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LOAN CAPITAL AS A STIMULANT OF SME DEVELOPMENTAL INVESTMENT IN THE NEW PROGRAMMING PERIOD

Summary: Supporting SMEs development is becoming one of the most significant elements of the country's policy at various levels: the country as a whole, provinces (regions) or at the very local level. This reflects the EU priorities, the EU policy in the previous decade and it is also becoming a priority in the new programming period for the years 2014–2020. The purpose of the article is to indicate the prerequisites of stimulating the development of SMEs by means of financial instruments (other than banking capital) in the new EU programming period. The article presents the role and importance of loan funds as a financial intermediary supporting the development of SMEs. The paper also presents the idea of a new logic of intervention in the use of funds and construction of financial instruments by loan funds.

Keywords: local development, the new programming period, the financing of development, loan capital.

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1. Introduction

Supporting SMEs development is becoming one of the most significant elements of the country's policy at various levels: the country as a whole, provinces (regions) or at the very local level. This reflects the EU priorities, the EU policy in the previous decade and it is also becoming a priority in the new programming period for the years 2014–2020. For years now it has been indicated in the literature that SMEs have been encountering numerous barriers in their development and that the existing financing system has been inefficient and the financial instruments in use have not been playing the role of stimulants of innovative and developmental processes.

The purpose of the article is to indicate the prerequisites of stimulating the development of SMEs by means of financial instruments (other than banking capital) in the new EU programming period. It is particularly the role and significance of loan funds as financial intermediaries supporting SME development and the new logic of intervention in terms of using the funds and building up financial instruments by loan funds that will be presented in the present article.

2. New EU intervention logic in regional development

Prior to the new programming period 2014–2020, a number of goals which ended up in failure were set. In order to stimulate the development a number of instruments were created in the years 2000–2006 and 2007–2013.

The current shape of EU policy of stimulating development is based on the notion of sustainable growth. The significance of sustainable growth was emphasized in the EU announcement: *Regional Policy Contributing to Sustainable Growth in Europe 2020* (KE [2011] 17) [*Regional Policy*… 2011]. It stresses the significance of regional policy as the key factor in stimulating the increase in investment in smart and sustainable growth by supporting activities for climate protection, energy, environment and human capital.

Better exploitation of regional economies by means of various instruments that support one another is becoming a necessity in the new programming period. A trend towards moving away from programming support, concentrating on a number of narrow and isolated interventions and neglecting the territorial aspect can be observed. It becomes necessary to promote balanced and competitive economy while using resources in an efficient way, that is: the economy that comprises the following dimensions: environmental, social as well as economic and moves away from sectoral policies understood as achieving strategic goals by accumulating intervention in particular sectors. This approach has been replaced by the integrated approach in which thematic goals with adequate support instruments are seen as priorities. According to this new approach, cross-sectional interventions in different areas will be undertaken. However, the strategic goals are not supposed to pertain to the particular sectors of the economy. Adopting this approach is connected with the need to increase investment efficiency by wider than before use of the intervention complementarity of financial operations. This change in attitude is reflected in the stronger emphasis on the territorial aspect. Support is aimed at capital cities of particular provinces and the associated areas, that is surrounding smaller cities and towns and rural areas, and other regional and sub-regional towns which face serious challenges connected with regaining the significance in developmental processes [Ministerstwo Infrastruktury i Rozwoju 2014, p. 126].

The presented new idea of intervention in the new programming period includes support for small and medium-sized enterprises. One needs to bear in mind that in the new programming period supporting SMEs is an important element of creating both sustainable growth and innovative economy. SMEs determine economy's potential as they generate up to 71.8% GDP. [Tarnawa, Zadura-Lichota (eds.) 2013, p. 15]. The basic obstacle in their development is the lack of capital. In the new programming period supporting the development of SMEs with the use of EFS and EFRR funds has been planned. This development is supposed to be based on assistance programs and special purpose programs carried out by BGK, which was designated for this purpose by Polish Government.[1] The intervention comprises a number of instruments, among which financial instruments will be of special importance (including loan funds and loan guarantee funds).

