

# ASSIMILATION OF RESOURCES FROM THE OPERATIONAL PROGRAMME "SME INITIATIVE" 2014-2020 IN BULGARIA

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## **Abstract**

*In this paper, the Operational Programme "SME Initiative" has been presented during programming period 2014 – 2020 in Bulgaria. The absorption has been examined of the resources from the Programme until now. Major trends of assimilation of the resources from the Operational Programme "SME Initiative" during programming period 2014 – 2020 in Bulgaria have been outlined.*

**Key words:** *European Union, EU Funds, Operational Programme "SME Initiative", SME*

The examination of the extent of absorption from the Operational Programme "SME Initiative" in programming period 2014 – 2020 in Bulgaria is carried out with data for the planned, decided and spent resources under the Programme until now as well as some indicators for evaluation of the progress in absorption of the resources from the Operational Programme "SME Initiative" 2014 – 2020 such as total amount of the granted new credits by the financial intermediaries, number of supported enterprises, and share of enterprises which have successfully received financing by bank credit. Information has been used from the Ministry of finance and the Unified management information system for the EU structural instruments in Bulgaria 2020. The period of the research is from the beginning of the Programme until now.

## **1. Main characteristics of the Operational Programme "SME Initiative" in programming period 2014 – 2020 in Bulgaria**

The Operational Programme "SME Initiative" 2014 – 2020 aims to improve the access to debt financing for SMEs in Bulgaria. The strategy of the operational programme as part of the implementation of the European structural and cohesion funds in Bulgaria in accordance with the Partnership Agreement for the period 2014 – 2020 is closely related to the growth and employment objectives and to Bulgaria's contribution to the attainment of

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the Europe 2020 strategy complementary types of growth, namely sustainable and inclusive growth.<sup>1</sup>

SME Initiative is a joint programme of the European Commission and the European Investment Bank for financial instruments for SMEs during programming period 2014-2020, which main objective is to support enterprises by facilitating access to finance leading to increasing economic growth, job creation and strengthening the contribution of the European structural and investment funds to the instruments at EU level.

On 13 October 2015 the European Commission approved the Operational Programme „Small and medium sized enterprises (SME) Initiative“ 2014-2020. It is developed in accordance with the implementation of the SME Initiative in the European Union. Bulgaria is the third country in the EU which provides resources for SMEs through the instrument after Spain and Malta. Subsequently Finland, Italy and Romania are included.<sup>2</sup>

The budget of the Operational Programme amounts to 102 million euro, wholly from the EU under the European Regional Development Fund, since it does not require national co-financing. The funds are allocated from the Priority Axis 2 of OP "Innovation and Competitiveness" 2014-2020, provided for the implementation of a guarantee financial instrument. The portfolios of loans, except by the means of the Operational Programme, will be also guaranteed with funds from the Horizon 2020 Programme of the European Union, as well as with resources of the European Investment Fund and the European Investment Bank.

In March 2016 Bulgaria has signed the Financing agreement with the European Investment Fund and the Agreement between creditors with the European Union, the European Investment Bank and the European Investment Fund on the “SME Initiative“ implementation in Bulgaria during programming period 2014 – 2020. Managing Authority of the Operational Programme “SME Initiative” is Directorate General "European Funds for Competitiveness" at the Ministry of Economy. With the signature of the financing agreement the operational implementation of the financial instrument has been entrusted to the European Investment Fund.<sup>3</sup>

Under the Operational Programme “SME Initiative” 2014 – 2020 in Bulgaria one guarantee product is implemented. The product includes unlimited guarantees for providing capital advantage to financial intermediaries for new portfolios of debt financing of eligible SMEs, which is implemented under more favorable conditions in comparison to the implemented under the Operational Programme “Development of the competitiveness of the Bulgarian economy” similar product. The Operational Programme “SME Initiative” 2014 – 2020 is a continuation of the instrument for portfolio guarantees JEREMIE. The results from the JEREMIE instrument implementation are estimated as good. The Operational Programme “SME Initiative” 2014 – 2020 offers an advanced guarantee product which covers 60% of the credit risk for every SME credit without loss ceiling in the loan portfolio unlike the JEREMIE instrument covering 25% losses in the portfolio. This is due to the additional financing which Bulgaria receives from the Operational Programme and their combining with funds from the Horizon 2020 Programme and own

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<sup>1</sup> Operational Programme “SME Initiative” 2014 – 2020

<sup>2</sup> <http://www.opcompetitiveness.bg>

<sup>3</sup> <http://www.opcompetitiveness.bg>

financing of the European Investment Fund and the European Investment Bank. Losses in the created portfolio of new financing are covered by the issued by the European Investment Fund guarantees up to 60% at individual SME credit level and at least 20% of the credit risk is covered by the creditor bank.

