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Function of banks in utilization of the EU resources

Abstract

The favourable economic policy can trigger the economic subjects positive reactions, that enlarge the investment (capital, technological, informative as well as in knowledge) and rise of economy competitiveness. The level of investment depends among others from accessibility of investment means. Enterprises the most often cover the developmental investments with own as well as foreign means. The utilization of the EU resources in business development considerable reduces the costs of investment because it is possible to gain 50% grant-in-aid after the end of modernization project. To apply about refund the part of developmental expenditures, enterprises have to fund the investment first. Till this time they are using the support of the commercial banks, which take the active part in planning and utilization of capitals designed for Poland. In the article is showed the function of banks in utilization of the EU resources, which are intended for development of Polish enterprises.

Introduction

The economic function of banks rely on mediation in the loan transforming gained from economic subjects (which are not have possibility and knowledge in range of optimum allocation of owned savings) in bank credits and other investments bringing the profit. Providing services of mediation between economic subjects is favourable economically and socially in regard of assurance of financial as well as economic order and safety. The banks are facilitating the flows of capital between units and they do this with worry and feeling of responsibility for the deposited money by society. Banks have the skill of opinion and choice of the optimum structure assets, that is keeping the

proportion between assets about high fluctuation as well as the long - term assets about lower degree of fluctuation, but bringing the higher profits. Over safety of deposits and the depositaries confidence to commercial banks and money system, watches the central bank and, as the last financial authority, is the warrantor in case of simultaneous payments of deposits from commercial banks during the panic (Begg and others 2000, p. 128). The European money system is stabilized additionally by the Directive 2006/48/WE of European Parliament and Council of Europe from June 2006. The directive regulates the level and structure of own funds at banks, it standardizes the legislative principles of the members states in range of money system safety, it harmonizes the recognizing of mutual permissions and systems of precautionary supervision (Pyka 2008, p. 141). Reduction of credit activity risk is the result of joining the different forms of financial mediation in financial conglomerates. Simultaneously it appears the problem of the *transfrontier infection* (it can have the economic or psychological basis) for the countries, in which the sector of financial services is dominated by foreign financial conglomerates (Iwanicz - Drozdowska 2007, p. 98). The research results of 602 European banks in 1996-2002 show that credit risk could be reduced by increased diversification of products being under control in relation to bank risk, and that there is a weak relationship between commission, payments taken by the bank and protection of risk of capital loss (Lepetit, Nys, Rous, Tarazi 2008, p. 2334). The relation between European and American control of financial system becomes also more and more important. The common money policy in all EU member countries softens economic fluctuations too (Sobol 2005, p. 235).

Commercial activity of banks depends on specialized utilization of knowledge and experience to purchase of diversified portfolio of assets (Begg and others 2000, p. 108). The commercial banks are the organizations oriented on the profit achieved with difference between costs of lent capital (the costs of opening and leadership of accounts and deposits and connected with charge of lent capital) and the incomes from margin of sale of long-, medium- and short-term credits.¹ The banks come under the comprehensive economic appraisal depending on classical methods of profitability,

¹ Simplification was accepted, depending on omission different sources of obtainment of bank income, except credits for enterprises.

financial fluency and solvency opinion as well as on analysis of profitability corrected about risk (RAROC). The RAROC is the measure of efficiency of transaction exposed to risk (Pyka 2008 p. 127). Transactions burdened with larger risk require higher capital protection and inversely – this ones with higher capital protection are loaded with larger risk. On the bank needs the investment projects are estimated with simple – static methods (payback period, rate of return, break-even point, financial fluency etc.), as well as complex – dynamic methods (discount), depending on enumeration of Net Present Value (NPV), Net Present Value Ratio (NPVR), Internal Rate of Return (IRR) as well as Modified Internal Rate of Return (MIRR) (Wind 2008, p. 221-230). Banks take under attention two measures of risk of enterprise - Earning at Risk (EaR) as well as Cash flow at Risk (CfaR) (Jajuga, Jajuga 2007, p. 337).

