

**WORLD COUNCIL OF CREDIT UNIONS
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**POLISH CREDIT UNION DEVELOPMENT:
BUILDING A SUSTAINABLE NETWORK OF FINANCIAL
SERVICES TO SERVE LOW-INCOME MASSES**

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ANNEX 1: PEARLS for 36 consolidated credit unions

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REFERENCES

ACRONYMS

ACH	Automated Clearing House
CEE	Central and Eastern Europe
CFF	Central Finance Facility
CU	Credit Union
FPCU	Foundation for Polish Credit Unions
NACSCU	National Association of Cooperative Savings and Credit Unions
NBP	National Bank of Poland
PEARLS	WOCCU's Financial Monitoring System (<u>P</u> rotection, <u>E</u> ffective Financial Structure, <u>A</u> sset Quality, <u>R</u> ates of Return and Costs, <u>L</u> iquidity, and <u>S</u> igns of Growth)
PLZ	Polish Zloty (zł)
PKO	State Savings Bank
SKOK	Cooperative Savings and Credit Union
USAID	U.S. Agency for International Development
USD	U.S. Dollar (\$)
WOCCU	World Council of Credit Unions, Inc.
WSLA	Worker Savings & Loan Association

I. EXECUTIVE SUMMARY

“As soon as we regained independence in 1989, and became a self-reliant country again, we wanted to create a financial system which would be our own.”

Adam Byzdra, Chair of Wesola Coal Mine Credit Union and NACSCU board member

At Polish request, the World Council of Credit Unions (WOCCU) provided technical assistance funded by the U.S. Agency for International Development (USAID) to help create a credit union system after the fall of Communism in Poland. Prior to 1992, there were no operating credit unions in Poland, seven years later, a large base of self-sufficient, primary level credit unions serve more than 250,000 members. In addition to the first tier of individual credit unions, WOCCU and its Polish counterpart worked to create many of the secondary level financial services that are present in most developed credit union movements around the world.

In 1992, WOCCU and its Polish partner established a national association (National Association of Cooperative Savings and Credit Unions or NACSCU) and created a Central Finance Facility (CFF), a Stabilization Fund, and an Insurance Company. WOCCU technical assistance in Poland did not focus on strengthening a number of primary level credit unions at the base, but instead had a top-down approach that has not had a replicable success in any other country that WOCCU has worked. NACSCU, the second tier association, directed and implemented most of the credit union development initiatives and became self-sustaining in 1998. As of December 31, 1998, the following indicators were recorded:

Number of Credit Unions Registered:	220
Total Membership/Cientele:	268,700
Total Savings Deposits Mobilized:	\$138,895,066
Total SCU Equity Capital:	\$14,660,634
Total Assets:	\$158,073,027
Total Loans:	\$112,949,678
Average Loan Size:	\$437
Average Savings Deposit:	\$537
Loan Delinquency:	0.74%

The total cost of the seven years of USAID credit union development assistance to Poland was 3.9 million USD. For each US Dollar that was spent on developing the Polish credit union system, over 40 USD of new assets was generated. Assets of 158 million USD render the Polish credit union system the fourth largest financial network in Poland.

The Polish credit union system is a large provider of retail financial services to low-income Poles. The system served 268,700 members at the end of 1998. The average loan size is only 12% of average GNP per capita (\$3590) and the average deposit size is 15% of average GNP per capita. The average loan and deposit sizes are well below USAID's benchmark of \$1000 for poverty lending in Eastern Europe.

A survey of 604 credit union members in 21 credit unions in March 1998 discussed in this report further illustrates the depth of outreach of Polish credit unions. For more than 50% of the members surveyed, the credit union is the only source of formal finance available to them.

The body of this document highlights various financial indicators to illustrate the financial performance of the largest 36 credit unions. The return on average assets in 1998 was 3.04%. Delinquency stands at less than 1%; however, institutional capital at 1.2% is significantly lower than the 10% institutional capital/assets ratio that WOCCU international performance standards recommend.

Besides credit union-level achievements, NACSCU has become a financially sustainable second tier national association. NACSCU's overall success and financial independence are largely due to its ability to attain: legal significance, commercial significance (as evidenced by income-generating services including a central finance facility, a stabilization fund, training seminars, SKOKOM computer software, equipment services, supervisory/audit services, and insurance products), political significance, and supervisory significance.

In the case of Polish Credit Union Movement, there are a variety of factors which, when combined together, produce a synergy that yields an output greater than the sum of the individual inputs. This synergy is readily apparent in Poland – favorable elements leading to the growth of the Polish credit union system include:

- ?? successful national macro-economic reforms;
- ?? political support from the Solidarity Trade Union and political party;
- ?? strong credit union leaders and competent employees;
- ?? favorable credit union legislation;
- ?? establishment in the workplace;
- ?? Polish economic and social underpinnings; and
- ?? international credit union network and volunteer partnership agreements.

These elements of credit union development success are particular to Poland and make the probability of a similar success in a similar amount of time in another transitioning economy country very small. The success in building and then strengthening a credit union system that now functions completely on its own in Poland is not likely to be replicable in the region in a similar time period of seven years.

Not only is the legal framework, the support from Solidarity and company management, and the movement's leadership unique; but also, the characteristics of bilateral and multilateral funding for credit union development have changed to the effect that technical assistance projects, no matter how small the funding, rarely last for a seven-year period. There is an international credit union system; nevertheless, each national member of the global movement has its own unique strengths and challenges, and its own pattern of development.

II. POLISH CREDIT UNION SYSTEM OVERVIEW

“In my opinion, we were established at the right moment, at the right time to attract people to make them save and to make use of our credit services. If we hadn’t been established, I don’t know what would have happened to these people. To many members of our credit union, we are just an indispensable element of their environment. They wouldn’t be able to find any other financial service provider. They need the credit union.”

Henryk Rajchelt, Manager of Julian Coal Mine Credit Union in Southern Poland

A. BACKGROUND

In August 1989, leaders of the newly empowered Solidarity Party visited the United States. Grzegorz Bierecki, an employee of Lech Walesa at that time and the Manager of the Polish Credit Union League (NACSCU) since its inception, learned about the operating principles of credit unions and presented Walesa and other ranking Solidarity officials with the concept of building credit unions in Poland. At the request of Solidarity, officials from the World Council of Credit Unions (WOCCU) visited Poland in November 1989 to conduct exploratory interviews regarding “free market” credit union development in Poland.

With seed capital provided by donations from the U.S. credit union movement, the Foundation for Polish Credit Unions (FPCU) was founded in 1990 to help promote education about credit unions and establish a legal framework for their development in post-communist Poland. The FPCU succeeded in getting an article passed in the Trade Union Act in 1991 that allowed credit unions to establish themselves in workplaces such as coalmines, shipyards, and factories.

In 1990, a group of U.S. credit union experts visited Poland and evaluated the feasibility of creating a credit union system within Poland. After a favorable review, a proposal was drafted, approved by the US Agency for International Development (USAID), and the first project started in September 1992. Several people were hired to promote the organization of credit unions within the workplace in Poland.

The overwhelming local interest in the development of credit unions resulted in the design of a much larger new USAID sponsored project entitled, “Building the Polish Savings and Credit Union System.” This project began in May 1993 and was refocused in 1995 with an added “Phase II” for another two years. In October 1997, USAID extended this project for eighteen additional months until March 31, 1999. In this last extension, the focus of the project changed again from building the credit union system to strengthening the credit union system.

B. WOCCU PROGRAM GOALS VS. ACHIEVEMENTS

Considering that credit unions had not operated in Poland since before World War II, it is difficult to imagine a large base of self-sufficient, primary level credit unions was built throughout Poland within seven years. In addition to the primary level credit unions, the Polish second tier organization NACSCU offers, on a self-sustaining basis as of 1998, many of the secondary level financial services present in most of the developed credit union movements around the world. Poland’s fourth largest

financial network was launched with \$3.9 million of USAID funds spent from 1992-1999 on WOCCU-NACSCU credit union building and strengthening activities. For every \$1 spent on Polish credit union development, over \$40 of new assets have been generated.

