

Western half of Europe to understand CEE interests, fears and behaviour better, and above all, to create a two-way flow of information and cultural linkage across Europe in the widest sense.

A transparent, long-term enlargement strategy will have an impact far beyond the internal stability of Europe. There will be several positive consequences for the future of Europe and its place in global politics and economic competition.

A clear, committed enlargement scenario will be able to release unused economic (and innovative) potential in Europe. This will generate higher sustainable growth, the volume of which will clearly outpace the generally calculated impact of 'more than 100 million new consumers'. It means that the dynamic impacts of enlargement, which are several times greater than the static ones, can be adequately used.

The enlargement strategy outlined will have a positive impact on the future position of the Euro in international financial markets. To achieve the second key goal in introducing the euro - to create an international reserve currency similar to the US dollar - the EU has to convince global investors to change their mind and start considering the Euro as a better (or at least equivalent) reserve currency. It is hard to imagine any other, better European project to attract attention and financial resources of potential investors. A well-designed enlargement strategy, with its large-scale positive economic consequences, can increase the euro's international position.

A credible enlargement strategy will greatly improve the EU's image in Europe and probably beyond. It will show that the EU is a reliable partner, a strategic ally and the unquestioned anchor of modernization and development in the continent. This message is badly needed.

Confidence in the EU has been shrinking recently in more than one candidate country. Clearly, any loss of confidence within Europe will lead automatically to lower confidence and reliance on the EU in other parts of the world. Only enlarging and strengthening Europe on the basis of a strategic plan can envisage it playing a greater role in global politics and economics. This is how European values (still not always clearly defined) can successfully take on the competition evolving on a global scale.

Municipal Bonds on Capital Market in Poland

Maria Jastrzębska*

Abstract

There exists rather high level of centralisation of public finance in Poland. The territorial self-government units are financially very dependant on the central level. So exercising the current statutory tasks of TSU, as well as their investments requires the usage of replaceable sources such as loans, credits, issuing municipal bonds and bills. It can be noted that within the period of 1999-2001 the index of share of an average debt of territorial self – government units in their total revenues rose from 9,5% in 1999 up to 15,4% in 2001 and the most remarkable increase took place in cities with powiat status. The territorial self-government units are dependant on capital market in collecting funds for municipal investments and keeping financial liquidity and financial solvency (budgetary solvency). Both Polish capital market and the way use its financial instruments local and regional self-government units are variable according to the changes in our economy. Furthermore the purposes of borrowing money for the needs of TSU and the law regulations in the domain of local finance have also changed. The role of non-commercial loans and credits has decreased, so we can assume that municipal bond market in Poland should expand. The confirmation of this presumption is seen in increasing number of municipal bonds issuers and increasing value of issue of municipal bonds but we still may not say that there exists a real municipal bond market in Poland.

* Ph.D., Chair of Finance, Department of Management, University of Gdańsk, Poland, address: ul. Armii Krajowej 101, 81-824 Sopot, Poland. phone 48 58 55 09 492, fax 48 58 55 09 108; e-mail: maryla66@zr.univ.gda.pl

Introduction – the territorial self-government in Poland

In the end of 80's, just before the transition period started, two levels of public administration (local and central in region) had operated, but both have been controlled by the State. The system was regarded highly centralized and costly being neither efficient nor creative for the local and regional representatives.

The process of political and economic transition, that started in 1989, was a great challenge for the rebirth of local autonomy. One of the strategic aims of the local government reform in 1990's was the implementation of the decentralisation of the State power. Exercising this aim requires building the material and financial basis for the autonomy of territorial self-government units (TSU). It was expected, that newly introduced TSU – communes (gminy) would reduce bureaucracy and lower the costs of public administration. And people involved in the process of delivering services to the local societies were granted the right to influence that process. The second round of territorial self-government reform in Poland was introduced in 1999, when additional two levels of TSU were created (powiats and voivodships).

