STANDARD SUMMARY PROJECT FICHE - TRANSITION FACILITY

1. Basic Information
   1.1 CRIS Number: CZ 2004/006-237/04.01
   1.2 Title: Strengthening the office of the Financial Arbiter- Ombudsman of the Czech Republic
   1.3 Sector: Internal Market
   1.4 Location: Czech Republic

2. Objectives
   2.1 Overall Objective(s):
   - The existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union.
   - The ability to take on obligations of membership including adherence of political, economic and monetary union.

   2.2 Project purpose:
   - To strength and develop the functioning of the Financial Arbiter – Ombudsman of Czech Republic that will comply with EU standards and its practical preparation for joining FIN-NET

   2.3 Justification
   - Commission Recommendation on the principles applicable to the bodies responsible for out-of-court settlement of consumer disputes (98/257/EC)
   - FIN-NET - Memorandum of Understanding on Cross-Border Out-off-Court Complains Network for Financial Services in the European Economic Area

3. Description
   3.1 Background and justification:
Since 1989, the banking sector structure has undergone very dynamic development. A large number of the newly established banks were unable to cope with the strong competition and risky conditions associated with the economic transformation and were forced to terminate their operations. The tightening of the conditions for setting up new banks has restricted the entry of new entities into the sector, particularly since 1996. Recently, the structure of the banking sector has been affected by mergers of individual banks, leading to a concentration of the sector. Between 1989 and the end of 2002, a total of 63 banking licenses were granted and 27 revoked. Of these, 17 were revoked because of the relevant bank’s poor financial situation and failure to meet the prudential rules, 6 as a result of mergers, 1 because the bank failed to start its operations within the allotted legal period and 1 bank has been transformed by law into a specialized agency.

As of 31 December 2002, there were 37 banks and foreign bank branches operating in the banking sector, a fall of one from the same time a year earlier.

The structure of the Czech-banking sector appeared as follows:
* 1 central bank
* 2 banks controlled by the state (including municipalities)
* 17 banks controlled by the foreign shareholders
* 9 banks controlled by the Czech entities
* 9 foreign bank branches.

A competitive banking sector is one of the prerequisites for successful integration into European financial market structures with respect to stability, performance, profitability and legislative and regulatory harmonisation. A stable and competitive banking sector has a decisive effect on the quality of the entire financial sector. The domestic banking sector is developing in line with trends in European and international banking. It is being affected by economic developments both in the Czech Republic and in our trading partner countries.

Alongside improvements to the regulatory framework, the groundwork has been laid for the sound development of the banking sector, free of any major problems of a systemic nature.
Now that the privatisation of the large Czech banks have been completed, the ownership structure of the sector has stabilised. The domestic banking sector is becoming integrated into European banking structures via supranational financial groups of large-bank owners. In the Czech Republic, foreign banks either directly or indirectly control almost 95% of the banking sector’s assets. The process of concentration through mergers and acquisitions is governed by the need to be competitive and to cut costs.

**Justification**

On 1st January 2003 when the Act on Financial Arbiter (Act No. 229/2002 Coll.) entered into force, the institution of the financial arbiter of the Czech Republic was founded.

For the purposes of compliance with the Act on Financial Arbiter (Act No. 229/2002 Coll.), the Chamber of Deputies of the Parliament of the Czech Republic – acting on the proposal of the Czech National Bank, the Czech Banking Association and the Payment Card Association – duly elected Mr Otakar Schlossberger to the post of Financial Arbiter on 10 December 2003. The Arbiter took up his post on 1 January 2003, i.e. on the date the aforementioned Act took effect.

– duly elected Mr Petr Scholz as the Deputy Financial Arbiter on 4 March 2003. The term of office of the Deputy Arbiter commenced on 5 March 2003.

