 32-68).

The percentage ratio between the costs for tangible fixed assets and intangible fixed assets is respectively 92% - 8% under the first procedure and 98% - 2% under the second procedure. For the Technological Modernization fund, the specified 90-10 ratio is based on the first procedure.

See file *OPIC\_proekti po 2.001+2.002+2.040+3.004*, "Техн мод" ,Организация и управление' sheets

**Fund 2 Green Transition**

Total amount of investments for the period – 487,000,000 BGN.

Co-financing from the Recovery and Resilience Facility – 250,000,000 BGN, incl. 12 500 000 BGN organization and management costs (5% of the amount from the Facility).

**Area 1 Decarbonization**

Total amount of investments for the period – 20,000,000 BGN

Co-financing from the Recovery and Resilience Facility depending on the state aid regime – 50% grant but not more than 10,000,000 BGN.

#### Costs at the level of the final recipient - SMEs

- Infrastructure construction/rehabilitation (Construction and installation works) - 15%
- Physical capital (purchase of machines and equipment representing tangible fixed assets) - 70%
- Labour (costs for salaries, consultancy services) - 5%
- Technology (costs for acquisition of IFA – patents, software) - 5%

The Area budget and the ratio of costs was formed on the basis of NREL (National Renewable Energy Laboratory, USA) and EIA (US Energy Information Administration) reports as a benchmark for the costs of sites built in the United States. No data was available on European installations, as this was still a new technology that had not yet been introduced on the market and therefore needed support.

#### **Area 2 Circular and Low Carbon Economy**

Total amount of investments for the period – 455,000,000 BGN

Co-financing from the Recovery and Resilience Facility depending on the state aid regime – 227,500,000 BGN

#### Costs at the level of the final recipient - SMEs

- Physical capital (purchase of machines, equipment and facilities representing tangible fixed assets) - 85%
- Labour (costs for consultancy services of an engineering and technical nature, preparation of an analysis of the resource efficiency and carbon intensity of the enterprise and the possible solutions for their improvement) - 5%
- Technology (costs for acquisition of IFA – specialized software and computer applications) - 10%

For the period 2018 – 2020, the share of enterprises of the Manufacturing sector (emission-generating economic activities), which received public support for the implementation of resource efficiency measures was barely 0.27% (80 enterprises out of 29,167 enterprises, according to NSI data for 2018). Support was provided under procedure BG16RFOP002-3.004 Support for pilot and demonstration initiatives for resource efficiency“ under OPIC. In order for the share of enterprises to increase by at least 1%, support of approximately 220 million BGN is necessary, with an average aid of 800,000 BGN, according to the support requested under procedure BG16RFOP002-3.004. Given the funds available for this Area, 227.5 mln. BGN have been allocated.

To determine the ratio between the types of costs, the ratio between the costs set in the guidelines for applicants under procedure BG16RFOP002-3.004, as well as the ratio between the types of costs according to the concluded contracts, have been used. The percentages proposed in this Area were averaged, taking into account the growing importance of digital technologies in the circular economy, as well as the need for external assistance to identify possible measures.

The total amount of investments in this area is expected to reach BGN 455,000,000

See file *NF\_OsnPok\_2018*, “Carbon intensive” sheet

#### **Fund 3 Support for Digitalization of Enterprises**

Total amount of investments for the period – 271,000,000 BGN.

Co-financing from the Recovery and Resilience Facility – 250,000,000 BGN, incl. 12 500 000 BGN organization and management costs (5% of the amount from the Facility).

#### **Area 1 Support for Digitalization of Enterprises**

Total amount of investments for the period – 216,500,000 BGN. Under this area own co-financing will not be required as the support will be provided in the form of vouchers

Costs at the level of the final recipient – SMEs

- Physical capital (purchase of computers, hardware) - 40%
- Labour (costs for ICT digital marketing, web-based ICT platform services, websites, mobile applications, etc.) - 30%
- Technology (costs for acquisition of IFA – software, assets for optimization of management, production and logistical processes, information and cyber security, etc.) - 30%

In the period 2014-2020, a voucher scheme was developed under OPIC for providing ICT opportunities to SMEs that carry out economic activities in the priority sectors according to the NSPSME 14-20. Vouchers are worth 5 and 20 thousand BGN, as they would be provided for several types of activities, such as: \_digital marketing, cybersecurity, website development, software for management, production and logistic processes, etc. 1836 aid applications were received, which was approximately 3% of enterprises from eligible sectors. The total value of requested aid amounted to 33,781,121 BGN, which placed an average value of the aid at 18 thousand BGN. More than 18% of approved vouchers were for digital marketing, 17% were for websites, nearly 61% software for management, production and logistic processes, nearly 4% for cybersecurity. It should be noted that aid for services and software was granted, with many companies sharing as a disadvantage of the scheme that it did not include hardware costs.

