

METHODOLOGY
FOR THE DEVELOPMENT OF THE FREE FINANCIAL AID (Grant), PROVIDED
under Article 66, paragraph 1, paragraph 8, b.

This methodology shall be applied in the process of determining the amount of the grant granted under the Investment Promotion Act (IPA) and the Rules for the Implementation of the Investment Promotion Act (RIIPA) upon receipt of applications from investors for certification, providing for the possibility of using incentive measures under Article 22f(2) of the IPA. It assesses the amount of the grant provided for priority investment projects in the manufacturing industry, taking into account the contribution of the specific project to the economy and development of the regions in the country, using objective and transparent criteria based on quantitative and qualitative indicators.

Form of support

Priority investment projects may be promoted by a package of measures under Article 22f(2) of the IPA. The financial aid takes the form of regional investment aid¹, defined as transparent aid within the meaning of Article 5 of Regulation (EU) No 651/2014, in accordance with Article 22f(2)(1)(b) of the IPA.

The promotion of priority investment projects shall be carried out under the conditions and in accordance with the procedure laid down by the RIIPA, in accordance with Regulation (EU) No 651/2014, as a State aid scheme and in accordance with the requirements of the State Aid Act.

Provision of assistance

Grants under Article 66 of the RIIPA may be granted up to the maximum aid intensity for initial investments in the manufacturing industry (KID-2008 codes: C10-C33.2) and taking into account the accumulation rules. The maximum aid intensity shall be calculated as a percentage of the eligible costs of tangible and intangible assets, in accordance with Article 14(12) in conjunction with Article 14(4) of Regulation (EU) No 651/2014.

The maximum amount of aid shall be determined on the basis of an assessment carried out under this methodology.

The conditions for the payment of the grant are determined by the conclusion of a memorandum or agreement of understanding, as well as a contract under the terms and conditions of the IPA and the RIIPA I. The memorandum/agreement of understanding between the Government of the Republic of Bulgaria and the investor – candidate for implementation of a priority investment project is approved by the Council of Ministers following a proposal submitted by the Minister of Innovation and Growth. For the implementation of each intended incentive measure, a separate contract shall be concluded with the relevant content provided for in the Rules. Draft contracts for the provision of regional investment aid in the form of grants shall be approved by a decision of the Council of Ministers. The date of entry into force of the State aid agreement shall be deemed to be the date of its granting. The requirements of Articles 7, 8 and 14 of the Regulation shall apply to eligible costs, cumulation of aid and aid intensity when granting regional investment aid for investment and employment.

Encouraged projects

¹The methodology for determining the amount of the grant does not cover the State aid scheme for training

In assisted areas fulfilling the conditions of Article 107(3)(a) Treaty on the Functioning of the European Union (TFEU) (a regions), aid may be granted for an initial investment irrespective of the size of the beneficiary. In assisted areas fulfilling the conditions of Article 107(3)(c) TFEU (c regions), aid may be granted in favour of SMEs for an initial investment in any form. Large enterprises can only receive aid for an initial investment favouring a new economic activity in the region concerned. The type of region is determined according to the Regional Aid Map for Bulgaria approved by the Commission for the relevant period.

According to the provisions on regional investment aid (as defined in Article 2(49) of Regulation (EU) No 651/2014 in application of Articles 107 and 108 TFEU, point 28 of paragraph 1 of the Additional Provisions of the RIIPA, the definition of initial investment is:

‘initial investment’:

investment in tangible and intangible assets related to the creation of a new establishment, the expansion of the capacity of an existing establishment, the diversification of the output of an establishment into products not previously produced in the establishment, or a fundamental change in the entire production process of an existing establishment.

‘initial investment creating a new economic activity’ means:

- investment in tangible and intangible assets related to the following:
 - the creation of a new establishment;
 - diversification of the activity of an establishment, provided that the new activity is not the same or similar to that previously carried out by it; or
- the purchase of the assets of an establishment which was closed or would have been closed had it not been purchased, provided that the new activity to be carried out with the acquired assets is not the same or similar to the activity carried out in the establishment prior to the purchase.

Assessment of the amount of aid

The aid intensity shall not exceed the maximum aid intensity set out in the Regional Aid Map in force at the time the aid is granted in the region concerned.

According to Article 14(13) of Regulation (EU) No 651/2014, any initial investment related to the same or similar activity started by the same beneficiary (at group level) within three years from the start of work on another supported investment in the same level 3 region of the Common Classification of Territorial Units for Statistics shall be considered as part of the same investment project.

