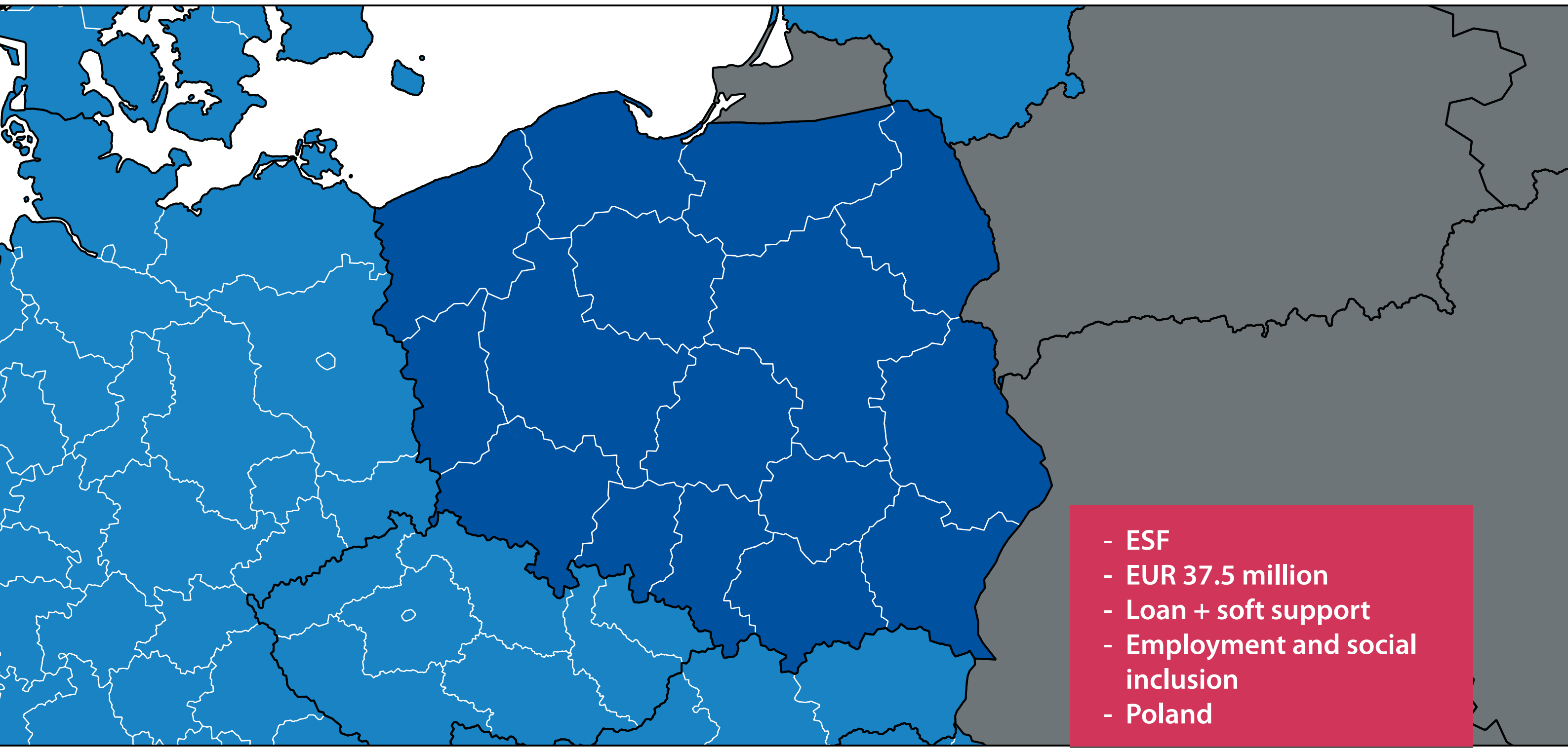

- ESF
- EUR 37.5 million
- Loan + soft support
- Employment and social inclusion
- Poland

*... providing loans combined with soft support for social economy...*

# Financing the social economy in Poland

## Updated case study

April 2021

European Commission

European Investment Bank

The EU bank

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# Abbreviations

| Abbreviation | Full name |
|---|---|
| BGK | Bank Gospodarstwa Krajowego |
| BDS | Business Development Services |
| CDR | Commission Delegated Regulation (Reg. 480/2014) |
| CPR | Common Provisions Regulation (Reg. 1303/2013) |
| DG EMPL | Directorate General for Employment, Social Affairs and Inclusion |
| ESIF or ESI Funds | European Structural and Investment Funds |
| ESF | European Social Fund |
| EU | European Union |
| FI | Financial Instrument |
| F.Int. | Financial intermediaries |
| FoF | Fund of Funds |
| MA | Managing Authority |
| NFSE | National Fund for Social Entrepreneurship |
| NPB | National Promotional Bank |
| NPSED | National Programme for Social Economy Development |
| SEE | Social Economy Entity |
| TA | Technical Assistance |
| TISE | Towarzystwo Inwestycji Społeczno-Ekonomicznych S.A. – Society for Social and Economic Investments |
| TO | Thematic Objective(s) |

# Table of contents

# 1. Executive summary

Financial instruments in support to the social sector have been operating in Poland, at central level, since the 2007-2013 programming period. Resources from the European Social Fund (ESF) have been continuously supporting Social Economy Entities (SEEs) by providing affordable finance and related business development services. The ESF support has allowed the disbursement of more than 1 350 loans, with more than 1 100 jobs created from 2012 to 2020.

Set up in 2012 under the 2007-2013 ESF National Operational Programme (OP) 'Human Capital' with an initial budget of around EUR 7 million, the *Financial Engineering Support for Social Economy Development* has delivered soft loans (at low interest rates and with long maturities) combined with non-financial services to Polish SEEs. This instrument benefitted social entities, which at that time were lacking funding opportunities while, at the same time, they were asked to address increased social needs, as a result of the economic crisis.