In the financing agreement it is laid down for the operation to achieve a minimum leverage effect (the multiplication of the public funds with private resource) 4.3. More than 5000 granted loans are expected. In addition to the contribution of 102 million euro and the external financial resources, the indicative amount of the debt financing portfolio which should be generated is circa 600 million euro. The period during which the financial intermediaries can extend new loans to SMEs is until 31 December 2019.<sup>4</sup>

For the implementation of the financial instrument the European Investment Fund selects one or more financial intermediaries - public or private credit and financial institutions with national coverage on the territory of Bulgaria with which to conclude operational agreements.

The financial intermediaries carry out the selection of the final beneficiaries which should be operating SME. The sectors agriculture, gambling, tobacco, alcohol and others. Credits are granted for investments in tangible and intangible assets as well as for working capital. Only new business loans are eligible, refinancing of old loan commitments.

The minimum life of the loan should not be less than 24 months and should not exceed 12 years, while the maximum amount is up to 5 million euro.<sup>5</sup>

## **2. Analysis of the absorption of the resources from the Operational Programme “SME Initiative” during programming period 2014 – 2020 in Bulgaria**

Bulgaria begin to receive resources from the European Commission from the Operational Programme “SME Initiative” 2014 – 2020 in February 2016. At the end of 2016 the European Investment Fund signs operational agreements with ten financial intermediaries - United Bulgarian Bank AD, Raiffeisenbank Bulgaria EAD, UniCredit Bulbank AD, ProCredit Bank (Bulgaria) EAD, CIBANK EAD, Societe Generale Expressbank AD, DSK Bank EAD, Eurobank Bulgaria AD, Deutsche Leasing Bulgaria AD and Piraeus Bank Bulgaria AD. They begin to grant loans to SMEs in December 2016.

Table 1 shows the planned, received from the European Commission and spent resources under the Operational Programme “SME Initiative” during programming period 2014 – 2020 in Bulgaria over the period 2015 – 31 May 2018.

**Table 1** Planned, received from the European Commission and spent resources under the Operational Programme “SME Initiative” during programming period 2014 – 2020 in Bulgaria over the period 2015 – 31 May 2018 (million euro)

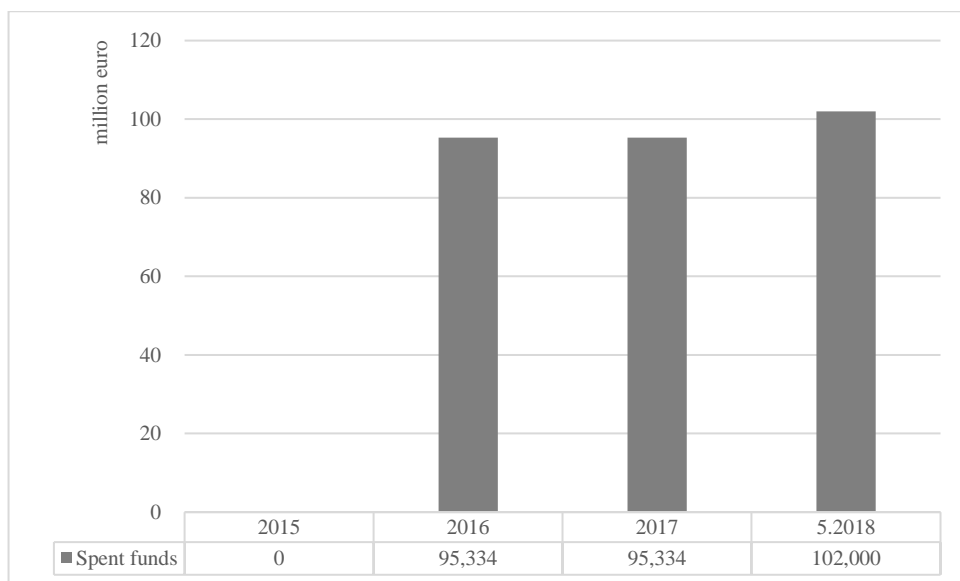
Year	Budget			Funds received from the EC	Spent funds			Ratio of spent to planned funds
	EC financing	National co-financing	Total		EC part	National co-financing part	Total	

