

Chapter 6

Loan Funds – an Alternative and Complementary Source of Capital for Enterprises

Introduction

It seems that entrepreneurs conducting business activity have a wide range of available capital sources. Starting from bank loans, issuance of shares and bonds, and ending with the modern financing forms, such as crowdfunding or business angels. Unfortunately, practice and reality verify it and many businesses are not eligible to take advantage of any commonly occurring capital sources. The reasons behind this are primarily poor financial performance, having negative equity, or conducting activities that are not promising in regard to maintaining, or increasing sales revenue, not to mention the extremely high competition in many sectors and industries. It all results in a limited access to capital for a significant proportion of companies, despite exceptionally low interest rates on the financial market. Hence the loan funds¹ gain on importance in corporate finance. The purpose of the following study is to answer the question whether the loan funds are actively involved in providing capital for economic operators and whether they are an important alternative to raising funds from traditional sources, such as the banks.

6.1. The Essence of Loan Funds

The Civil Code defines a loan agreement as follows: *“through the loan agreement the loan provider obliges himself to transfer the ownership of a certain amount of*

¹ The role of guarantee funds also increase, however, in this study one will focus on the loan funds.

money or things marked only as to the type, to the loan beneficiary, who agrees to return the same amount of money, or the same amount of goods of the same type and the same quality”². Additionally, if the amount of the loan exceeds the value of five hundred PLN, the loan agreement should be prepared in writing, and the lender can withdraw from the loan agreement, if its return is doubtful due to the poor financial status of the borrower. Importantly, such a right does not apply in situation when the lender knew (or could easily obtain this information), and accepted the bad financial condition of the borrower. The Civil Code does not specify in detail lending, apart from defining two terms³:

- the borrower's claim for an object of the loan expires after six months from the date when the object was to be released,
- if the term of the loan repayment is not marked, the borrower is obliged to reimburse the loan within six weeks after termination by the lender.

Despite the lack of specific regulations on lending (in this case those for business purposes), in Poland there are the providers of such services, among which an important place is occupied by loan funds.

According to the accepted nomenclature loan fund is a separate fund in accounting terms, whose main task is to grant loans to micro-enterprises, small and medium-sized enterprises, or entities starting the business⁴. In addition, the fund may grant loans to non-governmental organisations⁵ and other entities (e.g. associations of local governments, sports clubs, social co-operatives)⁶ for purposes related to their business activity, as well as paid and unpaid activities of public benefit⁷. It should be reiterated that the loan funds in Poland (just as well as guarantee funds) operate under the general law (primarily based on the Civil Code and the Commercial Code).

The essence of the activity of loan funds is to provide entrepreneurs with funds for their projects in the field beyond their own capabilities, including those concerning the use of other available sources. It makes capital available to the

² Art. 720 §1 of the Civil Code. The Act of 23 April 1964 (Journal of Laws of 1964, no. 16, item 93, as amended).

³ Art. 722 and 723, Civil Code, *op. cit.*

⁴ *Standardy funduszu pożyczkowego i usługi finansowej (polegającej na udzielaniu pożyczki) Krajowego Systemu Usług dla Małych i Średnich Przedsiębiorstw (KSU)*, Polish Agency for Enterprise Development, Warsaw 2011, p. 2.

⁵ Art. 3 par. 2 of the Act of 24 April 2003 on Public Benefit and Volunteer Work (Journal of Laws, no. 96, item 873 as amended).

⁶ *Ibidem*, art. 3 par. 3.

⁷ *Ibidem*, art. 6–7.

companies and its optimal structure can be shaped⁸. The question appears of why businesses, especially small and medium-sized ones, do not choose to use only bank loans. The answer is the assessment of the effectiveness of lending by banks, which can be evaluated in one of two main perspectives⁹:

- social, and thus whether the financing of companies can increase the number of jobs and prosperity,
- legal and, therefore, whether the activity of banks, which relies on corporate financing allows one to increase the assets of the bank's owners.

These perspectives indicate that banks are guided primarily by their own business interest. Therefore, in situations where the given entity does not meet the conditions for granting the loan, it will not be granted. This problem is particularly evident during the occurrence of the economic crisis, which can run some vicious circle¹⁰. Banks limit the funding of enterprises' economic activities leading companies to limit their activities, which in turn leads to a significant reduction of production and income in the economy. In the situation, however, when production and income are declining rapidly, it decreases profits and part of companies is forced to declare bankruptcy¹¹. Then, a growing number of bankrupt companies is deteriorating balance sheet of the banks, so the banks further restrict lending, thereby increasing decline in economic activity.

In such a situation, therefore, appears ground for loan funds and the more so that in practice they are not subject to any special supervision¹². As of the year 2011, 53% of loan funds were operating in the framework of *Krajowy System Usług dla Małych i Średnich Przedsiębiorstw* – KSU (National System of Services for Small and Medium Enterprises)¹³. In addition, in Poland, some loan funds are affiliated to the *Polskie Stowarzyszenie Funduszy Pożyczkowych* (Polish Association of Loan Funds). This organisation performs primarily lobbying functions, publishing the results of operations of the funds, leads the exchange of good practices between the funds, or prepares periodic reports on the functioning of the funds.

⁸ M. Strużycki, *Zarządzanie przedsiębiorstwem*, Difin, Warsaw 2004, p. 135.

