



Outcomes of the “*De minimis* guarantee scheme”
implemented by Bank Gospodarstwa Krajowego 2015



This brochure constitutes a summary of the most important results of the survey conducted and developed by the Research and Analyses Bureau of BGK. A full report on the survey is available on the website www.bgk.pl/aktualnosci/ekspertyzy-i-badania/

Bank Gospodarstwa Krajowego
Al. Jerozolimskie 7, 00-955 Warsaw
www.bgk.pl

Research and Analyses Bureau
Tel.: +48 22 599 82 43
analizy@bgk.pl

Copyright: Bank Gospodarstwa Krajowego. All rights reserved.

About *De minimis* Guarantee Scheme

The government aid scheme for SMEs, or “De minimis Guarantees” (Portfolio *de minimis* Guarantee Scheme, PLD), was launched in spring 2013 in response to the economic slowdown that particularly affected micro, small and medium-sized entrepreneurs (SME). *De minimis* Guarantees were an answer to the needs of SMEs in the scope of access to finance. The support under the Scheme was based on the principles of *de minimis* aid, i.e. public aid permitted by the EU law, which may be granted by a State without obtaining the consent of the European Commission. This aid is subject to monitoring and has established, permitted value thresholds.

From the beginning of the Scheme until October 2015, 97.1 thousand entrepreneurs have taken advantage of it, mainly from the group of microenterprises (they constituted 79% of beneficiaries). Bank Gospodarstwa Krajowego (BGK) granted guarantees for a total amount of PLN 24.11 billion, securing PLN 42.96 billion of lending. The aid reached mainly companies which had a limited access to financing (i.e. those in a financing gap), helping them to make the necessary investments, improve or maintain their position in the market, as well as increase or maintain their staff headcount.

For loans financing their current and investment activities, SMEs may obtain loan repayment guarantees offered by Bank Gospodarstwa Krajowego through lending banks participating in the Scheme.

De minimis guarantee does not constitute a cash subsidy and is not connected directly with a transfer of funds to the entrepreneur, and also it does not give rise to any tax consequences.

De Minimis Guarantee secures up to 60% of the credit amount both in the case of working-capital as well as investment credits. It does not cover interest and other credit-related costs. It is secured with a blank promissory note of the entrepreneur, and the commission on the guarantee granted constitutes 0.5% of the guarantee amount per annum.

The only major difference between the guarantee securing a working-capital credit and the guarantee securing an investment credit is its duration: in the case of the former, the guarantee is granted for 27 months at most, while for investment credit – for 99 months.

Benefits gained by entrepreneurs thanks to *de minimis* guarantees include:

- availability of funding for companies with a short credit history or lack of sufficient collaterals,
- Ensuring flexibility in managing one’s own assets, i.e. the part covered with the *de minimis* guarantee facility – an entrepreneur does not have to pledge them either to the lending bank or to Bank Gospodarstwa Krajowego.
- time saving – all formalities are completed directly at the lending bank simultaneously with loan award,
- reduction of total credit costs due to e.g. lower margin or commission,
- simple application procedure – no need of reporting obligation.

About the study

The main aim of the study, conducted by Bank Gospodarstwa Krajowego, was to assess the access-improving effects of *De Minimis* Guarantee Scheme in the scope of external financing for micro, small, and medium-sized entrepreneurs, and also effects of the aid on the results of companies operating in conditions of economic downturn, and on the Polish economy. This survey was a third survey in the row concerning *de minimis* guarantees.

The aim of the study was achieved by answering the following research questions:

- How would you assess the degree of accuracy of the *de minimis guarantee scheme* in improving the access to external financing for SMEs and satisfying their needs in this scope?
- How would you assess its effectiveness in limiting the financing gap and related barriers?
- How would you assess the level of usefulness of the Scheme in terms of direct and additional effects measured first of all with changes in employment ratios, market position, turnover increase, or investment completion thanks to the released funds?
- What benefits did the economy, and first of all the SME sector, gain as part of *de minimis* guarantees?

