

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)
CIPA – UKRAINE PROJECT

USAID

CIPA – Ukraine Project

**Quarterly Report for the Period:
January 1, 2006 thru March 31, 2006
(First Calendar Quarter)**

USAID CONTRACT ORDER NUMBER 121-M-00-05-00708-00

Start Date: November 1, 2005

Completion Date: October 31, 2007

Submitted to:

U.S. Agency for International Development
Mission for Ukraine, Belarus and Moldova
Office of Economic Growth
19 Nyzhniy Val St.
04071 Kyiv, Ukraine



Submitted by:

The Pragma Corporation
116 East Broad St.
Falls Church, Virginia 22046

SECTION I. INTRODUCTION	3
1.2 Project Tasks	4
Task 1 – Strengthen the technical, organizational, and financial capacity of progressive Ukrainian accountancy associations.....	4
Task 2 – Strengthen and broaden the network of CIPA training providers across the country	5
Task 3 – Establish CIPA-EN operations as an independent and sustainable entity	6
Task 4 – CIPA Public Awareness and Promotion Effort.....	7
Task 5 – Tax and Financial Accounting Reconciliation.....	8
Financial Information – March, 2006 to date	10
Addendum – Exam Statistics	11



SECTION I. INTRODUCTION

TASK ORDER OBJECTIVES

Specific task order objectives are:

1. supporting the professional accountancy association and helping it achieve financial sustainability and to take the lead in accounting reform including transition to IFRS;
2. helping CIPA training providers strengthen and broaden their network across the country;
3. helping CIPA-EN establish its operations as an independent and sustainable entity;
4. increasing public awareness of the CIPA certification among industry and the government;
5. Improving efficiency and transparency of tax administration through tax and financial accounting reconciliation.

HIGHLIGHTS OF ACHIEVEMENTS – First Quarter 2006

Management Issues

- Application for Project registration with the Ministry of Economy and European Integration was made in November, 2005. To date, the project still has no answer from the Ministry and remains unregistered.
- The project relocated to 11 Mykhailivska St., Kyiv, 01001. Phone 247-6950, fax 247-6900.
- CIPAEN Ukraine was registered as a legal NGO/NPO.
- Some progress toward a merger of UFPAA and UACAA, but does not appear likely to happen this year.
- Exam fee raised to \$27 and \$32 respectively, for November 2005 and March 2006 exams. Target, \$38 by the end of 2006. See supporting attachments.
- Show up rate remained steady, at approximately 90%.
- Registrations for November and March exams were 1,964 and 1,091 respectively. March is historically a slow month for examinations and March was CAP level exams only.
- As a result, 195 additional CAP's were qualified after the November exams, and 196 additional CAP's qualified after the March exam.
- Total CAP qualified in Ukraine now 1,864.
- 11 New CIPA's were qualified after the November exams, and now totals 38.
- CIPA Training supported by the project totaled 1,913 prior to November, 2005 exam, and 723 before the March, 2006 exam.
- Project supported the development and expansion of the Ukraine Association of Certified Accountants and Auditors (UACAA). Association membership now exceeds 500.
- Demand for CIPA's is growing as evidenced by the departure of Sergey Kanygin, CIPA. Mr. Kanygin was hired by a German/Ukrainian cement company as Financial Director, at several times his project salary. His CIPA qualification allowed the company to find and recruit him.
- New Hires include Natalie Kushko (Association Development), Irina Negreava (Business Development), and Andriy Gorbai (Marketing/PR)
- Substantial Marketing efforts have been directed at CIPA program participation.



SPECIFIC ACTIVITIES

This section covers progress against the five deliverables as stated in the Project scope of work.

1.1 Project Objectives

The purpose of the CIPA Ukraine project is to enhance the quality of accounting profession with the aim of improving the accuracy and credibility of financial reporting. This will be achieved through the implementation of the CIPA training, examination, and certification program.

The objectives of the project will include: supporting the professional accountancy association and helping it achieve financial sustainability and to take the lead in accounting reform including transition to IFRS; helping CIPA training providers strengthen and broaden their network across the country; helping CIPA-EN establish its operations as an independent and sustainable entity; increasing awareness of the CIPA certification among industry and the government; improving efficiency and transparency of tax administration through tax and financial accounting reconciliation.

1.2 Project Tasks

Task 1 – Strengthen the technical, organizational, and financial capacity of progressive Ukrainian accountancy associations

The goal of this task is to help the Ukrainian Association of Certified Accountants and Auditors (UACAA) become a full-fledged professional self-regulatory organization that will promote standards-setting, enforcement, and certification functions. The contractor will help it achieve financial sustainability and take the lead in accounting reform, including transition to IFRS, and harmonization of financial and tax accounting.

Expected results. At least one professional accountancy association will:

- a) offer a range of appropriate services to its membership;
- b) implement IFAC ethics code;
- c) become a full IFAC member;
- d) be financially self-sufficient by the end of the contract.

NGO Development Component Activities

Natalie Kusko was recruited and hired to assist the project with association development.

UACAA remains the only association in Ukraine that abides by the recently established minimal requirements for membership set by ECCAA. The Presidents of both UFPAA and UACAA had encouraged a merger of the two organizations, but only if UFPAA would raise their membership requirements to those of UACAA.



While UFPAA President Sergey Golov was optimistic that UFPAA would require examinations as a membership requirement, and pass this resolution at UFPAA's annual meeting in February 2006, he apparently was not successful in his goal. The two associations have both agreed to pursue merger discussions, but the outlook for a quick merger is not positive. Joint Board meetings to iron out differences have been agreed to by both organizations.

