



Social entrepreneurship and social inclusion: 'National Fund for Social Entrepreneurship, Poland'

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Implementing loan and counter-guarantee financial instrument within the National Fund for Social Entrepreneurship

(OP Knowledge, Education, Development 2014-2020, Poland)

Aleksandra Dmitruk, Deputy Director, Dept. of ESF, Ministry of Economic Development

Agnieszka Waszkiewicz, Head of Unit for Social Economy, Dept. of EU Programmes, BGK-State Development Bank

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Summary



Key characteristics

- **Poland (all regions)**
- **ESF OP Knowledge Education Development 2014-2020** (in Polish called '**POWER**')
- **Thematic Objective 9:** *Promoting social inclusion, combating poverty and any discrimination*
- **ESF Investment Priority 9v:** *Promoting social entrepreneurship and vocational integration in social enterprises and the social and solidarity economy in order to facilitate access to employment*
- **FoF+Body implementing the FI:** Bank Gospodarstwa Krajowego (BGK), Poland
- **Loan and counter-guarantee FI within the National Fund for Social Entrepreneurship:** loan fund (total budget of over EUR 36 million), counter-guarantee fund (total budget of ca EUR 1 million)



Thematic Objective 9

Promoting social inclusion, combating poverty and any discrimination



STRATEGIC CONTEXT

Block 1



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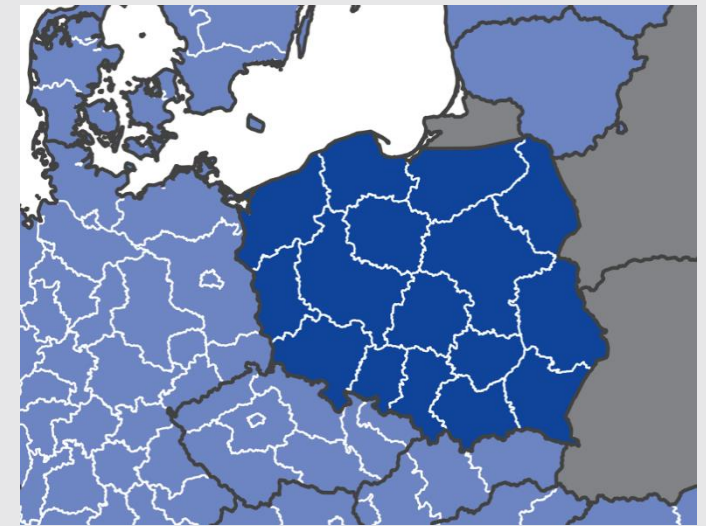
Strategic context

– Background



Introduction of the intervention area – Poland

- Land – 312.7 thousand km²
- Population – 38.5 million (2015)
- Capital – Warsaw
- 16 regions, 18 major cities
- GDP per capita in PPP – 69% of EU28 average (2015)
- Real GDP growth – 3.9% (2015)
- Unemployment – 4.6% (end Sept 2017)
- Poverty/social exclusion risk – 23.4% (2015)

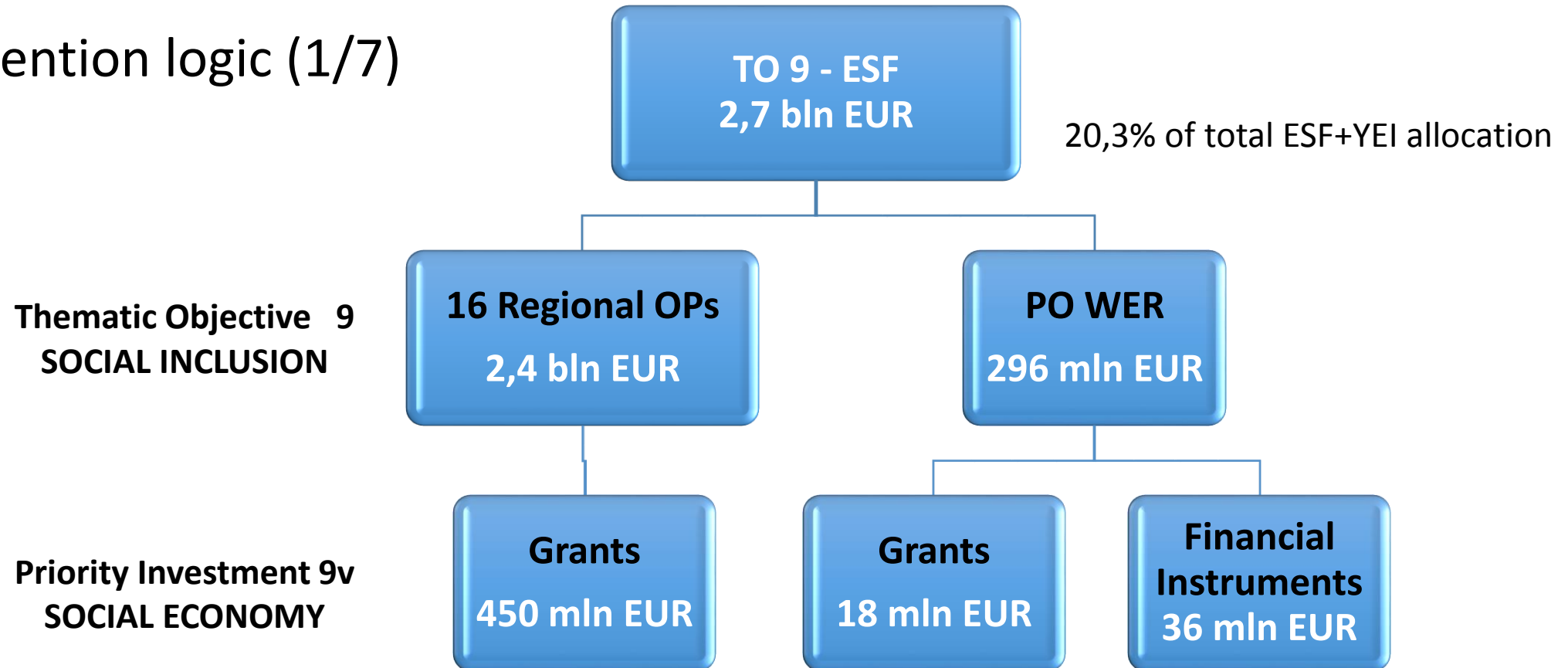


Strategic context

– *Specificity of the TO*



FI intervention logic (1/7)



Strategic context

– Specificity of the TO



FI intervention logic (2/7)

- The FI functions in the context of the TO9-related domestic **National Programme for Social Economy Development (NPSED)**
- Established under NSPED the **social economy support system in Poland** has **two main components**:
 - (1) **Creating “environment” for SEE creation and growth** including soft support by country-wide Social Economy Support Units
 - (2) **Providing finance to SEE** through the ESF 2014-2020 and 2007-2013, and state budget resources

Strategic context

– *Specificity of the TO*



FI intervention logic (3/7)

Ad. (1) “Environment” for SEE creation and growth

Social Economy Support Units:

- a country-wide network of entities, mostly operated by NGOs
- based in sub-regions (at the level of c.a. NUTS3)
- ESF-financed under POWER and ROPs 2014-2020
- subjected to the process of certification (= accreditation)
- offering a framework of business advisory services to SEE (also related to applying to the FI)
- streamlining ESF-funded ROP grants for transforming SEE into social enterprises, or for facilitating social start-ups



