

THE DEVELOPMENT OF MICROFINANCE IN CONDITIONS OF GLOBALISATION

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Özet

Artan rekabetle tanımlanan modern ekonomi, makro ve mikro ölçekle bakıldığında, finansal kurumlar ve mikrofinans kurumları gibi kalkınmayı artırıcı kurumlara ihtiyaç duymaktadır. Kurumsal bir yenilik olarak mikrofinansın başlangıcı 20. yüzyılda 1980'lerin başlarıdır ve "mikrofinans devrimi" terimi ilk kez 1993'de kullanılmıştır. Mikrofinans geniş ölçüde küçük krediler sağlamak, güvenli ve uygun rekabetçi finansal kurumlar aracılığıyla fakir insanlara küçük sermayeler sağlamak olarak anlaşılmıştır. Bu sayede düşük gelirlili bir çok insane ekonomik aktiviteye dahil olmak ve geliştirmekle kendi durumlarını düzeltme imkanına kavuşmuştur.

Anahtar Kelimeler: Mikrofinans, Küreselleşme, Gelişme

Abstract

Modern economy, considered both on a macro and a micro scale, characterised by an ever growing competitiveness, needs effective development-enhancing institutions. This also concerns financial institutions, microfinance institutions included. The beginnings of microfinance as an institutional innovation can be sought in the early 80's of the 20th century, and the term „microfinancial revolution” appeared for the first time in 1993. Microfinance was understood as granting small credits on a large scale and gaining small deposits from poor people through the mediacy of safe and conveniently located, competitive financial institutions. Thanks to this, many people with low income were able to undertake and develop economic activity and improve their existence.

Keywords: Microfinance, Globalization, Development

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Introduction: Risk, Uncertainty and Modern Finances

The German sociology professor Ulrich Beck maintains that **we are currently living in a society of global risk**.¹ In advanced modernity the social production of wealth goes hand in hand with social production of risk, which results in **a new paradigm of society of risk**. Along with increase of risk, promises of security increase in force. Human activity has been accompanied by risk since time immemorial, yet modern kinds of risk and menace differ essentially from – externally frequently similar – earlier threats, by their global nature and modern causes. Risk will always be with us; the quiet old times are gone forever. We have to live with the awareness of risk. The central point of reference for the awareness of risk does not lie in the present, but in the future. Today we are acting towards preventing tomorrow's problems and mitigating them. This is not easy, the more so it is taken into consideration that the market is fallible (ineffective), and the state is ineffective even more.

Risk and incertitude are attendant on all human activity, and sometimes they are identified with each other. Yet, it is often assumed in literature mainly after F.H. Knight) that uncertainty has a measurable and unmeasurable form, risk being measurable uncertainty, whereas uncertainty in a strict sense is unmeasurable. Risk is a set of factors, activities or actions causing bodily harm or material loss. We speak of risk only when the consequences are uncertain; a completely certain loss is not risk.² **The following are among the main kinds of risk:** insurance, economic, currency rate and interest rate, production, legal (with numerous varieties), organizational, political, attendant on new technologies and ecology, medical and epidemiological, pharmaceutical, chemical, psychological, sociological, mass-medial, civilisation and cultural, philosophical, ethical and religious, of *force majeure*, and last but not least, the credit risk, that is, the risk of credit non-payment by the debtor.³

J. Holliwell distinguished the following **kinds of risks:** competition, country, criminal and fraud, economic, environmental, legal, market,

¹ U. Beck, *Spółeczeństwo ryzyka. W drodze do innej nowoczesności*, Wydawnictwo Naukowe SCHOLAR, Warszawa 2002, p. 27 and further.

² T.T. Kaczmarek, *Ryzyko i zarządzanie ryzykiem. Ujęcie interdyscyplinarne*, DIFIN, Warszawa 2005, p. 46-53.

³ *Ibidem*, p. 56-90.

operational, personal, political, product or industrial branches, loss of face or resources, technological, war and terrorism, and last but not least – the most important from the point of view analysed here – the financial risk. It is divided into financing risk, currency risk and interest rate risk; moreover, into contract risk (credit risk).⁴

In light of the above, such picturesque descriptions of modern finances have to be recognised as justified, like “**finances of high incertitude and risk**”, or even the fragile world of finances”. Economy and finances do not always provide unambiguous answers to specific questions, which bother societies, local communities, particular sectors or enterprises. The British economist Paul Ormerod, the author of „Butterfly Economics” recommended deepened studies on the theory of chaos. According to Ormerod, modern economy, finances included, reminds of a living organism vibrating over the edge of chaos, whereas small events are likely to evoke unexpected, serious results, just like a butterfly’s wings. Modern finances are very unpredictable. Representatives of the financial world, with bankers and insurers in the forefront, have been trying to manage various kinds of risk (*risk management*).⁵ For example, through many years of experience of bankers throughout the world, some general principles have been worked out, called the canons of crediting, which are the basic guidelines for good, intelligent crediting.⁶ Besides the assessment of the clients’ reliability and credit (loan) capacity, the acceptance of an adequate security is a milestone, considered as insurance in the case of matters taking an unfavourable turn⁷.

