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FROM THE EDITING COMMITTEE

We are glad to present the fifty third volume of “Studies and Works of the Collegium of Management and Finance” of Warsaw School of Economics. The volume has been prepared in English.

The articles presented in this issue are a result of scientific work conducted by the staff of the Collegium as a part of own research as well as of doctoral and assistant professorial dissertations. All the articles were positively reviewed.

The presented publication reaches not only all the economic libraries and central institutions in Poland, but also the scientific centres all over Europe cooperating with the Collegium of Management and Finance of Warsaw School of Economics.

PART ONE

ARTICLES ON FINANCE AND BANKING

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Poland's Integration with the Eurozone – Opportunities and Challenges

Switching from the Polish currency to the euro will be beneficial, however, the operation will result in a certain cost to the economy. This concerns both the budget policy of the state, and the monetary policy of the Polish National Bank (NBP). There is logic behind certain EU countries not joining the euro. Hence, the problem of currency integration between Poland and the European Union requires calculating the economic feasibility of such action, especially since the decision of replacing the zloty with the euro will be irreversible.

1. The Benefits of Poland's Integration with the Eurozone

Currency integration will facilitate an inflow of direct investment into our country. This includes the investment from outside the European Union. As a country inside a huge market, where there is a plentiful supply of cheap labour, Poland will be an attractive place to invest not just for the European companies, but also for firms from North America and Asia. Also, eradication of exchange rate risk by substitution of the zloty by the euro will facilitate a development of trade within the European Union. A similar effect will be achieved by doing away with transaction costs connected with purchasing/selling currencies, due to reduced expenses. Since prices within the EU will be expressed in one currency, making comparisons between them will be easier, a creation of feasibility studies by companies will be more rational, and a decision making process concerning the allocation of capital will be made more efficient.

Joining the euro will make questions such as stabilising the exchange rate of the zloty, and balancing the Polish budget, obsolete. This will increase flexibility of the national economic policy. The budget policy will, more than before, be available as a tool for solving problems of internal financial stability and satisfying local needs, since external conditions of the financial policy will lose their importance.

Polish companies will seriously benefit from Poland's joining the euro, due to easier access to new sources of financing for their operation. Better access to markets will increase export and local production. Thank to a common currency, the markets that used to be treated as foreign will be as accessible, as the home market. On the other hand, an increased competition from within the economic and currency union will force Polish companies to modernise and search for new technological solutions. The cumulated influence of the above factors should stimulate a faster economic growth.

Joining the euro will facilitate integration and development of a unified European financial market. There will be an increased competition between banks and other financial institutions. This will broaden the range of financial products on offer and reduce cost of financial brokerage, benefiting the sector's customers. Also the cost of transferring money within the economic and currency union will be reduced. Thank to development of the financial market, Polish banks will find it easier to access funds necessary for a proper management of financial liquidity. This will limit the risk of speculation attacks. Also, the development of the Polish financial market resulting from the integration into the eurozone will broaden the opportunities to raise capital for local companies, since an easier access to new, external sources of financing will only be possible within a developed money and capital market.

2. The Costs of Poland's Integration into the Eurozone

The costs of integration with the euro-zone will be high as well. The most important of those will be losing the right to issue currency by the national central bank, and a loss of seignorage gain. The central bank powers the economy with money by crediting commercial banks. The interest on credit granted for increasing liquidity of the banking sector constitutes an element of the seignorage gain, or the income from issuing currency. Crediting commercial banks is a natural channel of supplementing money into the circulation, which does not result in inflation. However, the national bank can achieve income from issuing money by financing the budget deficit. Financing budget deficit from the central monetary institution in the long run leads to inflation. Still, the society may experience unfortunate events of a national scale, the overcoming of which may require extra sources of financing. The most reliable and the fastest way of financing the economy's emergency requirements is a credit from the central bank. In extraordinary circumstances the central bank should have a possibility to purchase treasury stocks in order to finance the society's justified budget requirements. The above does not concern purchasing a few-day treasury certificates in order to manage liquidity of commercial banks. It is solely the matter of applying instruments of current monetary policy in an economy that is financially balanced. What is important is, that the central bank should have a possibility to purchase medium- and long-term treasury bills, in order to cover the necessary emergency expenses of the state. In extreme situations it is not important, whether such issuing of money does, or does not generate inflation. Also, the aim is not to achieve the seignorage gain, although it would be a side effect of such emergency manner of financing the state's needs. What is crucial is, that it constitutes an effective way to cope with the society's important problem. A good example of this kind of situation was the credit granted to the state by the national bank in 1997 in order to help coping with effects of the flood. Integration of Poland into the eurozone will mean the end of the national central bank along with its right to issue its own currency. This will signify losing the possibility to finance needs of the state in extreme situations.

A very significant cost of joining the eurozone will be limiting freedom of the country's budget policy. An annual budget deficit of the country's public sector will not be able to exceed 3% of annual GNP, and a total debt of the public sector will not be allowed over the level of 60% GNP. Those limitations result from a concern for the country's financial discipline and balance, as well as stability of prices. Nevertheless, the quoted indicators are set on an arbitrary basis. It is difficult to unmistakably state whether, for example, crossing the 3% threshold of budget deficit already carries a threat of inflation, or not. Everything depends on the dynamics of economic operation within the country. Besides, the conditions of the Maastricht Treaty are very rigorous. They were formulated at the beginning of the nineties, i.e. in the time, when the EU countries experienced high economic growth and low unemployment. In those days, an active fiscal policy was not needed. The present situation is very different. It can be said, that right now the conditions concerning the level of budget deficit and the level of total public debt hinder a policy of economic stimulation. Furthermore, the conditions of the Maastricht Treaty are more rigorously enforced upon small countries within the eurozone, than upon its large members. For example, both France and Germany have exceeded the limits of budget deficit, and have not so far suffered any consequences of those actions. On the other hand, there is a lot of pressure put on small countries, to conduct a policy of balanced budget. There is also a lot of pressure put on candidate countries to balance their budgets before joining the euro.

The above problem does concern Poland. It seems, that a more expansive budget policy in Poland would be possible in the current poor economic situation. Increasing the budget deficit above the norm imposed by the Treaty of Maastricht in a situation where unemployment is high and price growth is low, would not necessarily mean increasing the inflation in Poland. The state should concentrate its expenses on financing the construction of economic and technological infrastructure of the country, since a well-developed infrastructure is a condition necessary to encourage direct foreign investment. It will be very difficult to reduce the gap in economic development between Poland and the EU without stimulating foreign investment. The private sector will not bear the cost of constructing roads, water intakes, sewage treatment or of environmental protection. Therefore, investment goes to the countries, where economic infrastructure is well developed. State expenses towards developing the above facilities are therefore necessary in order to develop the private sector, with contribution from foreign direct investment. By stimulating the economy, the policy of a slightly higher, controlled budget deficit, may increase the tax income of the state, thus improving the balance of public finance. The need to stick to the level of public finance deficit required by the EU cramps fiscal policy, thus constituting a significant economic cost. The theory has not, as yet, unequivocally determined the safe level of budget deficit, as far as the need to maintain stable prices is concerned. Is it to be 3%, or perhaps more? – it is difficult to precisely predict. Everything depends on a particular situation of the country in question. For example, the latest research of the subject by the IMF does not confirm a connection between budget deficit and inflation in countries of financial balance.[1]

For Poland, a significant economic cost will be giving up on an independent monetary policy by the Polish National Bank (NBP), including giving up on an independent exchange rate policy, interest rate policy, a sovereign policy on money supply and open market operations, as well as giving up its own policy concerning foreign exchange reserves. Influencing the supply of money by the central bank is an important instrument of limiting the volatility of the market. However, it is probable, that the European Central Bank will conduct a monetary policy devoting the most consideration to the economic situation of the eurozone's largest countries. It is indicated by the direction of reforms of the European Central Bank, which provide for a larger share of votes for the countries of the highest economic potential, thus disadvantaging their economically weaker partners.

Our potential joining the euro will mean giving up our sovereign exchange rate policy. The exchange rate constitutes Poland's important tool for influencing growth of the economy and a level of employment within the country. Depreciating the zloty has a positive effect upon improving the price competitiveness of Polish foreign trade, increasing export and limiting import. The latest research by the

[1] Revising the fiscal deficit-inflation puzzle, "IMF Survey", No. 10, 2/6/2003.

NBP indicates, that the depreciation of the zloty between the first quarter of 2002 and the first quarter of 2003 resulted in an immediate decrease of the volume of import by 3.8% and a rise in the volume of export by 1.9%[2], contributing to an improvement of the international trade balance and the current trade balance. Obviously, depreciating a currency cannot be an instrument of stimulating export on a permanent basis, since such policy would lead to emphasising its negative effects. Nevertheless, it should serve as an incidental correction tool, aimed at restoring competitiveness of Polish goods at international markets. Poland has become a country, where export contributes to a significant proportion of the GNP. Profits deriving from exporting to international markets have a serious effect upon the economic situation at the national level. Permanently giving up such an important instrument as a possibility to influence the external value of currency, will hinder the policy of stimulating the economic growth. The above does not only relate to the substitution of the zloty with the euro, but also to the earlier tying of the zloty's exchange rate to the euro as a part of the ERM II system. Significant disproportions between economic potentials and economic structures result in Poland and other EU countries reacting differently to asymmetric shocks. The need to level out the differences regarding reactions to external stimuli by the economies of individual countries means, that there still is a need to adjust exchange rates of national currencies in order to make results of asymmetric shocks similar. Possessing a powerful tool of monetary and trade policy, such as a possibility to influence the external value of national currency is Poland's precious asset.

Another substantial cost for Poland will be resigning from an independent interest rate policy by the central bank. At the moment it is the European Central Bank's prerogative to decide about levels of interest rates across the entire eurozone. Interest rates for deposits and credits at central banks are the same in Portugal as they are in Finland or Greece. It is similar with interest rates at commercial banks, since they are derived from the central rates. But the internal economic situation in individual EU countries is not identical. The course of business cycle in different countries is different. Also the characteristics such as flexibility of prices and pay, mobility of workforce or strength of trade unions differ. All of those circumstances mean, that economic conditions in individual regions of Europe vary. From the point of view of the theory of optimum currency area, this constitutes a major difficulty in the process of currency integration. For example, a different local situation should encourage a differentiation of interest rates. It is wrong to apply identical interest rate policies

[2] „Raport o inflacji w I kwartale 2003 roku", Wydawnictwo NBP, September 2003, p. 26.

to a country experiencing economic growth, and to one experiencing economic stagnation. For example, in Germany in 2002 it was a common opinion, that interest rates were too high, considering long-term recession tendencies. But Bundesbank could not do anything to solve this crucial problem. A similar situation can take place in Poland. An interest rate will seize to exist as an instrument of shaping the local situation and a tool to stimulate the economy. It must be remembered, that in a market economy, the range of instruments available is limited. Getting rid of another instrument of economic policy will mean, that the reduction of the economic gap between us and the EU countries will take a very long time.

The situation is similar in the case of money supply policy. The possibilities of shaping the supply of money are available to the central bank by way of open market operations. Transactions of purchasing and selling short-dated securities between the central bank and commercial banks define liquidity of the latter, at the same time provide a possibility to influence the extent of crediting action and supply of money in the country. On the surface, the policy of open market operations within the euro-zone is decentralised. It is up to the national central banks (which are the implementators of the ECB's monetary policy) to decide about extent of purchasing and selling of securities to commercial banks. Also, it is up to them to accept deposits from commercial banks on behalf of the European Central Bank and to decide about the scale of credits they grant. However, there is one, extremely important exception. Only the European Central Bank can determine interest rates on all the above transactions. Hence, it is the ECB that determines interest rates of the eurozone. This effectively takes the prerogative of deciding about the extent of crediting and the supply of money in the country away from the national central banks.

Open market operations are the most important instrument for regulating liquidity of the banking sector within the eurozone. Compared with Poland, in the eurozone the obligatory reserve indicator plays a relatively insignificant part, and has a lower value. Potential access into the currency union would therefore oblige Poland to reduce the reserve indicator from 3.5% to 2%. Also, it will be necessary to introduce interest rates on the funds constituting the obligatory reserve.

Currency integration between Poland and the EU will mean losing control over the national monetary policy. The weight of adjustment processes within the national economy in order to maintain stable prices will therefore rely on budget policy. However, as has already been mentioned, this area of public finance will be restricted as well, due to a necessity to comply with the provisions of the Maastricht Treaty. Will a policy of accelerating economic growth be possible?

There can be doubts about that. One can only trust the efficiency of automatic adjustment mechanisms. Market mechanisms should cause moving of capital from the regions of eurozone, where there is a relative surplus of it, to the regions that suffer from its lack. This may mean a chance of faster economic growth for Poland in relation to other EU countries, and a chance to partially level the differences in economic development. It is equally possible, that the currency integration will fix the disproportion of economic development between Poland and the old members of the European Union. A shear faith in a faster economic growth resulting form joining the uniform currency area seems to be too little to constitute a basis for rational and irreversible decisions. Low economic growth and high unemployment in France and Germany do not justify optimism. A 1% growth and 9% unemployment are not exactly examples one would like to follow. It is similar with anti-inflation policy. Prices in the EU rise by 2.1%, which is similar to Poland.

An increased competition between companies within the European Union, leading to technological progress will force firms to minimise employment, which means the unemployment may rise. In order to heal this dangerous social disease it is necessary to allow for free transfer of workforce within the EU. Unfortunately, most EU countries have already introduced limits for access of Polish workers to local labour markets. Thus disappears an important condition of success of the integration – a full flexibility of labour markets.

There is another, more direct cost of currency integration with the EU. It is an obligation to transfer a large part of NBP's currency reserves to the European Central Bank. Our central bank will no longer shape the exchange rate of the zloty, i.e. it will not undertake any foreign exchange interventions. Those matters will become a prerogative of the European Central Bank, which will require the Polish reserves in order to intervene at the euro market. Only a part of foreign currency reserves will remain with the NBP. They will provide security in case of possible unfavourable events. Our currency reserves at the moment are not high, compared to other countries around the world, they can be described as average. The duty to hand them over to the ECB will undoubtedly be a serious strain on our economy. Let us remind, that Poland's foreign debt is growing rapidly. A growing demand for convertible currency to service this debt will require maintaining currency reserves at a level even higher than the present one. Also, Poland is obliged to pay its share to the European Central Bank, which will not be an easy task.

While discussing Poland's currency integration with the euro, it is usually the benefits that are brought into light. Little is said about the high macroeconomic and financial costs. The currency integration with the euro-zone, instead of reducing, might consolidate the differences between Poland and the EU countries as far as economic development is concerned. Furthermore we are certain to bear cost, while the benefits are merely probable. Also, it is significant, that we shall face the costs before any positive aspects of the operation became visible. Hence, it ought to be recommended for Poland's joining the euro to be delayed. The upcoming decade should be devoted to the state conducting an active policy aimed at stimulating economic growth, and reducing the economic distance between us and the countries of Western Europe. It is also necessary to further develop the national capital market capable of generating internal financial resources to support development. However, such policy would require a temporary suspension of the implementation of Maastricht criteria. The above particularly concerns the budget deficit criterion and the criterion of the total debt of the public sector. Also, the upcoming decade should be devoted to improving the efficiency of market mechanisms in the Polish economy, and in particular to improving the flexibility of prices, pay, labour market, and to further dismantling of monopolies and to privatisation of the economy, and finally, to fully assessing the effects of any further steps towards a liberalisation of capital flows and of the operation of capital markets. It is so, because in Poland integrated with the eurozone it will be the market mechanisms that will decide about allocation of production factors. Therefore, the market mechanism of dividing goods and capital must be efficient. The suggestion to delay currency integration is not new. For example, the European Central Bank advises us against any haste in integrating Poland into the euro. Such stance is perfectly understandable, considering that at the moment no calculation of costs and losses resulting form Poland's integration with the EU exists.

3. Recapitulation

Currency integration between Poland and the EU will be connected with both benefits and economic costs for Poland. Joining the euro will facilitate an inflow of foreign investment into our country and a development of economic cooperation with abroad. Competition at the national financial market will toughen, resulting in positive changes for the economy and the society. But the cost of currency integration is high too. Following its access into the eurozone, Poland will loose important instruments of monetary policy, used by our central bank to influence the condition of the economy and the level of employment. It is probable, that the unemployment will increase further. It can also be expected, that instead of reducing the gap in economic development between Poland and the old EU members, a hasty accession into the eurozone might consolidate it. Therefore, it is justifiable to delay the process of Poland's joining the euro. It would be recommended to first complete the market reforms in order to create a fully mature, open and competitive economy, where the market mechanism of capital allocation is efficient. The above is a basic condition for reducing the economic distance between Poland and the more developed countries of the European Union.

Małgorzata Zaleska
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Institutional and Market Conditions of Managing Financial Balance of Banks Operating in Poland

1. Introduction

Financial balance of a bank is influenced mainly by external (e.g. macroeconomic and legal-including supervisory and tax regulations), and internal factors (e.g. bank managing skills). This presentation will deal practically only with certain external factors that significantly influence operation of banks in Poland. The presentation will start with market conditions, which are primary to legal regulations.

External conditions, most of all those resulting from legal regulations, significantly limit profits of banks operating in Poland. The knowledge of those regulations is necessary in order to effectively, within the prevailing legal provisions, manage financial balance of banks. At the same time, it needs to be said, that the level of arduousness of Polish legal regulations systematically decreases, nevertheless it remains high compared to the solutions adopted by developed countries, including those belonging to the eurozone and the European Union.

The presented analysis of external conditions of managing financial balance of banks operating in Poland concerns the year 2003. Also, the paper presents and assesses some of the changes introduced from 1/1/2004, which influence the banks' financial balance. Such choice of time is not accidental, but made for the following reasons: the importance of changes that took place during the chosen period, reducing the level of restrictiveness of the regulations, a possibility to assess a competitive position of Polish banks, and the fact, that the data are up to date.

2. Market Conditions Influencing Management of Financial Balance of Banks Operating in Poland

2.1. Macro-economic Conditions[1]

The research conducted by Euler Hermes indicates, that the factor necessary for stabilising the level of risk of economic operation is the economic growth of 2–3% per annum.[2]

The above condition was fulfilled in Poland in 2003 (the growth ratio amounted to 3.7%). The p.a. inflation in the analysed period decreased by 1.1 percentage points (from 1.9% to 0.8%). The zloty to euro, the zloty to Swiss franc, the zloty to Sterling and the zloty to yen exchange rates weakened (by about – respectively – 17%, 9%, 8% and 8%), and the zloty to American dollar strengthened (by about 4.7%).

The above changes were a basis for the Monetary Policy Commission's (RPP) decisions concerning instruments of monetary policy, including interest rates (changes concerning the manner of calculating, the interest rate on and the level of obligatory reserve will be discussed in a further part of this paper).

During 2003 (in the first half of the year), RPP reduced rates six times to the following final levels: the reference rate to 5.25%, the rediscount rate to 5.75%, the Lombard rate to 6.75% and the deposit rate to 3.75%. The changes of interest rates introduced by the central bank were then translated into changes in interest rates of instruments (such as credits and deposits) in banks operating in Poland. The second factor influencing the level of interest rates in banks operating in Poland was the return on treasury securities, which systematically rose during the first half of 2003, to then rapidly decrease (according to NBP, the decrease of prices of treasury stocks reduced gross financial balance of banks by about PLN 300 million).

As a reaction to the above changes, banks reduced interest rates. The above reduction particularly concerned credits (on average by 2.2 percentage points), especially the preferential ones addressed to farmers (by 4.5 percentage points – interest on such credits must not exceed the 1.25 of rediscount rate on bills). The reduction did also concern deposits, but to a lesser degree (on average 1.5 percentage points). The reduction of credit interest rates was higher than the decrease of the reference ratio of the central bank (1.5 percentage points).

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[1] Original research based on the data from the General Statistical Office (GUS) and the Polish National Bank (NBP).

[2] P. Zajdel, Badanie ryzyka niewypłacalności, „Finansista" No. 1/2004, p. 29.

Average interest rates in banks operating in Poland in December 2003 amounted to:[3]

– 0.3% for current accounts,

– 2.9% for time deposits,

– 8.7% for company credits,

– 15.6% for household credits.

The reduction of interest rates, and faster for credits than it was for deposits, contributed to a reduction of interest rate margin, which in the analysed year amounted to about 3% (still higher than in the EU countries). The reduction of interest rate margin was one of the factors contributing to a lower financial balance of banks deriving from interest (according to NBP, by 6.1% during 2003).

2.2. Financial and Economic Condition of Customers of Banks

Financial balance of a bank depends, to a large extent, upon financial and economic condition of firms, as well as upon a structure of income and spending of households, which are serviced by the bank.

The financial and economic condition of firms operating in Poland is not very good, although it improved during the year 2003 (especially during its second half). According to GUS, production sold rose by 8.7%, and the level of investment fell by 0.9%.

Financial reports and micro-economic statistics do not present an accurate picture of the economic and financial situation of companies, branches of industry, sectors of production etc., due to the scale of grey economy in Poland.

According to estimation by professor F. Shneider from Austria, as much as 27.4% of GNP in Poland is produced within the grey economy – the most of all the countries analysed. Behind Poland there are countries such as Italy (respectively 27%), Hungary (24.4%), the Czech Republic (18.4%), Slovakia (18.3%), Germany (16.3%), France (15.0%), Great Britain (12.5%) and Japan (11.1%).[4] At the same time it is estimated, that small and medium companies operating in Poland conceal over 20% of their turnover from the tax office, and 19% of employees work illegally.[5]

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[3] J. Koleśnik, M. Zygierewicz, Wpływ zmian w polityce pieniężnej, podatkowej oraz regulacji ostrożnościowych i działalności Bankowego Funduszu Gwarancyjnego na działalność banków w 2003 roku, Związek Banków Polskich, Warszawa 2004, p. 10.

[4] Szary cień coraz dłuższy, „Rzeczpospolita", No. 58/2004, after: J. Ostaszewski, P. Russel, Makro i mikroekonomiczne uwarunkowania rozwoju przedsiębiorczości w Polsce, Scientific Paper edited by J. Ostaszewski, Prawno-ekonomiczne aspekty rozwoju przedsiębiorczości (part I), Warsaw 2003, p. 40.

[5] Results of research by the Polish Confederation of Private Employers, after: Małe i średnie firmy tracą udziały w rynku, a ich zyski spadają, „Profit", No. 5/2003, p. 59.

Such significant scale of the grey economy in Poland is a consequence of, among others, the prevailing legal regulations (the labour code, tax regulations). Economic operation in Poland is far too heavily regulated by the law. For example, the 2002 official journal announcing new legislation was 13 132 pages long, which means, that an operating company was obliged to acknowledge over 35 pages of new legislation per day.[6]

Results of research conducted by Heritage Foundation and The Wall Street Journal confirm the above observation. Poland was classified at 56th position in the world as far as the degree of economic freedom is concerned. It is a very remote position in comparison with other countries of the Central and Eastern Europe. For example, Estonia was classified as number 6, the Czech Republic as number 32, Hungary 42 and Slovenia 52.[7]

Overregulation, insufficient freedom of economic operation, contributes to omitting / breaking of the law, and does not improve security of running companies, including banks. One of the best determinants of increased financial balance of banks operating in Poland would be the improved, stable legal and macroeconomic conditions of economic operation.

The condition of households improved in 2003 as well. According to GUS, purchasing power of pay rose by 2%, and the average pay in the companies' sector rose by 2.8% and in 2003 amounted to PLN 2,341.53. Still, a statistical family spends about 30% of their disposable income on food, and only 19% on accommodation. To compare, in Portugal those spendings constitute respectively 12% and 20%, and in Germany 10% and 31%.[8]

Opportunities to attract savings when incomes are relatively low and competition is rising, as well as opportunities to grant working credits, are therefore limited, while both of the above activities influence the financial balance of banks operating in Poland.

2.3. Competition between Banks

Increasing competition between individual banks, as well as between banks and other institutions operating in the financial markets, is a permanent feature of modern economic reality. Basic strategies of increasing a bank's market competitiveness are broadening its scale of operation and widening the range of

6 J. Chudzik, Czynniki stymulujące rozwój małych i średnich przedsiębiorstw, in: Scientific Paper edited by J. Ostaszewski, Prawno-ekonomiczne aspekty rozwoju przedsiębiorczości (part I), Warsaw 2003, p. 251.

7 Wolności więcej, ale mniej niż u sąsiadów, „Gazeta Bankowa", 19/01/2004, p. 41.

8 R. Benecki, Jeszcze nie boom, „Gazeta Bankowa", 22/03/2004, p. 12.

products and services on offer. Actions aimed at achieving the above effects significantly influence financial balance of the banks who introduce them.

Broadening scale of operation usually results in worsening quality of receivables, which is connected with an obligation to create adjusted reserves constituting costs reducing bank's financial balance. For example, according to NBP, at the end of 2003 in Poland, in commercial banks (state owned and shared stock companies), the share of doubtful debts in total receivables amounted to 21.8%, and in smaller co-operative banks 7.2%. As far as the sector of co-operative banks is concerned, quality of receivables improves in case of banks, which exceeded the PLN 200 million threshold of total financial balance.[9]

Also, a broadening scale of banking operation contributes to a reduction of the share of fixed costs in total costs, which ought to positively influence financial balance.

Another factor contributing to rising costs is development of the range of banking products and services, which also limits the possibilities to control and raise extra-interest income generated by commissions and fees. According to the NBP data, in 2003 the balance generated by commissions in commercial banks operating in Poland rose by 15.1%, constituting 28.1% of the total balance on banking operation (in the EU countries on average over 35%). Hence, the development of the range of banking products and services has a multi-directional influence upon the financial balance of banks.

For example, in a typical car-credit bank – Volkswagen Bank Polska S.A. (the first position in the banking sector as far as value of granted car credits is concerned: PLN 613.5 million) income from commissions at the end of 2003 constituted 3.2% of income from interest, while in a retail bank – Dominet Bank S.A. (respectively the second position according to the value of granted car credits: PLN 312.8 million), the income from commissions constituted 21.7% of the value of income from interest.[10]

It is not only the diversity of products and services on offer that is relevant as far as the level of financial balance is concerned, but also the scale of raised and allocated financial resources. Retail banks are characterised by high operational costs, connected with a high cost of granting and supervising a large number of "small" accounts of individual customers.[11] It is worth mentioning, that in

[9] Magia 200 milionów, „Gazeta Bankowa", 1/3/2004 p. 27.

[10] Original calculations based on: G. Gadomski, Specjaliści w akcji, 50 największych banków w Polsce, supplement to Bank No. 3/2004, p. 32.

[11] M. Gołajewska, P. Wyczański, Mierniki oceny dochodowości i efektywności banków, „Bank i Kredyt", No. 9/1994, Bankowe abc, p. 3.

Poland there is an apparent trend towards raising the number of credits granted for small sums of money and short-term.[12]

3. Institutional Conditions of Managing Financial Balance of Banks Operating in Poland

3.1. Regulations – Instruments of Monetary Policy

Of all the different kinds of instruments of monetary policy used by NBP, the most significant as far as the financial balance of banks operating in Poland is concerned, is the obligatory reserve (the presentation also comments upon the indirect influence of the central bank's interest rates upon the balance of banks which is generated by interest). Several crucial, and generally beneficial to the banks changes concerning calculation and rate of the obligatory reserve took place in the year 2003.

On the basis of the resolution no. 1/9/OK/2003 by the NBP Board, on 3/4/2003 NBP conducted an earlier redemption of nine-year and ten-year bonds, which the banks were obliged to purchase on 30/9/1999, in return for a rate reduction of the obligatory reserve. The bonds were non-negotiable, brought low interest (at the level of inflation), and could bear no other charges.[13] The earlier redemption of the bonds was therefore beneficial to the banks, both due to broader possibilities of liquidity management, and financial balance management – a possibility of engaging resources in profitable assets, and receiving interest on redeemed bonds for the period from 1/10/2002 to 3/4/2003 (according to NBP, the total of PLN 58 million). The earlier redemption of bonds concerned 53 banks, of which 38 were commercial banks and 15 were co-operative banks.

According to the resolution of the NBP Board no. 24/2003, if value of a calculated obligatory reserve is lower than the equivalent of euro 500 thousand, then the value of deduction is equal to the calculated amount of the reserve. The introduction of the above regulation (from 30/9/2003) is particularly important for co-operative banks (it is estimated, that about 80% of co-operative banks operating in Poland do not transfer the obligatory reserve). As a result of this change, the total amount of obligatory reserve deposited at NBP decreased by

[12] J. Koleśnik, M. Zygierewicz, Wpływ zmian w polityce pieniężnej, podatkowej oraz regulacji ostrożnościowych i działalności Bankowego Funduszu Gwarancyjnego na działalność banków w 2003 roku, Polish Bank Association, Warsaw 2004, p. 12.

[13] More on the subject: M. Zaleska, Zarządzanie aktywami i pasywami banku spółdzielczego, Twigger, Warsaw 2003, pp. 137–138.

about PLN 0.8 billion.[14] The released resources, located in interest- bearing assets, contribute to improvement of financial results of banks. At the same time, denominating the quoted limit in euro has an adverse effect, since it means a raise of currency risk in operation of banks, which possess liabilities denominated predominantly in Polish zlotys.

In the resolution no. 14/2003, RPP decided to reduce the rate of the obligatory reserve from 4.5% to 3.5% (the resolution came into force on 1/10/2003 and was applicable to the obligatory reserve to be deposited from 31/10/2003). Reducing the rate of the obligatory reserve meant rising liquidity of the banking sector by about PLN 3 billion[15], as well as increasing banks' financial balance.

On 18/12/2003 the Polish parliament decided, that from the beginning of 2004, the amount of the obligatory reserve would bear interest. During the years 2004–2006 this interest will be transferred to the banks and the EU Guarantee Fund. In 2004 80% of the interest on the obligatory reserve will be passed towards co-funding EU projects, and 20% will be transferred to banks. In 2005 the proportion will be respectively 60% and 40%, in 2006 half and half, and beginning from 2007 the entire amount of interest will constitute income of banks.[16] The above solution, according to which the obligatory reserve bears interest, has to be considered as a step in the right direction, although not entirely corresponding with the European standards, postponing the direct possibilities of increasing financial balance of banks operating in Poland.

3.2. Supervisory Regulations

The year 2003, compared to the previous years, can be described as relatively stable as far as the number of changes in supervisory regulations is concerned. A relatively small number of alterations to those regulations (in principle, only three legal documents were amended), meant those modifications were of significant importance.

The changes concerned predominantly the following areas:

- appointing capital requirements for individual types of banking risk, as well as for solvency ratio – resolution no. 1/2003 by the Commission for Banking Supervision (KNB) of 4/6/2003,

[14] J. Koleśnik, M. Zygierewicz, Wpływ zmian w polityce pieniężnej, podatkowej oraz regulacji ostrożnościowych i działalności Bankowego Funduszu Gwarancyjnego na działalność banków w 2003 roku, Polish Bank Association, Warsaw 2004, p. 14.

[15] Ł. Wilkowicz, Krok przed porozumieniem, „Gazeta Bankowa", 6/10/2003 p. 7.

[16] More on the subject: J. Koleśnik, M. Zygierewicz, Wpływ zmian w polityce pieniężnej, podatkowej oraz regulacji ostrożnościowych i działalności Bankowego Funduszu Gwarancyjnego na działalność banków w 2003 roku, Polish Bank Association, Warsaw 2004, p. 16.

- limits on concentration of receivables – resolution no. 2/2003 by KNB of 2/7/2003,
- classification of credit exposures (receivables and extra-balance liabilities granted), as well as creation of adjusted reserves – the decree by the Minister of Finance of 10/12/2003.

Every modification of the existing regulations or introduction of new regulations, including supervisory regulations, brings certain consequences, i.e. generates risk (such as legal risk, or risk of defects) and costs (e.g. of adjusting computer systems or internal procedures), thus reducing financial balance. In Poland such costs are not calculated and the risk is not estimated, whereas in the United Kingdom it is a duty of Financial Services Authority (the supervisory body over the financial market) to analyse financial benefits resulting from prevailing and currently introduced regulations.

Of all the quoted changes in Polish banking regulations, the rules concerning classification of credit exposures and creation of corresponding adjusted reserves has the most influence upon financial balance of banks. According to NBP data, in the year 2003, adjusted reserves constituted about 15% of the total financial balance generated by banking.

The last change concerning the above area resulted from the quoted decree of the Minister of Finance of 10/12/2003 on the principles of creating reserves covering the risk connected with operation of banks. The number and the importance of changes resulting from the above decree are very significant. Only some of them are presented below, principally those influencing the scope of created reserves, i.e. in most cases influencing financial balance of banks.

To begin with, the criterion of promptness of debt repayment, which is taken into account in the process of classification of an exposure has been prolonged, according to the following principle: the longer the delay in repayment of capital instalments or interest, the worse the quality of credit exposures. The criterion has been prolonged for companies and individuals, and unaltered for the State Treasury. The discussed change positively influenced quality of credit exposure portfolios, reduced volume of created reserves and improved financial balance of banks.

Secondly, the principles concerning validity of certain collaterals (e.g. cash, state treasury securities) in the process of creating adjusted reserves have been changed. The current solutions provide, that collaterals are to be regarded at the stage of exposure classification, and not at the stage of creating reserves, as used to be the case. The above change resulted in classifying as "normal" a part of exposures earlier regarded as "in danger", which improved quality of the exposure portfolio, but not changed the value of the adjusted reserves.[17]

Thirdly, the role of collaterals in the process of assessing credit risk has increased further, as a result of allowing – in strictly appointed situations – a possibility of substituting an assessment of debtor's economic and financial situation with an assessment of economic and financial situation of drawer of collateral. Drawers provide sufficient guarantee, and at the same time constitute an alternative source for repayment of debt.[18] Accepting certain types of collateral indicated by the decree constitutes a way to reduce importunity of adjusted reserves by banks.

Further, the necessity to conduct economic and financial assessment in the process of classification of credit exposures has been limited, as far as credits for individuals are concerned, including those concerning mortgage credits and loans, as well as small credit exposures. Reducing frequency of assessments contributes to a reduction of costs of the procedure, thus positively influencing financial balance of banks.

Finally, the amount of overdue debt, which does not oblige banks to reclassify exposure to a worse quality category, has been increased from PLN 10 to 200. This too has a positive influence over banks' financial balance.

To recapitulate, the above changes concerning classification of credit exposure and creation of adjusted reserves contribute most to the improvement of portfolio quality (by estimated 7%), reduce volume of necessary adjusted reserves (by about PLN 1.3 billion)[19], and at the same time positively influence financial balance of banks.

3.3. Tax Regulations

The most important changes concerning tax regulations include:

– a reduction of income tax,
– income tax exemption for a part of income of co-operative banks,
– changed principles of charging VAT on financial services.

A reduction of income tax from 27% to 19% has been in force since the beginning of 2004; nevertheless it significantly influenced financial balance of

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[17] J. Koleśnik, M. Zygierewicz, Wpływ zmian w polityce pieniężnej, podatkowej oraz regulacji ostrożnościowych i działalności Bankowego Funduszu Gwarancyjnego na działalność banków w 2003 roku, Polish Bank Association, Warsaw 2004, p. 32.

[18] More on the subject: M. S. Wiatr, Kierunki zmian polskiego systemu szacowania ryzyka kredytowego – próba oceny, „Bank i Kredyt", No. 1/2004, p. 23.

[19] J. Koleśnik, M. Zygierewicz, Wpływ zmian w polityce pieniężnej, podatkowej oraz regulacji ostrożnościowych i działalności Bankowego Funduszu Gwarancyjnego na działalność banków w 2003 roku, Polish Bank Association, Warsaw 2004, p. 36.

banks on the turn of the years 2003 and 2004 (it is estimated, that it contributed to a PLN 800 million reduction of banks' income). Such decrease was a result of a changed value of adjusted reserves for credit exposures, which banks could later recover by including it into cost of income. The sum available for recovery decreased from 27% to 19% of adjusted reserves.[20] The decreased rate of income tax adversely affected financial balance of certain banks in the discussed period, nevertheless the future influence of this change will be positive. According to the NBP data, the quoted changes influenced financial balance of 52 banks, of which 37 negatively, and 15 positively. The net financial balance of the banking sector was thus reduced by 2.4%.

Income tax exemption concerns only a chosen group of co-operative banks (of equity valued below euro 1 million), which fulfil specified requirements (such as allocation of at least 80% of profit towards increasing the resource fund) and has been in force from the year 2004. Such exemption is in breach of the principles of free market. The law exempts from income tax 75% of a co-operative bank's income derived from operations conducted by bank members. Implementation of the above regulation is not simple (it is necessary to analyse every operation according to the criterion: whether it was or was not connected with a bank member) and is connected with increased cost, and therefore a reduction of financial balance. Obviously, the fact of exempting a part of income from taxes itself positively influences financial balance of banks.

In 2003 the work begun on changing the act on taxes on goods and services, in order to accommodate the EU legislation. The changes are aimed at limiting the scope of financial services exempted from the above tax. Among others, the following services were taxed: providing things for use against payment, financial advisory services, debt collection and factoring, services concerning rights towards immovables.

It is worth mentioning, that banks operating in Poland often do not deduct the VAT connected with goods and services other than financial (i.e. not constituting the main category of the banks' operation). Such situation results from a lack of separate records conducted for the tax-free and the taxed segments of operation. It is estimated, that about 5–8% of the total income of banks was generated by the types of operation taxed by the VAT.[21]

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[20] J. Koleśnik, M. Zygierewicz, Wpływ zmian w polityce pieniężnej, podatkowej oraz regulacji ostrożnościowych i działalności Bankowego Funduszu Gwarancyjnego na działalność banków w 2003 roku, Polish Bank Association, Warsaw 2004, p. 52.

[21] J. Koleśnik, M. Zygierewicz, Wpływ zmian w polityce pieniężnej, podatkowej oraz regulacji ostrożnościowych i działalności Bankowego Funduszu Gwarancyjnego na działalność banków w 2003 roku, Polish Bank Association, Warsaw 2004, p. 58.

4. Assessment of Financial Balance and Profitability of Banks Operating in Poland

In the course of 2003 the net financial balance of the banking sector in Poland rose by 44%, from PLN 2.7 billion to 3.9 billion. One of the growth factors not discussed above (internal) was rationalisation, reduction (for the first time in the history of modern banking in Poland) of banks' costs of operation (material and employment). The second significant factor was a reduction of the balance of adjusted reserves resulting, among others, from an improved quality of banks' credit portfolio.

In spite of a significant raise, the banks did not reach the financial balance of the year 2001.[22] Unfortunately, the exact data on cash flows, particularly within the operational activity of Polish banks, is not widely available, although cash flow account is a kind of financial report not susceptible to "manipulation", and its analysis along with an assessment of financial balance allows for detection of symptoms of economic and financial difficulties, which can be spotted when financial balance grows faster than cash flow.[23]

According to NBP, at the end of 2003 44 of the commercial banks produced net profit, and 14 net loss. The corresponding figures for co-operative banks were 596 and 4.

