

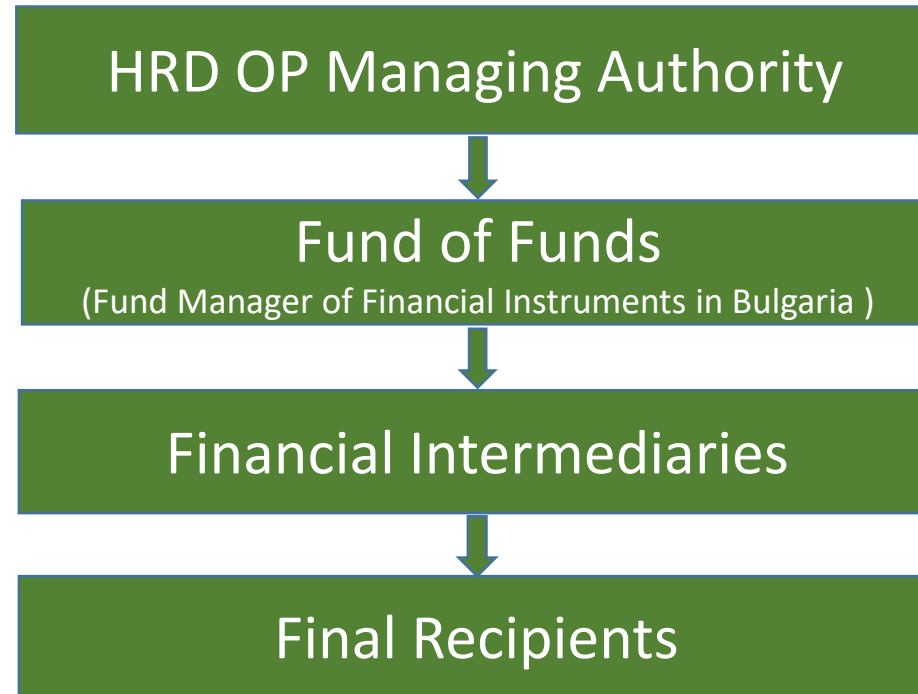


**Financial Instruments in Support
of Social Entrepreneurship
Human Resources Development
OP 2014-2020, Bulgaria**

Lilia Stoyanovich, Managing authority,
Ministry of Labour and Social Policy,
Bulgaria



Management mode



Ex-ante assessment: social economy state-of-play



Problems to be tackled to spur development of SE:

No national legal definition of social enterprise

Lack of visibility – awareness and recognition of social economy value are still low. The concept of social economy is relatively new to the country

Limited specialized training and education and limited activity of the respective networks – disadvantage compared to conventional business

Demand of financing by social enterprises but no supply to meet it

No specialized body to provide financing to social enterprises – scarce funding available – mainly through EU programs, donations, municipalities, State Agency for the Disabled People

Ex-ante assessment: challenges to funding for social enterprises



Lack of proper legal framework hampers legitimacy recognition of the sector

Social enterprises are predominantly NGOs (associations, foundations), cooperations and providers of social services – difficulties in obtaining conventional financing

Up to date – grant-based financing only – lack of trust in operating with FIs

Financial institutions are not incentivized to serve the social economy sphere

Grants cannot finance all needs of the sector – investments in revenue-generating activities and expansion mostly missing

Need to improve managerial capacities and skills

Investment Strategy for FIs designed



- Social enterprises as final recipients of FI funding:
 - Follow the definition of EaSI program; irrespective of legal form
 - Newly established and expanding SE are eligible; Benefit from a risk-sharing microfinance facility – up to EUR 25 000
 - Financing available for investments in:
 - ✓ Tangible and intangible assets
 - ✓ Working capital for expansion and enterprise development
 - ✓ Skills development both for managers and staff
- Financial intermediaries implementing HRD OP FIs – MFIs, commercial banks, leasing companies.



FIs and grants under HRD OP - coordinated implementation



Support for SE creation (grants):

Social economy awareness rising, training in entrepreneurial and management skills, staff training – competences and professional skills, integration of vulnerable people in employment, adaptation of work places, etc.

