Anti-crisis measures in Bulgaria to improve access to finance for SMEs during the Covid-19 pandemic

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Abstract

This paper aims to systematize, group and study the anti-crisis economic measures in Bulgaria for financing of small and medium enterprises (SMEs) during the COVID-19 pandemic. During the second lockdown (fourth quarter of 2020), the state undertakes comprehensive economic measures. In this study the measures to facilitate access to finance are systematized into 4 groups as follows: (1) moratoria on loan repayments; (2) preferential lending measures; (3) equity investment; (4) measures to further facilitate access to finance for SMEs. The paper ends with a summary of the findings of the study.

Keywords: SMEs, access to finance, COVID-19 pandemic
JEL Classification: *G32, G21, G23*

1. Introduction

In the dynamic situation of COVID-19 and the social and economic chaos it has caused, the national governments are working to strike a balance between the health crisis and its economic consequences. Even before COVID-19 pandemic, the Bulgarian government is highly aware of the importance of micro, small and medium sized enterprises (SMEs) as powerful tool for economic growth and recovery in Bulgaria.

SMEs create 65% of the gross value added and 75% of the jobs in the country, which is about 10 percentage points more than the EU-average (Ministry of the Economy of the Republic of Bulgaria, 2020). But the average productivity of Bulgarian SMEs is still significantly lower than the EU average. According to the results of the "Survey on the access to finance of enterprises (SAFE)", in 2020 Bulgaria was in 25th place among all 27 EU Member States in terms of the importance of the indicator "Access to finance for the normal functioning of business" (European Commission, 2020, p. 1). The general economic outlook in Bulgaria during the COVID-19 crisis has a particularly negative impact on SMEs' access to finance – a serious slowdown in banks' lending activity to private sector, a significant reduction in the number of employees in SMEs, a drastic decline in their turnover, a dramatic decline in owners' funds or self-financing of SMEs, reduction of working capital.

The purpose of this paper is to systematize, group and study the anti-crisis economic measures taken in Bulgaria for facilitating access to finance in context of COVID-19 pandemic. These measures are systematized into four groups: moratoria on loan repayments; preferential lending measures; equity investment; measures to further facilitate access to finance for SMEs. The research methods used in the paper are theoretical and methodological analysis, systematic analysis, comparative approach, descriptive analysis and critical analysis. Finally, the paper ends with a summary of the findings of the study.

2. Moratoria on loan repayments

The loan moratorium is considered as an anti-crisis measure, as by its nature it provides indirect access to financing by deferring due payments. On April 3, 2020, the Governing Council of the Bulgarian National Bank (BNB, 2020a) decided to comply with the European Banking Authority (EBA)'s Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02). BNB points out: "The moratoria on bank loan repayments can be an effective tool in the event of short-term liquidity difficulties for bank customers. Many companies and citizens would experience such difficulties if their work was restricted or suspended as a result of the measures against COVID-19. This, in turn, may adversely affect credit institutions, insofar as under the current regulatory framework, deferred or terminated loan repayments lead to additional costs and capital requirements for banks. Therefore, the EBA guidelines introduce a temporary principle that loan moratoria do not lead to reclassification of exposures in the form of restructuring or default, provided that the measures are based on national law and are agreed and implemented at the banking sector level" (BNB, 2020a). Pursuant to EBA/GL/2020/02, the moratoria provide changes to the repayment plan through deferral of repayments for limited period of time; no other credit terms should be changed (EBA, 2020a).

Banks need to announce the loan reliefs on their website, in the bank offices and in another appropriate manner. The approved private moratoria provide an opportunity for changes in the schedule for repayment of the principal and/or interest, without changing other parameters of the loan agreement. Liabilities may be rescheduled for a period of up to 6 months ending on 31.12.2020. The deferred liabilities must have been serviced regularly or with a delay of no more than 90 days by 1.3.2020. Customers must explicitly state to their serving bank that they wish to take advantage of the benefits offered. Three standardized mechanisms are envisaged: 1) deferral of principal and interest repayments for up to 6 months; 2) deferral of principal repayments for up to 6 months; 3) mechanism applicable to revolving products. The relevant mechanism is chosen by mutual agreement between banks and their customers.

