



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE

SUCCESS STORIES



UKRAINE & MOLDOVA

AUGUST 2009



The Pragma Corporation

ACCESS To CREDIT INITIATIVE

SUCCESS STORIES

Implemented by the **Pragma Corporation**



Revolutionizing Citizens' Ability to Access Credit

The Access to Credit Initiative mobilizes loans and services in Ukraine and Moldova

Success in terms of creating new financial markets is typically thought of in dollar amounts. At the Access to Credit Initiative (ATCI), funded by USAID and implemented by The Pragma Corporation, we are concerned with the dollar value of the markets we are helping to create – but, as shown in the following stories, our real measure of success comes from the knowledge that we are helping build strong financial systems that will enable ordinary citizens and medium-sized cities to obtain credit for homes, businesses, farms, and municipal infrastructure.

ATCI had its beginnings in Ukraine in the fall of 2004 and expanded in 2007 to include a “daughter” project in Moldova. The goal of ATCI is to assist the government and private sectors in Ukraine and Moldova to make key investments in the legal, administrative, and financial infrastructure that contribute to stable and sustainable long-term economic growth. In turn, these investments – which are based on sound financing and risk assessment strategies in line with world standards of practice – provide the citizens with increased options for accessing credit.

ATCI's activities are focused on four main areas:

- **Mortgage Lending:** ATCI is laying the foundation for an efficient real estate and mortgage market in Ukraine and Moldova by helping develop a strong primary mortgage market (i.e., bank loan origination), a secondary mortgage market (through the issuance of mortgage covered bonds), and supportive infrastructure (e.g., development of credit information bureaus). We have also introduced the Certified Mortgage Lender (CML) program, which helps commercial banks and other mortgage lending institutions make mortgage loans using standardized, transparent procedures, while maintaining prudent risk assessment and underwriting standards.
- **Fixed Income:** By stimulating and developing the corporate bonds market, ATCI is expanding the availability of capital to borrowers and providing Moldova with an alternative to bank financing. A similar program is supported by ATCI in Ukraine for the domestic government bond market. ATCI has also assisted the Government of Ukraine with the development of a long-term, liquid government debt securities market in domestic treasuries and its corresponding yield curve that serves as the benchmark for the pricing of other fixed-income securities in Ukraine.
- **Municipal Finance:** ATCI is helping mid-size Ukrainian cities of 800,000 or less issue municipal bonds to fund much-needed infrastructure. Initial pilot issuances by the cities of Ivano-Frankivsk, Lviv, Berdyansk, and Luhansk amounted to UAH 136 million or US \$28 million. The proceeds of the bonds have been used to repair roads and roofs for residential housing, make improvements to street lighting, and develop and reconstruct housing and municipal utilities.
- **Financial Leasing:** ATCI has helped institute Certified Leasing Specialist programs that provide certificates to individuals who pass a series of three exams. This certification program raises the stature of professionals who work in the financial leasing industry. ATCI also provides advisory services to broaden the capacity of companies already established in the market and to assist companies new to the market.

Under Pragma's leadership and USAID guidance, ATCI continues to engage in developmental investment banking, pursuing a clear vision with continuity of purpose, methods, and personnel. The following stories are evidence of the success of our approach.

Sincerely,

Richard W. Dvorin
Chief of Party, USAID Access to Credit Initiative

A handwritten signature in black ink that reads "Richard W. Dvorin".

TABLE OF CONTENTS

- ACTI Provides Comprehensive, Practical Leasing Manual for Ukraine
- Ukraine Holds Auctions of Domestic Government Bonds at Market Rates
- ATCI Prompts Dialogue Regarding New Regulation
- Certified Mortgage Lenders Provide Customer-Oriented Service
- Municipal Bonds Market Provides Capital for Infrastructure
- New Association Promotes Professional Standards in Leasing
- ATCI Supports Opportunities for SMEs in Ukraine's Leasing Market
- Ukraine's Secondary Mortgage Market Continues to Grow
- Breakthroughs in the Development of the Ukrainian Credit Bureau Industry
- Certified Leasing Specialist Program Stimulates Ukraine's Leasing Industry
- Equipment Leasing Company Triples Its Portfolio
- Ukraine Enters the Covered Bond Market

ACTI PROVIDES COMPREHENSIVE, PRACTICAL LEASING MANUAL FOR UKRAINE

The USAID-funded ACTI project engaged a team of qualified Ukrainian leasing practitioners to write a guide to financial leasing in Ukraine drawing on their own experiences. The Leasing Manual is the first comprehensive study of financial leasing in Ukraine, and is expected to promote further leasing industry development.