Such pilot experience has been instrumental for the set up of the *National Fund for Social Entrepreneurship (NFSE)* in the 2014-2020 programming period, within the framework of the 2014-2020 ESF National OP 'Knowledge, Education, Development' (OP KED) and under the coordination of the relevant managing authority (Ministry of European Funds and Regional Policy) and intermediate body (Ministry of Family, Labour and Social Policy). The NFSE, with more than EUR 37 million from OP KED, Thematic Objective 9, has followed on its predecessor by providing long-term, affordable loans to SEEs while offering business development services to its final recipients through the well-established network of Social Economy Support Units. The financial products offered by NFSE are either start-up loans (microloans below EUR 25 000) or development loans for more established entities; each product has terms and features which are tailored to the life stage of the respective final recipients. Among the NFSE's most desirable features are the opportunity to re-apply for a second loan (once the first has been repaid), the 6-months grace period, and the interest rate subsidies that can be offered under certain conditions.

Bank Gospodarstwa Krajowego (BGK), the Polish National Promotional Bank (NPB), has been appointed as Fund of Funds manager and therefore tasked with the selection of financial intermediaries. Three retained financial intermediaries are disbursing loans to eligible final recipients, ensuring a minimum leverage of 1.15x of the OP resources involved in the NFSE. The financial instrument also offers a first-loss protection to loan portfolios, partly covering the financial intermediaries' risks and consequently allowing for a further outreach and improved borrowing terms for final recipients.

The Covid-19 outbreak has recently put a strain on both financial intermediaries capacity to offer affordable finance and to SEEs. The Polish authorities have swiftly adjusted the NFSE in order to address the changed situation, taking advantage of the CRII and CRII Plus packages. Changed parameters to the NFSE loans, such as lowered interest rates, payment holidays and longer maturities have allowed SEEs to stay afloat during the pandemic.

Finally, legacy funds of the 2007-2013 pilot financial instrument have been mobilised to set up liquidity lines, thereby enriching the specific measures that tackle the Covid-19 repercussions for SEEs in Poland.

# 2. Introduction

## 2.1 From the 2007-2013 pilot to the National Fund for Social Entrepreneurship

The present document is an update of the *fi-compass* publication *Financing the social economy – Case study*[1], issued in 2016 and focused on the 'Financial engineering support for the development of the social economy', a financial instrument operating in Poland in the 2007-2013 programming period, financed with resources from the national ESF OP 'Human Capital'. Building on that pilot, the Polish authorities have set up the National Fund for Social Entrepreneurship (NFSE) financial instrument, operating in the 2014-2020 programming period. This publication focuses on describing the NFSE.

Poland boasts a vibrant and fast-growing social economy environment, where several types of organisations deliver various services in favour of vulnerable people, with a view to tackling unemployment and social exclusion. Such organisations include:

- social cooperatives, in a number of around 1 160;
- non-governmental institutions (NGOs) which account for over 88 100 entities, including around 9 300 public benefit organisations;
- cooperatives of the disabled and the blind (ca. 138);
- labour cooperatives (ca. 495);
- vocational training centres (ca. 116);
- occupational therapy workshops (around 718);
- other entities such as associations of local governments and limited liability companies, joint stock companies.

In Poland like in the majority of EU Countries, socially-oriented enterprises (referred to as 'social economy enterprises' or SEEs) usually face difficulties in accessing the traditional credit channels. In order to bridge this financing gap, and recognising the added value provided to the society by such entities, Polish authorities have been using resources of the European Social Fund (ESF) to set-up financial instruments for SEEs since the 2007-2013 programming period.

The experience of the 2007-2013 pilot financial instrument has proven useful for the Polish ESF managing authorities, breaking the ground for an enhanced use of financial instruments in the following programming period, both at national and at regional level. In a nutshell, the 2007-2013 pilot consisted of a loan scheme whose main features were:

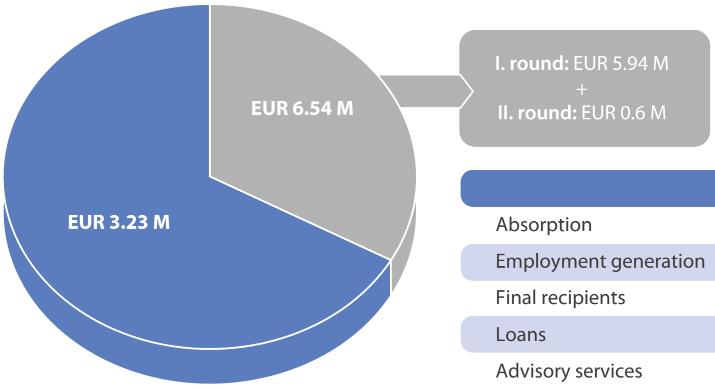
- initial budget of EUR 5.94 million (initial investment period until end 2015), with a 0.6 million further increase (investment period extended until end 2016);
- combinations of soft loans with non-financial services;
- implementation structure envisaging:
  - Bank Gospodarstwa Krajowego (BGK), the Polish National Promotional Bank (NPB) acting as Holding Fund;
  - Five loan funds (one for each macro-region) managed by a single financial intermediary, Towarzystwo Inwestycji Społeczno-Ekonomicznych (TISE).

1 The Case study is available in the fi-compass website: https://www.fi-compass.eu/publication/case-studies/case-study-financing-social-economy

The graph below summarises the results achieved by the pilot financial instrument.

