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**EASTERN EUROPEAN
FINANCIAL SECTOR DEVELOPMENT
STUDY**

Final Report

March 8, 1991

Price Waterhouse



March 8, 1991

Ms. Sandra Frydman
Bureau for Private Enterprise
Agency for International Development
Washington, D.C.

Dear Ms. Frydman:

Re: AID/PRE Financial Sector Development Project
Contract No. PDC-2206-Z-00-8191-00
PRE/I - Eastern European Financial Sector Development
Study II
PIO/T Nos. 940-2002-3-934-2212 and 940-2002-3-934-2202

Attached please find ten copies of our Final Report for the Eastern European Financial Sector Development Study prepared by Price Waterhouse, Prime Contractor under FSDP.

It has been a pleasure working with AID on this important assignment. We look forward to further collaboration with you in the future.

Sincerely,


J. Richard Breen

Project Director, FSDP

**EASTERN EUROPEAN
FINANCIAL SECTOR DEVELOPMENT**

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Eastern European Financial Sector Development

Technical Assistance Activities

I. INTRODUCTION

A. Summary

The immediate needs of the Eastern European countries to consolidate their new political systems with economic growth has prompted them to seek assistance in all sectors and from all potential donors. All of these requests have drawn responses from other countries and unleashed a flood of technical assistance, credit lines, loans and investment and export guarantees. This has especially been the case with the EEC which is responsible for a major portion of the assistance currently being provided. An example of the intensive nature of this assistance is the program being coordinated by the IMF for the National Bank of Poland under which the Central Banks of four European countries and the U.S. Federal Reserve System, are providing technical assistance in five different areas at the same time.

The intensity and sheer volume of these activities raises questions about the capacity of the countries to absorb this assistance and the efficiency and effectiveness of these programs. Based on the limited scope of our review, there seems to be little evidence of coordination among donors or successful attempts on the part of the recipients to prioritize their needs and objectives. While we are aware that this is the function of the EEC and the OECD/DAC, greater efforts appear necessary to improve this situation.

B. Background

The recent political developments in Eastern Europe have had profound effects on the structures and future development directions of the economies of those countries. Political freedom has stimulated the liberalization of the Eastern European economies, encouraged market-based development, increased competition and most of all, the growth of a corporate sector.

Even though these changes are revolutionary and inspire hope for the establishment of western-type democracies in this part of the world, the infrastructure to support the successful implementation and maintenance of such changes is absent. Market-based economic systems are heavily dependent for their

development and growth on the existence of efficient financial markets to provide medium and long-term financing to the growing local private sectors. These in turn, are dependent on efficient, well-regulated financial institutions and capital markets, all of which are lacking in Eastern Europe. While financial institutions exist in Eastern Europe, they are ill-equipped to meet the potential demands of the new corporate sector. While there are highly-skilled, well-trained bankers, financial managers and accountants throughout Eastern Europe, most of them are unfamiliar with the needs of the private sector.

C. Scope

The study is limited to technical assistance activities provided by both public and private agencies in the area of financial sector development. The latter has been broadly defined to include activities related to the development of financial institutions, the establishment of accounting and auditing standards and practices, the development of stock exchanges, banking and securities market regulatory systems, training, privatization and the development of stock, bond and other capital markets.

D. Methodology

This research was Washington, D.C.-based and was conducted over a four week term through phone calls and interviews.

E. Objectives

The objectives of this study are to identify and compile a descriptive list and a detailed summary of the activities of international donor agencies (excluding A.I.D.), individual countries and regional organizations involved in providing technical assistance to the Eastern European countries for the development of their financial sectors

F. Organization of the Report

A discussion of donor activities comprises the major portion of this report and it is divided into three major sections: activities conducted by international donor organizations, those carried out by regional organizations and finally, the interventions of national organizations. Project descriptions are organized by agency.

II. DONOR ORGANIZATIONS

A. International Donor Organizations

1. Introduction

Technical assistance from international donor agencies such as the World Bank Group and the International Monetary Fund was available in some Eastern European countries before the events of 1989. Since then, however, the magnitude of these efforts have increased and will continue to do so.

In the area of financial sector development, the World Bank Group and the International Monetary Fund have taken the lead in strengthening domestic financial institutions and capital markets, especially in the areas of bank supervision and regulation. These efforts have been accompanied by the provision of financing to small and medium size businesses through the domestic banking sectors however, since changes in government policies are still occurring, the nature of future assistance is difficult to predict.

2. The World Bank Group

a. The International Bank for Reconstruction and Development

The World Bank has focused its efforts on the development of the Eastern European financial institutions. In Hungary and Poland, the World Bank is providing assistance as those governments attempt to establish viable commercial banking systems through the restructuring of existing banks, the creation of new banks and the encouragement of foreign bank operations. The World Bank is actively assisting these governments through the funding of large bank modernization projects. These address the establishment of sound lending practices, accounting and financial management systems and training programs. They also stress the development of appropriate organizational and management structures.

In addition to aiding commercial banks, World Bank assistance emphasizes the strengthening of the regulatory capabilities of the National Banks of Hungary and Poland. As the central banks for these countries, the National Banks of Hungary and Poland will assume the roles of commercial bank supervisors and securities market regulators. Since these are new roles, technical assistance will be needed to ensure the development of strong supervisory and regulatory systems.