Within this Area, the goal was digitalization of SMEs from all sectors, and support would be provided for software, hardware and consulting services up to 30,000 BGN. With an average value of the aid of 20,000 BGN, approximately 225,000,000 BGN were needed to finance 3% of enterprises in all sectors (just over 11,400 enterprises).

The ratio between the types of costs was determined by allocating 40% of hardware costs, and the costs of services and IFAs were distributed based on the percentage distribution of the claimed costs under the voucher scheme. Digital marketing, as well as websites, were included in the category of "services", as a variety of practices were applied in terms of revenue for sites, applications, etc. as assets.

See file *NF\_OsnPok\_2018*, "Digit" sheet

**Area 2 Creation of Digital Innovation Hubs Serving Regions in Bulgaria**

Total amount of investments for the period – 21,000,000 BGN

Co-financing from the Recovery and Resilience Facility depending on the state aid regime – 21,000,000 BGN

Costs at the level of the final recipient – SMEs

- Infrastructure construction/rehabilitation (Construction and installation works) - 10%
- Physical capital (purchase of machines and equipment) - 50%
- Labour (costs for salaries, consultancy services...) - 10%
- Technology (costs for acquisition of IFA – patents, software...) - 30%

Projects included in the national selection for selection of European digital innovation hubs under the Digital Europe 2021-2027 programme and obtained a "Seal of Excellence" from the EC, will be supported under the Area. Under this program, support for Bulgaria is planned to cover between 3 and 5 hubs. The national project selection has not yet been carried out, which is why the plan provides support for 3 hubs (with a minimum number of 3 EU-funded hubs and the creation of at least one hub per planning area). The requirements and criteria for the hubs under the Plan will be in line with the terms of the programme, taking into account the period for its implementation until 2026 and compliance with state aid rules.

In connection with the latter, a similar procedure under OPIC BG16RFOP002-1.018 "Establishment

and development of Regional Innovation Centers (RICs)" has been used to determine the necessary funds. The procedure provided support for the creation of regional innovation centers in the priority area of the Innovation Strategy for Smart Specialisation "Mechatronics and ICT" that are very similar to the Digital innovation Hubs. No contracts were concluded and no projects were implemented under the procedure, because it was cancelled in order to redirect funds to support working capital to SMEs following the outbreak of the epidemic caused by COVID-19. Nevertheless, the procedure can be used as a reference source, as it was widely consulted with stakeholders at the stage of preparation of the guidelines for applicants.

To determine the ratio between the types of costs, the ratio between the costs set in the guidelines for applicants under procedure BG16RFOP002-1.018 "Establishment and development of Regional Innovation Centers (RICs)" has been used.

The total amount of investments depends on the state aid regime. If the scheme is launched under the GBER, Aid for innovation infrastructure, the grant intensity will be 50% thus mobilizing BGN 21 000 000 of private investments.

For each of the funds, 5% of the fund size is envisaged for organization and management costs. The specified % was determined by applying the Methodology for determining the size of the flat rate for financing activities for organization and management of projects co-financed by the ESIF under the Operational Programme "Innovation and Competitiveness" 2014-2020.

## 6. Indicators

### 6.1. Result indicator/s

#### **Fund 1 Technological Modernization**

*Number of supported enterprises (Supported enterprise being an enterprise that has received aid and has implemented the project)*

- Initial value – 0 [year]
- Intermediate value 1 – 710 (70% of the projects with an implementation period of up to 9 months) [2nd half of 2022]
- Target value – 1,015 [1st half of 2023]

The target value was set with an average aid value of 374,333 BGN.

Contracted financial resources, total for Fund 1

- Initial value – 0 [1st half of 2021]
- Intermediate value 1 – 324,000,000 BGN, *incl. 20,000,000 BGN organization and management costs* [2nd half of 2021]
- Target value – 400,000,000 [1st half of 2022]

Private investments (Own co-financing with an average aid intensity of 40%, at the completion of the project)

- Initial value – 0 [year]
- Intermediate value 1 – 399,000,000 BGN [2nd half of 2022]
- Target value – 570,000,000 BGN [1st half of 2023]

See file *OPIC\_proekti po 2.001+2.002+2.040+3.004 Техн мод'* and *„Договорени“ sheets*

#### **Fund 2 Green Transition**

##### **Area 1 Decarbonization**

Agreed funds

- Initial value – 0 [year]

- Intermediate value – 1,500,000 BGN [30.06.2022]
- Intermediate value – 6,500,000 BGN [30.06.2023]
- Target value – 5,000,000 BGN [31.12.2023]

## **Area 2 Circular and Low Carbon Economy**

Number of supported enterprises (*Supported enterprise being an enterprise that has received aid and has implemented the project*)

- Initial value – 0 [year]
- Intermediate value – 113 enterprises [1st half of 2023] (40% of the final value)
- Target value – 284 [2nd half of 2023]

The target value was calculated at an average aid value of 800,000 BGN, in accordance with the support requested under procedure BG16RFOP002-3.004.

