

Municipal Guarantee Fund for Small and Medium Enterprises

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REPORT For the operations of the Municipal Guarantee Fund for Small and Medium Enterprises for the year of 2009

I. Lending Activity

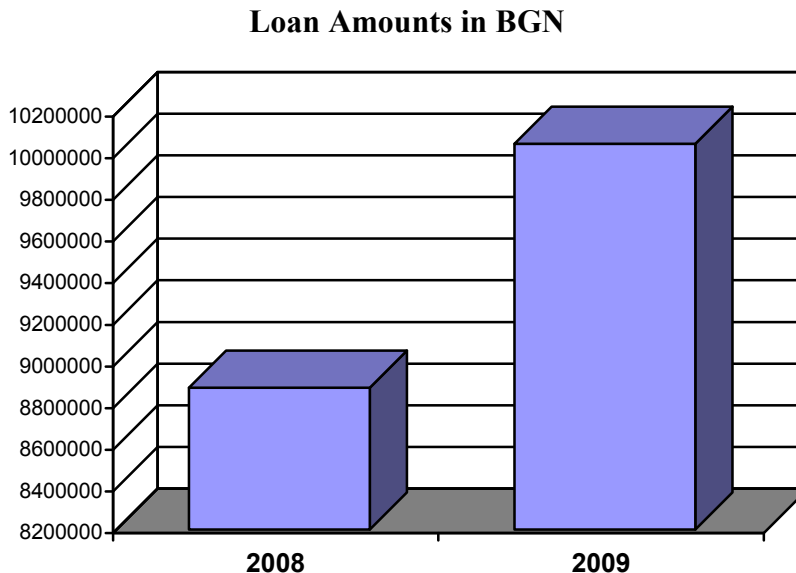
1. Guarantees

Since the beginning of its operations, and until now, the Municipal Guarantee Fund for Small and Medium Enterprises (“MGFSME”) has reviewed 348 requests for guarantee support, and has undertaken guarantee commitments to 276 Small and Medium Enterprises (“SMEs”), for loans of total value BGN 36,660,293. The guarantee commitment as of 31.12.2009 is in the amount of BGN 4,622,898.50; there are no overdue or defaulted loans until now.

In the year of 2008 MGFSME assisted 35 firms for loans of total value BGN 8,880,721, while the guarantee commitment amounts to BGN 1,614,855.

In the year of 2009 MGFSME reviewed 82 requests for guarantees and assisted 57 firms for loans of total value BGN 10,081,833, and the new guarantee commitment amounts to BGN 2,563,166.

The comparison of the amount of the loans during the two years mentioned can be seen in the next Chart:



The execution of the amount of the guarantee commitments planned in the program for 2009 is 102,5%.

The amount of the loans and of the assumed guarantee commitments from 01.01.2008 till 31.12.2009, to the different banks, is as follows:

Distribution by banks:

FROM ALL BANKS	2008	2009
1. requests for guarantee support - number, incl. of:	54	82
- approved requests for guarantee support	35	64
- non-approved requests for guarantee support	19	18
2. issued guarantees - number, incl. of:	35	57
- investment loans – number	19	24
- loans for operating funds – number	16	33
3. total amount of the guarantee commitment - BGN.	1,614,855	2,563,166
4. total amount of the loans - BGN.	8,880,721	10,051,633

ALIANZ BANK BULGARIA AD:	2008	2009
1. requests for guarantee support - number, incl. of:	0	7
- approved requests for guarantee support	0	6
- non-approved requests for guarantee support	0	1
2. issued guarantees - number, incl. of:	0	6
- investment loans - number	0	4
- loans for operating funds - number	0	2
3. total amount of the guarantee commitment - BGN.	0	318,232
4. total amount of the loans - BGN.	0	1,436,018.85