There are three types of territorial self – government units – commune (gmina) as the basic level, district (miasto na prawach powiatu - city with powiat status and powiat) as the intermediate level and voivodship (województwo) as the highest level of territorial self – government in Poland. The division of TSU according to the model presented above results from the task-based criteria, which means that no subordination is comprised between TSU (e.g. commune is not subordinate to the district nor to voivodship and similarly the district is not dependant on voivodship). Communes and districts are the units of local government and voivodships are the units of regional government. Now there are 2 808 units - 2412 communes, 66 cities with powiat status, 314 powiats and 16 provinces.

The decentralisation of public finance

Introduction of additional levels of TSU in 1999 did not solve the problem of decentralisation of public finance, which still remains open. We may notice that in 1999-2002 the share of state budget in the structure of total revenues of public finance sector is still about 50%, i.e. and there exists a rather high level of centralisation of public finance (table 1). Moreover the purposeful funds and healthcare funds manage more than 30% of those revenues. So in fact the central level collects more than 80% of total revenue of public finance sector. Consequently to that local and regional governments are able to manage only about 16% of those revenues. The situation is different in case of expenditures of public sector finance. The state budget spends more than 25% of total expenditures of public sector finance. But local and regional budgets spend more than 20% of those expenditures. So the percentage share of local governments in the structure of expenditures of public finance sector is higher than their percentage share in the structure of revenues of public finance sector. The reason is very simple: financing their activities TSU use grants from state budget. But in that way they are very dependant on the central level. Moreover the money granted from state level is not sufficient to fulfil all their tasks. And it is worth mentioning notice that in terms of their total transfers from state budget to purposeful funds are approximately the same as total transfers from state budget to local and regional budgets.

Local budget deficit and the sources of its financing

Increasing number of territorial self-government units with budget deficit in the period of 1999-2002 is the confirmation that very important part of self-government sector debt is connected with budget deficit and getting money for balancing budgets from repayable sources of financing TSU. Fortunately the situation was better in 2001 and 2002 than in 2000 because of decrease of all levels of TSU with budget deficit. We may notice that in the period of 2000-2002 only in case of communes there was evident a decrease of the percentage share of the TSU with budget deficit from 70% in 2000 to 51% in 2002. The situation worse in case of cities with powiat status, be-

cause there were a decrease of the percentage share of these TSU with budget deficit from 89% in 2000 to 75% in 2001. But in 2002 an increase up to 77%. Was evident the same situation happened in case of voivoidships, but in case of powiats we may notice a decrease of percentage share of these units with budget deficit (table 2).

Exercising the current statutory tasks of TSU well as their investments, requires the usage of replaceable sources of financing such as loans, credits, issuing municipal bonds and bills. So the money collected from repayable sources, according to the Polish law, can be used to balance local and regional budgets. It can be noticed that in the period of 1999-2002 the index of share of an average debt of territorial self – government units in their total revenues rose from 9,5% in 1999 up to 19,2% in 2002 year. The most remarkable increase took place in cities with powiat status (table 3), because they spend most money on investments among other TSU. Because the index of share of expenditures for TSU's investments decreased in the period of 1999-2002 from about 19% to 16% of total TSU expenditures we may say that they use the repayable sources of its financing not only for investment but also for current expenses. The share of expenditures for investments in case of communes in the same period decreased from about 22% to 19% of their total expenditures and in case of cities with powiat status - from 18% to 15%. The same situation was observed in case of voivoidships – from 31% to 29% but in case of powiats we may notice increase of expenditures for investments – from 6% to 8%.

According to the structure of TSU liabilities we may notice that the first place is taken by communes with over 51% share of total liabilities. The second place is for cities with powiat status because their liabilities equal to over 43% of total TSU liabilities in Poland. The third place belongs to powiats (about 4%) and the fourth to voivoidships (about 2%).

The choice of repayable sources of financing TSU is made with respect to its future financial solvency, its needs and the results of spending money. The local and regional self-government units may choose loans and credits – commercial and non-commercial or issue municipal bonds or municipal bills.