⁴ J. Holliwell, *Ryzyko finansowe. Metody identyfikacji i zarządzania ryzykiem finansowym*, Liber, Warszawa 2001, p. 5.

⁵ For more, see *inter alia*, G. Borys, *Zarządzanie ryzykiem kredytowym w banku*, Wydawnictwo Naukowe PWN, Warszawa-Wrocław 1996; D.G. Uyemura, D.R. van Deventer, *Zarządzanie ryzykiem finansowym w bankach*, Warszawa 1997; W. Tarczyński, M. Mojsiewicz, *Zarządzanie ryzykiem*, PWE, Warszawa 2001; C.A. Williams Jr. et al., *Zarządzanie ryzykiem a ubezpieczenia*, Wydawnictwo Naukowe PWN, Warszawa 2002.

⁶ J. Holliwell, *op.cit.*, p. 62.

⁷ Former chairman of the American Federal Reserve System (FED) Paul Volcker observed not without reason: „*If you don’t have some bad loans you are not in the business*”. (see P. Heffernan, *Modern Banking*, John Wiley & Sons, Chichester 2005, p. 104).

1. Processes of Globalisation and Modern and Future Finances

The most important question in economy is the problem why some nations (states, regions, cities, enterprises, households) are wealthy, and others are poor.⁸ In other words the point is how to attain a permanent, sustainable growth, which would lead to social and economic affluence, and at least to reducing the scale of so-called exclusion. There is no unambiguous answer to this question in economic literature or in journalism, nor is there consensus of opinion, which methods should be applied to reach this condition; and even if there were a consensus as to the methods, there would be no certainty that they would function in a similar way at different times in various geographical, social, political, cultural and economic surroundings.

The basic problem in global economy is the problem of the beneficiaries and the injured.⁹ Globalisation and its modern expansion evoke diametrically different reactions in the world. It has most supporters in supranational corporations, with large banks, large media networks, large organizations, that is the wealthiest social group now running the world, sometimes defined as **global class**. The tone of people who represent this class, when they speak and write about globalisation, the new economy, *e-commerce*, *e-business*, *e-finance*, *etc.*, is marked by unshakable optimism and self-confidence. Globalisation and increase of competitiveness that accompanies it are bound with numerous merits and advantages, with reduction costs and prices in the forefront – so important for the consumers. Globalisation supporters also claim that it is not a triumph of uniformism in itself, nor destruction of local cultures and employment.

Globalisation is treated sceptically by other groups, criticised (by “alterglobalists”) or downright combatted (by “antiglobalists”). Europe, too, or perhaps first of all – post-socialist Central and Eastern Europe, is worried about its future in a globalised world; certain poor countries are inimically disposed towards globalisation, which is sometimes called new colonialism by them, and the catchphrase of free market does not appeal

⁸ See esp. D.P. Landes, *Bogactwo i nędza narodów. Dlaczego jedni są tak bogaci, a inni tak ubodzy*, Warszawa 2000.

⁹ For more, see *inter alia* P. Flejterski, P. Wahl, *Ekonomia globalna*, Difin, Warszawa 2003; H. Chołaj, *Ekonomia polityczna globalizacji. Wprowadzenie*, Warszawa 2003; J.E.Stiglitz, *Globalizacja*, Wydawnictwo Naukowe PWN, Warszawa 2004.

to people who do not have much to sell in this market, so far. Many people, milieus and institutions are filled with apprehension at this vision.

Like practically each significant social-economic phenomenon, globalisation and liberalisation, too, are bound with new opportunities and challenges, but also with new risks and menaces. While sharing in general the opinion that in the long run globalisation brings with it more advantages than losses, especially for clients making use of financial services, it is worth mentioning in this place that the problem of globalisation results arouses and will continue to arouse considerable emotions in future, stirring up arguments between its supporters and enthusiasts on one side, and sceptics and opponents on the other. The rub lies in the fact that as a result of globalisation processes there emerge the “losers” and the “winners” (Table 1). According to many opinions, international corporations and banks are among the main winners, among the losers there are especially: agriculture, handicraft, employees, as also small and medium enterprises.