Where the single investment project is a large investment project, the total amount of aid for the single investment project shall not exceed the adjusted aid amount for large investment projects. For large investment projects, the aid amount shall not exceed the adjusted aid amount calculated in accordance with the mechanism set out in point (20) of Article 2 of Regulation (EU) No 651/2014:

adjusted aid amount = $R \times (A + 0.50 \times B + 0 \times C)$

where: R is the maximum aid intensity applicable in the region concerned, with the exception of increased aid intensity for SMEs; A is the part of the eligible costs equivalent to EUR 55 million; B is the part of the eligible costs between EUR 55 and 110 million; C is the part of the eligible costs above EUR 110 million.

The methodology aims to rank projects that meet the conditions of GBER, IPA and RIIPA, SCHEME SA.XXXXXX according to their contribution to the economy and regions by introducing objective, transparent criteria by introducing the following indicators:

1. Degree of development of the economic region of the investment – GDP per person by NUTS3 district, deviating from the national average.

The regions are divided into three groups by degree of economic development depending on the share (in %) of GDP per capita in BGN for the respective district relative to the indicator GDP per capita in BGN.

Depending on this share (in %) the regions submit in groups 1 to 3 according to the table. The most points are awarded to projects in the least developed regions in order to encourage investment in them and reduce regional imbalances.

2. The value of workplaces consists of two components: Ratio of the number of newly created jobs of the investment to the job threshold for the activity concerned (for certification under the IPA) and the ratio of the unemployment rate of the district to the unemployment rate for the country. The scores shall be determined according to the table, with the highest number of points being awarded to projects that create a significantly higher number of jobs than the minimum required for certification, as well as in cases where these jobs are in areas with higher unemployment. The indicator makes it possible to strike a balance and promote with more points not only projects that help to overcome unemployment in certain areas, but also to encourage investors who create more than the minimum number of jobs, regardless of the area.

3. Level of added value of economic activity – calculated as ‘Excess of value added per 1 economic activity employed above the average value added per 1 employed in the manufacturing industry’. Projects in sectors with higher added value per person employed receive more points in order to encourage investment in higher value-added productions.

4. Fiscal effect – calculated according to forecast data. The objective of this indicator is to promote projects with a higher expected fiscal impact, which will contribute to the recovery of the costs incurred to support the investor to the State.

5. Export oriented production – more points are awarded to those projects where the share of export revenues outside the country of all export-oriented revenues.

6. High-tech production/medium and medium-low-tech industries – economic activities are grouped according to Eurostat’s ranking for the degree of technological and scientific intensity of production and services (NACE REV2). Points shall be awarded to medium-low, medium-high technological and high-tech industries in order to encourage investment in higher-tech industries.

7. Integration into global value chains is an indicator that is introduced in order to promote investments in manufacturing that will contribute to the integration of the Bulgarian economy into the global and attract investments that will contribute to the transfer of know-how and technologies.

8. New activity/new investment – more points promote investments that are linked to new activities and productions, thus offsetting significantly higher start-up costs and attracting new investors.

9. Contributing to the Green Transition

The calculation of the values of the indicators and the determination of the number of points shall be carried out according to the formulae and table below.

Scoreboard and number of points:

NO.	Indicator	Calculation	Groups			
			Group I	Group II	Group III	
1	Degree of development of the economic area of the investment	GDP per person by NUTS3 region deviating from the national average	criteria	<i>over 75 %</i>	<i>66 % to 75 %</i>	<i>0 to 65 %</i>
			points	6	9	12
2.1	Value of Jobs	Sum of points for two indicators: (Relationship of Number of newly created jobs of investment to Threshold of jobs for the activity concerned) + (relationship of the District Unemployment Ratio to the National Unemployment Ratio)	Ratio of Number of newly created jobs of investment to Threshold of jobs for the activity concerned (points to be given only for jobs above the certification threshold)	<i>over 1 to 1.2 incl.</i>	<i>1.2 to 2 incl.</i>	<i>> 2</i>
points			3	6	10	
2.2			Ratio of unemployment of the district to the unemployment rate for the country	<i>up to 1 incl.</i>	<i>1 to 1.7</i>	<i>over 1.7</i>
			points	3	6	10
3	Level of added value of economic activity	Excess of the value added of 1 employed in the economic activity above the average value added of 1 employed in the manufacturing industry	criteria	<i>up to 0 %</i>	<i>0 to 30 %</i>	<i>over 30 %</i>
			points	0	7	14
4	Fiscal effect	Ratio of estimated profit (excess in revenue over expenses) to the amount of the investment	criteria	<i>&1</i>	<i>1 to 2</i>	<i>> 2</i>
			points	0	4	9
5	Export Orientation of Production	Share of export revenue outside the country of all revenue	criteria	<i>up to 30 %</i>	<i>From 30 % to 50 %</i>	<i>over 50 %</i>

