



USAID
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FINANCIAL SECTOR DEVELOPMENT PROGRAM (USAID/FINREP-II)



FY 2013 ANNUAL REPORT

October 2012 – September 2013

Contract Number: AID-121-C-12-00001

COR/USAID Ukraine: Natalia Berezhna

Chief of Party: Danilo Cruz-DePaula

Submitted by:

Financial Markets International, Inc. (FMI)

November 8, 2013

LIST OF ACRONYMS

ADT	Accounting Development Toolkit
AmCham	American Chamber of Commerce
COP	Chief of Party
DGF	Deposit Guarantee Fund
ESCRIN	Electronic Disclosure System
EU	European Union
FDIC	Federal Deposit Insurance Corporation
FL	Financial Literacy
FMI	Financial Markets International, Inc.
FSR	State Commission for Regulation of Financial Services Markets
FTPN	Financial Treasury Promissory Note
FY13	Fiscal Year 2013
GOU	Government of Ukraine
GSM	General Shareholder Meetings
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IITCE	Institute of Innovative Technologies and Content of Education
IOPS	International Organization of Pension Supervisors
IOSCO	International Organization of Securities Commissions
JSC	Joint-Stock Company
MEDT	Ministry of Economics, Development & Trade
MOES	Ministry of Education and Science
MOF	Ministry of Finance
MSME	Micro-, Small- & Medium-sized Enterprises
MSP	Ministry of Labor and Social Policy
NBU	National Bank of Ukraine
NBU-BU	National Bank of Ukraine's Banking University
NGO	National Government Organization
NPF	Non-state Pension Fund
OCA	Organizational Capacity Assessment
OECD	Organization for Economic Cooperation and Development
SSMNC	Securities and Stock Market National Commission
UACAA	Ukrainian Association of Certified Accountants & Auditors
UFPA	Ukrainian Federation of Professional Accountants & Auditors
UNCTAD	United Nations Conference on Trade & Development
VR	Verkhovna Rada
WB	World Bank
WG	Working Group
XBRL	Extensible Business Reporting Language
YIC	Young Investor Competition

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I. INTRODUCTION AND EXECUTIVE SUMMARY

A. INTRODUCTION

FINREP-II is a five-year program that aims to increase financial sector stability and to restore public trust in financial markets by providing targeted technical assistance and training to its Government of Ukraine (GOU) counterparts, private sector stakeholders, and civil society. It supports two key USAID results: IR 2.1 Increased investment availability to the emerging middle class and IR 2.2 Strengthened private sector advocacy and support institutions.

This report provides an overview of FINREP-II's activities in fiscal year 2013 (FY13), the project's initial year. It is structured along FINREP-II's Key Objectives as presented in the FY13 Work Plan approved by USAID. These include:

- Objective 1: Strengthen Supervision and Regulation of the Financial Industry;
- Objective 2: Develop Financial and Derivatives Markets; and
- Objective 3: Increase Financial Literacy of the General Population.

B. PERFORMANCE SUMMARY

During its first year, FINREP-II met all major Performance Monitoring Plan (PMP) and Work Plan benchmarks as detailed below. The project has continued USAID's legacy of being a key contributor to Ukraine's establishment of a more effective financial sector.

The table below highlights FINREP-II performance of PMP targets.

	FY13 Target	FY13 Actual	% Performance Level
Number of material improvements in the derivatives and commodity exchange legislation framework (Scoring System)	2	2	100%
Person hours training completed by financial sector supervisors in international standards	200	512	256%
-- Person hours training completed by female financial sector supervisors in international standards	100	136	136%
Person hours of training completed by financial sector standards completed by financial sector professionals in international standards	2,000	2,320	116%
-- Person hours of training completed by female financial sector standards completed by financial sector professionals in international standards	1,000	1,578	158%
WEF-GCR Strength of Auditing and Reporting Standards Index (higher score, greater adoption)	3.5	3.7	106%
Number of material improvements in the DGF that provide better financial safety to retail deposits (Scoring System)	3	3	100%
Implement regional financial literacy pilot course for public schools (# of schools)	80	421	526%
Number of students enrolled in financial literacy program	2,500	14,000	560%
-- Number of female students enrolled in financial literacy program	1,250	7,280	582%
Proportion of students who demonstrated the improvement of knowledge and skills after the financial literacy course (% increase in entry/exit FL knowledge test)	7%	20%	285%

The complete PMP, including FY13 actual versus target performance is presented in Annex A. Beyond quantitative performance, FINREP-II made strides in meeting major project goals and objectives by Work Plan components, as described below. **The program also addressed USAID mandatory factors as cross-cutting implementation activities.** For example, PMP results demonstrate the incorporation of women in numbers equal to men in areas such as training in international standards, training of financial sector supervisors, and young women participating in financial literacy classes. FINREP-II also continued promoting transparency in financial reporting, consumer protection, management of pension funds, and other fields that support anti-corruption practices. In working directly with Government of Ukraine (GOU) institutions as well as local NGOs focusing on accounting reforms, FINREP-II strengthened local capacity.

Objective 1: Strengthen Supervision and Regulation of the Financial Industry

While covering a broad range of areas, activities under this objective are synergistic and thus their whole is greater than the sum of individual parts. Together, they aim to increase confidence in the financial sector, promote transparency, and make the financial sector stronger and less vulnerable to crises. FINREP-II contributed to the strengthening of the financial sector by working with Ukrainian reformers in reviewing over 30 draft laws and regulations, providing timely inputs on how they could be best aligned with international standards and norms. As highlighted in the table above, As a result of significant demand, FINREP-II's performance level of PMP targets in training financial sector supervisors was 256% (512 hours versus the 200 target), including exceeding training of female supervisors. Similarly and as also highlighted in the table, the performance level of PMP goals for training in international standards was 116% (2,320 hours versus a target of 2,000). The program reached 158% performance for females.

FINREP-II worked closely with the World Bank in key areas such as consumer protection, corporate governance, and promoting international standards in financial reporting. These are areas where transparency is particularly important to enhance investor confidence. FINREP-II continued assisting the Deposit Guarantee Fund (DGF) in strengthening its new bank resolution role and in communicating to Ukrainians that their bank deposits are safe. As described below, we met the PMP scorecard target in this area, through FDIC training, developing a communications strategy, and public communications materials developed. Similarly, we invested considerable effort in supporting Ukrainian reformers in addressing continued pension reform. This included providing analytical assistance to help them strengthen the case for holding the line on reforms implemented during the last two years; more effectively regulate and monitor the private pension system (Pillar III), and share with GOU policy makers international best practices on establishing a mandatory contribution private pension system (Pillar II). Specific activities include:

Establishing an enabling environment for effective consumer protection. Consumer protection is a critical issue in the European Union (EU) Accession process. EU Directives on consumer protection have to be implemented within three years after the signing of the Agreement.

- ✓ We supported two key laws submitted to the Verkhovna Rada (VR) on financial consumer protection legislation. FINREP-II worked with champions of these reforms from several parties. We expect the laws to be approved in 2014. Specific work in these areas included:

- ✓ FINREP-II assisted the MEDT's Working Group (WG) to finalize the GOU Action Plan on Financial Consumer Protection 2012-2017 for which the MEDT expressed their appreciation.
- ✓ The project led public outreach on financial consumer protection in close coordination with the World Bank (WB). Throughout the year our team participated in over thirty public presentations, workshops, and AmCham committee events.

Leveling the playing field through sound corporate governance. FINREP-II's assistance contributed to corporate governance in Ukrainian companies by helping to bring legislation in accordance with Organization of Securities Commissions (IOSCO) and Organization for Economic Cooperation and Development (OECD) principles and EU Directives.¹ Key accomplishments include:

- ✓ FINREP-II provided substantive input to three laws and regulations reviewed by the Expert Council on Corporate Governance under the Securities and Stock Market National Commission (SSMNC).
- ✓ We helped forge substantial changes in "squeeze out" provisions protecting minority shareholders.
- ✓ The Cabinet of Ministers approved the Law "On Amending Certain Legislative Acts," increasing corporate governance for Joint Stock Companies (JSCs) in areas highlighted by FINREP-II's technical and legal experts.
- ✓ We pointed out inconsistencies with EU corporate governance directives in four laws. For example, we identified EU-related discrepancies on a major legislative initiative, Draft Law № 2037. Our input, incorporated into the draft law, make JSC procedures more transparent and improve the interaction between majority and minority shareholders.

Ensuring adequate pensions for all Ukrainians. Financing the pensions of an aging population is a significant macroeconomic challenge. In coordination with the WB, FINREP-II played a leading role in advocating best international practices and analyzing the implications of alternative policy decisions.

- ✓ We reviewed over 40 bills introduced in the VR. Many of these called for the repeal of recent reforms, with adverse consequences for Ukraine's fiscal outlook. We provided reformers with analysis on international best practices. In May, we received a letter of commendation from the VR Committee on Social Policy and Labor for this work.
- ✓ Our team delivered technical advice to the State Commission for Regulations of Financial Services Markets (FSR) on the regulation and development of Non-state Pension Funds (NPFs) and on the calculation of the value of a pension fund's asset portfolio and unit (share) value.
- ✓ Ministry of Labor and Social Policy (MSP) WGs regularly requested FINREP-II's expertise on issues related to pension reform, especially regarding the creation and

¹ International Organization of Securities Commissions (IOSCO) has established 30 principles that should guide securities markets and governance related to investor protection; ensuring that markets are fair, efficient, and transparent; and reductions of systematic risks.

launch of the Mandatory Accumulation System (Pillar II) which we coordinated with USAID.

Rolling out a common business language: International Financial Reporting Standards (IFRS). IFRS is the world's standard for accounting and has been required in EU markets since 2005. We continued a leadership role in supporting IFRS implementation to the GOU in three areas: 1) harmonizing standards; 2) improving the speed and quality of financial information through electronic reporting; and 3) public outreach and training for Ukrainian accounts and regulators.

- ✓ In five regional seminars, we trained 580 individuals on IFRS, including 63 SSMNC regulators, 67 CEOs/CFOs, and 40 faculty and students. FINREP produced an acclaimed video on the preparation of IFRS reports which is highlighted on the Ministry of Finance (MOF) website.
- ✓ FINREP-II helped formulate or provided input into 12 laws and regulations proposed or amended through GOU WGs. We participated actively in these groups to discuss inconsistencies between IFRS and Ukrainian regulations.
- ✓ We joined efforts with the MOF to survey 25 Ukrainian businesses using the Accounting Development Took Kit (ADT) developed by the United Nations Conference on Trade and Development (UNCTAD). The ADT is used to determine the harmonization of a country's accounting infrastructure with IFRS.
- ✓ The project worked with the MOF and SSMNC to draft an implementation plan for Extensible Business Reporting Language (XBRL) (which will eventually be an EU requirement) using the SSMNC's electronic information disclosure service (ESCRIN), developed earlier by USAID.

Establishing confidence in the banking system: reforming the deposit guarantee system. FINREP-II assisted the DGF in its transformation to a "bank resolution practice" where it is actively assessing Ukrainian banks *before* they run into trouble and threaten insolvency. We also helped the DGF to explain its role in protecting savings to people throughout Ukraine. Training by the U.S. FDIC and developed communications products and strategy netted 3 points under the PMP scoring methodology, thus meeting the FY13 target.

- ✓ FINREP-II forged the DGF's cooperation with the U.S. FDIC. The FDIC is providing training for key professionals on bank resolution practice, funds management, anti-crisis communications, risk-based premiums, information technology programs, and human resources development.
- ✓ In Q4, we worked with the DGF to enhance its Consumer Call Center and began developing educational video clips for consumers. We also planned for two round tables in Kyiv and eight regional workshops to inform the press and other stakeholders of the DGF's role in protecting savings.

In sum, FINREP-II's work in these important areas contributed to more effective supervision, regulation, transparency and in general, greater confidence in the financial sector.

Objective 2: Develop Financial and Derivatives Markets

Maximizing Ukraine's agricultural potential through the establishment of effective financial instruments. FINREP-II helped the GOU take the first steps in this area with the launching of a discussion on a commodity derivatives market and the development of the Draft Derivatives Law. Each generates a point under the Derivatives and Commodity Exchange scored card developed for the PMP, providing of 2 under the scorecard, which was the PMP target.

- ✓ FINREP-II began engaging the GOU and private sector stakeholders on derivatives market development. We organized the conference “Developing Derivative Instruments for Ukraine’s Agriculture Commodities Markets,” gathering more than 60 GOU and private sector leaders to discuss ways for developing derivative instruments.
- ✓ FINREP-II assisted WGs reviewing the Draft Law on Derivatives sponsored by the Ministry of Economics, Development, and Trade (MEDT) and the SSMNC. We delivered comments on the law which are still under consideration, with many already incorporated. We played a similar role on the Draft Law “On Commodity Exchange Market,” also developed by the MEDT.
- ✓ FINREP-II is preparing a “Roadmap for Commodity Exchange Development” for stakeholder comments in the first half of FY14.

Objective 3: Increase Financial Literacy of the General Population

Financial Literacy (FL) represents the bridge between laws, regulations, financial markets and the lives of ordinary citizens. FINREP-II built on the momentum of its predecessor FINREP program, in two key areas: (1) developing a national financial literacy strategy; (2) roll out of the pilot program for financial literacy in schools. We initiated discussions on a third area, development of national financial literacy website. FINREP-II exceeded PMP targets in this area as highlighted below.

Developing a National Financial Literacy Strategy. In collaboration with the WB, we are assisting the NBU to develop a 2013-2018 strategy.

- ✓ We prepared a draft strategy outline for the National Bank of Ukraine (NBU), generating a dialogue on best international practices.
- ✓ FINREP-II co-hosted with the NBU a workshop attended by over 30 stakeholders to discuss strategy development.

Financial literacy in schools: reaching the young, changing mindsets. FINREP-II exceeded the PMP targets for both schools (80 target, 421 actual) and students (2,500 target, 14,000 actual). We were particularly pleased with the participation of female students (2,500 target, 7,280 actual).

