

*Bartosz Stelter\**

## SELECTED ASPECTS OF FINANCING SMALL AND MEDIUM-SIZED ENTERPRISES IN POLAND

**S u m m a r y:** The meaning of small and medium-sized enterprises (SME) is of significant importance not only due to its characteristic of being the main creator of places of employment and the source of innovation, but also owing to their condition, which notably influences the countries' economic development. Proper functioning and development of economic entity in market economy requires suitable methods of financing. Likewise, accurate relations with institutions providing external funding are of major significance. Accessibility of sources of financing as well as the method of financing current economical and investment activity affects not only decisions made by a company but also its existence. This article aims to present the current state of selected sources of funding of the sector of small and medium-sized enterprises in Poland.

**K e y w o r d s:** small and medium-sized enterprises, financing of economic activity of an enterprise, venture capital, factoring, forfeiting, private equity, venture capital.

### INTRODUCTION

SME constitute 90% of all the enterprises in the EU, which makes them the mainstay of the EU economy. SME generate two out of three places of employment. In 2013 over 21 million of SME provided employment for almost 90 million people in the whole EU. They prompt entrepreneurial and innovative spirit, which helps to stimulate competitiveness as well as the

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\* Adres do korespondencji: Bartosz Stelter, Uniwersytet Mikołaja Kopernika w Toruniu, Wydział Nauk Ekonomicznych i Zarządzania, Katedra Doskonałości Biznesowej, Ul. Gagarina 13a, 87-100 Toruń, e-mail: [stelter@doktorant.umk.pl](mailto:stelter@doktorant.umk.pl).

economic and employment growth in Europe [<http://eur-lex.europa.eu/legal-content/PL/TXT/?uri=URISERV%3An26026>]. In Poland, likewise the European Union, SME represent the majority of all the enterprises. Their share in constituting national income shows a rising trend and approaches 50% of GNP (Gross national product) [Wrońska-Bukalska, 2015]. As far as small and medium-sized enterprises at the turn of 20<sup>th</sup> and 21<sup>st</sup> century are concerned, the crucial factor is accessibility of external capital (credits). Simultaneously, lack of working capital, a high cost of capital and costs of funding are proposed as short- and long-term barriers in companies' activity. Moreover, in the literature of the subject there is an agreement upon the role of investment capital in economic development; and using a credit as the seed capital is a factor enhancing the probability of a company to survive in comparison to enterprises using their own capital and private credits [Nowak, 2014].

## 1. THE SME SECTOR IN THE ECONOMY

One of the characteristics of SME is the limitations of financial resources and the limited access to financing sources. Financing in a narrow meaning is understood as taking all of the actions leading to the accumulation (obtaining) of capital. A wide meaning of financing is connected with taking all of the actions leading to the accumulation as well as investing capital for a specified period of time, in a determined way and for a given purpose. Only a significant part, from among all available financial resources is used by SME. The reason for such a situation is the anxiety of the entrepreneurs about the infiltration of foreign influences together with capital and distrustful or even discriminatory treatment of the small enterprise by financial institutions [Safin, 2008].

Considering issues being mentioned in the introduction, it is recommended to start with key definitions. According to EU law, in micro-enterprise there are fewer than 10 employees, annual net turnover (the amount of money accepted in a given period of time) or the balance sheets (the assets and liabilities of a company) of less than EUR 2 million. Small enterprise employs up to 49 people and annual net turnover of less than EUR 10 million or total balance sheet assets not higher than EUR 10 million. The medium-sized classification criteria are as follows: enterprise with fewer than 250 employees, annual net turnover of less than EUR 50 million or total balance sheet assets not higher than EUR 43 million [<http://eur-lex.europa.eu/legal-content/PL/TXT/?uri=URISERV%3An26026>]. The quantitative and qualitative classification criteria of enterprises into particular categories are to be found in Kołosowska, p. 16-22, among other things.

Although, only some ways of financing SME will be described in

the present article, it is fundamental to mention the ones which appear in the literature.

Therefore, developmental activity can be financed by obtaining foreign capital:

- bank loans,
- loans taken from loan funds,
- leasing,
- franchise,
- loan securities of the capital market,

or in the form of shares:

- the NewConnect market<sup>1</sup>,
- venture capital funds<sup>2</sup>,
- business angels.

