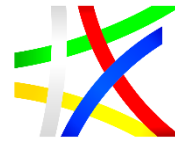




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ДОБРО УПРАВЛЕНИЕ

**„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

# **FINAL REPORT**

## **ANNEX №1.2**

### **FINAL VERSION OF**

### **CONCEPT FOR INVESTMENT**

### **STRATEGY FOR IMPLEMENTATION**

### **OF FINANCIAL INSTRUMENTS IN**

### **THE FIELD OF EDUCATION**

#### **LOT № 5**

**„Preparation of ex-ante assessment for implementation of financial instruments under Operational Programme “Science and Education” 2021-2027**

**Contractor:**

**Consortium „PROJECT CONSULT”**

**August 2021**



## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

### **CONTENTS**

<b>1. INTRODUCTION.....</b>	<b>8</b>
<b>2. FINANCIAL PRODUCTS PROPOSED .....</b>	<b>9</b>
<b>3. TARET GROUP OF FINAL RECEPIENTS.....</b>	<b>11</b>
<b>4. NECESSITY FOR DIFFERENTIAL TREATMENT OF INVESTORS.....</b>	<b>12</b>
4.1. Assessment of the possibilities to attract additional investments under the PE 2021-2027 .....	12
4.2. Identification of incentives to attract private investors and analysis of possible mechanisms for their provision .....	13
<b>5. COMBINATION WITH OTHER FORMS OF SUPPORT, INCLUDING GRANTS .....</b>	<b>14</b>
<b>6. STRUCTURE AND MECHANISM FOR MANAGING THE FINANCIAL INSTRUMENT. ....</b>	<b>15</b>
6.1. Analysis of possibilities for management of the financial instrument under the PE 2021-2027 .....	15
6.2. Structuring the management and monitoring processes for the implementation of the financial instrument under the PE 2021-2027 .....	16
<b>7. MEASURES TO BE IMPLEMENTED TO ENSURE THAT THE IMPLEMENTED FINANCIAL INSTRUMENT IS USED TO COVER SPECIFIC MARKET NEEDS EFFICIENTLY, IN ACCORDANCE WITH THE OBJECTIVES OF THE PROGRAMME CONCERNED AND WITHOUT RESTRICTING PRIVATE FINANCING .....</b>	<b>17</b>
7.1. Preparation of a proposal for a mechanism of measures to ensure the efficient implementation of the financial instrument under PE 2021-2027 without limiting private financing .....	17
7.2. Preparation of a proposal for a mechanism of measures to ensure compliance with the objectives of the PE 2021-2027 when implementing the financial instrument .....	18
<b>8. OUTPUT INDICATORS .....</b>	<b>19</b>
<b>9. EXIT STRATEGY.....</b>	<b>20</b>
<b>10. IDENTIFICATION OF POTENTIAL SOURCES OF CO-FINANCING .....</b>	<b>22</b>
<b>11. SYNERGY AND COMPLEMENTARITY OF SUPPORT THROUGH THE FINANCIAL INSTRUMENT UNDER THE DIFFERENT NATIONAL OPERATIONAL PROGRAMMES.....</b>	<b>23</b>



ЕВРОПЕЙСКИ СЪЮЗ  
ЕВРОПЕЙСКИ  
СОЦИАЛЕН ФОНД



ОПЕРАТИВНА ПРОГРАМА  
ДОБРО УПРАВЛЕНИЕ

**„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

**12. SIGNIFICANT PARAMETERS TO BE MONITORED AND CHANGES THAT WILL LEAD TO NECESSITY TO REVISE AND UPDATE THE CONCEPT FOR INVESTMENT STRATEGY ..... 24**



