

The Pragma Corporation
Access to Credit Initiative
Third Quarterly Report
For the Period
April 1, 2005 – June 30, 2005

For the
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

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KYIV, UKRAINE

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A. PROJECT OVERVIEW

I. PROJECT DESCRIPTION

ATCI is tasked with developing the primary and secondary mortgage market with its associated infrastructure; increased capacity for the leasing industry including the development of certified leasing professionals; the ability for municipalities and utilities to use debt instruments to modernize vital infrastructure, and a credit bureau to facilitate the growth of credit for mortgages- and other retail lending. While the credit bureau component is subordinated to the mortgage component, it is being treated as a stand alone for purposes of implementation. The preliminary work plan was presented and accepted by USAID in November 2004. In response to changing requirements for technical assistance, and a changing political landscape, the work plan will be reviewed quarterly for necessary adjustments. The CTO and COP are working closely to coordinate all technical assistance including defining expected outcomes for each planned activity and the results thereof. Although this is an LOE - based contract, performance based monitoring is an essential element for measuring progress in achieving project objectives and is expected to be implemented by the end of the second quarter.

ATCI is cooperating with numerous counterparts and expects to sign a series of formal protocols in addition to those already signed. These Protocols are expected to govern mutual activity as well as manage expectations during the course of the project.

The priorities of the Project for this period are noted by component in the boxes below.

The project update for this quarterly report will correspond to the activities set forth in the action plan described below and reported by component.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS

- GOU ANNOUNCES INTENTION TO SUBSIDIZE MORTGAGE LENDING RATES
- UNIA REPLACES EXECUTIVE DIRECTOR
- COP AND COUNTERPARTS ATTEND OECD/WORLD BANK DEBT MANAGEMENT CONFERENCE
- ATCI/SMI HOST MORTGAGE ROUNDTABLE FOR PRESS
- MORTGAGE SECURITIES LAW PASSES FIRST READ IN RADA
- KAZAKHSTAN MORTGAGE COMPANY HEAD VISITS SMI
- DAA LUTEN AND MISSION DIRECTOR CROWLEY ATTEND IVANO-FRANKIVSK POTOCOL SIGNING

- ATCI DEVELOPS SEPARATE CREDIT EVALUATION METHODOLOGIES FOR COMMUNAL SERVICE ENTERPRISES AND CITIES
- FIRST THREE CLIENT CITIES ARE SELECTED FOR PILOT MUNICIPAL ISSUANCE
- NEW LEASING ASSOCIATION FORMS
- LEASING TRAIN-THE-TRAINER SESSION HELD FOR LOCAL STAFF AND COUNTERPARTS
- RADA PASSES UKRAINE'S CREDIT BUREAU LAW: "*ON ORGANIZATION, FORMATION AND CIRCULATION OF CREDIT HISTORIES*"
- FIRST CREDIT BUREAU (FCB) OF UKRAINE ESTABLISH AS A LEGAL ENTITY IN JUNE 2005. IT IS NOT CLEAR THAT THE MAJOR BANKS WILL SHARE DATA WITH THE FCB.
- JUNE 9TH CREDIT BUREAU CONFERENCE IN KIEV SPONSORED BY USAID.
- EIGHTEEN SUCESSFULLY COMPLETE SECOND CML TRAINING COURSE
- S & P INTRODUCES NATIONAL SCALE RATING FOR UKRAINE

III. PROJECT EXECUTIVE SUMMARY

This Report provides details on the events and activities summarized below, as well as other events and activities regarding the USAID Access to Credit Initiative, as implemented by consultants for The Pragma Corporation (the Project), for the period from April 1, 2005 through June 30, 2005. The report is comprised of four components: Mortgage, Municipal Finance, Leasing and Credit Bureau. Each component section of the report will have a summary with specific activity tasks identified and the status of each task with appropriate commentary, relevant attachments, and reference to administrative issues, if any.

Mortgage

ATCI met with Deputy Minister Lisovenko to brief him on project activity. During discussion of the mortgage component, ATCI presented a paper (*Attachment 1*) prepared in response to the Government's draft concept for mortgage lending we had been given to SMI that summarized the project's concerns regarding the concept. ATCI also met with the Head of the TACIS project to better understand their components and to agree on an approach for integration of our two approaches into the Plan of Action. Additionally, TACIS and ATCI discussed how to achieve sustainability for UNIA. Advised by TACIS that Andriy Volkov was no longer Executive Director of UNIA, both projects decided that we should meet with Mr. Yushko to discuss of plan for development of a business plan and how to present it to the banks. Accordingly, the COP met with Mr. Yushko, president of UNIA, to discuss financing plans for UNIA. He liked the idea of increasing the dues for membership and annual payments but felt that it should be introduced at

the annual meeting of UNIA along with a business plan that would reflect products and services membership should expect.

ATCI continued its assistance to the SMI and funded a trip by Maiko Sagdynkova, Chairman of the Kazakhstan Mortgage Company, to meet with SMI senior personnel and advise on operational start-up.

The COP participated in a journalists roundtable hosted by USAID and the SMI. ATCI offered an overview of mortgage market development in Ukraine. Rada Deputy Shepyetin and Mr. Novikov of the NBU and a member of the SMI supervisory board were also present and made presentations that addressed to complexity of the legal environment and duplication of registration centers.

With the mortgage securities law passing its first read, ATCI is working with UNIA to initiate the working group with participation from TACIS, ATCI, The World Bank, EBRD, SSMSC, and CLC with the participation of several commercial banks.

Lastly, the COP was asked to prepared a brief analysis (*Attachment 2*) for the Embassy that addressed three issues:

1. GOU plans for adoption of the mortgage concept by the SMI, seen as highly negative by the donor community; 2. USAID's intervention to prevent this from happening and 3; a description of the current situation.

Municipal Finance

This quarter, we developed tools to analyze city and utility creditworthiness, and then applied the tools in a concerted marketing campaign to select cities capable of bond issuance. We used data supplied by our counterpart, the Association of Ukrainian cities, as well as by the PADCO/USAID Tariff Reform Project, to screen cities and utility companies for creditworthiness. By the end of the quarter, we selected our first three pilot bond clients. Two of them are mid-sized cities of 200-300,000, while the third, Korasten, has a population of just 70,000. Korasten will show us whether bond financing is practical for a very small city, and might provide us with a candidate for a future pooled finance facility. The USAID-sponsored conference on pooled financing highlighted the benefits such a facility could offer: lower transaction costs, technical assistance, and improved access to capital markets for creditworthy cities and utilities.

Leasing

In this quarter, ATCI focused on the development of the project's training capacity for lessors and other market participants. ATCI brought Mr. Robert Teichman, CLP, to Kiev to deliver a 6-day, 'Train-the-Trainers,' course for local project staff, counterparts, and partner organizations. On the basis of Mr. Teichman's training and an in-depth analysis of local market conditions, ATCI developed a one-day training seminar on Risk Management for Lessors to be delivered in July 2005.

Credit Bureau

From April 1, 2005 through June 30, 2005, ATCI continued to finalize a credit bureau business plan, to provide on-going consultancy on a daily basis to ensure compliance with international standards of best practice during the development phase of a credit reporting system, and to provide, in concert with USAID's CLC project, legal advice in connection with the credit bureau law. In addition, ATCI helped design and fund a credit bureau conference and round table discussions in order to deepen public awareness of the role of credit bureaus.

In June 2005, Parliament passed Ukraine's Credit Bureau law: "*On Organization, Formation and Circulation of Credit Histories*". This Law is consistent with European Data Protection legislation (EU Directive 95/46) and with the Fair Credit Reporting Act of the United States.

Other

ATCI learned that its CTO Rodeina Abdelfattah will be relocating to Kazakhstan and that Rick Gurley, Chief Private Enterprise Division, OEG, will be the new CTO.

ATCI hosted a visit by Mission Director Chris Crowley and DAA Drew Luten to Ivano-Frankivsk.. Both attended a formal signing ceremony of a protocol between ATCI and the Mayor of Ivano-Frankivsk with other USAID officials in attendance followed by a dinner hosted by ATCI. *Scene Setters* for both events were developed.

IV. PROJECT STAFFING

The following personnel were engaged in project activities this quarter:

- David Lucterhand, Chief of Party
- Richard Genz, Senior Advisor, Municipal
- Rich Caproni, Senior Advisor, Leasing
- Javier Piedra, Senior Advisor, Credit Bureau
- Jim Aziz, Senior Advisor, Credit Bureau
- Doug Diamond, Senior Advisor, Mortgage
- Norm Masters, Senior Advisor, Credit Bureau
- Viorel Udma, Senior Advisor, Municipal
- Bob Homans, Senior Advisor, Leasing
- Bob Teichman, Senior Advisor, Leasing
- Jim Butler, Senior Advisor, Mortgage
- Sally Merrill, Senior Advisor, Mortgage
- Olexander Kopeikin, Advisor, Mortgage

- Natalia Rogozhina, Advisor, Mortgage
- Douglas Whitely, Senior Advisor, Mortgage

V. ADMINISTRATIVE ISSUES

ATCI participated in a series of four meetings with SSMSC to develop a protocol of coordination and collaboration. SSMSC expressed a desire to be designated a recipient of technical assistance under USAID's agreement with the Ministry of the Economy. We kept the focus on how ATCI could collaborate with SSMSC, and the technical support SSMSC may need to help ATCI accomplish its scope of work re: mortgage and municipal bonds.

These matters need the involvement of USAID as they transcend technical issues.

LIST OF ATTACHMENTS

OECD Agenda

B. MORTGAGE

I. COMPONENT DESCRIPTION

This Report provides details on the events and activities relating to the Mortgage Component of the USAID Access to Credit Initiative, as implemented by The Pragma Corporation, during the period from April 1, 2005 through June 30, 2005.

The primary purpose of the ATCI is to develop the primary and secondary mortgage market with its associated infrastructure. Primary market development involves legal review and addressing legislative deficiencies, the use of standardized documentation for underwriting and loan servicing, certification of personnel for mortgage lenders that results in a CML designation; technical assistance to financial institutions engaged in mortgage lending, and assessment of titling and all related processes. Development of the secondary market involves assistance to the newly formed state Mortgage Institution to become operational, development of national mortgage insurance as well as private, term life, and the structuring of mortgage-backed bonds with the appropriate legal environment for issuance. Associated market infrastructure involves appraisers, registration centers, real estate sales practitioners, and appropriate regulation.

While the credit bureau component is subordinated to the mortgage component, it is being treated as a stand alone for purposes of implementation.

II. SIGNIFICANT EVENTS

- GOU CONSIDERS MASSIVE INTEREST RATE SUBSIDIES
- COP PREPARES SMI MEMO FOR SUBMISSION TO AMBASSADOR
- COP AND COUNTERPARTS ATTEND OECD/WORLD BANK DEBT MANAGEMENT CONFERENCE
- CML COURSE II IS DELIVERED
- RADA RECEIVES MORTGAGE SECURITIES LAW FOR CONSIDERATION
- ATCI/SMI HOST MORTGAGE ROUNDTABLE FOR PRESS.
- KAZAKHSTAN MORTGAGE COMPANY HEAD VISITS SMI
- SMI STAFF VISITS KMC

III. EXECUTIVE SUMMARY

ATCI met with Deputy Minister Lisovenko to brief him on project activity. During discussion of the mortgage component, we presented a paper (*Please see attached ___*) prepared in response to the Government's draft concept for mortgage lending we had been given to SMI that summarized the project's concerns regarding the concept. This concept was to be introduced for approval by the SMI supervisory board on June 8. Additionally, we presented the Deputy Minister with a copy of a letter from The World Bank that was addressed to the Minister of Finance that mirrored our concerns. The Deputy Minister took note and requested that ATCI present him with a plan of action that would reflect components of the TACIS project for development of the overall mortgage market. Consequently, the COP was asked to prepare a brief analysis for the Embassy that addressed three issues:

1. GOU plans for adoption of the mortgage concept by the SMI, seen as highly negative by the donor community;
2. USAID's intervention to prevent this from happening, and
3. a description of the current situation.

ATCI also met with the Head of the TACIS project to better understand their components and to agree on an approach for integration of our two approaches into the Plan of Action. Additionally, TACIS and ATCI discussed how to achieve sustainability for UNIA. Advised by TACIS that Andriy Volkov was no longer Executive Director of UNIA, both projects decided that we should meet with Mr. Yushko to discuss a plan for development of a business plan and how to present it to the banks. Accordingly, the COP met with Mr. Yushko, president of UNIA, to discuss financing plans for UNIA. He liked the idea of increasing the dues for membership and annual payments but felt that it should be introduced at the annual meeting of UNIA along with a business plan that would reflect products and services membership should expect.

The COP participated in a journalists roundtable hosted by USAID and the SMI. ATCI offered an overview of mortgage market development in Ukraine. Rada Deputy Shepyetin and Mr. Novikov of the NBU and a member of the SMI supervisory board were also present and made presentations that addressed the complexity of the legal environment and duplication of registration centers. Lastly, Alexander Kopekin, of the Institute for Urban Economics and an ATCI advisor presented operational aspects of liquidity facilities to the press. After the presentation, selected members of the press were awarded plaques attesting to their excellence in reporting on mortgage matters.

Additionally, Jim Butler, mortgage senior advisor, along with Sally Merrill and Douglas, Senior Advisors for the establishment of mortgage insurance, met with banks and insurance companies to apprise them of how the industry works and its applicability for risk management in Ukraine. Jim Butler, used the opportunity to meet and brief senior banking officials on ATCI's Mortgage activity, to gauge their interest in selling part of their mortgage portfolios in the future; acquaint them with our structured finance services and to determine which counterparts inside each institution would be able to provide mortgage statistical data.

Lastly, ATCI continued its assistance to the SMI and funded a trip by Maiko Sagdynkova, Chairman of the Kazakhstan Mortgage Company (KMC), to meet with SMI senior personnel and

advise on operational start-up. This, in turn, was followed-up by selected members of the SMI staff visiting the KMC to observe operational procedures.

IV. ADMINISTRATIVE ISSUES

NONE

V. DESCRIPTION AND STATUS OF TASKS

Task 1. Mortgage - Certified Mortgage Lender Program

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> IUE review of training materials for applicability to Ukraine 	<ul style="list-style-type: none"> WORK COMMENCED IN COOPERATION WITH THE UNIA AND SMI TO REVISE CML COURSEWORK FOR DELIVERY IN UKRAINE.
<ul style="list-style-type: none"> Selection of candidates for CML training 	<ul style="list-style-type: none"> IN COOPERATION WITH UNIA AND SMI, ATCI SELECTED THE BANKS AND OTHER INSTITUTIONS FOR STAFF TRAINING.
<ul style="list-style-type: none"> Develop and administer CML training 	<ul style="list-style-type: none"> COURSE MODIFICATION FOR DELIVERY IN UKRAINE IS COMPLETED AND READY FOR DELIVERY
<ul style="list-style-type: none"> Deliver two complete CML courses 	<ul style="list-style-type: none"> DURING THE QUARTER, CML COURSES I & II DELIVERED
<ul style="list-style-type: none"> Assess rural lending, titling registration, appraisal of profitable agricultural production units 	<ul style="list-style-type: none"> THIS ACTIVITY IS EXPECTED TO BEGIN AFTER THE LAND LAW IS PASSED

Task 2. Mortgage - Assistance to Banks

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> Standardize rules and procedures for retail mortgage lending 	<ul style="list-style-type: none"> BOTH UNIA AND SMI HELD ROUND TABLES TO ARRIVE AT COMMON STANDARDS. CURRENTLY, SMI STANDARDS VARY WITH CURRENT BANK LENDING STANDARDS. ALSO EBRD HAS CONCERNS REGARDING THE COMPLETENESS OF LENDING STANDARDS AS THEY PERTAIN TO SECONDARY MARKET TRADE. THESE ISSUES MUST BE RESOLVED BEFORE SMI BUYS MORTGAGES
<ul style="list-style-type: none"> Select candidate banks for receipt of on –site technical assistance 	<ul style="list-style-type: none"> THE SAME BANKS THAT HAVE STAFF PARTICIPATE IN CML TRAINING WILL BE THE SAME WHO RECEIVE ON SITE TECHNICAL ASSISTANCE
<ul style="list-style-type: none"> Provide on – site technical assistance 	<ul style="list-style-type: none"> THIS WILL COMMENCE AFTER COMPLETION OF CML I, II, & III

Task 3. Mortgage - Home Loan Guarantee

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> Analyze market for existing mortgage insurance practices 	<ul style="list-style-type: none"> THE PROJECT COP HAS VISITED WITH A VARIETY OF BANKS TO DETERMINE BOTH THE SCOPE AND VARIETY OF INSURANCE PRODUCTS OFFERED. FINDINGS SHOW A VARIETY OF PRODUCTS IN THE MARKET MOST OF WHICH OFFER MINIMAL RELIEF IN THE CASE OF MORTGAGE DEFAULT AND APPEAR TO BE UNDERWRITTEN BY BANK INSURANCE AFFILIATES. AS A RESULT, SOME BANKS HAVE REDUCED THE LTV RATIOS TO UNWARRANTED LEVELS. ATCI IS CONTINUING ITS ANALYSIS TO DETERMINE THE EXTENT OF THIS PRACTICE AND, ON THE BASIS OF ITS FINDINGS, SUGGEST REGULATORY REMEDIES AS WELL AS DISCUSS WITH INSURANCE PROVIDERS OTHER KINDS OF MI PRODUCTS THAT MIGHT BE OFFERED. THE MARKET APPEARS READY TO USE GUARANTEES OFFERED THROUGH A GUARANTEE FUND.
<ul style="list-style-type: none"> Assess legal and regulatory framework 	<ul style="list-style-type: none"> ASSESSMENT CONTINUES WITH INTRODUCTION OF THE MORTGAGES SECURITIES LAW QUARTER.
<ul style="list-style-type: none"> Complete Feasibility Study 	<ul style="list-style-type: none"> THIS WILL COMMENCE AFTER COMPLETION OF THE ASSESSMENT.
<ul style="list-style-type: none"> Complete Business Plan 	<ul style="list-style-type: none"> THIS WILL FOLLOW THE FEASIBILITY STUDY
<ul style="list-style-type: none"> Assist in operational set-up of guarantee facility 	<ul style="list-style-type: none"> NOTHING DONE THIS QUARTER
<ul style="list-style-type: none"> Provide on-site technical assistance to facility 	<ul style="list-style-type: none"> NOTHING DONE THIS QUARTER
<ul style="list-style-type: none"> Promote the use of mortgage insurance 	<ul style="list-style-type: none"> ATCI IS LOOKING FOR A SPONSOR TO DISCUSS THE ROLE OF A STATE MORTGAGE GUARANTEE FUND. DISCUSSIONS REGARDING THE USE OF PRIVATE MI WITH BANKS, UNMA AND THE NMB ARE ONGOING. ATCI CONTINUES TO PROMOTE THE IDEA WITH THE SMI.

