WORLD COUNCIL OF CREDIT UNIONS/LITHUANIA

INTRODUCING DEMOCRATIC FINANCIAL INSTITUTIONS INTO THE LITHUANIAN MARKETPLACE

PROJECT ANNUAL REPORT / YEAR 3

October 1st 1996 - September 30th 1997

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With the move to a market economy, Lithuania's financial sectors require significant change In a relatively short time, ownership and control of these sectors should move closer to those who wish to use these services As a partial remedy, the national banking system is being commercialised and is responding to short-term commercial lending needs

Banking and financial services in Lithuania were formerly directed towards serving the state and state-owned enterprises As a result, the banking sector did not and still does not respond adequately to the personal financial needs of a large segment of population - the individual consumer, small business owner, and farmer Due in part to the relatively higher costs of serving small savings accounts and making small loans, commercial banks prefer to focus on lending for industrial and commercial purposes They are generally ineffective in offering these services to consumers on reasonable terms, if at all As a result, the ordinary citizen feels that banks have little to offer them

In any market based economy, however, financial mechanism must be established to respond to the savings and credit needs of individuals and families *People need a safe place to deposit savings on a regular basis and must be able to borrow from the same place to meet health, housing, education, business, agricultural and other needs*

World Council of Credit Unions has proposed the following solution

An Efficient Alternative Financial System

Savings and credit unions (SCUs) are uniquely positioned to increase the efficiency of Lithuanian financial markets, and hence to contribute to economic transformation and development SCUs are private, democratic, self-financing institutions They provide consumers and small producers with a direct access to competitively priced market-driven savings and credit services SCUs operate at low cost, returning profit to their members after expenses and reserve requirements are met They help improve living standards by lending for household purchases, housing, health care and education

Transfer of Skills and Technology

The international credit union system is an effective mechanism for transferring market-oriented financial service skills and technology The system is well organised and includes a vast network of trained professionals and volunteers equipped to share the skills and technologies needed to operate safe and sound member-oriented SCUs Training and technology include financial analysis, liquidity management, capitalisation, risk management, loan procedures, depositor protection, and low-cost computerisation The World Council of Credit Unions coordinates development needs

world-wide by matching the needs of Lithuania with the human and financial resources of the developed credit union movements

Credit Union Members Practice Democracy

Credit unions serve as models of private, member-owned, democratic institutions Membership is voluntary and open to all within the accepted common bond Members participate in decision making (one person, one vote) Directors and committee members serve voluntarily

Policy and Legislative Reform

The international credit union system consistently encourages greater reliance on market mechanisms in the financial service sector This includes the development of enabling laws and regulations that encourage credit unions to grow and to expand services without excessive controls, while achieving effective financial performance through audits and supervision Eliminating subsidised credit, paying positive returns on savings and establishing sufficient reserves are essential components to credit union success

Program Goal and Purpose.

The goal of the proposed program is to increase the efficiency of financial markets and to improve the availability of personal financial services to individuals in Lithuania, thereby improving the income and standard of living for members, their families and their communities

The purpose is two-fold

- to create a pool of trained individuals with the technical and motivational skills required to start and manage SCUs,
- to promote, organise and develop private, financially sound, democratic SCUs in Lithuania

Project Progress October 1996 - September 1997

Legislative and Regulatory Impact

CU Law and Regulations.

The Lithuanian credit unions operate under the special Credit Union Law adopted in 1995

Late in 1996 on the initiative of the Ministry of Agriculture amendments to the existing Law were proposed One of the main suggestions - to include legal entities as members of a credit union

The Project participated in the discussions together with other institutions involved - Ministry of Economics and Ministry of Finance The Project manager had special meetings with the officials from these Ministries and expressed our opinion on the amendments The project received final conclusions from Ministry of Economics which fully refute the possibility of including legal entities as members of a credit union Their chief argument is that a credit union is a non commercial institution and it does not serve the companies rendering commercial loans Its main purpose is to serve their members - natural persons providing mainly consumer loans

Early in 1997 the work on amendments to the CU Law was renewed The first set of amendments was supposed to make it easier to establish new credit unions and remove unnecessary limitations to their operations which were found out during a year and a half of Lithuanian credit union experience The second one will relate to the development of the credit union infrastructure, including a credit union regulatory agency separate from the Central Bank, share insurance and liquidity facility as well as the National Credit Union Association
In this connection most productive were contacts with the Finance and Budget Committee in the Parliament The procedure of introducing the Law amendments and the content of it was discussed with MP A Ploksto and FB Committee advisor G Morkunas
The draft of Law amendments was prepared and presented to the Parliament Finance and Budget Committee on May 15th
The amendments were handed to members of the Committee to get them involved into discussions and to make them familiar with the proposed changes As it was agreed early this year the amendments to the CU Law will be initiated by Finance and Budget committee
The process of preparing the amendments was coordinated with the credit union Managers and Boards considering the practical experience they had operating under the requirements of the present Law and efficiencies they disclose

The local USAID office is regularly informed of the progress on draft amendments, and their support is sought approaching Government and Parliament committees

Relations With the Central Bank and Other Financial Authorities.