The Arbiter is empowered to settle disputes:

a) between persons who execute transfers of funds and their clients arising during the execution of transfers of funds pursuant to a special legal rule (Act No. 124/2002 Coll., on Transfers of Funds, Electronic Payment Instruments and Payment Systems – The Payment System Act), provided that the amount of the transfer does not exceed EUR 50,000 as of the date of effectiveness of the transfer order,

b) between persons who issue electronic payment instruments (see Act No. 124/2002 Coll.) and holders of electronic payment instruments arising during the issuance and use of electronic payment instruments,

The Arbiter performs his tasks independently and impartially and is liable to the Chamber of Deputies for the performance of his tasks within his position as an Arbiter.

The Financial Arbiter is empowered to settle the above disputes provided that they arose after the date the Act on the Financial Arbiter entered into force and moreover pursuant to the Payment System Act. In practice this means from 1 January 2003 for disputes arising during the execution of transfers within the Czech Republic and disputes between issuers and holders of electronic payment instrument As regards disputes arising from cross-border transfers, the Financial Arbiter’s powers take effect as of the date of accession of the Czech Republic to the European Union.

As regards the running of the Office of the Arbiter, the CNB and the Arbiter on 27 January 2003 signed an agreement on administrative support for the Arbiter’s activities, including settlement of expenses associated with his activities. The agreement covers things that the CNB performs de facto under the law (Article 1(2) of the FA Act). The CNB provides for the activities of the Arbiter in the areas of salaries and other emoluments, staffing, finances, IT, and material and service support.

On 1 February 2003, the Arbiter issued a *Statute of Work of the Financial Arbiter*. Details on the organisation of the Arbiter’s work are set out in an *Organisational Statute*, also issued by the Arbiter on 1 February 2003.

Of the four CNB employees are ensuring compliance with the Act on financial arbiter. Two of those employees are involved directly in investigating and dealing with cases arising from petitions submitted.

The priority for further development of the office of the Financial Arbiter is to make all necessary steps to ensure implementation of FIN-NET rules and to become a member of the FIN-NET.

**Memorandum of Understanding on a Cross-border out-of-court complaints network for financial services in the European economic area - FIN-NET**

The development of a single market in retail financial services - recently accelerated with the growth of e-commerce - has increased the need for efficient cross-border solutions for consumers' access to justice. For most financial services, unlike for many other sectors, a wide range of out-of-court solutions already exists at the national level, particularly in the banking and insurance sectors. Rather than re-invent the wheel the Financial Services Action Plan (COM 1999/232)
suggests that the Commission explore possibilities to use the existing national infrastructure to
tackle cross-border dispute settlement by linking the national bodies into an EU-wide complaints
network. This work is based on the Commission Recommendation 98/257 of 30.3.1998 on the
principles applicable to the bodies responsible for settlement of consumer disputes.

The objective of an EU-wide complaints network is to facilitate consumers' access to out-of-court
settlement of cross-border disputes when the consumer and the financial services provider come
from different Member States. It is basically built on mutual recognition between the national
redress bodies and exchange of information. The basic idea behind the cooperation is that the
consumer of cross-border financial services will be able to complain to a third party in case of a
dispute even if the supplier does not adhere to the complaint scheme in the consumer's country of
residence.

The European Commission has launched on 1 February 2001 an out-of-court complaints
network for financial services to help businesses and consumers resolve disputes in the
Internal Market fast and efficiently by avoiding, where possible, lengthy and expensive legal
action. This network, called FIN-NET, has been designed particularly to facilitate the out-of-court
resolution of consumer disputes when the service provider is established in an EU Member State
other than that where the consumer lives. The network brings together more than 35 different
national schemes that either cover financial services in particular (e.g. banking and insurance
ombudsmen schemes) or handle consumer disputes in general (e.g. consumer complaint boards).
Both on- and off-line services are covered. The difficulty of obtaining out-of-court redress is a
barrier to the development of cross-border services, particularly in the financial sector where it
risks undermining the growth of electronic commerce. The European Commission in its Financial
Services Action Plan and its recent Communication on a new strategy for the services sector has
stressed that improved consumer confidence in non-costly, simple, effective, alternatives to legal
action is crucial to the creation of an integrated internal market in financial services - a key Lisbon
Summit objective.