Task 4. Mortgage - Life Insurance Products

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> Analyze insurance and mortgage markets for existing products 	<ul style="list-style-type: none"> ATCI STAFF HAVE VISITED WITH A VARIETY OF BANKS AND INSURANCE COMPANIES TO DETERMINE BOTH THE SCOPE AND VARIETY OF INSURANCE PRODUCTS OFFERED. FINDINGS SHOW A VARIETY OF PRODUCTS IN THE MARKET. MOST OFFER MINIMAL RELIEF IN THE CASE OF MORTGAGE DEFAULT AND APPEAR TO BE UNDERWRITTEN BY BANK INSURANCE AFFILIATES - NOT MONOLINE INSURERS. THE PRODUCTS INCLUDE, MORTGAGE LIFE INSURANCE, DOWN PAYMENT INSURANCE, AND MORTGAGE DEFAULT INSURANCE. AS A RESULT, SOME BANKS HAVE REDUCED THE LTV RATIOS TO UNWARRENED LEVELS. DURING THE THIRD AND FOURTH QUARTERS, ATCI WILL OFFER SPECIFIC RECOMMENDATIONS TO INSURANCE COMPANIES ON HOW PMI SHOULD WORK AS A MORTGAGE PRODUCT. EQUALLY IMPORTANT, THE PMI PRODUCTS SHOULD BE COMPATIBLE WITH UNDERWRITING GUIDELINES USED BY THE SMI. ATCI WILL UNDERTAKE DURING THE NEXT TWO QUARTERS A COMPLETE ANALYSIS OF RELATED MORTGAGE INSURANCE PRODUCTS AND PREPARE A COMPARATIVE ANALYSIS OF THE PRODUCTS OFFERED AND THEIR TERMS AS WELL AS THE INSTITUTIONS OFFERING THEM.
<ul style="list-style-type: none"> Assess legal and regulatory framework 	<ul style="list-style-type: none"> NO ACTION TAKEN THIS QUARTER

<ul style="list-style-type: none"> • Assess existing actuarial data 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> • Select candidate insurers 	<ul style="list-style-type: none"> • ASSESSMENT PHASE IS UNDERWAY
<ul style="list-style-type: none"> • Develop term sheet and rate structure 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> • Draft Product policy 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> • Conduct Road Show with mortgage lending banks and financial institutions 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER

Task 5. Mortgage - Appraisers/Brokers Associations

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Assessment of UTO and other organizations 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> • Facilitate development and use of unified methodology 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> • Work with UAREP 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> • Study tours to U.S. 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER
<ul style="list-style-type: none"> • Design, establish and sustain the transaction and price database 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER

Task 6. Mortgage - Mortgage Backed Securities

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Establish Legal Working Group to assess legal and regulatory basis 	<ul style="list-style-type: none"> • ATCI IS PARTICIPATING IN THE FORMATION OF WORKING GROUPS WITH UNIA AFTER THE FIRST READING OF THE MORTGAGE SECURITIES LAW IS COMPLETED.
<ul style="list-style-type: none"> • Select Candidate Issuer 	<ul style="list-style-type: none"> • SEVERAL BANKS ARE BEING CONSIDERED FOR ASSISTANCE IN DOMESTIC AND INTERNATIONAL ISSUANCE. AS MOST PORTFOLIOS ARE DOLLAR DENOMINATED, MORTGAGES DENOMINATED IN LOCAL CURRENCY ARE IMPORTANT TO MITIGATE CURRENCY RISK IN DOMESTIC ISSUANCE. THIS IS NOT THE CASE FOR INTERNATIONAL ISSUANCE. ISSUER CANDIDATES ARE WAITING FOR PASSAGE OF THE MORTGAGE SECURITIES LAW.
<ul style="list-style-type: none"> • Draft investment memorandum 	<ul style="list-style-type: none"> • NOTHING DONE THIS QUARTER. FURTHER ACTION IS PREDICATED ON SELECTION OF A PILOT CANDIDATE
<ul style="list-style-type: none"> • Identify potential investors 	<ul style="list-style-type: none"> • THE COP CONTINUED TO MEET WITH POTENTIAL INSTITUTIONAL INVESTORS TO DESCRIBE FINANCIAL INSTRUMENTS IN FORMATION AND TO GAGE INVESTMENT INTEREST. LIFE INSURANCE COMPANIES AND ASSET MANAGERS OF PRIVATE PENSION FUNDS APPEAR TO BE INITIAL INVESTORS QUARTERS • SMI WILL ALSO BE AN INVESTOR OF WHOLE MORTGAGES PRECEDENT TO ANY SECURITIZED ISSUE
<ul style="list-style-type: none"> • Price and Place Issue 	<ul style="list-style-type: none"> • NO ACTION TAKEN THIS QUARTER

C. MUNICIPAL FINANCE

I. COMPONENT DESCRIPTION

The bond program of the Access to Credit Initiative helps cities and communal service enterprises issue long-term bonds for essential infrastructure. Intensive assistance from the program's team of Ukrainian and international experts in finance, accounting, and law will enable at least five municipalities or communal enterprises to issue bonds. The pilot bonds will demonstrate practices that creditworthy issuers employ to win investor confidence, such as transparent accounts, full disclosure, and financing capital projects that "pay for themselves" with cost savings. A training program will communicate the lessons learned from pilot bonds to city officials nationwide.

Pilot bonds will disclose legal and regulatory obstacles to bond issuance. The program's Legal Task Force on Municipal Issuance will develop solutions and advocate for their enactment. Stable, predictable central government transfers to municipalities, greater fiscal autonomy for cities, and full-cost recovery tariffs for utility companies will be key goals of the Legal Task Force. The Task Force will meet regularly throughout the five-year project, and will receive expert support on legal research and advocacy from the Commercial Law Center.

Key counterpart organizations supporting the bond program are the Association of Ukrainian Cities and the State Committee of Ukraine on Housing and Communal Economy.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS

- Developed separate credit evaluation methodologies for communal service enterprises and cities.
- Selected first three client cities for pilot issuance
- Presented creditworthiness criteria to Association of Ukrainian Cities
- Presented ATCI Muni program at Ukrainian Municipal Bond conference in Odessa

III. EXECUTIVE SUMMARY

This quarter, we developed tools to analyze city and utility creditworthiness, and then applied the tools in a concerted marketing campaign to select cities capable of bond issuance. We used data supplied by our counterpart, the Association of Ukrainian cities, as well as by the PADCO/USAID Tariff Reform Project, to screen cities and utility companies for creditworthiness. By the end of the quarter, we selected our first three pilot bond clients. Two of them are mid-sized cities of 200-300,000, while the third, Korasten, has a population of just 70,000. Korasten will show us whether bond financing is practical for a very small city, and might provide us with a candidate for a future pooled finance facility. The USAID-sponsored conference on pooled financing highlighted the benefits such a facility could offer: lower

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transaction costs, technical assistance, and improved access to capital markets for creditworthy cities and utilities.

We contacted all utilities judged “financially viable” by PADCO and analyzed the companies that responded with financial data. We followed up with companies that did not respond. Altogether we have investigated 23 utility companies for pilot bond issuance, including thorough evaluations of nine companies’ data. No creditworthy utility companies were discovered, but we continue to look for opportunities. On several occasions during the quarter we contacted our counterpart, the State Committee of Ukraine on Housing and Communal Economy, for leads to creditworthy utility companies. They provided one: the City of Bila Tserkva (pop. 200,131) and its communal enterprises. We traveled to the city, but its finances, and those of its heat and wastewater companies, are not suitable for the bond market at present.

Several major cities (over 800,000 population) were preparing bond issues during the quarter, so we directed our attention to second-tier cities that do not command attention from Ukraine’s investment banks. All of our pilot bond clients fall within that group.

We also opened a line of communication with a prospective new counterpart organization, the Ministry of Finance and the Securities and Stock Market State Commission. SSMSC cooperation will be essential as we seek to register pilot bond issues and improve disclosure standards. The Ministry of Finance is at the core of municipal finance and is responsible for approving every local borrowing. In addition, the Ministry is the leader in drafting a Law on Local Borrowings and Guarantees.

During the quarter, we received basic 3-year financial data for all major cities from Association of Ukrainian Cities. The data enabled us to screen cities for creditworthiness before committing to meetings. After developing the financial screening tools, we marketed our financial advisory services extensively to selected cities and utilities. We presented our services to a conference of communal enterprises in Truskavets. We travelled to Ivano-Frankivsk, Kharkiv, Korosten, Komsomolsk, and Cherkasy for meetings with mayors and finance directors, as well as utility chiefs. All utility companies that were found “financially viable” by the PADCO/USAID Tariff Reform Project were contacted, and many of them supplied financial data which we analyzed.

Romanian financial advisor Viorel Udma completed a 12-day consultancy and produced an assessment of “genuine, arms-length” corporate and municipal bond transactions in Ukraine; recommendations for credit evaluation criteria; an outline investment memorandum and municipal loan agreement; and a step-by-step explanation of the bond issuance process in Romania.

We developed a detailed Protocol of Intention for our Pilot Bond Clients, detailing our working relationship, goals, deliverables, and mutual responsibilities. Three stages of collaboration are spelled out in the Protocol: 1) Bond Capacity Assessment 2) Developing Legal and Financial Structure of Bond Issue and 3) City Council Approval and Bond Issuance. After face-to-face meetings, the Protocol was offered to cities and utilities whose financials passed a detailed preliminary screening. We expect that some clients may fall out after the in-depth Bond Capacity Assessment is completed.

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We explained the muni bond program to the City of Kharkiv's mayor and to executives of the city-owned airport, tram company, water utility, and heat utility. At the time, the city was in the final stages of planning a UAH 100 million bond, with Ukrsibbank and Arta as lead managers. Deputy Mayor Chernenko posed several legal questions to ATCI about MinFin requirements for budget changes to accommodate the city's bond issuance, and we responded with detailed guidance. After analyzing the data we collected from Kharkiv's utilities, we did not find the city's communal enterprises to be creditworthy at present. We decided to revisit the water utility in 2006 to determine if their recent restructuring results in profitability.

We met with Irina Zarya, President of PFTS stock exchange, to discuss listing of muni bonds. She outlined a method that cities could use to place small bonds directly through PFTS, without a lead manager, for 30 basis points.

We described ATCI's bond program to Dep. Finance Minister Vitaly Lisovenko, and requested information and files for four representative municipal borrowings that have so far been approved by the ministry. Mr. Lisovenko asked for ATCI's input on the Draft Law on Local Borrowings.

We presented ATCI's bond program to the Ukraine Municipal Bond Conference in Odessa.

We participated in a series of four meetings with SSMSC to develop a protocol of coordination and collaboration. SSMSC expressed a desire to be designated a recipient of technical assistance under USAID's agreement with the Ministry of the Economy. We kept the focus on how ATCI could collaborate with SSMSC, and the technical support SSMSC may need to help ATCI accomplish its scope of work re: mortgage and municipal bonds.

We contributed to planning a pooled finance facility, attending several meetings with USAID consultant Michael Curley in Kyiv as he developed a Ukraine country team. We participated in a USAID-sponsored conference on creation of a pooled finance facility for Ukraine (Bucharest, Romania).

Plan of Action

1. Execute Protocols of Intention with one or two more cities and utility companies.
2. Prepare detailed bond capacity assessments for selected cities and utilities.
3. Prepare qualified cities for bond issuance as soon as possible.
4. Advise cities on how to develop requests for proposals for lead managers.
5. Develop innovative legal structures for pilot bonds to bring international practices to Ukraine's bond market.
6. Hire an expatriate legal advisor to analyze the current legal and regulatory environment for municipal bonds, and present findings.
7. Collaborate with the Commercial Law Center and the Ministry of Finance on the Law on Local Borrowings and Guarantees. Major areas for reform include enabling cities to pledge revenue streams and to hold bond proceeds in trust accounts to improve investor protections and enhance bond credit quality.
8. Promote comprehensive reforms to improve municipal access to credit.

IV. ADMINISTRATIVE ISSUES

Level of ATCI support for credit rating costs.

V. DESCRIPTION AND STATUS OF TASKS

Task 1. Municipal Finance – Constraints to Bond issuance

Defined Activity	PROGRESS MADE DURING QUARTER/PROPOSED FUTURE ACTIONS
<ul style="list-style-type: none"> • Assemble Legal Task Force for Municipal Issuance 	<ul style="list-style-type: none"> • IDENTIFIED US ATTORNEY WITH BACKGROUND IN RUSSIAN LAW (AND LANGUAGE) TO EVALUATE LEGAL ENVIRONMENT FOR BOND ISSUANCE
<ul style="list-style-type: none"> • Develop Roadmap for Bond Issuance by Municipalities 	<ul style="list-style-type: none"> • PROTOCOL OF INTENTION WAS DEVELOPED TO SPELL OUT HOW ATCI WILL ASSIST CITIES IN ISSUING BONDS FROM BEGINNING TO END.
<ul style="list-style-type: none"> • Short-Term Advisor: Investigate Legal and Financial Issues 	<ul style="list-style-type: none"> • ROMANIAN FINANCIAL ADVISOR VIOREL UDMA SUPPORTED OUR WORK ON CREDIT EVALUATION METHODOLOGY

Task 2. Municipal Finance – Prepare for a Pilot Issue

Defined Activity	PROGRESS MADE DURING QUARTER/PROPOSED FUTURE ACTIONS
<ul style="list-style-type: none"> • Initiation of pilot 	<ul style="list-style-type: none"> • AFTER COMPLETING PRELIMINARY SCREENING, WE SELECTED THREE CITIES THAT APPEAR TO HAVE GOOD POTENTIAL FOR BOND ISSUANCE AND EXECUTED PROTOCOLS OF INTENTION.

Task 3. Municipal Finance – Issuance

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Implementation 	<ul style="list-style-type: none"> • IMPLEMENTATION OF PILOTS, I.E. PREPARING CITIES FOR BOND ISSUANCE, WAS SET TO BEGIN AT THE END OF THE QUARTER.

Task 4. Municipal Issuance – Legislation and Dissemination

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Workshops and public education 	<ul style="list-style-type: none"> • MADE A PRESENTATION ABOUT ATCI’S BOND PROGRAM TO THE UKRAINE MUNICIPAL BOND CONFERENCE IN ODESSA. • MADE A TWO-HOUR PRESENTATION ABOUT HOW ATCI EVALUATES CITY CREDITWORTHINESS TO A GROUP OF CITY OFFICIALS CONVENED BY THE ASSOCIATION OF UKRAINIAN CITIES.

LIST OF ATTACHMENTS

NONE

D. LEASING

I. COMPONENT DESCRIPTION

This report provides details on events and activities relating to the Leasing Component of the USAID Access to Credit Initiative, as implemented by the Pragma Corporation, during the period from April 1, 2005 through June 30, 2005.

The primary purpose of the Leasing Component is not only to create a supportive environment for modern financial leasing but to provide specific technical, advisory, and training assistance in order to increase access to credit throughout Ukraine. Leasing is an efficient alternative to bank financing.

ATCI will aim to strengthen existing leasing companies. Capacity building will consist of training and consulting for lessors, lessees, farmers, regulators, and other interested parties, such as vendors and banks. In addition, ATCI will seek potential foreign investors as well as conduct public awareness efforts.

Moreover, the Leasing Component will develop the cadre of leasing professionals by introducing the Certified Leasing Professional (CLP), a designation for market participants so that they may attain world standards of practice.

ATCI will continue to support and/or develop the proper legislative and regulatory framework to support the leasing industry and the entry of foreign capital to support the leasing sector.

II. SIGNIFICANT EVENTS

- LOCAL TEAM BEGINS WORK IN APRIL
- TRAIN-THE-TRAINER SESSION HELD FOR LOCAL STAFF AND COUNTERPARTS
- EDUCATIONAL SEMINAR FOR LESSEES AND EQUIPMENT VENDORS DELIVERED
- STRATEGY FOR CLPP DEVELOPED AND WORKING GROUP FORMED
- SUMMARY OF NECESSARY LEGISLATIVE AND TAX REFORM AGREED WITH KEY PARTNERS AND PROVIDED TO VARIOUS INDUSTRY STAKEHOLDERS AND GOVERNMENT BODIES
- FORMATION OF A NEW LEASING ASSOCIATION ANNOUNCED
- RISK MANAGEMENT TRAINING DEVELOPED FOR LESSORS

III. EXECUTIVE SUMMARY

In this quarter, ATCI focused on the development of the project's training capacity for lessors and other market participants. ATCI brought Mr. Robert Teichman, CLP, to Kiev to deliver a 6-day, 'Train-the-Trainers,' course for local project staff, counterparts, and partner organizations (see description and program in Leasing Attachments). On the basis of Mr. Teichman's training and an in-depth analysis of local market conditions, ATCI developed a one-day training seminar on Risk Management for Lessors to be delivered in July 2005.

ATCI prepared the development strategy for the Certified Leasing Professional Program (CLPP) in Ukraine. The strategy was agreed with Mr. Teichman member of the Board of Directors for the CLP Foundation in the US, who presented it to the Board of Directors. CLP Foundation expressed a general interest in participating in the development of the CLPP for Ukraine and stated that they will address any requests for assistance or involvement on a case-by-case basis. ATCI also shared the strategy with Ukrleasing Association and all active leasing companies in Ukraine to solicit feedback and confirm demand for such a program among industry professionals. In the next quarter, ATCI will establish a working group(s) that will: a) define the type of certification program that is appropriate for the Ukrainian market, b) begin developing the content for the CLPP, and c) finalize the initial administrative structure for the program.

Capacity building activity for other leasing industry stakeholders, namely equipment vendors, potential lessees, banks and government officials included a one-day training seminar hosted by ATCI on June 17, 2005 titled, "Leasing Practice in Ukraine," (find agenda and press release in Leasing attachments). ATCI will continue to deliver such educational seminars for market participants, expanding them to different regions of Ukraine.

ATCI's outreach and public awareness campaign focused on presenting the benefits of leasing and the necessary steps for the development of Ukraine's leasing industry at various events. ATCI hosted a conference on April 28, 2005 for the mass media, government officials and industry stakeholders on, 'The State of Ukraine's Leasing Industry,' (Program and press release in Leasing Attachments). In the next quarter, ATCI will begin holding such conferences throughout Ukraine.

ATCI also delivered presentations at the Ukraine Agro-Expo 2005 for farmers and government officials responsible for development of Ukraine's agribusiness sector, an IFC-sponsored round table on the state of Ukraine's leasing industry and necessary measures for its development; and a round-table sponsored by the *Citizens' Network for Foreign Affairs* on rural finance. In the next quarter, ATCI will continue to participate in such events and work with organizations that serve the agriculture and SME sectors to maximize knowledge of leasing among agribusinesses managers and entrepreneurs.

As part of ATCI's information campaign to raise awareness in the US with regard to opportunities in Ukraine's leasing market, Robert Teichman prepared and published an article with contributions from the Kiev-based team in *The Leasing News* about the potential of Ukraine's leasing industry and ATCI's efforts to facilitate the industry's growth (Article in

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Leasing Attachments). ATCI will continue to write and publish articles for the local and international press to attract both domestic and foreign investors to Ukraine's leasing industry.

ATCI worked with various industry stakeholders and organizations to influence legislative and tax reform for Ukraine's leasing industry. ATCI initiated a working session with International Finance Corporation's Leasing Development Project (IFC) and the USAID funded Commercial Law Center (CLC) to reach a common understanding of necessary legislative and tax reforms for leasing in Ukraine. Subsequently, ATCI prepared a summary of key reforms required to improve the legislative and tax environment for leasing and facilitate the industry's development (Summary in Leasing Attachments). This summary has been shared by ATCI and USAID with various government officials and industry stakeholders.

Due to changes to Ukraine's tax code that were passed in late March 2005 that negatively affected leasing operations, ATCI worked with lessors, Ukrleasing Association, IFC's Leasing Development Project (IFC), and the Commercial Law Center (CLC) in various sessions to develop an analysis with accompanying recommendations for relevant government bodies regarding the impact of these changes and other key issues negatively impacting the development of Ukraine's leasing industry. (see Memorandum in Leasing attachments). These recommendations were provided to the Cabinet of Ministers of Ukraine and presented at working group hosted by the Commission for Regulation of Financial Markets Services for relevant Ministries.

ATCI, together with Bohdan Chomiak of USAID and CLC, worked with the 'Committee on Investment Climate and Stock Market for Agribusiness in Ukraine,' that was created by Ukraine's Prime Minister to develop recommendations for "Improving Conditions for Financing Agribusiness through Attracting Funds and Investment." The result of this meeting was the inclusion of the development of leasing in said recommendations, in which key steps on behalf of the government were outlined.

ATCI will continue to work with industry stakeholders, the donor community and other interested organizations in order to initiate the creation of official working groups involving relevant government bodies to introduce legislative reform and improve the legal and tax environment for leasing in Ukraine.

ATCI's consulting and advisory services in this quarter focused mainly on two types of activity: a) advisory services to lessors and b) transaction based advisory services for equipment vendors and potential lessees.

Bob Homans and the Kyiv-based team to provide on-site advisory services to a local leasing company called Lizingoviy Dim, located in Lviv. Other advisory services were in response to inquiries by four leasing companies on various aspects of leasing activity, mainly regarding taxation and legal issues. Advisory services to lessors in the next quarter will focus on assisting new market entrants and working with lessors who lease agriculture machinery.

ATCI provided advisory services to four potential lessees on the benefits of leasing and how to access lease financing. Such advisory services included meetings with equipment vendors,

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lessors, US ExIm Bank, and potential lessees to facilitate sound lease transactions based on International and Ukrainian best practice that meet the financing needs of the client company. By facilitating transactions, ATCI will help to create long-term relationships between equipment vendors, lessors, and potential lessees as well as provide success stories to use in its training activities and educational publications.

IV. ADMINISTRATIVE ISSUES

ATCI engaged:

- 1) Robert Homans, short-term technical advisor, visited Kiev in April-May 2005 to provide advisory services to industry participants, (see trip report in Leasing Attachments)
- 2) Robert Teichman, CLP and Board Member of the Certified Leasing Professional Foundation in the U.S., visited Kiev in May, 2005 and delivered train-the-trainer seminars for project staff and key partners and provided establishment of a Certified Leasing Professional Program (CLPP) for Ukraine.

