

June 15, 2015

To

EIF, OLAF, EC

Dear Madame or Sir,

I would like to bring to your attention a case of process deficiencies and questionable practices by Eleven Fund Cooperatief U.A. and the European Investment Fund that have brought about damages to my company and expose European institutions to significant reputation and other risks.

#### Summary

- 1) Acting on behalf of the European Investment Fund (EIF), Eleven Fund Cooperatief U.A. and Eleven Bulgaria OOD (jointly "Eleven") committed to invest JEREMIE/ERDF funds in the *arbū* project. Eleven subsequently failed to honor this commitment, despite repeated assurances to the opposite, and as a result inflicted material damages on the *arbū* project and my company. In its refusal to honor its commitment, Eleven was motivated solely by its desire to address what it perceived as its audit risk – and not by any eligibility criteria or other restrictions set by Eleven, EIF or the EU. It doing so, Eleven acted against goals declared by EIF, JEREMIE, ERDF, and the Entrepreneurship Acceleration and Seed Financing Instrument.
- 2) Eleven employs selection and deal implementation processes with deficiencies and questionable practices that expose EIF, JEREMIE, and ERDF to significant reputation, economic, and legal risks.

1)

The *arbū* Cosmetics project successfully passed Eleven's selection process and was approved for equity and convertible debt investment of up to EUR 200,000. In its letter of March 31 informing me of *arbū*'s selection (Attachment 2), **Eleven committed to complete the investment, without any conditions or subject to any eligibility requirements that *arbū* must satisfy or that may prevent the investment in *arbū*.**

In fact, no conditions or eligibility criteria were ever set or communicated to the participants before or during Eleven's selection process. (The only exception was the undefined "clean balance sheet" mentioned in Eleven's March 20 letter, Attachment 1; if the existing company did not satisfy that requirement, Eleven and the respective project would simply set up a new company.)

I provided on time all documents required by Eleven and expected its actions in order to complete the equity investment. However, Eleven did not undertake any actions and was often unresponsive. Eventually, on May 5, Eleven informed us of its decision not to honor its investment commitment, without providing any reasonable grounds for that decision.

In the meantime, **Eleven provided repeated assurances to me and my team, including in writing, as in their May 4 letter (Attachment 4), a day before informing me of its decision not to honor its investment commitment, that the investment was forthcoming.**

On May 7, one working day before the start of the program for the May, 2015, class of selected projects, Eleven informed me in writing (letter attached) that it would not honor its investment commitment, citing a 'number' of regulations and 'certain' criteria that the *arbū* project allegedly did not meet. (Eleven would not even have sent an official letter had we not invited them to do so, in a letter of May 5, Attachment 5.)

In a letter of May 8 (Attachment 7) I insisted that Eleven specify which requirements or criteria were not met; however Eleven's final letter of May 27 (Attachment 8) again **failed to provide any specific requirements or eligibility criteria not satisfied by *arbū*.**

Eleven did mention, verbally or in emails between March 31 and May 7, several potential issues. All of these issues however were later resolved, as explained below. **Significantly, a new potential issue came up every time another issue was resolved** or successfully challenged by my team. Here are the potential issues mentioned to me:

First, de minimis. Eleven's letter of April 28 (Attachment 3) makes it clear that this requirement is not prohibitive; it just potentially limits any further assistance. (As a matter of fact, de minimis would not at all limit the EUR 100,000 committed by Eleven and EIF, due to the relatively small amount of aid-equivalent received by my company so far, as explained in that letter.)

Second, double financing. Eleven's letter of May 4 clearly states that EU's prohibition of double financing would not prevent Eleven or EIF from completing their committed investment. The investment can be done, Eleven wrote, "but we should control that the use of funds does not overlap with the use of the loans". (As a matter of fact, overlapping is not possible since my company's JEREMIE loans were fully drawn before 2015 and no future expenditures can therefore be covered by the bank.)

Third, firm in difficulty. This is irrelevant, as Eleven also recognized, since a) the investment commitment is for *arbū* as a project, not for any specific company, and b) Eleven's letters of March 20 and May 4 make it clear that if necessary a new company can be set up to carry out the project.