Table 1. Winners and losers of globalisation processes so far

	The Beneficiaries	The Injured
Countries	Countries of the Triad and certain aspiring countries	Peripheral countries
Regions	Regions and subregions with prevailing „new economy”	Regions and subregions with prevailing „old economy”
Branches	Future (dynamic) branches	Declining branches
Enterprises and firms	Transnational corporations and certain small and medium enterprises	Many small and medium enterprises
Banks and other financial institutions	Global banks and insurance societies, some local institutions	Many smaller bank and financial institutions
Households	Wealthy and fairly wealthy consumers, mainly from Triad countries	Households, mainly from peripheral countries (the unemployed included)

Source: own study

Global financial markets are sometimes compared to a mighty, very efficient but brutal roadroller, levelling instrument or even „tsunami”: these firms (also financial firms), which will survive competition, will have increased possibilities. The taking over of the bank sector by the world's principles of free trade is a historic event and a peculiar sign of the times. For many signatory states the agreement means a considerable increase in investment possibilities abroad, an equalisation of opportunities and creating the framework for competition on any market. It is, however, characteristic that the advantages of less developed states do not match so far those gained by the USA or the „older” European Union member states. It is not a coincidence that there have arisen opinions about some one-way traffic: most less developed states will open their markets, but will not be able to compete on them (The West will come to us, but we will not reciprocate, not only because we cannot afford it yet, but also because even countries considered very liberal, the USA included, also fend off foreign capital¹⁰).

The example of the globalisation critics' approach adduced above proves that the phenomenon does not succumb lightly to attempts at clear-cut assessment. Without attempting to highlight all the nuances of globalisation (MacDonaldisation, Americanisation etc.) let us simply remember that these processes are a fact the significance of which cannot be overestimated.

Globalisation, global economy included, belongs among the most important, most spectacular, most interesting and simply fascinating phenomena in the modern world. So it is not without reason that a lot of researchers, financiers included, endeavoured to describe, understand and explain its nature, genesis, consequences, miscellaneous dimensions, aspects and nuances connected with it.

¹⁰ In recent years there have emerged a lot of protectionist practices and attempts at protecting national markets against large „flag” domestic firms being taken over by foreign capital; among others, the USA, Germany, France and Italy. This proves that there still exists a dichotomy between liberalism postulated to others and liberalism applied *pro domo sua*, which might signify that a kind of “enlightened liberalism” would be more desirable than “naive liberalism”.

2. The Concept of Microfinance

Modern economy, considered both in macro and micro scale, characterised by an ever larger competitiveness, needs effective development-enhancing institutions.¹¹ It also concerns financial institutions, including so-called microfinancial institutions. The beginnings of microfinance are to be sought for in the early 80s of the 20th century, and the term “microfinancial revolution” first emerged in 1993.¹² Microfinance was understood as granting small credits on a large scale and gaining small deposits from poor people through the mediacy of safe and conveniently located, competitive financial institutions. Thanks to this, many people with low income were able to undertake and develop economic activity and improve their existence. Well organised and managed microfinancial institutions were able at a certain stage to function without a budget or foreign support. **The old microfinancial paradigm, described by P.M. Robinson as „poverty lending approach” was replaced with a new one, namely „the financial systems approach”, marked by four features:** services should be offered adapted to the preferences of the not-so-rich entrepreneurs, apply operations which lead to the reduction of unit costs, motivate clients to fulfil their contract obligations, unconditionally price the products and services on the principle of including in the price the total costs borne, including extra charge for the risk.

The idea of microfinance is based in the statement that lack of access to credits and other financial services constitutes the basic development limitation for persons with low income. Such persons frequently start economic activity on a small scale, in order to support their families. Such activity is not financed by the bank sector.

The term microfinance covers a lot of tools, of which microcredit is the most widely distributed and which is ever more accompanied by special saving and insurance packages, aimed and adapted to the needs of persons with low incomes. It is persons with low incomes, who are the

¹¹ See *inter alia* Ph. Kotler *et al.*, *Marketing narodów. Strategiczne podejście do budowania bogactwa narodowego*, Kraków 1999; F. Fukuyama, *Budowanie państwa. Władza i ład międzynarodowy w XXI wieku*, Poznań 2005.

