

ANNEX 2 to the Call for Expression of Interest No JER-009/5  
Financial Instrument: Description and Selection Criteria

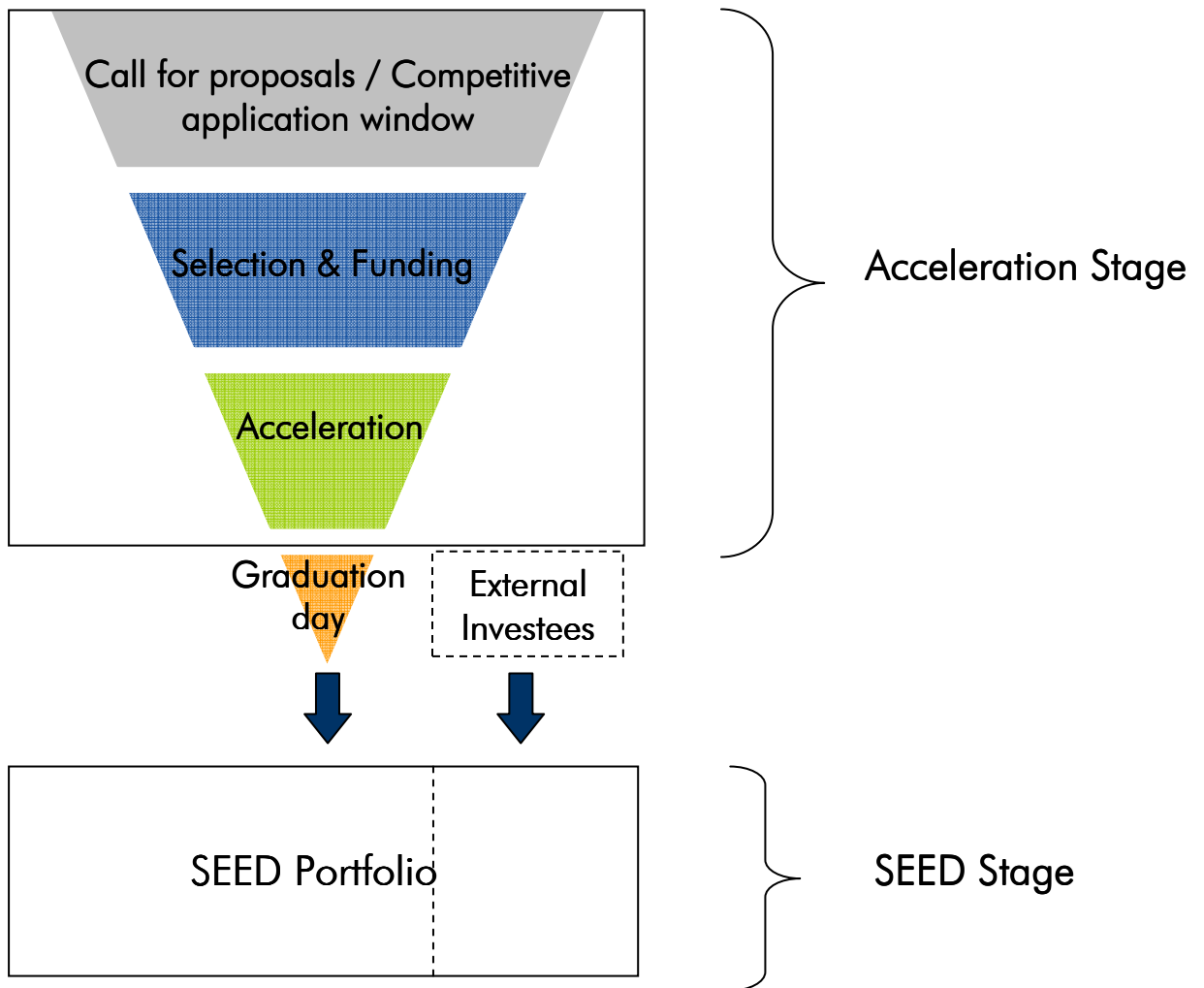
Part I: Description of the Financial Instrument

Capitalised expressions utilised herein shall have the meaning attributed to them in the above mentioned Call for Expression of Interest, unless otherwise defined below or the context requires otherwise. Unless the contrary intention appears, words in the singular include the plural and words in the plural include the singular.

