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INNOVATIVE FINANCIAL TOOLS USED BY LOCAL SELF-GOVERNMENT

1. Introduction

In the recent years it may be noticed that innovation has a larger influence on increasing the efficiency of economic processes. It is due to the fact that a society has more sophisticated needs which, to be fulfilled, require a more advanced usage of knowledge and information. Economists agree that innovation has a significant influence on the economy. That influence comes from:

- concentration of large financial means devoted to education which allows for creating modern and efficient equipment and appointing a reliable personnel,
- strong connection of education with production, internal and worldwide market, which makes undertaken ventures be directed at market needs.

Treating innovation as a process, which should be properly managed on every level of its organization i.e. company, region, country, European Union. Innovations create demand, decrease prices, speed up the tempo of growth of a given company and may make profitable investments more feasible. Research proves the thesis that efficiency, competitiveness, and expansion of trade is correlated with the development of innovations. It is believed that the ability to create and absorption of innovation is the biggest challenge of the 21st century.

In the innovation's interpretation there are two approaches that dominate, namely, innovation understood as a result and as a process. The former understanding means that innovations are simple changes in the production scheme, which result in new products. That latter understanding treats innovations as all processes of creative thinking aiming at introduce new solutions in technology, corporation, and social life.

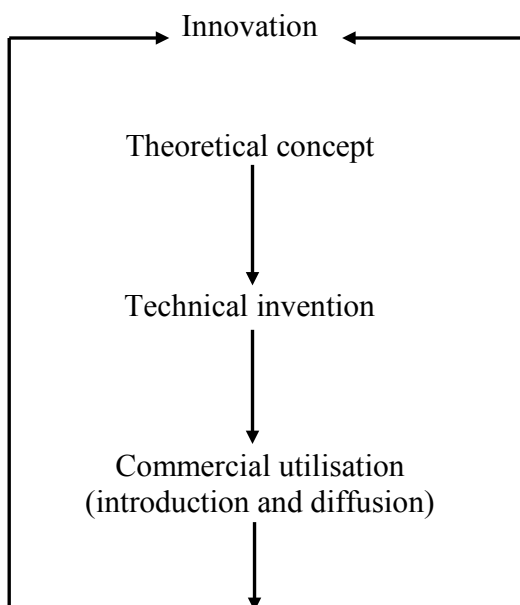


Figure 1. *Innovation as a process*

Source: A Pomykalski, *Zarządzanie Innowacjami*, Wydawnictwo Naukowe PWN, Warszawa 2001, p. 17.

2. Innovativeness overview

In our considerations an innovation is understood as a process including all activities connected with creation of the idea, invention, and introducing to the market new or improved product, process or service.

The theoretical concept of a new idea is the beginning for innovation, however, a new idea is neither an invention nor innovation but only sort of knowledge. The process of converting the idea into physical products is called an invention. Knowledge and technology have a substantial meaning at this stage. The next stage is the commercial use, meaning the introduction to the market and market diffusion of a new product or process.

Being innovative is understood as an ability of an organization to continuous search and promotion of innovation. This is a main challenge for a company, region or EU country. It results from market competitiveness, where only those organizations which can introduce new products, processes and changes in organization, will have the chance for development.

