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BENEFITS OF INTRODUCING THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY TO ENTERPRISES

Abstract

Corporate Social Responsibility is a concept according to which enterprises voluntarily take social interests and environment protection as well as relations with diverse stakeholder groups into account at the stage of building their strategies.

Indicating benefits to enterprises from implementation of the concept of Corporate Social Responsibility is the objective of this paper.

Results of the authors' survey of 106 enterprises operating in the Mazovian region are compared to these of a national survey commissioned by the Polish Agency for Enterprise Development. They serve to demonstrate application of CSR is in direct proportion to size of a business. In addition, respondents designated improvement of company image as the key external benefit and perception of an enterprise as an attractive employer as the major internal benefit. Results of the authors' research in the region of Mazovia and of the national-wide survey show a marked similarity.

JEL Classification Codes: **M14, D22.**

Keywords: Corporate Social Responsibility, enterprise, eco-management.

Introduction

Enterprises, operating as they do in specific economic, social and environmental conditions, pay increasing attention not only to generation of profits but also to developing permanent relations with their environment. They take responsibility for their impact on society.

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Corporate Social Responsibility requires an organization to understand broader interests and expectations of society (COM(2011) 681). It encompasses not only operation in accordance with applicable obligations and respect for the rule of law. It also concerns undertakings to other entities which are not legally binding. This conduct arises from values prevailing in a given society.

CSR is an effective management strategy which contributes to improved competitiveness at the global level by means of social dialogue at the local level. At the same time, it provides conditions conducive to sustainable economic and social development. Corporate Social Responsibility means attaining commercial success in consideration of ethical values, labour rights, community development and protection of the natural development.

This paper will present benefits of introducing the concept of CSR to enterprises. The discussion is based on a review of specialist literature and the authors' research.

The following hypotheses are posited:

- H:1 Application of CSR policies is in direct proportion to size of an enterprise.
- H:2 Building a good image of an enterprise is the key external benefit of CSR.
- H:3 Perception of a firm as an attractive employer is the fundamental internal benefit.

The conviction that any actions of businesses should contribute to their value by adding to the shared value is the underlying premise of the theory of Corporate Social Responsibility. Corporate Social Responsibility may become more than exposure to higher costs or a good deed – it may become a source of opportunities, innovation and competitive edge (Porter & Kramer, 2006). This means an enterprise can make its own contribution to social development, which can give rise to broadly-defined benefits.

There are a number of benefits from implementing the concept of Corporate Social Responsibility. They may arise in the area of risk management, savings, access to capital, customer relations, human resources management (COM(2008) 774) or innovative potential (Sieradzka, 2013).

It must be kept in mind, however, that profits and their scale depend on the type of actions undertaken. Substantial financial benefits and cost reductions from implementation of environment-friendly technologies, for instance, should not be expected in the short term (Svidroňová, 2013). Benefits of socially responsible activities can normally be noted in the long run as a result of socially responsible actions that are taken not occasionally but as part of a certain philosophy adopted by an enterprise (Sznajder, 2013).

1. Benefits for businesses of implementing CSR

CSR is not „a nice gesture" of business towards society, but a critical determinant of enterprise performance. Introduction of Corporate Social Responsibility to everyday business expresses a properly understood self-interest. The fact that the institution of business only exists to provide valuable services to society is the fundamental argument for implementation of CSR. If a business wants to survive and preserve its standing, it must accept and fulfil its obligations to society (Davis,1967).

Social Responsibility should be perceived as a long-term benefit to enterprises. This is about motivation for commitment to social issues since Social Responsibility actions have a positive effect on business and profits in the long run (Spence & Rutherfoord, 2000).

Operations in conformity with principles of social responsibility can bring a variety of benefits to a firm. In line with the division into internal and external stakeholders, benefits to be derived by an enterprise can be split into: internal (in respect of relations within a business and its staff) and external (concerning environment of a firm and actions for external stakeholders).

Table 1. Internal and external benefits

Internal benefits	External benefits
– Higher wages; – Improved work security; – Fewer work accidents; – Greater professional development and prospects; – Improved security of employment; – Improved work satisfaction; – Reduced staff turnover; – Reduced fluctuations of headcount; – Improved welfare facilities; – More timely payment of wages; – Improved worker motivation, satisfaction and commitment; – Positive staff attitudes; – Increased staff identification with the firm, – Perception of the firm as an attractive employer; – Improved innovativeness of the firm, – Improved corporate culture and internal coordination	– Positive image of the firm; – Enhanced reliability of the firm; – Efficient functioning as part of the local community; – Improved loyalty of existing customers and attracting new customers; – Increased investor interest; – Market competitiveness, also in the international market, and improved effectiveness of the business; – Tax-deductible donations to social aims

Source: The authors' own compilation.

The internal benefits are a direct result of actions undertaken in order to meet expectations and needs of an enterprise's internal stakeholders, yet they may also be visible outside of an enterprise. They do not only affect relations in the internal environment. The external benefits, on the other hand, arise from actions undertaken in order to fulfil expectations and needs of external stakeholders (commercial and trade associations, schools and universities, governments of other states, central and local authorities, courts, local communities, non-government organisations, natural environment, creditors, suppliers, customers, competitors, mass media, other businesses). Like in the case of activities in the internal environment, actions relative to the external environment may also have impact on internal stakeholders.

'Corporate Social Responsibility is commonly associated with big corporations, yet benefits from CSR may also accrue to small and medium-sized enterprises' (Marková et al., 2014, p. 83). One must be aware, though, those positive effects of the system will not be clear immediately. Benefits from implementing CSR will be felt after the concept has been applied for a long time.

Any actions in small and medium-sized enterprises frequently reflect values, personalities, attitudes and convictions of owners/entrepreneurs. This in turn determines possibilities of emergence and methods of realising Corporate Social Responsibility in a given enterprise (Vives, 2006).

Businesses in the market can take advantage of economic benefits associated with application of CSR to varied extents. In the case of small business, the befits are a function of (Raynard & Forstater, 2002):

- improved adaptation to customer requirements,
- cooperation with international corporations,
- improved productivity,
- improved knowledge acquisition and innovation skills.

Introduction of CSR principles to a small or medium-sized enterprise may also contribute to more lively interest of investors, more willing to invest in or lend to a socially responsible and reliable business. Application of CSR as a method of business management also suggests that the business is an active organisation which responds to changes in its social and economic environment. A firm also builds its stability on long-term actions oriented towards a broadly-defined development and a network of relations in its environment. As a result, such a business organisation is perceived as active and acquiring knowledge on the basis of experience.

Nowadays, consumers have a growing social awareness, they become more demanding and, to a large extent, guided by trust in a business and by its image. Therefore, Corporate Social Responsibility may enhance loyalty of SME customers and stakeholders. Pro-social and pro-ecological activities of an organisation may also help it to gain confidence and favour of local authorities and communities. Such activities are part of an other-than-financial motivation system for staff, who begin to have a more positive view of their employers owing to their application of codes of ethics and commitment to issues that matter to ordinary people. This also improves image of a business in the job market.

Benefits arising from implementation of CSR also include greater competitiveness, attained by an enterprise through:
- product improvements resulting in greater customer satisfaction,
- enhanced staff motivation by policies targeted also at their needs,
- improved staff integration and identification of the worker team with objectives and values of the firm,
- improved firm recognition owing to prizes it wins or 'buzz marketing',
- positive business image that improves standing in the job market and facilitates cooperation with business partners,
- positive business image of a reliable employer, which provides easier access to highly qualified and ethical individuals and facilitates hiring of competent staff,
- reaching new target and customer groups,
- developing relations and support in the local community through actions for this community and development of good relations in the firm's environment.

Perceiving corporate responsibility in a broader, strategic context as a central function of an enterprise is essential to the enterprise attaining benefits. Financial performance of a business, achieved in conjunction with environmental and social effects of its decisions and measured by means of specific control mechanisms, is an important factor of success (Lament, 2011).

Effective implementation of positive changes in an organisation would be vain without a full support and direct commitment of management. Conformity of business and social goals should also be clearly communicated by firm authorities. In practice, however, social responsibility actions are commonly limited to one-off endeavours, while CSR actions should be linked to such areas as productivity, decision-making, measurement of income growth, operating margins and asset effectiveness on a systemic basis, as well as with accounting policies of an enterprise, a significant tool of reliable communication (Lament, 2012).

Firms are able to develop the area of responsible business more rapidly by clear communication of both its strengths and weaknesses. Only reliable and complete information is of genuine value both to investors and the remaining stakeholder groups. The fact that taking notice of some issues and planning of actions, even before they bring the desired effects, can positively affect relations to their potential recipients is another argument for open communication.

Perseverance is also necessary to implement and realise CSR. A firm that publicises its commitment to Corporate Social Responsibility should be prepared to put its undertaking in practice consistently. The risk of losing reliability and thus goodwill by a firm is far greater if empty promises are made than if certain actions are delayed for the purpose of improved preparation. Even if customers and the market are rather slow to appreciate the added value of Corporate Social Responsibility, they are fast to inflict a painful punishment for its absence.

The time required to prepare, implement and derive effects from such activities is another important factor. A strategic approach to corporate responsibility cannot be introduced overnight as it requires establishment of new processes, relations and, in many cases, changes of the corporate culture. Therefore, it is of paramount importance to carefully plan the entire process in little steps that will bring long-term results, instead of undertaking hasty and random actions.

The theoretical view of benefits from application of Corporate Social Responsibility implies they not only contribute to improvement of enterprise image but can also serve as perfect foundations for cost reductions and implementation of innovations and may have considerable effect on the surroundings (e.g. with regard to care for the natural environment). Proper implementation of Corporate Social Responsibility can enhance competitiveness and innovation of enterprises in the long term.

2. Methodology

Corporate Social Responsibility enjoys a growing interest of enterprises globally. Poland's membership of the EU has contributed to development of the CSR concept in Poland as well.

Results of the authors' research into application of Corporate Social Responsibility in the Mazovian region are presented in this article and compared to results of a national survey.

2.1. Methods of the national survey

In December 2011, the Polish Agency for Enterprise Development conducted a survey entitled 'Evaluation of progress on implementation of Corporate Social Responsibility standards and compilation of a set of social responsibility indicators in micro, small, medium-sized and large enterprises' (Polish Agency for Enterprise Development [PARP], 2011). This is the first and so far the only national study of implementation of social responsibility standards, based on ISO 26 000 and concerning small, medium-sized and large enterprises (N=850).

The sample was drawn from among 2 million records in EFEKT enterprise database. The following enterprise characteristics were taken into consideration when designing the sample:

1) headcount,
2) geographical location of a business (at the regional level),
3) one of 4 sectors where a firm operates.

Quota-random sampling was applied. Due to the significant imbalance among businesses in respect of staffing – there are clearly fewer large than small companies – a proportional division would virtually exclude the largest businesses and analysis by particular size groupings. The following numbers were adopted for the purposes of the individual business size classes.

The following quota were used for the headcount categories:

1) micro-enterprises (4–9 employees) – N=200,
2) small enterprises (10–49 employees) – N=250,
3) medium-sized enterprises (50–249 employees) – N=300,
4) large enterprises (more than 250 employees) – N=100.

A sub-sample was drawn from each headcount category to reflect regional locations of businesses and sectors of their operation. The choice was in proportion to numbers of firms registered in a given area and sectors they represent.

Weighting of the results was pre-requisite to analysing of the entire national sample. This remedied effects of surveying more businesses of certain types than would have been dictated by national characteristics.

Rim weighting of data was applied, a method of iterative matching of results of an entire set when balancing certain categories (rims) to values in a given population. The following rim variables were applied to the weighting:

- region of a firm's registration,
- headcount,
- sector.

2.2. Methods of the authors' survey

The authors' survey applied to a group of enterprises in the region of Mazovia selected from a database available at www.b2bbank.pl, which includes contact details of enterprises in Poland.

To be representative, the survey was undertaken in a single region, Mazovia, which comprises the capital city of Poland as part of its structure. It is the largest region, with 11.4% of Poland's area and a population of approximately 5m. The region is characterised by the maximum economic potential in Poland, measured with the value of Gross National Product, which reached about 160% of the national average GNP per head in 2013.

The survey sample was selected at random, in line with the first and second principles of randomisation, namely, each element of the general population had a chance to be included in the sample and elements of the same category were taken into account.

The simple variant of random choice was applied. A sample is random where all probabilities of selection of the sample elements are identical and constant in the entire process of selection.

Random selection does not guarantee that a sample will be identical with the general population with regard to distributions of variables and their interdependences, yet it allows for calculation of the probability of a certain degree of approximation of a sample to the population in these regards. It is chiefly for this reason that the random sample is generally considered far better for various types of research than a purposive sample.

There are several reasons why this method of selection was applied:

1) the method can be applied wherever a researcher does not have sufficient knowledge of a general population, its values of individual variables, their distributions or dependences,
2) the method of straight selection helps to correct knowledge of a population that is erroneous or inaccurate,
3) random (in contradistinction to purposive) selection provides for representativeness, within limits of the so-called random error, in all possible respects, i.e. in respect of a full range of values, distributions and dependences of all possible variable values characterising units of the general population.

A random sample allows for determination of a sample's representativeness for a population in probabilistic terms, though in all possible respects. Simple random samples are regarded as the most appropriate for objective research.

Statistical analysis was employed to verify working hypotheses. Excel served to develop charts and statistical calculations as its extensive, easily programmable spreadsheets enable data exports to other software.

Interviews with respondents were conducted by means of electronic mail surveys. The survey questionnaire (research tool) was distributed to 400 enterprises in June 2014. Telephone calls were made to invite to the survey and monitor its progress in parallel. As a result, 106 correctly filled questionnaires were returned by the end of October, producing a return of 26.5%.

The research tool (survey questionnaire) contained metrics and 25 close-ended questions on determinants of enterprise development, including ten regarding Corporate Social Responsibility. Responses to the following questions in this area were provided:

1. Are principles of Corporate Social Responsibility (CSR) applied in your enterprise?
2. What CSR standards are in place in your business?
3. What do you believe to be the key external benefits of applying principles of Corporate Social Responsibility?
4. What do you believe to be the key internal benefits of applying principles of Corporate Social Responsibility?
5. What are key issues associated with applying principles of Corporate Social Responsibility?
6. What aspects of CSR are implemented in your business?

7. Do your employees know: Enterprise vision, Enterprise mission, Enterprise value, Code of ethics?
8. What functions of your business are responsible for introducing principles of CSR?
9. What stakeholder groups influence your business?
10. Actions from which area of responsibility prevail in your business?

The paper discusses results concerning the first four CSR questions in the survey questionnaire.

Private enterprises, i.e. firms owned by private individuals, and domestic capital companies were queried.

The enterprises queried were divided in line with the Commission's Recommendation No. 2003/361/EC of 6 May 2003. It relates to definition of small and medium-sized enterprises and has been implemented by the Commission by force of its Ruling 364/2004. It has been directly applicable to all the member states of the European Union since 1 January 2005.

Table 2. Division criteria of enterprises

Enterprise type	Average yearly headcount	Net annual turnover	Total assets at year's end
Micro-enterprise	< 10	≤ 2 mln €	≤ 2 mln €
Small enterprise	< 50	≤ 10 mln €	≤ 10 mln €
Medium-sized enterprise	< 250	≤ 50 mln €	≤ 43 mln €

Source: Appendix I, Article 2 of the Commission's Ruling 364/2004, L. 63 of 28.2.2004.

Businesses with more than 250 employees, net annual turnover of more than € 50m and total assets at year's end above € 43m were the fourth group to be surveyed.

Micro-enterprises prevailed among those queried (35.8%), whereas enterprises employing more than 250 were the fewest – 14 were surveyed, as illustrated by the table 3.

Table 3. Division of the enterprises surveyed according to size

Specification	Micro enterprises	Small enterprises	Medium enterprises	Large enterprises
106	38	29	25	14
100%	35.8%	27.4%	23.6%	13.2%

Source: the authors' own research.

Micro-enterprises operating as self-employed individuals or limited liability companies prevailed in the research group. Joint-stock companies constituted the narrowest grouping, since this status is most commonly adopted by large organisations, which represented a mere 13.2% of the group under analysis.

Table 4. Structure of enterprises with regard to their organisational form

Specification	Structure	
	Number	%
Individual enterprises	37	34.9
Limited liability companies	37	34.9
Private partnerships	15	14.2
General partnerships	9	8.5
Joint-stock companies	5	4.7
Other	3	2.8

Source: the authors' own research.

A majority of businesses surveyed – 65, or 61.3% of the total – were production and service enterprises, 35.8% and 25.5%, respectively. Firms engaged in two parallel lines of operations accounted for the lowest percentage. 3.8% enterprises carried out commercial and service activities.

Table 5. Structure of enterprises with regard to their organisational form

Specification	Structure	
	Number	%
Production	38	35.8
Trade	11	10.4
Services	27	25.5
Construction	10	9.4
Production and trade	9	8.5
Production and services	7	6.6
Trade and services	4	3.8

Source: the authors' own research.

Results

Enterprise surveys concerning implementation of CSR in Poland may serve to verify whether the advantages accepted as major in theory are confirmed in practice.

Analysis of the results of the national-scale Polish survey suggests knowledge of the concept of Corporate Social Responsibility is closely related to business size. It was predominantly familiar to representatives of large (70% indications) and medium-sized firms (50%) while small and micro businesses knew it to far more limited extents (36% and 26%, respectively).

Table 6. Awareness of the notion of Corporate Social Responsibility among enterprises (%)

Specification	National sample	Micro	Small	Medium	Large
Yes	31	26	36	50	70
No	62	66	53	42	26
Don't know	8	7	11	8	4

Source: the authors' own compilation on the basis of (PARP, 2011).

Willingness and a certain need of businesses to standardise Corporate Social Responsibility actions, on the one hand, and attempts at integration of existing standards, on the other hand, are major trends that can be observable in recent years.

There are a great many guidelines, standards and rules concerning the CSR at present. The most comprehensive include:

- Guidelines for social reporting Global Reporting Initiative (GRI) – a set of principles and specific indicators that guide reporting of financials. The GRI rules not only specify what data to report but also set out principles for a good report to fulfil.
- Global Compact principles – ten principles proposed by the UN General Secretary in 1999 concerning four areas of responsibility: human rights, labour standards, natural environment, and counteracting corruption. Each firm may join the initiative by completing a declaration of support and affirming the organisation follows its principles.
- OECD guidelines for multinational enterprises – a set of principles addressed mainly to enterprises operating in diverse regions, cultures and communities globally.
- Set of AA1000 standards related to assisting organisations with management of their stakeholder relations. The series consists of three standards:
  - AA1000APS – principles of responsibility,
  - AA1000SES – stakeholder commitment,
  - AA1000 – verification.

ISO 26000 is a major all-round standard applicable to social responsibility. It was compiled in 2010 as a product of six years of work by an expert team representing a variety of groupings – business, government, non-profit sector, workers, customers and inter-governmental organisations. ISO 26000, in contradistinction to other ISO standards, is not designed to certify organisations applying certain procedures, but constitutes a set of guidelines reflecting best global CSR practices.

In addition to standards comprehensively addressing issues of Corporate Social Responsibility, there are those which help to verify and standardise a firm's actions in a single area, for instance, other ISO standards like 14001 or 18001, or e.g. SA8000 concerning the workplace and employee relations.

Businesses were clearly best aware of ISO 14 000 (51% indications) from among the various guides and standards on implementation of the Corporate Social Responsibility. 30% business representatives stated they knew ISO 26 000. 16–17% company representatives were familiar with Global Compact, EMAS and AA 1000.

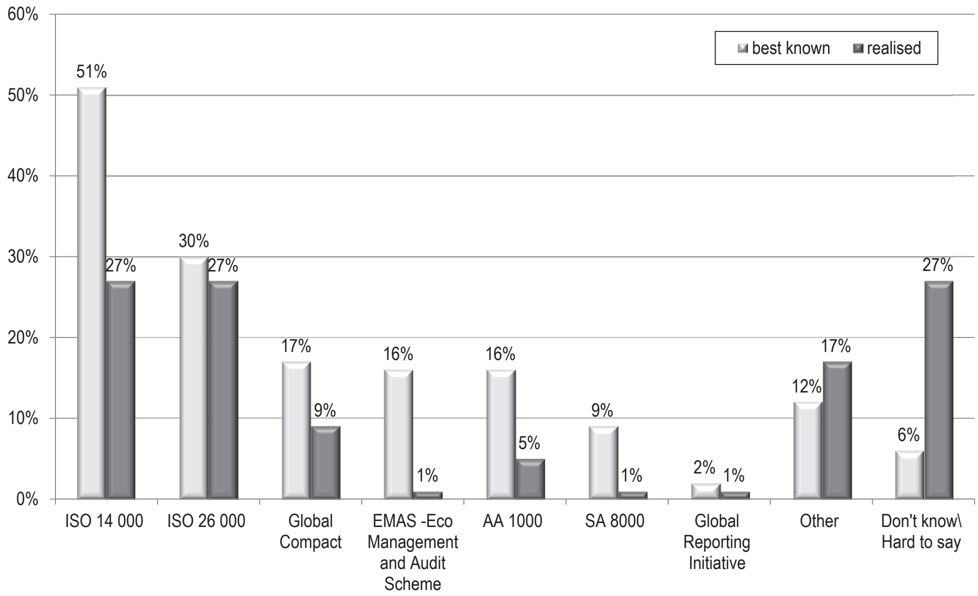

Figure 1. Best known and realised international CSR guides and standards (%)

Source: the authors' own compilation on the basis of (PARP, 2011).