*Figure 1: Results of the 2007-2013 pilot*

**Resources transferred by the Holding Fund to the Financial Intermediary**




| | Indicators | Achievements |
|---|---|---|
| Absorption | 100 % | 149 % |
| Employment generation | 50 new jobs | 507 new jobs |
| Final recipients | 200 entities | 404 entities |
| Loans | 250 | 500 |
| Advisory services | 200 | 268 |

## 2.2 Lessons learned from the 2007-2013 pilot

The ex-post assessment carried out by the managing authority identified the following success factors for the 2007-2013 pilot:

- the financial instrument proved its efficacy in addressing the funding gap on the market;
- the response from the SEEs was positive, with high demand and a large number of applications;
- the Holding Fund manager and the financial intermediary ensured the dissemination of information to a wide range of potential final recipients and consequently a successful disbursement of the financial instrument throughout the Polish territory;
- comprehensive advisory services offered with the financial instrument had increased the chances of success and/or growth of the final recipients.

Furthermore, in addition to the experience gained by the Polish authorities, the feedback obtained from the final recipients which was fed into the design of the NFSE included:

- almost 100% of the SEEs assessed positively the offer of the pilot instrument and its terms and conditions as adequate to their needs;
- nine out of ten borrowers said they would re-use the loan under the same conditions;
- 75% of the SEEs showed a positive social outcome from the activities financed by the financial instrument;
- for 86% of the SEEs, the loans contributed to an increase in their revenues;
- for 63% of the SEEs, the loans contributed to an increase in the number of staff employed.

Finally, the continuity between the 2007-2013 pilot and the current programming period is seen in the use of reflows, as explained in Section 3.

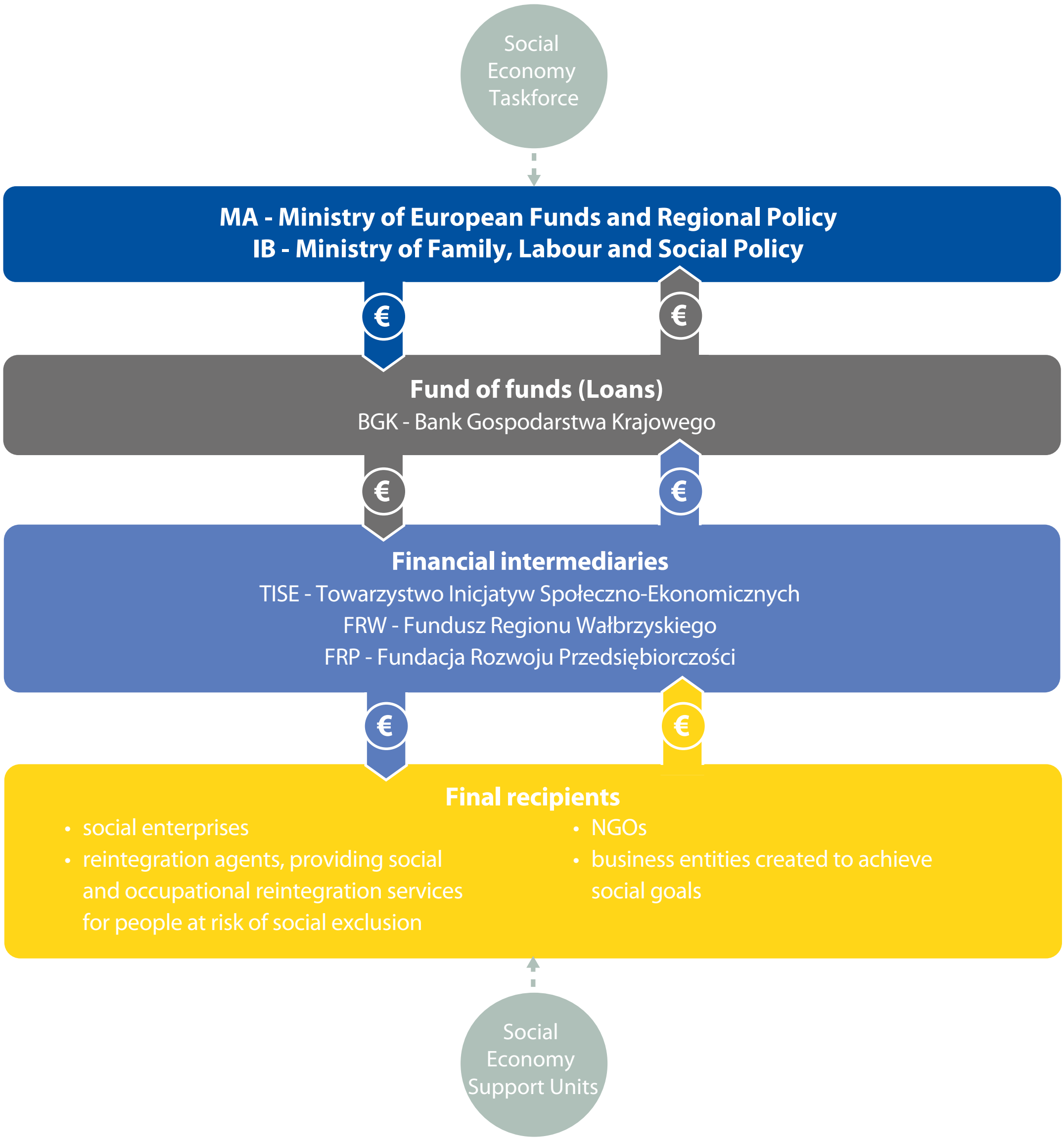
# 3. The National Fund for Social Entrepreneurship

## 3.1 Summary

The NFSE is the financial instrument that was designed to follow-on from the loan scheme implemented under the national 2007-2013 ESF-funded OP Human Capital, as mentioned in section 1.