¹² Cf. J. Kulawik: *Poszerzanie granic i funkcji finansów w rozwoju społeczno-ekonomicznym*, w: *Polityka finansowa Polski wobec aktualnych i przyszłych wyzwań*, WSE, Warszawa 2005, p. 72-74.

receivers of microfinancial services. Microenterprisers (small entrepreneurs) are the most important group among them, that is persons starting or conducting economic activity on a small scale, frequently on their own and employing not more than 10 employees. As a rule, such persons and their enterprises do not have access to bank services (for example, due to lack of security, credit history, high risk for the bank etc.).

A microfinancial institution is one acting not for profit, but which is led by a social mission including eg. supporting microenterprisers, fight against poverty, supporting entrepreneurship in rural regions and among women. The chief aim of a microfinancial institution is the provision of financial services (loans first of all, and also sureties) suited to the microenterprisers' needs and to the needs of persons with low incomes.¹³ According to World Bank estimations there were over 7,000 microfinancial institutions active in the world in 2004, and their total turnover amounted to ca. 2.5 billion dollars.¹⁴ Microfinancial institutions are very effective in reaching the target groups and applying unconventional procedures of granting loans (eg. group loans adapted to the microenterprisers' needs), simultaneously striving for the institution's financial self-sufficiency.

In many countries there has taken place a clear **polarisation of financial systems into two segments**: one composed of organisational units of global financial institutions of various legal status – oriented towards acting in an ever wider scale and range; the other – specialised in servicing local self-governments and re-allocating national savings for the needs of their development.¹⁵ In other words, the point is to differentiate between „**global players**” and „**local players**”. Within this context it seems worthwhile undertaking an analysis of factors affecting the position of „local players”, that is (commercial and non-commercial bank and financial mediators in contemporary and future financial systems. In other words, the point is to verify after over thirty years, on

¹³ A microenterpriser is not the receiver of alms, but a client, who generates income for the microfinancial institution (for more, see *Microfinance*, in: „Global Investor Focus”, May 2005).

¹⁴ www.globaleducation.edna.edu.au

¹⁵ J.K. Solarz, *Międzynarodowy system finansowy. Analiza instytucjonalno-porównawcza*, Biblioteka Menedżera i Bankowca, Warszawa 2001, p. 189.

the ground of the bank-financial sector, the famous and even then somewhat provocative hypothesis by E.F. Schumacher: „small is beautiful” (which - *per analogiam* – might be put as: „local is beautiful”). An attempt at such verification would be even more desirable, if it were considered that global financial markets have been compared for years to a huge, very efficient but brutal „levelling instrument” (be competitive, or perish).

The development of the MŚP sector, (small and medium enterprises), microenterprises included, largely also depends on institutions parallel to and external to banks, and the financial instruments offered by them, very often in cooperation with local (cooperative) banks. Among these institutions, surety funds deserve special attention, whose aim is to stand surety for credits and loans for small and medium enterprises and persons starting economic activity.¹⁶

3. The Place of Households In The Microfinance Structure

On the basis of the achievements so far of the branch fields of study making up a widely understood science of finances, it can be observed that in the area of interest in economic science and practice in highly developed countries more and more attention is devoted to the individual person, the family, the household. **Microfinance** belongs among the complex and controversial subjects taken up by scientific sciences. The need for development and increase in the “maturity level” of scientific reflection on microfinancial problems is currently also clear in Poland. „**Microfinance** refers to small-scale financial services – primarily credit and saving – provided to people who farm or fish or herd; who operate small enterprises or microenterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individual groups at local; levels of developing countries, both rural and urban. Many such households have multiple sources of income.”¹⁷

¹⁶ For more, see S, Flejterski, P. Pluskota, I. Szymczak: *Instytucje i usługi poręczeniowe na rynku finansowym*, Difin, Warszawa 2005.

¹⁷ Robinson M.P., *The Microfinance Revolution*, The World Bank, Washington D.C., Open Society Institute, New York, May 2001, p. 9.

Microfinance is a branch preoccupied with households, as singled out and economically autonomous micro-subjects, constituting a permanent element in the subject structure in all previous forms of management¹⁸.

The household, according to the accepted methodology of the European System of National Accounts, as an institutional sector appears both in the market of consumer goods and production goods. The sector of households embraces households that are exclusively consumers and also physical persons conducting economic activity. The exclusive or main income source of the household is accepted as the division criterion into subsectors. In result of the accepted criterion the following subsectors have been singled out in the system of national accounts:

- employers and employees working on their own account in individual households in agriculture – income (gross operational surplus) from the individual farm exploited,
- employers and employees working on their own account outside individual households in agriculture – income (gross operational surplus) of physical persons conducting economic activity or performing a freelance profession,
- hired physical persons – income from hired work,
- pensioned physical persons – Old Age Pensions and disability pensions,
- physical persons making a living other than from gainful employment and other than pensions – income by title deed or social aid,
- other physical persons – income not from gainful employment but other sources – concerns persons permanently staying in institutions of collective residence, irrespective of the kind of income.