UACAA now has over 500 CAP's and CIPA's as full members of its association. UACAA and UFPAA continue to compete over new CAP members, however, UACAA continues to recruit about 60% of each new group of CAP qualified candidates.

In January, 2006, a database crash eliminated the computerized membership list of UACAA. The project assisted UACAA in re-establishing the membership database through re-entry of data from paper documents, and phone calls were made to each member to verify and correct contact information. This information was used to plan for UACAA's annual meeting in April, 2006.

A couple of awards ceremonies for new CAP's and CIPA's were held in Kiev and a few regional chapters during the first quarter. The project Chief of Party and project personnel attended along with UACAA leadership.

With the help of IFACs' Neil Wallace and Szymon Radziejewicz, we obtained the contact information of the *Accountants Association in Poland (AAP)*, Mr. Maciek Fraczek. We are in discussions with AAP to assist UACAA in developing ethics enforcement, membership services, and advocacy. The idea is that UACAA and AAP will share best practices and methods of sustainability.

Ongoing legal support for UACAA was provided by the project. The association's charter, bylaws and other related documents of governance were drafted for consideration by the annual meeting.

Task 2 – Strengthen and broaden the network of CIPA training providers across the country

The purpose of this task is to strengthen the capacity of the CIPA training providers to offer high-quality CIPA training services.

Expected results. All CIPA courses will be offered on a commercial basis in at least 16 oblasts.

The project has revamped the assistance provided to training providers. Currently, we are providing a library of textbooks in the subjects that providers are delivering. The library is meant to be loaned to students, and those capable of affording the purchase, may purchase textbooks and the LTP can replace the books by purchasing additional books from vendors.

Leading up to the November, 2005 exam, 1,913 students took training in 7 CIPA subjects with project support of one kind or another. For the March exam, 723 students were supported in CAP level subjects only. Training for March exams historically is the lowest of the year.



Elena Amerova was hired as a LTP Business Advisor to strengthen LTP's ability to attract and train CIPA candidates, recruit LTP's, and strengthen the training component.

Contact information of all LTP's was upgraded and used in print and internet advertising on www.cipa.org.ua during the first quarter to promote training for CIPA exams. Not only was LTP contact data uploaded, but all training classes offered, with dates and costs, were issued in print and internet form to potential clients.

Project representatives visited Kharkiv during the first quarter to meet with 2 training providers, the Agency for International Cooperation and BEA during the March CAP exams.

Training providers were polled to determine the need for additional training of trainers program, to increase the depth of the trainer pool. TOT's will be offered in the second quarter, as necessary.

Task 3 – Establish CIPA-EN operations as an independent and sustainable entity

The purpose of this task is to continue support of the Ukraine branch of the CIPA Examination Network while helping it to become financially sustainable.

Expected results. CAP/CIPA exams will be conducted in accordance with the established exam schedule, while CIPA-EN Ukraine will be fully self-sustainable and cover its operational costs, royalties and fees out of the exam charges.

CIPAEN Ukraine was officially registered as a Ukrainian NGO/NPO in December, 2005, Sergey Mudruk, president. CIPAEN is now able to collect exam fees into its own bank account, reducing its dependence on outsiders such as the Center for Professional Skills Development (who previously collected all fees).

Exam fees were increased to \$27 and \$32 respectively, for November and March exams. Exam fees for the July 2006 exam session are set at \$34, and the November fee is set at \$38.

The increase in exam fees has had the effect of reducing the numbers on people capable of sitting for exams, and certainly causing a reluctance to sit for exams if a person is not prepared. This is a positive step.

Through the participant database, it has been observed the *average* number of exams a person will sit for in any given exam session (a session being 3 or 4 total exams), has dropped from an *average* of 2 exams per person when fees were low (\$3 in November 2003), to 1.8, 1.6, and 1.2 exams per person today as fees have risen from \$3 to the March 2006 \$32 fee.

This means that more individuals must be recruited as CIPA participants in order for CIPA – Ukraine to meet its lofty goal of additional CAP's and CIPA's.

Another side effect, is that pass rates, particularly in the CAP level, are increasing as participants seem to be better prepared to pass the exams that they pay for at today's rates, and are taking fewer exams (avoiding those exams they are not prepared for). Thus, participants are taking fewer exams per session, but they are better prepared to pass the exams they take.



Task 4 – CIPA Public Awareness and Promotion Effort

The goal of this task is to help the CIPA program gain recognition by the profession, businesses, investors, and government.

Expected results. A minimum of an additional 3,000 CAPs and 200 CIPAs will be produced by the end of the project.

Marketing the CIPA program became a necessity in the summer of 2004 when our only partner at the time UFPAA tried to discourage participation in the exams and shut them down. It was during this period that CIPAEN began a coordinated direct mail campaign directed at JSC's and import/export companies to attract new participants into the program, and avoid relying simply on a single Federation to provide candidates to the program.

As a result, today we have approximately half of all CIPA participants receiving their training through sources other than project sponsored training. They are getting the knowledge through self-study, corporate sponsored training, universities, or other sources. Pass rates are comparable between the various groups.

Andriy Gorbal has recently joined the project of Marketing/PR Specialist.

During the quarter, and prior to each examination. A direct mail piece containing CIPA brochures, newsletters and exam registration documents were sent to approximately 9,000 JSC's and some 8,000 CIPA participants to stimulate demand for examinations and training. The results appear to be very positive and cost effective at generating new CIPA participants, and retaining CIPA participants.

CIPAEN Ukraine issued two newsletters during the quarter, one directed at CIPA participants (approx. 8,000) and the other directed at businesses (approximately 9,000). The newsletters were distributed through direct mail, at examination sites, through LTP's, professional seminars and other marketing channels.