The assessment of outcomes of the government Scheme was conducted on the basis of evaluation criteria measuring accuracy, effectiveness, usefulness, and sustainability of *de minimis* aid.

In the study, were used standardized and deepened reporting data analysis, data obtained in personal interviews with Scheme participants, and survey data collected with the use of CATI method from 1617 entrepreneurs in the SME sector who used *de minimis* guarantees in the period from July 2014 to July 2015.

The results of the study were grouped under the following thematic blocks:

Characteristics of Scheme participants

pp. 5–7

A beneficiary of the scheme was characterised – an entrepreneur who used *de minimis* guarantee, and their experience in terms of access to financing in the past.

Relevance and effectiveness of the Scheme – limitation of the financing gap

pp. 8–9

This part includes study results concerning first of all the diagnosis whether and to what extent the Scheme reduced the financing gap in the SME sector.

Utility and sustainability of the scheme

pp. 10–12

The last block of the results includes assessment of the Scheme effects both at the level of the entrepreneur and in the macro scale (impact of the Scheme on the selected economic indicators).

The most important study results

All analyses carried within the quantitative and qualitative survey demonstrated the unique role played by the *de minimis* guarantee in the process of obtaining of external financing by micro, small and medium-sized enterprises, through which the Scheme contributed to the activities supporting the SME sector, and therefore the whole economy in the period of economic slowdown.

Description of Scheme participants, their needs and experience in obtaining external financing in the past

In relative terms, the most active group from among micro, small, and medium-sized enterprises in obtaining external financing under *de minimis* guarantee scheme were small enterprises. Moreover, the study showed that mainly companies operating on the local market (37%) and for more than 9 years (42%) or for a period of 4-9 years (31%) were most active in obtaining guaranteed loans.

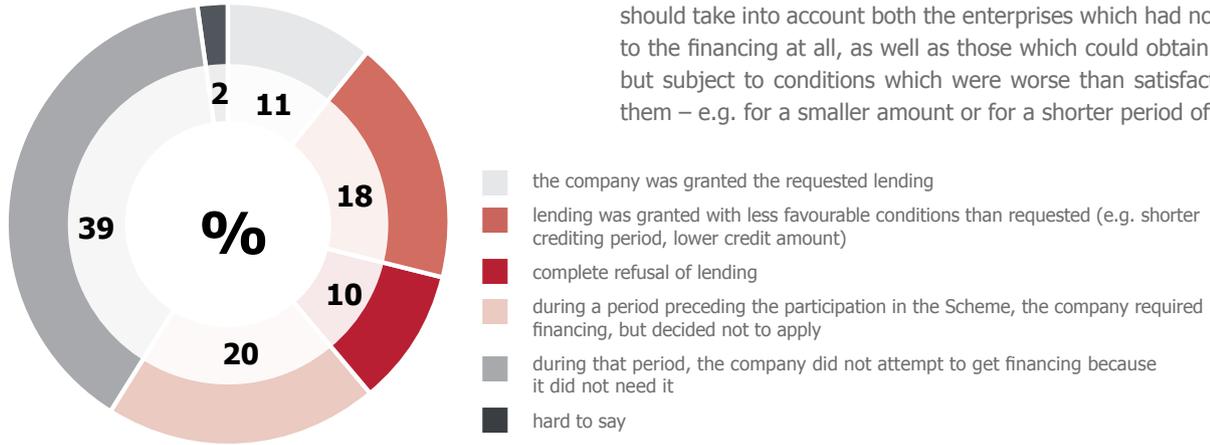
The amounts of obtained credits with *de minimis* guarantee are significantly higher than in the case of repayable financing applied for by SMEs in previous years, when only 28% of companies incurred a credits higher than PLN 50 thousand. Under the Scheme, during last year, no less than 81% of the surveyed micro companies obtained a credit above that amount. After three years of studies, we can definitely say that *de minimis* guarantee is a factor contributing to higher debt financing obtained by companies, including those coping with the gravest difficulties in this field. This constitutes

another confirmation of the fact that the “*de minimis* guarantee scheme” eliminates one of the barriers faced by SMEs in reaching for external financing.