A little more than a half enterprises in the national sample whose representatives were aware of the concept of the Corporate Social Responsibility and declared their firms were implementing such actions in line with a specific standard were carrying out actions related to the Corporate Social Responsibility in line with either of the ISO standards. Precisely 27% firms selected ISO 26 000 and ISO 14 000 each. Every ninth pointed to Global Compact. A substantial part of representatives from businesses realising actions related to the Corporate Social

Responsibility in line with a definite standard were unable to specify the standard – 27% responses.

Slightly more than two thirds of the businesses whose representatives were familiar with the notion of actions related to the Corporate Social Responsibility realised relevant activities. Micro-enterprises pursued socially responsible actions clearly more seldom than the remaining firms – barely 56% indications. The proportions were comparable in the case of the other firms and ranged from 79% to 84%.

Table 7. Application of CSR principles by enterprises according to business size (%)

Specification	National sample	Micro	Small	Medium	Large
Yes	67.0	56.0	80.0	79.0	84.0
No	27.0	38.0	10.0	17.0	15.0
Don't know	6.0	6.0	10.0	4.0	1.0

Source: the authors' own compilation on the basis of (PARP, 2011).

A majority of Polish business representatives, regardless of whether they carried out socially responsible actions or not, declared realisation of the CSR principles is beneficial to firms. 60% of the representatives in the national sample noted such benefits.

Table 8. Perception of benefits from application of CSR principles in enterprises according to business size (%)

Specification	National sample	Micro	Small	Medium	Large
Yes	60.0	58.0	65.0	65.0	76.0
No	25.0	28.0	19.0	16.0	15.0
Don't know	15.0	14.0	16.0	19.0	9.0

Source: the authors' own compilation on the basis of (PARP, 2011).

Improved company image was distinctly the most frequently noted benefit from implementing principles of the Corporate Social Responsibility – it was indicated by 74% of Polish business representatives. 58% enterprises taking part in the survey realised the benefit of increasing staff motivation. Improved revenue ranked as benefit number three – selected by 45% of firm representatives. Good relations with the environment were also mentioned relatively often – 42% choices.

Positive image and motivated personnel are the two benefits of applying the CSR selected by all businesses regardless of size. Good relations with the environment were declared as a benefit primarily by large businesses (56% indications), whereas savings arising from CSR actions were mostly appreciated by large and medium-sized enterprises (33% and 32%, respectively).

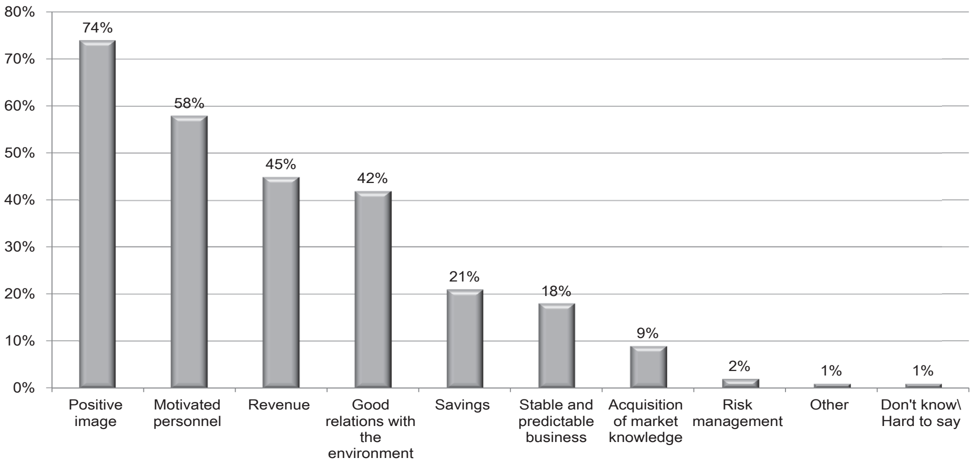

Figure 2. Most commonly perceived benefits of applying principles of the CSR (%)

Source: The authors' own compilation on the basis of (PARP, 2011).

The authors' examination of 106 enterprises active in the region of Mazovia indicates 37.7% enterprises queried indicated they do not apply principles of the Corporate Social Responsibility. Their operations are harmful to the environment and cause irreversible changes in their surroundings. To solve or prevent the problem, actions should be taken for environment-friendly enterprise management to minimise adverse effects of an enterprise on its environment. 62.3% businesses used the concept of the CSR. They abided by principles of human rights, labour standards, natural environment protection, and counteracting corruption and voluntarily conducted socially useful actions.

Table 9. Number of enterprises applying principles of the Corporate Social Responsibility

Specification	Total		Micro enterprises		Small enterprises		Medium enterprises		Large enterprises	
	Number	%	Number	%	Number	%	Number	%	Number	%
Yes	66	62.3	22	57.9	17	58.6	17	68.0	10	71.4
No	40	37.7	16	42.1	12	41.4	8	32.0	4	28.6

Source: the authors' own research.

The enterprises examined were best aware of principles introduced in accordance with ISO 14 000 (45% indications). 33% firm representatives applied ISO 26 000. Other guidelines accounted for 2–5% of the selections. A comparison of results generated by the 2011 survey and those obtained in Mazovia suggests ISO

14000 and ISO 26000 continued to enjoy a prevailing popularity with enterprises. The remaining guidelines and international CSR standards were known to and implemented by enterprises to limited extents.

Businesses were chiefly motivated to address the Corporate Social Responsibility by the need to enhance their image. As many as 90% large firms and more than 80% SMEs pointed to this benefit out of the enterprises to have implemented principles of the CSR. Improved reliability was another benefit of using the principles of the Corporate Social Responsibility, stressed by 81.8% micro-entrepreneurs, 76.5% small businesses, 88.2% medium-sized and 90% large organisations.

Enterprises attempt to improve their image since they know consumers to be increasingly aware of various threats and sensitive to any unethical behaviour. In addition to good pricing and quality, they expect products and services to be as environment-friendly as possible, give rise to positive associations and their manufacturing processes to follow the principles of the Corporate Social Responsibility. Customers and consumers appreciate socially responsible business, are more loyal to and trust responsible brands.

In the opinion of large companies (80.0%), increased investor interest and good relations with the surroundings also contribute to long-term success of an enterprise.

It should be noted investors are interested in cooperation with enterprises able to boast not only of good financial performance but also transparency and fair development of their own image and positive relations with their environment. Such responses from managers of major Mazovian businesses are proof of their growing knowledge of CSR ideas.

Table 10. External benefits of applying the concept of CSR* (%)

Specification	Micro enterprises	Small enterprises	Medium enterprises	Large enterprises
Positive image	86.4	82.4	88.2	90.0
Good relations with the environment	54.5	41.2	41.2	80.0
Stable, predictable business	22.7	23.5	29.4	50.0
Improved reliability	81.8	76.5	88.2	90.0
Efficient functioning in local communities	31.8	41.2	29.4	30.0
Improved loyalty of existing and acquiring new customers	63.6	70.5	76.5	70.0
Higher interest of investors	22.7	29.4	47.1	80.0
Other	4.5	11.8	11.8	30.0

* several responses could be provided

Source: the authors' own research.

Analysis of the external benefits derived by enterprises introducing the principles of the Corporate Social Responsibility indicates questions in the area of management and HR policies prevailed. Most micro-enterprises (68.2%) found improved working conditions to be the key benefit, while personnel of small (82.4%) and medium-sized enterprises (88.2%) began perceiving their firms as attractive employers.

Enterprises applying the principles of the Corporate Social Responsibility improve standards of conduct towards their staff, customers, business partners, etc., which protects against costs of bad partnership. These organisations base their operations on commitment, trust, respect, responsibility, and transparency for parties concerned. Reduced clashes, conflicts and opposition, as well as improved productivity are positive offshoots. A friendly and healthy workplace produces better, happier, well motivated employees, more willing and committed to work which is more productive. This also helps to acquire and retain best workers and cut costs of their turnover.

Table 11. Internal benefits of applying the concept of CSR* (%)

Specification	Micro enterprises	Small enterprises	Medium enterprises	Large enterprises
Higher wages	31.8	29.4	70.5	60.0
Improved work safety	68.2	76.5	76.5	60.0
More professional development and prospects	31.8	58.8	64.7	70.0
Improved confidence of employment	22.7	41.2	47.1	50.0
Improved welfare facilities	63.6	58.8	64.7	70.0
Improved motivation, satisfaction and commitment of staff	36.4	64.7	64.7	60.0
Greater employee identification with their firm	31.8	70.5	58.8	60.0
Firm's perception as an attractive employer	59.1	82.4	88.2	70.0

* several responses could be provided

Source: the authors' own research.

Conclusions

A capable and conscious identification and characterisation of enterprise stakeholders is the starting point for socially responsible actions. Each action of an enterprise should be oriented towards a specific goal, on the one hand, and have its 'recipients', on the other hand. New 'ideas' cannot be implemented without a conviction they will generate positive responses from an enterprise's surroundings. Therefore, observation and analysis of the environment in which an enterprise operates is an essential element. Otherwise costs of socially responsible activities will outweigh the possible benefits.

CSR is a dynamic process encompassing a number of business areas. The multiplicity of its dimensions is also proven by its benefits, effects of particular actions arising from social commitment of a firm. CSR has positive impacts on both internal and external environment of a business.

Analysis of the authors' research into 106 enterprises active in the region of Mazovia and results of the national survey show the hypotheses posited in this article have been proven to be correct. These results demonstrate:

1. There is a close dependence between size of an enterprise and application of the CSR concept. The larger an enterprise, the more likely it is to implement CSR. In Mazovia, as many as 71% large enterprises examined applied CSR ideas, with the narrowest share among the micro-enterprises (58%). This dependence conforms to the country-wide results, with large firms leading the way on implementation of CSR and micro-enterprises lagging in this respect (70% and 26%, respectively).
2. Good company image (74%) and good relations with the environment (58%) were the key benefits indicated as part of the national survey. These benefits played a significant role in enterprises based in the Mazovian region as well. All businesses (regardless of size) to have applied the principles of the Corporate Social Responsibility believed the concept helps to improve image of an enterprise (an average of 87% indications). Improved reliability (84% on average), enhanced loyalty of existing and acquisition of new customers (70% on average) were additional evidence of growing consumer trust in these organisations and benefits of implementing the CSR.
3. Motivated workers (58%) were the key benefit to polish enterprises, whereas those in Mazovia appreciated perception as an attractive employer the most (75% on average).

A striking similarity can be noted between results of the national and the authors' research in the Mazovian region. In both cases, external benefits related to improved market standing of enterprises, with internal benefits associated with HR policies.

It must be emphasised that benefits of applying the concept of the Corporate Social Responsibility only become apparent in the long term, not immediately on undertaking of socially responsible activities.

'The long-term benefits can be achieved since CSR is seen as a tool for attracting, motivating and retaining talented personnel, drawing consumers, improving business reputation or reducing costs through efficient management of environment initiatives' (Roberts & Dowling, 2002, p.1079).

It is also of paramount importance that socially responsible actions are not carried out on a random or one-off basis, since then they may be perceived as attempts at boosting profits, not building a strategy of Corporate Social Responsibility. It should be kept in mind that socially responsible acts serve not exclusively to enhance the image dimension.

It must be hoped that, as Polish enterprises operate in the free-market economy longer, the CSR will become a standard element of their development strategies and actions undertaken as its part will be seen to generate substantial benefits.

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Alfreda Kamińska[1]

CONDITIONING OF INNOVATIVENESS GROWTH OF ENTERPRISES IN POLAND[2]

Abstract

Innovativeness activity of enterprises is stimulated by a number of factors which have their source inside the company or its surroundings. The aim of the article is to specify the determinants stimulating innovativeness of industrial enterprises in Poland, on the bases of survey research conducted among entrepreneurs. Factors which are perceived as the most favourable for the growth of innovativeness in industrial enterprises are: existing atmosphere of mutual trust between employees, especially executive employees, and managerial staff as well as possession of their own financial resources. The respondents emphasise the significant role of competition in stimulating innovativeness. Awareness of the enterprise concerning innovativeness activities of competing companies and market pressure on constant improving of products are perceived as other important stimulators of introducing of product and process innovations in industrial companies.

JEL Classification Codes: **L60, L03.**

Keywords: innovations, innovativeness, conditioning of innovativeness, innovativeness stimulators.

Introduction

Poland takes relatively low position as far as innovativeness in European and world rankings is concerned. According to the latest Bloomberg's ranking, Poland

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[2] The research conclusions presented in the article are a result of works within the research project entitled „The conditions of dynamising innovativeness in Polish industrial enterprises". The project was financed from the resources of the National Centre of Science assigned on the basis of decision no DEC-2013/09/B/HS4/02700. The manager of the project is Prof. Stanisław Sudoł, dr h.c.

takes 24th position among 50 countries (Bloomberg, 2014). However, according to the summary innovation index (SII) for EU countries, Poland belongs to the group of „moderate innovators" and takes 5th position from the bottom of the list (European Commission, 2015). Hence, one of the key objectives of Polish economy for the next years is the growth of innovativeness of enterprises, which was reflected in the Strategy of the Country Development 2020 as well as in action undertaken within Union programmes implementing. The first to connect innovations with the theory of economic growth was Schumpeter (1960). At present EU considers innovations and competitiveness as key factors of economic growth, and special role in the range is assigned to radical innovations, which create new markets, facilitate development of enterprises and simultaneously economic growth (Tellis, Prabhu, Chandy, 2009). Innovative activity of enterprises is determined by a number of factors creating a group of barriers or stimulators. Researchers are more often interested in barriers of innovation implementing, overbearing which should result in innovativeness growth of enterprises, which in turn will be reflected in the growth of innovativeness of the region and the country (Kamińska, 2014).

The aim of the study is to identify the factors which stimulate innovativeness of industrial enterprises in Poland basing on survey research (Kamińska, 2015).

1. Stimulators of innovativeness growth of enterprises

Stimulators of innovative activity may have their source inside the enterprise itself and result from its resources such as intellectual, financial, and real capital, organisational culture and the owner's and executive staff's characteristics. The uniqness of resources and the fact, that the enterprise usually influences forming of the internal innovative potential, causes the fact that, in the literature from the field of management, the role of internal conditioning of implementing innovation is particularly emphasised. (Pichlak, 2012).

The greatest responsibility for forming organisational culture is assigned to executive staff of the highest level, who sets directions and conditions of development. Detailed comparison of the direction of influence of internal factors on innovativeness of enterprises has been prepared basing on the literature on the subject by M. Pichlak (2012), accounting for the following internal determinants: research resources (human, real and financial capital), communication system, organisational culture, leadership style, characteristics of the members of the managerial team, the kind of organisational structure, creating of inter-organisational connections. Higher level of expenditure on research-development activity, technical support, employing highly qualified employees, effective communication system, transformation leadership, and specialisation of enterprises translate in the researchers' opinion into the improvement of the level of innovativeness of organisation, being stimulator of innovative activity. On the grounds of the subject literature, it can be stated that, in case of some of the factors, the direction of their influence on the level of innovativeness is not always explicit. It refers to e.g. the age and work experience of the members of the managerial team, the level of diversification of executive staff, creating inter-organisational connections, for which it cannot be clearly deduced if they are stimulator of barriers of innovativeness. The forgoing indicates the need for continuing research of factors which determine innovative activity of enterprises.

Tidd and Bessant (2011) based on the study of the subject literature determined a number of the following integrated elements creating internal environment facilitating innovative activity:

- Common vision, leadership, the will of being innovative, engaging all the employees in the realisation of the strategic aim,
- Appropriate organisational structure facilitating creativity, science and interactions,
- People who activate and simplify implementing of innovations (including promotors, business innovators, champions, technological gatekeepers),
- Effective team activities, often connected with the need to invest in the team building,
- High level of engagement in innovations in the whole enterprise,
- The atmosphere of creativity with positive attitude towards ideas supported by appropriate motivating,
- Focusing attention on the surroundings signifying orientation on external and internal clients, extensive contacts and cooperation.

Research conducted in 249 companies from Silesian voivodship indicate that internal factors which facilitate and stimulate innovations the most is the support of executive staff (rating 3,42 in the scale of 1 to 5), availability of funds (3,24) and the level of communication inside the company (3,13). According to the respondents the smallest influence has cooperation with science and research institutions (1,82) and existing legal regulations (2,34) (Kraśnicka, Ingram (red.), 2014).

Second group of stimulators of innovative activity derives form organisation surroundings. Competitive environment is created by existing and potential competitors, suppliers and clients (Romanowska, Gierszewska, 2009), who are often initiators of introducing innovative changes in the company. Also economic, technological, social, demographic and political-legal factors belonging to the macro-environment can have stimulating or suppressing influence on generating or implementing innovations. Characteristic of macro-environment is strong influence on activity and possibilities of company development, usually accompanied by the lack of influence of organisation on forming it.

A significant group of stimulators of innovativeness can be generated by meso-environment created by regional environment factors, including activity of institutions from business surroundings providing services for companies and local authorities, which especially in the recent years have disposed of a number of means allowing for the growth of innovativeness of companies (Kamińska, 2011).

One of the conditions of innovativeness of enterprises growth is the improvement of cooperation between the sphere of science and business (Kamińska, 2013). S. Szultka together with his team identified a group of factors which stimulate transfer of technology from the research-development sphere to enterprises (2008). The most important stimulator of technology transfer is competition as well as petering out of simple reserves of competitiveness improvement. Next place is taken by financial factors – easier access to public resources for innovation and research as well as changes to tax law, also debureaucratisation of economy. The respondents emphasise the role of competition in making decisions by the companies referring innovating solutions and technology transfer. Competition itself is the main driving factor of innovative changes. An easier access to public resources for innovative and research-development activity is especially important in case of small and medium-sized businesses, in view of their limited financial potential and the fear of taking a risk.

Learning the factors which dynamise innovativeness of companies is a necessary condition to develop recommendations for changes in innovative policy of the country and regions.

2. Dynamising innovativeness factors in Polish industrial companies – research results

The aim of survey research was to learn factor which facilitate and suppress product and process innovations in Polish industrial companies as well as to learn the opinions of the companies on the suggested changes aiming at dynamising of innovativeness of Polish industrial companies.

In the research the definition of innovativeness suggested by *Oslo Manual* developed by OECD and Eurostat was used. Innovativeness should be understood as implementing a new or significantly improved from the point of view of the company product, process, marketing method or an organisational method in economic practice, work place organisation or relations with environment (*Oslo Manual*, 2005). The subject of presented consideration is technological (product and process) innovations, which are the most often implemented in industrial companies.

The research was conducted in 100 industrial companies and referred to four selected groups of factor determining implementing innovations in industrial companies: factors concerning employees and executive staff, financial conditions, research-development activity of the company and market conditions.

In each of the enumerated groups a few factors were defined, whose significance was rated on the scale from 0 to 5.

The respondents consisted of executive staff of industrial companies, where 47% of the surveyed are the company owners, 39% are in the position of a chairman or director, and 14% work on the position of higher rank manager and manages part of the company.

Micro-companies constituted 20% of the researched sample, small businesses 30%, medium-sized 40%, and large enterprises 10%. In the researched sample, food industry was the most highly represented (19%), next mechanical industry (14%), clothing and textile industry (13%), building materials industry (12%), timber industry (8%), metal, tool (7%), chemical, electro-technical and pharmaceutical (5% each). Other industries constituted 12%.

3. Factor referring to the employees and executive staff

In the area of this part of the research, eight factors facilitating innovations referring to employees and executive staff were evaluated by the respondents. In the opinion of the respondents, the most important factor facilitating taking up and realising innovations is the presence in the company of mutual trust atmosphere between the employees and the executive staff. Up to 85% of the respondents chose high or very high significance of that factor.

Analysis made by Dworak (2011) indicate that the higher level of trust there is in a country, the higher level of innovativeness. Trust is formed by characteristics such as honesty, loyalty, suitable competence. Trust allows for courageous presenting and implementing of innovative ideas without fear of losing salary or job.

Another most often mentioned factor of a high or very high significance is having high qualified engineering employees, capable of realisation of important product and process innovations (61% answers – high or very high significance). That answer indicates the need to adjust education to the needs of enterprises.

The respondents emphasise the key role of executive staff in implementing innovations and mention focusing the senior management on innovations as the third very important and important factor in implementing innovations (59% of responses). The owner and the managerial staff decide especially on the directions of the company development and innovative activity. Next most significant stimulators of innovativeness the respondents identify the activities of the managerial staff in the range of formulating and realisation of innovative ideas as well as stimulating innovators to high effectiveness through adequate remuneration.

According to the respondents, it is less important to stimulate innovators to high effectiveness through assigning them a high prestige, as well as creating by the company favourable conditions to improve creative qualifications of the employees.