Bank credit risk is also essential for economic subject applying about capital support for undertaking investment.² The credit risk results from opinion (standing) the previous activity of enterprise as well as rating of planned task on ground of marketing, financial and economic analysis of the credit period and height of transaction, legal protection and monetary risk (Wiatr 2008, p. 202). The enterprise that takes a decision about development with part of foreign capital, takes also the risk of growth of activity costs, then growth of marginal cost and prices of produced goods. Weighted Average Cost of Capital (WACC) at companies results with formula (Jajuga, Jajuga 2007, p. 336):

$$WACC = w_d k_d (1 - T) + w_d k_d + w_p k_p + w_e k_e,$$

where:

w_d - the part of foreign capital,

w_p - the part of capital from privileged actions,

w_e - the part of own capital,

k_d - the cost of foreign capital,

k_p - the cost of capital from privileged actions,

k_e - the cost of own capital,

T – rate if income tax paid by company.

There are credits about fixed and variable interest. Fixed interest means, that it will be the same by whole period of repayment, independent from fluctuations on market

² The consideration was limited to credit risk connected with development of enterprises.

interest rates. The banks very rarely agree on such option, because of too long period of repayment. They establish the fixed interest on period shorter than the time of credit repayment. With credit about variable interest the degree of instalments changes with the interest rates. These interest rates are:

- for PLN - Warsaw Interbank Offered Rate (WIBOR) monthly, 3-months and 6-months;
- for indexed currencies - London Interbank Offered Rate (LIBOR) monthly, 3-months and 6-months.

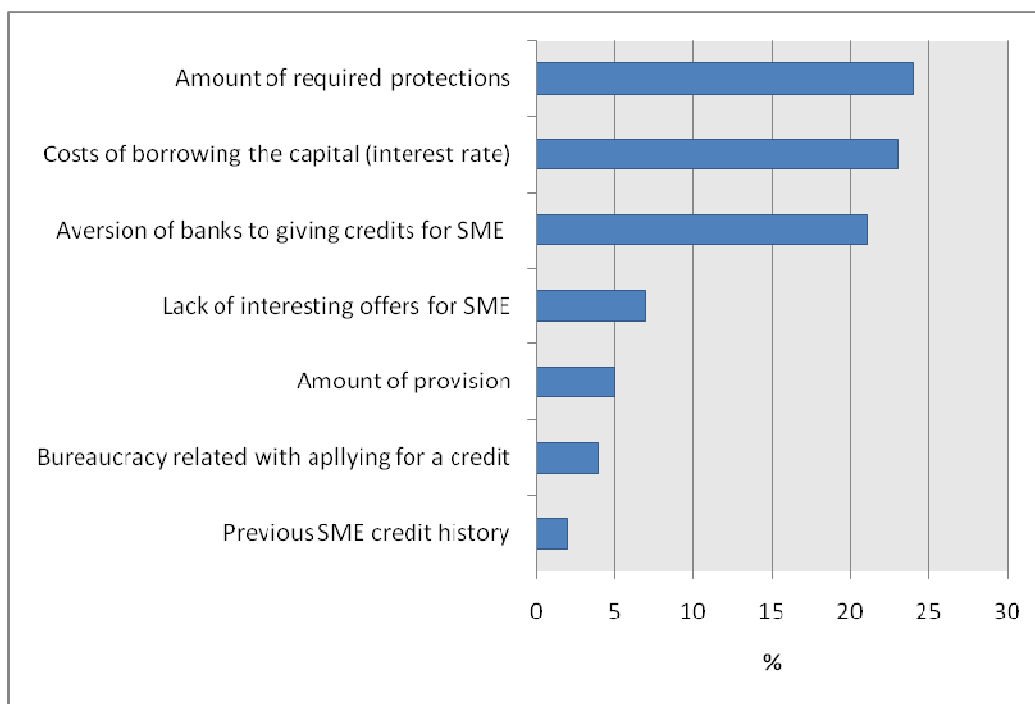
Company, which tries about investment credit, should exist on market at least one year, though it happens that banks fund the investments of younger enterprises. To receive a credit, the company mostly has to have on investment the least 20% own means. It becomes the important barrier for firms, particularly in initial period of their activity. Credit is usually granted only on definite aim, which it is not possible to change. The banks usually require the presentation of feasibility study of project. The credit worthiness of borrower is analyzed in details, every bank carries out the analyze according to own method. The influence on credit worthiness also have the current situation on market in given business as well as the incomes of future periods (business plan is the basis of their opinion). The bank analyses both the possibility of firm in placing oneself on market, and the risk, moreover it estimates the possible incomes. During opinion of enterprise there are analyzed financial documents such as: balance sheet, income and earned surplus as well as the tax declarations. It is analyzed also profitability, financial liquidity, rotation of outstanding, indebtedness, inventory and also change of these indicators in settled by bank period. In procedure of granting the investment credit, banks precisely study the ability of firm to its repayment with current earnings, however to a lesser extent take into consideration additional income from planned investment. There is a large difficulty in gaining resources and it is a symptom of high caution and distance, which the bank use to credit investment. Thus, credit worthiness is the next barrier for developing enterprises seeking for resources on investments. The low credit worthiness is often the result of tax policy established by enterprise, which is based on inflating the costs to utilize the tax shield.