3. Financial instruments – the notion designed to stimulate SMEs growth in regions

Financial instruments, or – to be more precise – instruments of financial engineering are the term used by the European Union with reference to various returnable financial instruments offered within structural funds and ESF. The purpose of these instruments is improving SMEs' access to finance and stimulating urban areas development and energy efficiency. This becomes an inherent part of the intervention logic in terms of sustainable growth in the programming period of the years 2014––2020.

EU regulations present two basic patterns of creating financial engineering instruments as part of operational programs, which are the basic tools of stimulating regional development. The first pattern assumes direct contribution into the financial engineering instrument (fund). The other one – forming a holding fund by either a Member State or an institution managing the operational program. This fund is designed to invest in financial engineering instruments.

Using financial engineering instruments in the process of implementing European funds in the new programming period assumes moving away from traditional non--returnable, based on subventions support in exchange for supporting financial intermediaries (for example, loan funds, guarantee funds or urban development funds) in order to enhance the access of end-users (mainly companies) to external capital. EU members can use some of the allocated resources as part of European structural funds in order to invest in financial instruments, that is renewable and returnable instruments.

Financial instruments constitute a form of financing growth investment in the regions which is alternative to subventional and banking support. Support in the form of financial instruments is of returnable character and takes the following forms:

[1] More on the programs implemented by BGK: http://www.bgk.pl/fundusze-i-programy-1 (08.07.2014).

- loan and credit,
- loan guarantee,
- capital product (capital entries, such as seed capital or venture capital).

Small and medium-sized enterprises explicitly confirm positive opinion on using financial instruments. In Tables 1 and 2 SMEs' opinions with reference to the selected financial instruments are presented.

Table 1. Effects of using financial instruments (loans and guarantees) by SMEs

Effect	Institution	Definitely YES	Probably YES	Probably NO	Definitely NO	Difficult to say
Increasing turnover	LF	56.5%	31.5%	5.0%	2.5%	4.5%
	CGF	50.0%	30.5%	9.0%	8.5%	2.0%
Fewer problems with receiving bank financing	LF	51.0%	19.0%	10.5%	12.5%	6.5%
	CGF	40.0%	33.0%	13.0%	10.0%	4.0%
Improvement of financial liquidity	LF	49.0%	24.5%	12.5%	9.5%	4.5%
	CGF	40.5%	36.5%	11.5%	8.0%	3.5%
Faster development	LF	57.0%	30.5%	7.0%	3.0%	2.5%
	CGF	41.4%	36.0%	13.0%	8.0%	1.5%
Increase in innovativeness	LF	44.5%	25.0%	12.0%	15.0%	3.5%
	CGF	28.0%	29.0%	16.0%	20.5%	6.5%
Entering new markets	LF	32.5%	23.5%	20.5%	18.0%	5.5%
	CGF	22.0%	26.5%	20.0%	26.5%	5.0%

Legend: LF – loan funds; CGF – credit guarantee funds.

Source: own study on the basis of Ministerstwo Gospodarki [2012, pp. 82–83].

Table 2. Effects on employment with reference to the use of financial instruments (loans and guarantees) by SMEs

Effect	LF	CGF
New work places have been created	42.5%	34%
Work places have been maintained	32%	33%

Legend: LF – loan funds; CGF – credit guarantee funds.

Source: own study in the basis of Ministerstwo Gospodarki [2012, pp. 82–83].

Thus, it might be stated that the planned operations in the new programming period 2014–2020 are not only purposeful and will be used by SMEs, but also they will contribute to the development of regions. Presented opinions of the entrepreneurs under study exhibit significant positive effects which are connected with the use of financial instruments such as loans and guarantees. The effects presented in Tables 1 and 2 are fundamental both for the country's economy and for the entrepreneurs' themselves as they are connected not only with maintaining a position on the market, but also they decide on the competitive advantage, increase the ability of investment absorption and make it possible for a company to develop faster than other businesses on the market. Therefore, presented results positively verify the hypothesis on the significant influence on stimulating regional growth by means of financial instruments.