The research results indicate the key role of senior management, whose direct engagement in the process of creating innovations, creating the atmosphere of mutual trust, employing highly qualified engineers, are significant factors of success in the form of growth of innovativeness of industrial companies. Senior management is perceived by the respondents as initiator and main driving force of innovativeness.

4. Factor concerning financial conditioning

In the opinion of the respondents, the most important financial factor which stimulates product and process innovations in their companies is possession of the company's financial resources for realisation of innovations (68% indications to high and very significance). Such conviction results from the fact that, as research shows, small and medium-sized businesses have limited possibilities of obtaining credits and loans from outside (Kamińska, 2011). The other two factors: obtaining significant financial support from public resources (state, local or Union) as well as obtaining by a company tax relief for the acquisition of new technologies are ranked at the second position and have similar evaluation rates – 58% and 57% responses respectively.

5. Factors concerning research-development activity of enterprise

From the seven enumerated factors, in the opinion of the respondents, the most important influence on undertaking and realisation of innovations is the awareness of the enterprise of innovative actions of competitive companies (52% indications to very high and high significance).

Second most appreciated stimulator concerning R&D activity emphasises the significance of knowledge of the company's functioning and implementing of innovations. The respondents are convinced that the awareness of the research and development trends in the field of conducted activity in the country and in the world highly and very highly stimulates undertaking product and process innovations in their companies (42%). The factor of success in the researched area is possession of well-equipped R&D cells by the company (42% responses – very high or high significance). For 37% of respondents effective cooperation in the scope of innovation with research units results largely in the growth of innovativeness of the enterprises.

Whereas the researched companies do not appreciate cooperation in the range of preparing and implementing innovations with other Polish companies based on e.g., strategic alliances, consortiums, or clusters and consider that factor as the least important (24% of indications).

6. Factor concerning market conditionings

Among market stimulators of innovativeness growth of industrial companies, the most important appeared the existence of strong competition creating pressure on continuous development and increasing competitiveness of products and services (75% indications to very high and high significance). Fast technological progress existing in an industry is the second most important market factor imposing product and process innovativeness (63% of responses). In the opinion of respondents a little less significant (61% indications to very high and high significance) is the necessity to lower the costs through innovations on account of price competition.

Conclusions derived from pre-emptive market analysis conducted by companies are less stimulating factor to implement innovations, as well as export development.

The above results indicate that implementing of innovations in companies takes place under the influence of strong competition and technological changes, it is not however, the effect of realisation of development and innovation strategy. Research by Orłowski, Pasternak, Flaht and Szubert (2010) indicate that businesses seldom develop long-term strategies, and furthermore they are not based on strong and weak sides of the enterprise. The lack of knowledge of the market and clients as well as the strategy of development poses a great barrier to the innovativeness of companies. Especially in small businesses, obtaining information about clients' expectations allows for quick improvement of the process of servicing clients and the offered products. Small businesses should be characterised by flexibility of actions and special closeness with clients, which allows for meeting the changing expectations and tastes of clients (Hausman, 2005).

As part of their own propositions from the area of market stimulators of implementing innovations, the respondents emphasised the necessity to apply market tools by the companies, including market communication with clients, participation in fairs, and following trends and fashion.

The respondents also had the possibility to list other stimulators of implementing of product and process innovations. The responses referred to expectations of the enterprises regarding lowering the taxes and ZUS contributions, changes to labour law as well as general policy regarding enterprises conducted by the state into more friendly. The respondents emphasised the need to shorten the deadlines of payment of debts, because the current long terms of payments result in problems with keeping the financial liquidity.

Conclusions

The factor which is perceived as the most facilitating undertaking and realisation of innovations in industrial companies is the existence of mutual trust atmosphere between the employees and executive staff. 85% of respondents consider this factor in the context as highly or very highly significant.

In the other included in the research areas, the following factors are considered to be the most facilitating undertaking and realisation of innovations in industrial companies:

- In the area of financial conditioning: possession of sufficient financial resources for realisation of innovations,
- In the area of research and development activity of a company: undertaking works on innovations because the awareness of the company of innovation activity of competitive companies,
- In the area of market conditionings: encountering by the company's products or services strong competition, which puts pressure on continuous development of the products and services, so that they could be competitive.

Referring to various types of propositions of changes which aim at dynamising innovations in Polish industrial companies, the respondents accepted in the highest degree the following:

- The proposition to mobilize creators towards innovative actions through significant remuneration (bonuses) for effective inventions – acceptance at the level of 95,0%;
- The proposition to oblige the state to financially support the funding of small innovative businesses – acceptance at the level of 87,0%;
- The proposition to oblige the state to financially support the research and development activity of industrial companies – acceptance at the level of 87,0%.

It should be emphasised that the presented conclusions are the result of the first part of the research conducted among industrial enterprises. Comprehensive research includes using Delphic method and interview with scientific units and they are in progress.

However, already on the present stage it can be stated with confidence that improvement of innovation of industrial companies in Poland is only possible under the condition of increasing the state support for innovation activity of companies with simultaneous change of attitude towards innovations of the companies themselves, which should treat innovativeness as an element of the enterprise growth. Meanwhile, as presented results show, a number of companies introduce innovations in fear of losing the market – as a response to the competitors' actions, not from their own need to develop or will to improve their competitive position. The obtained results are not very optimistic and indicate clearly that the researched businesses do not possess sufficient information about the markets or clients. The researched companies are often forced to increase innovativeness by micro-environment, whereas they are not initiators of implementing innovation as a result of undertaken strategy of development.

Therefore, there is a need to spread among the company owner, managerial staff, and other employees of the companies the innovation awareness, including the significance of innovativeness in the life of individuals as well as its results in the shape of growth and development of companies, countries and regions.

Entrepreneurs emphasise the need to create effective incentives, including among other adequate remuneration of innovators, which will mobilise the creators to innovative actions.

The research results clearly show that the current EU, state and local authorities aid in financing of innovative and research and development activities is insufficient. The entrepreneurs await tax reliefs, decreasing taxes and other financial incentives, which in their opinion would dynamise conducting of research and development works and implementing innovations.

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Marcin Leśkiewicz[1]

CORPORATE INCOME TAX IN POLAND IN COMPARISON TO EUROPEAN UNION COUNTRIES

Abstract

Corporate income tax is an important part of the tax system. It is also important source of budget revenues. In the European Union, Corporate Income Tax is not strictly standardised, which allows the governments of individual countries to pursue their own policy in this regard. The purpose of this paper is to identify similarities and differences in Corporate Income Tax and its construction in Poland and compare it with French, British and German CIT's. In this article subject, object and rates of the tax were presented, which vary depending on the country. Another important part of this work is to present the taxation of dividends in studied countries. Taxation of dividends is a controversial phenomenon and this is the reason why it is often mentioned by economists and politicians. The article also present the share of the corporate income tax in total tax revenues and total budget revenues.

JEL Classification Codes: **H200, H250.**

Keywords: Corporate income tax, CIT, Business taxation.

Introduction

Each country to be able to fulfil the policy of its government imposes certain taxes on its citizens and on the general transactions in the particular area. They are benefits, which provide money to the state or other public-low units, and they are compulsory, public, non-refundable, and unpaid. They are charged on the basis of the relevant regulations (Wolański, 2009, p. 18).

Taxes collected in particular time, in particular state creates tax system (Wach, 2006, p. 16). One of the elements of this system is income tax.

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The subject of this research is corporate income tax (CIT), which is in force in Poland, Great Britain, France and Germany.

The purpose of this paper is to present the differences in taxation of legal entity in Poland, and enterprises in three countries with the highest GDP in the European Union, namely in Britain, France and Germany (GDP and main components, 2015).

The problem of the research is to confront the differences and similarities in the structure and share of CIT in the budget revenues in selected countries and identify solutions used by analysed countries in order to solve the problem of double taxation of income related to the dividend payment.

1. Related work

The concept to show the construction of CIT, in different countries, is not new. Authors of articles often based their research on CIT rates. Sometimes they do not analyse the tax base, which is important because it could include obligatory relief applied by some countries. It may affect a significant distortion of research results (Furman, 2012).

Some research is conducted in order to determine the nature of the fiscal policy by individual countries. It consists mostly on the analysis of tax competitiveness between countries (Cosme, 2015).

Frequent change of tax law inspires subject investigators to continue the analyses related to the CIT. This results in an apparent reproduction already examined subjects. In practice, the variation of tax law significantly hinders the reproduction of old research.

Those article are closely related to the following works: Wach (2006), Skrok (2007) and Kulawik, Lelong, Pawłowska-Tyszko and Soliwoda (2013). Listed authors research had been done many years ago and needs to be updated.

The subject of this study is important because the reduction to only four countries of the European Union allows to make a more detailed analysis of the CIT than it was made in most other studies. In addition, a comparison of the corporate taxation can help companies decide about the possible to expanding business in the analysed countries choosing the one that imposes on companies lowest rates of taxation.

There are following methods used in the paper: in-depth study of literature and analysis of legal acts of individual countries.

Analysing the individual countries is essential to identify subject to CIT. In general terms, subject to CIT are legal entity. It should be noted that English CIT refers to a tax that companies pay on their profits. This means, therefore, that the subject of taxation in each country will be slightly different because as the example of Poland presents, legal entity is a term indicating not all partnerships and not only partnerships (Krajewska, 2010, p. 115).

For the purposes of the analysis the definition of CIT subject is necessary. In general, it could be specified that the subject to taxation is the enterprise's income understood as a revenue surplus over tax deductible expenses, in a particular financial year (Rosiński, 2008, p. 57). However, it is necessary to verify if the source of income or expenses affects the amount of income, which is the basis for taxation and which rates are used in each country. At this point, it could be seen a problem related to the double taxation. Part of the profit can remain in the entity, and some are paid to the owners as a dividend. The owners as natural persons are burdened with a different form of income tax, and dividend, which is already taxed increases their income which is the base for tax charge. Some countries agree to practise double taxation, while others are implementing systems that allow to minimize or totally eliminate it. There are following systems of dividend taxation (Krajewska, 2010, p. 116):

– classical system of taxation – enterprise profit is taxed regardless of the purpose, and additionally the income tax is imposing on revenues of shareholders,
– modified system of taxation – double taxation is like in the classical system, but the basic difference is the lower tax rate on dividend compared with tax rate on retained earnings in the enterprise,
– partial deduction system – enterprise income tax rate is unchanged, but the tax rate of personal income tax which is applied to shareholders, is reduced (Head & Krever, 2009, p. 413),
– partial assignment system – company incomes are subject to corporate income tax, and a dividend is subject to the progressive personal income tax reduced by previously paid taxes,
– the initial system of taxation – dividend is subject to CIT but only as a part of enterprise income, however it is not subject to other taxes,
– system of total assignment – dividend is taxed as a shareholder's income and it is not a subject to CIT,

The issue of double taxation is the issue of economists debate. The economic fact is its use in most civilized countries in the world nowadays.

Income from CIT is paid directly to the country budget. To determine the significance of the examined tax, it is necessary to examine the size of the budget income and the share of this tax in combination with other budget receipts.

For the purpose of this paper the following hypotheses were posed:

- **H1**: In each researched country there is a group of CIT subjects, which are equivalent for Polish legal entities in law.
- **H2**: The income, understood as a difference between revenues and incurred costs, is a CIT object in each researched country.

- **H3**: Each country included in the research has certain mechanisms to avoid or minimise the effects of double taxation of profits paid out as dividends.
- **H4**: Revenues from CIT in researched countries budget are low and do not exceed 20% of all tax budget revenues

2. Corporate Income Tax In Poland

Subject to CIT are: legal persons, share-holding companies, some organizations that do not have legal personality and organizations that do not have legal personality, but their main office or board of directors is located in a different country and according to law of that place, they are treated as legal persons (Ustawa *o podatku dochodowym od osób prawnych*, Art. 1, ust. 1–3).

Subject of Corporate Income Tax are all revenues, regardless of the place where they are earned, but only when the board of directors or taxpayer's main office is in Poland (Ustawa *o podatku dochodowym od osób prawnyc*h, Art. 3, ust. 1). If the board of directors or taxpayer's main office is located outside of Polish territory, then the subject to taxation is income earned on Polish territory (Ustawa o *podatku dochodowym od osób prawnych*, Art. 3, ust. 2).

Income which is subject to CIT, is a difference between revenues and tax deductible expenses after excluding exempt income (Ustawa *o podatku dochodowym od osób prawnych*, Art. 18, ust. 1, pkt 1).

CIT which is in force in Poland, is a flat tax, whose rate is 19% (Ustawa *o podatku dochodowym od osób prawnych*, Art. 19).

In Poland, CIT initially charges incomes of legal persons, and next, all incomes from dividends of shareholders. This means that there is a classical system of taxation in Poland (Wach, 2006, p. 58).

Budget revenues from CIT in years 2012–2013 amounted to 25.1 billion PLN (Sprawozdanie z wykonania budżetu państwa, 2012) and 23 billion PLN (Sprawozdanie z wykonania budżetu państwa, 2013).They were consecutively accounted for 10% and 9.5% of tax revenues.

Expected budget revenues from CIT in years 2014 – 2015 amount 23 billion PLN (Załącznik do Ustawy Budżetowej, 2014) and 24,5 billion PLN (Załącznik do Ustawy Budżetowej, 2015).These revenues are consecutively accounted for about 9.4% and 9% of tax revenues.

Analysing the amount of budget revenues from CIT it can be noticed that these revenues in years 2012–2015 in value terms are at the similar level. In years 2013–2015 the share of the CIT in total tax revenues consecutively decreased by 0.5%, 0.1%, 0.4%, in comparison with previous year.

CIT rate, which remains at the same level and changes in public budget connected to it may also mean the stability of Polish fiscal policy. It should be noted that this approach is focused on the CIT and further analyses are required to compare it to other forms of taxation.

3. Corporate Income Tax in Great Britain

CIT entities in Great Britain are share-holding companies and authorized unit trusts which are British residents (Snape, 2014).

Subject to CIT is revenue generated by mentioned companies and funds.

CIT rates in Great Britain vary depending on the activity of the company. In this case entities are divided into (Corporation Tax rates and reliefs, 2015):

– entities which are not involved in oil extraction,
– entities which are involved in oil extraction.

Till the end of March 2015 CIT in both cases there was a progressive tax. Apparently, tax rates and tax thresholds were different depending on the activity of the company. From 1st April 2015 entities, which were not involved in oil extraction are charged a flat rate tax of 20%. For other companies, this tax remains progressive.

It should be remembered that in case of companies, which are not involved in oil extraction, change from CIT to flat tax can be only temporary because tax rates and tax thresholds are determined from year to year and they concern exact financial years, which begin at 1st April and end at 31st March (Wach, 2006, p. 353).

Table 1. CIT rates of enterprises involved in oil extraction in Great Britain in 2015

Tax base	Tax rate (%)	Possible relief
300.000£ or less	20	Not available
Above 300.000£, but less than 1.500.000£	21	Yes
1.500.000£ or more	21	Not available

Source: Corporate Tax rates and reliefs. (n.d). Retrieved September 20, 2015, from https://www.gov.uk/government/publications/rates-and-allowances-corporation-tax/rates-and-allowances-corporation-tax

Companies, which are involved in oil extraction are burdened with progressive rate of CIT. Tax thresholds and tax rates are shown in table 1. It should be noticed that companies whose income is higher than £ 300,000 and lower than £ 1,500,000 is taxed at a rate of 30%, but it is possible to get a relief that reduces tax liability. It can be calculated by the given Formula 1:

$$R = \frac{11}{400} \cdot \big(LV - (P + FII)\big) \cdot \frac{P}{P + FII}$$

where:
R – amount of relief,
LV – limit value which is 1 500 000 £,

P – taxable profit,
FII – Franked Investment Income.

Subject to CIT is profit, understood as the difference between revenues and tax deductible expenses, and so-called Franked Investment Income, or revenue passed from one economic entity to another, usually in the form of dividend (Finance Act 2014, section 279G).

In Great Britain in force is system of partial assignment of dividend. The company profit is taxed regardless of the purpose. After payment of a dividend, shareholder can get relief that allows a significant reduction of tax liability (Income Tax rates and Personal Allowances, 2015).

Budget revenues from CIT in years 2011–2012 and 2012–2013, consecutively, amounted £43.1 billion and £40.4 billion. The share of CIT in tax revenues was amounted at 7.8% and 7.3%.

Planned budget revenues from CIT in years 2013–2014 and 2014–2015 amount £ 40.1 billion and £ 41.4 billion. It consecutively accounts for 6.9% and 6.8% of tax revenues (Budget 2013, p. 102).

Regulations in British law facilitate the government fiscal policy via the allowance to systematic changes in taxation rate (1st April of each year). Despite recent changes that were carried out – introduction of linear tax for non-oil industry, budget incomes remained at similar level. It implies the stable fiscal policy of the United Kingdom in recent years. However, further and deeper analyses should be conducted to gather additional information about this phenomenon.

4. Corporate Income Tax in France

Subject to CIT in France are not only legal persons, but also individuals in certain cases. To legal entities that are taxable we can include (Ambasada Rzeczypospolitej Polskiej we Francji, 2010, p. 82):
- joint-stock companies,
- simplified joint-stock companies
- limited joint-stock partnerships
- limited liability companies,
- cooperatives.

Natural persons who may be subjects to CIT are partnerships in situation when their object of economic activity is trade or production (*Ambasada Rzeczypospolitej Polskiej we Francji*, 2010, p. 82).

Subject to CIT is income, understood as revenue surplus over tax deductible expenses, earned in a given financial year, but only from incomes earned in France. Income earned by French companies from sources outside the country, is not taxable. CIT also charges income of foreign companies, which were earned in France (Ambasada Rzeczypospolitej Polskiej we Francji, 2010, p. 82–83):

$$CIT_{Due} = Base \cdot CIT_{Rate} \cdot (1 + SSC + EC_{Rate})$$

where:
CIT_{Due} – CIT due,
Base – tax base,
CIT_{Rate} –CIT rate,
SSC – social security contribution (if the turnover at the given financial year is over 763 000.€),
EC_{Rate} – rate of exceptional contribution on CIT (if the turnover, at the given financial year is over €250 mln).

Source: own elaboration.

CIT rate in France, in most cases is 33.33%. However, if the annual turnover of the entity exceeds € 763,000, then the tax liability is increased by 3.3% of additional social contribution, calculated as a percent of the tax due. At that time, the effective CIT rate is amounted to 34.43%. In entities, where turnover exceeds €250 mln, the tax liability is increased by additional 10.7% of exceptional contribution calculated on the basis of CIT due, along with social security contribution, but before the application of relief. Then the effective rate of CIT increases to the level of 38%. The formula for calculating the tax liability shows Formula 2 (Deloitte Touche Tohmatsu Limited, 2014).

Small and medium-sized enterprises can take advantage of reduced, progressive rate of CIT. Incomes which don't exceed €38.120 are taxed at the rate 15%, and the excess is taxed at the rate of 33.33%.To qualify entity as small or medium-sized enterprise it has to fulfil following conditions (Deloitte Touche Tohmatsu Limited, 2014):

- employs less than 250 people,
- total turnovers do not exceed €50 mln and / or annual balance sheet does not exceed €43 mln,
- has to be subject to CIT,
- turnovers at the given financial year do not exceed €7.63 mln,
- at least 75% of shares are owned by natural persons or partnerships that meet the above requirements

In France there is a system of partial assignment of dividend. The company profit is taxed regardless of the purpose, and then, received by shareholder dividend is subject to personal income tax, which in some cases is reduced by part of tax that has already been paid by the company (Lazar, 2010, p. 209). Relief of up to 95% is granted to those, who own at least 5% of the shares for at least two years (Deloitte Touche Tohmatsu Limited, 2014).

Revenues from CIT in France in years 2012 and 2013 amounted €40,8 billion (Le budget 2014, 2014, p. 12) and €47,2 billion (Le budget 2014, 2014). It consecutively accounts for 15.2% and 16.6% of total budget tax revenues.

Planned revenues from CIT for years 2014 and 2015 were set at the level of €38,9 billion and €33,1 billion. This will be accounted for 13.7% and 11.9% of total budget tax revenues (Le budget 2014, 2014).

The share of the CIT in total tax revenue in year 2013 was 1.4% higher in comparison with previous year, and in subsequent years there has been a decrease of 2.9% and 1.8% in comparison with previous years. In value terms, in years 2013–2015 budget revenues from CIT are significantly decreasing. The reason is probably the will to increase the tax competitiveness of the country.

The revenues from the CIT tax in 2012–2013 might mean the expansive fiscal policy of the country. Significant decrease in revenues in following years may also be seen as a trial to further changes in fiscal policy – from expansive to a restrictive one. Moreover, fiscal policy change in 2013 covers not only CIT but other taxes as well. The confirmation may be found in the increase of budget incomes from CIT by €6,5 billion (trillion – jeżeli w całości pracy masz AmE) constituted only 1,5% increase compared to other taxes. In 2014 the increase of budget incomes from CIT by €8 billion constituted 3% increase compared to other taxes. The disproportion in a decrease in budget incomes betweed CIT and other taxes signals the change in fiscal policy of France towards more restrictive one.

