

Recovery Equity Fund of Funds of Bulgaria, Call for EoI No. BREF-2023/01
Equity instrument for Innovation – Investment 2.1. e from C3.I2 RRP in Bulgaria

ANNEX II – Underlying Fund Term Sheet for the Innovation Window

Capitalised expressions utilised herein shall have the meaning attributed to them in the 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.

This summary term sheet is for information purposes only. This document is an outline of the principal terms and conditions for the product described herein, which are subject to change and non-exhaustive.

Applicants are advised that any reference to legal and regulatory framework, including State Aid regime(s) shall be to the applicable version as amended, supplemented or replaced from time to time.

1. Policy Objective

The purpose of the Recovery Equity Fund of Funds of Bulgaria is to provide risk finance in the form of equity and quasi-equity for companies that qualify as Final Recipients. Subject to the applicable State Aid regime, the investment strategy of the selected Underlying Funds under the Innovation Window will be targeting SMEs, small mid-caps¹ and Technology Transfer projects, including start-ups and early growth companies, through seed-to-growth venture capital funds, technology transfer funds, social impact funds and private equity. Main sectors to be targeted will indicatively include: information and communication technology, industrial automatisisation, artificial intelligence, robotics, blockchain, fintech, life sciences, cybersecurity, quantum technologies, Internet of Things, cloud computing, clean and sustainable technologies, social entrepreneurship, and biotechnology and shall aim at supporting investments in human capital, digital and green technology, and in research, development, and technology transfer. Investments through the Innovation Window shall aspire to increase the innovation capacity of companies, accelerate their productivity improvements and the transition to a knowledge economy.

The terms of reference described below comprise of three parts: parts I and III refer to horizontal terms of reference that are applicable at all times; part II includes sets of additional terms of references that apply depending on the State Aid regime(s) to be selected by the Financial Intermediary and should be read in conjunction with parts I and III.

For the **Innovation Window**, the applicable State Aid regime will ultimately depend on the investment strategy proposed by the selected Financial Intermediaries and their ability to source private financing (which is part of the commercial assessment criteria of applicants as outlined in chapter 9 of the main body of the Call documentation).

To this respect, for the Innovation Window, the Financial Intermediaries will be invited to highlight their preference from the options listed below, bearing in mind that each option has different implications on Underlying Fund parameters, as further detailed in the following paragraphs:

1. **Pari passu structure**
2. **Non pari-passu structure**

NOTE: *Any reference to legal and regulatory framework, including State Aid regime (e.g. GBER, Commission Notice on the notion of State aid) shall be to the applicable version as amended, supplemented or replaced from time to time.*

¹ Companies with up to 499 FTEs

Part I. Terms of reference

Financial Instrument	Recovery Equity Fund of Funds (the “REF”) of Bulgaria - Innovation Window
Type of financing	Equity and / or quasi-equity
Underlying Funds or Funds	The investment funds and investment vehicles (including dedicated vehicles) that are set up and managed by the Financial Intermediaries to provide financing to Final Recipients. The duration of Underlying Funds shall typically be 10 + 1 + 1 years (with extensions being subject to Funds’ investors or advisory committee approval). Funds with a Technology Transfer strategy might have a longer duration, typically up to 15 years. The investment period shall be in line with market practice, typically no longer than 5 + 1 years.
Investment Strategy of Underlying Funds	Depending on the applicable State Aid regime, the Underlying Funds’ investment strategy is expected to primarily target SMEs, small midcaps and Technology Transfer investments. Investments shall be in the form of equity or quasi-equity investments, as defined below: - Equity is the 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, is 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 (limitations apply in case of a State Aid regime different than Market Economy Operator Test, as per the State Aid framework described in Part II of this document below). The Underlying Fund shall invest an amount at least equal to the total amount committed from the Bulgarian REF in Final Recipients that, at the time of first investment therein by the Underlying Fund, qualify as Target Recipients. The investment strategy shall take into consideration the State Aid regime described in Part II below.

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Final Recipients	The amount invested in a single Final Recipient by an Underlying Fund shall typically be up to 15% at any point in time (possible Fund advisory committee approval in case that limit needs to be exceeded, however subject to a maximum of 20% of the Fund’s total commitments per Final Recipient). Financial Intermediaries shall target to build a portfolio of minimum number of Final Recipients throughout the investment period of the Fund, to be agreed with EIF in the Commitment Agreement. Investments in companies listed on the official list of a regulated market at the time of the first investment are not allowed, since the fact that they are listed on a regulated market demonstrates their ability to attract private financing otherwise. For the avoidance of doubt, investments into Final Recipients shall be expected to be financially viable at the time of investment. Investments into Final Recipients shall be made in accordance with applicable State Aid rules, as presented for information in Part II below. For avoidance of doubt, Final Recipients include Target Recipients.
Target Recipient(s)	A Final Recipient that, at the time of the first investment therein by the Fund complies with the following criteria: (i) it qualifies as one of the following (depending on the applicable State Aid regime): a. an SME; OR b. a Small Midcap; OR c. a Technology Transfer project. (ii) in the case of Technology Transfer projects, it is located in Bulgaria; or (iii) it has an establishment (i.e. is legally incorporated) in Bulgaria; and EITHER has its main activities (i.e., the main portion of their activities based on headcount, assets or primary focus of the Final Recipient’s business activities) in Bulgaria OR is planning to expand the operations in Bulgaria (whilst allowing the possibility to the Underlying Fund(s) to have a geographical target broader than Bulgaria). For Final Recipients with expansion plans and early-stage portfolio companies with insignificant operations, the assessment of their main activities shall be based on the Final Recipient’s business plan at the time of the first investment by the Fund.
Technology Transfer	Technology Transfer refers to activities carried out by universities or other higher education institutes performing research and other research organisations aiming at (a) converting research, development, skills, knowledge, technologies or