The highest value of financial balance in the year 2003 was produced by the largest banks operating in Poland (PKO BP SA: PLN 1 226 million and Pekao SA: PLN 919 million). Only 6 banks (about 10% of the sector of banks operating as join-stock companies) produced in 2003 a net profit of over PLN 100 million (according to the NBP, 5 of those produced almost 95% of the financial balance of the entire banking sector in Poland). Kredyt Bank SA faced a difficult situation, since in 2003 it tripled the 2002 loss. At the end of 2002, the bank's loss amounted to 107.7% of its equity.[24]

When judging profitability of banks measured with traditional indicators of profitability such as ROE and ROA, according to the criterion of bank's size, one comes to a conclusion, that the highest indicators characterised the medium-sized banks. Other types of banks displaying high values of ROE and ROA were specialist banks (e.g. car banks) supported by foreign owners. The bank of the highest profitability measured by the quoted indicators was Wschodni Bank Cukrownictwa SA (Eastern Bank of Sugar Industry), with ROE of 49.5% and

[22] 50 największych banków w Polsce, supplement to „Bank", No. 3/2004, p. 8.

[23] W. Wąsowski, Fałszowanie sprawozdań finansowych, Biblioteka Menedżera i Bankowca, Warsaw 2003, pp. 27 i 28.

[24] 50 największych banków w Polsce, supplement to „Bank", No. 3/2004, pp. 6, 8, 12.

ROA of 5.8%.[25] The above case illustrates, that indicators such as ROA and ROE do not represent the full picture of bank's economic and financial situation and should not be the only, basic indicators of profitability taken into account in the process of ranking banks. Wschodni Bank Cukrownictwa SA is a bank undergoing recovery procedures, using aid from Bank Guarantee Fund of PLN 514 million granted towards removing the state of danger of insolvency and covering high losses of previous years.

5. Recapitulation

The analysis of influence of external conditions upon financial balance of banks operating in Poland indicates, that:

- the degree to which external institutions and the law influence banks is significant,
- the direction of changes of the scope of this influence, and reduction of arduousness of banking regulations are positive.

It must be mentioned, that the changes of market and legal conditions constituting the environment in which Polish banks operated in 2003 had a two-directional influence upon the level of financial balance achieved by the banks, nevertheless, in general, most of the changes were favourable from the point of view of the generated financial balance. The following changes were particularly significant as far as the banks' financial balance is concerned:

- the manner of calculating, the rate and the interest on obligatory reserves,
- classification of credit exposures and the manner of creating adjusted reserves,
- income tax rate, and exempting certain banks from the obligation to pay it.

[25] G. Gadomski, Najbardziej efektywni, „Bank", 3/2004, pp. 8, 11.

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Directions of Change in the System of Creation of Adjusted Reserves in the Polish Banking Sector

1. Development of the System of Creation of Adjusted Reserves in Poland

Principles of creating adjusted reserves in Poland are not subject to harmonisation with the EU regulations. Such situation results from lack of single regulation concerning this matter at the EU level. Standardising the question of creation of adjusted reserves on an international scale is impossible, due mainly to different approach to creation of adjusted reserves in different countries, as well as different definitions of individual types of receivables, and in a broader context, due to differences in wealth between different countries, their different state of public finance and varying legal regulations (particularly concerning taxes from banks).[1]

Creation of systems of adjusted reserves in all the member countries of the European Union results from common application of the principle of cautious evaluation of assets, and is a kind of self-insurance against risk. Reserves balance risk taken by a bank, and at the same time they constitute a mechanism limiting the possibility of transferring this risk from the bank's owners to its depositors. Therefore, creation of adjusted reserves constitutes, along with other regulations of circumspection (e.g. capital requirements), a basic element increasing security of bank's operation.[2]

In Poland the system of creation of adjusted reserves and the norms of classification of receivables were introduced in 1990 by the recommendation of the President of the National Bank of Poland (NBP). Over the past 15 years those principles have been changed several times by instructions of the President of NBP, beginning from 1998 also by resolutions of the Commission for Banking Supervision (KNB), and at present by decrees of the Minister of Finance.

In the year 2000, in connection with an amendment to the accountancy act, KNB lost its right to issue acts concerning principles of creation of adjusted

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1 M. Zaleska, Wpływ wybranych regulacji zewnętrznych na działalność polskich banków, Szkoła Główna Handlowa, Warsaw 1999, p. 103.

2 R. Chudzik, Kryzys bankowy w gospodarkach postkomunistycznych na przykładzie Czech, Węgier i Polski, „Bank i Kredyt", No. 3/1996, p. 18.

reserves in banks. The novella to the accountancy act delegated this right to the Minister of Finance. At the same time, the act obliged the Minister of Finance to seek opinion of KNB, nevertheless such opinion is not to be binding.

The changes, which took place in the Polish banking system and its environment in the year 2003 caused the Minister of Finance in consultation with the Commission for Banking Supervision, to undertake work on changing the principles of classification of credits and creation of adjusted reserves. The events in question were: a positive result of the EU accession referendum, raising international competition, and increasingly strong voices from the banking circles about the Polish norms concerning adjusted reserves being overly strict in comparison with other EU countries. Also important for the change of the lawmakers' stance was quality of banks' credit portfolio, which was improving since the beginning of the year, and a general improvement of Poland's macro-economic situation.

2. Changes in Principles Concerning Creation of Adjusted Reserves in Poland

The work on the system of creation of adjusted reserves was conducted in order to improve effectiveness, competitiveness and clarity of operation of the Polish banking sector, without affecting the proper level of safety of deposits. On 10/12/2003 the efforts resulted in issuing a thorough novella of the 2001 decree concerning principles of creation of adjusted reserves for risk connected with operation of banks.

There is a duality of character of those provisions. They introduce clarifying changes – aimed at making the prevailing legislation easier to understand, as well as essential – modifying the previous mechanism of creating adjusted reserves.

Similarly as in the case of the earlier solutions, banks are obliged to create adjusted reserves for credit exposures classified as:

– "normal" – regarding exposures resulting from loans and retail credits;[3]
– "special mention";
– "at risk" – including the categories of "substandard", "doubtful" or "loss".

[3] The former definition of loans and retail credits, which stated that they are loans and credits granted to individuals for purposes unconnected with business operation, including credit card operations, and excluding housing credits, was substituted with a definition of loans and retail credits understood as credit exposures towards individuals, granted for purposes unconnected with business operation or running an agricultural farm, except for housing loans and credits, mortgage loans and credits and extra-balance liabilities.

It ought to be emphasised, that the definition of credit exposure has been changed. At the moment the expression means only the balance receivables from credits and loans, purchased liabilities, checks and bills, realised guarantees, other similar liabilities, and extra-balance financial and guarantee liabilities granted, except:

– interest and commissions, including capitalised ones,
– liabilities from bank's subsidiary parties, if the bank's capital involvement in those parties, estimated according to the ownership rights method,[4] as well as the level of reserves created by those parties is not below the level calculated according to the prevailing principles.

Therefore, the above definition is significantly narrower compared to the former regulations contained in the 2001 decree. It does not include other bank's receivables, such as receivables originated by shortages and damages in savings turnover, counterfeiting, settlements concerning performed services or charges for running accounts, as well as certain liabilities from subsidiaries, in order to avoid double charging a bank's financial balance.

The amended decree upholds the former levels of the minimum required reserves in relation to their basis for calculation. For credit exposures resulting from loans and retail credits classified as "normal", banks are obliged to create adjusted reserves at the level of 1.5% of the basis for calculation, and for other exposures at the level of:

– 1.5% of the basis of calculation in the case of the "special mention" category;
– 20% of the basis of calculation in the case of the "substandard" category;
– 50% of the basis of calculation in the case of the "doubtful" category;
– 100% of the basis of calculation in the case of the "loss" category.[5]

The basis for creation of an adjusted reserve is constituted by balance amount of a credit exposure without the adjusted reserve, but with the forecast amount of amortisation of the part of credit exposure resulting from restructuring of debt.

The above minimum levels of adjusted reserves are concurrent with the solutions applied in economies described as "emerging markets". Table 1 presents minimum levels of adjusted reserves compared with solutions used in other countries.

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[4] According to the accountancy act of 29/09/1994, the ownership rights method is a method of evaluation of shares in net assets of a subsidiary party, considering the positive or negative value of the firm at the moment of establishing control, co-control or gaining significant influence.

[5] The Commission for Banking Supervision, at bank's application, can accept adjusted reserves of a different value, in particular based on credit risk models.

Table 1. Minimum Levels of Adjusted Reserves in Chosen Countries

Country	Category of credit exposure classification				
	Normal	Special mention	Substandard	Doubtful	Loss
Chile	0%	1%	20%	60%	90%
The Czech Republic	2%	5%	20%	50%	100%
Indonesia	1%	5%	15%	50%	100%
South Korea	0.5%	2%	20%	50%	100%
Mexico	0.5%	10%	45%	65–85%	100%
Poland	0%*	1.5%	20%	50%	100%
Slovakia	0%	5%	20%	50%	100%
Thailand	1%	2%	20%	50%	100%

* 1.5% for loans and retail credits.

Source: original analysis, based on Cortavarria L., Dziobek C., Kanaya A., Song I., Loan Review, Provisioning and Macroeconomic Linkages, Working Paper 00/195, International Monetary Found, Washington 2000, p. 16.

3. Creating Reserves for Exposures towards Parties other than the Treasury of State

The most significant substantial change in the new regulation, resulting from the analysis of outcomes of the former decree in the predeceasing period, as well as from suggestions made by banks, is the change of criterion of promptness of debt servicing, regarding credit exposures towards parties other than the State Treasury. The principles, in force since 01/01/2004, are presented in Table 2.

Table 2. Criterion of Promptness of Debt Servicing Regarding Credit Exposures towards Parties other than the Treasury of State

Category	Criterion of promptness of debt servicing
Normal	Delay in repayment of capital or interest not longer than 1 month
Special mention	Delay in repayment of capital or interest longer than 1, and not longer than 3 months
Substandard	Delay in repayment of capital or interest longer than 3, and not longer than 6 months
Doubtful	Delay in repayment of capital or interest longer than 6, and not longer than 12 months
Loss	Delay in repayment of capital or interest longer than 12 months

Source: original analysis based on the Decree of the Minister of Finance of 10/12/2003 on the principles of creation of reserves towards the risk connected with operation of banks.

The above changes signify, that for the first time in Poland the principles of classification of exposures based on the criterion of promptness of debt servicing are comparable to the regulations prevailing in other “emerging markets” as far as strictness is concerned. Table 3 presents the principles of classification of exposures based on the criterion of promptness of debt servicing in Poland vs. the solutions applied in other countries.

Table 3. Principles of Classification of Exposures Based on the Criterion of Promptness of Debt Servicing in Chosen Countries (Expressed in Months of Delay in Repayment of Capital or Interest)

Country	Category of exposure classification			
	Special mention	Substandard	Doubtful	Loss
Argentina	<3	3-6	6-12	>12
The Czech Republic	<3	3-6	6-12	>12
Kuwait	<3	3-6	6-12	>12
Malaysia	–	3-6	6-9	>9
Poland	1-3	3-6	6-12	>12
Russia	–	<1	1-6	>6
Slovakia	1-3	3-6	6-12	>12

Source: original analysis, based on Cortavarria L., Dziobek C., Kanaya A., Song I., Loan Review, Provisioning and Macroeconomic Linkages, Working Paper 00/195, International Monetary Found, Washington 2000, p. 9.

The new regulation upholds (not existing in other countries) principles of classification of the receivables in question according to economic and financial situation of the debtor. Let us remind, that this criterion, applied simultaneously with the criterion of promptness of debt servicing, makes the Polish solutions more restrictive than in other countries applying the identical criterion of promptness of debt servicing. Table 4 contains the prevailing criteria of evaluation of debtor’s financial and economic situation, regarding credit exposures towards parties other than the Treasury of State.

However, the Minister of Finance introduced lower frequency of evaluation according to the criterion of economic and financial situation towards “low denomination credit exposures”. The simplified procedure of application of the above criterion concerns mostly financing small and medium-sized companies, whose exposures constitute dispersed risk to the bank. For the sake of circumspection, assessment of economic and financial situation of such party is obligatory at least once a year, and only towards credit exposures simultaneously fulfilling the following conditions:

– exposure is classified as “normal”,
– value of the exposure plus other exposures of the bank towards the same party, does not exceed an equivalent of euro 1 million,
– value of the exposure plus other exposures of the bank towards the same party, does not exceed 10% of the bank’s equity.

Table 4. Criterion of Evaluation of Debtor’s Economic and Financial Situation, with Regard to Credit Exposures towards Parties other than the Treasury of State

Category	Criterion of evaluation of debtor's economic and financial situation
Normal	Debtor’s economic and financial situation does not raise concern
Special mention	Debtor’s economic and financial situation does not rise concern, or they require special concern due to risk to the region, country, branch, group of customers or group of products
Substandard	Debtor’s economic and financial situation can constitute risk to prompt repayment of the exposure
Doubtful	Debtor’s economic and financial situation deteriorates significantly, especially if loss substantially breaks into the capital (net assets)
Loss	– Credit exposures towards debtors, whose economic and financial situation deteriorated to the extent irreversibly disenabling them from repaying the debt, – Credit exposures towards debtors, who were pronounced bankrupt, or who went into liquidation, except when it is carried out according to the regulations concerning commercialisation and privatisation of state-owned companies, – Credit exposures towards debtors, against which the bank filed for execution procedure, – Credit exposures questioned by debtors in court, – Credit exposures towards debtors, whose place of residence is unknown, and whose property has not been disclosed.

Source: original analysis based on the Decree of the Minister of Finance of 10/12/2003 on the principles of creation of reserves towards the risk connected with operation of banks.

4. Creating Reserves for Exposures Towards Individuals

The amendment to the decree contains significant alterations concerning the principles of classification of exposures towards individuals. The changes concern not only the definition of loans and consumer credits discussed above, but also most importantly prolongation of acceptable delay in repayment of capital or interest requiring re-classification of the exposure to a higher risk category. Table 5 presents a comparison between the amended principles of classification of loans and retail credits, and of other credit exposures towards individuals.

Table 5. Amended Principles of Classification of Credit Exposures towards Individuals

Category	Loans and retail credits	The remaining credit exposures towards individuals
Normal	Delay in repayment of capital or interest not longer than 6 months	Delay in repayment of capital or interest not longer than 1 month
Special mention	Not classified	Delay in repayment of capital or interest over 1 and not over 3 months
Substandard	Not classified	Delay in repayment of capital or interest over 3 and not over 6 months
Doubtful	Not classified	Delay in repayment of capital or interest over 6 and not over 12 months
Loss	Delay in repayment of capital or interest longer than 6 months	Delay in repayment of capital or interest over 12 months
	– Credit exposures towards debtors, against whom the bank filed for an execution procedure, – Credit exposures questioned by debtors in court, – Credit exposures towards debtors, whose place of residence is unknown, and whose property has not been disclosed.	– Credit exposures towards debtors, against whom the bank filed for an execution procedure, – Credit exposures questioned by debtors in court, – Credit exposures towards debtors, whose place of residence is unknown, and whose property has not been disclosed.

Source: original analysis based on the Decree of the Minister of Finance of 10/12/2003 on the principles of creation of reserves towards the risk connected with operation of banks.

Still, according to the new regulations, in case of loans and retail credits classified as "loss" a bank will be obliged to create a reserve with a possibility to consider only some collaterals, i.e. a bank guarantee, a mortgage on property, or a registered pledge or a lien on securities or vehicles. Alternatively, the bank can announce the credit to be impossible to collect, and book it out of the bank's balance and into the extra-balance records, which means including the receivable into negative financial balance. The financial supervision is right in stating, that at present retail credits are secured mainly with movables (e.g. electronic equipment, household equipment), which if sold, do not yield enough money to cover cost of collection procedure. Including such collaterals into the adjusted reserves account means, that the required (and consequently created) reserves for high-risk receivables are underestimated. The proposed solution effectively radically narrows this list – there is only one category of high-risk receivables ("loss") with a limited list of recognised collaterals. Consequently, most of created reserves will correspond with the actual level of risk connected with retail credits granted by banks. Furthermore, the solution will significantly reduce cost and level of complication of the classification process.[6]

5. Creating Reserves for Exposures towards the Treasury of State

The definition of credit exposures has been expanded in case of exposures towards the State Treasury. From 01/01/2004 onwards, all credit exposures (and not only credits and loans, as used to be the case) resulting from contracts signed by persons representing the Treasury of State are considered credit exposures towards the Treasury.

No amendments have been made with regard to the principles of qualification of those receivables, maintaining the division of exposures into three categories, dependent solely upon duration of delay in repayment of capital or instalments. The principles of classification of credit exposures towards the Treasury of State are presented in Table 6.

Table 6. Principles of Classification of Credit Exposures towards the Treasury of State

Category	Principles of classification
Normal	– According to the schedule of repayments defined at the moment of negotiating the State Treasury's liability, the delay in repayment of capital or interest is not longer than 1 year.
Doubtful	– According to the schedule of repayments defined at the moment of negotiating the State Treasury's liability, the delay in repayment of capital or interest is longer than 1 year and not longer than 2 years, – If a schedule of repayments has not been defined, and the period between negotiating the liability by the State Treasury and the moment of classification is not longer than 1 year.
Loss	– According to the schedule of repayments defined at the moment of negotiating the State Treasury's liability, the delay in repayment of capital or interest is longer than 2 years, – If a schedule of repayments has not been defined, and the period between negotiating the liability by the State Treasury and the moment of classification is longer than 1 year, – All disputed credit exposures.

Source: original analysis based on the Decree of the Minister of Finance of 10/12/2003 on the principles of creation of reserves towards the risk connected with operation of banks.

[6] J. Koleśnik, M. Zygierewicz, Wpływ zmian w polityce pieniężnej, podatkowej oraz regulacji ostrożnościowych i działalności bankowego Funduszu Gwarancyjnego na działalność banków w 2003 roku, Polish Bank Association, Warsaw 2004, p. 31.

Also, the Minister of Finance has sustained the regulation providing, that in case of all credit exposures towards the State Treasury negotiated before 01/01/2002, based on contracts signed by a representative of the Treasury, and defined in accordance with the old law, which were characterised by the following:

– confirmation that the credit exposure is due and indisputable and
– specification of a schedule of repayments,

the classification should be based on the repayment schedules specified in those contracts. However, if the bank has not signed this type of contracts, then all the credit exposures towards the Treasury of State negotiated before 01/01/2002 ought to be classified as "loss".

6. Principles of Considering Collaterals and Catalogue of Collaterals

The next important change in the principles of creation of adjusted reserves in Poland is the introduction of a possibility to consider the most secure types of collaterals, such as cash or treasury securities, at the stage of exposure classification. The former solution did not allow for consideration of collaterals during the stage of exposure classification, but only later, at the stage of creation of adjusted reserves. Such solution made international comparisons difficult, and led to wrong conclusions regarding quality structure of credit exposure portfolio of the Polish banking sector (quality of banks' credit portfolio was perceived as worse than indicated by the actual risk of the portfolio's yielding loss). The quoted change resulted in classifying a part of exposures previously classified as "high-risk", as "normal". This improved perception of portfolio's quality structure, nevertheless had no influence upon the level of adjusted reserves.[7]

Another significant change introduced by the Minister of Finance is the obligation to denominate collateral in the adjusted reserves account at its actual value, taking into consideration all foreseeable limitations. Therefore, a time limit was set (60 months for mortgage property, 36 months for the remaining types of collateral) for including collaterals in deduction from the basis for the creation of reserves. During the last 12 months of the above period, the share of collateral is to be gradually reduced (by 25% per quarter).

The above regulation provides, that banks can include a certain collateral during a set period beginning at the moment a delay occurs. After this period the collateral is to be considered invalid and the bank is to create a 100% adjusted reserve, or write the receivable off.

[7] Raport o sytuacji ekonomicznej banków – Banki 2003, Polish Bank Association, Warsaw 2004, p. 15.

The above solution is particularly important in the context of the newly introduced possibility to consider the best collaterals during the classification stage. Exposures possessing such collaterals are to be treated as "normal", regardless of the debtor's actual financial condition, and quality of debt servicing. A lack of such solution could lead to a situation, where in spite of lack of any kind of repayments over several years, the exposure would be treated as "normal".

It is not the objective of the amended decree to limit banks' willingness to restructure credits or to encourage them to ruthlessly vindicate receivables from collaterals in their possession. Therefore, the banks have been equipped with a possibility to consider changes of repayment schedules whenever they restructure credits. Nevertheless, in order to prevent "permanent restructuring" aimed solely at omitting the time limit on validity of collaterals, only the first restructuring is considered valid.

Form banks' point of view, favourable changes took place in the sub-catalogue of collaterals justifying deduction from the basis for creation of adjusted reserves, as well as in the manner of considering those collaterals. The sub-catalogue of collaterals justifying deduction from the basis for creation of adjusted reserves has been, in accordance with the banks' suggestions, expanded by:

- a blockade on a deposit account at the bank possessing the credit exposure, along with full power to draw assets from the deposit account;
- insurance for credit at an insurance company located in one of the OECD countries, in case the economic and financial condition of the insurer does not rise concern;
- unconditional cession of receivables from contractors located in OECD countries, in case the liability is indisputable and not overdue, and the contractor has a rating from a recognised agency at an investment level.

Thus the lawmakers shared the opinion of banks, that the above collaterals constitute an actual and fully exactable, alternative source of repayment of possible claims of a bank.[8]

The introduction of the above changes concerning the catalogue of collaterals, and the possibility of substituting evaluation of debtor's economic and financial situation with an evaluation of a situation of a guarantor were reflected by a new division of the entire catalogue of collaterals. According to the new supplement to the decree, collaterals were divided into three groups:

- collaterals validating classification of a credit exposure as "normal" (collaterals regarded during classification),

[8] *Ibidem*, p. 15.

– collaterals validating substitution of evaluation of debtor's economic and financial situation with evaluation of economic and financial situation of a guarantor,
– ollaterals validating reduction of the basis for creation of adjusted reserves.

An additional regulation concerning the principles of using individual types of collaterals is the requirement of continuity, according to which a bank is obliged to consistently apply the chosen way of using a collateral over the entire period of the collateral's validity on the account of adjusted reserves.[9]

7. Rearrangement Changes

The obligation to consider the value of a collateral (mortgage) established by an expert at the moment of negotiating the collateral has been removed from the regulations, which is a change significant from banks' point of view. Such regulation used to be frequently criticised by the banking circles, as unrealistic and impossible to implement, since evaluation is usually made several weeks before submission of credit application at a bank. Furthermore, establishing a mortgage can last further months. The Minister of Finance has shared the banks' argumentation on the subject and removed the regulation specifying the timing of evaluation used by banks.

The amended decree has introduced a requirement of compatibility between evaluation of balance value of credits based on the chosen model, and the evaluation resulting from application of International Accounting Standards, which is particularly important in the context of the obligation (commencing at the beginning of 2005) to apply IAS 39, which is based largely on application of models for evaluation of assets.

The last change, not substantial, nevertheless important as far as arduousness to banks is concerned, is increasing the amount of overdue debt which does not require reclassification of the credit exposure to a higher risk category – from PLN 10 to PLN 200. It was the Minister's of Finance intention to prevent classifying as "high risk" cases, where debtors accidentally did not pay the full instalment of capital and interest (especially in case of using a different exchange rate than indicated by the bank when calculating an instalment of repayment of a denominated credit). Setting the limit at PLN 200 conforms to treatment of overdue payments from individuals according to the act of 14/02/2003 on releasing economic information.

[9] J. Koleśnik, M. Zygierewicz, Wpływ..., *op. cit.*, p. 34.

8. Recapitulation

Recapitulating the changes that took place in the system of creation of adjusted reserves in Poland, one needs to emphasise, that the question of creating adjusted reserves has been treated more as an element of general evaluation of assets than limiting credit risk in banks, ever since the 2000 amendment to the act on accounting. Although the law-making prerogatives for this area belong to the Minister of Finance, it was the General Inspectorate of Banking Supervision (the executive body of the Commission for Banking Supervision), which prepared the act – due to its experience in legislative work concerning the subject.

In spite of the presented reservations concerning the transfer of prerogatives to appoint principles of creation of adjusted reserves in Poland, I believe that the principles of creating reserves introduced by the Minister of Finance will have a significant influence upon reduction of the total level of adjusted reserves. According to the Ministry of Finance, as a result of introducing regulatory changes, the total value of high risk credit exposures can decrease by on average 7 percentage points, i.e. by about PLN 15.3 billion. This can consequently lead to a reduction of the total level of adjusted reserves by, on average, PLN 1.3 billion.

I am convinced, that the changes introduced by the Minister of Finance are beneficial not only to banks, but to the entire economy. The reduced level of adjusted reserves will result in a better financial balance of banks, and the changed level of high-risk receivables will significantly improve quality of credit portfolio, and increase banks' inclination to finance firms. The simplified procedures concerning small denomination credit involvements encourage banks to credit the sector of small and medium-sized companies. The provisions of the decree will contribute to improved competitiveness of the Polish banking sector at international level, where more liberal solutions concerning creation of adjusted reserves are common. Recapitulating, I believe, that implementation of the new principles of creating adjusted reserves will positively influence both the internal and the external competitiveness of the Polish banking sector, which is extremely important, especially in the context of Polish accession to the European Union.

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Possibilities for the Application of the Latest Concept in Strategic Managerial Accounting Concept in the Field of Insurance Business

Management accounting from a microeconomic point of view is a process focused on permanent betterment of all aspects of economic activities run in a certain economic-social-political environment with the use of a certain financial-organizational-human potential. In this process one may use – depending on knowledge and skills of managers – rich range of instruments in the field of organization, analysis, forecasting, inspection and evaluation of all economic processes worked out by economic and mathematical disciplines. This process may be additionally supported by all technical means securing competent organizing, collecting and processing useful information; transmitting executing orders as well as characteristic of doings.

The term of **strategic management accounting** grew up from a necessity to report information concerning markets on which a business organization runs its activity and from data characterizing (financially or in any other way) companies competing with. Managerial accounting looking for solutions suitable for a new information demand – mainly at the instance of Japanese experiences and concepts – under our eyes is changing and enriching by external orientation, thanks to which it is possible to create information enlightening the company's position on the market and its competitive features.

Strategic managerial accounting should point out the reasons of the market status quo, threat, potential abilities and – through various financial analyses, other data and characteristic – facilitate to formulate, develop and implement competitors' strategies. Moreover the strategic managerial accounting should focus on collecting and processing data about market perspectives for products delivered by an organization, about present phase of their lives and about their range of goods structure as well as about customers interested in those products. Presentation of the above-mentioned information against the competing companies helps to explain reasons of changes in present income from sales and in money flow. This presentation will be done in other measuring standards and will increase a role of the strategic management accounting in helping to make strategic decisions.

In every perspective of the management accounting, either strategic or operational, the cost management comes to the foreground which, as it is more widely thought, should take place thanks to the value of process analyses and within frame of their activities in so called chain of value.[1]

Such management may differ both in methods and ranges, depending on the way of process organization and on selected strategy of economic activity. Taking into consideration a role in cost management and – it seems justified – a sequence of using it in a decision process, the concepts of strategic management accounting is being presented in the following order: (1) release of the spirit of enterpreneurship, (2) target costing, (3) life-cycle costing, (4) customer's profitability analysis, (5) kaizen, (6) total quality management, (7) business process reengineering.

At the foreground in strategic management accounting there i**s a concept of the enterpreneurship spirit engagement**. Its implementation decides on the way of the whole cost management process decentralization. Its essence and implementation possibilities in a sphere of insurance are synthetically presented in Table 1.

Table 1. Synthetic Characteristic of a Concept of the Enterpreneurship Spirit Engagement and Evaluation of Implementation Possibilities in a Sphere of Insurance

Concept attributes	Accomplishment in a sphere of insurance
• "Enterpreneurship spirit engagement" describes such a business process organization which would create possibilities to release enterpreneurship in all people involved in this process[2] • Accomplishment of this concept is possible in two ways. The first one means creation of pseudo independent profit centers within one big organization. The second one is a real partition of the	• In relation to insurance companies a concept of the enterpreneurship spirit release can bring very good effects. The concept can manifest in creating not only insurance microsubjects on the basis of commission (to organizationally separated cell, inspectorates, branches, departments) responsibility for strategically important segment of the market or a product[3]

[1] See for instance T.H. Johnson, Activity-Based Information: a Blueprint for World-Class Management Accounting, "Management Accounting", June 1988, pp. 23–30.

[2] Contemporary practice very often delivery examples of changes in philosophy of business process management. Hyundai, a Korean firm aspires to become one of the ten biggest global concerns not only puts limits to its financial links with other companies (during the last restructuring it got rid 26 out of 80 partnerships), but also transforms into smaller decentralized subjects. (See: K. Golata, Republika Hyundai, Wprost Nr 2/2000, pp. 38–39. "It seems that chiefs of the concern detected coming storm and understood that gigantomania leads into a collapse".

[3] Also law on insurance business is conducive in some sense to accomplishment of this concept in practice as it does not allow to simultaneously run an insurance business in life insurance and in non-life insurance. However the essential motifs of this imperative do not result from a concept in question.

Table 1. (continued)

Concept attributes	Accomplishment in a sphere of insurance
organization into small companies or really independent profit centers. When selecting the way of business process organization it may prove very useful to examine three questions:[4] – Are there in the company any people able to carry out by themselves and with full responsibility profit centers management? – Are there any customers on the market interested in products manufactured (rendered) by profit centers? – Is the company as a whole interested in selling such products to external customers? • No matter which way of "an entepreneurship spirit release" is applied in an organization, the profit center manager's responsibility is big and includes both sphere of income and the one of costs. • Both fields of responsibility will cause undertaking of various activities within a profit center directed to: customer's profitability analysis, target costing, life cycle costing and permanent improvement of everything concerned with a profit center functioning. • This last activity will particularly focus on looking for (very often technical and organizational) changes causing first of all the costs reduction and in result improvement of profit center effects. • Specialists in management accounting play very limited role in this process. The role is reduced to looking for the best financial measurement of the operational activity, to registering and reporting. • In case a business organization is able to find internal or external potential buyers of products. Pseudo independent profit centers can in practice transform into small companies, which creates additional defined possibilities.	• Accomplishment of this concept is also creation – permanently assigned as a task to the organizational and managerial structure of an insurer – to some extent autonomous workers groups with a leader responsible for results of certain activities. Application of a concept of the enterpreneurship spirit release in insurance companies does not seem impossible to accomplish in practice, then. The more so because majority of insurance companies – on greater or smaller scale have been using this concept for a long time. • Maybe it is worth pointing out here a philosophical idea of the concept of enterpreneurship spirit release which in practice of Polish insurance companies particularly – looking historically – was not always the main reason for organizational decentralization. Quality of management on the way to enterpreneurship spirit release could in practice be very different. A lot depends on a quality of motivation and control systems, which in this concept are effectiveness factor of the highest importance.

[4] Compare: R. Cooper, Look out..., *op. cit.*, p. 25.

Table 1. (continued)

Concept attributes	Accomplishment in a sphere of insurance
• This concept dividing big enterprises into tens of small firms (or microsubjects) generates a possibility of a quick, “on time”, management and response to a market demand.	

Target costing as a matter of fact is an algorithmic attitude towards defining the cost of a product before it is produced. So the costing is based on information, which are not proved by company accounting books, the costing even puts them aside. The essence of the target costing and possibility of its application in insurance business is synthetically presented in Table 2.

Table 2. Synthetic Characteristic of the Target Costing Concept and Evaluation of Application Possibilities in Insurance Business

Concept attributes	Accomplishment in a sphere of insurance
• The target costing is based on the market because it determines the production cost of a product with certain quality and functionality in order to get satisfactory level of profit for a manufacturer when the selling price is in advanced dictated by the market. • Estimation of a selling price at which a product can be sold is the first step in this costing. A very important role at his stage is played by the marketing department, which for this purpose will use market research, analysis of consumers groups and other techniques. • The second step is fixing a gross commission to be gained. Retrospective information, which reflexes certain trends and regularities in this field, may prove helpful. Estimation of competitors’ offers and computer simulations could be important, too. So here we may expect specialists in the management accounting to play their role. • The third step is connected with fixing the target costs by subtracting the gross target commission from the selling price. • In the fourth step a special procedure is on. In western bibliography it is called “value engineering”, which in free	• The target costing in insurance companies can be achieved but in a slightly different way. • An insurance protection as a very specific product needs a special design, which is followed by fixing special costs concerning this protection. • A very important role in target costing of an insurance product is played then by available insurance premiums and detailed terms and conditions of insurance. • The latter should be thought over in context of potential costs burdening an insurer account within the insurance protection period because they determine the target cost of a product (which not always appears in full value). Costs of potential services and other costs connected with executing insurance protection make the manufacturing costs of a product. Forecasting their range and estimating their value make a base for fixing the targets cost. • A distinction should be made between the cost of insurance product and the cost of designing it. They are of different character as they result from

Table 2. (continued)

Concept attributes	Accomplishment in a sphere of insurance
translation means nothing but looking for such designee of a product and a process of manufacturing it which would ensure or increase its functionality and quality without generating additional costs or would enable decrease of cost without harm to its quality and functionality of this product. At this stage of the target costing the lead is taken by designers, engineers and other operational specialists. The management accounting specialists may practically be absent here. Their knowledge and the system will be again useful at the stage of making records and *ex post* costs analysis.[5]	marketing expenses for a conceptional work associated with creating a vision of a new product and with working out detailed terms and conditions of insurance. Those costs will be more important in the life-cycle costing of an insurance product rather than in a n insurance target costing, where, first of all, remiums and costs of rendering insurance protection are important.

The term **"life-cycle costing"** is used to describe a system of cost analysis in which both costs and income are assigned to a particular product from the moment of the product concept creation until the product is withdrawn from sale. The essence of the concept and possibility of its application in the sphere of insurance is synthetically presented in Table 3.

Table 3. Synthetic Characteristic of the Life Cycle Costing Concept and Evaluation of Application Possibilities in Insurance Business

Attributes of the concept	Accomplishment in a sphere of insurance
• The costs management is based on life-cycle costing of a product is associated with undertaking some activities at a stage of a product development aimed at ensuring the lowest general cost within the whole life of a certain product. In the context of this life-cycle costing cost is perceived in three elements:[6]	• The life cycle costing of a product is the most difficult concept to be applied in a sphere of insurance. Insurance products especially in section 1 have as a rule long-term dimension. Examining particular phases of a life cycle of such products, as mentioned earlier, is very difficult. The more so a demand in a field of insurance protection may

[5] See for example: Ch. Cain, Competitive Edge, "Accountancy", June 1996, pp. 72–74: J. Corrigan, Target costing – a New Approach, "Australian Account", April 1996, pp. 53–54; R. Cooper, Control Tomorrow's Costs Through Today's Design, Harvard Business Review, January/February 1996, [pp. 88–97]. The author puts a stress to the fact that the target costing has a role of a tool and formulated the following imperative: if a company is not able to reach the target cost, it should not manufacture the product; Targeting Costs in Process and Service Industries, "Harvard Business Review", January/February 1996, p. 93; D.C. Daly, The Role of Finance in Strategy Deployment, "Management Accounting", November 1996, p. 64–66.

[6] See: D.R. Hansen, M.M. Moven, Management Accounting, South-Western Publishing Co., 1992, p. 925.

Table 3. (continued)

Attributes of the concept	Accomplishment in a sphere of insurance
– inrecurring costs (associated with planning, designing and testing a project of a product); – production costs; – costs of logistics (associated with advertising, distribution, guarantee etc.). The life cycle costing of a product may be analyzed in prospective plane (*ex ante*) or retrospective one (*ex post*). • In the first case the system is based on prognosis of costs and income which are probable in consecutive phases of a product life, i.e. in a phase of: design, development, increase, stagnation, decline, liquidation. • This analysis has the utmost importance for costs born later, additionally it enables to estimate profitability of a designed product. • *Ex ante* life-cycle costing plays a particular role in those fields of business process where the life cycle of a product is relatively short or where permanent making of innovations is necessary. It results from the fact that a short life cycle of a product does not create possibilities to make corrections in decisions arising from adopted price policy or from a selection of offered products. Such possibilities may appear only in a longer period of time. Taking into consideration the above mentioned observations and the fact that a company at every stage of its activity wants to be profitable earlier fixing ("programming") of costs and income associated with a product is essential. The life cycle costing especially in shorter perspective is more reliable as it avoids using values resulting from distant forecasts. • Thanks to above mentioned features the product life-cycle costing – like target costing – enables costs management before they are born. Taking into account particularly costs associated with a designing phase, pointing out that	have an effect on vast variety of factors resulting from social, demographic, political and economic changes. Analysis is also hindered by innovations in insurance products necessary from the marketing point of view, which additionally extends their market life. • Some of insurance products are forever inscribed in customers' consciousness. In respect to these products a life-cycle analysis will be limited to first phases only so it will not be complete. • So application of life-cycle analysis to special insurance providing for the needs of protection in occasional, short term cases seems the most justified. Estimating of demand for such insurance and available premiums as well as forecasting costs is in this case much easier. • In spite of estimations inaccuracy and problems associated with insurance product life-cycle costing application undertaking such efforts and making them formal in a shape of value estimations, already at the product concept stage, enables to carry out more conscious simulations in the field of shaping the structure of insurance products offer.

Table 3. (continued)

Attributes of the concept	Accomplishment in a sphere of insurance
expenses associated with analysis of future costs already in a phase of product designing have repercussion in future costs in other phases of a product life. The product life cycle costing enables to minimize costs of the whole life cycle. It was proved in practice that the best possible design of processes associated with creation of a product determines gaining savings in other phases of its life cycle. It is proved by observations of Berliner and Brimson who say that about 90% of the costs in the whole life cycle of a product are determined be first decisions.[7]	

In retrospective plane life cycle costing of products is expressed in regular reporting incomes and cost of each product and it enables finding out a real profitability of sale. This costing extends observation and reporting costs for the whole period of economic life of a product. Cost reports are created and generated during some even more then ten calendar years and enable analysis of costs and accumulated incomes since the beginning of the economic life of a product. Thanks to it possible to compare achieved levels of costs and incomes with their forecast in every phase of a product life cycle and – additionally – a possibility to observe costs from the point of view of justification of introducing new products and making price decisions.

The customer-profitability analysis is examining to what extent a certain group, kind, class, segment of customers brings profits to a business organization. Such analysis is strategically extremely important due to the fact that it enables to determine a kind of customers important in development of a market product offer. Moreover it enables to define price policy basis associated with this offer. A concept of the customer-profitability and possibility to use it in a sphere of insurance is synthetically shown in Table 4.

[7] *Ibidem* p. 925.

Table 4. Synthetic Characteristic of Concept of Customer-profitability Analysis and Evaluation of Application Possibilities in Insurance Business

Attributes of the concept	Accomplishment in a sphere of insurance
• In customer-profitability analysis costs of selling and the way of assigning them to particular groups of customers play a special role. • Methodology of sales costs clearing is an absolutely essential problem.[8]	• In insurance companies the customer-profitability analysis will also have a slightly different perspective. • Costs associated with an insurance protection itself have stronger influence on estimation of customers' profitability than costs of gaining a and accepting an insurance application which may be identified with an order for an insurance product. Insurance application examining costs are basically the same, usually they result from standard procedures of collecting, processing and recording data or insurance risks estimation (so called underwriting). • Customer-profitability analysis in insurance companies must focus more on a selection of an offer for an insurance protection adequate both to needs and financial standing of a customer. • A lot of valuable information can be introduced to an insurance company management by an analysis of a portfolio of insurance policies in context of various classification criteria for company customers.