The results showed that the needs of external financing in two groups: young companies, operating for 1-4 years, and slightly older companies (<4-9 years) do not differ much from the needs of enterprises which have existed on the market for much longer, and it was the two former groups that invested most often due to the improvement – thanks to the support of *de minimis* guarantees – of the financial situation of the company. Therefore, we may conclude that participation in the Scheme, thanks to which the companies obtained higher amounts of external financing than that available to them without guarantees, contributed to the launch or acceleration of the investment process among the surveyed entrepreneurs.

It is worth noting that among start-ups, nearly one-fourth declare an international activities, whereas 36% target their products or services to the Poland-wide market; this is much more than among other groups of companies using the Scheme. In total, 60% of them are focused on covering the widest possible range in the market. Therefore, aid in the form of *de minimis* guarantees reached young companies which are certain leaders in their group – expansive, striving to reach at least nation-wide or global clients – and provided them with a possibility of achieving their goals.

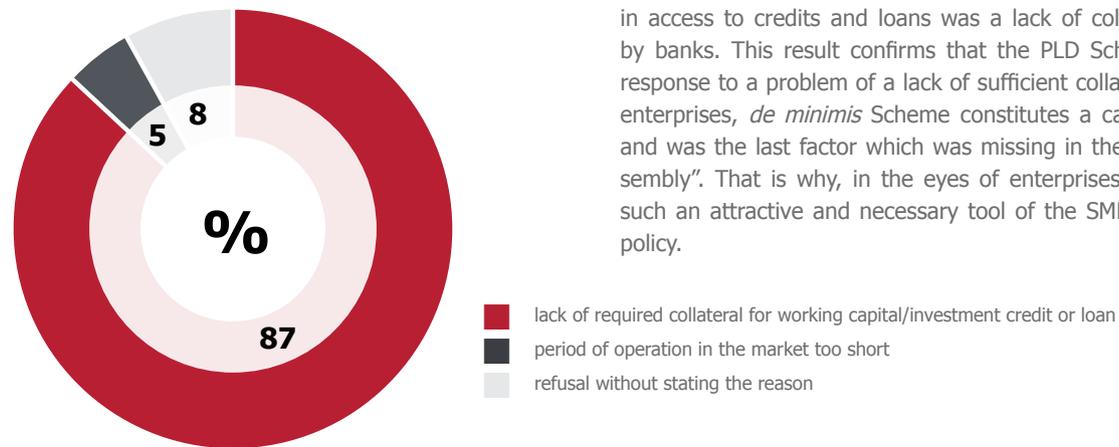
Attempts to obtain a credit or a loan before using the *de minimis* guarantee?



Source: BGK *de minimis* guarantee survey.

From among the Scheme participants covered with the study, 48% were in the financing gap before entering the Scheme. Here, we should take into account both the enterprises which had no access to the financing at all, as well as those which could obtain a loan, but subject to conditions which were worse than satisfactory for them – e.g. for a smaller amount or for a shorter period of time.

Main reasons for refusal or obtainment of less favourable offer of external financing