4. Loan funds as instruments of regional growth support

4.1. Loan funds as the alternative source of financing SMEs' development

Available data indicate a series of facts connected with the development of operations by financial intermediaries, especially in the form of loan funds. There has been a rapid development of loan activities thereby loan funds have been developing rapidly in the last years. [Filipiak 2013, pp. 30–33]. It is both the capital of these funds that increases and the amount of support they give in quantitative and value terms. In Table 3 the percentage structure of the capital owned by loan funds is presented.

Table 3. Percentage structure of the capital owned by loan funds in 2008–2012

Level of capital equipment of the funds in PLN	% value structure of capital				
	2008	2008	2010	2011	2012
Below 3 mn	**38.50%**	30.80%	17.10%	1.10%	**0.60%**
Between 3–10 mn	**34.30%**	22.70%	20.00%	5.60%	**4.00%**
Between 10–20 mn	**18.60%**	20.00%	22.90%	12.60%	**13.90%**
Between 20–40 mn	**2.90%**	15.40%	24.29%	22.20%	**15.20%**
Over 40 mn	**5.70%**	6.20%	15.71%	58.40%	**66.40%**

Source: own study on the basis: Polski Związek Funduszy Pożyczkowych [2011; 2012]; and the data from the presentation by Alińska [2013].

While analysing the percentage structure of the owned capital, one can observe a complete change in the structure of capital equipment. Reinforcement of the funds in 2008–2012 can be observed, as the level of capital equipment moved from the below 3 mn range to over 40 mn range. Figure 1 presents the level of capital equipment of loan funds in 2005–2012. Aggregated data indicate explicitly capital reinforcement of loan funds. It must be emphasized that this reinforcement is due to capital increase from operational programs dedicated to entrepreneurship development. This activity is also stressed in the new perspective for 2014–2020.

Also such data as a general number of given loans (see Figure 2) and the total worth of loans (see Figure 3) prove that the position of loan funds has reinforced. These data make it possible to determine the financial support given by the loan funds. One also needs to bear in mind a widening range of operations of these financial intermediaries.

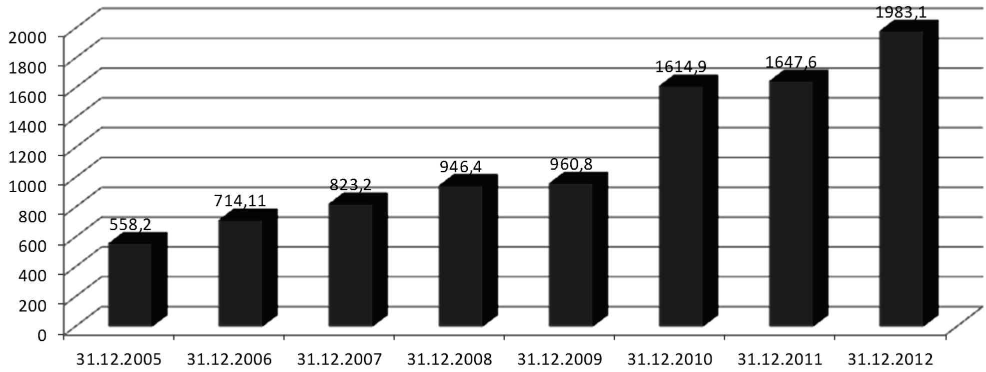

Figure 1. Level of capital equipment in mn PLN

Source: see Table 1.