On December 11, 2020, BNB approved the Association of Banks in Bulgaria (ABB)'s request to extend the private moratoria on loan repayments until 31.3.2021. The changes are the following (BNB, 2020b): a) extension of the period for receiving and approving loan liability deferral requests from the banks' customers – until 23.3.2021; b) extension of the deadline for deferring loan liabilities of the banks' customers – until December 31, 2021, but not longer than 9 months; c) introduction of a requirement for the loan liabilities subject to the moratoria that they must be standard or overdue by less than 90 days as of the date of the deferral request; d) the possibility is provided for loan liabilities that were requested for deferral prior to 30.9.2020 to be re-deferred, with a total deferral duration of not more than 9 months. BNB also adopted a decision for banks that shall provide, within 10 business days, operational plans for assessing the potential default by their borrowers with moratoria, after its expiry (BNB, 2020b). The requirements for such operational plans are introduced by EBA/GL/2020/15.

The main objective of BNB was to maintain lending activity and to relieve enterprises and households. The results confirm that this effect has been achieved. Only for the first month – April 2020, a significant number (10,233) deferral requests were submitted by enterprises, with gross carrying amount of Bulgarian levs (BGN) 4,872,397 thousand (EUR 2,491,217 thousand), and 7,298 requests were approved, amounting to BGN 2,663,612 thousand.

As of end-October 2020 Bulgarian enterprises submitted 13,237 deferral requests with gross carrying amount of BGN 7,543,122 thousand (EUR 3,856,737 thousand). Of these, 11,934 claims amounting to BGN 6,778,936 thousand were approved (BNB, 2020c). At the end of October 2020, loans to enterprises and households increased on annual basis by 2.5% and 7.3% (Radev, D., 2020, p. 1). At the same time, the approved requests for deferral of payments under private moratoria reached 14,120 at its peak in August 2020, with gross carrying amount of deferred loan repayments of over BGN 7.8 billion (around EUR 3.9 billion).

As of end-March 2021 Bulgarian enterprises submitted 14,408 deferral requests, of which 13,303 are approved. The gross carrying amount of deferred loan repayments overcame BGN 7 billion (around EUR 3.6 billion) (Figures 1 and 2). This was a significant financial relief for the affected enterprises. This also applies to Bulgarian households.

The latest statistical data are presented in Table 1. The cumulative data on deferral requests by Bulgarian enterprises are presented in Figure 1 and those on deferral requests by Bulgarian households – in Figure 2.

Table 1: Summary information on the Procedure for deferral and settlement of liabilities payable to banks and their subsidiaries – financial institutions as of March 31, 2021. (source: BNB, authors' calculations)

Position	Number of borrowers		Gross carrying amount – in thousand BGN	
	Submitted deferral requests	Approved deferral requests	Submitted deferral requests	Approved deferral requests
Enterprises	14 408	13 303	7 470 438	7 048 981
Households	117 168	97 546	2 230 513	1 934 125
Total	131 576	110 849	9 700 951	8 983 106

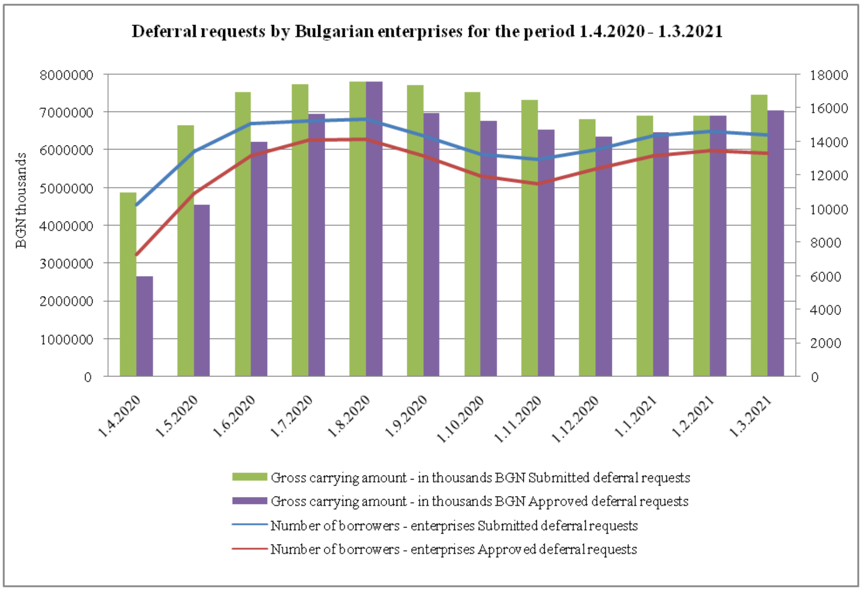

Figure 1: Deferral requests by Bulgarian enterprises for the period 1.4.2020 – 1.3.2021. (source: BNB, authors' calculations)

