

InvestEU Scoreboard¹**Presentation of the financing or investment operation:**

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: Framework Operation, Sustainability Guarantee Product – Bulgaria InvestEU Member State Compartment (Capped Guarantee)

Type of approval: Framework Operation

Type of Financial Intermediaries: Mostly commercial banks and to a limited extent leasing companies

Type of Final Recipients: Natural persons, SMEs, Small midcaps and housing associations

Country(-ies) of implementation of the operation: Bulgaria

Short description of the financing or investment operation:

This Framework via its Sub-Projects will aim to enhance access to finance for sustainable enterprises and support investments contributing to the green and sustainable transformation of the Bulgarian economy by supporting access to debt financing to final recipients.

It builds on the successful implementation of the guarantee programmes managed by EIF, such as SME Initiative Bulgaria and COSME Loan Guarantee Facility, SME Guarantee Facility, SME Initiative, EGF.

The Financial Product shall contribute to green and sustainable transformation of the local economy by supporting access to debt financing for eligible final recipients.

Public Statement

Eligible areas for the operation in accordance with Annex II to the InvestEU Regulation:

- **Item 1 of Annex II of the InvestEU Regulation:**

the development of the energy sector in accordance with the Energy Union priorities, including security of energy supply, clean energy transition and the commitments taken under the 2030 Agenda for Sustainable Development and the Paris Agreement

- **Item 2 of Annex II of the InvestEU Regulation:**

the development of sustainable and safe transport infrastructures and mobility solutions, equipment and innovative technologies in accordance with Union transport priorities and the commitments taken under the Paris Agreement

- **Item 3 of Annex II of the InvestEU Regulation:**

environment and resources

- **Item 5 of Annex II of the InvestEU Regulation:**

research, development and innovation

- **Item 7 of Annex II of the InvestEU Regulation:**

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

financial support to entities employing up to 499 employees, with a particular focus on SMEs, and small mid-cap companies

- **Item 10 of Annex II of the InvestEU Regulation:**

the rehabilitation of industrial sites (including contaminated sites) and the restoration of such sites for sustainable use

- **Item 11 of Annex II of the InvestEU Regulation:**

sustainable agriculture, forestry, fishery, aquaculture and other elements of the wider sustainable bioeconomy

- **Item 12 of Annex II of the InvestEU Regulation:**

social investments, including those supporting the implementation of the European Pillar of Social Rights

- **Item 15 of Annex II of the InvestEU Regulation:**

seas and oceans, through the development of projects and enterprises in the area of the blue economy, and the Sustainable Blue Economy Finance Principles, in particular through maritime entrepreneurship and industry, renewable marine energy and circular economy

Additionality shall be deemed to be met in all those cases where a financial intermediary will originate final recipient transactions addressing new financing needs which were normally not covered within their standard lending practice (i.e. sustainable investments for SMEs and natural persons). This may entail as well a higher risk profile than the risk generally deemed acceptable by such intermediary. Intermediaries will implement financing solutions in line with the enhanced access to finance measures described in the InvestEU Call for Expression of Interest published on EIF's website (e.g. bespoke financing arrangements, targeting excluded segments, industries or geographies, etc.). Such investments are confronted with challenging collateral valuations and can be therefore effectively supported by the guarantee.

Additionality may also be achieved via the application of any of the following items, as per Annex V of the InvestEU Regulation:

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

Support through subordinated positions in relation to other public or private lenders or within the funding structure

EIF expects to support a few financial intermediaries in originating final recipient transactions, which are subordinated debt transactions. This type of debt financing is expected to improve the capital structure and solvency position of targeted final recipient.

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

Support through equity and quasi-equity or through debt with long tenors, pricing, collateral requirements or other conditions not sufficiently available on the market or from other public sources

According to the FI-Compass study "The potential for investment in energy efficiency through financial instruments in the European Union - Bulgaria in-depth analysis"², the COVID-19 crisis could have a dual negative impact on energy efficiency investments, by both reducing the demand (e.g. households and enterprises may decide/be forced to postpone investments) and the financial supply (e.g. financial intermediaries may become more selective in their lending activity), therefore increasing the importance of energy efficiency related supporting schemes.