The NFSE aims at increasing the set-up of SEEs, improving their access to finance and supporting their growth through the provision of soft loans. The financial instrument foresees a total budget of over EUR 37 million. Alongside the provision of loans, the NFSE also offers business development services to its final recipients through the Social Economy Support Units[2].

*Figure 2: Implementation scheme of the NFSE*

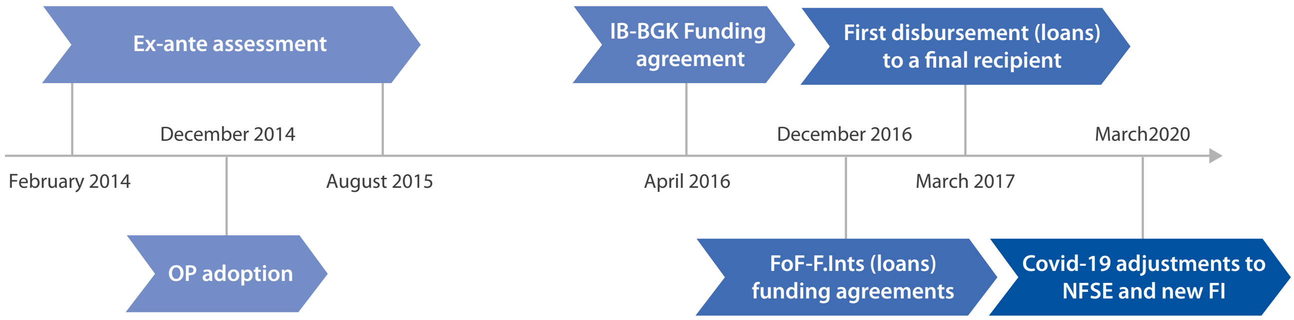



2 The Social Economy Support Units are a network of entities, mostly operated by NGOs - based in sub-regions (ca. NUTS3 level) -financed through ESF resources from 2014-2020 OP Knowledge, Education, Development and 2014-2020 Regional OPs.

The NFSE is rolled out through a fund of funds (FoF) structure, where the appointed FoF manager (BGK) has undertaken the selection of specialised financial intermediaries with responsibility to build up the portfolio of eligible loans. Retained financial intermediaries started to build the loan portfolios in March 2017. The financial intermediaries contribute their own resources to the loan portfolio of at least 15% of the ESF amount.

The milestones of the NFSE are depicted in the figure below:

*Figure 3: Milestones in the design, set-up and implementation of the NFSE*




## 3.2 Context

The NFSE, which operates across the entire Polish territory, is financed by the 2014-2020 ESF OP 'Knowledge, Education, Development' (OP KED), Thematic Objective 9 (Promoting social inclusion, combating poverty and any discrimination). From a strategic standpoint, NFSE is aligned with (and part of) the National OP for Social Economy Development (NPSED), which catalyses resources of TO9 for the social economy support system in Poland, through two main strands of support:

1. Creating an enabling environment for SEE creation and growth, including soft support delivered by Social Economy Support Units active throughout the entire Country;
2. Providing affordable finance to SEEs through 2014-2020 ESF resources and 2007-2013 ESF reflows, and state budget resources.

*Figure 4: The National Fund for Social Entrepreneurship in the broader context of the support for SEEs in Poland*

| NPSED | | | |
|---|---|---|---|
| ROPs 2014-2020 | OP KED 2014-2020 | Other sources | |
| Grants for social enterprises creation | Financial instruments for existing social enterprises | FI based on OP Human Capital 2007-2013 legacy funds | = NFSE |
| | | State budget instruments | |

## 3.3 Ex-ante assessment

The ex-ante assessment carried out under the responsibility of the managing authority identified a market failure related to the SEEs financing: the financial gap for existing SEEs in 2013 was quantified as approximately EUR 154.5 million (amount of investments not realized due to lack of available finance). Out of this amount, loans and other forms of repayable assistance were estimated as being no less than EUR 12.1 million, and showed a trend to increase. When interviewed, 63% of the SEEs stated that in 2013 they lacked funds for business development.

In light of the findings of the market assessment, the ex-ante assessment proposed that the financial instrument should include the following main features:

- an increased allocations of funds, compared to the 2007-2013 pilot, in light of the increasing funding gap for SEEs;
- soft loans as main financial product to be delivered;
- the potential for market testing counter-guarantees and a Social Venture Capital Fund, thereby broadening the offer for the social sector;
- an implementing structure envisaging the use of a FoF structure for the loan product, and the selection of a financial intermediary for the counter-guarantees product.

The ex-ante assessment's recommendations fed into the design of the NFSE, bringing about the following adjustments compared to the 2007-2013 pilot:

- the allocation for the NFSE has been increased 5x against its predecessor;
- the size and composition of the target group of the NFSE were identified more accurately, leading to the inclusion in the eligible final recipients of
  - medium-sized enterprises, as long as they fulfilled a social mission;
  - entities implementing working and/or social integration functions, such as Vocational Training Centres);
- the NFSE offered a wider array of products, namely loans for starting-up SEEs as well as loans for development and growth of existing SEEs and, potentially, counter-guarantees;
- working capital has been included into the eligible expenditures.