Municipal bonds in Poland

In the period of 1999-2002 we may trace increasing role of securities (especially municipal bonds) issuing. But still it is not the most important source of raising money for financing TSU considering the structure of TSU debt (see tables 4 and 5). Moreover, credits and loans dominate in that structure and then constitute about 84-87% of their total debt for gminas, 75-79% for cities with powiat status, 45-72% for powiats, 70-74% for voivoidships.

The role of non-commercial loans and credits decreased, so we can conclude that municipal bond market in Poland should expand. The confirmation of this presumption is seen in increasing number of municipal bonds issuers in 2001 (53 issuers in 1999 and 192 in 2002). We may also notice that the value of municipal bonds issue has increased (at about 240% from 1999 to 2002). But still may not say that there exists a real municipal bond market in Poland. This is because too few TSU have issued municipal bonds. They still do not have enough information to be sure that municipal bond is better financial instrument for them than a credit or a loan. The situation is not the same in every territorial self-government unit but generally speaking there are several criteria to choose the right repayable source of financing TSU. So it is very important to provide comparative analysis of advantages and disadvantages of loans, credits, municipal bonds and bills.

The share of municipal bonds in debt securities market in Poland is about 10% (see table 6). In general, the profitability of municipal bonds is higher than that of treasury bills simply because the interest rate of municipal bonds (variable interest) is based on profitability of 52-week treasury bills and increases due to the premium (bonus) earned in case of holding those securities for a period longer than a year.

The territorial self-government units usually issue municipal bonds using the simplest and the cheapest way. This is the so – called closed issue referring to less than 300 investors. That is why financial institutions are the most important investors on the municipal bonds market (especially banks because they arrange and realise issue of municipal bonds).

The level of liquidity of municipal bonds market is far from being satisfactory. Moreover, these securities are issued for a rather short period of time, compared for instance, to the issuing period of such securities in the US or some EU countries. The average period of municipal bond issue is 5 years and only a few TSU have issued bonds for longer period - 8 or 10 years.

In terms of structure of issues in the period 1999-2001, the quantity of issue shows that rather small issues (to 5 mln PLN) predominate and it constitutes 42-48% of total issue of municipal bonds. With regard to the structure of the value of issue they are equal to 5-8% of total issues value (table 7).

Issues from 10 to 100 mln PLN take the second place in the structure. Their share in quantity structure is 30-26% and they exceed the value structure - 55-48%. It should be noticed that the share of this issue decreases from year to year.

The stable part of issue quantitative structure is represented by represent issues of 5 to 10 mln PLN (23%) and their share in value structure is 7-9%.

The biggest issues above 100 mln PLN play an important role in value structure (30-35%) but in quantity structure their share is only 4-3%.

Territorially, the first place amongs TSU in Poland is occupied by WIELKOPOLSKIE voivodship,. The second place belongs to POMORSKIE voivodship and the third OLNOSLASKIE voivodship. Those local and regional units have to realise new municipal investments because these parts of Poland are highly developed and so call the investment attraction in these regions is very high. So there are a lot of needs which have to be fulfilled. But achieving the determined goals of these territorial self-government units requires borrowing money and, consequently, issuing municipal bonds¹.

The future of municipal bond market in Poland

The factors that restrict development of municipal bond market in Poland are as follows:

- complicated procedure of issue of municipal bonds issue and their coming on capital market,
- shortage of professional consulting agencies issuing municipal bonds and little role of rating marks (table 8),
- few investors investing their money in municipal bonds and it is not good for the primary and secondary capital markets in Poland;
- limited role of investment funds and pension funds as investors on the municipal bonds market and a weak interest of local societies in municipal bonds market,
- ignorance of benefits and costs of issue of revenue bonds; introduction of this type of securities should be very useful for development of municipal bond market, especially as issue of revenue bonds is not subject to law regulations limiting the level of debt of TSU and the level of expenditures for paying of the debt.