The following table shows the initial WOCCU-NACSCU program goals and the status in U.S. Dollars (1 USD = 3.5 PLZ) as of December 31, 1998:

GOAL AREA	INITIAL GOAL	STATUS 12/31/98	% OF GOAL
Number of Credit Unions Registered	300	220	73.33%
Total Membership	300,000	268,700	89.57%
Total Savings Deposits Mobilized	\$32,000,000	\$138,895,066	334.05%
Total SCU Equity Capital	\$657,000	\$14,660,634	2131.45%
Establish National Association (NACSCU)	Project Yr. #1	Est. 1992	100.00%
Create a Central Finance Facility (CFF)	Project Yr. #1	Est. 1992	100.00%
Create a Stabilization Fund	Project Yr. #1	Est. 1992	100.00%
Create an Insurance Company	Project Yr. #1	Est. 1992	100.00%

C. CREDIT UNION SERVICES

"We offer a wide range of products to our members, ranging from loans to fixed term deposits. The most popular product is the short term loan. A loan granted for a period not exceeding one month... Also, fixed term deposits are very popular and we offer the highest interest rates in the city."

Mariusz, Manager of Stefczyk Credit Union at the Gydinia Shipyard

Credit unions in Poland offer a sophisticated variety of products and services including short-term instant loans, medium term credits, long-term housing loans, share deposits, withdrawable voluntary savings deposits, systematic savings programs, fixed term deposits, automated teller machines (ATMs), electronic payment of monthly bills, credit cards, and life insurance. Credit union interest rates are more attractive than those of commercial and state banks. Credit unions typically pay several percentage points higher on savings deposits and charge one or two points less on credit.

D. NACSCU SERVICES AND AFFILIATES

“If our credit union lacks funds, then we can borrow from the Central Finance Facility at a low interest rate. If the credit union has excess liquidity, then we can invest the funds in that same facility. Perhaps this is the most important element of the National Association, because as a result, our members can feel comfortable that the credit union is a reliable institution.”

Mr. Ziecek, President of Katowice Steel Mill Credit Union and NACSCU Board Member

The National Association of Cooperative Savings and Credit Unions (NACSCU) is the apex organization through which virtually all credit unions are authorized to operate in Poland. There are many national associations around the world that after thirty years of existence are not financially self-sustainable. In contrast, NACSCU has become a financially sustainable second tier national association in the first seven years of the post-communist Polish credit union system.

With the approval of the Credit Union Act of 1995 (signed December 31, 1995 and effective on February 5, 1996), NACSCU assumed a preeminent role as the true axis of the entire Polish credit union network. Legally, NACSCU has been charged with the responsibility of establishing prudential standards and norms for credit unions, and then enforcing those norms through a comprehensive audit and supervisory role. This legal structure, in essence, guaranteed that NACSCU would always play a significant role in the development and supervisory control of the credit unions. At the center of its supervisory responsibilities are the prudential standards of safety and soundness that NACSCU imposes on all of the Polish credit unions. To effectively monitor the compliance of these standards, NACSCU requires strict monthly reporting requirements of all credit unions. The growing database of credit union financial data and statistics has become a powerful, centralized source of information for NACSCU, on the status of the Polish credit union system.

The key to the financial success of NACSCU has been the commercially-oriented products and services which it has offered to credit unions to help them provide better services to their membership base. The sale of these products and services has created sufficient revenues to cover the operating expenses and attain financial sustainability. The services listed below are offered either through NACSCU, or a subsidiary or affiliated organization through which NACSCU receives a financial benefit:

1. The Central Finance Facility (CFF)

The CFF was created in order to provide liquidity protection to credit unions in the event of unanticipated member savings withdrawals. The current fund balance of 17,263,165 USD has grown as a result of the legal requirement that all credit unions maintain at least 5% of all savings deposits and external loans and 100% of their capital reserves (shares and institutional capital) in the CFF. The role of the CFF is to manage the liquidity of the SKOK network. It is the only credit union entity that can borrow from banks; thus, base-level credit unions can only borrow from the CFF for their financing needs. It pays a competitive return (currently 12%, the same as the PKO Bank) to credit unions for the obligatory liquidity reserves that they must maintain in the CFF.

This return is significantly better than that of the competition. Currently, the National Bank of Poland requires banks to deposit 11% of their risk-weighted assets as obligatory liquidity reserves, and pays 0% interest on those funds. Aside from the obligatory liquidity requirements, the CFF also offers a volunteer savings program which pays 1-2 percentage points higher than savings accounts in a bank.

The CFF has two investment options with its liquidity. It may either invest in government bonds that currently yield 14%, or it may loan funds to member credit unions in need of external financing. The loan interest rate varies between 16-20%, depending upon the term of the loan.

2. Stabilization Fund

The Stabilization Fund was set up to assist credit unions that have experienced financial difficulties in the volatile economic conditions of the financial marketplace. Credit unions must deposit 1.22% of their total assets in the Stabilization Fund, at 0% interest, in order to help weak credit unions strengthen their financial position and protect their member savings deposits. NACSCU lends this money out to weak credit unions at preferential rates of interest (currently between 5-8%). As of December 1998, the balance of the Stabilization Fund was 2,045,000 USD. Of this amount, 250,000 USD is loaned out to financially-troubled credit unions while the balance is invested in government bonds.

3. The TUW-SKOK Mutual Benefit Insurance Company

This credit union-owned insurance company provides credit unions and their membership with a variety of important insurance products, such as property and casualty insurance, credit disability insurance, fidelity bonding insurance, and savings deposit insurance up to 8,000 Euro per account holder.

4. The H&S Software Company

All credit unions that belong to NACSCU must use the SKOKOM credit union software, developed by this company. Increasingly, this software has become a centerpiece for offering new financial products (e.g., ATM cards, credit cards) as well as for the supervisory activities conducted by NACSCU, as mandated by the new credit union law. H&S also handles the purchase of a variety of office supplies, equipment and furniture for the credit unions, such as desks and chairs, copy machines, computers, ATMs, paper shredders, safes, marketing materials and forms.

5. The SKOK Credit Union School and Training Centers

The Credit Union College and the regional training centers, equipped with very capable people, have done an excellent job in training credit union personnel in all matters related to credit union principles, philosophy, operations, financial management, and member services. Training is an on-going activity, which is conducted in regional training centers throughout the country. Fees are charged for these seminars.

6. The Foundation for Polish Credit Unions (FPCU)

This entity is a tax-exempt foundation that owns the building of NACSCU and the SKOKOM software program. In addition, it has invested in TUV-SKOK Insurance, a Brokerage Service Business, and computer hardware. It uses donor contributions to help develop and strengthen various activities within the Polish Credit Union Movement.

III. Polish Credit Union Outreach

According to Marguerite Robinson, in Strategic Issues in Microfinance, 1998, pp.55-56:

"Microfinance refers to small-scale financial services for both credit and deposits - that are provided to people who farm or fish or herd; operate small or microenterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas."

The primary beneficiaries of financial services offered by credit unions in Poland are low-income wage workers. To date, most credit unions in Poland are employee-based credit unions owing to legal constraints that existed until 1996. It was not until the Credit Union Act entered into force on February 5, 1996 that credit unions could be established on the basis of associational or organizational common bonds outside of the workplace. Credit unions appeared in all areas of Poland in its coalmines, shipyards, and factories. Since 1996, several community credit unions have been established. Their appeal to low-income Polish people is spreading rapidly; this appeal is evidenced by rapid growth rates in membership and average sizes of loans and deposits.

"It was on June 12, 1996 that we opened the first Polish Parish Credit Union. First, the credit union was housed in tiny quarters. We anticipated that the location would be adequate because we did not expect to have more than 200 members. There was a burst, rather an explosion of membership in the credit union. From the initial membership of about 100 people in the first month, in three months time we arrived at a membership of 200... When the parishioners learned that the interest rate charged on loans was less than the rate of other financial institutions, they started joining us quickly. Soon we became the first parish credit union with 1000 members, and now in June, 1998, we have 2,600 members."