1 Rationale

The purpose of the Financial Instrument is to support SMEs at their seed and start-up stage by providing funding in the form of either equity or quasi-equity in order to enhance the access to financing to this untapped SMEs group as well as to streamline the transition to a knowledge-based economy in Bulgaria.

2 The Financial Instrument – transaction example



The Financial Intermediary is expected to allocate the total funds under the instrument and manage them in a framework having two sub-compartments:

- **Acceleration stage:** Initial financing up to a predefined amount by the Financial Intermediary supporting the entrepreneurs (Eligible SMEs) to research, assess and develop an initial concept.

In order to attract a critical mass of eligible applications for receiving financing in the Acceleration stage, the Financial Intermediary shall envisage holding competitive application windows. Upon closure of any such procedures, approved SMEs (according to pre-defined eligibility and quality assessment criteria by the Financial Intermediary) could receive initial financing.

- **Seed stage:** In this stage the Financial Intermediary shall provide (i) follow-on financing up to the maximum amount to Eligible SMEs supported in the Acceleration stage, upon successful graduation of each Eligible SME from the Acceleration stage; and (ii) financing to Eligible SMEs which have not participated in the Acceleration stage, as long as initial concept is developed provided that financing SMEs with a business plan only will not be allowed at this stage. The majority of committed capital in the Seed stage should be invested in graduates from the Acceleration stage.

### 3 Summary of Transaction Terms

<b>Financial Instrument</b>	Entrepreneurship Acceleration and Seed Financing Instrument
<b>Fund Manager</b>	Financial Intermediary selected by EIF to manage the Entrepreneurship Acceleration and Seed Financing Instrument. The Fund Manager will comprise a team of experienced professionals, operating according to best industry practices, complying with professional standards issued by the EVCA <sup>1</sup> or other equivalent organisation. Such team will be expected to act independently. One or more Fund Managers (Financial Intermediaries) could be selected as a result of the Call and subsequent selection process.
<b>Indicative maximum amount of funding foreseen for the Financial Instrument (JHF contribution)</b>	Up to EUR 20 million
<b>Investment amount into an Eligible SME (maximum amount)</b>	Investments into any Eligible SME by the Entrepreneurship Acceleration and Seed Financing Instrument cannot exceed EUR 200,000 over any period of three fiscal years reduced to EUR 100,000 for Eligible SMEs active in the road transport sector. (A fiscal year runs from 1 of January to 31 of December).  The rules for cumulation of the aid shall apply in accordance with art. 2 of Commission Regulation (EC) No 1998/2006. In accordance with art. 2, par. 5 of Commission Regulation

<sup>1</sup> European Private Equity and Venture Capital Association.

	(EC) No 1998/2006 de minimis aid shall not be cumulated with State aid in respect of the same eligible costs if such cumulation would result in an aid intensity exceeding that fixed in the specific circumstances of each case by a block exemption Regulation or Decision adopted by the Commission.
<b>Financial Instrument availability (Fund duration)</b>	Up to 10 years, with the possibility of extension for 2 years.
<b>Fund's investment period</b>	Investments in Eligible SMEs are envisaged to be made no later than 31 December 2015 (or 2013, provided that the applicability of Commission Regulation (EC) No 1998/2006 is not extended). No investments shall be allowed post 2015.
<b>Type of investments</b>	The Entrepreneurship Acceleration and Seed Financing Instrument will undertake risk capital investments, taking form of either equity or quasi-equity. Within the framework defined above the Entrepreneurship Acceleration and Seed Financing Instrument shall have a two sub-compartments structure and shall provide financing as follows: <ul style="list-style-type: none"> <li>• Acceleration stage: Financing provided to research, assess and develop an initial concept.</li> <li>• Seed stage: Financing provided to undertakings that may have been in business for a short time, but have not sold their product commercially.</li> </ul>
<b>Eligible SMEs</b>	The Fund will target only SMEs as defined under Commission Recommendation 2003/361/EC, and the Small and Medium-Sized Enterprises Act of the Republic of Bulgaria, which are not "firms in difficulty" within the meaning of point 10 of Community guidelines on State aid for rescuing and restructuring firms in difficulty (OJ 244, 2004 p. 0002 – 0017) as from time to time amended or substituted ("Eligible SMEs"). However, as stipulated by point 12 of Community guidelines on State aid for rescuing and restructuring firms in difficulty, an SME which has been incorporated for less than three years shall not be considered, for the purpose of the Financial Instrument, to be in difficulty with regard to that period, unless it fulfils the criteria under the relevant national law for being the subject of collective insolvency proceedings. Eligible SMEs must be registered under Commerce Act of Bulgaria and have its main place of business in Bulgaria.
<b>Investees' advisers / pool of mentors' structure</b>	The selected Financial Intermediary will be expected to establish structure from which relevant industry experts could be recruited on as needed basis by the investee companies (the form, size, industry concentration, commitment and incentivisation scheme of the structure remains at the full discretion of the Financial Intermediary).