**The conclusion is that there are no regulatory or any other limitations preventing Eleven or EIF from completing their committed investment.** Eleven agreed with this conclusion in the above-referenced letters, in particular their letters of April 28 and May 4. This is also confirmed by Eleven's careful avoidance of any specific reference to failed requirements or criteria, in their final letters of May 7 (Attachment 6) and May 27. I believe that the true reasons for Eleven not honoring its own and EIF's commitment are stated in

Eleven's May 4 letter: **Eleven's desire, as it put it, "to avoid the extra admin effort" and to minimize its own audit risk.** In that letter, **Eleven strongly suggested that EIF approved – indeed recommended – Eleven's position that its investment commitment can be carried out, "but the bigger [than the extra administrative effort] problem is that the company will immediately 'blink red' on all controlling institutions screens and it will become a target of constant audits and checks."**

What sealed my project's fate were not its merits, or any other substantive considerations, but Eleven's tight management of its own administrative time and audit risk!

Dear Madame or Sir,

**My team, my company, the *arbū* project, and I will suffer significant damages as a result of Eleven's decision to not honor EIF's and Eleven's investment commitment.** These damages include, but are not limited to, missed export deals, missed deliveries, missed payments to suppliers, withdrawn interest from other investors, lost staff time, and significant reputational damage in the market. The damages may well exceed EIF's and Eleven's committed investment of EUR 100,000. I intend to seek full compensation for all damages in the courts, as well as through relevant EU channels.

2)

Dear Madame or Sir,

I would like to bring to your attention that **Eleven's selection and deal implementation processes are flawed. This exposes EIF, JEREMIE, and ERDF to significant reputation, economic, and legal risks.**

Here are some specific examples –

- **No eligibility criteria or regulatory requirements were ever disclosed during the application and selection process. This precludes transparency and opens the door to subjectivity and improprieties.** Indeed, the fact that Eleven came up with a new issue every time a potential issue was resolved, coupled with Eleven's desire to minimize its own audit risk, may be signals for improprieties;
- **The JEREMIE/ERDF origin of the Eleven funds, or EIF's role, were not properly disclosed to applicants.** In their introductory presentations to the May, 2015, class, Eleven's three "founders" did not mention any of these facts; nothing was properly disclosed on Eleven's website at the time of application;
- Eleven's verbal and written communications and the letter of May 4 in particular, **expose EIF to additional reputational and legal risk.** It is strongly suggested that EIF approved – indeed recommended – Eleven's position that Eleven's administrative efforts – and not the project's merits or any eligibility criteria – are sufficient grounds to cancel the investment commitment;
- The three Eleven fund managers and their staff are not familiar with basic requirements that govern JEREMIE and similar programs, as can be seen from their letters and shifting opinions;

- No substantive legal or documentation assistance was offered, despite the assurance that the EUR 2,000 fee covers such assistance; the fund managers and staff were often unavailable after the selection – multiple calls and emails went unanswered;
- Eleven's letter of March 20 asked applicants to agree to the incorrect, as it turned out after we brought this to their attention, term sheet document;
- The selection process is organized in a superficial and unprofessional manner, which is not conducive to the identification of worthy projects; fund managers and staff are ill equipped in finance; and little attention is paid to economic substance;
- **Eleven went as far as threatening me with "proper indemnification" if I publicly released any "unproven findings" for deficiencies and questionable practices (Eleven's letter of May 27).** However, these being public funds, I do intend to bring the above deficiencies to the attention of the media and the general public, as well as to the European institutions.

I remain available to provide additional details or answer any questions that you may have.

Regards,

*arbū* Cosmetics

[REDACTED] Bulgaria  
[REDACTED]

**Attachments:**

- 1) Eleven's letter of March 20;
- 2) Eleven's letter of March 31;
- 3) Eleven's letter of April 28;
- 4) Eleven's letter of May 4;
- 5) *arbū*'s letter of May 5;
- 6) Eleven's letter of May 7;
- 7) *arbū*'s letter of May 8;
- 8) Eleven's letter of May 27.