The Central Bank has developed the licencing and registration procedure Main contacts are established with the two departments directly responsible for the procedure i e

-*Licencing Department,* responsible for licencing order, CU by-laws, business plan and agreement on CU foundation

Regulation / Supervision Department, responsible for CU accounting standards and procedures, control over the financial operations in credit unions as well as credit union auditing
To ensure quick reaction to the changes in the licencing and supervision procedure as well as to monitor the foundation of new credit unions, the project involved a legal expert for regular consultancies and document preparation This step proved to be

extremely beneficial, since the procedure of CU registration gained new impetus and the number of new credit unions increased

If the registration and licencing procedure is detailed and clear, the audit issue remains undeveloped The subject of audit is one of the current priorities, since the financial activities of all the credit unions are examined by the CB on a regular basis

During the period of late 1996 - October 1997 seven examinations were carried out by the Supervision Department, and all the results analysed during the CB Board sessions It indicates that the activities of credit unions are carefully checked and monitored by the financial authorities

There is a need for an organised method of supervision of credit union operations, including procedure for internal audit of each credit union as well as guidelines for external inspection-auditing
To offer experience and explanation, the consultant from Canada *Jacques Paquin* visited Lithuania late in 1996 to conduct an independent audit in two credit unions The final goal of the consultancy was production of a manual of norms and procedures to be used for inspection and auditing, with special attention to various indicators for different levels of supervision Also the possibility of initiating a program for long distance monitoring was explored

Regular meetings with the *CB Supervisory Department* head deputy Filomena Jaseviciene were organised after the CU's examination The main reason - comments and recommendations after the credit unions' inspections Although each credit union has its own peculiarities, certain deficiencies, disclosed through the inspection are of common character Mrs Jaseviciene gave a brief summary of typical mistakes and presented her views how to avoid them in future She also presented new Inspection Rules, bearing in mind the latest CB requirements and credit unions' inspection practice

On the initiative of the Project Manager several meetings were organised with the CB Board vice-chairman *Mr Misevicius*
Carrying out the licensing and supervision of all credit institutions and issuing rules, instructions and other legal acts, regulating their functioning The Central Bank is one of the main bodies to support the proposed amendments to the Credit Union Law
In July project staff members established close contacts with *CB Credit Institutions Supervision Department Advisor (USAID consultant) Mr Norton J Cook*

The inspections (after one year of operation) in the credit unions showed that the CB Supervision Department is interested in having a separate "Credit Union Inspection Manual" in order to perform high quality annual inspections, paying special attention to credit unions specifics and philosophy
Mr Norton J Cook was responsible for elaborating this Manual
Project staff was involved in preparing Inspection Manual by sharing materials on CU Auditing/Inspection as well as discussing specific issues with the CB advisor

As a result of these joint effort the manual was written to set forth in a concise, understandable and useable format inspection objectives which pertain to the safety and soundness of the credit union

Department Of Statistics - Latest Resolutions

Department of Statistics has adopted an Order No 54 which specifies the procedure of CU Association's registration According to the Order, any CU Association (National or Regional, since the CU Law does not deny the possibility of several CU Associations) is registered in the Municipality to which the Association's headquarters are located It means that if the Association headquarters are fixed in Vilnius, it has the right to apply for registration to local Vilnius Municipality and carry out its activities throughout Lithuania, if this is stated in its by-laws

Regular cooperation with the Statistics Department has brought its positive results - the credit union registration procedure has been simplified Earlier special permission from the Municipality authorities were needed alongside the other registration documents This particular permission is not necessary any more, which makes the whole procedure simpler and at least 2-3 weeks quicker This is a good sign for each new credit union being registered, since it will have a good chance to get the licence and start practical operations much earlier

Cooperation With DID Project in Lithuania.

WOCCU and DID projects cooperate in the following directions

- on introducing amendments to the existing CU Law

The topic of Law amendments was an essential field into which **WOCCU and DID projects put combined effort.**
The first draft was presented to the DID staff during the meeting in Kaunas in February Their comments were taken into consideration while developing the amendments
Following the agreement to continue WOCCU and DID cooperation in terms of improving regulatory environment of credit unions in Lithuania a second strategic planning meeting was held in March in Vilnius From DID side Program Officer Yves Boily participated in the discussions

- on establishing CU National Association

The attitude of both projects on the Association establishment was that it would be in the best interest of all to combine common resourses into all the member consortium

On June 12th all credit union managers (WOCCU and DID) met in Vilnius to continue discussion and to plan further activities
From the practical side of view it was one of the most productive meetings which showed the results of earlier discussions and mutual contacts between credit unions'

senior personnel All credit union managers expressed CU members and their opinion on the Association issue
It was agreed to move further towards the Association establishment and to obligate a *work group* (5 persons) to include suggested changes into the bylaws, to set main goals, strategies and expected activities
Later meetings disclosed certain differences in views on building Association and its functions

