



# EMN Legislative Mapping Report BULGARIA



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This series of national factsheets provides a snapshot of the various legislative frameworks concerning the provision of microcredit in Europe by non-bank financial intermediaries.

The national factsheets cover the following thematic areas:

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- 5 Development of existing framework for non-bank microcredit provision
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## Regulation of Lending Activity

The Bulgarian microcredit sector is regulated by the Law on Credit Institutions (LCI). The Law allows non-bank financial intermediaries (i.e. non-bank financial institutions and cooperatives/credit unions) to lend money directly to individuals and businesses. However, in certain situations, projects or social programs require non-banking financial institutions (NBFIs) to engage in partnerships with banks and government organizations to provide targeted microcredit.

The Law<sup>1</sup> permits lending with funds that are not raised through public deposits or other repayable funds.

According to the legal provisions<sup>2</sup>, the minimum capital requirement for MFIs is Lev 1 million (approximately EUR 511,000).

The LCI<sup>3</sup> also regulates the operations of cooperative/credit unions that received initial funding from EU and Bulgarian government funds. Twenty-six cooperative/credit unions are currently operating in accordance with the LCI.

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## Supervisory Framework for Non-Bank Lending

The Central Bank of Bulgaria is responsible for supervising the lending activities of non-bank financial intermediaries. Their responsibilities include:

- ➔ Ensuring compliance with the requirements of Article 3 of the LCI and Decree no. 26 of the Bulgarian National Bank (BNB) for financial institutions.
- ➔ Observing the financial position of listed companies based on their submitted financial reports.
- ➔ Inspecting the accuracy of the presented report in the BNB financial statement.

In terms of client data protection, cooperative/credit unions and NBFIs are required by law to share client's data. However, only NBFIs have access to client data from the credit bureau.

1. Articles 2 paragraph 2 parts 6, 7, and 12 and Article 3, Paragraph 1 part 2 and 3.

2. LCI and the ordinance no. 26 of Bulgarian National Bank registered under article 3 of the LCI

3. The LCI Transitional and Final Provisions no 12 regulates how continuing operations Credit Cooperatives built with EU funds and Bulgarian Government (Council of Ministers decree no. 343)

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## Products

NBFIs, cooperative credit unions and the cooperative mutual aid funds can disburse both business and personal microloans. However, the amount each MFI can disburse varies by legal structure.

In terms of business microloans, NBFIs and cooperative/credit unions can disburse up to a maximum of EUR 50,000 and EUR 100,000 respectively. Cooperative mutual aid funds can disburse a maximum of EUR 5,000.

In terms of personal microloans, NBFIs and cooperative/credit unions can disburse up to a maximum of EUR 10,000 and EUR 2,500 respectively. Cooperative mutual aid funds can disburse a maximum of EUR 5,000.

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## Incentives and Support

There is little progress, if any, in Bulgaria when it comes to incentives and support for microfinance. There is no incentive in the form of guarantees, equity, or BDS nor is there any form of tax incentives for individuals that provide financial support to microcredit providers in the country.

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## Development of the Existing Framework for Non-Bank Microcredit Provision

As an initiative to improve the existing framework, it has become necessary for credit associations to be legally regulated. Two options are available for such regulation:

- ➔ Regulation through the LCI provision (Article 3, paragraph 2, item 1), including a cooperative legal form.
- ➔ Regulation through a special law on credit cooperatives.

The following challenges have been identified in the regulatory framework:

- ➔ Challenges to improve judicial legislation on credit cooperatives.
- ➔ The inclusion of NBFIs as potential beneficiaries of financial instruments and funds addressed to SMEs, social enterprise SMEs, start-ups, finance for youth-29 and people over in 55, etc.

As a policy recommendation, the state should consider credit support to microfinance institutions.

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## Inclusive Entrepreneurship and Microenterprise Development

Inclusive entrepreneurship faces the following challenges: the absence of a simplified administrative procedure for microenterprises, the lack of a mandatory welfare bridge to assist entrepreneurs in event of business failure, the absence of entrepreneurial education in secondary schools, the inability of the government to provide support in the form of business development services (BDS) and its failure to create awareness for inclusive entrepreneurship in the country.

However, it is worth pointing out that a state agency has been set up to promote small businesses with the aim of ensuring sustainable economic growth, increasing competitiveness and fostering the development of Bulgarian enterprises, stimulating entrepreneurship and supporting technological and innovative industries as well as the development of public-private partnerships.



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