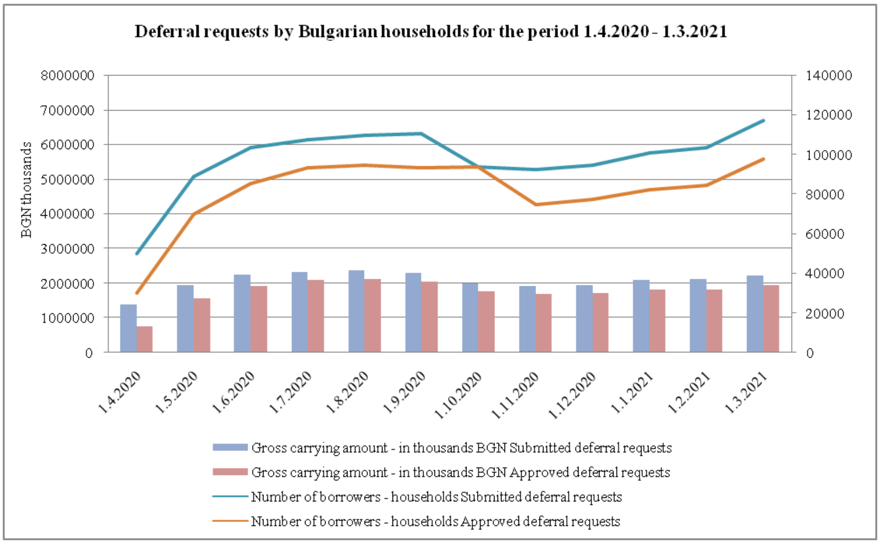

Figure 2: Deferral requests by Bulgarian households for the period 1.4.2020 – 1.3.202. (source: BNB, authors' calculations)

The empirical analysis shows a slight upward linear trend of the gross carrying amount of deferred repayments of loans by enterprises under private moratoria in the period 1.4.2020 - 1.3.2021. This upward trend is more noticeable for households.

Outside the scope of the moratoria on loan repayments, banks have the opportunity to renegotiate loans individually. In these cases, the existing common prudential framework requires banks to reclassify exposures as restructured or in default in a timely and adequate manner (Radev, D., 2020, p. 2). The actions of the banks in this regard will also be taken into account in the supervisory process as important input information in the supervisory review and assessment by BNB.

Apart from the private moratoria, during the second and third partial lockdowns in Bulgaria respectively in the fall of 2020 and in the spring of 2021, the anti-crisis economic measures become more comprehensive.

3. Preferential lending measures

Preferential lending measures provide opportunities for SMEs in helping to improve their access to finance.

3.1. Program of the Bulgarian Development Bank JSC for liquidity support through portfolio guarantees for micro and SMEs affected by the declared emergency and COVID-19 outbreak

In May 2020, the Council of Ministers (by Decision № 310/2020) approved and assigned Bulgarian Development Bank (BDB) with the implementation of the "Program for liquidity support through portfolio guarantees for micro and SMEs affected by the declared emergency and COVID-19 outbreak" (BDB, 2021). This government measure has been approved by the European Commission and must meet the conditions set out in the State aid Temporary Framework measures for supporting the economy in COVID-19 outbreak. This framework was adopted on 19.3.2020. It enables EU Member States to use the full flexibility foreseen under State aid rules.

In October 2020 the government approves program amendments by adopting Decision № 797/2020. The eligibility criteria of the program regarding the status of enterprises are changed – large enterprises are included. Large enterprises are companies of over 250 employees and an annual turnover of over BGN 97.5 million (EUR 49.85 million), or an asset value of over BGN 84 million (EUR 42,948). Associations and companies under the Obligations and Contracts Act are not eligible for financing. The provided loans are up to BGN 1 million (EUR 511.3 million) for SMEs and up to BGN 2 million (EUR 1.022 million) for large enterprises.

