

Poland's Financial Shield Provides Support to Businesses

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Original post [here](#).

In response to the COVID-19 pandemic, on March 31, the Polish government [announced](#) its “Anti-Crisis Shield,” which includes the “Financial Shield” to support microenterprises, small and medium-sized enterprises, and large companies. The Financial Shield has PLN 100 billion (USD 24.8 billion or approximately 4.5% of 2019 GDP) in total funding. The Polish Development Fund (PFR), a state-owned financial group, is responsible for the administration of the Financial Shield.

As of [June 1](#), more than 222,000 companies (both microenterprises and SMES) with 2.1 million employees benefited from the Financial Shield, and the PFR has paid out more than PLN 42 billion (USD 10.7 billion). Support to microenterprises and SMEs is in the form of a repayable advance with partial forgiveness.

Support to large companies will be in the form of liquidity financing, preferential financing, or equity financing. The European Commission (EC) approved the liquidity financing component of the Financial Shield targeting large companies on [May 26](#). The equity and preferential financing components are under EC review and awaiting approval. After receiving approval, the PFR will begin administering the support measures for large companies.

Financial Shield for Microenterprises and SMEs

[Support to microenterprises and SMEs](#) will be in the form of repayable advances, which are similar to forgivable loans. These advances carry the possibility of redemption (forgiveness) of up to 75% after 12 months, contingent upon the firm maintaining employment and business operations. Eligible microenterprises have 1 to 9 employees and eligible SMEs have 10 to 249 employees. These firms must have been in operation as of December 31, 2019.

Under the Financial Shield, PLN 25 billion (USD 6.2 billion) is allocated for repayable advances to microenterprises, and PLN 50 billion is allocated for repayable advances to SMEs. To be eligible, firms must report a revenue decline of at least 25% compared to the same month of 2019. The scheme explicitly requires beneficiaries to have a tax residence in the European Economic Area, and firms cannot have a tax residence in a “tax haven” as defined by the EU. [Funds granted](#) to firms under the measure are not taxable.

On April 27, the [European Commission approved](#) the Financial Shield measures for microenterprises and SMEs. The PFR began accepting applications from eligible firms on April 29. Repayable advances to microenterprises and SMEs are channeled through commercial banks, but banks cannot charge fees or commissions to beneficiaries or to the PFR. Commercial banks are not responsible for the lending decisions or eligibility conditions, as the PFR carries those responsibilities. Participation in the program is voluntary, and more than 15 banks have registered.

Aid to microenterprises and SMEs can be granted through July 31; the government may extend the scheme through December 31. Funds are granted to firms based on the order in which applications are received.

Microenterprise Advance Size and Forgiveness

The amount of the advance for a microenterprise is determined by the amount of revenue lost and the number of employees. The amount per employee ranges from PLN 12,000 to PLN 36,000, depending on the revenue lost, and advances are capped at PLN 324,000 per firm.

The amount a firm is required to repay is dependent on its continued operations and employee retention. A firm will be required to fully repay the advance if it suspends business activity, begins a restructuring process, or undergoes liquidation. If the firm maintains the business activity over the 12 months following the advance, it will be required to repay the first 25% of the advance. The remaining 75% of the advance can be forgiven based on the number of employees maintained; firms that maintain full employment will be forgiven the full 75%.

SME Advance Size and Forgiveness

The size of the repayable advance for an SME is determined by the firm's revenue in 2019 and its revenue decline. The advance size, which is dependent on the scale of the revenue decline, ranges from 4% to 8% of 2019 revenue. The maximum advance amount, regardless of the revenue lost, is PLN 3.5 million.

Similar to the scheme for microenterprises, an SME will be required to fully repay the advance if it suspends business activities, liquidates, or begins restructuring activities. All other SMEs will be required to repay the first 25% of the advance. The next 25% will be decreased by the total cash loss during the year after the advance was received. Thus, if the cash loss exceeds 25% of the size of the advance, the SME will not be required to repay the next 25% of the advance. The remaining 50% of the advance will be forgiven based on employee retention; firms that maintain the same employment numbers will be forgiven the full 50%.

Financial Shield for Large Corporations

[Support for large corporations](#) can be through liquidity financing, preferential lending, or equity financing. The government has allocated PLN 25 billion in total funding to support larger corporations, with PLN 10 billion for liquidity financing and PLN 7.5 billion each for preferential financing and equity financing.

	Liquidity Financing	Preferential Financing	Equity Financing
Total Funding	PLN 10 billion	PLN 7.5 billion	PLN 7.5 billion
Instruments	Loans, bonds, purchase of receivables, or warranties	Partially forgivable loans (up to 75%)	Shares, subscription warrants, or convertible loans
Maturity	2 years with option to extend for 1 year	3 years with option to extend for 1 year	N/A
Maximum Amount per Firm	PLN 1 billion	PLN 750 million	Capped at either 50% of shares or the amount of loss due to COVID-19

The liquidity financing instruments contain a “cash sweep” mechanism to accelerate repayments if the company’s financial situation improves.

Firms receiving preferential financing are prohibited from using the funds to make payments to the owner or acquire shares. Additionally, firms cannot use the funds for mergers or acquisitions, or for the refinancing or early repayment of existing debt.

The measures are available to firms with at least 250 employees, turnover of at least EUR 50 million (USD 55 million), or a consolidated balance sheet of at least EUR 43 million. However, the government has also established criteria to allow some SMEs to participate in the scheme. Eligible SMEs have at least 150 employees and annual turnover of at least EUR 100 million. To participate, SMEs must either be in a specific sector affected by COVID-19, such as medicine or personal protective equipment production; or project a funding gap that exceeds PLN 3.5 million.

Beyond size criteria, large companies must either operate in a specific industry or meet at least one criteria related to inability to operate or access financing, revenue decline, or nonreceipt of payments. Similar to the support to microenterprises and SMEs, eligible companies must have a residence in the European Economic Area and cannot be registered in a “tax haven.”

The PFR is accepting initial applications from eligible companies prior to EC approval of all three financing options. After receiving a decision from the EC, the PFR will begin operations.