Financing can be defined in a double way. A narrow approach defines it as obtaining capital. A wide approach includes its allocation process. The taxonomy of financing divisions is expanded and, taking different criteria into account, one can divide capital on account of (Skowronek-Mielczarek, 2002, 2007):

- the proprietary rights of capital (own, foreign),
- the time of capital disposal (short-term, medium-term, long-term),
- the reason for financing (primary, the current activity, development, that is to say, the investment process),
- origin of the firms' capital (interior and exterior).

A point of departure for further consideration will be the development of capital property. Own capital of economic bodies has a dual function [Wrońska-Bukalska, 2015]:

- it serves to finance business resources enabling in this way launching and sustaining a successful business activity,
- it stands surety for the creditors the repayment of liabilities towards them.

The sources of growth of own capital in enterprise can be divided into interior (net income, amortization, the transformations in respect of the property and capital) and exterior (the surcharges of business partners, searching for new business partners, *venture capital* funds, the emission on the unlisted securities market).

Foreign market is mainly an additional source of financing enterprise and business development. The sources of foreign capital in enterprise constitute long-term capital (long-term bank loans, loan securities, leasing, franchising, bonds, grants and subsidies, the resources from support funds) and short-term

<sup>1</sup> More about the NewConnect alternative turnover system in: Kołosowska, 2013.

<sup>2</sup> *Venture capital* is a modified version of *private equity* [Safin, 2008]

(short-term bank loans, renewable operating liabilities, factoring, beyond bank loans, short-term debt securities)[*ibid*]. The above-mentioned division is one of the possible ones. In the literature one can encounter both primary and secondary sources of financing [Bernat, 2015].

As in previous years, in 2012 two-thirds of the SME investment outlays were financed with own resources (65%), nearly one-sixth with bank loans and national loans (17%) and foreign sources constituted almost 8%. The remaining sources of investment financing were of slight importance. The bigger the enterprise, the greater involvement of own resources for financing investments, that is to say, small-sized enterprises – 64,2%, medium-sized enterprises – 66,4% and large ones – 73,3% (Raport, 2015).

Activities leading to efficient usage of supportive instruments which are targeted to assist the development of SME require suitable management. It can be realised on four basic levels (Matejun, 2011):

- at the central level (domestic or international, e.g. at the EU level),
- at the regional and local level, primarily by the territorial authorities,
- at the institutions surrounding business level, which often directly support enterprises from the SME sector,
- at the micro-, small- and medium-sized enterprises, which make decisions as potential recipients of supportive developmental instruments.

One of the possibilities of raising capital essential for functioning and ensuring the development of economic entity includes high-risk capitals. They are of great importance to these enterprises, for which other sources of financing are beyond their reach at a given moment.

A decision about the choice of sources of finance belongs to crucial decisions. Various criteria that can be taken into consideration include [Safin, 2008]:

- a strategy for the development,
- the level of resource demand,
- the cost and the general conditions of obtaining capital,
- the owner's preferences,
- the level of indebtedness,
- local financial infrastructure,
- the system of SME support and assistance.

The additional criterion, the limitation, is the developmental phase of an

enterprise, the earlier, the choice is more limited.

## 2. PRIVATE EQUITY

Private equity<sup>3</sup> (PE) is a specific kind of capital investment constituting the external source of finance for companies excluded from the public revenue. Resources transferred to enterprises are in the character of both self-financing and hybrid financing, that is to say, the combination of self-financing and debt financing. Apart from money deposit, as part of private equity enterprise can get management support of miscellaneous character from an investor, e.g. legal consultancy, tax consultancy, organisational consultancy. The private equity investor, which is most often the fund managing the third party property, does not concentrate on maximisation of enterprise's current profit and rapid regaining of invested capital but it is interested in long-term growth of its value with the aim of realising the intended profit at the moment of reselling the shares in the future. The average investment of private equity type lasts about 5-7 years. In case of private equity, an investor bears a higher risk in return for the comparatively higher, possible repayment of invested capital. Private equity is particularly popular in financing high-risk enterprises (HREs), e.g. financing the activities of newly established enterprises which develop innovative products or technology. A great benefit of using private equality for inexperienced organisation is consultancy offered by the investor. [<https://www.nbportal.pl/slownik/pozycje-slownika/private-equity>].

Based on the analysis carried out, it can be concluded that the accessibility to sources of finance such as *private equity/venture capital* is impeded, being of the same rank as shares and bonds issuance [Kołosowska, 2012, p. 73].