⁹ G. Rytelewska, *Bankowość detaliczna. Potrzeby, szanse i zagrożenia*, PWE, Warsaw 2005, p. 221.

¹⁰ J.E. Stiglitz, *Globalizacja*, PWN, Warsaw 2004, p. 111.

¹¹ P. Dec, *Statistics bankrupt companies in Poland and in the world – the spectre of last global economic crisis*, "Global Journal of Advanced Research" 2015, vol. 2, Issue 1, pp. 287–295.

¹² *Kierunki rozwoju funduszy pożyczkowych i poręczeniowych dla małych i średnich przedsiębiorstw w latach 2009–2013*, Ministry of Economy, March 2011, www.mg.gov.pl, p. 6.

¹³ The development of entrepreneurship by providing the highest quality services in key areas requiring state support is the main task of the National System of Services for Small and Medium Enterprises.

In Poland, the institution responsible for the executive and operational level for the construction of a system of loan funds is the *Polska Agencja Rozwoju Przedsiębiorczości* – PARP (Polish Agency for Enterprise Development). For this purpose, it has to work closely with the national community of loan funds. The main objective of the organisation of system of loan funds is to further improve access (especially for micro and small enterprises) to external financing sources and to create a system that is both recognisable among the society, and operates in accordance with generally applicable and acceptable standards.

The main objectives of the loan funds' system development are¹⁴:

- providing better access to financing, especially for micro-enterprises, start-ups and businesses still in the development stage,
- development and implementation of standards for the operation of loan funds,
- creation and implementation of a monitoring system,
- ensuring the supervision of the use of public funds,
- encouraging local governments to support the funds included in the system,
- development and implementation of the verification system, and improving skills of funds' employees.

Economic entities providing services under the loan funds must meet strict conditions. Among them are¹⁵:

- conducting lending activities exclusively for the benefit of micro, small and medium enterprises, public benefit institutions, charitable and social economy institutions,
- using no more than 5% of annual loans value directly from fund's capital to cover the costs of managing the loan fund,
- allocating profits to the statutory objectives related to the development of entrepreneurship, while maintaining an adequate level of capital,
- capital management including security of deposits, or equity investments; the capital should be invested in safe and liquid financial instruments, i.e. treasury bonds, securities issued by the NBP and bank deposits, or in shares of money market funds¹⁶ and municipal bonds with issuance guarantee granted by the bank organising the issuance,
- having implemented organisational standard and lending standard approved within the system, as well as acting under the lending activities rules,

¹⁴ *Kierunki rozwoju funduszy pożyczkowych...*, op. cit., p. 10.

¹⁵ *Ibidem*, p.11.

¹⁶ Operating under the Act of 27.05.2004 on Investment Funds (Journal of Laws, no. 146, item 1546).

- keeping records of loans, enabling the preparation of periodic (monthly, quarterly and annual) reports on the current value of the loans,
- defining the territory of their activities.

In addition, requirements for the same loans are very important. According to them loans should:

- bear interest similar to the market, or consistent with state aid rules,
- be granted only after the risk analysis of the entrepreneur on the basis of implemented and widely accepted methodology for determining risk factor,
- granted only for remuneration,
- granted for the entrepreneurs who are not in a difficult economic situation¹⁷.

Here, it seems reasonable to determine the reasons for the attractiveness of loan funds among entrepreneurs. The main factors identified by small and medium businesses, that are responsible for the attractiveness of loan funds' offer are¹⁸:

- the interest rate – the annual real interest rate (25.0% of responses),
- small requirements for collateral (20.19%),
- additional costs (17.31%),
- clear procedures (14.42%),
- repayment terms (12.50%),
- waiting period for loan (7.69%),
- no need to declare loan purpose (2.88%).

Therefore, the interest rate of the granted loan remains in the first place. What is important, no need to declare a purpose doesn't determine its popularity. It can be concluded that the business entities operating in Poland have already been accustomed to a certain transparency of their actions.

6.2. Loan Fund's Standards

In Poland, one introduced, as part of the Krajowy System Usług dla Małych i Średnich Przedsiębiorstw, standards for the loan fund and financial service consisting of granting loans. Economic operators that plan to provide financial service, which consists of lending, should primarily be registered in the Krajowy

¹⁷ As understood by the Community guidelines on state aid for rescuing and restructuring firms in difficulty (Official Journal of the EU C 244 from 1.10.2004).

¹⁸ M. Pytkowska, *Mikrofinansowe instytucje niebankowe a luka przedsiębiorstw w Polsce*, Warsaw School of Economics, Warsaw 2013, unpublished material, after: *Rynek funduszy pożyczkowych w Polsce, Raport 2012*, Polish Association of Loan Funds, Warsaw 2013, p. 24.

System Usług dla Małych i Średnich Przedsiębiorstw run by PARP¹⁹. Moreover, these entities are required to meet a number of requirements in terms of technical and economic potential. They are shown in the table below.