**„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

**LIST OF ABBREVIATIONS AND TERMS USED**

<b>Beneficiary</b>	Public or private organisation or individual responsible for initiating operations or for initiating and implementing them;  In the context of financial instruments - the organisation implementing the holding fund or, where there is no holding fund structure, the organisation implementing the specific fund or, where the managing authority manages the financial instrument, the managing authority
<b>Buyback Agreement</b>	Sale of securities for cash with an agreement to repurchase them at a future date or on demand
<b>Capital investment</b>	Provision of capital to a company by an investor in exchange for a share of the ownership of the company, in addition to which the investor may exercise certain managerial control over the company and participate in future profits
<b>Contribution from a programme</b>	Assistance from the Funds and national public and private co-financing, if any, for a financial instrument
<b>CPR</b>	Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund+, the Cohesion Fund, the European Maritime and Fisheries Fund and the financial rules applicable to them and to the Asylum and Migration Fund, the Internal Security Fund and the Border and Visa Management Instrument (Common Provisions Regulation)
<b>DCoM</b>	Decision of the Council of Ministers
<b>EC</b>	European Commission
<b>Effect of leverage</b>	Amount of reimbursable funding allocated to eligible final beneficiaries divided by the amount of the financial contribution from the ESIF
<b>ERDF</b>	European Regional Development Fund
<b>ESF+</b>	European Social Fund +
<b>ESIF</b>	European Structural and Investment Funds
<b>EU</b>	European Union
<b>Final recipient (FR)</b>	Legal or natural person receiving assistance from the Funds through a beneficiary of a small project fund or a financial instrument
<b>Financial Instrument (FI)</b>	Form of support through the use of an appropriate structure with which financial products are provided



**„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

<b>Financial product</b>	Equity or quasi-equity investments, loans and guarantees as defined in Article 2 of Regulation (EU, Euratom) No 1046/2018 ("the Financial Regulation")
<b>FMFIB</b>	"Fund Manager of Financial Instruments in Bulgaria" EAD
<b>Guarantee</b>	Written undertaking to assume responsibility for all or part of a third party's debt or obligation, or for that third party's successful performance of its obligations, in the event of an event giving rise to the guarantee, such as a default on a loan payment
<b>Guarantee on request</b>	Guarantee to be paid by the guarantor at the request of the counterparty, irrespective of whether there are obstacles to the enforceability of the underlying obligation
<b>Holding Fund</b>	Fund established under the responsibility of a managing authority under one or more programmes for the purpose of implementing financial instruments through one or more special funds
<b>ICT</b>	Information and communication technologies
<b>MA</b>	Managing Authority
<b>Management costs</b>	Direct or indirect costs recoverable on production of evidence and incurred in the process of implementing financial instruments
<b>Management fees</b>	The price for services provided as set out in the financing agreement between the managing authority and the organisation implementing the holding fund or special fund; and, where applicable, between the organisation implementing the holding fund and the organisation implementing the special fund
<b>MF</b>	Ministry of Finance
<b>Multiplier effect</b>	Amount of investment made by eligible final recipients divided by the amount of the Union financial contribution
<b>Operation</b>	In the context of financial instruments, means the financial contribution from a financial instrument programme and the subsequent financial assistance provided to the final recipients by the relevant financial instrument
<b>PCIE</b>	Programme for Competitiveness and Innovation of Enterprise 2021-2027
<b>PE</b>	Programme for Education 2021-2027
<b>PHRD</b>	Programme Human Resources Development 2021-2027



**„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

<b>PRIDIT</b>	Programme for Research, Innovation and Digitalisation for Intelligent Transformation 2021-2027
<b>Quasi-capital investment</b>	Type of financing that ranks between equity and debt, that carries higher risk than senior debt and lower risk than the underlying equity, and that can be structured as debt, usually unsecured and subordinated, and in some cases convertible into equity, or preferred equity
<b>RI</b>	Research infrastructure
<b>R&amp;D</b>	Research and development
<b>SME</b>	Small and medium-sized enterprises
<b>Special Fund</b>	Fund through which a managing authority or holding fund provides financial products to final recipients



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ДОБРО УПРАВЛЕНИЕ

## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

### **LIST OF TABLES**

Table 1 Proposal for the inclusion of a new output indicator to assess the contribution of the implementation of the FIs to the achievement of the Priority 3 indicators under the PE 2021-2027 19



## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

### **1. INTRODUCTION**

The final version of the Concept for investment strategy for implementation of the financial instruments in the field of "Education" has been prepared and submitted as part of the Contract № ДОГ-25/06.03.2020 with subject: "Preparation of ex-ante assessment for implementation of financial instruments under operational programmes in the programming period 2021-2027", Lot № 5: Preparation of ex-ante assessment for implementation of financial instruments under the Operational Programme "Science and Education" 2021-2027. Additional Agreement-1 to the Contract № ДОГ-25/ 06.03.2020 has been signed pursuant to the provisions of Decision № 495 of the Council of Ministers dated 21 of July 2020 amending and supplementing Decision № 196 of the Council of Ministers dated 11 of April 2019 approving the Analysis of the Socio-Economic Development of Bulgaria 2007-2017 setting up the national priorities for the period 2021-2027, the list of policy objectives to be supported during the programming period 2021-2027, and the list of programmes and responsible institutions for their development, Operational Programme "Science and Education" has been renamed to "Programme for Education" and "Programme for Research, Innovation and Digitalization for Intelligent Transformation" has been established. According to part of the provisions of the Additional Agreement-1, it is necessary to prepare Concept for investment strategy for implementation of the financial instruments in the field of "Education".

The subject of the procurement procedure is directly related to the requirement of Art. 58 of the CPR, stipulating that the decision to provide a financial contribution for financial instruments shall be based on an ex-ante assessment. The assessment aims at recommending an appropriate amount of the contribution from the programme to the financial instrument, the type of financial products and the target group of final recipients as well as the expected contribution of the FI for the achievement of the relevant programme's specific objectives. The ex-ante assessment will serve as a basis for the development of investment strategies for the implementation of support through FI under the programmes for the programming period 2021-2027.

The content and scope of the final version of the Concept for investment strategy for implementation of the financial instruments in the field of education are fully compliant with the requirements of the Technical specification as part of the procedure with subject "Preparation of ex-ante assessments for implementation of financial instruments under the operational programmes in the 2021-2027 programming period".





## „Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”

### 2. FINANCIAL PRODUCTS PROPOSED

The main objective set by structuring a financial instrument within the framework of the PE 2021-2027 is to encourage potential target groups to invest in entrepreneurial skills, through easier access to financial resources, on more favourable terms and conditions, and by further incentivising them by financing the FI entirely with programme funds.

The researched experience in the implementation of the FI in the field of education at EU level, as well as the nature of the types of actions targeted by the financial instrument in the field of **support for the start-up of own business or other entrepreneurial activity by students, postgraduates and lecturers in all higher education institutions** provide a rationale for the financial instrument to include equity financial products in the form of equity and quasi-equity investments and debt financial products in the form of loans and guarantees.

Equity investing is the provision of capital to a company, invested directly or indirectly in return for the acquisition of full or partial ownership in that company, and the equity investor may exercise some managerial control over the company and participate in the distribution of its profits. The financial return depends on the growth and profitability of the enterprise. It is generated from dividends and from the sale of shares to another investor or from the public issue of new shares.

Quasi-equity investing is a type of financing that is classified between equity financing and debt, having a higher risk than senior debt and a lower risk than equity. Quasi-equity investing can be structured as debt, usually subordinated and in some cases convertible into equity or preferred equity. The risk-return profile typically falls between debt and equity in the capital structure of the enterprise.

Loan is an agreement which obliges the lender to provide the borrower with an agreed sum of money for a specified period and under which the borrower undertakes to repay that sum within the agreed period. The financial instrument is useful in that it can provide a loan where banks are reluctant to lend on terms acceptable to the borrower. They can offer lower interest rates, longer repayment terms and have lower collateral requirements.

Guarantee is a written undertaking to assume liability in respect of all or part of a debt or obligation of a third party, or in respect of the successful performance by that third party of its obligations, in the event of an event giving rise to the activation of the guarantee, such as a default on a loan. Typically, guarantees cover financial transactions such as loans.

Determining the size of the financial instrument is about finding a balance between the analysis of demand from the target groups surveyed and the need to motivate banks and other potential financial intermediaries to participate in the implementation of financial instruments, taking into account the costs and effort of administering the specific requirements of EU funding and the potential benefits of management fees and co-financing interest. The analysis of lessons learned in the country from the implementation of financial instruments in the 2014-2020 period shows that banks and/or financial intermediaries have a certain interest in structuring financial instruments with a minimum public



## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

resource in the range of EUR 10-15 million. This minimum amount can be defined as optimal for the structuring of a financial instrument under PE 2021-2027 in view of the analyses of the resources needed from the studies carried out on the implementation of financial instruments among the target groups under PE 2021-2027. The resulting total value of BGN 3 711 250 or around EUR 1 897 500 could be increased about 8-10 times over the whole programme period or reaching a total value of the required financial support of EUR 16 760 598. The implementation of this financial resource would be greatly facilitated by a massive awareness campaign on the benefits of the application of the financial instrument in the area of support for the start-up of own business or other type of entrepreneurial activity by students, postgraduates and lecturers, as well as by the implementation of precise and targeted market consultations in the process of structuring the financial products under the proposed financial instrument in the framework of the PE 2021-2027. An additional advantage of the proposed structure of the financial instrument will be the possibility of sufficient flexibility for the Managing Authority and the Financial Intermediary in the processes of managing the financial resources and the corresponding monitoring and control of their spending.

The analyses carried out on the areas and resources for the implementation of the financial instrument under the PE 2021-2027 include the allocation of financial resources amounting to EUR 16 760 598 for a financial instrument to support the start-up of own business or other entrepreneurial activity by students, postgraduates and lecturers in higher education institutions, including equity financial products in the form of equity and quasi-equity investments and debt financial products in the form of loans and guarantees. This proposed resource is in line with the expressed interest among the target groups in the area of support for the start-up of own business or other entrepreneurial activity by students, postgraduates and lecturers, as well as with the legislative steps taken to facilitate the process of credit financing of public higher education institutions in a total amount of up to BGN 20 000 000 per year or about EUR 10 000 000. Additionally, the fact that this type of support will be applied for the first time in the framework of the PE 2021-2027 is taken into account and it is appropriate to take a prudent approach in planning the funds.

The distribution of funds within the proposed amount of EUR 16 760 598 includes EUR 13 305 611 of EU funding and national co-financing of EUR 3 454 987. For the determination of the national co-financing in nominal value, a % has been applied for the distribution of the grant in a ratio of 33% for the region in transition (South West region) and 67% for the less developed regions and the corresponding national co-financing for the region in transition - 30% and for the less developed regions - 15%. The detailed calculations are presented in Annex 1.3 of the Final Report.



## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

### **3. TARET GROUP OF FINAL RECEPIENTS**

The target groups targeted by the financial instrument include:

- students, postgraduates and teachers in all higher education institutions;
- higher education institutions.

The proposal for structuring of the financial instrument within the PE 2021-2027, comprises the following types of actions by specific objectives and priorities:

#### **PRIORITY 3 - LINKING EDUCATION TO THE LABOUR MARKET**

*SO under Article 4, par. 1(e) - Improving the quality, inclusiveness, efficiency and relevance of education and training systems to labour market needs, including by validating non-formal and informal learning so that it contributes to the acquisition of key competences, including entrepreneurial and digital skills, also by promoting the introduction of dual systems of training and apprenticeships*

- ✚ Career guidance of students through internships and development of entrepreneurial skills, including:
  - Encouraging entrepreneurship and innovation in higher education institutions in the digital economy, supporting and stimulating socially engaged activities of students and teachers within the region, including enhancing the project competences of HE teachers to work in European and other projects and networks, including in a multicultural and multilingual environment.

These types of actions may be subject to change and must correspond to the types of actions described in the final draft of the Programme for Education 2021-2027.



## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

### **4. NECESSITY FOR DIFFERENTIAL TREATMENT OF INVESTORS**

Under the CPR, assistance from the funds to financial instruments that invest in final recipients, as well as any income generated by those investments that can be attributed to the assistance from the funds, can be used to differentially treat market economy investors through appropriate risk and profit sharing.

The level of such differential treatment may not exceed what is necessary to create incentives to attract private funds, as established by a competitive procedure or independent evaluation.

The common methodology for the preparation of ex-ante evaluations allows for the following:

- ✓ Asymmetric profit sharing (e.g., sharing rate is not equal to infrastructure investors);
- ✓ Asymmetric loss sharing (e.g. guarantee schemes covering the initial risk of loss on loans);
- ✓ Asymmetric provision of public and private funds;
- ✓ Preferential payment of management fees to Fund Managers to the extent that they are also co-investors;
- ✓ Preferential exemption regime (underwriting, on non-negotiated funds).

