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**AGRICULTURAL DEVELOPMENT SUPPORT PROJECT
GRANT NO. EUR-0024-G-00-1069-00
PROGRAM PERFORMANCE REPORT
MARCH 1992 - JUNE 1992**

ADMINISTRATIVE DATA

Country: POLAND
Implementing Agency/
Point of Contact: AGENCY FOR INTERNATIONAL DEVELOPMENT, EUR/DR/SS
Contractor: AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL
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Date of This Report: JULY, 1992
Date of Last Report: MARCH, 1992
AID Project Officer: DR. JAMES G. SNELL
Date Original Authorization: AUGUST 29, 1991
Estimated Completion: JUNE 27, 1995
Life of Project: \$2,417,367
Chief of Party in Country: JON F. GREENEISEN
Employees in Country: FOUR (2 U.S. advisers, 2 Polish)
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PERFORMANCE DATA

I. Project Purpose and Progress Toward Objective

The project objective is to help rebuild rural cooperative banks free from government control and equip them to make constructive credit available to Polish farmers. Thus far the project has guided creation of a national framework for building an independent banking system and initiated a simplified, coordinated approach to financing for private farmers.

II. Situation

Poland has more than two million farmers (roughly the same number as in the U.S.) with average-sized farms of about 20 acres. These private (small) farmers own and operate more than 80 percent of the productive land in Poland. However, they do not have available credit on reasonable terms to modernize their farms to make them more efficient and productive.



For more than 120 years farmers and rural business have been served by 1,665 local cooperative banks that have been tightly controlled and abused by the government for the past 45 years. They have little capital, antiquated equipment and few banking skills. The local banks have been used to draw capital from the rural community into the central government for financing state farms and enterprises. Cooperative banks today have neither the resources nor the ability to offer farmers sound and constructive credit on reasonable terms.

III. Implementation Methodology

The project began in August 1991 and was fully implemented in February 1992. Methodology was selected to achieve the project's twofold purpose:

Objective 1: Assist in developing a private system of member-owned cooperative banks.

Project Strategies:

1. Guide and foster development of a National Union of Cooperative Banks (NUCB) into a strong trade association representing the interest of the private cooperative banks.
2. Through the NUCB, establish effective communication channels between cooperative banks, their shareholders and staff.
3. Establish in the NUCB mechanisms for national coordination of cooperative bank operating policies, new services and staff development.
4. Provide a conceptual framework and encourage establishment of a network of regional banks owned and controlled by the local banks as an alternative to government dependence and control.

Objective 2: Develop the capacity of cooperative banks to efficiently provide sound and constructive credit to private farmers.

Project Strategies:

1. Develop a loan application process and credit decision procedure in local and regional banks for financing private farmers.
2. Develop standard credit policies and procedures in local and regional banks for financing private farmers.

3. Develop a computer program for farm loan applications and financial analysis for cooperative banks.
4. Develop training programs and train bank loan officers in financial and credit analysis.

IV. Progress (in terms of benchmarks and outputs)

Objective I:

(March) Counseled a group of banks in the South East (Kielce/Tarnow) which accumulated minimum capital required for a new bank and submitted an application for a license for a regional bank.

(March) Assisted the NUCB in its relations with international organizations, particularly The World Bank and EC. The U.S. advisers helped NUCB prepare a request for EC assistance.

(April) Provided U.S. training for four finance officers from the first three regional banks. It was an important transfer of financial management know-how and the beginning of coordination between the finance departments of the three new banks.

(May) Recommended and helped conduct a National Congress of Cooperative Banks which was a platform for presenting the private cooperative bank concept to all banks in Poland. Also it stimulated the first public support from government through speeches by high officials in the Ministries of Finance, Agriculture and the National Bank of Poland.

(May) Assisted the NUCB in conducting its second annual meeting where bylaws were liberalized to include more banks and leaders were elected through a democratic process.

(May) Encouraged and assisted the first coordination meeting of the boards of directors of the three regional banks. The joint meeting resulted in a number of unified actions and established plans to continue coordination.

(June) Helped the second regional bank, Economic Union Bank (BUG) in Warsaw, become operational. It began receiving deposits from its local banks and made its first loans.

(June) Arranged for two U.S. banking consultants to work with the presidents of the regional banks in Warsaw and Wroclaw for a month to help accelerate start-up of the two banks.