In recent years, leasing has become a powerful financial mechanism for accessing fixed assets in the real sector of the Ukrainian economy. In part, this is attributable to the USAID-funded Access To Credit Initiative (ACTI) project, which has provided technical assistance to the leasing industry since 2004. By early 2009, Ukraine's leasing portfolio reached UAH 28.2 billion (US \$3.7 billion), over five times the value of the market in early 2007 (UAH 4.6 billion). As of 2009, 60 lessors were registered with Ukraine's Financial Services Regulator, including 10 major foreign equipment lessors, which import both capital and know-how into Ukraine's market.

Despite this rapid growth, Ukrainian lessors faced a number of difficulties related to legislation, taxation, availability of funding. As a follow-up to earlier assistance in establishing the Certified Leasing Specialist Training Program (2006) and the Certified Lease Specialist Union (2007), ACTI has recently produced a comprehensive, practical guide to leasing in Ukraine, the Leasing Manual, written by a team of Ukrainian leasing practitioners. This manual will become part of the curriculum of several national universities and will help students in economic faculties better understand the leasing business. The practical experience of the authors will also be helpful to leasing company specialists, bank personnel, insurance company employees, manufacturers, suppliers, and vendors who work with leasing companies. The Leasing Manual is expected to help change the attitudes of public officials towards leasing, especially, those who directly participate in legislation making. This will help leasing gain equal footing with other fields of investment activity.

The Leasing Manual is being distributed through the Certified Lease Specialist Union (www.leasepro.org.ua). It is free of charge to all 104 Certified Leasing Specialists and to over 50 higher educational establishments in 17 Ukrainian cities.

Nadiya Zhyla, Financial Services Regulator (left); Kevin McCown, Financial Sector Division Chief at USAID Ukraine (middle); and Richard Dvorin, ACTI Chief of Party proudly present the Leasing Manual to leasing companies and media on July 8th.



UKRAINE HOLDS AUCTIONS OF DOMESTIC GOVERNMENT BONDS AT MARKET RATES

ATCI efforts propel new market initiatives and systems

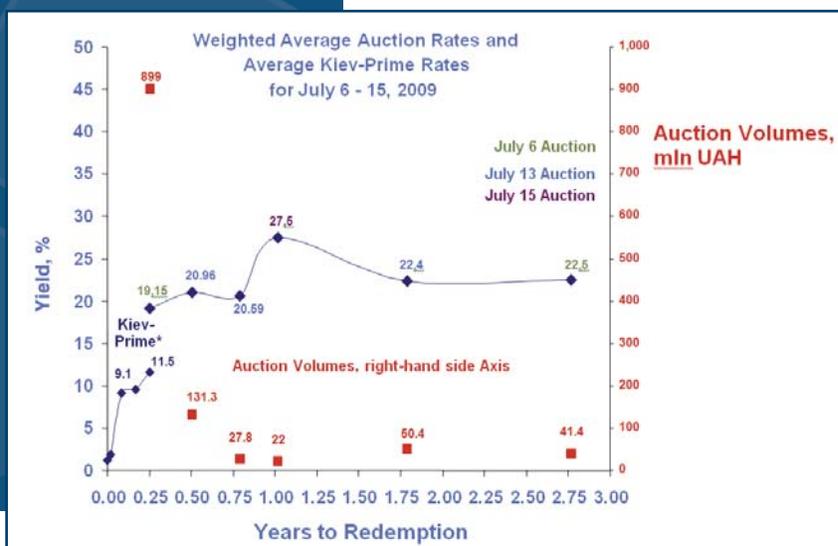
From May 14 through July 15, 2009, 22 successful single-stage, multi-price market rate auctions were held for domestic government bonds. These auctions earned about US \$368 million for the state and signaled the successful initiation of the government securities market in Ukraine. The USAID ATCI project provided assistance in helping Ukraine launch the government bond market as well as in the development of the soon-to-be implemented Primary Dealer system and repurchase agreement market.