<p><b>Excluded sectors and activities</b></p>	<p>Investments can be made in projects in all sectors of the economy, except:</p> <ul style="list-style-type: none"> <li>a. Excluded sectors presented in Article 1 of the Commission Regulation (EC) No 1998/2006: <ul style="list-style-type: none"> <li>(i) aid granted to undertakings active in the fishery and aquaculture sectors, as covered by Council Regulation (EC) No 104/2000 of 17 December 1999 on the common organisation of the markets in fishery and aquaculture products<sup>(1)</sup>;</li> <li>(ii) aid granted to undertakings active in the primary production of agricultural products as listed in Annex I to the Treaty;</li> <li>(iii) aid granted to undertakings active in the processing and marketing of agricultural products as listed in Annex I to the Treaty, in the cases specified in Commission Regulation (EC) No 1998/2006;</li> <li>(iv) aid granted to undertakings active in the coal sector, as defined in Regulation (EC) No 1407/2002;</li> <li>(v) other enterprises specified in art. 1, from (a) to (g) of Commission Regulation (EC) No 1998/2006.</li> </ul> </li> <li>b. Undertakings active in Section A - Agriculture, forestry and fishing as listed in NACE Rev. 2;</li> <li>c. Illegal Economic Activities <ul style="list-style-type: none"> <li>Any production, trade or other activity, which is illegal under the laws or regulations of the home jurisdiction for such production, trade or activity.</li> <li>Human cloning for reproduction purposes is considered an Illegal Economic Activity.</li> </ul> </li> <li>d. Tobacco and Distilled Alcoholic Beverages <ul style="list-style-type: none"> <li>The production of and trade in tobacco and distilled alcoholic beverages and related products.</li> </ul> </li> <li>e. Production of and Trade in Weapons and Ammunition <ul style="list-style-type: none"> <li>The financing of the production of and trade in weapons and ammunition of any kind.</li> </ul> </li> <li>f. Casinos <ul style="list-style-type: none"> <li>Casinos and equivalent enterprises.</li> </ul> </li> <li>g. IT Sector Restrictions</li> <li>h. Research, development or technical applications relating to electronic data programs or solutions, which <ul style="list-style-type: none"> <li>(i) aim specifically at: <ul style="list-style-type: none"> <li>(a) supporting any activity included in the EIF Restricted Sectors referred to under e to h above;</li> <li>(b) internet gambling and online casinos; or</li> <li>(c) pornography,</li> </ul> </li> <li>or which</li> <li>(ii) are intended to enable to illegally <ul style="list-style-type: none"> <li>(a) enter into electronic data networks; or</li> <li>(b) download electronic data.</li> </ul> </li> </ul> </li> <li>i. Life Science Sector Restrictions <ul style="list-style-type: none"> <li>When providing support to the financing of the research,</li> </ul> </li> </ul>
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	<p>development or technical applications relating to</p> <ul style="list-style-type: none"> <li>(i) human cloning for research or therapeutic purposes; or</li> <li>(ii) Genetically Modified Organisms (“GMOs”),</li> </ul> <p>EIF will require from the EIF counterpart appropriate specific assurance on the control of legal, regulatory and ethical issues linked to such human cloning for research or therapeutic purposes and/or Genetically Modified Organisms.</p> <p>Projects of social enterprises aiming at their business development, and projects of micro and small enterprises that are start-ups are not financed, if they are financed from financial engineering instruments supported by the European Social Fund.</p> <p>An investment into an SME cannot be used for the same activity which has already been supported by public funds.</p> <p>Investment cannot be made into SMEs in the cases when they are not eligible with respect to the demarcation line between OP “Competitiveness” and other plans and programmes, financed by EU.</p>
<b>Governing law and language</b>	<p>The legal documentation of the Fund shall be in the English language and shall be governed by the laws of the country of incorporation within the European Union. All Fund related entities, such as general partner, management company, advisor, carried interest vehicle, team members investment vehicles, et similia, shall be incorporated within the European Union. Any cross border element of the structure shall be highlighted and justified.</p>
<b>State aid regime</b>	<p>Investments are subject to the state aid regime defined by Commission Regulation (EC) No 1998/2006, implemented in Bulgaria through De minimis Aid Scheme approved by Order of the Head of the Managing Authority No ПД-16-923/19.08.2011 after prior positive opinion for the compliance with de minimis state aid rules of the Minister of Finance.</p> <p>The Fund Manager will be responsible for ensuring that investments respect the provisions of such regulation, and such responsibility will be acknowledged contractually.</p>
<b>Private Investors</b>	<p>JHF will be the only investor in the Entrepreneurship Acceleration and Seed Financing Instrument, besides the management team own commitment. No other private investors will be attracted.</p>
<b>Management team own commitment</b>	<p>The management team will be required to commit at least 1% of the total instrument size.</p>
<b>Management Costs of the Fund</b>	<p>The management costs of the Financial Instrument shall be according to market practice and shall not exceed, on a yearly basis, 3% of the committed capital during the investment period and of the invested capital net of the cost of exited or written-off investments thereafter.</p> <p>For the purposes of the above, the management costs shall be deemed to include any fees, expenses and costs necessary to set up and manage the Financial Instrument.</p>

