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REPUBLIC OF BULGARIA  
Ministry of Innovation and Growth

# Bulgaria

## *Recovery Equity Fund*

# Bulgaria Recovery Equity Fund

*Open Information Session*

*Sofia, 21<sup>st</sup> November 2023*



# Agenda

- 1 Welcome Remarks
- 2 EIF: Supporting regional markets
- 3 Bulgaria Recovery Equity Fund: Call for EoI (key points)
- 4 The EIF Investment Process
- 5 Q&A

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# *Welcome Remarks*

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# *The EIF as an investor*

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*We do not invest or lend  
directly. We are not a bank.*

*We use financial instruments to  
address gaps, foster  
sustainability, multiply  
resources and in doing so,  
improve access to finance.*

# Our unique approach

We design financial instruments that share risks with our partners multiplying public resources and increasing the supply of finance

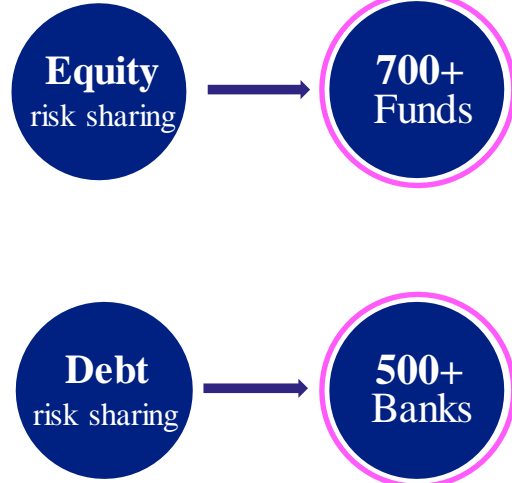
## Our resources

- European Commission
- European Investment Bank
- Local authorities & National Promotional Institutions
- Other investors\*

## Our approach



## Our partners



## Small businesses



5x leverage of public resources\*\*

\*Includes EIF's own resources and other external resources including private investors.

\*\*Depending on the instrument and the transaction, the instrument-level leverage can range widely. December 2022 data.

# Benefits of our approach

## We multiply resources

We design financial instruments that share risk with banks and funds and, as a result multiply resources

## We target funding gaps

We help our investors support new segments and target specific gaps at a European, national and local level

## We nurture ecosystems

We partner with established and new providers of equity and debt financing, often taking a cornerstone position when required

*Increasing the overall supply of finance for small businesses*

*Increasing financing options especially where markets don't work well*

*Increasing the number of local partners lending to and investing in small businesses*

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*EIF:*  
*supporting*  
*regional*  
*markets*

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*The Bulgarian VC & PE*  
*ecosystem*



# Building the Bulgarian VC / PE ecosystem

An ongoing relationship with EIF

## 2009

### JEREMIE Bulgaria

- JEREMIE comprised both debt and equity financial instruments for a total budget of **EUR 349m**
- **Equity side**: 3 seed / early - stage funds and 2 P/E funds were supported with a total contribution of **EUR 61.3m**
- A total of **225 start-ups** were supported
- > EUR 66m of reflows generated / re-invested in equity initiatives

## 2015

### JEREMIE top-up

- As JEREMIE reflows started coming back, initial funds were topped up and new equity initiatives were supported
- These increased equity commitments to **EUR 100,9m** and added **one more VC fund** in the JEREMIE portfolio

## 2019

### InvestBG

- **EUR 52,3m** committed to 3 local / regional VC funds and 2 P/E funds, leveraging c. **EUR 279m** of private resources
- One **co-investment of EUR 5m** undertaken in a Bulgarian company
- A portfolio of **48 companies** already built, total invested amount of EUR 89.8m

# 2022

## Bulgaria Recovery Equity Fund

- The Republic of Bulgaria entrusted the EIF with the implementation of the Bulgaria Recovery Equity Fund (*‘REF’*), with a view to provide access to finance to Final Recipients in the form of equity / quasi-equity investments
- The Funding Agreement between the two parties was signed in *December 2022* and ratified by the Bulgarian Parliament in *February 2023*
- The objective of the REF is to address the market failure related to the access to finance resulting from the COVID- 19 crisis by facilitating access to finance / improving funding conditions for companies active in Bulgaria through the implementation of an equity instrument
- The REF is financed by resources of the *Recovery & Resilience Plan of Bulgaria (‘RRP’)*
- The Call for EoI was launched in *September 2023*

