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Research paper

Financing of small and medium-sized enterprises on the example of bank loans

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Abstract

The main purpose of the article is to present the small and medium-sized enterprises sector, their size and the possibility of choosing individual sources of financing, and above all a brief presentation of bank loans. They constitute one of the largest and the most important sources of financing of external origin and are the main financing source of the majority of investments of an enterprise.

Keywords: *Financing;Enteprise;Loan;Banking;Collateral.*

1. Introduction

Small and medium-sized enterprises play a significant role in the Polish economy. This sector not only affects the volume and structure of production, but above all has a significant impact on GDP, and also causes an increase in employment and, consequently, a reduction in unemployment. Through their development, small and medium-sized enterprises encounter various barriers that affect the subsequent dynamics of the individual. There are various internal and external sources of financing that determine market share, as well as customer acquisition and increased production capacity (the literature also refers to natural sources [5-7]). These enterprises in the Polish economy have a wide range of business financing, with bank loans being widely popular financing source.

2. The importance of enterprises

It can be said that the word enterprise began to exist in antiquity during the development of the commodity economy. Initially, the enterprise was owned by one owner, but over time the enterprises started to belong to several owners. The very word 'enterprise' means taking ahead or intending or trying to do something. This unit aims to bring together all employees who are ready to act in a specific place. According to the Civil Code, an enterprise is a fully organized set of intangible and material components that are focused on running a business. Mostly includes issues such as[3]:

- a sign identifying the enterprise or its separate parts (enterprise name),
- ownership of real estate or movable property, including equipment, materials, goods and products, and other property rights to real estate or movable property,
- rights arising from rent and lease agreements for real estate or movable property and rights to use the real estate or movable property arising from other legal relationships,
- claims, rights from securities and cash,
- concessions, licenses and permits,
- patents and other industrial property rights,
- copyrights and related property rights,
- company secrets,
- books and documents related to running a business.

Due to the selection and different criteria of enterprises, we can divide enterprises:

1) based on the nature of the business:
- production companies
- service companies

2) based on the forms of ownership:
- public sector enterprises, which include state-owned enterprises (State Treasury) and municipal enterprises (local governments),
- private sector enterprises, which include enterprises owned by private individuals, legal entities and foreign ownership

3) based on the size and number of employees in the enterprise:
- micro-enterprises
- small enterprises

- medium-sized enterprises.

Large, medium and small enterprises have a certain feature i.e. a type of financial management consisting in other ways of obtaining additional cash. The savings of a given company are made on the basis of the owners' savings and various types of loans from relatives or friends. The development of units in this case is based on creating financial surpluses within the company, which usually prevents small and medium-sized enterprises from developing due to financial constraints [8].

In most countries, it is recognized that small and medium-sized enterprises which are highly developed represent a very large impact on the functioning of the economy. It can be concluded that without the development of SMEs it would be impossible to harmonize the operation of market mechanisms. The visible increase in the number of small and medium-sized enterprises can very well affect the balance in the economy, in which the dominance of large enterprises is often visible. What is worth noting is the economic system, which in most countries shows the need to support and support smaller enterprises, which results from the benefits of their operation in the economy. Particular attention should be paid to the fact that these companies contribute to the creation of new jobs, help develop the sphere of innovation and, what is important, are able to quickly adapt to new consumer tastes. The report on the state of the SME sector shows that the number of people professionally active (17,143 thousand) was slightly lower than in the previous year. The number of employees since 2014 has been growing steadily, which indicates one of the advantages of these enterprises [2].

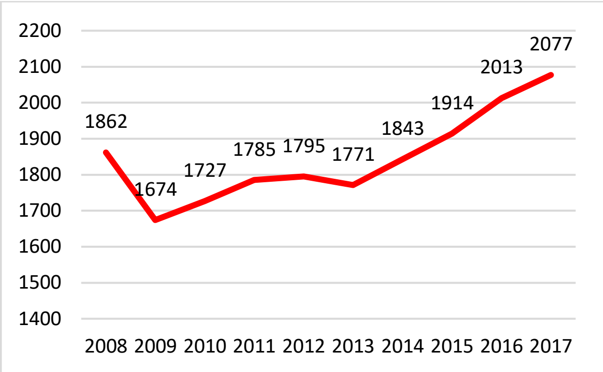


Fig. 1: Number of Enterprises Active in Poland in 2008-2017 (In Thousand).