Richard Caproni was officially hired by ATCI as a long-term advisor for the Leasing Component.

Two local specialists, Roman Shynkarenko and Liliya Snigir, began working for the project in April and will dedicated a large majority of their time to ATCI's Leasing Component.

V. DESCRIPTION AND STATUS OF TASKS

Task 1. Financial Leasing – Building Participant Capacity

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none">• Determine capacity building needs of industry participants including demand for CLP	<ul style="list-style-type: none">▪ ESTABLISHED A CLPP WORKING GROUP IN WHICH ATCI CONFIRMED THE INTEREST AND PARTICIPATION OF MARKET PARTICIPANTS IN THE ESTABLISHMENT OF A CERTIFICATION PROGRAM IN UKRAINE.▪ DEVELOPED AND COMMUNICATED AN OVERALL STRATEGY FOR DEVELOPMENT OF A CLPP IN UKRAINE.▪ WILL CONTINUE TO WORK WITH UKRLEASING ASSOCIATION, LOCAL LESSORS, AND THE US-BASED CLP FOUNDATION TO DEVELOP THE CONTENT AND ADMINISTRATIVE STRUCTURE FOR THE CLPP IN THE NEXT QUARTER.
<ul style="list-style-type: none">• Develop and deliver training seminars for industry participants	<ul style="list-style-type: none">▪ DEVELOPED AND DELIVERED A 6-DAY, 'TRAIN-THE-TRAINER,' SEMINAR LED BY BOB TEICHMAN, CLP FOR KYIV-BASED TEAM AND KEY PARTNERS.▪ DEVELOPED AND DELIVERED AN EDUCATIONAL SEMINAR ON 'LEASING PRACTICE IN UKRAINE,' FOR INDUSTRY STAKEHOLDERS SUCH AS POTENTIAL LESSEES, VENDORS, GOVERNMENT OFFICIALS.▪ DEVELOPED A ONE-DAY SEMINAR ON 'RISK MANAGEMENT FOR LESSORS,' TO BE DELIVERED IN THE NEXT QUARTER▪ ATCI WILL EXPAND THE DELIVERY OF EDUCATIONAL SEMINARS FOR INDUSTRY STAKEHOLDERS TO THE REGIONS OF UKRAINE.

Task 2. Financial Leasing – Information Network

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Work with key industry stakeholders to agree upon necessary reforms to create a favorable legal, tax and regulatory environment for leasing in Ukraine 	<ul style="list-style-type: none"> ▪ DEVELOPED AN ANALYSIS WITH ACCOMPANYING RECOMMENDATIONS FOR RELEVANT GOVERNMENT BODIES REGARDING CHANGES TO UKRAINE’S TAX CODE THAT WERE PASSED IN LATE MARCH 2005 THAT NEGATIVELY AFFECTED LEASING OPERATIONS. ▪ PREPARED A SUMMARY OF KEY REFORMS REQUIRED TO IMPROVE THE LEGISLATIVE AND TAX ENVIRONMENT FOR LEASING BASED ON A COMMON VIEW REACHED WITH IFC AND CLC. ▪ PARTICIPATED IN A WORKING GROUP HOSTED BY THE COMMISSION ON REGULATION OF FINANCIAL SERVICES AND PRESENTED RECOMMENDED REFORMS. ▪ CONVINCED THE ‘COMMITTEE ON INVESTMENT CLIMATE AND STOCK MARKET FOR AGRIBUSINESS IN UKRAINE,’ CREATED BY THE PRIME MINISTER TO INCLUDE THE DEVELOPMENT OF LEASING IN ITS RECOMMENDATIONS FOR “IMPROVING CONDITIONS FOR FINANCING AGRIBUSINESS THROUGH ATTRACTING FUNDS AND INVESTMENT.” ATCI PROVIDED A DETAILED ANALYSIS OF TAX ISSUES THAT NEED TO BE ADDRESSED TO BE INCLUDED BY THE COMMITTEE IN ITS RECOMMENDATIONS OF THE KEY STEPS THAT THE GOVERNMENT CAN TAKE TO FACILITATE THE DEVELOPMENT OF LEASING TO THE AGRIBUSINESS SECTOR. ▪ PROVIDED A MEMORANDUM OF KEY LEGAL AND TAX ISSUES HINDERING LEASING DEVELOPMENT IN UKRAINE FOR USAID THAT WAS PROVIDED TO THE INTERNATIONAL PRIVATE CAPITAL TASK FORCE / BLEYZER FOUNDATION. ▪ ATCI WILL CONTINUE TO WORK WITH INDUSTRY STAKEHOLDERS TO INITIATE THE CREATION OF OFFICIAL WORKING GROUPS INVOLVING RELEVANT GOVERNMENT BODIES TO INTRODUCE LEGISLATIVE REFORM AND IMPROVE THE LEGAL AND TAX ENVIRONMENT FOR LEASING IN UKRAINE.
<ul style="list-style-type: none"> • Conduct nation-wide informational and educational campaign on international best practice in leasing 	<ul style="list-style-type: none"> ▪ HOSTED A CONFERENCE ON THE STATE OF UKRAINE’S LEASING INDUSTRY AND THE KEY FACTORS FOR ITS DEVELOPMENT FOR THE MASS MEDIA, GOVERNMENT OFFICIALS, AND INDUSTRY PARTICIPANTS. ▪ DELIVERED PRESENTATION AT AGRO-EXPO 2005 ON THE BENEFITS OF LEASING AND HOW TO ACCESS LEASE FINANCING TO SENIOR MANAGERS OF LEASING COMPANIES AND GOVERNMENT OFFICIALS RESPONSIBLE FOR THE AGRIBUSINESS SECTOR. ▪ ATCI WILL BEGIN TO CONDUCT CONFERENCES AND SEMINARS IN DIFFERENT REGIONS OF UKRAINE FOR REPRESENTATIVES OF THE MASS MEDIA, LOCAL GOVERNMENT OFFICIALS, AND INDUSTRY STAKEHOLDERS SUCH AS EQUIPMENT VENDORS, POTENTIAL LESSEES, INSURANCES COMPANIES AND BANKS.

Task 3. Financial Leasing - Consulting Services

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Provide advisory services to market participants 	<ul style="list-style-type: none"> ▪ CONDUCTED A ONE-DAY, ON-SITE ADVISORY SESSION WITH A SMALL INDEPENDENT LESSOR IN LVIV, LIZINGOVIIY DIM. ▪ PROVIDED ADVISORY SERVICES TO FOUR LESSORS WHO REQUESTED ASSISTANCE ON DIFFERENT ASPECTS OF LEASING ACTIVITY, MAINLY REGARDING TAXATION AND LEGAL ISSUES. ▪ PROVIDED ADVISORY SERVICES TO INDUSTRY PARTICIPANTS SUCH AS EQUIPMENT VENDORS, LESSORS, US EXIM BANK, AND POTENTIAL LESSEES TO FACILITATE SOUND LEASE TRANSACTIONS BASED ON INTERNATIONAL AND UKRAINIAN BEST PRACTICE. ▪ ADVISED POTENTIAL LESSEES ON THE BENEFITS OF LEASING AND

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	<p>HOW THEY MAY ACCESS EQUIPMENT FINANCING ON A TRANSACTIONAL BASIS.</p> <ul style="list-style-type: none">▪ ATCI WILL WORK WITH POTENTIAL ENTRANTS INTO UKRAINE'S LEASING INDUSTRY TO ASSIST THEM IN ESTABLISHING OPERATIONS.▪ ATCI WILL FOCUS ITS ADVISORY SERVICES TO VENDORS ON DISTRIBUTORS OF AGRICULTURAL MACHINERY AND ASSIST THEM IN PARTNERING WITH LESSORS TO PROVIDE ACCESS TO EQUIPMENT FINANCE FOR THEIR CUSTOMERS.▪ BY FACILITATING TRANSACTIONS, ATCI WILL HELP TO CREATE LONG-TERM RELATIONSHIPS BETWEEN EQUIPMENT VENDORS, LESSORS, AND POTENTIAL LESSEES AS WELL AS PROVIDE SUCCESS STORIES TO USE IN ITS TRAINING ACTIVITIES AND EDUCATIONAL PUBLICATIONS.
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LIST OF ATTACHMENTS

INVITATION AND AGENDA FOR 'TRAIN-THE-TRAINERS' SEMINAR

STRATEGY FOR DEVELOPMENT OF CLPP UKRAINE

INVITATION AND AGENDA FOR 'LEASING PRACTICE IN UKRAINE' SEMINAR HELD FOR POTENTIAL LESSEES, VENDORS, GOVERNMENT OFFICIALS

INVITATION AND AGENDA FOR PUBLIC AWARENESS SEMINAR FOR JOURNALISTS, GOVERNMENT OFFICIALS, AND MARKET PARTICIPANTS

ARTICLE FOR THE LEASING NEWS BY BOB TEICHMAN, CLP

MEMO ON KEY LEGAL/TAX ISSUES HINDERING LEASING DEVELOPMENT IN UKRAINE

TRIP REPORT BY ROBERT HOMANS

D. CREDIT BUREAU/CREDIT RATING AGENCY

I. COMPONENT DESCRIPTION

Credit Bureau

This report provides details on events and activities relating to the Credit Bureau component of the USAID Access to Credit Initiative, as implemented by the Pragma Corporation, during the period from April 1, 2005 through June 30, 2005.

The objective of this activity is to establish and develop a Credit Bureau in Ukraine; it is a key piece of financial infrastructure. A Credit Bureau serves as a financial intermediary between the lender and the borrower in order to stimulate, in the first instance, the SME and retail markets within a free market competitive economic system.

The practical definition of a Credit Bureau, for design and implementation purposes in Ukraine, is one of an impartial entity that will store all past and present credit transactions entered into by a particular legal or physical person, and one that will indicate the manner in which the subject of the credit profile repaid the obligation to the respective creditors. The Credit Bureau must contain gender neutral demographic information on a consumer to ensure proper identification, information that is pertinent to their creditworthiness, and an indication of the overall risk relating to an applicant. The Credit Bureau will provide an avenue for the verification or validation of any information that may be questioned or disputed by the subject of the credit profile. A Credit Bureau serves both parties in a credit transaction and is an excellent tool to reduce risk and facilitate and accelerate the approval process.

II. SIGNIFICANT EVENTS

- IN JULY 2005, THE PRESIDENT OF UKRAINE, FOLLOWING PASSAGE BY PARLIAMENT IN JUNE, SIGNED THE UKRAINE'S CREDIT BUREAU LAW: "*ON ORGANIZATION, FORMATION AND CIRCULATION OF CREDIT HISTORIES*".
- MAJOR INTERNATIONAL CREDIT BUREAU OPERATORS NOT ONLY VOICE INTEREST IN UKRAINE BUT LAY OUT INVESTMENT STRATEGIES
- THE FIRST CREDIT BUREAU (FCB) OF UKRAINE IS REGISTERED AS A COMPANY WITH 30 SHAREHOLDERS IN JUNE 2005.
- SIGNIFICANT PROGRESS IN CONNECTION WITH THE PREPARATION OF A BUSINESS PLAN.
- JUNE 9th 2005 CREDIT BUREAU CONFERENCE CONFIRMS MARKET INTEREST IN DATA REPORTING. MAJOR INTERNATIONAL CREDIT BUREAU OPERATORS PRESENT.
- MARKET REMAINS FRAGMENTED – IT APPEARS THAT THERE WILL BE AT LEAST THREE CREDIT BUREAUS ESTABLISHED.
- PRIVATBANK AND OTHER BANKS CONTINUE TO REFUSE TO PARTICIPATE WITH FIRST CREDIT BUREAU OF UKRAINE AND THE AUB

- AUB-SUPPORTED BANKS INDICATE AGREEMENT TO WORK WITH INTERNATIONAL CREDIT BUREAU OPERATOR; HOWEVER IT IS STILL NOT CLEAR IF FOREIGN OPERATORS WILL BE PERMITTED TO BE SHAREHOLDERS.
- S&P INTRODUCES NATIONAL SCALE RATING FOR UKRAINE

III. EXECUTIVE SUMMARY

From April 1, 2005 through June 30, 2005, ATCI continued to finalize a credit bureau business plan, to provide on-going consultancy on a daily basis to ensure compliance with international standards of best practice during the development phase of a credit reporting system, and to provide, in concert with USAID's CLC project, legal advice in connection with the credit bureau law. In addition, ATCI helped design and fund a credit bureau conference and round table discussions in order to deepen public awareness of the role of credit bureaus.

Moreover, ATCI further helped to consolidate the interest of commercial banks to fund a private credit bureau, and to deepen the market's awareness of a credit bureau's role in risk and portfolio management. ATCI, based on experience in other markets and interviews in country, understands the educational challenges in communicating to all stakeholders the importance of data sharing.

ATCI continues to interface on a regular basis with both the First Credit Bureau of Ukraine, the Association of Ukrainian Banks and other interested parties, including foreign credit bureau operators. Major highlights and accomplishments over the past quarter follow:

Credit Bureau Law Passed by Rada

In June 2005, Parliament passed Ukraine's Credit Bureau law: "*On Organization, Formation and Circulation of Credit Histories*". This Law is consistent with European Data Protection legislation (EU Directive 95/46) and with the Fair Credit Reporting Act of the United States.

The Credit Bureau law establishes a qualitative framework for data processing, defines credit reference bureau and codifies the rights and obligations of all parties affected by the establishment of a credit reporting system in Ukraine. It brings clarity to an otherwise previously unclear operating environment for data processing and is designed to protect first and foremost the confidentiality of private information and the rights of the citizens of Ukraine.

The law includes the following key features: a) a credit bureau can be 100% private¹; b) data sharing of both positive and negative data is permissible; c) a credit bureau can collect and process consumer and SME data at a single location (thus avoiding data fragmentation) and is not restricted from processing data off-shore²; d) non-financial institutions can participate in the

¹ There is no prohibition in the law with respect to the number of credit bureaux that the private sector can establish. The law establishes the framework for a competitive system, i.e. credit bureaux can compete with respect to price, data quality, products, coverage rates and scoring services. The law requires a data processor to be licensed.

² Processing data offshore, as is done by some countries, is unlikely in Ukraine in the foreseeable future.

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credit bureau system, and e) the law is silent with respect to ownership structure and sources of capital investment³.

After considerable debate, Parliament did not seek to insert language in the law which micro managed or “hand cuffed” data processors at the operational level. All parties accepted the notion that regulatory overreach would have discouraged data sharing and jeopardized the goal of establishing a functional credit bureau system; the role of the Government in the law is to supervise data processing and to put in place regulatory standards to protect personal privacy and the soundness of the banking sector.

The legislation solidly protects the personal privacy of the consumer and the confidentiality of private information; it ensures that a credit bureau *cannot* collect, process, or allow access to the database by any third party *without the prior consent* of the consumer or SME. The law upholds the consumer’s right to privacy, i.e., the consumer has the right to obtain a credit report within a reasonable time, at a reasonable cost, and in a reasonable way; the right to dispute data and have it corrected in a timely fashion; the right to know the purpose for data collection; the right to limit the type of data collected, the right to limit its transferability; the right to demand that data be accurate; and the right to know that there are remedies in the event of data misuse. The law addresses all these points.

Moreover, access to the database is governed by permissible purpose language in the law as well as by contracts between a credit bureau and its members. Generally accepted “Principles of Reciprocity” within the industry will most likely govern certain aspects of data sharing and access rights to the database. These consent and contract requirements are standard practices in Western Europe and North America.

ATCI has been instrumental in attracting the interest of international credit bureau operators to Ukraine. Multiple initiatives are under way. The Ukrainian financial sector understands that a credit bureau should consider a long-term strategic partnership with a foreign private operator. At present, at least three of the world’s leading credit bureau operators are moving to work with Ukrainian counterparts. The companies include CreditInfo (Iceland), Dun & Bradstreet (U.S.) and Experian (US/UK). Others, such as TransUnion/CRIF, have expressed an interest.

It is now clear that there will be data fragmentation in the Ukrainian market place. The first credit bureau that was set up is expected to experience competition over the short-term, particularly since business opportunities in Ukraine are extensive and draft legislation permits the establishment of multiple bureaus.

In this connection, Creditinfo Group has established an office in Kiev and is moving to market its products and services. Experian and D&B continue to probe the market but have not in fact set up offices in Kiev. The latter two companies have extensive operations in Moscow and seek advise from ATCI as they develop their strategies for Ukraine. Experian has publicly stated that it is ready to invest in Ukraine. The Association of Ukrainian Banks established in June 2005 a company that is intended to function as a credit bureau. The company has 30 shareholders, 27 of which are private banks. In mid-July 2005, Privatbank announced that it established a credit

³ Domestic and international investors can be shareholders with no restriction as to percentage of ownership.

bureau. Credit Unions and others are developing strategies to either establish their own proprietary databases or join with a credit bureau that is already established. It appears that Credit Union Association as well as The TAC Group of banks (and other collaborators) will launch their own credit bureaus in conjunction with Creditinfo. ATCI has been monitoring all of these activities. ATCI maintains complete neutrality with respect to the above initiatives, but continued to build market consensus with respect to data sharing, i.e., to minimize data fragmentation.

As the above initiatives unfold, ATCI has consistently, to all market players, made the following observations with respect to credit bureau management and ownership: a) a major international credit bureau operator should help manage any credit bureau in Ukraine and not simply provide technical assistance “from a distance”; b) the owners of the Ukrainian credit bureau should have some form of foreign investment; and c); non-banks (leasing companies, credit unions, insurance companies, amongst others) should not be prohibited from owning equity shares in a credit bureau, assuming such ownership arrangements would encourage data sharing.

In connection with credit bureau ownership, ATCI worked with various parties to find solutions to thorny shareholder structure issues, with out pushing or endorsing any specific approach. For example, ownership could be spread amongst proprietary data providers in accordance with a formula acceptable to the market, *after* a large percentage of shares have been allocated to an international credit bureau operator. ATCI also has noted that there are different shareholder arrangements – such as dividing shares as close as possible to the proportion of data contribution to the credit bureau database⁴.

It is expected that disagreement over a credit bureau’s ownership and management structure (amongst the different, or within, the major market sectors) will pose significant problems in developing a “full service” credit bureau in Ukraine. If this tendency crystallizes, as is expected, a system of credit bureaus will operate in a fragmented market and will limit a credit bureau’s financial performance.

Business Plan

ATCI continues to make significant progress in finalizing the Business Plan for a Ukrainian Credit Bureau. The Business Plan (expected delivery data August 2005) will set out in detail the requirements and challenges to develop over the medium term a best practice private credit bureau in Ukraine. The Business Plan will outline market conditions, set out six-years of expected financial costs and expenses, review the legal framework and technical requirements, and illustrate product-offering options.

In preparing the business case and otherwise understanding the factors to develop a credit bureau in Ukraine, ATCI is focusing on five issues encountered in Ukraine:

1. Credit Bureaus must commence from a base of zero information. Data must be identified, analyzed for usefulness, and loaded into the credit bureau, starting with identification data. The less information available, the longer and more costly it will take to build the bureau. In

⁴ A credit bureau could also adopt a pricing strategy to facilitate some data suppliers to provide their data.

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Ukraine, it has been established that individual demographic information (public record data) exists, although its availability to the bureau is not clear at this time.

2. Ukraine is still essentially ‘cash based’ with little availability of unsecured lending, indicating the need to develop a “credit culture”. Building a credit culture process must be aimed at individuals, potential suppliers of retail credit information and enterprises that are or could participate as lenders in the retail, leasing, mortgage and SME credit markets. The concept of credit still makes certain individuals uncomfortable.
3. Members of the banking community, for competitive reasons, often mistrust the concept of credit bureaus. They have concerns that if they share their proprietary information on their retail and SME loan customers with the Credit Bureau, competing banks will have access to this information. That access will result in other banks selectively attempting to convince another bank’s retail loan customers to switch their business, thus having a potentially negative impact on profitability. This attitude impedes data sharing, which is a fundamental principal underpinning the construction of a credit bureau database.
4. The marketplace has no experience with Credit Bureaus and while, conceptually, a Credit Bureau is an “easy” sell to those businesses that would benefit. There is not a thorough understanding of the total benefits to the economy of the country and to the public. The ownership of a proposed Credit Bureau must be patient as the database is being constructed and must have available funds to offset operating costs that will occur, for an extended period time, until Credit Bureau products have been tested and deemed appropriate for sale in the marketplace.
5. Technical issues are significant challenges in the development phase of a credit bureau. Both data supply and efficient and secure access mechanisms must be tested and designed. In Ukraine, these issues will be challenges although technical expertise and data management capabilities among banks are extremely advanced, facilitating data uploading, transfer and access issues. The business case will contain a full technical section with action plan and timelines.

