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## **Bank Services for Structural Funds on the Example of Individual Learning Accounts**

### **Introduction**

The European Union Common Agricultural Policy requires reorganization of Polish agriculture sector. This process should actively engage farmers themselves. Part of them will have to learn how to generate earnings from outside of the agricultural sector.

According to the assessment by the Ministry of Agriculture and Rural Development until 2015 the quantity of farms will decline by 10.4%, that is to say the number of farms will decline by 187 thousand and will reach 1 600 thousand<sup>1</sup>. The remaining farmers obtaining earnings from farms and receiving direct EU subsidies will have to learn to adjust their farms in order for them to meet the EU standards. Such standards are implied by the EU law and refer to the EU directives that are in force:

- 1) since 1/01/05 the EC directives: Environment protection embracing:
  - wild birds,
  - groundwater,
  - soil affected by agricultural nitrates,
  - environmental pods and wild fauna and flora;
- 2) since 01/01/2006 EC directives: Public health, animal health and plant health concerning:
  - the market circulation of plant protection measures,
  - prohibition of application of some compounds that have hormonal effects,

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<sup>1</sup>The number of farms will decrease in the area group from two to twenty hectares while the pace if this process will be fastest among units between ten and fifteen hectares of agricultural areas. At the same time the number of smallest farms (one to two hectares) and larger farms above thirty hectares will increase, while the pace of increase in number of farms over thirty hectares will be more than two and a half times faster than of those up to two hectares. In other words the areas of farms will relatively polarize. Moreover, around 90 thousand units will become smaller by 2012, adjusting the area of used agricultural fields to the needs of the family, mainly self-supply (IERiG prognostics, 2006).

- food security,
  - fighting and control of animals' diseases;
- 3) Since 01/01/2007 the EU directives: Animal well-being embracing the protection of:
- calves,
  - pigs,
  - farm animals.

Non-compliance in the agricultural practice can lead in consequence to the reduction of payments or exclusion from subsidies<sup>2</sup>.

The process of improvement of professional qualification, as well as learning new profession is not automatic. It is therefore necessary for the farmers to take part in various forms of lifelong learning<sup>3</sup>. Polish adults are quite reluctant to do this. In the countries of so-called fifteen eleven percent of individuals aged between 25 and 64 (as of 2005) participated in trainings for adults. In Poland they were five percent (for comparison: in Sweden this indicator reached 34.7%<sup>4</sup>). In rural areas the percentage of persons participating in trainings is even lower (according to Central Statistical Office for 2006 it was only 0.61%). Not everyone is aware of the fact that learning is becoming a persistent element of human functioning in the contemporary world [Szymanska-Koszyk 2007, pp. 10–13].

Lifelong learning requires participation costs. The so far by the EU financed trainings for farmers in the first programming period were provided gratis. The procedure of allocation of EU resources in force consisted in contracting projects where 100% of eligible costs was financed from EU resources and the state budget. The most important disadvantages of this solution include:

- 1) lack of interest from the side of potential beneficiaries in the offer of the project providers (effect: lower number of beneficiaries taking part in the

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<sup>2</sup>Such are the consequences provisioned by CAP in the frames of the cross-compliance rule realization. The legal basis for such protective actions is paragraph 51 of the Council Regulation no. 1698/2005 of September 25th, 2005 on the support of rural areas development by the European Agricultural Fund for Rural Development (EAFRD), as well as Commission Regulation (EC) No 1974/2006 of 15 December 2006 laying down detailed rules for the application of Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L368/15 of 23/23/2006).

<sup>3</sup>In the light of par. 3 point 17 of the bill of September 7th, 1991 on the education system (DzU of 2004 No. 256, item 2572 with amendments), lifelong learning refers to education in schools for adults, as well as acquiring and complementing general knowledge, abilities and professional qualifications in extramural forms by individuals who met education obligation.

<sup>4</sup>Based on: Financing Vocational Education and Training In the EU New Member States and Candidate Countries. Recent Trends and Challenges, European Training Foundation”, June 2005 and “2006 Joint Interim Report of the Council of the Commission on Progress under the ‘Education and Training 2010’ Work Programme”.

project that in the worst case scenario can lead to the resources' withdrawal to the EU);

- 2) unequal distribution of the EFS resources 'consumption' among the support beneficiaries (cumulation of profit from financial resources by the same circle of beneficiaries participating in various IROP measures or in subsequent editions of the same measure);
- 3) lack of financial participation in the training project costs by the beneficiary (effect: under-valuation of the training offer and low interest in participation in lifelong learning co-financed by own resources);
- 4) disturbed balance between the supply and demand on the labor market (trainings participants often have problems finding jobs according to the profile of the accomplished training).