- ✓ Eighty-six schools in urban and rural areas from 18 regions taught the course and over 3,400 students participated during the 2012-2013 academic year.
- ✓ More than 340 additional schools across Ukraine signed up for the next school year. Overall, a total of 421 schools will teach the course during the 2013-2014 academic year, reaching over 14,000 students, making the level of performance on PMP targets for schools and students 526% and 560%, respectively.

- ✓ We made headway on digitalizing the course to make it sustainable and scalable by building a consensus on next steps. We also worked with IBM on technical solutions for the transfer of the course materials. Fostering science and technology innovation, IBM volunteers assisted NBU Banking University (NBU-BU) in developing new strategies for the digitalization of the financial literacy course (see text box on page 22)
- ✓ FINREP-II assisted the Ministry of Education and Science (MOES) and the NBU-BU in assessing the FL course, demonstrating a 20% point increase in FL scores by tested students. This exceeded the PMP target of 7% expected improvement.

Non-traditional approaches to promoting financial literacy.

- ✓ We supported the Young Investors Competition (YIC) organized by the Ukrainian Exchange. Forty-five teams from 30 schools participated in the YIC this year.
- ✓ FINREP-II developed three “Teachable Moments” brochures, acclaimed by stakeholders and geared to promote financial planning through major life events such as getting married, having a baby, buying a home, or getting a new job. In all, FINREP-II developed seven financial literacy learning materials, versus the PMP target of five.
- ✓ The project assisted teachers and students in participating in Global Money Week, an annual event that encourages dialogue with young people about finance implemented by Child and Youth Finance International.

Supporting USAID in the conceptualization of the new Go Women initiative

In September, USAID/Ukraine modified FMI’s contract to include a new \$1.2 million “Growth of Women’s Business and Leadership Program.” USAID/Ukraine developed the “Go Women” Program jointly with FMI as part of a competition held by the USAID Women’s Leadership Incentive Fund. The activity will support over 5,000 Ukrainian women (including low-income groups such as young as well as widowed women, single mothers, those living in rural areas, and individual micro entrepreneurs) in expanding their economic opportunities, leadership skills, social independence, and public engagement.

Public Outreach

- ✓ The FINREP-II website generated 44,683 page views from over 90 countries between January and September. It is updated regularly, with over 200 updates since January. The site is rich in multi-media content such as audio and video clips.
- ✓ FINREP-II staff and consultants contributed to 12 articles for local media on issues ranging from pension reform to consumer protection to FL. They also speak regularly at forums or public events in their technical areas.

In sum, as illustrated in the summary PMP table and Annex A, as well as a checklist of Work Plan components and subcomponents, FINREP-II met its principal objectives and tasks in FY13. Synergies between program activities are instilling greater confidence in the financial sector through greater transparency, a better enabling environment, and better informed citizens. We enter FY14 with a high degree of momentum. The EU Accession process will undoubtedly increase the GOU’s priority in each of the areas where we work, which will provide new opportunities and challenges.

Policy Reform, Governance, and FINREP II

Governance has three legs: economic, political and administrative. Economic governance includes decision-making processes that affect a country's economic activities and its relationships with other economies. It clearly has major implications for equity, poverty and quality of life. Political governance is the process of decision-making to formulate policy. Administrative governance is the system of policy implementation. Encompassing all three, good governance defines the processes and structures that guide political and socio-economic relationships.

-- From "Governance for Sustainable Human Development,"
A UNDP policy document

Effective policy reform is inevitably a governance process, encompassing economic, political, and administrative elements. Implicit in this definition of governance, and sometimes lost in "policy reform," is that they are processes that are ultimately about people. Ordinary citizens. What role they play or can play in policy formulation and what feedback they can have on these policies.

Throughout this first annual report we present a number of stories that attempt to capture this human element. Some are real life experiences. Others are hypothetical examples of how policy initiatives, such as pension reforms, impact individuals. Others may provide a broader swath that illustrates how reforms or the lack of them may impact a larger range of people. The important thing is to remind us that "macro" level economic reforms are not just about studies, assessments, and laws... but about people.

II. PROGRESS BY WORK PLAN ACTIVITY

A. OVERALL PROGRESS

This report discusses progress against PMP objectives, as well as specific tasks mandated in the FY13 Work Plan. With a few exceptions that we discuss below, FINREP-II met or exceeded its benchmarks, as we detail below. Most importantly, FINREP-II is perceived by Ukrainian stakeholders as a lead partner in promoting financial sector reform.

An important reason for this success is the understanding that financial sector reform is a long-term process requiring perseverance and a long-term perspective. Accordingly, our program is building on the momentum and success of its predecessor FINREP program and other USAID efforts to reform Ukraine's financial sector. The knowledge, depth, and experience of the FINREP-II team in legal and regulatory issues of financial markets, pension reform, IFRS, derivatives, and FL, has been key to program success. The project is now in full implementation / impact generating phase of a project beginning its second year.

This report is structured along the FY13 Work Plan tasks, providing a commentary and supporting activities for each of the Work Plan components and subcomponents.

Policy Reform as a Dynamic, Inclusive Process

Promoting policy reform can superficially appear as a straight forward exercise focused on processes. A consultant is hired, they present a study or draft law, it is given to a stakeholder institution. Work completed. In fact, *effective* policy reform is a dynamic undertaking. Even when reforms are passed, they are not always assured, as vested interests often continue to restore special privileges. Reform is a dynamic process requiring strong technical arguments, but also identifying Ukrainian champions, having a thorough understanding of the political and socio-economic waters, and the ability to navigate through these and partner with Ukrainian reformers who can lead and successfully implement these changes, without FINREP-II getting out in front of the process. It is always Ukrainians who must lead. Throughout this document there are references to FINREP-II's work in reviewing laws, providing comments, and advising Ukrainian stakeholders. It is important to keep in mind that what is described is the tip of the iceberg. They are not stand-alone, one-time activities. Behind them is considerable "sweat equity," analytical work, interaction -- including participation and often playing a key role in GOU official Working Groups -- development of strategies, and identifying champions and alliances. Reform is indeed a dynamic, inclusionary process.

B. OBJECTIVE 1: STRENGTHEN SUPERVISION AND REGULATION OF THE FINANCIAL INDUSTRY

This objective covers a variety of program areas, including monitoring of financial legislation in areas such as financial consumer protection, corporate governance, pension reform, and capital markets. It also includes application of international norms and standards, including the introduction of IOSCO, IOPS, and OECD principles, as well as strengthening the national deposit insurance system. These are not, however, one-off individual activities but are interconnected and generate synergies not just to strengthen supervision and regulation of the financial industry, but to establish greater confidence in the financial sector and make it less vulnerable to crises. A common objective or theme between them is related to an important USAID mandatory factor: promoting transparency and a level playing field which promotes investment, jobs, incomes, and equitable growth.

Component 1.1. Financial Sector Policy Development and Monitoring

1.1.a Review key financial sector legislation to identify gaps, duplications, and inconsistencies, and recommend modifications.

During FY13, FINREP-II reviewed and/or helped Ukrainian stakeholders draft over 30 bills and other pieces of legislation. We summarize these in Annex B. As discussed in the text box in the previous page, this was not a matter of simply providing written comments, but an interactive, inclusive process to not only help Ukrainians establish a better enabling environment to promote equitable growth, but to enhance local capacity in these efforts.

Financial Consumer Protection

The GOU recognizes that Ukraine lacks sound consumer protection legislation needed to establish a more stable, resilient financial sector – especially one able to weather future crises. As Ukraine moves towards an Association Agreement with the EU, establishing legislation compliant with EU Directives dealing with consumer protection (consumer credit agreements, unfair business practices, etc.) is a financial sector priority.²

Due to USAID’s sustained efforts, FINREP-II is solidly placed as one of the leading expert organizations in financial consumer protection. We are intensively engaged in the national policy dialogue through participation in GOU working groups (WG), providing technical assistance to the VR, and coordinating with donors such as the World Bank (WB), and public outreach. Major work in this area includes:



FINREP-II works closely with numerous Verkhovna Rada Committees.

- *Support to the VR Banking and Finance Committee on Financial Consumer Protection.* We are providing technical support focusing on analysis of earlier efforts to pass major legislation and assisting the Committee’s staff in development of new legislation. The aim is to introduce a regulatory structure for financial consumer protection and appropriate sanctions, improve consumer disclosure practices, and implement provisions of EU Directive 2008/48 on credit agreements for consumers.
- *Assistance to the Ministry of Economy, Development, and Trade’s Working Group to finalize the GOU Action Plan on Financial Consumer Protection for 2012-2017.* FINREP-II is playing an active role in a WG to help draft the Action Plan. The WG is comprised of the MEDT, the NBU, SSMNC, FSR, the MOF, and the VR’s Antimonopoly Committee. In September, the MEDT expressed their appreciation for FINREP-II’s contributions to the Action Plan, which we expect to be submitted to the Cabinet of Ministers in November/December.

² The Association Agreement foresees consumer protection implemented in Ukrainian within three years after the signing of the Agreement. Therefore, the fact that Ukrainian legislation needs to be changed to improve consumer protection is generally accepted. At play is the ways and means of implementing these reforms, and especially, the extent of their depth.

- *Coordination with the World Bank.* The WB is supporting the GOU in consumer protection and is coordinating its efforts with FINREP-II in areas such as pre-contractual disclosures to consumers, as well as the financial ombudsman system. FINREP-II and WB staff regularly consult on legislation to maximize leverage.
- *Support for AmCham's position papers on consumer protection.* FINREP-II assisted the American Chamber of Commerce's (AmCham) Banking and Finance Committee analysis of consumer protection issues. We were successful in helping AmCham develop a more balanced approach, recognizing that effective laws must also consider the rights of creditors. Through AmCham, FINREP-II is working to move the industry towards a legal and regulatory regime in harmony with EU standards.

Corporate Governance

FINREP-II is helping USAID to achieve its IR2.1 objective of increased investment availability to the emerging middle class. FINREP-II is working to bring legislation in accordance with International IOSCO and OECD principles, and EU Directives. FINREP-II regularly contributed to the Expert Council on Corporate Governance under the SSMNC. Much of our work in supporting these USAID results involved encouraging transparency and avoiding the opportunities for or perception of practices supporting corruption.

Protecting minority shareholders. Weak minority shareholder rights is a major impediment to promoting investment. An important achievement was helping the SSMNC improve a "squeeze out" law which did not fully take into account minority shareholders in a takeover purchase of a company – a situation not uncommon in Ukraine. The law also departed from EU directives. Supported by FINREP-II staff, the SSMNC agreed to substantial changes that establishes a procedure to protect minority shareholders, including selling their shares at fair, market prices. The Cabinet of Ministers approved this Draft Law. The law has now been submitted to the VR, where FINREP-II will monitor its legislative progress and support those People's Deputies promoting the needed reforms.

Ensuring compliance with EU directives and practices. FINREP-II provided extensive comments to another key piece of legislation impacting corporate governance of JSCs – Draft Law № 2037. We highlighted discrepancies between the Draft Law and EU Directives with respect to participation in general shareholders meetings (GSM), restrictions on input to the GSM agenda, and election of members of the supervisory board. Draft Law № 2037 was adopted in its first reading in June and is scheduled for its second reading in November/December. Once implemented, the law will be aligned with EU directives and practices.

The Impact of Governance on Economic Growth and Development

Economic governance – the establishment of a level playing field for all citizens and their ability to be heard in the formulation of laws and regulations – is not just a social good. It is imperative for equitable growth. Numerous professional and academic studies have identified the link between economic governance and development. The International Finance Corporation (IFC) has summarized it as follows:

- Increased access to external financing by firms can lead, in turn, to larger investment, higher growth, and greater employment creation for thousands, if not millions of people.
- Lowering of the cost of capital and associated higher firm valuation makes more investments attractive to investors, also leading to growth and more employment.
- Better operational performance through better allocation of resources and better management generally creates more wealth.
- Good corporate governance can be associated with a reduced risk of financial crises, which is particularly important given that financial crises can have large economic and social costs.
- Good corporate governance can mean generally better relationships with all stakeholders, which helps improve social and labor relationships, helps address such issues as environmental protection, and can help further reduce poverty and inequality.

The graphic below from the 2012 IFC document "Corporate Governance and Development" illustrates the impact between governance (in this case, defined as shareholders' rights) and the depth of the financial system.

Figure 4: Relationship between Shareholders Rights and the Depth of the Financial System



Countries with stronger protection of shareholder rights have larger stock markets.

Source: Own calculations using data from WDI-GDF (2011) and Djankov et al. (2008b).

Pension Reform

- In coordination with the WB, FINREP-II played a leading role in providing decision makers examples of best international practices and the implications of alternative policy decisions. We reviewed over 40 bills introduced to the VR, many of which call for the repeal of all or some of the major reforms undertaken in recent years. This retrenching would result in deficits to the pension system increasing by over US\$1.6 billion. Our team, including international experts, supported reformers who understand the implications of undoing reforms by helping them highlight its consequences. We received a letter of commendation from Mr. Yaroslav Sukhoi, the First Deputy Chairman of the VR Committee on Social Policy and Labor for our work (see also Section 1.1.b below on FINREP-II's support for pension reform).

Capital Markets Development

An important FINREP-II objective is to promote efficient capital markets. In particular, we support the GOU's efforts to expand financial instruments.

- *Avoiding distortions in financial instruments.* FINREP-II alerted USAID and Ukrainian stakeholders of the proposed Financial Treasury Promissory Notes (FTPN) to be used for VAT reimbursement and for servicing of state procurement transactions.

