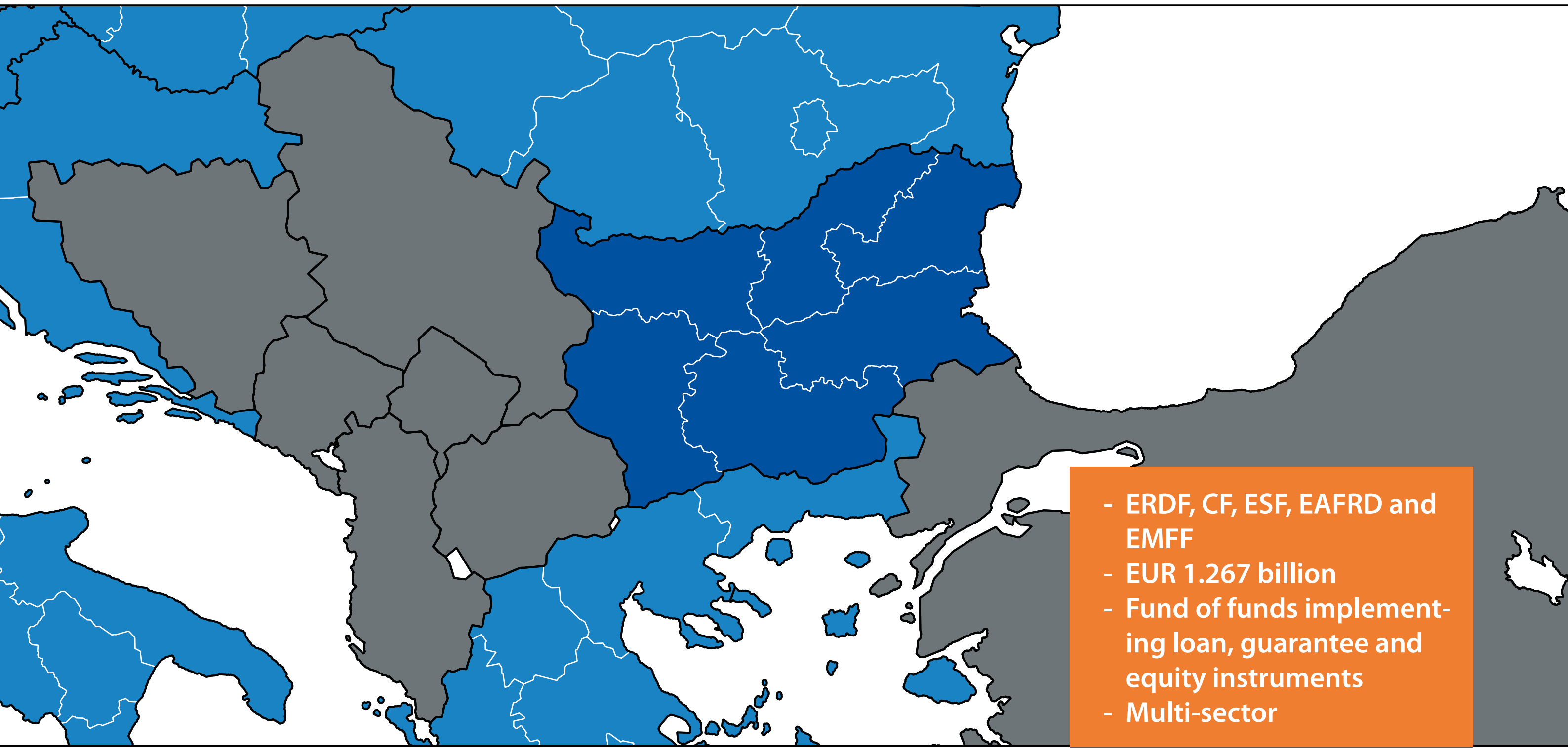

- ERDF, CF, ESF, EAFRD and EMFF
- EUR 1.267 billion
- Fund of funds implementing loan, guarantee and equity instruments
- Multi-sector

... building a bridge between public policy and private investment...

FMFIB: Fund Manager of Financial Instruments in Bulgaria – a multi-sector fund of funds

Case Study

European Commission

European Investment Bank
The EU bank

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The case study describes the implementation of the FMFIB financial instruments as at 31 March 2021.

Abbreviations

Abbreviation	Full name
CPR	Common Provisions Regulation
EAFRD	European Agricultural Fund for Rural Development
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIB	European Investment Bank
EIF	European Investment Fund
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF or ESI Funds	European Structural and Investment Funds
EU	European Union
FA	Funding Agreement
FLPG	First Loss Portfolio Guarantee
FMFIB	Fund Manager of Financial Instruments in Bulgaria
FRSL	Funded Risk Sharing Loan
JEREMIE	Joint European Resources for Micro to Medium Enterprises
JESSICA	Joint European Support for Sustainable Investment in City Areas
MA	Managing authority
OP	Operational Programme
PPD	Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement
RDP	Rural Development Programme
SME(s)	Small and medium sized enterprise(s)

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1. Fund Manager of Financial Instruments in Bulgaria

1.1 Executive Summary

The Fund Manager of Financial Instruments in Bulgaria (FMFIB) has been established by the Bulgarian government to implement financial instruments using shared management funds on behalf of several Bulgarian managing authorities.

First conceived in initial ex-ante assessments carried out in 2014, FMFIB has been set up as a single shareholder company owned by the Bulgarian state. A comprehensive organisational structure has been set up which has allowed specialist expertise to be recruited and retained. This has allowed standardised procedures to be developed, for example in connection with selection, monitoring and audit, securing economies of scale and ensuring experience gained with one financial instrument to benefit future operations.

FMFIB manages almost EUR 550 million of EU shared management resources across 13 different financial instruments using resources from five different EU funds. Managing authorities in Bulgaria have the option to entrust FMFIB by direct award in accordance with Article 12 of the Public Procurement Directive[1] (PPD). As a result FMFIB is intended to act as a national 'centre of excellence' for financial instruments supporting its partner managing authorities to achieve their ambitions for the use of financial instruments.

Various financial instruments have been established to support innovative small and medium sized enterprises (SMEs) through guarantees and equity investment, urban development through loans with embedded guarantees to public and private entities as well as individual entrepreneurs and social enterprises through micro-loans. Financial instruments have also been established to support investment in environmental infrastructure (including waste and water), enterprises in the agriculture and agri-food sector and, most recently businesses in the blue economy.

Nasekomo AD

Sector: Agri-technology

Financial instruments: New Vision 3 Start-up and Morningside Hill Venture Capital Fund

Investment: EUR 1.25 million equity investments

The company is producing edible protein from insects (black soldier fly), currently serving as feed for fish and poultry. This technology provides a stable and environmentally sound solution that offers sustainable feed for aquatic and terrestrial meat producers worldwide. With their first investment round open to outside investors, Nasekomo managed to secure funding for the construction of a 500-ton (production capacity) factory near Sofia, as well as to cover research and development expenses that has put the company at the very forefront of insect protein production technologies worldwide. Nasekomo is currently closing a much larger financing round (EUR 40 million in total) with the participation of international investors that values the company at EUR 50-100 million with the purpose of building a 4,000-ton factory in central Bulgaria.

1 Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement.

Table 1: Main characteristics of FMFIB fund of funds

Funding sources

ERDF Operational Programmes 'Innovation and Competitiveness', 'Environment 2014-2020' (CF/ERDF) and 'Regions in Growth'; ESF Operational Programme 'Human Resources Development; EAFRD Rural Development Programme for Bulgaria; and EMFF Maritime and Fisheries Programme for Bulgaria. National co-financing, contributed at Operational Programme level, together with co-investment contributed by other public and private investors.

Type of financial products

Holding Fund managing 13 financial instruments that provide a range of products including guarantees, loans, equity and quasi-equity (including mezzanine finance) investment.

Financial size

EUR 1.267 billion made up of EUR 548.9 million ESIF, EUR 96.9 million national co-financing, EUR 583.4 million private investment at fund level and at least EUR 38.2 million project level co-investment.

Thematic focus

Strengthening research, technological development and innovation (Thematic Objective 1)
Enhancing the competitiveness of small and medium-sized enterprises (Thematic Objective 3)
Support the shift towards a low carbon economy in all sectors(Thematic Objective 4)
Protecting the environment and promoting resource efficiency (Thematic Objective 6)
Promoting sustainable and quality employment and supporting labour mobility (Thematic Objective 8)
Promoting social inclusion and combating poverty (Thematic Objective 9)
Rural Development Programme in Bulgaria
Maritime and Fisheries Programme for Bulgaria

Timing of implementation

2014-2023

Partners involved

Coordinating authority
Ministry of Finance of Bulgaria
Managing authority
Ministry of Economy (Competitiveness and Innovation)
Ministry of Regional Development and Public Works (Regions in Growth)
Ministry of Environment and Water Resources (Environment 2014-2020)
Ministry of Labour and Social Policy (Human Resources Development)
Ministry of Agriculture, Food and Forestry (Rural Development Programme in Bulgaria)
Ministry of Agriculture, Food and Forestry (Maritime and Fisheries Programme for Bulgaria)
International Financial Institutions
European Investment Bank
European Bank for Reconstruction and Development

2. Design of the fund of funds

2.1 Context

Bulgaria is located in South-East Europe, with land borders with five countries, including EU Member States Romania and Greece. The country has a diverse geography, the main features of which include two mountain ranges, the Balkan Mountains and the Rila-Rhodope massif, the Danubian and Thracian Plains and the Black Sea coastline of 354 kilometres. As a result, Bulgaria's biodiversity is one of the richest in Europe, conserved by three national parks and many nature reserves and other protected areas. Bulgaria joined the European Union in 2007.

Bulgaria has a population of approximately 7 million, the majority of whom live in urban areas including the capital Sofia and other major cities including Plovdiv, Varna, Burgas and Ruse. The most important sectors of Bulgaria's economy in 2018 were industry (23.1%), wholesale and retail trade, transport, accommodation and food services (22.6%) and public administration, defence, education, human health and social work activities (14.1%). Intra-EU trade accounts for 69% of Bulgaria's exports (Germany 15%, Italy 9% and Romania 9%), while outside the EU 8% go to Turkey and 3% to China. In terms of imports, 64% come from EU Member States (Germany 12%, Italy 8% and Romania 7%), while outside the EU 10% come from Russia and 6% from Turkey.[2]

Under the 2014-2020 programming period, strategic priorities for the use of European Structural Investment Funds (ESIF) included promotion of employment through investment in education, skills and training, social inclusion, improving transport connectivity and promoting innovation friendly business environment by enhancing the knowledge-based competitiveness of SMEs.[3]

2.2 Experience with the JEREMIE and JESSICA initiatives

JEREMIE Acceleration and Seed financial instrument

The equity financial instrument set up by the JEREMIE Holding Fund was featured in a fi-compass case study published in November 2016.[4]

During the 2007-2013 programming period the JEREMIE and JESSICA initiatives provided the Bulgarian authorities with an opportunity to test the potential of financial instruments to support SMEs and urban development respectively. It also allowed them to build skills and experience within the public sector agencies concerned in relation to working with financial instruments as tools for financing Cohesion policy priorities.

A JEREMIE Holding Fund was set up in 2011 and initially established a guarantee fund. The range of products was subsequently extended to include risk sharing loan and equity financial instruments. The selected financial intermediaries successfully mobilised approximately EUR 325 million of ERDF programme resources (together with co-investment) to finance investment and/or working capital in SMEs and small mid-caps.

2 EU, about Bulgaria, europa.
3 European Commission, Brussels, Summary of the Partnership Agreement for Bulgaria, 2014-2020, August 2014.
4 https://www.fi-compass.eu/publication/case-studies/case-study-jeremie-acceleration-and-seed-instrument-bulgaria

Following the launch of the financial instruments, the initial take up was encouraging, resulting in the full commitment of resources by the end of the investment period, supporting approximately 8 000 businesses. The JEREMIE Holding Fund has continued to be active, reinvesting principal and interest payments received from final recipients from the initial investment period. As a result, by the end of 2020, around 10 000 businesses had received support through loans and equity investments of approximately EUR 900 million (including both public and private investment). In January 2021, the managing authority and the European Investment Fund (EIF), the fund manager of the JEREMIE instruments, signed a further agreement to use the fund's reflows to set up a new guarantee financial instrument support the development of trade finance in Bulgaria. Following the onset of global COVID-19 pandemic the product was refocused to facilitate working capital financing to SMEs in Bulgaria that have been adversely affected by the economic impact of the COVID-19 pandemic.

In parallel to the JEREMIE initiative, a JESSICA Holding Fund was set up in 2010 to support sustainable and integrated urban investment. The managing authority entrusted the European Investment Bank (EIB) to set up the Holding Fund and select financial intermediaries to manage two urban development funds. One of the funds was set up with EUR 12.6 million to support projects in the capital city, Sofia. The other fund was focused on the regions outside the capital and deployed EUR 18.9 million to support urban development projects.

The first cycle of investment was undertaken between 2012-2016 during which investment in the form of low-cost loans supported municipalities, public and private companies as well as other public bodies to deliver urban development projects aligned with local sustainable investment plans. The financial instruments successfully secured additional co-investment of approximately EUR 45 million alongside the EUR 31.5 million ERDF programme resources.