- credit union licensing and registration

Both projects have the same approach towards preparing credit union registration and licensing package We exchange samples of documents, business plan outlines, and develop new ones Changes in some particular aspects in registration requirements proved the importance of such cooperation

- credit union audit and improvement of the existing examination rules

There is a constant need for an organised method of supervision of CUs including an internal audit of each credit union as well as guidelines for external inspection-audit
For this purpose on April 23-24 the second national credit union workshop was held in Kaunas
Following the workshop in November, organised by our Project, this one on mutual agreement was organised by DID in Kaunas The senior staff of all the fifteen Lithuanian credit unions participated in the workshop discussing the results after the first year of operation and problems to be solved in the nearest future
The schedule was designed accordingly, so as

on April 23rd - to discuss the credit union inspection, performed by the Central Bank in all the CUs during 1996
Insuring internal controls in a CU Problems and procedures of CU audit

on April 24th - Introduction to CU Association general discussion
Amendments draft to the Credit Union Law

Credit Union Development and Training.

Credit Union Development Progress.

By the end of project year 3 (on September the 4th) the Central Bank issued licences for two new credit unions, trained and supported through the Project They are
Panevezys EKRANAS CU (TV plant employee-based) and
Sakiai JOTIJOS KRASTAS CU(ethnic community-based)

Presently there are eight credit unions, established with the help of WOCCU Project

- "VIEVIS TAUPA" - Vievis poultry farm credit union,
- "PAKRUOJIS FARMERS" - Pakruojis region farmers credit union,
- "REISKIAI" - Plunge region farmers credit union,
- "MEDICAL" - private doctors and members of the Medical Club
- "FIRST POLISH" - members of Polish community
- "GLASSMAKERS " - glass enterprises employees
- "EKRANAS CU" (TV plant employee-based)
- "JOTIJOS KRASTAS" (ethnic community-based)

Now our efforts are concentrated on another two groups, namely,
Visaginas CU group (based on Visaginas town public society) and
Housebuilding CU group (housebuilding companies' employee-based)

Both the groups have had a sufficient number of meetings, separate training for leaders and potential members, consultancies on legal issues
Presently the documents of the two groups are submitted to the Central Bank for consideration and final decision

We also keep in touch with several more groups Most realistic at the present moment are the intentions of
- Private Enterpreneur' group from Klaipeda,
- Small depositors' group from Vilnius (this group has new specifics - it unites citizens, who have lost their savings in the crisis of commercial banks)

Credit Union Agreements

With the extension of the project new possibilities to support credit unions were created, namely institutional support The development grants for credit union start up become the important component in the Project-to-CU Partnership Agreement
Such Agreements are signed already with six credit unions (Vievis, First Polish CU, Pakruojis Farmers, Reiskiai Farmers, Glassmakers and Medical CU) These Agreements define the relationship between the project and credit unions Getting training and technical support, a credit union assumes certain responsibilities and duties to follow the specific credit union operating requirements and principles

Foundation of the National CU Association.

One of the main goals of the Project was to support the efforts of the credit unions establishing a volunteer based National Credit Union Association The process started in the end of 1996 and has developed through the whole of 1997

November 18-22 1996.

The National workshop in Vilnius organised by WOCCU
The National CU Association issue was raised for the first time by the CU managers and discussed by both DID and WOCCU project staff It was proposed that all credit unions include in the agenda of their annual meetings the issue of National Association to get the approval from credit union members to start the process

April 23-24 1997.

The second National workshop in Kaunas The National CU Association issue was discussed as a separate agenda topic DID Association model was introduced
WOCCU model was analysed
Decided to start the process of promoting the importance of creating a National Association, simultaneously drafting the structure and functions of the future Association

June 12

A joint meeting of all credit union managers (WOCCU and DID) was held in Vilnius to continue discussions and plan further activities
Agreed to appoint and authorise a work group (5 persons from both projects supported credit unions) to accomplish the following tasks

- to analyse comments and suggestions from separate CUs,
- to develop model by-laws,
- to develop recommendations on voting procedure
- to draft the preliminary budget and structure of the Association

July 24

The second joint meeting of CU managers in Kaunas The goal of the meeting - to evaluate the input of the work group and make practical decisions
However the previous agreements on meetings procedure and agenda were broken
The activity of the work group was neglected and not even \analysed The meeting was conducted under strong pressure from DID project, all proposals made by WOCCU CU managers were automatically rejected without any discussion using the power of majority (11 against 6)
The meeting did not achieve any practical results

August

However, credit unions decided to continue discussions, with the intention to do practical steps, establishing the National Association
With this aim on **August 5th** six credit union managers organised a meeting, inviting WOCCU staff and USAID officer Aldas Kriauciunas
They discussed DID proposed Association model and arrived at the conclusion, that in many aspects it is unacceptable to them

The credit unions evaluated the work, accomplished by the *work-group* in July-August (which was supposed to be discussed in Kaunas) They analysed the model Bylaws, discussed the possible structure of the Association