Private equity is private capital obtained from different sources, these can be natural persons but most often these are corporate personalities, that is to say, enterprises, banks, various funds, e.g. retirement funds and in the form of co-operative society funds. But if one share in co-operative society consists of hundreds or at most thousands of zloty, private equity fund admission is only enabled by millions of zloty. These amounts then invested by a given PE fund in enterprises which have chances to succeed. The aim is to multiply values of enterprises that have been taken over (purchased) by the PE funds. After a few, and sometimes over a dozen of years the sale of enterprises that have been taken over by private equity takes place and the account is settled with the investors who have invested their money in such a fund.

Undertakings with a promising business idea needed an injection of capital but great sums of money were not involved. At first, the dominating factor was commitment described as venture capital<sup>4</sup> (the following explanation has been accepted – high risk capital, but it is more about capital for daredevils for brave undertakings), seed capital (from the seed and its planting) or early stage capital (capital for an early stage).

The enhancement of investment activity in the form of private equity was fostered at the end of 20<sup>th</sup> century by processes of large privatisation which then began in the Western world. A strong incentive was also the softening tax regime because it constituted great encouragement to turn free reserves (high taxes discourage because a big part of potential profit that is a reward for activity and high investment capacity is taken by revenue board). Dynamic development of banking and the financial sector that provides loans being a complement (a jack, a lever) for capital obtained on the basis of private equity.

So called investment horizon, that is to say, the time any specific enterprise has been purchased for is not defined in a very restrictive way, but for a large number of, or even for the majority of undertaking it is 5 years. At this time enterprise is to refine to be re-exposed on the market for sale with a lavish profit for the fund and its sponsors. To have a newly taken over enterprise back on its feet is the easiest task when it comes to the company which has got into trouble by accident and without its fault<sup>2</sup>

Most often it requires a great effort. It is necessary to exchange the management staff, streamline their structures, exchange the machine park, gain access to new markets and customers, perform a lot of other operations that are described hatefully by the employees as restructuring and are connected with cutting the costs.

In Europe the ratio of being successful in the venture capital business

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<sup>3</sup> It should be noticed that Polish Agency for Enterprise Development proposes a common definition, the activity rules and the shared steps which lead to obtaining capital for *private equity* and *venture capital*. *Private equity* includes investments into all phases of development phase which are not quoted on the stock exchange whereas *venture capital* concerns its earlier phases of development (Panfil, 2005).

<sup>4</sup> More on obtaining capital through venture capital funds, among other things in Skowronek-Mielczarek, 2007, pp. 52-62.

<sup>5</sup> [http://www.pi.gov.pl/parp/chapter\\_86000.asp](http://www.pi.gov.pl/parp/chapter_86000.asp)

is one-fourth and in the USA a little above one-third. Each successful private equity investment has to earn not only for itself but for some less successful or even unsuccessful undertakings that have brought losses in the final settling of accounts.

According to Thomson Reuters data, at a worldwide scale Merger and Acquisition (M&A) transactions carried out by means of private equity resources in 2012 were equal to 321,4 billions of dollars and stayed at the same level as the previous one. In Europe the wave of the PE funds is considerably more modest. The best year so far was 2006 in which private equity investments accounted for 0,6% of European GNP (Gross national product). Now this index is 0,3%. According to EVCA (European Private Equity and Venture Capital Association), investments of these type were very poor and equal to Euro 4 billion in 2011 on our continent. Poland is the leader in the Mid-European region in this respect. The Polish Association for Capital Investment Decision estimated that in 2012 its members only (43 funds) have invested in our country and region about Euro 8 billion so far, and they have got in their wallets the shares of more or less 700 partnership enterprises from Poland and Mid-Europe.

An answer to the question how to obtain capital from PE is complex. The procedure is staged. On the Innovation Portal<sup>5</sup> that is subordinated to Polish Agency for Enterprise Development, six of them have been specified [[http://www.pi.gov.pl/Finanse/chapter\\_95011.asp](http://www.pi.gov.pl/Finanse/chapter_95011.asp)]. Stage 1. At the initial phase one needs to consider what the strengths of the company are – whether the product or the service has got all the chances to become acknowledged by the customers and generate impressive profits? Whether the idea is genuine? How fast my technology will be copied by the competitors? Then, it is advisable to explore the fund market functioning in Poland and to choose the ones that are specialised in investing into enterprises which are similar to our activity profile. Stage 2. The talks with the fund start from sending by an entrepreneur the description of the proposed undertaking. One should prepare a very detailed business in which all the information on enterprise strategy, development planning, the founders' experience and the list of products or services that will be offered in the context of surrounding competition. Projections of future income and profits are welcome. It is a crucial stage for further negotiations with the fund because, as investment managers directly say, for 100 business plans that have entered into, only 5 of them are qualified to be talked over with the entrepreneur. Stage 3. After going through initial concept selection, a thorough analysis of the enterprise's situation starts (due diligence) by representatives of the funds. A potential investor will vet the financial and legal situation (as well as enterprise-