The provision could result in the “freezing” of entities’ liquid assets and cause gaps in servicing the state debt under transactions with suppliers.³ Moreover, there is a risk that it will promote corruption by having “related” companies reimbursed with real money, while reimbursing others with FTPN “paper.” These companies would then sell this “paper” at significant discounts to “related” banks. We also pointed out that both Laws № 407 and № 391 provide that FTPNs have a maturity up to 5 years and yield 5%. The provision is discriminative.⁴ Our staff discussed these issues with the WB,

Policy Reform Accomplishments

The policy reform process is not linear. It is not a matter of a straight path towards reform (or blockage of the reform). It often is a matter of two steps forward, one back, a step forward again, and so on, where perseverance is essential. Even when reforms are accomplished, the interests that oppose them remain busy, trying to undo them. Nonetheless, we had some concrete accomplishments in FY13, including:

- ✓ Facilitating the public policy dialogue on the derivatives market reform and incorporation of many FINREP-II comments in the Draft Law on Derivatives.
- ✓ Introduction in the Parliament of Draft Law on “squeeze-out” to improve the companies’ governance and efficiency and to protect minority shareholders.
- ✓ Renewal of the GOU work on the Action Plan on Financial Consumer Protection and including FINREP-II recommendations.
- ✓ Generating positive changes to Draft Law on securities turnover tax, including deletions key provisions which would have hampered the securities market through inappropriate taxation.
- ✓ Helping champions of pension reform in “holding the line” against undoing reforms initiated in 2011 by providing sound technical analysis.

³ In fact, the GOU introduced the mechanism to postpone the moment of settlement. However, it will only postpone the problem, but not resolve it.

⁴ For comparison, the GOU borrows at the yield rate of 14.25% (for 5-year UAH-denominated domestic bonds (“OVDP”), so the 5% yield is not market-based. FINREP-II also pointed out the long list of legal shortcomings of the aforementioned laws, including: failure to specify the scope of application of FTPNs; failure to specify the maturity of FTPNs; failure to specify whether or not FTPNs earn interest; conflict with Law 407 provisions on the form of securities and the form of the FTPN's issue; disagreement regarding the powers of regulating authorities; and, insufficiently regulating issues regarding the creation and operations of an administrator of the FTPN's electronic circulation system.

leveraging resistance to these measures. FINREP-II will track the FTPN issues, inform partners, and make attempts to limit possible risks by developing secondary legislation, or amending relevant laws.

- *Promoting efficient capital markets.* We assisted the SSMNC in reviewing the Draft Law “On Amending Certain Laws of Ukraine Regarding Qualified Investors.” A “qualified investor” concept identifies investors whose ability to accept investment risk does not require subjecting them to the full range of regulations applicable to most retail investors. However, the Draft Law overlooked EU legislation, as well as misperceived the qualified investor concept. FINREP-II suggested that the law only needs to define who are qualified investors and for what purposes. All other issues may be addressed by the SSMNC in secondary legislation. We will continue working with the SSMNC as well as the WB to harmonize Ukrainian and EU legislation.
- *Discouraging ineffective taxation of financial instruments.* The improper application of taxes results in reducing stock market transactions. FINREP-II reviewed numerous laws with this potential impact. Draft Law № 11285 “On Amendments to the Tax Code of Ukraine Regarding Further Improvement of Administration of Taxes and Fees” is representative of policy “reforms” with the potential to impede capital markets development. The law is complex, but the bottom line was a 3% securities turnover excise tax, in addition to a 19% common corporate income tax. In our dialogue with the VR, we stressed that the excise tax on securities transactions will in fact not raise the expected revenues and will diminish the market’s liquidity. Due to the joint efforts of FINREP-II and the Stock Market Partnership, we succeeded in reducing the negative impact of this law.

1.1.b Assist the Ministry of Social Policy in analyzing international aspects of pension reform related to occupational pensions, non-state pension provisions, and pension assets protection.

The GOU, including the MSP and relevant VR Committees, sees FINREP-II as an important source of information on pension reform.

- We conducted an assessment on the consequences of repealing the 2011 pension reform legislation, especially the roll-back of increased years of service to qualify for a pension and the increase in the retirement age of females. Highlighting the dire fiscal consequences of this policy retrenchment, we circulated materials to key pension reform counterparts in the GOU and the VR.
- FINREP-II provided the FSR comments on the legislation, “On Approving the Regulation on Administering a Non-state Pension Fund,” which would change the methodology for calculating the number of pension asset units, improve personified record keeping, and improve the disclosure of information to non-state pension fund (NPF) participants. We also provided comments regarding proposed changes “On Approving Changes to the Regulation on “Disclosing Information About Non-state Pension Fund Activities,” concerning services to be paid at the expense of participants.
- We assisted the FSR on the proper calculation of the value of a pension fund’s asset portfolio and the proper calculation of the value of a unit (share) of the pension fund. These consultations helped ensure the proper valuation of pension assets and fair distribution among participants.

Pension Reform -- Macro Impact Affecting All Ukrainians



The reforms enacted in 2011 to Ukraine's pension system are instrumental to the country's financial and fiscal health, especially as they affect Ukraine's budget and deficit. But they also have an impact on people.

The 2011 reforms, among other things, necessarily increased the amount of working years required to qualify for a pension and gradually increased the retirement age of women. Over the first ten years, **this reform can reduce the State Pension Fund's deficit by US\$ 6.6 billion.** In other words, they help Ukraine move towards fiscal stability, which will benefit all Ukrainians. Greater stability leads to lower inflation and higher creditworthiness. This leads to lower costs of capital, increased investor trust, and business activity. Higher business activity leads to greater innovation and opportunities for employment in the long-term and rising incomes for all citizens.

The reforms also greatly impact people directly. Take a woman born in December 1956 who worked 20 years and earned the average income. Under the previous laws, she could retire at age 55 (in this example, in 2011). However, under the old system, her pension benefit at this early retirement would be less than the minimum pension level, which in 2011 was US\$ 103 per month. Over a twenty year period after she retires, this woman would receive approximately US\$ 44,800 in pension benefits. It is important to emphasize that even this subsistence level of pension income would not be guaranteed because of the huge and growing deficits of the overall pension system.

Under the new system, the same woman may not retire until age 60, in 2016. However, her pension at age 60 will begin at US\$ 196 per month (nearly double as that with the old system). If she retired at 60, **over the next twenty years she would receive US\$ 81,800 in pension benefits, which is an additional US\$ 37,000⁵.** She would also enjoy income from the five extra years of work, which would be significantly higher than her pension. More importantly, her income is more assured because the pension system would be sound and not experiencing large deficits. The moral: macroeconomic efficiency and positive, real impact on people are consistent. A healthier pension system produces better-off pensioners. USAID's contribution to a sound pension system will positively impact millions of Ukrainians.

⁵ See Annex 4 on how FINREP-II calculated these pension estimates.

- FINREP-II's support of the FSR's efforts to reduce the administrative charges of private pension funds directly impacts how much a participant will receive upon retirement. Each reduction in administration costs per 0.25% of assets increases a person's retirement account by 7.5%.
- FINREP-II sponsored the participation of two FSR officials at the International Organization of Pension Supervisors (IOPS)/Pensions Europe Seminar, "Pension Developments in the Central and Eastern European Region," in Bucharest. The event convened a wide international audience of high-level representatives of regulatory and supervisory authorities of private pension systems.
- We supported updates to the website on pension reform issues in Ukraine (www.pension.kiev.ua), which aims to help Ukrainians better understand how the new pension system works and what benefits it can bring. This contributed to greater transparency and dialogue on these issues.

Component 1.2. Application of International Norms and Principles

This subcomponent incorporated several PMP indicators, including the nation-wide rollout of IFRS and Ukraine incorporating auditing and reporting standards. FINREP-II exceeded the target number of person hours training completed by financial sector professionals (2,320 versus a target of 2,000). We exceeded the target of women trained (1,578 hours actual versus a 1,000 target). USAID efforts in financial reporting contributed to an improvement in the WEF-GCR Strength of Auditing and Reporting Standards Index. Ukraine received a score of 3.7 in the annual index, versus a PMP target score of 3.5 (with higher numbers indicating greater adoption).

1.2.a Support non-bank regulatory agencies, primarily the SSMNC and FSR, in introducing IOSCO principles, IOPS standards, and OECD principles of corporate governance. In supporting the SSMNC and FSR in financial reporting, corporate governance reforms for JSCs, and reforms on squeeze out procedures to provide better protection for minority shareholders, FINREP-II introduced three international principles and standards, including IFRS; OECD principles and EU Directives (see 1.1.a above).

1.2.b Support the MOF, SSMNC, and FSR in the national roll-out of IFRS. IFRS will improve transparency, comparability, and trust in Ukraine's financial sector. FINREP-II provided technical assistance to the MOF, SSMNC, and FSR that focused on harmonization of Ukrainian legislation and regulation with EU Directives and international best practices. IFRS has been required in European Union markets since 2005.

Our assistance is critical because the adoption of IFRS has created inconsistencies between Ukraine's laws and its regulations. Current laws define Ukraine's financial sector accounting standards as IFRS, but in fact, all of Ukraine's financial sector regulations were written for entities using Ukraine's older National Accounting Standards. As IFRS is gradually applied to Ukraine's financial sector (notably Pillar III NPFs during 2013), these inconsistencies must be identified and corrected, especially as part of the EU Accession process.

Our work focused on (1) harmonizing standards; (2) improving the speed and quality of financial information through electronic reporting, i.e., introducing XBRL; (3) public

outreach and training for Ukrainian accountants and regulators; and (4) supporting implementation of IFRS for NPFs.

Harmonizing Standards

- We provided substantive input to regulators on 12 laws and regulations proposed through GOU WGs. FINREP-II assisted these WGs on reconciliation and addressing inconsistencies between IFRS and Ukrainian regulations which brings Ukrainian standards more in line with international best practices.
- Our team successfully advocated the use of the ADT developed by UNCTAD. The ADT is used to determine the harmonization of a country's accounting infrastructure with IFRS and provides an objective assessment of a country's IFRS implementation.
- The project advised the MOF in preparing its accounting reform strategy. The MOF based many points in the strategy on the results of the ADT survey. Other areas included implementing electronic reporting, developing a course with the MOES for business schools to teach IFRS, further developing the licensing process for professional accountants, the use of IFRS as a basis for tax accounting, and the use of International Public Sector Accounting Standards.
- To promote greater public-private partnership and dialogue, FINREP-II improved cooperation between the MOF and the International Accounting Standards Board (IASB), the international accounting governing body responsible for IFRS, by facilitating travel for MOF officials to meetings with the IASB.

Improving the speed and quality of financial information through electronic reporting

- Electronic reporting is an effective means to simplify the reporting burden, decrease labor costs for accounting, and improve the quality of the data. Additionally, it is a harmonization issue since the EU requires that all members implement uniform electronic reporting by 2020 through use of the XBRL.
- We provided technical assistance to the MOF and SSMNC in implementing XBRL using the SSMNC's electronic information disclosure service (ESCRIN), introduced several years ago by USAID through the Capital Markets Project. This allows a regulator to run queries to extract the financial data necessary to review a company. The SSMNC is currently updating ESCRIN.
- FINREP-II facilitated a meeting in Kyiv between the MOF and the IASB in September, which included a conference to promote the use of XBRL. GOU and private sector stakeholders attended.

Public Outreach and Training

FINREP-II's public outreach activities informed stakeholders on IFRS implementation.

- The project promoted the translation of IFRS into Ukrainian. IFRS is published in English and must be translated into every other language. This is a significant undertaking, requiring extensive accounting and language expertise to ensure accuracy. The project supported the MOF's Expert Review Committee to refine the current Ukrainian versions of the IFRS translation, available to accountants on the MOF's website.
- We provided several updates for the MOF's IFRS website. The MOF added these updates that included news, training available to local accountants and auditors, and the FINREP-II video on IFRS reporting.
- In support of public-private partnerships, FINREP-II coordinated cooperation between the SSMNC and the Ukrainian Federation of Professional Accountants & Auditors (UFPA), to support five regional seminars on IFRS implementation. Experts presented amendments to IFRS, SSMNC reporting requirements for financial statements, and changes expected in auditors' reports under IFRS (see table in the next page).
- FINREP-II produced and published an instructional video of the SSMNC seminars, which is available on the project's YouTube channel.

Support implementation of IFRS for Non-State Pension Funds

Pillar III, or the complementary and voluntary private pension system managed by NPFs, is important because it complements public pensions and also promotes capital market development. There are currently 89 NPFs operating in Ukraine, managing over UAH 1.8 billion (US\$ 225 million) in assets for approximately 600,000 participants. Proper oversight protects these individuals' retirement funds.

Why IFRS Matters

International Financial Reporting Standards (IFRS) are nothing less than a common language for business. They are essential for investor trust because financial reporting is the foundation for economic growth. Accordingly, they impact businesses, large and small, as well as economic growth, employment, and incomes of ordinary people. Ukraine has focused for too long on bookkeeping rather than accounting. Bookkeeping is simply the recording of financial transactions, which anyone can perform after minimal training. Bookkeeping for the purposes of tax reporting has been the driving force behind financial reporting in Ukraine. Investors asking for Ukrainian financial reports often receive a copy of the latest quarterly tax filing.

The use of IFRS, which FINREP-II is helping Ukraine introduce, will help create a higher level of transparency in its financial markets, ensure the comparability of Ukrainian financial statements to other markets and raise the value of human resources in the accounting profession. Ukrainian companies reporting under IFRS are more attractive to foreign investors and may also consider listing their stock on foreign exchanges that require IFRS. Likewise, Ukrainian investors will be able to make better financial decisions since there are far more educational materials on analysis of IFRS financial statements than on those produced by Ukrainian accounting standards. Ukrainian business managers will be able to compare their operations to similar international firms and seek operating efficiencies through analysis of financial results.

Finally, proper use of IFRS will improve oversight across the entire financial sector. For example, IFRS will help to better determine the fair market value and allocation of assets held by pension funds (both Pillar II and III) and, in this fashion, one day help increase support for pensioners who live on meager incomes.