Kaizen, this Japanese expression for permanent or continuous improvement[9] in the subject of costs. Kaizen concentrates on looking for possibilities to decrease costs in a phase of production or in a phase of rendering services. Contrary to the target costing a concept of kaizen assumes the fact of a production/service project initiation as a starting point on and concentrates on looking for possibilities

[8] For more details see: C. Drury, Management and Costs Accounting, Chapman & Hall, 1992, pp. 811–812.

[9] Permanent improvement is a term wider than kaizen as it covers all areas of business organization activities, which can be continuously improved, rationalize, perfect. In my opinion permanent improvement covers at least: permanent improvement of costs (kaizen), permanent improvement of total quality management, permanent improvement of business process reengineering. To start a process of permanent improvement in practice various forms of popularization of this idea, a motivation system and undertaking organizational steps such as creation of a leading team. It is also important to visualize, which seems obvious, everyday routine activities and their importance in a process of improving performed functions and usage of time. (See for example: R. Bhasin, Continuous Improvement, Pulp & Paper, June 1996, p. 51).

to decrease costs associated with it. Employees can play a role of utmost importance directly involved in a process of manufacturing goods and rendering services and other persons the best knowing operational reality.[10] You may talk about permanent or continuous improvement only when a task to look for possibilities of costs reduction is given before each process and action appearing in business organization and its whole working team being conscious of the problem importance is engaged in this process.[11]

The concept of Kaizen in an insurance company is particularly important though it cannot refer to a "production phase" because such a phase senso stricte does not exist in an insurance company. But its effects may be brought to light with all the might in every phase of insurance product creation: in techniques, methods and marketing analyses, in shaping insurance products distribution network, in working mode of various analytical and staff departments and even in improving procedures of widely understood system of management in an insurance company.

A concept of the Total Quality Management – TQM[12] in the management accounting is expressed in collecting relevant information and then in making non-financial report about key variable quantities for quality competition such as: quality, soundness, customer's satisfaction, time of new product introduction. A synthetic description of this concept and analysis of its application in a sphere of insurance is presented in the next table (Table 5).

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[10] It must be stressed that very often a common sense and experience of these people can be better tools to reduce costs than using for this purpose sophisticated tools and techniques, which is in opinion of Masaaki Imai – a Japanese expert in the field of management accounting – is still a common practice. See: Kaizen Guru Prescribes Common Sense Remedy to Workplace Ills, "Professional Engineering", October 2, 1996, p. 45.

[11] Bibliography delivers a number of examples for using in practice a concept of Kaizen. See for example: G.S. Knapp, From Kroger to Kaizen, "Ward's Auto World", April 1996, p. 41; D. Smock, How VDO Yazaki Achieved a 96% Utilization Rate, "Plastics World", March 1996, pp. 64–65; B. Rosenberg, Manufacturing's Future: Synch and Kaizen, "Worldbusiness", March/April 1996, p. 15; R. Maynard, A Company is Turned Around Through Japanese Principles, "Nation's Business", February 1996, p. 9; S. Rusiniak, Maximizing Your IE Value, "IIE Solution", June 1996, pp. 12–16; D.C. Smith, Motomachi Marvel, "Ward's Auto World", June 1996, p. 34; R. Radharamanan, L.P. Gody, K.I. Watanabe, Quality and Productivity Improvement in a Custom-Made Furniture Industry Using Kaizen, "Computers and Industrial Engineering". October 1996, pp. 471–474.

[12] This concept connection with strategic management (then with the management accounting) is stress for example by: B.J. Waress, D.P. Pasternak, H.L. Smith, Determining costs Associated with Quality in Health Care Delivery, "Health Care Management Review", Summer 1994, pp. 52–63, on the other hand an association with a concept of permanent improvement is outlined by: M.E. Mikakovich, Leadership for Public Service Quality Improvement, "Public Manager", 1993, pp. 49–52; J.H. Sheridan, The High Price of "Zero", "Industry Week", 20 September 1993, p. 54.

Table 5. Synthetic Characteristic of a Concept of Total Quality Management and Evaluation of Application Possibilities in a Sphere of Insurance

Attributes of the concept	Accomplishment in a sphere of insurance
• The TQM term is used to describe a process of permanent improvement in which all departments, processes and functions of a business organization are engaged. The TQM grew up from earlier concentration on statistical monitoring of a production process and in a contemporary way it is understood as a customer-orientated trend towards continuous improvement of delivered products. • Colin Drury says that in 80's most American and European firms expressed belief that quality causes an additional cost of production.[13] Nevertheless contemporary practice does not prove this opinion, because in reality quality is in favour of costs reduction thanks to lower costs of testing and repairing defects as well as those of quarantine service.[14] Nowadays a belief that it is cheaper to produce better is widely spread. • A role of specialists in the management accounting in the TQM will be to help appointing costs associated with a quality management. For this purpose we can distinguish four categories of costs which should be a subject of reporting.[15] – costs of prevention which include costs of maintenance, quality planning, training and extra costs associated with buying high quality raw materials; – costs of estimation born to ensure purchasing materials and services adequate to defined quality standards,	• The TQM concept in an insurance company may refer to creating and formalizing, in a shape of instructions. Internal standards of procedures in particular activities. • A set of such standards enables to work effectively and prevents from formal and procedural mistakes. Making such mistakes, particularly in contacts with customers, middlemen, supervising bodies and other external institutions may considerably change image of an insurance company, which may result in appearing redundant low quality costs. • Making internal instructions, fixing employees' responsibility and their work mode, cannot – what is important – be understood as the form domination over the merits. It should be carried out in a deliberated and logic way understood for all employees. • The TQM system in an insurance company should rather be expressed in – natural in a way – using a system of internal standards adequate to carried out activities which are understood and accepted by employees as determinant of a proper quality work and satisfaction gained as well as a level of payment.

[13] C. Drury, Management and Cost Accounting, Chapman & Hall, 1992, p. 808.

[14] The example companies which confirm this opinion can be found even in: R.D. Johnson, B.H. Kleiner, Does Higher Quality Means Higher Cost?, "International Journal of Quality & Reliabolity Management", 1993, pp. 64–80.

[15] See for instance: S.L. Brinkman, M.N. Appelbaum, The Quality Costs Report: it's Alive and Well at Gilroy Food, "Management Accounting", September 1994, pp. 61–65; G.W. Margavio, T.M. Margavio, R.L. Fink, Quality Improvement Technology Using the Taguchi Method, "CPA Journal", December 1993, pp. 72–75; W.J. Morse, A Handle on Quality Costs, "CMA Magazine", February 1993, pp. 21–24; P. Nandakumar, S.M. Datar, R. Akella, Models for Measuring and Accounting for Costs of Conformance Quality, "Management Science", January 1993, pp. 1–16.

Table 5. (continued)

Attributes of the concept	Accomplishment in a sphere of insurance
costs resulting from inspection (quality audit and various tests) of purchased batch of raw materials; – costs of internal negligence are the costs which appeared before a product/service was delivered to a customer such as: waste staff, repairs, halt or slow down of production due to defects; – costs of external negligence are the costs which appeared after goods had been delivered to a customer; they include costs of reply to customers claims, quarantine costs, repairs of given back goods and costs resulting from worse reputation of a company. • Quality costs report plays very important role as it visualizes to the managers that poor quality costs and report may show the ways for possible reduction of costs associated with quality provided that the above classification of quality costs is carried out with great care. • Quality costs report also gives recapitulation of efforts associated with quality management on brought basis and the report enables to answer a question if any spheres of quality management have already been improved and which ones must be carefully watched.[16]	

[16] More on quality costs see for example: L.J. Porter, P. Rayner, Quality Costing for Total Quality Management, "International Journal on Production Economics", April 1992, pp. 69–81; T.L. Albbright, H.P. Roth, The Measurement of Quality Costs; an Alternative Paradigm, "Accounting Horizons", June 1992, pp. 15–27; P.R. Corradi, Is a Cost of Quality System for You?, "National Productivity Review", Spring 1994, pp. 257–269; M. Kim, W.M. Liao, Estimating Hidden Quality Costs with High Quality Loss Functions, "Accounting Horizons", March 1994, pp. 8–18; M. Hewins, Accounting for Costs, "TQM Magazine", August 1993, pp. 39–42; R. Bidwell, Quality Management: Embracing Quality in the Environment, "Environment Risk", June 1993, pp. 37–38; See as well Polish authors publications in „Problemy jakości" even in No. 2 of 1997: K. Lisiecka, Rachunek kosztów jakości sposobem obniżania kosztów własnych wytworzenia, [pp. 16–21], A. Chodyński, Koszty jakości i ochrony środowiska w strategii firmy, [pp. 22–24], A. Kleniewski, Analiza kosztów jakości – inne podejście, [25–27], K. Szczpańska, Uwarunkowanie kosztów jakości w TQM, [pp. 32–34], D. Kowalska, Zarządzanie kosztami jakości, [pp. 3–6] and in: „Problemy jakości" No. 6 of 1998: G. Broniewska, Koszty społeczne w rachunku kosztów jakości, [pp. 19–23].

Business process reengineering in practice means not only a careful observation of competitors, technology changes customers' attitude but also: way of thinking about a company, creation of its new quality, rejecting customs and starting everything from the beginning, inventing a better way of utilizing working time and employees' ideas, breaking conventional image of a company and basis of its activities as well as internal structures, releasing positive thinking in employees. Convincing them about necessity to join a process of changes.[17]

The main target of reengineering is remodeling and transformation of companies (in most cases still organized functionally) into process-orientated companies. It goes towards separation in such interdisciplinary companies interfunctional teams of people responsible for competent management of key organization processes. A concept of reengineering is based on below listed key imperatives:[18]

1) fundamental considerations,
2) radical reprogramming (new quality processes creation),
3) "dramatic" improvement,
4) business processes (focusing on the whole processes and not on single operations).

Practice delivers examples confirming evident advantages resulting from application of reengineering principles and manifested in a big (even 40%) reduction of costs, very often in multiplied increase of quality and in reduction of time to carry out key activities.

There is widely spread belief that fast progress in computer technology is an essential factor having influence on development of reengineering. The progress forced fundamental reconstruction of processes within a business organization. Reengineering is then a fundamental change of thinking and radical reconstruction of business processes and of organizational structures so that a business organization could be able to reach positively better – painting its condition – effects expressed in lower costs, higher quality of products and standard of servicing customers as well as in sped of action. As Piotr Paczkowski states research done in Neumann Management Institute shows that even in 1994 70% of big American companies and 75% of European ones introduced reengineering principles and half of them gained 70% of planned effects.[19]

Reengineering of processes and activities in an insurance company, as a matter of fact, is a crowning achievement of earlier concepts of permanent

[17] Compare: P. Paczkowski, Istota i cele reengineringu, „Logistyka", 2/97, p. 17.
[18] *Ibidem*, p. 20.
[19] *Ibidem*, p. 17.

improvement. Because the need for reengineering can result from conclusions nad ideas reached thanks to application of kaizen and from works being carried out in connection with TQM.

Drawing conclusions one may find out that a contemporary insurer designing his management accounting system depends on using its modern tools being tested and confirmed mainly in non-insurance spheres. Adaptation of modern attitudes outlined above and being more and more applied introduction and commercial business undertakings in relation to insurance companies is by all means not only advisable but also desired.

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Prospects of Development of Securitisation in Poland – the Legal Perspective

1. Introduction

Securitisation of assets is one of the newest, and at the same time the fastest developing sources of financing economic operation. Its principle is to issue securities hedged by future cash earnings from assets, and the issue is carried out by a purposefully created body known as a Special Purpose Company (SPC).[1] Assets, and earnings derived from them are separated legally and economically from operational risk of the company, which had initiated the process of securitisation. The process of separating the risk of the company (the initiator) from the risk of assets is conducted by separating particular assets, and at the same time future cash earnings, from the initiating company's property, and transferring ownership rights towards them to the issuer – a Special Purpose Company, which constitutes a third party not connected by capital with the initiator. The transferred assets constitute a collateral for issue of securities.[2] Those papers are issued to bearer and confirm purchaser's right to the assets transferred by the borrower (the initiator) to the issuer; they document the purchaser's payment claims towards the issuer. The assets derived from the issue are transferred by the issuer as payment for the received assets, so consequently in turn for non-liquid assets a company, or a bank, gain cash.

The first securitisation transaction took place in the USA in 1970.[3] It was initiated by Government National Mortgage Association, which issued securities based on mortgage. In Europe the first securitisation transactions were conducted in Great Britain in the years 1986–1987. They were initiated by Barclays Bank and one of the Lloyds Group member banks. The objective of those transactions was to release regulatory capital.

Securitisation as a form of capital raising has been undergoing dynamic development particularly in the United States, where in 2003 securities worth

[1] Handbook of Asset – Backed Securities, Lederman, Dow Jones & Irwin, Homewood, 1988, p. 4.
[2] E. Glogowski, M. Münch, Nowe usługi finansowe, PWN, Warszawa 1996, p. 272.
[3] J. Zombirt, Czy stosować sekurytyzację, „Rynek terminowy", No. 4/2001, p. 22.

USD 369 billion were issued as a part of securitisation processes.[4] The US were followed by the European countries and the rest of the world. In Europe in 2003 the process of securitisation generated securities worth USD 217 billion.[5]

Unlike in the case of the developed financial markets of Western Europe, securitisation in Poland is very slow to develop. Attempts to securitise assets of companies operating in Poland have been made since 1999, but only a few of such operations have actually been conducted, and amounted to insignificant values, which is illustrated by the following table.

Table 1. Chosen Processes of Securitisation Conducted in Poland

Data of issue	1999	1999	2000	2001	2001	2002
Securitised assets	Commercial receivables	Commercial receivables	Leasing dues	Commercial receivables	Commercial receivables	Commercial receivables
Initiator	URTICA Zaopatrzenie Farmaceutyczne Sp. z o.o.	Bytomska Spółka Węglowa	Pekao Leasing Sp. z o.o.	Pharmag SA	URTICA Zaopatrzenie Farmaceutyczne Sp. z o.o.	Greenhouse Capital Management
SPC	URTICA Finanse S.A.	-------	Pekao Leasing Sekurytyzacja Sp. z o.o.	Pharmag HM	URTICA Finanse S.A.	Greenhouse Securitisation
Type of issued securities	Investment bills	Bonds	Commercial bills	Bonds	Bonds	Bonds
Transaction value	PLN 50 million	PLN 84 million	PLN 4.3 million	PLN 100 million	PLN 50 million	PLN 12 million
Duration of the process	3 years	---------	6 months	4 years	4 years	------
Organised by	BRE Bank	BUD-Bank	Bank Pekao	BRE Bank	Bank Handlowy	Greenhouse Capital Management

Source: Original analysis based on: J. Zombirt, I. Styn, Transakcje sekurytyzacyjne na świecie i w Polsce, Rynek terminowy, No. 1/2001; Nowe usługi finansowe w Polsce, edited by W. Przybylska-Kapuścińska, U. Ziarko-Siwek, Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań 2002.

Legal conditions hindering a classic securitisation process, or high costs of procedure connected with those legal conditions, are indicated as the basic reasons for slow development of securitisation in Poland.

In 2004 in Poland three legislative initiatives were undertaken in order to eradicate the barriers for development of securitisation in Poland:

- on 1/4/2004 a novella to the Banking Law Act was passed, introducing possibilities of securitisation of banking receivables,

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4 Global ABS/CDO Weekly Market Snapshot; Global Structured Finance Research; J.P. Morgan Securities Inc.; for the years 1996-2003.

5 European Securitisation Forum, Dealogic Bondware, Thomson Financial Securities Data, J.P. Morgan Inc., EuroWeek.

– 27/05/2003 the new Act on Investment Funds was passed, introducing the possibility to create securitisation funds,
– in July 2004 works were underway to pass the Act on Securitisation, which is to change other acts in order to facilitate the process of securitisation of assets (in July the draft has passed the second reading).

The objective of this study is to present the above regulations with regard to possibilities of development of financing companies and banks in Poland through securitisation.

2. The Novella to the Banking Law Act of 1/4/2004

According to the Banking Law as of before the novella, securitisation of banking receivables in Poland was impossible for two reasons:
– the Banking Law reserved recording credits solely for balance sheets of banks, without a possibility to transfer them to non-banking parties,
– banks were bound by regulations on banking secrecy, which made securitisation of assets impossible, since it required revealing a part of information on securitised receivables and debtors.

The above obstacles were eradicated by the novella to the Banking Law Act of 1/4/2004, which was introduced on 1/5/2004. The articles 92a and 104 are decisive as far as securitisation is concerned. According to the article 92a a bank can transfer receivables homogenous according to type to an association of capital, in order for the association to issue securities secured by the securitised receivables. Furthermore, the issuer receiving the transfer of receivables must not be connected by capital or organisation with the bank transferring the receivables, and the sole purpose of the issuer's operation can be purchasing receivables and issuing securities secured by assets, and conducting actions related to those operations.

According to article 92a point 3, a bank initiating securitisation must not:
– accept responsibility towards purchasers of securities for fulfilment of liabilities of the issuer, resulting from execution of benefits from the securities in question,
– purchase receivables previously transferred to the issuer, unless:
  • the purchase takes place after the issuer satisfied all liabilities resulting from the securities it had issued,
  • the purchased receivables fulfil the requirements an can be classified as "normal" according to the regulations concerning the principles of creation of adjusted reserves for risk connected with banking operation,

- the value of receivables purchased by the bank does not exceed 10% of the nominal value of the receivables constituting the basis for the issue of securities by the issuer,

– purchase securities issued by any issuer, secured by the receivables formerly transferred by the bank to the issuer.

The above regulations contribute to eradication of the basic obstacle, which used to make securitisation of banking receivables in Poland impossible – the lack of legal basis for transferring credit liabilities to a non-banking party. Article 92a provides such possibility, under the condition, that the transfer of banking receivables is conducted solely for the purpose of their securitisation. In the novella of the act in question, the regulation concerning banking secrecy has been modified. It used to forbid issuing information about receivables to parties other than those listed in article 105 of the Banking Law. At the moment the bank is released from abiding by banking secrecy, but only to the extent necessary for the securitisation process (article 104, paragraph 2, point 4 of the Banking Law).

Thank to the above amendments, banks have became the only parties in Poland to receive a legally regulated possibility of using securitisation of assets as an instrument to raise capital at the financial market. The "issuer" has not been equipped with a very useful tool for vindicating banking receivables – "the banking execution title", nevertheless at the moment a process of securitisation of banking receivables is possible in Poland, and it can not only constitute a source of capital for banks, but a tool for managing their assets as well.

3. The Act on Investment Funds

The Act on Investment Funds, passed by the Polish parliament on 27/5/2004, and introduced on 1/7/2004, contains legal regulations concerning the operation of a new type of financial institutions – securitisation funds.

The Act provides, that securitisation investment funds are to constitute a specific kind of closed investment funds, which include in their operation issuing of investment certificates in order to gain resources for purchasing receivables or rights to benefits from certain receivables (article 183, paragraph 1). This signifies, that unlike in the case of participation units of open funds, securities issued by securitisation investment funds are not to be sold and amortised in a "continuous" manner, i.e. on every working day. Purchase of the certificates is going to be possible solely during subscription time. However, closing of an investment position may take place in two ways:

– by selling of investment certificates to another investor via a transaction within the public market, or outside of it,

– by participant's demanding amortisation of purchased certificates at the moment appointed by the fund; such operation may take place either on the due date of the security, or at an earlier time, should the fund oblige itself to purchase the certificates early.

The above provisions are supposed to reduce the risk of premature withdrawal from the investment of parties with financial surplus. Closed investment funds are meant to invest in high-risk financial instruments and enterprises, therefore it is important, that the participants' capitals are not subject to short-term fluctuations.

According to article 183, paragraph 2 of the act in question, securitisation investment funds will be able to assume two forms:

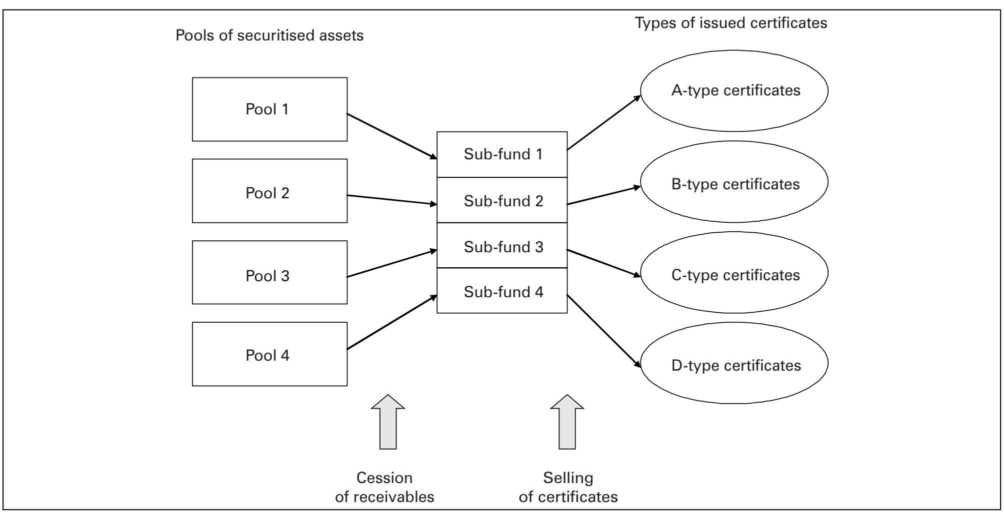
a) a standardised fund,

b) a non-standardised fund.

3.1. Standardised Securitisation Fund

The principle of a standardised fund is, that there are special units separated out of its assets, and called sub-funds. If the statute does not specify otherwise, each of those units containing receivables constitutes a collateral for issuing a different series of investment certificates. On the basis of assets belonging to one sub-fund, only a single issue of securities can be conducted. This means, that the fund issues several types of participation units or certificates (e.g. type A, type B, type C, etc.) – see Figure 1.

Figure 1. Operation of a Standardised Securitisation Fund



Source: Original analysis.

A certificate price depends on the current value of the pool of assets constituting collateral for the issue, as well as on financial flows generated by those assets, and by the appropriate part of the fund's costs. Hence, the value of the fund's net assets assigned to a participation unit (or an investment certificate) is calculated according to the following formula:

$$\text{Value of net assets per one unit of participation} = \frac{\text{Capital} + \text{earnings} - \text{costs}}{\text{The number of units (certificates)}}$$

A standardised fund is obliged (with the reservation concerning provisions of the statute) to invest at least 75% of the value of assets of a particular sub-fund into one pool of receivables or into rights to benefits from that pool (article 185, paragraph 4). The fund is not obliged to fulfil this requirement and can invest at least 75% of the value of assets of a certain sub-fund into **several pools of receivables or into rights to benefits from several pools of receivables**, if:

1) the securitisation was initiated by Polish banks or credit institutions;
2) the receivables in all the pools are homogenous according to type;
3) the contracts concerning purchase of a certain pool of receivables, and the contracts concerning sub-participation for each of the pools of receivables are all signed within 3 months of registration of the fund (article 185, paragraph 5).

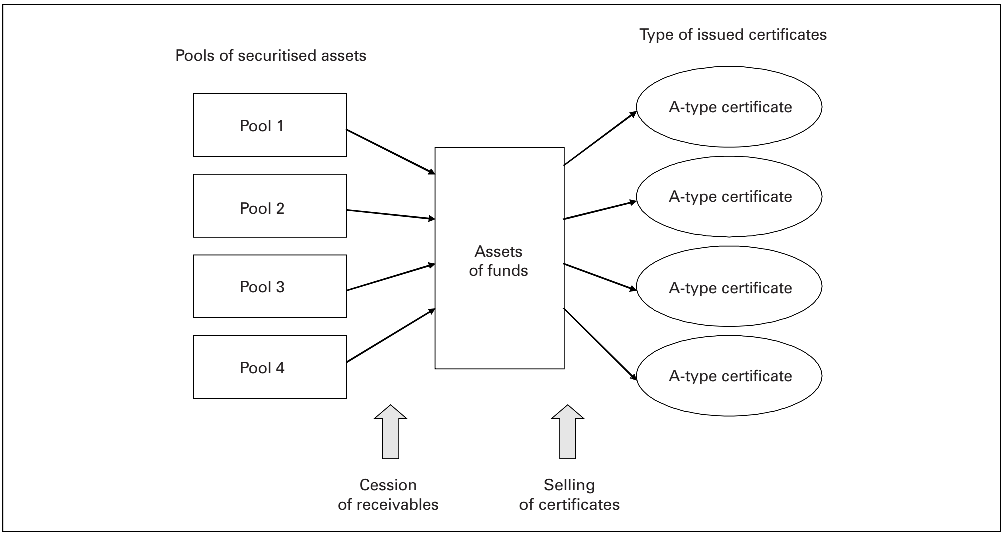
Sub-funds are liquidated at the moment of paying off all the receivables included in the purchased pool, or at the moment when the fund receives all the due benefits from the initiator of securitisation.

The construction of a standardised securitisation fund described above undoubtedly is likely to generate high costs of operation. Therefore, funds of this type will be forced to get involved in operations connected with securitisation of large batches of assets, since only then will they be able to achieve the economics of scale. The necessity to conduct new issues for consecutive pools of assets will seriously increase costs carried by the funds, especially since expenses connected with preparation of issues (particularly public ones) are significant. Furthermore, dividing assets into several portfolios will lead to heightened costs of managing: running appropriate accounts, keeping records of investment certificates, service costs of the depositary bank etc. In addition, limiting diversification of assets within individual sub-funds will lead to a higher investment risk of purchasers of different types of certificates. Therefore, non-standardised securitisation funds are likely to become more popular.

3.2. Non-standardised Securitisation Funds

Non-standardised investment funds, unlike the standardised ones, will not be obliged to create sub-funds in order to separate individual pools of receivables (article 187, paragraph 1). The assets of such fund will constitute a single portfolio. Based on the fund's assets, one type of certificates will be issued (see Figure 2). The fund will be entitled to perform several issues of securities, and investors' claims will be secured by all assets and earnings of the fund. According to the concept of operation of non-standardised institutions, a single price is set for all investment certificates on a particular day.

Figure 2. Operation of non-standardised Securitisation Fund



Source: original analysis.

Non-standardised institutions, which will not be obliged to divide purchased assets into several sub-funds, will be able to carry lesser operational costs than the standardised funds. A simplified structure and no necessity to evaluate several types of certificates will be reflected in cheaper fees for computer systems and depositary services.

According to article 187, paragraph 2, a non-standardised securitisation fund is obliged to invest no less than 75% of the value of its assets in:

1) specified receivables;
2) securities incorporating receivables (a maximum of 25% of the value of the fund's net assets);
3) rights to benefits from particular receivables.

In this case there is no obligation to invest in one pool of receivables (as happens in the case of standardised funds), therefore there is more freedom to conduct investment policy, and a possibility of better diversification of assets of a non-standardised securitisation fund.

Not every party will be able to become an investor in a securitisation fund. In the case of non-standardised funds, practically only institutional investors will be able to purchase the securities issued by the funds. The act in question accepts a possibility, that a fund's statute may sanction participation of an individual client. Nevertheless, in such case the initial nominal value of a single certificate cannot be appointed at a level lower than euro 40,000.00 (article 187, paragraph 5). Setting up of such high a limit will effectively make it impossible for individuals to participate in a fund. There are no similar provisions concerning the target group for offers of standardised funds. An authorised party becomes a participant by purchasing investment certificates.

The favourable regulations concerning securitisation funds include article 189, paragraph 3 of the act in question. The regulations provide, that institutions of joint investment are entitled to specify (in their statute) the order in which investors' claims deriving from investment certificates are to be satisfied. Out-payment of funds towards purchasers of securities from a particular series can be made dependent upon an earlier repayment of liabilities of the same type deriving from a different tranche of issued securities. Such legal solutions will allow to appropriately insure issues, and improve rating of individual tranches of certificates.

The Act on Investment Funds of 27/5/2004 regulates the question of protection of personal data, which used to constitute one of the main barriers for the development of securitisation in Poland. At the moment a securitisation fund, as well as the party with which the fund signs a contract to service the securitised receivables, can collect and process personal data of debtors of the securitised receivables, but only for purposes connected with administrating the securitised receivables and their turnover (article 193).

The next problem classified as an obstacle for the development of securitisation in Poland is connected with mortgage entries in land and mortgage registers, and with liens in lien registers for collaterals for repayment of liabilities towards a securitisation fund. According to article 195 of the Act "in case a securitisation fund purchases a receivable, or a pool of receivables secured by a mortgage or a lien, the fund applies to the court keeping the land and mortgage book or the lien register to change the entry specifying the creditor to whom the mortgage or the lien were established." A fixed charge for an entry amendment is PLN 100. The draft does not specify who is to pay this charge. The context suggests, that the charge is to be paid by the fund, which would increase the total cost of the whole process, considering a large number of receivables, which might require entry amendments.

Taking into account the situation of the Polish system of land and mortgage registers, the necessity to change entries in those registers practically makes securitisation impossible at the present moment. Nevertheless, thank to the ongoing process of computerisation of the registers, the situation can change dramatically for the better within the nearest couple of years.

One of the legal questions which do not appear in the final version of the Act on Investment Funds, which was considered in the draft of the same Act, are the provisions about the possibility of issuing enforceable titles by securitisation funds, if the receivable or a pool of receivables was purchased from one of Polish banks, and results from a banking operation. According to the draft, a "securitisation enforceable title" could constitute a basis for execution conducted according to the regulations of the civil code of proceedings, after the court had given it an executory formula, and only towards the debtor party of the securitised receivable or a debtor due to securing the securitised receivable (providing this party agreed to the transfer of the receivable by a local bank towards the fund, or the company managing the fund, and presented a statement in writing that they subject themselves to execution to the benefit of the Polish bank, which had transferred the receivable to the securitisation fund, and the claim quoted in the title results directly from the securitised receivable or its collateral).

The securitisation enforceable title was to constitute a basis for execution to the value specified in the debtor's statement about subjecting themselves to execution for the benefit of the bank. It included execution of a thing from a debtor as well, in case a lien had been set up or ownership was transferred in order to guarantee a receivable of a Polish bank purchased by a securitisation fund. The securitisation enforceable title was to constitute a basis for execution from a third party, had they taken over the debt from the securitised receivable, or became an owner of a property mortgaged for the benefit of a securitisation fund. The lack of the above provisions in the final text of the Act diminished the possibility of successful vindication by securitisation funds.

Nevertheless, it can be said that the Act on Investment Funds of 27/5/2004 precisely introduces the new type of a closed investment fund, which is the securitisation fund, into the Polish financial system, thus creating broader possibilities of implementing a process of securitisation in Poland.

4. Draft of the Act on Securitisation[6]

In 2001, the Securitisation Team was created at the Polish Bank Association. Its task was to identify barriers for the process of securitisation of bank assets and company assets, and to prepare suggestions for changes in appropriate legal acts. The work resulted in a draft of the Securitisation Act, which was presented at the Polish parliament on 23/7/2004.

The main objective of the draft is to eradicate all obstacles existing in the present legal system, which make implementation of securitisation of assets not feasible, or even inadmissible. The draft does not suggest creating any new institutions of economic law serving solely the process of securitisation, because the authors of the project believe the existing legal instruments to be sufficient – after proper modification – for effective securitisation. At the same time, such attitude towards the issue of securitisation is in accordance with the prevailing expectations of the participants of the economic scene in Poland.[7]

The draft specifies, that a securitisation transaction consists of two stages. Stage 1 is a paid transfer of property rights by an initiator to an issuer. The second stage involves issuing securities and servicing the issue by the issuer. The draft very broadly defines possible initiators of the process – they can include individuals, institutions, as well as parties without the status of a legal person. The condition for initiating a securitisation transaction is the initiator's possessing property rights, which can be sold to the issuer, and can serve as collateral for the issued securities. Those property rights are transferred by the initiator to the special party called the issuer.

The issuer has to be a legal entity or a company, e.g. a shared-stock company, a limited company, a bank, an investment fund, the Treasury if State, a local council, a state-owned company, and several other parties, as long as they posses a legal entity status. The draft provides, that the issuer's scope of operation can be solely the participation in securitisation transactions. The kinds of transactions performed by the issuer can be further limited by their statute, or by the conditions of issue. Any possible disposition of the property rights, which would violate those limitations, is legally invalid. Invalidity of certain operations can become inactive if the conditions of issue provide for such possibility, and all owners of securities agree to it. This principle is to serve preserving the issuer's assets in condition securing their capacity to satisfy all claims from the issued securities.

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[6] Draft of the Act on Securitisation of 23/7/2003, www.sejm.gov.pl, information acquired on 02/07/2004.

[7] Justification of the draft of Securitisation Act in: www.sejm.gov.pl, information acquired on 02/07/2004.

The issuer issues securities, which are then taken over by investors. Thus derived money resources are paid to the initiator as remuneration for the property rights purchased from them. The issuer can issue several tranches of securities; in this case, claims of investors are satisfied according to the time of individual issues. However, this principle can be changed by the conditions of issue.

Repayment of the securities is secured by the existing assets of the issuer, i.e. the property rights purchased by the issuer from the initiator. Responsibility for fulfilling the obligations resulting from the issued securities (and in particular the duty to pay interest and to buy back the papers for the specified price at the specified moment) belongs to the issuer. The initiator does not carry any responsibility, unless they accept some by way of a separate legal action, e.g. guaranteeing redemption of the securities.

A possibility to organise turnover of securities created as a result of securitisation of assets in a dematerialised form is an important convenience, even if they have not been approved for public turnover. Such turnover can be organised by a party professionally dealing with similar operations, i.e. the National Depository for Securities, a bank or a broker's house indicated by the issuer, on the basis of the deposition contract.

The draft provides for another convenience important in the Polish conditions – article 6 creates an institution of a collateral administrator. It is an institution modelled on the construction of a lien administrator, which exists in the act on lien and lien register.[8]

Article 6 of the presented act provides, that if property rights transferred from the initiator to the issuer are secured by a mortgage, a lien, or another property right revealed in an appropriate register, then the initiator can be appointed an administrator of those collaterals. They can execute all the rights and duties resulting from property rights established as collateral for the sold receivables, in their own name, or on account of the issuer. This signifies, that all the actions undertaken by the administrator bear effect for the issuer. The collaterals towards which an administrator was established are included into their owner's (i.e. the issuer's) bankruptcy estate. In case of the administrator's liquidation or bankruptcy, the issuer notifies the land and mortgage register, or another appropriate register about purchasing the collaterals, and appends to it the contract concerning the establishment of the administrator. This notification constitutes an application for amending the register entry. The entry must be made within a month of presenting the application, and is not subject to any

[8] Article 4 of the Act on Lien and Lien Register of 6/12/1996.

charges. This is a great convenience, especially considering the length of entry procedure and its cost.

The institution of administrator is to facilitate and speed up the process of transferring property rights from the initiator to the issuer. The issuer purchases property rights along with benefits from collaterals established on them, without a necessity to perform a costly and time-consuming procedure of introducing the issuer into a land and mortgage register, or another appropriate register as the party possessing rights to the mortgage, lien, or another right revealed in the register. Furthermore, entry procedures are undertaken only in the case of liquidation or bankruptcy of the administrator, which seems to be a rare occurrence.

The draft introduces important provisions aimed at advanced protection of investors. Those are:

- the principle, that the issuer is not allowed to conduct any other operation than participation in securitisation transactions (article 4, paragraph 3),
- in the case of several issues of securities by one issuer, the investors possessing securities of an earlier series generally have a priority in payouts from property rights before the investors possessing securities from a later series of securities,
- extending to the initiator the responsibility for damages caused as a result of legal defects of the securities issued by the issuer (article 10, paragraph 1),
- extending to the initiator and other involved parties the responsibility for damages caused by misleading investors in connection with the issue of securities (article 10, paragraph 2-4); this misleading itself is treated as an offence punished by fine or imprisonment (article 12),
- the principle of equal treatment of all investors in case of an early redemption of the securities by the issuer (article 11).

Nevertheless, the most important question solved by the Act on Securitisation are the necessary changes in other regulations, aimed at eradicating the existing obstacles and removing doubts concerning the understanding of the prevailing acts, so that securitisation can become feasible. As far as the changes in the Banking Law of 29/08/1997 are concerned, in case of securitisation initiated by a bank, the draft of the Act on Securitisation grants to the issuer several privileges, which used to belong solely to the bank. First of all, the doubts concerning enforceable title have been removed. According to the draft, the banking enforceable title will be passed on to the issuer simultaneously with the transfer of ownership of a receivable. Therefore, the issuer will be able to apply for executory formula for such enforceable title, and then to perform an effective execution from debtor's (credit-taker's) property.

Also, the regulations concerning money guarantee deposits deposited in banks to secure banking receivables have been defined more clearly. In the case of securitisation by sub-participation where a guarantee deposit is to be used, the resources deposited as guarantee bear no interest as a rule, nevertheless the parties can agree upon remuneration. The stance has been confirmed, that there will be no obligatory reserve calculated for the amount deposited in the bank as a guarantee deposit.

The draft of the Act on Securitisation in certain cases revokes the banking secrecy. The proposed change of banking secrecy concerns not only transactions of securitisation, but also any situation in which a bank commands receivables. The draft provides, that the secrecy is not in force if the bank sells, or otherwise commands a receivable in the bank's possession (e.g. transfers it to an issuer), or vindicates claims resulting form this receivable (e.g. brings an action against a debtor).

The proposed changes in the Act of 29/8/1997 on Protection of Personal Data have a similar character. They define situations, when a creditor can reveal personal data of their debtors, and they define the principles according to which an initiator can reveal personal data of their debtors to a foreign issuer, as a part of a securitisation transaction.

Also the changes in tax regulations should have a positive influence upon the future development of securitisation. The changes serve achieving tax neutrality of a securitisation transaction. In order to do this, transfer of property rights between an initiator and an issuer is to be exempted from turnover tax (VAT and tax on legal transactions), and purchasing and selling property rights between the initiator and the issuer is not to improve or worsen tax situation of either of those parties. It is a very important convenience, compared to the prevailing order to pay tax on legal transactions amounting to 1% of transaction value on transfer of property rights.[9]

The accounting regulations concerning securitisation have been clarified. The receipts generated by transferring ownership rights as a part of a securitisation transaction does not constitute a receipt as defined by the Act on Income Tax from legal entities. More importantly, the draft allows treating as a cost a loss a bank suffers due to paid transfer of property rights for which reserves included into cost of income had been made. Such provision solves the problem of banks selling bad debts below their nominal value.

In addition, the fee for entering an issuer into the appropriate register has been reduced. If an issuer's operation involves solely participation in securitisation

[9] Article 7 of the Act on the Tax on Legal Transactions of 9/9/2000.

transactions, the tax on legal transactions is to amount to 0.1% of the value of their capital stock, but no more than PLN 1000.