On August 28th the Vilnius Municipality accepted the Application of the six credit unions to register the National Credit Union Association Under the Board Decision No 1442 V the Association was registered and official Certificate issued, empowering the Association to carry out its activities throughout Lithuania, as it is stated in its Bylaws

The members of the Association elected a Board and Supervision Council, and drafted an activity plan for the nearest months Presently they concentrate their efforts on the promotion of the Association's idea, explaining its role and benefits for the movement They try to establish direct contacts with the other operating credit unions, building their positive attitude and involving into Association start-up

The first steps of the Association would be to participate in the discussions on CU Law amendments, to establish direct contacts with the CB authorities The Association representatives treat most seriously the November conference in Bulgaria from the point of view of establishing new contacts and learning from the operating European National Associations' experience

Training.

One of the main project tasks was to train local WOCCU staff members in SCU promotion, training methods, principles and operations This was done through a series of short international internships at US credit unions and credit union leagues, and through local training courses
In addition, WOCCU has provided the staff with training materials to be used for preparation of training sessions and workshops All of those materials have been translated into Lithuanian Separate training programs have been developed, specifically for each credit union management field For example, comments on credit union management, interrelation between the Board and Committees and general recommendations on credit union establishment

Project Staff Training.

According the annual plan and bearing in mind the revised scope of work of each staff member six internships in US were organised

Vytautas Latinis participated in an internship in Baltimore, Maryland (October 1-12) Considering aspects of his daily work and specific training/consultancy he provides to CU accountants and managers, his internship was scheduled to concentrate on *financial management, CAMEL and PEARLS rating systems, internal credit union accounting issues and computerisation* To cover the above mentioned topics and to

acquire practical skills on the subject he visited Maryland State Employees Credit Union, Annapolis, Baltimore and Maryland Credit Union League His counterpart in Latvia Signis Aliks , accompanied him on this internship

Lina Bulotaite has undergone her internship in South Carolina (November 2-17) She visited eight credit unions in Piedmont Chapter and received in depth training on *marketing and public relations, asset liability management, risk management as well as accounting* Also part of this internship were Ligita Solomentseva and Tatjana Volkova of WOCCU/Latvia

Natalija Firsova and Regina Laimikiene received training in Oregon Credit Union League and separate credit unions (December 2-13), along with Brigita Baltaca of WOCCU/Latvia
The program was designed so that interns were able to receive the advanced training on skills and methods as trainers, at the same time to get knowledge on functions and services of the League compared with the operations on the level of a credit union

The Project manager **Dalia Jurgaityte** and the legal advisor **Gediminas Reciunas** have undergone intensive training in Washington DC on January 19- Februray 1, 1997 together with Project manager Normunds Mizis and legal advisor of WOCCU/Latvia

For the *legal advisor* the training schedule was designed separately bearing in mind the specifics of his activities within the Project
The basic purpose of the trip was to learn US legal framework, regulating credit unions in order to draft necessary amendments to improve legal environment of credit unions in Lithuania Special meetings were also arranged with the lawyers in separate credit unions, CUNA and NCUA
Another important topic to learn was the legal aspects of credit union operations The emphasis was laid on lending types of loans, collections and risk control
The discussions with the legal experts were followed by the study tours to operating credit unions of different size
Among the most important visits separately needs to be mentioned a meeting with the World Bank representatives on January 27th to discuss the additional possibilities of financial support to the project

On May 26-28 two staff members - **Regina Laimikiene and Vytautas Latinis** participated in Training of Trainers workshop in Kiev (Ukraine)
The purpose of the workshop was two - fold
- ensure theoretical knowledge of CU accounting and asset liability management, combined with practical exercises and discussions followed,
- increase training skills of trainers

The topics covered during 3 day training - Balance Sheet and Income Statement Analysis, Ratio Analysis, Budgeting and Asset Liability Management are at the utmost importance for young credit unions operating in Eastern Europe In Lithuania credit union managers will be provided additional training on above mentioned topics using materials from the TOT

Project Advisors Workshop

Following TOT on May 29-31 PAW was organised Participants from Macedonia, Romania, Latvia, Lithuania, Ukraine and Poland were involved in the discussions on two main topics

- presentation by each project manager on the status of their project,
- WOCCU Regionalisation Concepts and Implication for WOCCU programs In Europe,

Project managers overviewed project goals and the current status towards achieving goals, major changes in project strategy, current problems, expected activities, status of credit union legislation, summary of inputs and outputs and comments on them Discussions on lessons learned followed after each presentation It showed the similarities of main project goals, strategies, training programs and disclosed different legal environment in the countries The major problems projects face are related with status of CU legislation and supervision

Another part of discussions was targeted towards WOCCU Strategy for European Programs and potential role of regionalisation
Project's managers and WOCCU officials analysed the importance of managing credit union development in the region and successful integration of the developed systems into existing financial markets
Main activities in the Region to be done

- development of network between projects, involving other movements in the Region ,
- involvement of European organisations in CU efforts,
- integration of credit union system into European Union financial sector,