² <https://www.fi-compass.eu/erdf/potential-investment-energy-efficiency-through-financial-instruments-european-union/bulgaria>

EIF expects to support financial intermediaries in originating final recipient debt transactions which meet the enhanced access to finance measures described in the InvestEU Call for Expression of Interest published on EIF's website. These measures ensure that the debt financing support provided to target final recipients is made with more favourable terms, compared to the standard credit and collection policies of financial intermediaries.

The measures include:

- a) Reduction of cost of financing;
- b) Reduction of collateral requirements;
- c) Reduction in down-payment in respect of Final Recipient Transactions, which are in the form of leases;
- d) Increase in financing volumes;
- e) Support to excluded segments
- f) Financing at longer maturities;
- g) Bespoke financing arrangements;
- h) Any Subordinated Debt Transactions;
- i) Other enhanced access to finance measures proposed by the financial intermediary

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

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

The Sustainability Guarantee Product implemented under the InvestEU Member State Compartment will enable the EIF to support this growing ecosystem at a scale in Bulgaria that would not be possible or not to same extent out of the EU Compartment of InvestEU nor other EIF-managed resources for that purpose.

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

Support that catalyses or crowds in additional private or public financing and is complementary to other private and commercial sources, in particular from traditionally risk-averse investor classes or institutional investors, as a result of the signalling effect of the support from the InvestEU Fund

Under this Framework Operation, EIF will extend support to intermediaries aimed at enhancing access to sustainable enterprises and financing green investments not yet mainstreamed into the main financing channels. Benefiting from the InvestEU Member State guarantee coverage, financial intermediaries will be able to mobilize funding resources tailored to green/sustainable investments, contributing to the de-carbonisation of the economy.

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

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

No dedicated guarantee financial instruments for energy efficiency and green economy have been implemented in Bulgaria so far. The FI-Compass study "The potential for investment in energy efficiency through financial instruments in the European Union - Bulgaria in-depth analysis" also highlights Bulgaria's current challenges in supporting investments in the energy efficiency and renewable energy sector. Some of the main market failures preventing energy efficiency investments, presented in the report, include high collateral requirements from banks, limited access to bank finance for families already in debt, high corporate debt and ESCO companies facing serious liquidity problems.

The following market failures are addressed by the Framework Operation:

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

Externalities which the operator or company generally fails to internalise, such as R&D investment, energy efficiency, climate or environmental protection.

The economy in Bulgaria **consumes 3.5 times more energy resources per unit of its GDP than the EU average.**

The Sustainability Guarantee will support investments in energy efficiency, including in the building sector, one of the biggest energy consumption sectors in Bulgaria.

The Sustainability Guarantee Product, implemented under the Member State Compartment in Bulgaria, whose eligibility criteria were designed in the spirit of the EU Taxonomy for Sustainable Finance, are precisely adapted to the specific needs of the final recipients and can play a fundamental role in the decarbonisation of the economy.

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

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

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

For sustainable and green projects and investments, this is even more acute given the complexities inherent to the thematic (e.g. constant technology developments, evolving regulatory framework, etc.). In addition, financial intermediaries in Bulgaria have very different levels of green financing expertise, with a need to build expertise, particularly for the type of final recipients supported by the Sustainability Guarantee.

There is no unified definition of what green financing means across the EU, including in Bulgaria, and such financing is not typically following the EU Taxonomy for Sustainable Finance in respect of the concerned target recipients. This is due of the novelty of the regulation, the associated high requirements and standards and the difficulties of applying them to said final recipients.

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

Exposure to higher levels of risks in certain sectors, countries or regions beyond levels that private financial actors are able or willing to accept, including where the investment would not have been undertaken or would not have been undertaken to the same extent because of its novelty or because of risks associated with innovation or unproven technology.