The changes in tax regulations are to ensure the priority of the mortgage constituting a collateral for a receivable from a bank credit before the obligatory mortgage constituting a collateral for a public receivable in case of transferring the receivable from the credit to a third party.

Another change concerns the Act on Lien and Lien Register of 6/12/1996, and involves creating a new definition of the manner of preparing and signing a lien contract securing receivables from an issue of securities, so that such contract can be legally binding.

The changes in the Bankruptcy and Sanation Law are aimed at introducing the principle, that the provisions concerning bankruptcy of an issuer of bonds apply to a bankruptcy of an issuer participating in a securitisation transaction, due to a similarity between both those legal institutions. The change guarantees investors a priority in satisfying their claims from the securitised receivables, in case of the issuer's bankruptcy. Any possible surplus can be included into the bankruptcy estate and be subject to further execution only after all the investors have been satisfied.

The change in the Act on Bonds of 29/6/1995 removes doubts concerning admissibility of issuing bonds nominated in foreign currency. Such issues are to be admissible.

The draft of the Securitisation Act is at the moment (July 2004) to undergo the "third reading", so there is hope, that the parliament's work on the Act on Securitisation is going to be completed soon, and companies receive a new, legally regulated instrument of raising capital.

5. Conclusion

One of almost every company's basic problems are the insufficient capital resources for financing its statutory operation and development. Shortage of capital is a factor limiting possibilities of a company's market expansion, and reducing its competitive strength. Securitisation was invented as an answer to the barriers for access to external sources of financing occurring in the early 1970's at the American financial market, and it became an alternative and competition to credit as a form of financing corporate development. Over the last 30 years securitisation has became one of the basic methods of raising capital in the United States, and an increasingly popular form of financing companies in the countries of Europe. It is used in Latin America, Japan, Canada and Australia as well.

At the moment securitisation is not limited to raising extra funding, but it constitutes a tool for managing assets of companies and banks, which increases its clarity and market discipline. Therefore, it contributes to a more effective allocation of capital, diversification of sources of financing and better matching of terms of asset maturity and due liabilities.

In the countries of the European Union the market of securitisation transactions has been developing very rapidly. The factors responsible for this are not only the increased pace of development of the securities market, but also the willingness of participants of the market to make market operations clearer, and raise security standards of financial investment.

In Poland the works on legal regulation of the principles of conducting the process of securitisation have been continuing for several years. Finally, on 1/4/2004 the parliament passed the novella to the Banking Law, and on 27/5/2004 – the new Act on Investment Funds, which have eradicated the barriers obstructing application of this technique in the process of capital raising. The work on the new Act on Securitisation amending other acts in order to make the method more easily applicable in practice. Consequently, the introduction of a new technique of financing companies and banks into the Polish legal system ought to contribute to their increased competitiveness, and have a positive effect upon the development of the financial market in our country.

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The Barrier of Financing in Development of Small and Medium Businesses in Poland

1. Developmental Dilemmas of the SME Sector

Undeniably, the SME sector plays a significant role in the economy. In developed market economies, small and medium businesses are unequivocally described as the engine of economic development. Their crucial role as creators of new jobs is consistently emphasised, and the development of the SME sector is considered the best policy countering unemployment, and a factor facilitating the creation of healthy competition, forcing high quality of goods and services.

At the moment, the number of small and medium companies registered by the REGON database amounts to about 3.4 million. However, this quantity cannot constitute a basis for an objective analysis of the sector, since a large proportion of registered enterprises remain inactive. A number of businesses, having completed or suspended their operation, do not report that fact to the Central Statistical Office (GUS), and others never commence operation after registration. Therefore, the data concerning the number of operating businesses are more useful for analysis. Therefore, it is important to observe, that almost a half (46.9%) of businesses registered in the REGON database, did not conduct any actual operation at the end of 2001.[1]

Small and medium enterprises constitute over 99% of all active businesses, and their share in generating the GNP amounts to over 48% (of which almost 40% is generated by small enterprises). Also, it is worth mentioning, that nearly 70% of professionally active people are employed in the SME sector. In the recent years, it have been mainly small companies which have created jobs, thus actively slowing the growth of unemployment in a situation where medium and large companies reduced their sizes and employment due to economic recession.[2] Apart from that, the SME sector generates almost 2/3 of the total income of all businesses.

The potential of the SME sector explains the large involvement into creating and improving conditions of the economic environment in which those enterprises

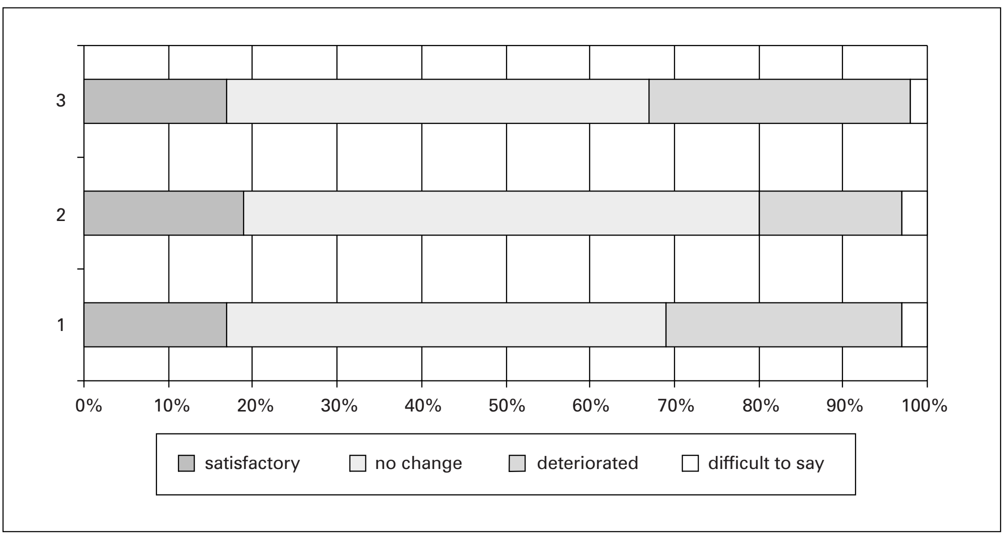
[1] A. Rybińska, A. Tokaj-Krzewska, [ed.], Raport o stanie MSR w latach 2001–2002, PARP, Warszawa 2003, p. 29.

[2] P. Stefaniak, Chodźmy więc, chodźmy…, „Boss Gospodarka”, lipiec 2003, p. 31.

operate, and into different forms of assistance facilitating their development, at the national, regional and inter-regional level. Unfortunately, many programmes (including some designed at government's level) have not fulfilled expectations of entrepreneurs, which was expressed in their negative assessment of those programmes, and of modes of their implementation.

In 2003, the financial balance achieved by Polish companies was particularly good, compared to the year before. Since income from the entire scope of activity grew more than the total cost of this income (respectively by 12.2% and 9.9%), the basic economic and financial indicators improved. Income from sales of products, goods and materials was higher than the year before by 12.75%, which, regarding lower dynamics of cost of this operation (increased by 11.3%) resulted in an increased profitability. The gross financial balance amounted to PLN 30.2 billion, compared to PLN 7.3 billion a year before, while the net balance amounted to PLN 18 billion, compared to minus PLN 2.0 billion; the increase of net profit amounted to 42%, and the reduction of net loss to 30%.[3]

Figure 1. Assessment of Financial Liquidity in the SME Sector in the Third Quarter of 2003



Source: original analysis on the basis of data by GUS, B.P.S. Consultants Poland Ltd, and original research.

However, the economic recovery in Poland must not overshadow an objective assessment of the situation of the SME sector, which still indicates the existence

[3] S. Żuk, Rosną zyski przedsiębiorstw, „Gazeta Prawna", No. 56, 19–21/03/2004.

of numerous barriers for development, often emphasised by entrepreneurs themselves. It is symptomatic, that despite many press reports on economic growth, almost a third of small and medium businesses experienced in the third quarter of 2003 a worsened financial liquidity, which, as we know, is decisive for firms' remaining in the market. The above is illustrated by Figure 1.

While identifying developmental barriers for the SME, it is difficult to specify which of them are most decisive. The question involves a number of **internal** factors (e.g. a type of branch, profitability, liquidity, cost of company capital, access to sources of financing) and external ones (e.g. macroeconomic, legal, political, international). Those factors are emphasised by most interviewed companies, however it is interesting, that entrepreneurs put more emphasis on external factors.

The research conducted by the Polish National Bank (NBP) in 2002 indicates, that entrepreneurs considered the following to be the main obstacles for development: low demand, payment entanglements and poor financial condition of their customers. Another consistently emphasised problem is the difficulty to obtain credit. Other macroeconomic indicators, such as economic conditions, changing currency exchange rates and inflation, played a decreasing role. It is illustrated by Table 1.

Table 1. Barriers for Development (as a % of Entrepreneurs Indicating a Particular Factor)

Frequency of the problem during:	Low demand	Vindication of liabilities and payment entan-glements	Recession, poor financial condition of buyers	Fluctuations of currency exchange rates	Lack of liquidity	Difficulties with obtaining credit	Fierce competition	Taxes, social security premiums	Inflation, higher prices of energy, water etc.	Higher interest rates
I quarter 1999	28.2	11.2	8.9	18.5	15.1		17.0	8.1		12.0
I quarter 2000	17.1	9.6	11.8	12.5	7.5		15.7	9.3	6.4	12.1
I quarter 2001	17.9	11.7	14.3	15.6	6.5		12.7	11.7	11.0	16.2
I quarter 2002	22.2	16.7	19.5	17.4	9.2	3.7	8.5	14.0	5.3	13.0
I quarter 2003	19.7	17.1	16.5	14.3	7.5	9.0	6.4	9.6	2.4	5.1

Source: Ministry of Economy, Labour and Social Policy Economic Analyses and Forecast Department, Poland 2003, Report on the Economy, Warszawa 2003, p. 48, after: NBP.

Small and medium businesses continue to struggle with several limitations and barriers for their operation resulting from – as has been mentioned – the general conditions of economic operation, as well as from the particular form and functions of those entities in the economy. A number of analyses and surveys conducted among firms within the SME sector indicate, that the areas requiring attention in the first place ought to be: finance, ownership rights, and low, and most importantly, stable taxes and moderate regulatory charges.

Polish entrepreneurs must overcome several obstacles during the first years of their operation. The research conducted by GUS collected information about companies after the first two years of their operation. The difficulties faced by companies were divided into barriers obstructing sales of produced goods and services at the level corresponding with production capacity of firms (the so-called **demand** barriers), and those limiting production (**supply** barriers). The results of this research are presented in Table 2.

Table 2. Percentage of Businesses Experiencing Particular Types of Difficulties

Years	1995	1998	2000	2001
DEMAND BARRIERS				
1. Insufficient customers' resources in relation to needs	64.9	57.8	68.4	65.1
2. Too high market competition	73.7	80.3	78.8	81.7
3. Competitive companies reducing prices	42.9	51.0	54.2	59.0
4. Insufficient knowledge of the firm in the market	37.7	27.1	37.3	37.3
SUPPLY BARRIERS				
1. Insufficient technology	15.6	10.1	17.0	14.4
2. Insufficient financial resources	79.8	80.5	79.9	76.3
3. Difficulties in vindicating liabilities	34.0	30.3	47.4	40.0
4. Limited access to credit	35.4	30.8	48.0	38.2

Source: original analysis based on: Warunki powstania I działania oraz perspektywy rozwojowe polskich przedsiębiorstw, GUS Warszawa 2002 and Warunki powstawania i działania oraz perspektywy rozwojowe polskich przedsiębiorstw powstałych w 2001 r., GUS, Warszawa 2003.

At this point, it is worth drawing attention to opinions of entrepreneurs, which concerned conditions of operating within the economic union. Undoubtedly, Poland's joining the European Union creates large chances for our companies (expanded market area, new opportunities, new possibilities of gaining financial support, stabilised conditions of operation, increased access to new technologies etc.); nevertheless several pitfalls of integration are indicated as well (Table 3).

Table 3. The Most Significant Dangers for Entrepreneurs, Resulting from Poland's Joining the EU (in %)

Dangers	In total	Small	Medium	Exporters
Increased market competition	67.8	67.6	68.0	63.0
Increased of bureaucracy	34.1	36.0	31.2	34.3
Increased prices	22.8	24.6	20.8	23.1
Increased import	22.5	21.8	23.2	22.7
Increased cost of production	21.0	18.3	24.0	25.0

Source: original analysis based on: W. Karpińska-Mizielińska, T. Smuga, Bariery funkcjonowania małych i średnich przedsiębiorstw na jednolitym rynku europejskim w ocenie przedsiębiorców, Gospodarka Narodowa, No. 11–12/2003.

Undoubtedly, one of the major barriers in operation of SME in Poland is their limited access to sources of capital. This is confirmed by European small and medium businesses survey in 1999 and 2001, which involved surveying 50 thousand firms in the European Union and Poland.[4] Long and medium-term capital barriers remain the most significant, and worsening financial problem of SME. The problem concerns mainly bank credit for financing both investment, and companies' current needs. The main source of financing operation of small and medium businesses remains to be their own assets; nevertheless their level is too low to conduct developmental investment. In many cases those resources do not even cover current expenses. Therefore, it is unquestionable, that one of the crucial conditions for development of SME is their access to external capital.

2. Credit and Interest Rate

The restrictive character of monetary policy conducted by the Polish central bank in the second half of the 1990's, resulting from willingness to curb high inflation, was this policy's most apparent feature. One of its elements was long-term maintaining of high effective interest rates, in order to reduce internal demand.

It is important to remember, that commercial banks, while calculating their credit interest rate, consider the level of interest rate of the central bank, and then add to it their own margin. Therefore, costs of bank credit are largely dependent upon the level of interest rates set by the Monetary Policy Council. Hence, the rates constitute one of the instruments for controlling the money

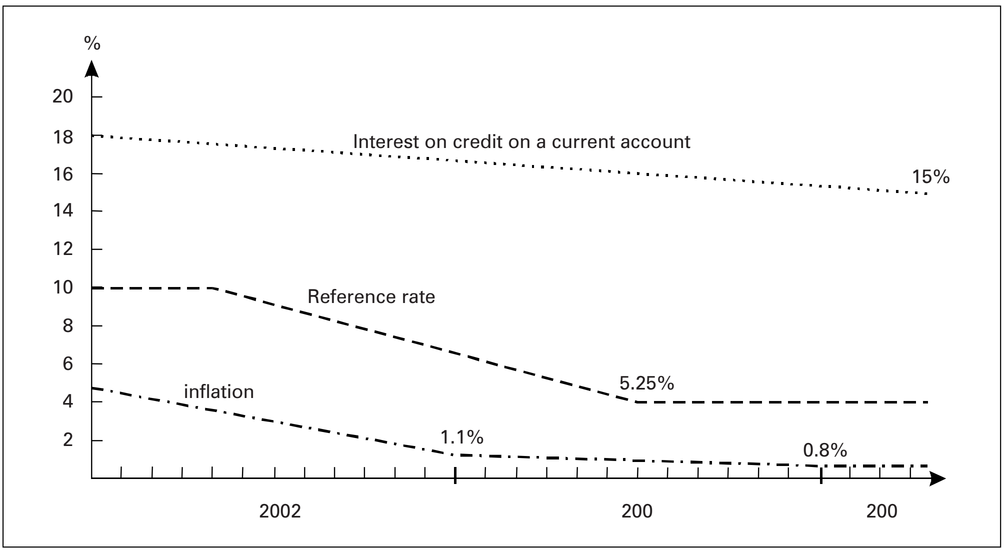
[4] A. Skowronek-Mielczarek, Małe i średnie przedsiębiorstwa. Źródła finansowania, Wyd. C.H. Beck, Warszawa 2003, p. 2–3.

supply in the country on the macroeconomic scale, but at the same time they influence the level of prime cost of business operation.

In this situation, businesses, which realistically estimate their future capacity to generate cash, and therefore the capacity to pay off their debts, are forced to limit their demand for bank credit, especially in order to finance investment. This consequently leads to reducing their competitiveness not only at the global, but also at the national market.

Companies deciding to use bank credit have to consider a large burden of the high effective interest rate. The existing interest rates remain high, exceeding significantly the central bank's rates, as well as the level of inflation. It is illustrated by Figure 2.

Figure 2. Inflation and Interest Rates



Source: original analysis based on data from GUS and NBP (National Bank of Poland).

High cost of financing was a significant cause of the worsening financial condition of Polish companies in 1998. The net profit itself was lower by 14% in comparison to the year before. Effectively, almost all global indicators of effectiveness of companies worsened. The drop in financial liquidity proved to be particularly dangerous, lengthening the time of repayment of liabilities, and leading many businesses into serious financial problems, and very often to bankruptcy.

The worsening financial condition of businesses had a direct adverse effect upon their capacity to service their existing debt. Effectively, banks were often forced to re-qualify receivables from credits granted as irregular. The share of this type of receivables grew from 15.1% at the end of 2000, to over 20% in the fourth quarter of 2003.[5] Such situation forced banks to create adjusted reserves, which in turn resulted in a worsening financial balance of the banking sector.

Clearly, the frequent reductions of interest rates by the Monetary Policy Council have not had any significant influence upon banks' decisions to lower interest on granted credits. Bankers' negative assessment of economic risk continues to be expressed by high banking margin, drastically increasing cost of credits. Obviously, the margin is meant to compensate for losses in financial balance caused by high cost of creation of adjusted reserves for credits in-danger.

According to results of diverse research, the level of interest rates remains the basic barrier for small and medium enterprises, making them unable to draw credit and use it effectively (Table 4).

Table 4. The Most Important Barriers for Gaining Access to Credit by Small and Medium Businesses

Area of banks' credit operation	Indicated as most important (in %)	
	small	medium
1. High interest rates	42	36
2. High costs and commissions	12	13
3. Complicated banking procedures	10	12
4. Conditions of repayment	8	10
5. Complicated collaterals	16	15
6. Maximum value of available credit	6	8
7. Unstable economic and legal conditions	4	3
8. Credit proof	2	3

Source: original analysis on the basis of GUS, NBP, "Bank", No. 4/2003.

High interest rates on credits are a significant limitation for the operation of large companies as well. However, those companies have far more possibilities of negotiating with banks, due to their potential. Small and medium businesses are in a far more difficult position.

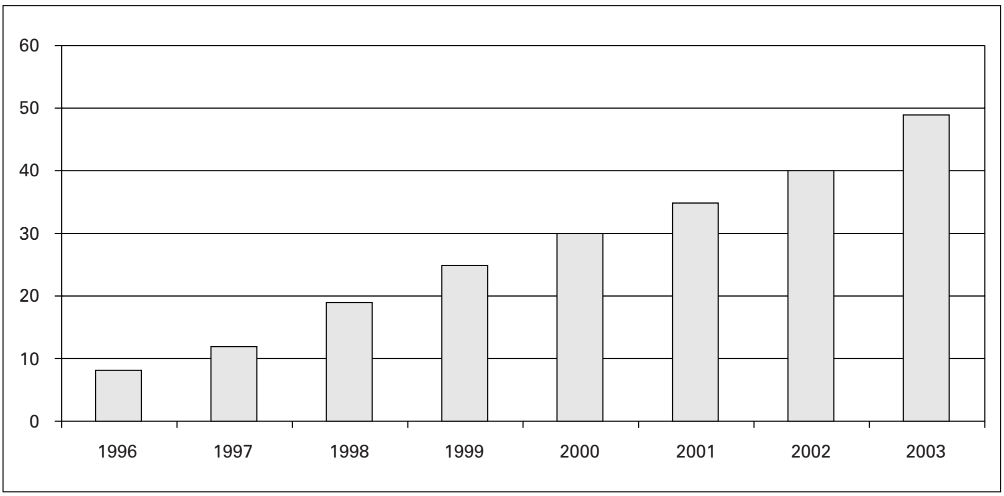
[5] Banki 2003, Warszawski Instytut Bankowości, Warszawa 2004, p. 63.

3. Currency Credit

High effective interest rate at the national market still encourages businesses to gain capital by incurring debt abroad, where bank credit interest rates are much lower, or to denominate their debt in foreign currency. It is worth a mention, that almost a half of foreign debt concerns credits and loans acquired by firms.

Since 1996, there has been a consistent growth of companies' indebtedness abroad, which in 2003 amounted to almost USD 50 billion, while Poland's total foreign debt exceeds USD 100 billion.[6] It is illustrated by Figure 3.

Figure 3. Companies' Foreign Debt



Source: original analysis on the basis of NBP bulletins.

The increasing indebtedness of Polish companies in foreign banks is a result of unfavourable relation between the cost of bank credit incurred in Poland and abroad. It constitutes an opportunity for Polish businesses to omit the barrier posed by high effective interest rate at the national market. On the other hand, it is worth remembering, that in the case of incurring debt at foreign banks, a company ought to consider not only the effective, i.e. indexed by inflation, level of bank interest rates, but also exchange rate risk and – which is not often mentioned- the risk of country, connected with macro-economic situation in the countries where the credit is being drawn. Another thing to consider is the situation at the international money markets, and the foreign monetary policy,

[6] Based on NBP bulletins.

which might constitute a significant difficulty when making a choice between a local and a foreign bank.

Considering interest rates on credits denominated in zlotys and in foreign currencies in Polish banks, it may seem, that the latter can be a better choice for a Polish entrepreneur, due to a lower minimal cost. However, in real terms only a detailed analysis of conditions of a credit contract and of forecasted fluctuations of exchange rates can constitute a basis for assessment of feasibility of taking credit indexed against foreign currencies. It is also worth mentioning, that in the case of currency credit it is possible to denominate it in the national or a foreign currency, and depending on the choice of currency the reference rate for estimating cost of credit will vary. It is important as well, that fluctuations of the volume of credits denominated in foreign currencies are often a result of changing exchange rates of the currencies of denomination. Therefore, it is important to consider, that a falling value of the zloty results in a growing value of credits denominated in foreign currencies. Appreciation of the zloty, on the other hand, gives an impression of a decreasing credit action.

A decision to take credit in foreign currency should not depend upon a simple comparison between interest rates. An important question arises at this point – how well are small and medium businesses equipped to conduct detailed analyses of feasibility of taking credits denominated in foreign currencies? The problem is important at least for two separate reasons.

The first reason is, that in the case of credits indexed against currencies it is important to observe the exchange rate assumed by the bank at the moment of opening the credit, and at consecutive repayments of capital instalments and interest. Often banks adopt solutions unfavourable to clients, significantly rising cost of credit. In order to do this it is enough to assume a low exchange rate at the signing of a contract, and increase this rate at the time of credit repayment – assuming the currency of denomination remains stable over the entire period.

The second reason is, that even detailed analyses and attempts to forecast tendencies of the currency market bear a large risk of miscalculation. Levels of exchange rates are seriously influenced by speculative decisions of large foreign investors (including investment banks). For example, the increase of the euro to zloty exchange rate in April 2004 to the level of 4.9 was a result of such investment in the Polish currency market. Therefore, it is possible to envisage consequences of a large-scale speculative action upon financial situation of companies indebted in foreign currency, particularly since financial services of many Polish companies are not suitably prepared to conduct the type of analysis in question.

4. If not Credit, then What?

Capital for financing current and developmental operation of the SME sector can be derived from different sources and come in different forms.[7] Literature broadly illustrates those possibilities, emphasising mostly the crucial division of those sources into internal and external. However, taking into account poor condition of small and medium entrepreneurship, there is no doubt, that internal sources of financing are extremely limited, certainly not capable of covering the cost of development investment.

Often indicated are the opportunities created by *venture capital*, i.e. ownership capital introduced for a limited period of time by external investors to small or medium businesses, that possess an innovative product, method of production or service.[8] The assumptions concerning development of this form of gaining capital have not, as yet, been reflected in Poland by broad access to this type of services. The existing barriers, both of a supply, and of a demand nature, effectively limit development of VC, and are responsible for the fact, that projects of this type rarely support Polish entrepreneurs.

1. One of the most frequently quoted barriers for increasing investment of venture capital funds in Poland is the weakness of local sources of financing. In EU countries about 50% of capital is of local origin, in Poland its share amounts to about 3%.[9] Polish private equity/venture capital market differs from the American or West-European one, mainly because the resources invested via that market originate from foreign firms and institutions. In the USA or the EU a quarter of resources come from local retirement funds. Polish Open Retirement Funds have at their disposal a capital of over PLN 30 billion, but apart from consistently expressing their willingness to co-operate with the VC market, they remain but a potential donor of resources. The similar situation takes place in the case of Polish banks. It is worth noticing, that a serious obstacle is constituted by lack of own legal regulations appointing principles of investment by financial institutions in Poland at the private equity/venture capital market.
2. The analysis of the Polish PE/VC market indicates, that there is a lack of separate regulations concerning high-risk funds, which would regulate

[7] The subject is broadly discussed in: A. Skowronek-Mielczarek, Małe i średnie przedsiębiorstwa. Źródła finansowania, Wyd. CH. Beck, Waszawa 2003, p. 1.

[8] J. Węcławski, Venture Capital. Nowy instrument finansowania przedsiębiorstwa. Wydawnictwo Naukowe PWN, Warszawa 1997, p. 17.

[9] J. Rogoziński, Bariery finansowania inwestycji przez fundusze private eguity/venture capital w Polsce, „Gazeta Innowacje” No. 18/2003.

matters such as conditions of creating different types of funds, requirements towards structure of their portfolios and criteria of their access to public resources.

3. Another type of barrier which can be observed, are the tax barriers, occurring as a result of lack of unequivocal regulations ensuring single taxation of income, which would mean, that investing via a fund was profitable to the effective investor.
4. Another of the discussed barriers concerns a fund's exiting the investment through the stock exchange. The structure of disinvestments in 2002 confirms the advantage of selling to a foreign investor over other ways of disinvestment, while in Western Europe over 20% of companies owned by VC funds are sold as a result of a public offer, via the stock exchange.[10]
5. As has already been mentioned, a significant source of capital in Poland are foreign investors, nevertheless they are willing to invest mainly in large-scale projects, at least euro 7–10 million. Supply of such projects in the Polish market is not high, and capital is needed for small and medium enterprises. Declarations of VC investment groups concerning their interest in the SME sector are, as we see, not reflected in their activity regarding this type of businesses.
6. Public institutions in Poland continue to be very insufficiently involved in financing small and medium businesses with high-risk capital. The so-called public-private partnership at the VC market still remains but an empty slogan.
7. A significant barrier for the development of VC in Poland is insufficient knowledge and lack of experience on the part of entrepreneurs, especially those running small and medium businesses; too emotional attitude towards business; a lack of well prepared innovative projects; low expenses on research and development. Representatives of VC funds emphasise, that entrepreneurs expecting PE/VC support rarely have sufficient experience in running a business at a scale and size, which can usually interest funds at the time they decide to invest.

5. Recapitulation

There is no doubt, that lack of access to capital is considered in Poland to be one of the most serious barriers for the development of entrepreneurship. The

[10] Sz. Karpiński, Nieufni inwestorzy instytucjonalni. Fundusze venture capital sprzedają akcję w ofertach publicznych, „Rzeczpospolita", Gazeta/Ekonomia 30/07/2002.

problem is particularly apparent in the case of the particularly important to the economy small and medium businesses, especially the innovative businesses constantly undergoing their so-called "baby phase". Several obstacles greatly limiting the traditional deposits of long-term financial resources for the SME sector intensify the strength of the phenomenon of **capital gap**. Those barriers are illustrated by Table 5.

Table 5. Main Financial Barriers for the Development of Small and Medium Businesses (in % of Answers)

Barriers for development	Polish companies		EU companies	
	1999	2002	1999	2002
Short-term barriers				
• Shortage of acting capital	26	48	17	15
• Cost of financing operation	45	46	24	24
• Currency exchange rates	24	27	5	4
• Costs of research and development	2	8	7	6
Long-term barriers				
• Costs of financing development	19	43	17	18
• Shortage of long-term sources of financing	35	34	20	19
• Costs of research and development	5	8	7	4

Source: original analysis on the basis of: data for 1999 Europejski sondaż małych i średnich przedsiębiorstw, Polska Fundacja promocji i Rozwoju małych i Średnich Przedsiębiorstw, Warszawa 2000, p. 75 and following. (50 thousand surveys were send out, answers came from 7072 firms); data for 2002 – Europejski sondaż małych i średnich przedsiębiorstw – Grant Thorton internet page – www.pkgt.pl (50 thousand surveys were send out, answers came from 7072 firms).

Although banks remain most important partners of small and medium businesses at the financial market, winning capital in the form of bank credit meets various difficulties. Credit is still too expensive, and banks are unwilling to reduce interest rates, in spite of relatively low market rates. And still, most banks continue to see small businesses as difficult customers, indicating high risk of company investment in Poland and a systematically growing share of so-called bad debt in banks' portfolios. Criteria of assessing creditworthiness continue to become more and more severe, especially in case of businesses, which have not spent a lot of time in the market. It is worth noticing, that some banks obviously realise specific characteristics and requirements of small business operation when deciding about credit charges and procedures. Still, those actions are too narrow and undertaken too conservatively, considering the risk involved.

It is important to remember, that costs of high interest rates are bourn by banks themselves, too. High cost of credit creates too much burden for businesses, which takes its toll on the condition of banks by raising bad debt. Contributing to insolvency of their customers, banks worsen their own financial situation, by reducing their income from interest, and on the other hand they increase costs of vindicating payments and creating adjusted reserves for endangered credits. Therefore, it is important to “civilise” bank interest rates on credits granted. The central bank is not active enough in this area, considering that the gap between market interest rates and interest on credits in banks often exceeds 10%. However, effective actions on the part of the NBP aimed at influencing commercial banks to reduce rates cannot be expected. The effects of this state of affairs are felt throughout the economy.

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Assistance Funds vs. Barriers for Development of Polish Small and Medium-sized Enterprises

1. Significance of Financial Conditions for Development of Small and Medium-sized Companies

Financial situation of small and medium-sized companies is influenced by several macro- and microeconomic factors. The former include the general condition and growth trends in the national economy, and relations between demand and supply. Furthermore, various tax and financial factors influence the condition of those firms equally strongly. Those include, among others, the effective rate of income tax, legal regulations concerning vindication of liabilities, the level of social security premiums and the level of depreciation of fixed assets. The above factors significantly influence the accumulative capacity securing internal financing of a company's current operation.

The available analyses indicate that the prevailing tax and financial system does not provide sufficient encouragement to accumulate resources for the purpose of development. Legal and tax barriers are listed second among short-terms obstacles for expansion plans of firms belonging to the SME sector in Poland – quoted by 50% of respondents.[1] Depreciation deductions do not secure renewal of fixed assets, which directly translates into the level of investment. All charges connected with pay, especially the high social security premium, significantly increase labour costs and limit companies' competitiveness. Therefore, it is necessary to undertake specific programme action towards a significant reduction of taxes and other fiscal charges influencing costs generated by operation of the firms in question.

Sustained development of small and medium-sized companies depends mostly upon availability of external financing, as well as its cost. The Polish practice, as well as several publications, unequivocally indicate that capital barrier is the most significant obstacle in operation of this type of companies.[2] This fact is all the more significant at the time of intensifying competition and processes of globalisation. At the same time, it ought to be said, that satisfying financial

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[1] PARP, Europejski sondaż małych i średnich przedsiębiorstw, Warszawa 2002, p. 38.
[2] *Ibidem*, p. 4.

needs of companies translates directly to their improved competitiveness and strengthening of their market position both locally and internationally.

It seems, that the following barriers limiting access of small and medium-sized companies to external sources of financing can be identified:

– low level of accumulative capacity of those companies, which does not guarantee return on invested capital,
– high cost of operation (including labour costs), and the resulting low profitability, which does not facilitate accumulation of resources,
– limitations connected with particular financial management of companies of this sector; it is dominated by accounting based on a ledger of receipts and expenses,
– difficulties in objective evaluation of economic and financial situation of those companies, which is often a condition for gaining access to external capital,
– high cost of capital from the banking sector, as well as from other sources; requirements for collaterals, necessary in case of many types of external financing,
– complicated and time-consuming procedures connected with gaining access to sources of capital,
– limitations connected with legal framework of economic operation; the predominant form of business operation is “an individual conducting economic operation”, rather than an association of capital, which has a broader access to external financial resources, e.g. via the capital market,
– insignificant level of public resources provided for support of development of the SME sector, disproportionate to its needs and economic potential.

Also, the intensity of employing external sources of financing by the SME sector is influenced by subjective factors, connected with individual companies. Those are in particular:

– level of knowledge among managers and owners of firms,
– financial management skills,
– level of qualifications and awareness concerning application of modern instruments of financing, and fund-rising management,
– skills necessary for gaining diverse information about available funds, programmes, etc.,
– the necessity to continuously adjust the choice of forms of financing, so that they comply with a company’s needs,
– continuous monitoring of the broadly understood business environment, with regard to chances and market opportunities creating new sources of external financing,

– creative approach to combining different sources of financing, depending upon financial condition of the company and external conditions.

Eradication of financial barriers for development of companies of the SME sector must be based on intensified utilisation of external sources of financing in day-to-day operation and development. It ought to be facilitated by subsequent government programmes supporting development of small and medium-sized companies, assistance programmes implemented as a part of the gradually closed PHARE, and subsequently resources from the Structural Funds.

2. Government Programmes Supporting Development of SME

Similarly as the EU member countries, Poland recognises the special role small and medium-sized companies play in the national economy. Such approach is expressed by the law, as well as by programmes designed for the sector since the beginning of the 1990's.

The first uniform programme of the state's policy towards SME was approved by the government in 1995, and concerned the years 1995–1997. As far as organisational instruments are concerned, the creation in 1995 of the Polish Foundation for Promotion and Development of Firms, as an institution which co-ordinated actions supporting increasing the competitiveness of small and medium-sized companies at the national and foreign markets, and implemented company development programmes based on foreign aid, was a very significant event for the sector. The foundation initialised the National Services Network (KSU), as a system of co-operating institutions providing support for SME. Simultaneously, the National Fund for Credit Guarantees and the Agency of Technique and Technology[3] were created, the former facilitating companies' access to bank credit, and the latter providing financial support to companies willing to introduce innovative techniques and technologies.[4]

The next programme of government's policy towards SME was prepared and approved in 1999. It was entitled "The directions of government actions towards small and medium enterprises until 2002", and was aimed at increasing competitiveness, export and expenses on investment in the SME sector of the economy. In the subsequent years the following resources were provided for the implementation of the programme: PLN 20 million in 2000, PLN 70 million in

[3] In 2002 its tasks were taken over by the Polish Agency for Enterprise Development (PARP).

[4] Ministry 70 of Economy, Labour and Social Policy, "Dotychczasowe działania Rządu wobec małych i średnich przedsiębiorstw (in:) Kierunki działań Rządu wobec małych i średnich przedsiębiorstw od 2003 do 2006 r.", 2003.

2001 and PLN 50 million in 2002. The system of institutional support for SME was introduced during this period. Its core elements are: Polish Agency for Enterprise Development (PARP) and centres of the National Services Network, providing consultancy, training, information and financial services.

In order to improve the legal environment and facilitate the processes of opening and operating businesses, in January 2002 the Council of Ministers approved a document entitled “Entrepreneurship first”. The document announced shifting of bureaucratic barriers, simplification of procedures, introduction of more accessible regulations and tax procedures, simplification of the social security system, as well as a more flexible labour law.[5]

Further problems connected with supporting businesses from public resources were solved by the “Act on acceptability and supervision over public assistance” introduced in the year 2000, and amended in 2002 by the „Act on acceptability of public assistance to entrepreneurs”.[6] The act specified the scope of actions and tools available to the government in order to provide support for all companies, especially those of the SME sector. The following options of public assistance are enumerated by article 2 of the act:

- subsidies, allowances and tax exemptions,
- increasing capital of companies, granting credits, loans and guarantees on conditions more favourable than those available on the market,
- refraining from tax collection, granting tax credit or accepting payment of tax or tax arrears in instalments,
- amortisation of tax arrears or interest,
- amortisation or refraining from calculation or collection of payments other than taxes if those payments constitute public resources according to the regulations on public finance, as well as delaying those payments or accepting payment in instalments,
- selling or providing for use property of the Treasury of State, state-owned institutions or their associations, on conditions more beneficial than those offered by the market, except for selling or providing for use property of the Treasury of State taken over as a guarantee for claims resulting from guarantees or warranties granted by the Treasury.

The following articles name actions available to the government, including two types of horizontal aid: for the development of the SME sector and for training connected directly with development of a particular group of companies. In case

[5] A. Kaliszuk, A. Tarnowa, Polityka państwa wobec MSP, (in:) Programy wsparcia dla małych i średnich przedsiębiorstw, Fundusz Współpracy, 2003.

[6] Ustawa z dnia 27 lipca 2002 roku „O warunkach dopuszczalności pomocy publicznej dla przedsiębiorców”, Dz.U. Nr 141, poz. 1177.

of the former, the aid is provided for financing consultancy services (up to 50% of cost), or a part of cost of winning certificates specified in the act, as well as other ways of supporting the sector in question. The latter type of horizontal assistance concerns refunds of up to 25% of costs of specialist training connected specifically with a scope of operation of a supported firm, and up to 50% of cost of general training providing skills which can be applied in other firms.[7]

In all cases, granting public assistance is possible only after all five of the following conditions have been fulfilled:

1. In case of investment or creation of new jobs, the assistance supplements resources other than public,
2. Its amount, duration and scope are proportional to the importance of the problems it addresses,
3. Having considered all costs involved, benefits to the society generated by the programme ought to exceed those possible had the programme not been implemented,
4. It supports the project to the extent, scope and duration necessary to achieve the objectives of assistance,
5. The project's clarity facilitates supervision of assistance.

A situation where a particular form of assistance is acceptable according to the act on public assistance does not guarantee that it will be possible to apply. It is so due to the existence of other acts, which may be more rigorous in their approach to individual questions.

The next government initiative undertaken in July 2002 was the **"Anti-crisis action-plan for protection of the labour market and jobs"**. The plan named a set of several legal and organisational actions concerning areas such as: re-structuring of public liabilities of companies, introducing tax credit for newly created small businesses, improving effectiveness of bankruptcy procedures, consolidating the system of public guarantees and warranties for SME and loan funds. The introduction of the above economic strategy and the anti-crisis action plan resulted in preparation of government programme of extending the system of loan funds and guarantees for small and medium companies for the years 2002–2006, entitled "Capital for the entrepreneurial".

The next programme designed and introduced in 2002 in order to support the SME was called "**Public orders for the entrepreneurial**. Supporting small

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[7] In a situation, where the assistance is granted to small or medium businesses operating in areas where the value of per capita GNP is lower than 75% of the EU average, the intensity of assistance is increased to 45% for specialist training and 80% for general training – „Rozporządzenie Rady Ministrów z dnia 12 listopada 2002 r. w sprawie dopuszczalności pomocy publicznej udzielanej na szkolenia na potrzeby określonych przedsiębiorców".

and medium businesses – potential participants of the public orders market during the years 2003–2005". The programme's objectives are to provide SME with a fuller access to information concerning the public orders system, create mechanisms of effective co-operation between businesses and local government organisations, business organisations etc., as well as to initiate mechanisms of financial support for SME participating in the process of granting public orders.