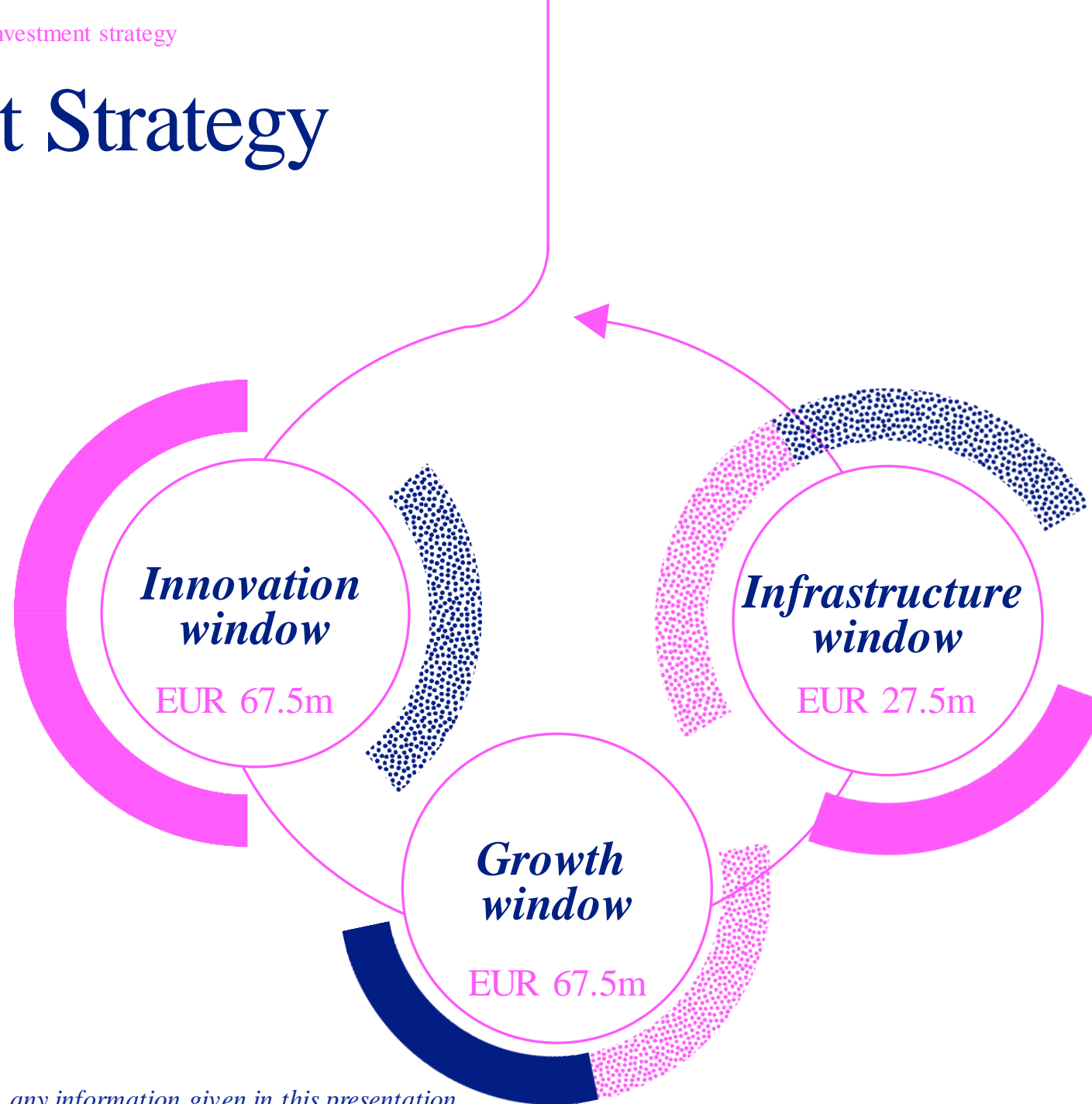
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# *Bulgaria Recovery Equity Fund*

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- *Investment strategy*
  - *State-aid options*
  - *Application process*

# Investment Strategy

## Investment windows



# Innovation window

## Investment strategy

### Key elements

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<b>Objective</b>	increase innovation capacity of companies and accelerate their productivity and transition to a knowledge economy
<b>Investment stage</b>	from Seed to Later stage venture <sup>1</sup> , including Technology Transfer
<b>Target Recipients</b>	SMEs, Small Mid-caps and Technology Transfer projects
<b>Target areas</b>	ICT, industrial automation, AI, robotics, blockchain, fintech, LS, cybersecurity, quantum technologies, IoT, cloud computing, clean and sustainable technologies, social entrepreneurship, biotech, etc

### Technology Transfer

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Activities carried out by universities or other higher education institutes performing research and other research organisations aiming at:

- converting research, development, skills, knowledge, technologies or innovations into commercial applications, products, processes or services; and/or
- fostering the application of existing technology to develop innovative products, processes or services for existing and new markets.

Examples of activities: proof of concept, technology validation, technology demonstration, prototyping, market development, scaling up, IP out-licensing, IP in-licensing, cross-licensing activities, sale of patents and/or other IP assets

Please note that the Call supersedes any information given in this presentation

<sup>1</sup> Definitions as per Invest Europe

# Growth window

## Investment strategy

### Key elements

**Objective** alleviate the long-lasting negative economic impact of the COVID-19 crisis

**Investment stage** from Later stage venture to Growth capital<sup>1</sup>, including Buyouts

**Target Recipients** SMEs, Small Mid-caps and Mid-caps

**Target areas** Sector agnostic, but with the focus on companies in growth and expansion stages

### Growth capital<sup>1</sup>

A type of private equity investments in relatively mature companies that are looking for primary capital to expand and improve operations or enter new markets to accelerate the growth of the business

*Please note that the Call supersedes any information given in this presentation*

<sup>1</sup> Definitions as per Invest Europe

# Infrastructure window

## Investment strategy

### Key elements

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<b>Objective</b>	accelerate the green and digital transition in priority sectors in the country
<b>Investment stage</b>	Greenfield and brownfield
<b>Target Recipients</b>	SMEs, Small Mid-caps and Mid-caps, and Infrastructure projects
<b>Target areas</b>	Energy, transport, communications, industrial and service facilities, housing, social developments and climate change technologies, etc