The Polish National Bank, within the framework of implementing the European Central Bank Standards, modified the principles of sector classification of subjects. Starting from March 2002 the principles of sector classification applied by banks have been in accordance with

¹⁸ B. Świecka, *Elementy finansów gospodarstw domowych*, w: P. Flejterski, B. Świecka, *Elementy finansów i bankowości*, CeDeWu, Warszawa 2006.

ESA95 requirements. The household sector has been divided into the following subsectors¹⁹:

- **individual farmers** – physical persons, whose main source of income is agricultural production, and their activity is not registered in the form of an enterprise, company, cooperative or producer groups;
- **individual entrepreneurs** – physical persons conducting economic activity on their own account, employing up to 9 persons, to whom the reporting bank provides services connected with their activity;
- **private persons** – physical persons, except persons conducting economic activity, qualified among the groups of individual entrepreneurs or individual farmers.

4. Microfinance Services - Saving

The financial decisions of households concern the allocation of pecuniary means and are made chiefly in the areas of saving and crediting. **Microfinance services** can help low-income people to reduce risk, improve management, raise productivity, obtain higher returns on investments, increase their incomes²⁰, and improve the quality of their lives and those of their dependents. **Saving**²¹, like consumption, are processes accompanying households since the dawn of time. Yet due to the influence of cultural, social, economic and sometimes political changes the forms of saving and their duration underwent changes, too. In Poland there is still a high share of bank deposits, but its relation to other forms of saving decreases, which means that other financial assets become more important, such as investment funds, shares, bonds, life insurance etc. The rate of fall of deposits in 2000 – 2004 was very high, which is evidenced by statistics, according to which at the end of 2001 bank deposits constituted 80% of all saving forms, and in June 2004 ca.

¹⁹ See for more: G. Rytelewska, E. Huszczonek, *Zmiany w popycie na kredyt gospodarstw domowych*, „Materiały i Studia” 2004, Zeszyt 172, NBP, Warszawa, p. 9.

²⁰ Robinson M.P., *op.cit.*, p. 9.

²¹ More, D. Korenik, *Oszczędzanie indywidualne w Polsce. Produkty różnych pośredników i ich atrakcyjność*, Wrocław 2003; G. Rytelewska, A. Szablewski, *Oszczędności w gospodarce rynkowej*, „Bank i Kredyt” 1993, nr 4; B. Liberda, *Oszczędzanie w gospodarce polskiej*, Warszawa 2000, p. 8.

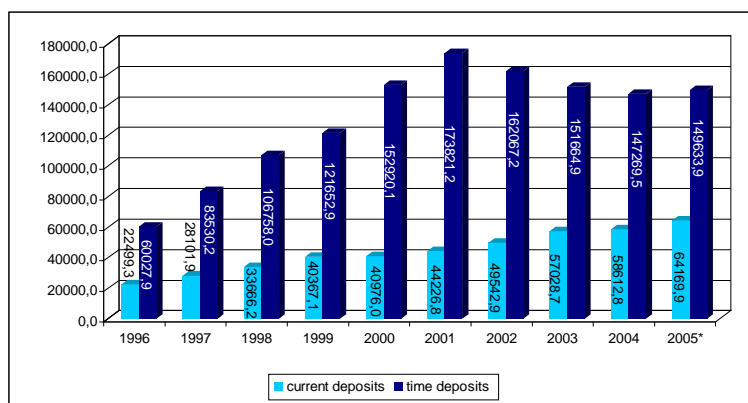
67 % of savings. It is considered that in a short time bank savings will decrease down to 60%. Money flowing out of the banks is intended for consumption or is invested in other ways. In 2004 savings increased slower than in previous years, which is an effect of increased consumer expenses before Poland's entry to the European Union, and also the purchasing new apartments. In 1995 – 2002 the share of savings in the income for disposal fell from almost 16% in 1995 to 7% in 2002. The level of domestic savings of households has remained on a low level for a number of years. In 2003 the level of savings in Poland was a few times lower than in the "old" EU member countries. In the same year, 17% clients deposited their money in banks, in Hungary – 19%, in the Czech Republic – 53%, and the average for the European Union was 75%.