Strategic context

– Specificity of the TO



FI intervention logic (4/7)

Ad. (2) Providing finance to SEE

- NPSED envisages the **National Fund for Social Entrepreneurship (NFSE)**, which incorporates the FI and a non-ESIF FI for SEEs based on the legacy funds from the pilot FI under ESF OP Human Capital 2007-2013 (also BGK managed)

NPSED			
ROPs 2014-2020	POWER 2014-2020	Other sources	
Grants for social enterprises creation	The FI	FI based on OP Human Capital 2007-2013 legacy funds	= NFSE
	Grants to social economy system	State budget instruments	

Strategic context

– Specificity of the TO



FI intervention logic (5/7)

- **Coordination and demarcation between POWER and 16 ROPs in regard to social economy support (IP 9v)** is provided by „*Guidelines for the implementation of projects in the area of social inclusion and combating poverty using the resources of the European Social Fund and the European Regional Development Fund 2014-2020*”, issued by the 'Partnership Agreement Coordinating Body in regard to ESF' (i.e. the Minister of Economic Development) to regulate the entire TO9 intervention area



Strategic context

– Specificity of the TO



FI intervention logic (6/7)

The FI is financed under **POWER 2014-2020 Measure 2.9:**

Objectives:	Types of operations:
Increasing in the number of Social Economy Entities using FIs (= the FI)	(1) the FI: (a) extending the loan offer; (b) offer of new products
Enhancing the system of support to SEE (= grants)	(1) Equipping social enterprises in knowledge on public procurement law (2) Over-regional SEE networks (3) Quality marks for SEE and authorities supporting SEE (4) Coordinating activities in the area of social economy (5) Increasing the competence of Social Economy Support Units (6) Increasing the quality of social economy support services (7) Education in support of social economy

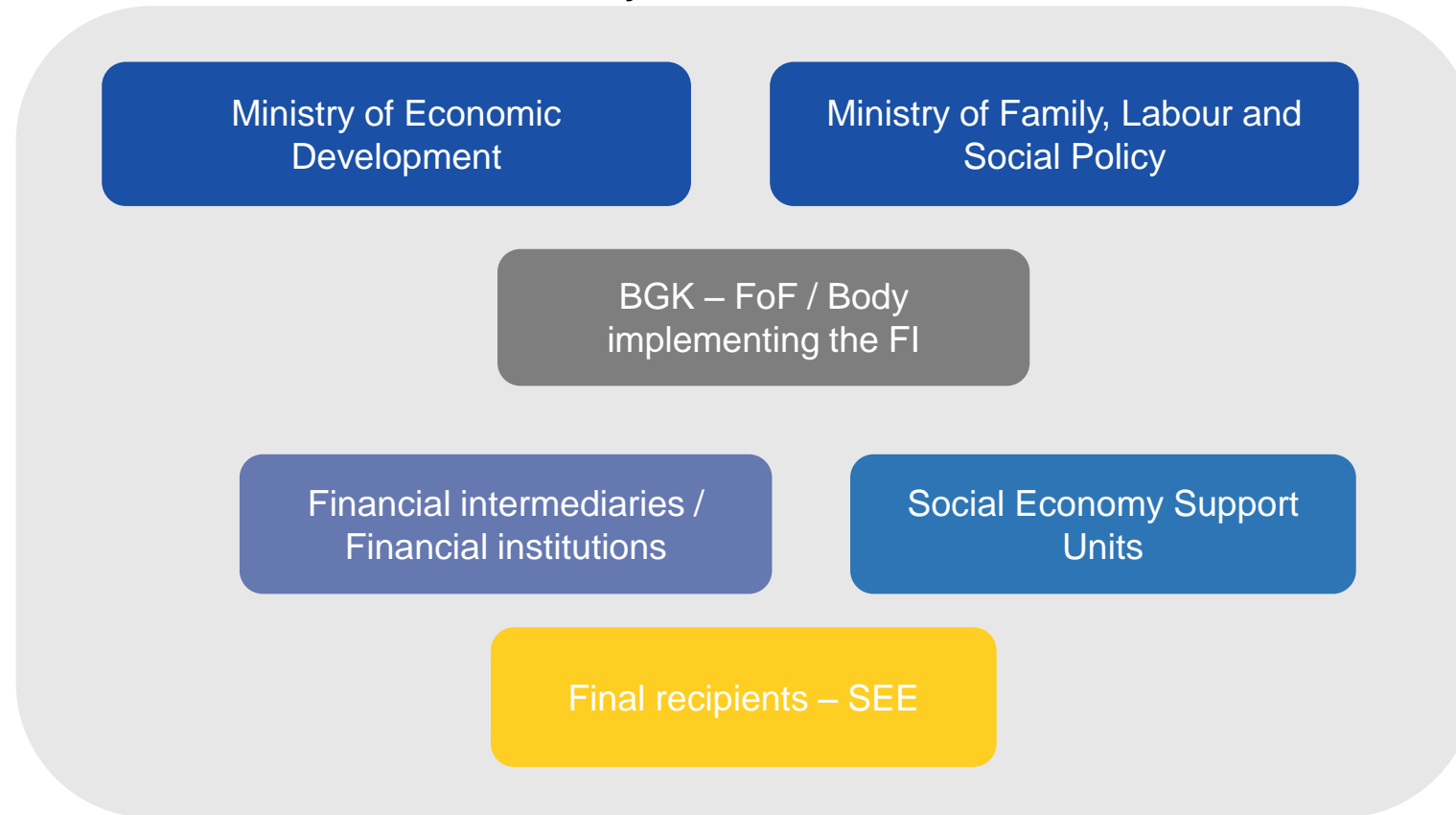
Strategic context

– *Specificity of the TO*



FI intervention logic (7/7)

Key stakeholders involved in the delivery of the NSPED/NFSE and the FI



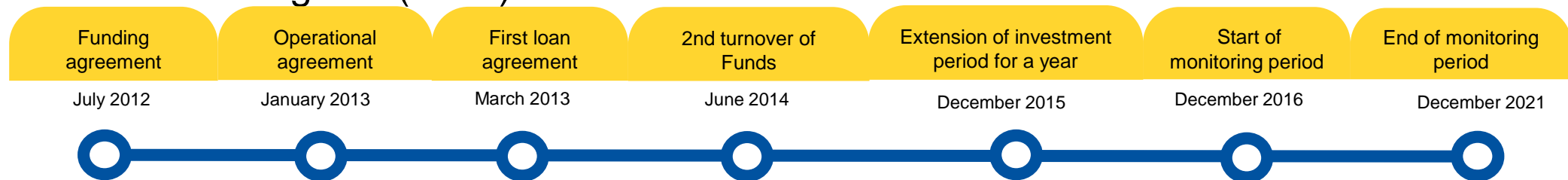
Strategic context

– *Past and envisaged future*



Experience and lessons learnt 2007-2013 (1/3)