In order to counteract these phenomena one can propose to allocate resources directly to the beneficiaries-farmers' accounts (individual learning accounts – ILA). EU programming for years 2007–2013 is the most convenient moment for starting the implementation of ILA in Poland. This is due to the contemporary occurrence of three factors conditioning to great extend the range of investment in human capital in rural areas (which is likely no to re-occur in later periods):

- 1) the amount of financial resources for investment in human capital provisioned in: Operational Programme Human Capital (OPHC), Rural Development Program (RDP), and sixteen regional operational programs. For example RDP for years 2007–2013 will take euro 17.21 billion (the biggest ever budget accepted in Brussels). Poland will also receive euro 11.4 billion for the OPHC, including 9.7 billion of EU financial input (which constitutes circa 14.4% of all resources directed to Operational Programs in years 2007–2013);
- 2) acquisition by farmers of the knowledge of basic individual banking rules implied among others by the obligation to open bank account for the need of EU direct subsidies transfer;
- 3) farmers' awareness of the possible reduction or exclusion from payment as a result of not following the rules of cross-compliance. Therefore greater motivation of farmers to learning – in fear of the necessity of re-paying of amounts of the already received EU financial support.

The aim of the paper is thus to make an attempt at presenting the clue of the ILA model, as well as the opinion of bank presidents of the management boards, and outlets directors of cooperative banks on the possibilities of implementation of this idea in the conditions of Polish banking sector. I will focus on three aspects of the issue: banks' experience in implementing education financing products, the range of incentives that should be proposed to the potential ILA holders, and the excellence training for the bank staff in the field of ILA managing.

## Research methodology

The presented research results make part of a wider work financed in the frames of the Ministry of Scientific Research and Higher Education grant: The role of structural funds in the process of creation of the knowledge-based economy (lifelong learning)<sup>5</sup>. Opinions of the cooperative banks representatives were gathered in the form of diagnostic poll using a survey questionnaire. The choice of the Lublin voivodship for the research is justified by the region's GDP per capita level that was the lowest in Poland in the moment of the accession to the EU.<sup>6</sup> The choice of cooperative banking as the sector of financial institution in turn was dictated by the preference of farmers from the Lublin region who were subject to the research. Opinions of the respondents were gathered in the frames of the poll conducted in 2007 on implementation of ILA in Poland as an instrument supporting lifelong learning process (change of professional qualification or agricultural education complementation). Farmers have the greatest trust in cooperative banks among all the financial institutions of the Polish banking sector. The preference of this banking sector by the respondents is implied by the specificity of its functioning:

- the market area of activity of cooperative banks is the local market characterized by the creation of strong ties between bank clients, local social, political and economic organizations, and banks;
- cooperative banks are financial institutions willing to give loans to finance low-capital economic innovations (the banks know well the financial situation of their clients) [Bryniarska 2003, p. 63].

In the course of the research, opinions of 98 cooperative banks representatives were gathered (including 32 central seats and all of their 66 outlets) located in the area of the Lublin region.

## The British model of Individual Learning Accounts

In the economics literature the idea of individual learning accounts first appeared in the middle of the nineties. The subject literature has been basically limited to the works of British economists and it is in Great Britain where the idea was first presented in a document of the British Social Justice Commission in 1994. The document considered institutional frameworks of the 'learning so-

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<sup>5</sup>Contract no. 0208/H03/2007/32.

<sup>6</sup>At that moment, GDP per capita in the Lublin region was the lowest not only in Poland, but in the EU as well (33% of EU average in relation to the highest indicator 278% in Central London).

ciety'. The paper's authors believed it desirable to create a 'bank of education' – a public institution of a national range that would guarantee common access to lifelong learning, institutions of higher education included.

The first step towards the creation of a countrywide system of ILA was the cooperation between the Department for Education and Employment (DfEE) with local lifelong learning centres and with local Training and Enterprise Councils (TEC), as well as with the Chambers of Commerce Training & Enterprise (CCTE). The aim of ILA is to widen the access to lifelong learning and increase the learning activity of the society. In its simplest form ILA is a savings account open solely by adults. The ILA idea is based on the model of investment in education by three subjects, i.e. investment by the learning individual, the employer, and the state [Bielecki, Kazimierzak 2002, p. 16]. In the British model t ILA functions in three forms:

- financial resources accumulation fund,
- accumulation fund together with additional options available with other bank accounts (like taking loans),
- accumulation fund together with additional options available with other bank accounts as well as an instrument to register educational achievements.