The government's policy towards small and medium companies to be implemented until the year 2006, defined in the document entitled "The directions of the government's actions towards small and medium-sized enterprises in the years 2003–2006"[8], is to link the new initiatives implemented in 2002 and the best experiences from earlier programmes. The policy is to be based on the following principles:

- actions defined within the programme will be of a horizontal nature,
- the actions will be aimed at providing equal opportunities and promotion of entrepreneurship,
- support will include institutions belonging to business environment,
- operations will be financed from the state budget, the resources available from assistance funds within PHARE, the EU Structural Funds, international bank credits and entrepreneurs' private funds,
- regardless of its character and purpose, assistance for a single entrepreneur over three consecutive years may not exceed euro 100,000,
- the actions will be conducted with consideration for directions defined by the European Charter for Small Businesses, accepted by Poland in 2002[9],
- independently from horizontal actions addressed to small and medium enterprises and based on the discussed document, also certain actions at the regional level will be implemented, and the scale and choice of instruments on offer will depend upon social and economic structure of individual regions, as well as upon development policy they conduct.

Estimated cost of implementation of tasks defined in the discussed document is presented in Table 1:

[8] Ministry of Economy, Labour and Social Policy, „Kierunki działań Rządu wobec małych i średnich przedsiębiorstw od 2003 do 2006 r.", 2003.

[9] The document defines basic directions of actions towards SME, emphasising consideration for the needs of those firms while creating the European law. The Charter calls for the Commission and the member countries to undertake actions in order to support and encourage small businesses within crucial areas, such as education and company training, cheaper and prompter commencement of operation, improving internet access, taxation and financial matters, improving technological capacity of small businesses, using successful examples of e-business and providing support for the best small businesses.

Table 1. Task Structure within the Programme "The Directions of the Government's Actions towards Small and Medium-sized Enterprises in the Years 2003-2006", and Estimated Expenses (in PLN million) on Their Implementation

Tasks	Expenses PL	Expenses UE
Supporting development of small and medium-sized enterprises	**34.90**	**37.00**
Facilitating entrepreneurs' access to knowledge on operating a company	5.00	0.00
Facilitating entrepreneurs' access to specialist consultation aimed at company development	23.70	27.00
Financial support for entrepreneurs in their adaptation, diversification and development actions	5.70	10.00
Information campaign on available instruments and principles of their availability to entrepreneurs	0.50	0.00
Supporting integration of companies and their international operation	**34.30**	**10.00**
Promoting joint actions by businesses operating in similar fields, in order to implement shared economic goals and raise market competitiveness	1.00	0.00
Promoting creation of consortia enabling businesses to fulfil entry conditions for tenders	1.00	0.00
Developing a system of business-matching and co-operation between businesses	0.30	0.00
Promoting small and medium businesses, and their products	31.00	10.00
Promoting Polish achievements and experiences abroad	1.00	0.00
Improving the legal environment of small and medium enterprises, developing entrepreneurial attitudes in the society	**5.00**	**0.00**
Analysis of legal environment of small and medium enterprises as far as economic operation is concerned	1.00	0.00
Developing entrepreneurial attitudes	4.00	0.00
Developing institutional environment of small and medium enterprises	**149.20**	**10.00**
Supporting development of institutions providing consultancy, training and information support to businesses	16.00	0.00
Creation of a unified system of loan and guarantee funds for small and medium businesses	130.00	10.00
Stabilising conditions of operation, and preparing the Polish Agency for Enterprise Development to implement financial tasks using the EU Structural Funds	0.70	0.00
Supporting local government institutions in developing infrastructure necessary for development of small and medium businesses	1.50	0.00
Developing systems of information supporting economic operation via the Internet	1.00	0.00
Total	**223.40**	**57.00**

Source: Ministry of Economy, Labour and Social Policy, Directions of government…, *op. cit.*, pp. 48–50.

3. Pre-accession Assistance as Irreplaceable Support for Development of Small and Medium Enterprises in Poland

Considering the enlargement of the European Union by the countries of Central and Eastern Europe, the community's authorities have been offering the so called system of non-returnable financial aid to the countries of this region since the beginning of the 1990's. The objective of this aid was to introduce economic changes and adequately prepare for future accession. The assistance included 3 separate programmes (PHARE, SAPARD and ISPA), of which each concerned different sectors or problems to be faced by candidate countries.

PHARE was the most significant contributor as far as small and medium businesses were concerned, although in some cases aid was provided from the resources of the SAPARD programme. National PHARE programmes facilitate development of SME by creating legal framework, institutions and a system of services to support them. The PHARE Economic and Social Cohesion programme offers direct contribution into training and investment grants to companies in question. The PHARE Support for Entrepreneurship programme contributes to development and better operation of organisations federating entrepreneurs in the EU candidate countries associating them with similar organisations in member countries. PHARE Trans-Border Co-operation supports development of companies in question at the trans-border level. The SAPARD programme focuses its help to the SME sector on increasing its capacity to employ former farmers.

Regarding the direct influence of PHARE upon the sector of small and medium businesses, the aid was provided in several stages. The first stage involved mainly adapting Polish principles, law and regulations to fit those prevailing in the EU. In particular, those adaptations concerned the law on trading companies and numerous regulations on environment, security as well as the tax law. The next stage involved focusing on improving business environment by co-financing investment into infrastructure and know-how by facilitating access of small and medium businesses to research and new technology and to training. The third stage involved strengthening business support institutions.

Since the year 2000 it was possible to gain direct assistance, also of financial nature, for companies, as a part of the PHARE Social and Economic Cohesion programme. The programme focused on regional development and constituted preparation for using the Structural Funds available solely to the EU member countries. The programme's objective was to improve operation of the production sector by grants provided for co-financing consultancy and training services, as well as different kinds of investment. The programme was managed by PARP and operated in individual regions via the Regional Financial Institutions. The structure of programmes implemented as a part of PHARE-SEC is presented in Table 2.

Table 2. The structure of PHARE Social and Economic Cohesion Programmes in Individual Years

Component	2000	2001	2002
Company Development Programme	X	X	X
Export Development Programme	X	X	X
Investment Subsidies Fund	X	X	X
Internet Business Development Programme		X	
Introducing Information Technology in Small Businesses Programme			X

Source: original research.

The first of the above programmes – the Company Development Programme (PRP) – provided co-financing of consultancy and training services concerning areas such as marketing, management, strategic and investment planning. In this case maximum subsidies covered up to 60% of the total net cost in the years 2000 and 2001, and 50% in 2002. The value of subsidies in all consecutive editions of the programme amounted to between euro 500 and 5 thousand.

In the case of the Export Development Programme (PRPE) subsidies could concern researching export markets, development of a company's export strategy and the related investment planning, participation in fares and exhibitions, and designing and issuing promotion materials. The data concerning subsidies' percentage value were identical as in the case of PRP, and the top amount of a subsidy was euro 10 thousand.

Investment Subsidies Fund (FDI) provided co-financing for purchasing new machinery and equipment. The minimum value of a subsidy amounted to euro 2000, and the maximum to euro 50 thousand. Also in this case the percentage value of a subsidy changed. In PHARE 2000 and 2001 the subsidy could amount to up to 25% of the project's net cost, and in PHARE 2002 up to 40% in the regions of Kraków, Wrocław and Gdańsk-Gdynia-Sopot, and up to 50% in the remaining regions included in the programme.

The objective of Internet Business Development Programme (PRFI) was to grant support to businesses which based their development on Internet technologies, and co-financing of consultancy services provided by certified experts took place on two levels. In the case of company development it could amount to up to 60% of the net cost and euro 5 thousand, or up to 25% of the chosen operational cost connected with founding the business, and the maximum value of euro 10 thousand.

In addition, it was possible for small and medium businesses to use other forms of PHARE programme subsidies both for investment, and for consultancy services. Those options included "Introduction to quality", "Innovations and technologies for business", "Preparing for operation in the European market", as well as several subsidies constituting a part of the PHARE 2002 "Small and medium enterprises and innovation" programme, as well as the "Occupational safety and hygiene in the SME sector" programme. In every case, the aid was provided for investment and consultancy services. However, the last edition of the programme introduced significant changes. Firstly, the amount of investment subsidies was increased in comparison with the former 25%, and was to amount to 30–50% of the cost of investment, depending on the localisation if the entrepreneur and the project. The lowest amount was provided for the regions of Warsaw and Poznań, 40% for Kraków, Gdańsk-Gdynia-Sopot and Wrocław and the top value in the remaining regions. The change resulted from the necessity to adjust to the principles applying to the structural funds. It included subsidies for consultancy projects, however, in this case the change was to businesses' disadvantage. At the moment the maximum aid amounts to 50% of cost of consultancy services provided by consultants accredited by PARP. In addition, a company is no longer obliged to obtain a bank credit towards financing the project. Nevertheless, should the company decide to use external sources of financing, it can not only use a credit, but can also borrow from one of the loan funds operating within the National SME Services Network (KSU).

4. Structural Funds as a Source of Support for Small and Medium Enterprises

The support offered to Polish businesses by structural funds ought to play a significant role in development of the Polish economy. The policy of supporting small and medium enterprises with resources from structural funds was included in the National Development Plan (NPR) for the years 2004–2006. The Plan constituted the basis for Operational Programmes (for the Structural Funds) as well as for the Strategy Document for Cohesion Fund Assistance for the years 2004–2006. The strategy provides, that the financial resources will be used in two main areas: development of transport networks and development of infrastructure of environmental protection. The resources obtained from the Structural Funds will be distributed via the following Operational Programmes:

1. Sector Operational Programme – Growth of Competitiveness of the Economy (WKG) – euro 1.3 billion,

2. Sector Operational Programme – Human Resources Development (RZL), euro 1.27 billion,
3. Sector Operational Programme – Re-structuring and modernisation of the Food Sector, and Rural Development – euro 1.05 billion,
4. Sector Operational Programme – Fishery and Fish Processing – euro 0.17 billion,
5. Sector Operational Programme – Maritime Economy – euro 0.62 billion,
6. Integrated Regional Operational Programme – euro 2.86 billion,
7. Operational Programme – Technical Assistance – euro 0.02 billion.

The most attention is devoted to SME in the first of the quoted programmes – **Growth of Competitiveness of the Economy**, the strategic goal of which is to improve competitive position of the Polish economy in open market conditions. The assistance provided by the Programme will be addressed both to businesses, in certain cases specifically to small and medium businesses, and to a number of institutions belonging to business environment. The Programme's structure specifies two major priorities and several fragmentary actions. The supreme objective of **the first priority** is to facilitate commencement, running and development of economic operation. Implementation of individual actions ought to contribute to creation of favourable conditions for the operation of small and medium businesses. In order to ensure the highest quality of information, consultancy, training and financial services, significant assistance is provided for business environment institutions. Also, loan funds, credit guarantees and seed funds are to be capitalised in order to broaden the access of Polish firms to external, non-banking sources of financing. Another objective of the Programme is to develop co-operation between businesses and scientific and research institutions, and consequently to improve the level of innovation in the entire economy.

The second priority provides for improvement of technological and organisational environment of businesses and their adjustment to EU standards concerning environmental protection. Implementation of individual actions is aimed at increasing the level of trade exchange of companies in question and rising the number of businesses possessing specified certificates. The actions are to improve the economic situation of businesses and improve their capability to compete. In order to facilitate the access of the businesses in question to consultancy services, the programme provides for refunding a part of costs of obtaining those services from accredited providers. Another action will involve co-financing the businesses' participation in economic delegations, fairs and exhibitions in order to provide them with a more international perspective. At the same time, the assistance is to facilitate new investment, introduce changes and improve the range and quality of offers. In this case co-financing will concern investment into new technologies, innovative products and research and development.

The main objective of the Sector Operational Programme – **Human Resources Development** is creating an open, knowledge-based society, by creating conditions for development of human resources through education, training and work. The Programme provides for numerous training courses for employees and management of companies, concerning management, work safety and hygiene, research projects concerning employment, organisation of work and co-operation with scientific institutions, as well as consulting for small businesses. The assistance, indirectly influencing the businesses in question, concerns non-public centres of support for entrepreneurship, which can support businesses with the resources obtained from the Programme. In both cases, the financing from EU resources will come from the European Social Fund. It is estimated, that the value of resources provided for implementation of the above actions will amount in total to euro 255.30 million, of which euro 196 million will come from the ESF, euro 42.3 million from the Treasury of State, and the remaining euro 17 billion from private sources.[10]

Support for the SME sector is also available from the joint resources of the European Social Fund and the European Regional Development Fund, as a part of the **Integrated Regional Operational Programme**. The Programme is complementary to the remaining Sector Operational Programmes, and is to contribute to removing barriers and differences occurring in various regions of Poland. The detailed actions include those aimed at supporting the development of the SME sector, such as:

Priority 1 – Development and modernisation of infrastructure improving competitiveness of regions.

1.3 Regional education and research infrastructure.

Priority 2 – Strengthening regional economic and human resources base.

2.3 Personnel development of regional economy.

2.4 Regional Innovation Strategies.

2.5 Micro-businesses.

2.6 Developing tourism.

The structure of resources available as a part of the IROP is presented in Table 3.

[10] A. Jankowska, T. Kierzkowski, R. Knopik, Fundusze pomocowe dla Polski po akcesji – fundusze strukturalne i fundusz spójności, PARP, Warszawa 2003, p. 39.

Table 3. Forecasted Financial Expenses for Individual Actions within the IROP (in Euro Million)

Action	ERDF	ESF	National Public Input	Private Resources
1.3 Regional education and research infrastructure	137,40	0,00	45,80	15,00
2.3 Personnel development of regional economy	0,00	67,00	22,30	32,90
2.4 Regional Innovation Strategies	60,60	0,00	40,20	48,50
2.5 Micro-businesses	84,60	0,00	28,20	42,70
2.6 Developing tourism	96,70	0,00	57,20	112,40
Total	**379,30**	**67,00**	**193,70**	**251,50**

Source: original research, based on A. Jankowska, T. Kierzkowski, R. Konopik, Fundusze pomocowe, *op. cit.*, p. 65.

Action 1.3 includes strengthening the role of academic schools and scientific and research centres operating in individual regions, and preparing them to play the key part in creating competitive strength of the economy by co-operation between those institutions and businesses. In the case of Action 2.3 the objective is to increase skills and qualifications of employees working in the sectors, which most influence development of individual regions, by co-financing their training, practice, and participation in various courses on management and marketing. The assistance is to be available to target groups, which may include small and medium businesses, via different consultancy/training and scientific institutions. The description of Action 2.4 mentions directly the development of entrepreneurship and improving competitiveness of small and medium businesses by utilising the scientific and research potential of individual regions. The effect of implementation of the above goal is an increased transfer of technology and know-how, as well as educating entrepreneurs and strengthening their innovative attitudes. Also, the Programme provides for creation of a system, which will enable both companies and research institutions to exchange information on innovations. The next Action orientated towards developing entrepreneurship (Action 2.5) provides support for founding and developing micro-businesses outside the traditional sectors of the economy and, geographically speaking, in rural, post-industrial or degraded areas. Apart from co-financing purchases of equipment and materials, and from investment into property, the support will include consultancy services for newly created businesses. The last Action addressed to small and medium businesses is Action 2.6 – developing tourism. The supreme objective of this Action is increasing the share of tourism in creating the GNP and increasing employment at the national level. The consequence of Action 2.6 is increasing the number of local and foreign tourists, and the promotion of Poland and its regions. By providing financial resources for development of tourist services, the Action is to contribute to the creation of conditions for development of tourist operation and to rising competitiveness of small and medium companies within the tourist sector.

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Recapitulating, the Polish sector of small and medium enterprises can utilise resources available from different kinds of government programmes, as well as assistance programmes run by the European Union for the benefit of Poland. It is extremely important, since it can help in overcoming capital barriers for the development of this sector. The objective of all those programmes addressed to small and medium businesses is the promotion of entrepreneurship, stimulation of investment action of firms, activating local communities, rising competitiveness of small and medium businesses, expanding their field of operation to the European market, and consequently, increasing the share of the private sector in the structure of the economy. Still, the level, and the scale to which financial resources deriving from the quoted programmes are utilised, depends largely upon the Polish entrepreneur's access to information, knowledge and skills. Therefore, it is going to be some time before positive tendencies in this field can be observed.

PART TWO

ARTICLES ON ECONOMY AND MANAGEMENT

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Attempt to Evaluate the Processes of Privatisation of the Polish Economy

1. Introduction

A process of privatisation, or in other words transformation of ownership, in certainly a task deserving particular attention. Privatisation was necessary for the free market economy to function. As much as this statement does not rise controversy, the exact manner of privatisation is subject to discussion.

Before analysing objectives set for the process of privatisation, the notion of "privatisation" itself needs to be defined. The simplest definition is to describe privatisation as transferring of ownership of property into private hands, i.e. simply denationalisation. A problem arises, when a notion of "privatisation of the Polish economy" is used. In this context, privatisation includes not only denationalisation, but also new private companies created from scratch. It is not up to the author to solve this question, nevertheless this paper presents not just the picture of denationalisation, but also creation of the private sector.

2. Variants of Privatisation

The process of privatisation was necessary in order to initiate the free market, and that was the most significant objective of the widely defined privatisation process. Apart from this basic assumption, the process of privatisation had lesser goals to achieve. Those goals belonged to different areas of economic policy, especially the structural policy, industrial policy, competition and budget policy, as well as agricultural policy. Privatisation was a tool applied within all those types of policy.

The most underestimated function of privatisation was its income generating capacity, particularly important during the first months of the transformation. Monetary resources provided by selling the privatised property were necessary in order to secure the anti-inflationary policy of stabilising the currency, introduced by the then minister of finance, Leszek Balcerowicz. Due to the need to gain resources from selling plants, the privatisation process had to be fast, which meant, that very often evaluation was hasty, and consequently many companies were sold at a price not corresponding with their actual value.

Probably, the architects of system transformation were concerned about the fastest possible initiation of the free market, and privatisation was a necessary element allowing for implementation of policy of competition. This view rose controversy even before implementation, because although it facilitated development of competition at the Polish market, in an open economy, and considering a rapid abandonment of protectionism by the state, it left companies to face uneven competition from powerful and rich corporations which for years had been used to the global competition, and for years had operated in a very expansive manner. The operation of foreign capital was approved by the government, which was determined to create favourable conditions for foreign investment by appropriate tax policy, favourable to foreign companies, which unfortunately contributed to a fall of many Polish firms.

Generally speaking, three variants of privatisation processes are described:

– capital-market,
– state-administrative,
– social-affranchising.

Applying a particular variant carries specified consequences. The capital variant stimulates institutional development of financial markets, particularly the capital market, and by this channel the inflow of foreign capital takes place.

The state-administrative variant is applied in order to achieve particular economic objectives, such as providing income to the budget.

The social-affranchising variant has a principally social character, and is recommended for facilitating creation of the middle class. Contrary to the former variants, it contributes to a reduction of diversity of property and income within the society.[1]

It is difficult to say, which of the variants of privatisation would have been optimal in Polish conditions.

Nevertheless, since shortage of capital was Poland's most important problem (such view was represented by the then minister of ownership transformation), it seemed, that at the break of the 1980s and 1990s Poland would assume the variant facilitating inflow of foreign capital, i.e. the capital-market option.

The lack of capital was very strongly felt in the process of building free market economy. The stabilisation policy conducted in the 1990s required inflow of capital, which could be obtained by selling production property. The budget

[1] Z. Staniek, Teoretyczne aspekty polskiej prywatyzacji w okresie transformacji, SGH, Warsaw 2001, p. 195.

was powered from resources obtained from the process of privatisation too, and salary claims of certain social groups, which were able to put pressure upon the prevailing government, were covered by resources derived from privatisation as well.

It is worth remembering, that the process of economic transformation was accompanied by political change. The former was aimed at creating free market economy, whilst the latter at introducing a democratic system. According to political scientists, effective democratic system is based on strong middle class, which also constitutes the best guarantee for stabilisation.

Sector analysis of the world's best developed economies – American, Canadian and the EU, indicates that both as far as generation of GNP, and employment are concerned, the dominating role is played by sector III, i.e. services. Existence of the middle class is necessary in order to create demand for services.

The so-called "coupon privatisation" has two additional advantages: it is fast, and – more importantly – it allows for a prompt solution of the question of re-privatisation, i.e. returning the nationalised property to its private owners. It is up to discussion, whether such solution is fair, nevertheless it solves, ones and for all, the so-called claim problem, and regulates the matters of ownership. Lack of regulation in this area makes the country unattractive for foreign capital. Usually investors avoid investing on land, which might prove to be somebody's property.

The most helpful variant as far as the implementation of the quoted goals is concerned is the social-affranchising option. It has an added advantage of creating a situation, where accusations of selling-out the national property cannot be made. This variant was chosen by certain countries of Central and Eastern Europe, such as Romania, Slovakia, Lithuania and the Czech Republic.[2]

Choice of a variant should correspond with the desired objectives. Obviously, there can be more than one objective, nevertheless the process can be successfully completed, if the appropriate gradation of those objectives is observed, and the goals are not contradictory. It would be hard to expect a prompt privatisation, and at the same time count on substantial income. One cannot expect the buyers to pay much, when the supply is so generous.

It seams, that privatisation in Poland in different periods of time approached different variants: the capital-market one to attract capital, through the state-administrative one, in order to, for example, reduce the deficit, to finally try the social-affranchising option of introducing the NFI (National Investment Funds).

[2] For the Czechs it had another positive aspect, since it blocked claims by the Sudeten Germans for their property left behind in the Sudeten.

All this signifies, that the programme of ownership transition did not have any common denominators, or a general concept, which would be accepted by a majority of governing powers, which would guarantee stability of the process, and consistency of actions. It seems, Poland lacked all of those.

As has been said, the chosen variant makes accusations of selling out the national property invalid[3], nevertheless applying it does not necessarily lead to growing wealth of the society. Hypothetically speaking, it is possible to distribute the property free of charge, which would lead to an incidental growth of property of all the citizens, an immediate raise of demand stimulating the appropriate rise of prices of goods, and reduction of prices of assets, which in turn would proportionally reduce the actual value of property, leaving the level of prosperity unchanged.[4]

Choosing this option does not contribute either extra capital, or new technologies, or more effective managerial techniques to companies. Consequently, effectiveness of companies after such operation not only does not have to improve, but even may degrade.[5] Therefore, implementation of this variant would not lead to realisation of the objectives defined at the beginning of the privatisation process.

3. Objectives of Privatisation

The declared objectives of privatisation included:

- a relatively prompt privatisation of the majority of property remaining in the hands of the state treasury, as a condition necessary for creation of institutional framework of the market economy;
- facilitating restructuring of the national economy;
- facilitating increase of competitiveness in the economy;
- improving micro-economic effectiveness of companies;
- increasing the economy's sensitivity to consumer decisions;
- aiding redefinition of the system of social security to match global tendencies;
- fulfilling the state's obligations towards its citizens;
- creating a stable source of budget income from privatisation within a perspective of several years;

[3] Z. Staniek, Teoretyczne aspekty polskiej prywatyzacji w okresie transformacji, SGH, Warsaw 2001, p. 195.

[4] D. Rossati, Polska droga do rynku, PWE, Warsaw 1998, p. 325.

[5] D. Rossati, Polska droga..., *op. cit.*, p. 325.

– implementing the idea of affranchising the citizens;
– creating the middle-class;
– increasing pace of development of the capital market.

The following can be described as declarative objectives of a normative character at company level: restructuring, investment, technological progress, new principles and methods of management, raising quality of production, efficient jobs. Privatisation should facilitate increasing value of a firm. Some of those objectives were directly defined in annual "directions of privatisation of the state property", and their implementation was described in "privatisation reports" (Ministry of Ownership Transformation – MPW, Ministry of State Treasury – MSP). Evaluation of implementation of the "directions of privatisation" was included in information by the Superior Chamber of Control (NIK).[6]

What proved to be the weak point of Polish privatisation, was a lack of general vision of privatisation and of a long-term concept, as well as unspecified limits of privatisation, i.e. no indication concerning sectors, branches or companies, which would not be privatised at all, or would be privatised partially with the state retaining control over them.

Due to the nature of economic policy, the state ought to retain control, at least to a certain extent, over such areas as health care, culture, science and certain research institutes, as well as over certain organisations constituting or exercising protection over the so called common values.

Questions such as privatisation of monopolies are up to discussion. It was one of the basic objectives of privatisation to create conditions in which competition could arise, and consequently all the benefits connected with it. In case of a monopoly such occurrence is impossible. Therefore, paradoxically, it is one of the situations where a state-owned company can function better than a private one, since a private monopoly requires a lot more control on the part of the state, because its motives are more "egoistic" and less likely to be subordinated to decisions of economic policy.[7]

The state should supervise strategic branches as well, for example production of energy, gas industry, coal industry, steel industry, aviation, post, telecommunications and all the branches which are carriers of progress and "engines" of the economy.

Probably the most important issue is privatisation of the financial sector. One must agree, that if the state is to run an independent economic policy, it ought to possess an appropriate range of instruments, including a separate

[6] Z. Staniek, Teoretyczne..., *op. cit.*, p. 97.
[7] Z. Staniek, Teoretyczne..., *op. cit.*, p. 131.

monetary policy. The basis for running monetary policy is the central bank, which in most countries is responsible for this policy.

In a situation, where the banking system is dominated by local capital, policy of the central bank or the government is consistent with the interest of the country. In a situation, where the banking sector is dominated by foreign capital, it can happen, that banks are in fact branches of foreign banks, and implement policies consistent with interests of their investor's countries not responding to the policy of the central bank of the country where they invest. Therefore, selling out the banking sector significantly inhibits running the monetary policy, decreases its significance and leads to dependency upon foreign financial institutions.

4. Forms of Privatisation

In practice, in Poland there are several forms of privatisation:

1. Capital privatisation, i.e. transformation of a state-owned company into a one-man company belonging to the state treasury. Capital privatisation has concerned companies large both in terms of equity, and employment.
2. Direct (liquidation) privatisation used towards small and medium-sized companies, which has existed in three variants:
   a) liquidation of a company in order to sell its assets,
   b) carrying a part or all of company's assets into a newly created company,
   c) leasing a part or the whole of company's assets.
3. Establishing privatisation (small privatisation) is the longest existing form of privatisation, commenced in 1980's, when centrally planned economy was in force. Establishing privatisation is based on founding new, private firms, usually as companies. Thus created firms operated mostly in areas such as trade, small-scale production and services.
4. Re-privatisation, i.e. returning nationalised property to private owners. Although this problem has been discussed since 1989, it has not been completely resolved. It has been a process conducted in a chaotic manner. In some cases property has been returned in kind, in others – not. It would seem sensible to regulate the question of ownership of the nationalised property before Poland's joining the European Union.

The above patterns of privatisation, i.e. direct and capital privatisation, concerned transformation of form of ownership of state-owned companies, which by definition were the property of the whole of the society. In case of applying those two paths, the sole beneficiaries were people employed while privatisation was in progress. In the socialist economy, everybody worked towards the "common value". The situation, where employees of privatised companies became privileged, sole owners of shares of those companies, caused a natural controversy among pensioners, people employed by the budget, and those who worked privately. Considering those voices, the "Programme of Public Privatisation" was introduced, based on National Investment Funds (NFI). 515 companies were chosen for privatisation. The owners of those companies are the NFI (15% of NFI shares were left by the state treasury as a re-privatisation reserve, and 85% were passed to the citizens).

Every citizen, who was 18 years old on 01/01/1995, having paid the handling fee of PLN 20, had the right to a Public Shareholding Certificate, which was a security to the bearer, which could be exchanged for 15 shares – one of each of the NFI funds.

5. Attempt of Evaluation of Privatisation

It is difficult to judge which of the privatisation methods is best. In order to answer this question, one ought to formulate clear criteria of what is expected to be gained, i.e. inflow of money into the budget, modernisation, inflow of capital, or another variable. One ought to remember, that different methods were used for privatisation of property significantly varied according to quality and attractiveness. It is not after the objectives are thoroughly formulated and an in-depth analysis conducted, that an assessment of a particular process of privatisation can be performed. The idea behind the programme in question was to publicise the action through the National Investment Funds.

As has been mentioned, value of privatised property varied. Privatisation of the first tranche of 12 best functioning companies was a simple task. The situation was not equally simple with companies which faced problems and shortages of demand. In order to prevent liquidation of those companies, a programme called "Stabilisation. Restructuring. Privatisation" was introduced. The programme facilitated restructuring of companies, provided financial support from the Treasury of State, the Agency for Industrial Development, as well as EBRD, which was to form companies with Polish banks when the firms entered a path of stable development.

A large supply of privatised property led in practice to a reduction of its market value, therefore the process needed to be slowed down. The alternative solution was the "Programme of commercialisation of state-owned companies" (PKPP). Legal changes were introduced, which turned state-owned companies into one-man companies owned by the treasury of state. Functions of employees' council and staff gathering were taken over by a supervisory board and a general assembly. A one-man company owned by the treasury of state operates on the same principles as the private sector. Within two years of transformation it is expected to bring profit and be privatised. After 1994 a gradual decrease of supply took place.

As has been said above, no general objective of Polish privatisation was chosen, it is therefore difficult to judge the period of over ten years, during which different objectives dominated. Some of them had to be achieved *ad hoc*, e.g. balancing the budget with resources derived from privatisation.

Except for, perhaps, Slovenia, the transformation processes cannot be treated as successful in any of the post-socialist countries.

Assuming that the main objective of privatisation was bringing as much profit as possible, it has to be said, that the process of commercialisation of state-owned companies, and a reduction of their supply, indeed led to gaining better prices for the privatised property. If in the years 1990–1992 income from privatisation amounted to about 0.4% of GNP, in 1994 it amounted to over 0.6% GNP, and in 1995 about 1.2% GNP.[8] The criterion of income is the easiest to be applied in practice. Analysis of other variables is more complicated.

From the point of view of a company's future, in many cases, especially concerning small and medium-sized companies, the successful strategy was based on privatisation through creation of employees' companies. The downside of this strategy was that the beneficiaries of transformation were solely the current employees of a privatised company, and that the process of privatisation did not supply and capital.

It is important to establish in the process of privatisation, what proportion of production assets remains in foreign hands. It is significant for two reasons. Firstly, if the production potential remains in foreign hands, then the national product or accumulation of capital is achieved only from pay, from citizens earnings. Secondly, if there is no appropriate regulations, an economic system can develop dependency upon abroad, and a higher absorptiveness of import, since very often producers transfer their business links, sources of parts for machinery and materials, from their home country. This contributes to an increase of import and bankruptcies of former local suppliers. The negative influence of all this is not limited to the balance of foreign trade, but extends to financial policy and limits the state's possibilities to conduct the economic policy.

[8] G. Kołodko, Strategia dla Polski, Poltext, Warsaw 1994, p. 133.

It seems that one of the basic mistakes was not defining the limits of privatisation, i.e. not defining the sectors strategic as far as the national economy is concerned, and in some cases not setting barrier limits in order to retain state control over certain companies, as it is the case, for example, in France, where the state retains a 45% share package.

A particular importance ought to be attributed to the banking sector; especially in a country without capital it should remain under special protection of the state. Loosing banks not only causes (as in the case of companies form other sectors) transfer of profits abroad, but also foreign banks' conducting policy contradictory to the interest of Poland. Banks are not interested in reducing prices of credits, but usually buy out treasury bonds not responding to the monetary policy of the central bank; for example, a reduction of interest rates does not necessarily cause a reduction of prices of consumer and investment credits.

It ought to be said, that protection of banks (and not only banks) from foreign capital in the reality of Central and Eastern Europe can be executed by leaving institutions in question in the hands of the state, or by retaining majority packets of shares. Different variants of privatisation do not constitute a sufficient barrier, which was proved by privatisation in the Czech Republic, where it posed only a temporary barrier for foreign capital, and it was only a matter of time before the property passed to foreign hands.

In the case of privatisation of Polish banks a paradoxical situation took place, since foreign investors, for about USD 3 billion took over almost a half of deposits, i.e. USD 25 billion.[9]

Recapitulating, it needs to be stated, that privatisation should not be a goal to itself, but should constitute an instrument of economic policy. Lack of privatisation policy was probably an effect of lack of industrial policy, and economic policy per se.

The basic difference between privatisation in Poland, and for example in the United Kingdom was the approach towards the process of privatisation. In Great Britain the privatised companies belonged mainly to mining industry[10], which generated losses, whilst in Poland it was the most profitable companies that got sold. During the last 15 years all the good and average companies have been sold, leaving in the hands of the state the mining industry, or passenger railway traffic, which according to some experts play a social, rather than business role, which clearly is quite the opposite of British privatisation. Another difference in approach was, that British Government very often used the so called "golden

9 S. Nieckarz, Polskie banki czy banki w Polsce, „Prawo i gospodarka" No. 43/2000.
10 S. T. Surdykowska, Prywatyzacja, PWN, Warsaw 1996, pp. 51–61.

share" principle, especially towards companies of strategic importance, or those connected via their production process with other companies, or for some other reasons important to British economy. The state reserved the right to interfere with strategic decisions concerning those companies. In Poland such solutions were used only sporadically.

As has been said, in Poland the process of privatisation begun with selling the best companies, which caused reservations from the Supreme Chamber of Control (NIK), which in mid-September 1992 published a report on privatisation, mentioning several formal infringements and corrupt practice. According to the report, in connection with privatisation 271 companies had been liquidated until 30/06/1992. Only in case of 78 of those, the reason for liquidation was poor economic condition of those companies.[11]

It is typical for Polish privatisation, that it can be considered a success if a new company is formed.

As has been mentioned above, no tong-term privatisation programme has been implemented in Poland. In different periods different variants were approached, nevertheless the resources derived from privatisation were typically used for "patching up" the state budget. Consequently, it was difficult to rationally implement a policy of structural transition, and to protect companies connected by co-operation with other companies.

Since the beginning of the 1990's, the transition was accompanied by the dogma of "superiority of private ownership", and therefore privatisation was conducted as promptly as possible. This increased the supply, and consequently reduced prices of privatised companies. Today, looking from the perspective of several years, it has to be said, that in order to maximise income from privatisation, the process should have been conducted slowly and prudently. Such reasoning can be accused of leading to private companies producing profit in order to finance state-owned companies. Small (private) companies are more efficient, flexible etc., and supervision by a private owner is better than this by the state. As far as small and medium-sized companies are concerned – especially services, and created from scratch in the process of privatisation – the Polish reality and practice seems to confirm this principle to a great extent.

It has to be remembered, that at the moment the companies remaining in the hands of the state are by definition not likely to be as profitable, as the private ones. It is difficult to expect the mining industry to be equally efficient as the privatised banking. One can discuss whether a state alcohol or match producing monopoly would create deficit? The experience of pre-war Poland proves, that

[11] J. Kaja, Polityka Gospodarcza. Wstęp do teorii, SGH, Warsaw 1999, p. 193.

monopolies such as tobacco, alcohol, or match-making could function and yield profits.[12] Therefore comparisons between private and state-owned companies, i.e. on one hand the tobacco industry, and on the other regional passenger railways, significantly distort the picture.

Opinions are divided about privatisation of railway, not only because it is a natural monopoly, but also due to the fact, that in Europe privatisation of railway is exemplified by the British Rail – poorly operating, and the state owned French railways providing services of the highest standard in Europe.

Two elements need to be considered during privatisation:

In a deregulated and liberalised environment it is possible, that rich transport companies or corporations could start price wars, or use hostile take-overs. Polish practice delivers several examples of purchasing companies solely to close them down in an appropriate moment. In the time of globalisation, the problem is not the supply of means of production, but rather sales and competition.

The second element is the problem of privatisation in a country, which does not possess capital, because there is a danger, that companies may be purchased only to be eliminated from competition. If such scenario proves true, there is a danger, that in Polish conditions, which far more resemble Argentinean than West-European, instead of free market and perfect competition a classical oligopoly will be created, which will be less effective and operate like a pre-war cartel.

Therefore, it is wrong to treat privatisation as a panacea for all problems. Obviously it was necessary – especially privatisation of the establishing kind – in order to initiate the free market system. Nevertheless, it is wrong to assume that if something does not function properly it ought to be privatised. Privatisation cannot be a method to sanify a country! There are opinions, proposed for example by professor Poznański, that distribution of state property leads to corruption. In order to avoid all the above phenomena an efficient state is necessary. Lack of appropriate regulations can lead to very unfavourable structural transformations, which can result in the economy ending up as a source of raw materials for other economies.

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State-owned Companies during the Period of Transformation: Theory and Practice

The process of Polish transformation has been lasting for over 14 years. It has brought changes in ownership relations in the economy, in organisation of economic structures, institutions of political and economic power, and partially – social awareness. Evolutionary changes had different pace in different areas. The economic transition took place relatively dynamically, while mentality and awareness changed over a longer time.

Political changes are relatively the easiest to register; every consecutive election, beginning from 4/6/1989 delivered a different political balance. Statistical data can be used for analysis of ownership changes over the 15 years of denationalisation of the Polish economy. It is possible to reconstruct actual changes of economic structures, as well as formal institutional changes of the power structure.

However, it is a more ambitious task, and of more cognitive value, to present the evolution of business behaviour during the process of transformation. The traditional classification dividing companies according to ownership – into private and public, and according to size – into small, medium and large, does not represent the complex structure, the structure still undergoing transformation, although the most intense changes have already taken place.

It is even more difficult to examine the strategy of operation of Polish companies in the transforming economy. Such task would require extensive empirical research. The research would facilitate identification of basic patterns of company behaviour and compare them with the known theories of the firm in the market economy. This article attempts to outline the above problem after a short presentation of assumptions of the main theories of the firm, constituting historical output of the economic sciences. The main theories of the firm will constitute a point of reference for researching strategies of Polish companies during the transformation process. This analysis will be limited to companies of the public sector.

1. Main Theories of the Firm in the Market Economy

1.1. Neoclassical Theory of the Firm

The neoclassical theory of the firm is commonly known and historically the earliest. It is based on a principal assumption, that maximising profit is companies' objective and their criterion of choice. In order to implement this objective, an entrepreneur possesses full information allowing them to judge influence of every variant of decision upon the size of profit, and they always choose the option which best fulfils their preference. As a result of a fully rational choice, an entrepreneur chooses the most effective methods of production and the size of production minimising risk.

The neoclassical theory of the firm in its orthodox form is at present criticised, due to its inadequate representation of actual conditions in which most firms operate. In particular, the following assumptions are questioned:

- the assumption about perfect competition as the mechanism ruling the operation of the market,
- the assumption that a company is a kind of "black box" – a firm represents interest of different groups,
- profit is not the only, and not always the main objective of a firm's operation,
- entrepreneurial behaviour is not in accordance with the rule of perfect rationality.

Critical approach towards the orthodox assumptions of the neoclassical theory of the firm resulted in creation of other theories, rather complementary than substitutive towards the neoclassical one. Their assumptions are briefly characterised below.[1]

The modern theories of the firm all abandon or modify certain assumptions of the neoclassical model, and in particular the assumption of perfect competitiveness of the market, profit as a firm's only objective, a notion of a single, personal entrepreneur and a company as a "black box".