Father Bernard Zielinski, Priest and Founder of St. Anthony's Parish Credit Union

A. QUANTITATIVE INDICATORS OF OUTREACH

Depth of outreach: consolidated information from the 36 largest credit unions

Indicators for 36 of 220 credit unions	November 30, 1998
Number of Members	135,113
Percent of Women Clients	46%
Average deposit size (USD)	\$537
Average savings/GNP per capita	15%
Average loan size (USD)	\$437
Average loan/GNP per capita	12%
GNP per capita (USD) per World Bank Development Indicators 1998	\$3590

USAID has classified microfinance in Eastern and Central Europe as loans and savings deposits amounts of less than or equal to \$1000. Average savings deposits and loans well under \$600 place credit unions in the position of the largest microfinance provider in Poland. According to data from the Bank Guaranty Fund, assets of \$158 million render the Polish credit union system the fourth largest financial network in Poland. From a penetration rate of 1.7% in 1997, in first quarter 1999, the credit union system had achieved a penetration rate of 5% in the consumer lending market. This level of market penetration is extremely impressive, given that the Polish credit unions started operations in 1992 and that "market penetration by microfinance programs seldom exceeds 5 percent; indeed, few countries have reached 1 percent" (Christen *et al.*, 1994, p.11).

As of mid-1999, credit unions in Poland are not legally authorized to make "business loans" when the purpose of a loan is to support a business activity that is the member's primary source of income. Polish credit union managers and NACSCU officials believe that many of the micro amounts of funds saved and borrowed at credit unions support microenterprises that provide income necessary to supplement admittedly low industrial blue-collar wages. Rural finance experts Dale Adams and J.D. Von Pischke have made mention of the fungibility of money for the past two decades: "Fungibility of money makes it difficult to identify the ultimate use of a loan. The loan only provides more liquidity to the borrower, and it is hard to say what activity it actually stimulates" (cited in Yaron, 1992, p. 32).

Growth of Outreach of Credit Unions from 1993-1998 Currency is USD

	12/1993	12/1994	12/1995	12/1996	12/1997	11/1998
# of active Cus	32	74	128	168	202	220
# of members	21,325	46,178	85,200	154,638	196,228	268,700
Amt. of Savings \$	3,984,820	12,285,235	36,628,024	69,253,125	89,303,381	138,895,066
Amt. Of Total Loans \$	4,064,039	10,732,048	33,372,400	58,488,186	80,170,928	112,949,678
Total Assets \$	5,221,089	14,831,046	40,300,787	79,797,628	105,217,152	158,073,027

B. QUALITATIVE INDICATORS OF OUTREACH

In March 1998, the WOCCU project funded a survey conducted by NACSCU of 605 credit union members in twenty-one credit unions throughout the country to profile the membership of the credit union network. The respondents were 54% male, 46% female, and 64% of the total belonged to the 30-49 years old age category. The members were asked to self-report their income and to describe what kind of lifestyle their income could afford their families (80% of respondents were married, and 64% of these married members had children).

Only a mere 16% possessed formal education beyond high school and 39% had less than a high school degree (including 6% that did not attend school beyond primary level). More than a third of respondents (36%) mentioned that their annual income was in the range of \$909-\$1818. Another

27% reported their annual income in the range of \$1819-\$2727. These salaries are quite modest given that the average GNP per capita for Poland as reported by The World Bank in early 1999 was \$3590.

To further illustrate the poverty of the credit union members, 23% of the respondents declared “having enough money to buy themselves and their family members only food and clothing, but being barely able to pay the monthly bills.” Another 34% stated that their income is “enough to buy themselves and their family’s food, clothes, and to pay the monthly bills, but is insufficient for buying anything more.”

These indicators point to a credit union membership composed of, in significant portions, people in the lower economic ranks of the Polish economy. In as much as predominately employee-based credit unions can be diversified, the Polish credit unions have members from all salary levels, including “white collar workers”. The different income group members desire different products and services from the credit unions and push the financial intermediaries to offer a wider range of services.

Among the variety of services that members identified as “services of special use” fixed term deposits were identified by 58% of those interviewed (from all income levels) as a service of interest. Over a third of the surveyed members, 35%, predominately those members in the lowest income range mentioned the short term “instant” loans while 29% mentioned regular loans, including all of those interviewed in the lowest income range. Twenty-seven percent of respondents, mainly white-collar workers and no members from the lowest income range, cited electronic payment of bills as a service of interest.

Regarding access to any other formal financial service alternatives, the survey revealed that 52% of the 605 respondents relied solely on the credit union (these respondents included laborers, retired pensioners, and people in the lowest income range). The other 48% that had access to other financial institutions in addition to the credit union (although not necessarily access to credit services) included mainly those in managerial positions, and other white-collar workers.

Having access to formal financial services at the credit union is highly valued; 61% of the respondents agreed most strongly with the statement “It is unthinkable that the cooperative savings and credit union might not exist.” A meager 8% agreed most strongly with the statement “I can live without the cooperative savings and credit union.”

“Recently a bank opened a branch near the coal mine and it was perceived as a competitor to our services, but this is actually not the case. The bank wanted to meet with us and we did. During this meeting, the manager of the branch frankly admitted that they would be unable to compete with us in terms of the range of services and the speed of delivering services because they are not in a position to provide the type of retail banking services that we do.”

Stanislaw Silski, CEO of Wesola Coal Mine Credit Union in Southern Poland

IV. Polish Credit Union Movement Financial Sustainability

A. THE CREDIT UNIONS – SKOKS

Polish Credit Unions Consolidated Financial Information, December 31, 1998 in U.S. Dollars (1 USD = 3.5 Plz)	
ITEM	AMOUNT
Total Assets:	\$158,073,027
Total Loans:	\$112,949,678
Total CFF-CU Loans:	\$8,677,785
Total Gross Income:	\$33,168,378
Total Financial Costs:	\$20,829,690
Total Operating Costs:	\$7,978,117
Total Net Income:	\$4,360,571
Loan Delinquency:	0.74%

Some elements identified in Otero and Rhyne's The New World of Microenterprise Finance as indicators of institutional viability include: financial self-sufficiency of service, an institution's profitability or ability to break even, its portfolio quality, its liquidity, its capital adequacy, and an assessment of institutional strength given the context of its operating environment. WOCCU has established international prudential standards for credit union operations. Below are key ratios from WOCCU's performance monitoring tool, PEARLS (full report in annex), for Poland's 36 largest credit unions.

FINANCIAL PERFORMANCE INDICATORS FOR POLISH CREDIT UNIONS

PEARLS RATIOS	PERFORMANCE STANDARDS	36 POLISH CREDIT UNIONS 11/30/98
PROTECTION		
P1 Allowance for Loan Losses/Del.>12 months	100%	100%
P2 Allowance for Loan Losses/Del 1-12 months	35%	38%
EFFECTIVE FINANCIAL STRUCTURE		
E1 Net Loans/Total Assets	Between 70-80%	69.64%
E5 Savings Deposits/Total Assets	Between 70-80%	89.57%
E6 External Credit/Total Assets	<5%	4.86%
E8 Institutional Capital: Unencumbered Reserves & Retained Earnings/Total Assets	Minimum 10%	1.2%
ASSET QUALITY		

A1 Total Delinquency: Outstanding Balance of Loans Delinquent > 30 Days/Total Loans	<5%	0.78%
A2 Non-Earning Assets/Total Assets	<5%	12.6%
RATES OF RETURN & COSTS		
R9 Operating Expenses/Average Assets	Between 3-10%	6.28%
R12 Net Income/Average Assets	Sufficient to maintain capital ratio (E8) of 10%	3.04%
LIQUIDITY		
L1 Liquid Assets- ST Payables/Total Deposits	Minimum 15%	26.19%
SIGNS OF GROWTH		
S1 Growth in Total Assets (from previous year)	Greater than Inflation (8.9% in Poland in 1998)	48.19%
S7 Growth in Membership (from previous year)	Minimum 10%	25.07%

If one were to consider member share capital as part of risk capital, then the Polish credit unions would have sufficient institutional capital to meet Basle Accord standards; however, WOCCU does not include member equity capital in its PEARLS calculations since it excludes member share capital from its calculation of institutional capital. Recently the growth rate of total assets has been very high (63% in 1997 and 48% in 1998) while the growth rate for institutional capital has been only 18% and 48%, respectively.