## 3.4 Design and set up

The stakeholders involved in the design, set-up and implementation of the NFSE and their respective roles are described as follows:

- the managing authority, enshrined in the Ministry of European Funds and Regional Policy , supervises the implementation of the NFSE and is ultimately responsible for its successful implementation. It undertakes the monitoring and control actions in relation to the body implementing the financial instrument, thereby ensuring the implementation is in accordance to the investment strategy;
- the Social Economy Taskforce is a body established to oversee the correct and effective functioning of the financial instrument, and to provide an environment to exchange knowledge and opinions for all NFSE interested stakeholders. It is chaired by the managing authority and includes also the Ministry of Family, Labour and Social Policy, the National Bank of Poland, representatives of the National Committee for Development of Social Economy, representatives of Social Economy Support Units, representatives of the social economy sector (final recipients), representatives of the banking sector, and the Coordinating Body in the Ministry of Economic Development;

- the Ministry of Family, Labour and Social Policy, which acts as the Intermediate Body (IB) of the OP that finances the NFSE, and thus signs the funding agreement with the FoF manager;
- Bank Gospodarstwa Krajowego (BGK), the Polish NPB, is the FoF manager (for the Loan Fund) and the body implementing the financial instrument (for the Counter-guarantee Fund), in charge of the selection of the financial intermediaries;[3]
- TISE, FRW and FRP are the selected financial intermediaries for the Loan Fund;
- the Social Economy Support Units, which undergo a certification process (accreditation), offer a wide range of business advisory services to SEEs (some of them also related to the application to the NFSE) and, by channelling ESF grants, help SEEs set up and/or grow.

All stakeholders listed above play a role in the marketing and promotion of the NFSE. The managing authority and the intermediate body mostly disseminate the financial instrument through their website and by participating to conferences, workshops and seminars. BGK also promotes the NFSE through its institutional channels, while the financial intermediaries as well as the Social Economy Support Units reach out to potential final recipients.

The stakeholders have defined the target group of the NFSE, identifying as eligible final recipients:

- social enterprises (social cooperatives);
- entities providing social and occupational reintegration services for people at risk of social exclusion;
- NGOs;
- socially-oriented businesses.

The above-mentioned entities can apply to the NFSE only if they are legally registered as SMEs and do not have public influence in their governance or public participation in their capital.

The table below summarised the adjustments introduced in the NFSE following the lessons learned by the managing authority in the 2007-2013 pilot financial instrument.

*Table 1: Similarities and differences between the NFSE and the 2007-2013 pilot*

| Similarities between NFSE and 2007/2013 pilot | Adjustments introduced in the NFSE |
|---|---|
| Holding Fund/ Fund of Funds structure | Non-financial support delivered outside the FI |
| Soft loans as the core product of the FI | Other financial products tested |
| Nation-wide FI – deployed in all 5 macroregions | Products are more tailored to SEE needs |
| Continuity in the FoF manager appointment | New financial intermediaries involved and selected |

As shown by the table, it appears clear how the NFSE continues to provide soft loans along the lines of its predecessor, keeping the overall objective of increasing and easing SEEs access to finance (for both start-up and growth purposes) and the long-term aim of creating jobs through SEEs. In addition, the NFSE included a counter-guarantee Fund.

3 For the Loan Fund, through public procurement procedure. For the Counter-guarantee Fund, cooperation with Financial Institutions providing guarantees counter-guaranteed by BGK is inquired though market-test procedures.

The financial allocation of the NFSE was set at EUR 37.44 million[4], distributed as follows:

- Loan fund: EUR 36.4 million;
- Counter guarantee fund: EUR 1.04 million.

In July 2019 BGK run a further public procurement procedure to select financial intermediaries providing counter-guarantees. Although 29 financial institutions were informed about the tender and invited to submit their offers, no bidder applied to perform this role. Therefore, resources initially designed for counter-guarantees (EUR 1.04 million), were transferred to the loan fund.

The output indicators for the financial instrument were initially set as follows:

- 1 250 new jobs to be created;
- 2 030 loans to be disbursed.

As a result of a mid-term revision of the OP KED, the indicator on the number of loans to be disbursed was lowered to 1 200, due to an increase in average loan volume resulting from SEEs' demand.

The NFSE complements the support provided to SEE at regional level in Poland as within the 16 ESF ROPs, no financial instrument caters specifically for SEEs, nor are there any financial instruments under regional TO9 allocations. Instead, the regional managing authorities typically use TO9 resources to provide grant support to SEEs. Also, the regional ESF financial instruments are operating with TO8 resources.

## 3.5 Selection of the bodies implementing the financial instrument

BGK has been appointed by the intermediate body with the role of FoF manager of the NFSE, in accordance with CPR, art. 38.4 (b) (iii). The OP already envisaged using BGK for the implementation of a financial instrument, according to the applicable EU and national regulation[5]. The Funding Agreement between the intermediate body and BGK was signed in April 2016.

As FoF manager, BGK has carried out the selection of the financial intermediaries using an open public procurement procedure, which hinged on the selection criteria below:

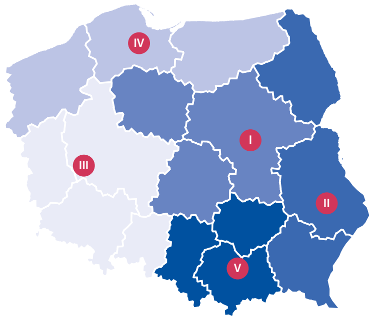
- price for the management and administrative fees related to the implementation of the financial instrument (35%);
- quality of the offer (35%), whose sub-criteria included, among others, the experience in deploying financial instruments, the experience in working for/with SEEs; the strategy and measures in places for a timely disbursement of the funds;
- terms and conditions for the contribution of financial intermediary's own resources to the financial instrument (30%). Such contribution was set at no less than 15% of the ESF amount, thereby ensuring a minimum leverage of 1.15x.

4 Including F.Ints' own contribution of min. 15% of the OP contribution for loans and counter-guarantees, as envisaged in the funding agreement.
5 Art. 28 sec. 2 of the Parliamentary Act of 11 July 2014 on the implementation of Cohesion Policy programmes financed in the financial perspective 2014- 2020

The procurement procedure grouped Poland in five macroregions:

- Macroregion I (Regions: Mazowieckie, Kujawsko-Pomorskie, Łódzkie);
- Macroregion II (Podlaskie, Lubelskie, Podkarpackie);
- Macroregion III (Dolnośląskie, Lubuskie, Wielkopolskie, Opolskie);
- Macroregion IV (Zachodniopomorskie, Pomorskie, Warmińsko-Mazurskie);
- Macroregion V (Śląskie, Świętokrzyskie, Małopolskie).