FIN-NET complements the EEJ-NET (European Extra-Judicial Network) which establishes a
more general network of ADRs notified to the Commission by Member States as applying core
principles (contained in Commission Recommendation 98/257/EC) to guarantee their fairness and
effectiveness. The EEJ-Net, launched by the Commission in May 2000, provides a communication
and support structure made up of national contact points (or ‘Clearing Houses’) established by
each Member State.

3.2 Linked activities:
There are no linked activities financed from Phare funds.

3.3 Results:
- functioning of the office of the Financial Arbiter-Ombudsman of the Czech Republic in
  compliance with Commission Recommendation 98/257/EC and rules of FINNET
- the system of co-operation of the Financial Arbiter of the Czech Republic with the Financial
  Arbiters of the EU (and EEA) Member States to be able jointly resolve cases related to the
  cross-border payment transactions developed
- the efficiency of office of the Financial Arbiter of the CR in the field of resolving cases
  related to local and cross-border payment transactions incl. issue of electronic banking,
  enhanced.

3.4 Activities:
The assistance will be provided via one twinning covenant providing:

The PAA coming from a similar institution of the EU Member State, experienced in issues
related to the functioning of Financial Arbiter, shall stay at the office of Financial Arbiter of
the Czech Republic for 18 months with the assistance of short—term experts – approx. 2-3
STE’s (approx. 90 man-days).

The PAA and short-term experts shall
- assess the compliance of functioning of the office of the Financial Arbiter-ombudsman
  of the Czech Republic with Commission Recommendation 98/257/EC and rules of
  FINNET and propose steps to be undertaken by the office of the Financial Arbiter-
ombudsman of the Czech Republic to remove possible gaps resulting from the assessment;
• assist in development of the system of co-operation between the office of the Financial Arbiter-ombudsman of the Czech Republic and the Financial Arbiters of the EU (and EEA) Member States to be able jointly resolve cases related to the cross-border payment transactions;
• advice in enhancing the efficiency of office of the Financial Arbiter of the CR in the field of resolving cases related to local and cross-border payment transactions incl. issue of electronic banking
• training seminars held at the office of the Financial Arbiter-ombudsman of the Czech Republic related to the above mentioned issues. Lectures given by the PAA, and potentially other short-term experts from the partner institution shall cover matters related to rules of the FIN-NET and network of co-operation among the financial arbiters of the EEA-countries and its implication to the functioning of the office of the financial arbiter of the Czech Republic (approx. 20 man-days);
• Short-term internships (max. two weeks each) of the staff of the office of the Financial Arbiter-ombudsman of the Czech Republic of in the partner institution. The office of the Financial Arbiter of the CR shall cover the costs of air-tickets of the participants in short-term internships programme (number of participants: approx. 8 members of staff of the office of the financial arbiter – approx. 90 man-days)

The PAA and short-term experts shall closely work with experts from the office of the financial arbiter-ombudsman of the Czech Republic.

3.5 Lessons learned:
N/A

4. Institutional Framework

Beneficiary of the project shall be the office of the Financial Arbiter-ombudsman of the Czech Republic. The project shall be implemented under the authority of the office of the Financial Arbiter-ombudsman of the Czech Republic and will be managed by the Steering Committees consisting of the Financial Arbiter-ombudsman of the Czech Republic, PAA and representatives of the EU-member Administration delivering the assistance, representatives of the Centre for Foreign Assistance of Ministry of Finance of the Czech Republic and CNB Phare Unit.
The Programme Officer at the CNB shall be responsible for the preparation, technical control and implementation of the project.