Following the end of the initial investment period in 2016, responsibility for management of the JESSICA fund was passed to FMFIB. Since then, the financial instruments have continued to successfully operate, reinvesting repayments of public resources into a second wave of projects. In this second investment cycle a further 14 projects have been supported with approximately EUR 8 million of recycled funds alongside additional co-investment of approximately EUR 12 million.

The experience gained during the 2007-2013 period provided public authorities in Bulgaria with the opportunity to secure the transfer of knowledge, skills and expertise in relation to the set up and management of financial instruments. In addition to the EIB and EIF, support was secured through international and national financial institutions such as the European Bank for Reconstruction and Development (EBRD), the Bulgarian Development Bank, the National Guarantee Fund and the Energy Efficiency and Renewable Sources Fund (EERSF). Through these partnerships, the Bulgarian managing authorities secured an increased understanding of financial instruments which enabled them to develop the fund of funds structure managed by the Fund Manager of Financial Instruments in Bulgaria (FMFIB) deployed in the 2014-2020 period.

2.3 Ex-ante assessment

Detailed ex-ante assessments were commissioned by Ministry of Finance on behalf of the following managing authorities:

Table 2: Ex-ante assessments commissioned 2014-2020

ESI Fund	Managing authority	Operational Programme	Sector
ERDF	Ministry of Economy	Innovation and Competitiveness	SME
ERDF	Ministry of Regional Development and Public Works	Regions in Growth	Urban development
ERDF/CF	Ministry of Environment and Water Resources	Environment 2014-2020	Environment
ESF	Ministry of Labour and Social Policy	Human Resources Development	Skills
EAFRD	Ministry of Agriculture, Food and Forestry	Rural Development Programme	Agri/agri-food
EMFF	Ministry of Agriculture, Food and Forestry	Maritime and Fisheries programme	Blue economy

The role of the Ministry of Finance was pivotal in commissioning experts to conduct the ex-ante assessments using resources from the Technical Assistance Operational Programme. The ex-ante assessments for 'Innovative and Competitiveness'[5], 'Environment 2014-2020'[6], 'Human Resources Development'[7] and 'Regions in Growth'[8] were all commissioned and delivered in 2014.

The key findings of the initial ex-ante assessments included the identification of significant financing gaps in the Bulgarian market, together with the potential for financial instruments to help address the market failure. In addition, given the ambition for financial instruments in Bulgaria during the programming period, the potential to adopt an implementation structure with a Holding Fund was highlighted.

The EAFRD financial instrument was separately developed by the EAFRD managing authority during the programming period and, therefore followed a different timeline and process, being completed in 2018. Finally, in 2020 an ex-ante assessment was carried out in relation to the use of financial instruments to invest EMFF resources to support the Blue economy in Bulgaria.

The ex-ante assessments were carried out by a range of advisers, in all cases working closely with officials from the managing authorities concerned. By moving quickly to undertake several of the studies early in the 2014-2020 programming period, the Ministry of Finance ensured that the design and implementation of the financial instruments was achieved in a timely way to allow continuity of provision of finance following the end of the initial investment periods of the JEREMIE and JESSICA financial instruments in 2016.

5 Ex-ante Assessment and Strategy for the Effective Implementation of the Financial Instruments from the Operational Program "Innovation and Competitiveness" 2014-2020, Partners for European Funding Consortium, September 2014.
6 Ex-Ante Assessment of Financial Instruments under OP Environment 2014-2020, BIM Consulting, September 2014.
7 Ex-ante Assessment of Financial Instruments for the OP Human Resources Development, pwc, 15 October 2015.
8 Ex-ante Assessment of Financial Instruments for the OP Regions in Growth, pwc, 21 October 2014.

2.4 Adoption of the Holding Fund structure

Another key strategic decision made by the Bulgarian government towards the beginning of the 2014-2020 programming period was to set up a new entity, the Fund Manager of Financial Instruments in Bulgaria (FMFIB) to act as the fund of funds manager for ESIF financial instruments in the 2014-2020 programming period.

The implementation options available under Article 38(4) of the CPR were first considered in the ex-ante assessments conducted in 2014. Then, after specialist legal advice and coordination between the Ministry of Finance and the relevant managing authorities the Bulgarian government identified the preferred option to use a newly constituted Holding Fund for the implementation of financial instruments under the Operational Programme. The Holding Fund model was identified as having a number of strengths as follows:

- It allowed the development of a clear structure and a strategic framework for the management of financial instruments;
- It was resource efficient in relation to the concentrated management of financial instruments;
- It created the opportunity for optimal targeting of investment strategies and the strategies for implementation of financial instruments at the financial intermediary level;
- It took advantage of and continued to generate local expertise and experience in managing the overall framework of financial instruments;
- It ensured an integrated approach when addressing the defined market failures through targeted management of a portfolio of identified financial instruments.

The report also identified some potential weaknesses of the option including the risk of additional cost and delay in implementation due to the additional tier in the governance structure. Nevertheless the analysis supported the recommendation in favour of the Holding Fund model. Separately, another study undertaken at the same time recommended participation in the SME Initiative, an EU level instrument to provide a large-scale guarantee operation to support lending to SMEs.

Financial needs in the agriculture and agri-food sectors in Bulgaria

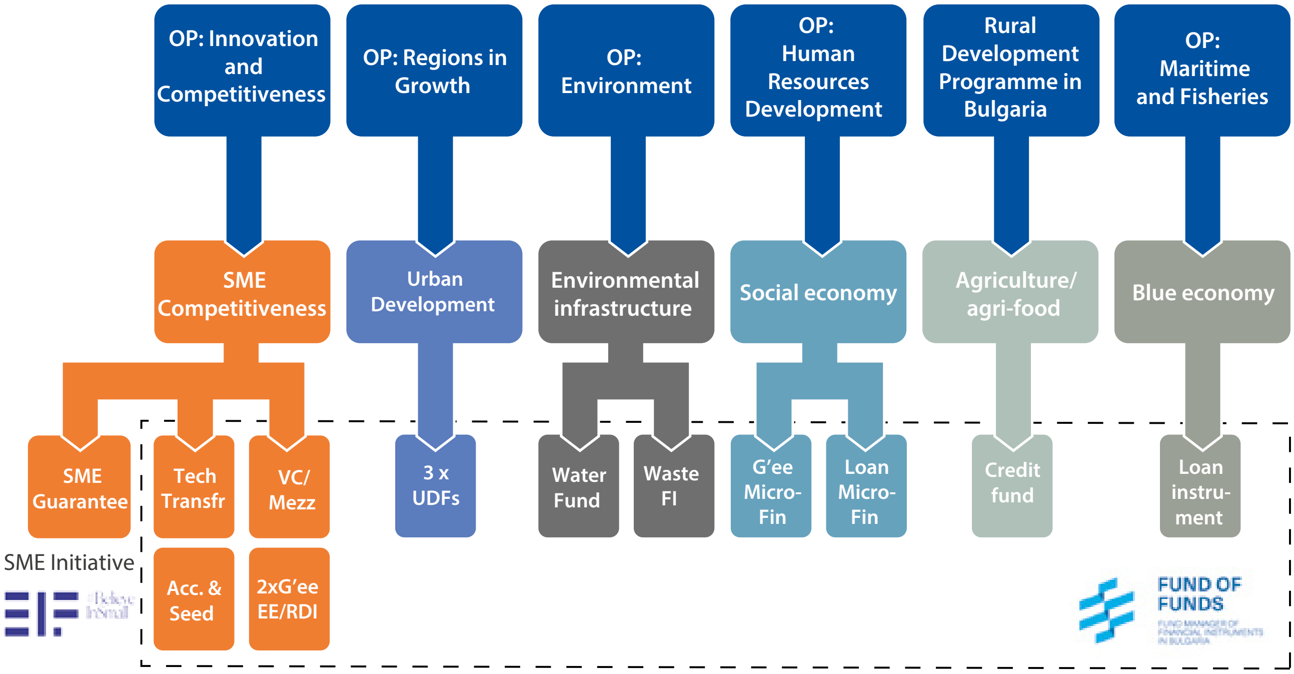
The financing needs in the Bulgarian agriculture and agri-food sector are considered in a recent fi-compass report.[9]

The study analyses the recent supply and demand for financing in the two sectors and quantifies the unmet credit demand. This country report aims to support EAFRD managing authorities in planning and programming the use of financial instruments in their CAP Strategic Plans for the 2021-2027 programming period.

9 Factsheet, Study on financial needs in the agriculture and agri-food sectors in 24 EU Member States, fi-compass 11 June 2020.

The economies of scale of using the existing Holding Fund, together with the other strengths of the proposal supported the use of FMFIB as a vehicle to manage the financial instrument operations across the full range of sectors proposed in Bulgaria. Figure 1 shows the outcome of the initial ex-ante assessments and the design activity carried out afterwards to assess the feasibility of the Holding Fund and participation in the SME Initiative.

Figure 1: Summary of the outcome of the ex-ante assessments and follow-up design activity



2.5 Building capacity through advisory services

The SME Initiative in Bulgaria

The SME Initiative - launched in Bulgaria in 2016 - is co-financed by ESIF resources (through a specific Operational Programme entitled 'SME Initiative'), the European Commission and the EIB Group, with the EIF managing the scheme on behalf of the different contributors.

The SME Initiative is a public-private partnership acting as catalyst for private investments and supporting economic growth and job creation. It combines European Structural and Investment Funds (ESIF) with EU central budget (resources from the Horizon 2020 programme) and EIB Group funds. Through an uncapped guarantee instrument, EUR 102 million of ESIF resources, leveraged with commercial lending, are expected to generate more than EUR 600 million of new SME loans at favourable terms.

During the design phase of the financial instruments, the Bulgarian government made smart use of advisory services in order to support the development of robust and deliverable proposals and to enhance the capacity within the public bodies and the newly constituted FMFIB to implement and manage financial instruments.

Existing expertise from within the Ministry of Finance and managing authorities provided a strong foundation for the development of the FMFIB team. Experts in Cohesion policy and procedures and horizontal topics such as State aid and Selection of bodies implementing financial instruments were appointed to work in the new Holding Fund structure. Professionals with private sector finance expertise were recruited and/or brought in under consultancy arrangements to augment the public sector expertise.

The process to establish FMFIB as an operational entity took approximately eight months. During this time advisory support was provided through the International Financial Institutions including the World Bank, the European Bank for Reconstruction and Development (EBRD) and the EIB's Financial Instruments Advisory Division. EIB Group experts, together with specialist consultancy support, have provided strategic advice regarding the development of FMFIB since its inception, supporting its establishment, and helping to design investment strategies and financial instrument products. The EBRD supported the development of core processes and an IT system for FMFIB, while the World Bank helped develop FMFIB's organisational structure and Human Resources management system. This has provided a strong basis for the continuation of the strong support by the EIB Group for financial instruments in Bulgaria, including through the subsequent provision of co-financing and further advisory support to establish local advisory capacity in Bulgaria.

Advisory support for the individual financial instruments established under the 2014-2020 programme have also benefited from the support of the EIB and EBRD in relation to the development of funding agreements, investment strategies and Investment Committee rules. This support has played an important role in relation to the design and implementation of the financial instruments set up for the 2014-2020 period.

2.6 Timetable for set-up and implementation

The timetable for the set-up of FMFIB and its financial instruments implemented under the Innovation and Competitiveness and Regions in Growth Operational Programmes is described in Figure 2.

Table 3: Set-up and implementation of FMFIB – Innovation and Competitiveness/Regions in Growth

Time period	**Actions taken**			
Stage 1: Ex-ante assessment to Funding Agreement with FMFIB				
August 2014	Partnership agreement signed for 2014-2020 ESIF programmes in Bulgaria			
September/October 2014	Ex-ante assessments competed for Innovation and Competitiveness, Environment, Human Resources and Regions in Growth Operational Programmes			
July 2015	Approval by the Council of Ministers[10] of creation of a new Holding Fund			
October 2015	Fund Manager of Financial Instruments in Bulgaria (FMFIB) formed			
August/November 2016	Funding agreements signed between managing authorities and FMFIB for the Innovation and Competitiveness / Regions in Growth financial instruments			
Stage 2: Selection and appointment of financial intermediaries				
Phase 1	**Innovation and Competitiveness**		**Regions in Growth**	
	Seed/Accel. and Start-up	Venture Capital	Urban development funds	
Launch of selection	September 2017	May 2018	October 2017	
Award Decision	August 2018	February 2019	August 2018	
Operational Agreement	December 2018 – March 2019	May 2019	September 2018	
Phase 2	**Innovation and Competitiveness**			
	Mezz Growth	Seed/Accel. Start-up (II)	Tech Transfer equity fund	Portfolio G'ee Covid-19
Launch of selection	August 2018	May 2019	October 2019	July 2020
Award Decision	October 2019	November 2019	Terminated	August 2020
Operational Agreement	January 2021	June 2020		October 2020 – January 2021

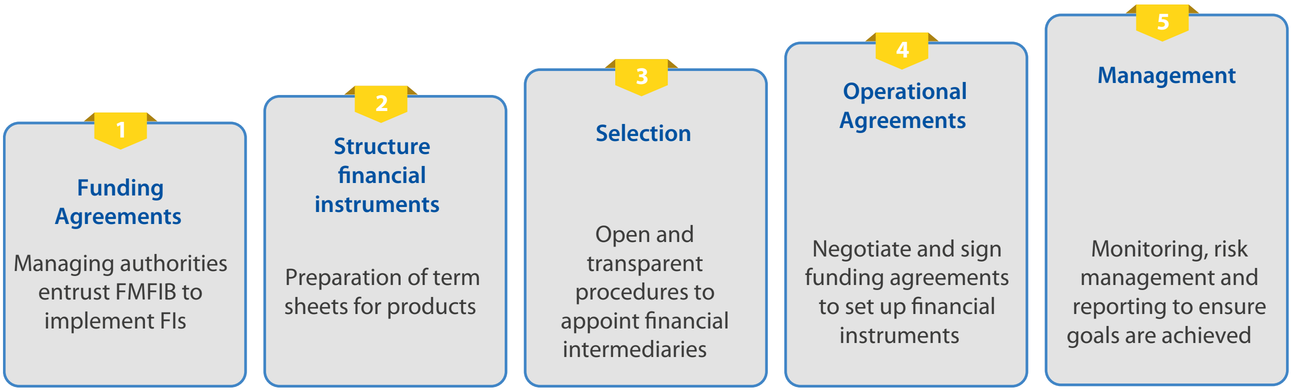
10 Order No. 3 of the Council of Ministers from 22 July 2015.