Green lending by financial intermediaries to SMEs and individuals is at an incipient stage, particularly in Bulgaria, and is perceived as riskier. Green technologies are typically more expensive and capex intensive (e.g. renewable energies, industrial energy efficiency, etc.) and typically require longer periods of repayment. In

addition, green financing comes with additional complexities in terms of assessments and requirements for both the financial intermediaries and final recipients. Consequently, the origination of green financing comes with additional intricacies and therefore is less attractive than financing more established activities.

The Sustainability Guarantee Product, implemented under the Member State Compartment in Bulgaria will alleviate the elements above by providing risk deleveraging for green lending and therefore incentivising financial intermediaries to in turn provide this type of lending, bringing clear green definitions and requirements, as well as supporting the market vis-a-vis the application of the EU Taxonomy for Sustainable Finance, particularly for this type of final recipients that require a proportionate approach.

Origination of investment/financing is made by financial intermediaries benefitting from the InvestEU Guarantee under the Member State Compartment, in line with their credit and collection policies and procedures.

EIF offers support both pre- and post-signature of the guarantee agreement. Pre-signature, EIF helps the financial institution to navigate the different types of guarantees and guarantees products, different types of eligibility criteria, supporting the financial intermediary in assessing which guarantee solution is most relevant for the specific final recipient targeted. Post-signature, EIF provides reporting monitoring and assistance, as well as feedback on the pace of the transaction implementation progress and assistance with interpretation and validation of eligibility criteria.

This will be of particular relevance in the case of the Member State Compartment - Sustainability Guarantee product as it represents the deployment of a novelty green financing product, to be implemented in Bulgaria.

EIF will dedicate significant efforts to kick-start the implementation of the novel instrument for green transition and this will require particular focus to build awareness and support the market take-up. Specific accompanying measures will be launched to maximise the market take up.

In respect of advisory activities, their main focus will be in market/ecosystem building around the policy areas of the intervention as well as the provision of the necessary expertise to the financial intermediaries implementing the instruments.

The Sub-Projects aim at providing the following benefits for the final recipients: more affordable pricing, longer maturity, financing in local currency, contribution to diversification and stability of final recipient's financing, reduced collateral requirements (as well as acceptance of challenging collateral assets), among others.

The Sustainability Guarantee Product, implemented under the Member State Compartment in Bulgaria, will represent the first guarantee product in support of the green transition of small enterprises and individuals, to be implemented by EIF in Bulgaria. It will expand the experience of financial intermediaries in using the EIF guarantee products towards this key EU as well as national priority. Thanks to this intervention, financial intermediaries will be able start their activity in this domain or to further develop their offer to green investments – either by developing new products in this area, or expanding existing products to other green activities which they may not have supported in the past.

In addition, all the support activities foreseen alongside the guarantee will create awareness of green financing standards and definitions aligned with the key EU regulatory framework: the EU Taxonomy for Sustainable Finance.

Pillar 3 - Market failure or sub-optimal investment situation addressed by the financing or investment operation (Excellent)		
Pillar 4 - Financial and technical contribution by the Implementing Partner (Very Good)		
Pillar 5 - Impact of the financing or investment operation (Excellent)		
Pillar 7 - Complementary indicators³		
Key characteristics	Expected as of time of submission	Comments
Leverage Effect	Indicatively 8x for capped guarantees	
Multiplier Effect	Indicatively 12x for capped guarantees	
SMEW specific Indicators		
(b) Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission	75% SMEs / 20% Mid-Caps (Small Mid-caps) / 5% Individuals	Preliminary estimation
ESG aspects		
Within the due diligence process, EIF assesses the financial intermediaries' environmental, climate and social risk management procedures and the capacity to screen, assess and manage environmental, climate and social risks associated with its business activity, including the presence of an Environmental and Social Management System (ESMS), by means of an "ESG" questionnaire.		

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