owned patents), carefully analyse surrounding competition, examine how innovative the offered product or service is and, in case of success, whether there is no threat of being copied. Stage 4. Negotiations as for transaction conditions start at the moment of the investigation into the condition of the company. These talks can be very challenging for many business people, especially those just starting in their business careers. Since at the other side of the table there will be very experience financial specialists who learnt their skill working in the biggest investment banks in London or New York. Negotiations will concern the value of transactions, the number of shares that the fund will take over and the responsibilities of both sides as well. Personal issues can be involved too – an investor can expect that there can be changes in the management board. This does not rather take place that the investor's representatives deal directly with managing the company but, for sure, they will sit in the board of directors of that company. They will offer advice about finance, management or marketing. Stage 5. If the talks are successful, enterprise and the fund make a contract and partnership enterprise receives a grant. The realisation of an agreed, several years' plan for development starts. Stage 6. The presence of the fund among the enterprise's shareholders usually lasts from 3 to 5 years. After this period the fund starts to look for a willing buyer. Another fund is involved that is interested in investments on a larger scale, an investor belonging to the trade, the board of directors (so called a management buyout) or the debut on the market.

European Private Equity and Venture Capital Association published that *private equity/venture capital* investments in 2008 in Poland were EUR 628 million which was the second highest score in the history and the highest level of investment in Mid-eastern Europe [Grabowska, 2012].

### 3. FACTORING

Factoring is a service that consists in the purchases made from the enterprise by specialised financial institutions of the receivables arose from the goods and services delivered. The enterprise selling the receivables is called the factorer, and the institution purchasing them is called factor. The financial institution (a factoring company, a bank) purchases the receivables and, after the day of invoice payment is lapsed, it deals with the enforcement of those liabilities [Pluta 2004]. The definition proposed by National Bank of Poland explains that factoring is equivalent to the buyout by the entity serving the factoring service (factor) receivables of enterprises that are not overdue (factorers) due to them from the contractors (customers) arose from the goods and services delivered and offering extra services on their behalf (e.g. debt collection, monitoring liabilities,



conducting settlement, the assistance in enforcing payment of debts). The enterprise that uses factoring services receives more rapidly financial resources arising from the contracted sale transaction because factor gives it, in the form of deposit, earlier agreed percentage of receivables (most often up to 90% of the invoice value). Then factoring enables the enterprise to shorten the rotation cycle of liabilities, therefore, to improve its current flowability. Besides, factoring enables business entities to limit the risk of insolvency of the contractor.

Factoring may be associated only with the sale of liabilities (assignment); meanwhile it combines the characteristics of different contractual types and their elements, that is to say, the assignment of a debt, a mandatory contract or a discount. The subjects of factoring are non-overdue (existing and future), pecuniary and most often undue, short-term liabilities documented by VAT invoices and linked with business trading. The subjects of factoring are also additional services called additional service activities, among other things, consultancy, administrative activities (e.g. debt collection).

Legal regulations. The legal definition of the factoring agreement and the nature of the functioning of factoring in the international dealing are defined by the convention established on 28 May 1988 in Ottawa. It is the only act of the international law that settles the issues strictly connected with factoring. According to the definition included in this act, factoring is an agreement between a factorer and a factor, on the basis of which the factorer transfers the possession of liabilities onto the factor that results from the sales of goods agreement (the products, goods, services) to the customers. However, factoring is not the simple buyout of debts. The factorer has to do at least two of the following activities: supplier financing, conducting settlements connected with liabilities, debt collection and receivables recovery, seizure risk of the debtor's insolvency. A lot of countries, Poland therein, did not ratify this convention; however, the standard specifications included in it are commonly used. Therefore it has led to normalization of the idea of factoring. The factoring contract, as opposed to credit and leasing is the innominate contract in the Polish law. The basis of making the factoring contract is the regulations of Civil Law and Commercial Code. Although there are *de facto* three subjects that take part in common factoring practice, that is to say, a factor, a factorer (the entrepreneur who is selling the product) and the receiver of the product (a contractor), the factoring contract is of the reciprocal character. The contracting parties of the factoring contract are the factor and the factorer. The typical addressee of factoring is the production, business or service enterprise having large liabilities and administering the sale with postponed payment. In Poland factoring services are mainly performed by

banks and companies dependent on banks.