3. The multi-fund Holding Fund – The Fund Manager of Financial Instruments in Bulgaria

3.1 Overview

Established by the Bulgarian government, FMFIB is responsible for the management of all EU funding allocated to financial instruments by the Bulgarian managing authorities. Through the establishment of FMFIB, the Bulgarian government aimed to secure the efficient and sustainable management of the public resources, achieve economies of scale and build professional expertise at the national level in the management of financial instruments. Figure 2 shows the role of FMFIB in relation to the overall management of financial instruments in the country.

Figure 2: Role of FMFIB

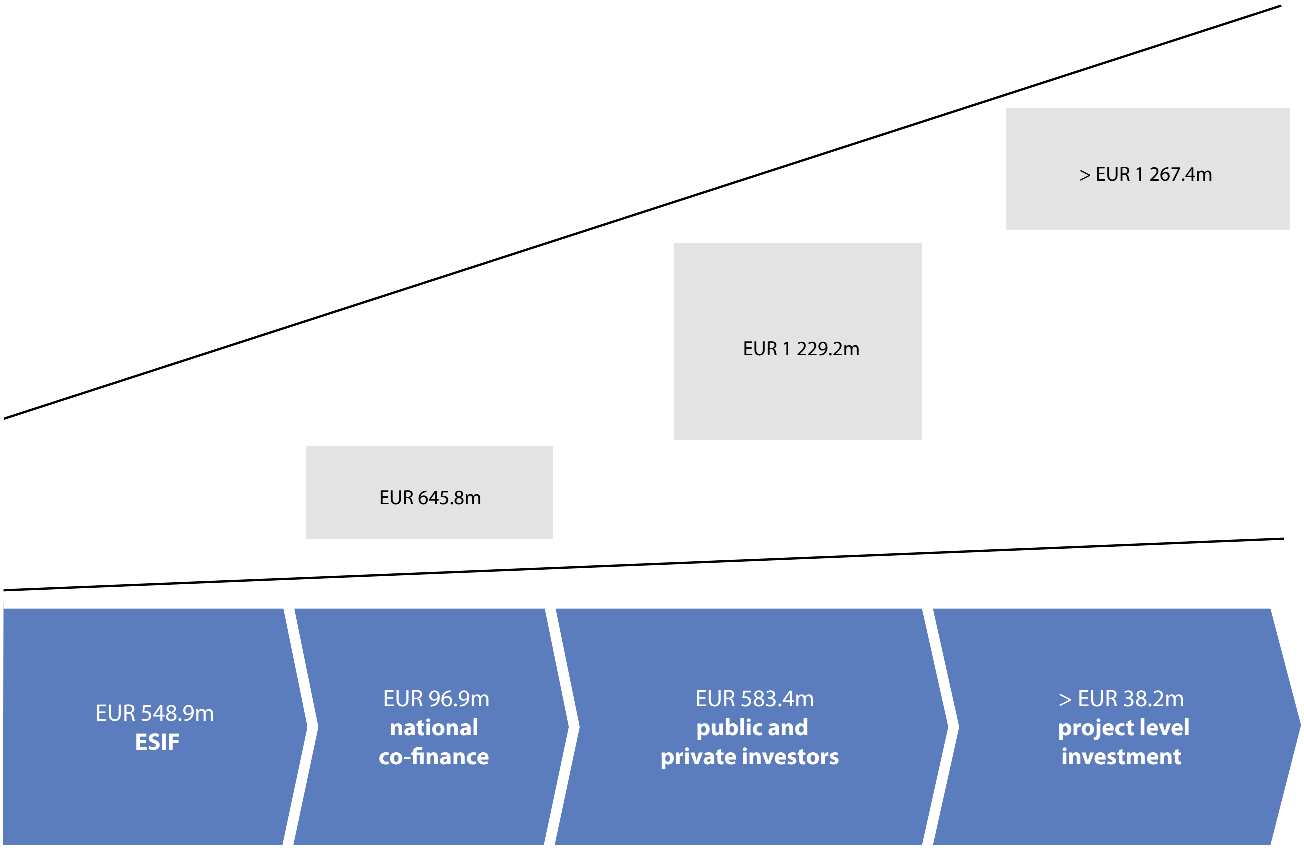


3.2 Financial instruments under management

In March 2021, FMFIB had thirteen financial instruments under management, operating in six sectors. A total of EUR 548.9 million ESIF programme resources (ERDF, CF, ESF, EAFRD and EMFF) have been committed to the financial instruments, which has in turn mobilised EUR 645.8 million of other public and private co-investment. As a result it is expected that approximately EUR 1.23 billion will be invested as a result of the FMFIB financial instruments in the 2014-2020 programming period.

Figure 3 shows the leverage effect of the FMFIB financial instruments established in the 2014-2020 programming period.

Figure 3: Leverage effect of FMFIB's financial instruments under shared management funds



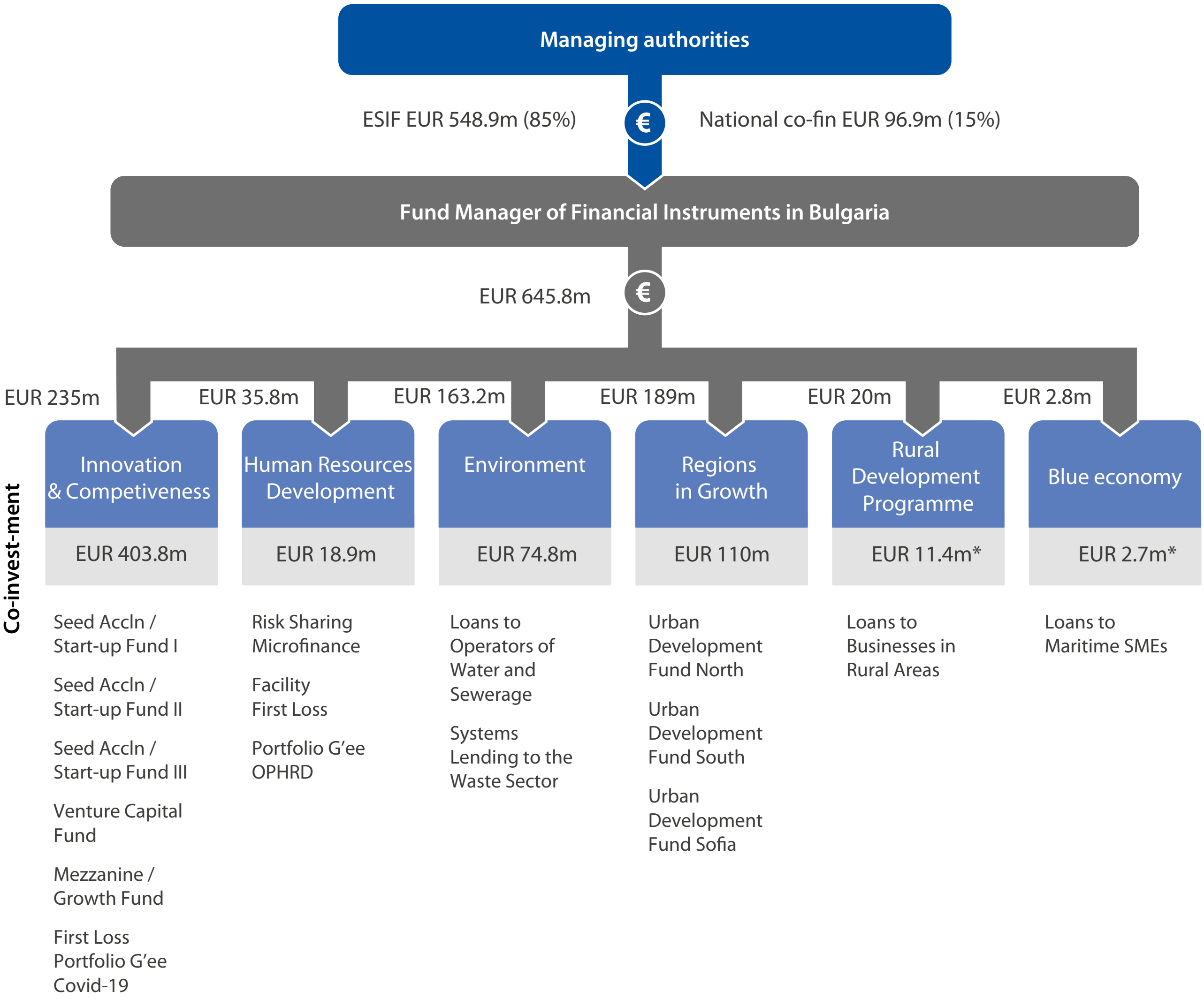
Approximately 75% of the FMFIB resources are invested through loans, supported by either risk sharing loans or guarantee financial instruments. The balance of the investments are made through equity and quasi-equity financial instruments.

3.3 Sectoral Investment Programmes

The financial instruments set up and managed by FMFIB are categorised into six sectoral programmes, based on the different Operational Programmes financing the activity. A total of 13 financial instruments have been set up across the six programmes, collectively managing EUR 645.8 million of ESIF (ERDF, CF, ESF, EAFRD and EMFF) programme resources. Figure 4 shows the overall structure of the FMFIB sectoral investment programmes established in relation to the 2014-2020 ESIF programmes.

In total, twenty financial intermediaries have been appointed to implement the different financial instruments. Further details of the partner institutions and the products they offer are set out below for each of the sectoral programmes.

Figure 4: Overall structure of FMFIB sectoral investment programmes



**estimate pending finalisation of the Funding Agreement*

3.4 The Innovation and Competitiveness financial instruments

The financial instruments set up by FMFIB to support innovation and competitiveness and the large-scale guarantee instrument to support lending to SMEs under the SME Initiative were designed to complement each other. As a result the FMFIB financial instruments aim to provide largely equity and quasi-equity investment to start-up and growing businesses. In addition, a further guarantee instrument was established in 2020 to support the response to the COVID-19 health crisis.

3.4.1 The Seed, Acceleration and Start-up Funds

A total of EUR 70.9 million of ERDF programme resources, together with private co-investment of EUR 16 million have been committed to support three equity/quasi-equity funds. The objectives of the financial instruments are to:

- promote entrepreneurship in Bulgaria and facilitate access to financing for SMEs at an early stage of development;
- set up and develop new sustainable businesses;
- implement successfully new innovation-based business ideas;
- boost activity in the entrepreneurial ecosystem in Bulgaria and promote its development; and
- add value to investees

Three financial intermediaries were selected through an open and transparent public procurement procedure to set up three funds as follows.

Innovation Capital AD

With EUR 19.3 million of ERDF programme resources and EUR 4.5 million private co-investment, Innovation capital focusses on high priority sectors with a view to supporting businesses in the start-up and acceleration phases.

It provides equity and quasi-equity investment through three sub-funds designed to support businesses at the acceleration stage, pre-seed and seed. In addition, the acceleration phase offers businesses a range of support services, training and mentorship programmes. The financial instrument aims to support approximately 240 businesses during the initial investment period.

Vitosha Venture Partners OOD

Vitosha Venture Partners is an early stage Venture Capital fund established to support innovative businesses in Bulgaria with an investments from FMFIB of EUR 25.1 million. The fund is designed to mobilise private co-investment of EUR 2.9 million and to support approximately 125 businesses.

The financial instrument will invest up to EUR 50 000 in new businesses during the acceleration phase and up to EUR 1 million in more established companies in the start-up phase. Additionally, strategic support, training and mentorship is offered by the fund managers to support their portfolio of businesses.

Econic One

Sector(s): Mobility/manfacturing

Intermediary: Vitosha Venture Partners (VVP) and Innovation Partners Start-up funds

Investment: EUR 800 000

Econic One designs, develops and manufactures electric bicycles and sells them mostly in Western European countries including Germany, Belgium, France, and Spain mostly through retail partners and distributors and directly through its website. Vitosha VP led and syndicated a funding round of EUR 1.7 million, set the terms and sits on the Board of Directors. Following the investment, the company has substantially improved its product to add industry-leading features. It has grown its team including high-profile executives, enabling expansion into new markets and points of sale and securing additional bank financing. As a result it has increased revenues nearly 1000% year-on-year, since the investment.