Analysis of the state of deposits of households shows that the bank sector in Poland is losing the ability for a quick mobilisation of the households' financial surplus. In 2000 - 2004 the sum of the households' deposits decreased in total by about 16 billion, just to increase by almost 8 billion in relation to the previous year in the first half-year of 2005. The decrease in the value of deposits was mainly caused by a fall in the value of deposit accounts (bank deposits). It should be stressed, however, that in the years 2001 - 2005 there has been observed an increase in the value of current deposits by nearly 20 billion zł. At the end of 2004 current deposits constituted nearly 30% of deposits in total. Although this kind of deposits does not enhance the multiplication of savings, many retail clients in Poland treat it as one of the basic saving instruments. The main cause of the lowered attractiveness of bank deposits is, *inter alia*, the introduction of income tax from bank deposits, and also a successive fall of interest of złoty deposits as a consequence of a decision made by the RPP (Money Policy Council). In January 2002 the average weighed deposit interest was nearly 15%, in April 2002 – 7%, and in 2003 it was running at a level of 3%. Only in October 2004 the average weighed interest increased to 4%. But from January to July 2005 the RPP decreased the interest rate by 1.75% and the average interest of deposits for individual clients decreased, according the National Bank's calculations, by 0.7% and amounted to 3.1%²². Besides the bank deposit interest rate the average weighed interest of personal accounts of private

²² L. Kretowicz: *Lokaty coraz korzystniejsze*, „Forbes” 2005, nr 9, p. 68.

persons also fell, and since August 2003 it has been running at a level 0.3%²³.

Figure 1. The state of household deposits in 1996 – 2005 (in mln)

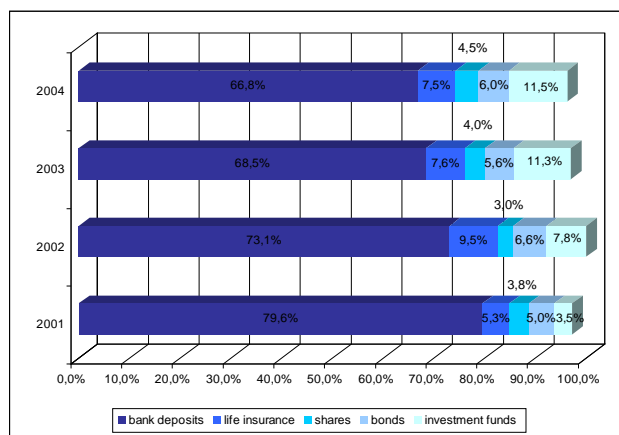


* state for July

Source: own study on the basis of the National Bank's data.

The lowered attractiveness of deposits caused individual clients to choose investment funds more and more readily. Although it is just the banks that possess 57% of savings, whereas the TFI's (Investment Funds Societies) about 10%, this structure should undergo changes within a few years' time. The Institute of Research on Market Economy estimates that in 2009 these proportions will be running at the level of 50% and 14%. This means that the TFI's will increase their current possession from 45 to 70 billion zł. It is also anticipated that by the end of 2005 the value of all investment assets will have exceeded 50 billion zł in Poland which will signify that 25% of physical persons' deposits will be placed in investment funds.

²³ See more: E. Ślęzak, *Bankowość detaliczna w Polsce.*, „Bank i Kredyt” 2005, nr 2, Dodatek Polski system bankowy. Stan i perspektywy, p. 15-16.

Figure 2. Household savings' structure in 2001 – 2004 (in %)