Using the foreign capital to growth of return of equity (financial leverage effect) depends on relation between interest rates of foreign capital and growth of operating profitability of assets (Piasecki 2001, p. 467). According to Adamek (2006, p. 18-19) in SME structure of debts, the largest meaning have the short-term credits, which are the result of:

- credit mentality of enterprise owner;
- connection of this form of funding capital needs with SME trade cycle and investments process;
- time limit of staying the enterprise under influence of credit institution authority;
- minimization of conflict areas between pursuance the owner of economic unit to maintenance of previous independence range, and rights of foreign capital owner in credit period;
- larger risk of loss of financial balance on current economic activity, in relation to large enterprise;
- fulfillment by the short-term credit the function compensating the lack of rational policy and financial planning.

According to PKPP Lewiatan, the main obstacles making difficult the borrowing of capital are: the amount of required protections, costs of borrowing the capital and aversion of banks to giving credits for SME (Object 1).

Object 1. Main barriers in using of bank credits by enterprises



Source: On the basis of: *Monitoring kondycji sektora MSP 2007*, PKPP Lewiatan.

Aim, range and methodology of research

Interest rate of pawn credit of central bank in considerable measure decides about costs of investment capital borrowed by enterprise from commercial banks. More favourable situation in Poland in 2007 than in 2000 is presented in Table 1, because the interest rate of pawn credit decreased from 23 to 6.5% and it is about 1.5 percentage points higher than average interest in EU and about 2% higher than in Czech Republic, Denmark and Sweden. The lowest interest rate (0.4%) is noted down in Japan in 2006.

Table 1. Interest rate of pawn credit of central banks in selected countries (in %)

Specification	2000	2001	2002	2003	2004	2005	2006	2007
European Union	5.75	4.25	3.75	3.00	3.00	3.25	4.50	5.00
Czech Republic	7.50	5.75	3.75	3.00	3.50	3.00	3.50	4.50
Denmark	5.40	3.60	2.95	2.15	2.15	2.40	3.75	4.25
Poland	23.00	15.50	8.75	6.75	8.00	6.00	5.50	6.50
Sweden	4.75	4.50	4.50	3.50	2.75	2.25	3.75	4.75
Hungary	13.75	11.25	9.50	13.50	10.50	7.00	9.00	8.50
Great Britain	6.00	4.00	4.00	3.75	4.75	4.50	5.00	5.50
USA	6.50	1.75	1.25	1.00	2.25	4.25	5.25	:
Japan	0.50	0.10	0.10	0.10	0.10	0.10	0.40	:

Source: On the basis of: <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>, 2008, (:) – no data.