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	innovations into commercial applications, products, processes or services; and/or (b) fostering the application of existing technology to develop innovative products, processes or services for existing and new markets. Such activities may take any of the following forms: (i) demonstration and commercialisation (including, but not limited to, proof of concept, technology validation, technology demonstration, prototyping, market development, scaling up); and (ii) IP out-licensing, IP in-licensing, cross-licensing activities (including via project financing), sale of patents and/or other IP assets.
Financial Intermediary or Fund Manager	The EIF will strive to select Financial Intermediaries that are independent and in a position to take the management and investment decisions independently, in particular without the influence of investors, sponsors or any other third party which is not integrated in the structure. In any case, the EIF can deviate from this condition on a case-by-case basis at its own discretion. The Financial Intermediary will typically be comprised of a team of experienced professionals, acting with the diligence of a professional manager and in good faith, operating according to best industry practices, complying with professional standards issued by the Invest Europe, ILPA or other equivalent organisation. The selected Financial Intermediary will be expected to draw on their networks of relevant industry and market contacts to aid the development of their Final Recipients. For example, while not a pre-requisite, they may establish a formal or informal structure from which relevant industry experts could be engaged on an ad hoc basis by the Final Recipients (the form, size, industry concentration, commitment and incentivisation scheme of the structure would remain at the full discretion of the Financial Intermediary). EIF, in its sole discretion, may select one or more Financial Intermediaries (which in turn will set up and manage the selected Underlying Funds) as a result of the Call and subsequent selection process. For the avoidance of doubt, international team members or partnerships with international funds, as well as newly set up teams are eligible. There is no requirement to domicile either the Underlying Fund or Financial Intermediary in Bulgaria.
Fund Manager's commitment	The Financial Intermediary shall contribute an adequate minimum percentage of the total size of the Underlying Fund (i.e. its total commitments). The required commitment size will be assessed against and aligned with the Underlying Fund economics and the broader financial position of the manager's team to provide a relevant alignment of financial interest with investors. A typical commitment may often be at least 2% of the total commitments. The EIF can deviate from this condition on a case-by-case basis at its own discretion.
Underlying Fund manager's due diligence before investments into Final Recipient(s)	The Financial Intermediary will make investment decisions aimed at profit-making, based on the Fund's commercial investment strategy, 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 and other necessary points (such as potential conflict of interest).

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Management fee and establishment costs cap	The management fee is typically paid on the total commitments of the Underlying Fund during the investment period and on the invested capital (acquisition cost of the active portfolio of the Underlying Fund reduced by the acquisition costs of the Underlying Fund’s investments that have been sold, written-off or written-down) thereafter. Alternatively, fixed fee for the post investment period could be considered. The management fee and establishment costs cap shall be deemed to include any fees, expenses and costs necessary to set up, manage and wind-up the Underlying Fund including transaction costs, as applicable. The management fees to be paid will be negotiated with the EIF after analysis of Fund Manager’s budget and should be proportional to the operational requirements of the Underlying Fund and the investment strategy.
Additional features of the Fund Manager	The Financial Intermediary will manage the Underlying Fund based on commercial principles. Investors’ representatives shall be appointed on appropriate advisory committee structures to review, inter alia, conflicts of interest. In the management of the Underlying Fund, the Financial Intermediary shall apply best practices, inter alia considering guidelines developed by Invest Europe and ILPA, and shall perform controls as required by the public nature of the Underlying Fund’s investment.
Data Protection Statement	Means EIF’s Data Protection Statement on the processing of personal data of Applicants and Financial Intermediaries, as published on the EIF website: eif_data_protection_statement_financial_intermediaries_due_diligence_en.pdf
Addressing Climate Action and Environmental Sustainability	The contribution of Financial Intermediary transactions to Climate Action and Environmental Sustainability (“CA&ES” or “green”) objectives shall be determined, if applicable/relevant/indicated by the EIF, in accordance with the latest EIF Climate Action and Environmental Sustainability Guidelines² published in EIF’s website.
Targeted Activities under the EIB Group NCJ Policy	Means (i) criminal activities such as money laundering, financing of terrorism, tax crimes (i.e. tax fraud and tax evasion) and (ii) tax avoidance practices (i.e. wholly artificial arrangements aimed at tax avoidance).
Restrictive Measures	Means, without limitation, restrictive measures adopted pursuant to the Treaty on European Union (TEU) or to the Treaty on the Functioning of the European Union (TFEU).