While World Bank efforts are focused on the entire region, Hungary and Poland have been the first recipients of assistance, and efforts are underway to address the needs of the Yugoslavian financial sector. These are expected to be implemented within the next year. The timing on assistance to Czechoslovakia is undetermined.

b. The International Finance Corporation

Technical assistance to Eastern European countries is being provided through the IFC's Emerging Capital Markets Group. All of the activities being undertaken by this group are long-term and relate to the development of securities market regulation. The IFC is currently assisting the Government of Hungary with the development of securities market regulations and in the establishment of a stock exchange, (Hungary also has received assistance from the London Stock Exchange in this regard). In addition, the IFC has been approached by the Government of Poland for assistance in the development of securities market regulations.

3. The International Monetary Fund

Technical assistance from the International Monetary Fund to the Eastern European countries is concentrated primarily on the development of central banking functions. The National Bank of Poland (NBP) is seeking to strengthen its payments systems, establish electronic check clearing systems and design and implement clearinghouse arrangements with assistance from the U.S. Federal Reserve System.

The Central Banking Department of the IMF has also encouraged the participation of various central banks to provide assistance to Eastern Europe. Since later 1989, the Fund has drawn on the expertise of the Bank of England, the Bank of France, the Austrian National Bank, the Deutsche Bundesbank and the Netherlands Bank.

The Bank of England is assisting the National Bank of Poland in monetary management and money market development. This assistance is focused on the translation of government monetary objectives into operational policies and the management of bank liquidity through the use of market-based instruments.

The Bank of France is assisting Poland to address bank supervision issues such as the modernization of bank accounting standards and practices. The latter is key to the implementation of strong bank supervision practices more especially now that risk management is becoming an issue of concern. The Bank of France is training the NBP staff in the use of modern accounting principles and is working with the Netherlands Bank to develop and implement an accounting plan. In addition, several NBP staff members are being trained in France under a program established by the Bank.

Specialists from the Austrian National Bank (ANB) are assisting the NBP in the establishment of its internal accounting and auditing systems to ensure that the accounting plan being applied to the commercial banks is similar to the one being utilized by the National Bank. In the auditing area, the Austrian specialists are ensuring that the Central Bank capacity to monitor compliance and detect fraud is well developed. The ANB has also organized seminars for NBP staff members in Vienna.

The Deutsche Bundesbank is assisting the NBP in managing the country's international reserves and implement new foreign exchange policies promoted by the liberalization of the country's economy. This will also assist the implementation of the new Foreign Exchange Law which requires the drafting of detailed rules and regulations.

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Finally, the Netherlands Bank is assisting the National Bank of Poland in improving its capability to research and analyze monetary and balance of payment developments. This has involved the establishment of a monitoring system for short-term monetary and exchange rate developments and is based on the collection of information related to money and credit developments, interest rates and bank reserves from commercial banks. In addition, the Bank is modernizing the reporting system and developing a monetary programming model to assist the NBP in its daily monetary management.

In addition to providing assistance to the central bank in Poland, the IMF is also providing traditional balance of payments support to Hungary, Poland and Yugoslavia in the form of stand-by arrangements.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT				
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT(US\$ mil)
HUNGARY	Financial System Modernization	<p>- To support the modernization of the financial system and improve its ability to mobilize and allocate resources. Initially designed to modernize the National Bank of Hungary, the project has been expanded to a broader financial sector.</p> <ul style="list-style-type: none"> o Human Resources Training <ul style="list-style-type: none"> - Accounting - Auditing - Securities - Regulation o Financial Legal and Regulatory Training o Institutional Strengthening (\$40m) <ul style="list-style-type: none"> - Working with four major banks (six more are eligible) in bank modernization projects. Management Information Systems, Training, and restructuring are all components of this subproject. o "Payments Clearing Center" <ul style="list-style-type: none"> - A clearing mechanism for the Hungarian Banking Sector o Securities Market Development <ul style="list-style-type: none"> - Assisting the embryonic Hungarian Stock Exchange - Securities Market Regulations Development 		66

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT				
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT(US\$ mil)
POLAND		<ul style="list-style-type: none"> o "Banker's Training Center" - Operational for two years, this center provides practical skillbuilding services to the indigenous banking community. Operated by the Government of France but financed by the IBRD. 	Identification under way.	About 50
	Financial Institutions Modernization	- To support needed reform and restructuring of the financial system. Project scope to be determined.		
	Reform Support	- To support the government's medium-term economic reform program in such areas as fiscal and trade policy, financial sector development, enterprise management and implementation of a social safety net. The implementing agency will be the Ministry of Finance.		
YUGOSLAVIA	Financial Sector Support	- To support policy measures and restructuring of financial sector.		About 250
			Total*	666

* This is an estimate subject to change.