To develop municipal bonds market in Poland the following conditions should be observed:

- to amend law on revenues of territorial self-government units in order to stabilise their financial condition,
- to make issues of municipal bonds on the stock exchange easier,
- to increase liquidity of municipal bonds market in order to interest other investors in the capital market in Poland. Not only banks, but also inhabitants of TSU issuing bonds, investment funds and pension funds are to be considered,
- to change the type of TSU budget from a one-year budget to a long-term one,
- to separate operating budget from the TSU capital budget,

¹ For instance in 2000 money from issue of municipal bonds in Poland was spent on the following TSU purposes. The structure in %: construction of plumbing – 32,1%, education – 11,4%, sewage system –10,5%, public transport – 8,8%, roads – 8,8%, sports objects –7,9%, sewage treatment plant – 6,5%, social building – 5,2%, other e.g.: recycling and storing of scrap materials, central heating plants, technical infrastructure of grounds – 8,8%.

- to search other methods of fixing interest paid on municipal bonds (not only the one based on profitability of 52-week treasury bills),
- to introduce issue of municipal bonds with interest capitalisation or with discount,
- to include the possibility of rolling the debt of territorial self-government units,
- to begin the issue of revenue bonds by banks into law regulations,
- to use the securitization to finance municipal undertakings (bonds are issued on the base of TSU assets).

Definitely more than a half of municipal investments in Poland are financed from the revenues of territorial self-government units. So these units do not get loans very often. But without loans and credits or issuing municipal bonds they are not able to make a further step to make up for the lost time and to finance development (municipal investments). According to that there is another problem – how to choose the appropriate repayable source of raising money.

Consequently, the territorial self-government units should take the following criteria into consideration. First of all, investment needs should be adjusted to the type of local or regional task and to the amount of essential financial means. The next criterion is current and future financial condition of the TSU (budgetary solvency) and the ability to repay the debt. The flexibility of repayable source of financing TSU is also very important because it is not indifferent when and how fast a territorial self-government unit gets money and how often it will be able to pay instalments and interests. The other important criterion is the cost of raising the capital.

Conclusions

Due to the criteria mentioned above we may say that issue of municipal bonds should become more popular with territorial self-government units in Poland because:

- the cost of getting money is lower compared to a credit (lower commission and interest rate),
- interests are paid usually once a year and in case of credit – monthly or quarterly,
- issue of municipal bonds does not have to be protected,
- time of raising money is short,
- interests are paid till the end of the last issued series and when the maturity period of the bond is over (from one year and longer) the issuer replay the owner of a municipal bond the par value of the latter,
- the flexibility of issue of bond programme is adapted to investment needs and credit ability of issuer,
- there exists promotion effect, especially in case of issuing municipal bonds – the so called public turnover (stock exchange and CTO),
- social benefits should also be taken into account – inhabitants of TSU as the issuer are really interested in problems of their unit and they are able to invest money in safe securities.

Table 1

The structure of revenues and expenditures of public finance sector in Poland in 1998-2002 in %

Secification	Percentage share in total revenue of public finance sector					Percentage share in total expenditure of public finance sector				
	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
State budget	55,6	49,6	49,8	48,0	48,0	39,1	27,2	26,3	24,3	24,2
Local and regional budgets	12,2	11,4	11,2	11,1	11,6	15,6	21,1	23,2	22,5	22,1
State purposeful funds	25,9	25,8	24,5	24,1	23,0	38,5	37,2	36,8	36,1	36,0
Local and regional purposeful funds	.	0,6	0,7	0,7	0,4	.	0,4	0,4	0,4	0,3
Beyond budgetary economy – state level	2,7	1,9	2,1	1,8	1,9	2,2	1,6	1,6	1,3	1,3
Beyond budgetary economy – local and regional	3,6	3,9	3,6	3,3	3,3	4,6	4,9	3,7	3,4	3,4
Health care funds	-	6,8	8,1	8,4	8,0	-	8,0	8,0	8,1	8,0
Other units of the sector	x	x	x	2,6	3,5	x	x	x	3,9	4,7

Source: Ministry of Finance in Poland.