5. Detailed Budget (M€)

<table>
<thead>
<tr>
<th>Project Component</th>
<th>Transition Facility Support</th>
<th>National Co financing*</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment Support</td>
<td>Institution Building</td>
<td>Total TF(=I+IB)</td>
</tr>
<tr>
<td>Twinning Covenant</td>
<td>0,500</td>
<td>0,500</td>
<td>0,500</td>
</tr>
<tr>
<td>Total</td>
<td>0,500</td>
<td>0,500</td>
<td>0,500</td>
</tr>
</tbody>
</table>

6. Implementation Arrangements

6.1 Implementing Agency
Responsibility for the administration related to the procedural aspects of procurement, contracting and accountancy will rest upon the CFCU, Ministry of Finance of the Czech Republic, Letenská 15, 118 10 Prague 1, Czech Republic. The PAO is Mr. Jan Slavíček, Head of CFCU, jan.slavicek@mfcr.cz, phone: +420 2 5704 4551, Fax: +420 2 5704 4550

6.2 Twinning
Beneficiary institution will be the Office of the Financial Arbiter-ombudsman of the Czech Republic. The project leader is Mr. Otakar Schlossberger the Financial Arbiter-ombudsman of the Czech Republic, Washingtonova 25, 110 00 Prague 1, phone: +420 221 674 660, fax: +420 221 674 666, E-mail: Schlossberger@finarbitr.cz.
Responsibility for the administration related to the preparation, technical control and implementation will rest with the Project Implementation Unit at the Czech National Bank. The Contact Person is Mr. Jan Málek, Phare Senior Programme Officer, Czech National Bank, Na Prikope 28, 115 03 Prague 1, phone: +420 22441 4459, fax: +420 22441 3448, E-mail: jan.malek@cnb.cz.

6.3 Non-standard aspects N/A
6.4 Contracts One twinning covenant – 0,5 M€

7. Implementation Schedule

7.1 Start of tendering/call for proposals 3Q/2004
7.2 Start of project activity 1Q/2005
7.3 Project Completion 3Q/2006

8. Sustainability
The Financial Arbiter and Financial Vice-arbiter were elected by members of the Chamber of Deputies of the Parliament of the Czech Republic pursuant the Act on financial arbiter (Act No. 229/2002 Coll.). The office of the Financial Arbiter has launched its activity on 1st February 2003 with administrative support of the CNB based on the agreement signed on 27 January 2003.

9. Conditionality and sequencing
N/A

ANNEXES TO PROJECT FICHE
1. Logframe planning matrix
2. Detailed implementation chart
3. Contracting and disbursement schedule
**LOGFRAME PLANNING MATRIX**

<table>
<thead>
<tr>
<th>Project title: Strengthening the office of the Financial Arbiter- Ombudsman of the Czech Republic</th>
<th>Project Number:</th>
<th>Date of Drafting: 11/2003</th>
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</thead>
<tbody>
<tr>
<td>Contracting Period Expires:</td>
<td>Disbursement Period Expires:</td>
<td></td>
</tr>
<tr>
<td>Total Budget: <strong>0,500 M€</strong></td>
<td>Phare Budget: <strong>0,5 M€</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall Objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
</table>
| • The existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union.  
• The ability to take on obligations of membership including adherence of political, economic and monetary union. | - Acknowledgement by the European Commission and ECB |  |

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| - To strength and develop the functioning of the Financial Arbiter – Ombudsman of Czech Republic that will comply with EU standards and its practical preparation for joining FIN-NET | - Membership of the financial Arbiter-ombudsman of the Czech Republic in the FIN-NET | - Analytic and comparative studies;  
- Annul Reports issued by the office of the Financial Arbiter-ombudsman of the Czech Republic and acknowledged by the European Commission;  
- A&E reports of the implementing unit. | - World / EU economic growth remains positive for each of the five years following the completion of the project; |