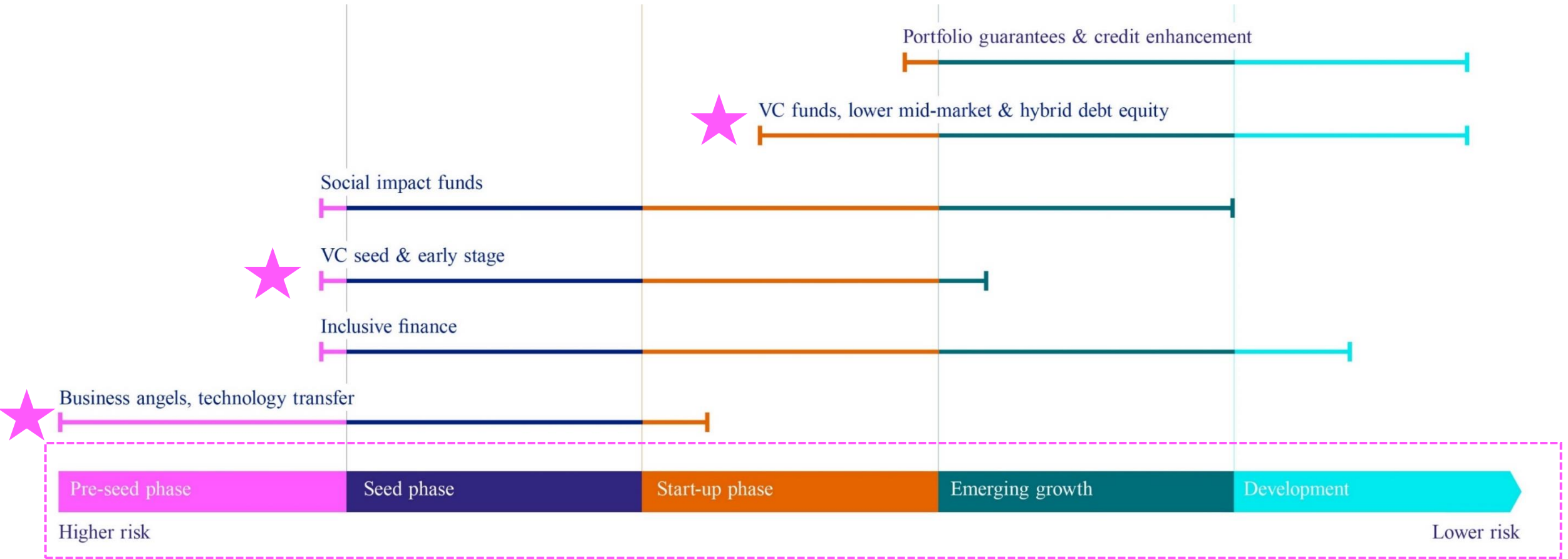
### Infrastructure project

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A project requiring long term capital relating to the construction or development of physical assets in numerous sectors including, among others, energy, transport, communications, industrial and service facilities, housing, social developments and climate change technologies

# Bulgaria Recovery Equity Fund

All investment stages





# Investment Strategy

## Target Recipients

- An amount at least equal to the total commitment from the Bulgarian REF to be invested in Target Recipients
- Target Recipients are companies and projects that, at the time of first investment:
  - have an establishment, **AND**
    - have their main activities (i.e. the main portion of their activities based on headcount, assets or primary focus of the company's business activities) in Bulgaria; **OR**
    - are planning to expand their operations into Bulgaria (as per business plan). For companies with expansion plans and early stage portfolio companies with insignificant operations, assessment shall be based on the portfolio company's business plan at the time of the first investment.
  - In the case of Technology Transfer projects or Infrastructure projects/assets, they have to be located in Bulgaria.

# Investment Strategy

## Additional elements on investments

- Equity and quasi-equity investments:
  - **Equity**: provision of capital, invested directly or indirectly in return for total or partial ownership and where the equity investor may assume some management control of the firm and may share the firm's profits.
  - **Quasi-equity**: independent of its legal form, the type of financing that, ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity.
- Replacement capital (excluding strategies intended for asset stripping) may also be permitted
- Investments in companies listed on the official list of a regulated market are not allowed
- EIF Restricted sectors and Do No Significant Harm (DNSH) principle applied across investments
- RRF visibility requirements