The importance of the Regional office, continuous representation of WOCCU in the region by strengthening strategy for European Programs was the first in depth discussion held in Kiev The following step moving towards Regionalisation - input from every project with the discussions followed

On June 1-5 project computerisation expert **Vytautas Latinis** participated in *regional computerisaton workshop* in Gdynia, Poland
Representatives from Poland, Latvia, Ukraine, Lithuania and DID project attended the 3 day workshop the main goal of which was to share the experience on practical realities of the accounting software usage in credit unions throughout the Eastern Europe Each day consisted of two parts - presentations on different software packages and round table discussions

Administrative Assistant **Lina Bulotaite** attended a training program on *"Marketing Management"* (for Small and Medium Enterprises) from 19th May to 13th June organised by Mediterranean Institute of Management (MIM), Nicosia in cooperation

with the Planning Bureau under the Cyprus Government Technical Assistance Scheme (Non-Project funded activity)

The objective of the program was to provide participants with the necessary knowledge and skills that facilitate deeper and enhanced understanding of major issues and provide participants with the opportunity of putting theory into practice
The program included Marketing Oriented Strategic Planning, Marketing Research and Environmental Scanning, SWOT Analysis, Product Management Decisions, Communication Strategy/Decisions, Designing Advertising and Promotion Campaigns and practical work on Mini Cases in groups There were Company Visits focused on marketing issues every week as well

Workshop in Poland

On August 27-29 Project manager D Jurgaityte and Training Officer R Laimikiene participated in the regional workshop in Warsaw
The main objectives of the meeting were

- to bring management and technical assistance closer to the European region Projects,
- increase efficiency and effectiveness of financial and statistical reporting of European Projects,
- share the technical skills available in the region, using the experience of separate Projects,

Three variants of future European Regional office were introduced by the participants Summarising the discussions the decision was made to move towards establishing the Regional office as subsidiary of the World Council in Europe Later it is supposed to involve Irish National League, Polish National CU Association as well as the new National CU Structures of the recent Projects

Credit Union Personnel Training/ Internships

One of the major events in this field was "Credit Union Operations and Management" workshop held on November 18-23 in Vilnius Two consultants from US Philip W Ayscue and Betty Mathiesen shared their experience and provided consultancy for 46 participants, emphasising certain operational methods which are universal
The purpose of this workshop was two-fold,

- to provide training to the senior personnel of all operating credit unions, Central Bank officials and representatives of Vilnius University
- to analyse and discuss the progress of credit union movement in Lithuania with the experts of Central Bank Supervision Department, Consultants from US and Canada

For the first time all DID and WOCCU supported credit unions had a chance to undergo training course designed to cover the issues of key importance at the present level of credit union operations Special emphasis was laid on

management structure and tasks, loan underwriting, accounting and strategic planning
This workshop brought together senior personnel of all operating credit unions in Lithuania Sessions, conducted by highly professional experts, have build an effective background for successful credit union management

Workshop in Kaunas

On April 23-24 the second national credit union workshop was held in Kaunas Following the workshop in November, organised by our Project, this one by mutual agreement was organised by DID in Kaunas The senior staff of all fifteen Lithuanian credit unions participated in the workshop discussing the results after the first year of operation and problems to be solved in the nearest future
The schedule was designed accordingly, so as

on April 23rd - to discuss the credit union inspection, performed by the Central Bank in all the CUs during 1996
Insuring internal controls in a CU Problems and procedures of CU audit

on April 24th - Introduction to CU Association general discussion
Amendments draft to the Credit Union Law

Brief Summary The inspection of the credit unions, carried out by the Central Bank late in 1996 was the first serious test for each Lithuanian CU In general, all the CUs passed the examination, however there were certain mistakes, some of which turned to be typical for all the young credit unions To analyse the results and compare the problems faced, the Deputy Head of the Supervision Department of the Central Bank and Departments' chief inspector were invited The latter has participated personally during most of the inspections, so the analysis presented was really constructive All the credit unions have got a clear understanding of the Central Bank requirements, drawbacks that should be avoided in future

Credit union senior personnel first internship was organised to Poland on December 16-19 1996 Two groups, representing **Medical CU and Malinava CU** were identified to receive training in Polish credit unions The intern program was structured to provide basic skills needed for successful development of credit unions in Lithuania
On the level of credit union training was targeted toward Board and Committees activities, financial management and accounting, record keeping, member service
On the level of Credit Union Association- management of credit union funds, investment and liquidity services to credit unions, technical services, chapter, member and public relations
Combining those two parts of training program, interns received practical training in existing credit unions and were introduced to the credit union system

Following the training schedule another group from two Lithuanian credit unions was sent to Poland on March 3-6 th 1997 This group represented two agricultural CUs - **Pakruojis Farmers CU and Plunge "REISKIAI" CU.**