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INTERNATIONAL MONETARY FUND				
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT(US\$ mil)
POLAND	U.S. Federal Reserve Representation	A U.S. Federal Reserve officer participated in an IMF sponsored mission to Poland in January 1990 to develop recommendations to the National Bank of Poland to enhance the Polish payments system.	Completed	N/A
	U.S. Federal Reserve Representation	As part of the IMF sponsored technical assistance program, a Federal Reserve staff person accompanied National Bank of Poland officials on a tour of several central banks of Europe in April 1990 for the purpose of contrasting the payments systems in those countries.	Completed	N/A
	Bank Payment Systems	A four person IMF sponsored mission, headed by a Federal Reserve Board officer, and including a Board staff person and two officials from two reserve banks went to Poland in mid-May 1990 to provide specialized training in three payment systems areas: design of infrastructure apparatus to develop and support an interbank market; feasibility study for the design of an electronic check clearing system; and design of a clearing-house arrangement for the exchange of check-like documents.	Completed	N/A
	Balance of Payments Support	A stand-by arrangement in support of the government's stabilization efforts which are focused on: using the exchange rate and wage policy to break the momentum of inflation; reduce the demand pressures and strengthening financial discipline by restoring the Government's fiscal position to approximate balance; and implementing a money and credit policy that is tight enough to discourage excessive growth of expenditure, contain the price and demand consequences of economic liberalization, and induce a steady shift from foreign currency deposits into zloty financial assets.		723

INTERNATIONAL MONETARY FUND				
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT(US\$ mil)
HUNGARY	Balance of Payments Support	A stand-by arrangement for the Government of Hungary authorizing purchases up to \$206 m over the next 12 months in support of the Government's economic and financial program. The Government's economic and financial program for 1990, which the current stand-by arrangement supports, aims at reducing the domestic and external imbalance while continuing the process of restructuring, reforming and liberalizing the economy.		206
YUGOSLAVIA	Balance of Payments Support	A stand-by arrangement designed as an adjustment program emphasizing controlling inflation while safeguarding the external position of the economy. The initial phase of this program anchors a fixed nominal exchange rate for the dinar, a strict cap on nominal wages and a partial price freeze. The key structural reform elements of the program, which are now being implemented, are: the transformation of banks from institutions owned by enterprises into fully capitalized, profit-motivated institutions with equity ownership; the transformation of socially owned enterprises into legal entities with proper capital and the clarification of ownership status of these enterprises; and the removal of legal restrictions affecting privately owned firms and enterprises with mixed ownership.		598
			Total*	1,527

* Only of those programs with amount available.
This is an estimate subject to change.

B. Regional Organizations

1. Introduction

Of the regional organizations involved in providing technical assistance to Eastern Europe, the European Economic Community is the most active. Its activities reach far beyond the financial sector to include such areas as environment, agriculture, management training and trade and investment. Perhaps the most significant effort of the EEC has been the creation of the European Bank for Reconstruction and Development (EBRD) for the express purpose of promoting private sector development in Eastern Europe. Although it has not begun operations as yet, the EBRDs role in assisting the region will be key in the region's development efforts.

2. European Economic Commission

As part of agenda for the G-7 Economic Summit held in Paris in July 1989, assistance to Eastern Europe was discussed and the European Commission was given the responsibility for coordinating assistance from some 24 countries. During their first meeting held in August 1989, the Group established task forces on food aid, management training, environmental issues, market access and trade, and investment.

The Commission functions as the coordinating body for the Group of 24 (G-24) and has been successful in mobilizing assistance for Poland and Hungary which totaled about \$14 billion at the end of May 1990. Among its activities is the establishment of a data base on business environment and investment and the establishment of a financial institution.

The European Community has been in the forefront, providing assistance to the fledgling market economies of Eastern Europe since the changes of 1989. Until this year, the community has been channelling bilateral and multilateral funding primarily to Poland and Hungary, but is now expanding its efforts to include Yugoslavia, Czechoslovakia and Bulgaria. East Germany has received the major portion of its aid through West Germany under the "umbrella" of unification.

In order to streamline the allocation of assistance to Eastern Europe, the Commission has designed three programs under which the funds are administered. These are:

- o The PHARE Program
- o The European Investment Bank (EIB)
- o The European Bank for Development and Reconstruction (EBRD)

The PHARE Program

One of the programs managed by the G-24 is the Poland and Hungary Assistance for Economic Recovery (PHARE) Program. This program was initiated in September 1989 with a total of 3 billion ECUs allocated to Poland and Hungary. In June 1990, the scope of its assistance was extended to include Yugoslavia, Bulgaria, Czechoslovakia, East Germany and Romania, with an additional 200 million ECUs reserved for these countries through 1990. The current budget projects some \$500 million ECUs for Eastern Europe by the end of 1990; 850 million ECUs by the end of 1991 and 1 billion ECUs by the end of 1992.

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The program has targeted five areas for development including financial markets and investment. Efforts will be focused primarily on the conduct of feasibility studies in the financial and banking sectors, and the support of projects and joint ventures in the small and medium size business sector. Within the investment area, three funds have been established. These are the Polish Stabilization Fund (with the IMF); the Hungary Structural Adjustment Loan, and a joint program to provide structural adjustment assistance to Poland and Hungary through the European Investment Bank.