² *Guideline on the EIF’s criteria for Climate Action and Environmental Sustainability (CA&ES)*

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Independent Private Investors	Means an investor who is private and independent, in accordance with Article 2 (72) of GBER 651/2014³. ‘Private’ investors mean investors who, irrespective of their ownership structure, pursue a purely commercial interest, use their own resources and bear the full risk in respect of their investment, and include, in particular: credit institutions investing at own risk and from own resources, private endowments and foundations, family offices and business angels, corporate investors, insurance undertakings, pension funds, academic institutions, as well as natural persons who either conduct an economic activity or not. The European Investment Bank, the European Investment Fund, an international financial institution in which a Member State is a shareholder, or a legal entity that carries out financial activities on a professional basis which has been given a mandate by a Member State or a Member State’s entity at central, regional or local level to carry out development or promotional activities (national promotional bank or another promotional institution), will not be considered private investors for the purposes of this definition. ‘Independent’ investor means an investor that is not a shareholder of the eligible undertaking in which it invests. In the context of follow-on investments, an investor remains ‘independent’ if it was considered as an independent investor in a previous investment round. Upon the creation of a new company, any private investors, including the founders, of such new company, are considered to be independent from that company.
Reporting	The Financial Intermediary shall provide EIF with periodical information in a standardised form and scope as per Invest Europe guidelines for reporting to be specified in the Commitment Agreement. The Financial Intermediary may also request to regularly send information on the entity that receive equity financing (Ultimate Beneficial Owners information) directly to the responsible authority of Bulgaria, notably in order to comply with the Government’s reporting requirements under the RRF Regulation; details will be defined in the Commitment Agreement(s). For the purpose of audit and control, the Financial Intermediaries will collect and ensure access to the following standardised categories of data: i. name of the final recipient of funds; ii. first name(s), last name(s) and date of birth of beneficial owner(s) of the recipient of funds or contractor, as defined in point 6 of Article 3 of Directive (EU) 2015/849 of the European Parliament and of the Council (26); iii. a list of any measures for the implementation of investment projects under the recovery and resilience plan with the total amount of public funding of those measures and indicating the amount of funds paid under the Facility and under other Union funds.

³ [GBER amendment 2023_EC_communication_annex_0.pdf\(europa.eu\)](#)

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	The Financial Intermediary will take all the measure for avoidance of double funding. Finally, it is important to note that RRF and State Aid reporting rules may require Financial Intermediaries to provide new data points which typically are not being tracked and a higher granularity of data. Furthermore, the Fund Manager should report any additional data that may derive from future changes to the RRF or State Aid regulations. More detailed reporting requirements will be set out in the Commitment Agreement(s).
Monitoring and Audit	The Financial Intermediaries and the Final Recipients shall agree to keep records and to allow and 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, the EIF, the EIB, the Republic of Bulgaria and any other authorised bodies duly empowered by applicable law to carry out audit and/or control activities. The Financial Intermediary and the Final Recipients shall enable these bodies to discharge their duties with respect to monitoring, control and auditing of the correct use of the Investments. These controls may include on-the-spot controls of the Financial Intermediaries and the Final Recipients. To that effect, appropriate provisions shall be included in each Commitment Agreement.
Visibility	The Financial Intermediary, in line with applicable law and RRF rules, shall carry out adequate marketing and publicity campaigns aimed at making the public contribution known, as to be specified through the Commitment Agreement. To this respect, the Financial Intermediary shall: i. explicitly inform the portfolio companies that financing is made possible through the support of the Fund with the financial backing of the Republic of Bulgaria. Such information needs to be prominently included either in the contractual documentation and/or in an accompanying cover letter; ii. ensure the visibility of European Union funding, by informing Final Recipients and the public of the support received from the RRF and by displaying in Commitment Agreements and relevant publicity materials, if applicable, (brochures, website, banners, social media, billboards, posters etc.) the European Union flag and the statement ‘funded by the European Union – NextGenerationEU’, and other publicity obligations for publicity of the Bulgaria National Recovery and Resilience Plan (RRP or PNRR), in accordance with a text to be included in the commitment agreement; iii. include in any press release or other marketing action that the Financial Intermediary may choose to make with regard to the operation that the Financial Intermediary has benefited from the support of the REF. More detailed visibility requirements will be set out in the Commitment Agreement(s).
Transfer	Under the Funding Agreement, EIF may be substituted in its role as REF manager. In the event of such substitution, the Republic of Bulgaria, or the entity appointed by the Republic of Bulgaria as new REF manager, will assume the full

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	discretion and responsibility to perform the tasks of the REF and to implement the REF operations in Bulgaria, and may take over the Financial Instrument(s). The Commitment Agreement will provide for the possible substitution of EIF, in order to allow the transfer of the Commitment Agreements to the successor entity.
General requirements	The Financial Intermediary shall ensure compliance with applicable law, including but without limitation rules covering the RRF and all relevant national law and regulations, State Aid and money laundering, the fight against terrorism and tax fraud, as applicable. The Financial Intermediary, may, in line with its internal rules and procedures and particularly in the cases where fraudulent behaviour is suspected, be required to perform monitoring checks at the level of the Final Recipients. The Commitment Agreement(s) may also include provisions in terms of the Underlying Fund's cash flow management, as deemed necessary. The Underlying Fund shall not be established in a NCJ unless the operation is physically implemented in the relevant NCJ and does not present any indication that it supports actions that contribute to Targeted Activities under the EIB Group NCJ Policy⁴. The Commitment Agreements will include provisions, the objective of which will be to provide appropriate remedies for protecting EIF's and REF's interest in Underlying Funds in case an investment does not comply with the agreed eligibility criteria. The Underlying Fund may be required to return amounts invested in Final Recipients which do not meet the eligibility criteria and/or which are found to be in an exclusion situation not duly disclosed or supervened (in the event that cannot be cured). In these cases, the Fund may be required to apply all applicable contractual and legal measures with due diligence for the purpose of recovering the relevant amounts. Financial Intermediaries and Final Recipients: • shall not use any investment under REF to support any of the excluded activities as described in Part III of this document, • shall not be established in a NCJ unless the operation is physically implemented in the relevant NCJ and does not present any indication that it supports actions that contribute to Targeted Activities under the EIB Group NCJ Policy⁴, • shall undertake to comply with all applicable laws and regulations and the relevant applicable international and European Union standards and legislation on the prevention of money laundering, the fight against terrorism, tax