Table 1. Economic and Technical Requirements for Loan Providers

Technical potential	Economic potential
<ul style="list-style-type: none"> – having a permanent place of business on the territory of the country, – having a separate office designed to conduct individual meetings with entities that use the services, – possession of office equipment ensuring proper storage of documents related to the provision of services, – owning infrastructure and technical equipment ensuring proper service to the clients and communication with these entities and other entities registered in the KСУ, – employment under a work agreement of at least two people, – ensuring granting loans by at least two specialists with: <ul style="list-style-type: none"> • in the case of fund management: higher education (finance, economics, law, banking or organisation and management), or having completed postgraduate studies, or trainings in this field and having at least two years experience in the loan or guarantee fund, optionally at a financial institution in the meaning of the Act on Investment Funds, as at least a specialist or an equivalent. • in the case of consultants: meeting the requirements of education specified for fund managers, or having at least secondary economical education, and at least one year of professional experience in the field of services provided by the loan or guarantee funds, or in financial institutions within the meaning of the Act on Investment Funds, or have at least secondary education, and at least three years of professional experience in the financial services carried out by the loan or guarantee funds or in financial institutions within the meaning of the Act on Investment Funds – keeping records of the services and borrowers, – having a contract/agreement on cooperation with the PARP, – possession of the Rules of lending activities set up by the governing body of the fund and at least annual plan of lending activities, – keeping records of applications for loans and loans granted, enabling preparing monthly, semi-annual and annual reports on the current value of granted loans, – having a specific written rules for managing the funds of the loan fund, permitting making deposits and capital investments only in bank deposits, treasury bonds or municipal bonds with a guaranteed issuance by the bank organising the issuance, securities issued by the NBP, shares of money market funds. 	<ul style="list-style-type: none"> – the achievement in the previous fiscal year net revenue from the financial services involving the lending of at least 50 thousand PLN, – loan fund should have a capital of at least 500 000 PLN, – covering the costs of the loan fund from its revenues in the form of contractual interest, statutory interest, commissions, funds obtained from deposits and equity investments, – allocating no more than 5% of annual loans' value directly from fund's capital to cover the costs of managing the loan fund, but only if the revenues of the fund are not sufficient to cover the costs of its management.

Source: own study based on *Standardy funduszu pożyczkowego i usługi finansowej (polegającej na udzielaniu pożyczki)* National System of Services for Small and Medium Enterprises (KСУ), Agency for Enterprise Development, Warsaw 2011, pp. 2–3.

¹⁹ Regulation of the Minister of Economy of 24 May 2011 on National System of Services for Small and Medium Enterprises (Journal of Laws, no. 112, item. 656).

As one can see from the above table, there are far more restrictions and requirements concerning the technical rather than economic potential. The second one misses the indication of the capital sources, from which the loan fund was established. Entity granting loans should also have a quality management system compliant with the requirements of PN-EN ISO 9001, which would regulate issues such as²⁰:

- the description of the first contact with the entity receiving services,
- the way to share information about other entities providing KSU services,
- the procedure for storing data of entities using the services, and of carried out services (so as to ensure the confidentiality of information and protection of personal data),
- the principles of cooperation between the centres within the active participation in the activities undertaken by or on behalf of KSU, development and implementation of a common promotional strategy for KSU,
- the principles on guiding the services users to other KSU centres,
- the form of reporting for the needs of the PARP (i.e. providing information on meeting requirements of technical capacity, human resources, implemented quality management system and compliance with professional ethics and standards of provided services to the date of 31 January each year, and providing information on meeting the economic potential requirements to the date of 31 March each year).

Requirements relating to compliance with professional ethics are very important. They include key issues such as²¹:

- conducting activities in accordance with applicable laws,
- compliance with the rules of free and fair competition and equal treatment of all market players,
- ensuring the correctness and clarity of the wording in the concluded agreements,
- the provision of services with due caution, and in the absence of the necessary knowledge, or experience directing customers to another facility that has such the knowledge and experience,
- ensuring the confidentiality of obtained information in connection with the provision of services,
- preserving special care in formulating the charges against other entities,

²⁰ *Standardy funduszu pożyczkowego...*, op. cit., pp. 3–4.

²¹ *Ibidem*, p. 4.

- striving for amicable settlement of disputes,
- ensuring delivery of services only by qualified staff and striving for continuous improvement of qualifications.

In addition, companies providing financial services consisting in granting loans should²²:

- precede implementation of services by a preliminary analysis of the needs, requirements and expectations of the recipient, as well as the assessment of the feasibility of the service,
- inform the recipient, when they are not able to execute the service, about the possibility of its implementation by other KSU facility, or with the consent of the recipient, to mediate in establishing contact between the recipient and another KSU facility,
- have a lending costing methodology with clear rules, which are known to the potential recipient,
- document the implementation of the service,
- ensure internal supervision over the implementation of the service,
- implement the service on the basis of a written agreement with the recipient, which specifies in particular the conditions for granting and repayment of the loan,
- store documents connected with the ongoing services and concluded contracts, information about borrowers directed to other KSU centres for a period of 5 years from the date of, respectively: provision of the service, signing a contract, or directing the recipient to another KSU,
- comply with the requirements of the regulations established by the governing body, including:
 - the eligibility criteria of entrepreneurs and companies as potential clients of the loan fund,
 - the scope of the use of loans (excluding consumer purchases),
 - the minimum size of the own contribution of the applicant for a loan,
 - the maximum value of the loan expressed as a fixed amount,
 - the maximum value of the involvement of the fund's capital in loans to one borrower and related parties within the meaning of the Accounting Act, not exceeding 10% of the loan fund's capital,
 - the interest rate and the maximum repayment term of the loan,
 - the grace period on repayment of principal, or interest,

²² Ibidem.

- the types of accepted collateral (the loan repayment is secured at least with a blank promissory note with a blank promissory note agreement),
- the principles of payment for granted loans, if such fees are required,
- the application method and date of examination of an application for a loan,
- the way of loan disbursement,
- reporting obligations of the borrower and the rules for monitoring the loan,
- the way of decision-making on granting a loan.

