Developing the Microcredit Market in Poland

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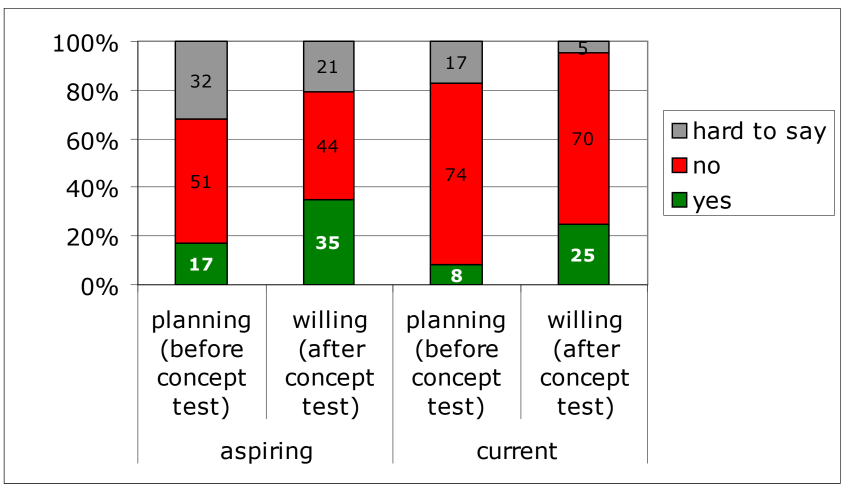
In Poland almost 2 million low-income households need microcredit to finance their current micro-enterprises or realize their self-employment aspirations. Only 3% of them are currently served. The huge market gap raises several questions. Who needs microcredit and what is the market? How can effective demand be stimulated? Are current supply schemes scalable? How can market development be facilitated? MFC has conducted comprehensive demand and supply studies, which aimed to answer these questions and build strategies to bridge the enormous market gap.[1]

Who needs microcredit and what is the market?[2]

In Poland 6% of low-income households generate income from formally registered self-employment activities. It totals up to 400 000 existing enterprises. Another 28% of low-income households have members who have plans and/or potential to become self-employed.

A lack of capital is an important challenge for almost 40% of current microentrepreneurs and those aspiring for self-employment. However, having a formal credit history for current microentrepreneurs is quite difficult. Only 21% of them have ever used any formal source of microcredit and 15% are now repaying it. Banks are a major source of business loans (94%).

Initially there is quite a low number of potential and current microentrepreneurs who consider external financing of their businesses from a formal source in the next 3 years. However, when we show the concept of a micro-loan the interest in enterprise financing is three times higher than previously declared plans.



Current microentrepreneurs reject the concept mostly because they do not need it (48%), they are afraid of borrowing (25%) and think it is too expensive (10%). It is very different for a vast group of

[1] Funded by the European Investment Fund (Jeremie initiative) the studies were conducted in 2006 using MFC market development analysis toolkit and consulted with stakeholders. The supply study was done using a survey and an analysis of the secondary data. The demand study is based on 6 focus groups and two nationally representative surveys (1020 low-income households and an additional sample of 203 microentrepreneurs form low-income households). Low-income household in Poland has been defined as the one living below a median equivalized income (per capita) – 850 zloty (1 euro = 3.9 PLN), close to the social minimum poverty rate.

[2] Microcredit is defined as a development tool to empower economically low-income population, those in poverty or vulnerable to it. Considering this definition, only low-income households are the subject of this analysis. Microenteprises are all those economic activities that employ less than 10 people and are managed by low-income households.

aspirers – they reject the concept mainly because of the fear of borrowing (31%) and price (20%), with only 10% expressing a lack of need.

Summing it up, the microcredit market in Poland accounts for 29% of low-income households and totals up to 1.98 million low-income microenterprises. 17% of the market are existing microenterprises and 83% are potential start-ups (low-income households aspiring for self-employment). Only 3% of them currently use microcredit. The rest of the low-income population falls within the natural limit, a group of households which is either not eligible for microcredit or they objectively do not need microcredit. The total value of the market, estimated on the basis of the average loan size of those micro entrepreneurs who are currently using it (18,250 zloty), is 36.08 billion zloty.

How to stimulate effective demand?

Three issues are important to create effective demand:

- *increase awareness about the financing options* – current and potential entrepreneurs know little about microcredit and are not aware of microenterprise finance providers. 24% of potential entrepreneurs are not able to mention any source of financing! Current micro entrepreneurs are only aware of a very narrow range of options, limited mostly to banks.
- *change negative attitudes towards borrowing* – one-third of those aspiring for self-employment and one-fourth of current microentrepreneurs are afraid of borrowing for cultural and not economic reasons.
- *provide a business development services and incentives for those aspiring for self-employment* – there is an evident need to increase knowledge and skills as well as promote entrepreneurial behaviour among the low-income population in Poland. Only half of those aspiring for self-employment have sufficient background information. Additionally, regulatory and administrative hurdles are still the biggest challenges microentrepreneurs and start-ups face in Poland. Poland is not much different to its neighbours but there are still many things that need to be improved to reach the level of more developed OECD countries.