Trained Professionals in IFRS By Category

SSMNC/UFPAA Seminars on IFRS Annual Reporting							
Location	Date	SSMNC Regulators	Auditors & Accountants	CEOs & CFOs	Faculty & Students	Other	Total
Poltava	3/14	6	60	13	15	8	102
Kharkiv	3/18	11	99	11	5	11	137
Ivano-Frankivsk	4/1	14	46	17	8	12	97
Donetsk	4/10	15	69	11	5	17	117
Kyiv	4/12	17	65	15	7	23	127
Total Participants		63	339	67	40	71	580

- FINREP-II provided guidance to the FSR on the proper oversight of accounting under IFRS by entities in order to identify inconsistencies between IFRS and FSR regulations and to promote the professional development of regulators.
- The project worked with the FSR on changes that improve NPF accounting and financial statements due to IFRS adoption. This analysis will provide guidance for FSR regulators on how to ensure NPFs adhere to the changes.

1.2.c Initiate a competitive process to select a local accounting association to support IFRS implementation in Ukraine and start the preparation for a direct grant from USAID. In line with USAID Forward objectives, we made headway in selecting and implementing a capacity building program to support IFRS implementation on a sustainable, long-term basis.

- FINREP-II signed Letters of Agreement on participation in the Capacity Building Program with UFPAA and the Ukrainian Association of Certified Accountants & Auditors (UACAA). Both associations committed to the accreditation process to become eligible to apply directly for USAID funding.
- We launched the process of Organizational Capacity Assessments (OCA) for both accounting associations. In September, a FINREP-II OCA consultant conducted initial individual interviews with the key staff in UACAA to gain an understanding of their concerns and issues as a way to guide a facilitated two-day workshop to be held early in FY14.
- The project conducted mapping of existing Ukrainian think tanks working in the financial sector. We met with six Ukrainian think tanks to learn about their capacities, identifying four as possibly being able to carry out these tasks.

Component 1.3. Reform of the Deposit Insurance System

1.3.a Assist the DGF to improve its governance and accountability, including business planning, financial management, reports, and public communications.

FINREP-II met the PMP scorecard target of “3,” through FDIC training, developing a communications strategy, as well as public communications materials.

- We signed a comprehensive Action Plan with the DGF to provide long-term technical assistance on procedures and internal regulations on bank resolution and guaranteed deposit payouts to implement the Deposit Guarantee System Law.

- The project worked with the DGF to enhance its Call Center and to develop two informational and educational video clips that can be broadcast to millions of Ukrainians. For both activities, we reached agreement on content, strategy, and an implementation plan.
- FINREP-II helped the DGF plan two round tables in Kiev and eight regional round tables.⁶ The roundtables will promote increased awareness of the deposit guarantee system and DGF's role in protecting savers.
- Jointly with the DGF, we developed three educational brochures on the deposit guarantee system and depositors' rights and lawful interests to promote the deposit insurance system and build confidence in the banking system.

1.3.b In coordination with the World Bank, promote international cooperation with the U.S. Federal Deposit Insurance Corporation and European counterparts in line with the signed Memorandums of Cooperation.

- We supported FDIC training on bank resolution practice, anti-crisis communications, risk-based premiums implementation, information technology programs, and human resources development. Eight senior and mid-level GOU representatives traveled to Washington, D.C., and Dallas, Texas, to receive this training.
- We engaged DGF staff on additional FDIC technical assistance, identifying bank resolution and IT as two key areas, which the FDIC will provide in FY14Q2. Additionally, one local expert provided by FINREP-II will support DGF legislative initiatives, help amend the DGF's regulations, and provide legal support in bank resolution practice.

Component 1.4. Pension Reform – Pillar II Support (including subcomponents a, b, and c)

International experience demonstrates that a “three pillar” pension system can provide maximum retirement protection to citizens as state resources become increasingly constrained, especially in light of demographic changes characterized by aging populations. This experience has also identified, however, the economic, capital markets, and fiscal conditions that need to be in place for “Pillar II” (a mandatory insurance accumulation system operated by private funds) to succeed. FINREP-II's work focused on assisting the GOU to analyze international experiences in implementing Pillar II programs.

- FINREP-II supported pension reformers and those working on eventual Pillar II implementation. We continued a positive dialogue at policy-making levels of the GOU and VR. In particular, we supported the VR Committee on Pensioners, Veterans and Disabled Persons on pension issues and the VR Committee on Finance and Banking for insurance issues.

⁶ The regional roundtables will take place in Simferopol, Odessa, L'viv, Ternopil, Kharkiv, Donetsk, Dnipropetrovsk, and Zaporizhzhye.

C. OBJECTIVE 2: DEVELOP FINANCIAL AND DERIVATIVES MARKETS

In FY13 we began work on what will be a priority area during the next year, including initiating a dialogue at senior public and private sector levels on derivatives, as well as helping to develop a draft Derivatives Law. Each generates a point under PMP scored card and thus met the PMP target of 2 points.

- We began engaging stakeholders, including senior GOU officials, regulatory bodies, exchanges, and private sector representatives on issues related to the development of a derivatives market.
- FINREP-II organized a conference on “Developing Derivative Instruments for Ukraine’s Agriculture Commodities Markets,” gathering more than 60 GOU and private sector leaders to discuss ways to develop derivative instruments. It included participation of high level GOU, representatives, such as Igor Prasolov, Minister for Economic Development and Trade of Ukraine, Oleksiy Petrashko, SSMNC Commissioner, as well as USAID Mission Director E. Jed Barton.
- We provided the MEDT with detailed comments to the Draft Law on Derivatives to promote best practices. A new Draft Law on Commodity Exchange Markets in September is a step forward. However, it still has many shortcomings, including inconsistencies with the Derivatives Law. FINREP-II consultant Robert Strahota and our legal team undertook a thorough review of this law in September.
- Derivatives markets are complex and require many enabling conditions. Much of the work undertaken this year is the basis for developing a long-term road map or strategy for addressing and establishing these conditions. Especially important in this regard was the public discussion (cited above) in getting key and senior stakeholders to think about these issues. We will provide an initial draft of the roadmap for stakeholder comments by the end of FY14.



Conference Participants Mike Martin and Natalia Berezhna (USAID/EG), E. Jed Barton (USAID Mission Director), Igor Prasolov (Minister, MEDT), Charles Seeger (FMI CEO), Victor Stetsenko (FINREP-II DCOP)



Ukraine requires effective financial instruments if it is to reach its potential as an international agriculture leader.

D. OBJECTIVE 3: INCREASE FINANCIAL LITERACY OF THE GENERAL POPULATION

FL is essential for economic governance. Citizens require a basic understanding of the financial system and its instruments in order to apply them on a daily basis, engage authorities on the fairness and adequacy of financial laws and regulations, and protect their savings and investments. FINREP-II met or exceeded PMP targets in this area as highlighted under subcomponents below.

Component 3.1 Policy Dialogue in Financial Literacy

3.1.a With the World Bank, support the NBU working group in formulating strategies and action plans related to financial literacy. Key activities included:

- We provided short-term technical assistance to help the NBU begin developing a 2013-2018 FL strategy, in coordination with the WB. FINREP-II prepared a draft strategy outline for the NBU, which served as the basis for dialogue on best international practices.
- FINREP-II conducted a workshop for 30 NBU representatives on practical recommendations for developing the National Financial Literacy Strategy and creating a respective Action Plan.
- Working with the WB, we emphasized and were successful in gaining NBU and GOU recognition of the importance of consumer protection, effective prudential regulation, and financial access initiatives as part of a financial literacy strategy.
- FINREP-II participated in an annual five-day NBU workshop entitled “Implementation of the Communications Strategy of the NBU and Program Aimed at Increasing Financial Literacy of Ukrainians.” FL Expert Shaun Mundy presented and discussed the role of central banks in developing the national strategies on FL and the role of the media.
- Throughout the year we engaged the GOU and the NBU at technical and senior levels on the importance of FL. For example, meeting the NBU’s Deputy Governor to reinforce the importance of the FL strategy.
- The project provided comments to the DGF’s Communications Policy, including FL, as requested by DGF management.

3.1.b Support Ukraine’s participation in international networks related to financial education and awareness, e.g., study tours and OECD International Network on Financial Education.

- Fostering public-private sector dialogue and cooperation, FINREP-II sponsored participation of NBU representative Tatiana Rupcheva, Head of the Unit of Bilateral Cooperation of the International Relations Department, at an OECD Conference on financial literacy in Prague, Czech Republic. Senior international officials and experts from ministries of finance and central banks, representatives from the private sector, civil societies, and NGO attended the conference.

3.2 Financial Literacy in Schools

3.2.a Complete the financial literacy course pilot project began by FINREP. Monitor performance, evaluate results, and prepare roadmap for roll-out. The course aims to assist Ukraine's youth to develop the skill sets necessary to become educated financial services consumers, enable them to understand practical aspects of finance, and act responsibly in a modern financial system. FINREP-II exceeded the PMP targets for both schools (80 target, 421 actual) and students (2,500 target, 14,000 actual). We were particularly pleased with the participation of female students (2,500 target, 7,280 actual).

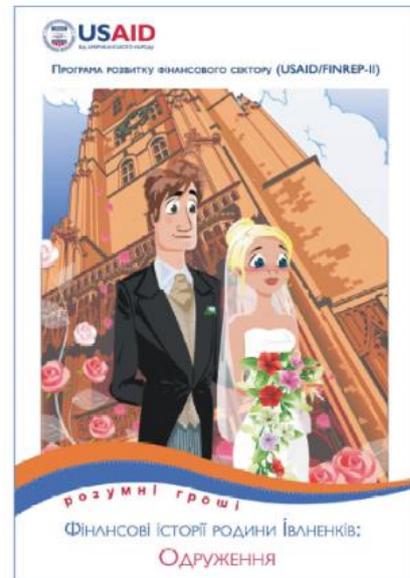
- FINREP-II signed Protocols on Cooperation with the NBU-BU and with the Institute of Innovative Technologies and Content of Education (IITCE) of the MOES to support implementation of the seven-year experimental teaching of the FL course.
- Eighty-six schools in urban and rural areas from 18 regions taught the course and over 3,400 students participated during the 2012-2013 academic year. We helped implement the program with the buy-in and enthusiasm of the NBU-BU, the MOES, and the NBU.
- We supported 25 regional workshops and 15 presentations in Kyiv to promote the FL course across Ukraine. Representatives of the NBU-BU and local authorities conducted the workshops, which included local officials, educational administrators (schools' headmasters, methodologists, directors of technical schools and lyceums), as well as representatives of the regional banking community.
- More than 300 schools across Ukraine signed up for the 2013-2014 academic year, in addition to those enrolled the first year. Overall, 421 schools and over 14,000 students are participating.
- In May, we conducted jointly with the IITCE and the NBU-BU an FL course assessment. The assessment indicated notable improvements in FL. The level of student knowledge increased by 20% points, from 45% to 65%. This exceeded the PMP target of 7% improvement in students who demonstrate an improvement of knowledge and skills in the financial literacy course. The curriculum and course materials were also highly praised by teachers and students, and there is increasing interest by schools in teaching FL, as well as from parents, financial businesses, government officials, members of the VR, and the press. The evaluation also provided guidelines on program expansion in 2013-14 and a "train-the-trainers" program for teachers.

Leveraging the Private Sector and Science and Technology in Financial Literacy: The IBM Corporate Service Corps

IBM's Corporate Service Corps advised the NBU-BU and FINREP-II on relevant technical solutions for the digitalization of the FL Course materials. The IBM team delivered a prototype of an interactive teaching program that may be used on-line for distance learning and off-line in a classroom setting, with functions that include an electronic version of a textbook, video and audio materials, and knowledge control in the forms of games and quizzes. IBM also delivered an analysis of the current IT infrastructure of schools in Ukraine, possibilities for expansion of the FL course, and a list of digital technologies that may be used to finalize the prototype. The IBM report includes technical recommendations (software), a 'demo' of some of the possible interactive elements, an implementation schedule (one year), and estimated cost. This initiative is supported by FINREP-II as part of its strategy to transfer "ownership" of the FL course to the GOU over the next 18 months.

Component 3.2.b Support financial literacy course with website, content, and other materials.

- FINREP-II printed textbooks and provided new schools with all the teaching materials (textbooks and workbooks for students, and teachers' manuals). We also provided 27 sets of the Financial Literacy Course textbook, workbook, and teacher's manual to methodologists (MOES representatives at the Oblast level responsible for economic subjects in schools) in all regions. This allowed the methodologists to have a better understanding of the subject matter of the course and to publicize the course during meetings with school principals. We initiated procurement of textbooks and teacher's manuals when the new academic year began and 335 new schools across Ukraine joined the FL program.
- FINREP-II utilized our website to support the course. We developed a special page to serve as a key communication tool with teachers on the topics covered by the course, as well as supplementary materials. These materials helped teachers prepare for lessons and included useful links, articles, lesson plans, budget spreadsheets, video presentations, in-class activities that encourage discussion and communication, and home assignments for students. We also included an "Ask Our Expert" function that allows teachers to ask questions or raise issues about topics or areas where they need additional information.
- We supported public-private partnership in Science & Technology to digitalize the course materials into electronic form, as well as making them more interactive. FINREP-II worked closely with the NBU-BU and three IBM experts who visited Kyiv for over three weeks in May as part of the IBM Corporate Service Corps Program to help achieve this goal (see text in previous page).



Component 3.2.c Develop a train-the-trainer program with the MOES and NBU/BU.

- Together with the MOES, the NBU, and the NBU-BU, FINREP-II began organizing a train-the-trainer strategy and a training event scheduled for October. Approximately 40 teachers will participate in the program, in line with the PMP target.

3.3 Financial Literacy for All: Non-Formal Methods

3.3.a Conceptualize a web-based financial literacy portal to promote financial literacy and healthy financial behavior.

- FINREP-II provided the NBU recommendations on the development of a FL website. In dialogue with the NBU and other stakeholders, we emphasized the importance of developing a national website and the need to make it simple, useful, and easy to navigate.

3.3.b Design and disseminate brochures and other public educational materials, including personal finance education materials, available on-line and at public libraries.