The above chart shows that in 2008-2017 the number of enterprises is nearly constantly growing. In 2017 there were around 2.08 million non-financial enterprises, also known as active.

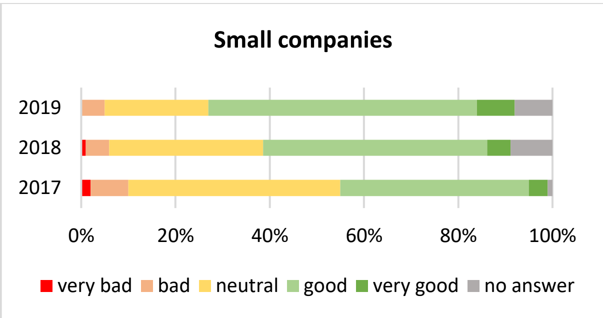
3. Credit essence and functions

Enterprises mostly face various problems related to development, financial liquidity, and investments. There is often a shortage of funds, which is why these units use bank loans. Bank loans often turn out to be an attractive form of raising additional capital. Banking law explains the relationship between the lender and the borrower. It contains a number of principles and rules that must be met when concluding a contract between the parties. The contract must be in writing. The contract means that the bank undertakes to spend a certain amount of funds, which is previously determined on the borrower's specific terms. The borrower is required to take advantage of certain funds on terms and conditions that have been written down in the contract, together with interest. A bank loan can be granted only by a bank and a branch of a foreign bank, as well as a branch of a credit institution.

The basic features of the loan include [1]:

- monetary character,
- maneuverability - the bank loan must be returned within a specified period,
- purposefulness - to obtain a loan, you must have a purpose for which it will be used,
- payment - at the time of obtaining the loan, one must pay a commission on the loan granted and interest, which is calculated on the loan used.

An important term is also creditworthiness, consisting in the ability to repay the loan with interest due on a specified date. Such an enterprise must have financial status and a level of financial efficiency that shows that the liabilities created have been secured [4].



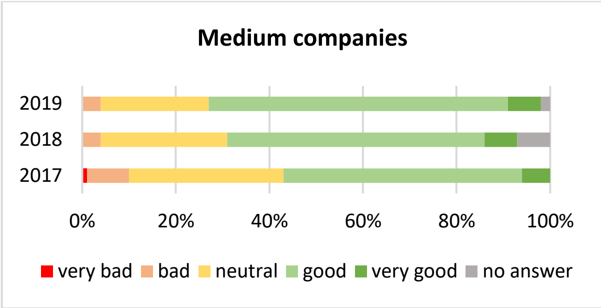


Fig. 2: Credit Availability Assessment.

4. Forms of credit and types of collateral

The economic market offers us many different elements that are very important when formulating a loan agreement. There are various types of credit collateral.

Table 1: Breakdown of Loans Taking Into Account Selected Criteria [4].

criteria	types
due to the object (purpose)	- rotary - investment
due to the loan period	- short-term - medium term - long-term
due to the form of the loan	- in the current account - in the credit account - discount - acceptance - one-time - related to the purchase of invoices - in the form of a non-renewable and renewable credit line - bridging
due to the interest rate	- with a fixed interest rate - with variable interest rate - fixed-rate interest rate
due to the preference	- commercial - preferential
due to the way the loan is repaid (principal and interest)	- in fixed or variable capital installments - annuity - loans in which interest is paid in advance or in arrears

One of the most important bank loans is working capital loan, which mainly focuses on financing the current affairs of the entity. Looking at the short-term management of funds, it appears that this loan favors operating cycles of operations, while reducing the turnover of current liabilities and, what is important, improves revenue growth.