The influence of credit interest rate on enterprises development is in correlation with investments in economy. The investment outlays in enterprises in 2000-2006 are included in Table 2. It results from data, that 2000-2003 were years when the reconstruction investments decreased for 23.5% (from 97.8 to 74.8 billions PLN). The micro-enterprises have the least reaction, they reduced level of investment about 2.1 billions (the least feeling of contraction – 17.2 %). Small enterprises decreased the level of investments the most, till 27.7% (about 3.3 billions), medium sized enterprises about 5.4 billions (24.9%), and large enterprises about over 10.3 billions PLN (19.8%). The investors activation happened in 2004 (Poland accession with EU) and from this time the investment outlays in enterprises increased. It results also from data that expenditures on investments crossed the level from 2000 about 12.9 billions PLN just in 2006, when it was 110.7 billions. The structure of part of bank credits in funding the developmental projects of enterprises and current activity is also presented in Table 2. It can be inferred that the year 2000 characterize the high part of credits in investment outlays (investments – 97.8 billions and total given credits – 117.4 billions PLN). From this time, funding of current activity becomes more and more larger because quantity of given credits increase about 3.8 billions PLN, and the investment outlays decrease about 20.3 billions PLN in 2001. It deepens until to 2004, then the investment increase about 9.1 billions, at the same time amount of credits decrease about 5.1 billions PLN. Since this year the expenditures on enterprises development as well as amount of bank credits becomes larger and larger.

Table 2. The investment outlays in enterprises sector and given credits by banks in Poland in 2000-2006 (billions PLN)

Specification	2000	2001	2002	2003	2004	2005	2006
0-9 (micro-)	12.2	10.3	10.0	10.1	10.1	11.4	11.4
10-49	11.9	8.3	7.6	7.6	9.5	9.4	12.2
50-249	21.7	15.9	15.5	15.3	18.3	19.9	25.1
over 250	52.0	43.0	42.4	41.7	46.0	50.4	62.0
Investments (general)	97.8	77.5	75.6	74.8	83.9	91.1	110.7
Credits given by banks	117.4	121.2	121.9	124.8	119.7	122.9	139.7

Source: On the basis of: report „Przedsiębiorczość w Polsce 2007”, www.mg.gov.pl and www.nbp.pl, 2008.

The aim of research is to show function of banks in utilization of the EU resources in Poland. The hypothesis is put that without part of banks the enterprises would not be

able to use the EU resources on innovative development efficiently. The verification of research problem is conducted on the basis of analysis of funding the EU projects by PKO Bank Polski SA in Warsaw in 2004 -2007. The materials got from bank head office were elaborated by statistical methods. It is analyzed the kinds and quality of bank products, number as well as amount of given credits.

PKO Bank Polski in creating of better utilization of EU resources

In 2004-2007 PKO Bank Polski SA gave over 3.0 billions PLN of credits for over 2000 enterprises (it is over 33% of all credits given by Polish bank system on funding the EU projects). The bank supports the utilization of EU resources by the European Program, which helps the enterprise on every stage of applying about EU resources process by preparation of the grant application, applying, project opinion, signature the refinancing contract and applying about payment. The bank helps also the contractors of the grantee (executors, subcontractors, delivers of services, works and goods), that is the final payees of subsidy. The European Program creates the conditions that enables the grantee matching the requirements of refinancing contract, that is:

- assurance of sources of funding;
- realization of full range of project compatible with schedule of works and expenditures;
- realization of project (all its stages) and its ending in time limit defined in refinancing contract and schedule of works and expenditures;
- making non-cash payments related with project by bank account;
- documentary evidence of expenses in required way for given undertaking;
- documentary evidence of proper realization of works (deliveries, services);
- satisfying the different documentary requirements, e.g. opinion of expert that the devices have required proprieties/ parameters.

EU Guarantee Fund (Fundusz Poręczeń Unijnych) offers for SME the package consisting from 3 complimentary products and services: simple advisory services, bridge and co-finance loans, which are guaranteed by the EU Guarantee Fund as well as project bill. It assures for the grantee the specialized knowledge about project funding, help in credit bank protection, and also the transparency of financial flows. The

enterprise that do not have nor the sufficient own resources, nor the sufficient investment credit protections, can use the guarantee given by Bank Gospodarstwa Krajowego (bank servicing the public finance sector in Poland) within EU Guarantee Fund. This instruments allows to incurrance the investment credit by the enterprises which have short credit history or their assets are not the sufficient protection for the bank. The settlement of project as well as payment of the subsidy are realized by the project account.