The management of the program is conducted through a special task force within the Commission's Directorate General for External Affairs. This task force is divided into two units:

- o A **Policy Unit** which is responsible for political and economic policy affairs for Eastern Europe; and
- o An **Operational Unit**, developed to create mechanisms and skills that can be used to assist in the restructuring of Eastern European economies. The Operational Unit coordinates bilateral lending to projects and issues requests for proposed technical assistance. It is from within this unit that the technical assistance activities of the program are managed and directed.

In the past two years, the PHARE program has been active in coordinating lending activities to Poland and Hungary. The Commission's activities through the PHARE program have included the dissemination of information, the establishment of funding priorities, the coordination of assistance to Eastern Europe and the management of bilateral funding programs.

Examples of PHARE program activities include the following

- o Poland - Sectoral program to assist small and medium size enterprises. The purpose of this program is to provide small and medium size businesses (SMEs) with access to foreign exchange in order to import needed equipment and purchase training and technical assistance services. The program will provide credits, technical assistance in specific industrial sectors and assistance in institutional strengthening and training.

The implementation of the program will involve the establishment of two special foreign exchange accounts at the National Bank of Poland: a central financing facility which will support loans and credits to SMEs through selected banks and a technical assistance facility. This program will be implemented on a

regional basis, beginning with those which have top priority.

- o Hungary - Technical Assistance Program to the country's privatization agency. The Government of Hungary has finalized the creation of a Privatization Agency which will privatize public enterprises as well as manage transactions conducted by state enterprises. This project will provide the technical assistance necessary to make the Agency operational and to train its personnel. Three consultants specializing in capital market development, SOE evaluation and public relations will be identified to conduct this activity.
- o Poland - Technical Assistance to the privatization bureau. A program to establish the Privatization Agency as a functional unit while at the same time, assisting in the implementation of the country's privatization program. The tasks being undertaken include the development of the securities and stock markets and the establishment of accounting and auditing standards.
- o Hungary - Modernization of the Financial System. Financial and technical assistance is being provided to establish and support the Hungarian stock exchange, develop supervisory systems for financial institutions, strengthen the Hungarian Banking Association and the securities market and redesign the National Bank of Hungary's information system.

The European Investment Bank

The European Investment Bank (EIB) was established in 1958 for the development of the European Economic Community. Since then, the Bank has financed capital investment projects both within and outside the European Economic Community (EEC), in accordance with the Community's priority objectives. In keeping with the Community's objectives to encourage and support economic and political reform in Eastern Europe, the EIB is currently financing projects in Poland and Hungary and its efforts are expected to increase to include other countries in the region.

Owned by the member states of the EEC, the EIB raises most of its funds on international capital markets and actively co-finances projects with other financial institutions such as the World Bank and commercial banks and governments of member states.

As part of its strategy to provide assistance to Eastern Europe, the EIB has agreed to lend up to 1 billion ECUs to capital

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investment projects in Poland and Hungary guaranteed by the EEC over the next 3 years. In Poland and Hungary, the EIB works in coordination with the EC and is looking into the possibility of co-financing projects under the PHARE program. It is also exploring opportunities to work with the European Bank for Reconstruction and Development in Poland and Hungary to support private sector investment and public infrastructure development.

The European Bank for Reconstruction and Development

Established on May 29, 1990 for the purpose of providing economic assistance to the countries of Eastern Europe, the European Bank for Reconstruction and Development (EBRD) will be a \$12 billion institution with its operations based in London. The largest shareholders of the Bank will be the U.S. and Japan with 10% and 8% of the capital stock respectively. The member states of the EC, the European Investment Bank and the European Economic Commission will hold 53.7% of the capital while Australia, Canada, Egypt, Israel, Mexico, Morocco and all the Central and Eastern European countries, with the exception of Albania, will hold the remaining stock.

The EBRD will begin operations in April 1991 and is expected to eventually assume the role of the current PHARE Program. It will provide financing for capital investment projects that further the economic development of Central and Eastern European countries through the establishment of market-based economies. At least 60% of the lending will be directed toward developing the private sector while the remaining 40% will be used to fund public infrastructure projects and restructure public enterprises.

G-24 ASSISTANCE FOR POLAND/HUNGARY SINCE PARIS SUMMIT

COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT	
				ECUs (mil)	US\$ (mil)
POLAND	EC Commission	Grant for management training, environment and agriculture		165.00	216.77
	West Germany	EC "Action Plan"		20.00	26.27
	France	Grant for general technical assistance		15.00	19.71
	Italy	Management training		1.50	1.97
	United Kingdom	Management training		80.00	105.10
	Netherlands	Technical training		1.50	1.97
	Belgium	Technical assistance		5.00	6.57
	Ireland	Private Sector, Environment and Technical assistance		0.50	0.66
	Austria	Training grant		1.50	1.97
	Finland	Training grant		23.00	30.22
Canada	Technical assistance grant		4.00	5.25	

