

**AGRICULTURAL DEVELOPMENT SUPPORT PROJECT
GRANT NO. EUR-0024-G-00-1069-00
PROGRAM PERFORMANCE REPORT
JULY 1992 - SEPTEMBER 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: OCTOBER, 1992
Date of Last Report: JULY, 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
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PERFORMANCE DATA

I. Project Purpose and Progress Toward Objective

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

II. Situation

Polish farmers and rural businesses are served by 1,665 cooperative banks, some in existence more than 100 years, that were tightly controlled and abused by the government for 45 years. They have little capital, antiquated equipment, and few banking skills. The banks were used to draw capital from the rural community into the central government to finance state farms and enterprises. Cooperative banks today have neither the resources nor the ability to offer farmers

sound and constructive credit on reasonable terms.

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. They need credit on reasonable terms to help make their farms more efficient and productive.

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 I: 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 interests 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 help establish a network of regional banks owned and controlled by local banks as an alternative to government dependence and control.

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

Project Strategies:

1. Develop in local and regional banks a simplified credit process to finance farmers.
2. Develop standard farm credit policies and procedures in local and regional banks.
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 benchmark and outputs)

Objective I:

(July) Helped the National Union of Cooperative Banks build its organizational structure by drafting operating policies and procedures for the NUCB executive committee and facilitating development of a strategic plan.

(July) Guided the Union in the difficult task of establishing operating territories for four regional banks. This will reduce confusion and enable the banks to concentrate on building trade territories and serving local banks in a geographic area. Without benefit of a government directive, however, this is only a business agreement that may not be fully honored.

(July) Assisted presidents of regional banks in Wroclaw and Warsaw in starting up bank operations by providing each with a short-term consultant experienced in running a regional cooperative bank.

(August/September) Provided counsel and support to the National Union's efforts to organize a fourth regional bank in southeast Poland. This included help on an organizational strategy, preparation of a white paper to inform local banks on the concept of a regional bank, and participation in meetings to form an organizing committee.

(August) Facilitated NUCB communications with the European Community to express its needs for assistance under the World Bank Agricultural Development Project (ADP) agreement. Specifically, the Union seeks EC assistance for urgently needed bank audits.

(August/September) The project staff prepared Polish training materials, supervised U.S. trainers, and managed a pilot program of training for board members of local banks. In the two-day pilot courses 78 bank directors were trained including 10 individuals identified as potential trainers to conduct the course in the future.

(September) The advisers counseled and helped draft policies and regulations regional banks will follow in future relations with local banks. The regulations, required by the National Bank of Poland on supervising local banks, include provisions for affiliation and consolidation agreements, cross-guarantees, mutual assistance funds, and guardianship of banks in weak financial condition.

Objective II:

(July) The project staff completed a survey of farm lending by cooperative banks and found more than 68% of loans to farmers are for less than \$750 and 72% of all loans were short-term operating loans.

(July) The project advised the Ministry of Agriculture on a program to restructure farm loans in default. This will be implemented largely through cooperative banks.

(July-August) New, simplified loan application forms for private farmers developed by the project were finalized and adopted by a credit committee of the National Union.

(August/September) Assisted by U.S. consultants, the project is preparing a training manual on farm financial analysis specifically adapted to the Polish farm credit situation for use in training cooperative bank loan officers.

(July) ACDI joined the EC Cooperation Fund and the USDA Extension Project in sponsoring a summer school for 20 Polish extension personnel and 5 regional bank loan officers.

(August/September) Eight loan officers from three regional banks were sent to a two-week training course in St. Paul, MN. This included a one-week course for new loan officers in AgriBank, the regional Farm Credit Bank.

V. Issues and Problems

A number of conditions in Poland pose significant obstacles for cooperative banks to become strong, private financial institutions able to support farm and rural economic development.

1. Just as in the U.S., the regional banks find it difficult to work together which keeps the National Union a fragile organization. Part of the problem stems from differences in their origins, particularly between the bank in Poznan (GBW) and the bank in Warsaw (BUG). The general lack of trust in Poland, poor communications, and unfamiliarity with new ways of doing business all contribute.
2. The Capital Fund, established to help capitalize regional banks, is still not operational after being funded for more than a year with U.S. Food for Peace counterpart funds and funds from the Ministry of Agriculture. This has caused many bank officers to lose confidence in the Fund and doubt that funds will ever be available for regional bank capital.
3. The National Bank of Poland is requiring cooperative banks to affiliate with either one of the new regional banks or the Bank for Food Economy by the end of the year. This is a particular problem for banks in the southeast where a regional bank is just being

organized. In choosing between well-known and established BFE or an unknown and yet to be established regional bank many will likely choose BFE. This could jeopardize possibilities for a southeast bank.

4. The Ministry of Agriculture has been pushing through a loan restructuring program for farms with loans in default. Most of the program will be implemented through cooperative banks which spent much of the summer attempting to understand and implement it. Still not operational, the program is a major diversion of time and attention for the banks.
5. The lack of understanding of economic terms and concepts in a market economy is a continuing problem in providing technical assistance. This has become more obvious as the project team prepares Polish training materials.

VI. Actions Scheduled for Next Quarter

- Training materials on farm financial analysis will be completed and ready for use in training courses for bank loan officers and extension workers. Eight bank loan officers and two extension workers will be trained in the U.S. on this using both U.S. and Polish case studies.
- A study of cooperative bank financial reporting will be conducted to provide better understanding of a bank's financial condition.
- Training materials will be completed and ready for use by the NUCB and regional banks to train local bank directors.
- The project team will assist the National Union in finalizing regulations on regional bank-local bank relations and in presenting the regulations to the National Bank of Poland.
- The National Union will be assisted in its efforts to organize a regional bank in southeast Poland.
- A banking consultant will be assigned for one month to help accelerate development of banking services for local banks.

VII. Additional Observations and Cements

Leaders of Poland's cooperative banks remain receptive to advice and counsel from the project's banking advisers. We have good working relations with the National Union and with the presidents of the three regional banks.

This summer Poland experienced the worst draught in 30 years but the effects have not been as severe as anticipated. Grain production is down 20 percent from average and many farmers are unable to repay credit. But farm prices are up and, on balance, the agricultural economy has not been devastated.

The Warsaw newspaper Rzeczpospolita reported on October 16 that even though credit is readily available few businesses are using it. "Banks say this is because few loan applications from borrowers are accompanied by appropriate documentation and reliable investment plans." On the other hand, "banks are to blame because they have a shortage of professionals able to reliably review loan applications. " This also describes the farm credit situation in rural Poland and the problem this project seeks to help resolve.

ATTACHMENT

Agricultural Development Support Project

EXPENDITURES THRU SEPTEMBER 30th, 1992

<u>DESCRIPTION</u>	<u>BUDGET</u>	<u>ACTUAL COST</u>	<u>UNI.LIQUIDATED</u>	<u>%</u>
Salaries	663,942.00	129,251.45	534,690.55	19
Other Payroll				
Added Costs	154,129.00	39,701.79	114,427.21	26
Other Allowances	209,642.00	60,848.11	148,793.89	29
Other Travel	178,690.00	25,913.48	153,046.52	15
Consultant Fees	384,224.00	10,962.51	373,261.49	3
Equipment/Commodities	50,000.00	31,037.89	18,962.11	62
Other Direct Costs	75,707.84	36,642.65	39,065.19	48
Indirect Costs	669,478.67	123,004.25	546,474.42	18
Subcontractors	31,432.00	0.00	31,432.00	0
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	2,417,515.51	457,362.13	1,960,153.38	