⁴ Targeted Activities under the EIB Group NCJ Policy, which means (i) criminal activities such as money laundering, financing of terrorism, tax crimes (i.e. tax fraud and tax evasion) and (ii) tax avoidance practices (i.e. wholly artificial arrangements aimed at tax avoidance)

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	fraud, tax evasion and artificial arrangements aimed at tax avoidance; and, therefore, not support actions that contribute to tax evasion or finance artificial arrangements aimed at tax avoidance, • shall acknowledge the EIB Group Anti-Fraud Policy⁵ which sets out the policy of EIF for preventing and deterring corruption, fraud, collusion, coercion, obstruction, money laundering and terrorist financing as amended from time to time, and shall take appropriate measures (as may be further specified in the relevant agreement) to (i) facilitate implementation of such policy as well as to (ii) undertake to support investigations performed by the EIF or the European Investment Bank, the European Public Prosecutor's Office (EPPO), or the European Anti-Fraud Office (OLAF), or the European Court of Auditors (ECA) in connection with actual or suspected prohibited conduct, • shall ensure via contractual provisions that no funds or economic resources are made available directly or indirectly to, or for the benefit of, persons or entities designated by Restrictive Measures⁶.
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⁵ EIB Group Anti-Fraud Policy

⁶ As part of its due diligence process, EIF will analyse and exclude any applicant if it or any of its ultimate beneficial owners/key persons are subject to UN/EU/OFAC/UK restrictive measures (sanctions) in relation to Russia as well as the non-government controlled territories of Ukraine.

Part II. State Aid regime option(s) and applicable terms of reference

I. *Pari passu* structure

Investing as Market Economy Operators (State aid free) in line with relevant provisions of the Commission Notice on the notion of State aid⁷, in which case the following provisions apply.

Investment Range	Typically up to 15% of the total Underlying Fund size in any single investee at any point in time (fund investors' advisory board approval required in case that limit needs to be exceeded subject to a maximum of 20% of the total commitments). No regulatory cap for State aid “free” funds investing as a market economy operator in line with the Commission Notice on the notion of State aid ⁷ .
Eligible Investees	In addition to SMEs, Small Mid-caps and Technology Transfer projects may also be targeted in suitably justified cases in line with the eligibility criteria set under this Call.
Distribution Cascade	<i>Pari passu</i> distribution cascade for all investors. 1. First, 100% to all investors (pro-rata to their underlying economic interest) until they have received distributions in aggregate equal to the total capital committed to the Underlying Fund; 2. Second, 100% to the Private Investors and the EIF (acting on behalf of REF) (pro-rata to their underlying economic interest) until each investor has received sums equal to a Hurdle Rate of 6% on their capital drawn to the Underlying Fund ⁸ ; 3. Third, 100% to the Fund Manager until the Fund Manager has received an additional amount equal to 25% of the total preferred returns distributed to the investors under the paragraphs above; 4. Thereafter, 80% to the EIF (acting on behalf of REF) and Private Investors (pro-rata to their underlying economic interest) and 20% to the Fund Manager (Carried Interest).
Prohibited types of investees and activities	Investments in following types of investees and activities and/or sectors shall not be supported: a. undertakings that have received illegal State aid which has not been fully recovered; b. companies listed on the official list of a stock exchange or a regulated market;

⁷ Commission Notice on the notion of State aid as referred to in Article 107(1) of the Treaty on the Functioning of the European Union C/2016/2946, [EUR-Lex - 52016XC0719\(05\) - EN - EUR-Lex \(europa.eu\)](#)

⁸ The hurdle rate is indicative and may be subject to negotiations with the EIF provided the amount is within market standards

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	c. investees, activities or sectors restricted or excluded as per Part III thereof; d. prohibited sectors and activities as per RRF DNSH rules (as defined below).
Independent Private Investor contribution	a. 30% Independent Private Investor contribution at the Underlying Fund level on a ‘<i>pari passu</i>’ basis (same terms and conditions and therefore the same level of risk and rewards)⁹. b. intervention of public and Independent Private Investor resources always simultaneous (inherent in equity fund’s structure). c. ‘<i>pari passu</i>’ distribution cascade. It is reminded that the ability to source private financing is part of the quality assessment criteria of applicants. Please see further below dedicated section on Additional considerations relevant to the Market Economy Operator Test (<i>pari passu</i> structure)

Additional considerations relevant to the Market Economy Operator Test (*pari passu* structure)

It is understood that investments made by the Underlying Fund under the *pari passu* structure, also alongside other Independent Private Investors at the level of the Final Recipients if that is the case, will be considered to be in full compliance with the *pari passu* structure in Final Recipients in which public and Independent Private Investors have not previously invested, hence resulting in the automatic application of the Market Economy Operator Test as provided for in various rules codified by the European Commission.¹⁰ For the avoidance of doubt, given that both public and Independent Private Investors delegate all investment / divestment decisions to the Fund Manager for all investment cases, it is understood that their starting position is fully comparable with regard to the Underlying Fund they invest in and the underlying transactions the Underlying Fund will undertake.