G-24 ASSISTANCE FOR POLAND/HUNGARY SINCE PARIS SUMMIT

COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT	
				ECUs (mil)	US\$ (mil)
HUNGARY	Japan	Technical assistance		12.50	16.42
	Turkey	Economic restructuring		0.50	0.66
	USA	Private Sector, Environment and Technical assistance		325.00	426.97
	EC Commission	Technical assistance grants		165.00	216.77
	France	Small business fund		8.00	10.51
	Netherlands	Technical training		1.50	1.97
	Belgium	Technical assistance		5.00	6.57
	Ireland	Private Sector, Environment and Technical assistance		0.50	0.66
	Switzerland	Management training		N/A	
	Canada	Technical assistance grant		4.00	5.25
	Japan	Technical assistance		12.50	16.42

G-24 ASSISTANCE FOR POLAND/HUNGARY SINCE PARIS SUMMIT					
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT	
				ECUs (mil)	US\$ (mil)
	Turkey	Economic restructuring		0.50	0.66
	USA	Private Sector, Environment and Technical assistance		90.00	118.24
			Total*	942.00	1237.54

* This is an estimate subject to change.

PHARE PROGRAM					
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT	
				ECUs mil	US\$ mil
POLAND					
		VOCATIONAL TRAINING (TRAINING AND RETRAINING, MANAGEMENT TRAINING)			
	Turkey	Both countries additional contribution by Turkish Banks association		0.54	0.71
	United Kingdom	"Know How Fund"	G-FC	71.00	93.28
			Subtotal	71.54	93.98
		INVESTMENT, JOINT VENTURES, INDUSTRIAL DEVELOPMENT CREDITS			
	Denmark	Both countries: three year funding for investment plus grants for projects	FC	37.50	49.27
		Investment guarantee scheme		125.00	164.22
	Finland	Investment guarantee scheme		N/A	N/A

G: Grant FC: Firm commitment
L: Loan PC: Possible commitment

PHARE PROGRAM

COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT	
				ECUs mil	US\$ mil
POLAND (cont)	France	Investment guarantee scheme		144.00	189.18
	Germany	Bank Credits for craftwork production	L-FC	1.50	1.97
	Italy	Both countries Public corporation to finance joint ventures and to extend support to small businesses		33.25	43.68
		Concessionary terms (1.75%, 20 years loans with a 5 year grace period)	L-FC	66.50	87.36
	Norway	Export credit guarantee for investment and export capital goods	FC	19.80	26.01
	Turkey	Grant local currency		0.92	1.21
	USA	"Enterprise fund" to help promote the private sector. Both countries	G-FC	216.20	284.03
	Switzerland		G/L-PC	86.60	113.77
		Subtotal		731.27	960.70

G: Grant FC: Firm commitment
L: Loan PC: Possible commitment

PHARE PROGRAM					
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT	
				ECUs mil	US\$ mil
POLAND (cont)	OTHERS				
	Belgium	Both countries Bilateral projects.		3.00	3.94
	Germany	Supporting measures in the social-political field	FC	1.10	1.45
		Promotion of social and economic development (1990) Both countries	FC	5.00	6.57
		Further commitments for promoting social and economic development (1991-1993) Both countries	PC	22.50	29.56
	Ireland	General Economic Aid Both countries	(details to be decided)	0.84	1.10
	Japan	Formulation and implementation of projects in Poland to be supported by the World Bank and financed as grant by Japan Special Fund established with World Bank		(as yet unspecified)	

G: Grant FC: Firm commitment
L: Loan PC: Possible commitment

PHARE PROGRAM						
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT		
				ECUs mil	US\$ mil	
POLAND (cont)	Luxembourg	Unspecified Projects		0.50	0.66	
	Netherlands	General Credit for Cooperation		6.50	8.54	
	New Zealand	Technical assistance development fund; both countries		0.26	0.34	
				Subtotal	39.70	52.16
	EXPORT CREDIT GUARANTEE CEILINGS					
	Austria	City of Vienna Federal Government short term credit scheme	PC	69.00	90.65	
	Belgium		PC	69.20	90.91	
	Canada	Revolving Fund which would be available for additional commitments as reimbursed	PC	15.40	20.23	
	Finland			Open without ceiling		
	France			480.00	630.60	

G: Grant FC: Firm commitment
L: Loan PC: Possible commitment

PHARE PROGRAM					
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT	
				ECUs mil	US\$ mil
POLAND (cont)	Germany		FC	1250.00	1642.18
	Italy			363.60	477.68
	Japan		FC-over two years	322.00	423.02
	Luxembourg			Supplementary ceilings under examination	
	New Zealand	Both countries		53.00	69.63
	Norway	Guarantee scheme for capital goods and investments	FC	19.80	26.01
	Spain	On a case by case basis. Amount could be increased	FC	44.00	57.80
	Turkey		FC	90.00	118.24
	USA	Both countries		180.00	236.47
			Subtotal	2956.00	3883.42

G: Grant FC: Firm commitment
L: Loan PC: Possible commitment

PHARE PROGRAM					
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT	
				ECUs mil	US\$ mil
POLAND (cont)	PROJECT FINANCING				
	EIB		Over three years for both countries: principle approved by Council of Ministers; EC budget guarantee	1000	1313.74
	IBRD		Two projects are ready; they should be followed by another \$300M project loan and them perhaps by a \$500M SAL; total commitments could reach \$1bn by the end of 1990 PC	228.36	300.00
	Austria	East-West fund to promote investment in Eastern Europe		345.00	453.24
	Japan		Considering untied loans of EXIM Bank (including co-financing with international development financing institutions - subject to IMF agreement and clearance areas due to EXIM Bank)	(as yet unspecified)	