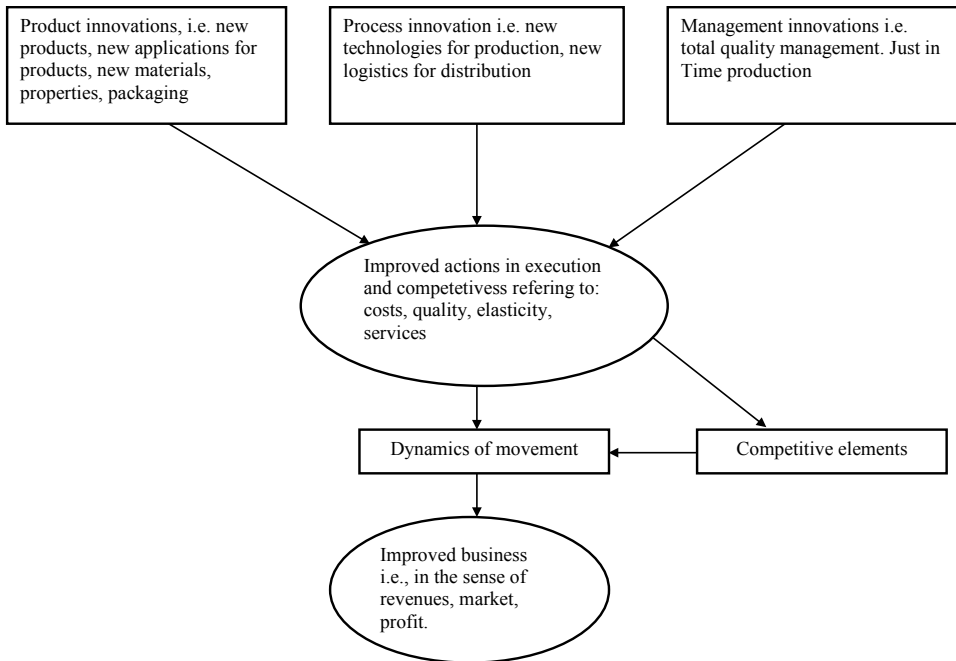


Figure 2. *Innovations in the company and their influence on market and business*

Source: D. Samson, *Manufacturing and Operations Strategy*, Prentice-Hall, New York 1991, p. 69.

Our considerations focus on product, process, and management innovations. Management innovations-understood as better methods for organization and management of research, production, and service activity.

Product innovations-refer to commodities being produced by a company for its market. This is an 'introduction to the market of products which work better, and are able to provide a consumer with new and larger benefits'¹. Process innovation-introduction/implementation of a new or better production method or product supply. It may be connected with changes in equipment, human resources, working patterns or combination of the above². The above deliberations concentrate on product, process and management innovations.

Figure 2. presents the above mentioned innovations together with their connections with market and business. Management innovations are defined as better methods for organization and managing of a research, production, and service activities.

Product innovations concern goods which are produced by a company for a market, but process innovations are understood as methods for product production. Product innovation is: 'an introduction to the market of a product with better properties that may provide a consumer with new or increased benefits'³. Process innovations can be interpreted as 'the

¹ *Podręcznik Oslo, OECD, Warszawa 2008, p. 20.*

² *Ibid, p. 20-21.*

³ *Podręcznik Oslo, OECD, Warszawa 2008, p. 20.*

application of a new or improved production or product supply methods. They may be connected with some changes in equipment, human resources, and methods of work or there may be a combination of the above⁴. In the above considerations technological innovation contains new products and processes and some significant technological changes in products and processes.

Different innovation types are usually interconnected with one another as it is natural that product innovations very often require some process innovations together with changes in the organization of work. The main distinction between those categories is that product innovations are more sensitive for market factors than process innovations.

According to P. Drucker “innovation is an organized, systematic and rational work”⁵. That is why, it is necessary to introduce innovation management, in which the randomness in innovation issues is replaced by a systematic search and continuous realization of chances for innovations and it is assumed that a company should be so organized that its structure does not limit but stimulate the development of innovations. Such management renders an organization capable of not only product and process innovations but also in the sphere of management itself.

Innovativeness in our considerations is expressed as the ability of an organization to constantly seek, implement and diffuse innovations. Innovativeness is now the fundamental economy management challenge for a company, a region, a state and the European Union. This results, above all, from the existence of competitiveness on the market, where the chance of development will be offered to those companies that will introduce new products, processes as well as changes in marketing and organization. The relationships of the aforementioned innovations of a company with the infrastructure are shown in Figure 3.

⁴ *Ibid*, p. 20-21.

⁵ P. Drucker, *Innowacja i przedsiębiorczość. Praktyka i zasady*, PWE, Warszawa 1992, p. 60.

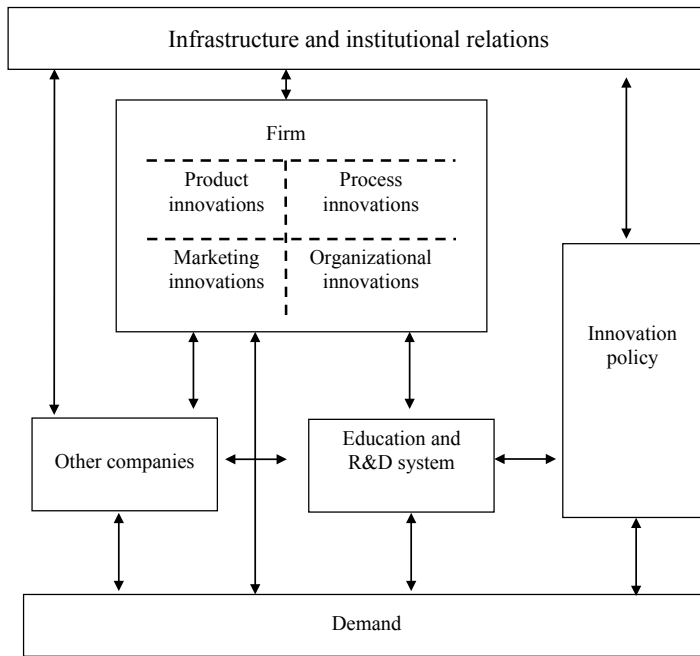


Figure 3. *Innovation relationships*

Source: Oslo Manual, OECD 2005, p. 34 and A. Pomykalski, *Innovative organizations*, TU Monographs, Lodz 2008, p. 7.