<b>Fund's due diligence before investments</b>	<p>The Fund Manager will make investment decisions based on each investment's business plan, which should contain product description, turnover and profitability calculations and forecasts, previous assessment of project viability, as well as each investment's clear and real exit strategy compatible with relevant EC regulations.</p>
<b>Fund's distribution cascade</b>	<p>The distributions of proceeds from the Entrepreneurship Acceleration and Seed Financing Instrument will follow the schedule below:</p> <ul style="list-style-type: none"> <li>o From the Acceleration Stage: <ul style="list-style-type: none"> <li>1. First, up to 100%* to the JHF and Fund Manager (pro-rata to their underlying economic interest) until they have received distributions in aggregate equal to the total capital allocated in the Acceleration stage of the Fund;</li> <li>2. 50/50 Split: Thereafter, 50% to the JHF and 50% to the Fund Manager (Carried Interest).</li> </ul> </li> </ul> <p>* The final terms of the distribution cascade from the Acceleration Stage will depend on the allocation of funds in the latter by the Financial Intermediary and will be determined during the selection process;</p> <ul style="list-style-type: none"> <li>o From the Seed Stage: <ul style="list-style-type: none"> <li>1. First, 100% to the JHF and Fund Manager (pro-rata to their underlying economic interest) until they have received distributions in aggregate equal to the total capital allocated in the Seed stage of the Fund;</li> <li>2. 50/50 Split: Thereafter, 50% to the JHF and 50% to the Fund Manager (Carried Interest).</li> </ul> </li> </ul>
<b>Additional features of the Financial Intermediary</b>	<p>The Fund Manager will manage the Fund based on commercial principles.</p> <p>Investors' representatives shall be appointed in appropriate advisory committee structures to review inter alia Fund corporate governance.</p> <p>In the management of the Fund, the Financial Intermediary shall apply best practices, inter alia considering guidelines developed by EVCA, and shall perform controls as required by the public nature of JHF investment.</p>
<b>Reporting</b>	<p>The Fund Manager shall provide EIF with periodical information in a standardised form and scope, in compliance with structural funds regulations, as to be specified in the Operational Agreement.</p>