The group visited KATOWICE coal miners credit union, which is considered to be one of the strongest in the region Bearing in mind the character of the Lithuanian CUs a special visit was organised to a farming community credit union in Wieprz
Alongside with the credit union training the Lithuanian group had a good chance to discuss the situation of the movement in Lithuania, to compare the conditions and the stage of development of credit unions in both the countries Most interesting was the meeting with the City Council Authorities

The contact was established with the **Project in Ukraine** and the Director of the National CU Association Training Centre (Andrej Olenchik) More than once the Ukrainian colleagues suggested to consider the possibilities of training our people in Ukraine
On invitation from the Ukrainian National CU Association a study tour was organised for the First Polish CU personnel on April 14-18th
The schedule was designed to combine practical training in the credit unions with the knowledge of the National Association structure and functions and services of the Training centre During the stay the group visited 3 credit unions, each of different profile (e g employee-based CU "Turbota", University CU "Osvita), getting introduced into main services and daily operations The Polish CU staff evaluates training in the credit unions most positively, because many problems they are facing now resemble the ones the Ukrainians have successfully solved Their experience and solutions will help the Polish CU to avoid some of the dangers of the development period
The group was impressed by the services of the Association and practical help it offers each credit union For the purpose of training and introducing new skills and knowledge a separate Training Centre operates alongside with the Service Centre, providing particular services to CUs on daily basis Visit to the CU Insurance company "Fortecja" (a joint venture of Ukrainian NASCU and CUNA Mutual) was really interesting, because in Lithuania such a system does not exist yet
The training in Ukraine proved to be effective from many points, primarily as a valuable experience of a credit union movement in the European region

Public Relations and Information.

Project staff is working on public relations to promote the concept of safe and sound financial operations and market credit union benefits

A series of articles has been published in the most popular newspapers presenting information on guarantees of safe operation in a credit union, benefits of being a member of a credit union, info on operating credit unions, legal environment for establishing credit unions, attitude of the CB authorities concerning the young credit union movement

Several radio interviews were arranged through state and regional radio programs

We continued the successful promotional compaign arranging separate informational packages and sending them to target groups (over 100 prepared throughout 1997)

Contacts have been established with major political parties with the aim of involving the credit union issue into their elections programs as well as to ensure their favourable attitude and future support

All these activities helped to create a friendly environment both in public and political/governmental structures

Year 2 Conclusions

- Following a 6 month moratorium on licencing of new SCUs, two new credit unions have been registered through 1997
  EKRANAS CU (TV plant employee-based) and
  JOTIJOS KRASTAS CU (ethnic community-based)
  Cooperation Agreements with six operating CUs have been signed, establishing the relations and mutual responsibilities between the Project and credit unions

- The MEDICAL CU identified as the Model/Training centre
  Special Agreement has been developed to identify its status, functions and conditions of Project support

- During 1997 all six credit unions passed the CB inspections The deficiencies disclosed reflect the typical problems of CU growth lack of experience in management and planning, utilization of accounting program, preparation of financial reports precisely following the requirements of the Bank
  The practice showed that the additional training for CUs organised by the Project, as well as close cooperation with the Supervision Department of CB helps to avoid major problems in the credit unions' development

- On August 28th 1997 six credit unions formed and registered the National Credit Union Association
  From 1996 the Project has supported the idea of the national structure On their request the CU leaders were provided with legal and training assistance, ensuring the best understanding of the existing legal and economic environment, before choosing the Association model and development strategy

- Amendments to the existing Credit Union Law prepared and first discussions started in the Central Bank, Parliament Finance and Budget Committee and State Institutions

- We continue to work with four target groups, training them before the credit union foundation and assisting them during the licensing and registration procedure

- On the level of political lobbying and promotion, we continue to maintain contacts with major political parties and financial authorities which play a significant role in the expansion of the movement

Scheduled Activities for the Next Year

During Year 4 we plan to continue our activities in all above mentioned directions, following the main requirements and timetable of the project, as follows

- To maintain contacts with CB Licensing and Supervision Department

As the whole CU system undergoes development process the CB is involved into creating Central Financial Facility, Stabilisation program and new supervision requirements

-Together with the National CU Association to participate in discussions and promote the amendments to the Credit Union Law.

This process will involve Parliament Finance and Budget Committee, Ministry of Economics and Ministry of Finance

- To organise five new credit unions.

..On the bases of the mutual interests to sign the cooperation agreements with the Project supported credit unions

-To support Model CU.

This CU will serve as a training center in order to train employees and volunteers from the credit unions ensuring the efficiency of their operations and continuity of financial services

-To support National CU Association.

The project will continue to represent CU interests in Parliament, CB and other Governmental Structures It will help to establish contacts with international partners The project will facilitate the overall CU National System

-To provide ongoing training to the operating credit unions and new target groups.

It will include local training provided by the project trainers combined with the internships to Ukraine, Poland, Ireland and England

- In order to comply with the high requirements of WOCCU staff qualification, Project employees will participate in regional TOT sessions, workshops and conferences, later transferring knowledge and skills to the Lithuanian credit unions.