The PKO BP offers the package to realization the 'soft' projects for the foundations and associations, which are going to realize the training or advisory undertakings with the EU resources. The bridge loan assures the grantee the financial liquidity during the project realization, that is since moment of spending resources to their refund. PKO Bank Polski offers the bridge investment loan for the enterprises having good financial soundness and the contract about project refund (Kredyt pod dotację UE - credit from EU subsidy). As a protection of repayment of this credit PKO BP accepts the cession of liability from refinancing contract and sola bill *in blanco*, it also applies documentary limitation such as: accounts and protection, that is the bank support of process of correct and punctual project realization, therein making the payment. There are several basic bank products and services:

- distinguished project account, facilitating the management of the project financial flows and their monitoring, it is also the destination account, on which the resources are accumulated;
- documentary letter of credit, which is a kind of settlement between sides of trade contract and minimize the transaction risk, which enables delivery of goods in time and realization of service;
- bank guarantee being the kind of trade transactions protection;
- different clearing - protecting operations (also fiscal);
- operating credit;
- guarantees with EU Guarantee Fund resources as well as credits with global subsidy from the European Investment Bank as a supplement of European Program offer.

The analysis of bank products, which support the utilization of EU resources by enterprises, shows that the majority of Polish banks has special offer related with EU (tab. 3). Presented banks (PKO SA, BOŚ, Fortis Bank, Kredyt Bank, BRE Bank, BPH), are offering programs that facilitate the utilization of EU resources, like PKO BP. The differences in amount of provision, charges for promise of a credit as well as credit costs are very small.

Table 3. Bank products (in selected banks) supporting the utilization of EU resources by enterprises.

Bank	Offer	Credit provision	Charge for promise of a credit	Credit cost (interest rate)
PKO SA	Kredyt Unia	from 1%	0.25-0.5 %	fixed 19.25%, variable 7.05%
BOŚ	Europejska Oferta (European Offer)	1%, minimum 100 PLN	0.2-1.0%, 100 PLN	fixed minimum 8.13%, variable from 8.13 to 8.63%
Fortis Bank	Kredyt pod dotację (Subsidy credit)	2%	negotiations	2-5% + WIBOR 1M
Kredyt Bank	Inwestycje UE (EU Investments)	0.5-4.0% without promise, 0.3-3.0% with promise	0.25-1%, minimum 200 PLN	variable from 8,28 to 10.28%
BRE Bank	BRE Unia (BRE Union)	minimum 1000 PLN, maximum 2%	from 0.1%, minimum 1000 PLN	WIBOR + 2-3%
BPH	Euro Ekspres Kredyt (Express Credit)	from 2%, minimum 300 PLN	0.25-0.50%	9.50%

Source: On the basis of: www.bankier.pl, 2008 and telephone interviews with bank managers.

Summary and conclusions

On the transformation period the behaviours of Polish enterprises are different. It is the result of the state of finance, gaining over capitals, qualities of general management (enterprising and leader's), market orientation as well as attitude of the crew and their representative organs, politicization and strength of trade unions (Stankiewicz, Sudoł 1999, p. 88). According to many scientists and economic practitioners, transformation process still lasts. Situation of Polish enterprises in relation to developmental capital access grows better, because of the dynamism of investment expenditures growth as well as number of given credits. Banks adapted their offer to possibility and needs of economy, particularly in range of EU resources utilization.

Except co-financing of EU projects, in their offer are also consulting in preparation of EU project from idea, by preparation of the grant application, applying, project opinion, signature the refinancing contract and applying about payment.

The barriers that making difficult access to capital for SME are connected with larger risk of giving the credit for this enterprises. Higher risk results the necessity of protections, cost of money, bureaucracy, superiority of opinion of current enterprise situation in the face of its credit history. Formal requirements to receive a credit for SME are stronger than for large firms, but there is larger confidence of small and medium sized enterprises to financing on their own.

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