Types of factoring. Depending on the scope of services provided and the form of payment, one can distinguish full factoring (non-recourse factoring) and non-full factoring (recourse factoring). Full factoring takes place when the factor overtakes the risk associated with an inability to recover debts (for example in case of the debtor's insolvency) (so-called *del credere* function) and it itself claims dues in case of unsettling them. Lack of such liability means that non-full factoring has been used. In business trading one can encounter mixed type of factoring, in which the responsibility is carried by both parties to some specified extent. The limit of responsibility of the factor is then established. Depending on the established form of payment among the parties of the factoring contract, there is discount and interest factoring. In case of discount factoring, the invoice amount is diminished by the discount, that is to say, charges, commissions and interests chosen in advance by the factor for the whole period starting from the day of buying the invoice by him till the date of payment. In interest factoring, the factorant receives prepayment that constitutes about 80% of the invoice value. A very prepayment is cleared at the moment of paying liabilities or prior to reaching its maturity date. In this case interest is charged for the real time of getting financing, usually one a month. One can also distinguish discount, advance and maturity factoring [Pluta, 2004].

In spite of a quite dynamic development in the last few years, factoring is still in the phase of recognition and initial implementation. As the mechanism of stimulation of entrepreneurship, it is relatively little known by Polish entities. Factoring has both strengths and weaknesses. The strengths of factoring are, among other things, the possibilities of [[http://bankikredyt.nbp.pl/home.aspx?f=/content/2006/2006\\_11\\_12/barowicz.html](http://bankikredyt.nbp.pl/home.aspx?f=/content/2006/2006_11_12/barowicz.html)]:

- the acceleration of circulation of capital and, at the same time, an improvement in cash flow and generating higher income,
- the inclusion of factoring costs to income costs what permits to reduce the tax basis with income tax,
- the reduction of administrative costs related to receivables recovery,
- simplifying the procedure for contract realisation,
- negotiating additional credits and loans (ensuring credit protection),
- the improvement of capital structure (factoring does not increase the balance sheet, it evokes shifts within the assets on the line of receivables – the financial resources,
- the improvement of the financial criterion,
- prompt adjustment of tax liabilities,

- the improvement of the enterprise image,
- the elimination of contractors' payment lags,
- the lengthening of invoice maturity date for contractors,
- the use of discounts offered by the suppliers,
- the maintenance of larger reserves what results in decreasing operating costs of supply of goods and transport,
- laying-off risk of the debtor's insolvency (the risk is divided between the factorer and the factor),
- the management of liabilities including collection of debts,
- disciplining the debtors by the factor,
- the access to the complex legal and financial services.

Factoring contributes to the acceleration of the rotation cycle of liabilities and, at the same time, the shortening of waiting period for financial resources. Exempt money can be allocated for satisfying other needs what directly influences the further development of the enterprise.

The weaknesses of factoring services include, among other things [ibidem]:

- the high level of factoring costs,
- the reluctance of the factors to overtake the risk of the debtor's insolvency,
- the weakening of links between the factorers and the contractors,
- doubling of the administrative functions,
- the necessity of reorganisation of document circulation in the factorer's enterprise,
- the difficulties with gaining reliable and current information needed to enter the factoring contract and the costs connected to it.

Besides, the surroundings can construe signing the factoring contract as a sign of weak financial condition of the contractor. The factors can purposefully limit the access to factoring services because they are interested in cooperating with the customers whose turnovers have reached the specified level. The weakness of factoring is the lack of direct legislation in the rule of law, too.

