

InvestEU Scoreboard¹
<p>Presentation of the financing or investment operation:</p> <p>Implementing Partner: European Investment Fund (EIF)</p> <p>Name of the Operation: Framework Operation, SME Competitiveness Guarantee Product – Bulgaria InvestEU Member State Compartment (Capped Guarantee)</p> <p>Type of approval: Framework Operation</p> <p>Type of Financial Intermediaries: Mostly commercial banks and to a limited extent leasing companies</p> <p>Type of Final Recipients: SMEs</p> <p>Country(-ies) of implementation of the operation: Bulgaria</p> <p>Short description of the financing or investment operation:</p> <p>This Framework Operation, via its Sub-Projects, will aim at improving the competitiveness of enterprises by facilitating access to, and the availability of finance predominantly to SMEs, which are perceived by financial intermediaries as being high risk or lacking sufficient collateral.</p> <p>It builds on the successful implementation of the guarantee programmes managed by EIF, such as SME Initiative Bulgaria and COSME Loan Guarantee Facility, SME Guarantee Facility, SME Initiative, EGF.</p>
<p>Public Statement</p> <p>Eligible areas for the operation in accordance with Annex II to the InvestEU Regulation:</p> <p>Item 7 of Annex II of the InvestEU Regulation: <i>financial support to entities employing up to 499 employees, with a particular focus on SMEs, and small mid-cap companies</i></p>
<p>Additionality shall be deemed to be met in all those cases where a financial intermediary will originate final recipient transactions addressing new financing needs which were normally not covered within their standard lending practice. This may entail as well a higher risk profile than the risk generally deemed acceptable by such intermediary. Intermediaries will implement financing solutions in line with the enhanced access to finance measures described in the InvestEU Call for Expression of Interest published on EIF's website (e.g. bespoke financing arrangements, targeting excluded segments, industries or geographies, etc.).</p> <p>Additionality may also be achieved via the application of any of the following items, as per Annex V of the InvestEU Regulation:</p> <p>Item (b) of Annex V A (2) to the InvestEU Regulation: <i>Support through equity and quasi-equity or through debt with long tenors, pricing, collateral requirements or other conditions not sufficiently available on the market or from other public sources</i></p>

¹ This Scoreboard of indicators reflects the information presented to the InvestEU Investment Committee (IC) for its decision on the use of the EU guarantee for this operation. Therefore, the document does not take into account possible developments that could have occurred after this decision.

EIF expects to support financial intermediaries in originating final recipient transactions (debt financing) which meet the enhanced access to finance measures described in the InvestEU Call for Expression of Interest published on EIF's website, as follows:

- a) Reduction of cost of financing;
 - b) Reduction or limitation of collateral requirements;
 - c) Extending maturities;
 - d) Providing bespoke repayment terms to Final Recipients;
 - e) Providing financing in a form or in market segments, which have not been previously provided by Financial Intermediaries;
 - f) Reduction in down-payment in respect of Final Recipient Transactions, which are in the form of leases;
- or
- i) Other measures.

Item (c) of Annex V A (2) to the InvestEU Regulation:

support to operations that carry a higher risk profile than the risk generally accepted by the implementing partner's own standard activities or support to implementing partners in exceeding own capacity to support such operations;

The use of the InvestEU Guarantee allows EIF to enter into (counter-) guarantee with financial intermediaries supporting higher risk category final recipients (i.e. start-ups or categories of start-ups that were previously excluded, previously excluded categories of SMEs). Building on the previous guarantee instruments managed by EIF, the SME Competitiveness Product implemented under the Member State Compartment will enable the EIF to support the SME ecosystem at a scale that would not be possible or not to same extent out of other EIF managed resource for that purpose.

Item (d) of Annex V A (2) to the InvestEU Regulation:

participation in risk-sharing mechanisms targeting policy areas that exposes the implementing partner to higher risk levels compared to the levels generally accepted by the implementing partner or that private financial actors are able or willing to accept;

EIF usually applies some restrictions on the risk categories of SME transactions included a portfolio guaranteed with EIF on risk exposure own risk exposure.

The use of the SME Competitiveness Product would allow EIF to promote riskier profile of final recipients to be included by the selected financial intermediaries.

Item (f) of Annex V A (2) to the InvestEU Regulation:

Support through financial products not available or not offered to a sufficient level in the targeted countries or regions due to missing, underdeveloped or incomplete markets;

The SME financing market is characterised by persistent market gaps which occur when viable projects or viable SMEs do not get the financing, they require from Financial Intermediaries due to e.g. information asymmetries, market fragmentation, transaction costs or the Financial Intermediary's risk aversion. Especially young firms face particular challenges due to a lack of track record on which the Financial Intermediary could rely for the purposes of risk analysis and taking of the financing decision. SMEs in Bulgaria report insufficient collateral or

other bank requirements, such as guarantees as being most often the cause for not being able to obtain financing.