According to the assumption, each loan fund should be audited at specific and regular intervals, in terms of meeting all of the above standards.

6.3. The Development of Loan Funds in Poland

In Poland, both the network of loan and guarantee funds has been developing continuously since the early nineties. These funds operate in different legal forms, and also have different capital and scope of business. The loan and guarantee funds' capital comes mainly from two sources: private and public, while the recapitalisation of funds from the public sources came mainly from the *Sektorowy Program Operacyjny Wzrost Konkurencyjności Przedsiębiorstw* – SPO WKP (Sectoral Operational Programme Improvement of the Competitiveness of Enterprises), the Regional Operational Programmes, JEREMIE initiative and Bank Gospodarstwa Krajowego (See table 2).

Loan funds, or institutions providing lending services, operating in Poland include, among others: Agencja Rozwoju Regionalnego “AGROREG” S.A., Fundacja “Wałbrzych 2000”, Fundusz Regionu Wałbrzyskiego, Karkonoska Agencja Rozwoju Regionalnego S.A., Kujawsko-Pomorski Fundusz Pożyczkowy sp. z o.o., Biłgorajska Agencja Rozwoju Regionalnego S.A., Fundacja “Puławskie Centrum Przedsiębiorczości”, Agencja Rozwoju Regionalnego S.A., Stowarzyszenie Wspierania Małej Przedsiębiorczości with headquarters in Dobiegniewie, Fundacja Inkubator, Fundacja Rozwoju Gminy Żelów, Łódzka Agencja Rozwoju Regionalnego S.A., Fundacja Rozwoju Regionu Rabka, Małopolska Agencja Rozwoju Regionalnego, Stowarzyszenie “Samorządowe Centrum Przedsiębiorczości i Rozwoju”, Fundacja na Rzecz Rozwoju Polskiego Rolnictwa, Stowarzyszenie “Radomskie Centrum Przedsiębiorczości”, Stowarzyszenie Rozwoju Przedsiębiorczości i Inicjatyw Lokalnych, Fundacja Rozwoju Śląska oraz Wspierania Inicjatyw Lokalnych, Agencja Rozwoju Regionalnego MARR S.A., Leżajskie Stowarzyszenie Rozwoju, Regionalna Izba Gospodarcza, Rzeszowska Agencja Rozwoju

Regionalnego S.A., Agencja Rozwoju Regionalnego "ARES" S.A., Fundacja Rozwoju Przedsiębiorczości, Słupskie Stowarzyszenie Innowacji Gospodarczych i Przedsiębiorczości, Agencja Rozwoju Lokalnego Spółka Akcyjna, Agencja Rozwoju Przedsiębiorczości S.A., Fundusz Górnośląski S.A., Górnośląska Agencja Przekształceń Przedsiębiorstw S.A., Górnośląska Agencja Rozwoju Regionalnego S.A., Rudzka Agencja Rozwoju Inwestor Sp. z o.o., Stowarzyszenie Bielskie Centrum Przedsiębiorczości, Fundacja Rozwoju Regionu Pierzchnica, Koneckie Stowarzyszenie Wspierana Przedsiębiorczości, Ośrodek Promowania i Wspierania Przedsiębiorczości Rolnej, Działdowska Agencja Rozwoju S.A., Fundacja Rozwoju Regionu Łukta, Fundacja Wspierania Przedsiębiorczości Regionalnej, Nidzicka Fundacja Rozwoju NIDA, Stowarzyszenie "Centrum Rozwoju Ekonomicznego Pasłęka", Warmińsko-Mazurska Agencja Rozwoju Regionalnego S.A. in Olsztyn, Fundacja Kaliski Inkubator Przedsiębiorczości in Kalisz, Stowarzyszenie Ostrowskie Centrum Wspierania Przedsiębiorczości, Stowarzyszenie "Ostrzeszowskie Centrum Przedsiębiorczości", Wielkopolska Agencja Rozwoju Przedsiębiorczości Spółka z o.o., Polska Fundacja Przedsiębiorczości.

Table 2. Structure of Lending Capital According to Its Sources

Position	Amount of lending capital in million PLN at the end of the year					Structure of capital (in %)				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Grants from local government	42.5	44.9	46.1	58.7	66.6	7.6	6.3	5.6	6.2	6.8
Aid from state budget	116.2	124.3	123.5	132.9	136.5	20.8	17.4	15.0	14.0	14.0
Funds received under SPO WKP	57.4	180.8	296.7	341.3	341.3	10.3	25.3	36.0	36.1	34.9
Private funds and/or foreign resources	81.5	89.1	87.1	74.1	84.9	14.6	12.5	10.6	7.8	8.7
Credits/loans	10.1	22.4	32.8	78.4	79.0	1.8	3.1	4.0	8.3	8.1
Own resources (originating from the owner of the fund or from fund's income)	175.6	199.4	202.3	233.0	250.0	31.5	27.9	24.6	24.6	25.6
Other	74.8	53.1	34.6	28.2	19.8	13.4	7.4	4.2	3	2.0
Total	558.2	714.1	823.2	946.5	978.0	100.0	100	100.0	100	100.0

* for 2009 data for the first half of a year

Source: *Fundusze pożyczkowe w Polsce, Raport nr 12*, Polskie Stowarzyszenie Funduszy Pożyczkowych, 2009, p. 12.