- **Pilot project:** *Financial engineering support for the development of the social economy*, national OP Human Capital 2007-2013
- **FI products:** preferential loans (finance – EUR 5.94 mln) + soft services (advisory – EUR 0.9 mln)
- **Implementing structure:** Holding Fund (BGK) and Financial Intermediary for 5 loan funds in 5 Polish macroregions (TISE)



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Strategic context

– *Past and envisaged future*



Experience and lessons learnt 2007-2013 (2/3)

The financial product – preferential loan:

- Designed for **SEE development and business activity extension**
- **Amount:** max. ca. EUR 23.6 thousand, up to 100% of an undertaking
- **Maturity:** max. 5 years
- **Grace period:** max. 6 months
- **Interest rate:** half of the Central Bank promissory note rediscount rate (e.g. 0.88%), with possibility to lower to a quarter (e.g. 0.44%); **de minimis aid**
- **Collateral:** blank promissory note as standard (depending on risk)
- **Commissions and fees:** none



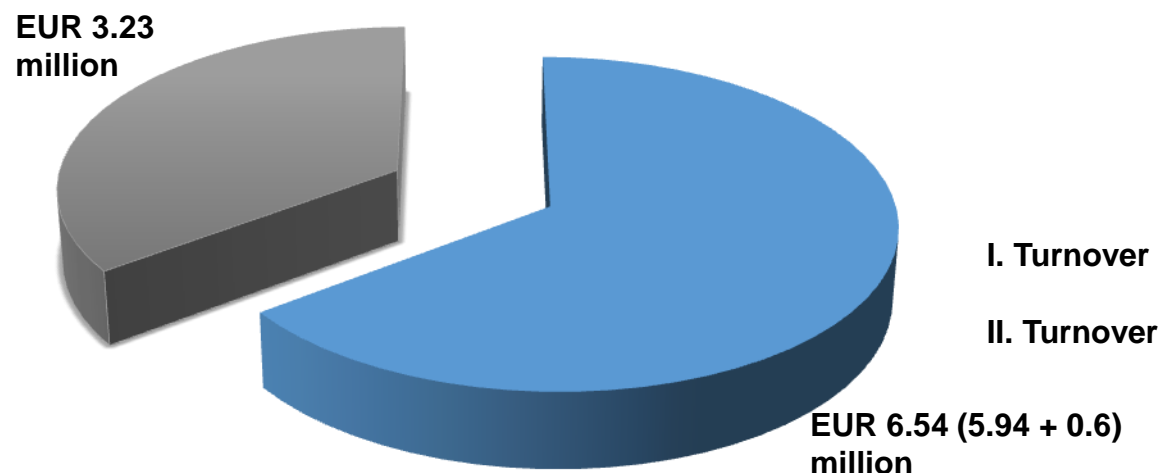
Strategic context

– Past and envisaged future



Experience and lessons learnt 2007-2013 (3/3)

Resources transferred by the Holding Fund to the Financial Intermediary



1 PLN = 0.2359 EUR

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	Indicators	Achievements
Absorption	100%	149%
Employment generation	50 new jobs	507 new jobs
Final recipients	200 entities	406 entities
Other	250 loans	500 loans



DESIGN & SET-UP

Block 2



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Ex-ante assessment

– Approach



Overview

- **External studies** (service procured by the MA)
 - *Ex-ante assessment of FIs in support of social economy entities and young people* (November 2013 – February 2014)
 - *Ex-ante risk assessment for the use of financial guarantee instruments offered to SEE within the framework of POWER* (April – August 2015)
- The latter employs the provisions of the *fi-compass* methodology issued in April 2014
- Results **presented to the OP Monitoring Committee** in September 2015



Ex-ante assessment

– *The study*



Market assessment – Market failure, suboptimal investment

- Ex-ante assessment identified **the market failure**
- The difference between demand and supply for funds (**the financial gap**) in 2013 was set at approx. **EUR 154.5 million** (non-realized investment expenditures)
- The financing requirement (unmet demand) that could be **covered by loans and credits amounted to EUR 12.1 million**
- The financial gap **directly affected 60 social co-operatives and about 500 NGOs**, 63% of inquired SEEs said that in 2013 they lacked funds for business development
- The assessment indicated **that the financial gap would increase in subsequent years**



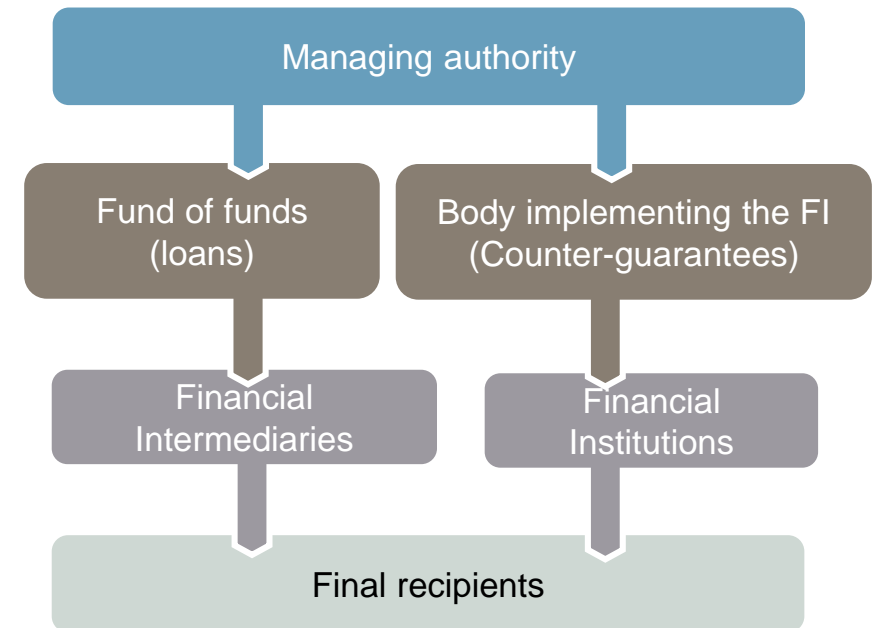
Ex-ante assessment

– *The study*



Delivery and management – Proposed investment strategy

- **Increase in FI allocation** vs FI 2007-2013
- **Implementing structure** with FoF for Loans and Body implementing the FI for Counter-guarantees
- **More diversified products:** loans, counter-guarantees, guarantees, potentially Social Venture Capital
- Enlargement of **the target group**



Ex-ante assessment

– Recommendations



Direction of available resources into **FI products**:

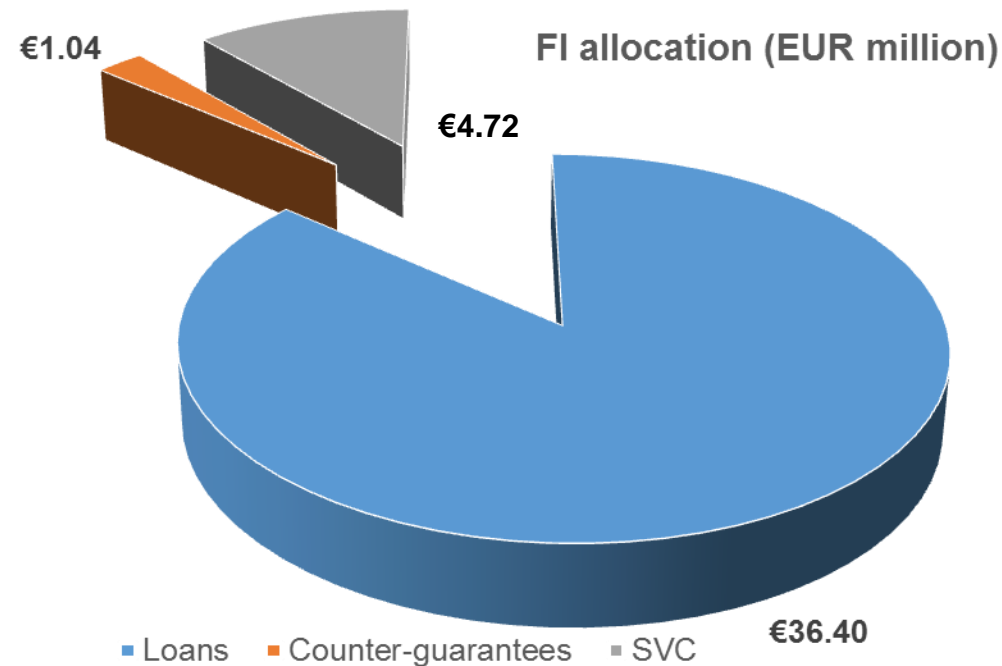
2007-2013	2014-2020	
Legacy funds	ESF (POWER)	
Guarantee Fund	Loan Fund Counter-guarantee Fund	Social VC

Design and set-up



FIs in 2014-2020

- Total FI allocation under POWER is EUR 42.2 million*



Indicators

Employment generation

1250
new jobs

Final recipients

2030
loans

* including F.Ints' own contribution of min. 10% of the OP contribution for loans and counter-guarantees, as envisaged in the funding agreement.

1 PLN = 0.2359 EUR



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Design and set-up



Strategy

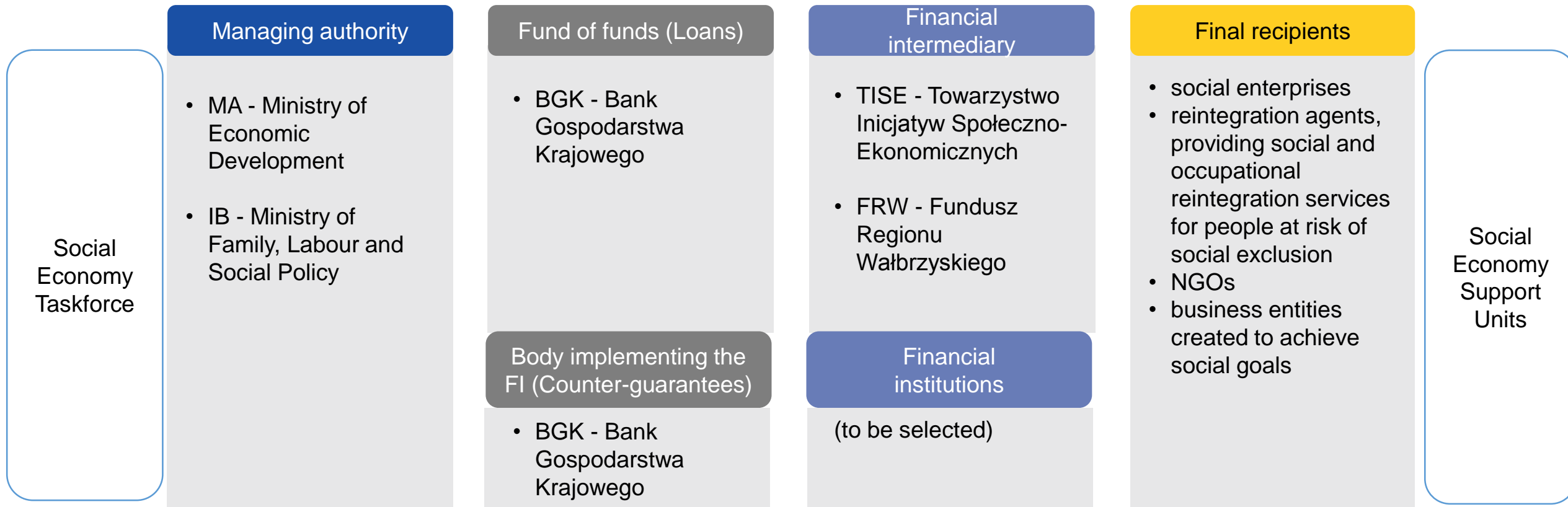
- The POWER MA prepared **a document** for FI design and set-up – *Assumptions for FI support to social economy under POWER* (July 2016), based on ex-ante assessment results, to be taken into account during the FoF and Financial Intermediaries selection
- The FI as POWER operation received a domestic status of **a non-competitive project**, allowing the MA to sign the funding agreement with the FoF just as it meets the operation selection criteria established by the OP Monitoring Committee especially for this kind of operation



Design and set-up



Implementation structure



Design and set-up



Stakeholders (1/2)

- **MA** in Ministry of Economic Development supervises the implementation of the entire POWER
- **Social Economy Taskforce** – body established to oversee the correct and effective functioning of the FI and provide knowledge exchange, gathering all the relevant implementation stakeholders. It is led by the MA and gathers: Ministry of Family, Labor and Social Policy, 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, PA Coordinating Body in the Ministry of Economic Development
- Ministry of Family, Labour and Social Policy acts as a POWER **Intermediate Body (IB)** relevant to the FI and signs funding agreement with FoF



Design and set-up



Stakeholders (2/2)

- BGK (*State Development Bank of Poland*) is the **FoF (for the Loan Fund) and the Body implementing the FI (for the Counter-guarantee Fund)** who selects Financial Intermediaries for the Loan Fund in public procurement procedure and establishes cooperation through offer inquiries with Financial Institutions providing guarantees counter-guaranteed by BGK for the Counter-guarantee Fund
- TISE and FRW selected as **Financial Intermediaries for the Loan Fund**
- **Financial Institutions for the Counter-guarantee Fund** to be selected
- **Social Economy Support Units** function outside of the FI and provide soft support of all kinds to SEE (including how to economize the social activity and use FI sources)



Design and set-up



Target group

- The SEE target group was defined in the before mentioned „*Guidelines for the implementation of projects in the area of social inclusion and combating poverty using the resources of the European Social Fund and the European Regional Development Fund 2014-2020*”, regulating TO9 implementation under the PA
- The **eligible final recipients** are:
 - (1) social enterprises (social cooperatives)
 - (2) reintegration agents, providing social and occupational reintegration services for people at risk of social exclusion
 - (3) NGOs
 - (4) business entities created to achieve social goals (NGOs, cooperatives, non-profit companies)
- **Only legal persons not governed by local public authority units** can be final recipients of the FI



Design and set-up



Target group

- The loans are granted **for investments of social impact** (as defined by the Ministry of Family, Labour and Social Policy):
 - 1) **General criteria**: a) introduction / development of activities respecting the principles of sustainable development; b) introduction of activities aiming at common social objectives achievement in cooperation with other entities; c) involvement of local suppliers in supply chain.
 - 2) **Benefits related to employment**: a) employment of at least one person esp. person with risk of social exclusion; b) workplace development incl. for person with risk of social exclusion; c) increase of salaries of employees at risk of social exclusion engaged in the implementation of undertaking financed under the loan or introduction of flexible employment forms; d) increase of the scope / intensivity of reintegration efforts towards employees or members of their families; e) increase of competences and qualifications of employees, incl. persons with risk of social exclusion.
 - 3) **Benefits related to the way of rendering services**: a) introduction or development of general interest social service incl. kindergarden services and child care, b) introduction of activities for the benefit of local society, incl. social entrepreneurship promotion, c) introduction / extension of local development services related to local animation cultural heritage of local government unit.