G: Grant FC: Firm commitment
L: Loan PC: Possible commitment

PHARE PROGRAM						
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT		
				ECUs mil	US\$ mil	
POLAND (cont)	Spain		Case by case commitment	(as yet unspecified)		
			Subtotal	1573.36	2066.98	
	EEC ACTION PLAN		Both countries Various fields	G-FC	300.00	394.12
	EEC					
	CONTRIBUTION TO THE POLISH STABILIZATION FUND					
	G-7					
		Germany			190.30	250.00
		United States			152.24	200.00
		Japan			114.18	150.00
	United Kingdom			76.12	100.00	
	France			76.12	100.00	
	Italy			76.12	100.00	
	Canada			19.03	25.00	

G: Grant FC: Firm commitment
L: Loan PC: Possible commitment

PHARE PROGRAM						
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT		
				ECUs mil	US\$ mil	
POLAND (cont)	Other countries					
	Switzerland			22.84	30.00	
	Austria			15.22	20.00	
	Spain			10.66	14.00	
	Finland			3.88	5.10	
	Portugal			1.90	2.50	
	Turkey			0.57	0.75	
				Subtotal	759.17	997.35
		DEBT REDUCTION (other than in Paris Club framework)				
		Germany	Cancellation of arrears on a DM 1bn loan of 1975 Conversion of future payments on DM 1bn loan of 1975 into local currency to be used for German-Polish projects	G-PC	380.00	499.22
				285.00	374.42	
			Subtotal	665.00	873.64	
			Total Aid to Poland	13,227.07	17,376.93	

G: Grant FC: Firm commitment
L: Loan PC: Possible commitment

PHARE PROGRAM					
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT	
				ECUs mil	US\$ mil
HUNGARY	VOCATIONAL TRAINING				
	United Kingdom	"know-how fund"	G-PC	35.60	46.77
	INVESTMENT (JOINT VENTURES)				
	Denmark	Investment promotion activity	See Poland		
	Italy		See Poland		
	Switzerland		G-PC	2.80	3.68
	USA		PC	0.92	1.21
			G-PC	23.00	30.22
			Subtotal	26.72	35.10
	OTHERS				
Belgium	Credit to the Hungarian National Bank for the purchase of Canadian goods	See Poland			
Canada		L-FC	11.70	15.37	
Germany		See Poland			

G: Grant FC: Firm commitment
L: Loan PC: Possible commitment

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PHARE PROGRAM						
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT		
				ECUs mil	US\$ mil	
HUNGARY (cont)	Ireland		See Poland			
	Japan		Formulation and implementation of projects in Hungary to be supported by the World Bank and to be financed as a grant by Japan Special Fund established with the World Bank by Japanese contributions			
	Netherlands		See under "Others" Poland			
	New Zealand		See under Poland			
	Turkey	Medium term facility	G	0.23	0.30	
				Subtotal	11.93	15.67
	EXPORT CREDIT GUARANTEES					
	Belgium		PC	69.70	91.57	
	Finland			Open without ceiling		

G: Grant FC: Firm commitment
L: Loan PC: Possible commitment

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PHARE PROGRAM						
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT		
				ECUs mil	US\$ mil	
HUNGARY (cont)	Germany		Current exposure; no restrictions on further cover	420.00	551.77	
	Japan		FC Over two years	357.00	469.01	
	Spain			Open without ceiling		
	Turkey		FC	90.00	118.24	
	USA		See under Poland			
	Switzerland			Open without ceiling		
				Subtotal	936.70	1230.58
	PROJECT FINANCING					
	Austria			See under Poland		
	EIB		As much as 1bn ECUs could be extended as EIB loans to both Hungary and Poland, with a Community budget guarantee	L-FC		
Finland		Reconstruction projects	PC	85.00	111.67	

G: Grant FC: Firm commitment
L: Loan PC: Possible commitment

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PHARE PROGRAM

COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT		
				ECUs mil	US\$ mil	
HUNGARY (cont)	Japan	Considering untied loans of EXIM Bank including co-financing with international financing institutions in response to Hungarian request following discussions between IMF and Hungary				
	Turkey					See under Poland
			Subtotal	85.00	111.67	
		ECONOMIC DEVELOPMENT FINANCING				
		EEC	Proposal for a loan up to max. 1bn ECUs for structural adjustments	PC	1000.00	1313.74
		Germany	Untied loan in 1987, guaranteed by the federal government.	FC	500.00	656.87
		Increase of 1987 federal government guaranteed loan	FC	250.00	328.44	

G: Grant FC: Firm commitment
L: Loan PC: Possible commitment

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PHARE PROGRAM					
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT	
				ECUs mil	US\$ mil
HUNGARY (cont)		Bank loans, partially guaranteed by Lander-governments of Bavaria, Baden-Wurtemberg	FC	250.00	328.44
			Subtotal	2000.00	2627.48
	EEC ACTION PLAN				
	See under Poland	For Eastern Europe over a three year period			
	OTHER				
	Sweden		96.00	126.12	
	Total Aid for Hungary		6,252.30	8,213.90	
	Total Aid for Poland and Hungary*		19,479.37	25,590.83	