Consultancy on available financing

Information on possible financial resources available for the business; support with documentation



Access to HRD OP FIs

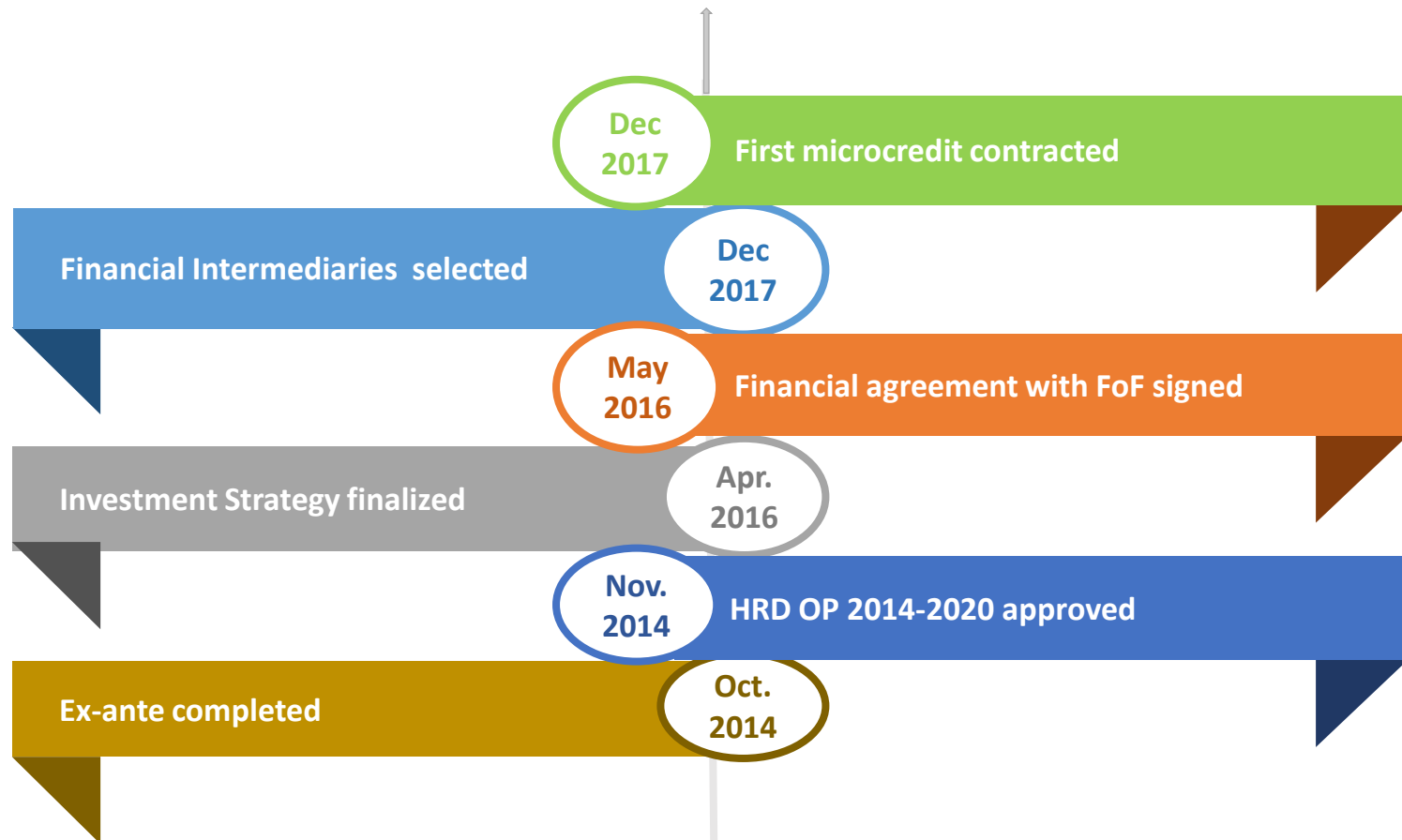
Financial instruments under HRD OP made available to registered social enterprises – start-ups and expanding

After-support

Mentoring of new businesses, enhancement of managerial skills, networking support, etc. (under development)



Design of FI under HRD OP – timeline





financial instruments
 revolving capacity building
 added value **ERDF** funding agreement
 governance **ESF** EU guidance
 technical support seminars **leverage** ex-ante assessment
 co-financing **ESIF** financial intermediaries **microfinance**
 investments **fi-compass** case studies final recipients
 business plan **Thank you** thematic objectives
 advisory services **guarantees** banks **loans** **EaSI** equity
 private investors life cycle combination of support
EAFRD conferences factsheets
 fund of funds **EMFF** investment strategy **CF**
 managing authorities manuals