FINREP-II exceeded the PMP target number of non-formal financial learning materials target of five publications, producing seven, including the “teachable moments” and “Making a Family Budget” brochures.

Complementing the school program, FINREP-II developed FL brochures to help people improve their money management skills and make smarter financial decisions.

Brochures are written in plain language aimed at average citizens and focus on “teachable moments” and issues such as “Making a Family Budget.” These brochures are available on our website.

3.3.c In Coordination with the WB and in cooperation with NGOs and media, increase advocacy in support of investor protection and redress mechanisms.

- FINREP-II supported civil society to promote FL and investor / consumer protection. The project organized a workshop on “The Role of NGOs in the Implementation of Financial Literacy,” attended by representatives of civil society organizations involved in improving FL in Ukraine.
- Throughout the year, we participated in forums highlighting consumer protection. For example, in March we made presentations at the international round table “Financial Consumer Protection: Challenges for Ukraine,” as part of actions devoted to the World Consumer Rights Day.

3.3.d Other non-traditional approaches to promote financial literacy

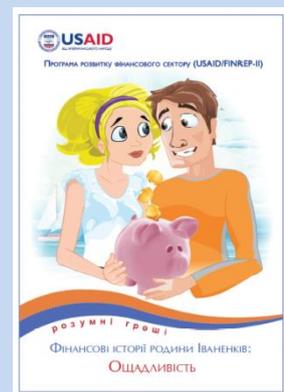
- We supported the Young Investors Competition (YIC) organized by the Ukrainian Exchange. The contest educates contestants on capital markets. Forty-five teams from 30 schools participated in the YIC this year. FINREP-II and the Ukrainian Exchange recognized the national winner and presented awards to the top three schools.
- We also sponsored a similar contest, *Exchange Universiada 2013*, an internet trading competition for university students. The Ukrainian Stock Exchange, under the patronage of the SSMNC, the Agency on Stock Market Infrastructure Development, and brokerage companies, organized the event. A total of 346 students from 65 higher educational institutions participated in the contest.

Reaching people through “teachable moments”



People are more likely to be receptive to financial education at teachable moments, i.e., getting married, having a baby, buying a home, getting a new job, etc. FINREP-II’s brochures aim to help people manage their personal finances wisely during different stages of the life cycle in order to take control of their financial well-being. To make the publications more interesting, we created the fictional characters Olya and Roman Ivanenko. In the brochures, the couple teaches readers how to manage their finances, control expenses, and save enough money to reach financial goals set in different stages of their life.

We’ve developed and published two brochures in the series: “Getting Married” and “Savings.” FINREP-II also developed a brochure entitled “Making a Family Budget,” which gives step-by-step instructions on how to make a budget, and how to set and achieve financial goals. FINREP-II collaborated with the VIS NGO in Vinnytsia and provided them with “Making a Family Budget” brochures. Svitlana Dubyna, Head of the VIS NGO Management Board, used the brochures while conducting training aimed at improving the financial literacy of disabled women and women living in rural areas of Vinnytsia Oblast.



E. GO WOMEN PROGRAM

USAID modified FMI’s FINREP-II Contract to include a new **Growth of Women’s Business and Leadership Program (“Go Women”)**. This activity will support over 5,000 Ukrainian women (including low-income groups, such as young women, widows, mothers of many children, single mothers, those living in rural areas, as well as individual micro entrepreneurs). The USAID/Ukraine Mission was awarded \$1.2 million by the Women’s Leadership Incentive Fund to implement this activity. The Go Women Program will increase women’s financial literacy, expand their economic opportunities, leadership skills, social independence, and public engagement of women in Ukraine. It will promote broad-based economic growth and civil society advocacy initiatives that will help build a new culture of female business and civic leadership. USAID expects the direct impact of the Go Women program to be the emergence of successful female entrepreneurs who are positioned to become leaders across all levels of Ukrainian society.

F. COMMUNICATIONS AND PUBLIC OUTREACH

FINREP-II implemented a proactive communications and outreach program through various instruments, including social media and our website, print articles, and interviews.

F.1 Website

The FINREP-II website became operational in January. We use the website to get out the message of USAID’s contribution to financial sector reform, but also as a practical outreach tool used by thousands of Ukrainians. The FINREP-II website serves different audiences and offers different ways for visitors to find specific topics and to explore the site. The main sections of the website include Legal and Regulatory Environment, Financial Sector Supervision, Financial and Derivatives Market, Financial Literacy and Consumer Protection, Local Capacity Building, and Pension Reform.



- We regularly updated the website content to demonstrate Program accomplishments and to provide the public with insightful information. During FY13, we posted over 200 updates, including news, public outreach materials, legal and regulatory reviews, financial literacy materials, and FINREP-II FOCUS issues. Most materials are published in both English and Ukrainian.

Website statistics January–September 2013

Pageviews	44,683
Visits	16,540 from 90 countries (TOP-3: Ukraine, US, UK)
Top Searched Terms	financial literacy, banking legislation, pension reform (in Ukrainian)
Top Content (by pageviews)	TOP-5 pages: Financial literacy in schools (in Ukrainian); News (in Ukrainian); Job opportunities (in English); Financial literacy and consumer protection overview (in Ukrainian); News (in English).

.The Financial Literacy Course Brings New Dreams and Opportunities



Khrystyna Brzak is a student at Kyiv School № 221. Since childhood, she dreamed of entering the Art Academy and becoming an artist. But when Khrystyna started the Financial Literacy Course last year, her dreams suddenly changed.

From the first Financial Literacy class, Khrystyna found the material so practical and useful that she shared the course materials with her mother, Iryna. She recalls how she convinced her mother to get a debit card. Not trusting the banking system, Iryna only used cash. “At first, my mom was a bit skeptical that I was the one giving advice – I’m just a teenager going to school. Besides, she didn’t put a lot of trust in debit cards – she was afraid of scams,” says Khrystyna. “But, after a while, she realized how much time she saved using the card. And that I’m a pretty good advisor,” she adds, smiling.

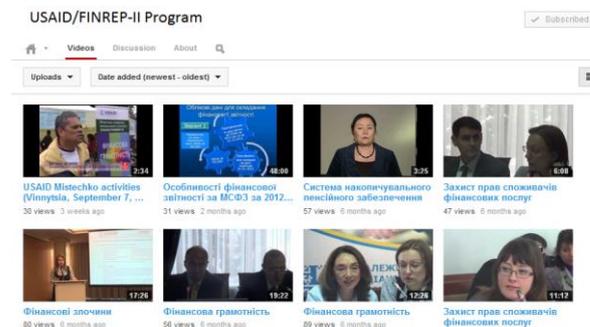
One day, after reading a chapter “Introduction to Personal Finance,” Khrystyna held a family meeting and offered to make a family budget for her mother. In a month, the family noticed they were spending a lot of money on food and utilities. Khrystyna and Iryna analyzed their expenses for the month and found ways to reduce them. “We decided to install water counters, use energy saving light bulbs, and buy long-storage products.” To minimize expenses on food, Khrystyna also decided to help her grandfather in the village to grow fruits and vegetables. Thus, they were able to cut down on food expenses and they were eating eco-friendly products.

After Khrystyna took her family budget under control, some significant changes occurred. “Every month we put aside some money out of my mom’s salary to invest later in mom’s business,” says Khrystyna. Iryna manages her own business – tailoring fur and leather clothes. “I am also filing single taxpayer receipts and payments to the Pension Fund, so my mom has more free time,” she adds proudly.

Khrystyna is very happy that she took the course. She couldn’t imagine that a school subject would influence the life of her family so much. “Thanks to our financial literacy we have already saved some money, and my mom will soon buy new equipment for her workshop,” says Khrystyna. “Now we are planning to open our own boutique of exclusive leather and fur clothing.” After taking the course, Kristina’s dream has changed – she now wants to study finance and work side by side with her mother developing and promoting their family business.

F.2 Social Media

FINREP-II used Facebook and YouTube to promote and disseminate information on our activities this year. We posted 13 videos on YouTube. This includes recordings of FINREP-II events such as financial literacy workshops, consumer protection roundtables, and reproductions of IFRS seminars. We regularly update the Facebook page and use it as an additional communication tool for the project's activities.



F.3 Interviews and Public Events

Throughout the year, the FINREP-II team participated in communications and outreach events, including articles for the media on pensions in . Highlights include:

- We prepared five articles for the media on pensions. Pension Expert Natalia Goryuk was interviewed by leading pension publications widely read by audiences interested in this subject. These included three articles for the *Pension Courier* newspaper; articles on Pillar II legislation commissioned by the FSR; interviews by the Government's *In Contact with People TV Talk Show*; interviews on radio shows, as well as numerous presentations such as the April "Ukrainian Pension System: Problems and Prospects" at a conference held at the Taras Shevchenko National University in Kyiv.
- The FINREP team, including the Head of FINREP-II's Legal Department Yuliya Vitka, and COPs Rosa Chiappe and Danilo Cruz-DePaula, gave numerous interviews to Ukrainian television and radio stations on FL, specific issues regarding consumer protections, and other FINREP-II objectives.
- Throughout the year, FINREP-II staff actively participated and gave presentations at public events sponsored by AmCham, the WB, and a number of GOU institutions. The message was often technically focused, but also included outreach of USAID goals and objectives through FINREP-II.

A Teacher Inspires Village Students to Think About Their Spending Habits

Natalia Lavryshyn works as a teacher at the Comprehension School in the remote village of Pidhorodets in the L'viv Region. In September 2012, Natalia started teaching the Financial Literacy Course to tenth-grade students. "I'm a teacher in a typical village school, so both students and their parents were surprised that we are teaching such an unusual subject." Natalia says that her students were thrilled with the format of the textbooks, which reminded them of textbooks seen on American TV shows and movies. Her students proudly carried them everywhere.



"The Financial Literacy Course created a real buzz in our village," says Natalia. When the academic year started, she asked students' parents to look through the textbooks and read some chapters themselves. "In a couple of weeks the parents were stopping me on the streets asking, 'Is my child really going to learn all that? My child already knows more than I do!' That was really incredible," says Natalia, who has never seen both students and parents so interested in a school subject.



Natalia enjoys teaching the course, especially because students get so excited learning it. Most of all, Natalia likes to share her favorite moments of teaching it. She recalls watching her students as they covered the chapter entitled "Expenses." Natalia gave the students an assignment to write down how much money they were spending during one week and on what. "A lot of my students didn't expect that the amount would be that big. One of them cried out at the lesson, 'Well, I will definitely buy fewer snacks from now on!' Thanks to the course, students understand they need to be more responsible spending money."

Natalia also recalls how her students learned to make a family budget and found ways to save money. The mother of one of Natalia's students said that they started making a family budget at home and they have significantly cut down on expenses.

"Our school is situated 110 kilometers from the regional center, and my students said they were very lucky to learn from a course like this. It teaches how to live, how to become wealthier, and how to make and spend money wisely," says Natalia, looking back at the previous academic year, smiling.

F.4 FOCUS

FINREP-II continued publication of *FOCUS*, an online publication on the latest in GOU debt offerings that is followed closely by capital market participants and financial sector stakeholders. We printed *FOCUS* on a bi-weekly basis from January until late July. At that time it became a weekly publication. In FY14Q1, we will conduct a blind survey of recipients to determine key topics of reader interest and areas for improvement.

F.5 Participation in USAID Field Days

FINREP-II participated in all three USAID Field Days during FY13, including Ivano-Frankivsk on May 11, Simferopol on June 1, and Vinnytsia on September 7. At all three, we highlighted our work on FL through innovative approaches such as FL contests for young people and adults, essays, games, and other means. Our booths attracted a large number of people including teachers and students participating in the FL course who donated their time to staff the booths.



USAID Ukraine Mission Director E. Jed Barton at the USAID Field Day in Ivano-Frankivsk with students and teachers from schools that participated in the Financial Literacy Course during the 2012-2013 Academic Year



FINREP-II Staff preparing for the USAID Field Day in Simferopol on June 1.

G. MANDATORY FACTORS

USAID's mandatory factors such as gender, transparency/anti-corruption, and sustainability are important cross-cutting themes throughout FINREP-II activities. Some issues such as the environment, for example, may not be addressed directly by the program. Yet in promoting more accurate, transparent financial reporting by companies, issues such as a company's issues in dealing with the environment may come to the forefront, where otherwise it would not be the case.

- Promoting women's empowerment is major FINREP-II objective, across all program components, especially those related to financial sector training. As highlighted above, the financial literacy program in schools has been especially successful in empowering young women throughout Ukraine in taking charge of their financial futures. We will increasingly focus on ensuring that we have established mechanisms to collect the data we need to accurately report in this area.
- Linkages and coordination with other USAID programs has been an important dimension of FINREP's work. For example, we coordinated work on derivatives and agricultural markets with USAID's AgrolInvest program. Similarly, dialogued with the Commercial Law Center on numerous laws and corporate governance issues to create synergies between the programs. In FY14 we will place special emphasis on coordination with other USAID programs outside economic growth. This includes, for example, leveraging the work of partners in health, education, and social outreach through the financial literacy component.
- Fostering transparency is a cross-cutting theme reflected in much of our work, e.g., financial reporting, financial consumer protection, pension reform, and financial literacy. In FY14 we intend to address the issue in a more direct way by examining a number of anti-corruption tools including (1) building the capacity on NGOs working in the financial market sector to serve as watchdogs (using innovative tools, such as *report cards* and others) and conduct effective legal education and awareness activities; (2) developing and implementing *Legal Corruption Impact Review (LCIR)* – a tool to identify and remove corruption factors from regulations and laws; and (3) introducing the *Institutional Corruption Risk Management (ICRM)* tool to identify and minimize corruption risk factors within governmental institutions and functions. We are working with our partner, MSI on these ideas and will shortly share them with USAID.
- Sustainability and strengthening local capacity are important cross-cutting themes. In providing support to all GOU institutions, FINREP-II programs either indirectly support building local capacity or do so directly. As noted above, we initiated preparation for two local NGOs to assume the FINREP-II's role in assisting the government in financial reporting issues. Sustainability and strengthening local capacity are also imbedded in assistance to GOU entities such as the DGF, where we are helping them to improve with internal processes and management and in helping them to meet a new, broader mandate.