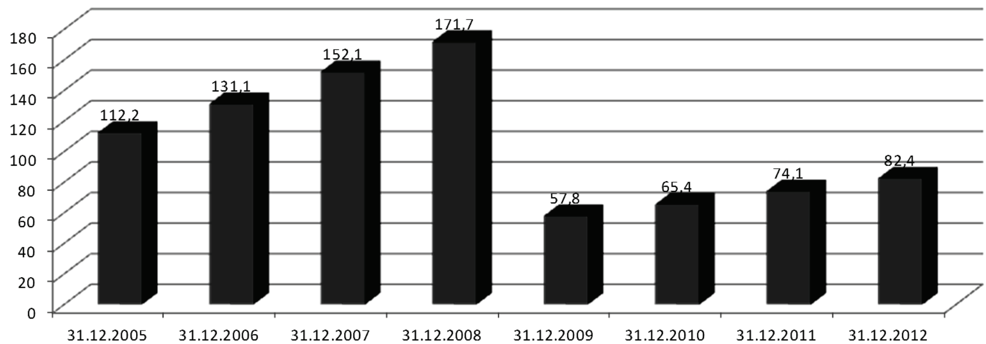

Figure 2. General number of given loans in thousands

Source: see Table 1.

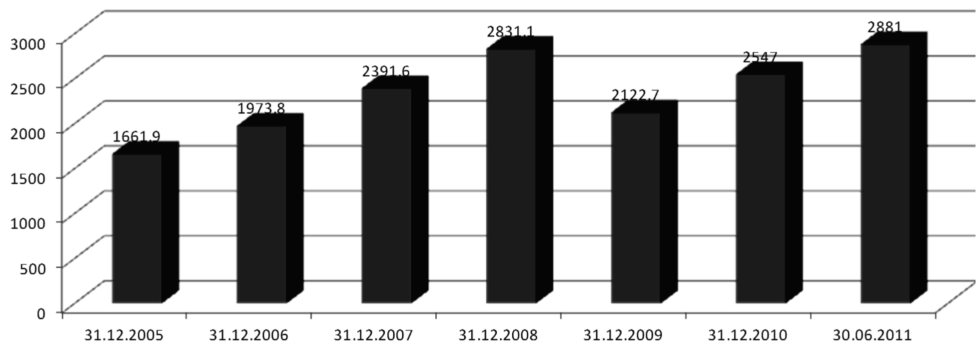

Figure 3. General worth of loans given by loan funds in mn PLN*

* No data available for the whole year 2011 and 2012.

Source: see Table 1.

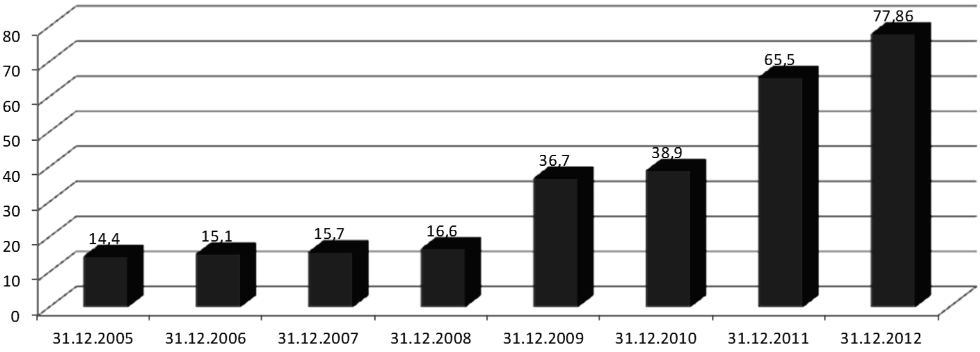

Figure 4. Average worth of a single loan in thousands PLN

Source: see Table 1.

The present economic situation is characterized, after the escalation of crisis phenomena, by gradual revival among small and medium-sized enterprises. Currently, SMEs indicate that they still notice obstacles in the access to finances (especially in banks), which means that their ability to realize innovative enterprises has been limited. It also means that their financial situation is worsening. In order to face the challenges of innovative economy, overcome crisis effectively and use the opportunity offered by the new programming period, SMEs need to look for other financial partners than banks. SMEs need support and that is what loan funds can offer.