Additionally, UACAA developed and mailed an association newsletter for its members and potential members.

Print advertisements for the program were run in advertisement campaign in two professional publications for accountants – Buhgalteria, Debet-Kredit; and the Kyiv Post.

The Project continued to make CIPA presentations at professional events and to HR managers seminars, to reinforce the value of hiring certified professionals.

Posters have been placed at key positions where key audiences are looking for that information – in banks, universities, training providers' and consulting companies' offices.

CIPA-Ukraine project has systematically updated detailed information about training activities on CIPEN web-sites with the purpose to inform interested visitors about training, exams and certification procedures.



In addition to a general marketing campaign, a targeted marketing campaign is planned for those participants who are 1, 2 or 3 exams away from CIPA qualification. After November exams, there are:

- 22 participants who are 1 exam away
- 37 participants who are 2 exams away
- 166 participants who are 3 exam away

Many, especially in the *1 and 2 exam away* category, have been discouraged by the rigorous nature (and thus repeated failure, particularly on the audit exam), and we intend to make special offers and encouragement to this group for the upcoming July exams.

Task 5 – Tax and Financial Accounting Reconciliation

The purpose of this task is to improve the efficiency and transparency of tax administration through tax and financial accounting reconciliation.

Expected results. Tax and financial accounting reconciliation methodology in the pilot enterprises will be implemented, the competency of the STA and MOF staff in IFRS-based financial accounting, and tax and financial accounting reconciliation will be enhanced.

The Inter-Ministry Task Force created by the Presidents administration with the purpose of reconciling tax and financial reporting last meet in December 2006 with project and UACAA representation. The Task Force did not receive the official status and recognition it had hoped for, in the form of official recognition from the Presidential Administration. However, it does still exist, but is not expected to meet again until September due to elections and the formation of a new government. Presidential advisor Mr. Lenovoy was instrumental in recruiting members and the formation of this working group, and is a real ally in the quest for change.

In a Presidential Decree, dated April 10, 2006, a PLAN of top priority actions in the area of investing activities was issued, of which, in part, is was decreed:

15. Draft laws to put them forward to the Parliament for consideration:

[...] amend some laws regarding the convergence of financial and tax accounting .

Ministry of Finance of Ukraine,
Ministry of Economy of Ukraine,
State Tax Administration of Ukraine,
Ministry of Justice of Ukraine

- Completion time – first half of 2006



In cooperation with UACAA, the CIPA Ukraine Project will continue to encourage this process, but much depends on the political will of the Government.

The timeline for action on this item is dependent upon the formation of a new government in Ukraine. Our best guess is that the first new Parliamentary session will be held no later than May 28, and a coalition formed no later than June 28. With this the case, it is unlikely that a new government will be formed and real work commenced before the end of summer.

The project and UACAA intend to follow this situation carefully, be prepared to draft supporting draft laws, and work with Presidential Advisor Lenovoy to identify those in the new government responsible for taxation issues.