See file *NF\_OsnPok\_2018*, "Carbon intensive" sheet

## **Contracted financial resources**

- Initial value – 0 [1st half of 2021]
- Intermediate value 1 – 12,500,000 BGN, representing *the costs for organization and management under Fund 2* [2nd half of 2021]
- Intermediate value 2 – 171,750,000 BGN [1st half of 2022]
- Intermediate value 3 – 246,500,000 BGN [2nd half of 2022]
- Target value – 250,000,000 [1st half of 2023]

See file *NF\_OsnPok\_2018*, 'Carbon intensive' sheet and file *OPIC\_proekti po 2.001+2.002+2.040+3.004* „Договорени” sheet.

## **Fund 3 Digitalization**

### **Area 1 Support for Digitalization of Enterprises**

Number of supported enterprises

- Initial value – 0 [year]
- Intermediate value – 1,082 enterprises [2nd half of 2022] (10% of the total number of enterprises with shorter projects)
- Intermediate value – 4,330 [1st half of 2023] (40% of the total number of enterprises)
- Target value – 10,825 [2nd half of 2023]

## **Contracted financial resources**

- Initial value – 0 [1st half of 2021]
- Intermediate value 1 – 12,500,000 BGN, representing *the costs for organization and management under Fund 2* [2nd half of 2021]
- Target value – 229,000,000 [2nd half of 2022]

Enterprises that have introduced an automated management system

- Initial value – 0% [year]
- Intermediate value – 3,031 [1st half of 2023] (70% of the final value)
- Intermediate value – 4,300 [2nd half of 2023] (40% of the total number of enterprises)

Enterprises that have introduced information security systems (encryption, firewall, archiving)

- Initial value – 0 [year]
- Intermediate value – 379 [1st half of 2023] (70% of the final value)
- Target value – 541 [2nd half of 2023] (5% of the total number of enterprises)

Online possibility for placing orders and sales of products and services of the enterprise

- Initial value – 0 [year]
- Intermediate value – 1,894 [1st half of 2023] (70% of the final value)
- Intermediate value – 2,706 [2nd half of 2023] (25% of the total number of enterprises)

## **Area 2 Creation of Digital Innovation Hubs Serving Regions in Bulgaria**

### **Created Digital Innovation Hubs**

- Initial value – 0 [year]
- Final value – 3 [1st half of 2026]

### **Contracted financial resources**

- Initial value – 0 [1st half of 2021]
- Target value – 21,000,000 [1st half of 2023]

### **Number of companies that have used the services of digital innovation hubs**

- Initial value – 0 [year]
- Intermediate value – 30 [1st half of 2025]
- Final value – 120 [1st half of 2026] (a total of 40 enterprises per hub)

## **6.2. Effect indicator/s**

### **Fund 1 Technological Modernization**

#### **SME Productivity (added value by cost factors (thousand BGN)/employee)**

- Initial value – 25.90 [2018]
- Intermediate value – 31,94 [2022]
- Final value – 33.66 [2023]

To determine the intermediate and target value, the average annual growth rate of the indicator for the period 2015-2018 has been used. The indicator data from the annual report of OPIC for 2019, provided by the NSI, has been used.

### **Fund 2 Green Transition**

#### **Area 1 Decarbonization**

##### **CO<sub>2</sub> emission savings**

- Initial value – 2 [2021]
- Intermediate value – 1,141 tCO<sub>2</sub> [2025]
- Intermediate value – 2,853 tCO<sub>2</sub> [2026]
- Final value – 5,707 tCO<sub>2</sub> [2027]

##### **Nominal Capacity of the Installed Storage Facilities**

- Initial value – 2 [2021]
- Intermediate value – 529 kW Battery power [2023]
- Intermediate value – 1,323 kW Battery power [2024]
- Final value – 2,645 kW Battery power [2025]

#### **Area 2 Circular and Low Carbon Economy**

##### **Share of SMEs in economic activities generating greenhouse gas emissions in sector C Manufacturing, benefiting from public support for resource efficiency**

- Initial value – 0.27% [2020]
- Intermediate value – 0.87% [2023] (70% of the final value)
- Final value – 1.25% [2024]

### **Fund 3 Digitalization**

#### **Area 1 Support for Digitalization of Enterprises**

**Share of SMEs of the industry and services that have achieved first and/or second level of digitalization with public support (computerization/connectivity)**

- Initial value – 0,21 [2021]
- Intermediate value – 0,24 [2023]
- Final value – 3.2 [2024]