*Figure 5: Split in macroregions for the delivery of the NFSE*




In December 2016, BGK completed the public procurement procedure and retained two financial intermediaries to deploy the financial instrument: Towarzystwo Inicjatyw Społeczno Ekonomicznych (TISE) in macroregions I, II, IV and V, and Fundusz Regionu Wałbrzyskiego (FRW) in macroregion III. Retained financial intermediaries started to build the loan portfolios in March 2017. In 2019, following a new public procurement procedure, TISE has been retained in macroregions I, III, IV and V, and Fundacja Rozwoju Przedsiębiorczości (FRP) has been retained in macroregion II.

The split into macroregions follows the steps of the 2007-2013 pilot financial instrument and is based on two variables: the number of social cooperatives and the number of NGOs active on a given area. According to these weights, each macroregion has its specific NFSE's allocation and its output indicators, as illustrated below:

*Table 2: Macroregion allocations and target indicators of NFSE*

| | **Breakdown of FI allocations** | **Specific target indicators** |
|---|---|---|
| Macroregion | % of total funds available | Each macroregion |
| I | 27.1% | 339 jobs, 550 loans |
| II | 15.3% | 191 jobs, 311 loans |
| III | 23.2% | 290 jobs, 471 loans |
| IV | 14.1% | 176 jobs, 286 loans |
| V | 20.3% | 254 jobs, 412 loans |

As a result of a mid-term revision, and due to average loan tickets which were larger than expected, the target indicator of the total number of loans to be disbursed was lowered from 2 030 to 1 200. The breakdown of each financial instrument's allocations has not changed.

## 3.6 Financial products offered by the NFSE

According to the characteristics of the final recipient, the NFSE provides the products as per following description.

For SEEs operating no longer than 12 months, **start-up loans** as per the terms below:

- up to EUR 23 600 per loan, and up to EUR 47 200 per SEE (each SEE can apply twice);
- maximum maturity of 5 years, with a grace period of up to 6 months;
- interest rate at the promissory note (bill of exchange) rediscount rate of Polish Central Bank (currently 0.11%), reduced by half if a new job is created;
- interest rate subsidy provided by the managing authority when the loan is provided via financial intermediary's own funds;
- no commission fees;
- blank promissory note as a standard collateral, but final decision depends on each financial intermediary's terms.

The managing authority covers up to 30% of the first portfolio piece losses, provided that the financial intermediary proves it performed due diligence when granting the defaulted loans. The financial intermediary bears the excess losses.

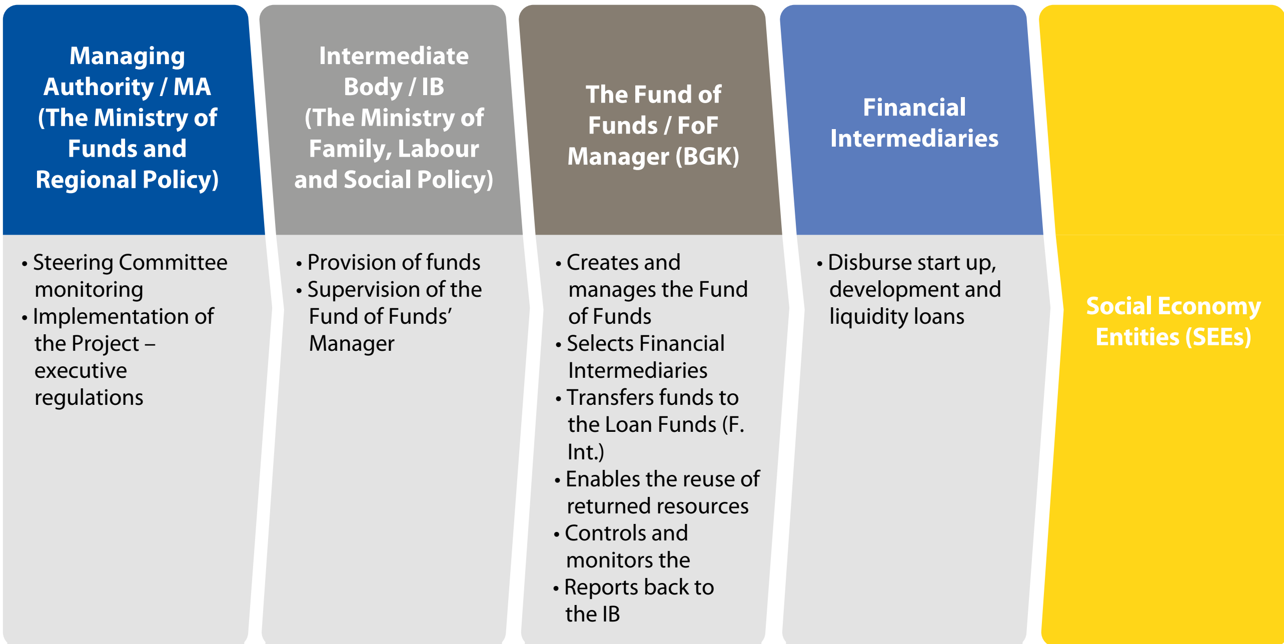
For established SEEs, operating for longer than 12 months - **development loans** as per the terms below:

- up to EUR 117 900 per loan, and up to EUR 235 800 per SEE (each SEE can apply twice);
- maximum maturity of 7 years, with a grace period of up to 6 months;
- interest rate negotiated according to the loan amount, and reduced according to the number of new jobs created;
- no commission fees;
- collateral requirements depend on each financial intermediary's terms, but blank promissory note is recommended in case of loans not exceeding EUR 23 600.