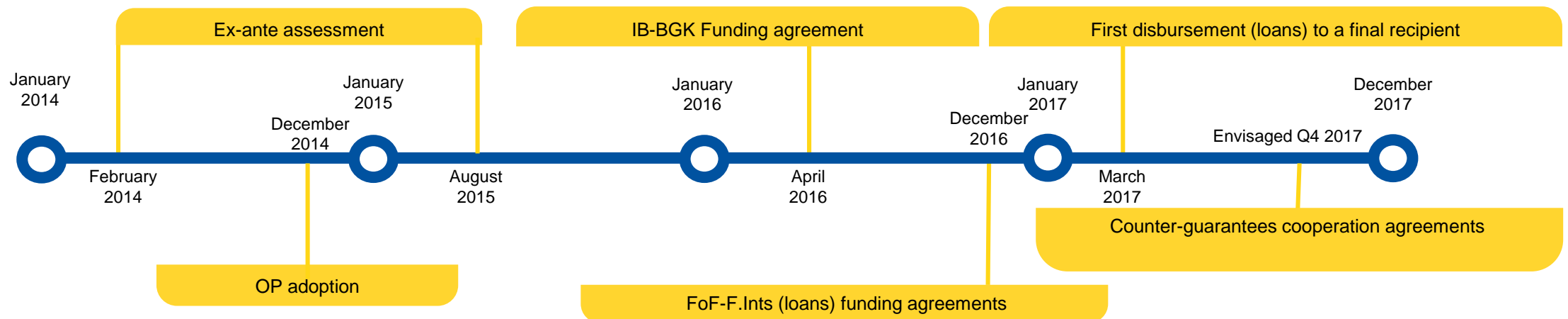


Design and set-up

– Timeline



Milestones: OP adoption, ex-ante assessments, IB-FoF/Body implementing the FI funding agreement, completion of F.Int. (loans) selection process – FoF-F.Ints funding agreements, first disbursement (loans) to a final recipient; Financial Institutions (counter-guarantees) selection process – Body Implementing the FI-Financial Institutions cooperation agreements



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Design and set-up

– *Selection of bodies implementing the FI*



BGK – Bank Gospodarstwa Krajowego (*State Development Bank of Poland*) – FoF (Loans) + Body implementing the FI (Counter-guarantees)

- BGK as manager of **the FoF (for the Loan Fund)** and **the body implementing the FI (for the Counter-guarantee Fund)** was appointed by the EC decision approving POWER and in line with the national regulation – 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*



Design and set-up

– Selection of bodies implementing the FI



Financial Intermediaries for Loans

- Selected in an unrestricted **public procurement procedure** (35% price, 35% quality, 30% conditions of own contribution provision)
- **TISE operates in macroregions I, II, IV, V**
- **FRW operates in macroregion III**

Financial Institutions providing guarantees covered by BGK Counter-guarantees

- To be selected through offer inquiries / cooperation agreements with BGK (envisaged in Q4 2017)

Quality selection criteria

- Experience in deploying FIs
- Experience in services for SEE
- Concept for local reach to the target group, which will guarantee fund availability for every final recipient interested
- Disbursement pace
- Participation of Financial Intermediary in a fund of at least 15% - in the case of loans



Design and set-up

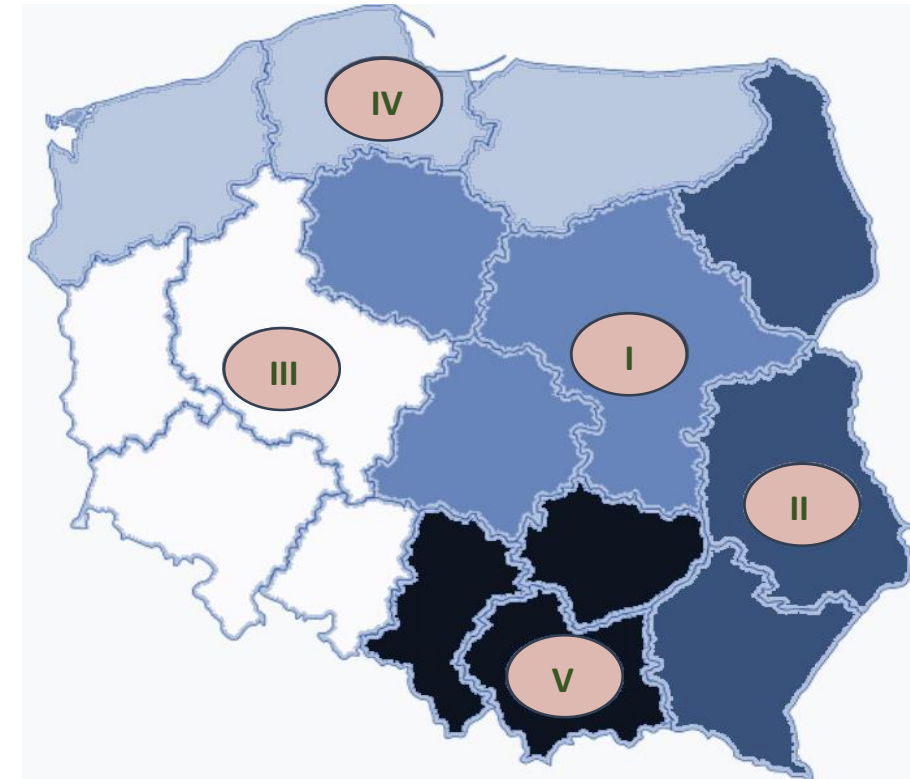


Target area

The **division into macroregions** is the same as for the FI 2007-2013 and is based on two variables:

- (1) the number of social co-operatives on a given area
- (2) the number of NGOs active on a given area

	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



Design and set-up



Implementation period

- **Investment period 2016-2023, monitoring until 2028**
- **Performance milestones** in 2018, 2020, 2021 and 2023