As of December 1998, the consolidated delinquency rate for all 36 credit unions was only 0.78% (using the standard portfolio at risk calculation [balance outstanding]). There are several reasons for low delinquency rates. First, in the case of employed members in employee-based bond credit unions, payroll deductions have greatly facilitated the collection of periodic loan payments. It is more interesting to observe the payment of loan obligations of factory workers who have been laid-off, or dismissed. Consistently, the average Polish worker-member has met his or her obligations faithfully, even in the face of great difficulty. According to Mr. Bierecki, CEO of NACSCU, repayment occurs because of the strong religious ties of most people to the Catholic Church. It is considered a sin to not repay a loan. People who do not repay are labeled as thieves, and this label carries a very strong social stigma in the community. It must be pointed out that even though delinquency is very low, the year-end 1998 delinquency rate of 0.78% is almost double what it was as in December 1997 (0.48%).

The return on average assets for 1998 was 3.04% slightly lower than the ROA for 1997 that was 5.86%. Inflation for the year of 1998 was 8.9%.

B. THE NATIONAL ASSOCIATION (NACSCU)

In addition to the consolidated financial information for the credit unions, it is noteworthy to review the progress that the National Association has made on its own road to financial self-sufficiency. In many traditional credit union movements around the world, the National Associations are notoriously weak in the area of financial sustainability and are dependent upon subsidies for their continued survival. Poland provides a striking contrast. NACSCU received financial assistance from USAID up until September 1997, when it finally arrived at full operational self-sufficiency.

Since that time, NACSCU has continued to increase its revenues. The following table illustrates NACSCU's self-sustaining capacity for 1997 and 1998:

NACSCU Profit and Loss Statements
(in U.S. Dollars, 1 USD = 3.5 PLZ)

Line Items	As of 12/31/97	As of 12/31/98
Total Gross Income	\$1,927,249	\$3,284,961
Total Financial Costs	\$1,247,442	\$2,278,758
Total Administrative Costs	\$651,950	\$955,628
Net Income	\$27,857	\$50,575

V. ELEMENTS OF POLISH CREDIT UNION MOVEMENT SUCCESS

As one contemplates the rapid evolution of the base-level credit unions and other components of the network, a question begs an answer. How did the Polish credit union system grow so fast and accomplish so much in such a relatively short period of time? Traditional credit union systems have taken many more years to mature, and some, even after 30+ years, have not achieved what Poland has accomplished in less than seven years. In the case of Poland, as is the case in most successful development programs, there are a variety of factors which, when combined together, produce a synergy that yields an output greater than the sum of the individual inputs. This synergy is readily apparent in Poland:

A. SUCCESSFUL MACROECONOMIC REFORMS

The transition from a socialist economy to a capitalist economy in Poland can be regarded as a success in progress; however, the operating environment in which the transition has taken place has not been without pain for the Polish people.

“The first credit unions started when we had, in Poland, big financial scandals. We had pyramid schemes. Hundreds—no— thousands of average people lost their life savings in these pyramids. It was extremely important to prove that credit unions are financial institutions which [are] well-managed, which [are] honest, which [are] not created to abuse people.”

Grzegorz Bierecki, General Manager/CEO of NACSCU

Before 1989, over 80% of all Polish exports were sent to the Communist Bloc countries. After the fall of Communism, the Polish government started to re-orient its exports to Western European countries. This strategy was highly successful and as of 1998, only 7% of all Polish exports were sent to the old Communist Bloc countries. Sound fiscal policy also dramatically reduced inflation from over 800% in 1990 to 8.9% in 1998. In conjunction with these events, the average monthly salary of Polish workers rose from 50 USD in 1990 to 350 USD in first quarter, 1999. These

successful macro-economic reforms created a favorable financial environment in which the credit unions could flourish.

B. UNWAVERING POLITICAL SUPPORT

“Without Solidarity and its assistance, credit unions wouldn’t have emerged in Poland at all, or perhaps not in the size or form in which they now exist.”

Marek Adomoniak, Vice Chair of Board of Katowice Steel Mill Credit Union

“We experienced a high level of assistance from the Solidarity movement... they launched a huge promotion campaign to their members. This was one of the factors that contributed to the success of our credit union.”

Andrzej Novak, Board Chair at Julian Coal Mine Credit Union in Southeastern Poland

From the very beginning, the Solidarity Trade Union, which gave birth to the Solidarity Political Party, was highly supportive of credit union development. The Solidarity Trade Union openly encouraged its members to either create new credit unions or join existing ones. This free “advertising” created a very favorable image of credit unions among the rank and file members of Solidarity, and provided a great boost to the development efforts. Many people were “pre-disposed” to join a credit union because of the unwavering support of Solidarity.

C. STRONG CREDIT LEADERS AND COMPETENT EMPLOYEES

“The potential leaders of innovative finance schemes are not simply 'born' but develop and take inspiration (and sometimes lessons) from other leaders. The achievements [of leaders]... increase the likelihood of similarly dynamic characters emerging, and developing new approaches and organizations for financial services.”

D. Hulme and P. Mosley in *Finance against Poverty*, Vol. II, 1996, p. 240

The two key architects of the Polish Credit Union Movement are the Board Chair, Adam Jedlinski and the General Manager/CEO, Grzegorz Bierecki. Mr. Jedlinski, 43, is a successful businessperson, lawyer, and professor, who is independently wealthy. As is the case in many credit union movements, he has donated his time as a volunteer financial/legal advisor, without charging for his professional services. An example of his significant volunteer service was his commentary on the Credit Union Act, which he drafted free of charge, for all credit union personnel to understand and correctly interpret. Mr. Jedlinski has been on the Board since NACSCU’s inception in 1992 and will continue in his current role as Chair until 2002. The long-term, ten-year continuity of his high-quality, volunteer service continues to play an integral part in the development and implementation of a coherent national credit union development strategy.

Grzegorz Bierecki, 36, has likewise played a decisive political and operational role in the establishment of Polish credit unions. At the tender age of 15, Mr. Bierecki became a political activist, and aligned himself with the Solidarity Movement. At the time when Bierecki first learned about American credit unions on a visit to Kansas to promote investment in the newly democratic Poland, Lech Walesa was his direct boss. Consequently, Mr. Bierecki has many political friends

within the Solidarity Movement. At present, he enjoys an intimate friendship with two cabinet ministers in the current government. These political connections have been utilized to establish some very favorable legislation for credit unions in Poland. This reality reinforces what has previously been documented by Alfonso *et. al.*, that "Political clout is one of the main assets of an apex organization" (cited in Otero & Rhyne, 1994, p.264).

Aside from being politically astute, Mr. Bierecki has surrounded himself with competent, young professional employees who have helped implement the operational aspects of the grand vision, as defined by Mr. Jedlinski. The strategy to hire young professionals, anxious to "make their mark" has paid rich dividends.

D. FAVORABLE CREDIT UNION LEGISLATION

With the able leadership of Mr. Bierecki, in the span of seven years, the Polish Credit Union Movement has achieved what many other credit union movements have been unable to accomplish over a much longer period of time. The number of legislative rulings for credit unions is worthy of description. Consider the following legal victories:

1. Executory Order of the Council of Ministers of December, 1992

"Before credit unions were established in Poland, we had so called Worker Savings and Loan Associations (WSLA). This Association was an organization to which members would have to make contributions. Members paid dues (automatically deducted from their payroll), but no interest was paid on these monthly contributions, nor was any interest charged on loans granted to employees. People could potentially have made money with their deposits but actually they lost a lot of money owing to high rates of inflation. With no interest paid on their contributions, people would just absorb losses...