This program protects employment. Given the extended scope, its name is changed –"Portfolio Guarantee Program to support the liquidity of enterprises affected by the emergency situation and the epidemic of COVID-19" (BIA, 2020a). BDB provide guarantees in favour of partner commercial banks, which, in turn, form portfolios of loans to micro, SMEs and large enterprises affected by the COVID-19 outbreak and ensure the liquidity of borrowers. Loans in scope of the program require lower collateral coverage (BDB provides guarantee coverage of 80%) and reduction of the interest by 0.8%. The program is implemented by the biggest banks on the market.

Under this program, BDB extends loans for new working capital and investment financing to SMEs up to BGN 300,000 (EUR 153,387), with a grace period (principal and interest) of up to 36 months (BIA, 2020b). The implementation of the program is secured financially by BGN 500 million (around EUR 255 million) through an increase in the capital of BDB. The program is open to all sectors. It is applied for the whole territory of Bulgaria.

The program is eligible for companies that meet at least one of the following criteria (BDB, 2021): 1) Companies registered a decrease in turnover after the first quarter of 2020 compared to the same period in 2019; 2) Delayed receivables from customers/payables to suppliers, after 1.3.2020; 3) Terminated import deliveries – after 1.1.2020, or cancelled export contracts; 4) Cases of sick and self-isolated employees, total reduction in the number of employees, closed production facilities, premises and offices; 5) Other circumstances caused by the difficulties experienced due to COVID-19.

The coverage of the guarantees provided by BDB is able to include both existing loans already and new loans in the form of new working capital and investment funding. The guarantee is with maturity of 6 years. The commercial banks provide borrowers with grace periods for payment as follows (BDB, 2021): 1) Up to 6 months for existing loans (for principal up to 6 months, for interest up to 3 months); 2) Up to 36 months for principal/interest for newly granted loans.

The interest conditions are determined according to the rules of the partner banks and they will reduce their standard interest rate by 0.8% before providing the funding. Because of the payment guarantee provided by BDB for 80% of the loan principals, the banks reduce their collateral requirements by 50%. Borrowers must pay to BDB a guarantee fee in amount determined by the EC in the applicable State Aid Temporary Framework (European Commission, 2021a, 2021b).

As of 26.2.2021, portfolio guarantees have been agreed with 9 banks and amount to BGN 795 million (around 406.5 million). The loans confirmed by BDB are over 1,330 with a total amount of BGN 174,562,362 (around EUR 89.2 million). The progress of the program for the last 14 days amounts to nearly BGN 10 million (EUR 5.1 million).

3.2. Guarantees from the Fund of Funds, providing loans for SMEs

Order № 3 of 22.7.2015 of the Council of Ministers sets up a sole-owner joint-stock company with government interest called Fund Manager of Financial Instruments in Bulgaria (Fund of Funds). It is responsible for the implementation of financial instruments which are part of the support to Bulgaria from the European Structural and Investment Funds (ESIFs) through the operational programmes (OPs).

The main activity of the Fund of Funds is structuring and management of financial instruments co-financed by the ESIFs. It manages funds in the amount of BGN 1.2 billion (around EUR 0.6 billion) under five OPs.

The Fund of Funds has developed and structured different types of financial instruments according to their nature and aim – debt instruments and equity and quasi-equity instruments for OPs for which the company has a mandate (Fund of Funds, 2021a):

(1) OP "Human Resources Development" – 2 financial instruments: Risk-sharing micro-finance (micro-lending) facility which is the first product launched on the market and First loss portfolio guarantees;

(2) OP "Innovation and Competitiveness" (OPIC) – 3 equity instruments for the Seed/Acceleration and Start-Up Fund (I, II and III), the Venture Capital Fund, the Mezzanine/Growth Fund and a new guarantee product to support SMEs affected by the COVID-19 crisis – First loss portfolio guarantees COVID-19;
(3) OP "Regions in Growth" – debt instrument Urban Development Fund, incl. loans with built-in guarantees – Nord, South and Sofia Urban Development Funds;
(4) OP "Environment" – 2 financial products: loans and guarantees to operators and sewage systems and lending to the waste sector;
(5) OP "Rural Development" – loans to businesses in rural areas.