As of December 31, 2008, public debt in Ukraine reached UAH 130.69 billion (US \$16.97 billion). About 75% of this debt (UAH 97 billion) is in foreign currency, the result of a public debt management policy that leans towards foreign borrowing – despite the significant currency risks. This orientation came about because of the high cost of borrowing in the domestic market; slow trading in the secondary market and subsequent low liquidity levels weakened the interest of domestic investors and traders in mid-term investment.

Since its inception in 2004, the USAID-funded ATCI project has partnered with the Government of Ukraine, Finance Ministry, National Bank of Ukraine, and other stakeholders to construct a long-term yield curve. In March of 2009, ATCI participated in a process to elaborate a Concept for Development of the Domestic Market of Government Securities of Ukraine for 2009–2013. This concept laid the groundwork for introducing market rate auctions for domestic government bonds, as proposed by ATCI, and for introducing the Primary Dealer system in the market.

As a result, the Ministry of Finance held 22 successful single-stage, multi-price market rate auctions for domestic government bonds between May 14 and July 15, 2009. These bonds, which had maturities ranging from 77 days to 3 years and yields ranging from 17.9% to 27.5%, contributed UAH 2.8 billion (about US \$368 million) to the state budget. Although the longest term was 3 years, the auctions have broken the ground for the pricing of longer term government bonds and other fixed income securities. The auction announcements and results (amounts, maturities and transaction prices) are posted on the official web sites of the Ministry of Finance and National Bank of Ukraine as well as on the Bloomberg Financial News Service.

ATCI has also collaborated with Ukrainian stakeholders to develop a Primary Dealer system and a repurchase (repo) agreement market. The full implementation of the Primary Dealer network is expected to occur in August 2009, when the Ministry of Finance will select between 6 and 16 commercial banks to act as primary dealers. Also in August, for the first time, repurchase agreements are expected to be enacted between the Ministry of Finance and an approved group of dealers, implementing funds from central budget.



ATCI PROMPTS DIALOGUE REGARDING NEW REGULATION

National Bank of Ukraine revises capital adequacy requirements after round table discussion

In 2008, the National Bank of Ukraine issued Regulation #458, which required higher capital adequacy ratios associated with loans of one year or longer. The regulation was designed to shore up the banking system; instead it caused an uproar among mortgage lending institutions. The USAID-funded Access to Credit Initiative facilitated a round table to discuss issues related to this new regulation as well as possible solutions. Shortly after the round table, the NBU took action to mitigate the effects of Regulation #458 on the mortgage lending industry.

In February 2008, the USAID-funded ATCI project joined with the Ukrainian National Mortgage Association to host a round table for Kyiv mortgage lenders on development threats and problems facing the mortgage lending market in Ukraine. The round table was prompted by the recent introduction of Regulation #458 by the National Bank of Ukraine. In an attempt to shore up the banking system (as a result of worldwide declines in capital markets), this regulation called for increased capital adequacy ratios for assets lent for one year or longer – including mortgages.

Many representatives of the NBU, State Mortgage Institution, and other financial regulators, as well as chairmen of the boards of over 10 of the largest banks working in Ukraine, felt that the increased capital adequacy ratios threatened the development of the mortgage market. During the round table, participants discussed the perceived threats to the mortgage lending industry as well as possible solutions. Shortly after the round table discussion, the National Bank of Ukraine implemented Regulation #30, which mitigated the effect of Regulation #458 with respect to mortgages.

According to Regulation #30, beginning on April 4, 2008, banks can use mortgage bonds issued by the State Mortgage Institution and residential mortgage loans with a 50% weighting when calculating regulatory capital adequacy. SMI state guaranteed bonds and the interest on them will have 0% weight.

In the short-term, some banks may still experience heightened pressure on regulatory capital adequacy ratios and may need to actively manage their balance sheets to prevent breaches of minimum capital requirements. In the long-term, the introduction of new regulatory capital requirements for Ukrainian banks is likely to lead to increased capital-raising activity and better liquidity management, resulting in a stronger banking system.