* This is an estimate subject to change

G: Grant FC: Firm commitment

L: Loan PC: Possible commitment

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PHARE PROGRAM PROJECTS					
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT	
				ECUs (mil)	US\$ (mil)*
HUNGARY	Grant for the Hungarian foundation for company development (HFEP)	A program in favor of small and medium sized Hungarian companies.	Recently Approved		
		o A guarantee system for HFEP credits		4	5.25
		o Investment in the form of share acquisition		2	2.63
		o A credit line to financial institutions which will be able to grant loans to SMEs		9	11.82
		o Technical assistance unit for HFEP and SMEs		1.5	1.97
	The Modernization of research infrastructures	To supply scientific material to regional centers for equipment and instruments, to extend the information network concerning research and development, and to modernize the central OMK technical library	Recently Approved	3	3.94
	Assistance of the Financial System Modernization	This program of financial and technical assistance will include the following projects: o banking and securities market supervision o stock exchange establishment and development o development of the ITCB o strengthening of the Hungarian Banking Association o redesigning the NBH information system	Identification	5	6.57
	Core Technical Assistance for the Privatization Agency	The project consists of a program of core technical assistance, training, institutional support and specialized consultancy services aimed at establishing the Privatization Agency as a functional unit building up		5	6.57

* Conversion rate as of 9/27/90

PHARE PROGRAM PROJECTS					
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT	
				ECUs (mil)	US\$ (mil)*
POLAND	Core Technical Assistance for the Privatization Agency	its infrastructure and staff skills, while at the same time allowing urgent tasks related to privatization to go The project consists of a program of core technical assistance, training, institutional support and specialized consultancy services aimed at establishing the Privatization Agency as a functional unit building up its infrastructure and staff skills, while at the same time allowing urgent tasks related to privatization to go Same as Hungary	Identification	9	11.82
	Sectoral Program on Imports of Technical Assistance to Small/Medium Enterprises	A program designed to allow small and medium size private sector enterprises to have access to foreign exchange and therefore be able to import indispensable equipment and obtain the necessary consulting services. The three main elements of the program include; the granting of credits to SMEs through foreign exchange accounts in the NBH, the availability of consulting services in the technical and industrial areas, and the establishment and strengthening of support structures for the SMEs.			
POLAND AND HUNGARY	Multidisciplinary Technical Assistance	<ul style="list-style-type: none"> o Identification, feasibility, technical market and other studies o Experts and consultancy o Small-scale training operations including specialist seminars 	Identification	5	6.57

* Conversion rate as of 9/27/90

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PHARE PROGRAM PROJECTS					
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT	
				ECUs (mil)	US\$ (mil)*
		o Small-scale supplies, works and services as needed to realize the objectives of the proposals			
	Trans-European Mobility Scheme for University Studies (TEMPUS)	To contribute to the medium and long term development of the higher education and training systems in Central and Eastern European countries. Priority subject areas will include management and business administration and applied economics.	Started July 1, 1990	18	23.65
	European Training Foundation	The foundation's purpose is to contribute to the development of the vocational training systems of Eastern Europe.			
Total^				61.5	80.80

^ This is an estimate subject to change

* Conversion rate as of 9/27/90

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C. National Organizations

1. Introduction

In addition to the activities being undertaken by the international lending agencies, individual countries, especially in the rest of Europe, have begun to lend assistance to the Eastern European countries. In some cases, these activities are being undertaken by the private sector. In the case of West Germany for example, most of the assistance is part of the German unification process; In others, they are part of the efforts of the Group of 24 under the management of the EEC. However, all of the funding sources for these activities are public.

Other activities are being conducted in conjunction with international donor agencies. For example, the Bank of France in conjunction with the IMF, is assisting the Government of Poland to establish accounting and auditing procedures for bank supervision.

2. The British Know How Fund

Part of the Commonwealth Office, The British "Know How" Fund has been active in providing advice and expertise in assisting Eastern Europe move towards democracy and a free market economy. The Fund identifies and finances projects which are bid on a competitive basis. To date, the Fund has concentrated its efforts on Poland and Hungary.

The first project in Poland was funded in June 1989. This project originally totalled \$25 million, and later was increased to \$50 million. In January 1990, the Fund extended its activities to other countries in the region and in April 1990, established a \$25 million fund for Hungary. The Fund expects to provide \$15 million in assistance to Eastern Europe between 1990 and 1991. Current assistance to Poland is concentrated in the areas of banks and other financial institutions, energy, industry, accounting, management and English language training. In Hungary, Fund activities are expected to focus on privatization and financial services, management training and public administration. These areas will also be addressed in Czechoslovakia and East Germany.