5. Corporate Income Tax in Germany

Subject to CIT in Germany are share-holding companies with their main office or executive board office in the territory of the country, and non-resident partnerships that have their plants there. In the first case, all partnerships are taxed, and in the second case, only those which generate their incomes in the state. Legal entities in Germany are (Wach, 2006, p. 258–259):
- joint-stock companies,
- limited liability companies.

Subject to CIT is income derived from commercial activities. The tax base is calculated by adjusting the carrying amount to the tax value (Invest in Poland, 2012, p. 18).

In Germany, CIT is a flat tax at a rate of 15%. However, the tax liability should be increase by 5.5% of solidarity surcharge. The basis for its calculation is CIT. Thus, the effective rate of CIT is 15.825% (Luxemburg investment funds, 2013).

In Germany, there is also the trade tax, charged on natural and legal entities. The rate of this charge depends on the policy of local authorities. The average rate is 17.15% (Luxemburg investment funds, 2013). The tax base is income from economic activity, which is result from commercial activity respectively reduced or increased. Taxable are only current profits and therefore there are excluded all extraordinary operations, e.g. relating to the sale of the company or its part (Invest in Poland, 2012, p. 21–22).

In Germany there is a system of partial deduction of dividend (Lazar, 2010, p. 209). Profit in the enterprise, regardless of the purpose is subject to CIT, while some stockholders are entitled to reduction of tax liability. If the company which receives a dividend is a resident in Germany then it is possible to write off 95% from 26.375% of effective tax from capital gains. The remaining 5% is taxable income (Invest in Poland, 2012, p. 19).

If the shareholder is a natural person, then it is required to pay 25% capital gains tax and 5.5% of solidarity tax. In consequence, the effective rate is 26.375%. Natural person is not possible to reduce this tax liability.

Non-resident enterprises in Germany are not entitled to a deduction. As a result they have to pay 26.375% of effective tax rate (Luxemburg investment funds, 2013, p. 6).

Budget revenues from CIT in Germany, excluding taxes from local authorities, in 2012 and 2013 amounted to € 16.93 billion (January 2013 monthly report, 2013) and €19.50 billion (January 2014 monthly report, 2014). It was consecutively accounted for 3.9% and 4.4% of total tax revenues to the budget.

Estimated budget revenues from CIT for years 2014–2015 amount to €20,04 billion (January 2015 monthly report, 2015) and € 20.8 billion (July 2015 monthly report, 2015). This will be accounted for 4.1% and 4.3% of total tax revenues.

The share of the CIT in total tax revenue since year 2012 remains at the similar level of around 4%. In value terms, it should be noticed that budget revenues significantly increased from almost € 17 billion to nearly € 21 billion in reported period. CIT is a significant share of total tax revenue, an increase of budget revenues from this tax can be a sign that the German economy is developing.

Conducted analysis does not provide enough evidences for changes in the fiscal policy of Germany. Further research covering other taxes along with CIT are necessary to confirm or reject the hypothesis.

Discussion

CIT is one of the most controversial tax. This is mainly because it is difficult to determine the tax base – tax income is different from balance sheet. Furthermore, arguments against CIT are: the possibility of tax avoidance and double taxation of dividend (Janik & Paździor, 2014, p. 61).

It can be found many opponents of the institution of income tax all over the world. This is related to the fact that the subject to taxation is income, which is the result of work. Moreover, taxation of income can provide demotivating effect on willingness to obtain higher profits, especially when countries apply progressive tax scale and higher profits would involve with a higher tax rate (Ljungqvist & Smolyansky, 2016).

Taxation of income taxes at national and local level (as is the case in Germany) may contribute to discourage minor foreign investors to open a business in a particular country due to the difficulties associated with the correct determination of the amount of tax liabilities. On the other hand, that solution may be a tool for protectionist policies of the country.

Conclusion

Research has led to overthrow of the first hypothesis according to which in each researched country there is a group of CIT subjects, which are equivalent for Polish legal entities in law. Partnerships are also subject of CIT in France and Germany. It should be noted that some forms of companies are characteristic for the particular country and cannot be found in any other analysed country, e.g. simplified joint-stock companies only occurs in France.

In general the second hypothesis, which assumes that the income, understood as a difference between revenues and incurred costs, is a CIT object in each researched country, is confirmed and considered that the object of taxation is income. However, some countries consider as taxable income after optional relief. It would be more accurate to define the tax base of CIT as income reduced by possible relief. It should be noted, that the method of calculating the income in each state, is a bit different. This is due to the different regulations e.g. in Poland and Great Britain, the tax base includes all income regardless of where it was earned while in France and Germany taxable are only incomes earned in the state.

Performed research led to overthrow of the third hypothesis assumes that each country included in the research has certain mechanisms to avoid or minimise the effects of double taxation of profits paid out as dividends. Polish is example of the country which allows for double taxation of profits paid out as dividends. In the UK, France and Germany there are the mechanisms that allow to minimize tax liabilities while reducing the effect of double taxation.

Analysis of CIT in individual countries also helped to confirm the fourth hypothesis, which specified that Revenues from CIT in researched countries budget are low and do not exceed 20% of all tax budget revenues. In Poland, the UK and Germany, budget revenues from CIT does not exceed 10% of total tax revenue. In France, revenues are slightly higher, but still maintained at the level of 10–20%.

In Poland CIT rate is relatively low compared to other studied countries and it is a flat tax, which is beneficial especially for enterprises that achieve high income. In Great Britain tax rates are progressive and high. Higher incomes cause a disproportionately higher tax liabilities. In France it is profitable to run small and medium-sized enterprises because they benefit a lower rate of CIT. After exceeding the appropriate incomes, the tax liability is much higher and it disproportionately increases with an increase of income. In Germany despite the fact that the rate of CIT is basically low, there is a big liability for enterprises in the form of the trade tax. As a result, the tax liability is very high.

In every country there is a possibility of reducing the tax base, inter alia, part or whole of the tax loss from previous years. However, only in Great Britain there are available reliefs, that allow to significantly reduce tax liabilities.

In conclusion, the construction of CIT in each of analysed countries are similar. However slight differences are associated with the taxable entities, tax rates and method for calculate the tax base, which is associated with the use of various relief. Each of analysed countries maintain budget revenues from CIT at low level. The biggest differences related to CIT are associated with attempts to minimize double taxation.

Each country is characterised by a different CIT construction. Polish construction is the simplest because of its linearity. The rate does not change according to company's size or activities. Classic dividend taxation system functioning in Poland is also the simplest among the research countries.

However, the simplest construction does not mean the most beneficial as far as entrepreneurs are concerned. It should be noted that there are systems allowing to decrease consequences of double taxation effect in France, United Kingdom and Germany. Thereby, tax burdens for entrepreneurs and shareholders are reduced in these countries.

The equal treatment of all entities subjected to CIT, regardless of their characteristics, which is present in Poland implies difficulties in fiscal policy implementations. Attempts in increasing taxation rate will face huge criticism from entrepreneurs, which are CIT payers. The introduction of certain quantifiers, such as the size or type of business allows the government to increase the taxation rate only in certain group of taxpayers. It reduces the amount of potential protests from entrepreneurs. The government may then increase the taxation rate for different group of taxpayers over time without magnified criticism. In conclusion, the government may implement expansive fiscal policy much easier in France, United Kingdom or Germany than in Poland.

If the European Union Member States agreed to deepen integration a one of its aspects may be common fiscal policy. Due to the variety of companies within the meaning of CIT's it is possible that it will be necessary to harmonize them. The purpose of this will be the coordination of fiscal policy. Maybe that will also need to standardize the method of calculating the tax base, particularly in the granting of reliefs.

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SOCIAL EXCLUSION – SOME TARGETS AND FACTS FROM THE EUROPEAN UNION AND IMPLICATIONS FOR ECONOMIC GROWTH

Abstract

On the background of inconclusive evidence about the income inequality–economic growth relation, this paper suggests that the level of exclusion (a blend of multi-dimensional and mutually reinforcing processes of deprivation), aside from the social aspects, negatively affects economic growth (especially in the case of developed countries). However, it is not mainly about the interrelation between the phenomena but also about finding the channels that lead from exclusion to growth. Identifying them allows us to answer questions about the legitimacy of some recent efforts made in the European Union (EU) . The global crisis has contributed not only to a deterioration of the EU's economy and public finances, but concurrently to European citizens' quality of life. It is difficult to deal with all issues at the same time because there is potential conflict between the achievement of wider social objectives and the pursuit of prudent macroeconomic policy. Thus, after a discussion about current European policy in the field of poverty and social exclusion, some good examples of effective practises are also described.

JEL Classification Codes: **D390, I320, I380, O520.**

Keywords: social exclusion, the European Union, inclusive growth, poverty.

Introduction

Poor growth performance over the past decades and the consequences of the crisis in Europe has exacerbated concerns about rising income distribution, poverty and social exclusion. These problems should not be analysed apart from strictly economic issues, because there is strong feedback between a society and

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its economy – social matters affect economic performance and the latter has an impact on people's behaviour and activities.

In the context of income and wealth distribution, economists usually discuss the effectiveness-justice dilemma, namely whether – or rather to what extent – the process of redistribution reduces productivity and consequently economic growth. The relationship between inequality and growth remains unsolved and is thus subject to ongoing debate. Since the seminal publication by Kuznets in 1955, a number of researchers have drawn mixed conclusions about this implicit linkage. Certain scholars insisted that inequality and growth correlate negatively (Galor & Zeira 2003; Wilkinson & Pikett 2009), whereas a sizeable group of academics found an inverted relation (i. a. Okun 1975, Becker & Becker 2006, p. 91, Lucas 2003). There are also some scientists who prove that no relation exists (Deininger, Squire, 1998). The impact of social exclusion on economic growth is perceived to some extent as similar to the inequality-growth relation, though the former seems to be less disputable. Whereas some scholars successfully proved that a certain level of inequality is desirable and beneficial, social exclusion and extreme inequality (leading to poverty) are perceived as unambiguously negative phenomena which should be definitively eradicated. It does not mean that there are no studies searching for different inferences. For instance, R. Dell' Anno and A. Amendola (2015) presented policy implications that social inclusion is not a source of economic growth in the short term (1995–2010).

The paragraph above shows that in light of some evidence, inequality and exclusion does not always negatively affect growth. But, this paper does not aim to put on the table any new evidence of how the phenomena have driven economic growth in Europe over time. The main contribution of the article is twofold: plumb the literature to identify channels of the impact of social exclusion on economic growth as well as to consider the European approach to solving problems of poverty and exclusion and verify its effectiveness. Finding the path from a given factor to growth allows scholars to answer questions about the legitimacy of some efforts, especially because economic growth is desperately needed nowadays. Those efforts are made not purely and simply based on economic premises but considering human aspects as well. It is crucial to mention that the empirical facts in contention do not stem solely from objective data (on incomes, productivity and so on), but also depend on value judgments made in measurement — judgments that one may or may not accept. Different people hold different normative views about inequality and exclusion and their impact on effectiveness. Countries which have different historically determined wealth and income distribution may also follow different growth paths.

The major motivation to study the topic is the fact that inclusive growth has become one of the three priorities of the European Union (EU) for the current decade and the fight against poverty and exclusion has been set as one out of five measurable objectives which should be achieved by 2020. The research was based on analysis of literature, statistical data (coming from Eurostat), and European acts and documents.

The arrangement of the paper is not strictly the same as the title suggests. After this introduction, section 1 explains the notion of social exclusion and presents the channels of its impact on economic growth. Section 2 describes the character of the EU approach to social issues articulated on the pages of the „Europe 2020" strategy. This section presents the targets and the facts because it also shows statistical data which allows one to verify effectiveness of the strategy. In section 3, the paper deals with examples of successes in the fight against social exclusion and they are also the facts. The last section offers some concluding remarks.

1. Social exclusion – the notion and channels of impact on economic performance

There are as many ways of measuring economic and social phenomena as there are ways of defining them. In the case of social exclusion and poverty, definitions especially matter, because they set the standards by which one determines whether living conditions are acceptable or not and are essential for determining questions of fairness.

It is normal that societies are not perfectly egalitarian – in a market economy, mostly entrepreneurial individuals thrive. This economic system is the most effective, but not flawless. One such flaw, an unacceptable and unfair national income distribution is often cited, though no one pinpoints where the intolerable level of inequality begins. Anyway, when a person is at a clear disadvantage with regards to other people in their environment, they are considered poor (extreme inequality). The level of poverty contrary to intolerable inequality is usually specified and interpreted as relative poverty, benchmarked on the basis of the poverty line identified for a given country (see: Wójcik-Żołądek, 2012, Pęciak & Tusińska, 2015; Williams et al., 2015).

The alternative approach to defining poverty is to look at direct measures of deprivation rather than using income as a proxy for poverty. Looking at deprivation allows a wide range of aspects of living standards to be included. A measure of multi-dimensional poverty that incorporates deprivations in the dimensions of living standards, services (healthcare, education, culture), social relations, and the labour market is called social exclusion (Braun & Gatzweiler, 2014, p. VI; Poverty and Social Exclusion www). It is associated with a progressive dissociation from social milieu, resulting in the isolation of individuals and groups from the mainstream of what opportunities a society has to offer.

There are many facets to social exclusion, thus different combinations of circumstances can lead to the same result. The three most obvious are poverty, unemployment and disability/ill health. Some other groups vulnerable to social exclusion are: the elderly and young people, addicts, the homeless, immigrants, singles and single persons with dependent children, two adults with three or more dependent children, individuals having pre-primary, primary and lower secondary education, ex-prisoners and people brought up in a way not ensuring them normal functioning in society. No one facet is necessary or sufficient – some unemployed are not excluded while some full-time employed clearly are (Mayes, 2001).

When some groups are persistently deprived of the benefits that the rest of society enjoy, for a variety of reasons not of their own choice, it must have an impact on economy (obviously the more people excluded, the stronger potential impact can be). The channel from exclusion to growth has been examined with various approaches. It is worth mentioning that only developed countries are considered here. The developing ones should be an object of an individual study – such economies take advantage of a catching-up effect and social exclusion does not have to impede economic growth.

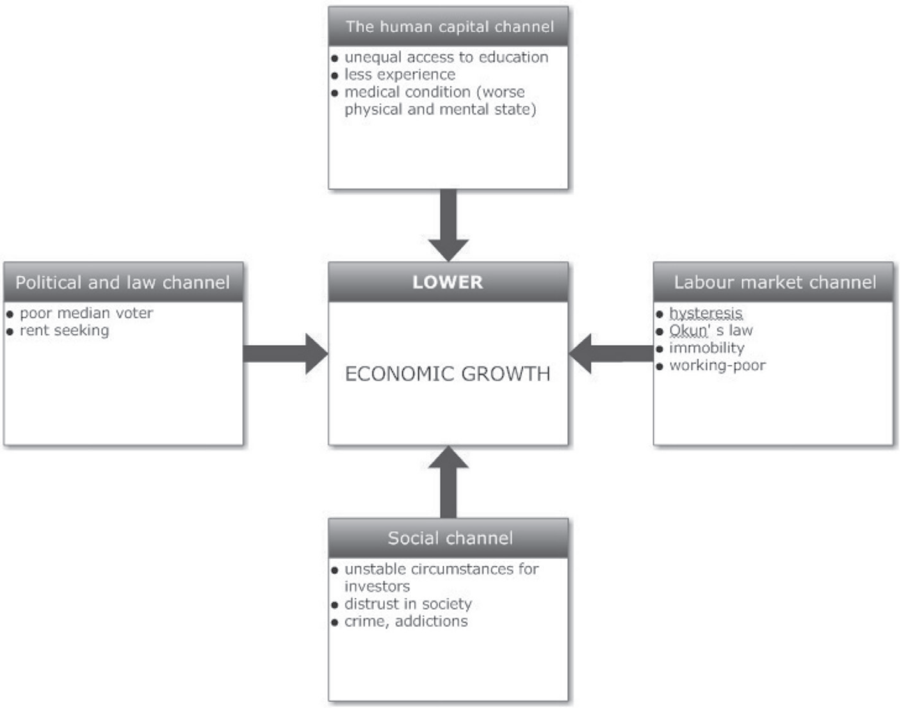

Figure 1. The channels of impact of social exclusion on economic growth

Source: Author's elaboration.

Human capital is accumulated through education and it can be a positive trigger for economic growth. In the topic of education and training it is not an even starting point with included and excluded (in spite of the fact that officially, equal access to education is constitutionally guaranteed) . The excluded have very slim chances to achieve a decent level of education, which has implications for their skills, productivity, position in the labour market and wages. Different initial conditions of wealth can close the door on education for some individuals and families (because of costs of commutes, work necessity, etc.). In this context, geographic factors should be mentioned – children from poor families living in the countryside have weak prospects to study in a city because of costs of commutes or flat rental. Inter-generational issues also play a role. There are rich families, in which all generations invest in human capital, are skilled and leave a large inheritance. At the same time there are poor families, in which individuals inherit less, are unskilled, and leave less to the next generation. Hence the initial distribution carries the long-run distribution and has implications for economic growth.

Another issue is actually on the verge of human capital and labour market channel. Education, experience and the skills of an employee have an economic value for employers and for the economy as a whole. The quality of employees can be improved by investing in them. The excluded and the unemployed both lose those chances to be trained.

Moreover, physical and mental health is important in human capital creation. The excluded very often have worse healthcare, since they cannot afford it, and thus their condition cannot be improved or at least maintained.

One of the three most obvious reasons of exclusion is unemployment and there are a few sub-channels of situations in the labour market that impact economic growth.

J.A. Ewing coined a term „hysteresis" which refers to systems, organisms and fields that have memory. He claims that the consequences of an input are experienced with a certain lag time, or delay. Unemployment hysteresis has been the subject of an extensive theoretical and empirical literature since at least Blanchard and Summers (1986). As unemployment increases, more people adjust to a lower standard of living. As they become accustomed to the new situation, the unemployed may not be as determined to achieve the previously desired higher living standard. Those individuals long-unemployed have problems with turning back to the labour market due to a lack of self-confidence, a decline in skills or disaffection. In addition, as more people become unemployed, it becomes more socially acceptable to remain unemployed. When labour markets return to normal, some unemployed people may be disinterested in returning to the work force. The negative impact of unemployment on gross domestic product is one of the principles in economics (Okun's law). Furthermore, tackling unemployment involves increased transfers through the tax and benefit system. That money potentially could be spent on investments and growth-driving R&D.

Financial and mental mindsets contribute to a reluctance to move and generally get one's life together. Thus, the unemployed and excluded are usually less mobile, which can preserve the existing level of unemployment (especially the structural one).

Coming back into the labour market, workers very often join the ranks of low-paid employees (the so called „working-poor") because of their relatively weak bargaining position. Low incomes are tantamount with low savings and credit constraints for the group as well, which restrains consumer demand and entrepreneurship. There is no doubt that liquidity constraints are an important channel by which negative effects of inequality are transmitted (Zweimüller, 2000).

Social and political channels also cannot be omitted. First of all, poverty and social exclusion increase unstable sociopolitical circumstances, which in turn increases uncertainty and decreases investments, foreign and domestic. It is „common economic knowledge" that increased investment as a component of aggregate demand (AD) helps to boost AD (also by the multiplier effect) and therefore economic growth and relinquishment of capital spending has the opposite result.

Secondly, societies with more poor and excluded people usually evince more rent seeking activities. When property rights are weakened and the ownership of one's wealth or goods is debatable, the other can gain more by trying to appropriate that wealth than by producing themselves. Rent-seeking frequently requires spending somebody's own resources so they own someone else's surplus in the end. Rent-seeking never encourages productivity nor innovativeness, which puts limitations on potential economic growth (Thorbecke & Charumilind, 2002, p. 1841).

In the context of the political channel it should be mentioned that policies tend to focus on the median voter and thus all voters that favour the same polices as median voters become a more powerful group, and any policy negatively influencing their financial condition will be rejected. If the median voter belongs to the poor and/or excluded, apart from their electoral power (when forming a majority), they could influence policy by acting as a real interest group, e.g. poverty lobbies (S.I. Cohen, 2002, p. 146). Governments choose how to distribute the country's financial resources and fund desired decisions by levying tax on individuals' income. Therefore, in more unequally distributed societies, there is more demand for reallocation, which means more taxation and less investment, resulting in weaker growth. In such societies, populist parties get more popular while the ones favouring economic freedom and development lose their influence.

Also, the psychological aspects of exclusion should be pointed out. People aware of their poor living standards (especially children) feel discriminated against and their chances potential for full participation in education, vocational life, etc. are weaker, which contributes to the growing risk of crime and/or addiction. In such cases poverty is not only a presumption of pathology but also its consequence (Radziukiewicz, p. 12). Increasing state expenses in the fight with pathologies potentially could be spent on different purposes, e.g. supporting economic growth.

2. The European approach to the problem of social exclusion – „Europe 2020" perspective

The presence of market imperfections is indisputable, but the degree to which those failures are accepted can vary across countries and nations (Strombach et al., 2014) – sometimes even across members of one group and one cultural circle like the EU. In consequence, the type and the number of instruments of redistribution policy can vary as well. In the EU, redistribution systems have been left to the varying competencies of the Member States (MS). Fiscal policies are also separate (although coordinated), but what has not become a part of integration are social protection systems, maintaining an individualised form in every country. In spite of this variety, there can be also pointed out some common features of the European approach to social issues. There is deeply rooted respect towards human dignity and the belief that every citizen of the EU should be included in the common welfare and take advantage of it. Informal institutions (like culture, tradition, common values) play an important role here, albeit in hard recessionary times they are put to the test.