#### **Integration of Digital Technologies**

The Digital Economy and Society Index (DESI) for 2020 – Integration of digital technologies (for SMEs):

% of SMEs that sell online

- Initial value – 10 [2020]
- Intermediate value – 11 [2022]
- Final value – 12 [2023]

% of SMEs turnover originates from online sales

- Initial value – 2 [2019]
- Intermediate value – 2.5 [2022]
- Final value – 3 [2023]

#### **Area 2 Creation of Digital Innovation Hubs Serving Regions in Bulgaria**

**Number of companies that have used the services of digital innovation hubs**

- Initial value – 0 [year]
- Intermediate value – 30 [1st half of 2025]
- Final value – 120 [1st half of 2026] (a total of 40 enterprises per hub)

### **7. Does the project require the opening of a procedure pursuant to the Public Procurement Act (PPA)?**

No.

The provision of support to SMEs under each of the individual funds and areas will be organized after the announcement of the project selection procedure. The package of application documents for each procedure will describe the exact requirements and applicable rules in terms of eligibility of applicants, activities, costs, application mechanism, evaluation and subsequent reporting (in case of approval). The criteria by which applicants (SMEs) will be assessed will be clearly and precisely defined and will introduce a transparent, non-discriminatory and fair aid delivery mechanism.

In the presence of a regulated opportunity, the Ministry of Economy could delegate part of the activities related to the processes of announcement, selection and implementation in certain areas of the current programme to structures that have the necessary skills and experience in this field.

#### **7.1. If a procedure under the Public Procurement Act is required, what part of the activities and financial resources will be subject to the public procurement?**

<p><b>7.2. If a procedure under the Public Procurement Act is required, what is the indicative schedule for its implementation?</b></p>
<p><b>8. Demarcation and complementarity.</b></p>
<p><b>8.1. If similar projects have been implemented (regardless of their source of funding), describe how this project builds on / complements what has been achieved with previous projects.</b></p>
<p>For the period 2014-2020, the main source of support for SMEs came from the Structural Funds through the Operational Programme "Innovation and Competitiveness" (OPIC). Support under OPIC is aimed at addressing the needs, overcoming the challenges and exploiting the opportunities for development for the Bulgarian economy. The implementation of the measures set in it addressed the main needs of and challenges before the Bulgarian economy in areas such as difficult access to sources of financing and weak investment activity, sectoral structure of the economy, low degree of internationalization, deteriorating export structure, high degree of resource and energy intensity of production, low level of application of new technologies.</p> <p>Some of the main areas in accordance with OPIC, which targeted these challenges, were the measures to support SMEs through grants aimed at improving the production capacity of enterprises. These measures were related to investments in the direction of improving the production processes in enterprises and the transition to high-tech and knowledge-based technologies to improve production and increase opportunities for export orientation and access to international markets. The effects achieved by the support were related to increasing the competitiveness of Bulgarian SMEs and their more successful presence on national and foreign markets by increasing the volume of manufactured products, optimizing the production process, achieving higher productivity, reducing production costs, improvement/diversification of the products offered (both goods and/or services). A similar type of grant was provided to SMEs during the programming period 2007-2013 under the Operational Programme "Development of the Competitiveness of the Bulgarian Economy" 2007-2013 (OPDCBE) through the implementation of grant schemes for technological modernization in enterprises.</p> <p>The Technological Modernization Fund under this project was a continuation of these initiatives and aimed to provide follow-up support to enterprises in this direction, as far as SMEs need support to recover from the socio-economic consequences of the COVID-19 pandemic and to be able to withstand the challenges posed by the pandemic.</p> <p>The deterioration of the external environment due to the global spread of the COVID-19 pandemic have postponed the investment decisions of most companies until the companies' operations, orders and exports return to normal to ensure return and cash flow, and to restore confidence. The decrease in private investment has also led to a decline in the total investments in the economy. The expected decline in the global and, above all, the European economy, combined with highly restrictive measures for international travel and transport, has also led to a decline in exports of goods and services. Unfortunately, most affected by these processes were small and medium-sized businesses, which were at risk of losing income and irreversibly exiting the market. In this regard, the support under this fund would enable companies to implement their investment intentions, so that the same would become more sustainable and more competitive in the dynamically changing environment in which they should operate.</p> <p>In addition, the support would be targeted at sectors that structure the economy according to the priority ones identified in the NSPSME 2021-2027, thus maintaining the approach to target interventions at sectors with high added value that has been implemented so far. The support mechanism set up in this way aimed to continue the policy implemented so far to change the structure of the country's economy in order to bring it closer to the economy of the EU countries. In a global pandemic situation,</p>



support for sectors identified as drivers of economic development will support the processes of easier exit from the crisis and faster economic recovery, and, in relation to SMEs, it will ensure market stability in a highly dynamic economy and competitive environment.