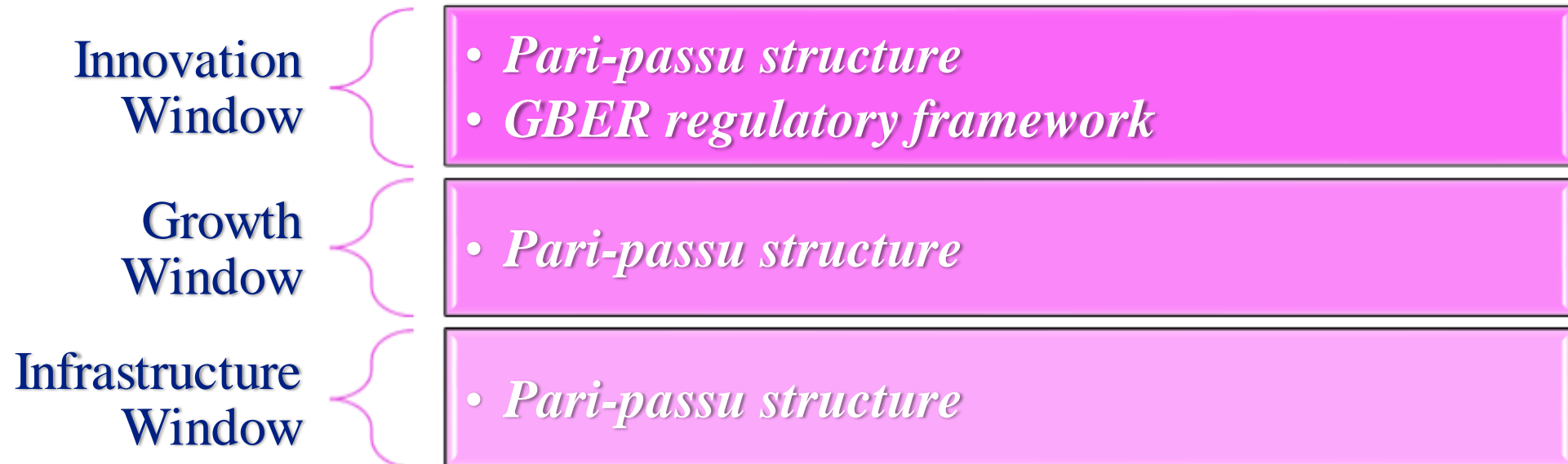
# Investment Strategy

## Additional elements on funds

- **Independent teams** that take the management and investment decisions without the influence of investors, sponsors or any other third party which is not integrated in the structure
- Investors' representatives shall be appointed on appropriate **advisory committee** structures to review, inter alia, conflicts of interest
- International team members or partnerships with international funds and newly set up teams are eligible
- Typical **investment period** is 5+1 years
- Typical **duration of fund** is 10+1+1 years for equity and 15+1+1 for infrastructure
- Fund shall be managed based on **commercial principles**
- The **management fees** should be proportional to the operational requirements of the Underlying Fund and the investment strategy
- **Reporting requirements** as per Invest Europe guidelines (additional RRF & State aid reporting may apply)

# State aid options

- As the REF is financed with public resources of the Republic of Bulgaria, its investments are subject to State aid rules and regulations
- Depending on the investment Window, different state aid options are available:



<sup>1</sup> Definitions as per Invest Europe

# State aid options

- As the REF is financed with public resources of the Republic of Bulgaria, its investments are subject to State aid rules and regulations
- Under the *Growth and Infrastructure Windows*, the only applicable State aid option is the *Pari-passu structure* (i.e. State aid free option)
- Under the *Innovation Window*, two State aid options are possible:

1. *Pari-passu structure*

2. *GBER regulatory framework*

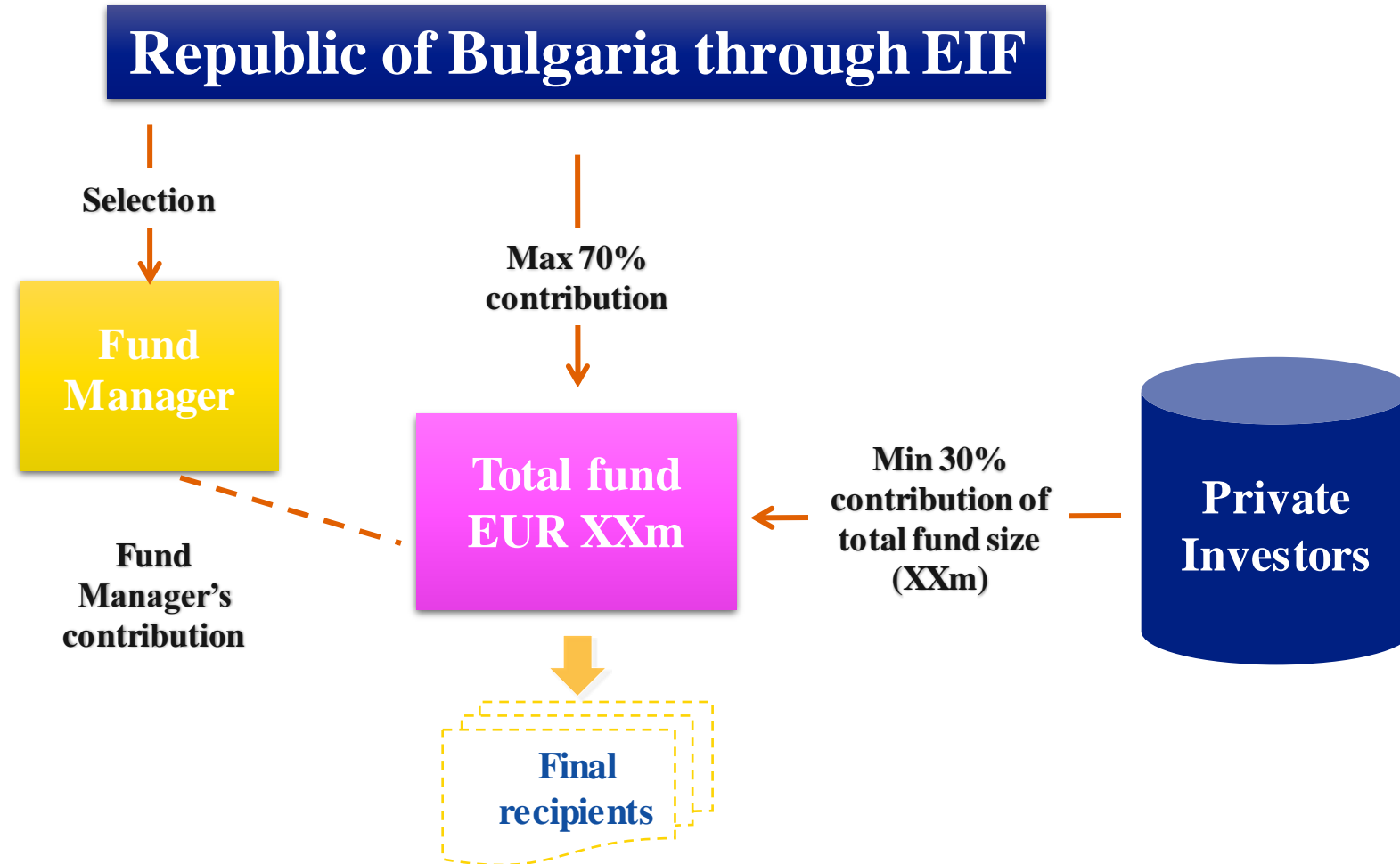
The applicable State Aid regime(s) will depend on the investment strategy proposed by the selected applicants and their ability to source private financing (which is *part of the quality assessment* criteria of applicants).