New Vision 3 OOD

Approximately EUR 25.6 million has been committed to the third Seed, Acceleration and Start-up Fund managed by the fund manager New Vision 3. Focussing only on larger Start-up companies, the financial instrument can provide equity and quasi-equity investments of up to EUR 1 million. Technology businesses are a particular priority for the financial instrument which seeks to invest in companies active in the FinTech and Blockchain, Artificial Intelligence, Shared Economy, Internet of Things and Big Data sectors.

3.4.2 The Venture Capital Fund

Known as the Morningside Hill Venture Capital Fund, the financial instrument has been set up with EUR 33.3 million investment from FMFIB and EUR 11.2 million from private investors.

The fund manager, Morningside Hill Capital Management, which was selected following a competitive procurement exercise, is based in Sofia and aims to invest in growing early stage companies (post seed phase). The financial instrument's goals are to:

- support the entrepreneurial ecosystem in Bulgaria;
- assist high-tech companies that need financing in order to enforce and expand their operations; and
- facilitate access to capital for commercialisation of developed products and improve their overall capacity to achieve higher growth, including by implementing innovations.

The financial instrument is sector agnostic and looks to invest in companies where at least 50% of its revenues, staff or assets are based in Bulgaria.

A typical target company will already have a viable product and either be generating or about to start generating revenues. A strong management team with good cost control and robust and transparent accounting is essential for a company looking to secure investment from the financial instrument.

The financial instrument will support approximately 25 companies in sectors including the manufacturing of goods using new technologies which reduce unit cost of production, high-tech, software and hardware, e-commerce and innovative products or services. A typical investment will range from EUR 750 000 to EUR 3.5 million and can be in the form of equity or quasi-equity participation in the company.

3.4.3 The Mezzanine / Growth Fund

Established in 2021, the Mezzanine / Growth Fund will use EUR 38.5 million of FMFIB financing, together with at least EUR 13.3 million private investment to provide mezzanine finance to Bulgarian SMEs. Targeting more mature SMEs FMFIB's objectives for the financial instruments include to:

- provide access to alternative financing to SMEs having a high growth potential and plans to expand and improve operations, develop new products and services;
- improve financial management and corporate governance of supported enterprises in order to increase their productivity and potential for entering new markets.

Following a competitive selection process Silverline Partners OOD were appointed as financial intermediary. It aims to support SMEs at a mature stage of development through alternative financing in the form of equity and quasi-equity investments. A large proportion of the financing is provided in the form of mezzanine financing, which aims to bridge the gap between equity and debt markets in the country. The financial instrument will aim to finance approximately 10 high growth companies based in Bulgaria.

3.4.4 The First Loss Portfolio Guarantee COVID-19

This guarantee instrument was set up at short notice to respond to the health crisis. It aims to facilitate access to credit to enable businesses to continue operations, including to meet their liquidity needs and/or overcome financial difficulties caused by the COVID-19 crisis. Approximately EUR 80 million of ERDF programme resources are committed to eight banks which will use the guarantee to build up a portfolio of loans to businesses affected by the crisis.

FMFIB took advantage of the flexibilities introduced under the Coronavirus Response Investment Initiative (CRII) and CRII+ to set up the financial instrument in a short timescale to respond to the economic impact of the crisis. The financial instrument, aims to use the guarantee to enable the financial intermediaries to build a portfolio of preferential loans to SMEs that need to support as a result of the pandemic. Favourable terms offered to final recipients include a discounted interest rate (supported through an interest rate subsidy), lower collateral requirements and a streamlined administrative process. Final recipients may also benefit from a grace period of up to 2 years and an option to repay interest after the first year.

3.5 Financial instruments to support Human Resources Development

The financial instruments set up by FMFIB under the Human Resources Development sector use European Social Fund resources, including national co-financing.

Three financial intermediaries have been selected to implement risk sharing loan micro-credit financial instruments that aim to provide support for social enterprises and to promote entrepreneurship amongst vulnerable groups

The financing available through the financial intermediaries SIS Credit, Mikrofond and First Investment Bank take the form of loans up to EUR 25 000 with a repayment period of up to 10 years, combined with other flexibilities.

Target final recipients are social enterprises and companies that have been established for less than five years. This includes those companies established by vulnerable groups such as unemployed for more than 6 months, young people aged 29 or less, people with disabilities.

In addition to the three risk sharing loan financial instruments, a 'Capped Portfolio Guarantee for Microcredits' for Microcredits financial instrument has been set up with the financial intermediary UniCredit Bulbank. Approximately EUR 2.55 million of ESF resources have been committed to enable a portfolio of microcredit loans to be built up with a value of approximately EUR 12.8 million.

The goal of the financial instrument is to improve access to finance for social enterprises and start-ups established by entrepreneurs from vulnerable groups. The First Loss Portfolio Guarantee supports the lending through a guarantee rate of 80%, meaning it covers 80% of losses from each loan, up to an overall cap of 25% of total losses.

3.6 Financial instruments under the Environment 2014-2020 Operational Programme

3.6.1 Loans to Operators of Water and Sewage Systems

This financial instrument has been set up with EUR 115 million of resources from the CF supported Operational Programme, Environment 2014-2020. The financial intermediary entrusted by FMFIB to implement the financial instrument, the European Bank for Reconstruction and Development (EBRD), has also committed up to EUR 62 million to the instrument. A further EUR 13 million co-investment will also been secured.

The financial instrument offers loans with a duration of up to 15 years (including a grace period of 3 years) to operators of water and sewerage systems in Bulgaria. A guarantee instrument also supports lending by a commercial bank (Raiffeisenbank (Bulgaria)) to the sector.

The financing is designed to complement grant funding from the Operational Programme to support investment in the reconstruction and improvement of infrastructure in the sector, with a view to reducing water losses and achieving EU environmental standards.

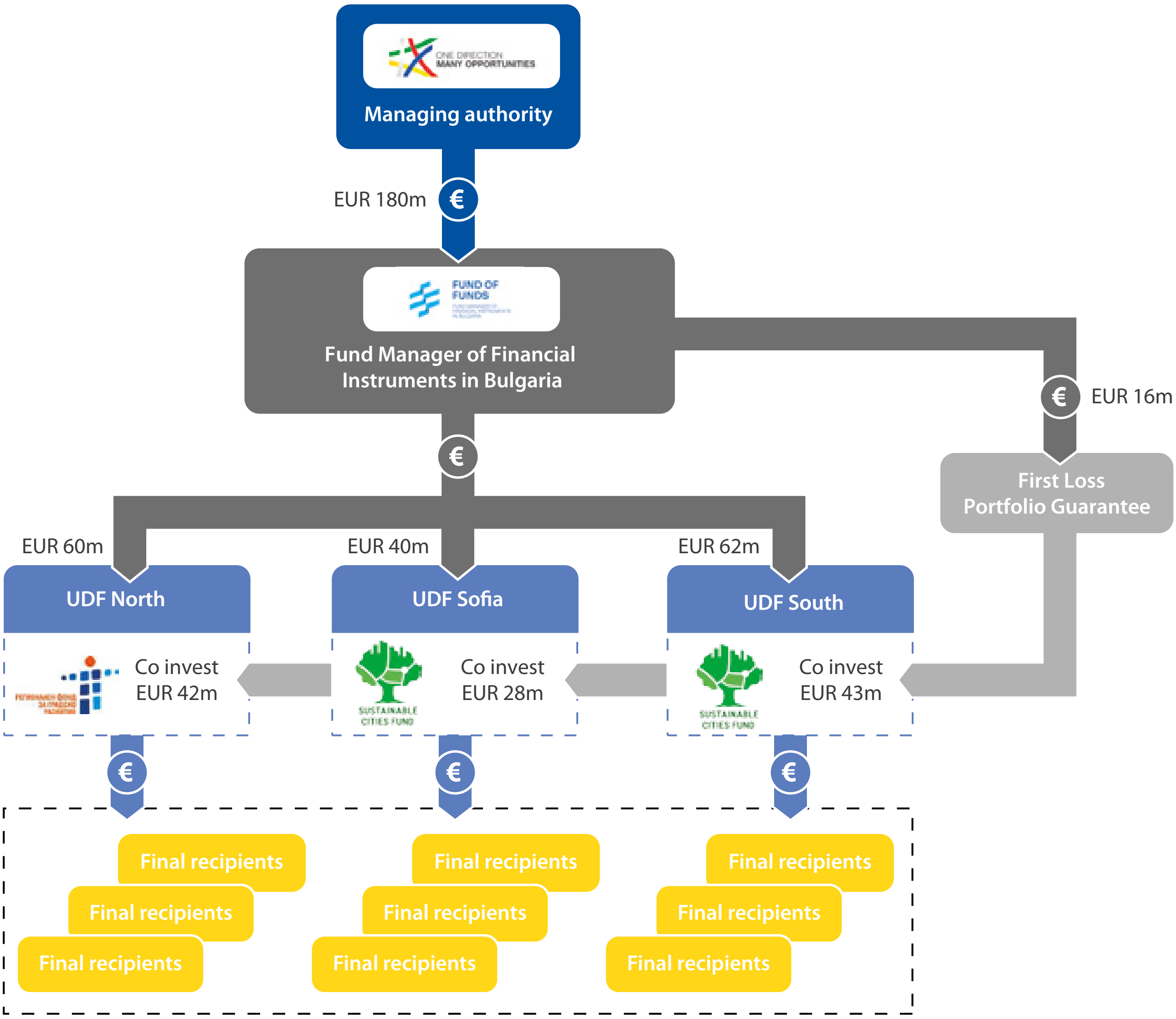
3.6.2 Lending to the Waste Sector

FMFIB have created a syndicated lending product with the aim of increasing the investment by private and municipal enterprises in projects aimed at reducing residential waste disposal nationally. Approximately EUR 25 million has been committed to the financial instrument which aims to mobilise other private investors, principally the participating banks, to support projects in the sector.

3.7 Regions in Growth financial instruments

Urban Development is the focus of the three financial instruments established under the Regions in Growth programme. An innovative structure is employed in order to mobilise private sector co-investment alongside approximately EUR 163.7 million of ERDF programme resources that is committed to fund the risk sharing loan instruments. This is achieved through the provision of an embedded guarantee, that uses an additional ca EUR 16 million of ERDF programme resources, to mobilise additional private investment. As a result the three financial instruments established under this programme have secured private co-investment of at least EUR 110 million. The structure of the financial instruments set up to support urban development and tourism investments related to cultural heritage is shown at Figure 5.

Figure 5: the Regions in Growth Urban Development Funds



The three financial instruments have been established, each with discrete geographical coverage, to finance urban development and cultural heritage projects being undertaken by municipalities, municipal companies, private companies, public private partnerships and citizens. The goals of the financial instruments include to:

- improve urban environment (including public transport, culture and sport infrastructure);
- stimulate economic growth in the regions through the development of economic development zones in the cities, improved energy efficiency of single-family residential buildings and student dormitories; and
- promote the development of tourism related to immovable cultural heritage of national or world importance.

Two financial intermediaries have been selected following an open and transparent public procurement procedure as follows:

The Sustainable Cities Fund

SUSTAINABLE CITIES FUND

The financial intermediary for two of the urban development funds, established in Sofia and South Bulgaria, the Sustainable Cities Fund (SCF) includes the financial intermediary under the JESSICA financial instrument established in the earlier programme period.

SCF is a consortium of the Fund FLAG (Fund for Local Authorities and Government), a fund that finances public infrastructure projects, The Fund for Sustainable Urban Development (FSUD, the JESSICA fund manager), United Bulgarian Bank (UBB, part of the Belgian KBC Group) and the Bulgarian Consultancy Organisation, who specialise in European projects.

The consortium has committed around EUR 70 million of its own resources, principally contributed by UBB (90%) and the rest by FLAG, which have the benefit of the First Loss Portfolio Guarantee provided by FMFIB.

The Regional Urban Development Fund

РЕГИОНАЛЕН ФОНД ЗА ГРАДСКО РАЗВИТИЕ

The financial intermediary of the UDF North was also a financial intermediary under the JESSICA initiative, having been set up by its shareholders DSK Bank, the financial institution ELANA and the consultancy Balkan Advisors. The three shareholders have come together to form a separate company to act as the financial intermediary. A dedicated team of seven specialists, with a background in banking and investment, has been created to manage the UDF, with responsibility for originating investments, managing the appraisal and approval of projects for investment and monitoring of investments. UDF North also provides leasing financing through its subcontractor – DSK Leasing.

The financial intermediary has committed EUR 42 million private co-financing, to be provided by its main shareholder DSK Bank, alongside EUR 60 million of investment by FMFIB to create an urban development fund that targets projects in the North of the Country. Eligible final recipients for urban development projects are promoters located in one of the 17 largest cities in North Bulgaria, including the vibrant coastal city of Varna, the City of Ruse, on the Danube and the industrial centre of Pleven, while the project promoters for cultural heritage may be located on the entire territory of North Bulgaria.