Using the measures set in the Technological Modernization Fund, this project builds on the approach for targeted support of priority sectors according to the NSPSME 2014-2020 implemented so far. At the same time, it is necessary to take into account the specifics of economic development at the NUTS 3 regional level – in many areas there are not enough well-developed sectors of high and medium high-tech production and knowledge-intensive services. Therefore, the new approach to support for SMEs, which will be implemented under this fund, plans to take into account the specific regional potential for development of such sectors, with the support specifically stimulating the development of this regional potential. It is in this connection that two areas of the fund have been identified: the first one will be oriented towards the companies from the nationally determined priority sectors of the NSPSME 2021-2027, and the second one – towards the regional-level priority sectors from the NSPSME 2021-2027. Each of the two areas will be tailored in terms of type and scope of support according to the specifics of the respective types of enterprises. The medium- and long-term expected effect of this support is a gradual reduction of regional imbalances and a reorientation of the economy towards higher value-added sectors, which will bring the structure of the economy closer to that of other EU countries.

Another important area of support under the OPIC, in connection to which have so far been announced measures similar to the ones set out in this project, is the one related to the development of management capacity and growth of SMEs in Bulgaria by supporting specialized services and promoting the use of information and communication technologies and services. This support was provided both in the form of grants to enterprises and through a voucher scheme implemented by the Executive Agency for Small and Medium-sized Enterprises (EASME).

The Support for Digitalization of Enterprises Fund is a continuation of these measures, with the aim of supporting the digital transformation of enterprises and their preparation for the adoption of higher technologies in the field of ICT at a later stage.

To the extent that the SME digitalization is also a preventive measure towards achieving greater resilience in times of crisis by providing opportunities for teleworking, online commerce, etc., support from the Digitalization Fund will have an impact on businesses not only in terms of growth opportunities, but also will contribute to their sustainability, incl. in terms of any future crises and economic shocks. Upgrading the support within the Support for Digitalization of Enterprises Fund would happen in the following areas:

- in terms of the range of potential candidates –

At this stage, within the OPIC, the support in the field of digitalization of enterprises was targeted according to the priority areas of the NSPSME 2014-2020. The COVID-19 crisis that occurred highlighted the need to intensively promote digitalization in the implementation of digital solutions in order to restructure work processes / flows in all sectors of the economy in order to prepare enterprises to overcome the consequences / achieve greater sustainability and adaptability upon any possible emergence of crises. In this regard, the support for Fund 3, Area 1 is planned to expand to cover enterprises from different economic sectors, and not only the ones from the NSPSME 2021-2027 priority areas.

- in terms of the support provided –

The Support for Digitalization of Enterprises Fund provides not only direct support for SMEs, but also the opportunity to provide a single point for business services in the field of digitalization through the construction of Digital Innovation Hubs (DIHs). These hubs will offer businesses innovative digital solutions that they can integrate into their activity.

The digital innovation hubs that will be built in accordance with this project, are in turn a continuation of the initiative launched by the European Network of Innovation Hubs. As far as the first pilot DIHs on the territory of the country will be built under the initiative of the European Network of Innovation Hubs, the ones supported in relation to the Recovery and Sustainability Plan (RSP) will expand the initiative by creating a local regional network, as a result of which coverage of the provided services on the territory of the whole country will be provided.

The initiatives envisaged under the Green Transition Fund also have their prior history within the framework of OPIC, and before that – under the OPDCBE.

As far as the national target of 16% share of renewable energy in gross final energy consumption by 2020 (16.3%) was reached by 2012, and the same was above the EU-28 average (14.1%), the measures for SMEs in the field of renewable energy in the programming period 2014-2020 were only set as accompanying the measures for energy efficiency of enterprises.

Currently, targets set at EU level in the field of renewable energy use is much more ambitious<sup>6</sup>, which implies the need for more targeted action in this direction. In this regard, the Decarbonization Area of the Green Transition Fund will continue the initiative to promote the use of energy from renewable sources for own consumption in enterprises by further upgrading and expanding it. In addition to the initiative implemented so far to support the imposition of such measures under the OPIC Decarbonization Area, it also envisages measures aimed at more efficient management of this energy, as well as ones related to its storage. This will contribute to the fuller utilization of the energy obtained from alternative sources, it will support companies in terms of their energy independence, and will support the country in achieving the national goals in the field of renewable energy.

With regard to the Circular and Low Carbon Economy Area, the envisaged support measures will continue what has been initiated within OPIC with the procedures for supporting SMEs, in which the promotion of the implementation of measures in the field of resource efficiency was set as a horizontal priority, together with the initiative started with a procedure for grant provision called Support for pilot and demonstration initiatives for resource efficiency.