...On February 4, 1992, we decided to convert our association into a credit union; however, we had to wait a long time for the legal conversion process. The credit union was not opened until July 1993 owing to Executory provisions to the act of parliament. Without those provisions it was impossible to convert from a Workers Savings and Loan Association into a credit union."

Zygfryd Schoenhoff, Chair of Wyzebrzeze Credit Union at the Gdansk Shipyard and NACSCU Board member, (previously managed Gdansk Shipyard WSLA for 30 years)

The Executory Order of the Council of Ministers supplanted Amendment 39 to the Trade Union Act of 1991 (the original legislation that provided for the existence of savings and credit cooperatives in the workplace). The 1991 Act did not allow for Worker Savings and Loan Associations established under communist rule to convert into credit unions. The Executory Order ruled that WSLAs could convert into credit unions, but that the two organizations could not both exist at any one work place. Until the Executory Order passed, workplaces originally envisioned as "strongholds" for credit union development such as the Gdansk shipyard had been prevented from starting credit unions because WSLAs already existed in those workplaces.

2. Credit Union Act of December 1995

“Before the Credit Union Act entered into force on February 5, 1996, only employee based credit unions could be established...the Credit Union Act allows for the creation of credit unions, not only for employee-based credit unions, but also for organizational common bond credit unions.”

Artur Koziak, NACSCU Field Agent & Vice-Manager of St. Anthony’s Credit Union

A separate, stand-alone Credit Union Act was passed in December 1995. The Act established a legal framework for the operation and expansion of credit unions in Poland and, at the same time, empowered NACSCU with the sole responsibility of supervision and regulation of the credit union sector. The Act also established some operational standards and allowed NACSCU to set other standards, as it deemed necessary.

Article 6 of the Credit Union Act specifies that persons desiring to become members of a credit union must have a “common bond” between them. This bonding requirement conceivably limits community-based credit unions from opening their doors to the general public. Thus, it might be difficult to establish community credit unions in Poland in the future and scale of outreach may be curtailed. According to Mr. Bierecki, there are two ways in which community credit unions can continue to grow while observing the bond requirement:

(i) Since more than 90% of the Polish population is Catholic, any local residents may join a community credit union if they first belong to the “Catholic Family Association”. This Association is the common bond through which a community credit union may organize itself and attract new members. The St. Anthony Credit Union is the first credit union in Poland that was organized outside of company sponsorship. This community credit union has done remarkably well and appears to substantiate Mr. Bierecki’s views. It was organized in 1996 and at the end of 1998 it had over 5,000 members and 2.9 million USD in total assets.

(ii) For those who are not Catholic, or who do not wish to join a Catholic-based group, there exists another option. It is possible to join a community-based association entitled “The Association for the Dissemination of Financial Knowledge”. The Staszic Credit Union is a community credit union, organized under this type of common bond with 23 branch offices in different regions of the country. The credit union has 13,000 members and 8 million USD in total assets. This credit union is currently merging with Stefczyk Credit Union. This merger will form the largest credit union in Poland and this credit union will have a community-based charter.

3. Tax Exemption

All credit unions, as of 1999, are tax exempt from income taxes for at least a five-year period. This favorable law will allow the credit unions to build much needed institutional capital reserves from their net earnings.

4. ATM and Credit Cards

In 1997, the banking law was changed to allow credit unions to offer ATM and credit cards to their members. This legislation has permitted the credit unions to continue to provide their membership with high quality financial products and services.

5. Interest-Bearing Liquidity Reserves

Instead of depositing their liquidity reserves in the National Bank of Poland at 0% return, credit unions are legally required to deposit their liquidity reserves with the Central Finance Facility of NACSCU where they receive a competitive yield (currently 12%) on their liquidity reserves.

6. Exemption from Minimum Capital Requirements

Credit unions are non-profit organizations whose owners are not wealthy. Normally, it takes time to build capital reserves. Given this fact, credit unions have been exempt from the new minimum capital requirements imposed on banks. This legislation is so significant that approximately 200 small cooperative banks (up to 10 million PLZ) have indicated their desire to convert to credit unions to be able to continue to operate.

In addition to the aforementioned items that have already been approved, there are two more items of significance that are pending final approval:

7. Current Account in the National Bank of Poland (NBP)

Currently, credit unions must use the banking sector to process checks, deposits, wires, etc. In June 1999, it is anticipated that the CFF of NACSCU will be able to open a direct account with NBP and then act as a direct automatic clearing-house (ACH) for monies transferred within the credit union system. This will be a major step forward in making credit unions completely independent of banks in Poland.

8. Business Loans to Credit Union Members

Credit unions are currently prohibited from making business loans to their membership unless the business is a secondary source of income. It is anticipated that before the end of 1999, credit unions will be authorized to offer primary business loans to member entrepreneurs. This authorization will open the way for credit unions to diversify their loan portfolio and provide a broader range of loan products.

E. ESTABLISHMENT IN THE WORKPLACE

“The establishment of our credit union was facilitated by the fact that the management of the coal mine had a very favorable attitude towards it. Representatives of the coalmine were present at our founding meeting and they provided us with our first premises: a small location that we had to adapt to our needs. They also delegated three coalmine employees to work for the credit union at the expense of the company. This provided a basis for the credit union to operate... however, starting in the autumn of 1995, we wanted the credit union to become self-sustaining and we began negotiating with the company about cost-sharing. We wanted to become completely independent since we were quite aware that in order to succeed in the market, we would need to be self-supporting.”

Jan Szendzielorz, Manager of RUDZKIEJ SPOKEWEG Credit Union

According to Mr. Bierecki, there was a considerable debate at the beginning of the project as to whether to start organizing credit unions with existing businesses, or to start in rural areas in a community setting. One of the most important correct decisions ever made was to start organizing credit unions in the workplace. Owing to stipulations in the Executory Order of the Council of Ministers that entered into effect in January, 1993, a variety of immediate economic benefits were provided to credit unions by the work establishment:

- a. free office space;
- b. free utilities;
- c. free telephone;
- d. free legal assistance;
- e. payroll deductions;
- f. easy access for new and existing members to use services; and
- g. competent volunteer pool

While some of these benefits have disappeared as the credit unions have grown and have become able to assume the full burden of their operating expenses, many credit unions, even today, still benefit from subsidized rent and utilities as a continuing demonstration of employer commitment. Had the rural-based credit union development strategy been pursued in the early 1990s, the growth of the Polish credit union movement would unlikely have been as vibrant as it was following a strategy of employer-based credit union development. Given the limited donor funding which supported Polish credit union development, the employer-based development strategy paid rich dividends.

F. ECONOMIC/SOCIAL ASPECTS

"I think that there are a few key factors that have made credit unions so successful in Poland. . . Above all else, there is a very strong bond, very strong ties exist between the members and the credit union staff. People have the feeling that they come to 'their' place, the institution which belongs to them, which is owned by them, and which depends on their will, and that gives the members a lot of satisfaction".

Rafal Matusiak, NACSCU Field Agent

Important factors to consider for the project's success were the strong economic and social underpinnings in Poland. In a very tangible way, credit unions appealed to the Polish people for a variety of reasons:

- a. There is a strong cultural basis towards people helping people. More than 90% of the population are Catholic and approximately 70% go to church regularly. People have strong family and traditional values, which equates to a high level of honesty and trust in each other.
- b. There is a general distrust of banks - many people have been either rejected by banks or hurt financially by banks.
- c. The credit union offers more attractive financial services than the bank. Most credit unions pay 3-4% more on savings deposits and charge 1-2% less on loans. Also, credit unions can now offer ATM and credit cards.