ILA is an account of a preferential character, i.e. is supported by the state budget. In case of pilot programs, realized in the years 2000–2001, public financial incentives directed to support educational investment by private individuals embraced:

- state financial input at the level of £ 150 in the first year of the account's functioning dependent on the small own input (£ 25) by the account's holder (the subsidy was provisioned for the first million of accounts),
- 20% tuition discount for costs not exceeding £ 500 yearly,
- 80% tuition discount in case of priority learning programs that develop information technology skills,
- additional income for employees receiving financial support from their employers (resources sent to the account), free of taxes and social insurance contributions,
- employers' payments to the learning accounts, alike other training costs the employer bears, free from taxes of the enterprise.

The ILA resources can only be spent to finance educational purposes. The accounts' holder decides about what educational offer to choose. If the service provider meets the requirement of accredited training centre, and if the learning program selected meets the eligibility criteria to use financial incentives, then the provider can apply for the amount of the tuition discount and the money transfer. The mode of public financial resources allocation from ILA was subject only to two limitations. The first of these was the acceptance of the learning program by

the University for Industry (Ufi). The second limitation in turn was that the public money (supplemented with the 'initial own input of the client') could be spent on trainings connected with the current or planned job. The ILA should also enable to certify the acquired education with the help of information technologies and so called 'smartcards').

Under Polish conditions the ILA for farmers would receive financial inflows from two sources: own input of the account's holder, and from the state budget (EU structural funds directed to finance lifelong learning in the frames of 16 regional operational programs, operational program – Human Capital, and Rural Development Plan (RDP) axis 1: Increasing forest and agricultural sectors' competitiveness<sup>7</sup>). Payment from the state budget would follow the farmer's own financial input (its minimal level would be established by the government). Public financial input would constitute a previously agreed multiplicity of the farmer's own input in the first year after the account's opening (would not however exceed the level of co-financing agreed by the government). The bank that would operate the account would cooperate with an ILA administrator (client desk) who would be the Lifelong Learning Centres (CKU), as well as Vocational Training Centres (CKP). CKU and CKP together with Agricultural Advising Centres (ODR) would establish the criteria of selection farmers, whose farms would be among those to suffer first from the process of agriculture modernization in the frames of RDP in years 2007–2013. It is this group of farmers (e.g. owing farms smaller than five hectares) that could be proposed in the first place to open ILA [Kowalska 2007, p. 108].

## **The EU funding guarantees and the marginal character of ILA**

In order to acquire new bank clients, banks among other things, widen their services. Adding loan products usually widens cooperative banks' offer. There are in turn almost no examples of enriching the offer with products connected to lifelong learning<sup>8</sup>. Banks should introduce ILA using the EU second programming period advantageous for lifelong learning financing. The EU guarantees of lifelong learning financing are implied by the EU recommendations included in:

- Lisbon Strategy provisions of 2002,

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<sup>7</sup>Within the frames of axis 1 of RDP, among others, 400 million euro was envisioned for financing of measure 114: Counselling for farmers and forest owners, and euro 50 million for measure 111: Vocational trainings for persons employed in agriculture and forestry.

<sup>8</sup>In the case of one cooperative bank clients were offered the student loan.

- Copenhagen Declaration priorities for vocational education (2000), the 2005/36/EC Directive on the recognition of professional qualifications,
- The European Parliament and Council Decision no. 1720/2006 of November 15, 2006, establishing an action plan in the field of lifelong learning. The Lifelong Learning Program embraces general education, vocational training and education, as well as informal education undertaken throughout the lifetime, thanks to which the level of knowledge, abilities, and competences required from the individual, citizen, social or professional perspective is improved.

## Incentives to start ILA

Cooperative banks seeking to rich as good as possible indicators of payability, effectiveness, quality of assets, and out of balance liabilities [Zalewska 2007, p. 602] have to engage in pulling new clients to their local branches. The conducted research results suggest that the presidents of the management boards of cooperative banks pay highest attention to the first four of the enlisted incentives advantageous for the opening of ILA (see Table 1).