1.2. Managerial Theories of the Firm

Examining relationships between managers and shareholders is a shared feature of managerial theories of the firm. The companies, where separate owners possess at least 20% of shares or equity are classified as controlled by owners

[1] R. Coase, The Nature of the Firm, Economica 4, 1937 – after – T. Gruszecki, Przedsiębiorca w teorii ekonomii, Cedor 1994.

(individuals or other firms). Dispersed owners are treated as receivers of annuities, not interested in influencing the firm's decisions. In dispersed shareholders' companies, managers take over control over the firm, which enables them to implement their own objectives. Those objectives, and at the same time motivations, are achieving the highest possible pay, gaining prestige and power, security of employment. Therefore, managers do not aim at maximising profit, which is an owner's objective, but at maximising other economic quantities. Identifying those quantities constitutes the basis for separate managerial theories.

The best known managerial theories are:

- **the Baumol theory** – maximising turnover. After the firm has achieved a certain minimal level of profit, which satisfies shareholders, managers aim at maximising turnover, upon which their pay, prestige, power and sense of security rely, since the growing share of the market constitutes an entry barrier for competitors.
- **the Marris theory** – maximising growth ratio. Managers satisfy their needs of income, prestige, power and security by maximising the firm's growth ratio, which depends upon limitations of demand, management and finance. High growth ratio causes management problems and – by lowering the profit ratio – can reduce share price, which can result in reducing the firm's market value, and consequently, in the firm being taken over by new owners.
- **the Willimson theory** – maximising certain expenses. Managers, striving for security, power, prestige, promotion, and possessing full control over the firm's expenses (costs), prefer some of them to others. The preferred expenses include expenses on administrative personnel – rising the number of management staff provides a sense of power and prestige, increases chances of promotion within the organisation. Expenses on luxury offices, cars, insurance, leisure, generate prestige and personal income. Investment spendings of companies are often dictated by personal preferences of their managers rather than economic calculation.

1.3. Behavioural Theory of the Firm

Compared to the neoclassical, the behavioural theory of the firm realises certain assumptions concerning a decision making process:

- it abandons the "black box" concept, taking into account not only the interests of owners (the neoclassical theory), managers (the managerial theory), but also the interests of all institutions and individuals connected with a company.

– it abandons the assumption of maximising profit, in favour of a concept of a bundle of objectives, changing in time.
– it abandons the assumption of full knowledge in the decision making process and optimising decisions, in favour of a limited knowledge and satisfactory (sufficiently good) choices. The decision-making-and-implementing process involves standard procedures and logical reasoning. Decision-makers are satisfied by a solution fulfilling a certain level of aspiration.
– it abandons the assumption about the influence of the system of prices upon allocation of resources, in favour of influence of individual motivations of organisation members upon the decision-making process.

1.4. The Set of Effectiveness Theories

Agency Theory

The agency theory, along with the ownership rights theory and the transaction costs theory, belongs to the so-called effectiveness theories of the new institutional economy. The agency theory takes into account a relation of agency, i.e. the owner – agent relationship, where both parties have contradictory interests, and the owner has a limited possibility of monitoring the agent. Signing and implementation of a contract involves certain cost. The cost is undertaken mostly by the owner, in order to control and motivate the agent, and also by the agent in order to win the owner's trust. The agency theory can be applied to examining the behaviour of complex organisations of a dispersed ownership. In those organisations it is reasonable to delegate decision taking powers to agents, retaining control functions, which, too, can be delegated to agents – experts on control.

Transaction Costs Theory

The transaction costs theory was created as an opposition to the assumption by the neoclassical economy, that a company is a "black box". According to the transaction costs theory[2] the main reason for conducting economic operation as a company is the will to avoid the costs of co-ordinating the co-operation via the market mechanism, i.e. the cost of negotiating and signing contracts. Instead, a hierarchic company is organised, where co-ordination and control is performed by managers. A hierarchic organisational structure is treated as a tool for reducing opportunism in human behaviour. Effectiveness of administrative regulation within

[2] T. Gruszecki, Przedsiębiorca w teorii ekonomii, Cedor 1994; T. Gruszecki, Współczesne teorie przedsiębiorstwa, PWN, Warszawa 2002, M. Gorynia, Zachowania przedsiębiorstw w okresie transformacji. Mikroekonomia przejścia, AE Poznań, 1998.

a company framework is particularly apparent in a situation of highly specific expenditures and repeated transactions, as well as occasional transactions.

Contrary to the orthodox neoclassical theory of the firm, which considers solely the cost of production, the transaction costs theory, which considers also the transaction costs, places a company structure within a scope of choices. The firm is no longer considered a "black box"; its organisational structure is subjected to the criterion of effectiveness.

Ownership Rights Theory

The principle statement of the ownership rights theory indicates, that forms of ownership, and rights deriving from them, play a crucial part in the behaviour of economic operators, since they constitute a significant condition stimulating individual initiative. Effective ownership rights must be exclusive – the unit possessing the right to draw benefits is at the same time responsible for all the costs. Ownership rights are transferable, sellable.

The ownership rights theory allows to predict behaviour of managers, depending on organisational shape and ownership structure of their firm. And so, in a firm owned by dispersed shareholders and managed by paid managers, ownership rights are weak – small shareholders have neither the motivation nor the possibility to control the management. However, managers cannot allow the profits to fall too low, since it would lead to a reduced value of the firm at the stock exchange, and to a reduced value of the managers at the job market. In a firm where profit taxes are particularly high, a lot of luxury investment is likely to take place, having little to do with economic calculation.

The neoclassical theory of the firm, along with some modern theories of the firm described briefly above, could be used for identification of behaviour of Polish companies during the process of transformation. Nevertheless, such task is certain to be very difficult. If we are to set the starting point of the transformation of the Polish economy on 1/1/1990, then at the beginning of this year, outside the agricultural sector there were 6910 state-owned companies, 33 thousand private commercial law companies, including 1.6 thousand involving foreign capital, as well as 115.5 thousand individuals registered to conduct economic operation.[3] In the years to follow, the number of state-owned companies decreased gradually, while the number of private companies rocketed.

The explosion of entrepreneurship, expressed by a dynamic process of creating new private companies, along with privatisation processes of state-owned companies which had been taking place since 1992, brought not only quantitative, but also

[3] GUS year-books for the years 1991–2003.

qualitative changes in the ownership structure and participants of our economy. Establishing the manner of operation of companies, their criteria and manner of decision-making would require extensive, in-depth empirical research, consistently carried out throughout the entire period of transformation. Such research could be used in order to make certain generalisations to build a model (models) of behaviour characterising companies in an economy undergoing transformation, and possibly of similarity (identity) of those models with the modern models of theoretical behaviour of firms in the market economy.

Another, less ambitious approach to researching the subject, is using published results of empirical research on behaviour of Polish companies, carried out at different stages of the period of transformation and including different scopes, as well as using the data published by the National Statistical Office (GUS). This paper represents the latter variant of researching company behaviour, namely the attempt to approach a model of behaviour of Polish businesses during the period of transformation, based on analysing published results of various empirical research concerning the subject, and on the analysis of statistical data.

2. Behaviour of State-owned Companies during the Initial stage of Transformation

The initial stage of the analysis will be constituted by an attempt to identify the behaviour of state-owned companies during the initial period of transformation. In order to do this, it will be necessary to begin with reminding about conditions and manners of operation of those companies, especially during the first two years, when they experienced what is known as "creative destruction".

The introduction on 1/1/1990 of the Balcerowicz programme was a complete surprise to state-owned companies; it constituted a classical strategic shock. The routine of operation created in former years, the system of interacting with the environment, not only did prove ineffective, but completely redundant. The regulatory and actual environment became volatile and hostile. The most crucial of all the changes concerned the position of companies as suppliers and receivers. After forty years, the Polish economy transformed within a mere few months from an economy of shortage into an economy of surplus. The rapid decrease of national demand for consumer and production goods in 1990, and a practical collapse of supplies to the CMEA countries in 1991, was simultaneous with a rapid increase of consumer import which begun in mid-1990. In this situation, companies had a very limited capability to use their production capacity. Possibilities of exporting to the Western markets were limited by low quality of exported goods.

The obligatory dividend, constituting an extra property tax, independent of the manner and effectiveness of utilisation of property, constituted a serious burden, particularly for the companies using only a small part of their production property due to lacking demand. Drastically high interest on bank credits put in a particularly difficult situation those of companies, which conducted significant investment. Also, freeing energy prices and a rise of fiscal burdens (taxes, social security premiums) contributed to a deteriorating financial condition of companies.

In the first half of 1990 companies still benefited from the release of prices on their products and using stored materials purchased at much lower prices in the previous year. However, those peculiar reserves run out during the first six months, and companies' financial liquidity became endangered. A growing difficulty to sell and a loss of liquidity during 1990 was a shock to companies. Nevertheless, this danger to large companies, producing "important" products and employing thousands of people, seemed to their staff and management but a passing phase resulting from economic transition. Previous experiences of economic reforms, such as the WOG (Large Economic Organisations) system of the early 70's, or the unfulfilled promise of hard financing included in the 1981 act on state-owned companies as the rule of self-financing, were not without influence on attitudes. After a short period of abiding by the provisions of those reforms, a successive softening of approach took place, and the situation returned to "normal", i.e. the tutelary, paternalistic role of the state protecting state-owned companies. In firms, those earlier experiences resulted in growing expectations of systemic corrections, while the companies begun to incidentally seek diversions from tough regulations. Throughout the 1990, and even through the first half of 1991, there were expectations of a less strict economic system and protection of the national market against foreign competition. Such attitudes were presented mostly by large "flag" companies, which considered themselves pillars of the Polish economy or crucial "actors" of the system transition.

Two groups of companies faced the most difficult situation during the initial phase of transformation:

- companies heavily indebted due to investment,
- companies producing specialised co-operative products for monopolist buyers that suspended their production. Such suppliers found it impossible to find new buyers.

Recession during the initial phase of transformation resulted in low usage of production capacity. Breakdown of companies' finances caused escalation of mutual debts, as well as loss of accumulative power and arrested development of most companies. The objective of large companies was to endure the difficult period, which they treated as transitory. They tried to achieve their objective by liquidating elements of fixed and current assets, reducing production potential, discontinuing investment in progress, and increasing indebtedness towards contractors and the state treasury.

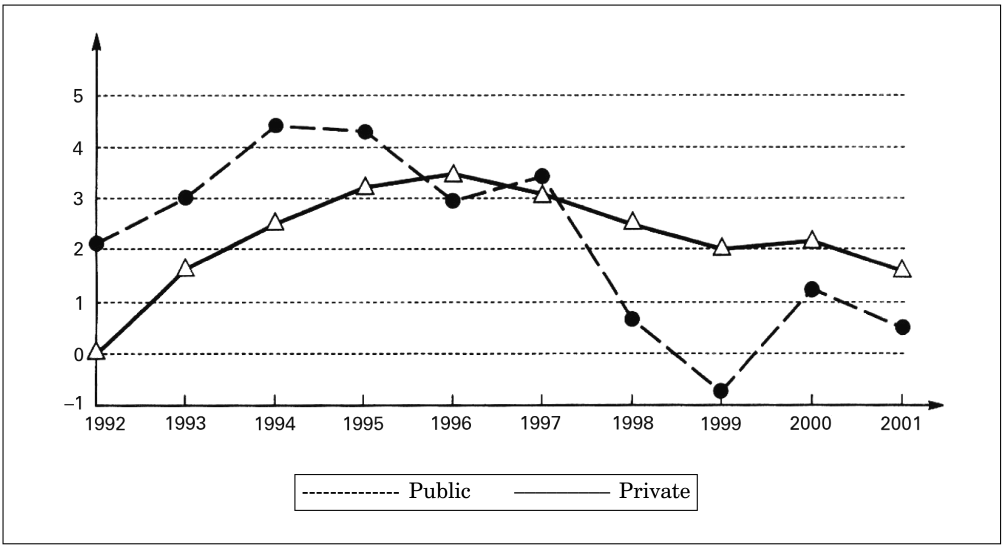
At this point it is worth remembering, that since the second half of the 1980's, state-owned companies played a game for their scope of independence with their founding organs, and with the fiscal authorities for economic parameters: currency deductions, and pay tax rates. Management staff, especially in large companies, were trained well enough to effectively fight for survival, and even draw maximum benefits from the prevailing situation. The situation was much harder for small companies, usually less dynamic. Their attempts at surviving the difficult period were less effective. In 1991 as many as 500 of them were undergoing liquidation on the basis of the act on state-owned companies.

According to P.F. Drucker, such "game of interests" is consistent with general tendencies in modern developed countries, where societies of institutions functioning in confrontational conditions have evolved. Every institution, including a company, becomes a political institution, which has to attract and satisfy groups possessing a formally or informally confirmed right to vote. Those in power must take those interests and expectations into account. In Poland at the beginning of the transformation process the domineering interests were those of the trade unions, particularly the "Solidarity", nevertheless interests of the management were significant too. If managerial tasks are carried out efficiently, social functions of trade unions lose their significance, which is against interests of trade union leaders. However, the unions possess the power to paralyse the society through strikes, especially at a large, inter-company scale. Trade union leaders, desperately trying to hold on to control over formal power structures in companies, using strikes as their weapon, try to awaken the spirit of solidarity within the company, the branch, the region. In this situation the solutions used in the process of privatising the Polish economy were subjected to consolidation of interests of the participants of the process, in order to effectively pacify their resistance against the process. They were expressed in offering a 15% portfolio of shares to employees in turn for their approval of privatisation and the right to choose representatives of staff as board members.

3. Objectives of Companies of the Public Sector during Transformation

The explosion of private entrepreneurship commenced in 1989 was caused, apart from systemic factors, by strong economic motivation. Research conducted in the years 1990–1991 at the Łódź University indicated, that 80% of limited company owners and 71% of individual entrepreneurs declared expected economic benefits as the main motive for founding their companies.[4] Right next to this motivation, negative stimuli played a significant part – a threat of job loss, worsening professional situation particularly acute in the case of managing personnel of state-owned companies subjected to dangers and shocks of the initial years of transformation. In the following years of transformation, apart from economic motives for founding own companies, other motives are declared – the need for personal development, the need for independence.

Figure 1. Profitability Ratio of Gross Turnover for the Public and the Private Sector (in %)



Source: Przedsiębiorstwa sprywatyzowane w gospodarce polskiej. Edited by M. Bałtowski, PWN, 2002 p. 89.

Accepting the assumptions of the neoclassical model, and treating a company as a black box, it is possible to refer to statistical data in order to verify an expectation, that a very strong motivation of maximising profit in the public sector will result in its actual advantage over the public sector of companies as far as profitability is concerned. At the initial stage of the analysis, a dichotomous categorisation of companies is assumed, according to their ownership structure, differentiating between public sector companies and private sector companies,

[4] B. Piasecki, Przedsiębiorczość i mała firma, UŁ, Łódź 1998.

and not exploring ownership structure inside sectors. The private sector includes firms, which have always been private (foundation privatisation), and those privatised by one of methods of privatisation. The public sector includes the state-owned companies and one-man state treasury corporations. Quantitative data include the years 1992–2001.

Figure 1 indicates, that the economic advantage of the private sector over the public one became apparent after five years of transformation. It was not until 1996 that the gross turnover profitability ratio, which in the private sector amounted to 3.5%, exceeded the same indicator for the public sector (amounting to 2.9%), and stayed that way for the rest of the analysed period.

Economic superiority of the public sector over the private one during the first five years of transformation is surprising, especially since the period was very difficult for the state-owned companies: a collapse of the state-owned wholesaling and retail, dissolving of the SMEA, a collapse of trade with Russia, a collapse of the state-owned agriculture (PGR – state-owned agricultural establishments), obligatory dividend and pay tax from state-owned companies, no access to credit. However, at the same time the state owned companies widely used their property for extra-statutory purposes – leasing, tenancy, or sale. Large firms, possessing legal or actual monopoly used monopolist practices in their pricing policy. Also, as a result of amortisation of arrears of the public sector towards the state budget at the end of 1993, the sector produced improved net turnover profitability in the following years. It was significant too, that in the analysed initial period of privatisation of the state-owned companies, the major part of the private sector was constituted by newly created private companies. A strongly progressive system of taxation (tax rates of 21%, 35%, 45%) coinciding with a weak system of revenue control, encouraged private companies into the grey economy. Another factor influencing low value of gross turnover profitability indicator of the private sector was that the entire co-operative sector was counted as a part of it. Small co-operatives (employing under 50 persons) at the time had negative gross turnover profitability of –11.8%.[5]

In order to identify the principles of operation of Polish companies during the process of transformation, it is necessary to divert from the neoclassical approach demanding their treatment as black boxes. The dichotomous division into the private and the public sectors, presented above, is seriously insufficient for an attempt to analyse decision-making processes taking place inside companies, due to significant diversification of ownership relations and groups of interest in

[5] A. Krajewska, Opodatkowanie sektora publicznego i prywatnego w Polsce, „Gospodarka Narodowa” 1994, No. 7–8.

individual companies. Both in the public and in the private sector it is necessary to distinguish between characteristic groups of ownership and interest.

A global view of companies privatised by different methods and two groups of public sector companies is presented in the tables below, concerning quantitative data for the years 1993–2000.

Table 1. Indicators of Gross Turnover Profitability in Privatised and Public Sector Companies

Company type	1993	1994	1995	1996	1997	1998	1999	2000
One-man corporations of treasury of state	2.6	5.7	5.4	2.3	2.0	0.5	-2.5	-0.3
State-owned companies	2.9	3.6	3.4	2.4	3.4	-1.2	-5.8	-5.5

Table 2. Indicators of Net Turnover Profitability in Privatised and Public Sector Companies

Company type	1993	1994	1995	1996	1997	1998	1999	2000
One-man corporations of treasury of state	-2.4	2.9	2.7	0.4	0.3	.	-3.4	-1.1
State-owned companies	-1.2	0.5	0.7	0.4	1.3	-2.8	-7.2	-6.7

Source: Prywatyzacja przedsiębiorstw państwowych, GUS, Warsaw, 1993–2000.

Limiting the analysis of profitability to the public sector, we can notice significant differences in profitability (both gross and net) between state-owned companies (SOC) and one-man corporations of the treasury of state (OMCTS), which constitute 100% state property. Transforming SOC into OMCTS, described as commercialisation, formally constitutes the first step in preparation for capital privatisation. Therefore, a SOC should function as an OMCTS only in a short term. In practice, for different reasons, this process usually lengthens. One of the reasons is partially objective – lengthening in time of subsequent stages of capital privatisation: valuation of a firm, choosing a path of privatisation, choosing a strategic investor. Another reason could be a purposeful transformation of a firm into a one-man capital corporation belonging solely to the treasury of state. It limited influence of an employees' council and trade unions, increased decision making prerogatives of the managing board and strengthened the significance of the supervisory board.

The analysis of gross and net profitability of turnover of the two groups of the public sector indicates two patterns: firstly, beginning from 1996, worsening of profitability indicators of both groups of companies, reaching negative values in the years 1998–2000; secondly in the analysed period the profitability achieved by OMCTS was generally higher than the one achieved by SOC. It is particularly apparent in the years 1999 and 2000, both with regard to the net and the gross value of the indicator. In 1999 the negative net profitability for OMCTS amounted to –3.4%, and for SOC to –7.2%, in 2000 for OMCTS it amounted to –1.1% and for SOC to –6.7%.

The analysed group of companies of the public sector is formally characterised by a homogenous, concentrated form of ownership, nevertheless SOC experience the so-called "Bermuda triangle of power", i.e. management, an employees' council and trade unions, each of which has partially different objectives and expectations, and each have enough power to block the others. Consequently, those companies are not capable of choosing and following a consistent strategy of adjustment to market conditions, but instead they "drift", aiming at surviving, "not drowning". In OMCTS there is no employees' council, the role of trade unions is diminished, and the goals of management became domineering. A question arises, what the objectives of those domineering groups of interest are in fully state-owned companies (SOC) and in commercialised state-owned companies (OMCTS). A partial answer is delivered by a comparison of work efficiency measured by income per employee per year (in PLN thousands). The available data indicates, that in 1998 in SOC and OMCTS the indicator amounted to, respectively, 96 and 257; in 1999 to 82 and 247; in 2000 to 81 and 268.[6] The quoted data indicate, that work efficiency in SOC was about 3 times lower than in OMCTS, and, even worse, it kept decreasing. It proves excess employment in SOC, and superiority of employees' interests over interests of the firm. OMCTS, managed by managers, usually preparing for capital privatisation, conducted a rational human resource policy. In 1998, state-owned companies in their traditional form operated in the branches protected by the state – mining, metallurgy, rail transport and arms industry. The chief goal of those firms was surviving in order to protect jobs. It can be estimated, that an annual cost of one job in mining or metallurgy was equal or higher than annual value of sales per employee. Maximising economic balance in those firms certainly was not a decision-making criterion.

4. Strategies of Public Sector Companies during the Process of Transformation

Coming back to the chief problem of this article, i.e. the identification of behaviour of Polish state-owned companies during the process of transformation, according to the theories of the firm, the company behaviour of the state-owned firms can be attributed to the ownership rights theory. The theory indicates, that in a public (state-owned) company, ownership is particularly blurred, and costs of identifying

[6] Przedsiębiorstwa sprywatyzowane w gospodarce polskiej. red. nauk. M. Bałtowski, PWN, 2002.

inefficiency particularly high, which effectively means that managers are not sufficiently motivated to manage effectively. Compared to a "classic" state-owned firm, an even lower level of effectiveness exists in a firm where there is a domineering role of employees' council or trade unions, where production assets formally constitute property of the state. Informal ownership rights of the employees are executed by participation in surpluses worked or striked for, in the shape of maximisation of pay, and in a short term.

On the basis of a detailed analysis of company behaviour, diverse development strategies can be identified among state-owned companies during the initial years of transformation. They can be grouped in three model strategies:

1. **Regressive** – observed mainly during the years 1990–91, and in some of the companies in the years 1992–95 as well. The strategy is typical for a shock period. A company's objective is to survive, the means – liquidating fixed and current assets, reducing production capacity, increasing debt. Those actions create a danger of bankruptcy;
2. **Passive or defensive** – dominating during the years 1992–95. The strategy is characterised by lower pace of asset reduction and using the assets to increase production. Investment is undertaken only to the level of depreciation. No investment credit is used. The actual objective is to survive, but in relatively secure conditions;
3. **Progressive or offensive** – since 1994 has been used by certain companies. It is characterised by active investment through activating internal and external sources of capital. Companies, which survived the most difficult period have, began intensive investment.

Identification of those strategies is based on the dominating strategy in consecutive stages of the time of transformation. It is, indeed, a certain simplification of reality, since both the strength of strategic shock of the initial phase of transformation was very different for different companies, and conditions of the environment during the whole decade were not consistent. The severity of tough rules of financing was highly differentiated depending on a branch, good examples of which are mining and metallurgy on one hand and light and electromechanical industries on the other.

An important group of factors shaping threats to- and chances of state-owned companies during the period of transformation were the internal factors, i.e. power relations between interest groups within companies. Qualifications and skills of a management team are important, but so is their relationship with the staff, especially in a situation, typical for the Polish conditions, where there are several representatives of employees in one company. It was up to the relation between groups of interest, whether it was possible to generate a consistent system of long-term objectives, or whether a company's operation became a resultant of contradictory goals and expectations of different groups of employees.

Considering the above, and treating the transformation period as a whole, the following strategies can be identified in behaviour of state-owned companies:

- strategy of deep transformation, assuming export expansion and aiming at liasing with Western capital,
- strategy of deep transformation, assuming operating at the national market and using own resources,
- strategy of shallow transformation,
- no specified strategy (drifting),
- strategy of attempting to force the government to abandon economic strictness.

The behaviour of the non-public sector companies, i.e. private, privatised and in the process of privatisation, will be a subject of analysis in the next article.

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Formation of Regional Policy in the European Union

1. The Origin of European Community's Policy of Regional Development

When the European Economic Community was founded in 1957, the possibilities of introducing a joined regional policy were not taken into consideration, although the report by Paul-Henri Spaak, the Belgian foreign minister supervising work of International Committee preparing the Treaty of Rome, indicated the need for development of such policy. The Committee's Report indicated three basic directions of European Community's operation, i.e.:[1]

- introduction of normal conditions of competition by removing protectionism and customs barriers,
- setting up principles and procedures of policy of competition and
- increasing resources by valorisation of underdeveloped regions and utilisation of unemployed workforce.

The report indicated the need for co-ordination of regional plans of the member countries, and recommended creation of a special investment fund devoted to facilitating conditions for balanced development. Nevertheless, in the Treaty of Rome not only was the third direction indicated by the P.H.Spaak completely ignored, but also, except for one case, the term "regional plans" was removed from the text. The main objective of the Treaty of Rome proved to be the creation of – unhindered by any governmental intervention – normal conditions of competition, and removal of all kinds of protectionism. The authors of the Treaty were convinced, that the creation of a common market in itself, thank to free flow of production factors, would ensure a balanced development throughout the Community.[2]

Mostly the aid for economic development of regions, where standard of living was abnormally low, or where employment was insufficient, as well as the support for eastern, border regions of Germany were considered in accordance with the principles of the Common Market.

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1 J. Pietrzyk, Polityka regionalna Unii Europejskiej i regiony w państwach członkowskich, PWN, Warszawa 2000, p. 62.

2 J. Lajugie, P. Delfaud, C. Lacour, Espace régional et aménagement du territoire, DALLOZ, Paris 1985, p. 603.

European Investment Bank has become the only common institution orientated towards regional development and created by the Treaty of Rome. Its operation was to contribute to development of less developed regions, creation of the new and modernisation of the existing companies, and to implementation of projects important to several member states.

The origins of European regional policy as a separate area of Community's intervention can be traced to the 1960's, and is connected with reports prepared by the European Parliament and the European Commission, which indicated the need to undertake joint action in order to activate and harmonise regional development. Of the European Parliament documents concerning regional policy, especially the following ones deserve a mention:

- Motte's Report (9/5/1960) suggesting creation of a consulting committee on regional affairs, and commencement of works on the programme of European regional policy.[3]
- Birkelbach's Report (17/12/1963) demanding providing the Commission with special resources for regional policy, and creating a central bureau of European documentation, as well as expanding contacts with local governments.[4]
- Rossi's Report (9/10/1964) indicating the necessity to abandon the view of regional policy as internal affair of member states, as well as the need to undertake efforts to create a European plan of regional development presenting goals to be achieved by individual regions.[5]

In 1968, as a result of fusion between executive organs of ECSC, EEC and Euratom, and the effective creation of the joint Communities' Commission – the Regional Policy Directorate General was created, known in the jargon of Brussels administration as DG XVI. Establishing DG XVI brought about first attempts to co-ordinate national policies by supervision over the aid granted by individual countries towards regional development. In time, reduction of "weaknesses" and equalising chances of development of the most underprivileged regions became the basic objective of European policy of supporting regional development.

A significant foundation for the implementation of the common EU regional policy was the creation in 1960, on the basis of the Treaty of Rome, of the European Social Fund, as well as the creation in 1964 of the part of the European

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[3] B. Motte, Rapport sur les problémes de la politique régionale et les voies et mogens mettre en oeuvre pour la réalisation d'une telle politique dans la Communauté de Six, Assemblée Parlamentaire Européen, Document de séance, No. 24, 1960.

[4] W. Birkelbach, Rapport sur la politique régionale dans la CEE, Parlamentaire Européen, Document de séance, No. 99, 1963.

[5] A. Rossi, Rapport sur l'activité de la Communauté Européene, Parlamentaire Européen, Document de séance, No. 74, 1964.

Agricultural Guidance and Guarantee Fund, called the Section of Guidance, operating to finance structural changes in agriculture and food-processing industry.

2. Directions of Evolution of the European Regional Policy

Joining the Common Market by the United Kingdom in 1973 was a breakthrough for the European Communities' involvement into an active regional policy. British access to the EEC community was decisive factor for the creation of the main financial instrument of regional policy, i.e. the European Regional Development Fund. Its establishment was a result of UK's insistence on gaining compensation for its high financial input into the common budget.[6] In a situation where most of budgetary expenses were spent of the common agricultural policy, and the role of farming in the British economy was insignificant, regional subsidies created a possibility to recover a significant part of relatively high input into the common budget.[7] Thus the creation of the EEC's regional policy was connected with the first expansion of the European Community, and its beginning is usually identified with the year 1975, when the European Regional Development Fund commenced its operation.

Simultaneously with ERDF, the Regional Policy Committee was created and affiliated to the Council and the Commission. Its task was to analyse problems of regional development and suggest solutions and means necessary for implementation of EEC's regional policy. The Committee's very important mission was to co-ordinate regional policies of the member countries, and evaluate regional development programmes presented to the Commission.

European regional policy, initiated by the first enlargement, was corrected with every following one, and every treaty reform (the Single European Act and the Maastricht Treaty) doubled financial resources available for regional policy.

Accepting the accession of Greece (1981) and Spain and Portugal (1986), i.e. countries where the level of development was significantly below the EEC's average, forced the European Community to intensify investment into regional development.

A gradual evolution of the concept of EEC's regional policy was a significant factor contributing to its growing importance. Initially, it was difficult to talk about a common character of the policy which could be brought down to "refunding" the expenses made by individual governments towards their internal regional

[6] A. Fajferek (ed.), Polityka ekonomiczna, AE, Kraków 1999, p. 283.

[7] R. Balme, Ph. Garraud, V. Hoffman, E. Titaine, Le territoire pour politiques: variations europeénne, L'HARMATTAN, Paris 1994, p. 246.

policy. Such state of affairs was mainly a result of certain countries (especially France) fearing for their sovereignty and not accepting a possibility of the Community interfering with an area as strategic as regional development.

Inability to grant supranational character to Community's policy was a result of the member countries' desire to recover – thank to regional subsidies – as much of their input into the common budget as possible. This eventually led to basing distribution of resources on the so-called principle of fair return, which meant appointing in advance the percentage share of funds belonging to each country from ERDF, in the shape of so-called country quota (distributed according to the input into the common budget).[8]

The principal reform of the European Regional Development Fund took place in 1985, when the country quotas were replaced by an interval of intervention (expressed in percentage points), with a simultaneous guarantee for the member countries of only the bottom (88.63%) limit of the share within a three-year perspective. The remaining part of the fund (i.e. 11.37%) was designated towards financing the Community's common priorities of regional policy. Thus the scope of EEC's policy was broadened, and the automatism of granting subsidies limited. In December 1985 a correction of the extremes of the interval took place, in order to accommodate for participation in division of resources of two new members, which Spain and Portugal became on 01/01/1986.[9]

The real breakthrough in the European Community's regional policy was brought by the reform of structural funds (European Social Fund; European Agricultural Guidance and Guarantee Fund) undertaken in 1988 as a result of the provisions of the Single European Act. The importance of the reform came not only from the decision to double the resources of the Structural Funds within 6 years, but most of all from sanctioning regional policy by a treaty. The Single European Act included regional policy into the Roman Treaty as the new title V, concerning "economic and social cohesion".[10] The title described the three Structural Funds as tools of regional policy, and ERDF was entrusted with a mission to correct the main regional disproportions within the Community by supporting structural adjustment of underdeveloped regions and re-conversion in regions of industries in decline. In order to make the final decision about the size of the Structural Funds for the years 1989–1993, it was necessary to achieve accordance between the Parliament, the Council and the Commission on sources of income of the Community budget, as well as on procedures of preparing it.

[8] A. Fajferek (ed.), Polityka..., *op. cit.*, p. 285.
[9] *Ibidem*, p. 287.
[10] J. Pietrzyk, Polityka..., *op. cit.*, p. 93.

The accordance was implemented as the so-called inter-institutional agreement, which was signed in June 1988 to last five years, and the decision about the amount of resources of the Structural Funds was made during financial negotiations known as the first Delors packet. The packet set the eventual top limit of Community's budget income at 1.2% GNP of the member countries, and introduced the fourth source of income, namely direct fees paid by the member countries and calculated as uniform "taxation" of their GNP.[11]

As a result of prolonging the inter-institutional agreement between the Council, the Parliament and the Commission to the period of 1994 to 1999, the decision was taken at the Edinburgh summit in 1992 to initiate the so-called second Delors packet increasing the resources of the Structural Funds to euro 27.4 billion in 1999.

At the same time four basic principles of European regional policy were enforced, i.e.:[12]

- concentration of the Structural Funds on three regional and three functional priority objectives,
- possibility to add EU resources and simultaneous setting the share of EU financial aid at 75% in the case of regions of the number 1 objective, and 50% in the remaining areas,
- programming the operation (within time span of the current plans of 6 or 3 years),
- partnership (in designing and implementing plans) between all units, which may contribute to stimulation of regional development.

The list of regions of the number 1 objective is prepared individually by the Council, and at the moment includes over a quarter of population of the European Union (including the whole of Greece, Portugal, Ireland and the East of Germany).

At the beginning of the XXI century there was a 3.5 times gap between the ten richest and the ten poorest regions of the Communities as far as the per capita GNP was concerned, a 3-fold difference concerning the basic infrastructure, and 7-times gap concerning the level of unemployment and subsidies for research and technological development. It was the scale of disproportion on the one hand, and the decision to form an economic and monetary union on the other, which brought about intensification of efforts towards development of the most underprivileged regions.

[11] *Ibidem*, p. 94.
[12] A. Fajferek (red.), Polityka..., *op. cit.*, p. 295.

3. Key Elements of Regional Policy of the European Union

The prime indicator of the model of European regional policy is its general objective of limiting the scale of regional differentiation. Deriving from it is the character of defined problem areas destined for support within the policy in question. Achieving the objectives of regional development has significant importance in the context of the general EU policy. The significance of the objectives of regional policy has been growing, especially since the planning period of 1989 to 1993. At least three platforms of EU's activity concerning regional development can be identified. They are:[13]

a) support programmes prepared on the initiative of member countries, classified within four objectives: 1, 2, 5b, 6,
b) thank to the initiative of the European Commission, designing the so-called Community Initiative,
c) the so-called European Regional Development Fund Innovative Actions.

An assumption was made for the years 1994–1999, that about 90% of the resources of the Structural Funds would be designated towards operation within the first group of goals, 9% within the Community Initiative, and 1% towards innovative actions. Actions of fundamental significance are devoted to implementation of tasks within the appropriately formulated goals 1, 2, 5b and 6. The goals concern problem areas characterised as follows:[14]

Objective 1: regions of neglected development. Practically the sole criterion of qualification is the level of GNP per capita below 75% of the EU average within the last three years.

Objective 2: regions requiring re-conversion of old industries. The main criteria of qualification are:
a) unemployment above the EU average,
b) a higher than EU average level of employment in industry,
c) a clearly downward tendency of employment in industry.

Objective 5b: regions of development heavily dependent upon agriculture. Concerns underdeveloped agricultural areas not included in the objective 1. The general criterion indicates regions of a low social and economic level of development.

Objective 6: regions of low density of population requiring promotion of development and significant structural changes. The primary criterion of qualification is the density of population below 8 persons/square kilometre.

[13] T. Kudłacz, Programowanie rozwoju regionalnego, PWN, Warszawa 1999, p. 158.
[14] *Ibidem*.

In the structure of the above objectives, the EU's attention concentrates predominantly on underdeveloped areas (objective 1), which is expressed by the proportion of expenses on this group of tasks amounting to almost 70% of resources of the Structural Funds.

Community Initiatives – actions undertaken by the European Commission – meant to supplement grass roots programmes. They are initiated in order to achieve goals, which are particularly important for the Union as a whole.

European Regional Development Fund Innovative Actions (ERDFIA) are actions aimed at promotion of the modern attitude towards development at the local and regional scale, including support for co-operation in exchange of experiences between different parties participating in the stimulation of regional and local development.[15] Innovative actions are generally initiated by the European Commission, which invites appropriate regional addressees to negotiate on the indicated projects by publishing an offer in the Official Journal of the European Communities.

The instruments of implementation of the objectives of the EU's regional policy are constituted by media of financial action grouped in appropriate funds, as well as by procedures of appointing and implementing tasks supported by the EU, formulated as programmes.

From the point of view of the regional policy objectives, the most important are the Structural Funds, of which the following are separately defined:[16]

a) European Regional Development Fund (ERDF)
b) European Social Fund (ESF)
c) European Agricultural Fund for Rural Development (EAFRD)
d) Financial Instrument for Fisheries Guidance (FIFG).

European Regional Development Fund is the youngest of the funds, but the principles of its functioning have already been reformed several times. It constitutes the EU's most substantial financial tool of regional policy. About 40% of the resources of the Structural Funds are spent within this fund, and it has the majority share in financing all three of regional development objectives.

The oldest of the structural funds is the *European Social Fund*. Initially, its task was to finance goals connected with the reduction of unemployment, without emphasis upon connections with solving more complex regional problems. At the moment, ESF is available to regions qualified for each of the problem areas of regional policy (1, 2 and 5b), as well as for financing tasks not connected with regional goals, such as the tasks within the objective 3.

[15] J. Szlachta, Programowanie rozwoju regionalnego w Unii Europejskiej, Studia KPZP PAN, Warszawa 1997, t. CV.
[16] T. Kudłacz, Programowanie..., s. 161.

The objective of the *European Agricultural Fund for Rural Development* is facilitating development of rural regions, including financing programmes aimed at improving economic and quality aspects of agricultural production, as well as providing financial support for non-agricultural programmes aimed at restructuring development of infrastructure in rural areas.

Financial Instrument for Fisheries Guidance has been established in order to support problem areas the economic structure of which is significantly dependent upon fishery. As a part of the regional development objectives, the fund can co-finance objectives 5b and 6.

4. Issues of Competitiveness of Regions in the European Union

The economic sciences show growing interest in competitiveness of regions, due to the systematically progressing globalisation of the world's economy.[17] Increasing mobility of production factors, flexible forms of organisation of production, and the most developed countries having entered the post-industrial phase of development, facilitate competition on a global scale.[18]

The term "competitiveness" is normally used with regard to companies, but it gradually begins to concern countries and regions. The economy of every country aims at raising the level of competitiveness. There are several important elements characterising competitiveness of regions, economies. Those are natural resources, capacity to generate innovations (e.g. technological), the level of education, the number of academic centres, technical infrastructure. The above elements are just some of the factors determining competitiveness, but are crucial as far as competing for potential investment is concerned.

The elements determining the level of competitiveness of individual countries are often described as business environment or industrial climate.[19]

The regional dimension of economic competitiveness should be analysed in three simultaneous planes:[20]

- global, due to the progressive globalisation of the economy,
- continental, due to the processes of international integration, with a particular emphasis on the European Union, which is a consequence of Poland's geographical location,

[17] J. Szlachta, Problemy konkurencyjności regionów w Unii Europejskiej, in: Wzrost konkurencyjności regionów, collective work edited by T. Markowski, Łódź 1996, p. 1.

[18] L. Thurow, Head to heed. The coming economic. Battle amony Japan Europe and America; Wiliam Morrow and Company, Nowy Jork 1992.

[19] Business Environment in Denmark, Ministry for Business Policy Coordination, Copenhagen 1993.

[20] J. Szlachta, Problemy..., *op. cit.*, p. 2.

– national, due to a growing influence of regional factors upon the competitiveness of the Polish economy.