III. ADMINISTRATION / PROGRAM ISSUES AND LOOKING AHEAD

A. ADMINISTRATION

A.1 Registration

The project became fully operational on March 1, 2013. FINREP-II completed its registration and accreditation process with the MEDT and received full accreditation from the GOU. This process was time consuming, requiring the formulation of Protocols of Cooperation with the Program's 11 intended counterparts. FINREP-II met with the MEDT during to discuss the format of the Protocols and the requirements for FINREP-II's registration, which helped to clarify the requirements of the MEDT and speed up the process of registration.

We constantly coordinated the process with USAID, the MEDT, and Program recipients and beneficiaries. Although time consuming and undoubtedly holding back program implementation in some areas, FMI's extensive experience in Ukraine, our counterpart network, and understanding of requirements, permitted us to complete the process relatively fast. Despite issues related to registration, we continued momentum from FINREP in areas such as Financial Literacy, IFRS, and several other areas.

A.2 Change in Chief of Party

The initial COP resigned in April. This leadership change is challenging for any program. FMI quickly addressed the issue by providing interim COPs, backed by Home Office support, until we were able to recruit an experienced COP. Without minimizing the difficulty of a COP change, FINREP-II was able to in large part absorb this challenge as a result of the extensive experience of its local staff, and support from FMI's home staff, in leading financial sector reform.

B. LESSONS LEARNED

A program such as FINREP-II dealing with multiple government and private sector counterparts is rich in lessons learned. The most salient in FY13 include:

- Practical and focused work plans with counterparts expedite our work and make it more effective. As a result of FINREP-II's long registration process, we entered into several agreements that included too many diverse activities. In FY14 these work plans will be highly focused, emphasizing quality over quantity and tighter links to PMP and other FINREP-II objectives.
- We must continually consider the sustainability, but also the scalability of FINREP-II's work, i.e., the ability to have our programs reach a significant number of Ukrainians in the future. For example, producing videos of training events has proven to be a highly cost effective method of continual training delivery. Over 2012-2013, FINREP-II spent approximately US\$10,000 supporting twelve public training events on IFRS that reached 1,440 Ukrainian regulators, educators, and accountants/auditors. Subsequent production of two videos cost less than US\$1,000, but combined have been viewed more than 3,100 times, free of charge to the Project and viewers. Similarly, the digitalization of the financial literacy text books will permit our stakeholders to reach potentially all Ukrainian schools.

- Legal and regulatory reform remains a big challenge in Ukraine. Laws are changed often, the legislative process often does not follow due procedure, and new laws and regulations are often contrary to market principles and international standards. The work FINREP-II undertakes in continually monitoring financial sector laws is not tied to PMP objectives, yet it is important. Reforms are often under attack by those trying to undo them. This monitoring work is the first line of defense in holding the line on the reform process. The PMP should probably include some indicator to measure accomplishments in this area.
- Participation in the USAID Field Day events is a worthwhile activity. The events provided the opportunity for significant public interaction and outreach and permitted FINREP-II's financial literacy team to have greater interaction with local teachers. Participation has also increased local official awareness of our Financial Literacy Course and led to more schools in the regions requesting participation in the pilot program. In FY14 we plan to participate in USAID Field Days.

C. LOOKING FORWARD

We have agreed with USAID in principle on the FY14 Work Plan. Like all best laid plans, it will undoubtedly be necessary to adapt to changing events in Ukraine and international environments. Chief among these which we perceive is Ukraine's European Accession, the protocol which may or may not be signed this November in Vilnius. Whether an agreement is signed or not, European Accession is likely to remain a priority short- or medium-term goal that will require FINREP-II to respond to specific EU requirements and could potentially lead to a reassessment of program priorities.

Major areas of work and challenges in FY14 by project objective include:

Strengthen Supervision and Regulation of the Financial Industry

- Continued monitoring legislation and events affecting the financial sector. In particular and regardless of the results from the European Accession Conference in Vilnius in November, FINREP-II will need to continue supporting and identifying technical areas of financial sector reform where we can contribute to the accession process through implementation of international and EU standards.
- Support defenders of the pension reforms undertaken in recent years. In particular, in FY14 we will have to assess jointly with USAID our support for Pillar II preparation and roll-out. We believe that USAID pension reform support is warranted. At the same time, FINREP-II must ensure that conditions are correct for launching. We will continue coordinating this activity closely with the World Bank.
- IFRS roll out. This will remain an important area for FINREP-II. Together with USAID, we will have to assess requests from GOU institutions where coordination is sometimes lacking. A similar issue exists with respect to competing accounting NGOs and the effectiveness of continuing to assist both.
- Enhance the DGF's capabilities to assume an expanded role as well as outreach to Ukrainians. In particular, an important objective will be to strengthen ties with the U.S. FDIC. We will also provide technical assistance to the DGF to expand its institutional capabilities.

Develop the Financial Derivatives Markets

- A major challenge will be helping to establish the legal framework necessary for an effective market, particularly progress on the Law on Derivatives and the Law on Commodities Exchange, which began in FY13. In many ways, this legal framework is a prerequisite for work in this area. FINREP-II will strategize with GOU and private sector stakeholders on moving the framework forward. To a large extent, progress in this area is contingent on how fast the GOU moves in these areas. Patience and perseverance must be the norm.
- Parallel to the legal framework process, FINREP-II will complete the derivatives “road map” to attain GOU and private sector consensus on a derivatives strategy.

Financial Literacy

- In coordination with the World Bank, in FY14 we will be urging the NBU on completing a national financial literacy strategy that is consistent with international best practices. We will continue working with NBU and GOU stakeholders and contacts to accelerate the process.
- Digitalization of text books will be the top priority with respect to the financial literacy in schools program. We will work with the NBU, the National Banking University, the Ministry of Education and Science, and other stakeholders to first establish a working group to lead this process, which needs to be completed by April, 2014.
- Producing a top-notch financial literacy website will be the third major challenge in this area. We initiated this work in FY14, but it is still at the discussion stage. The NBU work in this area is progressing, but not at the pace or with the sufficient buy-in that is necessary. Moving the process from discussion to implementation mode will be our challenge.

Go Women

- Getting the Go Women team on board, including not just a team leader but Ukrainian implementing partners, will be a priority during the first two quarters. We will aim to leverage FINREP-II components such as financial literacy, as well as the work of other partner programs such as AgroInvest to hit the ground running and generate early successes.

IV. FINANCIAL REPORT (ACCRUALS FROM OCTOBER 2012 – SEPTEMBER 2013)

The table below summarizes FINREP-II's budget and accruals to date.

Category	Total Budgeted		Cumulative	
	Days	Dollars	Days	Dollars
I. Labor				
Long-Term				
Expats	1,160	766,659	186.00	118,110.00
CCNs	8,900	1,552,396	1,355.75	258,498.59
Short-Term				
US Expats	898	518,676	175.00	111,125.00
CCNs	2,474	337,511	42.38	4,033.05
TCNs	196	60,126	67.25	42,703.75
Home Office	378	184,050	99.13	43,483.26
Total Labor	14,006	3,419,418	1,925.50	577,953.64
II. Total Travel		738,177		205,703.14
III. Total Other Direct Costs		4,153,175		538,363.49
IV. Total Subcontractor (ODCs)		508,898		34,588.15
V. Total Indirect Costs		3,012,129		494,174.22
VI. TOTAL COSTS		11,831,797		1,850,782.64
VII. FIXED FEE		591,590		92,539.13
TOTAL COST PLUS FIXED FEE		12,423,387		1,943,321.77

FINREP-II has a contractual period of performance from October 1, 2012, to September 30, 2017. The total budget for this Cost plus Fixed Fee (CPFF) Contract is \$12,423,387, with an initial obligation from USAID of \$3,600,000.

The FINREP-II Project's accrued expenditures in FY14 of \$1,943,322 (October 1, 2012 to September 30, 2013). FMI's average monthly invoice in FY1 was \$161,943.

Total and monthly expenditures were slightly lower than expected. FMI utilized 15.6% of the budget in this first year. FMI had expected to utilize approximately 20% in FY13. This lower burn rate is due to two main reasons: (1) the registration period from October 2012 to January 2013 during which FMI could not fully mobilize expatriate short-term technical experts;⁷ and (2) resource savings during the "overlap" period between the FINREP and FINREP-II Projects (October 2012 to December 2012).⁸

⁷ FMI completed the FINREP-II registration process in less than four months, which is significantly faster than the average registration time period.

⁸ For example, FMI had originally budgeted for a full local staff of nine CCNs for a total of 2,272 LOE days. However, due to the continuation of FINREP through December 2012, many of those staff members remained on the FINREP payroll. FMI CCNs burned 1,541 LOE days, which was 731 LOE days less than expected (approximately \$200,000). Additionally, FMI had originally budgeted \$27,000 for a new server, copier, and other equipment set-up. However, due to equipment transfers from FINREP, FMI did not make expenditures on these items in FY1. FMI has estimated that approximately \$300,000 (2.5% of the Total Budget) was saved in FY1.

During FY13, the one significant overrun was the “total travel budget.” FINREP-II’s FY13 total travel expenditures were \$205,703.14. FMI had originally budgeted \$150,844 in FY13. FMI utilized approximately 27% of the total overall travel budget in this first year. This overrun of \$55,000 is due to several necessary costs, including: COP mobilization; an Interim COP; a permanent COP; and project start-up costs in which HQ personnel traveled to Ukraine. FMI will monitor and control this line item going forward. FMI expects that FINREP-II’s travel expenditures in FY2 will normalize due to: (1) COP stabilization; (2) mid-week travel dates; and (3) less frequent HQ field visits.

FMI expects that in FY14, the total year expenditures will be approximately \$3.5 million (burn rate of approximately 28%). FMI expects that the average monthly invoice will be between \$300,000 and \$350,000. This is due mainly to increases in level of intensity in Component 2 (Low to Medium) and Component 3 (Medium to High), as well as Go Women implementation.

V. ANNEXES

Annex 1 PMP, including FY13 Targets and Actuals

Annex 2 FY13 Work Plan

Annex 3 List of Major Deliverables

Annex 4 Calculation of Pension Benefits

Annex 1: Performance Monitoring Plan



FINANCIAL SECTOR DEVELOPMENT PROGRAM (USAID/FINREP-II)

Updated
November 19, 2013

Performance Monitoring Plan

	Indicator (Indicator Definition & Unit of Measure)	Baseline	FY13 Target	FY13 Actual	FY14 Target	FY15 Target	FY16 Target	FY17 Target	Cumulative End-of-Project Target (if applicable)	Data Source	Frequency of Collection & Responsible Individual
Standard Foreign Assistance Indicators Strategic Objective 4. Economic Growth Program Area: 4.2 Trade and Investment <ul style="list-style-type: none"> Program Element: 4.2.1. Trade and Investment Enabling Environment Program Element: 4.2.2. Trade and Investment Capacity 		Program Area: 4.3 Financial Sector <ul style="list-style-type: none"> Program Element: 4.3.1. Financial Sector Enabling Environment Program Element 4.3.2: Financial Sector Capacity Program Area: 4.7 Economic Opportunity <ul style="list-style-type: none"> Program Element: 4.7.3 Strengthen Microenterprise Productivity 									
USAID Overall Project Progress and Performance											V. Stetsenko
Improvement of Ukraine's investment climate and its attractiveness to investors.	European Business Association (EBA) Investment Attractiveness Index Unit: 1-5 EBA scale, with 1 being "very poor"	2.18	2.2	2.39	2.3	2.5	2.8	3.0		EBA	Quarterly
Improvement of the financial regulatory environment.	The Economist Intelligence Unit (EIU) Financial Regulatory System Index Unit: 1-5 EIU scale, with 1 being "very poor," 5 "very good," and 3 "fair"	1.3	1.3	1.5 TBC	1.5	1.7	2.0	3.0		EIU	Annually
Regulatory environment is more conducive to starting and operating a local firm.	The Protecting Investors Index (WB Doing Business Report) Unit: Country ranking, from 1-183	111	110	128	105	100	95	90		WB	Annually
Development of non-bank financial institutions.	EBRD non-bank financial institutions reform index (EBRD Transition Report) Unit: 1-4+ EBRD scale, with 1 being "little progress," and 4+ being "the standards of an industrialized market economy"	2+	2+	2+	3-	3	3+	4		EBRD	Annually
Deposit Interest Rate lowered.	Weighted average cost of local currency term deposits Unit: Deposit Interest Rate (NBU)	9.4%	9.4%	10.09	9.1%	9%	7%	6.5%		NBU	Annually
Financial market development and strengthening.	World Economic Forum (WEF) Financial Market Development Index (WEF Global Competitiveness Report) Unit: 1-7 WEF scale, with 1 being "very poor"	3.4	3.4	4.1	3.6	3.9	4.0	4.6		WEF-GCR	Annually