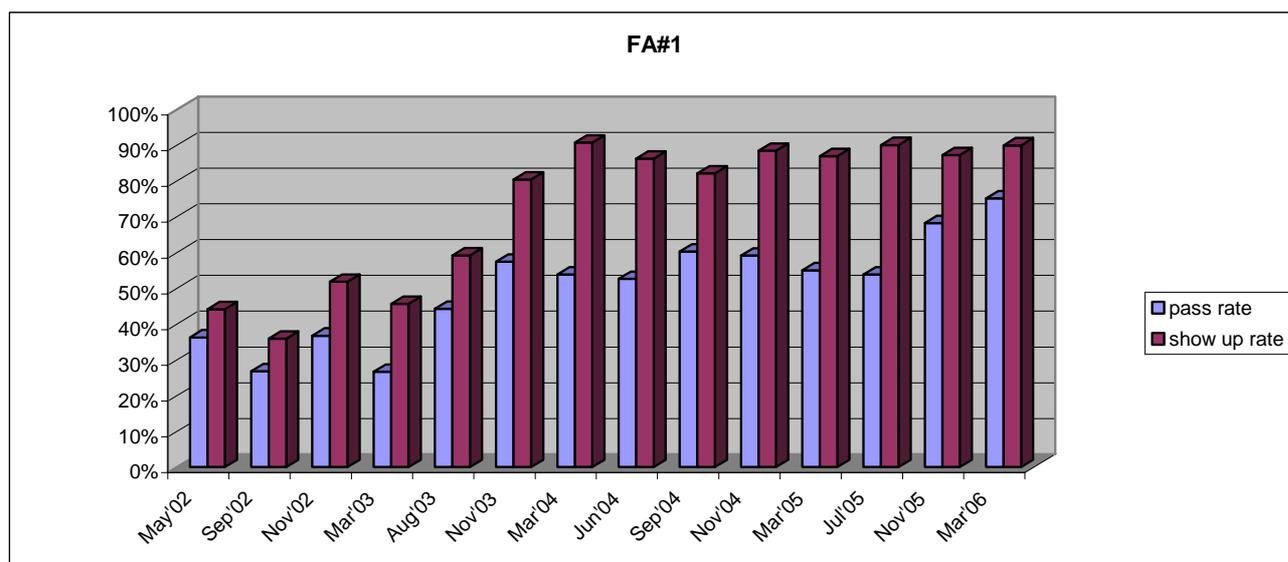


Addendum – Exam Statistics

Exam Pass Rates by Subject - All Ukraine

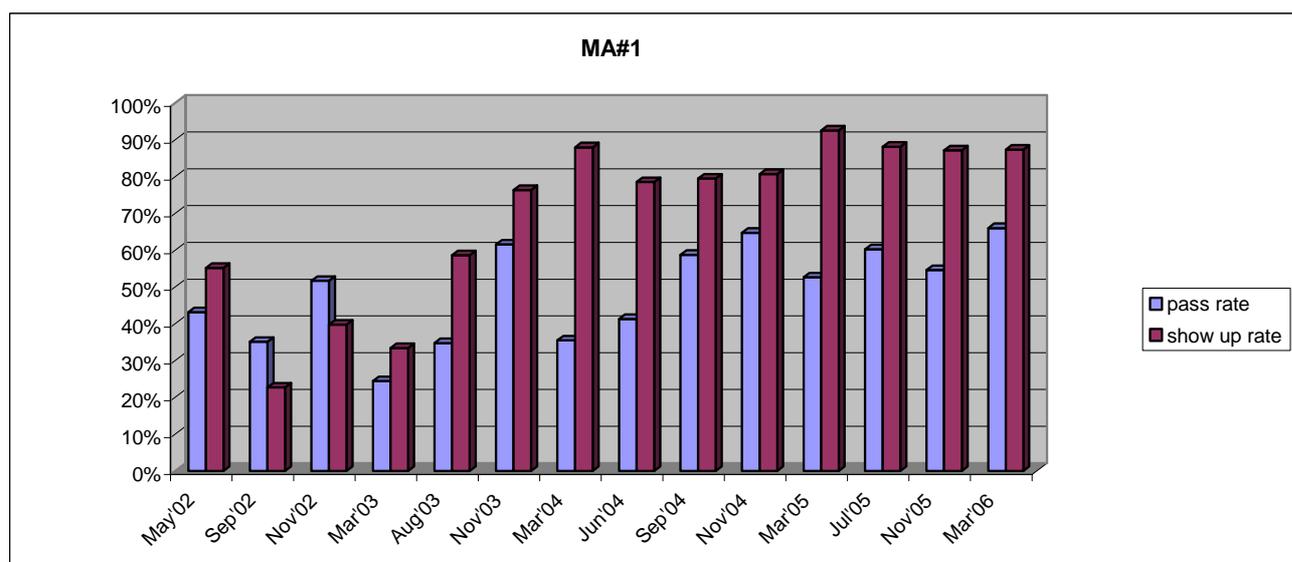
FA#1

	May'02	Sep'02	Nov'02	Mar'03	Aug'03	Nov'03	Mar'04	Jun'04	Sep'04	Nov'04	Mar'05	Jul'05	Nov'05	Mar'06	avg /total
registered	231	540	1013	576	370	450	356	328	95	495	491	402	635	349	6331
examinees	102	194	525	263	219	362	323	283	78	438	427	362	554	314	4444
passed	37	52	193	70	97	208	174	149	47	259	235	195	378	236	2330
pass rate	36%	27%	37%	27%	44%	57%	54%	53%	60%	59%	55%	54%	68%	75%	52%
show up rate	44%	36%	52%	46%	59%	80%	91%	86%	82%	88%	87%	90%	87%	90%	70%



MA#1

	May'02	Sep'02	Nov'02	Mar'03	Aug'03	Nov'03	Mar'04	Jun'04	Sep'04	Nov'04	Mar'05	Jul'05	Nov'05	Mar'06	avg /total
registered	172	414	812	539	324	453	333	345	122	394	390	414	498	435	5645
examinees	95	94	323	180	190	346	293	271	97	318	361	365	434	380	3747
passed	41	33	167	44	66	213	104	112	57	206	190	220	237	251	1941
pass rate	43%	35%	52%	24%	35%	62%	35%	41%	59%	65%	53%	60%	55%	66%	52%
show up rate	55%	23%	40%	33%	59%	76%	88%	79%	80%	81%	93%	88%	87%	87%	66%

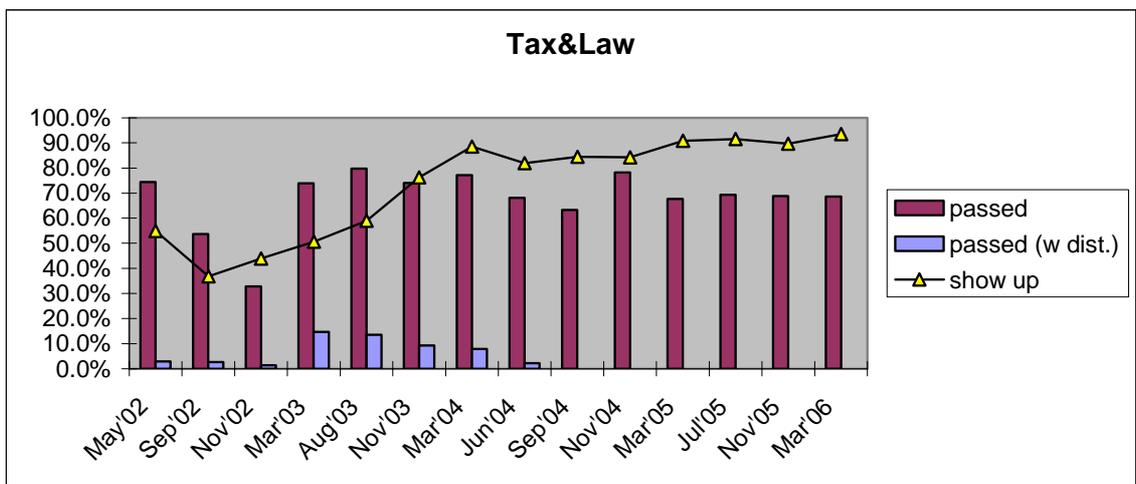


Exam Pass Rates by Subject - All Ukraine

T&L

	May'02	Sep'02	Nov'02	Mar'03	Aug'03	Nov'03	Mar'04	Jun'04	Sep'04	Nov'04	Mar'05	Jul'05	Nov'05	Mar'06	total
registered	433	702	1278	780	402	425	332	283	103	349	340	402	419	307	6555
examinees	238	259	561	395	237	324	294	232	87	294	309	368	376	287	4261
passed	177	139	184	292	189	240	227	158	55	230	209	255	259	197	2811
passed (w dist.)	7	7	8	58	32	30	23	5							170