In the absence of sufficient Independent Private Investors at the Underlying Fund level, such requirement may be fulfilled at the level of the Final Recipients with additional separate Independent Private Investors. Thus, if minimum 30% Independent Private Investors cannot be secured at the relevant Underlying Fund level, then the Fund Manager will be required to ensure that the minimum 30% Independent Private Investors participation requirement is complied with at Final Recipient level; hence, the participation of Independent Private Investors will remain economically significant (at least 30%) in each underlying transaction of the supported Final Recipients. For the purpose of the *pari passu* requirements, the Independent Private Investors in follow-on rounds may be the same as the investors who took part in previous investment rounds.

⁹ Commission Notice on the notion of State aid as referred to in Article 107(1) of the Treaty on the Functioning of the European Union C/2016/2946, as well as UPDATED Guidance on State Aid in European Structural and Investment (ESI) Funds Financial instruments in the 2014-2020 programming period as of March 2021, considering a 30% private investors participation as economically significant.

¹⁰ E.g. Commission Notice on the Notion of 2016 (Chapter 4.2), Updated Guidelines on State Aid to the European Structural and Investment Funds (ESI) - Financial Instruments for the 2014-2020 programming period (Section 3.3) and Risk Finance Guidelines from 2022.

II. Non pari-passu structure¹¹

Investing in line with Article 21 of GBER¹², in which case the following provisions apply¹³. Additional instructions further detailing the non pari-passu provisions mentioned below will be provided to the selected Financial Intermediaries opting for the non pari-passu structure.

For the avoidance of doubt, under the non pari-passu structure, only final recipients that fall under the SME definition will be eligible for financing.

Investment Range	Typically up to 15% of the total Underlying Fund size in any single investee at any point in time (fund investors' advisory board approval required in case that limit needs to be exceeded subject to a maximum of 20% of the total commitments). For GBER compliant Funds, the cap is at EUR 16.5 million per eligible undertaking under any risk finance measure. The GBER compliant Funds may invest together with other GBER compliant funds up to the maximum cumulated limit of EUR 16.5m per SME, in accordance with Articles 8 and 21 of GBER.
Eligible Investees	Under GBER, a non-pari-passu distribution cascade may apply. The Underlying Fund: 1. shall target enterprises that at the time of the initial investment round are unlisted SMEs and fulfil at least one of the following criteria in accordance with Article 21(5) GBER: a) they have not been operating in any market; b) they have been operating in any market for any of the following i. less than 10 years following their registration; or ii. less than 7 years after their first commercial sale¹⁴; c) 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. 2. may also provide follow-on investments made in enterprises, including after the eligibility period mentioned in 1b) above, if the following cumulative conditions are fulfilled, in accordance with Article 21(4) GBER: a) the maximum amount of risk finance as per GBER (EUR 16.5m) per eligible undertaking is not exceeded in aggregate; b) the possibility of follow-on investments was provided for in the original business plan;

¹¹ It is noted that the average annual State aid budget under the non pari-passu structure of the Innovation Window will not exceed EUR 150 million.

¹² 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.

¹³ Please note that the definitions of art. 2 of GBER always prevail.

¹⁴ 'first commercial sale' means the first sale by a company on a product or service market, excluding limited sales to test the market.

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	c) the enterprise receiving follow-on investments has not become linked, within the meaning of Article 3(3) of Annex I of GBER, with another undertaking other than the financial intermediary or the Independent Private Investor providing risk finance under the measure, unless the new entity fulfils the conditions of the SME definition within the meaning of Annex I of GBER.
Eligible Investees	The Fund shall invest in enterprises qualifying as SMEs in both initial and subsequent financing rounds.
Replacement capital	Under GBER, 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.
Distribution Cascade	Under a non pari-passu structure, the Fund may benefit from State aid - non-pari-passu incentives for Independent Private Investors in the form of capping the net return on the Bulgarian REF investment at 6% p.a., for the benefit of such private investors. 1. First, 100% to all investors (pro-rata to their underlying economic interest) until they have received distributions in aggregate equal to the total capital committed to the Underlying Fund; 2. Second, 100% to the Private Investors and the EIF (acting on behalf of REF) (pro-rata to their underlying economic interest) until each investor has received sums equal to a Hurdle Rate of 6% on their capital drawn to the Underlying Fund¹⁵; 3. Third, 100% to the Fund Manager until the Fund Manager has received an additional amount equal to 25% of the total preferred returns distributed to the investors under the paragraphs above. 4. Thereafter, 80% to Private Investors (pro-rata to their underlying economic interest, excluding the share of EIF (acting on behalf of REF) and 20% to the Fund Manager (Carried Interest).
Prohibited types of investees and activities	Investments in following types of investees and activities and/or sectors shall not be supported: a. undertakings in difficulty, as defined in Art. 2(18) of the GBER. b. undertakings that have received illegal State aid which has not been fully recovered. c. undertakings operating in additional not supported activities as per Art. 1 of GBER. d. investees, activities or sectors restricted or excluded as per Part III thereof. e. prohibited sectors and activities as per RRF DNSH rules (as defined below).