**Table 1**

Economic incentives favouring opening of ILA in the opinion of cooperative banks' representatives (in %)

Type of incentive	Very important	Important	Little important	Does not refer	Hard to say
1. Public resources paid to the ILA 'at the outset'	86.0	11.0	0.0	0.0	1.0
2. Learning costs discount for the carriers of ILA depending on public preferences (co-financing by public resources)	44.0	53.0	8.0	0.0	1.0
3. Tax relieves for ILA deposits	18.0	47.0	18.0	10.0	5.0
4. Tax relieves embracing real expenses on education financed by the ILA deposits	18.0	44.0	33.0	3.0	0.0
5. Tax exemption on the interests from the ILA deposits	9.0	41.0	26.0	15.0	7.0
6. Tax exemption on inheritances with educational purposes	11.0	34.0	32.0	8.0	13.0

Source: Author's based on the analysis of the questionnaires gathered from the presidents of the management boards and directors of cooperative banks located on the area of the Lublin region.

The realization of the first two incentives depends wholly on, adopted in a given country, state educational policy. The third and the fourth incentives in turn would require introducing changes in the tax law. Great favouring by the bank environment towards the positive opinion on the above mentioned changes can be implied by the fact that they are not able to influence the shape of reforms and consequently, they lack responsibility for the implementation of the changes. The respondents were also asked to give their opinion on the financial incentives' catalogue (see Table 2), that a cooperative bank could introduce in the case of ILA holders.

**Table 2**

Financial incentives towards the ILA holders in a cooperative bank in the opinion of the respondents (in %)

Incentive type	Definitely yes	Rather yes	Rather not	Definitely not	Hard to say
1. Favoring the ILA as savings account	37.0	54.0	5.0	0.0	2.0
2. Lower interest rate on the over-draws from the account	15.0	35.0	41.0	3.0	4.0
3. Favourable interest rate on the inflows	31.0	47.0	18.0	0.0	2.0
4. Lower interest rate on loans	22.0	45.0	29.0	0.0	2.0
5. Free or low basic bank fees for ILA (fees and commissions)	34.0	50.0	11.0	3.0	0.0
6. Free or low fee on additional services <sup>9</sup> (fees and commissions) for ILA	18.0	32.0	37.0	7.0	4.0
7. ATM/credit card free of charges	16.0	50.0	16.0	12.0	4.0

Source: Author's based on the analysis of the questionnaires gathered from the presidents of the management boards and directors of cooperative banks located on the area of the Lublin region.

The distribution of answers implies that all the in the research process proposed financial incentives got the majority of positive opinions over negative or neutral ones. It is nevertheless worth underlining that three types of financial incentives received relatively high vote indicating rather the lack of interest to include them in the bank offer (incentives: 2, 6, 4). Banks prefer to remain in an assecurative position towards a new bank product until they know exactly the scale of potential gains from its introduction. One can guess that a legal require-

<sup>9</sup>For example: bank-related (e.g. material deposit, safe, standing orders realization); outside of banking (aid package at home, in car trip and alike).



ment towards chosen groups of citizens to open ILA would make the undertaking more reliable in the eyes of the banks.

The choice of financial incentives by the cooperative banks should take into account the fact of a natural change from the generation used to using cash and preferring traditional bank services to the generation willingly using the innovative, technological methods and channels for financial flows. The client will prefer to open ILA where he will be offered the possibility to use electronic banking. As for the client this means the convenience to benefit from the full financial offer regardless of the place and time of the transaction, as well as high level of self-reliance in the field of defining the range and the kind of the service according to individual preferences [Slezak, Borowski 2007, p. 228]. The cooperative included in the research the electronic channel most commonly indicated is internet while using two services: order of transfer and opening or closing deposit accounts. Using mobile phone, SMS and WAP (Wireless Application Protocol) in banking services is only sporadically indicated as the preferred mode. This can mean for the cooperative banks the necessity to widen the offer of electronic banking in order to meet the needs of ILA holder, who is assumed to be a client commonly using electronic bank card.