Objective II:

(March) Studied constraints on availability of credit for farmers. Farmers are justifiably reluctant to use credit at current interest rates of 60-70%. But even if repayment at these rates

is possible in most cases credit is difficult to obtain through local banks. This study of the situation focused on past practices, institutional procedures, inexperience, inadequate training and business attitudes.

(April) Conducted a survey of local banks affiliated with the regional bank in Poznan to determine distribution of loans by size, purposes and type of borrower. Data will be valuable in developing workable loan forms and farm credit policies.

(May) Developed, with a committee of regional bank credit officers, a simplified farmer loan application and procedures for use by cooperative banks throughout Poland. Implementation of a common loan application form and procedure for credit decisions will be a major step toward improved lending for small farmers.

(June) Prepared recommendations and advised the NUCB and the Ministry of Agriculture on a program for restructuring farm loans made in 1990 and 1991 that are in default or in the process of foreclosure, a significant problem for both the government and cooperative banks. Farmers unable to repay loans demonstrated at the Ministry of Agriculture several weeks in April.

V. Issues and Problems

The following conditions in Poland pose significant obstacles for cooperative banks to become strong, private financial institutions able to support farm and rural economic development:

1. The National Bank of Poland has raised the minimum capital requirement for a bank from 20 billion zlotys (\$1.5 million) to 70 billion (\$5 million). It is extremely difficult for the weak local banks to accumulate this amount of capital to form their own regional banks.
2. A Capital Fund was established to help capitalize regional banks with \$6 million from U.S. Food For Peace counterpart funds and \$5 million from the Ministry of Agriculture. The Fund, however, has been slow to begin operating. The project facilitated a dialogue between the Polish Government, World Bank and NUCB on operating rules which culminated in World Bank approval for funds to be disbursed. However disbursement of the first capital grants is still months away.
3. The European Community has not provided technical assistance promised for cooperative banks which was targeted to guide the regional banks in their organization and start-up.
4. The cooperative bank in Srem, established in 1873, has become the first bankruptcy of a bank in Poland. The situation is attributed to inadequate capital and inept management. There is much concern other cooperative banks are in similar condition.

5. The lack of understanding of economic terms and concepts in a market economy is a continuing problem in providing technical assistance. Repeated explanations often are required to communicate and use economic terms that are used every day in the U.S.

VI. Additional Observation and Comments

The Polish people remain receptive to U.S. advice and counsel for modernizing and strengthening their institutions. We have good working relations with the cooperative bank leaders who have a large appetite for change and welcome our recommendations even though implementing change is cumbersome.

A serious drought in the Western half of the country will likely result in financial problems for many farmers but help farmers in non-drought areas as commodity prices increase.

Financial problems of farmers will further weaken cooperative banks which already are capital deficient. Restructuring farm loans currently in default is a symptom of a much broader problem than just the agricultural sector.

A negative factor in general business environment is the instability of the Polish government. Officials in the Ministry of Agriculture, for example, are insecure in their positions and thus slow to take a position or make a decision. Uncertainty about government policies and regulations makes everyone cautious which impedes progress. Stability in government is a requirement for meaningful improvement in the Polish economy.

Attachment:

ADSP Expenditures through June 30th, 1992

ATTACHMENT

Agricultural Development Support Project

EXPENDITURES THRU JUNE 30TH, 1992

<u>DESCRIPTION</u>	<u>BUDGET</u>	<u>ACTUAL COST</u>	<u>UNLIQUIDATED</u>	<u>%</u>
Salaries	663,942.00	76,855.22	587,086.788	12
Other Payroll				
Added Costs	154,129.00	25,738.98	128,390.02	17
Other Allowances	209,642.00	58,001.47	151,640.53	28
Other Travel	178,690.00	19,970.33	158,989.67	11
Consultant Fees	384,224.00	6,546.51	377,677.49	2
Equipment/Commodities	50,000.00	28,537.97	21,462.03	57
Other Direct Costs	75,707.84	18,702.01	57,005.83	25
Indirect Costs	669,478.67	86,402.27	583,076.40	13
Subcontractors	31,432.00	0.00	31,432.00	0
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	2,417,515.51	320,754.76	2,096,760.75	