BANK DSK EAD:	2008	2009
1. requests for guarantee support - number, incl. of:	19	16
- approved requests for guarantee support	11	14
- non-approved requests for guarantee support	9	2
2. issued guarantees - number, incl. of:	11	13
- investment loans - number	4	0
- loans for operating funds - number	7	13
3. total amount of the guarantee commitment - BGN.	475,000	670,000
4. total amount of the loans - BGN.	2,308,019	2,071,005

INVESTBANK AD:	2008	2009
1. requests for guarantee support - number, incl. of:	0	6
- approved requests for guarantee support	0	5
- non-approved requests for guarantee support	0	1
2. issued guarantees - number, incl. of:	0	5
- investment loans - number	0	4
- loans for operating funds - number	0	1
3. total amount of the guarantee	0	264,447

commitment - BGN.		
4. total amount of the loans - BGN.	0	1,398,021.75

<u>MUNICIPAL BANK AD:</u>	2008	2009
1. requests for guarantee support - number, incl. of:	1	3
- approved requests for guarantee support	1	3
- non-approved requests for guarantee support	0	0
2. issued guarantees - number, incl. of:	1	3
-investment loans - number	1	1
-loans for operating funds - number	0	2
3. total amount of the guarantee commitment - BGN.	40,000	98,233
4. total amount of the loans - BGN.	140,000	291,466.40

<u>FIRST INVESTMENT BANK AD:</u>	2008	2009
1 .requests for guarantee support - number, incl. of:	32	21
- approved requests for guarantee Support	22	14
- non-approved requests for guarantee Support	10	7
2. issued guarantees - number, incl. of:	22	14
- investment loans-number	14	7
- loans for operating funds - number	8	7
3. total amount of the guarantee commitment - BGN.	1,039,855	466,583
4. total amount of the loans - BGN.	6,197,702	1,658,712.39

<u>SIBANK AD:</u>	2008	2009
1. requests for guarantee support - number, incl. of:	0	5
- approved requests for guarantee support	0	4
- non-approved requests for guarantee support	0	1
2. issued guarantees – number, incl. of:	0	4
- investment loans – number	0	2
- loans for operating funds – number	0	2
3. total amount of the guarantee commitment - BGN.	0	155,000
4. total amount of the loans - BGN.	0	310,000

<u>TOKUDA BANK AD:</u>	2008	2009
1 .requests for guarantee support - number, incl. of:	0	2
- approved requests for guarantee support	0	2

- non-approved requests for guarantee support	0	0
2. issued guarantees - number, incl. of:	0	2
- investment loans - number	0	1
- loans for operating funds - number	0	1
3. total amount of the guarantee commitment - BGN.	0	120,000
4. total amount of the loans-BGN.	0	930,890.30

<u>COMMERCIAL BANK AD:</u>	2008	2009
1. requests for guarantee support - number, incl. of:	1	10
- approved requests for guarantee support	1	7
- non-approved requests for guarantee support	0	3
2. issued guarantees - number, incl. of:	1	4
- investment loans - number	0	2
- loans for operating funds - number	1	2
3. total amount of the guarantee commitment - BGN.	60,000	240,000
4. total amount of the loans-BGN.	235,000	1,443,579.44

<u>CENTRAL COOPERATIVE BANK AD:</u>	2008	2009
1. requests for guarantee support - number, incl. of:	0	1
- approved requests for guarantee support	0	1
- non-approved requests for guarantee support	0	0
2. issued guarantees - number, incl. of:	0	1
- investment loans - number	0	0
- loans for operating funds - number	0	1
3. total amount of the guarantee commitment - BGN.	0	5,376
4. total amount of the loans- BGN.	0	10,757.07

<u>EUROBANK EFG BULGARIA AD:</u>	2008	2009
1. requests for guarantee support - number, incl. of:	0	8
- approved requests for guarantee support	0	8
- non-approved requests for guarantee support	0	0
3. issued guarantees - number, incl. of:	0	5
- investment loans - number	0	3
- loans for operating funds - number	0	2
4. total amount of the guarantee commitment - BGN.	0	225,295
5. total amount of the loans - BGN.	0	501,181.91