The business plan will outline different breakeven scenarios given that data will most likely be fragmented and split among several data processors or operators. As a starting point, however, ATCI will estimate breakeven for a single credit bureau, i.e., no data fragmentation, and, then estimate breakeven arising from fragmented databases. The timing of financial breakeven will depend on market growth, penetration and pricing assumptions for each scenario. In terms of staffing, the business plan will recommend the standard best practice arrangements, including a typical management structure (CEO and COO) as well as legal, IT, customer service and marketing departments.

Income generated by the Credit Bureau will come from information sold to participating institutions, subscription fees and software installation fees. In addition, the credit bureau’s financials will reflect surcharges for additional product offering that arise from a variety of “secondary” services or product enhancements. As a credit bureau develops, it is critical to generate income as early as possible. In this respect, ATCI is expected to recommend the

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development of the following services: client identification confirmation, alert messages, fraud detection services, and/or the “flagging” of borrowers with poor repayment histories.

The financials are being designed to provide a better understanding of the sources and uses, quality, timing and magnitude of cash flows given 5 different financial scenarios. The scenarios will reflect the 3 Phased Business/Marketing Strategy outlined in the previous section. The cash flow projections (sources and uses) serve as a benchmark and allow potential investors to estimate profitability and rates of return given revenue/expense assumptions.

In addition, the cash flow scenarios will be presented to help:

- anticipate financing needs, financial flexibility, and funding mix;
- weigh business risks and opportunity costs against strategic objectives;
- estimate management flexibility in pricing, product sales, discounts, or special offers to attract business and/or fight off potential competition in the future;
- estimate long-term earning power and quality;
- plan for staffing and equipment over time given potential business expansion and competition.

June 2005 Credit Bureau Conference

In coordination with the AUB, ATCI not only participated in but help fund the June 9th Credit Bureau Conference in Kiev. All the major banks in Ukraine (except Privatbank and Prominvestbank) and the major Credit Bureau operators (Experian, Creditinfo and Dun & Bradstreet) attended the conference. The conference was not limited to mid-level managers but rather attracted the board members of the major banks. A two hour afternoon meeting was specifically set aside so that senior management of the banks, with input from credit unions and other market players, could discuss the major issues: a) data sharing, and b) investment (sources of funding) options. Finally, the conference was an opportunity to layout and to discuss management issues in connection with the First Credit Bureau (FCB) of Ukraine. As of May 31, 2005, there was still internal disagreement over responsibilities and job descriptions among senior managers of the FCB of Ukraine. This has caused some delays in working with the AUB and the FCB of Ukraine.

The First Credit Bureau of Ukraine is established as a legal entity with 30 shareholders, including 2 insurance companies and the Association of Ukrainian Banks.

IV. ADMINISTRATIVE MATTERS

NONE

V. DESCRIPTION AND STATUS OF TASKS

Defined Activity	PROGRESS MADE DURING QUARTER/PROPOSED FUTURE ACTIONS
<ul style="list-style-type: none"> • Coordinate Disparate Groups and Consolidate Interests 	<ul style="list-style-type: none"> • ATCI CONTINUES TO ENCOURAGE DATA SHARING AND COOPERATION AMONGST ALL PARTIES IN ORDER TO MINIMIZE DATA FRAGMENTATION. AUB CONTINUES TO EXPERIENCE INTERNAL TENSION AT SENIOR MANAGEMENT LEVEL COMPLICATING EFFORTS TO GET BANKS TO SHARE DATA AND INVEST.
<ul style="list-style-type: none"> • Develop and establish linkages with primary international credit bureau operators 	<ul style="list-style-type: none"> • INTERNATIONAL CREDIT BUREAU OPERATORS CONFIRM INTEREST IN UKRAINE. DISCUSSIONS CONTINUE WITH EXPERIAN (UK), CREDITINFO (ICELAND), CRIF (ITALY/CZECH REPUBLIC) AND D&B (SIGNAPORE).
<ul style="list-style-type: none"> • Secure buy-in of local data providers and users 	<ul style="list-style-type: none"> • MARKET REMAINS SPLIT – IT IS INCREASINGLY LIKELY THAT THERE WILL BE AT LEAST THREE CREDIT BUREAUS ESTABLISHED.
<ul style="list-style-type: none"> • Sponsor visits to potential foreign CB partners 	<ul style="list-style-type: none"> • NO ACTION
<ul style="list-style-type: none"> • Determine and review CIC development strategy with government and counterparts 	<ul style="list-style-type: none"> • IN DISCUSSIONS WITH AUB AND OTHER REPRESENTATIVES OF THE CIC (OR FCB) TO DEVELOP STRATEGY FOR THE DEVELOPMENT OF CB. COOPERATION CONTINUED WITH RESPECT TO DEVELOPMENT OF BUSINESS PLAN, THE DRAFTING AND PASSAGE OF THE LAW AND OTHER RELATED ISSUES.
<ul style="list-style-type: none"> • Market best approach for structuring, establishing and operating CIC 	<ul style="list-style-type: none"> • PUBLIC RELATIONS STRATEGY CONTINUED, AND INCLUDED VISITS TO INDIVIDUAL MARKET PARTICIPANTS.
<ul style="list-style-type: none"> • Analyse and Coordinate passage of law 	<ul style="list-style-type: none"> • IN JULY 2005, THE PRESIDENT OF UKRAINE, FOLLOWING PASSAGE BY PARLIAMENT IN JUNE, SIGNED THE UKRAINE’S CREDIT BUREAU LAW: “<i>ON ORGANIZATION, FORMATION AND CIRCULATION OF CREDIT HISTORIES</i>”.
<ul style="list-style-type: none"> • Define Business and Operations Plan 	<ul style="list-style-type: none"> • IN PREPARATION – NEARING FINALIZATION. FIRST CREDIT BUREAU OF UKRAINE ESTABLISHED WITH 30 SHAREHOLDERS.
<ul style="list-style-type: none"> • Outline Package of Technical Requirements 	<ul style="list-style-type: none"> • IN PREPARATION – TECHNICAL SECTION OF BUSINESS PLAN ALMOST COMPLETE
<ul style="list-style-type: none"> • Discussions with Government Data Providers 	<ul style="list-style-type: none"> • IN PROGRESS ALBEIT VERY SLOW BECAUSE OF THE DIFFICULTY OF FINDING THE “PERSON” IN CHARGE
<ul style="list-style-type: none"> • Secure Buy-in of Foreign Investors and Banks 	<ul style="list-style-type: none"> • INTERNATIONAL CREDIT BUREAU OPERATORS NOT ONLY CONFIRM INTEREST IN UKRAINE BUT PUBLICALLY STATE THEIR INTEREST IN INVESTING. FURTHER MORE, CREDITINFO ESTABLISHES OFFICE IN KIEV AND IS KEEN ON COLLABORATION WITH ATCI
<ul style="list-style-type: none"> • Develop and Deliver Package of Training Programs (banks, leasing, credit unions) 	<ul style="list-style-type: none"> • JUNE 9TH CREDIT BUREAU CONFERENCE IN KIEV – A MAJOR SUCCESS IN ASSEMBLING ALL THE MAJOR BANKS IN ONE ROOM, EXCEPT PRIVATBANK AND PROMINVEST. (See attachment)

LIST OF ATTACHMENTS

1. The Ukraine’s Credit Bureau Law: “*On Organization, Formation And Circulation Of Credit Histories*”.
2. Agenda of June 9th Credit Bureau Conference.

E. GENDER

I. COMPONENT DESCRIPTION

Programs related to gender have political and cultural implications that should be considered in any approach. ATCI is seeking opportunities for increased income and empowerment for both women and men.

The project plans to undertake several activities in the area of gender analysis. ATCI staff see the importance of carrying out gender sensitivity training for the staff, in order to have a solid basis for the monitoring work.

With respect to monitoring participation in training programs and events by gender, the following activities will be undertaken to the extent feasible and possible.

- Examine the program to ascertain whether if there are any provisions that could differentially discourage persons of one sex or another from participating;
- Inquire about how program outreach is conducted to understand whether if these procedures may be differentially affecting participation by gender;
- Examine the actual patterns of participation by gender in selected programs, to the extent permitted by the data;
- Where differential participation by gender is identified, try to understand its causes and make appropriate changes.
- With respect to the representation of women in higher positions in government agencies, the Pragma project will work to balance the composition by gender of groups being trained by the project.

Pragma continues to partner with local organizations run by women or consisting mostly of women. Two good examples are the Association of Ukrainian Banks and the Commercial Law Center.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS

- Delivery of CML Courses I & II is completed comprising 13 women and 5 men
- Delivery of leasing Train the Trainers included 6 women and 8 men
- Seminar on Practical Aspects of Leasing included 22 women and 19 men

III. EXECUTIVE SUMMARY

All ATCI tasks present opportunities to identify and address gender bias, and to actively promote gender equality in Ukraine's financial sector. For example, ATCI is working closely with the Association of Ukrainian Banks, the Commercial Law Center and other organizations which

USAID ATCI Project: Third Quarterly Report

understand the importance of gender sensitivity with respect to product and services development. These issues have not only been discussed but plans are underway to draft material and articles which point out important opportunities in this area.

The Project staff of ATCI project includes 11 women out of 24 with professional and technical skills in finance and law.

IV. ADMINISTRATIVE ISSUES

NONE

V. DESCRIPTION AND STATUS OF TASKS

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none">• Partner with Woman – run organizations (CLC & UAB)	<ul style="list-style-type: none">• ATCI IS WORKING CLOSELY WITH THE ASSOCIATION OF UKRAINIAN BANKS, THE COMMERCIAL LAW CENTER AND OTHER ORGANIZATIONS WHICH UNDERSTAND THE IMPORTANCE OF GENDER SENSITIVITY WITH RESPECT TO PRODUCT AND SERVICES DEVELOPMENT.
<ul style="list-style-type: none">• Analyse the possibility of increasing the role of women in the financial sector through training and /or other initiatives	<ul style="list-style-type: none">• THE PROJECT STAFF INCLUDES WOMEN WITH PROFESSIONAL AND TECHNICAL SKILLS IN FINANCE AND LAW. CML TRAINING CONSISTS 61% OF WOMEN
<ul style="list-style-type: none">• Gender and cultural sensitization training	<ul style="list-style-type: none">• UNDER DISCUSSION

LIST OF ATTACHMENTS

NONE

ATTACHMENT 1



April 26, 2005

Re: The Seventh OECD/World Bank - Global Bond Market Forum, May 23-24, 2005

Dear Colleague:

The OECD and the World Bank are jointly organizing *the Seventh Annual OECD/World Bank Global Bond Market Forum*, which will take place at the JB1-080 Auditorium of the World Bank in Washington, DC between May 23-24, 2005.

The annual forum creates a platform for debt managers and financial policymakers to discuss the latest developments in worldwide bond markets and to share and learn from country cases and best practices. The objective is to create awareness of the principles and major issues of developing bond markets, and to discuss the role of policymakers and private sector in developing efficient and effective public and corporate bond markets.

Every year the global forum addresses bond market issues high on the policy agenda of debt managers and other financial policymakers from all over the world. This year the forum will focus on four main topics:

- (i) Recent trends and developments in global bond markets (developments and international investor perspectives on emerging bond markets and global stability)
- (ii) Developing a transparent and liquid electronic bond market (challenges in developing a transparent and liquid market microstructure; experiences from OECD countries)
- (iii) The interaction between money market and bond market development (overcoming challenges in implementing the reform agenda)
- (iv) Developing markets for longevity bonds and ultra-long bonds (longevity bonds and annuities markets; perspective of investors; what are the implications for issuers?)

We are kindly inviting you to participate and share your experiences and insights with colleagues from around the world. To register please fill out the attached registration form and return it to us by May 15, 2005.

Should you have any questions regarding the forum please feel free to contact Ms. Demet Cabbar (tel: +1 (202) 458-9835, fax: +1 (202) 522-7105, or e-mail: dcabbar@worldbank.org).

Yours sincerely,

Thordur Jonasson
Senior Debt Specialist
Financial Sector Operations and Policy Dept.
The World Bank

Hans Blommestein
Head of Emerging
Financial Market Programme
OECD

The Seventh Annual OECD/World Bank Bond Market Forum

JB1-080 Auditorium, the World Bank
Washington, DC
May 23-24, 2005

Overview

The Annual OECD/World Bank Bond Market Forum intends to share the latest developments in worldwide debt markets and disseminate country cases and best practices. The workshop brings together an audience of approximately 100 senior government officials from both OECD and developing countries.

Every year the forum addresses different debt market issues. This year it will focus on the following topics:

- (i) Recent trends and developments in global bond markets (developments and international investor perspectives on emerging bond markets and global stability perspective)
- (ii) Developing a transparent and liquid electronic bond market (challenges in developing a transparent and liquid market microstructure; experiences from OECD countries)
- (iii) The interaction between money market and bond market development (overcoming challenges in implementing the reform agenda)
- (iv) Developing markets for longevity bonds and ultra-long bonds (longevity bonds and annuities markets; perspective of investors; what are the implications for issuers?)

Objectives

The objective is to create awareness of the principles and major issues of developing debt markets, and to discuss the role of policymakers and private sector in developing efficient and effective public and corporate bond markets. Another objective of the workshop is to provide the debt managers with an opportunity to exchange ideas and concerns with their peers from the OECD and developing countries and learn from each other's experiences and some selected country case studies.

Target Audience

The target audience includes debt managers and other senior government officials from emerging markets and the OECD countries who are directly involved with debt market operations and regulations.

Registration

The deadline for registration is **May 10, 2005**. Please fill out the **registration form** and mail or fax it to:

Ms. Demet Cabbar
The World Bank
1818 H St.
MSN MC9-904
Washington, DC 20433 USA

Email: dcabbar@worldbank.org
Tel: ++1-202-458-9835
Fax: ++1-202-522-7105

Acceptance is provisional pending evidence of full financial sponsorship and approval by nominating or coordinating agency, if required.

Fees

Participation in the workshop is free of charge; however it is by invitation only. Participants are responsible for their own travel and accommodations expenses.

Cancellation:

Cancellations must be received before 12 midnight (Washington, DC time), May 10, 2005.

Venue

JB1-080 Auditorium
J Building of the World Bank
701 18th St. NW
Washington, DC 20433

The conference will start at 9:00 am on May 23, 2005. Participants should allow enough time to pick up their name badges and reading material prior to the conference. Please be prepared to show identification upon entering the building.

The US Entry Visa

Natives of some countries need a visa to enter the US. Please check with the American Embassy or Consulate in your country to find out if you need a visa.

Transportation from Area Airports (see map below)

From Washington Dulles International Airport (in Virginia, 30 miles from Washington, D.C.)

- ◆ Take a taxi directly to your hotel (approximate fare is \$45) or
- ◆ Take an airport bus (approximate fare is \$16) to the terminal in downtown Washington, D.C., from where you can take a taxi to the hotel at a cost of approximately \$8, including tip.

From Washington Reagan National Airport (in Virginia, just outside Washington, D.C.)

- ◆ Take a taxi to your hotel in downtown Washington at a cost of approximately \$15, including tip or
- ◆ Take the metro to downtown D.C. (Washington, D.C. has a very convenient and safe metro system). Take the blue line metro towards Addison Road. Get off at Foggy Bottom Metro Stop, which is only a few blocks from the World Bank and hotels.

From Baltimore Washington International (BWI) Airport (in Maryland, 30 miles from Washington, D.C.)

- ◆ Take a taxi directly to your hotel (approximate fare is \$70) or
- ◆ Take a super shuttle bus (approximately \$25) to downtown Washington, D.C.

Accommodations

Registration fee for the workshop does NOT cover accommodations. All participants are free to make their own hotel arrangements. However, for your convenience we have blocked rooms in three hotels within walking distance to the course venue. Below please find contact information, addresses and rates of the three hotels below.

When you call or e-mail to make reservations, please be sure to mention the special group ID number or group name for each hotel. If you e-mail to make a reservation please do not forget to include your name, contact information, dates you will stay, credit card number and expiration date.

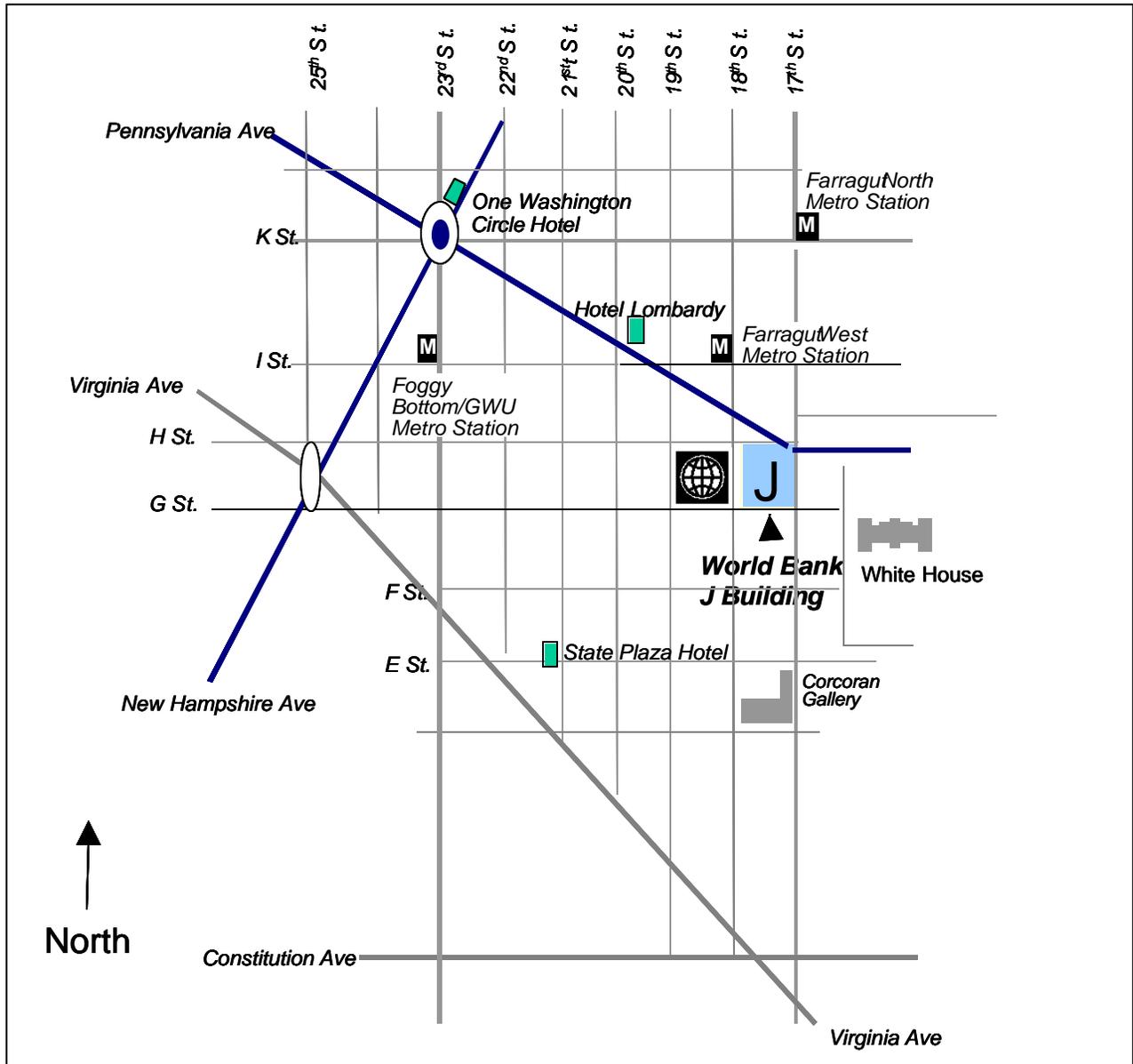
Please note that after the cut-off date you may not be able to receive the group rate.