The OECD methodology expands the concept of innovation into the area of organization and marketing and determines relationships with other companies in the course of the Innovation process. The fundamental change was the inclusion of companies found in lower research and development activity areas into studies, which allowed the appreciation of the role of innovation in services and industry branches based on more traditional technologies.⁶ This methodology constitutes the basis for current studies on innovations, not only in the OECD countries or the EU.

Owing to the complexity of innovativeness and its multidimensional character, a recent study has been expanded in comparison to previous ones and now comprises of five basic key areas for the studied phenomenon:⁷

Driving forces of innovativeness – concerning structural solutions contributing to an increase in the innovativeness potential;

Creating new knowledge – including investments in research and development;

Innovativeness and entrepreneurship – assessing commitment and activities for the benefit of innovation at company level;

⁶ *Oslo Manual, Guidelines for collecting and interpreting innovation data, 3rd edition, OECD publishing, 2005, p. 10-25.*

⁷ *European Innovation Scoreboard 2005. Competitive Analysis of Innovation Performance, available: European Trend Chart on Innovation www.trendchart.org.*

Implementation – expressed in terms of outlays of labour and business activity, and the added value created by them in investment sectors;

Intellectual capital – measuring achievements in terms of profitable knowledge and know-how. While analyzing innovativeness, the following criteria and indices⁴ can be taken into account. Different kinds of measures of specific effects of action – e.g. the number of patents submitted by a given company or scientific publications, as an index of the “produced” knowledge; The number of new products, as an index of success of product innovations; The measurements of activity quality – such as customer satisfaction surveys; The effects of the strategic success, where all the activities of a company are improved in one way or another, and at least part of these profits can directly or indirectly be contributed to innovation, e.g. an increase in the income or in the market share, the increased profitability and the like.

A decisive part in innovativeness is played by the efficient use of scientific and technological achievements. It is the aforementioned efficient use that contributes to an increase in the competitiveness of products and services of a given company both on the domestic market and international markets. However, in order to use the technology that a company has, it must master the method of its application.

A tool used by the European Union for measuring innovativeness is the European Innovation Scoreboard. The aim of the document is the competitive analysis of the innovative policies of the EU states. The EIS 2006 contains indices and analyses covering 25 states of the European Union, two new member-states: Bulgaria and Romania, as well as Croatia, Turkey, Iceland, Norway, Switzerland, the USA and Japan. To present a clear image of advantages and disadvantages of the innovative system of a given country, five index groups have been distinguished in the document⁸:

Factors driving innovativeness-measure structural conditions indispensable for the innovative potential; among others, these include: the proportion of university graduates in a 20-29 age group, the proportion of households and companies which have access to the Internet, the proportion of those employed in the science and technology fields among all employees, the mobility of employees of the science and technology fields.

Knowledge production-measures the result of the investment in research and development. Some of the indices to be mentioned here are: public spending on R&D, companies' expenditure on R&D, the proportion of companies obtaining the state's support for investments in innovations, expenses, from funds by companies, incurred for R&D by research establishments, the proportion of venture capital investments and the intensity of direct foreign investments.

Innovativeness and company/entrepreneurship-estimates innovative efforts at the level of individual companies. The following indices, among others, are used here: the proportion of SME innovative companies, the proportion of expenditure on innovations as a percentage of the profit, the percentage of SME companies using a non-technological change, the proportion of strategic innovators, the proportion of companies using public funds for innovations, the proportion of companies financing research-development work carried out by universities, the proportion of companies involved in network activities, the proportion of expenditure on R&D.

⁸ *Methodology Report on European Innovation Scoreboard, 2005, European Commission, p. 7-9.*

Application – shows the results reflected by labour outlays and activity in business in innovative companies. Among others, some of the indices defining this factor are: employment in high-tech services, the proportion of export of high-tech products, the proportion of sale of new products for the market, the proportion of sale of new products for the company (but known for the market), employment in high-tech production sectors, productivity of high-tech companies, the proportion of fast developing innovators.