Round table participants listen to Andriy Kyyak, Chairman of the Board, TAS-BUSINESSBANK, as he presents his view on the new general rules for calculating regulatory capital adequacy.

CERTIFIED MORTGAGE LENDERS PROVIDE CUSTOMER-ORIENTED SERVICE

ATCI helps Ukraine develop simple, cost-effective mortgage lending



CML program graduate holds certification document showing that she is now a recognized mortgage lending industry professional.

As Ukraine's mortgage lending industry develops, savvy borrowers are starting to demand personalized, professional advice from lending institutions. To help banks deliver top-quality mortgage services to clients, the USAID-funded ACTI project, in collaboration with the Moscow-based Institute of Urban Economics, implemented a training and certification program for mortgage lending officers. To date, nearly 100 officers, representing about 40 Ukrainian banks, have become Certified Mortgage Lenders.

To sustain continued growth and satisfy consumer demand, mortgage lending officers must understand many aspects of the mortgage industry and how it affects their clients. For example, a mortgage officer should be knowledgeable about and able to advise borrowers on property and mortgage insurance; property appraisal methods, various lending formulas, coefficients, and types of interest rates; and potential legal issues. In addition, lending officers should understand internationally used underwriting processes and standards along with prudent risk assessment of mortgage credits.

Consumers can be assured of professional advice when they apply for a loan at a bank which participates in the Certified Mortgage Lender (CML) program. The CML program was launched in Ukraine in 2005 by the USAID-sponsored ATCI project in cooperation with the Institute of Urban Economics (in Moscow). This program, which has been used throughout the former Soviet Union republics to train mortgage lenders, safeguards both borrowers and lenders by ensuring that trained mortgage lending personnel are available to consult with borrowers

and write up mortgage loans following international standards and procedures. Program participants study loan origination technology, borrower underwriting, the calculation of loan payments; established mortgage-lending markets in countries such as the US and Germany; and new mortgage systems in Russia, Kazakhstan, and other transitional economies. A Certified Mortgage Lender will help loan applicants calculate the best possible loan rate, consider available financial opportunities, determine the availability of all relevant documents, and choose the best property insurance rate for their needs. Borrowers save time and gain confidence in the lending process as all their questions are answered. At the same time, banks are better protected since certified lenders evaluate each loan application carefully and completely to ensure that the loan will not incur unnecessary risks.

By mid 2008, 98 recognized professionals representing approximately 40 banks in Ukraine had been certified under the CML Program. Almost half (44%) of the new Certified Mortgage Lenders are women. This cadre of trained industry professionals, in combination with new mortgage launches by Ukrainian banks, will enable Ukrainian citizens to buy new homes, improve their living conditions, and support the overall development of the mortgage market.

To ensure sustainability of the certification process, ATCI transferred administration of the program to the Ukrainian National Mortgage Association (UNIA), once an adequate core of professional trainers existed to carry the program forward. Together with the State Mortgage Institution, UNIA is now responsible for the training and certification of mortgage personnel.

MUNICIPAL BONDS MARKET PROVIDES CAPITAL FOR INFRASTRUCTURE

ATCI pilots the emergence of municipal bonds in mid-sized Ukrainian cities

With the assistance of USAID's ATCI, four Ukrainian cities have issued pilot municipal bonds worth a combined UAH 237 million. These bonds have precipitated an emerging asset class suitable for investment by pension funds and insurance companies and provided the cities with capital for infrastructure repair and development.

Since late 2004, ATCI has been working to build a municipal bond market in Ukraine, with a focus on cities with populations of 800,000 or less. To date, the cities of Ivano-Frankivsk, Lviv, Berdyansk, and Lugansk have issued pilot municipal bonds for UAH 5.5 million, 92 million, 10 million, and 29.3 million, respectively – a total of more than US \$27 million. The proceeds of the bonds are being used for road repair, roof repairs for residential housing, improvements to street lighting, development and reconstruction of housing and municipal utilities, and other municipal needs.