<b>Monitoring and Audit</b>	The Fund Manager and the relevant SMEs (final beneficiaries) shall agree to allow and to provide access to documents related to the Financial Instrument for the representatives of the European Commission (including the European Anti-Fraud Office (OLAF)), the Court of Auditors of the European Communities, EIF, OP Competitiveness Managing Authority <sup>2</sup> and any other authorised bodies duly empowered by applicable law to carry out audit and/or control activities. To that effect, the Fund Manager shall include appropriate provisions in each investment agreement with Investment Targets.
<b>Publicity</b>	The Fund Manager, in line with applicable law and, Structural Funds publicity provisions, and Reg. 1828/2006, shall carry out adequate marketing and publicity campaigns aimed at making the JEREMIE initiative known to the SMEs in Bulgaria.
<b>Additional Structural Fund requirements</b>	This Financial Instrument is funded by EU structural funds and it is therefore subject to structural funds regulation and requirements, some of which have already being presented in this Annex, hereabove (e.g. Monitoring and Audit, Publicity, Reporting etc). It should be noted, however, that more detailed information on actions necessary to ensure compliance of operations linked to this Financial Instrument with all structural funds requirements (e.g. retention of documents, environmental protection, equality and non discrimination) will be provided to, and discussed with the selected Financial Intermediary during the contractual negotiations process.
<b>Additional requirements</b>	The Applicant shall refer to EIF Policies, in particular: <ul style="list-style-type: none"> <li>- Anti Fraud Policy;</li> <li>- Policy on Offshore Financial Centres &amp; Governance Transparency;</li> </ul> published on the EIF website.

## Part II: SELECTION CRITERIA for the Financial Intermediary

1.	ELIGIBILITY CRITERIA	System of appraisal
		Yes/ No
A.	Receivability	
1.1.	The Expression of Interest is submitted within the Deadline;	
1.2.	The Expression of Interest is submitted both by registered mail	

<sup>2</sup> National public authority designated by GoB to manage the OP Competitiveness, as referenced in the Funding Agreement.

	and e-mail;	
1.3.	The Expression of Interest is completed and submitted in English;	
1.4.	The Expression of Interest is duly signed;	
1.5.	The Expression of Interest is prepared in accordance with Annex 1 to the Call for Expression of Interest. All necessary supporting documents are provided.	
<b>B.</b>	<b>Eligibility</b>	
1.6.	Applicant's absence of conflict of interest (as per template provided in Appendix 4 to the Expression of Interest);	
1.7.	Applicant and its senior management are not in any situation of exclusion (as per template provided in Appendix 5 to the Expression of Interest);	
1.8.	Ability to communicate in Bulgarian and English;	
1.9.	The Expression of Interest addresses all the items set out in the Project Description (Appendix 2 to Annex 1);	
1.10.	The Expression of Interest addresses all the items of the Financial Instrument, including any special conditions, set out in the relevant parts of the Financial Instrument description (Part I of Annex 2);	
1.11.	Applicant commitment for own investment in the Entrepreneurship Acceleration and Seed Financing Instrument of at least 1% of the total size.	

<b>2.</b>	<b>QUALITY ASSESSMENT CRITERIA</b>	<b>WEIGHTING</b>
2.1.	<p><b>Project Relevance, Quality and Coherence</b></p> <p>2.1.1. Evaluation of the Fund focus and proposed investment strategy, including viability of Fund's size;</p> <p>2.1.2. Evaluation of the Fund Manager team profile, stability and ability to implement the Financial Instrument;</p> <p>2.1.3. Assessment of operational, financial, technical and early stage investment competences;</p> <p>2.1.4. Track record of the Fund Manager team (specifically in angel, seed, start up and venture capital investments);</p> <p>2.1.5. Capability as members of boards and/or committees of an investment and/or advisory nature;</p> <p>2.1.6. Evaluation of Applicant's investment processes, including dealflow generation, ability to invest, ability to build companies and add value and exit strategy;</p>	<b>60 points</b>
2.2.	<p><b>Project Maturity</b></p> <p>2.2.1. Applicant's own investment in the fund;</p> <p>2.2.2. Demonstration of ability to source deals in Bulgaria (SMEs);</p>	<b>20 points</b>



2.3.	<b>Institutional Capacity &amp; Sustainability</b>  2.3.1. Fund Manager organisation, structure and long-term viability; 2.3.2. Assessment of the envisaged application and selection procedures; 2.3.3. Assessment of the investees' advisers / pool of experts' structure to be put in place; 2.3.4. Assessment of the corporate governance in place; 2.3.5. Assessment of legal structures and independence; 2.3.6. Terms and Conditions, including management fee and profit share arrangements; 2.3.7. Assessment of the alignment of interests between the Fund Manager and JHF; 2.3.8. Assessment of Reporting and Control Procedures.	<b>20 points</b>
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