3. West German Financial Institutions

a. Association of German Savings Banks

The activities of the Association of German Savings Banks (Deutsche Sparkassen- und Giroverband e.v.) are focused exclusively on the modernization of the savings banks in East Germany with the objective of improving efficiency. Assistance is being implemented through the establishment of "partner" relationships between individual banks in East and West Germany to encourage the transfer of expertise and technical support, especially in the training area. In addition, the Association has created a special fund to finance staff exchanges.

b. Federal Association of German Credit Cooperatives

Unlike the Association of German Savings Banks, the Federal Association of German Credit Cooperatives (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.v.) are providing technical assistance to several Eastern European countries. The Association is working through a partnership relationship similar to that of the Association of German Savings Bank to strengthen credit cooperatives in East Germany. Its efforts are currently focused on training and the modernization of legal structures.

In addition to the activities of the Association, individual member cooperative banks have established joint venture relationships with Hungarian and Czechoslovakian cooperatives.

BRITISH KNOW HOW FUND				
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT(US\$)
POLAND	Foreign Investment Agency	Four seminars on corporate finance and financial management and accounting	Completed	104,020.00
	Bank Handlowy	Two seminars on Treasury management and an introduction to capital markets	Completed	63,155.00
	Banking and Finance sector mission	Twenty Polish visitors surveying U.S. financial institutions	Completed	18,575.00
	Accountancy sector mission	Project identification	Completed	35,292.50
	Management Educators	Training of trainers at various institutions	Underway	466,232.50
	Financial seminars	Increasing awareness of how Western financial institutions and markets work	Completed	319,490.00
	Data Processing	Adaptation of Polish econometric model to meet IMF specifications	Completed	40,865.00
	Equipment for Ministry of Finance	Provision of office machinery	Completed	37,150.00
	Conference on demonopolization	Discussion of methods and experiences of demonopolization in relation to the process of economic and political decision taking	To be implemented	20,432.50
	Establishment of capital markets	Familiarization trip by Ministry of Finance officials to the London Stock Exchange	Completed	14,117.00

BRITISH KNOW HOW FUND				
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT(US\$)
	New banks mission	Technical assistance for the establishment of new banks	To be implemented	46,437.50
	IBRD banking mission	Secondment of two United Kingdom experts to an IBRD mission to look at project preparatory work in the banking sector	Completed	31,391.75
	Economic Adviser	Appointment of a second Economic Adviser to the Ministry of Finance	Underway	13,002.50
	Financial Markets Adviser	Appointment of an Adviser to the Ministry of Finance	Underway	130,025.00
	Other Projects 6/13/90	Audit studies of nine commercial banks		371,500.00
		Advanced corporate finance training for commercial bank staff		27,862.50
		Assistance with auditing standards and establishment of a professional body		464,375.00
		Advice on accountancy standards to the Accountancy Association of Poland		27,862.50
		Provision of accountancy books in university libraries and management training institutions.		510,812.50

BRITISH KNOW HOW FUND				
COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT(US\$)
HUNGARY		Secondment of an adviser on financial markets to the Ministry of Finance		185,750.00
		Management training course for the National Savings Bank		102,162.50
		Visit of both Hungarian State Insurance Supervisors to the United Kingdom		7,430.00
			Total*	1,635,500.00

* This is an estimate subject to change

WEST GERMAN FINANCIAL INSTITUTIONS

COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT
EAST GERMANY	Association of the German Savings Banks	The Association provides the East German Savings Banks with the transfer of know how and technical support especially in the information technology area. This includes the training of East German staff in workshops and seminars in West Germany, and the sending of West German staff for limited periods to Savings Banks in East Germany.		
	Federal Association of German Credit Cooperatives	The association supports the East German Credit Cooperatives in much the same way as the Savings Bank in the GDR receive help. This assistance includes manpower and transfer of expertise (e.g. seminars and workshops). The DG-Bank in Frankfurt will be the head institute for all Credit Cooperatives in Germany.		
	The Association of German Banks	Support is limited to traineeships of East German banking staff at the Bankakademie, including legal and technical advice.		
	Association of German Insurance Companies	Support limited to legal and technical assistance.		
HUNGARY	Federal Association of German Credit Cooperatives	The head institute of the cooperative bank sector, the DG-Bank Deutsche in Frankfurt, established a joint venture with the Hungarian State, the Unixbank in Budapest. As this engagement is rather new, the support and assistance has not yet started.		

WEST GERMAN FINANCIAL INSTITUTIONS

COUNTRY	TITLE	PROJECT DESCRIPTION	STATUS	AMOUNT
POLAND	The Association of German Insurance Companies	The Association supports the Hungarian government in the installation of legislation for private insurances. Comparable to the situation in Poland there are a number of bilateral specialist groups focusing upon all kinds of insurances. These cooperations are directed by German specialists.		
POLAND	The Association of German Insurance Companies	International cooperations develop a legal base for a private insurance system in Poland. This includes the supervision of insurance companies. A result of this support is the new Polish Insurance Law, which combines parts of French, English and German Legislation. In addition there are a number of bilateral specialist groups for all kinds of insurances.		
CZECHOSLAVAKIA	Federal Association of German Credit Cooperatives	Comparable to the involvement in Hungary, the Prager Handelsbank was founded by the DG-Bank in order to support the development of Credit Cooperatives in the CSR. This cooperation is in the preparatory stage		

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