- ◆ **Hotel Lombardy**
2019 Pennsylvania Ave., NW
Washington, D.C. 20006
www.hotellombardy.com
Rate: \$140 + (14.5% tax) single occupancy / \$140 + (14.5% tax) double occupancy
Reservation deadline: **Friday, April 22, 2005**
Tel: +1-800-424-5486 (toll free)
Fax: +1-202-296-8959
E-mail: 2019reservations@hotellombardy.com
Group ID number: 9724

- ◆ **One Washington Circle Hotel**
One Washington Circle, N.W.
Washington, D.C. 20037
www.thecirclehotel.com
Rate: \$159 + (14.5% tax) per night for single occupancy, \$20 for each additional person
Reservation deadline: **Friday, April 22, 2005**
Tel: +1-202-872-1680 or +1-800-424-9671 (toll free)
F: +1-202-887-4989
E-mail: sales1@thecirclehotel.com
Group Name: "Bond Market Forum"

- ◆ **State Plaza Hotel**
2117 E Street, N.W.,
Washington, D.C. 20037
www.stateplaza.com
Rate: \$140 + (14.5% tax) per night for single occupancy, \$20 for each additional person
Reservation deadline: **Friday, April 22, 2005**
Tel: +1-202-861-6200 or +1-800-424-2859 (toll free)
F: +1-202-659-8601
E-mail: reservations@stateplaza.com
Group ID number: 7997

Conference Location and City Map



Conference Venue:

JB1-080 Auditorium
J Building of the World Bank
701 18th St. NW
Washington, DC 20433

Preliminary Agenda
Seventh Annual OECD-World Bank Global Bond Market Forum
May 23-24, 2005
JB1-080 Auditorium, World Bank Headquarters, Washington, DC

Day I: Monday, May 23, 2005

Opening Session: 9:00-9:30

9:00-9:10 Welcome Remarks, *Cesare Calari, Vice President, World Bank*

9:10-9:20 Welcome Remarks, *William Witherell, Director, OECD*

9:20-9:30 Overview of Programme, *Hans Blommestein, OECD*

SESSION I: Overview of Trends and Structural Developments in Emerging (Government & Corporate) Bond Markets: 9:30-13:00

The objectives of this session are to (1) discuss the recent trends and structural developments that affect emerging bond markets; (2) present investor perspectives on these developments; (3) assess bond markets from a global stability point-of-view.

09:30-09:50 Issuance and Investment Developments in Global Local Currency Markets
Karim Abdel-Motaal, Managing Director, Morgan Stanley, New York

09:50-10:10 International Investor Perspectives on the Emerging Bond Markets
Thomas Glaessner, Director and Global Head, Fixed Income Strategy, Citigroup

10:10-10:30 A Global Stability View on Bond Markets
Hung Tran, Deputy Director of the International Capital Markets Department, IMF

10:30-10:50 Indicators for Bond Market Development
Stijn Claessens, Sr. Advisor, World Bank

10:50-11:10 Coffee Break

11:10-11:30 Recent Developments in Emerging Markets: The Perspective of China
Shige Wei, Director, Ministry of Finance, China

11:30-11:50 Recent Developments in Emerging Markets: The Perspective of Brazil
Anderson Caputo Da Silva, Treasury, Brazil

11:50-12:15 Lead discussant: *John Chambers, Managing Director, Standard & Poors*

12:15-13:00 General discussion

13:00-14:30 Lunch – MC East Dining Room – Hosted by the World Bank

SESSION II: Developing a Transparent and Liquid Electronic Bond Market: 14:30-18:00

This session focuses on the challenges in developing and maintaining a transparent and liquid market microstructure. To that end, experiences from OECD countries with electronic markets will be reviewed. The session will address the following questions: Where are we now and what are the policy challenges ahead?; What is impact of the microstructure in Europe and the US on shaping the issuance strategies of sovereigns and the role of domestic market intermediaries?; More specifically, what is the role of the debt manager in developing well-functioning electronic bond markets?; And what is the relationship with the (future) development of primary dealer systems?

The Experience in OECD Countries

14:30- 14:50 The US Experience with Electronic Markets
Lori Santamarena, Director, US Treasury

14:50-15:10 Development of the European Electronic Bond Markets: Belgium Perspective
Baudouin Richard, Director, Financial Markets and Front Office, Treasury, Belgium

15:10-15:30 Development of the European Electronic Bond Markets: Danish Perspective
Jens Verner Andersen, Denmark

15:30-15:50 Lead discussant: *Dexter Senft, Managing Director and Head of Fixed-income Electronic Trading, Lehman Brothers.*

15:50-16:15 Coffee Break

The Perspective from Emerging Public Debt Markets

16:15-16:35 Experience of South Africa in Establishing Electronic Bond Markets and the Role of the Debt Manager
Phakamani Hadebe, Head of Assets and Liability Management, South African Treasury

16:35-16:55 Turkey's Experience of Electronic Bond Trading - The Role of a Stock Exchange
Huseyin Erkan, Executive Vice President, Istanbul Stock Exchange

16:55-17:15 Lead discussant: *Noritaka Akamatsu, Lead Financial Economist, the World Bank*

17:15-18:00 General Discussion

18:00-19:30 Cocktail/Reception Hosted by the World Bank

Day II: Tuesday, May 24, 2005

SESSION III: The Interaction Between Money Market and Bond Market Development (Overcoming Challenges in Implementing the Reform Agenda): 9:00-12:30

This session will discuss the sequence and implementation of bond and money market reforms. It will draw on the WB-IMF Pilot Program in Debt Market Development and Public Debt Management and the experience of countries pursuing market reforms. Issues to be tackled are as follows: Is a functioning money market a necessary precondition for bond market development? How does monetary policy implementation affect the development of the money and bond market? How does the lack of an active bond market limit the choice of a monetary framework?

Implementing Money and Bond Market Reforms

09:00-9:30 Overall Reform Plan and Process: Insights from the WB-IMF Pilot Debt Reform Program
Thordur Jonasson, Sr. Debt Specialist, World Bank

09:30-10:00 Interaction between Money Market and Bond Market Development
Stephane Lavoie, Senior Analyst Domestic Operations Bank of Canada

10:00-10:30 Sequencing Reforms to Support introduction of Money Market Operations
Jouni Timonen, IMF

10:30-11:00 Coffee Break

11:00-11:40 Experiences of Colombia and Sri Lanka in implementing Money and Bond Market Reforms
Joaquin Bernal Ramirez, Chief Banking Operations Officer, Banco Republica Colombia

11:40-12:30 General Discussion

Lead discussant: *Dimitri Vittas, World Bank*

Lunch 12:30-14:00

SESSION IV: Ultra-long Bonds and Longevity Bonds: 14:00-18:00

Ultra-long bonds

This part of the session assesses the new market for ultra-long bonds and the link to annuities markets. What are the key drivers? What is the role of recent and planned changes in the regulation for pension funds? What is the estimated potential size of this market in the OECD area? What are the implications of these new markets for government issuers – including the design and pricing of these new instruments, the development of market conventions, the issuing calendar, the setting of benchmarks, the liquidity of secondary markets, and so on? What are the prospects of the market for ultra-long bonds in both the OECD area and emerging markets? Will these new markets give a boost to the development of annuity markets?

14:00-14:20 Outlook on the Market for French Ultra-long Bonds

Benoit Coeure, Deputy CEO, AFT

14:20-14:40 Outlook on the Market for German Ultra-long Bonds

Christian Holters, Head of Department, Ministry of Finance, Germany

14:40-15:00 Outlook on the Market for UK Ultra-long Bonds

Arnaud Mares, Debt Management Office, UK

15:00-15:30 General Discussion

15:30-16:00 Coffee Break

Longevity bonds

This part of the session assesses the drivers of the new market for longevity bonds and the link to annuities markets. How realistic is it to expect that the different perspectives of investors and issuers can be reconciled? How serious is the imbalance between parties that wish to off load longevity risk and natural buyers of longevity risk? To what extent are the longevity-related products that have been issued thus far, a model for other issuers? To which degree are these products a solution to the longevity problem in both OECD countries and a growing number of emerging markets? What are the implications of these new markets for government debt issuers – including the design and pricing of these new instruments, the development of market conventions, the issuing calendar, the setting of benchmarks, the liquidity of secondary markets, and so on? What is the estimated potential size of this market in the OECD area? What are the prospects of the market for longevity bonds in both OECD countries and emerging markets? Will a thriving market for longevity bonds give a boost to the development of annuity markets?

16:00-16:20 What are the criteria for a successful market in longevity-indexed government bonds?

Hans J. Blommestein, OECD

16:20-16:40 Key Factors that Drive the Longevity Bond Market

Dr Thomas Schroeder, (Senior Capital Markets Officer, EIB)

16:40-17:30 Panel Discussion:
Rob Stewart, Director, Ministry of Finance, Canada
Bo Lundgren, Director-General, Swedish Debt Management Office
José María Fernández Rodríguez, Director, Spanish Treasury

17:30-18:00 General Discussion

18:00-18:15 Close of Meeting

Return of evaluation forms



The World Bank



REGISTRATION FORM

Seventh OECD/World Bank Bond Market Forum
May 23-24, 2005
World Bank, JB1-080 Auditorium, Washington, DC

The registration deadline is May 15, 2005. Please fill out the registration form and return it to the address below before the deadline.

Mr.	Ms.	Dr.
First name	_____	
Last name	_____	
Title	_____	
Organization	_____	
Street address	_____	

City	_____	
State	_____	
Country	Zip code	_____
Business phone	Business fax	_____
E-mail address	_____	

Please forward the registration form to:

Ms. Demet Cabbar
The World Bank
1818 H St.
MSN MC9-904
Washington, DC 20433 USA

Email: dcabbar@worldbank.org
Tel: ++1-202-458-9835
Fax: ++1-202-522-7105

Cancellations must be received before 12 midnight (Washington time), May 15, 2005.

LEASING ATTACHMENTS

THE PRAGMA CORPORATIONAccess To Credit Initiative
USAID/UkraineOlympic Business Center
72 V. Vasylkivska Street
1st entrance, 5th floor
03150, Kyiv, UkraineTelephone: +380 (44) 5370966
Fax: +380 (44) 5370967**КОРПОРАЦІЯ ПРАГМА**Ініціатива сприяння кредитуванню
USAID/УкраїнаБізнес-центр „Олімпійський”
вул. В. Васильківська 72
1 під'їзд, 5 поверх
03150, м. Київ, УкраїнаТелефон: +380 (44) 5370966
Факс: +380 (44) 5370967

To: Darya Lisyuchenko

From: Richard Caproni

Cc: Rodeina Fattah

Date: May 5, 2005

Re: **ATCI Leasing Component – “Train-the-Trainers”**

Below is a description of the training program that will take place from May 6 to May 16, led by Mr. Robert Teichman, CLP. The training will take place in the training hall of the Consortium for Enhancement of Management Education (CEUME) located at Esplanadna Street, 28A, Suite 7.

The goal of this training is to provide a strong base of knowledge in the key areas of leasing listed below. The training will focus on leasing in general, but will include a heavy focus on how successful leasing operations are conducted in the United States. The training will be highly interactive and the group will work together in a discussion format to highlight key differences with how leasing works in Ukraine, particularly with regard to the difference in the legal and tax treatment of lease transactions.

As a result of this format, the group size of this training is limited to 12 participants plus the trainers, who will also include Robert Homans and Richard Caproni. The training will be conducted in English with simultaneous translations. A basic knowledge of English, particularly understanding and reading English will allow participants to gain the maximum benefit. English language speaking skills are far less important, and participants will be encouraged to engage in discussion and answer questions answer in whatever language they are most comfortable.

Participants for this training will include ATCI staff and specialists from other organizations and other USAID funded projects who are likely to be long-term partners in ATCI's leasing development activity, particularly the Certified Leasing Professional Program.

The level of complexity for the training assumes a basic knowledge of leasing, for example someone who has been in the industry for less than one year. However, each topic will start with a review of the basics and then gradually approach more complex issues, leaving participants with a solid 'intermediate' level knowledge of leasing.

Schedule of Training

Friday, May 6, 2005 (9:30 AM – 4:00 PM)	-- Leasing Overview
Tuesday, May 10, 2005 (8:30 AM – 5 PM)	- Risk Management for Lessors
Wednesday, May 11, 2005 (8:30 AM – 5 PM)	- Risk Management for Lessors (cont.)
Thursday, May 12, 2005 (8:30 AM – 5 PM)	- Leasing Math (Structuring and Pricing)
Friday, May 13, 2005 (8:30 – 4:30 PM)	- Sales and Marketing for Lessors
Monday, May 16, 2005 (8:30 – 4:30 PM)	- Funding Sources for Lessors; Review

All participants are asked to be punctual and be present for the entire time of the training. Participants will be asked to turn off their cell phones in order to avoid disruption for other participants.

It is understood that participating in such training is a significant time commitment and not everyone will be able to be present for each session. However, it is important to understand that the training sessions are interconnected and based on the building of knowledge from previous sessions in order to address more complex issues in later sessions. Each session includes a significant amount of material along with examples and illustrations. Although the materials will be provided for any participants who may miss a session, the participant will not get a majority of the actual knowledge from the materials due to the 'practical' nature of the training.

Please let Mr. Richard Caproni know if there are any sessions that you will not be able to attend and if there is someone you would like to recommend to participate in your place for that session.

The times listed for each session include a cushion of up to one hour to accommodate questions and discussion and you can plan that each session is likely to end a bit earlier than the listed time.

Each day will include a morning and an afternoon break for which coffee, tea, and snacks will be provided. The organizers of the training will make reservations for lunch at a nearby establishment where they offer reasonably priced 'business lunches' for 25-30 hryvnas per person. Each person will be responsible for the cost of their own lunch. It is recommended that participants go to lunch as a group, however this is optional. The lunch break will be one hour and participants are asked to be very punctual in returning from lunch and coffee breaks in order not to disrupt the training for other participants.

Attire is 'business casual,' meaning that participants should be presentable and not wear jeans or T-shirts. For men this generally means dress pants and a sport coat, without tie.

Financial calculators (HP 12-C) will be provided to all participants along with the manual explaining how to use them. Participants will be required to return the calculators and manuals at the end of the training and will be held responsible for their safe return.

If you have any questions regarding the logistic or content of the training, please contact Richard Caproni at +38 044 537-09-66.



Certified Leasing Professional Program



Access to Credit Initiative

USAID/UKRAINE

ATCI will establish a Certified Leasing Professional Program (CLPP) in Ukraine. The main areas of activity necessary to accomplish this include:

- 1) Definition of the requirements and the 'body of knowledge' required of industry specialists on which the certification testing will be based.
- 2) Identifying and working with appropriate local and international partners to ensure that the development and administration of the CLPP examination process and issuance of certificates is effective, consistent, fair, and sustainable.
- 3) Development of a training program and materials through which industry specialists may gain access to the full body of knowledge required for certification.

The CLPP will help add credibility to lessors and leasing professionals in a fragmented industry where the understanding and use of leasing is inconsistent and causes confusion in the market. For potential investors, vendors and lessees alike there is little information available to help them discern the level of knowledge and expertise of those that claim to be 'lessors.' A CLPP will help to alleviate this problem as well as encourage improved knowledge, skills, and standards in the industry.

The basis for the Ukrainian CLPP will be the CLP program in the US, administered by the CLP Foundation. Mr. Robert Teichman, CLP, who is on the Board of Directors of the CLP Foundation will lead the Project's efforts in implementing the above stated activities as well as liaise with the CLP Foundation¹, including the decision of whether to create any type of formal relationship between the Ukrainian and US programs.

Define Requirements and Body of Knowledge

As with the US CLPP, in order to receive certification, candidates will have experience requirements in the leasing industry and/or related fields. In the course of establishing a working group and developing a program appropriate for the Ukrainian market, the appropriate level of experience will be determined. Given the current environment and need for improving knowledge and skills of leasing professionals, the establishment of two levels of certification may be established to promote broader participation.

The working groups will consist of the following parties:

- Leading professionals of the leasing industry (lawyer, accountant, marketing manager, sales manager, senior management)

¹ CLP Foundation holds copyright to its curriculum as well as the name Certified Leasing Professional. If CLP Foundation's requirements, financial or other are seen as prohibitive, a different name such as Certified Leasing Specialist will need to be adopted and there will be no official connections with CLP Foundation.

- Relevant NGOs (Leasing Association(s), Center for the Training of Bank Personnel)
- One or two relevant government bodies (e.g., Ministries of Finance, Agriculture, and/or NBF Regulatory Agency)
- Institutions of higher education
- Other relevant TA community organizations (e.g. CLC, CEUME, IFC, TACIS)

The body of knowledge from which the CLPP will draw certification exam questions, will be a modified version of the US program's body of knowledge reflecting the legal, tax, accounting, credit, and overall market environment in Ukraine. The definition and adaptation of the body of knowledge as well as the development of the exams will be a collaborative effort of a working group led by ATCI that includes Ukrleasing Association, Mr. Teichman, other partners identified in establishing the CLPP, and possibly others from the US CLP Foundation. This working group will have to engage in extensive correspondence and working sessions to define the appropriate level of local practice along with theory and international practice.

In general, the key areas of the body of knowledge that the CLP exam will cover include:

- | | |
|---|------------------------------------|
| • History of Leasing | • Lease Documentations |
| • Classification and Terminology | • Leasing Legislation |
| • Marketing | • Lease Company Management |
| • Sales | • Collections |
| • Lessor-Vendor Relationship | • Sources of Financing for Lessors |
| • Lease vs. Buy Decision Making | • Financial and Tax Accounting |
| • Lease Pricing | • Portfolio Management |
| • Credit Process and Financial Statements | • Leasing to Government |

The certification exam will include knowledge of leasing 'practice' as well as theory. The certification exam will include case studies or examples to which candidates will be required to provide solutions or approaches to tackling specific issues related to lease transactions and operations.

Defining the requirements and body of knowledge for certification will take place over the **first year** of the Project and will likely require two engagements with Mr. Teichman in the Spring and Fall of 2005. During this period, ATCI will work with Ukrleasing Association and industry participants to create a working group of industry stakeholders to define, develop and modify the body of knowledge.

Identify CLPP Partners

Critical to the success of the CLPP is establishing an effective and reputable manager or administrator, as well as official partners to the program. ATCI will oversee the creation of an organization to manage the CLPP by working with Ukrleasing Association and other industry participants to identify structures, organizations and people who are capable of such a task and who are trusted by the industry. The most likely form will be an NGO, with an executive committee of 6-7 members from the working group listed above.

ATCI will rely heavily on Mr. Teichman and others from the CLP Foundation to lead the process of establishing the guidelines by which the organization will work including the development, administration, and grading of the certification exam. ATCI will also draw on the experiences of similar certification programs established in Ukraine such as the Certified Financial Analysts and Certified Accountant programs.

The Project envisages the certification being in partnership with (including the stamp on the certificate) non-profit organizations such as Ukrleasing and National Center for Training of Bank Personnel, one or more relevant government bodies (e.g. Ministries of Finance, Economy, Agriculture, and/or NBF Regulatory Agency), institutions of higher education, etc. ATCI will

identify the appropriate partner organizations by the end of **3Q'05**. With regard to determining and establishing the actual structure and the specific roles of each participant to effectively manage the program, it is likely to occur in the following six months (by **end of 1Q'06**).

This organization in collaboration with ATCI will determine and manage all issues related to taking the exam such as location, selection of proctors, process and schedule for grading, and preparation and distribution of results including certificates themselves. ATCI will play the lead role in managing and financing this activity for the first year, after which a gradual transition to self-sustainability and reduction of ATCI's role will take place.

Development of Training Program and Access to Body of Knowledge

Concurrently with the other activities necessary to establish the CLPP, and subsequent to defining the appropriate body of knowledge with the assistance of Mr. Teichman, ATCI will develop courses and materials together with CLPP local partners to ensure access to the full body of knowledge from which the certification exam will be drawn. It is expected that a large majority of these materials and courses will already exist from the Project's capacity building activity.

It is important to note, that qualifying for and passing the exam are the only requirements to become certified. Participation in any training or course is not a prerequisite to certification but simply a way for leasing professionals to improve their knowledge and skills and/or prepare for the certification exam.

ATCI will provide 'train-the-trainer' seminars in all relevant topics throughout 2006 in order to establish the capacity to provide such courses to those wishing to take the certification exam. The Project will again seek Mr. Teichman's services in the final stages of this capacity building phase. The Project plans for the first certificates to be issued **by the end of 2006**. The Project will provide such courses until there is sufficient local capacity to provide them on a commercial basis, with the goal to establish the program's self-sustainability as early as possible.