Intellectual property – a measure of the use of innovation by a company. The indices belonging in this group are, among others: the number of patents per million inhabitants, the number of national trade marks/names per million inhabitants, the number of high-tech patents per million inhabitants, the proportion of innovative companies using the protection of intellectual property rights, the registration of industrial/utility patterns, and of trade mark rights.

An interesting interpretation of problems concerning innovativeness is demonstrated by the Business Centre Club (BBC). According to this organization, innovativeness is regarded as⁹:

A deliberate change in the state of a phenomenon of practical use.

A change applied for the first time in a given community (region, field of activity, company).

Determines a specific economic, technical/technological or social effect achieved as a consequence of the changes made.

The application of scientific knowledge for introducing changes, leading to the improvement in competitiveness and market position as well as to commercial success. At the same time, increasing the risk of occurrence of additional costs, and the need for “constant leaning”.

It is worth mentioning here that, on the basis of the analyses carried out by the BCC, the definition of the problems of innovativeness in the understanding of this organization has been confronted with its perception by business practitioners. From the point of view of entrepreneurs, innovativeness is, first of all¹⁰:

A measure of the level of development and activity of an company, but also. A measure of the quality of the management of an company and professionalism of its employees. An index of the level of modernity of an company and a medium of progress. An imperative of activity of an company in a competitive economy, as well as a fashionable association with a well functioning company. It is essential that, with reference to the research conducted by the BCC, businessmen frequently consider the conceptions of innovative and investment to be identical.

3. Innovative financial (banking) tools used in managing local self-government

The development of banking innovations requires the fulfilment of a number of conditions. First of all, the disposition of bank employees to introduce innovations should be stimulated by enabling them to study in both national and foreign specialist institutions and universities. Banks should expand cooperation with foreign markets and banks.

⁹ *Business Centre Club, W krainie innowacji, kluczowe czynniki sukcesu oczami przedsiębiorców – Presentation by Grażyny Majcher-Magdziak on 06.05.2011, www.mrr.gov.pl.*

¹⁰ *Ibid.*

In addition, appropriate changes concerning modern banking operations are necessary. It is also necessary to develop the technical infrastructure in the form of all-embracing computerization of banks and introduction of teletransmission. Although the growing competition between banks is a stimulus to modernize banking operations, it should be enhanced by material incentives. Activities of a bank in shaping its offer are accompanied by the modernization of manner of sale and service of the customer. Decisions concerning changes in the forms of sale and banking service were made possible by the factors outside the bank's sphere of influence, connected with:

The economic progress and growth of wealth of households along with the improvement in banking education,

The technological progress (i. g. the development of digital networks),

The accessibility to IT,

The increase in the competition between banks and non-banking financial institutions.

As a result of the above-mentioned factors the traditional scope of banking services was broadened by the addition of new products and manners of sale of these services.

In banking services, two forms of sale can be distinguished, namely:

Direct sale – conducted by the employees in a bank and in branches and bank outlets as well as through cash dispensers, telephones, computers;

Indirect sale – conducted by one or two intermediary service providers (i. g. by a hire-purchase agencies).

While seeking new solutions to the sale of their services, banks have appreciated a possibility of entering big sales networks and their supermarkets. For a bank, it is a new attractive market of clients and a cheap manner of expansion of service networks. The outlets localized in supermarkets are oriented towards servicing the mass customer, credit services, opening accounts and placing deposits in them; they also install their cash dispensers in those supermarkets.

In concentrating on customers' needs, the bank has modified its strategic goals and introduced changes in the organization of the network of outlets, adapting it to diversified needs and expectations of the particular groups of clients.

New outlets are established everywhere where the client may need to access banking services – in production plants, offices or shops, e.g. in large shopping centres attracting multitudes of customers, who can also be interested in banking services.

The emergence of an idea of POS (point-of-sale system) – within the framework of this system, cash payments are replaced by card payments during no-document purchases. This system is a link in the chain of automated payment transactions initiated by credit institutions. The effectiveness of the POS system is determined by authorization costs.

Authorization costs are much diversified, depending on whether the authorization is made closer or further from the place of purchase. Authorization made further from the place of purchase is related to serious costs of communication and the infrastructure. On the other hand, thanks to the magnetic stripe, it has the well-tested technology of the card. Authorization made close to the place of purchase, due to its low costs, is approved by a greater number of traders¹¹.