In the month of November 2009, a **change** was made in the **Internal Rules for assuming guarantee commitments to SMEs**, the more important aspects of which are the following:

- > The maximum amount of the guarantees was increased from BGN 60,000 to BGN 100,000, independent of the amount of the principal under the loan granted;
- > The Firm shall avail of its own security for the loan, with a minimum liquidation value (in the estimate of the Bank) at the amount of 60% of the principal of the loan;
- > The guarantees under loans secured by the Bank with a first ranking mortgage, the fair market value of which covers 100% of the loan amount, shall be free of any fees and commissions;
- > MGFSME shall deduct a commission for each risk guarantee issued in favor of the bank, at the rate of 0.25 to 0.40 percent on the amount of the guarantee on an annual basis, depending on the risk. Said rate shall be due for the first twelve months, on the initial loan amount, while for any following twelve-month period the same rate shall be applied with respect to the reduced guarantee commitment. The lending bank shall transfer the collected commissions in favor of MGFSME, to the current account of the Fund with "Municipal Bank" AD;
- > the amount of the commission under the particular projects shall be determined based on the methodics for assessment of the risk.

2. Distribution of the guarantees for loans to SMEs by priorities of the MGFSME:

In 2009, the Municipal Guarantee Fund supported **as priority, under equal other conditions, the following projects:**

2.1. depending on the category of entrepreneurs:

- women-entrepreneurs:

17 items, amount of the guarantee commitment – BGN 871,144, amount of the loan - 3 BGN 252,619

- persons with disabilities:

no requests have been filed for guarantee support in this group

- young entrepreneurs (up to 30 years):

no requests have been filed for guarantee support in this group

- Small and Medium firms in need for investment and operating capital:

40 items, amount of the guarantee commitment - BGN 1,632,022, amount of the loan – BGN 6,639,214.

2.2. depending on the type of the projects for financing:

- SMEs - beneficiaries under the Operational Programmes of the European Union and other special Programmes for financing of SMEs of international financial institutions:

3 items, amount of the guarantee commitment - BGN 178,670, amount of the loan – BGN 537,853;

- development of business in the remote regions and settlements of the Sofia Municipality:

10 items, amount of the guarantee commitment - BGN 464,992, amount of the loan BGN 2,761,198;

- small family business:

27 items, amount of the guarantee commitment - BGN 1,157,884, amount of the loan BGN 3,295,638;

- transport and transportation services for the population:

2 items, amount of the guarantee commitment - BGN 120,000, amount of the loan - BGN 367,299;

- services provided by doctors, dentists, rehabilitators, and psychotherapists:

1 item, amount of the guarantee commitment - BGN 60,000, amount of the loan - BGN 801,890.30;

- leisure services, sports, cultural and youth activities:

3 items, amount of the guarantee commitment BGN 129,779, amount of the loan BGN 508,515;

- export-oriented productions:

3 items, amount of the guarantee commitment - BGN 149,337, amount of the loan - BGN 989,724;

- production of environmentally friendly products, as well as and of machinery and equipment contributing to the protection and improvement of the environment:

no guarantee commitments to this group were undertaken in 2008;

- transfer of know-how and training of manpower:

8 items, amount of the guarantee commitment - BGN 302,504, amount of the loan - BGN 789,715.

II. Organizational activity of MGFSME in 2009

29 sessions of the Council for Management of MGFSME were held in the year of 2009.

1. Legal and organizational issues

With the purpose of expanding the activity and improvement of the organization of the Fund, in the month of April, with Resolution of the Sofia Municipal Council (“SMC”), **the Rules for the organization and the activity of MGFSME were amended**. Related to this, in the beginning of the year, with Resolution of the Council for Management of the Fund, **the legal opinion of Mr. Stefan Todorov** (Chief expert of the Local Government Commission of the National Assembly) was requested and approved, concerning the organization of the activity of the municipal guarantee funds for Small and Medium Enterprises.