The global crisis has made more people poor and excluded (there were around 70 million people in the EU suffering from those phenomena ahead of the crisis; the data from 2008 and later – see: table 1), which inspired an intensification of efforts to fight poverty and exclusion. In 2010, European authorities launched the „Europe 2020" strategy, which aims to improve the position of Europe in the world. In the social sphere, the programme defines inclusive growth as one of three main priorities for the EU and one of the headline targets is 20 million less Europeans in or at risk of poverty and social exclusion by 2020. To measure the level of poverty and exclusion, the EU adopted a specific indicator („People at risk of poverty or social exclusion") and three sub-indicators are used for monitoring progress towards the „Europe 2020" poverty and social exclusion reduction target: monetary poverty (the persons with an equivalised disposable income below the risk-of-poverty threshold set at 60 % of the national median equivalised disposable income; after social transfers), very low work intensity (people living in households where the adults worked less than 20% of their total work potential during the past year) and severe material deprivation (European Commission, 2010). The timeliness of these indicators is critical for monitoring the effectiveness of policies. The mentioned headline target seems to be not only the one concerning combating poverty and exclusion. Targets related to employment and education indirectly also promote social inclusion, respectively:

– 75% of the population aged 20–64 should be employed,
– the share of early school leavers should be under 10% and at least 40% of 30–34 years old should have completed a tertiary or equivalent education.

The diagnosis for the EU in the topic of poverty and exclusion, employment and education is presented in table 1.

Table 1. Details about selected „Europe 2020" targets

	INDICATOR	2008	2012	2013	2014	2020
Poverty and exclusion	**People at risk of poverty or social exclusion (1000 people)***	116566	122676	121626	:	95690
	– living in households with very low work intensity	34420	39103	40240	(:)	-
	– at risk of poverty after social transfers	81364	83393	82526	(:)	-
	– severely materially deprived	42340	48997	47640	(:)	-
Employment	**Employment rate (% age group 20–64)**	70.3	68.4	68.4	69.2	75
Education	**Early leavers from education and training (% of population aged 18–24)**	14.6	12.6	11.9	11.1	<10.0
	Tertiary educational attainment (% of population aged 30–34)	31.2	36.0	37.1	37.9	≥40.0

* subindicators are counted only once

Source: Eurostat http://ec.europa.eu/eurostat/web/europe-2020-indicators/europe-2020-strategy/headline-indicators-scoreboard (stan na dzień 1.09.2015)

The data in table 1 presents the facts (2008–2014) and the targets (2020). A part of the latter will remain wishful thinking. Education target realisation looks optimistic and certain MS have already even exceeded the levels set for them, whereas some ambitious „Europe 2020" aims have turned out to be a fantasy – especially poverty and social exclusion reduction targets. Being halfway to 2020, it is already known that the EU target will not be reached based on current national targets. These add up to around 12 million people. It is predicted that if the spill over effects of strategies focusing on combating child poverty or reducing long-term unemployment are taken into account, this number can be increased by 25%. However, this would still fall short by at least 5 million or 25% of the EU headline target (Draft thematic guidance 2014, p. 3). It might be disappointing and demotivating for MS to be aware that they will not achieve inclusive growth. Analogies to the 2000 Lisbon Strategy (LS) naturally appear – in 2004 European authorities realized that the Lisbon aims were unachievable and a year later the Strategy was re-framed. Some critics provided some input into the plausibility of the LS, which had been generated by over-ambitious priorities, and – instead of motivating people – turned out to be psychologically discouraging.

On a slightly different note, it might be open to debate whether countries achieving national targets are successful thanks to „Europe 2020" or rather to their individual determination. The fact is that there are „traditional stragglers" in Europe whereas other countries deserve the „bellwether" title and the latter would implement reforms even without the European strategy (Tilford, Whyte 2010, pp. 3 and 9). It is food for thought when the effectiveness of the „Europe 2020" strategy is considered.

Given the significance of the problem of social exclusion (its potential impact on economic growth and life quality), presumptions of the aforementioned fiasco in the fight with the phenomenon should be considered. It is impossible to name one particular culprit, but some presumptions can be indicated. Conventionally they have been assigned to three groups:

- economy field – „Europe 2020" targets (set in 2010) are overambitious in the face of the scale of the crisis and its consequences, and subsequent fragile recovery;
- economic governance field – reluctance of countries to implement "Europe 2020" resolutions (through National Reform Programmes); it might have been caused by a too tenuous way of governance (Open Method of Coordination) or otherwise – too complicated procedures of after-crisis economic governance in the EU;
- public finance field – budget cuts having a twofold result – social expenses reduction and abandonment feeling of the poor and the excluded; the ill feeling may yield loss of motivation to get back on track.

We are also witnessing an increasing supply of less-skilled workers (through increased immigration). Given that immigrants comprise the group at risk of poverty or social exclusion, the probability of falling short of the 2020 goals is currently growing.

As was mentioned, the chance to improve the results in the struggle against poverty and social exclusion still exists. The potential improvement obviously will not take place automatically, but intensive efforts should be made. Country-specific recommendations announced in 2014 emphasize that further structural reforms of the Union's economies need to continue, specifically:

- to tackle high unemployment, inequality and poverty, to shift to more job-friendly taxation,
- to boost private investment,
- to make the economies more competitive,
- to bring down debt.

Keeping in mind the statistics presented in table 1, conclusions made by the European Commission halfway to 2020 at first sight are not surprising, because unemployment, inequality and poverty are the first to be dealt with. But, analysing fields of crucial reforms defined in the General Report on the Activities of the European Union, other topics appear more urgent. Namely, in the topic of employment and social policies only 13 MS were given recommendations in the field of „Poverty and social Inclusion" whereas as many as 24 countries should draw their attention to „Education and training". It is intriguing given the performances in this area. The same number of countries was summoned to improve „Active labour market policy". An urgent issue (19 countries) is also „Labour market participation" (European Commission 2014, pp. 34–35).

Juxtaposing statistics and recommendations, one may suppose that as the main way to draw the socially excluded out of malaise is through the labour market and human capital, not unconditional help. The last one is requisite only in a case of those who are severely disabled and who cannot work. Moreover, social exclusion is not just a state but a process, as seen in the progressive decline of those who lose their jobs or the progressive difficulties of the elderly. Effective actions therefore should involve early steps to avoid entering this downward spiral. Waiting till people reach the bottom greatly increases the cost and the chance of failure. Then, the negative impact on economic growth can be expected.

3. Social inclusion – examples of good practises

Focusing on prevention and early intervention, efforts of civil service and other organisations should be directed at recovery, inclusion and financial independence of the excluded. This should be accompanied by awareness that the most effective solutions are often designed and delivered at a local level (according to the subsidiarity principle). In the era of austerity, it is clear that such preventions and interventions cannot be financed purely by public money.

There are some specific entities on the economic scene whose role has grown throughout the crisis – they are ethical banks. Through their activity, they aim to promote social inclusion, sustainable development, development of social economy and social entrepreneurship. Such concepts had been implemented and held in high regard ahead of the crisis. Muhammad Yunus, a Bangladeshi economist and banker was awarded the Nobel Peace Prize (2006) for founding the Grameen Bank and pioneering the concepts of microcredit and microfinance. These loans are given to entrepreneurs too poor to qualify for traditional bank loans. M. Yunnus claims that the poor should have a right to credit, because without external sources of financing there are no equal chances to develop. The world of finance can evolve into a fair and sustainable system only when credit instruments are used in a proper way (Ballesteros, 2014).

It is undeniable that trust in the banking system has been undermined by the crisis. Some people claim we are witnessing a development of microfinance as a "cure for the crisis", from an entrepreneurial approach to the logic of the fight against poverty and exclusion (microworld, www). Counting some obvious causes of exclusion (poverty and unemployment), and since the EU solutions have not fully succeeded and additional problems have appeared, those alternative solutions should be more promoted. Those initiatives are also beneficial for the public sector – for example, in France, 1 euro invested in social integration through economic activation yields slightly more than 2 euros of taxes and national insurance contributions within next year (Febea, 2011, p. 12)

In Europe, there operates i.a. the European Federation of Ethical and Alternative Banks (FEBEA – Fédération Européenne des banques Ethiques et Alternatives), a non-profit organisation created in Brussels in 2001 by Crédit Coopératif (France), Caisse Solidaire du Nord Pas-de-Calais (France), Crédal (Belgium), Hefboom (Belgium), Banca Etica (Italy) and TISE – Towarzystwo Inwestycji Społeczno-Ekonomicznych SA (Poland). In Poland, since 2008 TISE has been granting loans to non-governmental organisations, micro-, small and medium enterprises. Funds for this purpose are partly derived from TISE's own funds and since 2012 TISE's operations have been also funded by Bank Gospodarstwa Krajowego (National Economy Bank) under agreements with the EU (the Operational Programme „Development of Eastern Poland" and the Jeremie initiative). TISE is also a partner of Bank Gospodarstwa Krajowego in the pilot project co-financed by the European Social Fund under Measure 1.4 „Support to financial engineering for the development of social economy" (TISE, www).

Exemplification of chosen good practices from the Polish territory is presented in table 2.

The practises described in table 2 show that the social economy can be beneficial not only to the excluded but to their milieu as well – some additional aspects appear such as revitalisation or care for a UNESCO heritage site. Obviously these practises are not assumed to be the only path to inclusion (in some cases unconditional help is needed), but a stronger support for social economy and microfinance should be deeply considered by the authorities.

Table 2. Examples of good practices in fight with social exclusion

Name	Idea	Objectives	Results
Bałtów Jurassic Park	Implement a kind of Jurassic Park stimulating initiatives, creating jobs for the region's inhabitants and offering opportunity of independent development and improvement of their daily life.	1. To promote touristic and economic development of the local region: increase in number of jobs, development of local enterprises, tourism and catering infrastructures. 2. To raise awareness about ecological education, encourage the development of agro-tourism farms and tourism infrastructure with due consideration of local natural resources (river, landscape and local wildlife). 3. To implement activities for social activation of inhabitants enabling them to pursue an independent development.	– 120 employees, especially for long-term unemployed people – decline of unemployment rate in locality from over 30 % in 2001 to 4% in 2009. – construction of tourist infrastructure; 5 hotel-catering facilities, 25 agro-tourist farms, 5 one person farms. – places for social and cultural activity, open air events. – Bałtów is visited by several thousands of tourists (over 500 thousand tourists in 2008 and 2009).
Social enterprise „Być razem" (Be Together)	Develop a social enterprise which can employ, on the basis of market rules, the people at risk of exclusion and marginalization, in particular homeless, unemployed people and handicapped; support the social cooperative societies created by this people.	1. To reinstate the excluded people into the job market creating new job positions for them. 2. To take part in revitalisation of post-industrial areas of Silesia. 3. To participate to inclusion of excluded people into the job market using work and necessity of contacts with other people as a therapy. 4. To promote social entrepreneurship.	– number of employees (in all forms of business activity): 66; – in 2009, more than 900 people, including 330 long term unemployed, benefited from the assistance of the Foundation for Social Enterprise Development „Być Razem". Each year, several dozens of them find the jobs on the open market or in economic subjects managed by the foundation.
„U Pana Cogito" Guesthouse	The only guesthouse and restaurant in Krakow which employs people with severe mental injuries to undergo work rehabilitation aiming at combating illness more effectively.	1. Create job places for mentally handicapped people. 2. Facilitate the activation and inclusion of people with mentalinjuries into the job market and convince healthy people to co-work with mentally ill people (integration activities). 3. Encourage the social integration of people with mental injuries through contacts with other people and create therapy through work. 4. Protect the historical treasures of old Krakow, included in UNESCO's world heritage site.	– 30 people with mental disorders found jobs in vocational training center.U Pana Cogito Guesthouse – 25 people with mental disorders found jobs in Cogito Laboratory Ltd. and sub-companies. – participation of 75 people in group therapy workshops each year.50 trained via „professional hotel staff" programmes in years 2008/2010.

Source: Author's elaboration on the basis of The Atlas of Job Creation and Good Practises for social inclusion. Ethical finance for an Active, creative and solidarity-based Europe, Brussels 2010.

Conclusions

Exclusion can be interpreted as a typically social issue but also as an economic problem, and economists are interested in research of the latter. In the specialised literature there is no one unequivocal proof that exclusion stunts economic growth, but the channels presented in the paper show that a certain impact exists. Additionally, when one takes into account the human aspects and normative approach are also considered, social exclusion becomes practically impossible to accept. It is not a double standard – agreeing that the market mechanism is the most effective economic system, one should be aware that, above a certain level of stratification, society becomes dysfunctional.

Since 2010, inclusive growth that fosters poverty reduction and social inclusion through higher employment rates and improved human capital development has been especially promoted in the European Union. This priority and country recommendations promoting inclusive growth have not turned out to be fully successful – rather a deflection from the 2020 target has been observed. In light of the inferences presented in the preceding paragraph, this failure will not stay without any impact on economic growth.

Nowadays, given austerity need, the most important are initiatives concerning the labour market mobilising unemployed and inactive people. Increased employment participation is essential to the wider goal of improving welfare by reducing social exclusion and hence increasing social inclusion. Poor, unemployed and socially excluded people are also individuals under stress, who have a need for rigid, predictable rules. They must be sure what is going to happen because they are in danger — their margin for error is slim and maximum predictability is crucial. At the same time, some EU countries are having problems with public finance. Budget deficits and public debts do not always allow governments administer efficient social policies favouring inclusion. In these circumstances, it seems that the role of microfinance should be enhanced in Europe. Not only can they help in the fight against social exclusion, but ethical banks also serve to raise public awareness of the role of money and the failure of the economy based on short-term and profit as the only objective.

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Jakub Kwaśny[1]

THE FINANCIAL CONDITION OF SELECTED TERRITORIAL GOVERNMENTS IN THE MALOPOLSKA VOIVODSHIP WITHIN THE NEW EU FINANCIAL FRAMEWORK[2]

Abstract

The purpose of the article is to evaluate the financial condition of selected territorial governments in the Malopolska Voivodship within the new EU financial framework for the 2014–2020 period. The global economic crisis has affected not only financial markets but also the policy and development strategies of local and territorial authorities. Changes have occurred in the approach to strategic objectives, which are now focused on regions and aim to stimulate endogenous growth potentials. New plans and strategies have already been drafted on the national and regional level, but their implementation, as well as the achievement of goals laid down in the Europe 2020 strategy, will crucially depend on the absorption capabilities of territorial governments. The research hypothesis of the article concerns the need to restructure the revenue system of territorial governments and further decentralize public finances in order to stimulate regional endogenous growth potentials. In order to verify it, financial indicators for selected territorial governments in the 2010–2014 period are analyzed. The findings show that there are positive trends underway in the budget policies of analyzed governments, but their revenues are still inadequate and their total growth potential remains low.

JEL Classification Codes: **H720, R580.**

Keywords: Local Government Budget, Local Government Expenditures, Territorial Cohesion, Local and Regional Development, Regional Policy, Self-government, Financial Decentralization.

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Introduction

An analysis of the financial condition of selected local government bodies and their absorption capabilities in the EU financial framework for 2014–2020 is connected to the role local governments play in current territorial cohesion policy. They are important actors in the advance toward territorial cohesion and the achievement of objectives laid down in the Europe 2020 strategy.

Despite its broad currency, the concept of cohesion is notoriously difficult to define, which leaves the door open for various interpretations. Used in many sciences, including physics, chemistry, and sociology, the term is usually taken to mean an agreement between the properties of certain objects, their resemblance to a model, or the congruity of processes that lead them from one state to the next (Churski, 2011, p. 6). It should be kept in mind that it can also mean bringing various elements together into a whole, i.e. a process of integration through building links.

Cohesion is the overarching political, economic, and social goal of European integration (Leonardi 2005, p. 217), and its most important instrument is the EU cohesion policy. Ever since 2010, related programs have accounted for the largest share of the common European budget. Expenditure grew from 225 billion euro in the 2002–2006 period to 347 billion in 2007–2013, which represents one third of the total EU budgetary resources. The process stemmed from a compromise reached at a European Council session in December 2005.

Ever since the 1988 reform of the structural funds and the establishment of the Cohesion Fund in Maastricht five years later, which was designed to supplement the activities of the European Social Fund and the European Regional Development Fund (Pietrzyk, 2000), cohesion policy has prioritized the reduction of regional and social disproportions across the European Union (Hoerner & Stephenson, 2012, p. 701). As noted by J. Szlachta, literature of the subject provides three different terms for this area of EU intervention. Used almost interchangeably, these include: structural policy (which first appeared in the Treaty of Rome in 1957); regional policy (used because selection criteria are regional and a large proportion of resources are also managed on a regional level); and cohesion policy, which highlights the reduction of territorial differences in the level of socio-economic development (Szlachta, 2011, p. 191). Regional development, and especially its spatial diversification, is one of the most basic issues of the world economy (Chmiel-Grzybowska, 2010, p. 9). Regional policy, especially of the European kind, as well as territorial, social, and economic cohesion are major themes in the debate on the future of the European Union.

Cohesion policy is aimed at reducing regional and social disparities across the European Union and its main objectives are convergence, regional competitiveness, employment, and territorial cooperation (Faludi & Peyrony, 2011). A. Faludi and J. Peyrony remark that in Jacques Delors's vision, EU cohesion policy was not meant to restore equality but to spur development; while encouraging investment in hardware, it also emphasized software, understood as capacity building in terms of coordination and cooperation, not just in the least developed regions, but across the European Union as a whole (Faludi & Peyrony, 2011, p. 7). The Treaty of Lisbon affirmed economic and social cohesion, and supplemented them with the concept of territorial cohesion, thus asserting the importance of internal EU debate on the role of space and territory in supporting competitiveness and combating social and regional disparities (Ibid, p. 7).

The budgetary framework of the European Union for the 2007–2013 period witnessed huge investments in Polish local governments. Many city mayors seized the opportunity to modernize local urban infrastructure; the bulk of local investments were focused on road infrastructure, leisure, new cultural venues, swimming pools, sport arenas, and economic activity (Kwaśny 2011, p. 262). However, the main challenge today is to ensure stable and sustainable development by identifying the potential of a given region and creating the conditions for its endogenous resources to be optimally tapped; at the same time, local governments need to be able to attract external resources (Ulbrych, 2012 p. 200). From the perspective of regional policy and its strategic course, it seems crucial that barriers to the development of local government should first be identified (Ulbrych, 2012, p. 189). One has to do with the financial inadequacy of local governments and their low financial independence. The purpose of this article is to look at the budgetary policy and the financial condition of selected local governments, as well changes in their ratio of revenues and expenditures. These data determine whether further debts should be incurred and attest to the adequacy of local government revenues. Keeping in mind the important role that local governments play in the process of regional development, my research hypothesis is that the revenue system of local governments should be restructured and public finance management further decentralized in order to stimulate local endogenous growth potential. To verify this hypothesis, the article analyzes several financial condition indicators observed at the outset of the new EU financial framework for 2014–2020; this will allow to better identify the barriers to development and suggest necessary changes. The analysis also covers total revenue and expenditure levels, their changes and averages for 2010–2014, budget surpluses and deficits, as well as operational activity surpluses.

1. Financial condition of selected local governments in Malopolska in 2010–2014

In order to run their finances independently, local governments need a stable source of income. Local governments are part of the public sector and a constitutional guarantee grants them a share in the public revenues, allotted in proportion to their tasks (Dziurbejko 2006).

The sources of funding for local governments in Poland are laid down in the act on the revenues of local governments passed by the Sejm on 13 November 2003, with later amendments. The act rests the principle of state decentralization, both in terms of competence and funding sources, and serves as a kind of financial constitution for Polish local governments. It defines the sources of their revenues, the principles of how they are determined and collected, and the rules that govern the allocation and transfer of general and targeted subsidies from the state budget. Local government resources are divided, based on their objectives, into operating expenditures, connected to ongoing activities, and capital expenditures, reserved for investment. Provisions laid down in the 2009 act on public finance are based on the balanced budget principle and introduce a debt-capacity indicator for individual communes. This is of crucial importance for their absorption capabilities as opportunities arise for funding expenditure from the budget of the European Union.

