



# EMN

## Legislative Mapping Report

# BULGARIA



December 2019

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:

- 1 Regulation of lending activity
- 2 Supervisory framework for non-bank lending
- 3 Products
- 4 Incentives and support
- 5 Development of existing framework for non-bank microcredit provision
- 6 Inclusive entrepreneurship and microenterprise development

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### Regulation of Lending Activity

In Bulgaria, there is no specific regulatory framework on microcredit. However, the Law on Credit Institutions<sup>1</sup> (LCI) allows NBFIs under various legal types<sup>2</sup> to lend money directly to individuals and businesses. The LCI<sup>3</sup> also regulates the operations of credit cooperatives that received initial funding from EU and Bulgarian government funds (Mutual Aid Credit Cooperatives). Overall, the LCI<sup>4</sup> permits lending with funds that are not raised through public deposits or other repayable funds.

In addition to the non-bank lenders mentioned above, a few joint stock companies and limited liability companies are also operating within the scope of the Bulgarian commercial law under no supervision.

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### Supervisory Framework for Non-Bank Lending

The Bulgarian National Bank (BNB) is responsible for supervising the lending activities of non-bank lenders regulated by the LCI. Their responsibilities include:

1. Ensuring compliance with the requirements of Article 3 of the LCI and Decree no. 26 for financial institutions;
2. Observing the financial position of listed companies based on their financial reports; and,
3. Inspecting the accuracy of the documentation presented.

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

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### Products

All non-bank lenders can disburse agricultural, business and personal loans. The only exception is for credit cooperatives, which can only offer personal and agricultural loans. There is no limit regarding the loan amount. However, there is an interest rate cap in place for personal loans, set at 50% per year, which is five times the statutory interest defined by the government and used for all types of delayed payments (e.g. unpaid taxes, legal cases, etc.).

1. Article 3a.

2. Joint Stock Company, Limited Liability Company and Sole owner Joint Stock Company

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).

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

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## Incentives and Support

Progress has been slow regarding incentives and support for microfinance. There are currently no incentives in the form of guarantees, equity, or business development services (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

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

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

The following challenges have been identified in the regulatory framework:

1. The need to improve judicial legislation for credit cooperatives.
2. The possibility to include NBFIs as beneficiaries of financial instruments and funds addressed to SMEs, social enterprise SMEs, start-ups, finance for youth under 29 years of age and for the senior population of people over 55 years.

As a policy recommendation, the state should consider credit support to microfinance institutions. In the absence of a law on microcredit, the European Code of Good Conduct was used as a key element to qualify NBFIs as beneficiaries of public funds (e.g. risk-sharing microfinance facility financed with ESF funds).

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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 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.



EUROPEAN  
MICROFINANCE  
NETWORK

European Microfinance Network (EMN) aisbl  
Avenue des Arts 7-8, 1210 Brussels - Belgium  
emn@european-microfinance.org  
www.european-microfinance.org



European  
Commission

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