Another loan to characterize is a current account loan, which consists in paying off the most due liabilities that arise from running a business. It allows for indebtedness of the entity up to the specified debit limit specified in the contract. However, the condition of this loan is that the company must have a bank account for 3 months in a given bank. It is worth noting, however, that the bank decides on how big this loan will be. The decision on the size of the loan may depend on the amount of turnover as well as creditworthiness.

Next loan type is a discount loan also known as granting a loan to the owner of a bill of exchange by discounting the bill of exchange, where the principal amount of the loan is the bill of exchange total. The entity receives a specific loan amount, the value of which is equal to the bill amount minus the discount that was previously calculated together with the commission. It is usually granted for a short-term period and may occur as a one-off transaction.

There are also two methods of repayment for these loans in connection with different loans [9]:

- capital method, in other words the method of decreasing installments, consisting in the fact that the first loan installments are higher than the last ones, and this means that as the loan is repaid, this installment decreases,
- the annuit method, i.e. the equal installments method, where the total repayment of the loan is divided into equal parts: principal and interest. The cost of credit in this method is higher than when using the equity method.

As mentioned before, loans must have so-called collateral for the loan - one give this guarantee to the bank for the return of funds and receivables that are related to the loan granted. Purpose of such security is to give the bank a claim certificate. However, it should be remembered that the basic rule enabling repayment of a given loan should be creditworthiness. It is often the case that banking institutions require collateral just before payment is made.

Security for bank

Personal Security
- blank promissory note
- bill of exchange guarantee
- surety
- bank guarantee
- letter of credit
- transfer of receivables for security
- joining the debt

Material security
- pledge
- registered pledge
- deposit
- transfer of ownership as security
- transfer of a specified amount to the bank's account
- blocking of funds on a bank account
- mortgage

Fig. 3: Security for Bank Claims [10].

The most popular form of loan collateral is a mortgage. It is important that the mortgage is partly limited, e.g. to property rights, and mostly focuses on monetary claims and encumbers only certain rights, e.g. property rights, cooperative housing rights. It demonstrates the form of security as an instrument serving only a specific claim, therefore the creditor may seek to satisfy the property earlier than other creditors. It follows that the mortgage creditor is seeking satisfaction from anyone who can become the owner of the property. The mortgage is agreed when the contract between the creditor and the owner of the property is concluded. The mere closing of a mortgage occurs when the claim secured by the mortgage expires.
Another collateral is ordinary and registered pledge. In a situation where a movable property is marked with a claim, it may be encumbered with the right of lien, where the creditor may satisfy the property. In this case, the creditor does not have to be interested in whose property it has become and with priority over the creditors of the owner of the item. It is important that the subject of the pledge must be movable property with certain rights while the objects that cannot be pledged are real estate.
However, registered pledge creates the so-called contract between the owner of a given lien and the creditor as an entry in the pledge register. A given pledge arises when an entry in the pledge register is made. A debt by a registered pledge is satisfied with priority over other claims, in particular before civil and financial pledges.
An interesting form of security is also an assignment, characterized in that the subject of the transfer (assignment) is a claim, if there is a possibility of sale. Of course, it cannot be excluded by law or contract. It follows from the legal basis that the creditor may transfer the claim to the third party concerned. It is important that the assignment agreement changes the creditor, but the existing agreement, which is the basis of the claim, should not change. The assignment agreement is for the debtor of the bank or a third party who is just securing the repayment of the debtor to make a transfer to the bank of his receivables from one or more contracts. This transfer is a guarantee and security for the repayment of debts at the bank where we took out a loan [10].

5. Conclusion

Analysis of the area of small and medium-sized enterprises shows that they constitute the most numerous and the fastest evolving group among the Polish economy. By analyzing external sources of financing, it can be stated that in modern financial markets, enterprises base their activities particularly on bank loans, which have been characterized in detail. Due to the different types of loan acquisition, there is also a wide range of loan collateral that can be divided into personal and material.

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