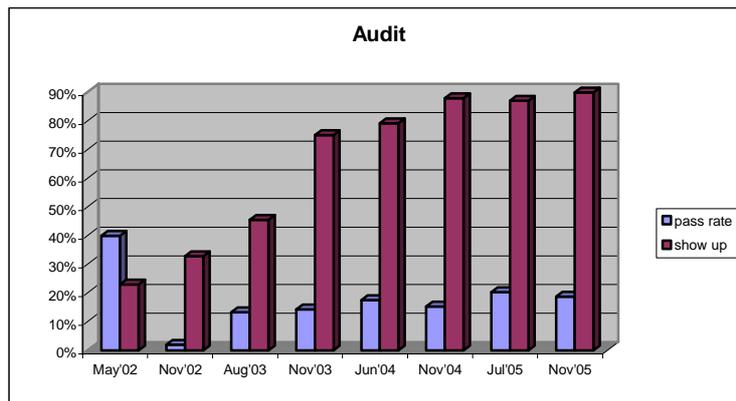
	May'02	Sep'02	Nov'02	Mar'03	Aug'03	Nov'03	Mar'04	Jun'04	Sep'04	Nov'04	Mar'05	Jul'05	Nov'05	Mar'06	avg
passed	74.4%	53.7%	32.8%	73.9%	79.7%	74.1%	77.2%	68.1%	63.2%	78.2%	67.6%	69.3%	68.9%	68.6%	66.0%
passed (w dist.)	2.9%	2.7%	1.4%	14.7%	13.5%	9.3%	7.8%	2.2%							4.0%
passed (w dist.) rel	4.0%	5.0%	4.3%	19.9%	16.9%	12.5%	10.1%	3.2%							6.0%
show up	55%	37%	44%	51%	59%	76%	89%	82%	84%	84%	91%	92%	90%	93%	65%



Exam Pass Rates by Subject - All Ukraine CIPA level exams

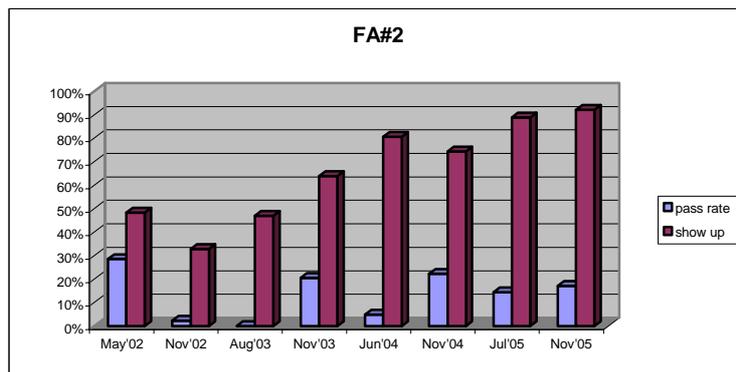
Audit

	May'02	Nov'02	Aug'03	Nov'03	Jun'04	Nov'04	Jul'05	Nov'05	avg /total
registered	22	301	33	28	173	141	85	89	872
examinees	5	99	15	21	137	124	74	80	555
passed	2	2	2	3	24	19	15	15	82
pass rate	40%	2%	13%	14%	17.5%	15.3%	20.3%	18.8%	14.8%
show up	23%	33%	45%	75%	79.2%	87.9%	87.1%	89.9%	63.6%



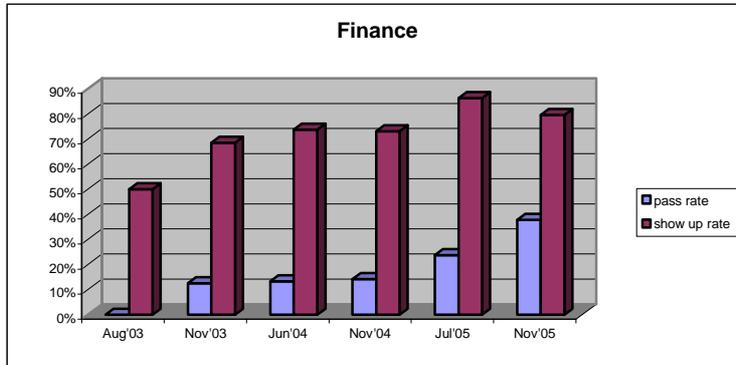
FA#2

	May'02	Nov'02	Aug'03	Nov'03	Jun'04	Nov'04	Jul'05	Nov'05	avg /total
registered	87	393	49	61	227	187	117	114	1235
examinees	42	129	23	39	183	139	104	105	764
passed	12	3	0	8	9	31	15	18	96
pass rate	29%	2%	0%	21%	4.9%	22.3%	14.4%	17.1%	12.6%
show up	48%	33%	47%	64%	80.6%	74.3%	88.9%	92.1%	61.9%