#### 4. FORFAITING<sup>6</sup>

Forfaiting is the mediation contract in business trading. Its character, on the basis of the Polish law system, is fully depicted by the legal construction consisting in the non-regressive buyout by the forfeiter; it is most often the bank or the specialised institution, of prompt liabilities that arose from the realisation of the contract. Forfaiting is most frequently used during foreign operations and it is the form of non-cash payment in the foreign settlement of accounts. Such operations are quite expensive in comparison to the bill-of-exchange – credit operations. The institution carrying forfaiting calculates interest according to higher than normal interest rates, and therefore not frequently banks take care of forfaiting. The example of a forfaiting transaction can run as follows: the importer's bank gives a guarantee for a bill of exchange (aval) to the importer who hands it over to the exporter as the form of payment. Not wanting to wait till the day of the buyout of bill of exchange, the exporter gives such a bill of exchange to the forfaiting institution which immediately pays the money to the exporter. The buyout of bill of exchange takes place on the due date indicated on bill of exchange through the mediation of the importer's bank from which bill of exchange is bought out by the importer alone. The parties of forfaiting operations are the forfeiter (the buyer of liabilities, the forfaiting institution), the forfaitist (selling up liabilities, the exporter), and the forfaiting debtor (the contractor who pays with bill of exchange, exporter) [<https://www.nbportal.pl/slownik/pozycje-slownika/forfaiting>].

The types of forfaiting are as follows [<https://mfiles.pl/pl/index.php/Forfaiting>]:<sup>3</sup>

- due forfaiting – buyer of receivables overtakes the whole liability risk,
- inappropriate forfaiting – the buyer rather than the seller bears the burden of paying the various costs connected with the transaction,
- direct forfaiting – the bank buys liabilities not from the expert but from some different forfaiting institution,
- secret forfaiting – the contract is being concluded without the importer's knowledge,
- extended forfaiting – the institution buying receivables serves additional services in the interest of the exporter.

The primary advantages and benefits arising from forfaiting include [<https://www.nbportal.pl/slownik/pozycje-slownika/forfaiting>]:

- the guarantee of an immediate gain of resources by the expert after submitting bill of exchange in the forfaiting institution,

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<sup>6</sup> French Forfaitage, German Forfaitierung

- a comfortable way of the payment with bill of exchange for the importer, accepted by the exporter, it improves the cash-flow ability of the company,
- an easy way of financing and a lack of necessity of arranging complicated procedures which are the forfaiting institution's scope of duties,
- risk elimination (the rate of interest, trading) on the exporter side in connection with the buyout by the forfeiter,
- the exchange of prompt liabilities for cash,
- trading, political and rate of exchange risk elimination,
- the lack of any right of regress on the bank side towards the customer,
- the possibility of financing the contract's full value,
- the possibility of predetermining the rate of discount,
- clear and simple documentation,
- quick realisation.

The primary weaknesses of forfaiting are as follows:

- the high cost, the bank deducts interest in advance for the whole period of transaction,
- the limited use of the service.

The character and the parties of the contract. The forfaiting contract consists of forward, causal, mutual and consensual contracts, it is characterised by its maturity. In spite of the fact that the forfaiting contract shows the characteristics of the assignment of a debt, it belongs to innominate contracts, nevertheless, the doctrine's position leans to the view that the forfaiting contract needs to be treated as the sale of receivables contract.

The parties of the forfaiting contract are [ibid]:

- the seller – a person (entity) running business activity for profit-making reasons, who makes the transfer in the interest of the forfeiter of future receivables that belongs to them in virtue of the contract between him and the buyer. It should be emphasized that the entity, being the buyer in connection with the basic bonding connection, not being the contract party, becomes the forfeiter's debtor. The seller as the contract party transfers the rights to the receivables onto the forfeiter and gives the documents connected with the right to objective receivables,
- forfeiter – the subject buying documented currency receivables by assignment. As the forfaiting contract party he is obliged to pay the price established in the contract, reduced by the commission due to him.

As the subject of the forfaiting contract in the turnover, there most often appears documented currency receivables arising from, for example, the contract of sale, one can encounter, however, the assignment of a debt secured by a letter of credit or incorporated into bill of exchange. The forfaiting contract can be concluded in any form, even in implicit one, most often, however, on account of the certainty of turnover; the parties make it in the written form *ad probationem*. In connection with the lack of separate regulations, the parties of the forfaiting contract bear responsibility on the general basis, so regulations on contractual responsibility and tort liability will be used.

Securities. In the forfaiting transactions there are two forms of guarantee arrangements of receivables purchased [<http://www.findict.pl/sloownik/forfaiting>]:

- warranty – it is a specific payment guarantee of a determined amount of money and an indicated date of its payment in case of its main debtor being unable to pay. The warrantor is generally the international bank that calculates the debtor's credit capacity and on this basis it guarantees repayments of receivables.
- aval – it is the payment of the amount of the bill of exchange, both promissory note and draft guaranteed by the signature of the third person. The guarantor, that is to say, the bill guarantor is responsible for the repayment of bills receivable in the same degree as the subject for which debt under a bill of exchange he warranted. In case of forfaiting transactions it is usually the importer's/debtor's bank who is the guarantor.