¹⁵ For Technology Transfer funds, the hurdle rate may be subject to negotiations with the EIF

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Independent Private Investor contribution	A minimum of 10% financing from Independent Private Investors is required at fund level in accordance to GBER. The Fund Manager will be contractually required to constantly monitor the portfolio to ensure that the combined private participation rate at the Fund and the portfolio companies level at all times represent at least the weighted average based on the volume of the individual investments in the underlying portfolio and resulting from the application of the minimum participation rates to such investments, as given in the next points and, in any event, in accordance with Article 21(13) GBER, unless the required participation from independent private investors is achieved at the level of the eligible undertakings. a. enterprises prior to their first commercial sale on any market, at the time of concerned initial or follow-on investment, require minimum 10% private participation, thus the Fund may be the only investor (private participation is achieved through the Independent Private Investors in the Fund); b. enterprises that, at the time of concerned initial or follow-on investment, have operated in any market for less than 10 years following their registration or less than 7 years following their first commercial sale, require minimum 20% private participation, 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, does not already cover the shortfall; c. enterprises that, at the time of concerned initial or follow-on investment, have operated in any market for 10 years or more following their registration or 7 years or more following their first commercial sale, require minimum 30% private participation, 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, doesn't already cover the shortfall. It is reminded that the ability to source private financing is part of the assessment criteria of applicants.
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Part III. Restricted sectors of activity

The **EIF Restricted Sectors** (“Restricted Sectors”) are published on the EIF’s website¹⁶ and/or may be amended from time to time by the EIF. The list of Restricted Sectors in force as at the date of this Call are the following:

Financial Intermediaries and Underlying Funds shall not invest, guarantee or otherwise provide financial or other support, directly or indirectly, to companies or other entities:

- a) whose business activity consists of an illegal economic activity (i.e., any production, trade or other activity which is illegal under the laws or regulations applicable to the Underlying Funds or the relevant company or entity, including, without limitation, human cloning for reproduction purposes);
- b) which substantially focus on:
 - i. the production of and trade in tobacco and distilled alcoholic beverages and related products;
 - ii. the financing of the production of and trade in weapons and ammunition of any kind, it being understood that this restriction does not apply to the extent such activities are part of or accessory to explicit European Union policies;
 - iii. casinos and equivalent enterprises;
 - iv. the research, development or technical applications relating to electronic data programmes or solutions, which:
 - 1. aim specifically at:
 - a. supporting any activity included in the EIF Restricted Sectors referred to above;
 - b. internet gambling and online casinos; or
 - c. pornography,
 - or which:
 - 2. are intended to enable anyone to illegally:
 - a. enter into electronic data networks; or
 - b. download electronic data;
 - v. fossil fuel-based energy production and related activities, as follows:
 - a. Coal mining, processing, transport and storage;
 - b. Oil exploration & production, refining, transport, distribution and storage;
 - c. Natural gas exploration & production, liquefaction, regasification, transport, distribution and storage;
 - d. Electric power generation exceeding the Emissions Performance Standard (i.e., 250 grams of CO₂e per kWh of electricity) applicable to fossil fuel-fired power and cogeneration plants, and geothermal and hydropower plants with large reservoirs;
 - vi. energy-intensive and/or high CO₂-emitting industries, as follows:
 - a. the manufacture of other inorganic basic chemicals (NACE 20.13)

¹⁶ 2010 EIF Guidelines on Restricted Sectors

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- b. the manufacture of other organic basic chemicals (NACE 20.14)
- c. the manufacture of fertilisers and nitrogen compounds (NACE 20.15)
- d. the manufacture of plastics in primary forms (NACE 20.16)
- e. the manufacture of cement (NACE 23.51)
- f. the manufacture of basic iron and steel and of ferro-alloys (NACE 24.10)
- g. the manufacture of tubes, pipes, hollow profiles and related fittings, with steel (NACE 24.20)
- h. the manufacture of other products of first processing of steel (NACE 24.30, incl. 24.31-24.34)
- i. the production of aluminium (NACE 24.42)
- j. the manufacture of conventionally-fuelled aircraft and related machinery (sub-activity of NACE 30.30)
- k. conventionally-fuelled air transport and airports and service activities incidental to conventionally-fuelled air transportation (sub-activities of NACE 51.10, 51.21 and 52.23).

Substantial focus definition:

The EIF considers that an EIF counterparty or Final Recipient has a “substantial focus” on a sector or business activity if such sector or activity is identified as being an essential part of business activity of the EIF Counterparty or Final Recipient respectively. This assessment is based, in particular, on the proportionate importance of such restricted sector or activity in relation to the gross revenue, profit or client base of the respective EIF counterparty or Final Recipient, in such a way that could affect the financial sustainability/going-concern of the EIF Counterparty or Final Recipient should such restricted activity cease. The proportionate importance of the restricted sector or activity shall, in any case, not exceed 50% of the gross revenue.

Notwithstanding the above, investments in sectors mentioned under limb vi. items a) – k) above shall be allowed if the Financial Intermediary confirms that the specific investment either (i) qualifies as environmentally sustainable investment as defined in the “EU taxonomy for sustainable activities” (Regulation (EU) 2020/852, as amended from time to time, and as supplemented by the technical criteria established under the “EU Taxonomy Delegated Acts” (Commission delegated Regulations (EU) supplementing Regulation (EU) 2020/852 or upcoming Taxonomy Delegated Acts, as amended from time to time, respectively), or (ii) is eligible under the EIF’s Climate Action & Environmental Sustainability (CA&ES) objectives in accordance with the latest criteria as published on the EIF website as of the date of this Call or any further version published after such date¹⁷.