The key parameter for evaluating preferential remuneration schemes would be a combination of the rate of return provided to private investors and the proportion of risk they take.

#### **4.1. Assessment of the possibilities to attract additional investments under the PE 2021-2027**

In principle, additional public and private resources that can be generated in addition to the resources of a financial instrument include:

- ✓ additional resources at fund level;
- ✓ financial or non-financial resources (such as land part of an investment project, etc.).







It is expected that the final recipients and financial intermediaries/independent private investors will not inject their own resources when implementing support through the proposed financial instrument. One of the main obstacles to attracting private investors in structuring a financial instrument under the PE 2021-2027 is the inability to apply high leverage. Differential treatment of investors could be applied if a need to attract additional investment from financial intermediaries/independent private investors is identified at a later stage of the implementation of the financial instrument under the PE 2021-2027.



## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

### **4.2. Identification of incentives to attract private investors and analysis of possible mechanisms for their provision**

Insofar as financial instruments in the field of education are being implemented for the first time in the 2021-2027 programming period, leveraging additional resources should not be among the objectives of the proposed financial instrument in its first implementation. The inclusion of additional resources requires that the financial instruments generate revenues from implementation in order to cover costs to investors. The introduction of interest on the resource provided by financial instruments may make them unattractive in general, especially where experience in implementing them has not yet been gained. In selecting financial intermediaries/independent private investors, the following main criteria can be applied:

-  to have experience in financing start-ups and/or those that have achieved a positive financial result;
-  to have experience in managing financial instruments with private equity and debt financing products;
-  to implement a strategy and process to identify final recipients;
-  to apply transparent market practices;
-  to have a presence and/or interest in Bulgaria and/or the CEE region;
-  to have a sufficiently credible market reputation.

The remuneration foreseen for financial intermediaries/independent private investors in the implementation of support through a financial instrument under PE 2021-2027, in the form of management costs and fees, which can be declared as eligible costs, are in accordance with the thresholds of Art. 68 of CPR, as follows: 5 % for loans and guarantees and 7 % for equity and quasi-equity investments for the management of a holding fund and 7 % for loans and guarantees and 15 % for equity and quasi-equity investments for the management of a specific fund of the total amount of the contribution from the programme paid to the final recipients. There is some risk that, if the proposed financial instrument is poorly capitalised, the remuneration costs for financial intermediaries/independent private investors under the Regulation will be insufficient to cover the costs of implementing the instrument, and provision should be made to remunerate financial intermediaries/independent private investors above the permissible thresholds under the CPR, and conversely, if the capitalisation is good, it is also possible to seek levels for the remuneration thresholds for financial intermediaries/independent private investors. At full capitalisation of the proposed financial instrument under the PE 2021-2027, the level of remuneration for financial intermediaries/independent private investors under the different options considered for structuring the financial instrument varies between EUR 2.1 million and EUR 2.7 million.



## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

### **5. COMBINATION WITH OTHER FORMS OF SUPPORT, INCLUDING GRANTS**

The proposal for structuring a financial instrument within the PE 2021-2027 is by financing it entirely with programme funds made available under Priority 3 of the PE 2021-2027. Given the cautious approach taken to include limited resources for structuring a financial instrument under PE 2021-2027, the introduction of additional conditions for funding by the final recipients or the financial intermediary could lead to an outflow of some potential participants in the process, both at the level of the final recipients and at the level of the financial intermediary. In principle, support for structuring financial instruments with grant is appropriate for investments where market incentives are not sufficient to make them happen. At present, the market is not a sufficient incentive for the development of education in the country and support with public funds is needed, as has been the practice in Bulgaria so far, with the OP SESG being the main source of funding for education projects. In this respect, no combination with other forms of support is foreseen in the structuring of the financial instrument under the PE 2021-2027.





## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

### **6. STRUCTURE AND MECHANISM FOR MANAGING THE FINANCIAL INSTRUMENT**

#### **6.1. Analysis of possibilities for management of the financial instrument under the PE 2021-2027**



In terms of the management mechanism of the financial instrument, it is important to note that during the 2014-2020 programming period, no financial instruments and products were implemented in Bulgaria to support projects in the field of education with funds from OP SESG 2014-2020. Of the current financial instruments in the country, there is no instrument suitable to be upgraded for the purpose of implementing financial instruments in the field of education. It is therefore necessary to structure the proposed financial instrument in the field of education as an entirely new instrument with corresponding financial products. Taking into account the experience gained in Bulgaria so far, as well as the specificity of the proposed financial instrument within the PE 2021-2027, it is foreseen that the MA of the PE 2021-2027 will provide financial resources, entirely from the ESF+ programme and the corresponding national co-financing, to a Fund Manager. The Fund Manager, through an investment intermediary (financial institution) or directly, will provide financial products in the form of equity or debt financing to the final recipients.

The Fund Manager (in case of direct provision) or the Investment Firm shall be a credit or financial institution in accordance with Article 2 or Article 3 of the Credit Institutions Act. For the selection of an organisation to act as Fund Manager Regulation 2018/1046 specifies that Managing Authorities may directly award contracts to public banks or institutions. However, in order to ensure that this possibility of direct outsourcing remains compatible with the principles of the internal market, strict conditions should be established which must be met by public banks or institutions. Those conditions should include the requirement that there should be no direct private equity participation, other than forms of private equity participation that do not involve controlling or blocking powers, in accordance with the requirements laid down in Directive 2014/24/EU. Public banks or institutions should be allowed to execute financial instruments where private equity participation has no impact on decisions on the day-to-day management of the financial instrument supported by the European Structural and Investment Funds.

Financial instruments under shared management are set up and managed at national or regional level, funded by the ESIF. The financial instruments applied are subject to the CPR and State aid regimes. The management of financial instruments under shared management is most often carried out by public banks or institutions in Member States specifically set up to manage financial instruments of the "Fund of Funds" type. In Bulgaria, the management of all FIs co-financed by the ESIF, in accordance with the current provisions of the Management of resources under ESIF Act, is carried out by the "Fund of Funds" (FMFIB EAD). There are also financial instruments managed at the EU level, but in the field of education there is not enough scope for their application due to their nature for strategic investment and subordination to the rules of the Invest EU programme for the period 2021-2027. The following options are possible for the implementation of a mechanism under shared management:



## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

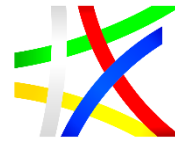
-  The Fund Manager is the "Fund of Funds" (FMFIB EAD) - under this option, the MA of PE 2021-2027 provides FMFIB EAD with the contracted funds from the programme. The FMFIB EAD prepares the rules for the disbursement and disbursement of the grant by the final recipients, and it may implement them directly or in cooperation with other financial lending institutions and funds. The advantages of this option of implementing the mechanism under shared management are that FMFIB EAD has an established structure with experience gained in the previous programming period, and it has a Coordination Unit which provides information and advice on the possible implementation of project ideas and investment intentions at different stages of development with appropriate support. As a drawback, it can be pointed out that FMFIB EAD has no experience in project management in the education sector;
-  Fund manager is a financial institution - under this option, the MA of PE 2021-2027 provides a selected financial institution with the contracted grants from the programme. The selected financial institution prepares the rules for the disbursement and disbursement of the grants by the final recipients, implementing them directly without the need to cooperate with other financial lending institutions and funds. The advantages of this option of implementing the mechanism under shared management are that the selected financial institution will have experience in providing different financial products and, if necessary, provide additional financing under the financial instrument. At the same time, according to the Management of resources under ESIF Act, Art. 5, para. Article 5(1) of the ESIF, financial instruments financed by the ESIF, with the exception of those under Article 39 of Regulation (EU) No 1303/2013, shall be implemented through a Fund of Funds.

### **6.2. Structuring the management and monitoring processes for the implementation of the financial instrument under the PE 2021-2027**

The management and monitoring processes of the proposed financial instrument within the PE 2021-2027 will be regulated through a financial agreement signed between the MA of the PE and the Fund Manager. Under this agreement, the Fund Manager will manage on its own behalf and on behalf of the MA of the PE the resource in relation to the financial instrument under the Programme. As part of the process, the Fund Manager will carry out a number of activities including:

- Preparation and conduct of tender procedures for the selection of financial intermediaries;
- Signing operational agreements with financial intermediaries;
- Monitoring the implementation of the financial instrument;
- Operational and financial reporting;
- Risk Management.





## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**






### **7. MEASURES TO BE IMPLEMENTED TO ENSURE THAT THE IMPLEMENTED FINANCIAL INSTRUMENT IS USED TO COVER SPECIFIC MARKET NEEDS EFFICIENTLY, IN ACCORDANCE WITH THE OBJECTIVES OF THE PROGRAMME CONCERNED AND WITHOUT RESTRICTING PRIVATE FINANCING**

The proposed financial instrument for implementation under the PE 2021-2027 needs to fulfil the following conditions:

- ✓ contribution to the achievement of the objectives of the PE 2021-2027;
- ✓ covering specific market needs;
- ✓ overcoming market failure;
- ✓ stimulating the attraction of capital from private investors.

#### **7.1. Preparation of a proposal for a mechanism of measures to ensure the efficient implementation of the financial instrument under PE 2021-2027 without limiting private financing**

The mechanism of measures to ensure the efficient implementation of the proposed financial instrument under the PE 2021-2027 should include, as a minimum, the following measures:




-  Funding in accordance with the thresholds for grants;
-  Support projects that attract private interest and capital;
-  Supporting projects that are not substitutes for private investment that would happen without the support provided;
-  Monitoring the implementation of the financial instrument to obtain timely information on its implementation;
-  Taking corrective action when proven necessary.



## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

### **7.2. Preparation of a proposal for a mechanism of measures to ensure compliance with the objectives of the PE 2021-2027 when implementing the financial instrument**

The mechanism of measures to ensure compliance with the objectives of the PE 2021-2027 in implementing the financial instrument should include, as a minimum, the following measures:

-  Verification of the contribution of the funded projects to the objectives of PE 2021-2027;
-  Check for eligible activities, eligible applicants, according to the proposed eligible activities and final recipients of support;
-  Ensuring transparency of the selection process of final recipients, while ensuring that the selection process avoids the possibility of conflicts of interest.



## „Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”

### 8. OUTPUT INDICATORS

In order to assess the contribution of the implementation of the financial instrument to the output indicators under Priority 3 of the Programme for Education 2021-2027, it is proposed to include the following output indicator, where the contribution of the financial instrument is 100%. The average value of investment in the earliest stages of start-up development in Bulgaria, which ranges between EUR 25-50 000 and EUR 200 000, has been used to determine the target value. Additionally, the common practice of making follow-up investments in some of the enterprises has been taken into account. Taking into account the accumulated expertise and practice from the application of financial instruments for equity investments in the earliest stage of enterprise development, an average value of around EUR 60 - 65 000 per support per start-up was used for the determination of the target value, where the number of supported start-ups was derived on the basis of the calculated amount of funds for the final recipients of EUR 14.32 million, with a 50%/50% distribution of the total amount of the financial instrument between equity and debt financing.

<i>SO under Article 4, par. 1(e) - Improving the quality, inclusiveness, efficiency and relevance of education and training systems to labour market needs, including by validating non-formal and informal learning so that it contributes to the acquisition of key competences, including entrepreneurial and digital skills, also by promoting the introduction of dual systems of training and apprenticeships</i>			
<b>End product indicator</b>	<b>Unit of measurement</b>	<b>Target value</b>	<b>Contribution from the FI</b>
Supported start-ups	number	227	100%

Table 1 Proposal for the inclusion of a new output indicator to assess the contribution of the implementation of the FIs to the achievement of the Priority 3 indicators under the PE 2021-2027



## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

### **9. EXIT STRATEGY**

The exit strategy is a strategy for the closure of the proposed financial instrument under the PE 2021-2027 and the transfer of the funds available at the time of closure of the financial instrument from the Fund Manager to the Managing Authority of PE 2021-2027. The strategy should be agreed between the MA of the PE and the Fund Manager as part of the process of concluding the agreement between them for the management of the funds under the financial instrument under PE 2021-2027.