Based on said opinion and on an order issued by the (temporary) Mayor of the Sofia Municipality (“SM”) to initiate before SMC the amendments of the Rules for the organization and the activity of MGFSME, related to findings, establishments, conclusions and recommendations in the audit report of the financial management of the budget of SM for 2007 made by the Court of Auditors, the Council for Management set out the issue of clarifying the status of MGFSME. At its sessions in the month of July, resulting from discussions, analysis of the legal framework, and the above-mentioned legal opinion, CM of MGFSME made before the Chair of SMC and (temporary) Mayor of SM **the following proposals:**

- the Sofia Municipality shall take the necessary action before the Ministry of Finance for recovery of the closed off-budget account of MGFSME, and the inclusion of the Fund in the list of off-budget accounts of the Municipality in the Draft-law for the Budget of the Republic of Bulgaria for 2010.
- The proceedings of MGFSME from privatization shall not incur to the budget of SM and, respectively, the Fund shall be deleted from the list of the secondary disposers of budget credits.

The proposals were supported with detailed motives, for the purpose of facilitating the decision-making process and giving grounds to the request before the Ministry of Finance.

In spite of the official request made by the Sofia Municipality, the Ministry of Finance did not include MGFSME in the list of off-budget accounts for 2010, together with the Municipal Fund for covering the expense for privatization, and the Special Municipal Privatization Fund.

2. BNB determined the status of MGFSME as a Guarantor

Due to our steps taken, in the month of November BNB determined the status of the Fund for the purposes of the standardized approach to credit risk under Regulation No. 8 of BNB. The opinion of BNB is that the exposures to MGFSME shall be treated as exposures to institutions pursuant to Art.29, para.1 of Regulation No. 8 and, respectively, banks may use its guarantees as in instrument for credit protection, and apply a more favorable risk weight to their portion of exposure to SMEs covered by such guarantee.

3. Documents of internal regulation

With view to achieving transparency and strict reporting, **a Procedure for working with consultants of SMEs** was developed and approved in the month of June.

In the month of November 2009, a change was made in **the Internal Rules for assuming of guarantee commitments to SMEs**.

For the adequate management of the financial risk of the Fund, the **Internal Rules for financial management and control of MGFSME** were updated in the month of December.

Following the amendments made in **the Rules for the organization and the activity of MGFSME**, the granting of loans to Sofia Municipality was allowed. In the month of December, a loan of BGN 2,000,000 was extended to SM (for a two-year) term.

An **Electronic Register of the guarantees** was created, with the purpose of quicker and easier access to information about all guarantee commitments assumed or rejected by the Fund under loans for SMEs. The **Electronic Register for consultancies** created in 2008 was restructured and perfected.

4. Partner Banks.

Two new framework agreements were signed in fulfillment of the adopted programme for 2009, between MGFSME and Commercial bank INVESTBANK AD and EUROBANK EFG BULGARIA AD.

Following the changes in the Internal Rules for assuming of guarantee commitments to SMEs in the month of November, the Fund **signed Annexes to the** framework agreements with the following partner banks:

- ALLIANZ BANK BULGARIA AD
- INVESTBANK BULGARIA AD
- MUNICIPAL BANK PLC
- FIRST INVESTMENT BANK AD
- CIBANK PLC
- TOKUDA BANK AD
- D COMMERCE BANK AD

III. Consulting and analytical activity of MGFSME

1. Consulting activity.

A new office of the Information & Consulting Center for SMEs was open on 16.05.2009 in the "Suhata reka" Quarters, on the territory of "Gerena" Market. With the opening of this office, the Information & Consulting Center expanded the scope of its activity and facilitated the access of Small and Medium Enterprises to its services. The Center advises SMEs on issues related to the development of projects for applying under the Operational Programmes of EU, on accounting, legal, and other problems, on the manner and requirements for receiving guarantees from MGFSME under loans, etc. Following a detailed analysis of the activity of the new office, in October it was moved on the territory of "Patekite" Market in Mladost 1 Quarters.