# Pari-passu structure at fund level

Growth & Infrastructure Windows (default), Innovation Window (optional)

- *Diversification limit*: typically up to 15% of the total fund size in any single investee at any point in time (limit increase subject to AB approval)
- A minimum of *30% Private Investors' contribution* at the Underlying Fund level on a '*pari passu*' *basis* (same terms and conditions between public and Private Investors and therefore the same level of risk and rewards)
- *Pari-passu distribution cascade* for all investors
- Intervention of public and private resources always *simultaneous* (inherent in equity fund's structure)
- In addition to micro, small or medium sized enterprises (SMEs), *non-SMEs* may also be targeted
- *Prohibited investments* in companies:
  - that have received illegal State Aid which has not been fully recovered
  - listed on the official list of a stock exchange or a regulated market
  - operating in restricted sectors (EIF & RRF DNSH rules)

# Pari-passu at fund level



# GBER regulatory framework

Innovation Window (optional)

- GBER Regulatory framework requirements:

Targeting enterprises that, at the time of initial investment or follow-on investment:	Minimum required financing from Independent Private Investors at fund level
have not been operating in any market,	10% private participation
have been operating in any market for any of the following <ol style="list-style-type: none"> <li>i. less than 10 years following their registration; or</li> <li>ii. less than 7 years after their first commercial sale</li> </ol>	20% private participation <i>(thus the Fund shall need to syndicate with Independent Private Investors on enterprises level, unless the weighted average participation rate in already existing portfolio, as mentioned above, covers the shortfall)</i>
they require an initial risk finance investment which, based on a business plan prepared in view of a new economic activity is higher than 50% of their average annual turnover in the preceding 5 years	30% private participation <i>(thus the Fund shall need to syndicate with Independent Private Investors on enterprises level, unless the weighted average participation rate in already existing portfolio, as mentioned above, covers the shortfall)</i>

<sup>2</sup> Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (Text with EEA relevance) Text with EEA relevance, [EUR-Lex - 02014R0651-20210801 - EN - EUR-Lex \(europa.eu\)](#), as amended from time to time, Article 21(5)



# GBER regulatory framework

## Innovation Window (optional)

- Maximum amount of risk finance per company does not exceed *EUR 16.5m*
- The Fund shall invest in enterprises *qualifying as SMEs* in both initial and follow-on financing rounds
- The Fund may provide support for *replacement capital only if* the latter is *combined with new capital* representing at least 50% of each investment round into the eligible undertakings
- *Preferential treatment of private investors* is possible (public investor returns capped at hurdle rate)
- *Prohibited investments* in :
  - companies in difficulty
  - companies that have received illegal State aid which has not been fully recovered
  - companies operating in additional not supported activities as per Art. 1 of GBER
  - companies operating in restricted sectors (EIF & RRF DNSH rules, as defined in the Call for EoI)

<sup>2</sup> Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (Text with EEA relevance) Text with EEA relevance, [EUR-Lex-02014R0651-20210801 - EN - EUR-Lex \(europa.eu\)](#), as amended from time to time, Article 21(5)

# Application process

## Key elements

- The [Recovery Equity Fund of Funds of Bulgaria \(eif.org\)](https://eif.org) is already open
- Deadline for applications: 31 August 2025, 18:00 CET
- Application targeting more than one Windows is possible; it resides to the fund manager to make their case on how such an investment strategy can be successfully pursued
- Applications are evaluated on a **first come - first served basis**; this means that the Call remains open either until the deadline expires or the budget is fully committed to underlying funds

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*Our  
deployment  
&  
application  
processes*

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*The processes explained  
step-by-step*

# How to apply

The application process in three steps

## Step 1 *Info point*



Gain an overview of the mandate and dig deeper into the **Call for Expression of Interest documentation**, which includes:

- detailed product term sheets
- reporting requirements & templates
- FAQs
- and more

## Step 2 *Apply*



Send the application with all relevant documents to the indicated email address in the Call for Expression of Interest

## Step 3 *Selection*



Analysis of the application with all relevant documents



Expected 6-12 months from application to commitment agreement (depending on quality of information received, legal negotiation, etc)

# Our equity investment deployment process

A selective and rigorous approach involving EIF investment, risk, compliance, legal departments