As one can see from the above review, entities providing loans included both agencies, foundations, associations and commercial companies.

By mid – 2008, there were 66 institutions operating 72 loan funds, having at their disposal 888.5 million PLN²³. The number of granted loans, since 1992 has amounted to 162.5 thousand, while their total value was almost 2 636.9 million PLN (see Table 3). Loans for investment purposes dominated in the mentioned period as a whole (approx. 66% both in terms of value and quantity). Loans intended for commercial activities accounted for 47.2% in terms of volume and 37.2% in terms of value, while ones intended for provision of services purposes accounted for respectively 40.7% and 38.3%. Most loans were granted in the amount of not more than 10 000 PLN (66% in terms of volume and 25% in terms of value). Micro enterprises were definite leaders in the use of this type of support (respectively 96.2% and 85.4%). What is interesting in the first half of 2008, the average loss ratio (i.e. the ratio of the value of lost loans to the total value of the granted loans) was estimated at 1.29% (1.36% on 31.12.2007). Thanks to the activity of loan funds one has created since that period 54.6 thousand jobs, with 7.7 thousand jobs generated by the entrepreneurs receiving loans from the SPO WKP. A significant increase in the share of the funds from the above mentioned programme in the structure of funds' capital should be emphasised – 57.4 million PLN (a share of 10.3%) at the end of 2005 and 324.3 million PLN (36.5%) at the end of 2008. It is important that the loan funds obtaining public funding are not operating for profit, and transmit it to the statutory objectives while maintaining its operations.

Table 3. Characteristics of Key Data as of 30.06.2008

Position	Unit	Amount on		Dynamics (in %)
		31.12.2007	30.06.2008	
Lending capital	million PLN	823.2	888.5	107.9
Number of granted loans	thousand	152.1	162.5	106.8
Value of granted loans	million PLN	2391.3	2636.9	110.3
Average loan's value	thousand PLN	15.7	16.2	103.2

Source: *Raport nr 10/2008 Fundusze pożyczkowe w Polsce wspierające mikro, małe i średnie przedsiębiorstwa, wg stanu na 30 czerwca 2008r.*, Polskie Stowarzyszenie Funduszy Pożyczkowych, Szczecin, October 2008, p. 7.

As a consequence of the floods in 2010 in Poland, loan funds were given the task of granting preferential loans to entrepreneurs who have suffered in its result²⁴.

²³ *Kierunki rozwoju funduszy pożyczkowych...*, op. cit.

²⁴ The Act of 12 August 2010 on supporting businesses affected by the floods of 2010 (Journal of Laws, no. 148, item 992).

According to the reporting documents, Ministry of Economy has selected ten loan funds that have accepted 977 loan applications and then signed 866 contracts for the financing of projects. In 2010 the total amount of granted loans amounted to nearly 36 million PLN, and the average size of a loan was more than 40 thousand PLN. In that period, the loan funds have shown a high efficiency of operation, because they disbursed loans very efficiently and quickly to companies in need. As a result, they contributed to the improvement of their economic situation.

As of the end of 2011 there were 71 loan funds in Poland (i.e., a decrease of one fund in comparison to 2008)²⁵. 45 funds from the above number were affiliated in the *Polski Związek Funduszy Pożyczkowych* (in the middle of 2015 it was already 50), while 44 funds were registered in the *Krajowy System Usług*. In addition, a cooperation agreement with PARP has been signed by 40 loan funds (33 of those registered in the KSU). According to the *Polski Związek Funduszy Pożyczkowych*, loans funds granted 8 781 loans in 2011 with a total value of 580 million PLN. In 2007–2013, funds provided from the Regional Operational Programmes were the main source of recapitalisation of loan funds. At the same time loan funds could have applied for non-capital support under the “Human Capital” Operational Programme²⁶.

Loan capital of loan funds involved in the study of the *Polski Związek Funduszy Pożyczkowych*²⁷ totalled in 2013 to 2 166.71 million PLN (Table 4)²⁸.

Table 4. Combined Loan Capital of Loan Funds and Its Change Dynamics in the Years 2005–2013

Position	2005	2006	2007	2008	2009	2010	2011	2012	2013
Loan capital (million PLN)	558.2	714.1	823.2	946.4	960.8	1 614.9	1 674.6	1 983.1	2 166.7
Dynamics (in %)	–	127.9	115.3	114.9	101.5	168.1	103.7	118.4	109.3

Source: *Rynek Funduszy Pożyczkowych w Polsce, Raport 2012*, Polski Związek Funduszy Pożyczkowych, Warsaw 2013, p. 21; *Rynek Funduszy Pożyczkowych w Polsce, Raport 2013*, Polski Związek Funduszy Pożyczkowych, Warsaw 2014, p. 7.

²⁵ *Sprawozdanie roczne z realizacji kierunków rozwoju funduszy pożyczkowych i poręczeniowych dla małych i średnich przedsiębiorstw w latach 2009–2013, za okres 1 stycznia – 31 grudnia 2011r.*, Ministry of Economy, Warsaw, August 2012, p. 6.

²⁶ <http://www.pzfp.pl>, accessed: 28.05.2015.

²⁷ It should be noted that the study involved 84% of the funds.

²⁸ The authors of the mentioned study estimated that in 2013 the total loan capital of all funds amounted to 2 579.4 million PLN.

