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**Consultancy Report
Progress Report**

Poland: Cooperative Bank Development Project

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PROGRESS REPORT/FEBRUARY 1994

The following materials and comments highlight the Cooperative Bank Development Project (CBDP) assignments and progress during the month of February.

I. Participate In The Implementation of the NUCB Training Programs.

The CBDP worked with the Farm Credit Bank of Baltimore and AgriBank redesigning and updating program content for the February-March Banker to Banker (B:B) Baltimore training program. The project finalized visiting, interviewing and selection of the second group (Group B) B:B participants. Finally this group of 12 selected LCB directors (CEOs) met with ACDI's - CBDP and ABE for final preparations and briefings on February 18 in our conference room. They left for Baltimore on the 19th looking forward to focused training in six key performance areas and visiting local cooperative and commercial banks there. The process for CBDP selecting the third B:B group (Group C) scheduled to leave for AgriBank on April 23 had to commence during the last week of February.

Progress continues towards production of video training and development materials. Videos are being designed as tools for VOCA volunteers providing technical assistance to LCBs and directors in the B:B program. They will also be available to NUCB and regional banks' training departments in the B:B program. Video content is being designed so it can be used in other countries or for other types of cooperatives as well. The videos will deal with principles while break-out exercises can be tailored to specific situations or groups. The three videos under development include:

- Cooperative Council Member Development
(cooperative principles, council member responsibilities, and their roles)
- Human Resource Management
(job descriptions, interviewing, coaching, and performance evaluations)
- Marketing
(will incorporate how to develop a marketing plan)

CBDP agreed to a training course for the employees of the State Agency of Rural Property (state farms) on "Farm Financial Analysis". The program will be presented at the Ministry of Agriculture with a loan officer from the Regional Bank of Warszawa. This could have some new business potential for the banks.

II. Assist the NUCB In Its Efforts to Enhance The Institutional Development and Coordinate Policies of Local and Regional Banks.

Poland's cooperative banks have faced constant changes like: suddenly being free to make decisions, a difficult economic environment putting many of their clients in difficulty, sudden requirements to adopt conservative regulations of building reserves and minimum capital, along with tax rulings disallowing some expenses and overstating profits and taxes. Cooperative banks weathered these bolts amazingly well even though their NUCB trade association often fell short of appropriately representing them.

The bolts of change and need for representation continue. There are a number of additional key issues developing that could materially affect the banks and their success. These issues include:

- (1) The National Bank of Poland (NBP) presented a position paper to the Polish Parliament outlining its thoughts for restructuring and assisting the BFE and independent cooperative bank systems,
- (2) The Ministry of Finance issued their concern and requests for the bank systems to come forward with a plan along with NBP, and
- (3) There is evidence from NBP, Finance Ministry, and legislators they are interested in considering legislative, regulatory, tax proposals, and some financial assistance if necessary.

NUCB has been involved through its management and three regional bank presidents participating in several meetings with representatives of: NBP, Ministry of Finance, Polish Bankers Association and the Bank for Food Economy (BFE). These developments culminated on February 22-23 in Konstancin near Warszawa when the three regional banks supervisory councils (about 70 members) met and discussed the issues. Mr. Pohlmeier from World Bank, Mr. Amdahl, and EC representatives from Brussels also participated in the program.

Serious leadership problems have been evident since NUCB's origin. The three regional bank councils are now able to discuss these problems and, among other things, decided the NUCB board chairman should not be a regional bank president. This job should be, or should grow into, a full-time CEO and Chairman of the Board with a qualified candidate in place. The councils also agreed to: (1) Support NBP efforts to help the cooperative bank system develop a strategy for restructuring, and (2) support and assist the formation of two additional regional cooperative banks, a southeast and a Baltic bank.