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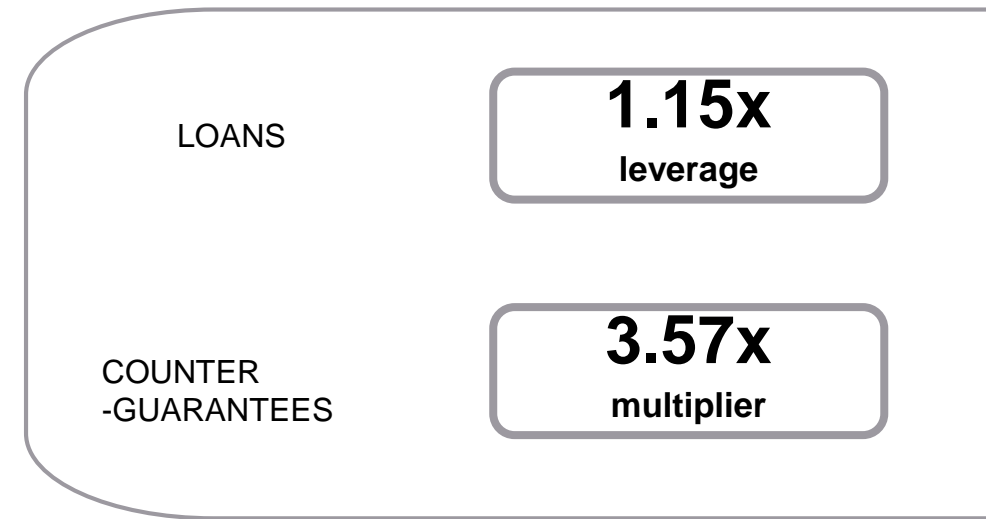


Design and set-up



Investment strategy

- Prepared based on **ex-ante assessments, experience from pilot FI 2007-2013, and OP provisions**



Design and set-up



Management cost and fees (1/2)

BGK – Fund of funds management costs:

- Based on Regulation 1303/2013 [Art. 42(5,6)] and Regulation 480/2014 [Art. 13]
- Will be set on the basis of **actual expenses incurred**
- **Need to meet the milestones**
- Limits for BGK in the implementation of loans:
 - 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 over: 0.5% of the contribution paid from the OP + 0.5% of the contribution paid to the Financial Intermediaries
 - Max 7% of the contribution paid from the OP during the eligibility period
- Limits for BGK in the implementation of counter-guarantees:
 - For all years: 0.5% of the contribution paid from the OP + 1.5% of the contribution paid from the OP involved under outstanding guarantee agreements
 - Max 10% of the contribution paid from the OP during the eligibility period



Design and set-up



Management cost and fees (2/2)

Management costs of Financial Intermediaries:

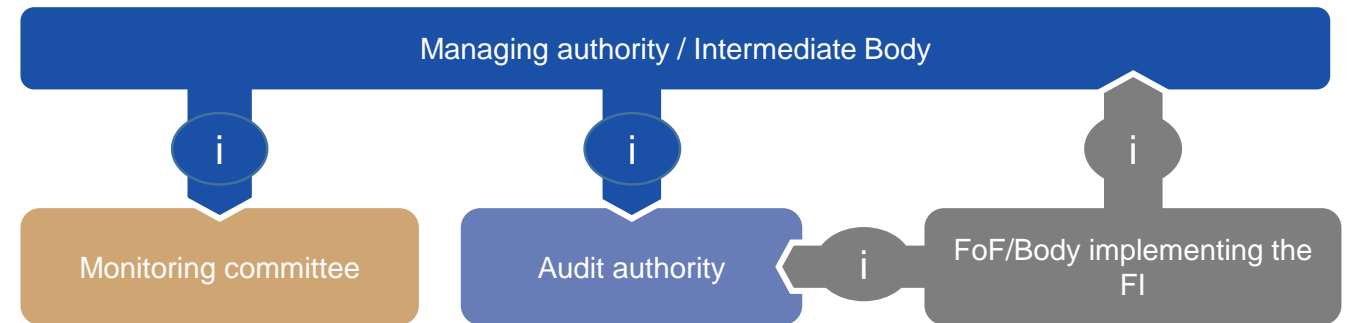
- On the levels from the offers from Financial Intermediaries in the public procurement selection process
- Up to 14-20%, depending on the macroregion
- Related to performance in lending activity – paid out in two tranches:
 - 70% of the entitled amount on disbursement of a loan
 - 30% of the entitled amount on the basis of repayment of a loan

Monitoring, control and reporting system in place for FIs



Main bodies and institutions involved in the process

- **BGK is subject to audit and control** procedures from all the authorised bodies, including particularly MA, IB, AA as well as EU institutions



Monitoring, control and reporting system in place for FIs



Overview

- **BGK gathers and provides the MA all the monitoring information on the FI to be presented with the OP Annual Implementation Report**, as requested in CPR Art. 46
- **Following the BGK payment schedule established under the funding agreement, BGK submits payment claims to the IB** to settle the payments, as well as to provide relevant FI reporting information, as requested in the regulations from the ESIF national coordination (e.g. *Guidelines of the Minister of Economic Development on Monitoring*, as well as *on Electronic Data Gathering and Processing for 2014-2020*)
- **Every 3 months Financial Intermediaries submit reports to BGK** which are basis for settlement of payments as well as for monitoring purposes





IMPLEMENTATION

Block 3



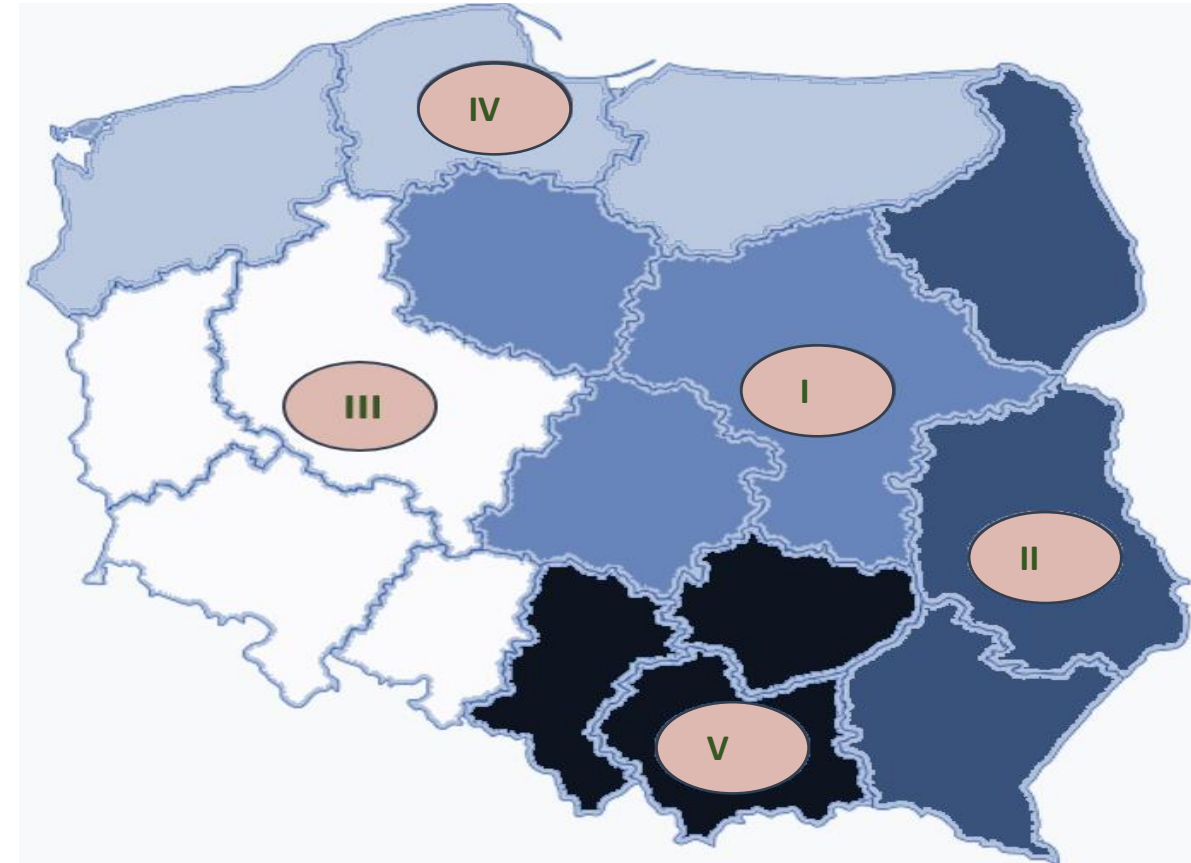
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Implementation