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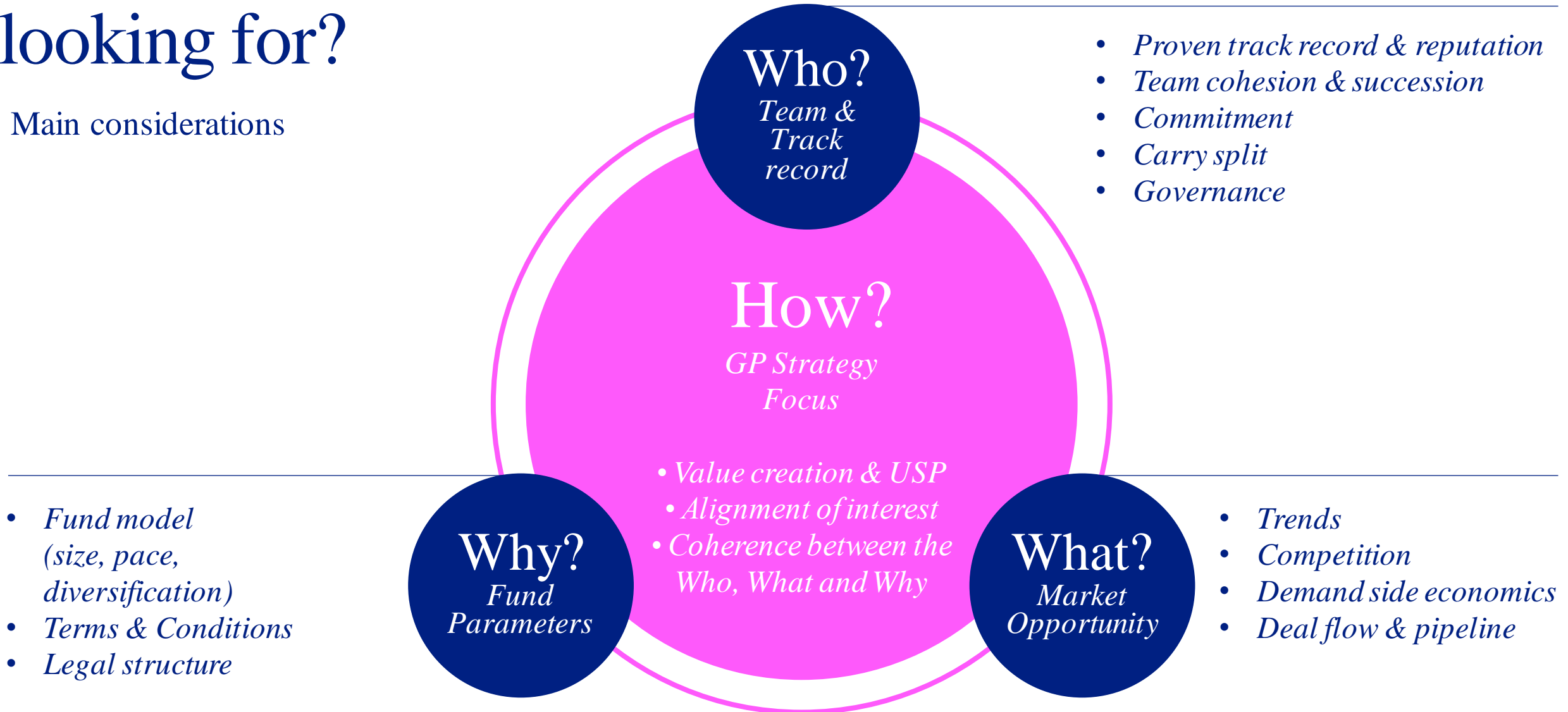
# *Our commercial due diligence process*

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*We perform a thorough  
review of the main aspects  
of the investment proposal.*

# What is the EIF looking for?

Main considerations



# Investment considerations

## Investment strategy

# 1

What

Investment focus:  
geography, sectors,  
investment stage, etc

Capital deployment  
& portfolio  
construction

Origination strategy

Value creation

Exit strategy

Why

Fit with the mandate  
requirements

Strategy consistency  
with team past  
experience

Ability to source  
investments in line  
with the strategy

Ability to create  
value during the  
holding period

When

From the 1<sup>st</sup> screening to Due Diligence



# Investment considerations

## Market

# 2

What

General macro overview of the targeted country

Overview of VC industry in the targeted market

Direct competition: other funds, family offices, etc

Indirect competition

Differentiation

Why

Attractiveness of the market

Analysis of differentiating angles: proposal vs market

When

From the 1<sup>st</sup> screening to Due Diligence

# Investment considerations

## Team

### 3

What

Team set-up:  
completeness &  
complementarity

Background, skills &  
experience

Hiring plan

Decision process

Deal team structure

Alignment of interest

Why

Assessment of team  
dynamics

Assessment of  
adequacy to invest  
and deploy

Completeness &  
workload analysis

Incentive scheme

Reputation

When

From the 1<sup>st</sup> screening to Due Diligence

One-to-one meetings during site visits

# Investment considerations

## Performance and benchmarking

### 4

What

Relevance and attribution

Case study: origination, value creation & exit skills

Case study: lessons learnt

Current performance

Expected performance

Why

Assessment of relevance and attribution

Assessment of the performance

Benchmarking

When

From the 1<sup>st</sup> screening to Due Diligence  
Reference calls with previous employers, portfolio companies