An especially noticeable increase in loan funds' capital is visible in 2010, when these entities have been offered a substantive recapitalisation from the European funds (it amounted to an increase of more than 654 million PLN). Indeed, in 2009–2013, a process of recapitalisation of loan funds from the Regional Operational Programmes took place²⁹. Province Marshals were responsible for these actions. The budget of 16 Regional Operational Programmes for the years 2007–2013, prepared amount of nearly 655 million EUR, among other, for financing loan and guarantee funds³⁰.

In the Dolnośląskie province following entities were recapitalised (total of 29.5 million PLN):

- Polska Fundacja Przedsiębiorczości – amount of support – 10 million PLN,
- Agencja Rozwoju Regionalnego “AGROREG” S.A. – 8 million PLN,
- Fundusz Regionu Wałbrzyskiego – 10 million PLN,
- Sudeckie Stowarzyszenie Inicjatyw Gospodarczych – 1.5 million PLN.

In the Łódzkie province only the Łódzka Agencja Rozwoju Regionalnego Sp. z o.o. was recommended for funding in 2010 with the amount of support of 20 million PLN.

In the Lubelskie province one recapitalised following funds, which granted thanks to that 217 loans totalling 14.2 million PLN:

- Biłgorajska Agencja Rozwoju Regionalnego S.A. – 43 loans, 1.9 million PLN,
- Polska Fundacja Wspomagania Rozwoju Gospodarczego “OIC Poland” – 13 loans totaling 0.7 million PLN,
- Fundacja Puławskie Centrum Przedsiębiorczości – 15 loans in the amount of 0.4 million PLN,
- Lubelska Fundacja Rozwoju – 146 loans, 11.2 million PLN.

In Lubuskie province one recapitalised Lubuski Fundusz Pożyczkowy with the amount of 4.1 million PLN, which enabled to grant 26 loans.

In turn, in the Małopolskie province support to loan funds in 2010 amounted to more than 25.7 million PLN. Its beneficiaries were Stowarzyszenie “Samorządowe Centrum Przedsiębiorczości i Rozwoju” in Sucha Beskidzka, Tarnowska Agencja Rozwoju Regionalnego S.A., Fundacja Rozwoju Regionu Rabka, Małopolska Agencja Rozwoju Regionalnego S.A.

²⁹ *Sprawozdanie roczne z realizacji Kierunków rozwoju funduszy pożyczkowych i poręczeniowych dla małych i średnich przedsiębiorstw w latach 2009–2013 za okres 1 stycznia – 31 grudnia 2010r.*, Ministry of Economy, April 2011, pp. 10–17.

³⁰ *Ibidem*, p. 23.

In Mazowieckie province one awarded funding to two funds:

- Fundacja na rzecz Rozwoju Polskiego Rolnictwa – 18.9 million PLN,
- Mazowiecki Regionalny Fundusz Pożyczkowy Sp. z o.o. – 20.0 mln PLN.

Fundacja Rozwoju Śląska oraz Wspierania Inicjatyw Lokalnych received funding in the Opolskie province under the Measure 1.2 “Ensuring access to finance entrepreneurship” in the amount of 20.0 million PLN.

Following loan providers received funding (totalling nearly 63 million PLN) in Podkarpackie province:

- Leżajskie Stowarzyszenie Rozwoju (10.0 million PLN),
- Regionalna Izba Gospodarcza (10.0 million PLN),
- Agencja Rozwoju Regionalnego MARR S.A. (10.0 million PLN),
- Fundacja Wspomagania Wsi (10.0 million PLN),
- Podkarpacka Izba Gospodarcza (2.7 million PLN).

Four entities were recapitalised in Podlaskie province in 2010 in the amount of 61 million PLN. They were:

- Podlaska Fundacja Rozwoju Regionalnego,
- Agencja Rozwoju Regionalnego “Ares” S.A. in Suwałki,
- Fundacja na rzecz Rozwoju Polskiego Rolnictwa,
- Fundacja Rozwoju Przedsiębiorczości in Suwałki.

Support in Pomorskie province included, among others, the following entities:

- Pomorski Fundusz Pożyczkowy Sp. z o.o. (12.3 million PLN),
- Słupskie Stowarzyszenie Innowacji Gospodarczych i Przedsiębiorczości (8.4 million PLN).

Recapitalisation in Śląskie province went to loan funds, such as:

- Fundusz Górnośląski S.A. (40 million PLN),
- Agencja Rozwoju Lokalnego S.A. (20 million PLN),
- Agencja Rozwoju Regionalnego w Częstochowie S.A. (4 million PLN).

In Świętokrzyskie province the support to loan funds amounted to 97 million PLN and was distributed between:

- Fundusz Pożyczkowy Województwa Świętokrzyskiego Sp. z o.o. (51.0 million PLN),
- Fundacja Rozwoju Regionu Pierzchnica (10.0 million PLN),
- Ośrodek Promowania i Wspierania Przedsiębiorczości Rolnej (7.0 million PLN),
- Agencja Rozwoju Regionalnego in Starachowice (1.1 million PLN),
- Koneckie Stowarzyszenie Wspierania Przedsiębiorczości (21.6 million PLN),

Warmińsko-Mazurska Agencja Rozwoju Regionalnego S.A. in Olsztyn from Warmińsko-Mazurskie province received support in 2010 amounting to over

27 million PLN. One recapitalised in Wielkopolskie province (a total amount of 46.0 million PLN) until the end of 2010 the following institutions:

- Wielkopolska Agencja Rozwoju Przedsiębiorczości Sp. z o.o. (35.0 million PLN),
- Fundacja Kaliski Inkubator Przedsiębiorczości (2.0 million PLN),
- Stowarzyszenie Ostrzeszowskie Centrum Wspierania Przedsiębiorczości (2.0 million PLN),
- Polska Fundacja Przedsiębiorczości (2 million PLN),
- Stowarzyszenie Ostrowskie Centrum Wspierania Przedsiębiorczości (2.0 million PLN).