The MA covers up to 20% of the first portfolio piece losses, provided that the financial intermediary proves it performed a due diligence when granting the defaulted loans. The financial intermediary bears the exceeding losses.

The interest rate subsidy is paid by BGK to the financial intermediary directly.

*Figure 6: Roles and responsibility in the implementation of the NFSE*




The financial intermediary autonomously decides on the financing structure of each disbursed loan (ratio between OP resources and own contributions). The agreed risk-sharing rate the financial intermediary is bound to observe (i.e. the overall ratio between OP and own contribution as per funding agreement between the F.Int. and BGK) is measured at portfolio level.

In terms of State aid, the *de minimis* regime is applied to final recipients, insofar as they benefit from reduced interest rates (for projects with high social impact) or interest rate subsidy.

## 3.7 Management costs and fees, treasury and use of reflows

The calculation of the management costs and fees, regulated by the co-financing agreement signed by BGK and the Intermediate Body on 25 April 2016, was based on Art. 42(5, 6) CPR and Art. 13 CDR.

Concerning the role of BGK as FoF manager, the amount of eligible management costs and fees was based on the actual expenses incurred by BGK as well as on meeting pre-defined milestones, as follows:

- by 31 December 2018 - disbursement of at least 22% of NFSE resources (or at least 406 loans provided);
- by 30 June 2020 –disbursement of at least 41% of the NFSE resources;
- by 31 December 2021 –disbursement of at least 63% of the NFSE resources;
- by 31 December 2023 – disbursement of 100% of the NFSE resources, and disbursement of the targeted number of loans(1 200, following mid-term review).

Following the amendment to the Funding Agreement signed in November 2018, the calculation of BGK's management costs and fees has been changed: BGK is now entitled to a management fee for the implementation of the FoF, accounted quarterly by the amount resulting from Art. 13 CDR, if the above-mentioned milestones are met.

The maximum thresholds are set as follows:

- 1st year: 3% of the contribution paid from the OP + 0.5% of the contribution paid to the financial intermediaries;
- 2nd year: 1% of the contribution paid from the OP + 0.5% of the contribution paid to the financial intermediaries;
- 3rd year and beyond: 0.5% of the contribution paid from the OP + 0.5% of the contribution paid to the financial intermediaries.

Overall, management costs and fees for BGK are not to exceed 7% of the contribution paid from the OP during the eligibility period.

Concerning the role of the financial intermediaries, the eligible amounts of management costs and fees to be paid stem from the terms of their selection process:

- depending on the macroregion, up to 13-20% of the OP contribution to the FI allocation for that macroregion;
- performance criteria related to the lending activity – paid out in two tranches:
  - 70% of the entitled amount on disbursement of a loan;
  - 30% of the entitled amount on the basis of repayment of a loan.

BGK as well as the financial intermediaries manage the resources of the NFSE through fiduciary accounts, on behalf of the managing authority. The funds returned to the financial instrument (amounts repaid by the final recipients, active interests and other profits) are to be used in compliance with the NFSE's goals for at least 8 years after the project completion.

## 3.8 Monitoring, control and reporting

According to the provision laid down in the Funding Agreement, roles and functions of the monitoring and control system of the NFSE can be summarised as per below:

- quarterly, each F.Int. submits to BGK an implementation report (financial and physical advancement of the financial instrument);
- BGK is responsible for collecting and organising the implementation data the managing authority needs to comply with the monitoring requirements of CPR Art. 46;
- following the BGK payment schedule established under the funding agreement, BGK submits payment claims to the IB to settle such payments, as well as to provide relevant financial information, as requested in the regulations of the ESIF national coordination.[6]

6 e.g. Guidelines of the Minister of Economic Development on Monitoring, as well as on Electronic Data Gathering and Processing for 2014-2020

### Social Cooperative "Nalesnikarnia 2.0"
### *(Pancake Factory 2.0)*

This social cooperative has obtained a loan of EUR 23 600, with an applied interest rate of 0.88% p.a. and a 5-y maturity.

With this loan, the cooperative has created 7 jobs and plans to increase its staff further.

This is an example of "social franchising", as it is the second restaurant opened under this brand, the first one having benefitted from a loan of the 2007-2013 ESF pilot FI.

### Fundacja JemyEko.pl
### *("We Eat Eco" Foundation)*

This socially-oriented business has benefitted from a EUR 21 500 loan, with an applied interest rate of 0.88% p.a. and a 5-y maturity.

Thanks to this loan the business has increased its offering of eco and biological food to its customers, both in-shop and on-line.

The loan has brought along the creation of 4 jobs, including one person with disabilities and two formerly unemployed people.

## 3.9 State of play and results

The level of indicators' performance by the end of December 2020 amounted to:

- 652 new jobs created constituting 52.1% of appointed value (1 250 new jobs); the borrowers declared so far to create 1 079 new jobs;
- 865 loans disbursed constituting over 72.1% of appointed number of loans (1 200 loans).

At the same time, the absorption level of the NFSE resources amounted to 66.7% (90.5% of the funds transferred to the BGK so far).

# 4. Response to COVID-19 outbreak

## 4.1 Amendment to the National Fund for Social Entrepreneurship

Following the Covid-19 outbreak and its impact on the social economy environment, Polish authorities acted quickly in order to introduce adjustments to the NFSE, with the aim to improve the borrowing and repayment conditions for final recipients.