Press Release

Access To Credit Initiative



USAID/UKRAINE

The Pragma Corporation's *Access to Credit Initiative, (ATCI)* funded by United States Agency for International Development (USAID) is hosting the seminar "**Leasing Practice in Ukraine**" for sellers/manufacturers of equipment, financial managers of enterprises who are looking to finance the purchase of capital assets, and others interested in learning about leasing in Ukraine.

The seminar will be conducted on June 17, 2005 from 9.00 till 13.00 in Kyiv.

Leasing has become a popular word in Ukraine over the last several years and many have heard that world-wide it is one of the most popular ways to finance the purchase of equipment, with the industry surpassing 500 billion USD globally in 2003. However, in Ukraine, the industry is just starting to grow and many people misuse the word and misunderstand the concept.

According to the State Commission for Regulation of Financial Services Markets in Ukraine, there are 33 financial leasing companies registered nationwide. By the end of 2004 the companies reported 1378 financial lease agreements in their portfolios for a total sum of approximately 140 million hryvnas. This is a modest achievement compared with the leasing industry in Russia, where the overall lease market reached about 6 billion USD in 2004. A key developmental goal of the project is to remove impediments to growth for the leasing industry.

The conference will provide participants with an overview of leasing, why it is such a popular financial instrument and exactly how it works in Ukraine. Industry specialist from ATCI will explain the legal and tax treatment of lease transactions according to Ukrainian legislation and how that turns into practice in the Ukrainian market. Participants will be shown the terms that are being offered by lessors in the market and how to determine, with which lessors it is most beneficial to work.

ATCI will be working in Ukraine for 5 years to facilitate growth of Ukraine's leasing market, promote the development of Ukraine's primary and secondary mortgage markets, facilitate municipal bond issuance, and establish a nationwide credit bureau. ATCI's Leasing Component increases the capacity of industry participants through enterprise-level training and advisory services with a focus on facilitating transactions between Ukrainian lessors and Ukrainian SMEs.

For more information about this project and its activities please contact The Pragma Corporation's *Access to Credit Initiative* at (044) 537-0966.

To attend the seminar, it is required to register before June 15, 17.00 by phone (044) 537-0966.

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Access To Credit Initiative
USAID/Ukraine

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Seminar “Leasing Practice in Ukraine”

June 17, 2005, 9.00 – 13.00

Teachers' House, 57 Volodymyrska Str., Kyiv

- 9.00 – 9.15 Registration**
- 9.15 – 9.30 Introduction**
Richard Caproni, Senior Advisor
- 9.30 – 9.50 International Leasing Practice and Overview of Leasing Sector in Ukraine**
Roman Shynkarenko, Finance Lease and Credit Advisor
- 9.50 – 10.10 Strategies and Development of Lessors in the Ukrainian Market**
Representative of leasing company
- 10.10 – 10.45 Is Leasing the Right Strategy for Your Business?**
Liliya Snigir, Finance Lease and Credit Advisor
- 10.45 – 11.00 Coffee break**
- 11.00 – 11.40 Legal Treatment of Lease Transactions in Ukraine**
Serhiy Kysil, Legal Advisor
- 11.40 – 12.10 Working with Leasing Companies.**
Liliya Snigir, Finance Lease and Credit Advisor
- 12.10 – 12.25 Working with Clients – Lessors' Perspective**
Representative of leasing company
- 12.25 – 12.45 Choosing the Right Leasing Company**
Roman Shynkarenko, Finance Lease and Credit Advisor
- 12.45 – 13.00 Closing Remarks / Questions and Answers**



Press Release

Access To Credit Initiative



USAID/UKRAINE

Kyiv, April 28, 2005

Dnipro hotel, Khreshchatik st. ½, Kyiv, ("Leda" Hall)

The Pragma Corporation's *Access to Credit Initiative*, (ATCI) funded by United States Agency for International Development (USAID) hosted the conference, "Leasing in Ukraine – The Path to Development." The conference provided participants with an overview of the current situation in Ukraine's leasing industry, critical elements for the industry's growth, and planned activities to facilitate the growth and development of Ukraine's leasing industry.

According to the State Commission for Regulation of Financial Services Markets in Ukraine, there are 33 leasing companies registered nationwide. By the end of 2004 the companies reported 1378 lease agreements in their portfolios for a total sum of approximately 140 million hryvnas. This is a modest achievement compared with the leasing industry in Russia, where the overall lease market reached about 6 billion USD in 2004. A key developmental goal of the project is to remove impediments to growth for the leasing industry.

Globally, leasing provides access to much needed equipment for SMEs, agricultural, and manufacturing sectors, who would otherwise be unable to obtain such equipment. The use of outdated equipment by these and other industries in Ukraine hinders their growth and the development of Ukrainian economy as a whole. Growth of Ukraine's leasing industry will provide access to the latest equipment in order to make Ukrainian enterprises more productive and competitive in the global marketplace.

ATCI's Leasing Component increases the capacity of industry participants through enterprise-level training and advisory services. The focus of this activity is in the areas of establishing a 'Credit Culture', marketing and sales, deal structures and underwriting techniques, and financial and operational management.

Other project activities include: a) working with leasing companies to attract both domestic and foreign sources of funding; b) increasing knowledge and understanding of leasing and its advantages among the business, government, and educational communities; and c) helping to create a more supportive legislative, tax and regulatory environment for leasing and d) establishing a Certified Leasing Professionals Program to raise industry standards and establish best practices for industry Professionals.

The ATCI project will be working in Ukraine for 5 years to facilitate growth of Ukraine's leasing market, promote the development of Ukraine's primary and secondary mortgage markets, facilitate municipal bond issuance, and establish a nationwide credit bureau.

For more information about this project and its activities please contact The Pragma Corporation's *Access to Credit Initiative* at (044) 537-0966.

For Release - 17:00 hours

SEMINAR: Leasing in Ukraine - The Path to Development

The Pragma Corporation, as part of its *Access to Credit Initiative (ACTI)*, is pleased to announce a seminar on the leasing industry in Ukraine and key factors for its development.

The seminar will include presentations by international and local experts that will highlight the benefits of leasing based on international best practice and then address the extent to which those benefits are and may be realized in Ukraine. Each presenter will include how Ukraine's leasing industry can facilitate economic growth in Ukraine and how ATCI plans to support their endeavors.

When: 3:00-5:00 PM, Thursday, April 28, 2005

Where: Dnipro Hotel

Subject: The current situation in the Ukrainian leasing industry

Audience: Mass Media; Government Officials; Industry Participants

Program

2:30 PM Registration

3:00 PM Introduction and ATCI Description – Richard Caproni (10 minutes)

- Improve the capacity of lessors, lessees, and other market participants to execute lease transactions and carry out sound leasing activity
- Establish a Certified Leasing Professional Program (CLPP) for Ukraine
- Creating a supportive legal, tax, regulatory and credit environment for lease transactions
- Bring about the participation of domestic and foreign investors in the Ukrainian leasing industry

3:15 PM Government Regulation in Ukraine's Leasing Market

Suslov, V.I. - Head of Government Agency on Regulation of the Financial Sector

3:25 PM Trends and Strategic Issues for the Development of Ukraine's Leasing Industry Yuri Sosyorko - President, Ukrleasing Association

- Number and types of lessors
- Volume and types of leasing activity
- Trends in legislation, regulation and taxation
 - Recent changes
 - Current Association Initiatives

3:40 PM Situation Overview for Ukraine – Richard Caproni

- Current Conditions
- Key Development Areas

3:55 PM Commercial Law and Legal Reform for Leasing in Ukraine – Serghiy Kysil

- Necessity of clear concept for the legal treatment of leasing
- Operational leasing: sort of leasing or rent
- Legal specifics of leasing transactions.

- 4:10 PM The Realities of Lease Economics in Ukraine – Liliya Snigir**
- Taxation of Financial Leasing Compared with Other Countries
 - Taxation of Operating Leases - Recent Changes
 - The Depreciation Issue: Description of Schedules in Ukraine Versus Other Countries
- 4:30 PM Market Realities – Robert Homans**
- Access to Capital - Key decision criteria of Funding Sources for Lessors
 - The Credit Environment
 - The Market Environment
- 4:50 PM Question and Answer**
- 5:00 PM Banquet**

ARTICLE FOR THE LEASING NEWS BY BOB TEICHMAN, CLP

The development of Ukraine's financial markets is a top priority for the United States Agency for International Development (USAID). In this connection, USAID launched the "Access to Credit Initiative" in October 2004 - a five-year project implemented by the Pragma Corporation - in order to develop 4 discrete sectors of Ukraine's financial markets: mortgage, municipal finance, credit bureau and leasing. Given the pool of leasing experience in the US, ATCI asked lessor Bob Homans of Norden Capital and me, together with Pragma's in-country team, to help lay the ground work for the development of leasing in Ukraine.

Ukraine is a country that holds tremendous promise. Since independence in 1991, the country has been moving from a largely centralized economy to a consumer-driven market economy - a major accomplishment in light of Ukraine's recent history. This positive trend towards establishing a market economy has continued to accelerate following Ukraine's "Orange Revolution" last November. One of the government's main goals is to develop financial markets consistent with Western economic models. That's precisely where USAID, Pragma and we fit in.

Availability and access to credit is a basic need for a market economy. While we here in the US are used to the easy availability of all kinds of credit, from credit cards to home equity loans to highly competitive equipment leases, the financial infrastructure for such credit is at an early stage in Ukraine. There are no credit bureaus, for instance, and few equipment leasing companies.

To put matters into context, as of 1st quarter 2005, Ukraine's total population was approximately 47.2¹ million: The number of employees/workers who actually work 50% of the time or more is approximately 10.5 million. According to official statistics, only 33% of those 10.5 million people earn more than UAH 750 (US\$ 150) *per month*². That's about 7.33% of the population. Most people in Ukraine still operate on a cash basis and various sources estimate that 40-60% of GDP is in the 'shadow economy' due to a less-than-friendly tax environment.

To put it differently, there are less than 200,000 credit cards in Ukraine as of today. That means that only 1 out of every 250 people has a credit card and most of those people live in the major cities. Out in the country-side, you'd be lucky to find someone who has actually seen a credit card as opposed to a debit card which carries no risk to the issuer. With respect to leasing, the industry is in its infancy and that's where Homans and I come into play.

Local and foreign banks provide financing for large companies, but small and medium-sized enterprises, farms and individual borrowers are less likely to find acceptable financing. While Ukrainian banks have made tremendous progress in the last few years, credit extension still remains highly risky as evidenced by high down payments (20-50%), interest rates and collateral requirements. Lending tends to be short term and rarely exceeds 1 year. In addition, while there is a leasing law, the legislative environment remains shaky for both lessor and lessee - particularly in connection with dispute resolution or transaction pricing. These factors all contribute as well to the generally scarcity of funding for leasing companies.

For these reasons, there are few leasing companies in Ukraine, and most concentrate on vehicle leasing. After a series of extensive interviews with lessors, it became clear that there is substantial

¹ State Statistics Committee of Ukraine: Demographic situation in Ukraine in January - March 2005, Express Information as of May 17, 2005, #138

² State Statistics Committee of Ukraine: Break-up of the Number of Employees by the Amount of Salary Accrued for March 2005, Express Information as of May 16, 2005, #136

demand for equipment financing. Local banks, too, are increasingly aware that leasing can be a profitable enterprise. The market is beginning to drive the leasing market and, thus, new companies are seeking advice and training, not to mention funding, to soak up the demand for equipment financing. Farmers and small and medium sized enterprises will be the first to benefit.

The ATCI recognized the need to help lessors learn the wide array of practical techniques at the transaction level that our middle market leasing industry in the US has developed over the past 40 or 50 years. That's exactly what Bob and I and the local Pragma team focus on. By zeroing in on leasing at the lessor/lessee level, ATCI offers consultancy and a series of training courses to lessors, lessees, banks, vendors, and even regulators to enable them to understand leasing and to learn the technical skills and practices needed for an efficient and profitable operation. In addition, ATCI is disseminating information about leasing to the business community, the media and the public.

While in Ukraine this past May, I provided training to ATCI staff members and others at a six-day "train-the-trainer" session in Kiev. Local ATCI staff members will in turn provide training to others directly involved in the leasing business. Towards this end, in June, ATCI will hold a basic training session for local vendors and prospective lessees, followed by an intermediate session on lease risk management for banks and leasing companies. Later this year, ATCI plans to hold a national leasing conference and will continue to carry out other "learning" related activities at a variety of different levels.

While I was in class, Bob Homans met with lessors, vendors and prospective lessees to further determine the extent of financing, leasing and investment needs in Ukraine. ATCI recognizes that improving the capacity and quality of the people who are employed by the industry will enhance the growth of the equipment leasing industry. To bring this about will involve the creation of a group of lease professionals – that's precisely one of our main goals. With this goal in mind, ATCI intends to create a certification program that incorporates the principles of the Certified Lease Professional program here in the US.

Equipment leasing in Ukraine is approximately where the US industry was in the 1960's, i.e., before lease brokers, before bank leasing companies, and before credit scoring. In order to meet the demand for equipment and for equipment financing, Ukraine needs knowledgeable lessors and banks as well as a friendlier tax and regulatory environment that more actively encourages leasing in the face of competition from other forms of financing. As barriers to leasing fall, Ukraine's leasing industry is expected to continue to grow – pushed forward, of course, by years of hard-won experience in the US.

Developing Leasing Capacity

Increase the volume of leasing activity in Ukraine by:

- Building the capacity of local leasing industry participants
- Establishing a Certified Leasing Professional Program (CLPP)
- Attracting capital and new market participants to Ukraine's leasing industry
- Establishing an understanding of leasing and its benefits among Ukraine's business, government and university communities
- Creating a supportive legal, tax, accounting, regulatory, and credit environment for leasing

Overview and Summary of Working Session

This document is meant to summarize key conclusions from the May 24, 2005 working session of International and Ukrainian experts from three technical assistance projects that are working towards the objective of establishing a favorable legal and tax environment for leasing in Ukraine: Leasing Development Project in Ukraine (IFC); The Commercial Law Center Project (CLC) - Emerging Markets Group / USAID; and The Access to Credit Initiative (ATCI) - The Pragma Corporation / USAID. The goal of this meeting was to ensure that the three projects share a common view with regard to the main legal and tax issues to be addressed in facilitating the development of leasing in Ukraine.

This meeting was confirmed that the experts from each TA project were in general agreement as to the key issues that need to be addressed. Furthermore, it was confirmed that all parties were committed to working together to assist the Government of Ukraine in establishing a clear and favorable legal and tax environment to facilitate the development of Ukraine's leasing industry. The key issues identified in this meeting are summarized in general terms below, and may be used as the basis for cooperation with relevant industry stakeholders and government officials interested in working to improve conditions for leasing in Ukraine.

Key Legal/Tax Issues to Improve the Environment for Leasing Development in Ukraine

Some issues regarding the legal and tax treatment of lease transactions affect different sectors within the industry, however, there are over-arching themes that act as deterrents to the development of the industry overall and its ability to attract capital from investors and other potential market entrants. The major legal and tax issues fall into the following themes or categories:

- **Unequal tax treatment of leasing versus comparable forms of financing**
- **Burdensome taxation for operating leasing of automobiles**
- **Inconsistent definitions and unclear legal and tax treatment**
- **Lack of accelerated tax depreciation to encourage investment in capital equipment**

Please note that this document attempts to summarize the highest priority items identified in the working session that will create a more conducive environment for leasing in Ukraine. This is not meant to be a comprehensive list and should not be received as a complete set of recommendations. The goal of this document is to establish a starting point for in-depth discussion of these issues and as a basis for developing more detailed recommendations by industry stakeholders.

i. Unequal Tax Treatment of Leasing Versus Comparable Forms of Financing

- Before March 31, 2005, interest and commission charged by leasing companies as part of lease payments under financial lease contracts were not subject to VAT (same as bank interest). However, in accordance with the latest Law “On State Budget of Ukraine for 2005 (No. 2502 – IV), interest or commission accrued by leasing companies as part of lease payments under financial lease contracts exceeding double the NBU rate are subject to VAT. This provision of Ukrainian law has many drawbacks and may result in an unequal tax treatment of leasing versus bank financing.

This amendment to the VAT Law should be changed so as lease and bank loans are treated equally for VAT purposes.

- In the case of repossession of a leased asset under a financial lease due to lessee default, in accordance with the Law of Ukraine “On Corporate Profit Tax,” the lessor shall pay a profit tax of 25% of the book value of the asset (its historical cost less accrued depreciation) upon the moment of repossession, less the amount of the outstanding lease payments that are written off. Typically, the taxable amount is a considerable percentage of the asset’s value due to relatively slow depreciation schedules, high down payments (20-30%) and short-term lease contracts (2-3 years). The tax treatment of repossessing leased assets does not correspond to the economic nature of such an event, resulting in undue taxation such as:
 - a) the lessor must pay a profit tax because equipment is returned with an overstated value;
 - b) the lessee, upon return of leased equipment with an overstated value, has an overly heavy VAT liability, but because it does not receive any payments from the lessor, in most cases such lessee would not be able to pay the assessed tax to the budget.

The effective system for taxing financial lease transactions poses serious problems for participants in leasing relationships and has a negative impact on the overall development of financial leasing. Changes should be introduced to tax laws to establish an economically justified tax treatment of financial leasing transactions. Tax treatment of early return of equipment should be similar to taxing foreclosures when borrowers default on bank loan obligations by establishing the value of equipment at an ordinary price and reject the book value criterion.

ii. Burdensome Taxation for Operating Leasing of Automobiles

- According to the Law on Profit Tax of Ukraine, under an operating lease for an automobile, lessees may include only 50% of their lease payments as expenses when calculating profit tax.

Such treatment of operating leasing does not reflect the real economic nature of such transactions. Operating lease payments reflect real business expenses for enterprises and therefore it is not understandable why such payments would not be fully expensed.

- When purchasing an automobile, an enterprise may not record a VAT credit for VAT paid. The result is that the cost of the car immediately becomes 15-20% more expensive. This will result with each consecutive sale (including the purchase option in a lease) of an automobile from one legal entity to another.

There is an exception for taxis as they are productive assets of such organizations. Given that automobiles represent the main productive assets for car rental companies and

operating lessors of automobiles, taxation of such companies should be amended to avoid multiple VAT treatment on their primary activities. This would be consistent with certain European countries such as Great Britain.

Such provisions make it appear as if there is a conscious effort to make operating leasing of automobiles less competitive relative to other methods of financing automobiles, in particular, bank loans. As the largest and fastest growing sector of the private leasing industry, this sends a negative message to the investment community as a whole as to the government's support for development of the leasing market.

iii. Inconsistent Definitions and Unclear Legal Treatment of Lease Transactions Among Different Legislative Acts

- There are conflicting definitions and legal treatment of leasing in Ukraine's Commercial Code relative to the Civil Code and the Law on Financial Leasing and on Corporate Profit Tax. These ambiguities result in unclear rights of parties to a lease transaction, particularly regarding the three-party economic nature of a financial lease transaction.

All relevant laws should be amended to provide for a unified and clear definition and legal treatment of lease transactions, inconsistencies between the said laws should be eliminated.

iv. Lack of accelerated tax depreciation to encourage investment in capital equipment

- Finally, it is important to mention that slow depreciation schedules in Ukraine and the lack of available accelerated depreciation for tax purposes, affects leasing indirectly in that it generally discourages investment in capital assets. This negatively affects Ukraine's overall economic development as well as the development of Ukraine's leasing industry.

This issue may be addressed in a number of different ways based on Ukraine's overall fiscal policy. There are a number of methods to address this issue that either target depreciation of leased assets directly or that take a more comprehensive approach to reform of depreciation of fixed assets in Ukraine.

As evidenced above, the legal and tax issues that hinder the development of the leasing industry are numerous and often complex. Therefore, the undersigned agree to work together in assisting the Government of Ukraine in understanding and addressing these issues. The projects will cooperate to provide the necessary information, analyses, and examples to key decision makers and work with relevant government bodies to develop detailed recommendations in the appropriate format and with the appropriate supporting materials to facilitate the above noted improvements to the legal and tax framework for leasing in Ukraine.

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May 31, 2005

TO: Pragma ATCI/Ukraine

FROM: Bob Homans

SUBJ.: Financial Leasing Component – Report on 2nd Visit (April 24 – May 18, 2005)

The purpose of the memo is to summarize my activities between April 25 and May 18, 2005, with respect to the Financial Leasing Component of Pragma's ATCI, as well as to summarize my conclusions based on this trip, to reference the conclusions/recommendations from my Report on my initial visit, dated January 28, 2005, and to make recommendations for future and follow-on activities.