We have had several meetings with World Bank representatives who have been in Poland for the past three weeks. Their strategies for Poland are broader than rural finance issues but include them. They plan to undertake a major Total Finance Sector Mission in Poland this spring. There would be a Cooperative Bank Mission included within this mission which would start by the end of April or May of 1994.

The Cooperative Bank Mission could be headed by Lorenz Pohlmeier, Paul Murgatroyd, and perhaps one other World Bank officer. CBDP has agreed to participate with them as has the EC group. The intent of the World Bank Group and its two partners would be to work with NBP, Ministry of Finance, NUCB, and BFE to assist them in developing further structure, legislation, tax, regulation, and financial recommendations. This could be an important next step in the cooperative banks' development and also give their leadership a needed boost. CBDP has also agreed to assist in the formation and development of new regional banks and plans to develop bank supervision training and development programs with NBP and NUCB.

III. Provide Expertise and Consultation to the NUCB and Regional Banks As Deemed Appropriate To Enhance Their Effectiveness.

The CBDP conducted joint regional (by each regional bank) field meetings with the Group A and B participants of the B:B Program. Group A consists of directors who just came back from Agribank and Group B are the directors selected to go to Baltimore. The meetings focused on improving the B:B Program in: US Training, use of arriving technical assistants (VOCA volunteers), expanding discussions on knowledge and assistance experienced, follow-up, refinements, and on-going communications.

The first B:B VOCA volunteers (TAs) arrived in Warszawa on February 20. They spent the first two days attending CBDP training sessions in our conference room. The meetings focused on background and current operational and financial status of the LCBs they will work with, objectives to improve performance of the LCBs, approach and methodology, and review of the Business Planning Package. The volunteers were divided into teams made up of a farm credit and a commercial banker, with each team assigned two banks where they will spend approximately two weeks per bank. The recruited Polish interpreters met with their assigned VOCA team and the teams departed for their assignments on February 22.

The LCBs and TAs are pleased with the CBDP recruited, staffed, and trained part-time pool of 15 Polish interpreters. Each B:B participating LCB hires two interpreters for their TAs from this pool. This insures good communications, understanding of bank terminology and the program. CBDP is not an employer of the pool, but agree to recruit, train and re-imburse participating LCBs for certain pre-agreed costs.

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Much to CBDP's surprise, all but one of the TAs indicated they were bringing their spouses to Poland. Some of the LCB offices in this program would physically have difficulty handling two TAs, their spouses, and two interpreters for two weeks. Consequently, CBDP organized assistant English teaching positions for all the spouses in schools located in the LCB's area. We also implemented "Pen Pal Clubs" between these Polish schools and Minnesota/Wisconsin schools. This added program is off to a good start.

IV. Cooperate and Coordinate With Other Projects Providing Assistance to the Cooperative Bank System.

The CBDP participated in several meetings with representatives from the World Bank, Cooperation Fund and other projects. CBDP arranged for Warszawa's USAID Mission Director and assistant along with the US Embassy Consulate to meet with the Poznan LCB. The meeting schedule includes a tour of the bank and a luncheon meeting with: The LCB CEO (who did attend the first three week B:B training seminar in AgriBank) and our two technical assistants (VOCA volunteers) who will be completing the last day of their two week assignment there that day.

V. Other Comments.

As mentioned earlier in this memorandum, the subject of bank assistance and restructuring has become newsworthy. Most of the press is positive now after earlier "bashings" concerning some questionable financial assistance to BFE by the Minister of Finance. This was followed by resignations and now a new acting Minister and replacement of the three top officers in BFE. In addition to political issues, there are also economic reasons that make us believe the time is right for improving regulation, taxation, and other imperfections in the law for all banks. There is now, of course, some discussion and hopes for financial assistance by some cooperative bank leaders. We don't think anyone should hold their breath for much, if any, financial assistance for the banks, but other necessary reforms could be on the horizons. We are also afraid many don't realize the costs government financial assistance could carry in the loss of control, but as we say in Poland - - - we shall see!

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