	Indicator (Indicator Definition & Unit of Measure)	Baseline	FY13 Target	FY13 Actual	FY14 Target	FY15 Target	FY16 Target	FY17 Target	Cumulative End-of-Project Target (if applicable)	Data Source	Frequency of Collection & Responsible Individual
PROJECT OBJECTIVE 1: Strengthen Supervision and Regulation of the Financial Industry											
Component 1.1: Financial Sector Policy Development and Monitoring											V. Stetsenko
a. Financial sector supervisors are trained in international principles and standards in the areas of securities market and investor protection, pension funds and corporate governance.	Person hours of training completed by financial sector supervisors in international standards Unit: # of person hours of training completed by financial sector supervisors	0	200	512	500	600	400	200	1,900	FINREP II	Annually
	Person hours of training completed by females financial sector supervisors in international standards Unit: # of person hours of training completed by females financial sector supervisors	0	100	136	250	300	200	100	950		
b. The GOU uses independent analyses and public-private dialogue to adopt more sustainable financial sector policies.	EIU Sovereign Debt Risk Model Unit: EIU score, 0-100, with lower scores meaning lower risks	67	67	69 TBC	65	62	58	50		EIU	Annually
c. A local organization is capable of performing sound analyses of important financial sector developments, government debt management, and relevant pension issues by the end of Year Three.	Local organization can conduct the financial sector monitoring functions and meets USAID pre-obligation requirements Unit: Y/N	N	N	N	N	Y	Y	Y	Y	FINREP II	Annually
Component 1.2: Application of International Norms and Principles											B. Hill
a. IFRS reporting is rolled out nationwide to increase Ukraine's financial transparency.	Person hours of training completed by financial sector professionals in international standards Unit: # of person hours of training completed by financial sector professionals	0	2,000	2,320	4,000	6,000	-	-	12,000	FINREP II	Annually
	Person hours of training completed by females financial sector professionals in international standards Unit: # of person hours of training completed by females financial sector professionals	0	1,000	1,578	2,000	3,000	-	-	6,000		
b. Ukraine has incorporated auditing and reporting standards.	WEF-GCR Strength of Auditing and Reporting Standards Index Unit: WEF-GCR score (higher scores are associated with greater adoption)	3.5	3.5	3.7	3.8	4.0	4.5	5.0		WEF-GCR	Annually
c. A local accounting association successfully promotes IFRS nationwide and meets USAID pre-obligation requirements by the end of Year Two.	Local accounting associations meets USAID pre-obligation requirements Unit: Y/N	N	N	N	Y	Y	Y	Y	Y	FINREP II	Annually
Component 1.3: Reform of the Deposit Insurance System (this task will require coordination with the World Bank)											V. Stetsenko
a. Improved DGF provides better financial safety to retail depositors covered by the GOU deposit insurance program in Ukraine.	Number of material improvements in the DGF that provide better financial safety to retail depositors Unit: # of material improvements (see scorecard of DGF Institutional Development Readiness - Attachment 1, baseline is 10 – FINREP end-of-project target)	10	3	3	2	2	2	1	20	DGF, FINREP II	Annually
Component 1.4: Pension Reform – Pillar II Support (Implementation of this Component will require a separate approval from USAID)											N. Goryuk
a. Pillar II mandatory accumulation system is launched and provide full disclosure on a regular basis.	Pillar II mandatory accumulation system is launched Unit: Y/N	N	N	N	N	Y	Y	Y		MSP, PFU	Annually

	Indicator (Indicator Definition & Unit of Measure)	Baseline	FY13 Target	FY13 Actual	FY14 Target	FY15 Target	FY16 Target	FY17 Target	Cumulative End-of-Project Target (if applicable)	Data Source	Frequency of Collection & Responsible Individual
b. Increased share of assets of private pension funds to GDP.	Percentage increase of share of private pension funds to GDP Unit: Assets of private pension funds to GDP ratio	0.01%	0.01%	0.12%	0.5%	1%	3%	5%		FSR	Annually
PROJECT OBJECTIVE 2: Develop Financial and Derivatives Markets											
Component 2.1: Enabling environment											V. Stetsenko
a. Derivatives and commodity exchange legislation framework is finalized, including regulations and oversight responsibilities and is compliant with the international investment framework.	Number of material improvements in the derivatives and commodity exchange legislation framework Unit: # of material improvements (see scorecard of Derivatives and Commodity Exchange legislation readiness – Attachment 2)	0	2	2	6	6	3	2	19	SSMNC, MOE, NBU, Rada, FINREP II	Annually
b. Ukraine's policymakers, civil society and private firms formulated and adjusted derivatives trade policy to help businesses take advantage of opportunities that result from freer trade and investment.	Person hours of training completed in trade and investment capacity building supported by USG assistance Unit: # of person hours of training completed by participants	0	0	0	0	300	800	400	1,500	FINREP II	Annually
	Person hours of training completed in trade and investment capacity building supported by USG assistance – female participants Unit: # of person hours of training completed by female participants	0	0	0	0	150	400	200	750	FINREP II	Annually
c. Ukraine's private sector increasingly uses stock market instruments and modern risk management systems and practices.	Stock market capitalization as % of GDP Unit: Stock market capitalization to GDP ratio	28.6%	30%	9.3%	35%	45%	55%	100%		SSMNC, MOA, MOE, CEs, SEs	Annually
	Dollar value of Ukrainian-traded commodity contracts Unit: \$ value of Ukrainian-traded commodity contracts	0	0	0	\$0.2 bln	\$0.5 bln	\$1.5 bln	\$2 bln			
d. Improved the efficiency of the judicial system in resolving a commercial dispute	Cost of enforcing contracts as % of claim Unit: Doing Business data on cost to claim ratio	41%	40%	45%	37%	34%	30%	25%		MOJ	Annually
e. Ukraine's regulatory authorities, commercial courts judges and private sector representatives demonstrate better understanding and consistent application of appropriate dispute settlement and enforcement techniques and procedures required to trade goods across borders in order to build confidence in using derivatives and commodity exchanges and to improve compliance with international trade and investment agreements	Training program for financial sector regulators is designed Unit: Y/N	N	N	N	N	Y	Y	Y		FINREP II	Annually
	Person hours of training completed by financial sector regulators in trade and investment enabling environment Unit: # of person hours of training completed by financial sector regulators	0	0	0	0	400	400	200	1,000		
	Training program for judiciary is designed Unit: Y/N	N	N	N	N	N	Y	Y			
	Person hours of training completed by judiciary in trade and investment enabling environment Unit: # of person hours of training completed by judiciary	0	0	0	0	0	200	200	400		
	Training program for private sector representatives is designed Unit: Y/N	N	N	N	N	Y	Y	Y			
	Person hours of training completed by private sector representatives in trade and investment enabling environment Unit: # of person hours of training completed by private sector	0	0	0	0	600	1000	400	2,000		
Component 2.2: Financial Instruments											V. Stetsenko
a. New financial investment products are tested and introduced to market participants.	Number of new financial instruments tested and introduced to market participants Unit: # of instruments	0	0	0	0	1	2	2	5	SSMNC, NBU, FINREP II	Annually
b. Ukraine's small farmers, producers, bankers and traders/brokers trained in risk	Number of small/medium farmers trained in risk management systems and practices	0	0	0	0	250	250	250	750	FINREP II	Annually

	Indicator (Indicator Definition & Unit of Measure)	Baseline	FY13 Target	FY13 Actual	FY14 Target	FY15 Target	FY16 Target	FY17 Target	Cumulative End-of-Project Target (if applicable)	Data Source	Frequency of Collection & Responsible Individual
management systems and practices to ensure commodity futures exchange trading is financially sound, transparent and efficient.	Unit: # of small farmers trained										
	Number of producers trained in risk management systems and practices Unit: # of producers trained	0	0	0	0	50	75	50	175		
	Number of bankers trained in risk management systems and practices Unit: # of bankers trained	0	0	0	0	20	20	10	50		
	Number of traders/brokers trained in risk management systems and practices Unit: # of traders/brokers trained	0	0	0	0	10	10	10	30		
PROJECT OBJECTIVE 3: Increase Financial Literacy of the General Population											
Component 3.1: Policy Dialogue on Financial Literacy (in close cooperation with the World Bank)											V. Stetsenko
a. Increased level of public confidence in financial institutions.	Bank's NPLs as % of total loans Unit: Nonperforming loans to total loans ratio	15.3%	15%	14.1%	13%	10%	8%	7%		NBU	Annually
	Credit as % of GDP Unit: Credit to GDP ratio	73.8%	75%	49.5%	80%	85%	90%	100%			
	Interest rate spread Unit: Interest rate spread percentage	-3.9%	3.8%	5.4%	3.6%	3%	2.8%	2.5%			
	Total private sector loans to total deposits Unit: Total private sector loans to total deposits ratio	163.7%	170%	135%	175%	180%	185%	190%			
b. A local NGO successfully promotes financial awareness nationwide and meets USAID pre-obligation requirements by the end of Year Three.	Local organization can promote financial awareness nationwide and meets USAID pre-obligation requirements Unit: Y/N	N	N	N	N	Y	Y	Y	Y	FINREP II	Annually
Component 3.2: Financial Literacy in Schools											N. Lozitskaya
a The financial literacy component is successfully integrated in school curricula and graduate/postgraduate programs for public school teachers is rolled out.	Train-the Trainers program for public school teachers is designed and implemented Unit: Y/N	N	N	Y	Y	Y	Y	Y		MES, NBU/BU, FINREP II	Annually
	Number of education specialists successfully trained with USG support Unit: # of teachers trained	30	40	37	80	200	100	80	500		
	Implement regional financial literacy pilot course for public schools Unit: # of public schools involved	15	80	421	250	1,000	4,000	4,000	9,345		
	National financial literacy course roll-out plan is prepared Unit: Y/N	N	N	Y	N	Y	Y	Y			
	National financial literacy course is digitalized Unit: Y/N	N	N	N	Y	Y	Y	Y			
	Number of students enrolled in financial literacy program and/or equivalent non-school based settings Unit: # of student trained	500	2,500	14,000	5,000	20,000	80,000	80,000	188,000		
	Number of females students enrolled in financial literacy program and/or equivalent non-school based settings Unit: # of females student trained	250	1,250	7,280	2,500	10,000	40,000	40,000	94,000		

	Indicator (Indicator Definition & Unit of Measure)	Baseline	FY13 Target	FY13 Actual	FY14 Target	FY15 Target	FY16 Target	FY17 Target	Cumulative End-of-Project Target (if applicable)	Data Source	Frequency of Collection & Responsible Individual
	Number of textbooks and other teaching materials prepared with USG assistance Unit: # of textbook prepared	3	0	1	4	4	3	3	14		
b. Graduates demonstrate increased level of financial literacy and awareness after completing financial literacy course.	Proportion of student who demonstrated the improvement of knowledge and skills after the financial literacy course Unit: % increase of entry/exit FL knowledge test	0%	7%	20%	10%	20%	25%	25%		FINREP II	Annually
	Proportion of female student who demonstrated the improvement of knowledge and skills after the financial literacy course Unit: % increase of entry/exit FL knowledge test of female Students	0%	7%	20%	10%	20%	25%	25%			
Component 3.3: Financial Literacy For All – Non-Formal Methods											N. Lozitskaya
a. Public financial literacy has increased nationwide.	Number of financial literacy learning materials prepared Unit: # of learning materials prepared	0	5	7	10	10	10	5	40	FINREP II	Annually
	Number of financial literacy initiatives facilitated and launched Unit: # of financial literacy initiatives facilitated and launched	0	0	7	2	2	2	2	8		
b. A Central Financial Literacy Web-Based Portal launched and serves the collaboration space among all stakeholders and is maintained on a sustainable basis by a local organization.	A Central Financial Literacy Web-Based Portal launched Unit: Y/N	N	N	N	Y	Y	Y	Y		FINREP II	Annually

Attachments

<u>Attachment 1: Scorecard of DGF Institutional Development Readiness</u>		<u>Attachment 2: Scorecard on Derivatives and Commodity Exchange legislation readiness</u>	
1.DGF training & twinning program with FDIC and other counterparts under the MoU launched in the US and Ukraine	1+1 points	1.Discussion on commodities derivatives market launched	1 point
2.DGF new organizational structure introduced	1 point	2.The road map for derivatives/commodities market regulatory and oversight regime developed	1 point
3.DGF public communication strategy developed	1 point	3.The licensing requirements for derivatives/commodities market participants established	1 point
4.DGF public communication materials developed	1point	4.Standard/model contracts for different classes of derivatives/commodities drafted	1 point
5.DGF Public communication department is equipped and trained	1+1 point	5.Policies and practices to minimize the costs of enforcing the contracts developed	1 point
6. DGF internal procedures and regulations developed/updated	1 point	6.Drafts Derivatives and Commodity Exchange Laws developed	1+1 points
7.DGF new business planning, financial management and reporting procedures introduced/updated	1 point	7.Drafts Derivatives and Commodity Exchange Laws approved by the Cabinet of Ministers and submitted to the Rada	1+1 points
8.DGF IT technology improved/updated	1 point	8.Draft Derivatives and Commodity Exchange Laws approved by the Rada Committee	1+1 points
TOTAL POINTS/IMPROVEMENTS	10	9.Draft Derivatives and Commodity Exchange Laws passed first reading	1+1 points
		10.Derivatives and Commodity Exchange Laws became effective	1+1 points
		11.Regulatory acts to implement the Derivatives and Commodity Exchange Laws developed	1+1 points
		12.Education campaign for judiciary of dispute settlement and fair adjudication process in commodity/derivatives trading launched	1 point
		13.Public education and training program for producers and market professional on effective risk management system launched	1 point
		TOTAL POINTS/IMPROVEMENTS	19

Annex 2: Work Plan



FINANCIAL SECTOR DEVELOPMENT PROGRAM (USAID/FINREP-II)

Updated
August 20, 2013

*Work Plan

October 2012 to September 2013

(*FINREP-II was registered and became fully operational on March 1, 2013)