Another example of the development of a bank can be the improvement in the quality of customer service. The shaping of the quality of service of the customer is tantamount to

¹¹ E. Glogowski, M. Munch, *Nowe usługi finansowe*, Wydawnictwo Naukowe PWN, Warszawa 1996, p. 121, 123.

the recognition of his needs, the perception of the service offer made through the prism of benefits that he can gain. In raising the quality of consumer service, banks develop a program ensuring an appropriate quality of this service. Such a program comprises the following:

The recognition and specification of the banking service features important for the customer (i. g. interest calculated monthly in the current account, a specific credit limit in the account, a cash dispenser card);

Placing emphasis on the benefits resulting from the specified features of the service (i. g. a cash dispenser card enables the customer to use his bank account outside working hours of the bank);

The introduction and inspection of service provision standards, the scope of employee training should include issues of efficient and well-mannered service for the customer.

To achieve success in ensuring a high level of service of the customers in the bank and bank outlets, new solutions concerning direct sale conducted by bank personnel are necessary. In ensuring an appropriate level of service of different client segments the following should be taken into consideration:

The traditional customer service – “across the counter”, with a tendency to gradual automation of activities done by operator with respect to so called mass customer, which generates high service costs and relatively low effectiveness of transactions,

The servicing of customers in an active, individualized manner by introducing professionally prepared customer attendant points, the task of which is to ensure individual service for customers who represent individual customer and economic entity segments that are attractive and profitable for the bank¹².

Private banking – a system of sale, and customer service addressed to a segment of wealthy households. It is distinguished by the manner of service – a customer is attended to in specially prepared rooms, does not need to queue waiting to be served, bank employees know him/her by name and surname. Such a customer possesses currency accounts and accounts in zloty; has the possibility of conducting domestic and foreign transactions, trading securities (e.g. T-bills, bonds, trust funds) and is offered simplified procedures for obtaining credit, lower margins and commissions.

Banking innovations can generally be divided into two groups. These are: 1. Technological innovations introduced as a result of changes in teleinformatics and 2. Product innovations consisting in the introduction or modification of existing bank products. The occurrence of the former cannot be directly brought about by banks – they introduce them because of changes taking place in the banks’ environment. Product innovations, however, come into being due to the direct effect of a bank, which develops them in its own capacity or introduces them by imitating other banks.

In seeking to respond to the necessity of introducing teleinformatics innovations, a group of banks leading in currency exchange transaction operations, referred to as G-20, gathered in 1995 with a view to finding a solution that could reduce threats associated with the risk occurring in currency exchange transactions. At first, the G-20 group analyzed three models of the settlement system:

Settlement on the gross basis,

¹² M. Pluta-Olechnik, *Marketing usług bankowych*, Polskie Wydawnictwo Ekonomiczne, Warszawa 1999, p. 109-110.

Settlements compensated within the framework of one currency, Continuous Linked Settlement (CLS).

The first model was eliminated for operational reasons, while the other two, in turn, appeared to minimize the risk to a similar extent. The third solution was chosen following an analysis of the question of fluidity and operational efficiency. In July 1997 the G-20 group established the CLS Services Limited (CLSS) whose task was to design and construct a system that will provide such a service¹³.

The CLS system has physically been in operation since 2002. Its task is to settle currency transactions between the member banks on a payment-for payment basis in the accounting book of the CLS Bank with headquarters in New York.¹⁴ As a result the CLS ensures a simultaneous final settlement of both currency exchange transaction sides. Within its framework, both single transactions and net system balances (two- or multi-sided compensation) are settled. The settlement within the framework of the system is of continuous character¹⁵.

The CLS bank is supervised by the Federal Reserve Bank (FED). It services individual, multi-currency accounts of its members. The Bank possesses nostrum accounts in central banks, e.g. in The EBC, The Bank of England or The Bank of Canada. Due to the fact that payments to and withdrawals from the accounts in the CLS bank are conducted in the central bank legal tenders – financial means, from the very beginning they are of final character¹⁶. In addition (as of 2005) the CLS conducts currency transactions in fifteen currencies, and thus eliminates, to a considerable degree, the exchange rate risk¹⁷.

The system construction was adjusted to the specificity of the currency exchange market. The turnover is relatively high on this market, while the net value of the financial means transferred in a given currency is lower. Moreover, the settlement is made at least one day after the conclusion of the transaction. In such a situation, the CLS bank can know in advance of transactions that will be settled on a given day and, as a result, will be able to calculate the net positions of the parties in each currency. The CLS bank keeps settlement instructions from the moment the transaction is concluded by the dealers until the day they are settled. If the transactions happen to be compensated, the compensation will be made before its results are sent to the CLS bank. Shortly before the beginning of settlement, the CLS bank calculates the net position of each member in each currency and informs the members about the payments they are required to make on a given day. Then the settlement is commenced, with the CLS system repeating attempts to settle the transactions waiting in the queue of orders. This is continuous settlement, which means that it lasts until all the transactions are settled or the system is closed.