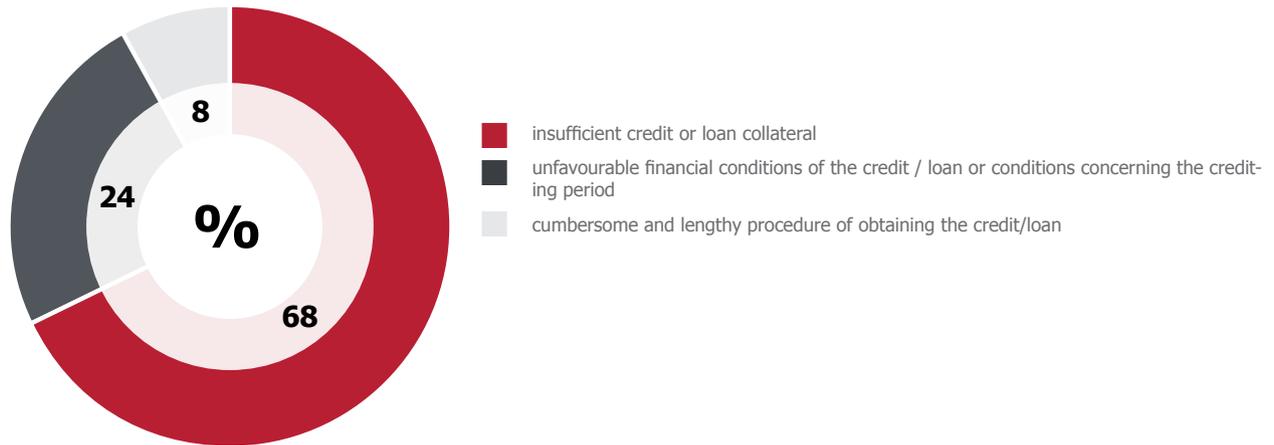
Source: BGK *de minimis* guarantee survey.

In the case of entrepreneurs who did not obtain financing or obtained it, but on worse conditions, the main reason for difficulties in access to credits and loans was a lack of collaterals required by banks. This result confirms that the PLD Scheme is a direct response to a problem of a lack of sufficient collaterals. For those enterprises, *de minimis* Scheme constitutes a catalyst of credits and was the last factor which was missing in their “financing assembly”. That is why, in the eyes of enterprises, the Scheme is such an attractive and necessary tool of the SME sector support policy.

The study also showed that, in the case of the respondents who decided not to apply for such financing, despite the fact

that they had needs in this regard, the main reason was the lack of appropriate collateral.

Reasons for opting out of applying for external financing during the last 2 years (until the time of obtainment of the *de minimis* guarantee)



Source: BGK *de minimis* guarantee survey.

Relevance and effectiveness of the aid – limitation of financing gap as a result of “*De minimis* Guarantee Scheme” implementation

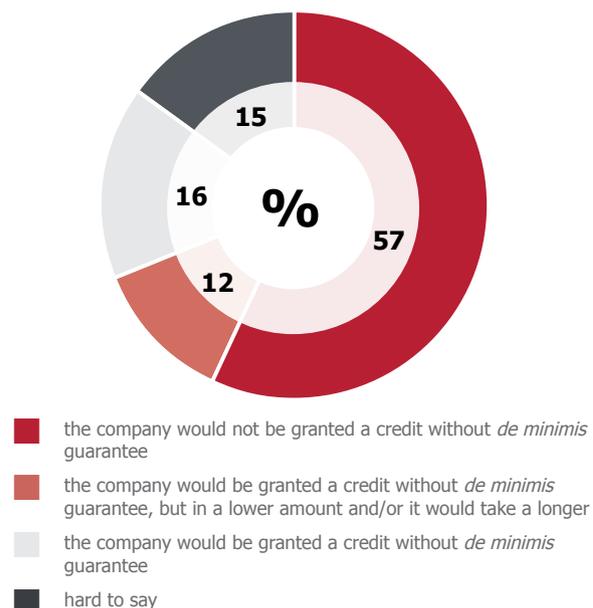
The outcomes of the study confirm the relevance of the Scheme assumptions. In the majority of cases, the Scheme was benefited from by entrepreneurs who would have a very limited access to financing without such a support. In total, the whole surveyed population of entrepreneurs encompassed 69% of entrepreneurs caught in the financing gap, including:

- 57% of the entrepreneurs would not have obtained a working-capital credit without *de minimis* guarantee,
- 12% who would have obtained a credit, but in a lower amount or it would take them more time.

Only 16% of respondents would be awarded a credit in the amount they applied for and subject to the same rules, and in their case we can talk about the occurrence of the so-called “deadweight” effect of the Scheme¹. From among those respondents who decided that they would be granted a credit even without *de minimis* guarantee, more than 1/3 would have to devote more time for the process, which would also mean that their access to financing would be more difficult. On average, time required to obtain a credit would be extended by 4.5 weeks. In the event of companies which would have obtained a credit even without a collateral, but where the guarantee contributed to acceleration of the lending process or to better financial conditions, one should

remember that this also translated to positive effects for the companies and the economy.