As per its internal policy, the EIF applies additional restrictions to Underlying Funds with debt/loan strategies which envisage the issuing of loans to finance specifically identified assets.

In addition, when providing support to the financing of the research, development or technical applications relating to:

- (a) human cloning for research or therapeutic purposes; and
- (b) Genetically Modified Organisms (“GMOs”),

the EIF will require from Financial Intermediaries appropriate, specific assurance on the control of legal, regulatory and ethical issues linked to such human cloning for research or therapeutic purposes and/or GMOs.

Furthermore, in accordance with Article 19(3), point (d), of and Annex V, criterion 2.4, to Regulation (EU) 2021/241, the RRP is expected to ensure that no measure for the implementation of reforms and investments projects included in the RRP does significant harm to environmental objectives within the meaning of Article

¹⁷ https://www.eif.org/news_centre/publications/climate-action-sustainability-criteria.htm, as may be updated from time to time

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17 of Regulation (EU) 2020/852 of the European Parliament and of the Council (“the Taxonomy Regulation”) (the principle of ‘do no significant harm’).

APPLICATION OF “DO NO SIGNIFICANT HARM” (“DNSH”) PRINCIPLE

DNSH Requirement for Equity instruments under RRF Bulgaria as per Council Implementing Decision ¹⁸	Corresponding eligibility criteria
1. application of the Commission’s technical guidance on sustainability proofing for the InvestEU Fund;	1. The instrument shall be implemented in accordance with Commission Notice (2021/C 280/01) on Technical guidance on sustainability proofing for the InvestEU Funds¹⁹, in particular Chapter 3 on Sustainability proofing approach for indirect financing operations. In order to comply with the sustainability proofing requirements set out in the Annex to the Council Implementing Decision on the approval of the assessment of the recovery and resilience plan for Bulgaria regarding equity instruments (8091/22), the Financial Intermediary shall require that: a. for any Final Recipient whose activities include anaerobic digestion of bio-waste, landfill gas capture and utilisation, a monitoring plan for methane leakage of these activities must be in place, b. for any Final Recipient whose activities include transport of CO2 and underground permanent geological storage of CO2, a detailed monitoring plan in line with the provisions of the CCS Directive 2009/31/EC and EU ETS Directive 2018/410 must be in place, c. no Final Recipient Transaction covers the financing of vessels, vehicles or rolling stock specifically dedicated to transport fossil fuels, d. the Financial Intermediary and Final Recipient shall comply with the national environmental, climate and social laws and regulations to which they are subject; e. for Final Recipients whose activities or projects require an environmental impact assessment - as per the national legislation - that the assessments, permits and authorisations are in place.
2. exclude the following list of activities and assets from eligibility: (i) activities and assets related to fossil fuels, including downstream use <i>(Except projects under this measure in power and/or heat generation, as well as related</i>	2. The Financial Intermediaries shall not invest in activities excluded for Invest EU support, as described under the InvestEU Regulation 2021/523, annex V, point B. The Financial Intermediaries shall not invest in final recipients:

¹⁸ https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CONSIL:ST_8091_2022_ADD_1&from=EN

¹⁹ EUR-Lex - 52021XC0713(02) - EN - EUR-Lex (europa.eu)

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<i>transmission and distribution infrastructure, using natural gas, that are compliant with the conditions set out in Annex III of the ‘Do no significant harm’ Technical Guidance (2021/C58/01).</i>	- engaging in activities restricted or excluded under EIF’s Guidelines on Restricted Sectors²⁰, subject to updates from time to time, and - with a substantial focus on activities falling under EIF’s restrictions stemming from the EIB Group Paris alignment framework, as follows: (i) Fossil fuel-based energy production and related activities, as follows: a) Coal mining, processing, transport and storage; b) Oil exploration & production, refining, transport, distribution and storage; c) Natural gas exploration & production, liquefaction, regasification, transport, distribution and storage; d) Electric power generation, exceeding the Emissions Performance Standard of 250 grams of CO₂e per kWh of electricity, applicable to fossil fuel-fired power and cogeneration plants, geothermal and hydropower plants with large reservoirs. (ii) Energy-intensive and/or high CO₂-emitting industries, as follows: a) Manufacture of other inorganic basic chemicals (NACE 20.13) b) Manufacture of other organic basic chemicals (NACE 20.14) c) Manufacture of fertilisers and nitrogen compounds (NACE 20.15) d) Manufacture of plastics in primary forms (NACE 20.16) e) Manufacture of cement (NACE 23.51) f) Manufacture of basic iron and steel and of ferro-alloys (NACE 24.10) g) Manufacture of tubes, pipes, hollow profiles and related fittings, of steel (NACE 24.20) h) Manufacture of other products of first processing of steel (NACE 24.30, incl. 24.31-24.34) i) Aluminium production (NACE 24.42)
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²⁰ https://www.eif.org/news_centre/publications/2010_Guidelines_for_Restricted_Sectors.htm