- d. Credit unions have filled a substantial void in the consumer lending market. Prior to credit unions, banks typically neglected this huge market and focused on commercial lending. As credit unions offered consumer-based loans, people were attracted to them in large numbers, not only because of the favorable rates and terms, but also because of the types of loans offered.
- e. Quite distinct from the notorious housing cooperatives that existed under Communist rule, a vibrant network of savings and credit cooperatives operated in Poland prior to WWII. Older generations were familiar with the concept of credit unions and helped to build younger people's confidence in the savings and credit cooperatives of the 1990s.

G. SUCCESSFUL TECHNICAL ASSISTANCE AND PARTNERSHIP AGREEMENTS

WOCCU drew upon the international credit union network to contract consultants and arrange volunteer liaisons between the Polish credit unions and the US, Canadian, and Irish credit union systems. This vast network provided Polish credit union leadership with valuable contacts and expertise in different technical areas. As a result of these contacts, there exists a permanent partnership agreement between Poland and the Georgia Credit Union League of the United States. The voluntary, not-for-profit nature of these liaisons, provide valuable assistance to NACSCU.

VI. Prospects for Replication Elsewhere in Central & Eastern Europe

The success that credit unions have had in the 1990s in post-communist Poland provokes the question: could credit unions serve the needs of low-income people in neighboring transitional economies with the same degree of success?

What is most clear from the Polish experience is that a hospitable regulatory environment is critical for credit unions to be able to scale-up operations quickly and to afford to offer the array of financial services demanded by a heterogeneous membership. The numerous legislative victories that NACSCU has won for individual credit unions (SKOKs) and the credit union system as a whole have allowed for the system to flourish.

Demand for community or employee-based credit unions appears to be widespread in countries such as Latvia, Lithuania, Romania, and Ukraine; however, in these countries the unwavering support of an entity such as the Solidarity Trade Union is unparalleled. The fact that Solidarity activists initiated credit union development translated to instant credibility among potential members, legislators, and press. The subsidies offered to fledgling credit unions by their employer sponsors have not been offered to new credit unions in other countries in the region to the degree that has occurred in Poland.

Finally, the most personal of elements in the Polish "recipe" for success is that of the local leadership of the credit union movement. Dedicated, charismatic, and politically well-connected individuals in neighboring countries have yet to appear on the scene with the same vigor, vision and business-orientation that characterize Mr. Jedlinski and Mr. Bierecki. Under the leadership of these two individuals, before the end of 1999, Polish credit unions will most likely win their legal struggle to offer business loans to members whose primary source of income stems from self-employment. This authorization will spark growth in self-employed members in community-based credit unions and will add another example to the many ways that Polish credit unions service low-income members with microfinance.

ANNEX 1:
CONSOLIDATED PEARLS REPORT FOR 36 LARGEST CREDIT UNIONS

Poland Consolidated Report

P-E-A-R-L-S RATIOS

Number of Credit Unions in this Report
Based on Local Currency

Goals	12/31/96	12/31/97	11/30/98
	36	36	36

PROTECTION

1. Allowance for Loan Losses / Delinq. >12 Mo.	100%	100%	100%	100%
2. Net Allowance for Loan Loss / Delinq. 1-12 Mos.	35%	35%	35%	38%
3. Complete Loan Charge- Off of Delinquency > 12 Mo. Yes or No		NA	NA	NA
4. Annual Loan Charge-offs / Average Loan Portfolio	0%	NA	0.00%	0.00%
5. Accum. Charge-Offs Recovered / Accum Charge-Offs	100%	0.00%	0.00%	0.00%

E EFFECTIVE FINANCIAL STRUCTURE

1. Net Loans / Total Assets	Between 70 - 80%	73.80%	71.73%	69.64%
2. Liquid Asset / Total Assets	Max 20 %	15.98%	19.83%	23.10%
3. Financial Investments / Total Assets	Max 10 %	8.86%	4.60%	3.22%
4. Non-Financial Investments / Total Assets	0%	0.00%	0.00%	0.00%
5. Savings Deposits / Total Assets	Between 70 - 80%	89.57%	88.00%	88.22%
6. External Credit / Total Assets	0%	3.98%	5.71%	4.86%
7. Member Share Capital / Total Assets	Between 10 - 20 %	2.25%	1.74%	2.43%
8. Institutional Capital / Total Assets	Minimum 10%	1.74%	1.26%	1.20%

A ASSET QUALITY

1. Total Delinquency / Total Loan Portfolio	< 5%	0.26%	0.48%	.78%
2. Non-Earning Assets / Total Assets	< 5%	5.96%	8.33%	12.60%
3. Zero Cost Funds / Non-earning Assets	>= 100%	70.59%	54.60%	35.67%

R RATES OF RETURN AND COSTS

1. Net Loan Income / Average Net Loan Portfolio	Market Rates	23.07%	29.77%	38.16%
2. Liquid Assets Income / Avg. Liquid Assets	Market Rates	NA	NA	NA
3. Fin. Investment Income / Avg. Fin. Investments	Market Rates	NA	NA	NA
4. Non-Fin. Inv. Income / Avg. Non-Fin. Investments	>= R1	NA	NA	NA
5. Fin Costs: Savings Deposits / Avg. Savings Depts.	Market Rates	NA	NA	NA
6. Fin Costs: External Credit / Avg. External Credit	<= R5	NA	NA	NA
7. Fin Costs: Member Shares / Avg. Member Shares	>=R5	NA	NA	NA
8. Gross Margin / Average Assets	Cover R9, R10 Increase Capital	6.90%	8.61%	9.32%
9. Operating Expenses / Average Assets	Between 3 -10%	6.25%	8.05%	6.28%
10. Provisions for Risk Assets / Avg. Assets	Sufficient for Estimated Losses	NA	NA	NA
11. Other Income or Expense / Avg. Assets		NA	NA	NA
12. Net Income / Average Assets	Enough to reach the goal for E8	0.65%	0.56%	3.04%

L LIQUIDITY

1. Liquid Assets - ST Payables / Total Deposits	Minimum 15%	17.84%	22.53%	26.19%
2. Liquidity Reserves / Total Savings Deposits	10%	0.00%	0.00%	5.18%
3. Non-Earning Liquid Assets / Total Assets	< 1 %	4.60%	4.49%	8.57%
4. Deposits in CFF / Total Available Liquidity		37.20%	41.38%	61.28%

S SIGNS OF GROWTH (ANNUAL GROWTH RATES)

1. Total Assets	More Than Inflation	NA	63.05%	48.19%
2. Loans to Members	Sufficient to Achieve Goal in E1	NA	58.59%	44.06%
3. Savings Deposits	Sufficient to Achieve Goal in E5	NA	60.19%	48.56%
4. External Credit	Minimum to Achieve Goal in E5	NA	134.23%	25.98%
5. Share Capital	Sufficient to Achieve Goal in E7	NA	26.33%	106.77%
6. Institutional Capital	Sufficient to Achieve Goal in E8	NA	17.67%	41.29%
7. Membership	Minimum 5%	NA	21.68%	25.07%

Inflation

	NA	NA	8.9%
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Poland Consolidated Report

BALANCE SHEET

Based on Local currency

	12/31/96	12/31/97	11/30/98
Number of Credit Unions in this Report	36	36	36
Number Of CU Members			
Men	0	0	0
Women	0	0	0
Gender not Reported	88,785	108,033	135,113
<u>Total Number Of Members</u>	88,785	108,033	135,113
Youth	0	0	0
Third Parties / Groups	0	0	0
<u>Total Number of Users</u>	88,785	108,033	135,113

Assets

Earning Assets

A. Loans to Members

Short Term (< =1 Year)	0	0	0
Medium-Term (>1<=3 Years)	0	0	0
Long-Term (> 3 Years)	0	0	0
Other Special Loans	119,882,542	190,119,253	273,881,702
Allowances for Loan Loss	(109,693)	(316,113)	(813,906)
<u>Total Net Loans</u>	<u>119,772,849</u>	<u>189,803,140</u>	<u>273,067,796</u>