3.8 EAFRD financial instrument - Loans to Businesses in Rural Areas

Following the completion of an ex-ante assessment at the end of 2018, FMFIB has been entrusted to implement a financial instrument using EUR 20 million of EAFRD Rural Development Programme resources. The financial instrument aims to support the economic development of rural areas through improving the competitiveness of the agricultural sector by improving access to finance Additionally, the financial instrument aims to restore and strengthen the forestry sector and promote social inclusion and support for sustainable development of small farms.

3.9 EMFF financial instrument

FMFIB were entrusted to set up a financial instrument under the programme 'Maritime and Fisheries 2014-2020' in March 2021. Approximately EUR 3 million has been committed to the financial instrument which will target support at enterprises in fishery and aquaculture sectors. It is proposed to set up two financial instruments, a risk sharing loan fund and a guarantee product to support low cost loans to target final recipients.

The financial instruments will support new investments in fishery and aquaculture areas and investments in the processing of the fishery and aquaculture products, which will lead to reducing the negative impact on the environment and increase resource efficiency. The financial instruments can also contribute to Community Led Local Development projects implementing strategies of the Local Action Groups and the improvement of the economic and social well-being of local fishing communities.

The new financial instruments will facilitate access to finance in the sector and are expected to attract additional private funding so that the total amount disposable to the final recipients exceeds EUR 4 million.

4. Set-up of the Holding Fund

4.1 Governance structure

FMFIB was set up by the Bulgarian government and is a single shareholder company wholly owned by the Bulgarian State. It was established as part of a package of measures introduced by the Bulgarian government in 2015 to support the use of financial instruments in the 2014-2020 ESIF programme.

The company has a two-tier governance structure made up of a Supervisory Board, responsible for the strategic direction and oversight of FMFIB, and a Management Board to which the Executive team are accountable at an operational level. The Supervisory Board is appointed by the Minister of Finance on behalf of the Bulgarian government as sole owner of FMFIB and has seven members representing the different ministries supporting the FMFIB financial instruments. These are:

- The Minister of Finance, who has responsibility for coordinating the delivery of financial instruments through FMFIB;
- the Minister of Labour and Social Policy, the managing authority for the Human Resources Development Operational Programme;
- the Minister of Regional Development and Public Works, the managing authority for the Regions in Growth Operational Programme ;
- the Minister of Economy, the managing authority for the Innovation and Competitiveness Operational Programme; and
- the Minister of Environment and Water Resources the managing authority for the Environment 2014-2020 Operational Programme;
- the Minister of Agriculture, Forestry and Food, the managing authority for the Rural Development Programme and Maritime and Fisheries Programme in Bulgaria; and
- The Deputy Prime Minister, responsible for EU funds management.

The Management Board has three members, appointed by the Supervisory Board based on criteria including candidates' relevant education and professional experience in management of EU Funds, financial instruments, risk financing and management of financial institutions.

4.2 Entrustment of FMFIB to implement financial instruments

FMFIB is entrusted to implement financial instruments on behalf of the managing authorities by direct award in accordance with Article 12 of the Public Procurement Directive[11] (PPD) and Article 38(4)(c)(iii) of the CPR[12] as amended by the Omnibus Regulation[13].

A separate funding agreement is signed between the managing authority and FMFIB in relation to the implementation of each proposed financial instrument(s). The form of the funding agreement is based on the model set out at Annex IV of the CPR. The agreement provides the framework for the implementation and management of the financial instrument by FMFIB on behalf of the managing authority and includes the design of financial instruments, selection of financial intermediaries, payment, monitoring and reporting requirements.

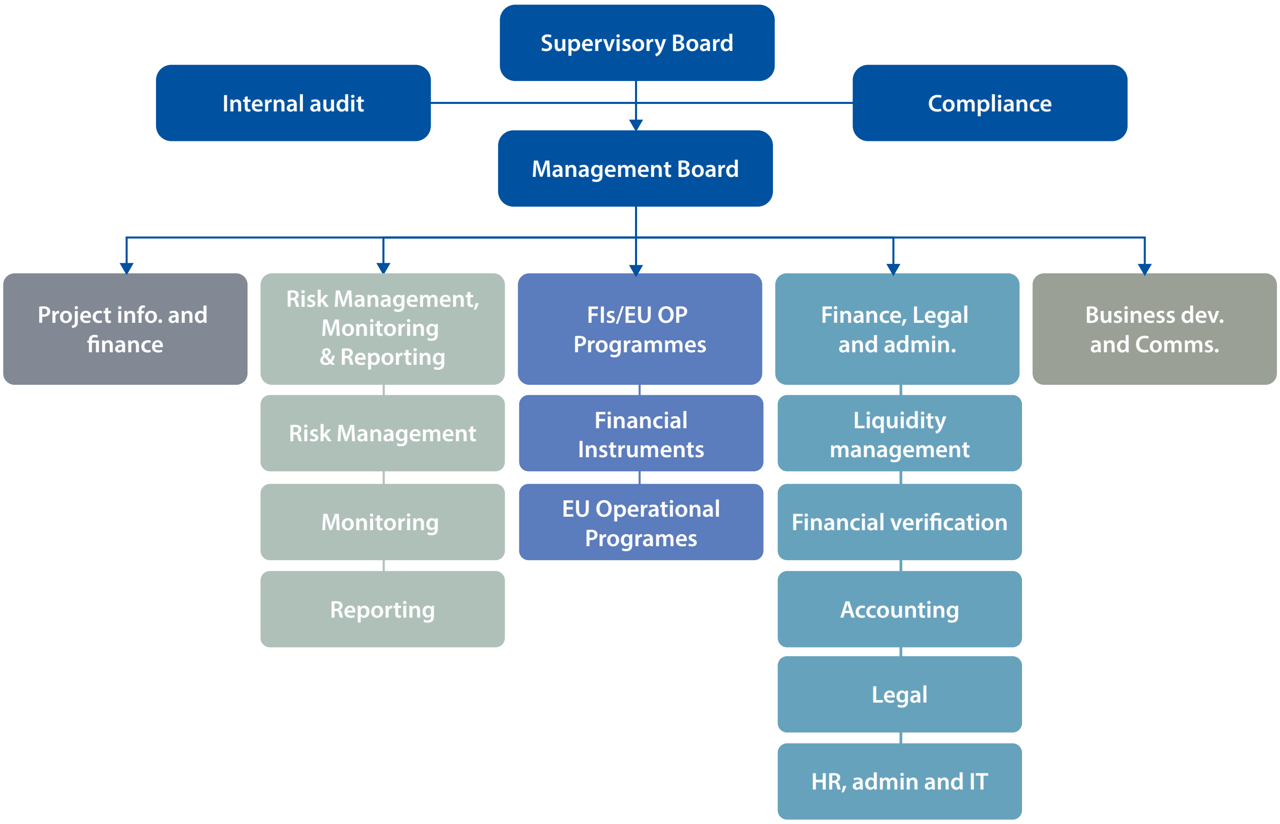
11 Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement.
12 Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund.
13 Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union.

In practice, however, the main forums for discussion and development of the financial instruments are the Management and Supervisory Boards within the FMFIB governance structure. This streamlines the governance of the financial instruments concerned and ensures that the delivery of financial instruments is consistent across the different sectors and commercially focused.

4.3 Management of FMFIB

The creation of FMFIB has enabled the development of specialist teams to support the implementation of financial instruments through the recruitment of high calibre professionals into key roles within the Holding Fund. Figure 6 shows the internal organisation of FMFIB, which includes an operational team and support services including legal, risk management, monitoring and communications.

Figure 6: Internal organisation of FMFIB



The organisational structure has been designed to allow FMFIB to implement financial instruments across a range of different sectors in an efficient manner. A sector expert based in the EU Operational Programmes department takes responsibility for the implementation of sector specific financial instruments, acting as the main point of contact for the ministry concerned and leading the delivery of the financial instruments within the organisation. They are also responsible for ensuring compliance with State aid rules.

The design of the proposed financial instruments is undertaken by the Financial Instruments Unit in conjunction with colleagues in the Risk Management and Legal teams. The process to select financial intermediaries is undertaken by the Financial Instruments Unit with the support of specialist professionals in the Legal department. Once appointed the Risk Management, Monitoring and Reporting division takes responsibility for the ongoing management of the financial instrument allowing regular reporting to the managing authority through the main point of contact and, regular reports to the Supervisory Board.

The structure, therefore, ensures that experience gained in relation to one financial instrument can then be captured to support the implementation of future financial instruments. This delivers economies of scale and provides a framework for the professional development of staff, further boosting the scope to recruit and retain specialist professionals to support financial instruments in the country. Additionally, a competitive salaries policy was introduced for FMFIB enabling it to offer salaries and conditions closer to comparable market rates. This has enabled it to attract professionals from the finance sector as well as high caliber experts with experience in key public sector areas such as procurement, State aid and audit and control.

4.4 State aid

A proactive approach to State aid is secured within FMFIB through a dedicated team of State aid experts that are located in the EU Operational Programmes department. The team participates in the design of financial instruments to identify the most appropriate approach to secure compliance with the State aid rules. Table 4 shows the range of different State aid options employed in relation to the current portfolio of FMFIB financial instruments.

Table 4: State aid compliance in FMFIB financial instruments

State aid	Description	Financial instruments
de minimis	The financial intermediary passes the full benefit of the FMFIB finance to the final recipient which falls within the relevant threshold	Acceleration and Start-up funds (part) – for investments up to EUR 200k First Loss Portfolio Guarantee COVID-19 Urban Development investments that are outside the GBER scope Risk sharing loan micro-credit financial instruments under ESF Capped Portfolio Guarantee for Microcredits under ESF
Temporary COVID 19 Framework	Support to SMEs under the section 3.1 of the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak	Separate compartments under the Acceleration and Start-up funds and Early-stage Venture Capital Fund
Market conform under Risk Finance Guidelines	Support to final recipients through provision of finance on market terms and conditions - pari passu between public and private investors and at least 30 % independent private investments	Start-up funds for larger investments over EUR 200k Early stage Venture Capital Fund Mezzanine growth Fund
Regional urban development aid	Investment by urban development funds to projects in compliance with Art 16 GBER	Regions in Growth UDFs
Culture and heritage	Investment aid to support culture and heritage conservation in compliance with Art 53 GBER	Regions in Growth UDFs

4.5 Selection of financial intermediaries

A total of thirteen financial instruments have been implemented to date by FMFIB. In order to support this a dedicated team has been developed with expertise in public procurement to support the selection processes.

Experts from the Legal and Financial Instruments departments are involved in the selection process. There are teams dedicated to equity financial instrument and Loan/guarantees financial instruments which enables the development of specialist skills and processes. Due to the EU requirements for segregation of duties, experts from Monitoring department do not participate in selection process, although they are fully involved in the implementation phase. The selection team may consult the Monitoring team during the procurement process in relation to the structure of the financial instrument.

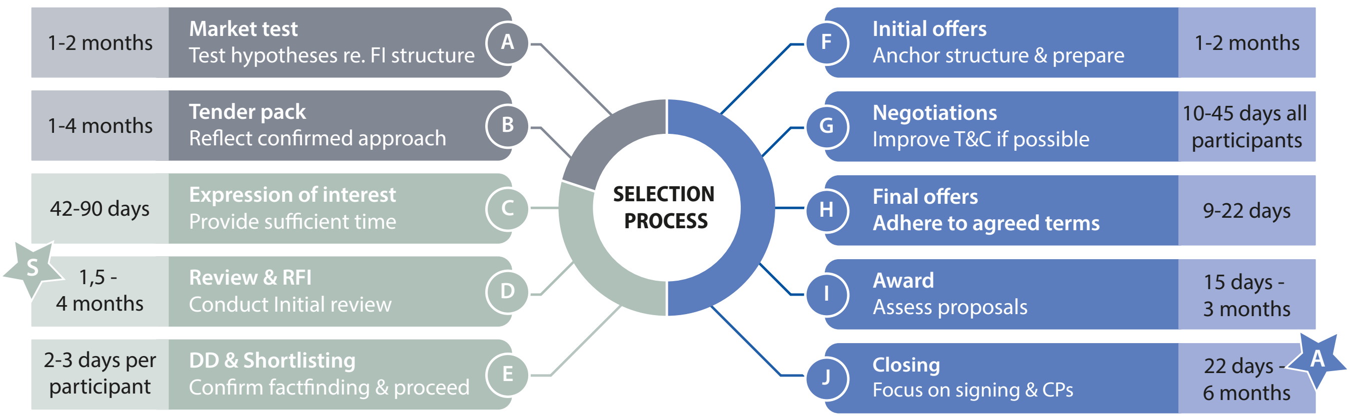
4.5.1 Competitive procedure with negotiation

The majority of selection procedures have been undertaken in accordance with the competitive procedure with negotiation under Article 29 of the PPD on the grounds that:

- the needs of the contracting authority cannot be met without adaptation of readily available solutions (Art 29(1)(a)(i)); and/or
- the contract cannot be awarded without prior negotiations because of specific circumstances related to the nature, the complexity or the legal and financial makeup or because of the risks attaching to them (Art 29(1)(a) (iii)).

The competitive procedure with negotiation provides a flexible framework within which a procedure can be designed that is adapted to the needs of the specific market being targeted. Figure 7 shows the key stages of the selection procedure developed by FMFIB under the competitive procedure with negotiation.