¹³ M. Szymański, *Zarządzanie ryzykiem w rozliczeniach międzybankowych*, [http://www.kir.com.pl/aktualnosci.nsf/0/f26a2c0822bc2a15c1256c33002a2328/\\$FILE/Zarządzanie%20ryzykiem.pdf](http://www.kir.com.pl/aktualnosci.nsf/0/f26a2c0822bc2a15c1256c33002a2328/$FILE/Zarządzanie%20ryzykiem.pdf) Warszawa 2001, p. 142.

¹⁴ www.nbp.pl/publikacje_ecb/ECB_4.0_PL.pdf z dn. 22 sierpnia 2006.

¹⁵ M. Szymański, *Zarządzanie ryzykiem w rozliczeniach międzybankowych*, [http://www.kir.com.pl/aktualnosci.nsf/0/f26a2c0822bc2a15c1256c33002a2328/\\$FILE/Zarządzanie%20ryzykiem.pdf](http://www.kir.com.pl/aktualnosci.nsf/0/f26a2c0822bc2a15c1256c33002a2328/$FILE/Zarządzanie%20ryzykiem.pdf) Warszawa 2001, p.142.

¹⁶ *Ibid.*

¹⁷ www.ecb.int/pub/pdf/annrep/ar2005pl.pdf, 13 grudnia 2006.

The CLS system efficiency is increased thanks to the permission to settle payments during the day in any currency accepted by the system. This means that during the accounting day the transaction settlement in one currency can be covered in another currency. The condition to be fulfilled by the participant is having a positive position, and not exceeding the pre-agreed specified debt limits in particular currencies. There is also a requirement of paying of these debts according to the pre-agreed schedule.

The CLS system provides for two levels of participation: a settlement user and an ordinary user. Each level of membership allows CLS services to be provided to third parties. The settlement user who has an account in the CLS bank is connected to the bank via a network. In addition, a user of this category must be the CLSS shareholder and satisfy appropriate criteria concerning the capital, the evaluation of the creditworthiness, etc. On the other hand, an ordinary user can solely settle payments through the account of a specified settlement user. At the same time, he has a direct network connection with the CLS bank, both for making his own payments and third parties' payments. The client clears his payments by means of the account of a specified settlement user and does not have a direct network connection or other relations with the CLS bank. He obtains CLS services only through a settlement or ordinary user¹⁸.

An essential problem resulting from currency exchange transactions are time differences in the office hours of banks situated in different time zones. However, this situation was partially solved owing to the extension of working hours of settlement systems. This was a necessary factor for establishing the CLS system. In particular, American systems – FEDWIRE and CHIPS now begin work at 00:30 local time (05:30 GMT¹⁹), while the European system TARGET begins work at 07:00 local time (06:00 GMT). As a result, the partial overlapping of working time of the world's main settlement systems was achieved. According to GMT, all the above-mentioned systems operate between 06:00 and 10:00. This means that the overlapping of working time of the settlement systems enables the time of realization of currency exchange transactions to be considerably reduced, which carries the inherent risk²⁰.

As of December 2005, the CLS bank conducted on average 194,000 transactions per day, and their average daily value reached 2.6 billion USD. The Euro is, after the dollar, the most important currency in settlements. In December 2005, within the framework of the CLS, the settlements in Euro reached a value of 429 billion Euros daily, which is 20% of the total value of the settlements, while 47% of the settlements were made in the USD²¹.

The Euro system's future vision involves the establishment of a common area of payments in euro (SEPA), in which all payments will be made in a uniform manner, without their earlier division into domestic and cross-border ones. In addition to the rationalization

¹⁸ M. Szymański, *Zarządzanie ryzykiem w rozliczeniach międzybankowych*,

[http://www.kir.com.pl/aktualnosci.nsf/0/f26a2c0822bc2a15c1256c33002a2328/\\$FILE/Zarządzanie%20ryzykiem.pdf](http://www.kir.com.pl/aktualnosci.nsf/0/f26a2c0822bc2a15c1256c33002a2328/$FILE/Zarządzanie%20ryzykiem.pdf) Warszawa 2001, p. 144.

¹⁹ GMT (Greenwich Mean Time).

²⁰ M. Szymański, *Zarządzanie ryzykiem w rozliczeniach międzybankowych*,

[http://www.kir.com.pl/aktualnosci.nsf/0/f26a2c0822bc2a15c1256c33002a2328/\\$FILE/Zarządzanie%20ryzykiem.pdf](http://www.kir.com.pl/aktualnosci.nsf/0/f26a2c0822bc2a15c1256c33002a2328/$FILE/Zarządzanie%20ryzykiem.pdf) Warszawa 2001, p. 145.