The success of these initial issues has prompted many pilot cities to issue additional bonds for larger amounts. The city of Ivano-Frankivsk will issue

its next bond for UAH 16 million (Decision of the City Council from March 18, 2008); Lviv will issue a UAH 200 million bond (Decision of the Competition Commission from May 31, 2008); and Luhansk's next municipal bond will be for UAH 50 million (approval by the Ministry of Finance on May 20, 2008). Documentation to obtain borrowing approval has already been submitted to the Ministry of Finance and some approvals have already been received.

ATCI has helped Lviv—the largest of the cities preparing to issue a second bond—to prepare the next issue. On June 4, 2008, Lviv announced a competition for underwriter of the issue.

With UAH 237 million of municipal credits now outstanding, an additional 485 million UAH is waiting to be placed.

The pilot bond issues have also precipitated the formation of an emerging asset class suitable for investment by pension funds and insurance companies.

ATCI expects to expose even more cities to the technology of issuance through seminars to be held in conjunction with the Association of Ukrainian Cities later in 2008.

NEW ASSOCIATION PROMOTES PROFESSIONAL STANDARDS IN LEASING

With support from ATCI, the Certified Lease Specialist Union was established in 2007 to promote professional standards and unite certified leasing specialists under one umbrella. The association will ensure the sustainability of the certification program for leasing specialists and promote the industry as a whole.

In February 2007, with support from the USAID-funded ATCI project, the Certified Lease Specialist Union was established as a nongovernmental organization. The Union aims to maintain standards for certified leasing specialists and unite certified leasing professionals under one umbrella. In conjunction with the US Foundation of Certified Leasing Professionals, the Union certifies graduates of the Certified Leasing Specialist program; all graduates automatically become members of the Union.

The CLS program was launched in 2006 by ATCI in partnership with UKRLEASING (the National Leasing Association) and the US Foundation of Certified Leasing Professionals. By the end of 2007, 67 leasing professionals had qualified as Certified Leasing Specialists. 50 of these specialists are employed by 26 leasing companies. The total number of leasing personnel trained since program inception has reached 141 persons, or about 15% of all people employed in the industry.

The Union coordinates training sessions, maintains the professional ethics and standards of certified specialists, develops topics for professional development, and manages the content of the CLS program. Training courses are offered, under the aegis of the Union, by training providers and paid for by individuals seeking certification as leasing specialists.

With assistance from ATCI, the Union will continue to bring together leasing industry professionals who understand that sophisticated techniques are needed to expand leasing activity in Ukraine and enable it to compete internationally. The Union's sponsorship of the CLS program ensures its sustainability and promotes the leasing industry at a critical juncture when Ukraine is facing accession to the World Trade Organization and increasing global competition in financial markets.



Dmitry Bohodukhov, President of the Certified Lease Specialist Union and Director of LeaseIT, presents a CLS program graduate with a certificate.

ATCI SUPPORTS OPPORTUNITIES FOR SMEs IN UKRAINE'S LEASING MARKET

LeaseIT offers leasing of small ticket equipment

In 2004, business sales of information technology equipment in Ukraine reached approximately \$600 million, approximately \$200 million of which was sold to small and medium enterprises. Almost none of the IT equipment sold to business in Ukraine was financed through leasing or other financial instruments. The USAID-funded ACTI project has enabled the development of an innovative financial technology that offers SMEs an opportunity to lease appropriate IT technologies through a rapid application process.

In most Western countries, much of the information technology (IT) equipment purchased by businesses is acquired through financing, including leasing. Independent market researchers estimate that the business sales of IT equipment in Ukraine reached approximately \$600 million in 2004, of which approximately \$200 million were to small and medium enterprises (SMEs). However, almost none of the IT equipment sold to businesses in Ukraine is financed through leasing or other financial instruments.

In 2005, Leasing of Information Technologies, a closed joint-stock company, launched LeaseIT, an innovative financial technology that offers SMEs an opportunity to choose the information technology equipment they need for business development, secure lease financing on an application-only basis,

and obtain a decision on their credit application within 24 hours. LeaseIT is currently the only equipment leasing company in Ukraine that enables SMEs to obtain "small ticket" (less than US \$3,000) leases of IT equipment, including PCs (80%), and servers, notebooks and various peripherals (20%).