In the 1980's the European Union conducted an evaluation of regional aspects of competitiveness. The outcome of this work are publications presenting regional aspects of cohesion and competitiveness. The fourth report on the subject was published in 1991, and the fifth in 1994. The first part of the last report presents the latest regional tendencies as far as population, regional economic growth and employment/unemployment are concerned. Part 2 characterises factors influencing regional economic competitiveness. Part 3 concerns regional policy and problem areas of the Union. Part 4 characterises the influence upon the regions of the progressing European integration and widening the geographical borders of the organisation.[21]

According to the contents of the above report, at the moment four issues are concerned to be crucial for analysing the problems of competitiveness in the regional context; those are:[22]

– infrastructure and human resources,
– direct foreign investment,
– the role of scientific research and technological development in the regions,
– a new character of the situation of peripheral areas.

The above elements of competitiveness could be expanded by another two, which are academic centres and local investment. A high number of academic centres is beneficial to a region's image. They constitute a basis, from which employers can source out future employees, and where firms can order specialist research. Today the world of science is tightly connected with companies. Local investment can take place, just as well as the foreign one, if only the conditions are favourable. Local investment may contribute to local re-investment of profits, which in turn contributes to further development.

To comment once again on *infrastructure and human resources*, it is worth emphasising, that differences of those factors are considered to be principal elements determining competitiveness of regions. In an international organisation such as the EU, aiming at strict economic integration, the readiness to accept disproportion within this area is lowering. A dynamic development of the network of motorways, dual carriageways, energy and telecommunication networks is the priority of EU's economic policy. An efficient system of transport and communication is a necessary condition for regional development, particularly in a free market economy, which is based on trade. Transport and communication have a vast

[21] *Ibidem*, p. 3.
[22] *Ibidem*.

significance for the process of European integration. The basic objective is to ensure access of all the EU regions to infrastructure, particularly in the fields of roads, railways and telecommunications.

Competitiveness of regions depends not only upon infrastructure, but also on the human factor. It is people that generate new ideas, solutions that can be applied in the process of development. At this moment it is sensible to emphasise the importance of the system of education. In spite of great efforts and several years of prioritising by the EU, the geographical diversification of all the levels of education remains huge. The worst situation is in peripheral agricultural regions.

The second element determining competitiveness of regions within the EU is *direct foreign investment*. It constitutes a good indicator for investors planning to invest their financial capital in a certain region. A potential investor views a region through the number of companies. We tend to believe, that if there are other companies in the area, then that constitutes a guarantee of possibilities to develop. We mean, that one investment facilitates another, i.e. a chain reaction takes place. The question of foreign investment within the EU indicates, that prosperity of regions depends to a large extent upon their capability to encourage and maintain foreign companies.[23] A foreign investor choosing a region (e.g. a country) ought to consider several factors: the economic policy of the state (inflation, credit interest rates, tax rate, unemployment, level of economic growth etc.), the level of competitiveness in the sector in which the company means to develop, size of the market, dynamics of the market, knowledge of modern languages (preferably English, German, French etc.), and other factors.

The analysis of situation of individual EU countries indicates, that only in the United Kingdom foreign investment significantly supported the implementation of priorities of regional policy, contributing to an improvement of competitive situation of the economically weak regions.[24]

The next factor influencing competitiveness is *scientific research and technological development*. This area is particularly important for regional development, since it broadens possibilities of diversification and consolidation of production by firms operating in the region, thus improving their competitiveness. We believe, that scientific research and new technology improve efficiency of production and designing new products. Prompt reaction to new technological trends gives competitive market advantage.

A significant problem of the EU regional policy is constituted by *peripheral areas*, where financial involvement needs to be higher than in more developed

[23] *Ibidem*, p. 4.
[24] *Ibidem*, p. 5.

regions. Shortage of highly qualified staff and lack of business environment are typical for peripheral regions. This is accompanied by shortage of high-risk capital and underdeveloped spirit of entrepreneurship. Great involvement of local authorities and the central government can lead to improving attractiveness of peripheral areas, which will be beneficial to their development (e.g. the Łódź area – development of textile industry). The traditionally border areas, and those peripherally located in individual EU countries were characterised by a lower level of development. During the last ten to twenty years the EU has undertaken varied actions in order to improve the situation of those regions. It was done by assigning resources from the Structural Funds and undertaking special Community's Initiatives, of which the most important are the INTERREC programmes. The progressive integration means that many regions peripheral within their countries are in a very favourable position if analysed with regard to the whole of the European Union. The situation of regions localised along the EU's external borders, peripheral regions along the sea, and islands, has improved to a lesser extent. A "euroregion" is a term defining any kind of cross-border co-operation concerning economic or social fields between two or more countries and their local governments. A euroregion is a geographically limited area constituted by parts of territories of countries, with respect for internal regulations of those countries. Respecting objectives and benefits of all parties based on equal partnership is the goal of policy of euroregions. The idea behind establishment of euroregions is the assumption, that they serve to provide experience before a broader European integration.

The legal basis for trans-border co-operation is constituted by the Trans-Border Convention voted by the Council of Europe on 21/05/1980, the European Convention on Co-operation in Border Regions voted by the Council at the end of 1980, the European Charter of Border and Cross-Border Regions voted on 19/11/1985, and the European Charter of Regional Self-Government, approved by the Council of Europe on 15/10/1985.

The first euroregions on our continent were created after the World War II, in Western Europe, in border areas between Germany, France and Luxembourg, as well as between Switzerland and Italy. The EU considers euroregions to be one of the principle forms of development of regional policy.

In Poland, as an EU candidate country, interest in euroregions appeared at the beginning of the 1990's. Twelve euroregions function along the Polish borders:[25]

- four along the western border (Nysa, Sprawa-Nysa-Bóbr, Pro Europa Viadrina, Pomerania),

[25] Z. Szymla, Determinanty rozwoju regionalnego, OSSOLINEUM, Wrocław 2000, p. 117.

– two along the eastern and northern border (Bug, Niemen),
– six along the southern border (Karpaty, Tatry, Glaciensis, Pradziad, Śląsk Cieszyński, Silesia).

Trans-border operation within a euroregion can be considered as the first step towards the integration with the EU.

5. The Concept of Eco-development in Regional Policy of the European Union

The modern society considers eco-development to be the way to halt the global crisis, and the indicator to shape the future. A strategic superiority of ecological priorities over civilisation progress has been accepted.

The EU strategy assumes a balanced growth approach towards regional policy. Eco-development is considered to be the indicator creating the system of new values and strategic goals of regional policy. Influencing the European space is conducted with diversification of natural values and resources in mind. Protecting the environmental resources and managing the European natural heritage are considered one of the EU policy's fundamental goals. The concept of eco-development in EU's regional policy is particularly likely to be implemented, since:[26]

– supporting ecologically balanced regional development facilitates dynamic development of the economy and increasing competitiveness of the EU,
– all the EU countries are involved in strategic approach towards regional and ecological development at the scale of individual countries, as well as of the entire continent,
– as the only continent, Europe has a negative, or minimally positive population growth; therefore it is possible to implement balanced growth, which as an initial condition has the necessity to stabilise the population,
– Europe has most diverse values and resources of the natural environment,
– Europe is characterised by particularly high cultural and social diversity.

The origins of EU's regional policy are connected with the creation in 1967 of the Regional Policy Directorate General XVI, affiliated to the European Commission.[27]

Initially, the Union merely co-ordinated regional policies of the member countries, in particular, it aimed at eliminating distortions resulting from

[26] S. Hajduk, Koncepcja ekorozwoju w polityce regionalnej Unii Europejskiej, in: Sterowanie ekorozwojem, collective work edited by B. Poskrobki, Białystok 1998, Vol. III, p. 77.

[27] J. Szlachta, Regionalizacja w krajach Europejskiej Wspólnoty Gospodarczej, in: Regionalizacja w Polsce w świetle doświadczeń zachodnioeuropejskich, collective work edited by Z. Niewiadomski, Warszawa 1992, p. 18.

competition for subsidies. The main source for supporting this policy, conducted by individual countries, were the resources from the European Investment Bank, European Social Fund, European Agricultural Guidance and Guarantee Fund and the European Coal and Steel Community. The EU Countries were not even capable of reducing regional differences to compensate for the differences they created. Consequently, in 1988, the decision was made to integrate the programmes of all EU's structural funds, the objectives of regional policy were defined, types of regional problems were identified (objectives 1, 2, 5b, 6), resources for implementation of regional policy were increased, and the nomenclature of territorial units for statistics (NUTS) was defined.

The reform of EU's Structural Funds created a genuinely communal vision of regional policy, while the previous policy was merely interventionist sustaining of regional policies conducted by individual member countries.[28]

Recently a new element of programming regional development within the EU was created: documents concerning strategic problems of regional development. As the result of the work, the following documents were published:[29]

Europe 2001. Perspectives of Community's territorial development and *Europe 2000 plus. Co-operation for territorial development* prepared by Directorate XVI, and approved by the ministers responsible for regional policy and spatial development in the EU countries. The documents concern: environmental protection, technological infrastructure and settlement system. *European Spatial Development Perspective* constitutes a continuation of the former two documents.

The principles of EU's ecological policy have been crystallising since 1972, when the EC Commission compiled a programme of environmental protection, devoting a lot of attention to industrial pollution. The original part of the Treaty of 25/03/1957 on the creation of the European Economic Community did not mention ecological problems, nevertheless considered environmental protection to be a significant international problem. It was assumed, that solving this problem should take place within the territories of individual member countries. In the consecutive years, considering the consistently deteriorating natural conditions, the EEC countries introduced environmental protection into the basic documents of the Community. It was connected with the first reform of the Roman Treaty by the Single European Act of 01/07/1987. The text of the Treaty of Rome was appended with chapter VII, entitled "The environment". The second document containing an accent on protection of the natural environment was the Maastricht Treaty (07/02/1992).

[28] S. Hajduk, Koncepcja..., *op. cit.*, p. 80.
[29] *Ibidem*, p. 81.

An important role in defining the EU's ecological policy was played by conferences, which took place on Corfu, (3–4/06/1994), in Leipzig (21–22/09/1994), in Bonn in September 1995, in Copenhagen in January 1996, and others.

EU pays a lot of attention to intervention in the area of natural environment, which is expressed by the high level of expenses on this type of operation. EU's regional policy facilitates complex upgrading of natural environment, building ecological scenarios of social and economic development, as well as spatial development of regions, cities, etc.

6. Summary

The objective of this article is to present a holistic view of the development of regional policy in the European Union. Regional policy is an important chapter of policies implemented in the process of EU's development. The article presents the basic principles of creation of the Community's regional policy, and comments upon competitiveness of regions and eco-development of the EU.

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Role of Wholesales Markets in West Europe

In most countries wholesale markets remain an essential link between production and consumption. That such markets should be well managed is essential as the efficiency of their operation directly affects the cost of carrying out produce marketing. High marketing costs inevitably lead to lower prices for producers and higher prices charged to consumers.

Inefficient markets also increase the risk of problems of hygiene, of environmental degradation and of transport congestion, to name but a few. With rapid urban growth in many parts of the world, wholesale markets will continue to play a vital role in channeling a wide variety of produce to urban consumers, even as new distribution techniques, such as direct supply from farmers to supermarkets, are developed. Investments in market infrastructure will undoubtedly increase in the coming years, but wholesale markets need not represent a financial burden to governments, whether local or national. If well managed, they can be run profitably and provide a powerful stimulus to the modernization of food marketing generally.

The Changing Role of Wholesales Markets

The characteristics of wholesale markets have changed considerably over the last century. They continue to change as retailing changes in response to urban growth, the increasing role of supermarkets and to increased consumer spending capacity. These changes require responses in the way markets are organized and managed.

There is an enormous difference between the village squares or road intersections where weekly markets took place and the purpose-built wholesale markets which began to appear at the end of the last century in London, Paris and Barcelona. Marking even greater change has been the establishment of modern food supply centers where wholesaling activities for a range of food commodities, together with associated prepackaging, assembly and other food distribution activities, are concentrated in one complex.

Central markets have been established this century in many countries for the wholesale marketing of fruits and vegetables. In countries which are dependent on grains, legumes and pulses as staples, wholesale markets were established for these commodities. Sometimes markets have included separate or special facilities for the sale of fish, flowers, poultry, meat, dairy products, spices and animal fodder. In some of the modern food supply centers facilities are provided for a range of products which include fruits and vegetables, meat, fish, poultry, dairy products and flowers. Some supply centers have related warehouse-distribution facilities for other goods for supermarkets and major retail chains.

In Germany, the bigger cities have terminal wholesale markets to distribute mainly fresh produce to retailers and institutional customers in the cities. The Berlin wholesale market sells horticultural, meat and dairy products. The market share of fresh produce sales by caterers in Germany is small (as it was already only 20% in 1971 according to Fackler 1971). Only the bigger wholesale markets in the country also deal in meat and fish products. Ten of the German wholesale markets have joined in an Association of Promotion of the Interests of German Wholesale Markets.[1] The three biggest wholesale markets in the country are located in Hamburg, Munich and Stuttgart. Table 1 gives general indicators on their activity.

Table 1. Activity Figures for the Three Biggest Wholesale Markets in Germany

	Hamburg	**Munich**	**Stuttgart**
Land area	**26.8ha**	**30ha**	**17ha**
Type of products sold	Fresh produce, flowers	Fresh produce, flowers	Fresh produce, flowers, potted plants
Number of firms	290	270	440
Number of registered customers	4,895	n.a.	4,000
Volumes traded per year	754,000 tonnes (2001, -7% from 2000)	1,000,000 tonnes	490,000 tonnes
Throughput per year	840 million EUR (2001, -3% from 2000)	700-850 million EUR	500 million EUR
Other information	Logistics and service centre for sale & distribution of goods, Prices in market are used as national price indices	HACCP and ISO certifications currently being applied for	97% of products transported by road, only 3% by rail

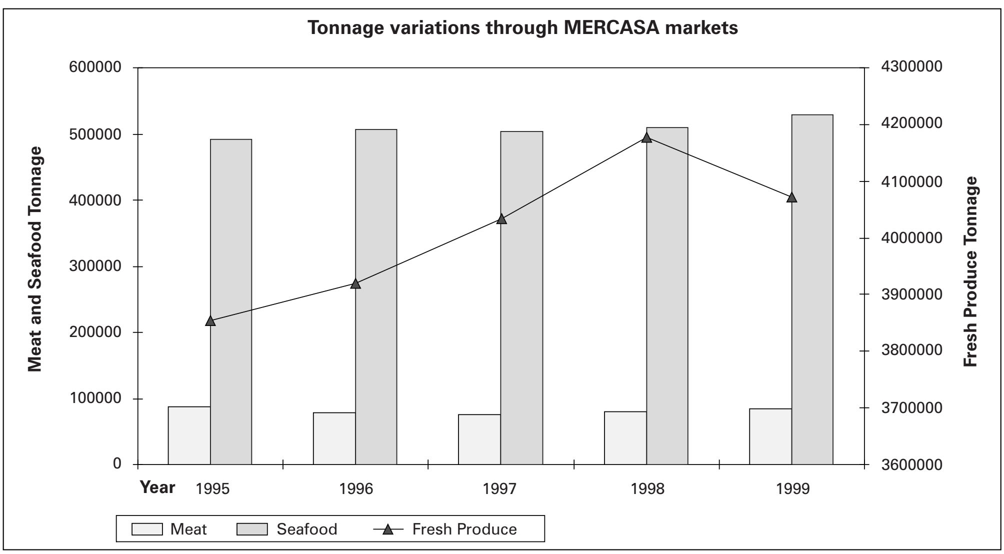
Sources: www.grossmarkt-hamburg.de, www.muenchen.de/grossmarkt/grma/index.html and www.grossmarkt-stuttgart.com.

1 Centre for Food Chain Research, Department of Agricultural Sciences, Imperial College London, Discussion Paper No. 2, January 2003.

However, there is no single management model of wholesale markets in the country: some are owned by city councils, some are joint companies between city council and traders, some are companies belonging to the traders of the market, others are owned by co-operatives of traders. As there is no national network of wholesale markets as such, there are no official figures of trade done by this sector. However, some figures can be estimated from the information made available by the leading individual markets.

In Spain, the network of 22 wholesale markets sell mainly fresh produce, but some markets in the network also trade fish, flowers and meat. These markets cover a total of over 700 ha of land area, of which 100 ha is wholesale trading space. Around 3,600 companies including 2,600 wholesale firms work in this network and the markets are visited by more than 16 million vehicles per year, which is equivalent to around 44,000 cars per day. MERCASA estimates that 65% of the fruits and vegetables that are consumed in Spain are channelled through the wholesale markets, and 55% of fish and seafood. The figures rise to 85% and 95%, respectively, when considering consumption in the major urban areas nearest each terminal wholesale market in the network (Trueba 1999: 434, MERCASA web site). Figure 1 below shows the variation of sales in volume going through the MERCASA network.[2]

Figure 1. Variation of Sales in Volume of Meat, Seafood and Fresh Produce Arriving on the Spanish MERCASA Network of Markets



Source: www.mercasa.es.

[2] Centre for Food Chain Research, Department…

As markets have changed, so too have the methods of product handling and marketing. Mechanized handling, bulk bins, prepackaging and sophisticated credit systems are all part of most modern wholesale markets. The sales system where farmers sold directly to households changed to one where wholesalers acting as either commission agents or private-treaty merchants assembled the produce and sold to retailers and major institutional buyers. In some markets an auction-based transaction system was introduced and developed. With the growth of improved transport and storage systems has come a growth in brokerage sales. Brokers, often located inside central markets, may arrange sales with deliveries being made direct to storage operated by supermarket chains, often outside the central wholesale markets.

Other wholesalers now specialize as marketing agents for large producers or groups of producers, arranging packaging, labeling, product brand, and promotion and sales on a contracted basis. Some wholesalers act as purchasing agents for large buyers including supermarket groups.

Along with changes in market roles, product mix and the type of wholesaling, there has often been a change in location. The traditional location of wholesale markets in inner-city areas in many cities is no longer appropriate. The need for larger facilities able to accommodate large transport vehicles and to avoid problems of traffic congestion, sanitation and noise pollution have forced many markets to shift to areas on the outskirts of cities.

While the traditional central wholesale market continues to play an important role in many countries, some have expanded to become terminal wholesale markets, such as those in major cities of the USA and Japan. In Latin America they have expanded to become Centrales de Abastos (CA, food centers). In France, Marches d'int?ret national (MIN, Markets of national interest) and in Spain, Unidades Alimentarias (UA) have developed.

These large food supply complexes are located on the outskirts of key cities, combining a fruit and vegetable wholesale market with facilities for other foods and flowers. In addition, they have facilities for processing, grading and packaging, and excellent communication facilities. The whole complex is usually managed as a single unit. Because of the high investments involved, most of these facilities have been built by a municipality, provincial or national government, or often a combination of all three.

Some of the largest new market complexes have been built by private enterprise with government-backed finance or other support. In developed economies there have been very few new markets constructed in recent years. In the United Kingdom it is now estimated that up to 75 percent of all traded fruit and vegetables bypass wholesale markets. However, some of the transactions for this produce are actually arranged by wholesalers based in wholesale markets. Produce is often delivered directly from farmers or field-based packing houses to supermarkets, which have developed their own merchandising/distribution complexes. Modern wholesale markets will continue to be required in developing countries, transition economies and a large number of developed economies in the foreseeable future. The extent to which they will survive in some developed countries will depend on their capacity to adapt to changes towards increased economic concentration in food retailing in the hands of a relatively small number of supermarket chains.[3]

Additionally, changes will be required to meet changes in land use in inner-city areas, a wider range of commodities available year round, the development of export and import businesses, and the growth of specialty retail shops, bulk handling and prepackaging for retail sale. A rapidly expanding restaurant demand, as more and more people eat out, and a growing awareness by consumers of what constitutes healthy food are also factors influencing demand for markets. Markets today must meet specific requirements for a wide variety of market users, including farmers, cooperatives, packing houses, specialty and general retailers, supermarkets, secondary wholesalers, institutional buyers (e.g. the army), large restaurants, hotels and retail food outlets (e.g. food chains), importers and exporters, as well as transport operators, banks and other businesses.

Creation of Effective Pricing Mechanisms and Market Information

Wholesale markets and more particularly the newer food supply centers provide an environment, through the concentration of supply and demand, for effective price formation, with open competition and transparency. The simultaneous presence of available produce, buyers and sellers in a single place helps to ensure that prices paid and received are realistic and fair at all times. The newer wholesale markets with better facilities and more space for handling large volumes afford better scope for transparent market operations. This concentration of supply and the concentration of demand represented through wholesalers by buyers, especially retail chain stores, is of considerable importance in developing countries. It is perhaps even more important in economies, which are in transition (i.e. countries which were previously under a centrally planned system). In these countries the pricing process was not developed as prices were established by administrative decisions. Concentration of supply was brought about by production

3 Wholesale Market Management – Policy, legal and instructional aspects Central European Initiative http://www.ceiwmfoundation.org/index.html.

from large state production units. The impact of the lack of wholesale market facilities became dramatically evident when state food production, storage and distribution systems disappeared. In developed market economies, the assembly of large volumes of food supplies is guaranteed through large farm enterprises or through smaller farmers acting together cooperatively.

The prices paid and received for produce traded in the market and the quantities of produce traded (by production area and commodity item) is important information for the community. Farmers can base planting and selling decisions on this market information, and government support services can plan extension and research programmes. Minimum, maximum, and most-frequent sales prices are often gathered and quoted. Market reports, to be effective, should be widely distributed to producers, wholesalers, retailers, consumers, government agencies and the general public. Publication of price and quantity information in newspapers, on radio, television, e-mail and market notice boards are all essential to ensure timely and effective distribution to interested market users.[4]

Wholesale markets should be linked closely with farmers and markets throughout the country and with international markets. The capacity to supply parking facilities for vehicles, air and freight services, together with telephone, fax, and e-mail facilities, as well as timely market quantity and price information, is an essential part of ensuring the integration of a wholesale market with other markets.

Market managers need to recognize and understand the particular role their market is expected to play in the economy at any point in time. They must be aware of the changes taking place in the society (e.g. privatization of government enterprises) being served by the particular market and the likely impact of these changes on retail distribution and sales, and subsequently on wholesalers. As already indicated, this could require major changes such as a shift in location to more appropriate facilities, changes to the produce range traded, different approaches to wholesaling, product handling, transport, storage, packaging, and all aspects of sales and distribution. It may require changes to quality standards and their administration, to the way market quantities and prices are recorded and used, and to the support services required in the market.

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Ways of Motivating Employees in Poland

Personnel policy plays an increasing role in companies'operation. Human resources influence a company's capacity to achieve competitive advantage. They provide a way to ensure, that the company implements its strategy, and the needs of its employees are satisfied. Hence, the main objective of personnel policy is to employ the best people, who will implement company goals, and to keep them in the organisation for as long as possible.

If the employees are to implement the specified goals and be committed to their work, their needs must be satisfied. Since individual employees have individual needs, motivation tools should correspond with an employee's attitude.

In order to motivate effectively, a manager ought to use a wide range of motivation tools. Incentives can be divided into material and non-material. The material tools include: basic pay, bonuses and rewards, as well as material benefits. The non-material tools include: opportunities for personal development, promotion, appreciation, good working conditions, secure working environment and image of the organisation.

The basic pay is a motivation tool providing encouragement for employees, regardless of their performance. In order for this incentive to be effective, it has to be fair. An employee needs to feel, that they are fairly remunerated for their work input, and in comparison with other employees. Determining the basic pay should involve consideration for the employee's competence, complexity of their tasks, and effects of their work.

A bonus should be granted to employees, if they, their work team, or the entire organisation fulfil specified tasks. Bonuses can be effective motivation tools if employees know and approve the criteria for granting them, and if those criteria are indeed fulfilled. Value of a bonus should amount to between 10% and 30% of the basic pay. A bonus should be granted every three months.

Rewards are to be granted to employees, who particularly contributed to implementation of goals of the organisation. The employees must be aware of the possibility to achieve the reward, and what it is to be granted for. Rewards are a strong motivation tool if:

– they are connected with a significant achievement,

– they are high enough to constitute a real value to the rewarded employee, at least 100% of the basic pay,
– they are rarely granted, and to no more than approximately 5% of the staff per year,
– there is a general perception that they are granted fairly.

The objective of granting material benefits is raising quality of living of employees. The benefits include:

– a company car, which can be used for private purposes,
– providing or covering cost of accommodation,
– low interest loans towards purchasing a flat, or towards repayment of mortgage,
– low interest loans towards purposes other than housing,
– free access to sports or social facilities.

Companies should use a "cafeteria" system of remuneration, which allows for an individual choice of methods of motivating employees. The system provides tools to better satisfy needs of employees. The procedure involves the employees choosing the material benefits, which best suit their needs, from a provided list.

Employees want to improve their qualifications and gain new skills. Therefore, they would like the organisation that employs them to facilitate their professional development. Three times a year an employee should participate in training courses organised by the employer, and they should have a possibility to apply for partial refund of costs of their individual efforts to raise qualifications. The employer should not cover 100% of costs connected with individual training; depending on the financial condition of the company refunds should amount to 50 to 80% of expenses.

Every employee needs to feel satisfaction from their work; therefore employees ought to be involved in operation of their company. They should be actors rather than supernumeraries who simply carry out tasks strictly appointed by their superior. Every employee should be able to develop within the company. A highly qualified employee will work within their organisation for as long as they feel they have space for development. Therefore, every employee should have a clearly defined career path. They should know what opportunities for promotion they have within the organisation, what requirements they should fulfil in order to be promoted, and they should approve of those requirements. Also, they should have a mentor, who will support them in their carrier path and solve all work related problems.

Companies should form task teams responsible for implementation of specified goals. Employees operating as team members are more self-dependent and responsible for their work, and therefore more motivated.

A company should nurture an atmosphere of co-operation, since such climate facilitates better implementation of company's objectives and fulfilment of the employees' personal goals. The employees are more committed to their work.

Appreciation of employees' achievements is an effective tool of motivation. A manager should praise an employee for specified achievements. Expressing appreciation is a sign, that the employee is well regarded, which mobilises them to a better work.

Employees need good conditions for work. Their workplace should be modern and well equipped. It should support them in their efforts to carry out their tasks. A manager who is concerned about conditions in which their subordinates work is seen in a positive light, and their expectations are more likely to be met.

A manager should ensure their employees' safety. Employees who notice the manager's care are more loyal towards their superior.

Organisation itself can be a strong tool of motivation. The way the organisation is perceived externally, and the way it is managed, can positively or negatively influence the motivation of its employees. If the organisation is well managed, successful and well perceived outside, the employees are happy to work for such a company and gain prestige in their social environment, which raises their level of motivation.

An employee is motivated to work if their goals are unequivocally defined. They should be appointed with the employee's participation, and possible to achieve. The company goals should, at least to a certain extent be identical with personal goals of the employee. The implementation of goals should be supervised and evaluated by the superiors.

During the research[1] of methods of motivating employees in companies operating in Poland a particular attention was paid to the role of employees in companies, to their opportunities to develop and raise qualifications, to motivation tools employed, to the manner in which goals are set, and the organisational climate.

The results of the research were as follows:

Role of Employees

54.3% of the respondents see the role of employees as "actors" influencing operation of their company. Only 13.7% of this group of respondents work in state-owned

[1] The research was conducted in September and October 2003. The survey was conducted among 81 companies, of which 12 were state-owned, 25 were private, owned 100% by Polish capital, 22 were private with 100% of foreign capital and 19 were owned by mixed capital. As far as the legal and organisational form is concerned, most of the companies were either limited companies or join-stock companies. The respondents represented mainly production and service firms.

companies, the rest represent private firms – foreign (27.5%), Polish (22.7%) and mixed (22.7%). Employees are regarded as “actors” mainly in companies employing over 100 people (41.0%).

A “supernumerary” type of employees dominates in private companies owned by Polish capital (40.7%). The distribution of “actors” and “supernumeraries” is more or less equal in the production branch, as it is in services.

Career Path

To the question concerning existence of clearly defined paths of career only 37% of the respondents gave positive answers, 58% were negative, and 4.9% could not decide. The solution in question is applied in all types of companies; there is no principle that could link the solution to a particular kind of company (the distribution of positive answers in each group was more or less the same). A clear career path can be observed more often in services than in production companies.

Mentoring

Mentoring, as a way of supporting development of employees, is used by 32.1% of researched companies. It is used by only two of the state owned companies, and the distribution of answers in the remaining groups of respondents is more or less the same.

Tools of Motivation

54.3% of companies use a combination of different material and non-material motivation tools. 48.1% of respondents use only the material incentives.

In 25% of companies the basic pay constitutes the only motivation tool. 48.1% of the respondents stated, that the main factor influencing the pay in their firms are the effects of work. 22.2% answered, that the dominating factor is the level of difficulty of tasks to be performed. 19.8% of respondents indicated, that pay was significantly dependent upon social liaisons.

The most frequent motivation tool besides basic pay is a bonus. According to the respondents it is used by 84% of researched companies. The question about frequency of bonus payments was mostly answered as “monthly” (45.2% of companies), 29% of firms pay annual bonuses, and 25.8% semi-annual. Most companies (67.5%) pay bonuses of up to 20% of basic pay, 14.9% of 21% to 30%. 17.6% use bonuses of over 30% of the basic pay.

The third most frequently applied motivation tools are financial rewards (usually used in connection with other tools, only in one case the rewards were the only method apart from the basic pay). 72.8% of the researched firms use rewards according to the recommendations. In 65.5% companies awards amount to up to 30% of the basic pay. In 18.2% the awards were valued as 31–70% of pay. Rewards of 71–100% of the basic pay are granted in 9.1% of the researched companies. Only 7.3% of the companies pay rewards exceeding the basic pay. Most companies (60.3%) grant rewards annually, 20.7% – semi-annually, 10.3% quarterly, and 8.6% monthly. Most of the companies (52.5) grant rewards to a small proportion of employees (up to 5% of the total number of the company's staff). In 25.4% of researched firms rewards are paid to 6% to 30% of employees, and in 13.6% of the firms rewards are paid to 81% to 100% of the staff.

Of the non-material motivation tools, the most popular are "good conditions of work" (29.6%) and "appreciation" (28.4%), supplementing the system of motivation.

In 22.2% of the researched companies a company car is the method of motivation, in 21% of the companies it is the company image, in 19.8% access to free sports facilities, in 14.8% providing security to the employees, in 11% low-interest loans. The remaining motivation tools are used in an insignificant number of firms.

The "cafeteria" system of remuneration is used in just 6.2% of the researched companies.

Training

75.3% of the respondents answered the question concerning training. It can be assumed, that a lack of answer signifies, that no training is provided to members of staff, which means that 24.7% of the researched companies do not organise any training. In 31.6% of the companies training is provided once a year, in 27.8% twice a year, in 17.8% more frequently. In 20.5% of firms 100% of costs of training is covered by the employer, while in as many as 48.7% of the researched companies the entire cost of training is covered by the employees. 23.1% of the researched firms cover from 99 to 50% of the cost of training.

Setting Goals

In 67.1% of the researched firms goals are defined in an unequivocal manner, although in 44.6% of companies the employees participate in the process of defining. In 74% the goals are possible to be achieved.

17.7% of the respondents consider goals to be inexplicitly defined.

10.1% of the surveyed reckons, that goals are not formulated at all, they do not participate in the goal-setting procedure and they consider the goals impossible to achieve. Companies owned 100% by Polish capital employ most of those respondents.

In most of the companies surveyed (81.7%) implementation of goals is evaluated by superiors.

Implementation Teams

Task-orientated teams are created in 62% of the researched companies.

Atmosphere

44.4% of the surveyed described the working atmosphere as co-operation friendly, and 28.4% as neutral.

On the basis of the above research the following conclusions concerning companies operating in Poland can be drawn:

- In a large proportion of the researched companies the employees are treated as "supernumeraries", which adversely affects their motivation.
- In most surveyed firms the employees do not have a clearly appointed career path. Only a few of the companies introduced mentoring. All of those problems hinder the employees' possibilities to develop.
- In too few of the researched companies the pay is linked to the effects of work. In some companies social liaisons influence the pay, which is alarming. Seniority is another factor influencing pay. It should not be, since there not necessarily is a correlation between duration of employment and quality of work.
- The researched companies do not apply the "cafeteria" system of remuneration, which makes it difficult to adjust motivation tools to fit individual needs of the employees.
- The most frequently used motivation tools are the basic pay, the bonus and the reward.
- The value of bonuses is too low, since it amounts to up to 20% of pay. Such amount does not motivate employees. Bonuses granted too often make the employees treat them as a part of the basic pay, which makes the tools less motivating.
- Rewards are too low. They do not constitute actual value. They should exceed 100% of the basic pay and be granted to a smaller proportion of the employees. In most of the surveyed firms rewards are granted once or twice a year, which is the right frequency.
- Too small a number of employees participate in training. A large proportion of companies do not contribute financially to the training of their employees.

Such situation may adversely affect the development of staff's competence, which can have serious effects in the economy based on knowledge.

- Companies do not unequivocally set goals. Goals are imposed by superiors. They should be clearly defined with participation from the employees.
- A small number of researched companies organises task teams responsible for implementing specified goals.
- In a small number of companies the organisational climate facilitates co-operation.

The research indicates, that the effectiveness of motivating employees in Poland is limited. In order to improve it the following steps need to be introduced:

- Attitude towards employees needs to be changed. Employees ought to be more self-dependent.
- The right conditions should be created for the employees to develop. They should have a clearly defined path of career, mentors, and access to more training.
- Basic pay ought to depend upon results of work.
- Bonuses and rewards should be used more effectively as motivation tools.
- More emphasis should be put on other kinds of tools, particularly the material and non-material ones. The choice of motivation tools should be individualised by way of introducing the "cafeteria" system of remuneration.
- Goals should be defined unequivocally with participation from the employees.
- Task teams ought to be formed.
- An organisational climate ought to facilitate co-operation.

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Training Needs of Small and Medium Enterprises, and Possibilities of Satisfying those Needs, According to Research

1. Introduction

The necessity for small and medium businesses to increase their participation in the national and global markets requires that they conform with the rules prevailing in those markets. It improves the chances of their competitiveness. Nevertheless, the situation of small and medium businesses is limited by several barriers.

The basic condition for competitiveness and development of small and medium businesses is the creation of structures and mechanisms supporting those businesses in overcoming different types of barriers.

For example, the present tax and financial system does not provide sufficient encouragement to accumulate resources for investment, development and promotion of export. Therefore, it is necessary to act towards reduction of taxes and other fiscal burdens influencing costs of operation of small and medium businesses. One of such actions could be a reduction of the prevailing tax rates by shifting the existing tax exemptions. Depreciation deductions do not ensure renewal of fixed assets, which results, among other effects, in insufficient renewal of production assets, which influences the level of investment.

Conditions of crediting businesses by banks constitute another important barrier for development of small and medium businesses. The necessity to use bank financing by SME, considering the high effective interest rate, often carries the risk of loosing financial solvency, or even bankruptcy. Also, the extent to which small and medium enterprises can access bank credit thoroughly depends on buoyancy of a local financial market.

There is a close connection between the level of indebtedness of small and medium businesses and attractiveness to investors of the region where the firm is localised. The scale of external financing of SME is influenced largely by quality of infrastructure and telecommunication, transport accessibility, absorptiveness of the market and the level of development of business support structures, and advancement of ownership transformation. Therefore, it is necessary to facilitate actions aimed at raising attractiveness of the region for small and medium businesses, especially in the areas where unemployment is high.

Development of the sector of small and medium businesses is hindered by lack of active forms of support for innovativeness, introductive research, production investment, for promotion of handicraft and institutions of business environment, especially at the local and regional level.

Considering the above, there is a problem of choosing the right forms of supporting small and medium businesses, as well as the problem of effectiveness of those forms of support for the development and building of competitive advantages of small and medium companies.

The principle possibilities of overcoming the above barriers are to be looked for in the manner of management, in skills of managers and employees. The main prerequisite for company success seems to be entrepreneurship directed towards creating new values important for the company's future, in conditions of uncertainty and risk. Hence the ever growing expectations from managers and staff members. They have to be creative, inventive and motivated to achieve, willing to look for new, better solutions, and ways of their effective implementation. All this is necessary, due to the increasing complexity and dynamics of changes in business environment.

Human resources, similarly as material and financial ones, require constant development in order to face to the present and the future demands of organisational operation. This development means broadening employees' knowledge and practical skills, which are to support the achievement of corporate objectives. Training is to develop employees' qualifications, facilitate adaptation of new techniques and technologies, and contribute to their better motivation and involvement. Growing awareness of the importance of training among the managing personnel ought to concern not only their own development, but the development of their employees as well.

2. Training Needs of Small and Medium Companies

Training needs of managers of small and medium businesses in the field of raising qualifications have been surveyed in 2003. The research involved 300 small and medium businesses in the Mazovia voivodship (the Warsaw region), and concerned the years 2002–2003. The 10 surveyed councils included: Mokotów, Ursynów, Pruszków, Piaseczno, Radom, Pionki, Żyrardów, Teresin, Ciechanów and Mława. The research involved an identical number of businesses from each of the councils.[1]

[1] Zarządzanie małymi i średnimi przedsiębiorstwami w gospodarce regionów. Collective scientific study edited by Marian Strużycki, Katedra Zarządzania Przedsiębiorstwem SGH, Warszawa 2002, p. 83.

In the researched period, **training needs** of managers showed a **growing trend**. The primary role was played by those connected with implementation of managerial functions, i.e.: communication skills, ability to direct others, decision taking in a risky environment. The managers put less emphasis on individual conditions of performing managerial tasks, such as: coping with stress, or their own time planning.

It seems, that the principle reason for such shape of the managers' training needs were the difficult conditions of running a business in a slow-growing economy. Those conditions could contribute to accumulation of difficulties in performing managerial tasks, which could lead the managers to seek solutions for those difficulties, for example by increasing their skills in certain areas by participation in training courses.

A similar trend can be observed when examining the problem by sections. The larger the firm, both in terms of employment and of turnover, the higher the training needs of managers. In addition, the managers of small and medium businesses in the councils of Żyrardów and Radom were more motivated to raise their qualifications than in the remaining councils.

The basic aim of training is to improve organisation's performance by increasing value of its crucial resources, i.e. its employees. Raising qualifications of staff is to lead to their development, increased involvement, and enriched working environment. Broadening their knowledge and improving skills is to be directly connected with transferring this knowledge and skills into actions testifying employees' entrepreneurial spirit, which translates into entrepreneurship of small and medium businesses.

Employees of the companies surveyed in 2002–2003 took part in **training courses concerning a wide range of topics**. During the above period the small and medium businesses most frequently organised technical training, courses in accounting and finance, and foreign language lessons. There was a growing demand for courses in techniques of sales negotiations, management and marketing. The least popular courses concerned law and administration.

Changes in business environment create new challenges for management of small and medium businesses. A company is to be more flexible, more effective, it is to take into account cultural diversity, and employees' participation in decision making processes. Therefore, apart from technical and professional skills, managers need to possess knowledge concerning management, marketing and negotiations.