In 2009 the Fund undertook 113 consultancies of SMEs.

Structurally, the most frequent consultancy topics were the following:

- legal issues (47%);
- regarding the opportunities for issuance of guarantees when applying for a bank loan (25%);
- regarding the opportunities for financing of SMEs by the Operational Programmes of EU (12%).

2. Analytical activity and study of the Best European Practices.

In 2009, **analyses** were made of the impact of the financial and economic crisis on SMEs.

Concerning lending, the main **problems for small businesses** during the year of reporting were (according to the inquiry taken by MGFSME):

- high interest rate under the loan (33.33%)
- the banks currently have almost ceased lending (20.59%)
- high percentage of the security demanded (19.61%)

The activity was studied of "**Vienna Business Agency ("VBA") and Zentrum fuer Innovation und Technologie (ZIT) - Center for Innovation and Technology**, which are capital funds of the **Municipality of Vienna**. Said funds assist the development of SMEs on the territory of the Municipality of Vienna in three main clusters - for innovation technologies, in car-making, and in the area of services. The priorities are: start-up SMEs, young entrepreneurs, women entrepreneurs, people with disabilities, and family business with practices well-established at the market, or in the area of services.

IV. Positioning of MGFSME in the public domain:

1. Information and advertising activity.

1.1. The website of MGFSME continues to be regularly updated, in order for the companies to receive full information about the activity of the Fund as well as current data concerning the operation of SMEs.

Here are some of the materials published: "The opportunities for financing SMEs in 2009", "Search of new businesses and partners of SMEs", "Opposition to the shrinking markets and orders of SMEs", etc.

1.2. With view to the changes in the activity of the Fund, its advertising leaflet was updated and sent over to the partner banks, the regional municipal administrations, etc.

1.3. In the month of September, the Fund tried advertising through the "Business panorama" mailing of the Sofia Chamber of Commerce and Industry ("SCCI"). Within said period, advertising was issued on the website of SCCI - ssci.bg, through a link on the website of the Fund. Advertising of MGFSME was also made in the "Commercial Paper" newspaper, by issuing an advert with the Fund's logo and link to the website of the Fund in the electronic version of said newspaper.

2. Cooperation with organizations supporting SMEs.

In 2009, meetings were held and agreements signed with other organizations working in support of Small and Medium businesses on the territory of the City of Sofia, as follows:

- In the month of January MGFSME entered an agreement for cooperation and joint activity with **the Bulgarian Association for Development of Management and Entrepreneurship** ("BADME") in the field of: cooperation in the consulting of SMEs in Sofia Municipality for the opportunities for financing under the Operational Programmes of EU, cooperation in the consultancies for, and compilation of projects applying for gratuitous aid from the EU and other donor programmes, carrying out of training and seminars of SMEs contributing to the development of their business; support of SMEs in the area of management and entrepreneurship, joint organization of courses and programmes for inter-company training;
- A Memorandum was signed with **the Scientific Research Sector of "St. Kliment Ohridski" University of Sofia** ("SRC"). By signing the Memorandum, the Fund declared the unification of its efforts with SRC for occupying of a strong and active position in the economic life of the Capital City, and for increased competitiveness of the Sofia SMEs. According to the signed Memorandum, the joint action with SRC shall have a broad scope, and shall be mainly directed to the provision of information, advise, and assistance to SMEs concerning the European and national policies and legislations, for utilization of the money from the Structural Funds of EU, for the registration of inventions, useful models, trademarks, for technological transfer and technological development, through technological assessment of the production, and through implementing technological audit of the firms;
- In the month of July, an agreement for cooperation was entered between MGFSME and **"Global Advisors" AD**. The parties agreed to work in cooperation expressed in joint chase of a common goal: assistance and support of entrepreneurship and Small and Medium Enterprises, through a broad specter of activities, inclusive of: audit, building of management and control systems, management of the risk, business consulting, management of the project cycle, integration and management of investment projects, legal services, human resources, etc.