Through the USAID-funded ACTI project, LeaseIT has been able to obtain new sources of debt capital to fund the leasing of IT equipment. ATCI is also helping LeaseIT secure an equity partner, which will allow the company to expand its lendable capital at a faster rate than is now possible and secure the management talent necessary to sustain its expected growth. To assure continued growth and strengthen its market share, LeaseIT aims to increase the size of its transactions and expand services by leasing medical and small agricultural equipment as well as IT equipment.

By the end of 2006, LeaseIT had 200 retail locations owned and operated by approximately 75 retailers in six Ukrainian regions: Lugansk, Sumy, Volyn, Chernivtsi, and Kharkiv. On a volume basis, LeaseIT had an estimated 30 to 50% of Ukraine's retail IT market. Currently, the company is experiencing a nearly 100% increase in lease volume each month. The parent company, Leasing of Information Technologies, reports that LeaseIT retailers have reported annual sales increases of approximately 30%, much of which is attributable to the availability of LeaseIT technology.

UKRAINE'S SECONDARY MORTGAGE MARKET CONTINUES TO GROW

Active covered bond trading spurs new issues and needed legal changes

During March and April 2007, the PFTS stock exchange witnessed seven trades of UkrGasbank's pilot mortgage covered bond, which was issued in early 2007. The trades totaled about UAH 73 million or nearly 1.5 times the value of the original issue. This activity has encouraged Ukrasbank to issue a second covered bond and has prompted the USAID-funded ATCI project and market participants to draft amendments to the Covered Bond Law that will facilitate the issuance process.

In early 2007, 18 months of intensive work by UkrGasbank and the USAID-funded ATCI project came to fruition with the successful placement of UkrGasbank's UAH 50 million pilot mortgage covered bond. During March and April 2007, the PFTS stock exchange witnessed seven trades of this pilot issue, which were valued at about UAH 73 million, nearly 1.5 times that of the original issue.

The active trading associated with the pilot issue demonstrates the high

liquidity of the bond. It also shows that investors understand the secure features of the mortgage covered bonds and are prepared to accept lower yields in exchange for lower risk. According to Yuriy Kamenetskiy, Director of Investment Department with UkrGasbank, "The success with pilot mortgage covered bonds is demonstrated by trades in the secondary market. The volume of the trades is big and will be growing rapidly. I believe this growth will be enhanced by growing demand from the side of pension funds and insurance companies."

Building on the success of its pilot issue and subsequent trading volume, UkrGasbank decided to issue a second covered bond for UAH 500 million (about US \$100 million). To ensure the success of new covered mortgage bond issues, ATCI is working with UkrGasbank, the Ukrainian National Mortgage Association, and other market participants to amend aspects of the Covered Bond Law. The amendments are expected to ease the issuance of covered mortgage bonds, and support trade worth billions of US dollars.

BREAKTHROUGHS IN THE DEVELOPMENT OF THE UKRAINIAN CREDIT BUREAU INDUSTRY

Ukraine's newly developed credit bureau industry experienced a recent breakthrough when a Ukrainian credit bureau designated an international firm as its operator. Thanks to the USAID-funded ACTI project, Ukraine has also enacted new licensing requirements and other regulations that will help develop the Ukrainian credit bureau industry in line with international standards.

In markets around the world, credit bureaus enable the expansion of credit for home ownership, SME development, and job creation. Loans must be based on good information and access to a person's credit history – the size of existing debts, the pattern and timeliness of monthly payments, and the type of credit previously obtained – helps a bank define the creditworthiness of a loan applicant. Borrowers with excellent credit histories can usually obtain credit at the lowest possible rate. Individual and organizational credit histories are obtained through credit bureaus, private entities that gather and provide credit histories.

As the Ukrainian economy expands, income levels rise, and the banking sector becomes more advanced, more and more Ukrainians are applying for bank loans to buy houses or start new businesses. The increased demand for credit requires that banks expand their capacity to extend low-risk loans. To do this, Ukraine needs reliable, responsible credit bureaus that follow international best practices and standards.