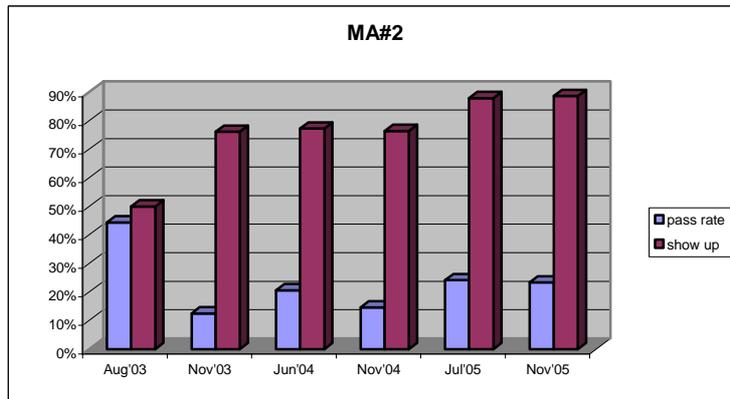
Finance

	Aug'03	Nov'03	Jun'04	Nov'04	Jul'05	Nov'05	avg /total
registered	24	35	194	145	88	103	589
examinees	12	24	143	106	76	82	443
passed	0	3	19	15	18	31	86
pass rate	0%	13%	13.3%	14.2%	23.7%	37.8%	19.4%
show up rate	50%	69%	73.7%	73.1%	86.4%	79.6%	75.2%



MA#2

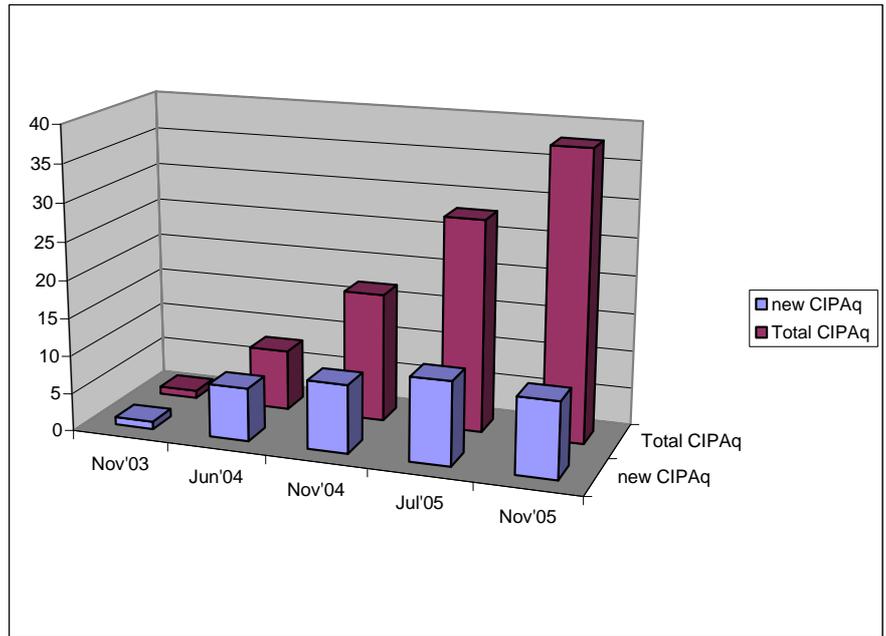
	Aug'03	Nov'03	Jun'04	Nov'04	Jul'05	Nov'05	avg /total
registered	54	42	194	170	108	106	674
examinees	27	32	150	130	95	94	528
passed	12	4	31	19	23	22	111
pass rate	44%	13%	20.7%	14.6%	24.2%	23.4%	21.0%
show up	50%	76%	77.3%	76.5%	88.0%	88.7%	78.3%



Session	new CIPaq	Total CIPaq
Nov'03	1	1
Jun'04	7	8
Nov'04	9	17
Jul'05	11	28
Nov'05	10	38