Possibility of obtaining a working-capital credit without *de minimis* guarantee



Source: BGK *de minimis* guarantee survey.

In relative terms the greatest problems in access to financing would be faced by the following enterprises:

- micro enterprises (57% would not obtain a credit without the *de minimis* guarantee),
- enterprises conducting an activities for a period from one year

to 4 years (61%) and <4-9 years (59%) – which was connected with the fact that those companies applied for fairly high credits (on average, twice as high as credits applied for by start-ups), while at the same time lacking sufficient hard assets which could serve as a collateral for such a credit.

¹ The deadweight effect means the achievement of the same results (obtainment of the credit applied for) as would be possible to be obtained even without the support offered under the public aid scheme.

On the other hand, least problems in obtaining a credit without the *de minimis* guarantees would be faced by the following enterprises:

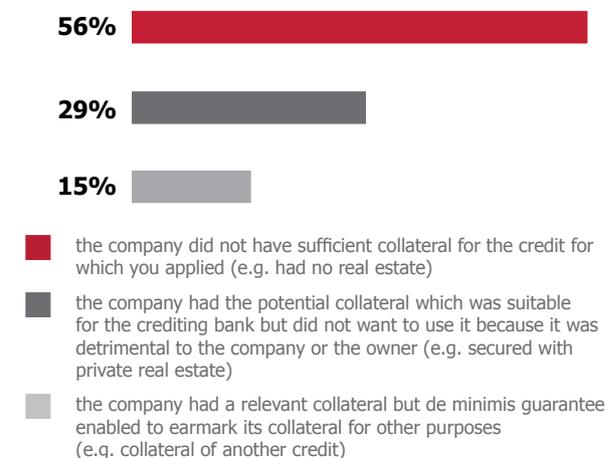
- medium-sized enterprises (42% of them would obtain a credit without a guarantee, and only 12% would not obtain a credit),
- start-ups (51% of them would obtain a credit without a guarantee, and 15% would not obtain a credit) - this is a result which is undoubtedly connected with the lowest average value of credits applied for by the youngest companies.

The fact that the surveyed entrepreneurs found themselves in the financing gap was strongly affected by the local scope of activity of the company (71% of respondents declared this scope of activity, whereas 56% of companies operating at an international or national scope would be granted a credit even without a guarantee). The survey also showed that the companies which applied for more than one credit (both working-capital and investment credits), without *de minimis* guarantee, would more often find themselves caught in the financing gap than companies which obtained only one credit.

Moreover, the study showed that 56% of the surveyed entrepreneurs decided to use the aid in the form of *de minimis* guarantees first and foremost because of a lack of sufficient collateral to secure the credit amount they wished to apply for. Next 29% had a possible collateral available, but considered

it unfavourable for the development of their company or the owner to utilise it. Meanwhile, 15% of the companies covered by the study had a relevant collateral), but utilization of *de minimis* guarantees enabled them to earmark their funds for other purposes, thanks to which they gained an opportunity of intensify their business operations. This observation points to an additional effect of the Scheme as a tool stimulating the development and investments in the company.

Reason for using *de minimis* guarantee



Source: BGK *de minimis* guarantee survey.

This year's results of the study confirm analyses from the previous years indicating that a standardised, simple and commonly accessible tool of support in the SME sector has been designed which, when accurately targeted, has turned out to be the greatest success among the guarantee schemes carried out in Poland so far. The amount parameters of *de minimis* guarantees have been accurately estimated and correctly targeted in terms the needs of entrepreneurs.

- 96% of respondents stated that the maximum amount of PLN 3.5 million fully satisfies their needs,

- 80% of respondents considered the maximum duration of the guarantee to be adequate to their needs (85% in the event of the working-capital credit and 70% of an investment credit).