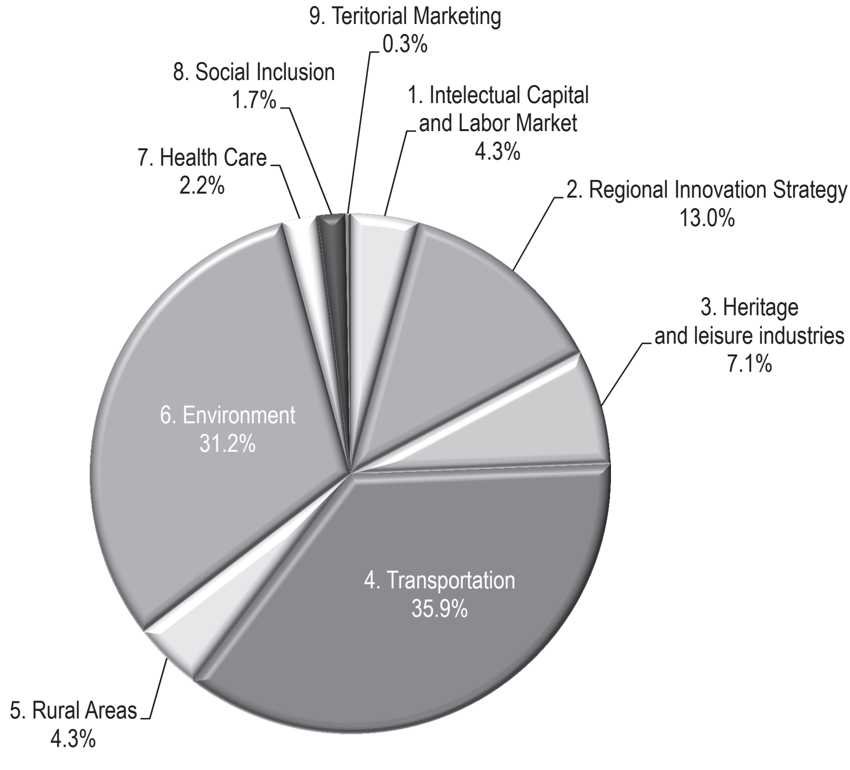

Figure 1. Resource allocation in the framework of strategic programs in the Malopolska Voivodship

Source: (Kwaśny 2015, p. 141).

Priority objectives outlined in the strategic documents for Malopolska in the 2014–2020 period will engage a considerable proportion of territorial governments' resources, especially in the largest communes that are now county capitals or city counties. For this reason, this study selected 19 territorial units that function as the administrative seat of both the commune and the county. Figure 1 shows the allocation of funds in the framework of operational programs of the Malopolska Voivodship; it clearly shows that the bulk of planned investments are focused on road infrastructure and environmental protection, which means that local governments will all be engaged in their implementation. Whether the majority of strategic program objectives are carried out will thus depend on their absorption capabilities. These will also determine the endogenous local and regional development potential.

EU funding is allocated within targeted operational programs based on the principle of subsidiarity and also requires the beneficiary to make a certain contribution. Financing such enterprises risks putting local governments in greater debt. To assess their financial condition, the following indicators were used: the growth of revenues and expenditures and the evaluation of balances, as well as operating and capital activity. The strength and condition of selected governments is most accurately reflected by the level of per capita revenues and expenditures, the budget balance understood as the difference between total revenues and total expenditures, and the operating surplus or deficit, defined as a difference between operating revenues and operating expenditures.

Table 1 illustrates which of the 19 local governments have the greatest absorption capability. As could well be expected, they are primarily large centers: city counties such as Kraków, Nowy Sącz, and Tarnów, as well as Limanowa, Myślenice, Zakopane, and Oświęcim. In 2010–2014, revenue growth was greater than expenditure growth in most analyzed territorial units, which positively reflects on the local government budgetary activity. However, most governments still had to resort to loans in order to finance their deficit.

Table 2 attests to considerable irregularities in this area, which mostly stem from the manner in which the allocation of funds is settled with the managing body. For regional operational programs, the body in question is the appropriate Marshal's Office. Local governments cover the cost of a given investment from their own resources and are subsequently reimbursed from the EU budget. However, the analysis of 2010–2014 averages warrants a conclusion that local government revenues are still insufficient for them to run an independent investment policy. The figure was greater than zero in only four out of nineteen units, which means that the local government did not increase its debt in the studied period.

Table 1. Total per capita revenues and expenditures in selected local governments in 2010–2014

Commune	Total revenues in 2014	Total expenditures in 2014	Average total revenues in 2010–2014	Average total expenditures in 2010–2014	Average revenue growth*	Average expenditure growth*
Bochnia	3 417	3 469	2 817	2 901	114	105
Brzesko	2 688	2 721	2 509	2 633	100	94
Chrzanów	2 931	2 758	2 971	2 940	110	102
Dąbrowa Tarnowska	2 841	2 836	2 758	2 815	108	107
Gorlice	2 809	2 680	2 783	2 946	109	106
Kraków	5 314	5 348	4 728	4 711	106	106
Limanowa	4 186	4 859	3 503	3 791	112	106
Miechów	2 594	2 668	2 466	2 594	119	119
Myślenice	4 234	3 677	3 475	3 799	131	132
Nowy Sącz	5 011	5 049	4 628	4 658	107	102
Nowy Targ	3 323	3 764	2 999	3 192	110	117
Olkusz	2 742	2 685	2 431	2 561	113	103
Oświęcim	3 643	3 778	3 386	3 537	110	112
Proszowice	2 847	2 910	2 535	2 684	115	101
Sucha Beskidzka	3 249	3 133	2 744	2 721	109	104
Tarnów	4 842	4 859	4 562	4 715	106	97
Wadowice	2 657	2 541	2 510	2 479	108	102
Wieliczka	3 346	3 496	2 839	3 109	121	113
Zakopane	3 743	4 075	3 453	3 762	101	88

* year 2010=100.

Source: own work based on BDL GUS.

The 2009 act on public finance introduced a number of changes into the way in which local debt and finance are managed on the level of territorial government. It requires that the operating expenditures are subject to the principle of a balanced budget; pursuant to article 242 of the act, they cannot exceed the total of operating revenues, budget surplus from previous years, and the free funds resulting from securities, credits, and loans. The level of operating surplus allows to determine to what extent a given territorial government finances its operating expenses from operating revenues and whether it has the capacity to incur and service debts. When an operating deficit occurs, local governments are not able to fund their operating expenditures from operating revenues (Werwińska 2009, p. 256). This requires them to incur new obligations or sell property.

Table 2. Budget deficit/surplus as % of revenues for 2010–2014

Commune	2010	2011	2012	2013	2014	average
Bochnia	-11.6	-2.4	5.6	-6.6	-1.5	-3.3
Brzesko	-12.1	-7.5	-4.7	0.3	-1.2	-5.0
Chrzanów	-6.5	-2.8	3.0	5.0	5.9	0.9
Dąbrowa Tarnowska	-3.1	-17.4	3.9	7.1	0.2	-1.9
Gorlice	-8.9	-17.9	-5.1	-1.0	4.6	-5.7
Kraków	0.6	0.5	-1.2	2.6	-0.6	0.4
Limanowa	-13.5	-2.4	0.0	-7.5	-16.1	-7.9
Miechów	-5.0	-13.8	-5.3	1.0	-2.9	-5.2
Myślenice	-8.0	-16.5	-17.1	-23.3	13.2	-10.4
Nowy Sącz	-5.5	3.3	0.4	-0.9	-0.8	-0.7
Nowy Targ	0.0	-30.0	-6.9	12.4	-13.3	-7.6
Olkusz	-15.9	-13.4	-2.3	-0.1	2.1	-5.9
Oświęcim	-3.1	-0.4	-4.5	-9.8	-3.7	-4.3
Proszowice	-20.8	-6.2	-2.1	-0.9	-2.2	-6.4
Sucha Beskidzka	-4.2	1.9	5.5	-3.4	3.6	0.7
Tarnów	-12.5	-4.6	0.4	-0.7	-0.3	-3.6
Wadowice	-4.8	0.7	5.9	-1.1	4.3	1.0
Wieliczka	-16.6	-17.2	-4.0	-7.2	-4.5	-9.9
Zakopane	-25.4	2.3	-14.4	1.8	-8.8	-8.9

Source: see table 1.

As show in table 3, operating deficits were observed only in four territorial units (Brzesko, Olkusz, Nowy Sącz i Proszowice). This should be viewed as an incidental occurrence. New legal provisions effectively enforced spending discipline. The best results in the studied period were reported in Sucha Beskidzka, Dąbrowa Tarnowska i Gorlice.

The 2009 act on public finance also replaced the 15% debt service threshold with an algorithm that takes into account the ratio of debt service to projected total revenues. It should not exceed the arithmetical mean of the ratios of operating revenues, plus capital sales, minus operating expenditures, to the total budget revenues in the preceding three years, based on a formula provided in the act. For this reason, an analysis of the financial condition of selected units of territorial government needs to show the share of debt service in their budget in relation to total and per capita revenues.

The greatest public debt service burden on total revenues in the studied period was observed in Myślenice, Proszowice, and Wieliczka. Table 4 also shows the level of per capita debt service, which is highest for Myślenice, Kraków, Tarnów, Tarnów, and Wieliczka. In other towns, the figure does not exceed 80 PLN.

Table 3. Operating sur plus as % of total revenues in 2010–2014

Commune	2010	2011	2012	2013	2014
Bochnia	9.53	7.26	4.05	6.03	7.75
Brzesko	-2.49	1.86	0.19	1.75	3.21
Chrzanów	0.85	5.53	6.33	5.89	8.87
Dąbrowa Tarnowska	13.15	9.23	7.40	9.58	12.17
Gorlice	5.60	5.01	5.76	10.72	11.05
Kraków	5.69	9.91	6.81	8.14	10.16
Limanowa	3.29	8.96	15.22	8.08	10.60
Miechów	7.57	3.88	3.84	5.90	4.68
Myślenice	7.97	4.62	5.72	12.39	6.22
Nowy Sącz	2.23	0.93	-0.04	1.58	4.11
Nowy Targ	11.46	13.55	8.22	15.96	10.60
Olkusz	-8.99	-2.42	0.26	4.39	6.09
Oświęcim	6.70	6.63	4.35	1.71	4.12
Proszowice	-5.38	3.67	2.23	4.48	3.90
Sucha Beskidzka	11.67	16.30	10.92	16.14	14.52
Tarnów	3.17	5.23	7.33	5.75	6.80
Wadowice	7.85	9.46	8.71	7.28	10.50
Wieliczka	0.06	4.81	3.99	6.25	9.64
Zakopane	9.40	12.53	4.58	11.99	6.33

Source: see table 1.

An important provision of the public finance act excludes from these calculations the redemption of securities, payment of loans and credits, as well as guarantees and warranties accorded to local governments as part of contracts for the implementation of specific programs, projects or financial objective, including funds outlined in article 5, point 1, item 2 of the act, i.e. those from the EU budget. This allowed territorial governments to boost their absorption of EU funds; it should be kept in mind, however, that increased investment and capital activity may increase not only revenues but also operating expenditures. Alongside an increased debt burden, this could compromise the financial condition of territorial governments in the future.

As shown in table 5, the highest per capita investment in the studied period was observed in Myślenice, Nowy Targ, Limanowa, Wieliczka, and Zakopane. The greatest per capita amount of EU funds, in turn, flowed to Myślenice, Chrzanów, Nowy Targ, and Wieliczka. Revenues from EU resources accounted for a major proportion of capital expenditures in the studied period, ranging from 10% in Limanowa to 57% in Chrzanów.

Table 4. Public debt service in 2010–2014 as % of total revenues

Commune	2010	2011	2012	2013	2014	Average	Per capita*
Bochnia	1.56	2.14	2.22	1.98	1.16	1.81	50.3
Brzesko	1.74	2.67	3.62	2.90	2.23	2.63	65.7
Chrzanów	1.96	2.00	2.22	1.67	1.18	1.81	53.8
Dąbrowa Tarnowska	0.53	1.15	1.73	1.02	0.63	1.01	27.8
Gorlice	0.55	0.79	2.27	1.59	1.37	1.32	36.5
Kraków	2.27	2.56	3.14	2.38	1.83	2.44	114.2
Limanowa	0.68	1.38	1.26	1.20	1.14	1.13	39.8
Miechów	2.06	2.08	2.95	1.86	1.93	2.18	53.7
Myślenice	1.97	2.16	3.60	4.27	3.24	3.05	106.4
Nowy Sącz	0.90	1.18	1.18	0.78	0.66	0.94	43.2
Nowy Targ	0.63	1.20	1.95	1.46	1.37	1.32	40.3
Olkusz	0.77	1.69	2.33	1.73	1.32	1.57	38.5
Oświęcim	0.46	0.53	0.59	0.64	0.94	0.63	21.6
Proszowice	2.01	3.08	3.89	3.11	2.43	2.90	73.9
Sucha Beskidzka	0.94	1.09	0.95	0.80	0.43	0.84	22.5
Tarnów	1.80	2.08	2.59	1.67	1.43	1.92	87.1
Wadowice	0.46	0.67	0.64	0.29	0.17	0.45	11.2
Wieliczka	2.14	3.12	4.20	2.62	2.27	2.87	80.5
Zakopane	0.11	1.28	1.45	1.52	1.24	1.12	38.8

Source: see table 1; * in PLN.

Table 5. Per capita capital expenditures and total EU funds received in 2010–2014

Commune	Total per capita expenditures in 2010–2014	Total per capita EU funds in 2010–2014	EU funds as % of capital expenditures
Bochnia	2 547	617	24
Brzesko	1 633	550	34
Chrzanów	3 188	1 811	57
Dąbrowa Tarnowska	3 546	1 467	41
Gorlice	3 859	879	23
Kraków	3 569	892	25
Limanowa	4 449	450	10
Miechów	2 292	392	17
Myślenice	7 442	4 095	55
Nowy Sącz	2 024	1 048	52
Nowy Targ	5 360	1 754	33
Olkusz	1 700	609	36
Oświęcim	3 050	618	20
Proszowice	1 485	286	19
Sucha Beskidzka	2 978	573	19
Tarnów	3 572	1 048	29
Wadowice	1 604	562	35
Wieliczka	4 053	1 799	44
Zakopane	4 234	666	16

Source: see table 1.

2. Selected indicators of the financial condition of territorial governments

In order to evaluate the financial condition of selected local governments in the Malopolska Voivodship, five indicators were selected following the guidelines of the Ministry of Finance (MF 2007), and two more were added based on the literature of the subject (Werwińska 2009, Dylewski 2009, Dylewski & Filipiak & Gorzałkowska-Koczkodaj 2010):

W_1 – operating surplus share in total revenues

$$W_1 = \frac{N_o}{D_o} \cdot 100$$

where:
N_o – operating surplus,
D_o – total revenues.

The higher the indicator, the better the operating results of the local budget and the greater the local government's capacity to incur future obligations, increase investments and operating expenses.

W_2 – operating surplus share in operating revenues, also known as operational growth capacity (Łukomska-Szarek, 2012, p. 280)

$$W_2 = \frac{N_o}{D_b} \cdot 100$$

where:
N_o – operating surplus,
D_b – operating revenues.

The higher the indicator, the greater the actual capacity of local governments to finance development and service their obligations.

W_3 – self-financing index

$$W_3 = \frac{N_o + D_m}{W_m} \cdot 100$$

where:
N_o – operating surplus,
D_m – capital revenues,
W_m – capital expenditures.

The higher the index, the greater the ability of local governments to finance investment from their own resources, and the lower their risk of liquidity loss. On the other hand, when accompanied by low capital expenditures, a high figure could also indicate that the level of investment is too low relative to their financial capabilities.

W_4 – debt service burden on operating revenues

$$W_4 = \frac{W_{odp}}{D_b} \cdot 100$$

where:
W_{odp} – public debt service expenses,
D_b – operating revenues.

The indicator illustrates the burden of public debt on operating revenues. The higher the burden, the greater the risk of liquidity loss.

W_5 – debt service burden on the operating surplus

$$W_5 = \frac{W_{odp}}{N_o} \cdot 100$$

The indicator was modified relative to the guidelines of the Ministry of Finance: ratio components were reversed. The figure represents the proportion of the operating surplus spent on public debt service. Even though it is already included in operating expenditures and reduces the operating surplus, the indicator is essential as it shows the capacity of local governments to incur new obligations in the future. The lower the figure, the greater the capacity.

W_6 – index of financing capital expenditures from the operating surplus

$$W_6 = \frac{N_o}{W_m} \cdot 100$$

The indicator allows to determine the proportion of capital expenditures that can be financed from the operating surplus, and that which needs to be funded from other sources, such as debt (Ibid, p. 257).

W_7 – total growth potential (Ibid, p. 280)

$$W_7 = \frac{N_o + D_m}{D_o}$$

This indicator represents the total growth potential of a given territorial government and shows what proportion of its total revenues is accounted for by the sum of operating surpluses and capital revenues. The higher the figure, the greater the government's capacity to stimulate local development.

3. Indicator analysis of the financial condition of selected territorial governments in the Malopolska Voivodshop in 2010–2014

The 2010–2014 period witnessed large investments by territorial governments to achieve the strategic objectives of local development, as well as large inflows of EU resources from structural funds and the cohesion fund of the European Union. The financial dimension of the framework for the 2007–2013 period will continue to be visible in 2015. By the end of that year, individual voivodships have to submit reports on the support they received within various operational programs. Local governments are also getting ready to absorb new European funds within the 2014–2020 framework.

As show in table 6, barring a few exceptions in 2010 and 2012, all communes reported an operating surplus over the studied period. This suggests that the new, individual debt-capacity indicator introduced by the 2009 act on public finance enforced a greater discipline in this area. In as many as 9 out of 19 communes, the ratio of the operating surplus to total revenues in 2014 was greater than 8%.

Table 6. W_1 indicator in selected communes in 2010–2014

Commune	2010	2011	2012	2013	2014
Bochnia	9.53	7.26	4.05	6.03	7.75
Brzesko	-2.49	1.86	0.19	1.75	3.21
Chrzanów	0.85	5.53	6.33	5.89	8.87
Dąbrowa Tarnowska	13.15	9.23	7.40	9.58	12.17
Gorlice	5.60	5.01	5.76	10.72	11.05
Kraków	5.69	9.91	6.81	8.14	10.16
Limanowa	3.29	8.96	15.22	8.08	10.60
Miechów	7.57	3.88	3.84	5.90	4.68
Myślenice	7.97	4.62	5.72	12.39	6.22
Nowy Sącz	2.23	0.93	-0.04	1.58	4.11
Nowy Targ	11.46	13.55	8.22	15.96	10.60
Olkusz	-8.99	-2.42	0.26	4.39	6.09
Oświęcim	6.70	6.63	4.35	1.71	4.12
Proszowice	-5.38	3.67	2.23	4.48	3.90
Sucha Beskidzka	11.67	16.30	10.92	16.14	14.52
Tarnów	3.17	5.23	7.33	5.75	6.80
Wadowice	7.85	9.46	8.71	7.28	10.50
Wieliczka	0.06	4.81	3.99	6.25	9.64
Zakopane	9.40	12.53	4.58	11.99	6.33

Source: as in table 1.

The capacity of a given government to finance development, however, is better reflected by the proportion of the operating surplus in operating revenues, shown in table 7. The greatest operational growth potential in 2014 was observed in Sucha Beskidzka, Nowy Targ, Dąbrowa Tarnowska, and Gorlice; the lowest – in Brzesko, Oświęcim, and Nowy Sącz. Kraków and Tarnów, the other two city counties of the region, are in good shape.

Table 7. Indicator W_2 in selected communes in 2010–2014

Commune	2010	2011	2012	2013	2014
Bochnia	10.08	7.46	4.70	6.37	8.78
Brzesko	-2.91	2.04	0.19	1.86	3.31
Chrzanów	0.99	7.32	7.89	6.99	9.64
Dąbrowa Tarnowska	14.63	12.15	8.42	10.99	13.13
Gorlice	6.44	6.60	6.63	11.92	12.02
Kraków	6.43	10.49	7.19	8.74	10.99
Limanowa	3.50	9.43	16.42	8.75	11.96
Miechów	7.92	4.53	4.21	6.37	4.95
Myślenice	9.30	7.63	7.83	13.91	9.52
Nowy Sącz	2.36	1.05	-0.04	1.61	4.38
Nowy Targ	14.62	14.81	10.44	19.85	12.28
Olkusz	-9.76	-2.64	0.29	4.78	6.64
Oświęcim	7.32	7.22	4.81	1.97	4.32
Proszowice	-5.50	3.96	2.30	4.56	4.09
Sucha Beskidzka	13.32	17.03	12.01	16.74	16.53
Tarnów	3.61	5.58	7.89	6.01	6.98
Wadowice	8.30	9.88	9.86	7.42	10.79
Wieliczka	0.07	5.81	4.35	7.60	11.34
Zakopane	10.41	13.02	5.07	12.45	6.70

Source: see table 1.

Selected communes were also analyzed in terms of their self-financing capabilities. Figures higher than 100 indicate that the local government did not need to increase its debt in order to finance its capital expenditures. A single-year analysis does not paint a full picture of the situation; all territorial governments resorted to debt over the studied period. However, a growing trend could be observed for the index or the figure oscillated around 100. This is shown in table 8. This means that local governments were getting ready for a greater absorption of EU funds in the coming years or that they limited their capital expenditures, connected to the funding of the 2007–2013 framework which culminated in 2009–2011.