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	j) Manufacture of conventionally fuelled aircraft and related machinery (sub-activity of NACE 30.30) k) Conventionally fuelled air transport and airports and service activities incidental to conventionally-fuelled air transportation (sub-activities of NACE 51.10, 51.21 and 52.23). Notwithstanding the above, investments in sectors mentioned in section (ii) items a) – k) included, shall be allowed if the fund manager confirms that the specific final recipient transaction qualifies as environmentally sustainable investments as defined in the “EU taxonomy for sustainable activities” (Regulation (EU) 2020/852, as amended from time to time) as supplemented by the technical screening criteria established under the “EU Taxonomy Delegated Acts” (Commission delegated Regulations (EU) supplementing Regulation (EU) 2020/852 or upcoming Taxonomy Delegated Acts, as amended from time to time, respectively). Restrictions related to polluting vehicles: The EIF shall request the financial intermediaries to ensure that the Final Recipients with a ‘substantial focus’ on the production, rental or sale of ‘polluting vehicles’ are excluded by the eligibility under this instrument, or - alternatively - are required to adopt and publish green transition plans. Substantial focus²¹: The EIF considers that an EIF Counterparty or Final Recipient has a “substantial focus” on a sector or business activity if the Final Recipient derives more than 50% of their revenues during the preceding financial year from activities and/or assets related to production, rental or sale of polluting vehicles. Production, rental or sale [of polluting vehicles]: The EIF considers the “production, rental or sale of polluting vehicles” any activity that concerns the: - Manufacture of combustion engine vehicles (sub-activity of NACE 29.10 Manufacture of motor vehicles) - Wholesale and retail trade of polluting vehicles (sub-activities of NACE codes 45.11 Sale of cars and light motor vehicles, 45.19 Sale of other motor vehicles)
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²¹ This substantial focus definition applies only in the context of this particular restriction on ‘polluting vehicles’. To be noted that EIF might apply more stringent requirements based on its policy (e.g. the EIF Policy on Exclusions and Restrictions)

(ii) activities and assets under the EU Emission Trading System (ETS) achieving projected greenhouse gas emissions that are not lower than the relevant benchmarks <i>(Where the activity supported achieves projected greenhouse gas emissions that are not significantly lower than the relevant benchmarks an explanation of the reasons why this is not possible should be provided. Benchmarks established for free allocation for activities falling within the scope of the Emissions Trading System, as set out in the Commission Implementing Regulation (EU) 2021/447);</i> (iii) activities and assets related to waste landfills, incinerators <i>(this exclusion does not apply to actions under this measure in plants exclusively dedicated to treating non-recyclable hazardous waste, and to existing plants, where the actions under this measure are for the purpose of increasing energy efficiency, capturing exhaust gases for storage or use or recovering materials from incineration ashes, provided such actions under this measure do not result in an increase of the plants' waste processing capacity or in an extension of the lifetime of the</i>	c. Rental and leasing of polluting vehicles (sub-activities of NACE 77.11 Renting and leasing of cars and light motor vehicles, 77.12 Renting and leasing of trucks) Polluting vehicles: “Polluting vehicles” are defined as: - Vehicles exceeding the threshold of 50g CO₂/km (M1 passenger cars and N1 light-duty vehicles). - Trucks and other heavy-duty vehicles e.g. tractors (i.e. categories N2 and N3) - only zero-emission, low-emission (as defined in Article 3(12) of Regulation (EU) 2019/1242: with CO₂ emissions of less than half of the reference CO₂ emissions of all vehicles in the vehicle sub-group; reference values differ depending on the type of truck). - Buses: ▪ ‘low-floor’ buses (M2 and M3 categories, typically urban and suburban buses running on short distances within an agglomeration). Only electric and plug-in hybrid buses would be DNSH-compliant. ▪ ‘high-floor’ buses (M2 and M3 categories, typically inter-urban coaches): all coaches that comply with the latest step with respect to pollutant emissions from heavy-duty vehicles under EURO VI (EURO VI-E) would be DNSH compliant. Where not listed under point 2.ii), financial Intermediaries shall be required to exclude support to final recipients, to whose activities the Directive 2003/87/EC applies (the “Emission Trading System Directive”, or “ETSD”), as per the Annex I of the ETSD.
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<i>plants; for which evidence is provided at plant level) and mechanical biological treatment plants (This exclusion does not apply to actions under this measure in existing mechanical biological treatment plants, where the actions under this measure are for the purpose of increasing energy efficiency or retrofitting to recycling operations</i> <i>of separated waste to compost bio-waste and anaerobic digestion of bio-waste, provided such actions under this measure do not result in an increase of the plants' waste processing capacity or in an extension of the lifetime of the plants; for which evidence is provided at plant level)</i> and (iv) activities and assets where the long-term disposal of waste may cause harm to the environment;	Financial Intermediaries shall be required to exclude support to final recipients, whose activities include: - Waste collection (NACE 38.1x) - Waste treatment and disposal (NACE 38.2x) - Processing of nuclear fuel (NACE 24.46) - Production of nuclear energy (sub-activity of NACE 35.11)
3. require companies that derived more than 50% of their direct revenues during the preceding financial year from activities and/or assets that are covered by the exclusion list to adopt and publish green transition plans;	3. As this is an intermediated Equity instrument to finance SME and mid-caps, the threshold rule will always apply since financing is provided for the purchase of the whole or significant share of the company. Thus, potential investee companies with business activities in the sectors listed above will not be financed, as per above.
4. ensuring compliance with the relevant EU and national environmental legislation.	4. The “compliance with environmental legislation” requirements will be implemented through the InvestEU Sustainability Proofing requirements as per item 1 above.