²¹ www.ecb.int/pub/pdf/annrep/ar2005pl.pdf, 13 grudnia 2006.

of cross-border payments, the aim of the project is to form common instruments, standards, procedures and infrastructures that allow obtaining profits resulting from the scale effect. The payment standardization is a natural consequence of the implementation of a common currency, and although it concerns to the euro zone only, it will contribute to the improvement in functioning of the whole common market. At the same time, it is important for entities dealing with payment service in the SEPA to take into consideration the needs of different customer groups. The introduction of SEPA will make customers change their habits and lead to seeking simple, economical and good solutions for users.

In 2002 the European bank community assumed that the uniform area of payment in Euro would be established until 2010. In 2004 banks agreed to a proposal of the Euro system to be able to offer customers the use of pan-European payment instruments from January 2008.

Following the establishment of the uniform Euro Payments Area all transfer order transactions in the Euro zone are supposed to be processed according to the common juxtaposition of the European system models. It is anticipated that, besides the model defined by the European Payments Council, a standard for priority payments (realized in one day) will be established. Both standards should enable the use of a uniform format of the customer's data to facilitate electronic invoicing and automatic account arrangement. The Euro system predicts that from January 1, 2008 customers will be able to use, apart from domestic payment instruments, the models developed by the European Payments Council, while from the end of 2010 the public administration economic entities, and possibly private persons, will solely use SEPA transfer orders.

In the activities supporting the introduction of the SEPA models into the infrastructures of settlement and clearing of retail payments in the Euro zone, the European Payments Council is currently analyzing possibilities of establishing framework principles of development of infrastructures servicing the settlement and clearing of retail payments in the SEPA, including the criteria of conformance with the SEPA model. The banks that are the users or shareholders of existing infrastructures for servicing payments, settlements and clearing, at first supported an idea of establishing the pan-European automated clearing house (PEACH). The acceptance of such a solution would contribute to the closure of currently functioning systems and the transition to a different infrastructure or to the transformation of well-tested efficient national platforms into pan-European clearing houses. However, in 2005 a third possibility started to be considered, namely: a number of existing clearing houses declared that they intended to satisfy the requirements of the SEPA, without being transformed into PEACH houses. The Euro system has no objections against accepting such a solution, provided that the criteria of conformance with the SEPA requirement will be properly formulated, and nothing will hinder open and honest competition between the pan-European clearing houses and the infrastructures conforming to the SEPA requirements (e.g. while processing payments there will be no reciprocal subsidizing between the national and SEPA instruments). According to the Euro system, the market needs competition; therefore, it will support not only the transition from national systems to infrastructures conformant with the SEPA requirements but the establishment of new pan-European clearing houses as well.

To fulfil the SEPA requirements, existing national payment infrastructures should be able to send payments to all banks in the Euro zone and to accept payments from them, directly, or indirectly through intermediary banks, or through relations between the infrastructures. The necessary condition for the establishment of such relations is the acceptance

of standards for the payment order flow, uniform for all the systems. Manual processing (which would be necessary due to lack of standard communication formats and client identification codes) would retard the service of payments and would raise costs. As can be seen, there are evident similarities to the process of establishing relations between the real time gross clearing systems, which enabled the TARGET system to be set up. The Euro system encourages both central banks of the particular countries and private entities, who lead infrastructures to servicing retail payments and clearing and to establishing a forum for discussing possibilities of achieving effective cooperation with a view to ensuring reciprocal access to the services provided.

After common standards of communications and data have been developed, no infrastructure should refuse to establish a connection with other infrastructures. The system TARGET2 might ensure the settlement of transactions processed in different infrastructures. Existing restrictions on access to the infrastructure, resulting from territorial criteria, should also be lifted. At the same time, obligations to process certain payment types by means of solely specified infrastructures should be annulled. Thanks to the removal of barriers to the access and use of the systems, financial institutions will by themselves be able to select an infrastructure for retail payments settlement and clearing on the basis of criteria of service quality and price. Complete clarity of information about the range and process of these services ought to be ensured. It can be expected that many infrastructures will gradually be eliminated due to the market pressure. In particular, this refers to the systems reaching the end of an investment cycle, whose owners or users can find other solutions.