# Investment considerations

Structure, governance and budget

# 5

What

Legal structure:  
SPVs, carried interest  
vehicle, etc

Regulated vs  
unregulated structure

Shareholding  
structure

Decision making

Budget

Why

Compliance  
assessment of the  
structure

Assessment of  
indecenty of  
decision making

Budget review:  
viability and surplus  
analysis

When

From the 1<sup>st</sup> screening to Due Diligence

Budget review during Due Dilligence

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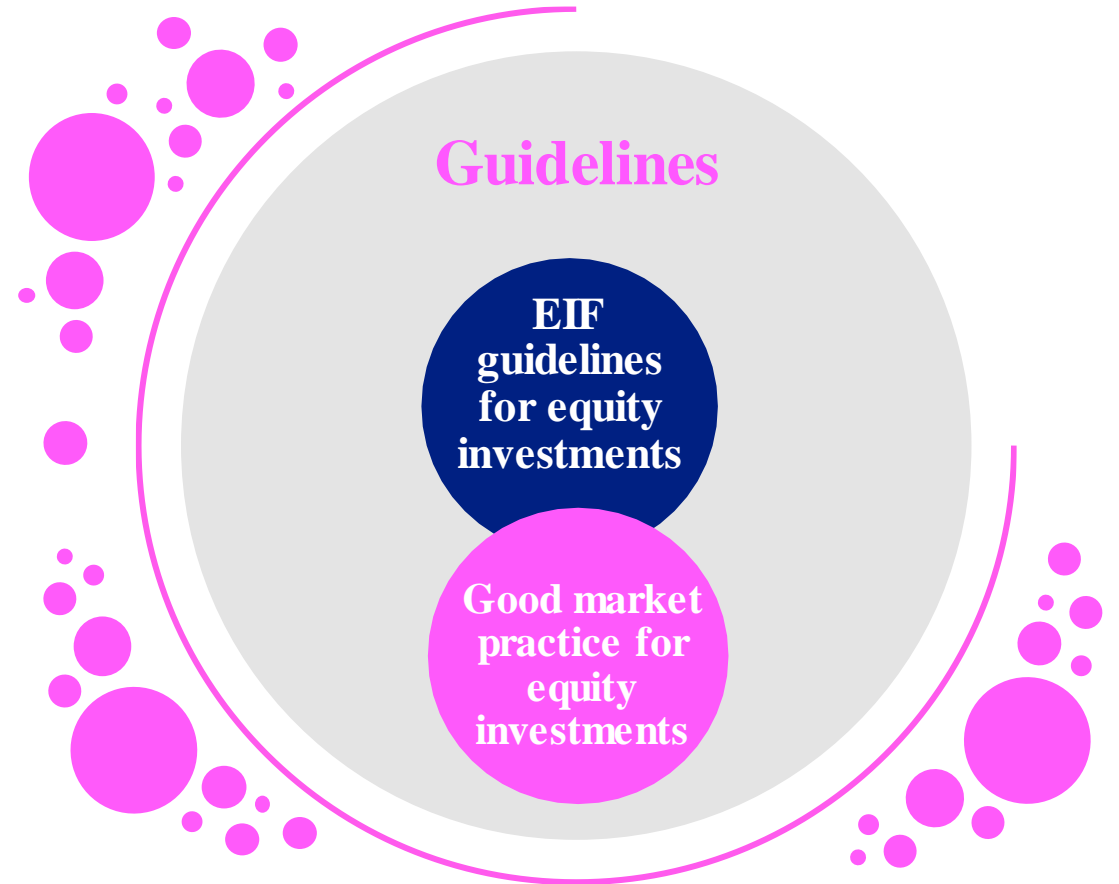
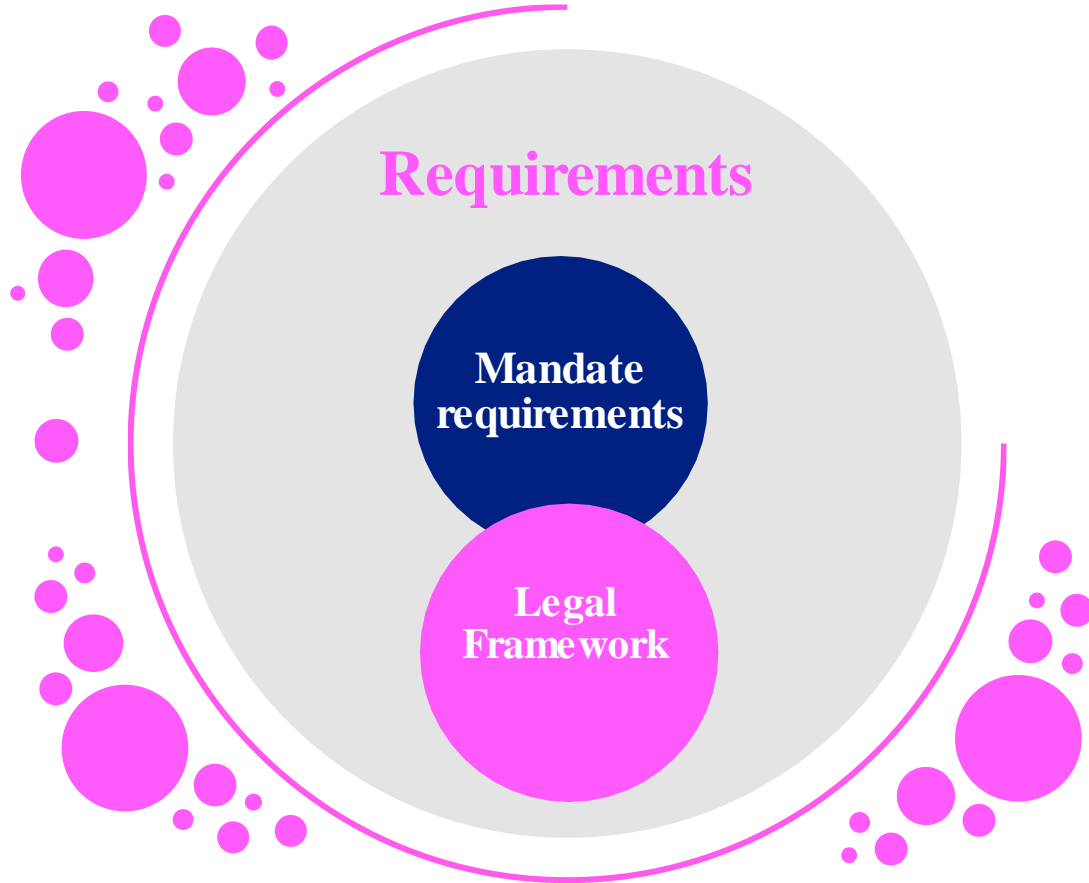
# *Legal negotiation*