Activity Description	2012			2013									Counterpart/ Coordinate	Staff	Deliverable	Key Benchmarks for Category	
	10	11	12	1	2	3	4	5	6	7	8	9					
Administrative																	
1. Project Launch														FMI HQ, USAID Mission	Stetsenko, Buchynska	Staff, equipment, office	Project is functional
2. Project Registration with MOE (with first 5 recipients/beneficiaries) and accreditation														USAID Mission, MOE	Stetsenko, Buchynska	Protocols of Cooperation; FINREP II registration card	FINREP II is registered and accredited with the MOE and GDIP
3. Annual Action Plans with first 5 Project's recipients/beneficiaries developed and signed														SSMNC, FSR, MSP, PFU, DGF	CoP, Stetsenko	First Year Annual Action Plans	Developed and submitted
4. Protocols of Cooperation and Annual Action Plans with other Project's beneficiaries/recipients														NBU, MOF	CoP, Stetsenko	Protocols of Cooperation; First Year Annual Action Plans	Developed and submitted
5. Strategy, Synergy Development, Management														USAID Mission	CoP, Stetsenko, Staff	Work Plan and PMP	Work Plan and PMP submitted to USAID
6. Administration														USAID Mission	CoP, Stetsenko, Buchynska	Monthly Budgets	Accurate and Timely
7. Quarterly Reports				X			X				X			USAID Mission	CoP, Stetsenko	Quarterly Reports	Completed and submitted
8. Annual Report													X	USAID Mission	CoP, Stetsenko	Annual Report	Completed and submitted
9. Weekly Highlights														USAID Mission	CoP, Stetsenko, Lozitskaya, Hill	Weekly	Completed and submitted
10. Liaison with IMF, WB, and EU														IMF, WB, and EU	CoP, Stetsenko	Regular Coordination	Completed and submitted
11. PMP development/update		X				X								USAID Mission	CoP, Stetsenko	PMP	Completed and submitted
12. Annual Work Plan development/update		X											X	USAID Mission	CoP, Stetsenko	Annual Work Plan	Completed and submitted

PROJECT OBJECTIVE 1: Strengthen Supervision and Regulation of the Financial Industry (FY1 Priority – High)

Component 1.1: Financial Sector Policy Development and Monitoring

a. Review key Ukrainian financial sector legislation to identify gaps, duplications and inconsistencies, and recommend modifications.	ON-GOING	NBU, SSMNC, FSR, WB, IMF	Vitka, Strahota	Analysis on Ukrainian financial sector legislation with recommendations.	Sound legal framework for financial sector development in Ukraine.
b. Assist the MSP in analyzing international aspects of	ON-GOING	MSP, PFU	McTaggart, Goriuk	Papers and memoranda on	International experience

Activity Description	2012			2013									Counterpart/ Coordinate	Staff	Deliverable	Key Benchmarks for Category
	10	11	12	1	2	3	4	5	6	7	8	9				
pension reform related to occupational pensions, non-state pension provision, and pension assets protection.														selected international aspects of pension reform.	with MAS system implemented in Ukraine.	
Component 1.2: Application of International Norms and Principles																
a. Support non-bank regulatory agencies (primarily, SSMNC and FSR) in introducing and applying IOSCO principles, IOPS standards, and OECD principles of corporate governance.													SSMNC, FSR	McTaggart, McDonald, Hill, Goriuk, Vitka, Strakhova	IOSCO principles, IOPS standards and OECD corporate governance principles updated by SSMNC and FSR.	International standards and guidelines on corporate governance, public disclosure, investor protection, and market oversight incorporated in legislation and practice.
b. Support the MOF and SSMNC in the national roll-out of IFRS standards.													MOF, NGOs	Hill	Accountant professionals trained for new IFRS standards.	IFRS applied in real economy, services and financial sector.
c. Initiate competitive process to select a local accounting association to support IFRS implementation in Ukraine and start the preparation for direct grant support from USAID.													NGO (TBD)	Tatarinova, Hill	A local accounting association(s) selected for direct grant support from USAID to further support IFRS implementation in Ukraine.	A local accounting association successfully promotes IFRS nationwide and meets USAID pre-obligation requirements by the end of Year Two.
Component 1.3: Reform of the Deposit Insurance System (this task will require coordination with the World Bank)																
a. Assist the DGF to improve its governance and accountability, including business planning, financial management, reports, and public communication.													DGF, FDIC, WB	Stetsenko, Lozitskaya	DGF's governance and accountability improved. Public communication policy improved.	DGF increases confidence and safety of deposits covered by the GOU deposit insurance program.
b. In coordination with WB promote international cooperation with the U.S. Federal Deposit Insurance Corporation (FDIC) and European counterparts in line with the signed Memorandums of Cooperation.													DGF, FDIC, WB	Stetsenko, STTA	DGF's international cooperation with the U.S. FDIC and European counterparts developed and effective.	Ukraine has incorporated best international practice on deposit insurance.
Component 1.4: Pension Reform – Pillar II Support (Implementation of this Component will require a separate approval from USAID)																
a. Comment on the MSP and PFU legislation needed to launch and operate the Pillar II.													MSP, PFU	McTaggart, Goriuk	Legislation needed to launch and operate the Pillar II finalized.	Pillar II MAS is launched.
b. Prepare position papers analyzing the challenges, opportunities, and threats for different models of Ukraine's NPF's participation in managing MAS assets.													MSP, PFU, FSR, NPFs	McTaggart, Goriuk	Position papers on NPF's participation in managing MAS assets and NPF supervision prepared.	Increased share of private pension funds as % of GDP.
c. Assist MSP and FSR in drafting regulations for private sector pension funds. Regulation should take into account international experience and future MAS implementation.													MSP, PFU, FSR	McTaggart, McDonald, Goriuk	Regulations for NPFs with oversight procedures and regulatory reporting drafted.	Increased public confidence in the sound pension fund management in Ukraine.
PROJECT OBJECTIVE 2: Develop Financial and Derivatives Markets (FY1 Priority – Low)																
Component 2.1: Enabling environment																
a. Support IMF/EBRD initiative to draft laws and regulations for successful commodity and derivatives trading and financial risk management.													MOE, NBU, SSMNC, IMF, EBRD	Stetsenko, Strahota, Vitka, Strakhova	Drafts laws and regulations for derivatives.	Derivatives legislation framework is finalized.
b. Promote effective public-private dialogue between the GOU and Ukrainian market professional groups, agricultural associations, exchanges, and other private sector counterparts.													MOE, NBU, SSMNC, private sector associations,	Seeger, Stetsenko, Berg, Crowley	Proposed commodity spot and derivatives framework and infrastructure discussed with	Commodity spot and derivatives legislation framework is developed.

Activity Description	2012			2013									Counterpart/ Coordinate	Staff	Deliverable	Key Benchmarks for Category
	10	11	12	1	2	3	4	5	6	7	8	9				
													commodity exchanges		agricultural associations, trade groups, exchanges, banks.	
Component 2.2: Financial Instruments																
a. Presentation on the current status of agrarian commodities markets with recommendations for its further development.													MOE, NBU, SSMNC, MOA, IMF, EBRD, private sector associations	Seeger, Stetsenko, Berg, Crowley, Vitka	A presentation on the current status of commodities markets with recommendations for its further development prepared and discussed with agricultural associations, trade groups, exchanges, banks.	Discussion on modern, internationally compliant commodity market trading system is launched.
PROJECT OBJECTIVE 3: Increase Financial Literacy of the General Population (FY1 Priority – Medium)																
Component 3.1: Policy Dialogue on Financial Literacy (in close cooperation with the World Bank)																
a. With WB, support the NBU working group in formulating strategies and action plans related to financial literacy.													NBU, consumer protection NGOs	Mundy, Lozitskaya, Vitka	NBU's strategies and action plans related to financial literacy formulated.	The NBU adopts Ukraine's National Financial Literacy Strategy.
b. Support Ukraine's participation in international networks related to financial education and awareness, e.g. study tours and OECD's International Network on Financial Education (INFE).													NBU, consumer protection NGOs	Mundy, Lozitskaya	Ukraine and Ukrainian NGOs participate in OECD's International Network on Financial Education.	Increased understanding of financial consumer protection and investor confidence.
Component 3.2: Financial Literacy in Schools																
a. Complete the financial literacy course pilot project began by FINREP. Monitor performance, evaluate results, and prepare roadmap for roll-out.													MES, NBU/BU, public schools	Bond, Smovzhenko, Kuznetsova, Girchenko, Lozitskaya	Regional pilot course with at least 50 participating schools completed and national roll-out plan prepared.	The GOU makes financial literacy course available for teaching nationwide.
b. Support financial literacy course with web site, content, other materials.													MES, NBU/BU, public schools	Bond, Smovzhenko, Kuznetsova, Girchenko, Lozitskaya	Training materials and teaching methods prepared and distributed widely.	Education professionals trained to support financial literacy course.
c. Develop a train the trainer program with the MES and NBU/BU.													MES, NBU/BU, public schools	Bond, Smovzhenko, Kuznetsova, Girchenko, Lozitskaya	At least 30 trainers trained and provided with audio-visual materials and lesson plans	Education professionals trained to support financial literacy course.
Component 3.3: Financial Literacy For All – Non-Formal Methods																
a. Conceptualize a web-based financial literacy portal to promote financial literacy and healthy financial behavior;													MES, NBU/BU, MSP, consumer protection NGOs	Mundy, Lozitskaya, Kotukhova	A web-based financial literacy portal is conceptualized.	A Central Financial Literacy Web-Based Portal maintained on a sustainable basis by a local organization.
b. Design and disseminate brochures and other public educational materials, including personal finance education materials, available on-line and at public libraries nationwide (Bibliomist).													USAID – Bibliomist, MES, NBU/BU, consumer protection NGOs	Mundy, Lozitskaya	Brochures and other public educational materials designed and disseminated	Citizens are better aware of financial services provision and their rights as the users of financial services.
c. In coordination with WB and in cooperation with NGOs and media, increase advocacy in support of investor protection and redress mechanisms.													MES, NBU, consumer protection NGOs	COP, Mundy, Lozitskaya, Vitka	Advocacy in support of investor protection and redress mechanisms increased.	Enhanced civic participation in financial reforms creates greater demand for accountable institutions and transparent policy formulation.

Annex 3

List of Major Deliverables During FY13

- 1.1 Memorandum regarding the Concept of the Draft Law “On Amending Certain Laws of Ukraine regarding Qualified Investors”
- 1.2 Analysis of Reporting and Public Disclosures by Non-State Pension Funds
- 1.2 Improving the Corporate Governance of the Non-State Pension Funds and Protecting Pensions Savings
- 1.2 The Development of a Concept of Prudential Supervision for Non-State Pension Funds
- 1.2 Features of IFRS Financial Reporting in 2012 – a 48-minute instructional video containing training on IFRS reporting during five regional SSMNC seminars, available at: youtube.com/watch?v=tIEoP2kBu04
- 1.4 Analysis and Financial Assessment of the Impact of Possible Cancellation of Certain Provisions of the Law of Ukraine on Pension Reform Legislative Measures
- 1.4 Pillar II Pension Funds International Experience & Implications for Ukraine (prepared for the VR Committee Hearings on Pillar II on October 23, 2013)
- 1.4 Global Experience in Pension Reform, Issue No.1, Semi-Annual Pension Journal (disseminated at the VR Committee Hearings on Pillar II on October 23, 2013)
- 2.1 Report on Draft Derivatives Law for the Ministry of Economic Development & Trade
- 2.1 Conceptual Framework for Draft Law of Ukraine on Commodity Exchange Market
- 3.2 Financial Literacy Course Assessment and Next Steps
- 3.2 Recommended Next Steps in the Development of a National Financial Literacy Website for Ukraine

Annex 4: Calculation of Pension Benefits

Under both the old and new pension systems, a retiree's pension is determined by (1) at the time of retirement a pension calculation formula or (2) the minimum pension benefit established by law or whichever is greater. The minimum pension has historically been increased periodically to adjust for inflation.

Under the old system, a retiree received 1.35% of his or her final salary for each year of service. At a minimum age of 55 with 20 years of service for a female retiree earning the average salary in 2011 of \$330 per month, this amounted to 27% of her last monthly salary ($20 \times 1.35\% \times \330) or \$89. Since the legal minimum pension benefit was US\$ 103 in 2011, her pension would be increased to the legal minimum and would always be equal to the legal minimum pension benefit. Her pension would be US\$ 1,236 for the first year of retirement ($\$103 \times 12$ months). State statistics were used to calculate the minimum pension benefit for years 2 and 3 (2012 and 2013). To calculate years 4 through 20, we assumed an inflation rate of 5% (an IMF estimate) and a similar change to the minimum pension rate each year. With 5% yearly inflation, this retiree would earn US\$ 44,800 in minimum pension benefits over 20 years.

The 2011 reforms changed the minimum age of retirement for women from 55 to 60 and the minimum years of service for women from 20 to 25 years in order to qualify for the minimum pension benefit. The 2011 reforms also require that the minimum pension benefit be no less than the state's minimum living wage, and that pensions calculated above the minimum pension benefit at the time of retirement always remain the same percentage above the minimum pension benefit. The reforms also included a one-time bonus of 2.5% per six months of service that applies to those who had to immediately put off retirement for 5 years, or a 5% bonus per year for 5 years for women born before 1961 (this was one of the groups that most strongly resisted the reforms). This transition bonus is to be applied to the calculated pension benefit, not the final salary.

Under the new system, the same retiree receives 1.35% of the average of her final 3 yearly salaries for each year of service. At a higher minimum age of 60 with 25 years of service, this amounts to 33.75% ($25 \times 1.35\%$). The new system uses the average of the retiree's final 3 annual salaries instead of the final annual salary. We assumed a 7% yearly growth in the average salary, which was US\$ 379 per month in 2012. We calculated the average monthly salary for 2013 to be US\$ 405 per month ($379 \times 107\%$), then raised this figure by 7% each year. The average of her final 3 monthly salaries in 2014, 2015, and 2016, equals US\$ 464 (or $(433+464+496)/3$).

We calculated the monthly pension, again with no bonuses for age or extra years employed after 60, but included a bonus for years of service during the transition to the new system, as described above. The pension benefit would be calculated as US\$ 156 ($464 \times 33.75\%$). Then the transition bonus of US\$ 39 ($156 \times 25\%$) would be added to reach a total pension benefit of US\$ 195 ($156+39$). The retiree's pension will exceed the expected 2016 minimum pension benefit of US\$ 137 by 42.9%. More importantly, under the new system the retiree's pension will always remain 42.9% higher than the minimum pension benefit (each figure calculated to reach the sum in the old system * 1.429). Over 20 years of an additional 42.9% in benefits, the total of pension benefits is projected at US\$ 81,800.