V. Participation in seminars and conferences on the problems and manner for support of Small and Medium Business on the territory of Sofia Municipality

1. Conference: "The hieroglyph for 'crisis' may also be read as 'opportunity'" in Sofia, organized by Insurance.bg

2. Seminar on the topic "Sofia – a European City, only after adopting a new management model". The purpose of the meeting was to designate topics concerning the current problems of Sofia Municipality.

3. Presentation of the activity of the Fund before officials from SIBANK AD. The purpose of the presentation was to discuss the joint activity for guaranteeing the loans to Small and Medium Enterprises on the territory of Sofia Municipality, as well as to mark the measures to improve such activity.

4. Seminar on the topic: "Behavior of the Firm in the conditions of crisis, and opportunities for cooperation between science and business". This Forum was organized by BADME and took place in the premises of the University for National and World Economy ("UNWE"). The purpose of the meeting was to seek for opportunities and manners for assisting the companies, and related to protection and development of the business, exports, finding of business partners, retaining of leading specialists, etc.

5. Seminar in support of SMEs on the topic: "The behavior of the Firm in crisis conditions. Opportunities for support." It was organized by the Institute for Development of Entrepreneurship of the UNWE, and BADME. The purpose was to discuss the real opportunities for support of SMEs in the conditions of a crisis - by the lending institutions and consultants.
6. European Day of the Entrepreneur. Representatives of the Fund participated in a meeting of the National Group for support of the project - Cooperation in South Europe for financing and innovations. The activity of the Fund was presented before young entrepreneurs, institutions connected with the work of SMEs, and representatives of the Ministry of Regional Development and Public Works and the Ministry of Economy, Energy and Tourism.
7. The Fund Manager took part, as a guest, in the "Business Panorama" talk show on TV 1.

VI. Financial state

The execution of the income from privatization is 41%. The income received from the management of the free funds is in the amount of BGN 1,334 thous., which is execution of 111% against the approved plan.

Following the deduction of the expense for the activity, a positive financial result is realized: BGN 985 thous. There are no activated guarantees on part of the partner banks due to non-performing loans guaranteed by MGFSME.

In the end of the year, a loan was extended to Sofia Municipality, of BGN 2,000,000, and for a term of two years. Thus, the amounts available in the Fund as of 31.12.2009 are BGN 21,308,436.

Schedule: Report for the execution of the budget of MGFSME for 2009.

Schedule

Report for the execution of the budget of MGFSME for 2009

	<i>Income</i>	<i>BGN</i>
1	Available as of 01.01.2009	21,895,948
2	income as per Art. 10 para. 1 it. 2 of the PPPCA for 2009	431,013
3	Interest under deposits and Government Securities ("GS")	1,334,766
4	amount recovered under Repo (for GS)	-2,271,105
	income from the sale of GS	2,266,018
5	From under non-tax income (commissions under guarantees)	681
6	Resolution 710/19.11.2009 of SMC (loan to Sofia Municipality)	-2,000,000
	Total income /cashflow/	21,657,321
	<i>Expense</i>	
1	Expense for covering of the annual programme for lending to, and consulting of companies	326,549
	Incl. of.: remuneration of the employees of MGFSME	281,348
	Social security and Health insurance	21,268
	stationary and economic expense	4,016
	hired services	18,392
	other expense	1,525
2	Capital expense	1,798
	Incl. of.: expense for the acquisition of FTA /PC and software, equipment for the I&CC	1,798
3	Interest under Repo (for GS)	20,538
4	Credit risk	0
	Total expense	348,885
	Residue as of 31.12.2009	21,308,436

Chief Accountant: *(sign)*

Manager: *(sign)*

(L. Kostova)
12.01.2010

(K. Grigorov, D.Sc., E.)