In Zachodniopomorskie province support (40 million PLN) was transferred to:

- Polska Fundacja Przedsiębiorczości (25 million PLN),
- Szczeciński Fundusz Pożyczkowy Sp. z o.o. (5 million PLN),
- Fundacja na Rzecz Rozwoju Polskiego Rolnictwa (10 million PLN).

In 2012, 56% of capitals owned by the equity funds were involved in loans to customers, while in 2011 it was a little less, because this share amounted to 54%³¹. Following causes of such a share's structure were given by the experts:

- necessity to meet the requirements, regulations, and conditions resulting from the agreements with the PARP, Bank Gospodarstwa Krajowego, Ministry of Regional Development (including obliging the loan funds to the spending of the original amount of the grant, or the lack of regulation of the principles of reuse of funds),
- growing credit risk in the last period,
- significant difficulties in obtaining a secure and profitable borrower,
- relatively high operating costs resulting from the granting of loans with low value,
- the complex conditions of competition for funds recapitalisation (including cost limits allocated to fund management – 4% of the value of subsidies on loans for micro and small businesses and 3% of the subsidies on loans covering also the medium-sized enterprises),
- problems and obstacles in the legal and institutional environment of loan funds (mainly: short catalogue of loan's purposes eligibility, the lack of possibility to allocate interest and other fund's revenue for its development, reducing management costs to a minimum, the nature of the operation of the funds as a non-profit organisations).

³¹ *Rynek Funduszy Pożyczkowych w Polsce, Raport 2013*, Polski Związek Funduszy Pożyczkowych, Warsaw 2013, p. 23.

Table 5. Loans From Loan Funds in Poland in 2013

Position	2009	2010	2011	2012	2013
Number of loans	57800	65400	74100	8300	8138
Value of loans (million PLN)	-	-	-	639.1	767.5
Average value of a loan (thousand PLN)	36.70	38.90	66.50	77.0	94.3

Source: *Rynek Funduszy Pożyczkowych w Polsce, Raport 2012*, Polski Związek Funduszy Pożyczkowych, Warsaw 2013, p. 31; *Rynek Funduszy Pożyczkowych w Polsce, Raport 2013*, Polski Związek Funduszy Pożyczkowych, Warsaw 2014, p. 43.

In 2013, one granted more than eight thousand loans, and even though it was less than in the previous year, in terms of value the increase was more than by 20% (Table 5). In addition, in 2013 25% of loans were received by entrepreneurs starting a business, and over 62% by the companies continuing their activities (the remaining 12.5% of the loans have not qualified for any of these groups)³². The huge drop in the number of granted loans was recorded in 2012. Surely, the exhausted funding pool from the EU was its cause. Also the value of the average loan substantially increased by 17.3 thousand in 2013.

Table 6. Loan Funds in Poland in 2013 – Geographical Differentiation

Position	Number of funds	Number of loans	Value of loans	Share in total loan value (in %)	Average loan value
Dolnośląskie province	4	513	41 774 488.07	5.44	8 431.75
Kujawsko-pomorskie province	2	316	22 603 873.89	2.94	71 531.25
Lubelskie province	3	122	5 437 560.00	0.7	47 283.13
Lubuskie province	3	298	13 192 282.69	1.71	44 269.41
Łódzkie province	5	214	28 344 330.00	3.69	132 450.14
Małopolskie province	4	532	34 749 495.00	4.52	65 318.59
Mazowieckie province	8	1908	96 876 468.10	12.62	50 773.83
Opolskie province	2	185	36 308 249.68	4.73	196 260.81
Podkarpackie province	5	458	47 185 275.04	6.14	103 024.61
Podlaskie province	2	122	12 764 800.20	1.66	104 629.51
Pomorskie province	2	577	47 324 936.84	6.16	82 018.95
Śląskie province	7	400	41 764 929.51	5.44	104 412.32
Świętokrzyskie province	4	518	93 899 069.94	12.23	181 272.34

³² Ibidem, p. 36–38.

Position	Number of funds	Number of loans	Value of loans	Share in total loan value (in %)	Average loan value
Warmińsko-mazurskie province	6	328	33 196 237.13	4.32	139 479.98
Wielkopolskie province	5	489	75 611 186.34	9.85	154 624.10
Zachodniopomorskie province	3	1158	136 456 330.00	17.77	117 837.94
Total	65	8138	767 489 512.2	100	94 309.35

Source: *Rynek Funduszy Pożyczkowych w Polsce, Raport 2013*, Polski Związek Funduszy Pożyczkowych, Warsaw 2014, p. 11.

In terms of geographical diversification most of the loans were granted in the Mazowieckie and Zachodniopomorskie provinces (respectively 1980 and 1158), while in terms of value, these two provinces reversed their order (Zachodniopomorskie – 136.5 million PLN, and Mazowieckie nearly 97.0 million PLN). It is worth mentioning a very high proportion of Świętokrzyskie province in the value of loans (nearly 94 million PLN, with the number of 518 loans).