Are current supply schemes scalable?

The supply analysis yields similar results as the demand study in terms of current use of microcredit by microenterprises. Current microcredit providers in Poland include commercial and cooperative banks, credit unions, specialized non-bank financial institutions, micro-loan programmes, and labour offices. The banks' market share is 98% (in terms of the value of loans).

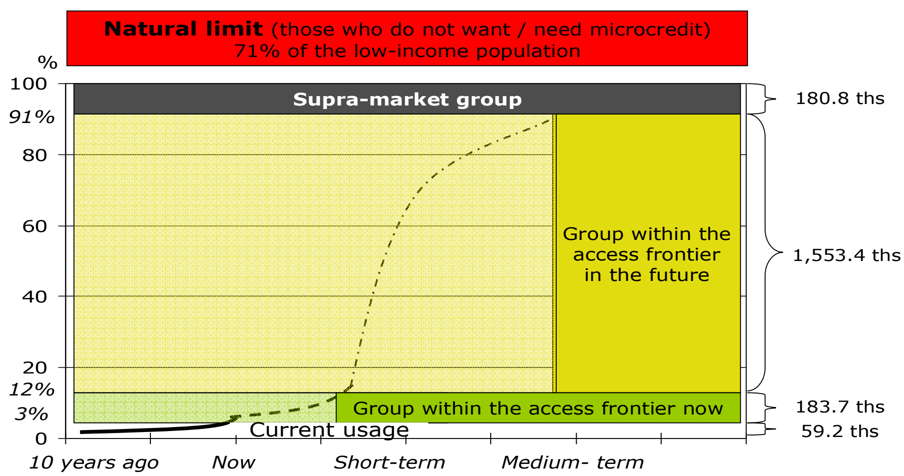
Although banks seem to be the only significant player, they have an interest in the market segment and have sufficient infrastructure to physically reach the consumers, there are several constraints, which put their role in market development under question. Firstly, they have limited offers for start-ups younger than 2 years due to high requirements for business plans and guarantees. Secondly, they are not able to manage microenterprise lending risks, which are very different than for small and medium enterprises. Thirdly, they still do not understand the micro segment, apply SME lens during the interactions and do not take seriously low-scale and stagnant enterprises. This limits intervention of banks in the medium term only to those mature microenterprises (a small fraction of the total market).

On the other hand, specialized non-bank financial institutions and micro-loan programmes have the market intelligence and know-how to work with disadvantaged groups. They also know how to manage risks of working with start-ups and many of them integrate business development services to prepare their future clients. However, apart from Fundusz Mikro, these schemes have low-scale and are not scalable as their management systems are not adequate and most importantly they do not have ambitions to expand operations beyond local communities.

How to facilitate the market development?

As shown on the graph below there are three zones in the market, which will need specific market development strategies:

- *Market enablement zone* – this is a group that can be reached now (within the access frontier now) with new microcredit products that are demanded by enthusiastic consumers. Half of this zone is composed of current microentrepreneurs and half by those potential microentrepreneurs with the most advanced plans.
- *Market development zone* – this is a group within the access frontier that might be covered if the new products are well-adapted, effective marketing strategies are in place and there is an enabling environment. This also requires providing necessary incentives and conditions for low-income households to realize their aspirations for self-employment. This is the biggest share of the total market (79%) with a majority of start-ups.
- *Market redistribution zone* – this is a group defined as supra-market, a group of households who wish to take out a microcredit loan but cannot afford it. This is a task for the government to extend smart subsidies and adequate incentives for this group to be able to benefit from microcredit. The size of this groups is similar to the market enablement zone and is composed mostly of start-ups.



Apart from the above mentioned strategies to stimulate demand, the key issue for microcredit market development in Poland is to scale up the supply schemes. The analysis clearly indicates the need for linking specialized non-bank financial institutions with commercial and cooperative banks and the network of guarantee schemes. This kind of partnership is a win-win solution that combines strengths of all key actors.

It seems as if the Polish example is not the only one in Europe. In our opinion the huge market gap does not show the failure of microcredit. It demonstrates a need to move from the experiment to the scaling up phase. It can be done only if there are delivery models, which are viable for all the stakeholders, and especially for commercial players.

Thanks to MFC for sharing this article with us. This article is a reprint from the MFC Newsletter "Microfinance in Central and Eastern Europe and the New Independent States", Issue No. 2/2007. http://www.mfc.org.pl/index.php?section=NET&page=MFC%20Newsletter