In response to the economic shocks following the pandemic, in 2020 Fund of Funds was aimed at renegotiating the conditions for eligibility of financial instruments and the realization on the market of a new guarantee product under OPIC – First loss portfolio guarantees COVID-19. This new guarantee product provides relief in collateral for SME loans in the amount of up to BGN 3 million (EUR 1.53 million). The total budget of this product is BGN 158 million (around EUR 80.8 million). The funds have been redirected from the financial instrument "Financing of small business" and the transformed financial instrument "First loss portfolio guarantees for energy efficiency and innovation". The purpose of the instrument is to facilitate companies' access to loans for continued operations, including to meet liquidity needs and/or to overcome financial difficulties due to COVID-19 crisis (Fund Manager of Financial Instruments in Bulgaria JSC, 2020, p. ii).

The guarantee product provides coverage of the credit risk of individual loans up to 80%, financed with public resources and implemented by Fund of Funds and 9 banks – financial intermediaries. This guarantee product provides extraordinary additional flexibility to companies in response to the unprecedented health crisis.

3.3. Micro-loans for investment and working capital financing of self-employed and SMEs

Fund of Funds offers a program with total budget of BGN 24 million (EUR 12.27 million) for providing micro-loans for investment financing and new working capital needs. This is an existing program of Fund of Funds. The maximum amount is up to BGN 50,000 (around EUR 25,560), and the maturity is up to 10 years. What is specific is the long grace period – up to 24 months, low interest rates (below market rates) and significant collateral relief, even sometimes lack of need for security. Priority is given to enterprises created by vulnerable groups of people (people with disabilities, people up to 29 years, and unemployed for more than 6 months), and companies with no financial history. The purpose of this tool is to maintain employment by supporting small private businesses, incl. self-employed. The measure is available through First Investment Bank and two financial intermediaries (Dimitrov, Petrov & Co., Bulgarian Law Firm, 2020).

New working capital and multi-purpose loans for medium-sized enterprises (portfolio guarantees from the European Investment Fund/JEREMIE), with the possibility of refinancing liabilities incurred not more than 60 days ago

The budget of the product is BGN 160 million (EUR 81.8 million). It provides an opportunity through a network of banks to create a portfolio of new loans amounting to BGN 500 million (around EUR 255 million), reaching BGN 880 million (around EUR 449 million). Positive is the possibility to refinance liabilities incurred no more than 60 days ago. The maximum amount of guarantee/loan is up to BGN 3.6 million (around EUR 1.84 million) (Dimitrov, Petrov& Co., Bulgarian Law Firm, 2020).

The Joint European Resources for Micro to Medium Enterprises (JEREMIE) initiative, set up in 2007 by the European Commission in co-operation with the EIB Group and other financial institutions to enhance cohesion across EU aims to facilitate access to finance for SMEs (EIF, 2021a). JEREMIE is a predecessor to the current ESIF-backed programmes managed by the European Investment Fund (EIF) under the 2014-2020 programming period. The EIF supports micro and SMEs by working with a wide range of funds, banks, guarantees and microfinance institutions across Europe (EIF, 2021b).

JEREMIE offers EU Member States the opportunity, through their national or regional managing authorities, to use part of the EU Structural Funds to finance SMEs with equity, loans or guarantees through a revolving holding fund acting as a core fund (fixed asset). JEREMIE does not award any grants to SMEs.

Enterprises wishing to use the program JEREMIE for new working capital and multi-purpose loans, incl. for refinancing, need to apply to a chosen financial intermediary applying the scheme. JEREMIE’s financial intermediaries are: United Bulgarian Bank (since February 2018 has taken over CIBank), Raiffeisenbank, UniCredit Bulbank, ProCredit Bank, Deutsche Leasing Bulgaria, Societe General Expressbank, Eurobank Bulgaria, DSK Bank, Piraeus Bank Bulgaria.

3. Equity investment

With regard to access to equity financing, Fund of Funds has created a measure for financing with a maximum amount of up to EUR 800,000 in form of equity and quasi-equity investments provided by four existing venture capital funds. The final beneficiaries are SMEs, with focus on start-ups and fast-growing companies active in key areas such as innovation, digitalization, bio- and nanotechnology, mechatronics, robotics, clean and information technology, pharmacy, fin-tech and more. The aim is to support innovative companies with high added value and the potential to help the economy recover quickly after the crisis. The total budget of the program is BGN 150 million (around EUR 76.7 million).