Table 7. Categories of Borrowers by Type of Companies / Institutions in 2013

Position	Amount	Value in PLN
Micro	7152	562 517 993.97
Small	766	153 646 285.54
Medium	139	42 952 637.73
Foundations, associations, cooperatives and other social economy entities	31	3 204 597.48
Other (including public institutions)	50	5 167 997.52

Source: *Rynek Funduszy Pożyczkowych w Polsce, Raport 2013*, Polski Związek Funduszy Pożyczkowych, Warsaw 2014, p. 15.

The table shows that microenterprises (almost 88% of all loans, and 73% in terms of value) and small companies (respectively 9.5% and 20%) were the main beneficiaries of loan funds in 2013.

Concerning the repayment of loans in 2013, only 70% of the loans were repaid on time, and a fairly high share of loans had to be recovered (over 10%). Also a significant share of loans is repaid with a delay exceeding 30 days (over 11%). It would be smart to compare it with previous years, but it's difficult due to various studies (mainly surveys, hence the problem of sample size) carried out by the authors of the report. Based on the data from Table 9 it can be assumed that the

share of recovered loans grows, which is caused undoubtedly by the economic downturn and problems with payment backlogs in the economy³³.

Table 8. Timely Payment of Loans in 2013

Position	Total loans	Share in %	Total loans in PLN	Share in %
Active loans	21 956	100.0	1 363 794 682.48	100.0
Repaid on time	14 992	68.3	1 004 418 098.29	73.64
Delayed more than 30 days	2 475	11.7	106 107 724.98	7.78
Delayed more than 180 days	840	3.82	32 788 955.63	2.4
Loans under recovery	2 201	10.2	98 289 636.26	7.2
NPL	336	1.53	10 194 173.72	0.74
Unidentified loans	1 112	5.06	111 996 093.60	8.21

Source: *Rynek Funduszy Pożyczkowych w Polsce, Raport 2013*, Polski Związek Funduszy Pożyczkowych, Warsaw 2014, p. 43.

Table 9. Timely Payment of Loans in 2011–2012

Position	Share in 2011 (in %)	Share in 2012 (in %)	Dynamics (in %)
Repaid on time	75.80	78.79	103.94
Delayed more than 30 days	11.50	8.4	77.74
Delayed more than 180 days	3.8	2.81	73.95
Loans under recovery	7.4	8.26	11.62
NPL	1.5	1.20	80.00

Source: own study based on: *Rynek Funduszy Pożyczkowych w Polsce, Raport 2011*, Polski Związek Funduszy Pożyczkowych, Warsaw 2012; *Rynek Funduszy Pożyczkowych w Polsce, Raport 2012*, Polski Związek Funduszy Pożyczkowych, Warsaw 2013.

The Ministry of Economy preparing development directions for loan and guarantee funds for small and medium-sized enterprises, primarily sought to improve access for these entrepreneurs to capital. These activities were carried out through, inter alia:

- development and introduction of standards for the operation of loan funds,
- improving the competence of consultants, who provide financial services in lending (i.e. organisation of trainings on legal aspects of lending during

³³ P. Dec, *Metody zarządzania płynnością finansową przedsiębiorstw w Polsce w warunkach występujących zatorów płatniczych i zwiększającej się liczby upadających przedsiębiorstw*, in: *Płynność finansowa przedsiębiorstw w Polsce. Uwarunkowania, zarządzanie płynnością, ryzyko*, ed. J. Grzywacz, Warsaw School of Economics, Warsaw 2014, pp. 88–95.

the economic downturn, development of a programme of raising competence of guarantee funds' personnel),

- recapitalisation of loan funds from the Regional Operational Programmes funds,
- implementation of a monitoring system of loan funds.

Monitoring of loan funds mainly includes the collection of such data as³⁴:

- the number and value of granted loans,
- the number and value of non-performing loans and endangered loans,
- the number and type of borrowers (according to the agreed format and structure).

Reports containing these data are transmitted every six months using the IT system. Statements of service's compliance with the standards are attached to annual reports, including data on the number of performed services and the number of customers. To enforce the transfer of correct and reliable data, audits will be carried out every three years in each fund.

Conclusions

On the basis of conducted literature studies and analyses one can almost certainly confirm that the loan funds not only have been working for some time, but they also have a large group of customers. Not infrequently, they constitute a kind of a lifeline for entities who have been denied funding in other institutions (such as, e.g. banks). Loan funds have one extremely important feature. They were created at the local level by the various types of entities (agencies, foundations, associations) who have specific knowledge about the needs of businesses operating there. Moreover, thanks to a significant financial support from the European funds, loan funds can offer very favourable conditions for potential customers. Of course there are also some problems in the functioning of loan funds in Poland. They include not fully regulated issue of cyclic control of such entities. In the case of further development of the loan funds, one should not only increase the pool of funds (European, national) designed to increase their loan ability, but also introduce full external control over their activities.

³⁴ *Sprawozdanie roczne z realizacji Kierunków rozwoju funduszy pożyczkowych i poręczeniowych dla małych i średnich przedsiębiorstw w latach 2009–2013 za okres 1 stycznia–31 grudnia 2013 r.*, Ministry of Economy, April 2011, p. 9.

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