- **Loan Fund:**
4 macroregions (I, II, IV, V) - TISE
(Towarzystwo Inicjatyw Społeczno-Ekonomicznych)
1 macroregion (III) - Wałbrzych Regional Fund (Fundusz Regionu Wałbrzyskiego)
- **Counter-guarantee Fund:** (Q4 2017)



Implementation



A case of Financial Intermediary – TISE

- For the **1st tranche paid out from the FoF for TISE**, the relevant numbers for each macroregion are:

	<u>Max. Loan fund budget</u>	<u>TISE own share</u>	<u>Targets:</u>	
I:	EUR 2.5 million;	20%;	95 jobs,	157 loans
II:	EUR 1.36 million;	16%;	49 jobs,	82 loans
IV:	EUR 1.28 million;	18%;	54 jobs,	89 loans
V:	EUR 1.85 million;	18%;	71 jobs,	118 loans

- With the lending activity, as part of its mission, TISE offers also own support to final recipients in preparing loan applications and advice on sustainability of SEE business activity



Implementation

– *Loan*



Loan for starting-up (1/2)

- Designed for SEE which operate **no longer than 12 months**
- **Amount:** up to EUR 23.6 thousand for one loan, but not more than EUR 47.2 thousand for one SEE (it is possible for the same enterprise to apply twice)
- **Maturity:** 5 years
- **Grace period:** up to 6 months
- **Interest rate:** at the promissory note (bill of exchange) rediscount rate of Polish Central Bank; reduced by half if a new job is created (i.e. 0.88%)



Implementation

– *Loan*



Loan for starting-up (2/2)

- In the case of loan financing from Financial Intermediary's own funds, interest rate reduction is provided in the form of **interest subsidy**. In case no new job is created, the value of the gross grant equivalent is calculated in relation to the Central Bank promissory note rediscount rate
- **Commissions and fees:** none
- **Collateral:** Financial Intermediary's specified, but blank promissory note (bill of exchange) is preferred
- **Permissible loss ratio:** 30% (Financial Intermediaries cover the loss exceeding the ratio, but all net amounts recovered decrease the Financial Intermediaries' contribution)

Implementation

– *Loan*



Loan for development (1/3)

- Designed for SEE, which operate **over 12 months**
- **Amount:** according to needs, up to EUR 117.9 thousand per loan, but not more than EUR 235.8 thousand per one SEE involved in a given loan period (it is possible for the same enterprise to apply more than once)
- **Maturity:** 7 years
- **Grace period:** up to 6 months
- **Interest rate:** depends on the amount of the loan

Implementation

– *Loan*



Loan for development (2/3)

- **Interest rate:** for loans up to EUR 23.6 thousand – at the level of Central Bank promissory note rediscount rate, with the opportunity to reduce interest by half provided job creation. For loans over EUR 23.6 thousand – at market level, with the opportunity to reduce the interest to the level of Central Bank promissory note rediscount rate, provided job creation (as a rule: 1 job per every ca. EUR 23.6 thousand of loan)
- **Commissions and fees:** none
- **Collateral:** Financial Intermediaries specified, with loans up to EUR 23.6 thousand blank promissory note is preferred
- **Permissible loss ratio:** 20% (Financial Intermediaries cover the loss exceeding the ratio, but all net amounts recovered decrease the Financial Intermediaries' contribution)



Implementation

– Loan



Loan for development (3/3)

- **The level of interest reduction** – depends on loan volume and no. of workplaces declared to be created; interest rate can be reduced to the level of Central Bank promissory note rediscount rate provided that 1 job will be created per every ca. EUR 23.6 thousand of loan incurred

$$\begin{array}{ccccccc} \text{max. loan} & & \text{market} & & & & \\ \text{interest} & = & \text{level} & - & \text{EUR 23 600} & * & \text{no. of workplaces} & * & \text{(market level interest rate -} \\ \text{rate} & & \text{interest} & & \text{loan volume} & & \text{to be created} & & \text{Central Bank promissory note} \\ & & \text{rate} & & & & & & \text{rediscount rate)} \end{array}$$

Workplace entitling to interest rate reduction: 1) at least half-time job; 2) created on the basis of the contract of employment not later than 6 months after signing the loan agreement; 3) sustained for at least 6 months.



Implementation

– *Loan*



Risk-sharing

- The Financial Intermediary decides on **the financing structure of each loan** between the use of OP (public) and own (private) contributions
- The **level of risk-sharing**, i.e. combination of OP and own contribution levels – obligatory Financial Intermediary's contribution of min. 15% of the OP contribution – needs to be maintained at the level of entire loan portfolio