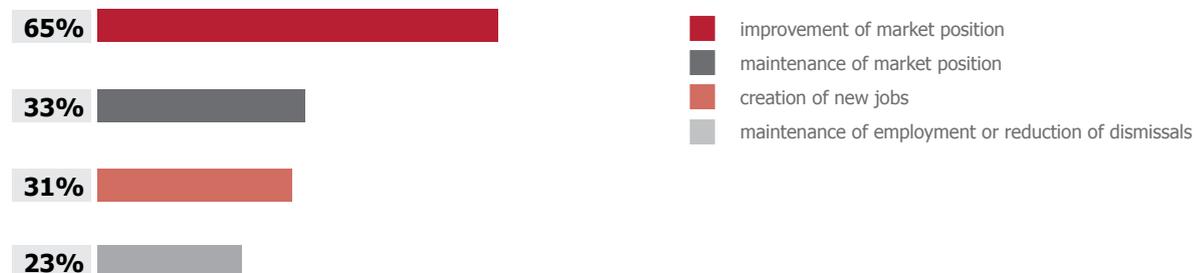
Study results confirmed not only the accuracy of the PLD Scheme, but also a new element – a need, declared by the respondents for regular availability of a tool such as *de minimis* guarantees for the SME sector.

Utility and sustainability of the aid – effect at the enterprise and macro-economic account

The scale of effects obtained thanks to the aid under the Scheme is significant. For the majority of entrepreneurs, the tool helped them to improve their market situation (65%) or at least maintain it (further 31%). In the case of other

companies, their significant part of them (47%) anticipates an improvement of their market situation in the future – the postponement of the effect to a later period was declared mainly by enterprises which contracted an investment credit.

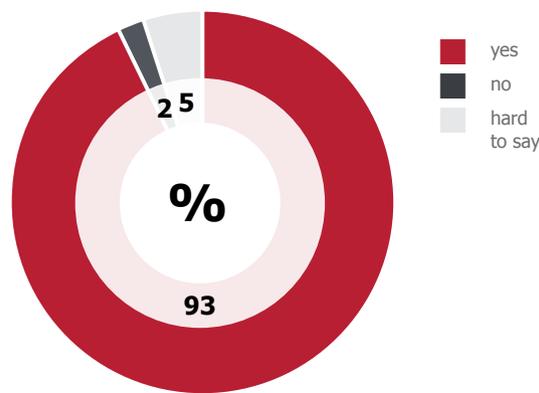
Effects achieved thanks to credit with the *de minimis* guarantee



Source: BGK *de minimis* guarantee survey.

This translated to creation of new jobs, declared by one-third of the respondents. Moreover, nearly one-fourth of surveyed entrepreneurs could, thanks to the obtained financing, maintain the current work places which would have been threatened otherwise. In total, in all the companies covered by the survey, 1299 new jobs were created, and 1359 jobs were maintained. In addition to that, thanks to the credits obtained under the Scheme, 565 jobs will soon be created – in particular the results of investment credits will be observed in the future. Another highly important aspect is such that positive effects connected with an increase of employment are permanent. Almost all entrepreneurs declared that new or maintained jobs will last for more than a year.

Maintenance of new jobs for more than a year



Source: BGK *de minimis* guarantee survey.

In the case of working-capital credits, a credit with a guarantee helped to stabilise the financial situation of the majority of companies. For 81% of companies, this was a permanent improvement, because it helped to eliminate the problem for at least one year. The effects are often difficult to quantify. The financial liquidity and a possibility of operation without standstills not only facilitates the execution of ongoing orders, but also increases the prestige and trust in the company, which translates to its market position in the long-term perspective. This is important, in particular in the case of companies which have been operating on the market for a short period of time.