Summing up and comparing forfaiting and factoring, it should be stated that factoring is the service in which receivables are bought in the form of invoices, generally applying to the lower sums of money, shorter time limits and, additionally, receivables which are only receivables from enterprises. Forfaiting deals with higher sums of money, longer time limits and there are bills of exchange not invoices that are bought up. Forfaiting is always without regression, that is to say, the final risk of recovering the debt from the debtor lies with the bank. Factoring can be with or without regression. The final difference is that that factoring is the domestic service and forfaiting usually appears in the international turnover [<http://www.bankier.pl/wiadomosc/Forfaiting-co-to-takiego-1384389,4.html>]. *Venture capital* funds offer long-term financing of the ownership character. These are the institutional investors who invest their capital in enterprises not noted on the market but with a promising business concept. The investment fund,

taking the enterprise's shares, capitalizes it. It assumes the value increase in a specified period of time and, after the realisation of the expected profit, it leaves out capital expenditures through the sale of the shares possessed. One of the benefits of using this form of financing is the possibility of the realisation of high risk projects that could not be financed from the traditional sources, e.g. from the bank loan. Besides, the cooperation with *venture capital* funds increases the enterprise's own capital and, therefore, improves financial ratios and facilitates the access to other financing forms. The funds finances specific branches, engaging in enterprises with different scope of activity and being at different stages of development [Bernat, 2015].

## SUMMARY

In many publications the role of small and medium-sized enterprises has been emphasized on account of their participation in creating GNP, too. In Poland this participation in 2004-2011 was running at about 46-48% [Mosionek-Schweda and Spychała-Krzesaj, 2015]. The significant role of the SME sector in the economic growth, in relation to large enterprises, is the contribution of: higher efficiency activity thanks to lower administrative costs, management and pay, more efficient management of resources, better identification of employees with the enterprise, flexible organisation, the possibility of quicker reaction on market changes [Mikołajczyk, 2007]. Simultaneously, the characteristic traits of small and medium-sized enterprises imply specific obstacles in their founding and development. Surveys carried out by scientific institutions or the ones connected with entrepreneurship show that on the Polish market small and medium-sized enterprises finance their activity mainly from their own reserves main as well as their retained profit. What is more, the role of this financial source increases whereas the meaning of some different forms of financing decreases or stays at the same level [Mosionek-Schweda and Spychała-Krzesaj, 2015]. The aim of this article has been to indicate alternative sources of financing business activities run by small and medium-sized enterprises in Poland. These sources are useful to a lesser extent at the boot-up or even concept stage, however, they are provided for the development of the already existing business activity. In the article there has been used the scientific literature on financing small and medium-sized enterprises and, among other things, scientific articles, reports about the state of this sector and Internet websites including National Bank of Poland in particular.



## LITERATURE

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## WYBRANE ASPEKTY FINANSOWANIA MAŁYCH I ŚREDNICH PRZEDSIĘBIORSTW W POLSCE

**Zarys treści:** Znaczenia małych i średnich przedsiębiorstw jest ważne nie tylko ze względu na ich specyfikę, będąc głównym kreatorem miejsc pracy i źródłem innowacji, ale także ze względu na ich kondycję, od której uzależniony jest w znacznej mierze rozwój gospodarczy kraju. Właściwe funkcjonowanie i rozwój podmiotu gospodarczego gospodarki rynkowej wymaga odpowiednich sposobów finansowania. Bardzo ważne są także prawidłowe relacje z instytucjami zapewniającymi finansowanie zewnętrzne. Dostępność do źródeł finansowania, oraz sposób finansowania działalności bieżącej i inwestycyjnej, ma wpływ nie tylko na podejmowane przez przedsiębiorstwo decyzje, ale także nierzadko na jego istnienie. Artykuł ma na celu prezentację obecnego stanu wybranych źródeł finansowania sektora małych i średnich przedsiębiorstw w Polsce.

**Słowa kluczowe:** małe i średnie przedsiębiorstwa, finansowanie działalności przedsiębiorstwa, venture capital, factoring, forfaiting, private equity, kapitał podwyższonego ryzyka.