In addition, according to the Bulgarian National Bank (“BNB”) “Economic Review”², in the third quarter of 2021 the overall business climate indicator in Bulgaria continued to deteriorate, reflecting managers’ more pessimistic sentiment in industries such as manufacturing, construction and retail trade. The uncertain economic environment, insufficient demand and staff shortage continued to be among the main factors hampering business activities, with the latter factor increasing somewhat its negative impact.

The bank lending survey, performed by the BNB in 2021, showed tightening of bank standards in extending loans to enterprises. More importantly, banks reported a tightening of conditions for enterprises, especially in terms of collateral requirements and premiums for riskier loans. The tightened credit policy (credit standards and conditions) for enterprises reflected the lower risk appetite of banks and increased risk assessments. Furthermore, the BNB expects that a possible moderate rise in the share of non-performing loans in banks’ portfolios associated with the expiry of the extended terms on the private moratorium on bank loan repayments in the context of COVID-19 outbreak will be a factor with a potentially limiting effect on the dynamics of credit to the private sector.

The objective of this Framework Operation is to contribute to the reduction of the structural shortcoming of the Bulgarian SME financing market and to support the creation of a more diversified SME finance market. More specifically, through direct and indirect guarantees, this Framework Operation aims to guarantee debt financing which addresses the particular difficulties that viable SMEs face in accessing finance, either due to their perceived higher risk or due to their lack of sufficient available collateral.

The following market failures are addressed by the Framework Operation:

Item (c) of Annex V A (1) to the InvestEU Regulation:

Information asymmetries, in particular in the case of SMEs and small mid-cap companies, including higher risk levels related to early stage firms, firms with mainly intangible assets or insufficient collateral, or firms focusing on higher risk activities.

Access to finance for enterprises and the default risk for loans of the private sector are identified as some of the main risks to financial stability. In addition to the rise of economic uncertainty, the imposed containment measures have led to bottlenecks in supply chains and a sharp contraction in demand.

The latest report of the Bulgarian National Bank for the state of the banking system in the country in the third quarter of 2022, stressed on the significant increase in energy prices, potential bottlenecks in supply chains and slowdown in external demand are factors that may negatively affect economic activity and financial position of corporations. In addition, the ongoing global process of rapid rise in interest rates in the following months will pass onto their levels in Bulgaria and local credit institutions will need to adapt their lending policy and increase provisioning to the risks in the economic environment states in BNB report. Furthermore, Investment in fixed capital reported a decline on a quarterly basis.

The Sub-Projects will target high risk SMEs – as defined in the InvestEU Guarantee Agreement for the SME competitiveness guarantee – with significant focus on micro enterprises that are most severely affected by the COVID-19 economic shocks and could not renew investments in fixed capital without adequate long-term credit

² Bulgarian National Bank, Economic Review 3/2021, November 2021

financing. Five out of six Bulgarian regions are designated as less-developed regions and one region is designated as a transition region.

The support provided by the Sub-Projects under the SME Competitiveness Sub-Product mobilizes substantially third-party resources alongside the EU support for the provision of financing to Final Recipients.

Due to the focus of the SME Competitiveness Sub-Product on higher risk lending, EIF will support the bespoke high value add interventions in the Sub-Projects in a customized way.

The Sub-Projects aim at providing access to finance to higher risk SMEs, focusing particularly on SMEs which were previously excluded from financing, or providing new features in the financing (e.g. increased maturities or and/or reduced collateral requirements) or in general financing which had not been offered (or not to such an extent) to final recipients due to their perceived high credit risk or financing in local currency that will improve the access of the final recipients to longer tenors. The Enhanced Access to Finance measures provide for the transfer of financial advantage by the intermediary to the final recipient. Financial advantage examples include: reduction in interest rates, substantial collateral reduction and longer maturities than those that would otherwise be typically offered in the absence of the guarantee support.

The Sub-Projects are expected to have a positive impact in the Bulgarian ecosystem thanks to stimulating investments in new productive assets and financing higher risk SMEs in particular micro-enterprises and new enterprises that would enhance the sustainable growth of Bulgarian economy. According to an EIF study, on the effects of EU loan guarantee schemes for SMEs, after receiving a guaranteed loan, beneficiaries grew more rapidly than non-beneficiaries in terms of total assets, sales and employment. Beneficiaries were more likely to survive following the guaranteed loan.

Pillar 3 - Market failure or sub-optimal investment situation addressed by the financing or investment operation (Very Good)

Pillar 4 - Financial and technical contribution by the Implementing Partner (Very Good)

Pillar 5 - Impact of the financing or investment operation (Very Good)

Pillar 7 - Complementary indicators³

Leverage Effect	Indicatively 12x for capped guarantee
Multiplier Effect	Indicatively 15x for capped guarantee
SMEW specific Indicators	
(b) Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission	100% SMEs

ESG aspects

Within the due diligence process, EIF assesses the financial intermediaries' environmental, climate and social risk management procedures and the capacity to screen, assess and manage environmental, climate and social risks associated with its business activity, including the presence of an Environmental and Social Management System (ESMS), by means of an "ESG" questionnaire.

³ The InvestEU methodology is used in order to calculate figures presented in this document. Such figures are of indicative nature only and presented at the level of the Framework Operation.