1997 3rd quarter Financial & Statistical Report of Lithuanian Credit Unions, supported by the WOCCU project

	Vievis Poultry farm	"Medical" c u	"Pakruojis farmers" c u	"First Polish" c u	"Reiskiai" c u	"Glasmakers"	"Ekranas"	"Jotija"
NUMBER OF MEMBERS & USERS								
TOTAL NUMBER OF MEMBERS	*200*	*84*	*95*	*78*	*54*	*63*	*50*	55
BALANCE SHEET								
I EARNING ASSETS								
A Loans to Members								
Short Term Loans (<=1 Year), Lt	103 510	67 330	285 200	32 020	15 100	84 000		
Medium Term Loans (> 1 <= 3 Years) Lt	56 680	60 490						
Long-Term Loans (>3 Years) Lt								
Other Special Loans Lt		16 210						
Allowance for Loan Losses Lt	5 510		-8 740			-840		
Total Net Loans Lt	*154 680*	*144 030*	*276 460*	*32 020*	*15 100*	*83 160*	*0*	
B Liquid Assets								
Term Deposits in Banks Lt	11 260	40 000			10 000			
Term Deposits in other credit unions Lt	14 000	80 000						
Total Liquid Assets, Lt	*25 260*	*120 000*	*0*	*0*	*10 000*	*0*	*0*	
C Financial Investments								
Savings Deposits Banks etc								
Securities & Investments Lt	498 700		36 000	20 060	26 000	17 260		
Total Financial Investments Lt	*498 700*	*0*	*36 000*	*20 060*	*26 000*	*17 260*	*0*	
TOTAL EARNING ASSETS, Lt	678 640	264 030	312.460	52 080	51 100	100 420	0	
II NON-EARNING ASSETS								
A Liquid Assets								
Cash & Equivalents Lt	8 150	15 090	21 540	9 080	1 700	4 460		
Current (Checking) Accounts Lt	3 530	38 460	30	1 660	13 400	970	15 000	16500
Foreign Currency Lt	40							
Other								
Total Liquid Assets, Lt	*11 720*	*53 550*	*21 570*	*10 740*	*15 100*	*5 430*	*15 000*	16500
B Accounts Receivable								
Total Accounts Receivable, Lt	*27 300*	*1 610*	*2 540*	*360*	*0*	*0*	*0*	
C Fixed Assets								
Net Fixed Assets, Lt	*10 620*	*80*	*14 870*	*0*	*0*	*0*	*0*	
D Other Assets								
Prepaid Expenses				370	700	1 220		
Other Assets	780			520				
Accumulated Amortization								
Total Other Assets	*780*	*0*	*0*	*890*	*700*	*1 220*	*0*	
TOTAL NON-EARNING ASSETS Lt	50 420	55 240	38 980	11 990	15 800	6 650	15 000	16 500
TOTAL ASSETS, Lt	729 060	319 270	351.440	64 070	66 900	107 070	15 000	16 500

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	Vievis Poultry farm	"Medical" c u	"Pakruojis farmers" c u	"First Polish" c u	"Reiskiai" c u	"Glasmakers"	"Ekranas"	"Jotija"
III INTEREST BEARING LIABILITIES								
A Savings Deposits								
Regular Savings Deposits Lt	55 940	3 640	13 080	350	2 400			
Fixed Savings Deposits Lt	430 140	176 160	168 760	15 370	46 900	77 000		
Savings Deposits for Special Purpose								
Special Savings Deposits Lt	2 000	85 550	94 000	29 000				
Total Savings Deposits Lt	488 080	265 350	275 840	44 720	49 300	77 000	0	
B External Credit								
Loans Banks								
Loans Other Credit Unions			15 200					
Total External Credit	0	0	15 200	0	0	0	0	
TOTAL INTEREST BEARING LIABILITIES, Lt	488 080	265 350	291 040	44 720	49 300	77 000	0	
IV NON-INTEREST BEARING LIABILITIES								
A Short-Term Accounts Payable (< =30 Days)	16 300	3 060	6 970	1 070	700	750		
B Provisions (e g Wages/Benefits)								
C Other Liabilities	13 210		570			470		
TOTAL NON-INTEREST BEARING LIABILITIES, Lt	29 510	3 060	7 540	1 070	700	1 220	0	
TOTAL LIABILITIES	517 590	268 410	298 580	45 790	50 000	78 220	0	
V CAPITAL								
A Member Share Capital								
Obligatory Shares	185 100	45 000	52 400	23 700	16 200	24 300	15 000	16 500
Voluntary Shares								
Total Member Share Capital, Lt	185 100	45 000	52 400	23 700	16 200	24 300	15 000	16 500
B Non Institutional Capital								
Other Reserves	1 450					160		
Undistributed Net Income	19 120	2 890		-2 000		3 070		
Total Non-Institutional Capital, Lt	20 570	2 890	0	-2 000	0	3 230	0	
C Institutional Capital								
Statutory & Legal Reserves	5 800	720	120		100	810		
Retained Earnings								
YTD Net Income (Loss) Transfers		2 250	340	3 420	600	510		
Total Institutional Capital, Lt	5 800	2 970	460	-3 420	700	1 320	0	
TOTAL CAPITAL Lt	211 470	50 860	52 860	18 280	16 900	28 850	15 000	16 500
TOTAL LIABILITIES AND CAPITAL, Lt	729 060	319 270	351 440	64 070	66 900	107 070	15 000	16 500