USAID assisted with the development of a crucial law called "On Establishment and Circulation of Credit Histories" that laid the groundwork for the establishment of credit bureaus in Ukraine. Subsequently, the USAID-funded ATCI project developed a business plan with

specific steps to help establish and further develop the credit bureau industry. This plan stressed the importance of resolving credit bureau shareholder issues, minimizing data fragmentation, and engaging a credible international credit bureau operator.

In the summer of 2006, after months of negotiations and continued assistance from ATCI, a Ukrainian credit bureau, the First National Bureau of Credit Histories, announced that the Creditinfo Group Hf. (Iceland) had won a tender to become its international operator. Creditinfo is now a shareholder of two Ukrainian credit bureaus, the International Bureau of Credit Histories and the First National Bureau of Credit Histories. As a vendor of credit bureau systems and related services, Creditinfo will draw on know-how and experience gained from implementing similar credit bureau projects in many countries.

ATCI also helped the Ukraine's Ministry of Justice, which is responsible for regulating credit bureau operations, draft a key regulation on licensing requirements for credit bureaus. The regulation was approved in December 2006, and in January 2007, both the First National Bureau of Credit Histories and the International Bureau of Credit Histories received licenses. These credit bureaus, which follow internationally accepted standards of practice, are currently developing expertise in data gathering and processing; the commercial sale of credit reports is expected soon.

ATCI continues to support the Ministry of Justice in regulatory reform and is currently helping to draft regulations on a unified registry and on credit bureau inspections, as well as other instructions and recommendations for the market. Once credit reports are commercially available, ATCI intends to initiate a public awareness campaign that targets both market participants and the general public.



The engagement of Creditinfo as the international operator for the First National Bureau of Credit Histories represents a breakthrough for Ukraine's credit bureau industry.

CERTIFIED LEASING SPECIALIST PROGRAM STIMULATES UKRAINE'S LEASING INDUSTRY

New certification program sponsored by USAID-funded ATCI project provides Ukraine's fledgling leasing industry with qualified specialists. In 2006, the program graduated 26 individuals as Certified Leasing Specialists.

Although Ukraine's leasing industry has experienced strong growth overall – with a threefold increase in the number of leasing companies and a fourfold increase in the number of leasing industry employees – the value of lease financing in Ukraine is still very low compared to other countries. In 2005, less than 2% of all investment in fixed assets in Ukraine was financed through leasing compared to an average of approximately 15% in other Central and Eastern Europe countries. One of the major problems facing the industry is lack of qualified leasing specialists. Companies are often unable to source key personnel with the requisite skills and there are few training providers to assist companies in developing qualified leasing specialists.

To build professional development in the leasing industry and thus help grow the associated markets, USAID's ATCI, in partnership with UKRLEASING (the National Leasing Association) and the US Foundation of Certified Leasing Professionals, launched the Certified Leasing Specialist Program. ATCI developed the training course, which includes 13 training topics split into three modules, and held three introductory seminars to explain and promote the program. During these seminars, highlights of the program were presented to leasing industry experts and potential trainers.

As of 2006, 26 individuals had passed the ATCI exam and received certificates that recognized their core competencies. Among the graduates were 12 directors of leasing companies, and 14 consulting company representatives who have the potential to become training providers.

In the future, ATCI aims to create a professional society of Certified Leasing Specialists, which would offer courses for individuals seeking to become Certified Leasing Specialists. The organization would also organize seminars, observe and maintain the ethics and professional standards of certified specialists, expand training topics for further professional development of certified specialists, and manage the certification program content.



Earl Gast, USAID Mission Director to Ukraine, Moldova, and Belarus, presents a graduate of the Certified Leasing Specialist program with a certificate.

EQUIPMENT LEASING COMPANY TRIPLES ITS PORTFOLIO

ACTI project facilitates linkages that expand business opportunities

With assistance from the USAID-funded ATCI project, the Lviv-based Leasing House company has nearly tripled its portfolio of existing leases, from UAH 49 million to UAH 130 million.

The USAID-sponsored ATCI project is working to create a supportive environment for Ukraine's financial leasing industry and provides specific technical, advisory, and training assistance in order to increase access to credit throughout Ukraine. ATCI's capacity building effort strengthens existing leasing companies by conducting seminars and delivering advisory services for lessors, lessees, farmers, regulators, vendors, and banks.