Source: own study on the basis of the National Bank's data

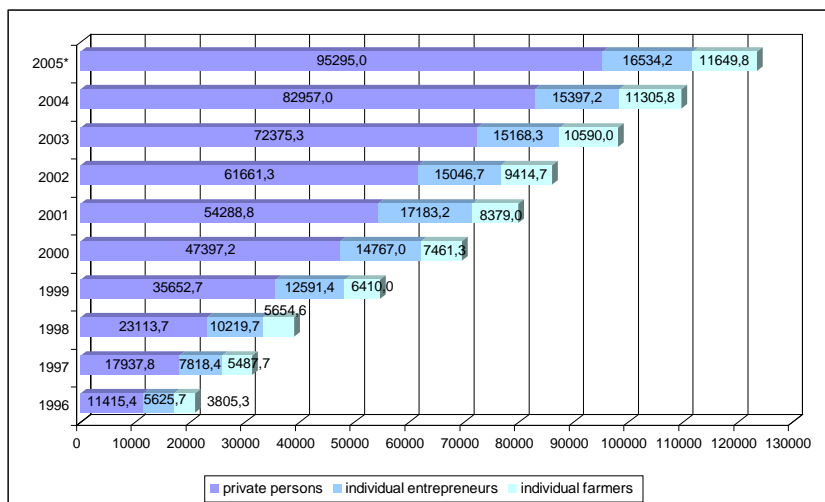
5. Microfinance Services - Crediting

Easier access to credits and loans and their relatively low interest rate cause a steady increase in both the credit value and loans granted to households by the bank sector in Poland. At the beginning of the present decade the negative development of the credit household loans market was caused by the slowing down of economic development. Yet since 2002 there has been a highly dynamic increase of the value of loans and credits. **Credits for private persons** dominate the household debt structure in Poland. In 1996 – 2004 the share of credits for private persons in credits in total for households increased from 54.76% at the beginning of that period to 75.65% at its end. At the beginning of the second half-year 2005 this share equalled 77.16%. Individual entrepreneurs have a much smaller share in dues from credits and loan than private persons. In the total debt the share of credits for individual entrepreneurs in that period decreased from 26.98% in 1996 to 14.05% in 2004, and in July 2005 it fell to 9.44%. In 1996 – 2004 there was also a fall in the share of credits and loans for individual farmers in the total household debt. At the beginning of the period examined the share was 18.25%, at its end it was 10.31%. In July 2005 the share was already running at a level of 9.43%. In the sector analysis of household debt it is essential to point out the specificity of credit needs of particular

subsectors. Private persons currently avail themselves mainly of mortgage credits and consumer credits. The share of mortgage credits taken by private persons increased from 8.9% at the end of 1996 to 43.3% at the beginning of the second half-year 2005. Although consumer credits also have a substantial share in the dues of households in total, that share is falling. At the beginning of the researched period it was 87.5%, at its end, on the other hand, 39.9%. In the subsector of private persons, however, there should be noticed an accretion of credits bound with the functioning of credit cards. In 1996 their share equalled 0.07% and in July 2005 3.7%. **In the subsector of individual entrepreneurs** the debt is caused by taking investment credits. A full analysis of changes in the structure of credits taken is not possible, as in the years 1996 – 2001 operational, mortgage and investment credits were classified as “other”, and the share of mortgage credits in the debt of this subsector constituted at the time over 80% of the debt²⁴. In the total debt of individual entrepreneurs the highest increase trend has been shown by credits in current account. In 1996 their share was nearly 11% and in July 2005 24.7%. In 2002 – 2005 the share of investment credits did not practically undergo any changes. From nearly 36% in 2002 it rose to 36.3% in July 2005. A decreasing trend, however, was shown by working credits. At the beginning of the period their share in the debt of individual entrepreneurs was 26.4% and at its end – 20.1%.

²⁴ See more: G. Rytelewska, E. Huszczonek, *Zmiany w popycie na kredyt ...*

Figure 3. The value of credits and loans granted to households in 1996 – 2005 (in millions)



Source: own study on the basis of the National Bank's data

In the subsector of individual farmers the smallest share in the total share is taken by credits in current account (4.23%). In this subsector mostly investment credits and working credits are taken. The share of investment credits in dues from individual farmers increased from 52.1% in 2002 to 59.7% in the half-year of 2005. Operational credits, on the other hand, in spite of considerable share in the debt of individual farmers, evinced a falling tendency. Their share decreased from 22.8% in 1996 to 21% in July 2005.

In banks, the dues from borrowers are classified according to strictly defined principles. Since 2004 the dues from consumer credits for private persons according to time-of-payment criterion have been divided into dues: normal (up to 1 month), under observation (from 1 to 3 months), doubtful (from 6 to 12 months), lost (above 12 months). In the case of dues, however, which result from detail credits (including consumer credits without housing credits), the classification is restricted to two categories, and the periods of delay in payment are: for normal dues – up to 6 months, for lost dues – above 12 months. The banks are also obliged to secure dues threatened with intentional reserves in established

proportion. The credits are classified into the categories: normal, under observation, substandard, doubtful, lost. The three last credit categories belong to credits defined as threatened, for which intentional reserves are formed in the following order of height:

- substandard dues – 20% creation basis of intentional reserves;
- doubtful dues – 50% basis of intentional reserves;
- lost dues – 100% basis of intentional reserves.