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PEARLS SHORT SUMMARY

	P-E-A-R-L-S RATIOS	*GOALS*	Vievis Poultry farm	"Medical" c.u.	"Pakruojis farmers" c.u.	"First Polish"	"Reiskiai" c.u.	"Glassmakers"	"Ekranas"	"Jotija"
P	*PROTECTION*									
1	Provisions for Loan Losses greater than 12 months	100%	100 00%	100,00%	100,00%	-	-	-	-	-
2	Provisions for loan losses from 2-12 months	35%	40 00%	40,00%	40,00%	-	-	40,00%	-	-
R	*RATES OF RETURN & COSTS*									
3	Operating Expenses / Average Assets	Between 3% & 10%	1,14%	5,07%	2,18%	16,03%	0,36%	2 66%	0,00%	0,00%
4	Net Income / Average Assets	1% or greater	2,62%	0,75%	0,09%	-5,42%	1,08%	0,48%	0,00%	0,00%
5	Yield on Shares	> inflation rate	-	-	-	-	-	-		
A	*ASSET QUALITY*									
6	Total Delinquency / Total Loan Portfolio	Max 10% of outstanding loans	15 20%	4 40%	14 80%	0,00%	0,00%	2,50%	-	-
7	Non-Earning Assets / Total Assets	Max 7% of Total Assets	6 92%	17,30%	11,09%	18 71%	23 62%	6 21%	100 00%	100 00%
S	*SIGNS OF GROWTH (Annual Growth Rates*									
8	Membership	Country specific	21 05%	20,00%	8 60%	39,44%	7,55%	20,00%	-	-
9	Total Assets	More than Inflation	-1 12%	51,44%	-15,60%	11 96%	210 96%	-2,12%	-	-
10	Loans	More than Inflation	408 78%	-69,67%	-42,35%	28,79%	374,36%	26,46%	-	-
11	Savings Deposits	More than Inflation	-12 87%	33 31%	-14,07%	20 20%	333,09%	0 00%	-	-
L	*LIQUIDITY*									
12	Liquidity Reserves / Total Savings Deposits	10%	22 90%	20,20%	8,10%	68,90%	83 40%	7 00%		
E	*EFFECTIVE FINANCIAL STRUCTURE*									
13	Member Share Capital / Total Assets	Between 10% & 20%	25 39%	14 09%	14,91%	36,99%	24 22%	22 70%	100,00%	100 00%
14	Net Loans / Total Assets	Between 70% & 75%	21 22%	45 11%	78,66%	49,98%	22,57%	77,67%	0 00%	0,00%
15	Savings Deposits / Total Assets	Between 70% & 80%	66 95%	83 11%	78 49%	69 80%	73 69%	71 92%	0 00%	0 00%
16	Share mix	Country specific	-	-	-	-	-	-		
17	External Credit / Total Assets	Minimum	0 00%	0 00%	4 33%	0 00%	0 00%	0 00%	0 00%	0 00%

Summary

The following comments could be made on PEARLS summary table

The ratio (Operating expenses/Average Assets) is too high in the "First Polish" credit union This tendency is observed for several quarters already, and, as a consequence, the ratio (Net Income/Average Assets) in the "First Polish" c u is also not fulfilled The reasons of the problem will be raised during the Board meeting of the credit union It seems the way to overcome this problem is either to reduce salaries of the staff, or to increase lending activity

Analyzing the Asset Quality, it should be mentioned a too high loan delinquency for "Vievis" and "Pakruojis" credit unions These two credit unions have granted the largest number of loans comparing with the rest, and, therefore, are facing greater difficulties Anyway, they should be more strict in their collection policy This might be not a problem for "Vievis Taupa", an employee-based credit union They have a possibility to deduct loans monthly from employee's salaries

Much more carefully should proceed "Pakruojis farmers" management The field of membership in this credit union - farmers of local area They have seasonal income and are not willing to repay loans on monthly basis As a result - the problems with delinquency and liquidity

The deficiencies mentioned above were noticed also by the Central Bank inspectors during their recent inspection Certain steps were done by the Central Bank to prevent "Pakruojis farmers" c u from further problems

Commenting on the signs of growth, the rapid increase of loans in "Vievio Taupa" can be explained by the fact that they are rebuilding their loan portfolio after some period of restriction on lending (sanctioned by the Central Bank at the beginning of the year) Significant decrease rate in "Medical" and "Pakruojis farmers" c u -s is caused because of recent closing of several big loans

"Ekranas" and "Jotija" credit unions have been licensed only in September 97, and have not started their activities yet