<sup>4</sup> <https://www.eufunds.bg>

<sup>5</sup> <https://www.eufunds.bg>

<b>2015</b>	102,000	-	102,000	0	0	0	0	0
<b>2016</b>	102,000	-	102,000	90,902	81,034	14,300	95,334	93,47
<b>2017</b>	102,000	-	102,000	91,540	81,034	14,300	95,334	93,47
<b>May 2018</b>	102,000	-	102,000	101,201	86,700	15,300	102,000	100

Source: Ministry of Finance



**Figure 1** Spent funds under the Operational Programme “SME Initiative” during programming period 2014 – 2020 in Bulgaria over the period 2015 – 31 May 2018 (million euro)

Source: Ministry of Finance

As it can be seen from Table 1, the financing by the European Union for Bulgaria under the Operational Programme “SME Initiative” is 101.201 million euro of which 8.67 million euro pre-financing and 92.531 million euro based on submitted by Bulgaria applications for payment. The spent funds under the Operational Programme “SME Initiative” during programming period 2014 – 2020 in Bulgaria at 31 May 2018 amount to 102 million euro which represents 100% of the Programme budget.

Table 2 shows data on indicators for the assessment of the progress in the absorption of the resources from the Operational Programme “SME Initiative” during programming period 2014 – 2020 in Bulgaria.

**Table 2** Indicators for the assessment of the progress in the absorption of the resources from the Operational Programme “SME Initiative” during programming period 2014 – 2020 in Bulgaria for 2016 and 2017

Indicators	2016	2017
Total amount of granted new credits by financial intermediaries (million euro)	6,936	251,706
Number of enterprises receiving support	86	1750
Share of enterprises having successfully received financing through a bank loan (%)	73	84

Source: <http://opic.bg/>

The total amount of the instrument portfolio is 608.08 million euro which includes public resources from the Operational Programme “SME Initiative” 2014 – 2020 of 94.86 million euro which cover the highest risk or the so called “first loss”, Horizon 2020, the European Investment Fund, the European Investment Bank and private capital of financial intermediaries. At 31 December 2017 41.4% of the total portfolio of the SME Initiative have been decided with final beneficiaries. Financial intermediaries have concluded 1869 credit contracts with 1750 SMEs final beneficiaries of financial support with a total value of 251.706 million euro.<sup>6</sup> For comparisons as of the end of 2016 the granted new credits by financial intermediaries amount to 6.936 million euro, and the SMEs having received lending are 86.<sup>7</sup> A significant increase of the values of both indicators and intensification of lending to SMEs from the Operational Programme “SME Initiative” 2014 – 2020 in Bulgaria is observed.

All financial intermediaries grant credits to SME. Considerable interest on the part of the final beneficiaries in the instrument has been observed. The amount of the credits granted has been growing steadily.

By the end of 2017 the implementation of the programme shows very good progress. Taking into account the implementation phase of the programme considerable progress has been made in achieving target values. As a result of the action of the Operational Programme “SME Initiative” 2014 – 2020 only 7% of the SMEs in Bulgaria experience difficulties in access to finance compared with 14% in 2013, while 84% of SMEs which have applied for a bank loan have received the full amount or more than 75% of it.<sup>8</sup> Funds from the instrument are expected to be assimilated by the end of 2019.

## Reference

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5. <https://ec.europa.eu/commission>
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<sup>6</sup> See 2. Annual report on the implementation of the Operational Programme “SME Initiative” 2014 – 2020 for 2017, Sofia, 2018, Ministry of Economy, p. 2

<sup>7</sup> See Annual report on the implementation of the Operational Programme “SME Initiative” 2014 – 2020 for 2016, Sofia, 2017, Ministry of Economy

<sup>8</sup> <https://ec.europa.eu/commission>