CIPaq = CIPA Exam Qualified

CIPA Qualified, Total Ukraine



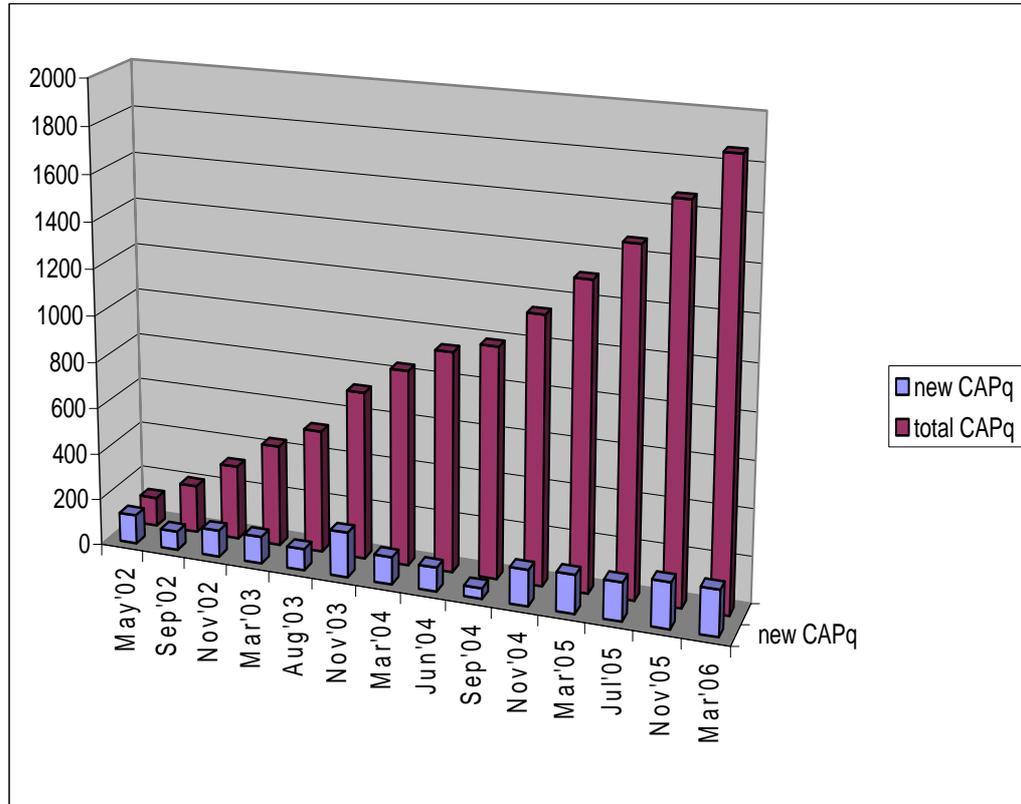
CAPq by Exam Session

Session	new CAPq	total CAPq
May'02	125	125
Sep'02	81	206
Nov'02	114	320
Mar'03	116	436
Aug'03	92	528
Nov'03	193	721
Mar'04	117	838
Jun'04	103	941
Sep'04	46	987
Nov'04	155	1142
Mar'05	164	1306
Jul'05	164	1470
Nov'05	195	1665
Mar'06	196	1861

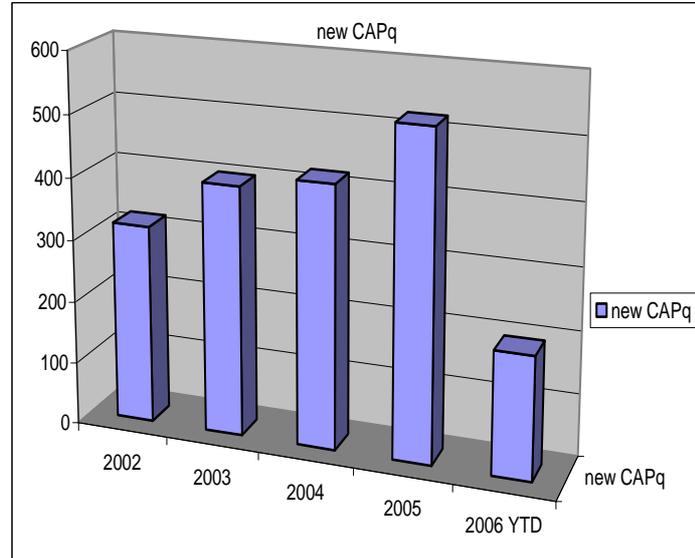
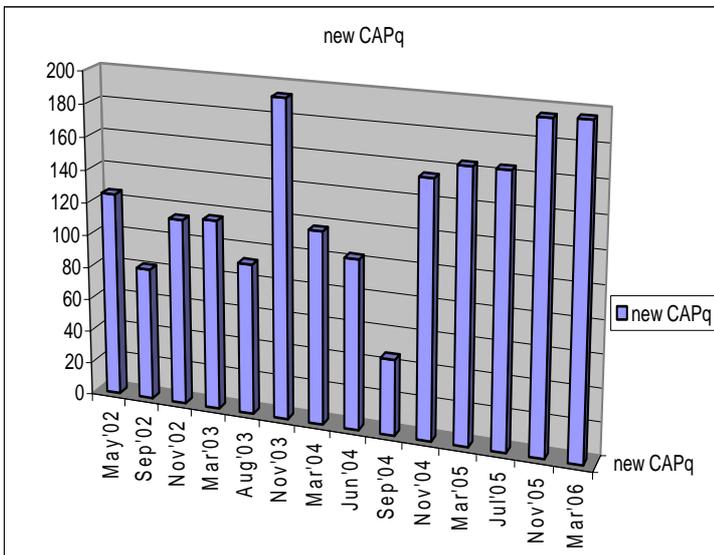
CAPq by Year - Total