Moreover, the companies which obtain a working-capital credit with a guarantee of the BGK increased their turnover

and made investments. This confirms that the guarantee is an efficient tool of support for the economy, in particular at the time of economic downturn. Thanks to the Scheme, some enterprises purchased new technologies – not necessarily with the funds available under the credit, but with other funds, released thanks to the credit. At the same time, it is worth noting that thanks to the financing obtained, companies made investments, even if of a different nature – it was a working-capital credit. This is what a half of the respondents did, and further 17% declared that thanks to the credit their situation improved enough to enable them to invest in the near future. For more than 60% of companies, the credit obtained made it possible for them to introduce innovations, usually process or product innovations.

Effects achieved thanks to working-capital credits with the *de minimis* guarantee



companies which would not be granted a credit without the guarantee
 all surveyed companies

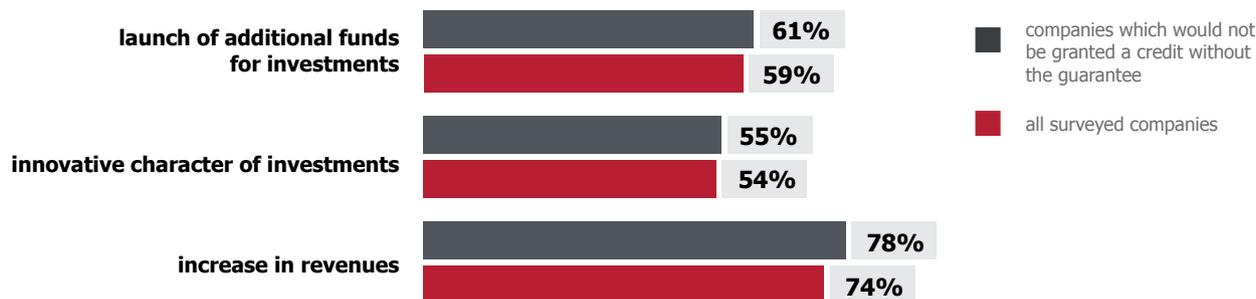
Source: BGK *de minimis* guarantee survey.

In the event of investment credits, the main result of the aid was increase in revenues, particularly noticeable in the group of companies with the shortest history on the market. The financing caused a leverage effect, mobilising some enterprises to launch additional funds from other sources. The funds in consideration originated mainly from their own resources, and, to a lesser extent, from other credits and loans. Such an effect occurred mainly among medium-sized companies. It is also worth noting that more than half of the investments (54%) were innovative. They were mainly

process innovations (64%), less frequently product innovations (39%) or marketing-organizational innovations (15%).

What is valuable is that, according to declarations of the respondents, an additional multiplication effect will be achieved: 18% of companies will make further investments, including 14% of innovative character, and this decision is stimulated by an investment financed from the credit covered by the *de minimis* guarantee.

Effects achieved thanks to investment credits with the *de minimis* guarantee



Source: BGK *de minimis* guarantee survey.

De minimis guarantee scheme, in addition to the effects achieved at the level of individual enterprises, entailed positive changes in the macroeconomic scale, visibly contributing to the market of credits for SMEs. **Thanks to it, PLN 12.3 billion of additional credits appeared in the economy.** To compare, during that period – and it was a period of an economic downturn – a total increase in credits amounted to PLN 19.1 billion. We can estimate that **financing granted thanks to *de minimis* guarantees translated to 54 thousand newly-created and maintained work places** (respectively, 28 thousand and 26 thousand). Taking into account the fact that during the same period employment in the sector of enterprises increased by

91 thousand persons, we should conclude that the Scheme had a noticeable positive influence on the labour market.

Entrepreneurs from the SME sector who used the Scheme and who agreed to share their observations on it, declared that the Scheme is a valuable tool which gives a sense of real, functional support from the State. According to their suggestions, it should be available on a regular basis, especially that, in particular on the case of the smallest companies and companies operating for the shortest period of time on the market, it was often used as a means of coping with recurring problems with liquidity or as a regular tool of managing the liquidity of the enterprise.



**Bank
Gospodarstwa
Krajowego**
Research
and Analyses
Bureau of BGK

www.bgk.pl

analizy@bgk.pl
tel.: +48 22 599 8243