The effective realization of payments in the SEPA and the optimization of direct processing require agreeing on standards of the full cycle of payments processing (from mandatory to beneficiary). The acceptance of communication standards was a significant achievement in this field. The European Payments Council decided in principle to accept communication standard ISO/UNFI20022 and the language based on XML. The Council signed an agreement with the SWIFT organization, by which SWIFT is to develop communications for models of transfer orders for SEPA. Among other changes are also the following: the defining of a data model for SEPA, the decision recommending the use of UNIFI communications in relations of customers with banks, and the preparation of corresponding directives. Furthermore, the significant information is that the data model for SEPA enables on only basic services but also additional services to be taken into consideration.

Additionally, it is essential that work be finished soon on the two remaining issues: the choice of identifiers for SEPA communications (will the IBAN number itself be sufficient or will the BIC code be necessary as well) and the development safety standards for payment transactions.

The recent prevalence of use of IBAN and BIC numbers should be regarded as an important achievement of the European banking branch. However, there are still doubts whether the customers can safely use the IBAN number only or whether they have to additionally give the BIC code. A group of experts for standards of use, infrastructure and technology, operating within the framework of the Euro system Council, is undertaking to find a long-term solution to the problem of identification of the client and the bank, and tracing payments. The Euro system especially emphasizes the need for the simplification of identifiers of the bank and the client so that the system can be joined without much hindrance, especially on the part of customers.

Besides, the Euro system is undertaking activities initiated by task team for payment safety. The safety of payment transactions realized by means of SEPA instruments should be assured in a uniform manner, from mandatory to beneficiary, in accordance with the valid standards²².

4. Conclusions

After almost a decade of XXI century, we can state with full responsibility that nowadays, financial markets act the most important role in the world. What can be hardly to believe, even more important than politics. Especially, at the moment when global economy is facing unparalleled crisis that collects victims at all of the its branches, no matter what size, profitability and results they had.

In economics, a financial market is a mechanism that easily allows people to buy and sell (trade with) financial securities such as: bonds and stocks, commodities such as: precious metals or agricultural products and other fungible items of value at low transaction costs and at prices that reflect the efficient-market hypothesis.

Financial markets have evolved significantly over the past several hundred years and are constantly being improved with regards to liquidity. These markets are the perfect places, where borrowers and lenders can find each other and successfully make transactions. Without them finding lenders would not be an easy process for borrowers. Intermediaries, such as banks, can help in this process, because they take deposits from those who have spare money to save and use the pool of deposited money to lend to those who want to borrow.

In times of global competition banks, as service organizations, must search a manner not only to reach new clients (i. g. local self-government) but also to maintain the existing ones. The specificity of financial services and their elasticity is hard to realize from the unique market of bank products. Clients, in this situation, have the choice of a full palette of similar services. They probably choose the best way for themselves.

5. Literature

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Summary

Financial innovations are challenging the XXI century. It is therefore necessary to emphasize their important role in the activities of entities in the financial markets with particular emphasis on the banking sector. The use of modern instruments that are offered on the market to local self-government gives to possibility to manage the funds which are available. Due to the fact that local governments are specific organizations, financial markets offer tailored to their needs instruments.

The study attempts to identify, analyzed and explore the possibilities offered by the implications of financial market instruments directed to local self-government units. The nature of cognitive development is to better contribute to use opportunities by local self-government through the offer of financial market instruments.

Keywords: local self-government, financial market tools, innovation.

INNOWACYJNE INSTRUMENTY FINANSOWE STOSOWANE PRZEZ JEDNOSTKI SAMORZĄDU TERYTORIALNEGO

Streszczenie

Innowacje finansowe są wyzwaniem XXI wieku. Z tego względu należy wyraźnie podkreślić ich znaczącą rolę w działalności podmiotów na rynkach finansowych ze szczególnym uwzględnieniem sektora bankowego. Wykorzystanie nowoczesnych instrumentów, które stosowane są na rynku daje jednostkom samorządu terytorialnego możliwość zarządzania środkami finansowymi będącymi w dyspozycji. Ze względu na fakt, że jednostki samorządu terytorialnego są szczególnymi organizacjami, rynki finansowe oferują dopasowane do ich potrzeb instrumenty.

W opracowaniu podjęto próbę identyfikacji, analizy i zbadania możliwości implikacji oferowanych przez rynek finansowy instrumentów skierowanych

do jednostek samorządu terytorialnego. Charakter poznawczy opracowania ma się przyczynić do lepszego wykorzystania przez jednostki samorządu terytorialnego możliwości jakie poprzez oferowane instrumenty daje rynek finansowy.

Słowa kluczowe: jednostki samorządu terytorialnego, instrumenty rynku finansowego, innowacje.

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