Table 8. Indicator W_3 in selected communes in 2010–2014

Commune	2010	2011	2012	2013	2014
Bochnia	56.3	80.9	145.8	63.3	92.8
Brzesko	49.7	58.1	48.7	104.5	83.3
Chrzanów	70.3	91.5	112.9	130.1	153.8
Dąbrowa Tarnowska	88.2	65.6	124.9	146.3	100.9
Gorlice	67.5	62.0	78.9	95.4	131.6
Kraków	103.6	103.5	90.7	120.6	96.5
Limanowa	41.1	85.4	99.9	67.7	57.7
Miechów	70.5	57.1	70.6	108.3	78.3
Myślenice	73.6	72.7	65.6	50.0	147.5
Nowy Sącz	58.3	133.2	107.9	81.5	93.0
Nowy Targ	100.0	42.4	81.0	153.3	64.7
Olkusz	-7.6	31.3	78.9	99.4	116.7
Oświęcim	83.1	97.4	75.5	59.6	70.0
Proszowice	-17.3	63.4	71.0	87.8	79.2
Sucha Beskidzka	85.0	110.2	138.3	85.5	115.5
Tarnów	55.2	71.2	102.6	93.9	96.5
Wadowice	73.5	105.1	141.3	88.9	149.2
Wieliczka	44.2	56.2	75.6	77.0	84.6
Zakopane	42.9	116.0	49.6	113.0	57.4

Source: see table 1.

The W4 indicator, which represents the burden of debt service on total revenues, also tended to decrease in many communes. Relevant data are shown in table 9. Over the studied period, the figure only increased in Myślenice. Accompanied by a high budget surplus in 2014, this attests to the will and need to improve debt capacity in the coming years.

As shown in table 10, high variability was observed for the indicator that represents the burden of debt service on the operating surplus. The ratio is irregular both for the operating surplus and the principal and interest payments on incurred obligations. Local governments in which these figures remain low throughout the studied period can be considered as showing financial security and budget discipline.

Table 9. W_4 indicator in selected communes in 2010–2014

Commune	2010	2011	2012	2013	2014
Bochnia	1.65	2.20	2.58	2.09	1.32
Brzesko	2.04	2.92	3.78	3.09	2.30
Chrzanów	2.29	2.65	2.77	1.99	1.28
Dąbrowa Tarnowska	0.58	1.51	1.97	1.17	0.68
Gorlice	0.63	1.05	2.61	1.77	1.49
Kraków	2.56	2.71	3.32	2.55	1.98
Limanowa	0.72	1.45	1.36	1.30	1.28
Miechów	2.15	2.43	3.24	2.01	2.04
Myślenice	2.30	3.56	4.94	4.79	4.95
Nowy Sącz	0.95	1.34	1.23	0.80	0.70
Nowy Targ	0.81	1.31	2.47	1.82	1.59
Olkusz	0.83	1.85	2.54	1.89	1.44
Oświęcim	0.50	0.58	0.65	0.73	0.98
Proszowice	2.06	3.31	4.01	3.16	2.54
Sucha Beskidzka	1.07	1.13	1.04	0.83	0.49
Tarnów	2.05	2.22	2.79	1.75	1.47
Wadowice	0.49	0.70	0.73	0.29	0.17
Wieliczka	2.46	3.76	4.58	3.18	2.67
Zakopane	0.12	1.33	1.60	1.58	1.31

Source: see table 1.

Table 10. W_5 indicator in selected communes in 2010–2014

Commune	2010	2011	2012	2013	2014
Bochnia	16.3	29.5	54.8	32.8	15.0
Brzesko	-	143.4	1952.4	165.6	69.4
Chrzanów	230.1	36.2	35.1	28.4	13.3
Dąbrowa Tarnowska	4.0	12.4	23.4	10.6	5.2
Gorlice	9.8	15.8	39.3	14.9	12.4
Kraków	39.8	25.8	46.2	29.2	18.0
Limanowa	20.6	15.4	8.3	14.9	10.7
Miechów	27.2	53.6	76.8	31.6	41.2
Myślenice	24.8	46.7	63.0	34.5	52.0
Nowy Sącz	40.5	127.2	-	49.6	15.9
Nowy Targ	5.5	8.8	23.7	9.1	12.9
Olkusz	-	-	884.0	39.5	21.6
Oświęcim	6.8	8.0	13.5	37.1	22.7
Proszowice	-	83.7	174.3	69.3	62.2
Sucha Beskidzka	8.0	6.7	8.7	5.0	2.9
Tarnów	56.9	39.8	35.3	29.1	21.0
Wadowice	5.9	7.1	7.4	4.0	1.6
Wieliczka	3345.5	64.8	105.4	41.9	23.5
Zakopane	1.2	10.2	31.7	12.7	19.6

Source: see table 1.

Table 11. W_6 indicator in selected communes in 2010–2014

Commune	2010	2011	2012	2013	2014
Bochnia	36.00	58.37	33.19	33.68	36.99
Brzesko	-10.38	10.36	2.03	23.98	44.13
Chrzanów	3.90	16.89	27.30	35.39	80.90
Dąbrowa Tarnowska	49.91	18.18	47.35	62.53	63.08
Gorlice	20.36	10.67	24.02	49.31	76.08
Kraków	34.38	66.52	51.50	65.38	55.52
Limanowa	14.32	54.92	67.69	34.90	27.89
Miechów	44.77	12.10	21.38	47.92	35.53
Myślenice	26.30	7.63	11.48	26.59	22.47
Nowy Sącz	16.94	9.32	-0.79	31.88	37.21
Nowy Targ	34.63	26.03	22.55	68.76	28.24
Olkusz	-60.78	-12.40	2.41	34.90	49.49
Oświęcim	36.49	43.42	23.53	7.04	33.37
Proszowice	-30.39	21.60	31.49	63.41	36.56
Sucha Beskidzka	41.38	87.20	75.78	69.94	62.92
Tarnów	11.34	32.67	52.01	53.16	70.21
Wadowice	43.69	72.73	60.61	70.65	118.83
Wieliczka	0.21	12.28	24.61	20.05	33.10
Zakopane	21.13	89.28	15.99	86.14	30.49
Average	**17.59**	**33.57**	**31.27**	**46.61**	**49.63**

Source: see table 1.

Particularly interesting conclusions, however, can be drawn from the analysis of the last two indicators, i.e. the financing of capital expenditures from the operating surplus, shown in table 11, and the total growth potential index, shown in table 12. The former indicates that the operating surplus is not enough to finance capital expenditures in any of the studied communes; they all need to resort to external funding and increase their debt. In 2014, only 5 communes reported a budget surplus, i.e. Chrzanów, Dąbrowa Tarnowska, Gorlice, Myślenice, and Olkusz. This is related in an important way to the manner in which operational programs are managed in the Malopolska Voivodship. Operational program revenues increased capital revenues, and the expenditures were covered by the governments in previous years.

Table 12. W_7 indicator in selected communes in 2010–2014

Commune	2010	2011	2012	2013	2014
Bochnia	14.9	10.1	17.8	11.3	19.4
Brzesko	11.9	10.5	4.4	7.6	6.1
Chrzanów	15.3	30.0	26.2	21.6	16.9
Dąbrowa Tarnowska	23.2	33.3	19.5	22.4	19.5
Gorlice	18.6	29.1	18.9	20.7	19.1
Kraków	17.2	15.4	12.0	15.0	17.7
Limanowa	9.4	13.9	22.5	15.7	21.9
Miechów	11.9	18.3	12.7	13.3	10.3
Myślenice	22.3	44.0	32.7	23.3	40.9
Nowy Sącz	7.7	13.2	4.8	4.0	10.3
Nowy Targ	33.1	22.1	29.5	35.6	24.3
Olkusz	-1.1	6.1	8.6	12.5	14.4
Oświęcim	15.3	14.9	13.9	14.5	8.7
Proszowice	-3.1	10.8	5.0	6.2	8.5
Sucha Beskidzka	24.0	20.6	19.9	19.7	26.7
Tarnów	15.4	11.4	14.5	10.2	9.3
Wadowice	13.2	13.7	20.3	9.2	13.2
Wieliczka	13.1	22.0	12.2	24.0	24.6
Zakopane	19.1	16.3	14.2	15.7	11.9
Average	**14.8**	**18.7**	**16.3**	**15.9**	**17.0**

Source: see table 1.

Conclusions

An analysis of the operating activity indicators for selected territorial governments in the Malopolska Voivodship over the 2010–2014 period shows that it was based on the principle of adequacy between operating revenues and operating expenditures. Budget discipline enforced by new laws allows the studied governments to finance their investments from their operating surpluses to an ever greater extent.

The analyzed indicators show a clear tendency for credit and investment capabilities of territorial governments to grow, which means that their capacity to absorb EU funds is on the rise. The share of the operating surplus in financing investment has also been growing, which is a positive phenomenon. The irregularity of the total growth potential index (W7) in the studied communes and its variability over time are difficult to interpret; however, its average value shows a slight tendency to increase. This also suggests that the financial condition of selected governments has improved.

In addition, data indicate a considerable burden of prior obligations on the operating surplus; together with low W4 values, this means that in order to increase their debt capacity, governments decide to spread their payments over time. The burden of debt service on operating revenues hardly ever exceeded 3%, and the indicator consistently decreased over the studied period, while territorial governments reported constant budget deficits; this clearly shows the inadequacy of local revenues.

To sum up, the 2010–2014 period witnessed a number of positive trends aimed at improving the financial condition of territorial governments, as well as an effort to get ready to absorb more EU funds in the coming years, and, hence, to increase capital expenditures in the future. Just as in 2007–2013, territorial governments will continue to lead the fray as the biggest investors in the region. It should be noted, however, that the solutions implemented for funding sources and their adequacy are not up to the standard required by role that territorial governments play in European cohesion policy.

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ABOUT HELP ATTEMPTS FOR BORROWERS IN POLAND WHO HAVE TAKEN HOUSING LOANS IN CHF

Abstract

The article presents the problem of housing loans in Poland, denominated in CHF, actions which may help are described. Examples of repayment plans with different assumptions are also described.

JEL Classification Code: **E500, E510, E590, G210.**

Keywords: housing loans denominated in CHF, repayment plany.

Introduction

The history of CHF loans in Poland starts in 2000. The interest rate of housing loans in PLN was around 20%. The interest rate for foreign currency loans was much lower so they enjoyed great success. Some sobering came with the financial crisis in 2008. People started realizing the currency risk for this type of loans. The truth that we should take a loan in the currency in which we earn began to be repeated. After the recommendation of Polish Financial Supervision Authority (KNF) these loans practically ceased to be granted.

A total of about 775 thousands CHF loans were granted by banks and approximately 210 thousands were repaid. Therefore there is currently about 565 thousands CHF loans (the PBA data from 2014) what represents about 25% of the total housing loan portfolio.

Due to the election campaign and decision taken on 15th January 2015 by the Swiss National Bank (SNB) to no longer defend the minimum exchange rate of EUR/CHF at 1.20, resulting in a sharp appreciation of the Swiss franc (CHF)

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against major currencies and a strong weakening of Polish Zloty (PLN) vs. the CHF, the problem of CHF loans is heavily debated. There are different voices – how to help „Swiss Francs Credit Debtors". Some voices are unreasonable and clearly fed by the election campaign – it is more than a million potential votes. It is not fostering substantive discussion and rational solutions.

It is quite often said that the loans in CHF were taken by people unaware of the exchange rate risk, and therefore they have been misled and shouldn't be blamed for the current situation but the banks and the government. It seems that such a view is a big generalization. Such loans were mainly taken by well-educated people with relatively high income. It's hard to believe that they were just manipulated by the banks. The fact is that till a certain point none of the parties probably realized the importance of exchange rate risk. We can't say however that at that time CHF was stable – it should much earlier give food for thought. The data from 2007–2015 are given in table 1.

Table 1. Exchange rate at the beginning of month CHF/PLN

Month \ Year	2007	2008	2009	2010	2011	2012	2013	2014	2015
January	2.38	2.17	2.81	2.75	3.18	3.67	3.36	3.38	3.58
February	2.41	2.24	2.99	2.72	3.02	3.48	3.40	3.47	3.96
March	2.42	2.24	3.21	2.69	3.07	3.42	3.38	3.46	3.87
April	2.38	2.23	3.07	2.71	3.09	3.44	3.44	3.43	3.89
May	2.28	2.13	2.91	2.74	3.08	3.46	3.40	3.44	3.88
June	2.31	2.09	2.94	2.90	3.24	3.67	3.43	3.38	4.00
July	2.28	2.09	2.90	3.15	3.22	3.52	3.51	3.42	4.01
August	2.33	1.97	2.70	2.91	3.50	3.43	3.44	3.44	3.90
September	2.32	2.02	2.71	3.09	3.63	3.50	3.45	3.49	3.90
October	2.27	2.14	2.78	2.94	3.65	3.39	3.45	3.47	
November	2.24	2.39	2.82	2.87	3.63	3.41	3.40	3.50	
December	2.19	2.51	2.74	3.06	3.67	3.41	3.41	3.47	
Min	2.19	1.97	2.70	2.69	3.02	3.39	3.36	3.38	3.58
Max	2.42	2.51	3.21	3.15	3.67	3.67	3.51	3.50	4.01
Change max.–min. (%)	**10.48**	**27.21**	**18.80**	**17.01**	**21.52**	**8.31**	**4.39**	**3.55**	**11.90**
Change I–XII (%)	**-7.83**	**15.43**	**-2.39**	**11.23**	**15.57**	**-7.26**	**1.28**	**2.74**	

Source: NBP data (basing on http://www.nbp.pl/home.aspx?f=/kursy/arch_a.html, 3rd September 2015).

Based on data from table 1, it should be noted that during analyzed period CHF exchange rate was not very stable, and its annual fluctuations exceed 20%. It shows that the borrower should be aware of exchange rate risk and could, for example, converse credit into PLN in 2009.

Additionally it's worth mentioning that in 2006 Polish Financial Supervision Authority gave recommendation S about good practice guideline for mortgage-secured credit exposures. In accordance with the recommendation 19 point 5.1.5. it was stated: „It is recommended that banks in the first place offer credits, loans or other products in PLN. The Bank may offer credit, loan or other product in a foreign currency or indexed to foreign currency only after obtaining a written statement that customer made the choice of the offer in foreign currency or indexed to foreign currency with the full knowledge of the risk associated with credit, loan or other products in foreign currency or indexed to foreign currency". We can't say that the client was not aware of the risk involved.

Since 2009, the borrower also had the opportunity to repay the loan, directly in foreign currency, because the KNF adopted Resolution No. 391/2008 KNF 17 December 2008. on the Recommendation S (II) about good practices related to mortgage-secured credit exposures. In recommendation 20 there is point 5.2.4. saying: „At the request of the customer, the bank should change the method of repayment of the credit indexed to the foreign currency so that the repayment is made in the indexation currency. The change of the method of repayment should apply to all instalments from the date of contract amendment. In the credit contract, the bank cannot limit the possibility for the customer to obtain foreign currency intended for credit repayment to the scope of services offered by the bank".

Refinement was also made in the Banking Act. In July 2011 in „Banking Act" in Article 69, paragraph 3 there was added: „In the case of an agreement concerning a credit denominated or indexed to a currency other than the Polish currency, the borrower may repay principal and interest instalments and make early repayment of the credit in whole or in part directly in this currency. In this case, the credit agreement shall also specify rules for opening and maintaining an account to accumulate funds allocated to repayment of the credit as well as for making a repayment through this account". In addition, according to article 75b, doing this can't be related to additional costs for the borrower.

The exchange rate risk for currency loan was practically eliminated by solutions from the Recommendation S PFSA from 2013. In particular, recommendation 6 says that „the bank should provide retail clients with mortgage-secured loans only in the currency in which they receive income, even for customers with high income".

The lack of new currency housing loans doesn't mean that the problem has disappeared, on the contrary, it requires an urgent solution. Unfortunately, 2015 is an election year in Poland, which makes substantive discussion about the solution problematic. It is impossible to converse automatically all the credits – we can't make people happy by force. Some borrowers are aware of the risks, but at the moment don't see the need to converse loans into PLN, which have currently record-low interest, but in the near future their interest rate, and thus instalment, can significantly grow.

1. Some opinions and actions to solve the problem of CHF loans

As already mentioned, the rapid growth of CHF exchange rate in mid-January 2015, and also because of the ongoing election campaign in Poland, from all sides come up ideas about how to solve the CHF borrowers problem. Let's look critically at some of them.

In the author's opinion proposals of conversion of loans at the rate of their borrowing, as suggested by most of the opposition, are not responsible. Unequal treatment of foreign currency borrowers and PLN borrowers should be emphasized – in the past CHF borrowers were paying much lower installment than a similar PLN borrower and now they would also receive a bonus at their and other bank customers and taxpayers expense. Kotowicz (2013) pointed out various costs of such conversions. He has written: „socially difficult to accept would be a situation in which customers who have decided to take higher risk, benefit from it in case of positive developments, while in case of adverse developments are protected by the state. This approach of state would create improper models of behavior and penalize people making careful decisions." It is impossible not to agree with such a statement. At the end of his paper the author writes: „proposals of conversion CHF loans into PLN are not justified and their implementation in the current market conditions would lead to destabilization of the banking sector, the strong deterioration of the situation of the Polish economy and public finance situation".

It is known that the situation of CHF borrowers directly translates into deterioration of banks' loan portfolios. Therefore banks are taking actions which at least partially could stabilize the situation. On 23 January 2015, so just a week after a sharp appreciation of the CHF, Polish Banks Association issued an „Opinion of the Management Board of the Polish Bank Association on actions limiting the effects of the rapid growth of the CHF exchange rate", commonly referred to as the first PBA set. The Management Board of the PBA asked banks involved in foreign currency CHF loans to use the following solutions:

1. Taking into account the negative LIBOR rate while calculating interest rate on housing loans.
2. A significant decrease of currency spread for the next six months.
3. Extending (on the customer request) the repayment period or temporary suspension of repayment so that its level was not higher or just a little higher than before the release of CHF course. These applications could be submitted only by borrowers living in credited property.
4. In case of borrowers repaying loan on time – resignation from requests for new security and credit insurance.
5. Allowing borrowers to convert the currency from CHF to PLN at a rate equal to the average rate of NBP with no additional fee.

6. More flexible rules for restructuring the mortgage loans for customers living in credited property.

On 27 May 2015 Polish Bank Association presented the „Declaration of the support for borrowers with home loans, including foreign currency loans." According to it banks declare financial and organizational commitment in additional support for customers with housing loans (including foreign currency loans) including the following:

1) extending the period of the PBA First Package to the end of 2015 with the possibility of extending individual solutions for next periods,
2) creation by each bank of individual stabilization fund in order to implement financial solutions for the conversion of housing loans in CHF, associated with the stabilization of the instalments at exchange rate agreed individually with the customer, in case of increase of CHF above 5.0 PLN,
3) allocating the total amount of 125 million PLN to the Mortgage Restructuration Support Fund (for creation of which banks declaring financial engagement are asking)
4) implementation of solutions enabling borrowers with mortgage for own place of living purposes to transfer of mortgage collateral in order to facilitate the sale of the apartment or its replacement.

It should be emphasized that the solutions from point 2 may refer only to people who have a mortgage to buy an apartment with an area of 75 m^2 or home bot bigger than 100 m^2 for residential purposes. Support provided in point 3 of the Declaration will have a refundable nature. Looking at the presented solution, certainly they go in the right direction.

Chairman of the Financial Supervision Commission, Andrzej Jakubiak also presented his vision of conversion loans. He proposed one-time conversion of CHF loans and the division of responsibility for exchange rate changes between banks and customers. Conversion should be disposable and voluntary. The value of debt in CHF would be computed at the current average NBP rate. The loan would be divided into two parts: a mortgage-secured loan and unsecured loan. The secured loan would have interest rate based on conditions which gave the bank when the original loan was taken. The second part would be the difference between the current commitment and the real mortgage debt. This difference is an unsecured loan, the interest rate should be constant and equal to 1%. The final repayment timings of both loans is the same, but banks and customers together repay the second part – half of the loan should be repaid by borrower, and the second half should be canceled. The Bank makes remission in accordance with the repayment schedule. The remission takes 50 to 50 – for every thousand repaid by the customer the bank makes remission of a thousand. FSA Chairman has estimated that as a result the potential loss of the banking sector would amount to 25 billion PLN, which would be shared into 20–25 years, and the annual cost for banks would amount to 1–1.2 billion PLN, so approx. 7% of their annual earnings.

The solutions presented by KNF are partly consistent with the proposals of former Polish President Bronislaw Komorowski Office and the Financial Stability Committee. They point out however, that the problem also applies to many PLN borrowers. According to BIK data the loss of home or apartment threatens more than 35 thousand families and approximately 27 thousand families have a PLN loan.