Table 2

Deficit or surplus of TSU budget and the percentage of TSU in 1999-2002

Specification	All TSU	Gminas	Cities with powiat status	Powiats	Voivodships
Deficit or surplus of TSU budgets in mln zł:					
1998 year	x	-1 376	-	-	-
1999 year	-957,2	-478,4	-565,3	62,8	23,7
2000 year	-3 137,3	-1 627,0	-1 318,1	-109,7	-82,5
2001 year	-3 139,6	-1 281,1	-1 469,4	-251,6	-137,5
2002 year	-3 147,9	-1 074,7	-1 539,0	-412,0	-122,2
Percentage share of TSU with budget deficit:					
1998 year	x	68,1	-	-	-
1999 year	50,0	55,0	66,0	14,0	13,0
2000 year	69,0	70,0	89,0	55,0	75,0
2001 year	60,0	58,0	75,0	69,0	69,0
2002 year	55,0	51,0	77,0	77,0	75,0
Percentage share of TSU with budget surplus:					
1998 year	x	23,4	-	-	-
1999 year	50,0	45,0	34,0	86,0	87,0
2000 year	31,0	30,0	11,0	45,0	25,0
2001 year	40,0	42,0	25,0	31,0	31,0
2002 year	45,0	49,0	23,0	23,0	25,0

Table 2 (continuous)

Relation between budget deficit or budget surplus and total revenues of TSU:					
1998 year	x	-3,0	-	-	-
1999 year	-1,5	-1,5	-2,9	0,6	0,7
2000 year	-4,3	-4,7	-6,1	-0,9	-2,2
2001 year	-3,9	-3,4	-6,2	-1,8	-3,0
2002 year	-3,9	-2,8	-6,2	-3,2	-2,9

Source: Ministry of Finance in Poland.

Table 3

The percentage share of TSU debt in their total revenues in 1999-2002

Specification	1999	2000	2001	2002
Gminas	11,5	14,8	16,8	15,7
Cities with powiat status	12,3	17,3	22,0	32,4
Powiats	0,6	3,0	3,8	7,0
Voivoidships	0,7	2,8	6,0	10,3
Average – TSU	9,5	12,9	15,4	19,2

Source: Ministry of Finance in Poland.

Table 4

The structure of gminas debt in period 1995-1998 in %

Specification	1995	1996	1997	1998
Non-commercial debt	67,3	58,2	57,7	36,0
Bonds	0,0	5,9	9,8	16,2
Bank credits	32,7	35,9	32,5	47,8

Source: Ministry of Finance in Poland.

Table 5

The debt of TSU in period 1999-2002

Specification	All TSU		Gminas		Cities...		Poviats		Voivoidships	
	in mln zł	in %	in mln zł	in %	in mln zł	in %	in mln zł	in %	in mln zł	in %
Credits and loans:										
1999 year	5 080	82,1	3 243	87,1	1 785	74,9	35	64,0	16	71,5
2000 year	7 370	78,6	4 280	83,4	2 844	75,6	169	44,7	78	74,4
2001 year	9 791	79,8	5 307	84,9	3 938	75,6	352	66,3	194	69,7
2002 year	12 237	79,7	5 029	83,3	6 278	78,5	645	72,4	286	65,9

Table 5 (continuous)

Securities (including municipal bonds):										
1999 year	699	11,3	197	5,3	501	21,0	0,0	0,1	-	-
2000 year	957	10,2	271	5,3	666	17,7	20	5,2	-	-
2001 year	1 675	13,7	460	7,4	1 058	20,3	103	16,3	54	19,4
2002 year	2 381	15,5	604	10,0	1 453	18,2	199	22,4	125	28,8
Deposits:										
1999 year	80	1,3	52	1,4	22	0,9	5	9,4	1,0	1,7
2000 year	199	2,1	130	2,5	60	1,6	8	2,3	0,0	0,4
2001 year	69	0,6	41	0,7	18	0,3	9	1,7	0,0	0,3
2002 year	28	0,2	15	0,2	10	0,1	2	0,3	0,0	0,0
Liabilities*:										
1999 year	328	5,3	231	6,2	76	3,2	15	26,5	6	26,8
2000 year	851	9,1	452	8,8	192	5,1	181	47,8	26	25,2
2001 year	731	5,9	440	7,0	195	3,8	67	15,7	29	10,6
2002 year	712	4,6	391	6,5	254	3,2	44	4,9	23	5,3