I have never reviewed any statistics for the Ukrainian Economy, other than the fact I have read that GDP has grown very quickly over the past 3-4 years. While the statistics are no doubt interesting, they are not of particular concern to me, for purposes of writing this report, although I am acutely aware of their importance to USAID as a measurement of the eventual success of this project, and as justification for the money spent on it. I believe that if we do our job of fostering Financial Leasing in Ukraine, a job I am becoming convinced is attainable, then the statistics should take care of themselves.

In discussing my Conclusions listed below, I will rely almost exclusively what people have told me they are doing and what I have observed. I concluded my last report with advice an old Economics Professor of mine once gave me, "Never forget that the US Economy is made up of the collective, independent, decisions of 250 million (now around 275 million) individuals." Since everyone agrees that the Ukrainian economy is moving toward a consumer economy, where individual decisions matter, the advice given to me by my former Professor is going to become increasingly relevant in Ukraine.

Conclusions:

To the extent applicable I am going to reference some of the conclusions included in my report on my first trip.

1. Conclusion No. 1, from my first trip report, that there appears to be significant potential demand for financial leasing in Ukraine, appears to be confirmed by all of the meetings with potential lessees I had on this trip.
2. Based on meetings I had on this trip, selling financial services in the Ukraine WORKS.
3. There appears to be substantial demand for leasing in the 2 industries that that the leasing component has initially targeted namely agriculture and healthcare. I base this conclusion on the meetings I had on this trip with potential lessees, as well as follow-up meetings with vendors. To these two industries I would add a third, entirely separate industry, processing of Food & Beverage products, and a fourth, Personal Care Products, including cosmetic products (consider the annual sales volume in Ukraine of products that women use to change their hair color).
4. Potential lessees whom I met on this trip, most of whom appear to have strong financial strength, are fully aware of the limitations of the existing leasing market in Ukraine, including the limitations of the lessors in extending credit on attractive terms as well as the existing legal and tax limitation. This

appears, in one respect, to refute Conclusion No. 7, from the report on my first trip, that there wasn't enough information available to potential lessees. To some extent the information is there, but the information is probably not what we would like it to be.

5. Conclusion No. 3, from my first trip report, that there is an existing leasing infrastructure in Ukraine, appears to be partially true, with respect to existing lessors, but less true with respect to the legal and tax environment in which those companies must operate. In addition I found the people I met, at the existing leasing companies to be, almost without exception, extremely bright, aggressive, and willing to learn.
6. There appears to be substantial motivation, among existing lessors in Ukraine, to move beyond vehicle leasing into more "credit based" transactions including capital equipment. In my memo, in November 23, 2004, I stated that a major objective of the entire Financial Leasing Component should be to help the leasing industry in Ukraine move toward a larger number of credit based transactions.
7. There appears to be substantial infrastructure available, through some of the other USAID funded projects, specifically the Agricultural Marketing Initiative and CEUME, both of whom we met, to facilitate the expansion of the training outside of Kiev.
8. Some of the existing efforts to supply liquidity to existing lenders and lessors, specifically the DCI being supplied to Nadra Bank, appears not to be working as it was intended. Conclusion No. 6, in my first report, about lack of liquidity amongst lessors, appears to be confirmed.

I believe that the Leasing Component has made substantial progress since my first visit, especially in the following areas: 1. Training and understanding on how to focus the training on local conditions; 2. Outreach to lessors; 3. Outreach to Lessees; 4. Outreach to GOU. I have less direct experience with the 4th area, outreach to GOU, but I mentioned it in my first report and, from talking to my Pragma colleagues, there seems to be significant progress being made.

We should not lose sight of the fact that in spite of all of the problems facing lessors in Ukraine, including but not limited to legislative and tax constraints, as well as lack of liquidity, that people are getting deals done. Our efforts should be directed to foster what they are doing and, as appropriate, to assist new entrants.

Based on these conclusions, and on the progress made to date, I am making the following recommendations, for follow-on and/or new activities:

1. That the project continue to expand its effort to identify potential lessees, and leasing transactions, not only to assist in building a deal flow but also help improve direct sales skills for local leasing companies. The initial plan, as I understand it, is for me to return in the last half of July, and again in late Sept./early Oct. The purpose of both trips should be to devote nearly all my time to meeting with prospective lessees, and also lessors. In the next 6 weeks it is recommended that ATCI, along with myself, do advance work, to set up these meetings prior to my arrival in mid July.
2. Consistent with plans already in place, Recommendation No. 1, above, be used as a means to adapt the training program to Ukrainian conditions.
3. That Recommendation No. 1, consistent with plans already in place, also be used as a means to help Ukrainian lessors to apply some of the information they were exposed to in the training.
4. ATCI, in conjunction with existing lessors, should assist in developing targeted industry leasing programs should be developed, initially for businesses in agriculture and medical industries, similar to the targeted programs included in Appendix E of my report on my initial trip.
5. As outlined in the Leasing Component Operational Plan and together with existing lessors, ATCI should offer seminars for lessees in targeted industries, where the economics of leasing would be discussed as they apply to those industries. As targeted marketing and credit programs are developed for these industries, these seminars should also advise potential lessees of the credit standards in these programs and the information that they need to have available should they choose to apply.
6. ATCI implement its strategy of expanding the training program, initiated by Bob Teichman, outside of Kiev, as well as ways to make information easily available to market participants, most likely via a Web Site.

7. With the assistance of the US Commercial Service, at the US Embassy in Kiev, that discussions with the US Export-Import (“Ex-Im”) Bank be initiated, with the objective of possibly modifying, or eliminating, some of Ex-Im’s credit parameters with respect to Ukraine, especially the requirement of the bank guarantee. (Post Script – After the date of this report, I met with Margaret Kostic, US Ex-Im Bank’s Director for Russia, CIS and Turkey, on June 9. Notes from this meeting have been included as part of Appendix B).

Recommendation Nos. 2 & 3 can also be thought of as Recommendations Nos. 1A and 1B. It would be a mistake to view Recommendation No. 1 as a “stand alone” recommendation. Although the identification of potential lessees and potential transaction is a valuable activity, in and of itself, unless that activity is applied toward training and improving the skills of Ukrainian lessees, as well as the “best practices” in Ukraine, much of the “value” would be lost.

Likewise, Recommendation No. 5 could be thought of as Recommendation No. 4A. It is possible that one of the project goals, of expanding the number and volume of “credit based,” e.g. non-vehicle transactions, in the Ukraine could be facilitated by getting lessors comfortable with the micro-economics and credit parameters effecting the 2 industries targeted by the Program, Agricultural & Food Processing and Medical, develop targeted leasing programs for those industries, and use that as a base to expand to other industries.

Some examples of targeted leasing programs, that I use in my business in the US, are included in this report in Appendix C. These same examples were included in my first report. What has changed here is the emphasis I am placing on them as a result of this, most recent, trip.

It was mentioned to me, informally, about the possibility of bringing in a second “transaction person” to assist in the efforts I made in this last trip, and expect to make in July and September. I will discuss some alternatives later in this report, but I wanted to mention this now, to make sure that Pragma is aware that I will address it. In addition I have been asked about the possibility of drafting a broker manual, for ATCI staff. As I mention later in this report such a manual may also serve to help identify new transactions.

List of Appendices:

Appendix A – List of Meetings Attended

Appendix B – Meeting Notes

Appendix C – Examples of Targeted Leasing Programs

Discussion of Conclusions & Recommendations:

As with my first report I will incorporate my recommendations into my conclusions, in an attempt to show a context and rationale for each recommendation.

1. Demand for Leasing – In my report from my January trip I stated that I believed that demand for leasing is going to be driven by Ukraine’s shift from a command economy to a consumer economy. In all my meetings, on this trip, I saw or heard nothing to change my opinion. I will divide my discussion up into 3 areas: Actual deals gained from meetings with potential lessees; meetings with lessors and vendors; general trends.

Actual Deals - Last May 12th I had meetings with Boris and Medikom, operators of 2 private medical clinics serving Kiev, and Ridan, whose Principals own and operate a private clinic in Donetsk. These three companies mentioned the following equipment needs: Boris – approximately 8 million Euros (\$10 million at current exchange rates) of equipment associated with the opening of a new 12 story clinic they are opening in Kiev; Medikom – approximately 2 million Euros (\$2.4 million) in imported equipment, additional local needs for financing equipment produced in Ukraine, as well as

possible commercial mortgage financing; Ridan – approximately \$400,000.00 for computerized tomography equipment, manufactured by GE, for an expansion of an existing private clinic in Donetsk. Meeting notes for these three meetings are included in my report, as Appendix B.

These are only 3 meetings; all having taken place in 1 day. There also appears to be quite a bit of additional, albeit anecdotal, information suggesting increasing demand across a number of industries. Much of the demand appears to be centered in non-vehicle transactions.

Meetings with Vendors and Lessors - Vitaly Skotsyk, at Amako, advised us that many of his bigger customers want to acquire large pieces of farm equipment, manufactured in the US and elsewhere. According to Mr. Skotsyk his “bigger customers” include farming operations that dwarf many of the larger farms in the US. Lasca leasing plans to expand their business into non-vehicle leasing, although initially concentrating on larger credits. Lasca told us that they hope to increase the size of their lease portfolio from \$1 million, at the end of 2004 consisting of mostly vehicles, to \$5 million by the end of this year, consisting of a mix of vehicles and capital equipment. Leasing House, the lessor we met with in Lv’iv during this trip, is experiencing a growing volume of transactions from a number of industries, including woodworking, oil distribution, and others. According to Leasing House, a substantial amount of their lease portfolio consists of capital equipment.

General Trends - In my January report I mentioned that I believed there would be substantial leasing demand from the shift in Ukraine to a more consumer-driven economy. I arrived at this conclusion mostly by “walking around,” seeing what was in the stores, looking at what people wore, ate, etc. After this trip there is no question in my mind that that my observation, made in my January report was correct, and that the demand is taking place in the industries targeted in this project, namely agriculture & food processing and healthcare.

Regarding healthcare the CEO of Boris told me that when they opened their first private clinic in Kiev, in the early 1990’s, only 2% of the population of Kiev could afford care in their private clinic. Today he said that 30% of the population of Kiev could afford such care. Medikom, one of Boris’ major competitors, is also expanding their facilities.

Danny Mandryk, the VP of Aon Insurance with whom we met, advised us that they are underwriting an increasing number of group health insurance policies for large employers in Ukraine. Individuals insured under these policies are being provided care through the private clinics. As such private insurance plans expand; there will be resulting demand for all types of medical services, and equipment.

Regarding agriculture and food processing, in the report on my January trip I predicted that there will be substantial demand for more convenience food packaging, especially with meat products and other perishable foods. If my visits to supermarkets on this trip are any indication, this seems to have occurred faster than I ever would have predicted.

In January in my very unscientific tour of local supermarkets, I found almost no packaged meats. In May, packaged meats were everywhere. There is a capital equipment requirement for almost every stage in the packaging process from portioning, to filling, to labeling to stacking, not to mention cold storage, distribution and delivery.

When taking off from Borispol last week, to return for the US, I was struck by the large number of houses being built along the Dneiper River. There were too many houses to all be occupied by the “oligarchs” or the “very rich.” To me, this was a sign of a growing (Upper) Middle Class, with disposable income. Regardless, people in these houses are going to want to buy furniture, a good portion of which might be made by local manufacturers.

Consumers are going to want to buy many other things which is going to take new, more sophisticated equipment to produce, including clothing, furniture, food packaged in convenience packaging, and all types of personal care products including cosmetics.

Applications of Recommendations – Recommendations Nos. 1,3,4,5 & 7, listed above, have DIRECT application to this Conclusion except Recommendations Nos. 2 & 6, both of which have to do with the training. Both of these recommendations have an important, INDIRECT application.

Regarding Recommendations Nos. 1 and 3, identifying transactions and using these transactions as a means to get Ukrainian lessors involved in an underwriting process similar to what Bob Teichman described in his training sessions, it is instructive to use an example, specifically the Ridan transaction, for the clinic in Donetsk. Ridan has agreed to supply us with a complete credit package for the clinic.

We can use this package to engage 1 local lessor in underwriting an actual deal, using a credit package similar to what Bob Teichman described in his training sessions, except this credit package is from a LOCAL LESSEE. We can not only use this information to show how this works, and (hopefully) get a deal completed for the clinic, but also use this information to infuse the training curriculum with more local examples. Working with the ATCI Staff, most of the time on my future trips, possibly in July and September/October, should be spent in identifying additional transactions and involving Ukrainian lessors in those transactions.

Regarding Recommendations Nos. 4 & 5, developing marketing and credit programs targeted at individual industries, this is something that has gone on in the US for at least the last 25 years. Much of the leasing industry in the US is made up of companies that are targeted at specific equipment or specific industries. My own company, Norden Capital, is targeted toward the Food & Personal Care Industries.

I have included 3 examples of targeted marketing and credit programs that I use in my business in the US, in Appendix C. Also, in Appendix C, I have included a special lease application for Farms, to show what kind of information US lessors look at when considering extending medium-term credit to a farming operation.

As planned, ATCI should target at least some of the training program directly at individual industries, in an attempt to get lessors comfortable with looking at those industries. The Healthcare, Food Processing and Personal Care Industries also may well be 3 of the fastest growing segments of the Ukraine Economy.

Regarding Recommendation No. 7, engaging Ex-Im in trying to modify some of their existing credit standards, as they apply to Ukraine, I don't want to see this project acting as a "shill" for US Ex-Im Bank. However I do see a possibility, if it is done right, of using Ex-Im program as a means to get Ukrainian lessors comfortable with the underwriting process that Bob Teichman described in his training sessions.

The Ridan transaction involves equipment made by GE. As my meeting notes, contained in Appendix B describes, the equipment is too small an amount for GE Capital but is not too small for other lenders I am aware of. Ex-Im also has a very aggressive program involving medical equipment. Therefore we may be able to use this transaction, and others like it, to involve Ukrainian lessors in the underwriting process, involving real deals from local companies, using the techniques that Bob Teichman described in his training sessions.

2. Selling Financial Services in Ukraine WORKS – Some people have said that selling, as we know it in the US, does not "work" in Ukraine. If you define "selling" as the transfer of valuable information about a product or service, from the potential seller to the potential buyer, then I believe "selling," as practiced by most lessors in the US, will work in Ukraine. I will cite my meeting with Ridan, described in the meeting notes contained in Appendix B, as an example, albeit an admittedly unscientific one. I will also cite the meeting with Leasing House, in Lv'iv.

Ridan desires financing for a new \$400,000.00 piece of computerized tomography equipment manufactured by GE. They told me, at our meeting, that they have been offered US Dollar financing, from a Ukrainian bank, for 3 years at 12%. They said further that GE Capital had visited them, and told them that the amount, \$400,000.00, was too small for GE Capital to consider. GE Capital suggested financing through US Ex-Im Bank's Financial Institution Buyer Credit Program ("FIBC"), where Ex-Im would extend a facility to a Ukrainian Financial Institution. Ridan did not want to proceed on that basis.

I responded by this information by telling Ridan that I know of a lender, in the US, that will consider transactions under Ex-Im's Medium-Term Loan Insurance program, down to \$86,250.00 (\$75,000.00 financed). I also said that Ex-Im has a medical equipment program that will consider terms out to 7 years, for financings of \$349,999.00 or greater. On the basis of this information Ridan has agreed to supply Pragma with the financial information required to process this transaction.

I, admittedly potentially, just made a sale to a Ukrainian company using the identical techniques that I use in my company in the US. I got information from the customer, found out what their concerns were, and I responded. As a result Ridan agreed to supply Pragma with the necessary information.

Adding in the annual fee of the bank guarantee (5-7%/year), now required by Ex-Im for transactions in the Ukraine, makes the effective interest rate around 12%, or equal to what Ridan said they were offered by a Ukrainian bank. However the Medium-Term Loan Insurance Program may offer 7 year financing, which would make the annual debt service lower than it would if they used 3 year financing from the Ukrainian bank. The longer term may also solve a problem presented by the longer depreciable lives allowed under Ukrainian tax law. The lender I have in mind will consider a "single" transaction for a Ukrainian borrower, without having to use the FIBC Program.

When we met with Leasing House, in Lv'iv, we described the elements of the training program and asked them which part of it interested them the most. They responded by saying sales.

Leasing House is an experienced lessor that has a significant portfolio with no losses (according to them) during the 3 years they have been in business. They appear to believe that improved sales skills will allow them to obtain even more business.

Application of Recommendations – All of them, except for No. 6, expansion of the training programs which, again, has a significant INDIRECT application.

Regarding Recommendation No. 1, continuing to identify potential transactions thought should be given to involving Ukrainian lessors early in the transaction, to see how leasing services are presented to a potential lessee. For example, in the Ridan meeting, had a Ukrainian lessor gone with me to that meeting they would have been able to observe how I presented the service. However, it is necessary to be careful, in using this approach, to avoid accusations of favoritism.

Another solution might be to infuse the training program, as quickly as possible, with Ukrainian transactions (Recommendations Nos. 2 & 3) and, by doing that, show how a more proactive selling approach could work with Ukrainian lessees. This is a slower approach but, in the long run it may reach more people and it does not run the risk of suggestions that Pragma might be playing favorites.

Targeted industry programs (Recommendation No. 4) such as the ones shown in Appendix C, would help sales people formulate a presentation. Such programs, if developed in conjunction with Senior Management and Credit Departments of local Lessors, would serve to give sales people the assurance that if they had a customer that met the qualifications that customer would likely get credit approved. There is nothing like positive feedback.

At the same time, the more information is disseminated to vendors in targeted industries, as well as lessees themselves (Recommendation No. 5), the more these firms will become aware of the benefits of leasing and, equally importantly, what the credit requirements are. I advise my customers;

especially the ones that give me repeat business, to keep an up to date credit package available. Most of them don't listen to me, but I still think it is good advice.

Regarding Recommendation No. 7, Ex-Im, I am tentatively planning to meet with their Head of Business Development in the CIS, probably in mid-September, with the objective of discussing with them the opportunities in Ukraine and to stress that the bank guarantee requirement is serving as a barrier for them to do more business in Ukraine. The Director for the 11 Western States is a personal friend of mine. I will be meeting with him upon my return, and I hope he can be useful in setting up the meetings in Washington. (Post Script – Last June 9th, I met with Ex-Im's Regional Director for the 11 Western States, as well as Ms. Margaret Kostic, Ex-Im's Director for Russia, CIS and Turkey. Notes of this meeting are included in Appendix B of this report).

3. There appears to be substantial demand in the 2 industries targeted by the Project, Agriculture and Healthcare – I have already discussed the reasons for this Conclusion in my discussion of Conclusion No. 1, overall demand for leasing.

I believe 2 additional industries are worthy of consideration: The manufacture of Food & Beverage Products; manufacture of Personal Care Products. One is closely related to Agriculture; the other closely related to Healthcare. The growth in both industries will be driven to the shift in Ukraine from an industrial economy to a consumer-based economy.

Application of Recommendations – Primarily Recommendations Nos. 4 & 5, development of targeted marketing and credit programs, aimed directly at lessees in Agriculture and Healthcare and, perhaps, in the 2 other industries as well, and dissemination of information to potential lessees in these industries. Targeted marketing and credit programs would hopefully make credit decisions easier for lessors to make, would facilitate the selling process, as discussed in the previous Section, and make it easier for potential lessees to know what to expect. I believe that such targeted programs would make it easier to facilitate the application of credit bureau information, when a credit bureau is developed for Ukraine.

Descriptions of 3 targeted marketing programs, used in my business in the US, appear in Appendix C. Also, in Appendix C, is a lease application that I use for farming transactions.

It may be useful to adapt these programs to the Medical and Agricultural Industries in Ukraine, but modified for Ukrainian conditions. For example other than the municipal leasing program, the agricultural and medical leasing programs both depend on credit bureau information. At the present time it would not make sense to use these programs, as is, in Ukraine because, currently, there is no credit bureau information available.

However I believe it is possible for Pragma to facilitate the development of targeted marketing and credit programs that are applicable to Ukrainian conditions. This should be done in conjunction with Ukrainian lessors and banks (regardless of whether banks are direct lessors, funding sources, or both), and possibly vendors (especially if vendor recourse is involved), and international donors who may act as wholesale lenders to lessors and/or funding sources.

It appears that lack of land ownership has been one barrier to additional leasing activities among farmers in Ukraine. I don't think it is necessarily important for the farm (the lessee) to own the land on which they are farming. If the lessee has had use of the land for a certain period of time, can show how much land he is farming, what is crop output has been, type of irrigation, etc., not to mention bank and trade references.