The last proposal, convergent with the proposals of the former President of Poland and the Polish Financial Supervision Authority is the bill about loans restructuration, presented by a group of deputies of PO. (project No. 3660). This project was significantly changed by the Parliament, then the Senate make some changes restoring most of its original shape (September 4, 2015). There are fears that the current shape of the solutions may not have the required majority in the Parliament and won't be enacted, therefore, will go into the trash. We will present its main assumptions. According to the proposal the difference between the value of the loan after conversion and the amount of debt that would have borrower if the loan was taken in PLN would be computed. Half of this difference would be redeemed. According to the draft conversion would be possible before June 2020. The program would include people with apartment not bigger than 75m^2 and houses up to 100m^2 (during the Parliament's work the size of apartment increased to 100m^2 and house to 150). The prerequisite is that the apartment was used for own purposes. These restrictions do not apply to people with three or more children. During the first year of implementation of the program people whose ratio of loan to value exceeds 120% could benefit – so the most endangered. In the next year this solution could be used by people whose this relationship is in the range of 100–120% and during next years is higher than 80%. More specifically, the proposed act states that the borrower may converse his debt at the current exchange rate. Firstly the bank will calculate the value of the debt, if the loan was taken in PLN. The difference in the debt – between the loan in foreign currency and PLN would be divided in half between the bank and the borrower. The interest rate on a new loan for the difference in debt should be equal to the reference NBP rate, which currently stands at 1.5% (September 2015). The interest rate on the rest of the loan – equal to the value of a hypothetical PLN loan – would be approx. 3%. This amount would include the margin (the same as for PLN borrowers – approx. 1.3%) and the current WIBOR, which is now approx. 1.75%. The proposal would permanently eliminate currency risk for borrowers. To have a conversion option, credited property must be the only borrowers' locale. It is estimated that the cost of this solution for banks is approx. 9–9,5 billion PLN.

2. Loan repayment plans simulations

For presented repayment simulations let's assume that at the beginning of January 2007 we take 360 000 PLN loan (151489.6 in CHF) for 30 years. The loan is supposed to be repaid in equal monthly instalments. The loan interest varies and is the sum of two components: Wibor 3M (for a CHF Libor 3M) and the a fixed bank margin equal to 1.5% for both types of credit. For simplicity we assume that the loan amount was paid to the borrower at once. We also assume that there were no additional charges (including CHF loans spread), and therefore total instalment A is the sum of the interest Z_n and credit repaid in the instalment T_n.

It is known that for a loan S with fixed total instalments A, with fixed interest rate r and N repayments below equality is met (Śleszyński 2012):

$$S \cdot (1+r)^N = A \cdot \frac{(1+r)^N - 1}{r} \tag{1}$$

Hence, the formula for the total fixed installment:

$$A = \frac{S \cdot r \cdot (1+r)^N}{(1+r)^N - 1} \tag{2}$$

If we assume that the interest rate varies, the total instalment can be computed using the formula:

$$A_n = \frac{S_{n-1} \cdot r_n \cdot \left(1+r_n\right)^{(N-n+1)}}{\left(1+r_n\right)^{(N-n+1)} - 1} \tag{3}$$

where:
N – number of instalments,
n – instalment number ($n = 1, 2, \ldots, N$),
r_n – loan rate during period n,
S_n – indebtedness after repaying n instalments ($S_0 = S$).

The loan is repaid monthly, so the monthly interest rate r_n can be computed using the formula:

$$r_n = (1+r)^{\frac{1}{12}} - 1 \tag{4}$$

Fragments of three repayment plans are shown in tables 2, 3 and 4. There is shown:
n – month (instalment) number,
r_n – credit monthly interest rate during period n,
S_j – indebtedness after repaying j instalments ($j = 0, 1, 2, \ldots, 360$),
Z_n – interests repaid in n–th instalment,

A_n – n^{th} total instalment,
T_n – credit repaid in n^{th} instalment.
As mentioned earlier we assume that:

$$A_n = Z_n + T_n \tag{5}$$

We assume that at the beginning of January 2007 we took 360,000 PLN loan for 30 years and we repay it with total instalments (at the given interest rate). Because the interest rate varies, the size of instalments is also changing.

Table 2. PLN loan repayment

n	Month	Wibor 3M [%]	Margin [%]	Eff.int. Rate [%]	r_n [%]	S_{n-1}	Z_n	A_n	T_n	S_n
1	2007–01	4.19%	1.50%	5.69%	0.4622%	360 000.0	1 664.0	2 054.6	390.6	359 609.4
2	2007–02	4.19%	1.50%	5.69%	0.4622%	359 609.4	1 662.2	2 054.6	392.4	359 217.0
3	2007–03	4.19%	1.50%	5.69%	0.4622%	359 217.0	1 660.4	2 054.6	394.2	358 822.8
4	2007–04	4.19%	1.50%	5.69%	0.4622%	358 822.8	1 658.6	2 054.6	396.0	358 426.8
5	2007-05	4.40%	1.50%	5.90%	0.4789%	358 426.8	1 716.3	2 099.7	383.3	358 043.5
6	2007–06	4.40%	1.50%	5.90%	0.4789%	358 043.5	1 714.5	2 099.7	385.2	357 658.3
7	2007–07	4.69%	1.50%	6.19%	0.5018%	357 658.3	1 794.6	2 162.2	367.6	357 290.7
8	2007–08	4.81%	1.50%	6.31%	0.5112%	357 290.7	1 826.5	2 188.2	361.7	356 928.9
9	2007–09	5.03%	1.50%	6.53%	0.5285%	356 928.9	1 886.5	2 236.1	349.7	356 579.3
10	2007–10	5.03%	1.50%	6.53%	0.5285%	356 579.3	1 884.6	2 236.1	351.5	356 227.8
…	…	…	…	…	…	…	…	…	…	…
103	2015–07	1.72%	1.50%	3.22%	0.2645%	307 968.0	814.4	1 648.4	833.9	307 134.0
104	2015–08	1.72%	1.50%	3.22%	0.2645%	307 134.0	812.2	1 648.4	836.1	306 297.9
105	2015–09	1.72%	1.50%	3.22%	0.2645%	306 297.9	810.0	1 648.4	838.3	305 459.5
…	…	…	…	…	…	**Sum:**	**162 237**	**216 778**	**54 541**	…
…	…	…	…	…	…	…	…	…	…	…
359	2036–11	1.72%	1.50%	3.22%	0.2645%	3 283.7	8.7	1 648.4	1 639.7	1 644.0
360	2036–12	1.72%	1.50%	3.22%	0.2645%	1 644.0	4.3	1 648.4	1 644.0	-
						Sum:	**277 109**	**637 109**	**360 000**	

Source: own calculations using Microsoft Excel.

Table 2 shows fragments of repayment plan of mentioned PLN loan. Let's notice that according to presented data by the end of 2015 we have paid 216 778 PLN and repaid 54 541 PLN. If interest rate was constant (what is rather impossible as interest rate is supposed to grow) the remaining total rate would be equal to 1 648.36 PLN.

Table 3. CHF loan repayment

Lp	Month	Libor 3M	Margin	Eff.Int. Rate	Monthly Rate	S_{n-1} (CHF)	Z_n (CHF)	A_n (CHF)	T_n (CHF)	S_n (CHF)	Exchange rate CHF PLN	A_n (PLN)	T_n (PLN)	S_n (PLN)
1	2007–01	2.10%	1.5%	3.60%	0.295%	151 489.6	447.1	683.8	237	151 253	2.38	1 625	562	359 438
2	2007–02	2.10%	1.5%	3.60%	0.295%	151 253.0	446.4	683.8	237	151 016	2.41	1 647	572	363 676
3	2007–03	2.23%	1.5%	3.73%	0.306%	151 015.6	461.6	694.5	233	150 783	2.42	1 680	564	364 864
4	2007–04	2.23%	1.5%	3.73%	0.306%	150 782.7	460.9	694.5	234	150 549	2.38	1 653	556	358 307
5	2007–05	2.35%	1.5%	3.85%	0.315%	150 549.1	474.7	704.3	230	150 319	2.28	1 608	524	343 134
6	2007–06	2.47%	1.5%	3.97%	0.325%	150 319.5	488.5	714.2	226	150 094	2.31	1 650	521	346 686
7	2007–07	2.70%	1.5%	4.20%	0.343%	150 093.7	515.5	733.4	218	149 876	2.28	1 671	497	341 597
8	2007–08	2.70%	1.5%	4.20%	0.343%	149 875.8	514.7	733.4	219	149 657	2.33	1 707	509	348 372
9	2007–09	2.90%	1.5%	4.40%	0.360%	149 657.2	538.0	750.1	212	149 445	2.32	1 739	492	346 503
10	2007–10	2.78%	1.5%	4.28%	0.350%	149 445.1	522.8	740.1	217	149 228	2.27	1 677	492	338 195
…	…	…	…	…	…	…	…	…	…	…	…	…	…	…
103	2015–07	-0.79%	1.5%	0.71%	0.0591%	117 563.9	69.4	491.4	422	117 142	4.01 PLN	1 970	1 692	469 704
104	2015–08	-0.74%	1.5%	0.76%	0.0632%	117 142.0	74.0	494.0	420	116 722	3.90 PLN	1 925	1 637	454 947
105	2015–09	-0.74%	1.5%	0.76%	0.0632%	116 722.0	73.8	494.0	420	**116 302**	3.90 PLN	1 926	1 638	**453 403**
						Sum:	**25 689**	**60 877**	**35 188**			**182 708**	**111 399**	
…	…	…	…	…	…	…	…	…	…	…	…	…	…	…
359	2036–11	-0.74%	1.5%	0.76%	0.0632%	987.0	0.6	494.0	493.3	493.65	3.90 PLN	1 926	1 923	1 925
360	2036–12	-0.74%	1.5%	0.76%	0.0632%	493.7	0.3	494.0	493.7	0	3.90 PLN	1 926	1 925	0
						Sum:	**35 348**	**186 838**	**151 490**			**673 768**	**564 802**	

Source: own calculations using Microsoft Excel.

Table 3 shows repayment plan for the same credit but taken in CHF. Let's remind that the calculation doesn't take into account the currency spread, however, as already mentioned, since 2009 the borrower is able to repay the loan directly in CHF.

Table 4 presents repayment plan for the loan if the interest rate was as for loan in PLN but total instalments till the end of September 2015 would be repaid analogously to CHF credit – thus taken from a repayment plan given in table 3. Since October 2015 credit will be repaid with fixed total instalments – thus computed according to formula (3).

Table 4. Repayment plan for CHF loan conversed into PLN with borrowing exchange rate

n	Month	Wibor 3M	Margin	Eff.int. Rate	r_n	S_{n-1}	Z_n	A_n	T_n	S_n
1	2007–01	4.19%	1.50%	5.69%	0.462%	360 000	1 664	1 625	-39	360 039
2	2007–02	4.19%	1.50%	5.69%	0.462%	360 039	1 664	1 647	-17	360 057
3	2007–03	4.19%	1.50%	5.69%	0.462%	360 057	1 664	1 680	16	360 040
4	2007–04	4.19%	1.50%	5.69%	0.462%	360 040	1 664	1 653	-11	360 052
5	2007–05	4.40%	1.50%	5.90%	0.479%	360 052	1 724	1 608	-116	360 168
6	2007–06	4.40%	1.50%	5.90%	0.479%	360 168	1 725	1 650	-75	360 243
7	2007–07	4.69%	1.50%	6.19%	0.502%	360 243	1 808	1 671	-136	360 379
8	2007–08	4.81%	1.50%	6.31%	0.511%	360 379	1 842	1 707	-135	360 514
9	2007–09	5.03%	1.50%	6.53%	0.529%	360 514	1 905	1 739	-166	360 680
10	2007–10	5.03%	1.50%	6.53%	0.529%	360 680	1 906	1 677	-229	360 910
…	…	…	…	…	…	…	…	…	…	…
103	2015–07	1.72%	1.50%	3.22%	0.264%	356 173	942	1 970	1 028	355 144
104	2015–08	1.72%	1.50%	3.22%	0.264%	355 144	939	1 925	986	354 158
105	2015–09	1.72%	1.50%	3.22%	0.264%	354 158	937	1 926	989	353 169
						Sum:	**175 877**	**182 708**	**6 831**	
…	…	…	…	…	…	…	…	…	…	…
359	2036–11	1.65%	1.50%	3.15%	0.259%	3 768	10	1 891	1 881	1 886
360	2036–12	1.65%	1.50%	3.15%	0.259%	1 886	5	1 891	1 886	–
						Sum:	**308 691**	**668 691**	**360 000**	

Source: own calculations using Microsoft Excel.

Let's assume that at the beginning of October 2015 we converse CHF loan into PLN. Using data from table 3 and formula (1), we will receive credit repayment plan given in table 5. The first 105 rows would be the same as in table 3, the rest of rows takes the form:

Table 5. Repayment plan for CHF loan conversed into PLN in October 2015

n	Month	Wibor 3M	Margin	Eff.int. Rate	r_n	S_{n-1}	Z_n	A_n	T_n	S_n
106	2015–10	1.72%	1.5%	3.22%	0.264%	453 403	1 199	2 447	1 248	452 155
107	2015–11	1.72%	1.5%	3.22%	0.264%	452 155	1 196	2 447	1 251	450 904
108	2015–12	1.72%	1.5%	3.22%	0.264%	450 904	1 192	2 447	1 254	449 650
…	…	…	…	…	…	…	…	…	…	…
358	2036–10	1.72%	1.50%	3.22%	0.2645%	7 301	19	2 447	2 427	4 874
359	2036–11	1.72%	1.50%	3.22%	0.2645%	4 874	13	2 447	2 434	2 440
360	2036–12	1.72%	1.50%	3.22%	0.2645%	**2 440**	**6**	**2 447**	**2 440**	–
						Sum:	**241 817**	**806 619**	**564 802**	

Source: Own calculations using Microsoft Excel

We will now compare results from tables 2, 3, 4, 5 in one table 6.

Table 6. Comparison of 4 repayment plans of 360 000PLN loan

Repayment method	n	Date	$\sum_{i=1}^{n} Z_i$	$\sum_{i=1}^{n} A_i$	$\sum_{i=1}^{n} A_i$	S_n	A_n
Credit taken and repaid in PLN – tab 2	**105**	2015–09	**162 237**	**216 777**	**54 540**	305 460	1 648,4
Credit taken and repaid in CHF– tab 3	**105**	2015–09	**71 309**	**182 708**	**111 399**	**453 403**	**1 926**
Credit taken and repaid in CHF, conversed on X 2015 with borrowing rate – tab 4	**105**	2015–09	**175 877**	**182 708**	**6 831**	353 169	1 906
Credit taken and repaid in CHF, till X 2015 conversed into PLN –t ab 5	**105**	2015–09	**71 309**	**182 708**	**111 399**	**453 403**	**1 926**
Credit taken and repaid in PLN – tab 2	**360**	2036–12	**277 109**	**637 109**	**360 000**	0	1 648,4
Credit taken and repaid in CHF – tab 3	**360**	2036–12	**108 966**	**673 768**	**564 802**	0	1 926
Credit taken and repaid in CHF, conversed on X 2015 with borrowing rate – tab 4	**360**	2036–12	**308 691**	**668 691**	**360 000**	0	1 906
Credit taken and repaid in CHF, till X 2015 conversed into PLN – tab 5	**360**	2036–12	**241817**	**806 619**	**564 802**	0	2 447

Source: data from tables 2, 3, 4, 5, own calculations.

Table 6 shows that currently it is not advisable to converse CHF loan into PLN because the monthly instalment would rise by 521 PLN – from 1926 to 2447 PLN. It seems that this is too high price for getting rid of the foreign exchange risk. Note, however, that according to the Central Statistical Office data the average monthly gross income in 2008 was equal to 2 691 PLN, while in 2014 – 3 783 PLN, thus it increased by 28.5% (real – including inflation – increased at the same time for about 11.6%). In table 3 we can see that at the same time instalment of loan repaid in CHF increased from 1 625 PLN to 1 926 PLN, thus for less than 17.3% and much less than the nominal income increased. On average – borrowers shouldn't have any problems with repaying their debt.

Another problem is the fact that at that time housing prices dropped (on average for about 16%), so the borrower can on the one hand feel discomfort, on the other hand may have trouble with securing the credit (LtV – the ratio of credit exposure to the real estate value – may be too high).

Now let's present a hypothetical situation in which the borrower would be if he restructured the loan in CHF at the beginning of October 2015, according to the bill accepted by Senate on 4 September 2015. At the beginning let's determine what would be the level of debt at the end of September 2015, if the loan was contracted in PLN and its interest was such as for CHF credit (Libor3M plus a margin). The corresponding results are shown in table 7.

Table 7. Repayment plan for PLN loan with interest rate equal to Libor plus margin

Lp		Libor 3M	Margin	Eff.Int. Rate	Monthly Rate	S_{n-1} (PLN)	Z_n (PLN)	A_n (PLN)	T_n (PLN)	S_n (PLN)
1	2007–01	2.10%	1.5%	3.60%	0.2952%	360 000	1 063	1 625	562	359 438
2	2007–02	2.10%	1.5%	3.60%	0.2952%	359 438	1 061	1 625	564	358 874
3	2007–03	2.23%	1.5%	3.73%	0.3056%	358 874	1 097	1 650	553	358 320
4	2007–04	2.23%	1.5%	3.73%	0.3056%	358 320	1 095	1 650	555	357 765
5	2007–05	2.35%	1.5%	3.85%	0.3153%	357 765	1 128	1 674	546	357 219
6	2007–06	2.47%	1.5%	3.97%	0.3250%	357 219	1 161	1 697	536	356 683
7	2007–07	2.70%	1.5%	4.20%	0.3434%	356 683	1 225	1 743	518	356 165
8	2007–08	2.70%	1.5%	4.20%	0.3434%	356 165	1 223	1 743	520	355 645
9	2007–09	2.90%	1.5%	4.40%	0.3595%	355 645	1 278	1 783	504	355 141
10	2007–10	2.78%	1.5%	4.28%	0.3499%	355 141	1 242	1 759	516	354 625
…	…	…	…	…	…	…	…	…	…	…
103	2015–07	-0.79%	1.5%	0.71%	0.0591%	279 378.9	165.0	1 167.8	1 002.8	278 376.2
104	2015–08	-0.74%	1.5%	0.76%	0.0632%	278 376.2	175.9	1 173.9	997.9	277 378.2
105	2015–09	-0.74%	1.5%	0.76%	0.0632%	277 378.2	175.3	1 173.9	998.6	276 379.7
						Sum:	**61 047**	**144 667**	**83 620**	
…	…	…	…	…	…	…	…	…	…	…
359	2036–11	-0.74%	1.5%	0.76%	0.0632%	2 345.5	1.5	1 173.9	1 172.4	1 173.1
360	2036–12	-0.74%	1.5%	0.76%	0.0632%	1 173.1	0.7	1 173.9	1 173.1	–
						Sum:	**84 002**	**444 002**	**360 000**	

Source: own calculations using Microsoft Excel.

According to out of date proposal, borrower obligation would be equal to:

$$
\begin{aligned}
Zob_{X2015} &= 276\,379{,}7 + \frac{453\,403 - 276\,379{,}7}{2} + \left(216\,777 - 182\,708\right) = \\
&= 276\,379{,}7 + 88\,511{,}5 + 34\,069{,}1 = 276\,379{,}7 + 122\,580{,}6 = 398\,960{,}2
\end{aligned} \tag{6}
$$

The first component from the last sum from formula (6) would have rate based on Wibor plus foreign currency loan's margin (let's assume it is 1.72% and 1.5%), and the second component based on rate not higher than the current reference rate – let's assume 1.5%. Using those data, we can evaluate the total instalment A:

$$A = A_1 + A_2 \tag{7}$$

Where basing on formula (2) we obtain:

$$A_1 = 1\,491{,}43 \tag{8}$$

$$A_2 = 561{,}10 \tag{9}$$

Thus:

$$A = A_1 + A_2 = 2\,052{,}54 \tag{10}$$

We can see that total instalment with the proposed solution is higher by 126.81 PLN, so 6.59% than before currency conversion. We get rid of credit risk and receive a little higher rate. We can suppose that all who would be able to take advantage of this solution would make it. However, as already mentioned, due to the discontinuity in the legislative process, the likelihood of this solution in the near future is small and the problem would be addressed from the beginning after the October parliamentary elections.

Critics of the described proposal notice that it is quite complicated. They propose a simpler solution: determine the liability that would have the borrower if it was a loan in PLN and the repayment such as they were, and it would be a part with commercial interest rate (data in table 4), and for example half of the difference between the current debt in CHF and this form table 4 with preferential terms. Then we get:

$$
\begin{aligned}
ZobII_{X2015} &= 353\,169 + \frac{453\,404 - 353\,169}{2} \\
&= 353\,169 + 50\,117 = 403\,285{,}74
\end{aligned} \tag{11}
$$

If we take analogous interest rate as in project accepted in September 2015 by Senate, we receive:

$$A_1 = 1\,905{,}81 \tag{12}$$

$$A_2 = 229{,}41 \tag{13}$$

So:

$$A = A_1 + A_2 = 2\,135{,}22 \tag{14}$$

Unfortunately LtV for commercial part may still be higher than 0,8. Additionally above way of computing means undermining CHF credit agreement. It may have legal consequences. We might expect lawsuits not only from banks but also borrowers who took out a loan in PLN.

Conclusions

CHF borrowers situation is complicated and there is no simple solution that would satisfy all parties. It seems that the solution currently discussed in parliament could be a good compromise, but it is contaminated by "sin of hurry" and the ongoing election campaign. Meanwhile, this problem should be approached with caution, the proposed solutions must be developed with the participation of the PBA and representatives of the CHF borrowers, the success depends on the acceptance of those environments. What is more, the proposed solutions can't put in a privileged position any group of borrowers.

One note at the end - the article was written almost 1.5 years ago (September 2015) and all ineffective and inept attempts to solve the problem of franc loans during this period confirm above article.

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