4.2. New approach towards loan funds in regions

Due to the new programming period, a number of new documents have been issued in Poland aiming at the realization of European policy of sustainable growth. These documents are the basis for drawing up programs and instruments that are supposed to support the development of all kinds of enterprises regardless of the stage of their development and assistance in gaining a favorable competitive position. Special attention is paid to small and medium-sized enterprises. The range of designed intervention for entrepreneurs comprises both the access to financial resources, including budgetary, supra-regional and regional operational programs financed with EU cohesion policy resources and the proper level of impact. This means that due to applying horizontal approach, the support that is realized is complex and guarantees complementarity and synergy of the intervention realized with EU funds [Ministerstwo Infrastruktury i Rozwoju 2014, p. 12].

The system of financial support is presented in the following document: *The Enterprise Development Programme 2020*. It contains the guidelines of the system of financing enterprises by means of budgetary resources together with EU resources in the new programming period. The system is aimed at the SME sector, at those companies which are interested in enhancing their innovativeness. Therefore, the new system will be designed for those companies that lack either the resources or the possibility of gaining access to external financing for new technology implementation (purchasing new machinery and equipment, purchasing know-how and licenses). In order to receive the financial support, a company needs to create a production line, introduce modernized, with reference to previous activity, products and services, for example, introducing new design is considered to be innovative while changing packaging is not. One needs to bear in mind that innovativeness cannot be opposite to respecting the guidelines of sustainable growth. Table 4 presents a designed system of financial instruments.

Table 4. System of returnable instruments

SUGGESTED SYSTEM OF RETURNABLE INSTRUMENTS	
PURCHASE OF NEW TECHNOLOGY/MACHINERY AND EQUIPMENT (innovation on the domestic and global scale)	OPERATING AND INVESTING ACTIVITIES (innovation at the company level)
LOAN/CREDIT (from public resources)	FINANCING WITH LOAN AND GUARANTEE FUNDS OPERATING IN REGIONS
SUBSIDIZED LOAN/CREDIT a) preferential interest rate b) grace period for repayment	
SURETY/GUARANTEE (including EU programs Horizon 2020 and COSME and with the resources available as part of Regional Operating Programs, re-guarantee system for surety funds)	

Source: own study on the basis of Ministerstwo Gospodarki [2014, p. 87].

The important guideline of the system is the assumed change in the former formula of functioning of financial engineering instruments. The formula of supporting loan funds shall be maintained while the priority of financing will be shifted from operating credits to operating credits linked to investment for micro and small enterprises. The new surety/guarantee program is supposed to be aimed at realizing goals connected with the new perspective, including support for innovation by means of guarantee of repaying investment loans and operating loans linked to SME investment.

The purpose of the system is to introduce returnable and non-subventional financial instruments which will diminish the risk connected with the introduction of new technologies and implementation of innovative organizational and technical solutions on the part of an entrepreneur (by means of using soft loans and credits) and on the part of a financial institution (by means of creating a guarantee system).

The use of financial instruments will be linked to the risk stemming from the realization of SME development program. In addition, it is assumed that in the new intervention period loans supported with public resources (guaranteed by public resources) will be used. The selection of a particular financial instrument will depend on an entrepreneur – it will be possible to take a loan with or without the public resources guarantee. It is assumed that the most preferential terms will be offered to those who realize the projects burdened with the highest risk. The preferential terms will include:

- offering loans and credits at a lower interest rate. Keeping the interest rate low will be possible due to the capital from public resources. A financial institution will gain access to cheaper capital in comparison to the cost of commercial market (expressed by WIBOR index);
- introducing a grace period, which, as a result, will not be associated with the increase in real obligations on the maturity date for an entrepreneur.

It needs to be emphasized that the tools of the system will be comprehensive and flexible enough to tailor the sources and ways of financing to the specificity of both SMEs and the market without disturbing competition and without the elimination of financing by commercial subjects and just encouraging SMEs to finance innovative enterprises by means of diversification and taking over partial risk of a transaction by the Treasury.

The designed system will be supplemented with the connections to EU programs. This means that it will be complementary with the operations carried out as part of EU programs COSME and Horizon 2020. Financial instruments suggested by these programs assume debt financing by means of loans guaranteed by European Investment Fund. The purpose of this approach is additional reinforcement of SMEs competitiveness [Regulation (EU) No. 1287/2013, 2013].