B. Liquid Assets

Liquidity Reserves - CFF	0	0	17,911,645
Deposits - CFF	9,645,826	21,710,992	37,608,115
Savings Deposits – Banks, etc.	8,212,147	18,886,530	10,979
Securities & Investments	607,904	0	0
Other Miscellaneous Investments	0	0	1,469,826
<u>Total Liquid Assets</u>	<u>18,465,877</u>	<u>40,597,522</u>	<u>57,000,566</u>

C. Financial Investments

Shares - League/Affiliation	0	0	0
Deposit - CFF	0	0	0
Savings Deposits – Banks, etc.	14,374,885	12,164,094	6,082,817
Securities & Investments	0	0	5,818,683
Other Miscellaneous Investments	0	0	738,434
<u>Total Financial Investments</u>	<u>14,374,885</u>	<u>12,164,094</u>	<u>12,639,934</u>

D. Non-Financial Investments

Various	0	0	0
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Total Earning Assets

152,613,611 242,564,756 342,708,295

Additional Loan Portfolio Information

Delinquency Calculation Method	NA	NA	NA
Delinquency			
1 TO 12 Months	313,408	903,172	2,125,442
More Than 12 Months	0	0	0
Total Delinquency	313,408	903,172	2,125,442
Loan Portfolio	119,882,542	190,119,253	273,881,702
Accumulated Charge-Offs	0	0	0
Recovery of Charged-Offs	0	0	0

Poland Consolidated Report

BALANCE SHEET

Based on Local currency

	12/31/96	12/31/97	11/30/98
Non-Earning Assets			
A. Liquid Assets			
Cash & Equivalents	7,463,385	11,875,222	33,593,453
Current (Checking) Accounts	0	0	0
Foreign Currency	0	0	0
Liquidity Reserves	0	0	0
Other	0	0	0
<u>Total Liquid Assets</u>	<u>7,463,385</u>	<u>11,875,222</u>	<u>33,593,453</u>
B. Accounts Receivable			
Debtors	0	0	0
Interest Receivable	0	0	0
Notes Receivable	0	0	0
Payroll Deductions Receivable	0	0	0
Other Accounts Receivable	0	0	0
Allowance for Receivable Losses	0	0	0
<u>Total Accounts Receivable</u>	<u>0</u>	<u>0</u>	<u>0</u>
C. Fixed Assets			
Land	0	3,028,414	4,594,567
Buildings (Cost)	0	0	0
Leasehold Improvements (Cost)	0	0	0
Furniture & Equipment (Cost)	2,210,715	7,137,986	11,211,821
Accumulated Depreciation.	0	0	0
<u>Total Net Fixed Assets</u>	<u>2,210,715</u>	<u>10,166,400</u>	<u>15,806,388</u>
D. Other Assets			
Assets in Liquidation	0	0	0
Organization Expenses	0	0	0
Prepaid Expenses	0	0	0
Other Assets	0	0	0
Accumulated Amortization	0	0	0
<u>Total Other Assets</u>	<u>0</u>	<u>0</u>	<u>0</u>
E. Problem Assets			
Doubtful Assets	0	0	0
Accounting Discrepancy - Assets	0	0	0
Other	0	0	0
<u>Total Problem Assets</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Non-Earning Assets	9,674,100	22,041,622	49,399,841
Total Assets	162,287,711	264,606,378	392,108,136

Poland Consolidated Report

Based on Local currency

	12/31/96	12/31/97	11/30/98
LIABILITIES			
INTEREST BEARING LIABILITIES			
<u>A. Savings Deposits</u>			
Regular Savings Deposits	145,360,915	232,852,408	345,924,011
Fixed Savings Deposits	0	0	0
Youth Savings Deposits	0	0	0
Special Savings Deposits	0	0	0
Pledged Savings Deposits	0	0	0
<u>Total Savings Deposits</u>	<u>145,360,915</u>	<u>232,852,408</u>	<u>345,924,011</u>
<i>B. External Credit</i>			
Short-Term Loans - CFF <= 1 Year	0	0	0
Long-Term Loans - CFF > 1 Year	0	0	0
Loans - Banks	0	0	0
Loans - Other External Institutions	6,453,205	15,115,455	19,041,924
<u>Total External Credit</u>	<u>6,453,205</u>	<u>15,115,455</u>	<u>19,041,924</u>
 <u>Total Interest Bearing Liabilities</u>	 <u>151,814,120</u>	 <u>247,967,863</u>	 <u>364,880,489</u>
 NON-INTEREST BEARING LIABILITIES			
A. Short-Term Accounts Payable (<=30 Days)	0	0	0
B. Provisions (e.g., Wage / Benefits)	0	0	0
C. Other Liabilities	3,997,378	8,702,351	12,914,554
<u>Total Non-Interest Bearing Liabilities</u>	<u>3,997,378</u>	<u>8,702,351</u>	<u>12,914,554</u>
 Total Liabilities	 155,811,498	 256,670,214	 377,880,489
 CAPITAL			
A. Member Share Capital			
Obligatory Shares	3,644,525	4,604,201	9,519,939
Voluntary Shares	0	0	0
<u>Total Member Share Capital</u>	<u>3,644,525</u>	<u>4,604,201</u>	<u>9,519,939</u>
B. Non-Institutional Capital			
Asset Appreciation Over Cost	0	0	0
Education & Social Reserves	0	0	0
Monetary Reserves	0	0	0
Other Reserves	0	0	0
Undistributed Net Income	0	0	0
<u>Total Non-Institutional Capital</u>	<u>0</u>	<u>0</u>	<u>0</u>
C. Institutional Capital			
Statutory & Legal Reserves	1,770,443	2,239,662	4,750,602
Retained Earnings	0	0	0
Special Asset Reserves	0	0	0
Donations / Other Reserves	0	0	0
Undistributed Losses	0	0	0
YTD Net Income (Loss) Transfer	1,061,245	1,092,301	(42,894)
<u>Total Institutional Capital</u>	<u>2,831,688</u>	<u>3,331,963</u>	<u>4,707,708</u>
 Total Capital	 6,476,213	 7,936,164	 14,227,647
 Total Liabilities and Capital	 162,287,711	 264,606,378	 392,108,136

Poland Consolidated Report

Income Statement

Based on Local currency

	12/31/96	12/31/97	11/30/98
V. INCOME			
A. Income -- Loans			
Interest Income -- Loans	27,632,729	46,082,582	88,313,052
Penalty Interest Income -- Loans	0	0	0
Commissions/Fees-- Loans	0	0	0
(Less) Insurance Premiums -- Loans	0	0	0
<u>NET INCOME- LOANS</u>	<u>27,632,729</u>	<u>46,082,582</u>	<u>88,313,052</u>
B. Income -- Liquid Assets	0	0	0
C. Income -- Financial Investments	0	0	0
D. Income -- Non-Financial Investments	0	0	0
E. Income -- Other	4,259,345	10,507,191	522,940
Gross Income	31,892,074	56,589,773	88,835,992
VI. FINANCIAL COSTS			
A. Interest Expense -- Savings Deposits	0	0	0
B. Insurance Premiums -- Savings Deposits	0	0	0
<i>Financial Costs -- Savings Deposits</i>	0	0	0
C. Financial Cost -- External Credit	0	0	0
C. Dividend Expense -- Shares	0	0	0
E. Insurance Premiums -- Shares	0	0	0
<i>Financial Costs -- Shares</i>	0	0	0
F. Other Financial Costs	20,694,077	38,205,650	58,222,352
<u>Total Financial Costs</u>	<u>20,694,077</u>	<u>38,205,650</u>	<u>58,222,352</u>
<u>GROSS MARGIN</u>	11,197,997	18,384,123	30,613,640
VII. EXPENSES			
<u>OPERATING EXPENSES</u>			
Personnel	0	0	0
Representation	0	0	0
Administration	10,136,752	17,183,947	20,615,834
Marketing	0	0	0
<u>TOTAL OPERATING EXPENSES</u>	<u>10,136,752</u>	<u>17,183,947</u>	<u>20,615,834</u>
PROVISIONS -- RISK ASSETS	0	0	0
NET INCOME FROM OPERATIONS	1,061,245	1,200,176	9,997,806
VIII. OTHER INCOME / EXPENSE			
Extraordinary Items (Net)	0	0	0
Previous period adjustments (Net)	0	0	0
NET INCOME / LOSS	1,061,245	1,200,176	9,997,806