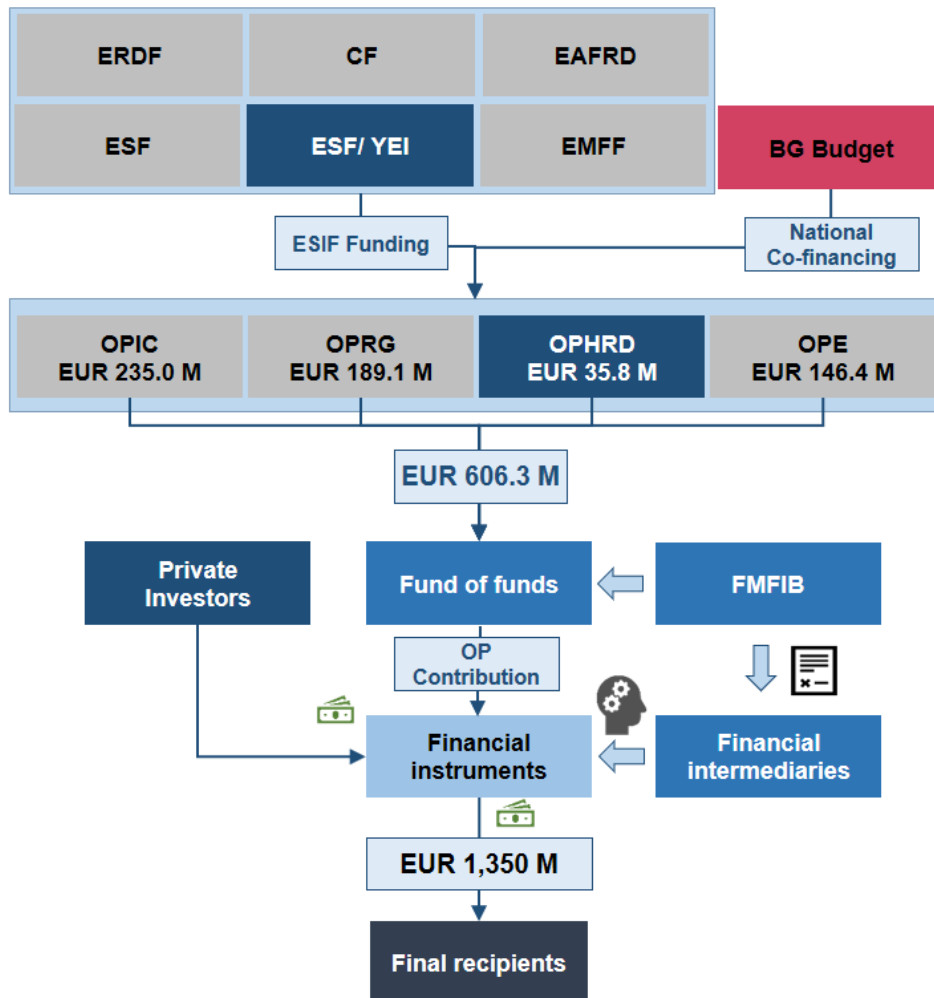


Risk Sharing Microfinance Facility OPHRD 2014 - 2020

Dimitar Cherkezov, Head of Unit, EU Operational Programmes, Fund Manager of Financial Instruments in Bulgaria (FMFIB)



Fund of Funds in Bulgaria



FMFIB:

- Established in October 2015;
- Its corporate mission is to efficiently manage FoF in BG under ESIF OPs;
- Accredited in May 2016;
- Manages EUR 606M allocated by four OPs;
- It is expected FoF to mobilize about EUR 1.35B to support final recipients.