The Coronavirus Response Investment Initiative[7] (CRII) and the Coronavirus Response Investment Initiative Plus[8] (CRII Plus) packages introduced amendments to the ESIF regulatory framework, thereby allowing managing authorities to rapidly mobilise ESI Funds in response to the COVID-19 health and economic crisis. Of particular relevance for the NFSE, CRII Plus has relaxed the requirement, under Article 37(2)(g) of the CPR, to review and update existing ex-ante assessments, thus allowing a quick adaptation of existing financial instruments to changed circumstances.

On 19 March 2020, the managing authority and BGK agreed upon the proposed changes to NFSE parameters. The investment strategy of the NFSE has consequently been updated and, starting from 27 March 2020, financial intermediaries are asked to apply new guidelines to disburse the financial product.

The following, more favourable conditions for final recipients were introduced:

- halving the interest rates for a period not longer than 12 months (for new loans and outstanding ones);
- further loan interest rate reduction, up to 0%, for social enterprises in financial difficulties and for a maximum period of 12 months;
- six-month repayment holiday (interest, principal or both);
- additional six months of grace period (up to 12 months in total) for new loans and the loans for which grace period has not expired yet;
- extension of the loan maturity by up to 12 months, resulting in:
  - up to 6 years in start-up loans, and
  - up to 8 years in development loans
- extension of the period for new job creations (additional 12 months) for both outstanding and new loans.

The changes in the outstanding loans are introduced upon request of a SEE only if – according to the assessment of the financial intermediary – it is proven that the COVID-19 situation caused financial difficulties during the loan maturity or if similar problems could clearly materialise in the future. These 'ad hoc' features are introduced for a defined period only, i.e. until 30 June 2021, unless further extension is granted.

The above-mentioned changes and the investment strategy of the financial instrument were the object of an amendment of the Funding Agreement between the managing authority and BGK. Thereafter, BGK engaged with retained financial intermediaries through a negotiated procedure without prior publication of a notice. At this stage, all retained financial intermediaries apply the improved conditions of the financial instrument to the final recipients.

7 Regulation (EU) 2020/460
8 Regulation (EU) 2020/558

The financial instrument has recently extended a loan to a social cooperative in the Wrocław area. The social cooperative, which used to sew tote bags, backpacks, sacks and gadgets, has recently converted its production into sewing protective masks for local hospitals, following the epidemic breakout. The loan has provided the social enterprise with the funding necessary to purchase the raw material.

Following the adjustment to the financial instrument, a large portion of the contracts related to SEEs' outstanding loans were modified at 31 December 2020, out of which:

- 90% involved the introduction of repayment holidays;
- 95% involved the extension of the loan maturity.

### Social cooperative "Serowa Kraina"


The social cooperative *Serowa Kraina* is a dairy producer located in Rajcza. Thanks to a EUR 22 000 loan from the NFSE, Serowa Kraina equipped its production and distribution site with up-to-date milk processing machineries, while also revamping the working and relax areas for its employees. The investment led to a sensible increase in both production and selling capacities: *Serowa Kraina* jumped from selling 3 000 litres of milk per month (in 2019) to selling 5 000 litres per month (in 2020).

Started off with seven people, six of whom were long-term unemployed including one disabled person, *Serowa Kraina* staff amounts now to 11 full-time people.

As a result of the Covid-19 pandemic, *Serowa Kraina* has experienced serious liquidity shortages, which in turn have led to halting its production and distribution processes. The social cooperative has been granted a 6-months repayment delay on its loan, and has secured an additional liquidity loan thanks to the new instruments set up by the Polish authorities (see Section 4.2). Thanks to such emergency measures, *Serowa Kraina* has resumed its activities.

## 4.2 New FI with reflows – liquidity loans

With a view to provide a comprehensive response to the financial constraints of the social sector, the managing authority set-up a new financial instrument aimed at deploying micro-loans to tackle liquidity issues faced by SEEs. This additional financial instrument, operating countrywide as of May 2020, is funded by the reflows generated from the 2007-2013 Human Capital OP's legacy funds (loan repayments from the pilot financial instrument) and has a budget of around EUR 5 million.

Eligible final recipients of this financial instrument are SEEs operating for longer than 12 months. The only eligible expenditure under this FI is working capital.

The key features of the loans provided under the new financial instrument are displayed in the table below:

*Table 3 - Covid-19 related adjustment to NFSE*

| Parameters | Until 31 December 2020 | From 1 July 2021 |
|---|---|---|
| Loan amount | Max EUR 23 600 (only one loan at the same time) | |
| Maturity | Up to 48 months | Up to 36 months |
| Grace period | Up to 12 months | Up to 6 months |
| Interest rate | ½ of the Central Bank promissory note rediscount rate | |
| Financial intermediaries/ SEE contribution | 0% | |
| Public funds coverage of losses | 100% | |
| Collateral | Blank promissory note as a standard collateral | |
| Commissions and fees | None | |
| State aid provision | *De minimis* aid | |

Loans disbursed until 30 June 2021 can benefit from a capital rebate (between 15% and 25% of the loan amount), upon fulfillment of certain conditions, namely (i) a minimum 20% reduction of the business revenues due to COVID-19, and (ii) ensuring all jobs are maintained.

To set-up the financial instrument, the managing authority retained BGK on the basis of an interadministrative cooperation procedure. Thereafter, BGK entered into negotiated procedure without prior publication of a notice[9] with all three retained financial intermediaries already involved in the implementation of the NFSE financial instrument.

BGK, as well the involved Ministries, delivered adequate public promotion on the amended terms of the NFSE and on the new liquidity loans.

By the end of December 2020, 153 liquidity loans were provided, with a volume of more than EUR 2.64 million.

9 As foreseen under the Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC, paragraph 2.3 'In cases of extreme urgency –negotiated procedure without publication of the Communication'.

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