Notice: *Liabilities: trade liabilities, obligatory fixed premiums for Social Insurance Fund and Work Fund.
Source: Ministry of Finance in Poland.

Table 6

Municipal bonds (over 365 days) in Poland in period 1997-2002

Specification	1997	1998	1999	2000	2001	2002
Value of municipal bond market in PLN	296,9	526,1	653,6	859,6	1628,6	2 218,8
Share of municipal bonds in debt securities market (without treasury bills and bonds) in %	8,7	7,0	7,1	5,8	9,8	11,2
Number of issuers	28	40	53	89	146	192
Increase of number of issuers in %	x	42,9	32,5	67,9	64,0	46
Increase of issues value of municipal bonds in %	x	177,2	124,2	131,5	189,5	136,2

Source: CERA S.A. Central European Rating Agency; at present - Fitch Polska S.A.

Table 7

Quantitative and value structure of municipal bonds issues in period 1999-2001 in %

Specification	TO 5 MLN PLN	FROM 5 TO 10MLN PLN	FROM 10 TO 100 MLN PLN	FROM 100 MLN PLN
According to quantity of issues of municipal bonds				
1999 year	42,5	23,0	30,5	4,0
2000 year	47,0	22,5	28,0	2,5
2001 year	48,0	23,0	26	3,0

Table 7 (continuous)

According to value of issues of municipal bonds 1999 year	5,0	7,0	55,5	32,5
2000 year	7,0	8,5	55,0	29,5
2001 year	8,0	9,0	48,0	35,0

Source: CERA S.A. Central European Rating Agency; at present - Fitch Polska S.A.

Table 8

Rating marks for some cities with powiat status

CITY	RATING AGENCY	RATING MARK	RANGE OF RATING MARK
GDAŃSK	Standard & Poor's	BBB	International
KRAKÓW	Standard & Poor's	BBB	International
ŁÓDŹ	Standard & Poor's	BBB	International
SZCZECIN	Standard & Poor's FITCH IBCA	BBB	International
WROCLAW	Standard & Poor's	BBB	International
OSTRÓW WIELKOPOLSKI	CERA	A-	Domestic
TYCHY	CERA	AA-	Domestic
ŻORY	CERA	BBB	Domestic

Source: CERA S.A. Central European Rating Agency; at present - Fitch Polska S.A.

Silicon Valley Model: Origins, Institutions and Replication

Mari Sako*

Abstract. Silicon Valley continues to receive attention as a resilient cluster of high-tech entrepreneurship. This article lays out the essential elements of the Silicon Valley model, specifically by identifying key supporting institutions and complementarities amongst them. In the US context, the article argues that the large Chandlerian modern corporation and the Silicon Valley cluster of small start-ups are in a dialectical relationship, corresponding to different stages of the growth of firms. The article then offers a framework for analysing how the Silicon Valley model might be replicated, with or without modifications. In the case of Japan, national institutions in financial and labour markets are becoming weaker and heterogeneous, giving greater scope for hybrid forms of corporate governance to evolve. Nevertheless, Japanese entrepreneurial firms are bound by existing norms, and are likely to continue to find resources for competitive advantage by linking to large corporations.

Key words: entrepreneurial firms, Silicon Valley, corporate governance; Chandlerian modern corporations.

* Professor of Management Studies, Said Business School, University of Oxford. Please send comments to mari.sako@sbs.ox.ac.uk