#ficompass

Funding Agreement between OPHRD MA and FMFIB

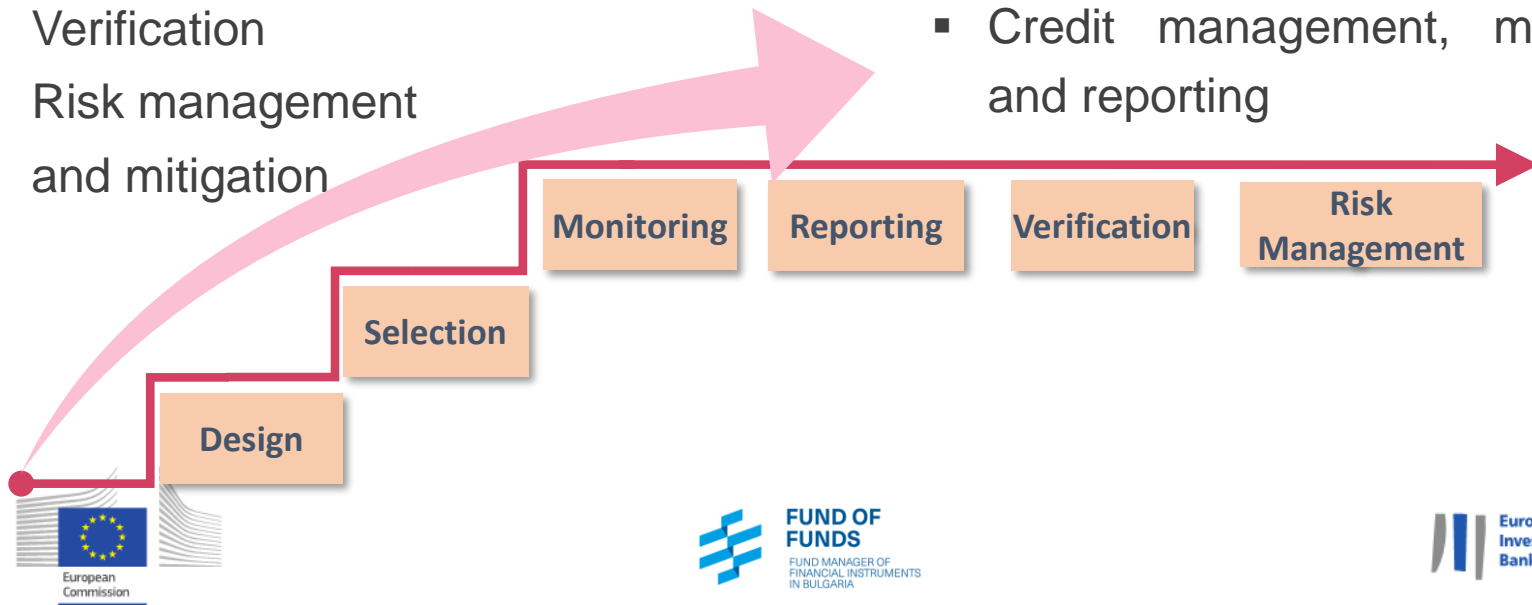


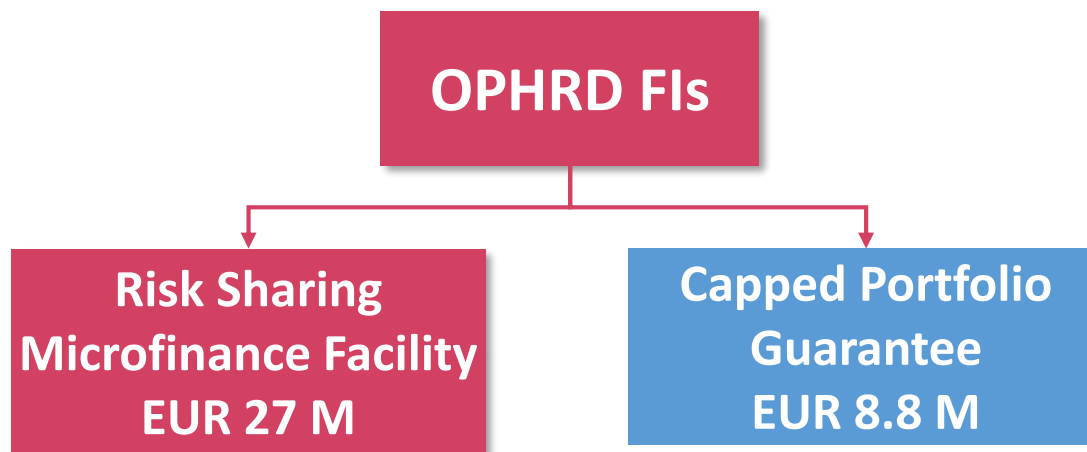
- OPHRD MA mandated FMFIB to manage the OP's Financial Instruments, including:

- Design
- Selection of financial intermediaries
- Monitoring the FIs' implementation
- Reporting
- Verification
- Risk management and mitigation

- The Financial intermediaries shall work on:

- Identification of eligible final recipients
- Assessment of creditworthiness
- Credit documentation
- Credit management, monitoring and reporting





Final recipients

Category A – Start-ups up to 2 years, registered from unemployed people; youths under 30; people with disabilities and Social enterprise start-ups

Category B – Social enterprises (existing) and other start-ups up to 2 years

- Co-financing from financial intermediaries at least **20 %** or **30 %** in each microloan
- State aid – FI is set up in accordance with *de minimis* aid rules

Social enterprises



Art.2 of the REGULATION (EU) No 1296/2013 on the Programme for Employment and Social Innovation – social enterprise is undertaking, which:

A) in accordance with its Articles of Association, Statutes or with any other legal document by which it is established, **has as its primary objective the achievement of measurable, positive social impacts rather than generating profit for its owners**, members and shareholders, and which:

(i) provides services or goods which generate a social return and/or

(ii) employs a method of production of goods or services that embodies its social objective;

B) **uses its profits first and foremost to achieve its primary objective** and has predefined procedures and rules covering any distribution of profits to shareholders and owners that ensure that such distribution does not undermine the primary objective; and

C) is **managed in an entrepreneurial**, accountable and transparent way, in particular by involving workers, customers and stakeholders affected by its business activities;

Social enterprise respecting the above definition could be the whole undertaking or a separate part of an undertaking, e.g. enterprise that has:

- Separate structure for social activities acting as social enterprise;
- Separate accounting



Microloan Terms & Conditions

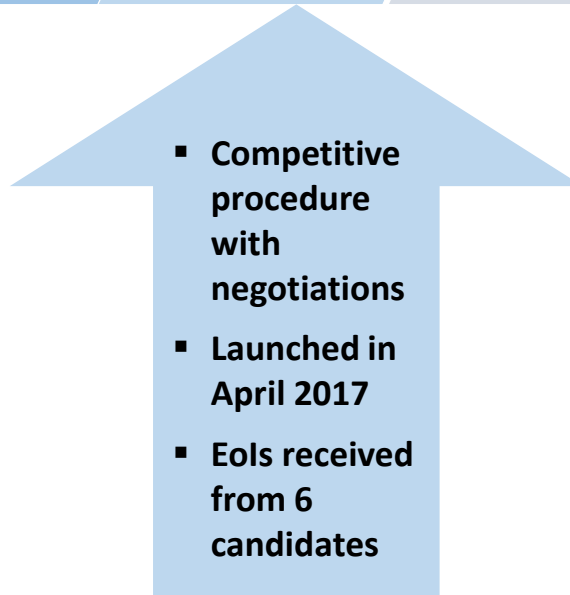
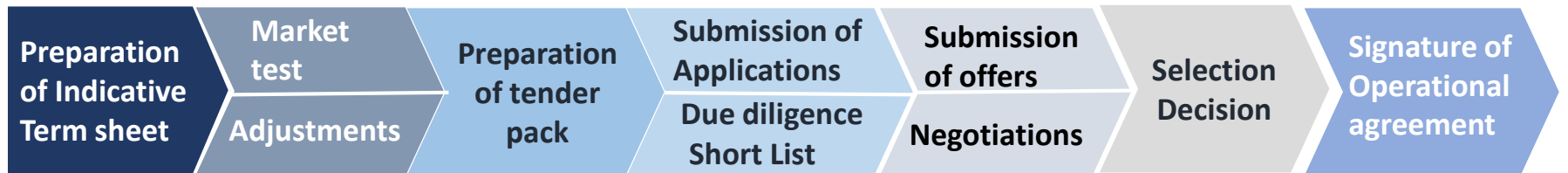


Amount and Currency	<ul style="list-style-type: none">▪ From 5,000 BGN to 48,895 BGN (EUR 25 000)▪ In BGN or EUR
Type	<ul style="list-style-type: none">▪ Investment and working capital financing▪ Financial leasing
Term	<ul style="list-style-type: none">▪ Up to 10 years▪ Up to 2 years grace period on principal
Price	<ul style="list-style-type: none">▪ OP amount at 0%▪ Co-financing at market interest rate▪ Weighted average rate
Collateral	<ul style="list-style-type: none">▪ As per policy of the intermediary▪ Collateral and conditions to reflect risk-sharing with FMFIB





The Process map



Selection of Financial Intermediaries



- Pricing re. the Microloans
- Proposed management fees
- Co-financing
- Expected losses
- Youth Employment Initiative volumes
- Collateralization percentage

FMFIB selects intermediaries under PPA rules.
Hence, applicants should be compliant with the PPA requirements



- Licensed bank or financial institution
- Compliant re. anti-money laundering, anti-terrorism & tax evasion
- Experience in microfinance and FIs
- Able to assess creditworthiness and project feasibility
- Capable to originate and manage the required portfolio of microloans

- Appropriate systems re. governance, risk management, monitoring, reporting, accounting
- Sufficient financial and organisational capacity
- Complainant (or willing to comply) with the European code of good conduct for microcredit provision.



#ficompass

Implementation



- ❑ **Operational Agreements were signed on 8th December 2017 with 2 FIs selected**
- ❑ **Management fee – 1,75 % and 2 % on the disbursed portfolio**
- ❑ **Attractive average interest rates ranging from 2.9 % to 7.2 %**
- ❑ **Some microcredits have been already provided to Final Recipients to finance:**
 - Start up - cleaning company owned by YEI person in the city of Pleven, EUR 9 000, 4 new jobs;
 - Start up - small family hotel@restaurant in the city of Smolyan, EUR 4 000, 5 new jobs;
 - Start up for introduction of mobile application in Sofia, EUR 15 000, 3 jobs will be created
 - Start up - hairdressing salon owned by disable person in the village of Sapareva Bania, EUR 2700, 2 new jobs
 - Start up - retail store in the city of Stara Zagora, EUR 10 000, 2 new jobs
 - Start up - retail store in the city of Veliko Tarnovo, EUR 2 700, 1 new job
- ❑ **There are several loan applications that are being analysed for:**
 - Start up - car wash - EUR 15 000
 - Start up - hairdressing salon - EUR 25 000;
 - Start up - butchery shop - EUR 25 000;
 - Start up - clothes shop - EUR 3000;
 - Start up - fresh bar - EUR 3000;
 - Start up - Online education platform - EUR 15 000;
 - Start up - Truck service and parking - EUR 25 000;
 - Start up - shop for bridal clothes - EUR 10 000.
 - Start up - courier company - EUR 10 000.
 - Start up - printing works - EUR 7 500;



Lessons learned & Next steps



Lessons learned

- Soft Market test is important to:
 - ✓ Raise awareness
 - ✓ Re-affirmation of the market failures
 - ✓ Testing of indicative terms and conditions of the product
- Proper communication of the PPA process of selection
- Administrative burden frustrates commercial banks
- Commercial banks vs Microfinancing institutions

Next steps

- Subsequent market test conducted with prospective institutions that did not submit offers despite initial interest
- Changes discussed affecting the Investment Strategy:
 - ✓ Size of the loan
 - ✓ Minimum Co-financing level
 - ✓ Extension of the term for start ups up to 3 years
 - ✓ Collateralization
 - ✓ Reduction of administrative burden
- Preparation of new Calls for:
 - ✓ Risk Sharing Microfinancing FI
 - ✓ Capped Portfolio Guarantee Scheme





THANK YOU FOR YOUR ATTENTION !

Contact details:

Fund Manager of Financial Instruments in Bulgaria

30-32 Totleben Blvd, 1606 Sofia, Bulgaria

Tel: +359 (2) 8014050

e-mail: office@fmfib.bg

www.fmfib.bg





financial instruments
 revolving capacity building
 added value **ERDF** funding agreement
 governance **ESF** EU guidance
 technical support seminars leverage financial intermediaries ex-ante assessment
 co-financing **ESIF** microfinance case studies
 investments **fi-compass** final recipients
 business plan **Thank you** thematic objectives
 advisory services guarantees banks loans **EaSI** equity
 private investors life cycle combination of support
 conferences **EAFRD** factsheets
fund of funds **EMFF** investment strategy **CF**
 managing authorities manuals