To the extent that in the first type of measures the presence of such an element in the projects aimed at improving the production capacity was only as a voluntary element, which led to the prioritization of the project, and in the second case, an element of encouraging industrial symbiosis and exchange of information between enterprises with similar or complementary activities was sought, the Circular and Low Carbon Economy Area aims to cover enterprises that generate CO<sub>2</sub> emissions and to impose elements of the circular economy among the greatest possible number of them. Regardless of the larger scope of this area, it does not exclude the need to prioritize and focus on the support, which is also an upgrading element compared to the measures implemented so far.

In this regard, the main target group in this area are the enterprises from the carbon-intensive sectors of the economy. To the extent that emission generating companies have great potential to optimize the use of resources by directing their support to this target group, this will not only improve the level of productivity of resources, but will also contribute to reducing the intensity of CO<sub>2</sub> emissions, and hence to meeting the EU's climate neutrality objectives. In addition to that, while planning for an element related to the construction of processing / recovery capacity of generated waste, another element of the circular economy related to recycling, recovery and reuse is included, which is also directly related to the reduction of the carbon footprint by the industry.

The implementation of such a differentiated support mechanism, which would cover the individual bottlenecks of the elements of the circular economy, we believe that we will achieve the maximum effect in view of the available financial resources.

**8.2. If similar projects are envisaged to be implemented under the Partnership Agreement programmes, the centrally managed facilities of EU or the Just Transition Fund, outline the demarcation with this project.**

For the period 2021-2027, the main programme under the Partnership Agreement, which will provide support for enterprises, is the programme Competitiveness and Innovation in Enterprises 2021-2027 (CIEP). To the extent that the Economic Transformation Programme under the Recovery and

<sup>6</sup> - National target for the share of electricity from renewable sources in the gross end energy consumption by 2030 - 27.09%.

- Share of electricity from renewable sources in the gross end energy consumption by 2030 - 30.33%.

- Share of heat energy and cooling energy from renewable sources in the gross end heat energy and cooling energy consumption by 2030 - 42.60%.

Sustainability Plan also has SMEs as its main target group, the following demarcation areas can be identified:

### **1. With regard to Technological Modernization Fund**

Area 1 and Area 2 of the Technological Modernization Fund are aimed at providing grants to enterprises from the sectors identified as priority ones at national and regional level in the strategy for the NSPSME 2021-2027.

Under Specific Objective 3 of Priority 1 of the CIEP 2021-2027, measures for production investments in the direction of growth and competitiveness are also envisaged, and the focus of support will again be on enterprises operating in sectors that are priority ones for the economy.

The main line of distinction between the two initiatives is the type of support and the period of provision. To the extent that, as a result of the COVID-19 pandemic, most companies have deteriorated economic performance indicators compared to the previous period and there is a need for a support instrument that is quickly structured and provides affordable funds for companies to realize their investment intentions under the Recovery and Sustainability Plan (RSP), a structuring of a grant scheme is set out, which will allow companies to apply as early as 2021.

Subsequent support in the form of a financial instrument is envisaged under the CIEP, which will maintain and upgrade the results achieved under the Technological Modernization Fund.

### **2. With regard to Green Transition Fund**

The Green Transition Fund 2 aims to upgrade and supplement the implemented policy in the field of the circular economy to encourage the introduction of low-carbon technologies in Bulgarian enterprises.

To the extent to which the PCIE provides for targeted measures for improvement of energy efficiency in industrial systems, incl. measures for introduction of energy management systems and systems for monitoring and control of energy consumption, the RRF, pursuant to the Decarbonization Area, will provide additional support to promote the use of electricity from renewable sources for own consumption, as well as its storage.

Support for improving energy efficiency in enterprises regarding the industrial buildings will be provided in the Energy Efficiency Programme of the RRF.

To the extent that each of these types of intervention concerns different elements of energy efficiency and renewable energy policy, their implementation in full will allow the full range of available measures to be implemented and, according to its needs, each company will be able to assess which measures to implement and in what combination to do it.

With regard to the Circular and Low Carbon Economy Area, aimed at supporting the implementation of elements of the circular economy and promoting the reduction of greenhouse gas emissions, the main demarcation lines are also linked to the Competitiveness and Innovation in Enterprises Programme 2021-2027.

The measures in this Area within the framework of the Plan will be related to the support for optimization and implementation of ecological solutions and technologies in relation to the carbon-intensive sectors of economy. PCIE, for its part, under Priority 2, specific objective Promoting the Transition to a Circular Economy, will intervene in favour of supporting activities related to improving resource efficiency and introducing elements of the circular economy in SMEs, with the enterprises from the above-mentioned sectors, which have received support under the Green Transition Fund Area, will remain outside the target group. In addition, the PCIE will support the development and implementation of innovative products, processes and business models aimed at permanently reducing resource intensity in industry.