ATCI has been working with the Lviv-based Leasing House company since April 2005. Leasing House, one of the largest equipment lessors in Ukraine, founded in November 2001 with the statutory fund of UAH 720,000, focuses predominately on the financing of capital equipment. According to Leasing House management, the company has experienced a growth in annual lease volume of approximately 500% over the last 2½ years.

In October 2005, the Managing Director of Leasing House, Mr. Sytyuk, gave a presentation at the seminar "Leasing Practice in Ukraine," which

was co-sponsored by ATCI and the Ukrainian League of Industrialists and Entrepreneurs. Leasing House received a number of referrals from potential lessees as a result of this presentation, and was able to turn several of the referrals into a substantial amount of business. During 2006 and 2007, Leasing House hosted four volunteer leasing experts brought to Ukraine under the auspices of the Citizens Network for Foreign Affairs (CNFA). The CNFA volunteers helped advise Leasing House on issues related to marketing, credit, and strategic management.

According to Leasing House, the company's annual lease value increased to UAH 25 million in 2006, more than double the 2005 value of UAH 12 million. During 2007, Leasing House expects an annual lease value of approximately UAH 70 million. The company's portfolio of existing leases has risen from a previous value of about UAH 49 million to UAH 130 million.

Leasing House recently completed a private placement bond issue for approximately UAH 8 million and plans to raise additional capital. ATCI will continue advisory services to Leasing House in matters related to raising additional capital as well as in marketing and sales strategy, both directly and in cooperation with CNFA.

UKRAINE ENTERS THE COVERED BOND MARKET

ATCI-supported pilot issue improves outlook for home buyers and institutional investors

The successful placement of Ukrgasbank's pilot mortgage covered bond signals Ukraine's entry into the US \$2 trillion European mortgage covered bond market. The USAID ATCI project facilitated the development of the pilot UAH 50 million bond, which was oversubscribed at the offering rate of 10.5% for three years. Over the next several years, the growth of this new market is expected to lower mortgage interest rates and make credit more available.

Experts view the creation of a secondary mortgage market in Ukraine as a major objective for development of the nation's financial system. The successful placement of Ukrgasbank's pilot UAH 50 million mortgage covered bond (offered at 10.5% for three years and oversubscribed) represents Ukraine's entry into the US \$2 trillion European mortgage covered bond market. The pilot bond is the result of 18 months of intensive work by the USAID-funded ATCI project and its counterparts and the culmination of four years of preparation by USAID that began with passage of the mortgage law.

This new instrument enables financial institutions to liquefy in excess of US 4 billion in outstanding mortgages currently held in portfolios throughout Ukraine. It offers an appropriate investment vehicle, with minimal credit risk, for domestic pension funds and insurance companies. Beginning in 2009 with the implementation of Ukraine's

second pillar of pension reform, these institutional investors are expected to have upwards of US \$150 million to invest each month – thus the new market is a welcome investment vehicle.

ATCI supported the development of an effective mortgage lending sector in Ukraine in a number of ways. First, project advisors drafted the implementing regulations for the Covered Bond Law and secured their adoption by the Securities and Stock Market State Commission and subsequent registration by the Ministry of Justice. ATCI also helped select banks willing to participate in the secondary mortgage and ensured these banks had updated software to support their activities in this area. With respect to the bond issue itself, ATCI drafted the master agreements that govern the relationships between the issuer, the bond manager, and the auditor, and prepared materials to help the issuer marketing the bond. Finally, ATCI made investor calls, gave separate presentations to 10 institutional investors to explain the unique features of the bond and its indicative pricing, and participated in the marketing "road show."

Within the next five years, ATCI anticipates that this pilot issue will precipitate billions of dollars worth of trade in the covered mortgage bond market. This trade will result in lower lending rates and increased availability of credit for Ukrainian home buyers while expanding the investment options in tradable securities for the domestic fixed-income market.



SUCCESS STORIES

ACCESS TO CREDIT INITIATIVE

UKRAINE & MOLDOVA

AUGUST 2009



The Pragma Corporation
116 East Broad St.
Falls Church, VA 22046
Tel: 703 237-9303
Fax: 703 237-9326
<www.pragmacorp.com>