The notion or returnability was introduced into the system. This notion assumes repayment that is spread over time and the returnability itself is based on two grounds. First of all, the necessity of returning resources to financial intermediaries participating in the system by entrepreneurs is introduced. Secondly, financial intermediaries (including loan funds) that received resources as part of the system are also obliged to return these resources. The formula or returning resources by financial intermediaries has not been developed yet.[2] It is also assumed that returnable instruments (loans) should be first of all based on the resources of operational programs at the country's disposal which could be used over years as a permanent element of SMEs supporting system. This approach is supposed to strengthen the intervention efficiency in an additional way. It is estimated that currently 1 euro of subvention generates 2 euros of investment and is used only once [Szczepański 2011; Fulara 2013, p. 10]. Returnability will ensure multiple exploitation of the resources in the loan formula.

One needs to bear in mind that small and medium-sized enterprises will need to learn how to use the resources designed for development, increase in innovativeness

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[2] This limitation is due to the necessity of closing the negotiations regarding the cohesions policy for 2014–2020 and issuing by the European Commission adequate secondary legislations to the ordinance.

and competitiveness in two different ways. One of them is investment or promoting innovative behavior, which means seeking opportunities of financial support (loan funds or COSME support). The other one is based on innovations in human capital and the use of information. All that will reinforce the growth potential of a region. Development is determined not only by investment but also by innovation. SMEs development is connected with developing skills, new knowledge, increase in innovativeness together with maintaining sustainable growth.

5. Conclusion

One needs to bear in mind that in the new perspective the emphasis is put on both the realization of the notion of sustainable growth and the growth that will ensure SMEs innovativeness and will enhance their competitiveness on the market. It is also the EU logic that changes. The effectiveness of resources allocation is increased and the guidelines of using resources are changed.

Financial intermediaries, including loan funds that need to realize developmental and effectiveness goals with reference to SMEs, will play a special role. Better contact, more flexible approach makes loan funds an alternative in terms of access to capital for SMEs. However, they need to prepare and develop procedures of cooperation with remaining financial intermediaries, such as loan guarantee funds, banks or the entities managing COSME resources in order to enhance the efficiency of undertaken actions.

It is the access to regional resources, the swiftness of reaction to SMEs needs and the ability of creating satisfactory financial offer that are becoming more and more important. On the other hand, SMEs need to learn how to use this opportunity in the new financing period in terms of creating their development.

The development of SMEs in regions is the guarantor of regional development. Strong enterprises create strong regional economy, work places and an opportunity for society's affluence. This means that loan funds enable development but it is SMEs that need to want and learn how to use their offer in terms of financing.

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KAPITAŁ POŻYCZKOWY JAKO STYMULANTA INWESTYCJI ROZWOJOWYCH MŚP W NOWYM OKRESIE PROGRAMOWANIA

Streszczenie: Wspieranie rozwoju MŚP staje się jednym z ważniejszych celów polityki państwa zarówno na poziomie kraju, poszczególnych województw (regionów), jak i na poziomie lokalnym. Działanie to jest również odzwierciedleniem priorytetów Unii Europejskiej, jej polityki w minionej dekadzie, jak i staje się niezwykle ważnym priorytetem w nowym okresie programowania na lata 2014–2020. Celem artykułu jest wskazanie na założenia reorientacji w zakresie stymulowania rozwoju MŚP za pomocą instrumentów finansowych (innych niż kapitał bankowy) w nowym okresie programowania UE. W artykule przedstawiono rolę i znaczenie funduszy pożyczkowych jako pośrednika finansowego wspierającego rozwój małych i średnich przedsiębiorstw. Ponadto przedstawiono ideę nowej logiki interwencji w zakresie wykorzystania funduszy i budowy instrumentów finansowych przez fundusze pożyczkowe.

Słowa kluczowe: rozwój lokalny w nowym okresie programowania, finansowanie rozwoju, kapitał pożyczkowy.