It was particularly apparent in firms operating nationally and regionally, operating in production, and employing 50 to 249 personnel. The larger the firm's turnover, the higher the demand and the participation of the staff in training. The councils outstanding in this field included Mokotów, Żyrardów, Mława, Ciechanów and Teresin. Small and medium businesses located in the above councils were most active in staff training.

Small and medium businesses seek appropriate **forms of training** based more on co-operation and tailor-made for individual corporate characteristics.

Two types of training can be identified according to the objective:

- **problem training** – connected with existing current problems, and those, which can occur in the future. There can be a need to broaden skills and knowledge in order to meet future demands;
- **action – orientated training** – its objective is to increase employees' activity by teaching them to better fulfil their existing- and learn to perform new tasks.

The philosophy of result-related training means a close connection between training and requirements towards particular effects (results) and competence, e.g. after an introduction of a new product or a new technology. Connected with it is the choice of a right **training method**.

The research indicates, that by far the most preferred training method in small and medium businesses in the Mazovia voivodship in the years 2002–2003 was **specialist training**, and the least preferred – **economic simulation**.

Specialist training is precise presentation of the scope of routine operation at a particular post. This type of training is addressed mainly to new employees, or in case an employee is moved to a different position, or when their scope of responsibilities is modified. The technique most often assumes the form of a written instruction, a strictly appointed procedure. It is a cheap method and it corresponds with requirements concerning a particular workstation.

The fact that this method is so frequently used by small and medium businesses can mean, that the employment in those firms often fluctuates, employees are often moved from post to post, and the organisational structure of the firm often changes.

Meanwhile, it is the simulation methods, underestimated in small and medium enterprises, that stimulate innovative behaviour, involvement, facilitate communication and develop decision-making skills.

Methods such as **coaching, sponsoring and mentoring** were used as well, however to a small extent. Application of those methods contributes most to increasing efficiency and effectiveness of operation of their participants, by, for example, internalisation of employees' personal goals with the objectives of the firm.

This lack of diversification of training methods used by small and medium businesses makes assessment of their effectiveness difficult. It is apparent in small and medium companies examined according to specified criteria too. This is probably a result of expenses on training, and their limited level, since SME usually do not posses high training budgets, and therefore are not willing to carry high individual costs of training. Such costs are mostly connected with external methods of training. Therefore it is important that local authorities provide assistance in this area for small and medium businesses.

According to the research, a half of the examined councils organised, or assisted organisation of training aimed at raising qualifications of employees. Those councils were: Ursynów, Mokotów, Radom, Żyrardów, Ciechanów and Mława. Of the above councils only the one in Radom financed or co-financed qualification raising training for employees. Additionally, three councils – Ursynów, Mokotów and Żyrardów – financed or co-financed training facilitating opening of new firms. The councils: Mokotów, Radom, Pionki and Żyrardów financed or co-financed courses on how to run a company. Unfortunately, not all the councils which confirmed their activity in this field, actually presented data concerning their expenses, therefore it is only possible to outline the scale of the problem.

Training for small and medium businesses ought to be seen as a continuous, planned process, in order to promote consistent development of managers and employees, to develop their particular attitudes, expressed in practice by their entrepreneurship.

Setting objectives of training courses is their important element. The objective is to precisely appoint what is to be achieved, what the trainees ought to know and be able to do after the course is finished. Therefore, it is important to establish the following:[2]

- **results** – i.e. all that a trainee ought to be able to perform or know after the end of the training course;
- **conditions** – i.e. the manner in which the trainees can prove their knowledge, and the time necessary to achieve the results of training;
- **standards** – i.e. norms that have to be fulfilled in order to recognise the new competence.

The main objective of training is aiding the organisation in carrying out its tasks by increasing the value of its most valuable resources, i.e. its employees. Training is investment in people, it enables them to achieve better results and use their talents to the full extent. Therefore, training aims at:[3]

- increasing scope of competence of employees and enabling them to achieve better results;
- helping employees to develop within the organisation, so that the organisation can satisfy its personnel needs internally;

[2] L. Rea, Planowanie i projektowanie szkoleń, Dom Wydawniczy ABC, Warszawa 1999, p. 86.
[3] M. Armstrong, Zarządzanie zasobami ludzkimi, Dom Wydawniczy ABC, Kraków 2000, p. 448.

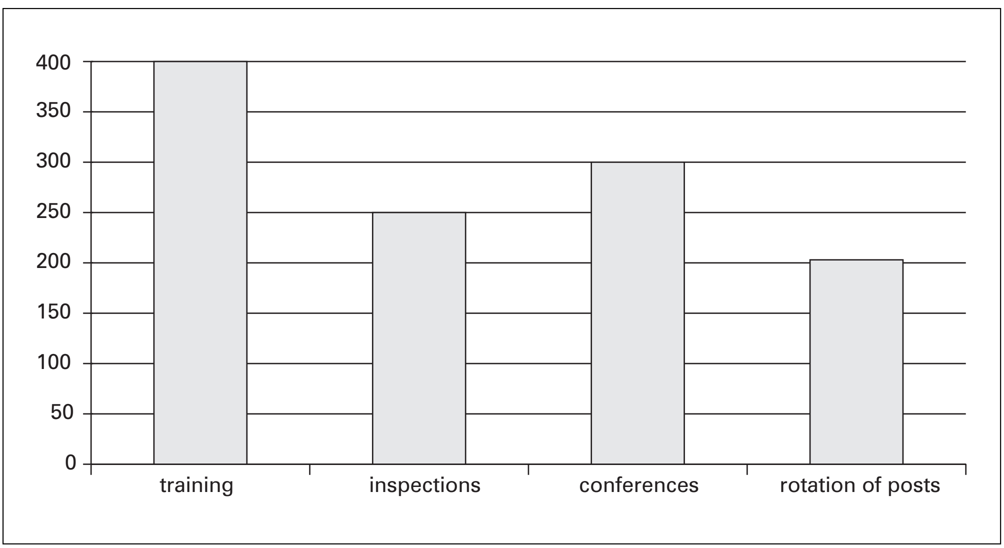
– reducing the time necessary to prepare new, or newly appointed employees and to ensure they became competent in the shortest necessary time and in the most economic manner.

3. Possibilities of Meeting Training Needs

The market of training services is a sector crucial for dynamic economic growth. It generates new competence, raises management standards in companies, and effectively improves efficiency of the entire economy. At the time of growing importance of intellectual capital over material one, the training market possesses an enormous potential. Almost 80% of managerial personnel positively declare a need to improve their qualifications. The value of training market in Poland is estimated at USD 170 million, although it is still far from the size of Western markets. Nevertheless, many factors indicate, that it is going to develop equally dynamically.[4]

The market of training services in Poland has been developing stimulated by the growing demand for this form of services. Training is a form of professional development preferred by both employers, and employees.

Figure 1. Preferred Forms of Personal Development



Source: U. Feliniak, I. Kołodziejczyk-Olczyk, Blaski i cienie zarządzania szkoleniami (2), „Personel" 2002, No. 9, p. 41.

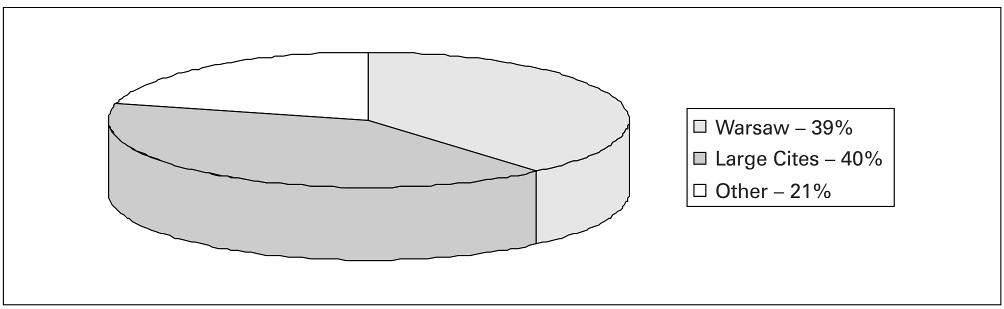
[4] Report: Training services market, „Personel i Zarządzanie", 2001, No. 4, p. 14.

The offer of training companies operating in the Polish market is getting more and more diverse, and at the same time companies possess more and more data enabling them to choose the right training company. Depending on the size of training budget, it is possible to choose between dozens of firms offering interesting training subjects, of different scope and location of operation, training staff, and income to-date. However, this data is but an indication, which needs to be considered if the right choice of effective training is to be made.

The research conducted in August and September 2001 on a group of 369 respondent training firms indicates, that the most training companies operate in Warsaw and its vicinity – 39%. Further 40% operate in other large cities (i.e. Gdańsk-Gdynia-Sopot, Kraków, Poznań, Wrocław, Łódź, Lublin), and the remaining 21% in other parts of the country.

The training market in Poland is young. The research indicates, that 13% of the training companies were created in 1989, and 29% were founded during the first years of transformation. The largest group of 32% is constituted by companies created in the years 1994–1997 and the youngest, created after 1998, which constitute 26%.[5]

Figure 2. Location of Training Firms in Poland



Source: Report: Training services market, „Personel i Zarządzanie", 2001, No. 4, p. 14.

Scope of operation of a training firm depends on its size. Large companies apparently concentrate on four main areas of training: management, sales and marketing, interpersonal training and computing. The strategy of narrow specialisation and advisory operation assumed by almost every second training company of this group, allows to take-over a larger proportion of the market. Those firms service almost 70% of all clients. Medium-sized training companies offer a more diverse range of topics. Although most of medium and small training companies declare conducting advisory operation concerning broadly understood

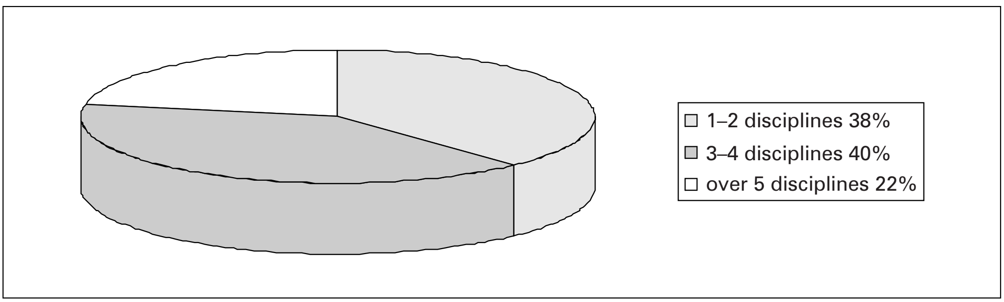
[5] Report: Training services market, „Personel i Zarządzanie", 2001, No. 4, p. 16.

company management, they are employed mainly to conduct technical and professional consulting.

Training companies must face not only the market competition, but the changing expectations of their client as well.

The most frequent topics of training courses on offer are general management subjects (organisation, control), offered by as many as 76% of the interviewed companies. The next most popular area are personal skills – 71%, and sales – 65%. They are followed by marketing, accounting and finance, computing, law and administration, production, quality control, technical training and foreign languages. Specialisation of training companies in Poland is rather diverse. 38% of researched firms specialises in one or two subjects. The following 40% specialises in 3–4 disciplines, and 22% trains in over 5 subjects. A large number of disciplines may signify a solid background of the training firm.[6]

Figure 3. Specialisation of Training Companies According to Disciplines



Source: Report: Training services market, „Personel i Zarządzanie", 2001, No. 4, p. 20.

What then are the factors influencing a decision to choose a particular training company to conduct training, and what is the motivation of clients during selection of offers? The choice is made primarily on the basis of best compatibility with client's needs, both in terms of topic, and of factors indicating good co-operation with the training company. Another good indicator can be a high number of trainers, which allows for simultaneous training of several groups of employees, or flexibility during the process of negotiating the contract.

The surveyed companies indicate, that quality of training is secured by an experienced trainer, who knows the specifics of the branch in which their clients operate. Other factors are: usefulness and professionalism of materials prepared for the course, using modern and effective training methods, and as far as training company is concerned – experience in conducting training on a similar subject

[6] Report: Training services market, „Personel i Zarządzanie" 2001, No. 4, p. 20.

for other clients, as well as accessible prices and providing consultation concerning the choice of courses. Demands of clients get higher, in spite of shrinking training budgets and reduction of expenses. Customers expect to implement high quality training projects at limited prices.

The answer to needs of companies, including small and medium ones, is the continuous emergence of new training firms providing and increasing range of training services. Training companies must focus on quality of programmes they offer, since it is an important, if not the most important, condition necessary to succeed in the market during the growing demand for training services. Another very important aspect is a tightening bond between clients and trainers, which means that training companies, or at least the best of them, became advisory firms.

4. Summary

Training facilitates development of a company and its employees. It is connected with raising qualifications and increasing employees' capacity to cope with the ever-changing conditions in the workplace. Training positively contributes to communicating the appropriate values and norms to employees. The following benefits deriving from training are quoted:[7]

- training facilitates faster accommodation to demands of a particular job. Improving skills and broadening knowledge helps employees avoid mistakes, improve quality and quantity of results. Improving qualifications can lead to better work, which is beneficial to both employees, and employers;
- training is a particularly valuable process in companies introducing changes. Training can be used as a part of the process of managing change. The objective of such programme is to help employees understand the necessity for change and the benefits deriving from it;
- training is important in terms of the relationship between a company and the job market. It participates in communicating information about qualities and qualifications required by companies from their employees;
- training is beneficial as far as fluctuations of personnel are concerned. A company investing in training its employees reduces the cost of recruitment;
- training constitutes a motivating element. It is perceived as a reward to best employees. The motivating role of training is expressed by connecting new skills and knowledge with a higher rank and higher financial gratification;

[7] E. McKenna, N. Beech, Zarządzanie zasobami ludzkimi. Gebethner & Ska, Warszawa 1997, p. 200.

- training supports employees' identification with their organisation. By proper training an employee can gain better understanding of the mission and the objectives of their company, and effectively increase their involvement;
- training focusing on introduction of particular management techniques can lead to additional positive effects, such as creating skills connected with analysis, problem solving or decision-making.

Benefits derived from training are identified with the success of training programmes.

In spite of many positive aspects of training courses, a company ought to be aware of certain limitations, which might influence not only the design of a training programme, but also the general decision about whether to undertake training. Those limitations include situations, such as, for example:[8]

- impossibility to identify training needs concerning skills and knowledge in the present and the future situation of the firm;
- excessive dependence upon local and national job markets;
- unfair taking-over of key employees by other firms (a reaction to lack of qualified workforce).

In spite of those limitations, human resources require constant development in order to cope with the present and the future demands of operation, especially in the case of small and medium businesses in the increasingly competitive market. Supporting development of employees by creating conditions for improving their qualifications, so that they meet the present and the future requirements of work processes, constitutes and important subject of management in companies of this type. Nevertheless, the final effect of this operation depends on individual participation of each of the employees, who consciously direct their development by recognising their own strong and weak points, considering their needs and system of values, analysing their own results and conducting constant self-development. It is in this environment, that the special role of motivating employees for professional development is particularly important.

Development of employees of small and medium businesses is possible by their training by specialised training companies, which adapt their services, the amount and quality of those services, to the requirements of clients. Consequently, it is possible to maintain an appropriate standard of work, or to raise it, to increase flexibility in managing human resources, to ensure faster adaptation of new techniques and technologies and to improve management skills, as well as to stimulate motivation and involvement of employees.

[8] E. McKenna, N. Beech, Zarządzanie zasobami ludzkimi. Gebethner & Ska, Warszawa 1997, p. 202.

Available topics of training can satisfy both the needs of managers, and of employees. Managers of small businesses are trained mostly to improve skills, usually creative and inter-personal, which are required from people in managerial positions. Training of employees provides them with technical skills, necessary to fulfil everyday tasks.

Information, knowledge and creativity become an increasingly important source of competitive advantages of companies. Small and medium businesses are aware of it, and so are training companies.

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Assessment of Adjusting the Public Transport in Poland to the Needs of Handicapped Persons

1. Introduction

As a result of the decision of the Council of the European Union of 2003 on the enlargement of the Union by the next 10 countries and the positive result of the referendum carried out in Poland in June 2003 on the wish to access the European Union, Poland is the member of enlarged European Union from May 01, 2004. So that, it is located on the civilised area where from many years legal and technical solutions friendly to the handicapped have been systematically introduced. The moment of Poland's entry to the family of member states of the European Union is perceived is a turning point in an economic and social development of our country. It is well known that after a long period of post-war centralised economy as a result of the political revolution of 1989 a freedom of running the business activity has been introduced and change of the structure of the economy has been declared. During the last 15 years the policy of transformation of the economy into a market one and democratisation of the social life has been realised. The process of transformation has not run without social costs. The most important are the unemployment rate reaching 20% at the half of 2003 and deepening differences between the regions of the country. By introduction of the principles of the market economy and conducted economic policy the Polish society wishes to be closer to the standards existing in many fields of life in the European Union countries.

From the moment of getting the status of the associated state in 1994[1] Poland in a performed in the last decade economic and social policy gived priority to the preparations to the accession which is its strategic goal. So, it is worth to balance the state of preparations in the legislative sphere and assess the range of introduced in transport practice the technical solutions facilitating movement of the handicapped persons in Poland.

[1] The European Treaty creating association between Poland and the European Communities and their member states was signed in Brussels on December 16, 1991. It entered into force only on February 01, 1994. Only its trade part inform of so called transitional treaty entered into force on March 01, 1992 what allowed to perform the provisions in trade from the date of the transitional treaty.

The aim of the author is to carry out an analysis and assessment of the actions being performed for the benefit of the handicapped persons in transport sector in Poland. The transport and architectural barriers are according to the research one of the biggest difficulties of life of the handicapped persons. From the point of view of transport, the handicapped persons include blind persons and deaf-mute, using wheelchairs, persons aided in movement by special equipment as crutches, sticks, artificial limbs etc., as well as pregnant woman, persons with a baby on hand or in a baby carriage and elderly people.

2. Characteristics of Disabled People in Poland

For survey of population of disabled people in Poland different methods can be used (f. ex. interview survey of the health condition or business activity of the Polish population and unemployment) but the best information and the most updated data about this population can be found in the results of 2002 General Census of Population and Households done by the Central Statistical Office (GUS). It is worth mentioning that Poland is one of rare countries in the world in which survey of disability of population is an element included in the National Census of Population and Households[2] (GUS, p. 23). It must be also noted that disability (in previous censuses defined as invalids) was surveyed for the first time in Poland in census done in 1921. In the last Census it was stated that disabled person was such a person that had an appropriate certificate issued by the authorized organ or a person that such a certificate hasn't got but felt limitations in performing basic living skills for its age (entertainment, education, work, self-service) (GUS p. 15).

The results of the last Census show that in 2002 the number of disabled people in Poland was 5,456.7 thousand persons i.e. 14.3% of total country population. An increasing tendency of this population is important as between 1988–2002 Censuses the number of disabled people increased by 1,721.2 thousand persons i.e. by 46.1%. Due to kept coherent methodology in separate Censuses, it was possible to compare their results in that specifying the growth rate of the population of disabled people in Poland. It is worth underlying that in the period of 25 years which elapsed between three consecutive Censuses (1978, 1988, 2002), this population has doubled. It means that in 1978 only one in fourteen inhabitant of Poland was disabled, in 1988 already one in ten and 2002 one in seven was a disabled person. Such a big growth rate of the population of disabled

[2] GUS, Disabled persons and their households. 2002, Part I, Disabled persons, Warsaw, October 2003, p. 23.

people in Poland in last decades (keeping up the comparability of the criterion of qualifying to this group) is a very important factor for development of activities for full integration of these persons with the society.

Table 1. Total Population and Disabled People at the Age of 13 and Over and Their Structure by Gender and Educational Level

Educational level	Total population			Disabled people		
	total	males	females	total	males	females
	in thousand					
Total	32,435.4	15,549.4	16,886.0	5,307.7	2,484.2	2,825.2
Higher	3,203.6	1,448.1	1,755.5	244.5	140.6	103.9
Secondary and over	10,208.4	4,290.0	5,918.4	1,224.2	546.4	677.8
Vocational school	7,539.8	4,678.9	2,860.9	1,156.4	730.6	425.8
Primary finished	9,651.9	4,349.7	5,302.1	2,239.7	910.9	1328.8
Others	1,831.8	782.7	1,049.1	442.8	153.8	289.0
	in percent					
Total	100.0	100.0	100.0	100.0	100.0	100.0
Higher	9.9	9.3	10.4	4.6	5.7	3.7
Secondary and over	31.5	27.6	35.0	23.1	22.0	24.0
Vocational school	23.2	30.1	16.9	21.8	29.4	15.1
Primary finished	29.8	28.0	31.4	42.2	36.7	47.0
Others	5.6	5.0	6.2	8.3	6.2	10.2

Source: GUS – National Census. Disabled people and their households. Part 1 Disabled people, Warsaw 2003, p. 30.

The transport service due to varied needs of different groups being the population of handicapped (blind persons, deaf-mute, mental handicapped, using wheelchairs, persons with temporary moving limitations, or at last elderly persons) should assure solutions enabling movement of all the passengers. The structure of the transport needs of handicapped persons still varies from the structure of rides realized by an average passenger in Poland and it comes from still existing limitations in performing daily living needs of disabled people in that education and work. From this point of view it is worth to present the basic data on the educational level, employment and unemployment[3] among disabled persons on the background of data concerning the whole Poland's population. This information allows to assess existing in Poland possibilities of education and work for the disabled thus access to basic forms of professional activities of people in appropriate age range. It must be underlined that in the period between 1988–2002 Censuses (which includes the transformation period) the educational level of population in Poland has grown very dynamically. Similarly, as in the case of total population, an average educational level of disabled people has also substantially increased

[3] GUS, *op. cit.*, p. 30.

for the same period. There is still, however, unfavorable for the disabled difference between their educational level and the education of the total population what is shown in Table 1. Comparison of the percentage structure for the total population and the disabled people according to the educational level brings a conclusion that the level of education of disabled people in Poland is generally much lower.

The most important kind of activity of matured people is work. Lower professional activity of disabled people is a natural consequence of health problem of this group of the society. Work is needed for the disabled people not only as a source of earning money but it is recommended first of all as a form of rehabilitation and necessary for self-reliance. In spite of incentives and programs aimed at professional activation of disabled people the growth of the number of people with disabilities earning for their living is small (from almost 6% in 1988 to 7.7% in 2002). Most of disabled i.e. 84.4% has non-work incomes (i.e. pensions, disability pensions and different kinds of benefits). Intensity of professional activity in a given group of population shows a coefficient defining the share of persons professionally active in population in the age of 15 and over. It is worth to compare the coefficients of professional activity of the total population and disabled one in years 1988 and 2002 what enables us the data from the consecutive Censuses shown in Table 2.

Table 2. Coefficients of Professional Activity of the Total Population and Disabled one by Gender and Residence in Years 1988 and 2002

Description	Total population		Disabled persons	
	1988	2002	1988	2002
Total	65.3	55.5	26.4	19.2
– Males	74.3	62.3	34.4	24.7
– Females	57.0	49.2	19.6	14.4
Urban	61.2	55.0	15.9	18.2
Country	71.8	56.3	42.9	20.5

Source: as in Table 1, p. 32.

The level of professional activity of disabled persons was in 2002 almost threefold lower than that for the total population at age 15 and over. The level of unemployment among disabled persons professionally active and among total professionally active Poles was comparable what is shown in Table 3.

Table 3. Unemployed Disabled Persons and Unemployment Rate According to Gender and Residence in Poland

Description	Population at age of 15 & over		Disabled persons at age of 15 & over	
	in thous.	unemployment rate	in thous.	unemployment rate
Total	3,558.2	21.2	206.4	20.4
– Males	1,851.5	20.6	123.0	20.3
– Females	1,706.7	22.0	83.4	20.6
Urban	2,307.5	22.1	160.2	28.3
Country	1,250.7	19.8	46.2	10.4

Source: as in Table 2, p. 33.

Substantially higher unemployment exists among disabled people living in urban areas (for total urban population is 22.1% while for disabled living in urban areas is 28.3%).

3. Assessment of Polish Transport Solutions in Aspect of Needs of Disabled Persons

Shown above the synthetic presentation in numbers of disabled people in Poland on the background of coefficients concerning the whole population is justified by the wish to document that performance of the basic needs of this group of population is still much worse than the averages for the whole population. Unsatisfactorily adjusted and not everywhere accessible for the handicapped transport service system plays an important part in this situation. In spite that activities for elimination of various kinds of barriers were undertaken in Poland over 20 years ago so, the achievements in practice are still unsatisfactory in this field.

The author in a papers published in the past (f.e. at the conference Transed 2001 and 2004), in a synthetic form presented the most important actions performed in transport in Poland for the disabled persons starting from announced by the General Assembly of the United Nations Organization 1981 as the International Year of Disabled People and Handicapped Persons.

It is worth underlying that many acts and recommendations patterned on solutions worked out by the international organisations, in that by the Council of Europe and the UNO, have been introduced successively in the Polish law in 90s. First of all the Constitution of the Republic of Poland of 1997 says in art. 68: "Public authorities give to the handicapped persons, according to the Act, **assistance in assuring existence, preparation to work and social communication**" (Journal of Law – Dz.U. 98 of 1997, item 483).

In 1997, the Diet passed “The Charter of Rights of Handicapped Persons” in which the right of the handicapped persons to free movement and common use of means of public transport was confirmed (Monitor Polski No. 50 of 1997, item 475).

It is worth mentioning the Act of 27th August, 1997 on professional and social rehabilitation and employment of disabled people which has been systematically updated and amended. It regulates still better in a systematic way the tasks of the public and local authorities in social rehabilitation and employment of disabled people in that by eliminating barriers, in particular architectonic, urban, **transport**, technical, in communicating and access to the information (Journal of Law – Dz.U. 1232 of 1997, item 776, art. 9). The legislative solutions are successively adjusted to the solutions adopted in the European Union. Unfortunately, their application in practice and monitoring compatibility of the performance of these solutions with the legal obligations or recommendations coming out of the law are unsatisfactory and there remains a large field for activity. Comparison of the existing solutions for the accessibility to the public transport for the handicapped in Poland and in the European Union countries comes to a conclusion that in Poland we have the elements of adjustment of the public transport but they do not give the system solution creating an integration space for all of the handicapped.

The main reason of poor adjustment of the public passenger transport to the needs of handicapped persons was lack of financial resources both in the Polish State Railways Co. (PKP) as well as in the Polish Motor Transport Co. (PKS) for investments raising the standard of the equipment of the stations and vehicles. In Poland functions from 1991 the State Fund for Rehabilitation of Disabled Persons (PFRON) which in the whole period of its existence realised among others the program of eliminating the transport barriers for handicapped persons by co-financing or financing purchases of such vehicles as:

1. Low-floor buses adjusted for carriage of handicapped persons in urban transport.
2. Buses or minibuses specially equipped with accesses or lift,
3. Minibuses, so called taxis for handicapped persons equipped with lift for carriage of persons on wheelchairs in the public transport,
4. Low-floor rail buses.

In the period 1993 to 2001 the State Fund for Rehabilitation of Disabled Persons (PFRON) co-financed or financed or purchased for cities or communes and units dealing with handicapped 1,860 pieces of vehicles specially adjusted for carriage of handicapped persons amounting to PLN 187 million.

Taking into account that in Poland at the end of 2001 it was registered 82.2 thousand buses of that about 18 thousand was used by the buses companies performing carriages in a public transport so that the application of the rides adjusted for the needs of handicapped persons is still limited. Exchange of bus vehicles in the bus transport companies is executed slowly due to difficult financial situation of the public carriers and limited resources for investments in the vehicles and first of all in new low-floor buses. The process of exchange of bus vehicles brings no satisfactory results in the access to the vehicles of this branch of transport for the handicapped persons.

In the current transport policy entitled "State transport policy for the period 2000 to 2015 for balanced development" in tasks in policy performance the following point was included "Conveniences in movement of the disabled people".[4]

At present, there are following Polish legislative solutions in transport which took into account specific needs of disabled people and recommendations of the EU:

- act of June 20, 1997 Law of the road movement (Journal of law – Dz.U. No. 98, item 602 of 1997) which contains provisions facilitating movement of disabled people and their carers in the areas of a limited access to some places;
- act of November 15, 1984 Law of transport (Journal of law – Dz.U. No. 50, item 601 of 2000 – single text), requiring from the carrier conveniences in using the means of the public transport of disabled persons;
- act of June 20, 1992 on rights to free of charge and reduced fares for rides in common public transport means (Journal of law – Dz.U. No. 54, item 254 of 1992), granting the right to free of charge and at reduced fares for rides to the specific groups of handicapped;
- act of 1997 Law of construction (Journal of law – Dz.U. No. 89, item 414 of 1994) obliging application of facilities, eliminating architectonic barriers in using building by disabled persons.

Within the accession preparations to the European Union, Poland is adjusting its legal acts to the requirements already in force in the Union. In the field of our interest the most important legal adjustment is an adaptation of the specimen of the parking card and introduction of this solution in practice.

According to the decree of the Minister of Infrastructure of January 30, 2002[5] handicapped of decreased mobility or drivers that carry them need not obey, while taking a special care, certain road signs among others "no movement",

[4] State transport policy for the period 2000 to 2015 for balance development. Scientific – Technical Exercise-Books of the Branch of the Association of the Transport Engineers and Technicians in Cracow. Series: Monographs No. 8 (Book 82), Cracow 2000, p. 52.

[5] Decree of the Minister of Infrastructure of January 30, 2002 on the specimen of the parking card for disabled people and the fare for its issuance (Journal of Law – Dz.U. 02.13.126 of February 18, 2002).

“no waiting”. To be able to use this right it is necessary to purchase in the transport department of the county office a parking card which costs PLN 25 (EURO 5). Placing this card in front window of the vehicle allows to occupy the parking places generally reserved for the handicapped in public places (offices, cinemas, theatres, schools, commercial centres, etc.)

In general opinion, the use of the public funds and the state of performance of the tasks of the government administration for the handicapped passengers in the public transport are unsatisfactory. In specialist’s opinion and co-author of “Program of adjusting the Polish State Railways Co. (PKP) to the service of the handicapped persons” still in mid 90s the activities of the Polish rails in relation to transport of the handicapped persons were promising. Then, a program of actions was worked out, the coaches were modernised, new transport connections were opened, transport routes and objects connected with transfer of passengers and their waiting for the train were signed properly.[6] Unfortunately financial difficulties of the Polish rails eliminated this socially important field of activity from its optics of interest and today it is an urgent need for undertaking steps changing the outlook of the rails and adjusting it in this field to the European standards.

In the last decade in Poland due to system changes the convenient conditions have arisen for performance of tasks from this area by the non-profit organisations which dynamic development took place primarily in the first half of 90s. Beside the organisations which already earlier have dealt with various aspects of life of handicapped (Polish Red Cross (PCK), Polish Union of the Blind etc.) many associations and local foundations have been established which organise among others special transport services. The Foundation “TUS” – Special Transport Services can be an example which since 1994 performs the needs of the handicapped in Warsaw by service of adjusted minibuses. In Warsaw, from 10 years nine special minibuses run equipped with lift, fastening system for the wheelchairs and seat belts for the handicapped. In 2003, Foundation “TUS”, using the European Union fund – program ACCESS 2000, introduced an assistance of volunteers for their handicapped clients who after reaching the destination place help them in dealing with different matters. In 2003, Foundation “TUS” performed over 12 thousand runs and in their basis of the clients there are over 2500 handicapped persons.[7] It is worth mentioning that the Warsaw University the only university in Warsaw disposes of two minibuses and organises transport of its handicapped

[6] J. Poliński, Handicapped and the rail in Poland, ‚Problems of Transport Economics”, No. 3–4/2002, p. 61.

[7] www.tus.org.pl.

students. Through the city there are running few cabs adjusted for the handicapped and the service of the firm "Dermobile" which disposes of several special cars is available. It is estimated that in Warsaw about 40 minibuses adjusted to the needs of handicapped are used. The urban transport system in Warsaw is better adjusted to the needs of handicapped passengers than urban transport in other Polish cities. Conveniences are present, starting from the underground adjusted for carrying the passengers on wheelchairs through greater than in other cities range of used low-floor vehicles. It is estimated that in Warsaw about 50% of rail-buses are serviced by low-floor ones and about 63% bus lines are serviced by low-floor buses. The problem of assistance to the handicapped is well solved at the international airport "Okęcie". There are organised special services to help the handicapped, airport is adjusted and most of the lines is well designed for servicing handicapped customers. Summing up, it can be said that in Warsaw the life of handicapped persons is much easier.

4. Assessment of Needs of Handicapped Persons in Light of Demographic Prognosis

According to the prognosis of the growth of population by 2030 worked out in 2003 in the Department of Demographic Studies of the Central Statistical Office (GUS) on the basis of the number of the population on December 31, 2002 the similar population development tendencies are forecasted in Poland as in the West European countries. The most important of the forecasted nation-wide demographic tendency is a gradual growth of life length until reaching in 2020 the level which has existed in developed countries about 1990. (f. ex. Germany, Austria, Denmark, Belgium) – age 73.4 for men and 80 for women. During the forecasted period, the process of ageing of population will deepen so we can observe a growing share of group of the oldest people of age 65 and over. By 2020 the number of people of this group will increase by 3,351 thousand in comparison with the basic 2002 and its share in total population will grow within 18 years from 16.96% to 26.41%.[8] The main factors which increase this proportion are fall of the number of births and prolongation of an average lifetime. Detailed figures in separate age groups for the period 2002 to 2030 are presented in Table 4.

[8] Prognosis of the population of Poland for period 2002 to 2030. www.stat.gov.pl/serwis/prognoza_lud/3tablice.

Table 4. Demographic Prognosis for Poland by 2030 (in Thousand Persons)

Age group	2002*	2005	2010	2015	2020	2025	2030
Total population	38,219	38,123	37,899	37,626	37,229	36,598	35,693
0-17	8,664	7,835	6,811	6,296	6,070	5,784	5,325
18-64	24,667	25,216	25,925	25,323	24,045	22,714	21,858
65 and over	4,888	5,072	5,165	6,006	7,115	8,099	8,509
	2002 = 100						
0-17	100.0	90.4	78.6	72.7	70.1	66.7	61.5
18-64	100.0	102.2	105.1	102.7	97.5	92.1	88.6
65 and over	100.0	103.8	105.7	122.9	145.6	165.7	174.1

* Actual data.

Source: www.stat.gov.pl/serwis/prognoza_lud/3tablice. Prognosis of the population of Poland for period 2002 to 2030, GUS – Department of Demographic Studies, Warsaw 2003.

In Poland, the number of population in the period 2002 to 2020 is estimated to fall substantially while for the eldest group of Poles in the age of 60–65 and over it is estimated to grow by 45.6% for the period 2002 to 2020 and 74.1% for the period 2002 to 2030. This forecasted growth is higher than an average for 17 West European countries estimated for 34.1%[9] and is comparable with countries like (Republic of Ireland, Switzerland) of the highest ratios of growth of the elderly people. It means that in Poland the population of passengers requiring special solutions in transport, means of transport and transport points will grow. Forecasts say also that the number of passengers with limited mobility which reason is not age but the state of health will maintain at the level of few percent of the society what together with forecasted civilisation development of Poland will enforce common transport infrastructure adjustment to receive and service passengers on wheelchairs. It is expected that the possibilities of various subjects (public authorities, transport enterprises, non-profit organisations) will improve together with forecasted development of Poland after its entry to the European Union. In the long-term forecasts of the economic development, the higher growth rate of our economy than the West European countries is assumed reaching in 2020 the level of the current GDP per capita of the European Union countries. Today GDP per capita in Poland is 40% of that of the UE average.

In 2003 after many years of battle of the community, an Act on public benefit and volunteers was passed[10], which regulates the principles of co-operation of the non-government organisations with the public administration. On the

[9] Transport and ageing of population, ECMT – Round Table 112, Paris, 1999, p. 5.
[10] Act on public benefit and volunteers of April 24, 2003, Journal of Law – Dz.U. No. 96, item 873.

basis of the new Act, there is a chance that the public benefit organisations will be getting orders for performance of the public tasks in that in the transport service of handicapped persons on a clear procedures–offers competition.

Together with our entry to the UE it is expected that the standards worked out there in that in meeting the transport needs of the handicapped persons will become widespread here.

5. Summary

On December 3, 2001 the Council of the European Union declared the year 2003 the European Year of People with Disabilities. The idea was supported in so called Madrid Declaration by the European Congress for Disabled People, debating on March 20–24, 2002 in Madrid and gathering over 600 participants. In a multi-page document the participants obliged themselves to widely publicise and encourage all interested parties to support the Declaration both before, in the course and after the end of the European Year of People with Disabilities.

In Poland, the community of disabled people and the institutions dealing with this problems performed during whole 2003 a rich program celebrating the European Year of People with Disabilities. Unfortunately, in the richness of cultural events, social campaigns, conferences, seminars and competitions concerning the disabled people, the transport aspect for these people was slightly visible. In today reality, the transport enterprises should care about their image. Perception of the firm as an active and friendly partner in the aspect of actions undertaken for the disabled people can be an important element of improving an image and standing on the market of transport services. Creating a friendly and accessible environment for disabled is an important trend of the European Union strategy towards disabilities and is a durable benefit of most of the European Union countries. Polish membership in the European Union means participation in Union's programs (in some of them Poland already participates) what gives a chance for improvement of the life conditions of disabled in that creation of friendly and accessible for them transport. The greater activity is necessary in this field of the transport policy subjects in Poland and all the operators creating transport solutions.

It seems that today practical possibilities of overcoming the transport barriers are still modest but taking into account the socio-economic situation of Poland, in which in 90s the undertakings for the handicapped in passenger transport have been performed, they should be assessed positively.

It should be remembered that Poland started in practice the tasks in this field with over 20-year delay in relation to the West European countries.

Already today following an example of the EU countries it is possible to indicate that in solution of the problems of the handicapped people a lot can be achieved by:

- creation of alliances of various organisations dealing with handicapped,
- conducting a constructive dialogue with handicapped,
- seeking cheap solutions,
- monitoring application of introduced law and recommendations.

An Overview

The aim of the author of the paper is the analysis and appraisal of the actions realized in Poland to the handicapped persons in the transport sector. The author is interested in the problem of overcoming the transport barriers by the handicapped persons since the 80s.

Since 20 years the handicapped persons have been in Poland a subject to various recommendations and directives which execution does not run in a satisfactory way. In spite that legal regulations including the Constitution concerning the handicapped persons have been based on the western standards, but, their execution in practice differs from those patterns.

The aim of the author is to balance the solutions introduced in the transport practice which facilitate movement of the handicapped persons. The main ground of the analysis there are actions in the rail and car transport.

The author will present solutions on the railway, necessary and possible to execute, coherent with the recommendations of the European Union. Poland will be the member state of the European Union already in 2004, so will have to adopt and adjust its legal system to the requirements of the Union. In the paper the author has discussed the most important EU regulations in this field, among others Council Recommendation No. 98/376/EW of 4 June 1998 on a parking card for people with disabilities.

The author describes and assesses specific Polish solutions concerning the parking card (its specimen and the parking fee). The paper presents the latest demographic forecast for Poland which signals the deepening of the process of ageing the society and connected with it need for adjusting the public transport for the elderly and handicapped persons.

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