Implementation

– *Loan*



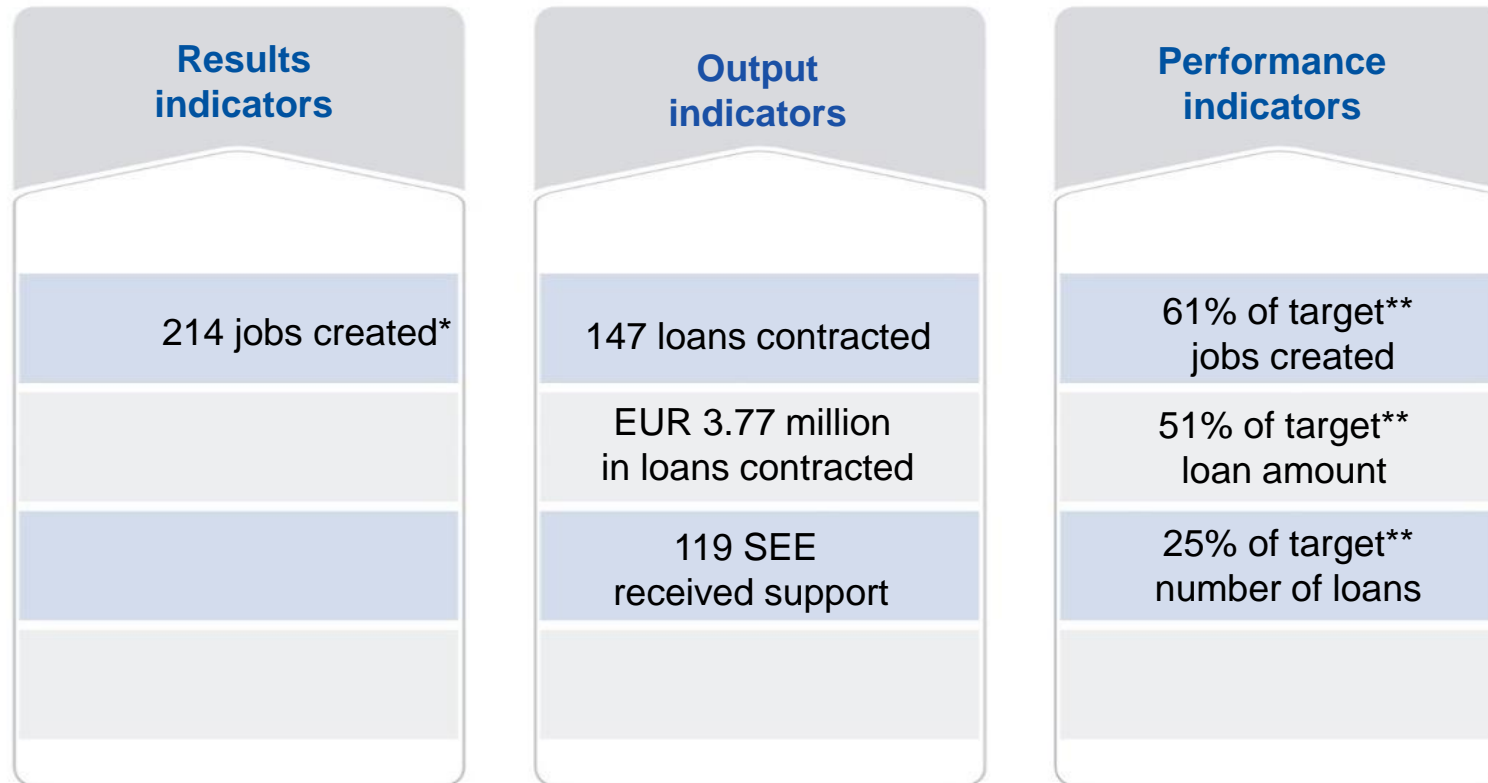
State aid provisions

- **Reduced interest rate at the level of final recipient (for projects generating work places) takes different forms of *de minimis aid* depending on the source of resources:**
 - loan/ part of the loan granted from ESF/public resources – *de minimis aid* in the form of gross grant equivalent
 - loan/ part of the loan granted from FI's own resources – interest rate subsidy



State of play and results

as of September 2017



Source: BGK based on monitoring data

* - as declared by borrowers to be created

** - applies only to the 1st tranche of OP resources paid out from the FoF to the Loan Fund

Implementation

– Counter-guarantee



Counter-guarantee

- Product designed for financial institutions offering guarantees to SEE. It establishes a limit of funds granted to an institution co-operating with BGK in order to build a portfolio of guarantees for credit / loan / leasing obligations of SEEs in other financial institutions
- Reduces the risk weight and thus the cost of credit / loan leasing for SEE in other financial institutions
- Entities eligible to apply for counter-guarantee are institutions that sign a cooperation agreement with BGK (in an offer enquiry procedure)



Implementation

– *Counter-guarantee*



Counter-guarantee

- **Pilot solution**
- **Expected budget:** over EUR 1 million
- **Counter-guarantee amount:** up to 70% of the guarantee and up to EUR 33 thousand
- **Guarantee amount that can be covered by counter-guarantee:** up to EUR 47.2 thousand
- **Commissions and fees:** none
- **Guarantee period:** up to 60 months
- **Guarantee may include:** any loans / credits (including revolving) related to SEE activities
- Establishing cooperation with a financial institution providing guarantees is planned for Q4 2017
- **Permissible loss ratio:** 50%



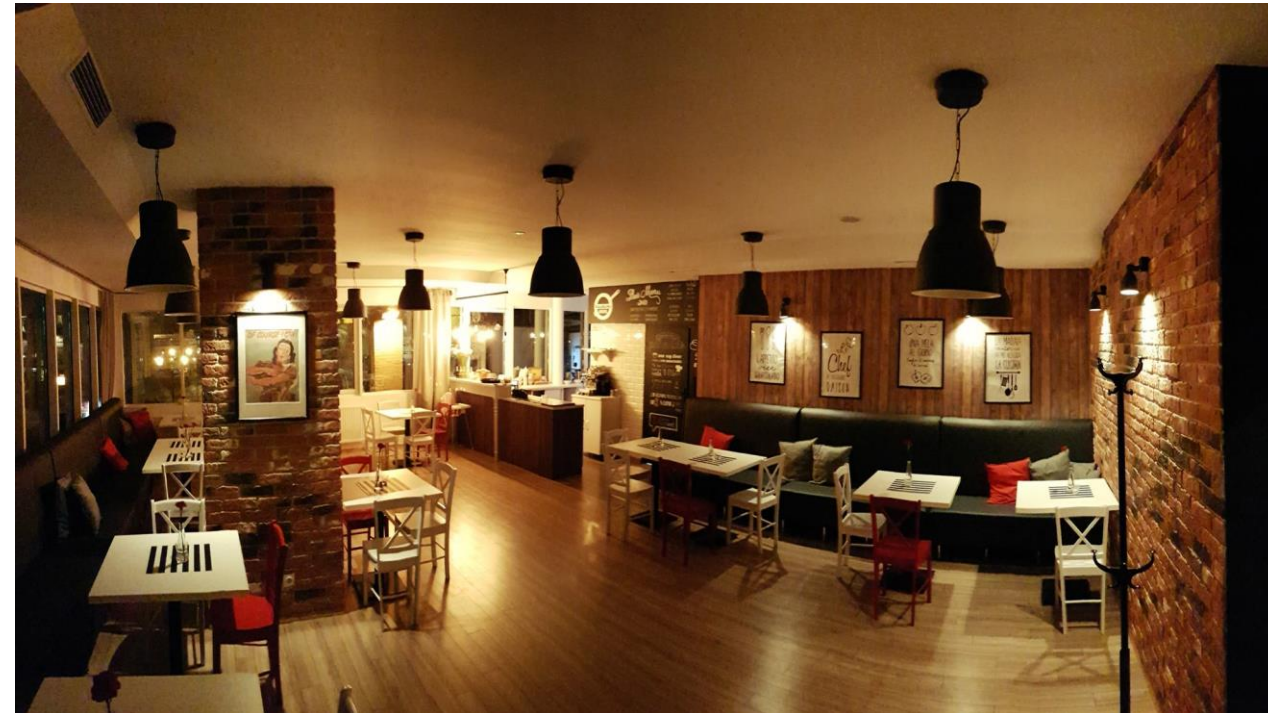
Project Example 1

– Final recipients



Social Cooperative “Nalesnikarnia2.0” (Pancake Factory 2.0)

- Loan: EUR 23.6 thousand
- Interest rate: 0.88% p.a.
- Maturity: 5 years
- Social achievements: 7 jobs created, 5 more expected
- Example of “social franchising” – 2nd restaurant of this brand, 1st opened with 2007-2013 ESF OP FI loan



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Project Example 2

– *Final recipients*



Fundacja JemyEko.pl (“We Eat Eco” Foundation)

- Loan: EUR 21.5 thousand
- Interest rate: 0.88 % p.a.
- Maturity: 5 years
- Social achievement: 4 jobs (incl. 1 disabled, 2 unemployed)
- Traditional + online shop with eco-food