<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twinning</td>
<td></td>
<td></td>
<td>-- Measure of the objectivity of the reports produced by those involved in the implementation</td>
</tr>
</tbody>
</table>
| • functioning of the office of the Financial Arbiter-Ombudsman of the Czech Republic in compliance with Commission Recommendation 98/257/EC and rules of FIN-NET  
• the system of co-operation of the financial arbiter of the Czech Republic with the Financial Arbiters of the EU (and EEA) Member States to be able jointly resolve cases related to the cross-border payment transactions developed | - Acceptance of the proposals and recommendations and their implementation, trained personnel  
- Cases related to the cross-border payment transactions solved by the Financial Arbiter in the co-operation | - Annual Reports issued by the office of the Financial Arbiter- Ombudsman of the Czech Republic and acknowledged by the European Commission. |  |
- the efficiency of office of the Financial Arbiter of the CR in the field of resolving cases related to local and cross-border payment transactions incl. issue of electronic banking, enhanced with the Financial Arbiters from EU-member countries.

Activities:

<table>
<thead>
<tr>
<th>Twinning activities:</th>
<th>Means:</th>
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</table>
| • assessment of the compliance of functioning of the office of the financial arbiter-ombudsman of the Czech Republic with Commission Recommendation 98/257/EC and rules of FIN-NET and defining the steps to be undertaken by the office of the financial arbiter-ombudsman of the Czech Republic to remove possible gaps resulting from the assessment; | Twinning covenant - 0.5 MEUR:  
  One PAA and approx. 2-3 STEs from EU-Member State Administrations;  
  - PAA (18 man-months) and short-term experts’ assistance (approx. 90 man-days);  
  - Training seminars (approx. 20 man-days),  
  - Short-term internships of 8 members of the staff of the office of the Financial Arbiter- Ombudsman of the Czech Republic’s in the partner institution (two weeks each) – approx 90 man-days.  
  In total: 28 man-months |
| • assistance in the development of the system of co-operation between the office of the Financial Arbiter-ombudsman of the Czech Republic and the Financial Arbiters of the EU (and EEA). Member States to be able jointly resolve cases related to the cross-border payment transactions; |  |
| • assistance in enhancing the efficiency of office of the Financial Arbiter of the CR in the field of resolving cases related to local and cross-border payment transactions incl. issue of electronic banking. |  |
| • training seminars held at the office of the Financial Arbiter-ombudsman of the Czech Republic related to the above mentioned issues. Lectures given by the PAA, and potentially by other short-term experts from the partner institution shall cover matters related to rules of the FIN-NET and network of co-operation among the Financial Arbiters of the EEA-countries and its implication to the functioning of the office of the financial arbiter of the Czech Republic. |  |
| • Short-term internships of the staff of the office of the Financial Arbiter-ombudsman of the Czech Republic in the partner institution. The office of the Financial Arbiter of the CR shall cover costs of the air-tickets of the participants in short-term internships programme (number of participants in internships: approximately 8 persons). |  |

Preconditions

Assumptions:
DETAILED IMPLEMENTATION CHART

Project: Strengthening the office of the Financial Arbiter- Ombudsman of the Czech Republic

<table>
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<th>Action</th>
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<td>Twinning</td>
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<td>- Selection of a Member State</td>
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<td>- Preparation and Signature of Covenant</td>
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<tr>
<td>- Project activities commence</td>
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<tr>
<td>• Implementation of activities</td>
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<tr>
<td>• Delivery of training seminars held in</td>
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<tr>
<td>the office of the financial arbiter of</td>
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<tr>
<td>the CR</td>
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<tr>
<td>• Staff internships</td>
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<tr>
<td>- Completion of the project</td>
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**CONTRACTING AND DISBURSEMENT SCHEDULE**

### Cumulative Quarterly Contracting Schedule (mil.€)

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<th>Project</th>
<th>4Q/03</th>
<th>1Q/04</th>
<th>2Q/04</th>
<th>3Q/04</th>
<th>4Q/04</th>
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### Cumulative Quarterly Disbursement Schedule (mil.€)

<table>
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<th>Project</th>
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<th>1Q/04</th>
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<th>Total</th>
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