Figure 7: FMFIB competitive procedure with negotiation



CP: Condition precedent
DD: due diligence
EoI : Expression of interest
RFI : Request for information
S : Shortlisting

DD : Due diligence
T&C : Terms and conditions
CP : Condition precedent
A : Appealing

The initial market test is an important first step in the process. A structured engagement with market operators is used to test the proposed implementation arrangements and to receive feedback on the capacity of the market to meet the managing authority's needs and requirements. Another important stage in the process, which is facilitated by the use of the competitive procedure with negotiation is the Due Diligence (DD) undertaken at the shortlisting stage. As part of the procedure published at the outset of the selection process, FMFIB reserve the right to undertake DD to verify all or some of the information in the existing expressions of interest such as the composition and experience of the proposed team and institutional governance procedures.

4.5.2 Other selection procedures – direct award and open procedure

In addition to the competitive procedure with negotiation, FMFIB has employed other selection procedures in two cases. The direct award procedure under Article 38(4)(b)(ii) of the CPR was used to entrust to EBRD the implementation of the financial instrument Loans to Operators of Water and Sewerage Systems.

The Open Procedure under Article 27 of the PPD was used to select the fund manager of the Seed/Acceleration and Start-up Fund II. Initially the selection of fund managers for all three Seed/Acceleration and Start-up Funds was launched through competitive procedure with negotiation with three lots. After the completion of the procedure, two fund managers were selected for Lot one and Lot three.

The Lot two Seed/Acceleration and Start-up Fund II was, however, terminated by the contracting authority due to availability of only one offer compliant with the public procurement rules compared to the significant number of potential and interested candidates on the market. When relaunching the selection process, FMFIB decided to adopt the open procedure for the selection process as a clear financial and legal framework had been negotiated and agreed with market operators in the previous procedure.

In addition, the open procedure allowed for a shorter timeline for completing the selection process. Through the use of the open procedure, the selection of the fund manager of Seed, Acceleration and Start-up Fund II took four months compared to competitive procedure with negotiation for Fund Manager of Seed/Acceleration and Start-up Fund II which took almost ten months.

4.5.3 Calls for expression of interest outside the scope of Public Procurement Directive

FMFIB has launched two procedures outside the scope of Public Procurement Directive for selecting financial intermediaries for implementation of guarantee financial instruments. This followed participation in the fi-compass Knowledge Hub – Selection event in 2020[14].

14 fi-compass Knowledge Hub - Selection of financial intermediaries.

The **First Loss Portfolio Guarantees COVID-19 instrument** under the Innovation and Competitiveness Operational Programme was established to facilitate access of businesses to loans in response to COVID-19 pandemic. The call was launched in July 2020 as an open, transparent, proportionate and non-discriminatory procedure for selection of financial institutions based on 'no selectivity' approach. The opportunity to benefit from the guarantee was available to all the potential financial institutions that complied with the requirements of Article 7 of the Commission Delegated Regulation (EU) 480/2014. The financial instrument is closely aligned with standard market products and financial institutions are providing loans according to their usual market practice limited only by the specific ESIF and state aid rules. The approach ensured a quick response to support Bulgarian SMEs during the COVID-19 crisis. Eight guarantee agreements were signed in a short period of time.

A similar procedure for implementation of Capped Portfolio Guarantees for Microcredits instrument under the Human Resources Development Operational Programme was launched in March 2021 within the same 'no selectivity' approach. The financial intermediary was selected in July 2021, underlining the potential of this approach to provide a timely response, when required.

4.6 Monitoring, audit and control

The FMFIB monitoring process has been designed to be applied consistently across its portfolio of financial instruments with the aim of establishing a control environment for the signed operating agreements and the performance of the contracted financial intermediaries.

The monitoring system consists of two major elements, regular administrative checks conducted for each financial instrument, complemented by both scheduled and unscheduled 'on the spot' checks. The aim of the system is to ensure the effective monitoring of the performance of the financial intermediaries and their compliance with the requirements of the operating agreements. The allocation of FMFIB resources forms part of the monitoring process with checks of eligibility of financed projects and activities, the eligibility of final recipients and costs/expenditure are all included in the process.

The steps taken as part of the monitoring process include:

- Administrative checks of monthly and quarterly reports presented by the financial intermediaries;
- On-the-spot scheduled and unscheduled checks depending on the risk profile of the financial intermediaries;
- Maintenance of a register of findings and recommendations in accordance with the checks outcome;
- Maintaining a Default Register in accordance with the operating agreements;
- Annual reviews of the financial intermediaries' performance; and
- Regular meetings with the financial intermediaries in order to identify any difficulties during the implementation of the financial instruments and provide guidelines and solutions on the issues by FMFIB team.

5. Implementation of FMFIB financial instruments

5.1 Overview – Investment for sustainable economic growth

The Bulgarian government established FMFIB to efficiently deploy EU resources to mobilise private capital to support its policy objective to create a more favourable business environment in Bulgaria. Since it was launched, it has created 13 financial instruments in a range of different sectors, supporting the economic growth of the country.

As well as the direct impact of the investment mobilised to support SMEs and urban/infrastructure projects, the FMFIB financial instruments are playing an important role in the development of a modern financing ecosystem in Bulgaria. Along with IFIs such as the EIB, World Bank and EBRD, FMFIB resources are facilitating the establishment, scale up and development of new investment funds and financial institutions to support enterprise and investment in the country.

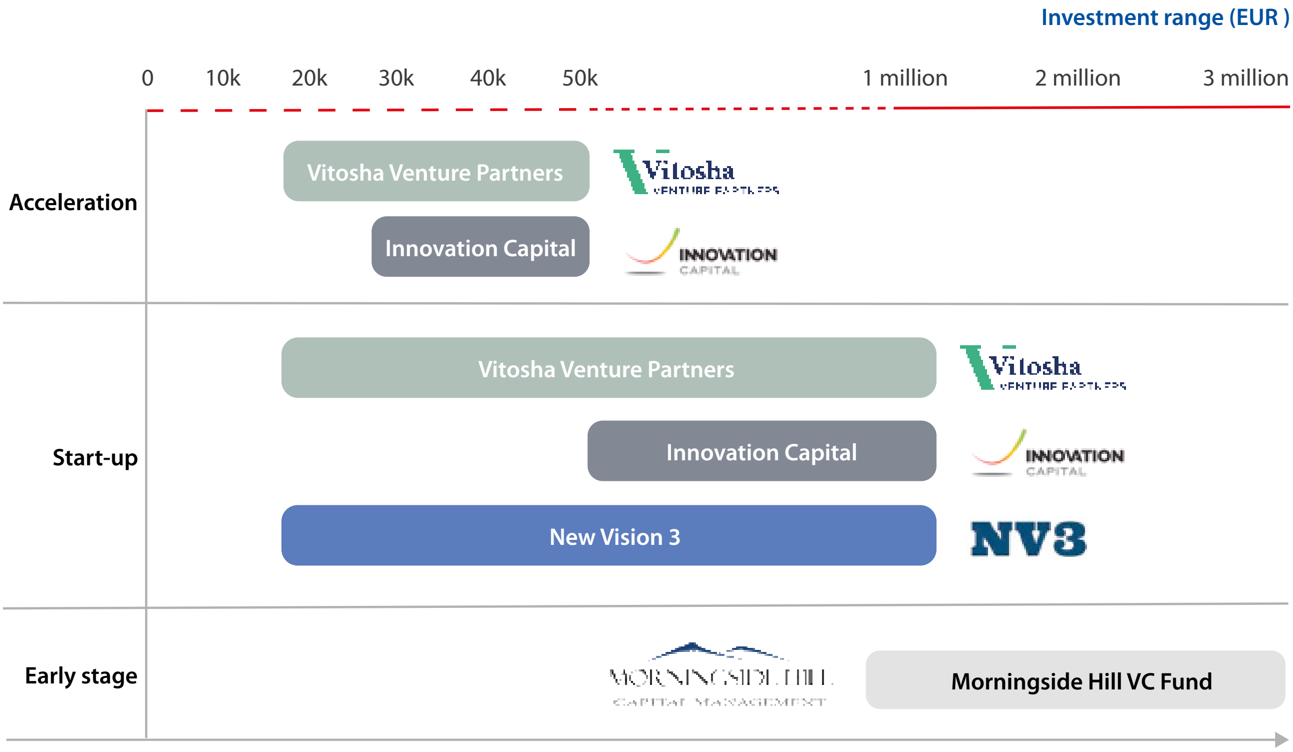
The opportunities created through FMFIB financial instruments have attracted a new generation of professional fund managers to establish investment funds, often leveraging expertise gained working overseas to take advantage of the emerging opportunities for investment in high growth companies in the region. This is turn is facilitating the development of support services such as accountants and lawyers with specialist expertise in both finance and innovative sectors.

5.2 Financing SMEs – SEED I, II, III and VC Fund

5.2.1 Tailored support for growing companies

The financial instruments set up by FMFIB to support SMEs and the SME Initiative guarantee instrument which mobilised EUR 600 million to support lending to businesses in Bulgaria are designed to complement each other. As a result the FMFIB financial instruments seek to provide equity and quasi-equity investment to support new business ideas, start-ups and early stage companies, with the VC Fund providing growing companies seeking to expand with access additional investment. Figure 8 shows how the financial instruments ensure that support is available to Bulgarian companies at all stages of their business life-cycle.

Figure 8: FMFIB support for growing companies



A feature of the FMFIB 'Innovation and Competitiveness' financial instruments, is the overlap of the Investment Strategies between the financial instruments with several different funds targeting investments in similar types of businesses. This results in greater flexibility of the investment approach implemented by the fund managers but also allows for a degree of competition between the different funds, ensuring financing is made available at the most advantageous terms for the target companies. It also allows a degree of market specialisation, with different fund managers targeting SMEs in different sectors. For example, the two sub-funds managed by Vitosha Venture Partners are specifically focused on SMEs in the technology sector whereas Innovation Capital and New Vision 3 manage funds targeted at all types of SME with growth potential.

5.2.2 Equity and Quasi-equity products to support new businesses

The financial intermediaries implementing the Acceleration and Start-up financial instruments offer both equity and quasi-equity products to entrepreneurs to finance the first stage in the development of a business. Table 5 sets out typical features of the different investments made to businesses at this stage of their life-cycle.

Table 5: FMFIB equity and quasi-equity financial instruments for SMEs – Acceleration and Start-up Phases

Target businesses	New businesses with a significant presence in Bulgaria at either the acceleration or Start-up phase of development. Typically businesses targeted include digital and other scalable goods and services with the potential for high growth.
Investments	Equity investment or convertible bond at 0%
Maximum investment amount	Up to EUR 50 000 (Acceleration) and EUR 1 million (Start-up)
Eligibility	Investment in assets and working capital (in the framework of an expansion plan)
Investment period	31/12/2023 – a typical investment is expected to be held for 5-7 years
Exit mechanism	Trade sale/IPO for equity, Convertible bonds converted to equity in accordance with formula in investment agreement at a subsequent funding round
State Aid	*De minimis* regulation for investments up to EUR 200,000. Market conform under section 2.1 of the Risk Finance Guidelines for larger investments

To date the experience has been that both investors and final recipients prefer equity investments to the more complex quasi-equity product. Quasi-equity support may be considered for investments in new enterprises which are particularly difficult to value. In the meantime, since their launch in 2019, the funds have successfully established themselves in the market, building strong links with local entrepreneurs and investors alike.

Typically investments are originated through the fund managers' networks, links with innovative institutions including Bulgaria's universities and public and privately funded programmes to promote entrepreneurship. For example, the fund manager, Vitosha Venture Partners, which was founded by entrepreneurs with experience of promoting and financing start-up enterprises regularly support events where entrepreneurs pitch ideas to a panel of experts. Through this sort of promotional activity fund managers both identify potential investments and help foster a wider culture of entrepreneurship in the region.

5.2.3 Equity investments supporting high growth companies

The Venture Capital Fund, managed by Morningside Hill Capital Management, invests in high-tech companies that need financing in order to reinforce and expand their operations. Investments may be made through equity products to facilitate access to capital for businesses to commercialise their developed products and improve their overall capacity to achieve higher growth.

Table 6: FMFIB equity financial instruments for SMEs

Target businesses	Companies with a viable product and generating (or about to generate) significant revenue which has at least 50% of its operation in Bulgaria
Typical investment size	EUR 1 million - 3.5 million
Max investment amount into an SME	Up to 10% of the size of the fund
Investment period	31/12/2023 + follow-up on investments for a specific time period – a typical investment is expected to be held for 5-7 years
Exit mechanism	The fund aims to divest as soon as possible and evaluates opportunities on a case by case basis. Typically exit is achieved through a trade sale or IPO.
State Aid	Market conform – investments are made on a pari passu basis with private sector co-investors secured at project level. Minimum private investor participation is 30%.

The Morningside Hill team is made up of investment professionals with experience in the US and EU venture capital sector. The fund was formed as a direct response to the opportunities created by FMFIB's investment programme and the financial instruments managed by the EIF under the SME Initiative. The presence and financial contribution from these institutions have provided Bulgarian funds, such as Morningside Hill with a platform to start to attract significant private sector investment from institutional investors, Business Angels and investors including the Bulgarian diaspora in the US and elsewhere. FMFIB's involvement is recognised as a factor in bringing credibility to the financial instrument both in terms of its use of robust processes in relation to the management of investments and the selection of fund managers with strong skills and experience appropriate to the sector.