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*We ensure that mandate requirements and good market practices are implemented.*

# Specific legal framework

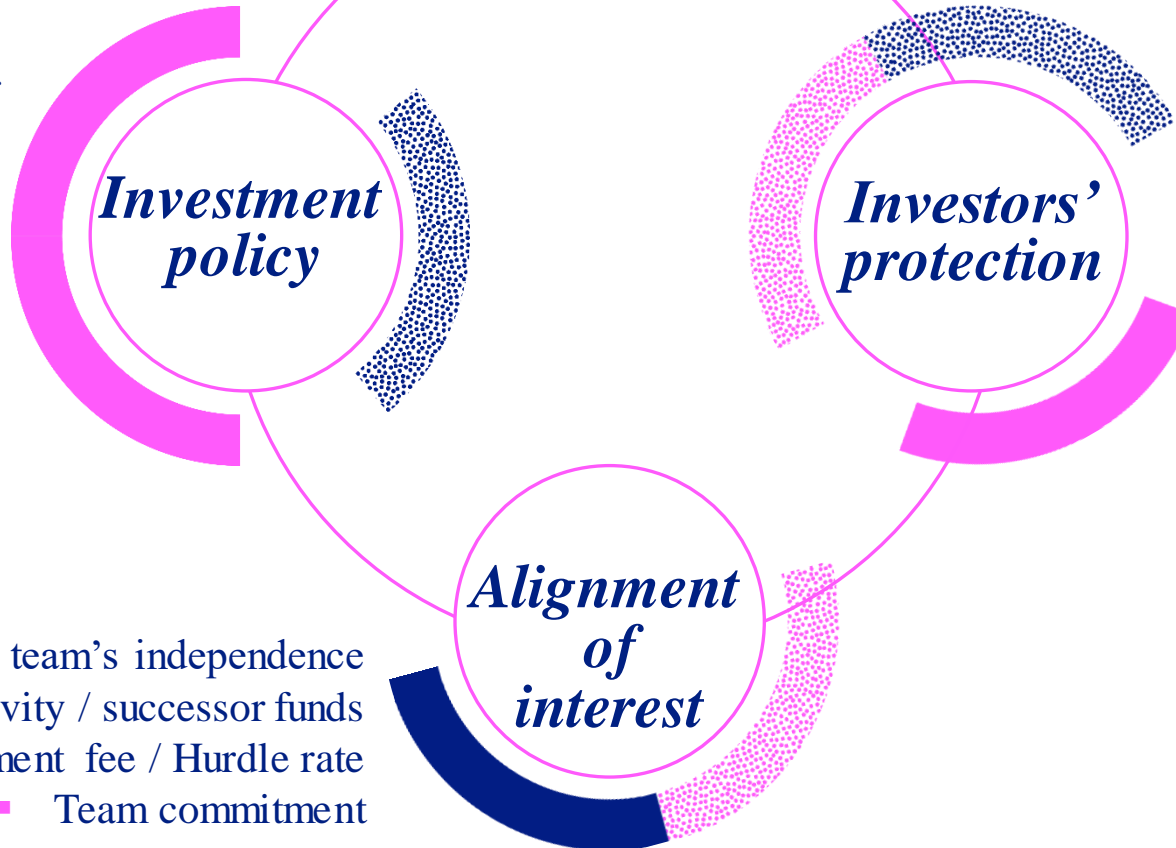
## Requirements and guidelines



# Key terms and conditions

## Investment guidelines and investors' protection

- Geographic and sector focus
- Investment period and duration of the fund
  - Concentration limit (single investment, sector, vintage, etc)
    - Co-investment policy
    - Cross-over investments
      - Reinvestments
- Borrowing and landing rights



- Fund governance & team's independence
- Dedication and exclusivity / successor funds
- Appropriate management fee / Hurdle rate
  - Team commitment

- Limited liability of investors
  - Pari-passu treatment
- Key person / change of control
- Removal of the fund manager (for cause and without cause)

# *Follow our stories and work on social media*



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