ANNEX 2:

NACSCU ASSETS & LIABILITIES; PROFIT & LOSS STATEMENTS

*Figures in local currency \$1=3.5 Polish Zloty

ASSETS		
	1-1-98	12-31-98
A. FIXED ASSETS	3,763,078.87	10,161,268.11
I. Intangible Assets	16,284.04	146,943.44
1. Organizational costs related to establishment & expansion of a joint-stock	0.00	0.00
2. Costs of development work	0.00	0.00
3. Goodwill	0.00	0.00
4. Other intangible assets	16,284.04	146,943.44
5. Advance payments to intangible assets	0.00	0.00
II. Real Fixed Assets	577,918.72	889,909.35
1. Land	0.00	0.00
2. Buildings & structures	2,892.80	58,845.45
3. Technical equipment & machinery	332,047.21	380,994.69
4. Means of transport	202,068.16	272,755.98
5. Other fixed assets	40,910.55	40,474.94
6. Projects started	0.00	136,838.29
7. Advance payments to projects	0.00	0.00
III. Financial Fixed Assets	2,782,116.11	8,737,655.32
1. Shares & stock	0.00	1,680,600.00
2. Securities	2,697,177.06	7,057,055.32
3. Long-term loans granted	84,939.05	0.00
4. Other financial fixed assets	0.00	0.00
IV. Current Assets	386,760.00	386,760.00
B. CURRENT ASSETS	37,559,158.05	78,728,724.84
I. Stocks	0.00	0.00
1. Materials	0.00	0.00
2. Semi-finished products & work in progress	0.00	0.00
3. Finished products	0.00	0.00
4. Goods	0.00	0.00
5. Advance payments to deliveries	0.00	0.00
II. Receivables & Claims	27,597,631.34	29,710,500.76
1. On account of deliveries & services	203,192.70	30,546.50
2. On account of taxes, subsidies & social security	150,161.00	287,057.20
3. Internal company receivables	0.00	0.00
4. Other receivables	27,244,277.64	29,392,897.06
5. Receivables enforced in court	0.00	0.00
III. Securities Destined for Circulation	8,236,772.88	29,918,365.41
1. The entity's own shares/stocks to be sold	0.00	0.00
2. Other securities	8,236,772.88	29,918,365.41
IV. Cash	1,724,753.83	19,099,858.67
1. On hand	3,117.96	1,616.08
2. In bank	1,721,635.87	19,098,242.59
3. Other cash	0.00	0.00
C. PRE-PAYMENTS & ACCRUED INCOME	918,253.06	1,087,513.61
1. Active	59,151.55	29,136.82
2. Other	859,101.51	1,058,3769.79
TOTAL ASSETS	42,240,489.98	89,977,506.56

LIABILITIES		
	1-1-98	12-31-98
A. CAPITAL (OWNERSHIP FUNDS)	5,603,182.09	8,192,781.19
I. Basic Capital (fund)	5,352,748.34	7,851,986.01
1. Share fund		0.00
2. Stabilization fund		0.00
II. Shares not brought in	-1,700.00	0.00
III. Reserve Capital (Fund)	154,633.76	163,783.76
1. From sales of shares above par value	0.00	0.00
2. Created by law – reserve fund	154,633.76	163,783.76
3. Created by articles of agreement	0.00	0.00
4. Additional payments by shareholders	0.00	0.00
5. Other	0.00	0.00
IV. Reserve capital from updated valuation	0.00	0.00
V. Other reserve capital (fund)	0.00	0.00
VI. Retained financial result from years preceding	97,499.99	0.00
1. Profit	97,499.99	0.00
2. Loss	0.00	0.00
VIII. Net financial result of the fiscal year	0.00	177,011.42
1. Net profit	0.00	177,011.42
2. Net loss	0.00	0.00
3. Write-offs from financial result of current fiscal year	0.00	0.00
B. RESERVES	54,843.00	161,136.00
1. Reserves for corporate income tax	54,843.00	161,136.00
2. Other reserves	0.00	0.00
C. LONG-TERM LIABILITIES	152,402.58	0.00
1. Long-term loans, bonds and other securities	152,402.58	0.00
2. Long-term bank credits	0.00	0.00
3. Other long-term liabilities	0.00	0.00
D. SHORT-TERM LIABILITIES & SPECIAL FUNDS	36,430,062.31	81,623,589.37
I. Short-term liabilities	36,425,461.93	81,622,810.76
1. Loans, bonds and securities	0.00	0.00
2. Bank credits	1,027,300.00	972,420.00
3. Advance payments to deliveries	0.00	0.00
4. Liabilities on account of deliveries & services	34,848.80	47,487.52
5. Liabilities on account of bills of exchange	0.00	0.00
6. Liabilities on account of taxes, customs duties & social security	69,897.90	1,009.00
7. Liabilities & account of salaries	420.00	0.00
8. Internal company obligations	0.00	0.00
9. Other short-term liabilities	35,293,015.23	80,601,894.24
II. Special funds	4,600.38	778.61
E. ACCRUALS & INCOME DEFERRED	0.00	0.00
TOTAL LIABILITIES	42,240,489.98	89,977,506.56

PROFIT/LOSS		
	1-1-98	12-31-98
A. REVENUES FROM SALES & EQUIVALENT	204,856.48	81,426.42
I. Revenues from sales of products	157,459.34	111,110.20
II. Change (increase/decrease) of number of products	47,397.14	-30,014.73
III. Revenues from sales of goods & materials	0.00	330.95
IV. Costs of services for the entity's own needs	0.00	0.00
B. COSTS OF OPERATING ACTIVITIES	2,661,858.08	3,451,709.97
I. Value of goods & materials sold	0.00	156.00
II. Consumption of materials & power	151,010.85	202,732.22
III. Hired Services	473,284.55	698,221.78
IV. Taxes	28,095.46	186,721.35
V. Salaries	996,993.76	1,093,276.04
VI. Employees benefits	378,244.86	539,952.20
VII. Depreciation	149,936.90	234,269.55
VIII. Other	484,291.70	496,380.83
C. PROFIT/LOSS ON SALES	-2,457,001.60	-3,370,283.56
D. OTHER OPERATING REVENUES	279,447.28	371,546.41
I. Revenues from sales of fixed assets	10,392.15	4,594.81
II. Subsidies	85,277.44	46,560.01
III. Other operating revenues	183,777.69	320,391.59
E. OTHER OPERATING COSTS	49,428.34	49,038.31
I. Value of fixed assets sold	13,919.40	2,281.46
II. Other operating costs	35,508.94	46,756.85
F. PROFIT/LOSS ON OPERATING ACTIVITY	-2,226,982.66	-3,047,775.45
G. FINANCIAL REVENUES	6,745,372.39	11,497,362.22
I. Dividends on shares (and those from subsidiaries & interest received)	4,900.00	28,515.22
II. Interest received	6,231,025.44	10,574,347.93
III. Other	509,446.95	894,499.07
H. FINANCIAL COSTS	4,366,046.74	7,975,654.35
I. Write-offs updating the value of financial and fixed assets	0.00	0.00
II. Interest to be paid SKOKI	4,341,995.26	7,819,240.60
III. Other	24,051.48	156,413.75
I. PROFIT/LOSS ON BUSINESS ACTIVITY	152,342.99	473,832.42
J. EXTRAORDINARY PROFITS	0.00	0.00
K. EXTRAORDINARY LOSSES	0.00	0.00
L. GROSS PROFIT/LOSS	152,342.99	473,932.42
M. OBLIGATORY ENCUMBRANCE OF FINANCIAL RESULT	54,843.00	296,921.00
I. Corporate income tax	54,843.00	190,628.00
II. Other obligatory encumbrance	0.00	106,293.00
NET PROFIT/LOSS	97,499.99	177,011.42

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