The enterprises from the recycling industry, which will be supported under the Environment 2021-2027

programme, remain outside the scope of support in the Circular Economy Area.

The support mechanisms mentioned herein cover all aspects and participants in the process of realization of the elements of the circular economy, which will guarantee synergy and complementarity of the initiatives in this direction.

The support mechanisms mentioned herein cover all aspects and participants in the process of realization of the elements of the circular economy, which will guarantee synergy and complementarity of the initiatives in this direction.

The implementation of these measures in their entirety will close the cycle of policies and reforms aimed at decarbonizing the Bulgarian economy.

### **3. With regard to Support for Digitalization of Enterprises Fund**

The demarcation lines in the field of digitalization of enterprises between the PCIE and the RRF are both in terms of the type of enterprises and in terms of the scope of the supported activities.

The Digital Economy and Society Index (DESI) indicated that Bulgaria significantly lagged behind in terms of digitalization of the economy, ranking 28th in Integration of Digital Technologies – a level well below the EU average. Businesses found it difficult to take advantage of the opportunities provided by online commerce: only 7% of SMEs made sales online (compared to 18% on average for the EU), 3% of all SMEs made cross-border sales, and only 2% of their turnover was from online trade.

The COVID-19 crisis that occurred additionally highlighted the need to intensively promote digitalization in the implementation of digital solutions in order to restructure work processes / flows in order to prepare enterprises to overcome the consequences / achieve greater sustainability and adaptability upon any possible emergence of crises. In this sense, SMEs digitalization is also a preventive measure towards achieving greater resilience in crisis situations by providing opportunities for teleworking, online trade, etc.

The low level of digitalization of enterprises in Bulgaria required measures to be envisaged to implement digital technologies and solutions aimed at speeding up the process and increasing the stages of digitalization of Bulgarian companies. Based on the above-mentioned RSP, a wider range of companies are planned to be supported in the initial stages of digitalization (level 1 and level 2), without there being a sectoral focus of the interventions.

At the same time, in view of CIEP (specific objective 2 of Priority 1), measures are set for the higher stages of digitalization covered in Industry 4.0 and aimed at enterprises from the priority sectors of the NSPSME 2021-2027.

We believe that the implementation of this approach will ensure, on the one hand, rapid and comprehensive support for SMEs in order to prepare them for the adoption of higher ICT technology at a later stage, and, on the other hand, there will be support to implement the achievements of Industry 4.0 with regard to the priority sectors, which would not be able to fulfill their role as structural definers and drivers of the economy without this type of technology.

Important additional support in the field of digitalization of enterprises will be provided under the programme (part of the RSP) implemented by the Ministry of Labor and Social Policy, which will provide opportunities for training in digital skills in enterprises in connection with the acquired ICT. In this way, the complementarity of interventions will provide a comprehensive approach to support in the field of digitalization of SMEs.

With regard to digital innovation hubs, the demarcation is in terms of DIH status under the Digital Europe 2021-2027 programme. The hubs piloted for implementation on the territory of the country will be implemented under this programme, and DIH that have received a Seal of Excellence will be supported under Area 2 of the Support for Digitalization of Enterprises Fund according to their regional and/or sectoral orientation.

### **Just Transition Fund**

To the extent that the objectives of the Just Transition Fund are directly aimed at achieving the objectives of decarbonization and climate neutrality of the economy, a number of types of interventions are envisaged, which have complementary points with both the current Economic Transformation Programme and the PCIE.

These types of measures are related to

- production investments in small and medium enterprises
- introduction of technologies for clean energy at an affordable price, emission reduction, energy efficiency and renewable energy sources, and renewable energy sources;
- digitalization
- circular economy (waste reduction, resource efficiency, reuse, repair and recycling).

Given the circumstance that the Just Transition Fund will only cover certain regions of the country and certain sectors of the economy, avoidance of overlapping interventions and avoidance of the risk of overcompensation with other available instruments, incl. this Programme, will be achieved through individual measures both at the level of beneficiaries and in terms of categories/size of types of expenditure covered.

**9. Does the project directly contribute to the implementation of any of the Council's Specific Recommendations addressed to Bulgaria in the framework of the European Semester in the period 2017-2020? Please describe how.**

Country Report Bulgaria 2020 of the European Commission within the European Semester (EC Report 2020) containing an assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth interviews under Regulation (EU) No 1176/2011 identified the following weaknesses and made the following recommendations to Bulgaria:

- Insufficient investment is holding back the modernization of the economy, which is holding back the catching-up process. At the same time there is a need of investment in green technologies and sustainable solutions, in transport, energy and environmental infrastructure, in digitalization and in R&D. Targeted investments could also tackle growing regional disparities, particularly in the North-West region.

- There is still a lack of a circular economy strategy, despite the fact that the circular use of material is among the lowest ones in the EU, and there are challenges before the waste management.