The financial instrument's Investment Strategy requires a minimum private sector co-investment of 30%. As a result a key part of the fund manager's role has been to develop relations with private investors, which has in turn created a discipline in relation to the origination and appraisal of potential investment targets. The fund has a diverse range of channels for sourcing potential final recipients. Approximately 30% of investment opportunities come from a direct approach from a promoter through the fund's website or other channel. A similar proportion comes to the fund through referrals from other financial institutions seeking co-financiers, with the balance resulting from events, marketing and other proactive steps to generate awareness of the fund and its investment strategy.

5.2.4 Fund manager support for portfolio companies

An important feature of equity and quasi-equity financing is the business development support provided to the businesses that receive investment by the fund managers. The 'Acceleration and Start-up' financial instruments have an important role to play in supporting the entrepreneurs promoting new enterprises to develop their own business skills.

The financial intermediary Vitosha Venture Partners has, for example, developed a comprehensive mentoring programme where final recipients are matched with a mentor with suitably qualified experience. Typically this mentor will be a successful entrepreneur who provides his time free of charge as a way of contributing to the development of the innovation sector in Bulgaria. This support is complemented by the skills of the fund managers, who bring their own experience to the development of the businesses.

The larger Venture Capital fund managed by Morningside Hill has a more structured approach. The fund manager does not participate in the day to day running of the company. However, strategic advice and guidance is provided through attendance at board meetings and other regular meetings in relation to strategic issues such as further fund raising, financial management and on-boarding of key employees.

5.3 Urban Development Funds under FMFIB

5.3.1 A regional approach – building local partnerships

The UDFs established by FMFIB in the 2014-2020 programming period are each responsible for a defined geographical area, with responsibility for financing urban development projects located in the largest cities in each area and cultural heritage related projects located across the entire territory. The regional approach was adopted to ensure that urban development projects across the whole country would benefit from UDF financing. The JESSICA fund set up in the 2007-2013 programming period had principally focused investment in the Sofia capital city and the six largest cities in the country and as a result, it achieved a critical mass of projects in those cities that demonstrated the benefits of financial instruments. This experience, in turn, inspired the FMFIB strategy to roll out the benefits across the wider country through a regional based approach.

The municipalities are key partners in the implementation of the regional financial instruments. As well as being eligible final recipients for the financing, they are also responsible for the local sustainable urban development plans (LSUD) for the local area. It is a key requirement of the UDF's Investment Strategy that a project must be consistent with the LSUD.

Combined loan and grant investments for cultural heritage

For cultural and tourism infrastructure projects, the UDFs play a lead role in the origination and appraisal of projects that use a combination of loan and grant finance to fund the investment cost. This is the case even though the investment grant is provided through a separate operation.
Final recipients (typically municipalities) apply to the UDF which appraises the business plan for the investment proposal. As part of the appraisal, in addition to the usual assessment of risk of the investment, the UDF identifies the funding gap which cannot be met through the loan. Only once the UDF has in principle approved the project may the final recipient apply for the grant component needed to meet the funding gap.

The regional approach to implementation of UDFs has allowed the financial intermediaries to focus their resources to build strong relationships with municipalities, other project promoters and advisers in the cities within their investment areas. This has contributed to the development of a robust pipeline of projects, which often use UDF loan finance in conjunction with grant funding from the Regions in Growth Operational Programme.

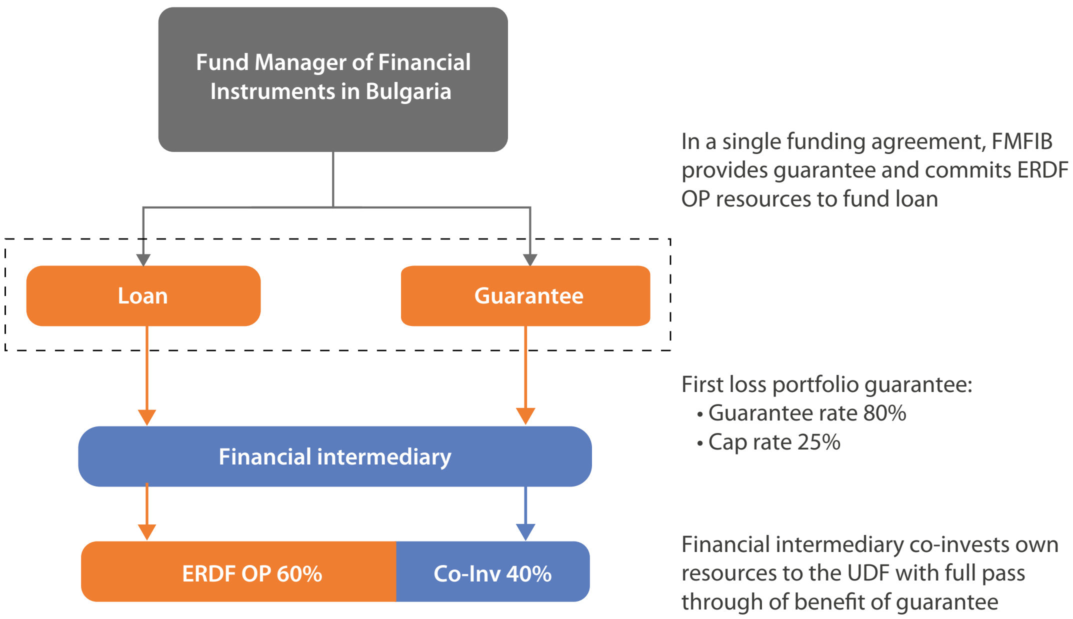
One of the most distinct features of the UDFs in the programming period 2014-2020 is the diversity in their areas of operation. Projects supported by the UDFs fall under a number of different sectors including urban development and regeneration, urban transportation and charging infrastructure, energy efficiency measures in students dormitories and single-family buildings and support for zones with potential for economic development.

In addition, the UDFs have developed specific programmes to support cultural and sport infrastructure, as well as cultural heritage of national and world importance. A combined package of support made up of grant and loan financing for culture and tourism projects. A specific integrated appraisal procedure led by the UDF has been developed to support investment of this package of support in the culture and tourism sector where UDF approval of a loan application is a condition to the award of grant for the project. The development of this procedure by the managing authority in conjunction with FMFIB and the financial intermediaries demonstrate the added value financial instruments can bring in terms of ensuring a robust appraisal is carried out into the potential viability of a project. A pilot has also been developed in the 2014-2020 period to support sites of religious institutions, reflecting the important role they can play in the urban environment.

5.3.2 The embedded guarantee – unlocking co-investment

An innovative feature of the UDFs set up by FMFIB is the use of a portfolio guarantee to support private sector co-investment into projects. The guarantee is offered by FMFIB as a package with the risk sharing funding so that the financial intermediaries selected to manage the financial instruments are able to access the guarantee to support their co-investment into the UDF. The FMFIB guarantee uses ERDF resources to cover up to 80% of each individual private co-financing loan exposure up to a cap of 25% of the financial intermediary's contribution across its portfolio of loans. Figure [ ] shows how the FMFIB embedded guarantee supports the co-investment in urban projects.

Figure 9: the FMFIB embedded guarantee



The need to develop the embedded guarantee in order to maximise the leverage potential of the urban development financial instruments was identified in the ex-ante assessment. Market testing during the development of the ex-ante assessment, together with further engagement during the work to prepare the Investment Strategy highlighted a number of barriers to securing private investment into urban development. These included:

- Banks' limited interest in lending to municipalities and other public bodies due to various reasons including political risk, perceived indebtedness levels, credit risk and concerns by parent banks with lending to sub-sovereign bodies;
- Restrictions faced by municipalities and other public bodies that cannot provide collateral generally required by banks;
- Commercial banks' capital requirements that impact the pricing for higher risk PPP, municipal companies or private entities, and
- The need for long-term lending for urban development projects that does not correspond with the return period of commercial lenders.

The embedded guarantee has proved to be an effective solution to address the market failure affecting commercial financing. As a result it has allowed commercial banks such as UBB and DSK Bank to enter new markets, lending to final recipients such as municipalities, universities and other public institutions with tailored collateral requirements reflecting particular regulatory constraints affecting the different types of body.

Through the additional support, co-investment of 40% of the total UDF has been mobilised within a governance structure that is streamlined and workable for both the managing authority and financial intermediary, as well as FMFIB. Eligible expenditure is reported separately in respect of the funded loan contribution and finance mobilised by the guarantee. In calculating the leverage of the two products, the financial intermediary's co-investment is apportioned by reference to the guarantee and cap rates, with the balance of co-investment being attributed to the funded risk sharing loan.

5.3.3 Low cost, long term loans

The financing offered by the UDFs offers long term loans at low interest rates with significantly reduced collateral requirements. The FMFIB financing supports the favourable terms in two ways. The ERDF Operational Programme resources are contributed to the risk sharing loan at close to 0% and this is passed through to the final recipient in the loan from the UDF. Further, the benefit of the guarantee of the private co-investment is passed on to the final recipient reducing the interest rate and collateral requirements relating to the financial intermediary's co-investment. As a result, the interest rate payable in respect of the loan is significantly reduced. Table 7 shows the typical terms of a loan made by an FMFIB urban development fund.

Table 7: Example of indicative FMFIB UDF loan product

Target final recipient	Municipalities, municipal companies, public institutions, private businesses and individuals
Interest rate	The ERDF programme contribution is made at close to 0%. Once combined with co-financing supported by the embedded guarantee a typical investment will carry an interest rate in the range of 1 – 1.5%.
Collateral requirements	Where appropriate, reduced collateral requirements are applied, for example limited to a pledge over future revenue generated by the project
Total loan amount	Up to EUR 20 million for urban environment and up to EUR 10 million for regional tourism – typical investment size around EUR 4 million
Eligibility	Investment and working capital loans and leasing finance to support projects in accordance with the relevant local sustainable urban development plan. Consumer loans for energy efficiency measures in housing are also eligible.
Maturity period of the loans	Up to 20 years (including grace period of up to 3 years)
Risk sharing mechanism	Co-investment mainly by consortium partner banks supported by embedded first loss portfolio guarantee
State Aid	Art 16 GBER (Regional Development) and Art 53 GBER (culture and tourism). There is also the scope to make investments under the ***de minimis*** regulation.

The types of project supported by the UDFs include the renewal of public infrastructure and buildings to improve the quality of the facilities and improve their energy efficiency. This includes renewal of cultural and tourism facilities such as arts centres and concert halls, libraries, public parks and sport facilities and market halls. Lending extends to commercial businesses such as the financing of a network of charging stations for electric vehicles, the development of new industrial facilities, renewal of Brownfield sites and development of commercial offices.

5.3.4 The Bulgarian Urban Investment and Advisory Platform – leveraging expertise to mobilise additional investment

The experience gained in connection with the FMFIB UDFs has led to the development of the Bulgarian Urban Investment and Advisory platform, which has been designed to complement and enhance the support for sustainable urban development provided by the FMFIB UDFs.

In July 2020, the EIB and Fund FLAG, a member of the Sustainable Cities Fund consortium, have signed a EUR 25 million finance contract to promote urban regeneration and rehabilitation in cities across Bulgaria. Fund FLAG provided a further EUR 25 million of its own resources mobilising a total of EUR 50 million to support municipalities, municipal enterprises and other institutions responsible for providing public services. The lending operation is a part of a wider collaboration to increase the firepower of cohesion funding for urban development.

On 17th January 2020, the EIB, FMFIB, the Bulgarian Consultancy Organization and Fund FLAG established the Bulgarian Urban Investment and Advisory Platform. The implementation of the platform complements the activities of the UDFs through additional funding and technical support, as well as addressing a financing gap for important investment projects arising from municipal investment programmes that are not eligible under the ERDF Operational Programmes.

Since the beginning of September 2020, FLAG has officially launched the product, in order to contribute to speeding up the COVID economic recovery and the sustainable development of Bulgarian municipalities and regions. By June 2021 the available resource of EUR 50m has been fully contracted for projects that focus on upgrading small-scale basic municipal infrastructure (road network, drinking water and sewers), improving sustainable urban transport and renovating and reconstructing public buildings (schools, health centres and administrative buildings).

Supporting urban development in Burgas

Modernisation of Cultural Centre and Library

Sector(s): Urban development, digitalisation and culture and tourism

Intermediary: Sustainable Cities Fund

Investment: EUR 5.68 million

Final recipient: Burgas Municipality

Two separate loan facilities to support the modernisation of two significant public buildings as part of the regeneration of the City of Burgas. The first project is a cultural centre which involved the combination of lending from the financial instrument with grant to finance the transformation of the building which was originally built in the 1970s to one of the most modern buildings in the city. Providing over 7000 sq m. of space for cultural activities including theatre performances, concerts, meeting and conferences.

The second project used a long term loan from the financial instrument to finance the modernisation of the city's library. The project involved the consolidation of four sites into a single modern facility, enabled by the digitalisation of some publications and the introduction of a new electronic indexing system. The project includes facilities for children and young people to participate in creative development activities.