In this regard, Article 62 of the CPR provides as follows:

1. Funds repaid to financial instruments before the end of the eligibility period from investments in final recipients or from the release of resources earmarked for guarantee contracts, including principal repayments and any type of income generated, which are attributable to the support of the Funds, shall be reused in the same or other financial instruments for additional investments in final recipients, to cover losses in the nominal amount of the Funds' contribution to the financial instrument arising from negative interest, if these losses occur despite active cash management, or for management costs and fees associated with such additional investments, taking into account the principle of sound financial management.
2. Member States shall adopt the necessary measures to ensure that funds referred to in paragraph 1 and repaid to financial instruments during a period of at least eight years after the end of the eligibility period are reused in accordance with the policy objectives of the programme or programmes under which they were received, either within the same financial instrument or, once those resources have left the financial instrument, in other financial instruments or forms of assistance.

The exit strategy may consider different options, such as:

#### Closure of a financial instrument:

When this option is reached, all funds available at the time of closure of the financial instrument (funds from the PE 2021-2027 and additional funds raised) are returned by the Fund Manager to the Managing Authority of the PE and co-investors.

#### Reuse of funds:

If this option is reached, an additional agreement between the Managing Authority of the PE and the Fund Manager is required for the reinvestment of a certain part of the resources of the proposed financial instrument;



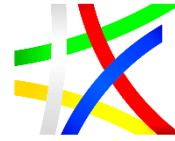
## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

### Exit by the Managing Authority of the PE:

When this option is reached, all funds available at the time of the closure of the financial instrument from the PE 2021-2027 shall be returned by the Fund Manager to the Managing Authority of the PE. Additional funds raised remain at the disposal of the Fund Manager;

### Exit by the Fund Manager:

If this option is reached, the additional funds raised remain at the disposal of the Fund Manager. The funds available at the time of closure of the financial instrument from the PE 2021-2027 may be reinvested by the Managing Authority of the PE in the same or another form.



## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

### **10. IDENTIFICATION OF POTENTIAL SOURCES OF CO-FINANCING**

The proposal for the structure of the financial instrument under the PE 2021-2027 is to be fully financed by the programme and therefore no co-financing from the final recipients and/or financial intermediaries and/or other sources of co-financing is foreseen.



**„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

**11. SYNERGY AND COMPLEMENTARITY OF SUPPORT THROUGH THE FINANCIAL INSTRUMENT UNDER THE DIFFERENT NATIONAL OPERATIONAL PROGRAMMES**

The proposed financial instrument is mainly intended to complement the grant support under the PE 2021-2027.

A direct synergy can be expected between the implementation of the proposed financial instrument within the framework of the PE 2021-2027 and the foreseen investments in the Key Area "Education and Skills" within Pillar 1: Innovative Bulgaria of the [Recovery and Sustainability Plan of the Republic of Bulgaria](#), under which reforms and investments are planned for the period 2021-2026. The implementation of the proposed financial instrument will support the reform efforts in higher education, specifically related to the development of a critical mass of human and material resources in key areas in order to support the competitiveness of the Bulgarian economy, but also widespread innovation and entrepreneurship throughout country. Within the Plan, a national map will be drawn up to support the connectivity of resources and programmes of higher education institutions, which will also allow for further qualitative specialisation, according to regional specificities and accumulated capacities, while providing the necessary basis for the development of research and the identification of priority units.







## **„Preparation of ex-ante assessments for implementation of financial instruments under operational programmes in the programming period 2021-2027”**

### **12. SIGNIFICANT PARAMETERS TO BE MONITORED AND CHANGES THAT WILL LEAD TO NECESSITY TO REVISE AND UPDATE THE CONCEPT FOR INVESTMENT STRATEGY**

This section analyses the essential parameters and changes to be monitored that would contribute to establish the appropriate environment for the implementation of the financial instrument under the Programme for Education 2021-2027.

Modification of the present Concept for investment strategy for implementation of the financial instruments under the Programme for Education 2021-2027 may be required and/or would be appropriate if the following conditions occur:

-  Changing policy priorities at national level;
-  Insufficient uptake of the financial instrument under PE 2021-2027;
-  Change in the preconditions for successful implementation of the financial instrument under the PE 2021-2027 - presence of an aggregate change or at least of a large part of the proposed measures to meet the preconditions;
-  Increase in the impact of any of the possible risks from institutional, administrative, legal, etc. aspects, which may significantly hamper the implementation of the financial instrument under the PE 2021-2027.