4. Measures to further facilitate access to finance for SMEs

Specific measures that can be taken in order to increase the intensity of access to finance are examined by Andronova (2020). Based on a descriptive analysis and identified key problems for SMEs, the main risks to banks' access to finance for SMEs and some suggestions for solving them are revealed:

- Reducing the requirement for a minimum amount of own participation in projects/investment loans. At the moment the requirement is for 20 - 25% depending on the rating/scoring of the company. In the case of bridge financing (when it comes to financing projects that have won OPs), this requirement can be reduced to 10%, for example, or even less, so that beneficiaries can more easily meet the costs set under the grant agreement. To further minimize the risk of lack of sufficient amount of the entrepreneur's commitment to the bank, guarantee mechanisms can be used, which are specially agreed for this purpose.
- Financial risk, low operating profit and unsatisfactory levels of debt coverage, are risks that cannot be minimized through changes in the products that banks offer. The option is to use a mechanism for risk-sharing between the creditor bank and the operational programme. If the full amount is provided in advance by the operational programme without the need to issue a bank guarantee to secure the payment, costs will be saved for the beneficiary. In addition, control over the spending of funds will be in the hands of the bank.
- Low level of financial autonomy refers more to financial risks. It is possible to use guarantee instruments that include such a component.
- The question of collateral arises in all types of loans, regardless of whether they are supported or not by guarantee instrument. Efforts during the current 2021-2027 programming period could be aimed at increasing the amount of the guaranteed principal on the loans.
- Bad credit history – this motive should not be leading in case a regular credit history of the company or its owners/managers is proved in the last 6 months of 2020. Previous negative experience can be interpreted bilaterally – both as an incorrect payer and as a company with a bad experience on which to stand to improve its performance in its future business intentions.

If the products/guarantee mechanisms are modeled according to the amount of loans requested, the mitigating conditions for the products/guarantee schemes are as follows:

- In the amount of up to BGN 50,000 (EUR 25,564) – own participation and financial risk – level of indebtedness, liquidity ratio and operating profit;
- In the amount of BGN 50,000 (EUR 25,564) to BGN 200,000 (EUR 102,258) – for these loans, in addition to the above reasons, the collateral is also included. The level of guarantee of the principal can be linked to the rating/scoring category of the client or the level of certain financial ratios;
- In the amount of over BGN 200,000 (EUR 102,258) – again the same reasons, with the greatest weight being the financial risk. Motives such as high business and sectoral risk are emerging, which should be minimized through guarantee instruments if they concern priority sectors.

In addition to the above-mentioned anti-crisis economic measures the National Recovery and Resilience Plan facilitates economic and social recovery from the crisis caused by COVID-19 pandemic. Bulgarian government has implemented a set of measures and reforms that will not only restore the potential for economic growth, but are also expected to lead to sustainable development lead to sustainable development. The Plan lays the foundations for a green and digital transformation of the economy, in the context of the ambitious goals of the European Green Deal.

5. Conclusion

In 2020, SMEs faced a severe and unforeseen challenge. The analysis showed that in Bulgaria a number of anti-crisis measures have been taken to support SMEs and to ensure access to finance. The key measures to address the economic consequences of COVID-19, which the analysis focuses on, are: the moratoria on loan repayments, preferential lending measures, the equity investments and the measures for further facilitating access to business financing. However, it is clear that it is very difficult to find a balance between the severity of anti-epidemic measures and freedom in the economy. The government continues to actively support SMEs in 2021, when the third worst wave of the COVID-19 crisis occurred in March. This support is the result of a clear understanding that fast financing is important for Bulgarian companies, as the support is provided in compliance with the regulations. The financial support provided by the state to SMEs, together with the funds redirected from the OPIC in favour of closed businesses due to the pandemic, brings our country closer to good European examples in terms of financial support relative to GDP.

Our expectations are that the various anti-crisis measures taken in Bulgaria will make it possible to compensate SMEs, at least in part, for the adverse economic consequences of the pandemic. However, the fulfillment of these expectations can hardly be expected earlier than the second half of 2021 or 2022.

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