*The **Cultural Centre Burgas** financed by a EUR 2.63 million loan from the Sustainable Cities Fund financial instrument*

*The **Burgas City** Library financed by a EUR 3.05 million loan from the Sustainable Cities Fund financial instrument*

5.4 Response to COVID-19

The FMFIB financial instruments have contributed to supporting the country's economy in response to the COVID-19 health crisis. In order to ensure SMEs continued to have access to liquidity to support working capital and investment, FMFIB moved to take advantage of the flexibilities under the European Commission's Coronavirus Response Investment Initiative (CRII) and CRII+ legislative package to adapt existing and implement new financial instruments in 2020.

In view of the urgent need to redeploy resources the decision was taken not to implement the proposed Technology Transfer financial instrument and instead commit the resources to meet the immediate liquidity needs of existing portfolio companies and other businesses in the country. The Seed/Acceleration and Start-up financial instruments were each allocated additional resources. At the same time the Investment Strategies of the financial instruments were extended to include the provision of financing to support working capital. Under the CRII/CRII+ package, the extension of the existing financial instruments to respond to the health crisis did not require a review of the ex-ante assessment, which helped accelerate the implementation of these changes.

The repurposing of the Seed/Acceleration and Start-up financial instruments enabled a rapid response to the crisis, providing timely support to businesses affected by the national restrictions. A further measure has also been implemented designed to provide additional support both during the crisis and subsequent recovery. The First Loss Portfolio Guarantee COVID-19 was implemented to provide further liquidity to SMEs affected by the crisis.

In relation to the urban development sector, the Investment Strategy of each of the UDFs was reviewed by the managing authorities in conjunction with FMFIB and the UDF financial intermediaries. This has resulted in the introduction of a number of changes in support of municipal authorities and private investors, making the financial instruments even more accessible and attractive to final recipients.

5.5 Communication

The communication activities of FMFIB have reflected their role as Holding Fund manager. A comprehensive website[15] has been developed providing transparency in terms of the governance of the organisation and the financial instruments it is implementing. The website also provides the platform for launch of Calls for Expression of Interest procedures, which are also advertised in relevant publications, hosting relevant background information and links to call documentation. In addition, the various financial instruments implemented under FMFIB have undertaken their own communication activities.

15 https://www.fmfib.bg/en

6. Achievements

The establishment of FMFIB in the 2014-2020 as a centre of excellence for financial instruments in Bulgaria has both boosted the capacity within the public authorities to manage financial instruments and helped the development of an investment ecosystem in the country.

Initially created to implement financial instruments under the ERDF, CF and ESF Operational programmes, the scope of FMFIB's activities have subsequently been extended to include the Agriculture and Maritime sectors. The development of the FoF has successfully achieved economies of scale and allowed the experience of implementing financial instruments to be shared across different sectors. Critical areas of activity that have benefited from this approach include Selection, monitoring and reporting and audit and control where standardised procedures have been developed for application across the portfolio of financial instruments.

The fund manager was entrusted to deliver an ambitious programme to introduce financial instruments across several different sectors, selecting and working with a range of different partners with relevant expertise. The financial instruments under the 'Innovation and Competitiveness' and 'Regions in Growth' Operational Programmes have established themselves in the market and their programmes of investment are starting to accelerate in terms of resources committed. Other sectors have to date seen a slower rate of implementation, reflecting the wider conditions relating to investment in the country, including the capacity of counterparts, planning and other regulatory requirements and the availability of technical support.

The availability of finance through FMFIB financial instruments is having a catalytic effect across all sectors. Practitioners in the emerging Venture Capital/Private Equity markets have cited FMFIB's role in relation to the development of equity financial instruments as being critical to the development of an ecosystem of promoters, investors and professionals to create and develop high growth companies in the country. Further, the equity financial instruments developed by FMFIB and the successful guarantee products supporting lending to SMEs managed by EIF under the SME Initiative complement each other.

Similarly, the development of urban development financial instruments in Bulgaria over the past 10 years have had a significant impact in terms of the urban environment in the largest cities of Bulgaria. The UDFs set up under both the JESSICA initiative and the Regions in Growth OP have incentivised the development of capacity within municipalities to promote and deliver urban development projects by making finance available for the first time.

The impact of these financial instruments is expected to be significant, although the particular investment conditions in the country create specific challenges for FMFIB and its financial intermediaries. The financial instruments under the Environment Operational Programme have, for example, experienced challenges implementing the financial instrument to support projects to improve local water infrastructure. Although initial commitments of finance have been made, the complexity of these projects and the regulatory requirements for work in the sector have, however, slowed down the rate at which the projects are proceeding. To respond to this challenge the financial instruments are applying flexibility to enable continued support for projects with a view to incentivising the ultimate delivery of the important infrastructure improvements. Similarly, initially there was a low level of interest in the market for the financial instruments under the 'Human Resources' programme. However, through awareness raising and market engagement, FMFIB has been able to successfully set up microfinance instruments with several specialist financial intermediaries. This experience demonstrates how FMFIB 'breaks new ground' creating new markets and financial products for the first time in the country through the use of EU shared management resources.

The financial performance of the financial instruments as at 31 March 2021 is shown in Table 8. The progress is considered encouraging in view of the fact that the majority of financial instruments have been launched in the period commencing 2019 and, progress has thus been impacted by the COVID 19 pandemic.

The financial instruments set up using EAFRD and EMFF were not operational as at 31 March 2021.

The financial performance indicates how the FMFIB financial instruments are becoming established in the market. Taken together around 500 contracts have been signed with final recipients committing almost EUR 100 million across four Operational Programmes. The rate of implementation is also expected to accelerate considerably in 2021 with the objective of securing full commitment of resources before the end of the investment period in 2023. It is acknowledged that the programme of investment under the Environment OP is more challenging due to factors outside the control of the FoF and financial intermediaries. FMFIB continue to monitor the situation closely, maintaining dialogue between both the financial intermediary and the public authorities in the water sector.

The recent signature of the funding agreements under the EAFRD and EMFF programmes also allows the FMFIB to establish financial instruments in these two sectors. Although relatively modest in size, by commencing implementation using 2014-2020 resources, the managing authorities and FoF will create a platform from which future financial instruments can be planned, building on the experience of the initial implementation and benefiting from emerging capacity amongst practitioners in the sector.

able 8: Financial performance of FMFIB financial instruments as at 31 March 2021

Financial instrument	Financial intermediary(ies)	Total size OP funding EUR million	No. of contracts signed	Amount committed (program resources) EUR million	Amount committed (private co-investments) EUR million
Innovation and Growth					
Acceleration and Start-up	Vitosha Venture Capital Innovation Capital New Vision 3	70.9	61	12	4.4
Venture Capital	Morningside Hill	33.3	5	5	1.5
Mezzanine Growth Fund	Silver Line Capital (launched in 2021)	38.5			
Covid-19 guarantee	8 x Banks	64.4	67	3,5	17,4
Regions in Growth					
UDF North	The Regional Urban Development Fund	60	22	14	12
UDF South	Fund for Sustainable Cities	62	29	22	15
UDF Sofia	Fund for Sustainable Cities	40	7	7	5
Environment					
Loan instrument (including guarantee window)	EBRD	115	4	9,3	11
Human Resources					
Microcredit loans	SIS Credit, Mikrofond and First Investment Bank	12.2	298	3	1
Microcredit guarantee	UniCredit Bulbank	2.5	1	0,01	0.03

7. Lessons learned

7.1 Main success factors

Building the capacity to manage financial instruments

The Ministry of Finance has taken a long term view by setting up FMFIB, recognising the benefits of building a centre of financial instrument expertise in the country. Following the success of the early JEREMIE and JESSICA programmes, the Ministry, supported by the managing authorities used advisory support from IFIs including the World Bank, EBRD and EIB to set up FMFIB with robust back-office systems and a clear mandate to implement financial instruments on its behalf. This has allowed the recruitment and retention of a professional team with both finance and public sector experience that has built systems and processes to design and set up financial instruments within the relevant regulatory frameworks. The introduction of the competitive salaries policy has been an important factor in attracting talented professionals to work in FMFIB.

Although the development of FMFIB has taken a substantial amount of time, it is expected that over the long term this up-front investment in capacity will pay dividends. The recent EAFRD and EMFF commitments provide an opportunity for FMFIB to demonstrate how the FoF structure can deliver significant economies of scale and an efficient implementation option ensuring finance is mobilised as quickly as possible.

Innovative approach to leveraging private co-investment

The importance of private co-investment is reflected in the design of both the Innovation and Competitiveness and Regions in Growth financial instruments. Under the operational agreement with the financial intermediary of the Venture Capital Growth Fund, FMFIB has included a requirement that at least 30% of financing for each final recipient shall be sourced from private investors. This has in turn incentivised the financial intermediary to build strong links with investors helping grow the pool of potential financiers alongside its work to identify and support potential high growth targets for investment. In contrast the Regions in Growth financial instruments have adopted an innovative 'embedded guarantee' product that supports private co-investment from private banks. This product is proving successful at securing the development of lending products with reduced collateral requirements which are therefore accessible to municipalities and municipal companies as well as other public entities for which the lack of collateral had in the past been a significant barrier to securing financing.

Proactive approach to tackling barriers to implementation

FMFIB has demonstrated how it is able to adapt and develop its processes to successfully implement financial instruments. For example, when setting up the initial Acceleration and Start-up equity funds, FMFIB developed a flexible selection procedure using the competitive procedure with negotiation. Through market engagement, due diligence and negotiation, skilled and experienced fund managers were appointed, which has in turn led to the successful launch of the funds. This approach, was however, developed and adapted for a further selection process where a more straightforward open procedure was used, benefiting from lessons learned from the initial procedures but delivering the selection procedure in a more timely (and less costly) way. The implementation of the microcredit financial instruments was also initially challenging due to a lack of interest from potential financial intermediaries. FMFIB responded by addressing concerns in the market regarding processes to comply with EU shared management funds rules. By establishing clear monitoring and reporting frameworks, FMFIB have eased the burden on financial intermediaries, helping make the role of financial intermediary more attractive to private sector fund managers.

7.2 Main challenges

The scale of the FMFIB fund of funds is intended to provide the capacity to implement and manage successive programmes of financial instruments. The FMFIB structure has been established with significant resources and robust internal processes to enable it to manage its portfolio of instruments on behalf of the Ministry of Finance and managing authorities. The time required to set up such a comprehensive organisation has, inevitably, been significant, both in relation to the initial work with advisers to design the structure and its processes and the organisational work to set up the FoF itself. This has impacted on the time available to financial intermediaries to invest the resources committed to the financial instruments and as a result the impact of investments on the ground has happened in the latter part of the investment period.

In view of the long term nature of the FMFIB structure, it is expected that in the future, significant economies of scale will mean that the time to design and set up financial instruments will be foreshortened. Further, the new approach to programming should help managing authorities to identify at an early stage its proposed financial instruments. The experience with the FMFIB programme in the 2014-2020 programming period demonstrates the importance of the early commitment of EU shared management funds to financial instruments in the 2021-2027 period to enable timely implementation to maintain momentum gained by existing operations.

One of the operational challenges that has been experienced in connection with the implementation of FMFIB has been the turnover of senior management of the organisation. Although the professional team of experts have remained relatively stable, supported by the competitive salaries policy, senior management at the top of the FMFIB has changed several times in the initial implementation period. Although the individual managers have brought fresh ideas and skills, the relatively high turnover of senior management has resulted in a lack of continuity which has, in turn, had an impact on the delivery of the FMFIB programme. Maintaining a stable leadership team will provide a strong platform for implementation in the forthcoming programming period.

The capacity of public authorities to bring forward and deliver infrastructure projects has also been a constraint on the implementation of the FMFIB programme. Financial instruments under the Regions in Growth and Environment Operational Programmes both seek to finance projects being delivered by municipalities, public sector companies and other public bodies. Several challenges have been identified in relation to this type of work including a lack of technical capacity, delays to regulatory procedures and an unfamiliarity with financial instruments. Financial intermediaries have reported spending significant amount of their management time providing informal support to potential public sector final recipients. Whilst this approach does help bring forward 'bankable' projects a more structured programme of technical support would further assist the investment programme.

7.3 Outlook

The current focus of the FMFIB team and its financial intermediaries in mid-2021 is the continued implementation of the financial instruments established in the 2014-2020 programming period. At the same time the managing authority is preparing its programme for the new period. The FoF has successfully established a strong ecosystem of financial instruments practitioners based in Bulgaria with experience of using sustainable finance in different sectors. The current investment experience is expected to further develop capacity amongst final recipients and professionals and this should provide a strong starting point for future financial instrument programmes using EU shared management funds to continue the progress achieved to date by FMFIB.

In order to ensure FMFIB remains well adapted to the challenges a number of organisational changes are in the process of being implemented. The overall objective of the change process is to ensure the FoF enhances its market based approach. The Supervisory Board, which is made up of representatives of the various managing authorities and ministries will be superceded by an Advisory Board which will include wider representation embracing private and international financial institutions. Similarly the senior management team will be augmented through the recruitment of two new senior professionals from the finance industry.

Looking ahead, it is expected that FMFIB will provide a flexible framework to ensure resources from the programmes of different EU Funds can be deployed in a coordinated way.

Notes

www.fi-compass.eu
contact@fi-compass.eu

European Commission
Directorate-General
Regional and Urban Policy
Unit B.3 "Financial Instruments and IFIs' Relations"
B-1049 Brussels

European Investment Bank
Advisory Services
fi-compass
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg