

- ERDF
- EUR 21.2 million
- Equity, quasi-equity + non-financial support
- SME support
- Bulgaria

...creating the ecosystem for start-ups and promoting the use of financial instruments as alternative to grants...

JEREMIE Acceleration and Seed instrument in Bulgaria

Case Study



DISCLAIMER

This document has been produced with the financial assistance of the European Union. The views expressed herein can in no way be taken to reflect the official opinion of the European Union or the European Investment Bank. Sole responsibility for the views, interpretations or conclusions contained in this document lies with the authors. No representation or warranty express or implied is given and no liability or responsibility is or will be accepted by the European Investment Bank or the European Commission or the managing authorities of Structural Funds Operational Programmes in relation to the accuracy or completeness of the information contained in this document and any such liability or responsibility is expressly excluded. This document is provided for information only. Financial data given in this document has not been audited, the business plans examined for the selected case studies have not been checked and the financial model used for simulations has not been audited. The case studies and financial simulations are purely for theoretical and explanatory illustration purposes.

The case projects can in no way be taken to reflect projects that will actually be financed using financial instruments. Neither the European Investment Bank nor the European Commission gives any undertaking to provide any additional information on this document or correct any inaccuracies contained therein.

The authors of this study are a consortium of five companies: Sweco (lead), t33, University of Strathclyde – EPRC, infeurope and Spatial Foresight.

Abbreviations

Abbreviation	Full name
BGN	Bulgarian Lev, the national currency
EIB	European Investment Bank
EIF	European Investment Fund
ERDF	European Regional Development Fund
ESIF	European Structural and Investment Funds
JEREMIE	Joint European Resources for Micro to Medium Enterprises
OP	Operational Programme
R&D	Research and Development
SME	Small and medium-sized enterprise



Table of contents

Abbreviations	2
1 Summary	4
2 Objectives	6
3 Design and set-up	8
3.1 Preceding events	8
3.2 Funding and partners	9
3.3 Investment strategy	10
3.4 Governance	11
4 Implementation	14
4.1 State aid	14
4.2 Financial products and terms	14
4.3 Final recipients targeted	16
4.4 Changes in strategy	17
5 Achievements	18
6 Lessons learned	20
6.1 Main challenges	20
6.2 Main success factors	21
6.3 Outlook	21



1 Summary

This case study describes an example of how financial instruments can maximise their impact, by studying the equity part of the Bulgarian JEREMIE¹ Holding Fund, co-financed by the European Regional Development Fund (ERDF). The investment strategy of the JEREMIE Bulgaria Holding Fund aims to address the needs for financing of Bulgarian small and medium-sized enterprises (SMEs) at all stages of their business development, i.e. debt and guarantees, as well as equity and quasi-equity products in combination with non-financial support. This case study focuses on the equity instrument. Two fund managers, 'Eleven' and 'LAUNCHub' were selected to implement the combined accelerator and seed instrument. Two examples are shown further in the case study of companies that got funding and mentoring under the instrument: TAXIME, which improved the taxi system in Sofia and the online learning platform UCHA.SE that helps teachers and students.

This study highlights strategies for this instrument to maximise the impact of public financing. Through a combination of tools, it supported over 180 start-ups and helped develop entrepreneurship during the financial crisis. The instrument, worth EUR 21.21 million, provided start-ups with accelerator services and seed investments of up to EUR 200 000. In addition to creating over 600 jobs, it triggered a further EUR 20 million in third-party follow-on investment.

The innovative concept of the instrument, based on a combination of accelerator and seed funding, on its international orientation and its market oriented approach, is the key success factor. Thresholds for management costs and fees represented a challenge, as the fund managers struggled to cover the cost of due diligence and support provided to enterprises after the investment. However, the initiative's success is also shown by its large impact on Sofia's entrepreneurship scene. In November 2015, Forbes magazine cited Sofia as one of the ten top cities around the world to launch a start-up.

The recommendation of the ex-ante assessment is to implement a similar type of instrument for SMEs in the 2014-2020 programming period. Another recommendation is to also provide risk capital to support technology transfer and later stage development. Yet, options for the future are still being discussed.

¹ The acronym 'JEREMIE' comes from 'Joint European Resources for Micro to Medium Enterprises', and it was an initiative promoted by the European Commission and the European Investment Bank Group in the 2007-2013 programming period to use European Union (EU) Structural Funds to finance SMEs in a more efficient and sustainable way.



JEREMIE Entrepreneurship Acceleration and Seed Financing Instrument, Bulgaria

THE FINANCIAL INSTRUMENT

Funding source

ERDF, OP 'Development of the Competitiveness of the Bulgarian Economy' 2007-2013

Type of financial support

Equity and quasi-equity products combined with non-financial support, such as mentoring and access to co-working space

Financial size

EUR 21.21 million: EUR 21 million OP resources (EUR 17.85 million from ERDF and EUR 3.15 million from national public funding) and EUR 0.21 million from private resources

Thematic focus

SME support

Timing

August 2011 to December 2015

Partners involved

Ministry of Economy, Directorate General 'European Funds for Competitiveness' (managing authority)

European Investment Fund (holding fund manager)

Eleven and LAUNCHub (fund managers)

Several private investors

ACHIEVEMENTS

Absorption rate

100% of OP resources: ERDF and national public funding at December 2015

EU leverage²

1.2

Leverage of public resources³

1

Re-investment

Not applicable at this stage

Main results

Invested in 180 SMEs, 600 jobs supported and an additional EUR 20 million private capital raised by third-party investors directly in the underlying companies of the two funds, by December 2015. Private capital came from all types of investors – local and foreign business angels, strategic investors and regional venture capital funds. Over 20% of supported companies have reported strong revenue growth, with some expanding operations outside Bulgaria to other European countries or to the USA.

Exchange rate: EUR 1 = BGN 1.9558

² EU leverage is calculated as the amount of finance to eligible final recipients, i.e. EUR 21.21 million, divided by the ERDF allocation to this financial instrument, i.e. EUR 17.85 million. It does not include the reuse of resources returned to the instrument.

³ Leverage of public resources is calculated as the amount of finance to eligible final recipients, i.e. EUR 21.21 million, divided by the public resources allocated to this financial instrument, i.e. EUR 21 million. It does not include the reuse of resources returned to the instrument.



2 Objectives

In 2006, and to a large extent even in 2016, start-ups and innovative SMEs in Bulgaria have struggled to get finance. A gap analysis carried out by the European Investment Fund (EIF) in September 2006, the 'Interim Report for Bulgaria – SME Financing Gap Assessment' reviewed the supply and demand of finance in risk capital markets, identifying the following failures:

- a financing gap of about EUR 110 million between the potential demand of SMEs for micro-financing and supply from existing schemes (see below);
- SMEs were mainly relying on their own financing (70%) to start up a business;
- venture capital was not well developed in Bulgaria; investors were active primarily in existing enterprises with good management and potential for development, such as enterprises with a turnover of up to about EUR 25 million; risk investments in start-ups were rare and there was no venture capital association;
- the business angels segment still needed to be developed and the legislative framework was missing.

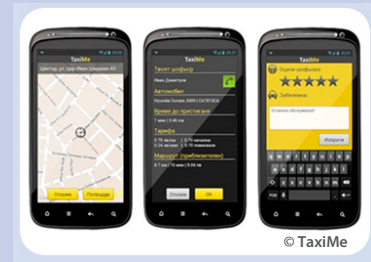
Based on these findings, as well as evidence of failure in the markets to offer financial products addressing these needs, the managing authority (the Ministry of the Economy) dedicated Priority Axis 3 'Financial resources for developing enterprises' of the OP 'Development of the Competitiveness of the Bulgarian Economy' 2007-2013 to improving access to finance for SMEs, including high-risk innovation-related investments.

The managing authority sought to finance 'niches', where traditional bank finance would not offer sufficient financing or would simply refuse to finance. According to the above-mentioned study, this particularly concerned microenterprises and (innovative) start-ups, since they lacked credit history and collateral. After reviewing the legal options of setting up a fund in compliance with State aid rules, the managing authority noted that early stage equity products would be suitable to fit *de minimis* rules, as well as a more simple solution to apply, administer and control. Equity, where investors become shareholders, sharing risk as well as their expertise and experience, would help fund promising projects.

Before this instrument, there were limited financing options for early stage start-ups in Bulgaria. There was a national guarantee fund, but it targeted the agricultural sector. There were some microfinancing schemes, but as pointed out in the EIF study, these could not satisfy demand. In addition, a National Innovation Fund supported innovation projects outside the agricultural sector, but it targeted large enterprises, and not SMEs or start-ups.

TaxiMe: Objectives

TaxiMe works only with selected taxi drivers who charge standard (or lower) taxi rates. It connects a customer to a quality taxi driver as quickly as possible. TaxiMe has now more than 100 000 users and operates not only in the capital city of Sofia, but also in Plovdiv. Through its services, TaxiMe helps avoid taxi scams and improves the Bulgarian taxi system.



TaxiMe would not have been created without support from Eleven Fund, which:

- (a) initially contributed EUR 25 000 in the capital of the company, supplemented by EUR 25 000 in the form of a convertible loan;
- (b) supported TaxiMe with technology and operations management advice;
- (c) provided co-working space;
- (d) helped develop a client base;
- (e) assisted in attracting a private investor, i.e. a third-party follow-on investment of EUR 125 000, matched by the same amount from Eleven Fund (thus Eleven held about 18% shares of the company).

Ucha.se: Objectives

Ucha.se is an online education platform with video lessons and exercises, which pupils and teachers use to prepare for school. The platform currently has more than 4 000 videos (with 150 new videos every month), watched more than 11 million times. Since its launch in 2012, Ucha.se has won more than 20 awards for its contribution to modernising education in Bulgaria. The platform has over 300 000 registered users – pupils, teachers, students and parents. The founder believes that such an achievement would not have been possible without the support from LAUNCHub fund, including their EUR 199 781 investment for a 15.79% share of the company. Ucha.se received further follow-on investments from business angels and an investment fund.





3 Design and set-up

The financial instrument was designed in line with the identified market gaps for SME financing in Bulgaria, as part of the overall investment strategy of the JEREMIE Holding Fund, which includes guarantee, loan and equity instruments. This study focuses on the early stage equity part, i.e. JEREMIE Acceleration and Seed instrument, managed by two funds: Eleven and LAUNCHub. They provide acceleration and seed funding using EUR 21 million of OP resources, combined with incubator services and mentoring. Their investment strategy focuses on SMEs at very early development stages. Governance arrangements allow for quick decisions and incentive-oriented risk sharing agreements to further increase impact.

3.1 Preceding events

The managing authority relied on the JEREMIE Gap analysis⁴ to allocate funding for the JEREMIE Holding Fund under the OP Priority Axis 3. It also used macro-statistical data, trends within the SME environment, entrepreneurs' activity and the financial market in Bulgaria to identify factors affecting supply and demand for financial instruments. Based on this analysis, the managing authority initially allocated BGN 390 million (EUR 199 million) for financial engineering instruments under the JEREMIE Initiative to be implemented through setting-up a holding fund⁵ with EIF appointed as a holding fund manager. The decision about the implementation option was based on the gap analysis and other factors such as a lack of national experience in implementing financial instruments. The overall budget for financial instruments in the OP was increased to BGN 682.57 million (EUR 349 million) in 2012, following a decision of the managing authority to implement a Funded Risk Sharing Product on the basis of the updated market analysis from 2011.

The funding agreement for implementation of the JEREMIE Initiative in Bulgaria between the managing authority and the EIF was signed in 2009 with an initial budget of EUR 199 million. Effective start of the activity of the JEREMIE Bulgaria Holding Fund followed in the second quarter of 2010 after amendment of the initial funding agreement in order to facilitate the structuring of the holding fund. The funding agreement includes the investment strategy, which envisages a balanced mix of equity and debt instruments to address the market gaps. Actually, this initial strategy did not include the Acceleration and Seed fund, even though a market gap in pre-seed and seed support had been identified. The strategy suggested another instrument or fund for technology transfer, but weaknesses in implementing a system of intellectual property rights led to a decision in April 2012 to implement the Acceleration and Seed instrument as it is today.

The instrument is an innovative and novel concept for Eastern Europe and envisages combining two complimentary instruments with different investment strategies under one umbrella to achieve complementarity and thus provide a smooth transition for emerging entrepreneurs from an idea, through initial concept, to commercialisation.

4 JEREMIE Gap analysis 'Interim report for Bulgaria - SME Financing Gap Assessment - September 2006'.

5 According to Art.44 of Council Regulation (EC) 1083/2006.

TaxiMe: Financing gap

Entrepreneurs in Bulgaria can use their own money or financing from family and friends. As an alternative, they can turn to a commercial bank, but this is expensive compared to other countries in the EU and is easier for companies with a track record and sufficient collateral (preferably real estate).

Since the first option was unattractive and the second impossible, the founder of TaxiMe decided to look for support through EU funding. Grants were not an option as there were no calls for proposals suitable for the needs of the company at that time. There were also obstacles to obtaining traditional bank financing for such an early stage start-up. The fast development trends of the IT sector meant there was a risk the business idea could become obsolete.

Eleven offered a timely way to close the financing gap, also offering co-working space and mentorship, as well as legal and accounting services. In return for minority ownership, BGN 49 000 (EUR 25 000) were initially available to develop the service and the client base. The funds were expected to cover the period that the business needed until it could obtain sufficient revenues. The possibility to get more funding for expansion at a later stage (up to BGN 391 160 (EUR 200 000)) through Eleven or private investors in their network, was also attractive.

3.2 Funding and partners

The JEREMIE Acceleration and Seed instrument, as a part of the JEREMIE Holding Fund's equity compartment, was set up with an allocation of BGN 41 million (EUR 21 million) of programme resources and a BGN 0.41 million (EUR 0.21 million) commitment from the fund managers. A total of 85% of the public financing, i.e. EUR 17.85 million, is provided through the ERDF. The JEREMIE Holding Fund using the OP resources is the only investor in the instrument apart from the required management team commitment of 1% (EUR 0.21 million). As holding fund manager appointed by the managing authority, the EIF selected the funds Eleven and LAUNCHub through a competitive procedure that included eleven candidates. Each manager would manage the acceleration and the seed parts of the Acceleration and Seed instrument, but with a different focus. Eleven manages a EUR 12 million acceleration and seed fund for innovative young businesses, LAUNCHub is responsible for a EUR 9 million investment fund focused on more mature ICT companies.

Table 1: Funding sources for the Acceleration and Seed instrument

Funding sources	EUR
ERDF	17.85 million
Public (co-financing)	3.15 million
- of which national	3.15 million
Private (financial intermediaries)	0.21 million
TOTAL	21.21 million

The two funds have different targets. Eleven envisaged making around 200 investments in innovative young businesses, with investments ranging from EUR 25 000 to EUR 200 000 per company. The team is built around prominent professionals with substantial experience in venture capital and private equity in Bulgaria. Eleven has attracted Google as a technological partner, and Springboard – the London-based mentorship-led accelerator, as a strategic partner for its



programme. The other fund manager, LAUNCHub, aimed to make around 120 investments up to the end of 2015, typically from EUR 30 000 to EUR 200 000 per company focusing on more mature companies. Partners of LAUNCHub include the largest early-stage micro-seed investment fund and mentoring programme in Europe, Seed Camp, as well as the Cisco Entrepreneurship Institute in Bulgaria.

3.3 Investment strategy

The financial instrument relies on two ‘compartments’:

- **Acceleration:** Initial financing up to a pre-defined amount (EUR 200 000 cumulatively per company within a three-year period, falling within the scope of *de minimis* aid) supports entrepreneurs (eligible SMEs) for research, assessment and the development of an initial concept.
- **Seed:** In this stage, the instrument provides: (a) follow-on financing (up to the maximum pre-defined amount) to SMEs on graduation from the acceleration stage; and (b) financing to SMEs that have not participated in the acceleration stage, as long as the initial concept is developed.

Each fund manager can implement both compartments. In practice, Eleven deals with early stage development, including, if necessary, company registration and establishment. In principle, LAUNCHub focuses more on the seed stage, targeting companies and start-up teams with a completed product or service and interest from prospective customers.

The successful candidates for **Eleven** can benefit from a first investment round and an intensive three-month process of shaping and building the idea (proof of concept), supported by Eleven with entrepreneurial mentorship and technology support. All the teams are offered co-working space. This acceleration phase culminates in a Demo Day, introducing a ‘twist’ on the idea of graduation. The event is normally open not only to investors, but also to the general public. In addition, trips to cities such as London, Berlin, or Silicon Valley may be organised to pitch to investors and meet potential clients and partners. More generally, enterprises gain access to a vibrant and experienced international business community as Eleven is a member of the Global Accelerator Network and cooperates with other start-up hubs in Europe and North America.

On the other hand, **LAUNCHub** organises an Investors Day event, which brings together leading European and international venture capitalists, investment organisations and business angels. During Investors Day the companies present their achievements and strategies for raising additional investment and can also meet interesting keynote speakers who share tactics, tips and experience with issues relating to businesses entering a new phase of growth and capital raising.

The financial instrument is designed to allow a continuous process with clear stages, as explained in Section 4.2. The strategy is to call for proposals to attract a critical mass of applications, maximising the instrument’s impact. Another benefit is an economy of scale when evaluating applications, as decisions are taken quickly, which is critical for innovative technology-driven projects.

Success of the instrument has gone beyond initial expectations and with a growing number of companies supported, the managing authority decided to launch a grant scheme to provide support to the two fund managers established within the Seed and Acceleration Instrument. This



included different seed fund initiatives, such as promotion and marketing of the financial product, training, coaching and other support to increase entrepreneurial capacity. However, during implementation of the grant projects, the fund managers considered the procedures to procure services with OP resources, as established under the national legal framework, to be unsuitable for the expertise required, e.g. the time for receiving tenders was seen as too long.

3.4 Governance

The partners involved in the design and implementation of this financial instrument are: the **managing authority** represented by the Directorate General 'European Funds for Competitiveness' within the Ministry of the Economy, the **JEREMIE Bulgaria Holding Fund manager** represented by the EIF, an **investment board** with members from the Ministry of Economy and the holding fund manager, the OP **monitoring committee** and the two **fund managers**, i.e. Eleven Fund and LAUNCHub.

The **managing authority** is responsible for monitoring and verifying operations under the entire OP, including for the financial engineering instruments set up by the JEREMIE Bulgaria Holding Fund. EIF is appointed by the managing authority as **holding fund manager** of 'JEREMIE Bulgaria EAD', a joint stock company incorporated under Bulgarian law, wholly owned by the EIF as a special purpose vehicle. It is responsible, *inter alia*, for selecting the fund managers, including signature of the funding agreements, monitoring implementation and reporting to the managing authority.

The **investment board** provides methodological and policy advice to the holding fund. The Ministry of Economy is represented at a high level on the board, along with the holding fund manager. The board approves priorities for the financial instruments to be implemented under the holding fund, the main requirements for fund managers, as well as the main terms and conditions of the financial products to be provided.

The OP **monitoring committee** approves the criteria to select fund managers and confirms the OP financial contributions as approved by the managing authority and any major changes related to implementation of the financial instrument.

The **fund managers** provide financial products to SMEs according to rules established in the funding agreements and consistent with priorities set by the investment board. They select final recipients, negotiate deal terms, including intellectual property rights and their protection, support the growth process under the responsibility of the company founders and provide advice on technical, commercial, legal and accounting issues. Additionally, they report to the holding fund manager (quarterly), comply with information and publicity requirements, and look for potential investors.



Figure 1: Governance structure of the financial instrument

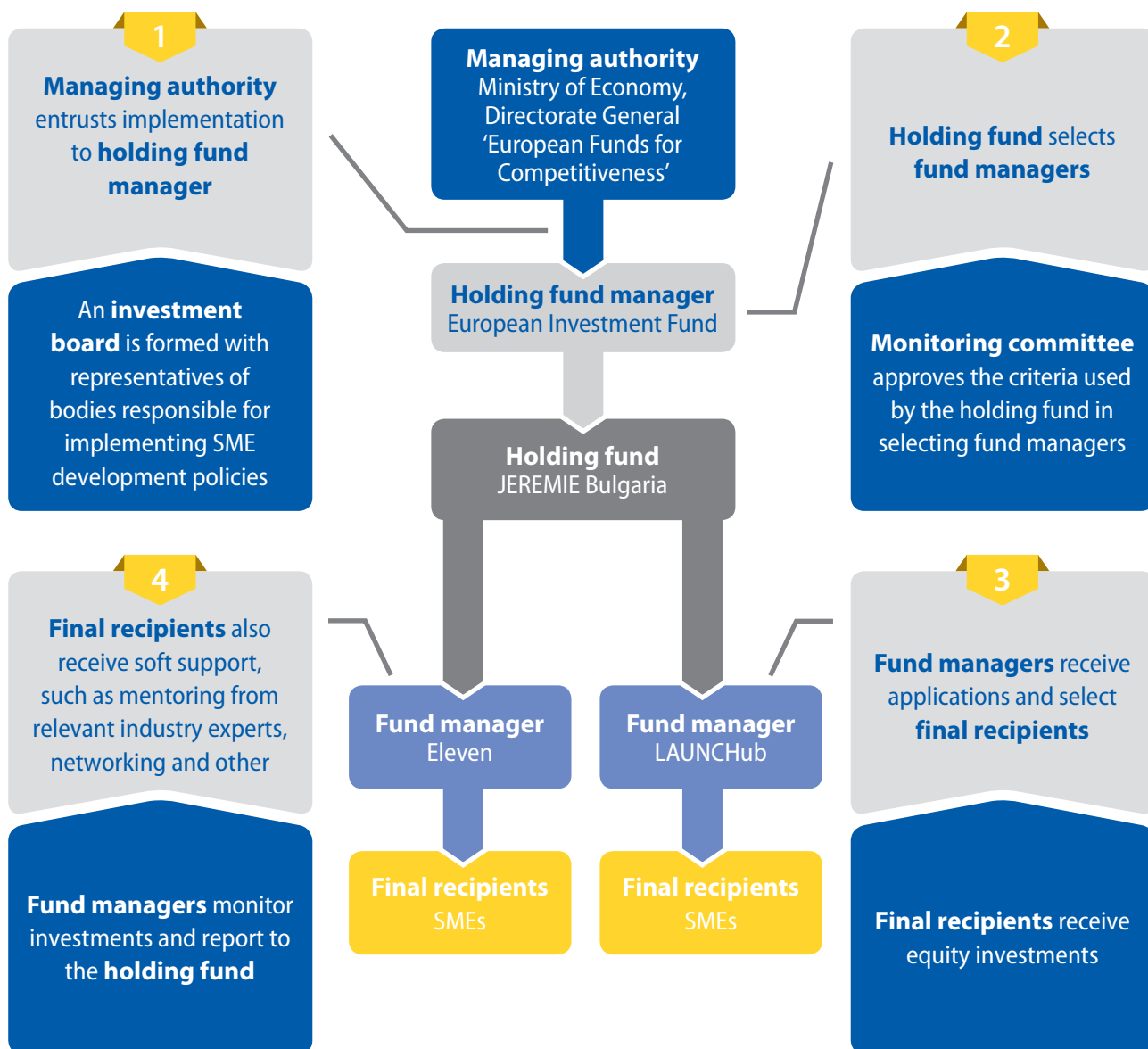


Table 2: Timeline related to the financial instrument

Time period	Action taken
September 2006	Gap analysis study by the EIF
2006 - 2007	Drafting and approval of the OP 'Development of the competitiveness of the Bulgarian economy' 2007-2013, where one priority axis plans financial instruments under a holding fund
September 2009	Update of the gap analysis study
May 2009	Managing authority signs initial funding agreement with the EIF for implementation of the JEREMIE Initiative in Bulgaria with an initial allocation of EUR 199 million
April – July 2010	First amendment of the agreements between the managing authority and the EIF and effective start of implementation Establishment of the JEREMIE Bulgaria Holding Fund by the EIF
March 2011	Market Analysis - Seed & Start-up Funds prepared by the EIF
July 2011	EIF prepares and coordinates the terms of reference for the JEREMIE Acceleration and Seed Financing Instrument with the managing authority OP monitoring committee approves the general selection criteria of the JEREMIE Acceleration and Seed Financing Instrument JEREMIE Investment Board approves the call for expression of interest of the JEREMIE Acceleration and Seed Financing Instrument
August 2011	EIF launches a call for expression of interest for the selection of financial intermediaries under the JEREMIE Acceleration and Seed Financing Instrument Of 11 candidates, the holding fund manager selects Eleven Fund and LAUNCHub
June 2012	Managing authority increases the overall budget of the JEREMIE fund to BGN 682.57 million (EUR 349 million), to fit the updated market analysis of 2011, and in line with market conditions
November 2012	Completion of the selection of financial intermediaries to manage the instrument, signature of funding agreements with the fund managers
November 2012	First investments in SMEs under the JEREMIE Acceleration and Seed Financing Instrument
December 2015	End of the initial investment period of the fund managers



4 Implementation

The implementation had numerous innovations in product delivery, advertising and investor engagement that helped maximise its impact. Compliant with State aid through *de minimis* conditions, the acceleration and seed instrument attracted over EUR 20 million in external follow-on investments and the fund managers mobilised over 400 mentors to supply non-financial services to assisted start-ups for free.

4.1 State aid

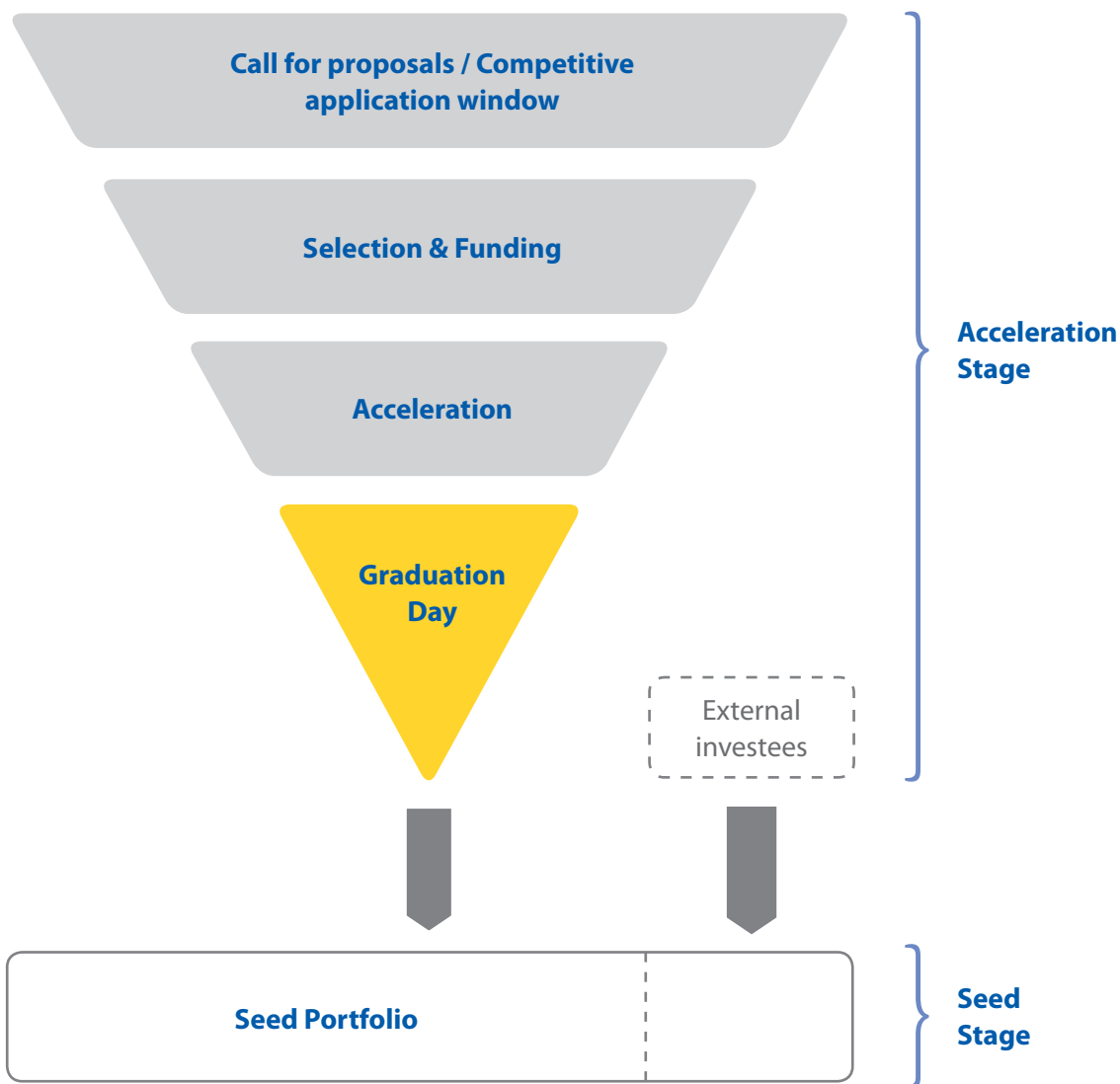
Aid is provided under *de minimis* conditions, since the maximum amount of support to each enterprise (BGN 391 000 (EUR 200 000) or BGN 195 580 (EUR 100 000) for SMEs active in the road transport sector over any three fiscal years) was considered sufficient, so the scheme was easy to implement. As mentioned earlier, the managing authority considered various legal options for the fund set-up, with State aid requirements in mind.

4.2 Financial products and terms

The two funds offer equity and quasi-equity investments, as well as non-financial support such as mentoring and incubator services following the strategy presented in Section 3.3. Typically, investments range from EUR 25 000 to EUR 200 000 per start-up.

Start-ups receive financing, combined with non-financial support, through a selection procedure. The two fund managers have competitive application windows. For instance, the Eleven Fund has four such periods per year. During these, entrepreneurs can apply for funding and coaching. The fund managers pick their 'favourites' in a 'selection day', under pre-defined eligibility and quality assessment criteria. The selection process gradually reduces the multitude of applications received to 30-40 that undergo in-depth screening. The group is referred to as a 'batch' or 'cohort'. These start-ups are eligible for initial financing, coaching and working space. After a period of time, as shown in Figure 2 below, the start-ups are assessed on a 'graduation day', when a decision is taken about further seed financing and support to attract other investors, or whether to abandon the project. For the Eleven Fund, the first three months are a very intense process of shaping and building the proof of concept, where the Eleven team and mentors support the entrepreneurs. All start-ups work under one roof, ensuring cooperation.

Figure 2: Design of the Entrepreneurship Acceleration and Seed Financing Instrument



Source: EIF

During the seed stage, the company is expected to commercialise the product or service, with emphasis on going beyond the national market. For instance, Eleven could provide the top teams with follow-on seed investment of up EUR 200 000, often alongside other investors. According to its investment strategy, Eleven usually acquires between 6 and 8% of the company's equity at initial investment (acceleration phase), but the total (acceleration and seed) stake is not expected to exceed 25%. Similarly, LAUNCHub provides companies with assistance in many ways, beyond the investment. They act more like team members and engaged partners. They also offer the start-ups access to a wider network of experts, tech vendors, successful entrepreneurs and investors. These can sit together on advisory boards to discuss and plan business and product development strategies. Jointly, the two funds create a thriving eco-system for all entrepreneurs. For the most successful they offer global business experience and a sense of belonging to a vibrant international community.



Eleven and LAUNCHub started campaigning in 2012 for the first application round. The target group consisted of universities, the Bulgarian Academy of Sciences, large companies, outsourcing businesses and others, where this ‘hub of talent’ was expected to be hiding. As the message hit the target group, around 2 000 applications were submitted during the first application window. Being the first experience of this kind, many applications contained deficiencies in technical or commercial terms, e.g. a lack of scalable business model, minimal target market and no export orientation. Administrative burden was minimised thanks to a fast, online, simplified application model, which resembles prevailing market mechanisms for persuading potentially interested parties to confidently invest.

The instrument’s impact is maximised through the participation of private investors, who are attracted by several aspects. One is the positive results that a significant number of funded companies achieved, sometimes even at the early stages of company development. Another aspect was the reputation of the holding fund manager and the two fund managers. Investors can rely on their experience, due diligence and professionalism. Yet another aspect is investors’ reaction to LAUNCHub’s top-up investments. When LAUNCHub invests, private investors match the amount at *pari passu* conditions. This creates a ‘virtuous circle’ with respect to both the amounts invested and the risk-sharing percentages.

4.3 Final recipients targeted

The instrument targets promising entrepreneurs and start-ups in a variety of fields that need advice and seed financing for their ideas. Some formal requirements are in place. Entrepreneurs must be registered under the Bulgarian commerce act, they must be SMEs and their ideas must not involve sectors exempted from *de minimis* aid, e.g. fishery and aquaculture, gambling, tobacco, etc. Up to December 2015, the two funds achieved the following results.

Table 3: Results (updated on 31st December 2015)

	Eleven Fund	LAUNCHub
Amount invested	EUR 10.98 million	EUR 8.23 million
Start-ups supported	117	63
Average investment per company	EUR 93 889	EUR 130 616
Additional investment	EUR 8 million	EUR 12 million
Number of mentors	252	200
Number of nationalities of founders	24	9

The fund managers streamlined the reporting process for final recipients. This means there are large efficiency gains in the reporting and accounting system, as compared to grant financing. The reporting process is extremely simplified, which ensures minimal administrative burden for final recipients. Only common reporting forms are required at regular intervals. This logic allows companies to focus on their core business and growth plans, instead of spending management time and effort with long forms and procedures. The market environment can quickly demonstrate company failures or gaps on the commercial or technological side. Start-ups can use, under the instrument, up to EUR 2 000 for support services such as legal and accounting.



Even though in 2011-2012 information about the instrument quickly spread, as indicated in the previous sub-section, significant efforts were made by the managing authority, the holding fund manager and especially the fund managers to market and promote the financial instrument. In addition to numerous activities, including blog and media coverage and question-and-answer sessions, the funds also organised person-to-person meetings with entrepreneurs. For instance, Eleven started their 'Open Meetings', where they invite interested teams to discuss and ask questions on, for example, the accelerator programme, the selection process, or the investment terms. The initiative has covered not only Sofia, but also virtually every major city and event in Central and Eastern Europe.

4.4 Changes in strategy

There were no major changes in the financial instrument strategy during implementation. In the design phase, as mentioned earlier, the initial investment strategy of the holding fund manager planned a different approach to tackling the seed capital financing gap. However, due to procedural constraints, the holding fund manager had to adapt and develop the instrument in its current form.

In 2012, on creation of the instrument, the managing authority increased the allocation to the JEREMIE Bulgaria Holding Fund to BGN 682.57 million (EUR 349 million) related to a change in the initial investment strategy by adding a risk sharing instrument on the debt side, which was justified by a market analysis.



5 Achievements

By the end of December 2015, Eleven and LAUNCHub had invested in 180 SMEs – or about one per week since their establishment in late 2012 – supporting over 600 jobs. These jobs are comparatively well-paid and many are in high technology sectors. The so-called ‘windows’, the term used for the regularly announced competitive calls, have been very dynamic, especially at the beginning, with over 2 000 applicants per session. Even though only a small share of the projects was financed (the acceptance rate was ~~at~~ around 4%), all applicants gained valuable experience in dealing with potential investors, meeting similar-minded professionals and being able to use the opportunity to improve their business in the future.

A significant achievement, largely due to the impact-maximising strategies, is the amount of follow-up investments already in place. By the end of December 2015, SMEs assisted by Eleven and LAUNCHub received EUR 20 million in external funding. Over 20% of supported companies continued with sustained growth, with some already managing to expand operations outside Bulgaria. Less than three years after the start of Eleven and LAUNCHub, the results are promising. By December 2015, the whole budget of the instrument (EUR 21 million) had been invested and the first capital repayment took place from the Eleven Fund.

European and other venture capital funds have noticed an interesting phenomenon in Bulgaria and may screen local companies more often, leading to additional investment activity. Two years after the initiation of LAUNCHub, one of the portfolio companies, Flipps, received a USD 1.5 million investment from the venture capital fund - Earlybird Digital East Fund. Earlybird is one of the largest European venture and growth capital investors and the largest outside the UK. In 2013 it raised USD 130 million for the Earlybird Digital East Fund to invest in early growth start-ups in Turkey and Central and Eastern Europe. SiteGround made a USD 1 million series A investment in Storpool, another recipient of LAUNCHub. Other follow-on investors in portfolio companies include Techstars, YCombinator and strategic investors from the ICT sector in Bulgaria. The amount of follow-up capital from third-party investors continues to grow.