## **ILA and the new technology of bank cards with microchip**

Implementing ILA concept educational achievements are registered on a special bank cards of the smart card type. These are cards characterised by integrated circuit and non volatile memory of various sizes and serving to store many bank applications (e.g. operating several bank accounts as well as non-bank information (like ID) [Slezak, Borowski 2007, p. 253]. Advantages of electronic bank cards include:

1. Usage:
  - offline (transaction and PIN) authorization that allows to avoid long lasting connection of the POS terminal with the authorization centre,
  - single card can have several functions concurrently, for example managing electronic wallet (Visa Cash), classic credit card (Visa Smart Credit), or serve to pay online (e-commerce),
  - longer card usage period (electronic up to ten years, magnetic up to three years).
2. Security:

- stolen card cannot be used without knowing the PIN (in case of magnetic card, it is enough to imitate the signature from the card)<sup>10</sup>,
- the card is blocked after the PIN is introduced incorrectly three times in a row regardless of place,
- impossibility to copy card (the most important data is saved in the chip and protected from being read – only the processor has access) (Garczynski 2005, pp. 129–130).

In practice the introduction of cards with microchip is easy, whereas it may be a problem to popularize the machines that serve them. Also the cost of electronic card production is higher than that of magnetic card. Despite these disadvantages of cards with microchips were already introduced and popularized for example in France, Spain and the U.S. It is possible to predict that within a couple of years in many countries cards with microchips will eliminate cards with magnetic stripe [Dobosiewicz 2005, p. 323]. On the Polish market cards with microchip are still rare, even though according to experts we have to wait for real chip cards and their wide usage only until 2010. In the light of this, the little optimistic research results on the possibilities of introducing ‘intelligent’ bank card in cooperative banks in the frames of the ILA package, do not any more evoke so negative reaction of the reader. Almost sixty percent of the respondents are not able to assess whether, at the moment of asking, such an undertaking could be possible in their banks. On the other hand still, the by the experts drafted perspective of 2010 is close, and it could maybe be useful to start informing clients about the possibility to have such a card, and introduce gradually the adequate service machines.

## Abilities of the bank staff

Polish market of financial services should implement European Qualifications Frames (EQF) until 2009. Following the requirements of the European market implies that it is no longer enough to concentrate, while choosing subjects of trainings for bankers, on – for example – identification, measurement, and loan risk management. It will be necessary to train bank employees in the wholly new service segment that are products connected to lifelong learning financing (ILA). It is possible to notice with satisfaction the fact that presidents of the management boards of cooperative banks spoke with one voice in favor of

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<sup>10</sup> The most widespread electronic card standard is EMV; since 2005 to this card service the rule of liability shift was introduced, in the frames of which the responsibility for fraud transaction is taken by this unit that has not implemented the microchip card technology

sending their employees to trainings referring to the idea of ILA implementation. Among the main thematic areas of trainings one can mention:

- resources for financing of lifelong learning (99% of the responses ‘definitely yes’ and ‘rather yes’),
- discounts on education costs in the by the state preferred fields of lifelong learning (92%),
- pricelist of the local education offer (90%),
- motivation to save for education aims techniques (84%).

## Conclusions

Implementation of ILA under Polish conditions would require from cooperative banks above all:

1. Changes in law in the field of:
  - 1.1. EU resources absorption for human capital development.
  - 1.2. Conditions of lifelong learning introduction.
  - 1.3. Public finances in the field of taxes.
2. Drafting of an advertising campaign for the new bank product<sup>11</sup>. Advertising this type of service is very specific, for the bank service is not material and it is difficult to compare with other products.
3. Ability by the cooperative banks to cooperate with a client desk that would be the Lifelong Learning Centres (CKU), as well as Vocational Training Centres (CKP) in the field of price policy negotiations, distribution, and promotion of the product.

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<sup>11</sup>According to E. Slezak an effective bank client service strategy requires clients categorization according to geographic, demographic, behavioral, and psychographic criteria.

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## **OBSŁUGA BANKOWA FUNDUSZY STRUKTURALNYCH NA PRZYKŁADZIE EDUKACYJNYCH KONT OSOBISTYCH**

### **Streszczenie**

Edukacyjne konto osobiste (EKO) jest alternatywną propozycją finansowania edukacji ustawicznej w Polsce w stosunku do kontraktowania projektów na ten cel ze środków UE. Programowanie UE na lata 2007–2013 jest najkorzystniejszym okresem do podjęcia działań w zakresie implementacji EKO w Polsce przez banki spółdzielcze. Celem artykułu jest próba zaprezentowania istoty modelu koncepcji EKO oraz opinii przedstawicieli banków spółdzielczych na temat możliwości implementacji tej koncepcji w warunkach polskiego sektora bankowego.