			points	0	1	4
6	High-tech production/medium and medium-low technological production	Grouping of economic activities according to Eurostat's ranking of degree of technological and scientific intensity of production and services (NACE REV2). Points shall be awarded for medium-low, medium-high technological and high-tech industries.	criteria	<i>medium-low technological production covers the economic activities of C18.2, C19, C22, C23, C24, C25, (excluding C25.4), C30.1, C33,</i>	<i>medium-High-Based Industries covers the economic activities of C20, C25.4, C27, C28, C29, C30 (excluding C30.1 and C30.3), C32.5</i>	<i>High-tech industries cover the economic activities of C21, C26 C30.3</i>
			points	6	12	18
7	Integration into global value chains	Proven involvement in industries with a well-developed international network and production of articles used by other contractors/branches	criteria	no		yes
			points	0		10
8	New activity/new investment		criteria	<i>The enterprise expands its operations or diversifies an existing one</i>		<i>Enterprise starts a new activity/makes a new investment with a new code of economic activity</i>
			points	2		10
9	Contributing to the Green Transition	Share of the investment in RES (more than 5 % of the investment in RES – 1 pt); Investments in NE Efficiency (1 pt), ESG (1 t. e.g. environmental and social management certificate)	points	up to a total of 3 points.		

	Total points for the project:	points	Maximum number of points 100
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The maximum eligible grant amount that a specific investment project could receive is equal to the percentage of the sum of points calculated under this methodology multiplied by the maximum aid amount determined in accordance with the regional map.

When 100 points are reached under the current methodology, the maximum aid intensity of the regional map is reached.

For example, if an investment of BGN X million takes place in a region with a maximum aid intensity of 50 % and receives 52 points, this means that the aid amount will be: 52 % (50 % (X million BGN)).

In case the aid claimed by the investor is less than the amount calculated according to the methodology, the requested aid shall be granted.

The grant shall be calculated according to the following formulae:

$$\text{Grant}_p = \text{DDEA}_p + \text{VJ}_p + \text{DVAEA}_p + \text{FE}_p + \text{EOP}_p + \text{HTP}_p + \text{IGVC}_p + \text{NADEA}_p + \text{CGT}_p$$

where:

- Grant_p – the grant calculated as the sum of points by indicator, in points;
- DDEA_p - Degree of development of the economic area of the investment, in points;
- VJ_p – Value of jobs, sum of two indicators in points;
- DVAEA_p – Degree of value added of economic activity, in points;
- FE_p – Fiscal effect, in points;
- EOP_p – Export Orientation of Production, in points;
- HTP_p - High-tech production in points;
- IGVC_p – integration into global value chains, in points;
- NADEA_p – a new activity or diversification of an existing activity, in points;
- CGT_p – Contribution to the Green Transition, in points

accordingly:

$\text{DDEA} = \text{Ratio of GDP per person in the area (NUTS3) in which the investment will be, to average GDP per person for the whole country:}$

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$$= \frac{GDP \text{ region}}{GDP \text{ Bulgaria}} * 100.$$

VJ = sum of points for ratio number of newly created jobs to job threshold + points for area unemployment rate to national unemployment rate (sum of points for both coefficients):

$$= \text{points for } \left[\frac{\text{number of newly created jobs}}{\text{job threshold}} \right] + \text{points for } \left[\frac{\text{area unemployment rate}}{\text{national unemployment rate}} \right]$$

DVAEA = Excess of value added per 1 employed for the relevant economic activity above the average value added of 1 employed per manufacturing sector (in NACE.BG 2008):

$$= \left[\frac{\frac{VA \text{ economic activity}}{P \text{ jobs economic activity}} - VA \text{ 1 employee in sector processing industry}}{VA \text{ 1 employee in sector processing industry}} \right] * 100$$

FE_p = ratio of estimated profit to investment amount:

$$= \frac{\text{Profit estimated}}{\text{Investment}}$$

This should take into account the net estimated profit over a five-year period since the start of work on the investment project. It could differ from the amount of the estimated net cash flows indicated in the application submitted by the investor.

EOP = Share of export revenue of all revenue:

$$= \frac{\text{Export revenue}}{\text{Total revenue}} * 100.$$