Eleven and LAUNCHub successfully support entrepreneurial talent, which is increasingly recognised outside the country. Regional and international venture capital funds are now more interested in screening Bulgarian companies for investment opportunities. The country’s international standing had been boosted since the launch of the initiative by the holding fund manager, who required the fund managers to develop international partnerships as part of their expression of interest. Data concerning potential and successful applications also demonstrates international interest and participation, including from the Bulgarian diaspora. The mentors have 12 different nationalities and along with the prominence of export-oriented investments this contributes to the international dimension of the financial instrument.



On a different note, the two funds also contribute to more sustainable growth. For example, Eleven has invested in Strawberry Energy, a company that developed a solar stand-alone device that can provide free mobile phone charging, Wi-Fi internet, local information, and environmental monitoring in public spaces. The platform, which is also intended as a hub for people to gather and socialise, has been installed in nine different cities in Europe so far, with more than 351 000 users.

Ucha.se Achievements: From Online Education Platform to System Reform

Private lessons continue to be an important part of education in Bulgaria. The private tutoring market in the country is estimated to exceed EUR 250 million per year. Ucha.se chose to bring about real change – educational, societal, cultural, and of course technological. Ucha.se offers an affordable subscription (25 euro per year) for all its content, targeting 650 000 pupils, 1 000 000 parents and 50 000 teachers in Bulgaria.

The role of LAUNCHub was crucial. Before LAUNCHub, the Ucha.se project consisted of 300 videos and the founder of Ucha.se lived abroad. Having heard that ‘something good was going on in the country’, the founder of the platform applied successfully, received BGN 58 700 (EUR 30 000) for a 9% share of the company and gained access to the non-financial support offered by LAUNCHub. The fund acknowledged the enterprise’s potential and contributed to its success.

At the LAUNCHub Demo Day, the founder met two business angels and a private investment fund, Assarel-Medet JSC, who decided to invest in the company. The platform currently offers over 4 000 videos (more than 150 new videos every month) and has been watched more than 11 million times. For the future, the company plans to provide students with individualised education programmes.



6 Lessons learned

By supporting innovative start-ups and technology companies and encouraging greater private investment, Eleven and LAUNCHub helped to develop an entrepreneurial eco-system and create an early investment market in Bulgaria. Despite its small size of EUR 21 million compared to the entire JEREMIE envelope in Bulgaria (EUR 349 million), the financial instrument managed to trigger enormous effect on the entrepreneurial stage. Starting from scratch at the end of 2012 it succeeded in creating awareness about equity investments as an option for funding a start-up. This resulted in 180 supported businesses and over 600 jobs created. By recognising the importance of experienced mentorship from the industry, universities, business angels and finance professionals for the conception and commercialisation of products and company development, the instrument contributed to building a network and knowledge hub for young entrepreneurs and specialists. Further success is attracting additional third party investments for over EUR 20 million and increasing interest from leading international support organisation (like incubators, accelerators, co-working spaces, etc.) in companies supported by both funds.

As a result of the activity of the two funds, in 2014 Sofia was ranked for a second consecutive year among the top 5 European capitals for supporting start-up businesses with risk finance. Furthermore, Sofia was declared the tenth best place in the world to launch a start-up by Forbes in November 2015. The achievement of the JEREMIE programme and its impact on the equity ecosystem in Bulgaria also received strong coverage in Financial Times at the beginning of 2016.

6.1 Main challenges

Eleven and LAUNCHub operate under market practice, which means investment decisions are fast and profit-oriented, which prepares companies for other potential investors. This led to a community driven by a pool of experts and competent managers, covering the needs of a wide range of companies. Thresholds on management costs and fees still represent a challenge, since the development of companies is directly related to mentorship and other management support. Involving mentors on a pro bono basis is still unusual. This challenge stems from the market based environment, since it can be very demanding on fund managers, who rely on a 3% per year management fee and mentors who work pro bono. Participating in decision-making at every stage of a project and company development requires not only time and effort, but also relies on a wide network of professionals, including quality legal, accounting and financial advice. This is difficult for one company, let alone for dozens of companies simultaneously.

6.2 Main success factors

The key elements that helped maximise impact were the design and international openness of the instrument. The **design** combined equity support with quality mentorship, which substantially reduced risks during early-stage financing. The **international standing** of the instrument was promoted from the very beginning with the EIF acting as the JEREMIE Bulgaria Holding Fund manager, requiring fund managers to have a strategy to promote the financial instrument abroad and to cooperate with foreign partners. The presence of the EIF as well as strategic world renowned partners helped to build trust with both entrepreneurs, who could have been reluctant to share their innovative ideas and business models, and with follow-on investors. This also helped attract a large number of very qualified mentors, offering a broad range of expertise, including many specific sectors and technological niches.

6.3 Outlook

The OP Innovation and Competitiveness 2014-2020, subject to findings of the ex-ante assessment⁶, envisages that seed and early stage equity investments will continue with a larger budget, be enhanced with technology transfer support and, at a later stage, risk capital. This should further improve access to finance for innovative start-ups, particularly when technology-oriented, and help make the Bulgarian economy more knowledge-based and competitive. By ensuring better positioning in global value chains, this should also contribute to ensuring that Bulgaria no longer has a 'brain-drain', but a 'brain-gain'.

6 Financed within the framework of the project No. 0114-CO-1.2 'Increasing the efficiency of the work of the Certifying Authority in the certification of expenditure 2013-2015', covering all financial instruments for the 2014-2020 programming period

www.fi-compass.eu
contact@fi-compass.eu
© EIB (2016)

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