year	new CAPq
2002	320
2003	401
2004	421
2005	523
2006 YTD	196

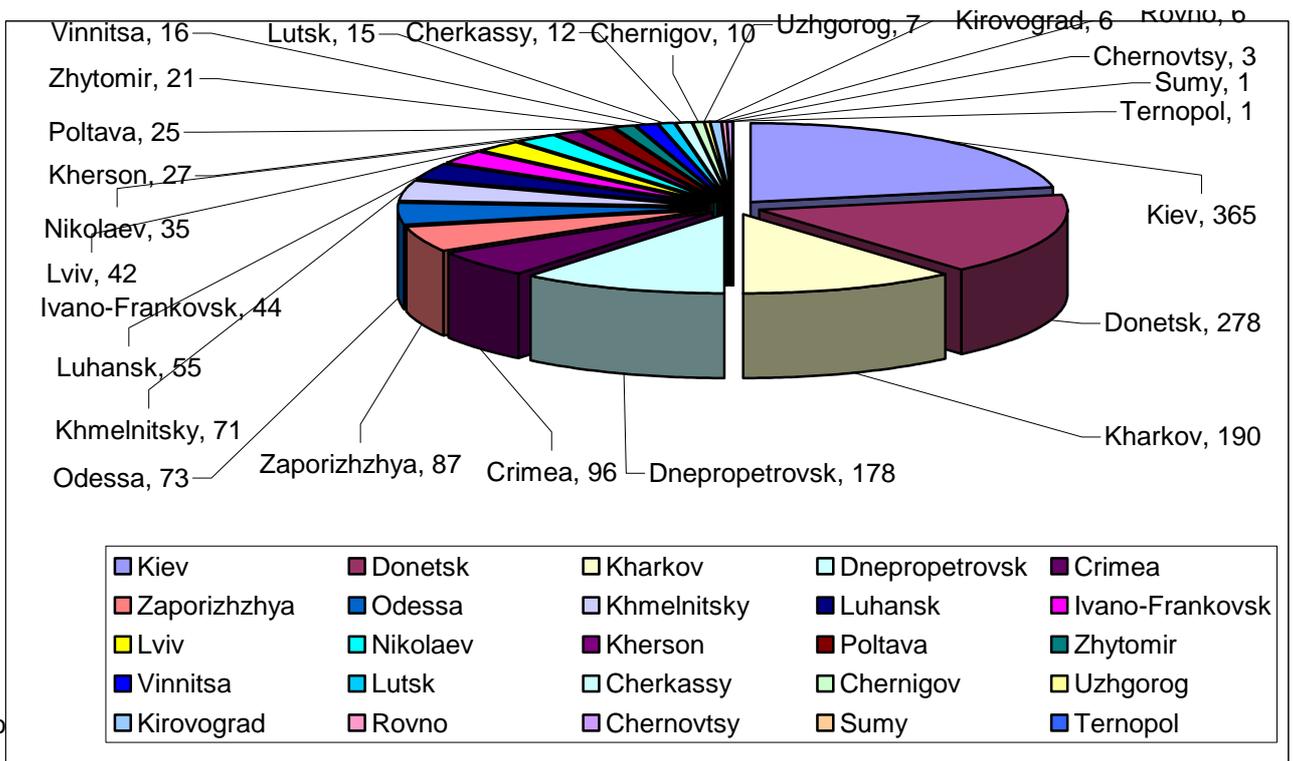
CAP Qualified, Total Ukraine



CAPq = CAP Exam Qualified



CAP's by Region of Ukraine



q by regio

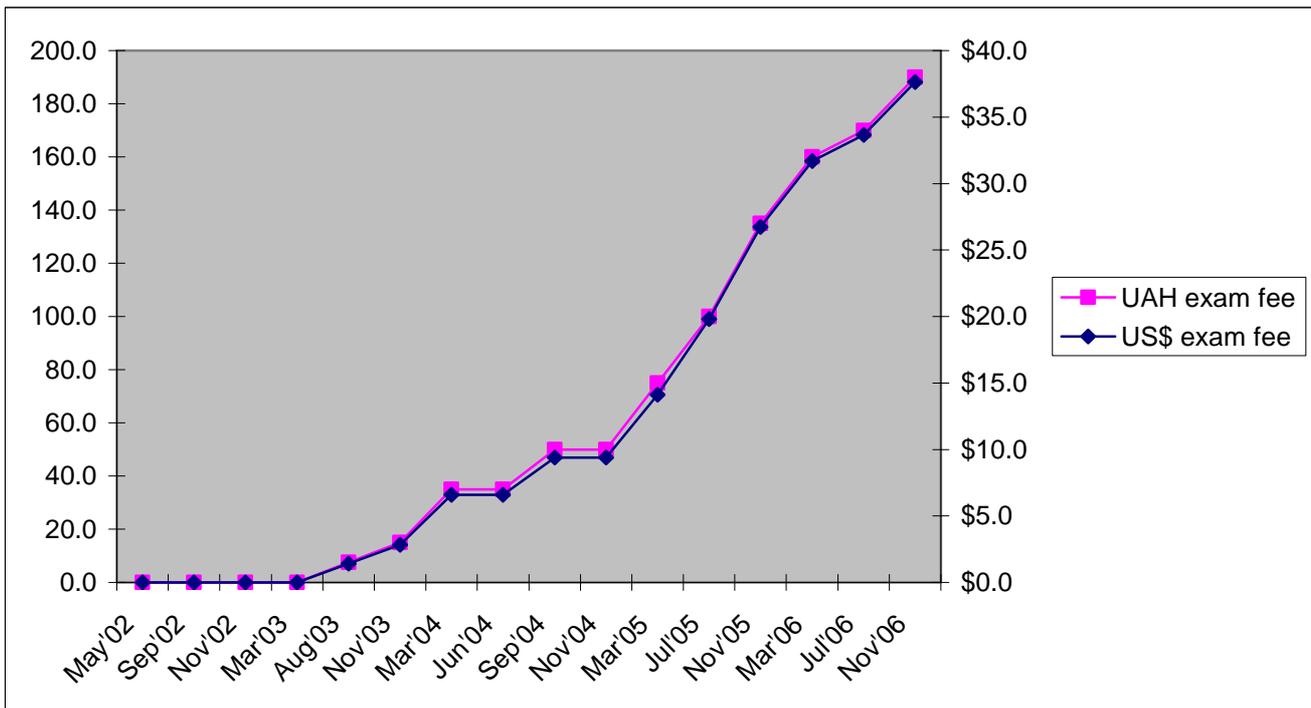


CIPA Exam Fees (Actual & Forecast)

Exam fee Growth

	May'02	Sep'02	Nov'02	Mar'03	Aug'03	Nov'03	Mar'04	Jun'04	Sep'04	Nov'04	Mar'05	Jul'05	Nov'05	Mar'06	Jul'06	Nov'06
UAH exam	0.0	0.0	0.0	0.0	7.5	15.0	35.0	35.0	50.0	50.0	75.0	100.0	135.0	160.0	170.0	190.0
US\$ exam	\$0.0	\$0.0	\$0.0	\$0.0	\$1.4	\$2.8	\$6.6	\$6.6	\$9.4	\$9.4	\$14.1	\$19.8	\$26.7	\$31.7	\$33.7	\$37.6

CIPA Exam Fees Historical and Forecast Growth



Impact of exam fee on show up rate