- Bulgaria remains the most energy- and greenhouse gas-intensive economy in the EU by a large margin. The high energy intensity of the economy and slow progress on reaching energy efficiency targets negatively affects productivity and competitiveness. There is scope for significant energy savings via targeted investments in the industrial, transport and residential sectors and for increased investments in clean energy infrastructure.

- There are significant regional disparities in Bulgaria, with regional disparities (measured in terms of variation of GDP per head of population) have been increasing significantly since 2000.

The challenges have also been listed in Specific Recommendation No. 3 of the Country-Specific Recommendations on Bulgaria's National Reform Programme for 2019 of the Council (the EC Report for 2019): „focusing investment-related economic policy on research and innovation, transport (in particular on its sustainability), water, waste and energy infrastructure and energy efficiency, taking into account regional disparities and improving business environment“.

The Economic Transformation Programme directly contributes to the implementation of these specific recommendations.

The initiative will give priority to supporting SMEs in areas such as digitalization, technological modernization, circular and low-carbon economy – areas where the performance of Bulgaria, and its small and medium-sized enterprises in particular, is well below the EU average.

The initiative contributes to the implementation of the recommendations addressed to Bulgaria for the digital transformation of enterprises, increasing digital skills and maintaining competitiveness and jobs.

With the implementation of the regional dimension of the SME strategy in relation to the technological modernization fund, the challenges related to the regional differences and the need to ensure a more balanced development of the different regions of the country will be answered. To the extent that Area 2 of the Fund will organize support for SMEs according to the specifics of economic development at regional level (NUTS 3), taking into account the specific regional potential for development of individual sectors, its support will purposefully stimulate the development of this regional potential. The medium- and long-term expected effect of this support is a gradual reduction of regional imbalances.

The programme is also related to increasing investment in the field of green transition, in particular in the field of clean and efficient production and use of energy and resources, environmental infrastructure and sustainable transport, contributing to the gradual decarbonization of the economy.

**10. Does the project contribute to the implementation of a reform in a given sector? Please describe how.**

**11. Does the project contribute to the development of any aspect of sustainable economic development? Please describe how.**

The initiative is related to the implementation of Goal 8 “Promote sustained, inclusive sustainable economic growth, full and productive employment and decent work for all”, Goal 9 “Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation”, Goal 12 “Ensure sustainable consumption and production patterns”, Goal No. 9 Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

Sub-goal 9.c Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020 of the UN Sustainable Development Goals.

**12. Does the project contribute to the implementation of the objectives of the National Development Programme BULGARIA 2030? Please describe how.**

The initiative contributes to the implementation of Priority 4 Circular and low-carbon economy, Area of impact 4.1 Transition to a circular economy. The implementation of the project will reduce the material intensity of the country's economy and will increase the efficiency of the resources used and P3 Smart Industry, 3.1 Digitalization of the economy and industry.

**13. Does the project contribute to the implementation of the objectives and priorities set out in the National Integrated Energy and Climate Plan? If the answer is “yes”, please describe how.**

The National Integrated Energy and Climate Plan (NIECP), 2.3 Dimension Energy Efficiency, item iv, specifically points out the increase of the capacity to store electricity and natural gas through development of existing and construction of new storage facilities as one of the goals in terms of increasing the flexibility of the national energy system.

In the period from 2021 to 2030, measures are planned to be introduced that are related to the development of energy infrastructure, support for the integration of electricity produced from renewable sources into electricity networks, as well as the wider use of smart electricity storage systems. The implementation of such measures will lead to a fuller use of electricity produced from renewable sources, thanks to its easier integration into the electricity system.

The project will also contribute under 2.4. Internal energy market dimension by encouraging producers to produce, store and use the electricity they have produced.

In the policies and measures section in NIECP, in relation to the development of the storage of electricity, it was stated that Bulgaria planned to develop several projects for electricity storage in order to ensure balance and flexibility of the system, strengthen Bulgaria's position as an exporter and ensure the system's cross-border flexibility. These projects will also facilitate the further development of renewable energy sources and their integration into the national energy system, given the variability of such energy sources. In this regard, the following projects are envisaged:

1) Increasing the operational potential of Chaira PHES (pumped hydroelectric energy storage) through the construction of Yadenitsa Dam, which will allow for optimizing the structure of power generating facilities. Investment needs are expected to be around 220 million EUR;

2) Approximately 200 million EUR investment in frequency control batteries with a total capacity of about 180 MW;

**3) About 200 million EUR investment to promote the combination of new renewable energy sources with local electricity storage facilities, depending on the appropriate technological solution for the respective projects (a total of about 200 MW).**

Area 1 Decarbonization of the Green Transition Fund will directly contribute to the initial financing of the third measure set out in the NIECP, and depending on the results achieved, the measure will be upgraded with other sources of financings.