The share of threatened dues in credits taken increased by nearly 7 billion in 2003 in relation to the previous year. The situation further deteriorated as there was an increase of lost dues among the threatened dues from credits. Threatened dues from credits taken decreased only in 2004 by 2.3 billion in relation to the previous year. The decrease of threatened dues from credits granted by banks was, *inter alia*, the result of: liberalized principles of dues classification, the clients' better financial condition and their increased ability to handle the debt accompanying their economic boom; the banks' more careful credit policy; restructuring and debt-collection activities conducted by the banks²⁵. In the first half-year of 2005 the share of threatened dues started growing again, reaching the value of nearly 11 billion zł in that time, which signifies an increase by 213 million zł. It should also be noted that private persons have the highest share in household threatened credits. The credits unpaid by individual entrepreneurs reached their largest share in the early 90's. Yet the indebtedness of individual entrepreneurs started to decrease in favour of private persons at the beginning of the present decade. Individual farmers have a small share in threatened dues to consumer credits, which results from the fact that they constitute the least indebted subsector of households.

The main cause of arising difficult credits destined for households is the limitation of the previous income level, a sudden change in the households' functioning conditions and excessive debt incurring in financial institutions. Swindlers, who have no intention of returning the credit right from the start, also have their contribution, and the light-heartedness of certain clients, who succumb to advertisements purchasing

²⁵ See further, G. Rytelewska (Ed.), *Bankowość detaliczna*, PWE, Warszawa 2005, p. 53-67.

expensive goods on instalments, sometimes consciously slighting problems of planning their domestic budgets for a period of a few months (which corresponds to the crediting period). At the moment when the income is insufficient to repay the credit taken, households take consolidation credits (which they are unable to repay either) and as a result they fall into a spiral of debt. According to BIK (Credit Information Bureau) nearly a million families are excessively indebted in Polish banks, whose average debt amounts to 4000 zł²⁶. In the case of weaker clients this is not only a question of debt size, but also of payment delay. The non-payment of two successive even small instalments causes the bank to withdraw from the credit agreement and to demand the payment of the rest of the credit even before the appointed time. If the client invested the means obtained into some consumer goods, it is possible to recover them immediately. The consumers' bad financial liquidity can also be aggravated by fixed payments. Widening of the poverty area is also enhanced by regulations governing interest on arrears and credit securities²⁷. In the case of exceeding the deadline for credit repayment, the bank books over the liabilities to the account of overdue indebtedness and starts counting interest according to the interest rate for overdue credits. If the client has an account in the bank, the bank makes deductions, giving the debtor a written declaration about this fact. Lack of possibility for the household of getting out of excessive indebtedness in many cases leads to the announcement about consumer insolvency. In countries, where the lawmakers have given consumers the possibility of solving financial problems by announcing insolvency, factors affecting the emergence of insolvency are given a detailed research. In Poland an Act on relieving physical persons from debt would make it possible to monitor the factors leading to the households' financial problems and would contribute to raising consumers' awareness, warning them against errors committed by other persons and thereby avoiding the traps of indebtedness.

²⁶ *Ibidem*.

²⁷ W. Szpringer: *Upadłość konsumencka – koncepcje i tendencje regulacji*, „Prawo bankowe” 2005, nr 1, p. 59; Szpringer W., *Kredyt konsumencki u upadłość konsumencka na rynku usług finansowych UE*, Dom Wydawniczy ABC, Warszawa 2005.

Conclusions

In conditions of globalisation the future of the banking-financing industry belongs chiefly to huge and large (global and countrywide) institutions, which does not mean that there will be no more medium and small institutions. Their survival and development, eg. of banks and regional or local pay-offices, is and will be possible, provided an intelligent, modified from time to time, specialisation profile is selected, effective management is ensured, tailor-made services are provided, all clients are treated in an individualised way. Success in the banking-financial market can be attained both by diversification and universalisation, as also by specialising the program for products and services (thus acting contrary to the currently recognised principle “All under one roof”, but, for example trying to offer “everything for the selected ones”). In the final reckoning, it is the clients who decide about the market and financial success of a particular banking-financial institution, selecting the one that meets their preferences and expectations in the largest degree, also with respect to safety. As J. Canals wrote ten years ago, banks must strive to be the best, but not in all fields of activity and not for all kinds of clients (the banking sector resembles athletic contests, in which they do not strive to win in all, but in a selected event, preserving at least a minimum of dignity in the competition)²⁸.

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²⁸ J. Canals, *Strategie konkurencyjne w europejskiej bankowości*, Wydawnictwo Naukowe PWN, Warszawa 1997, p. 322

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