The attached Agricultural Lease Application, shown in Appendix C, does not disqualify a potential lessee if they do not actually own the land they farm. The application asks for acreage owned AND rented, and the annual mortgage cost or rental as the case may be. The objective is to show that the farmer controls the property and that they are running a profitable operation. Hopefully, this

application, and other information available to the Project, can help convince Ukrainian lessors that ownership of land not a necessary condition for qualify for a lease.

4. Lessees' Awareness of Limitations of Existing Leasing Market – The perception of many of the lessees I spoke with, on my most recent trip, is of a leasing industry suffering not only from limited access to capital, constraints on available lease term and cost as well as legislative and tax constraints, but they also spoke of other limitations including lessors sometimes dictating what type of equipment they much choose, and other constraints that they said that lessors attempt to impose.

Both Boris and Medikom spoke of Ukrainian lessors that attempt to dictate to them what equipment they can purchase. In the US most lessors are agnostics when it comes to the subject of equipment selection.

Both Boris and Medikom indicated to me that they would rather pay cash than agree to the equipment constraints that lessors want to place on them regarding equipment selection. The same is true of lease terms and pricing. Medikom and Boris appear to have strong enough financial statements to either pay cash, or get vendor terms, if lease terms and pricing are not attractive enough for their requirements.

Amako, the distributor of agricultural equipment, is concerned about a tariff structure that they say discriminates against imported agricultural equipment. These tariffs, compounded by the indirect subsidies offered by UKROAGROLEAING, make it more difficult to sell imported agricultural equipment in Ukraine. In spite of all this, Amako appears to have been successful in penetrating the Ukrainian market.

I have already spoken about the issue of land ownership. It is likely that farmers who don't own their land know this and, as a result, don't even consider leasing except, perhaps, through UKROAGROLEASING.

In our meeting with Leasing House, in Lv'iv, they said to us that they make very few "cold calls," on prospective lessees because, they said, of the reluctance of many lessees to even listen to them. Yet, at the same time, Leasing House told us that the portion of the training program of most interest to them was sales.

It may be possible that "cold calls," similar to what is common in the U.S., is simply not an effective marketing tool in Ukraine. What is common in the US may not be acceptable in Ukraine.

The personal approach, my meeting with Ridan being an example, may be the most effective marketing tool with prospects. Written literature, including but not limited to marketing letters and brochures, followed by a telephone call, may also be effective.

Application of Recommendations – Recommendations Nos. 4 & 5, targeted marketing and credit programs, certainly for Agriculture and Healthcare, along with seminars for lessees in those industries. I think both of these efforts, done jointly, would help convince lessees, at least in those 2 industries that credit is available, and what the terms and the credit standard will be. These recommendations can be combined with Recommendations 1 through 3, expanding the flow of existing transactions, to help convince both lessors and lessees that a credit based approach will actually work.

Although not a specific recommendation, in this report, a continuation of the work that Pragma is already undertaking in the public relations arena, that an effort is being made to improve conditions for leasing in Ukraine, is critically important. If people hear this, from independent sources, they might be willing to take the next phone call from a prospective lessor.

5. Existing Leasing Infrastructure in Ukraine – In the report on my previous trip I made statements to the effect that there was likely nothing much resembling "leasing as we know it" going on in Ukraine, and that most of the leasing, such as it was, was being done by the 2-3 State-owned leasing companies.

After this trip I consider these statements only partly true. It is probably true that the 2-3 State-owned leasing companies account for much of the lease volume, but there are also viable privately-owned leasing companies, such as Leasing House in Lv'iv, as well as financial institutions who want to expand their leasing activities in various ways.

Local leasing companies not having access to capital is only partly true. There are at least 2 leasing companies, Lasca Leasing and HVB, who are owned by well capitalized European Financial Institutions. In the case of Lasca, Parex Group, in Latvia owns them. HVB Bank is one of the largest banks in Germany. Either one of these institutions can certainly provide substantial capital for any leasing operations they choose to undertake in Ukraine.

Most importantly the existing leasing infrastructure, certainly that part not owned by the State, is made up of very bright, well-educated and ambitious individuals. It is this latter factor that gives me the greatest optimism.

There are constraints, in the area of legislation and tax law, which I am not going to go into here. The important thing to keep in mind, however, is that the leasing industry in Ukraine is growing IN SPITE OF an adverse legislative and tax environment.

Application of Recommendations – Recommendations Nos. 2 & 6, the application of Ukrainian conditions and Ukrainian lease transactions to the training curriculum introduced by Bob Teichman, and the expansion of the training program, are the most applicable. The training program is the most direct means, available to the Program, to foster the existing leasing infrastructure in Ukraine and help expand it.

Recommendation Nos. 4 & 5, targeting marketing and credit programs specific to Ukrainian conditions, should be developed jointly, by both lessors and funding sources. If lessors and funding sources can agree on a set of credit parameters in targeted industries, I believe this would serve to attract additional capital into the industry. The major “missing piece” is capital.

6. Desire of Existing Lessors to Expand Beyond Vehicle Leasing – An original objective of this Project was to assist the leasing industry in Ukraine to expand beyond vehicle leasing into more “credit based” transactions mostly involving capital equipment. Part of this objective will be facilitated by establishing a “Credit Culture,” or “Credit Environment,” that includes work this Project is undertaking as well as other parts of ATCI, most prominently the development of a credit bureau.

We also heard a desire expressed, by almost all of the lessors we met with, to either move beyond vehicle leasing, or expand their existing volume of capital equipment leasing. Lasca Leasing told us that they hoped to expand their portfolio from approximately \$1 million, at the end of 2004 consisting mostly of vehicles, to approximately \$5 million at the end of 2005, consisting of vehicles and a substantial amount of capital equipment. Lasca also indicated that their marketing will, at least initially, concentrate on larger Ukrainian companies and local subsidiaries of foreign companies.

Part of this strategy, on Lasca's part, is no doubt the result of the recent new regulations on VAT and the tax treatment of operating leases of vehicles. However much we dislike these new rules, they also serve as an opportunity to realize one of the objectives of the Project, which is to encourage the growth of leasing capital equipment.

Leasing House, in Lv'iv, already does a substantial amount of capital equipment leasing. They expressed a desire to expand their existing volume in leasing capital equipment leasing, through better sales techniques and offering more extended terms.

Some of the equipment vendors we spoke with, such as Amako, are looking at starting their own leasing operations. If they make such a decision, and assuming that they would be “captive” leasing companies concentrating almost exclusively on financing equipment that each vendor sells these operations, by definition, would concentrate almost entirely on leasing capital equipment.

There currently appears to be very few, if any, lessors in Ukraine presently financing any medical equipment, at least on terms that are acceptable to the prospective lessees. Both Boris and Medikom mentioned concerns about local lessors trying to dictate which equipment they buy. Medikom cannot find a local lessor able to finance equipment they plan to buy facility, specifically equipment made by local manufacturers. They are currently using 1-year seller financing. There are hard currency loans available, such as the one offered to Ridan, but nothing really directed at the healthcare industry as a whole.

I am not sure the reason for this lack of activity. It may be that there is a concern that the government will either curtail, or re-nationalize, the growing portion of the healthcare industry that is currently in the private sector. That was a theory expressed by Boris, in my meeting with them. If that is the case then the GOU must eventually clarify its position on this matter, so that participants can conclude transactions with the confidence that assets will not be confiscated.

Application of Recommendations – All of them, and all have direct relevance.

Regarding Recommendations Nos. 1, 2 & 3, the more transactions involving capital equipment we can identify, and use those to work with local lessors and incorporate into the training curriculum, the more local lessors, and funding sources, will become convinced that credit based transactions can be a significant source of business. The Ridan transaction, involving the computerized tomography equipment, is an example not only of this effort, but also as part of an effort to foster more activity in leasing medical equipment.

Targeted marketing and credit programs, Recommendations Nos. 4 & 5, can serve to assist both lessors and funding sources become comfortable with certain industries, and develop credit programs that both parties are comfortable with. If such programs can be developed then lessors can “sell” them with the confidence that if a lessee conforms to the criteria they will be credit approved.

Such programs can also be very helpful to potential lessees. If they know what the standards are, and take care to have the necessary information available, then they will have confidence in the likelihood of credit approval and will be more willing to try leasing.

Targeted marketing and credit programs, as in the case in the US, are greatly facilitated by credit bureau information. This will likely be true in Ukraine, as well.

The training curriculum presented by Bob Teichman was almost exclusively directed toward credit based transactions involving capital equipment. The meeting with Lasca offers a good example of how the training program might be applied (Recommendation No. 6).

Lasca expressed an interest in expanding their capital equipment volume, but only for larger companies. Lasca also expressed an interest in the risk management portion of the training curriculum. Perhaps such a training program, tailored to Lasca’s needs, will cause Lasca to consider smaller capital equipment transactions for smaller companies.

A similar effort might be undertaken for Leasing House, in Lv’iv. Much of their business is already involves financing capital equipment. They expressed an interest in the sales portion of the training curriculum, as a way to reach more potential customers.

Ex-Im’s Medium Term Loan Insurance Program, Recommendation No. 7, is particularly useful in Medical Equipment financing and Ex-Im can offer very attractive terms, including up to 7 year financing, for qualified borrowers. The same is true for environmental equipment.

Additionally, because of the lack of activity on the part of local lessors in financing medical equipment, Ex-Im’s program, as well as similar programs offered by Germany (Hermes), Japan’s Export Financing Agency and other countries, are often the only form of financing available to

potential Ukrainian borrowers who want to import medical equipment. Hopefully Ex-Im will change some of its policies, with respect to bank guarantees, and hopefully Ukrainian lessors will take more interest in financing medical equipment fostered, possibly, with guidance from GOU about the increasing portion of the healthcare industry that is in private hands.

7. Facilities Available to Expand The Training Program – At least 2 other initiatives, sponsored by USAID either operate, or have access to, training facilities that can be used by the Project to expand the training program outside of Kiev. These initiatives are CEUME and the Agricultural Marketing Initiative (“AMI”), both of whom we met with during my trip. A third one, with whom I met during my visit in January, is Bizpro.

AMI has an up coming function in Odessa, in late June. It is my understanding that the Project may decide to attend that function, either actively or as an observer.

There appears to be no lack of expertise in Ukraine for creating a web-based presence. I understand that the Project is in the process of developing a web site. Such a web site will be a useful means to disseminate information to market participants.

Application of Recommendations – When decisions are made as to how to expand the training program there appears to be sufficient facilities available, throughout Ukraine, to hold sessions and facilitate such an expansion.

8. Ineffectiveness of Nadra’s DCI – When we met with AMI their chief agricultural credit consultant said that the USAID’s DCI, at Nadra Bank had, in his opinion, been ineffective in motivating Nadra to extend additional credit to Ukraine’s agricultural sector.

As I understand it DCI’s, that are 50% credit guarantees, are designed to encourage the recipient to conduct more lending activity in sectors of a local economy where the DCI is targeted. One of the goals is to enable that lender to become more familiar with the credit conditions in that sector, or sectors.

Applications of Recommendations – Recommendations Nos. 4 & 5, targeted marketing and credit programs, might serve to help improve the effectiveness of Nadra’s DCI. A look at the US Small Business Administration’s (“SBA”) Loan Guarantee Program might be useful. Such an examination could also provide the context for an effort to improve the effectiveness of Nadra’s DCI, because I think it is quite likely that Nadra is behaving in a similar fashion to the way US lenders behave, with loan guarantees from the SBA.

SBA has several programs, but the most popular one offers lenders an 80% loan guarantee, for loans made to targeted companies. The most popular SBA program is directed at financing owner-occupied buildings.

I think it is fair to say that today, in the US, a lending bank that is an approved SBA lender would finance an owner-occupied building, REGARDLESS of the existence of an SBA guarantee. After all, the bank has a first mortgage on the real estate. If the rest of the underlying credit is acceptable why would the bank need a SBA guarantee in the first place?

I think it is probably likely that the SBA guarantee program, for owner-occupied buildings might have once served a purpose in getting lenders interested in looking at the market for financing owner-occupied buildings. Now that lenders have the experience in looking at this market SBA guarantees are probably no longer necessary as a motivation for lenders making the loan.

In the same way, the targeted marketing and credit programs, as described in Recommendations Nos. 4 & 5, combined with the DCI, might motivate a bank to look at sectors of an economy where they had not been previously active and actually make loans. If the intent of Nadra’s DCI is to motivate Nadra to lend more to the Agriculture Sector in the Ukraine, and if AMI’s credit consultant is correct

in saying that Nadra is not making the loans, then it might be useful to develop, with Nadra's active involvement, a targeted marketing and credit program along the lines of what is described in Appendix C of this report.

It is also possible that one of the problems Nadra is having, in doing more Agricultural transactions, even with the presence of the DCI, is the issue of land ownership. Possibly the Agriculture Program, shown in Appendix C, can be modified to Ukrainian conditions and convince Nadra that land ownership is not a necessary conditions to extend medium term credit to farmers.

Second Transaction Person – I have received a request from USAID about the possibility of bringing in a second transaction person, to assist me and others in the Project in identifying transactions, consistent with Recommendations Nos. 1 through 3. I have agreed to consider this possibility and outline the alternatives in this report.

I believe a 2nd transaction person might be useful, but I have not made any conclusions how this might be done, other than to list some alternatives and what the pros and cons of each alternative might be. I do believe the goal of such a decision should be to improve the capabilities of our Ukrainian counterparts. Here are some alternatives:

1. Bring in a second transaction person from the outside, most likely the US - I have one or two people in mind, if we can get them, and Bob Teichman will, most likely, have others.
2. Find an American, perhaps a Peace Corps Volunteer – The PCV's coming to Ukraine appear to have the basic experience, and the language, but may not have the specific training.
3. Add An Additional Member of the Local ATCI Staff – ATCI already has several local staff members with extensive leasing expertise. Consideration should be given to hiring an additional local staff member, on either a part time or full time basis.
4. Do Nothing, Until Later this Year or In 2006 – Here I am thinking of waiting until at least after my next trip.

The only one of these alternatives that I currently support is No. 4. The reason I support No. 4 is that I learn a great deal every time I come. I believe at least 1, and possibly 2, more trips will then help me make conclusions among the first 3 alternatives, a combination of these alternatives or, perhaps entirely new alternative(s).

Regarding Alternative No. 1, there are people I know who can do the same thing I did, in the Ridan meeting. One advantage I have, that others may not have, is the fact that I have worked in another culture. In addition to 20 years in the leasing industry and an MBA, I also have a Masters Degree in International Administration. There are not many leasing sales people in the US who have had such experience, except for Bob Teichman who lived in Switzerland.

The other advantage of No. 1 is that it may be possible for a 2nd person to come relatively quickly, if that is the decision. The major disadvantage to Alternative No. 1 is that it does nothing intrinsic to develop the capabilities of Ukrainian counterparts.

My preference is either Alternative 2 or 3. Regarding No. 2 there may be one or more PCV's who have good financial skills and good sales skills, and they know the culture and speak the language. The Peace Corps. is also very strong in involving local counterparts in its programs. The disadvantage of No. 2 is that it would take time to get such a person in place. The first issue would probably be getting the Peace Corps. to agree to include such a person in one of their programs. The second would be to make sure that such a person had the necessary leasing training prior to going out in the field.

Regarding Alternative 3, another possibility, in addition to finding someone already involved in the leasing industry, might be local colleges or MBA Programs, especially if there is an executive MBA program such as ones in the US where you go at night part time. There may be someone in those programs who has the financial skills and has the sales skills. I met many bright people, who are already in the industry.

In this I include the ATCI Staff. As with Alternative 2, it will be necessary to provide that person with leasing training.

My inclination would be to have more detailed discussions in July and also, with the benefit of the additional meetings with potential lessees members of the ATCI Staff and I will have during that trip, I am going to develop additional thoughts on these alternatives and, most likely, think of additional alternatives. The concern I have is about making a decision too quickly, one that really doesn't have to be made in the next 60-90 days.

ATCI Broker Manual – It has been suggested that I draft a broker manual, for use by ATCI Staff. The preparation of such a manual may help local staff in identifying transactions. Such a manual, along with the training, might facilitate ATCI's ability to hire a local individual to act as the second transaction person as discussed above. I intend to hold more detailed discussions on this matter, with ATCI Staff, in the next few days.

I am very encouraged by the progress the Project has made since my first visit, and I am impressed by the high quality of most of our counterparts in the local leasing industry. I think my next visits should be looked at as a means by which we can maintain the momentum that the project has generated.

APPENDIX A
List of Meetings

APPENDIX A

List of Meetings

These meetings are listed in as much a chronological order as I can remember them taking place. Attached are brief meeting notes, for those that are not otherwise included in Appendix B and for those that require follow-up from ATCI.

AMAKO, Mr. Vasily Skotsyk, Country Manager/Ukraine - Amako is a distributor of imported farming equipment. I also met with Mr. Skotsyk during my trip in January. Mr. Skotsyk indicated a willingness to set up one or more meetings with Amako's customers. Unfortunately he was unable to do so during the time I was in Ukraine. It is advised that we contact Mr. Skotsyk, prior to my next visit, in the hope that he will be able to reschedule these meetings.

BUSINESS MANAGEMENT EDUCATION IN UKRAINE, Mr. Mick Mullay, Chief of Party & CEUME, Alexander Dydorenko, General Director

AON LIMITED, Mr. Danny Mandryk, Managing Director/Kiev Office - Aon is one of the largest insurance brokers in the world. Mr. Mandryk indicated a willingness to set up meetings with several private clinics, who handle insurance claims for group health insurance plans for Ukrainian businesses currently underwritten by Aon. We were able to see most of the people that Mr. Mandryk was going to suggest, although these meetings were set up by Stryker.

STRYKER/EUROPE, Mr. Sergey Gorbenko, Marketing Coordinator/Ukraine - Stryker is a major manufacturer of medical equipment and medical devices (such as hip implants). This is my second meeting with Mr. Gorbenko, having met with him on my first trip. Mr. Gorbenko indicated a willingness to set up meetings with several private clinics, including 2 in Kiev. Those two meetings, with Boris and Medikom, were held (see meeting notes in Appendix B). Mr. Gorbenko also mentioned another clinic, in Odessa. This should be pursued, possibly for late June as part of the function in Odessa planned by the Agricultural Marketing Project (see below) or during my next visit.

SIXT LEASING, Mr. Vadym Nesterchuk and Ms. Natania Nesterchuk - Sixt does mostly vehicle leasing.

TD SECURITIES, Mr. Yves Sawaya, Managing Director & Mr. Nicholas Renna, Vice President and Director, Trade Finance Group - This meeting was set up by the US Commercial Service. TD Securities was looking for trade finance business in Ukraine, under the auspices of the US Ex-Im Bank Medium-Term Loan Insurance Program and the Financial Institution Buyer Credit Program ("FIBC").

TRANSMED, Mr. Alexey Kovalsky, Director - Company distributes foreign manufactured medical equipment in Ukraine. I also met with Mr. Kovalsky during my first visit, in January. Mr. Kovalsky kindly expressed a willingness to introduce the Project to the Governor of Dnieperpetrovsk, for the purpose of furthering the project's efforts in improving the legislative and tax climate for leasing in Ukraine, as well as introducing us to Ridan, who is looking to finance computerized tomography equipment for a private clinic in Donetsk (see below and Appendix B). This transaction should be pursued as well as possibly a visit to the facility in Donetsk.

LEASING HOUSE, LTD. (Lv'iv), Mr. Oleh Ivanovich Sytuk, General Director, Ms. Miraslava Shved, Commercial Director, Mr. Yevgen Vasilyev, Chief Accountant, and Others - ACTI should pursue assistance with Leasing House in a sales seminar, as well as assistance in improving their discounting arrangements with the banks they currently work with.

LASCA LEASING, Ms. Tatyana Saus, CEO, Mr. Kostyantyn Scevchenko, Chief Accountant - Company was recently acquired by Parex Group (bank in Latvia). They are seeking to expand portfolio by 500% in 2005, and increase financing of capital equipment. Lasca expressed interest in credit training, as support for the expansion of their volume of business and their expansion into financing capital equipment.

BORIS MEDICAL CLINIC, Mr. Mykhaylo Radoutskyy, President - Please see meeting notes in Appendix B.

MEDIKOM, Mr. Igor Skurikhin, General Director - Please see meeting notes in Appendix B.

RIDAN MEDICAL PHARMACEUTICAL COMPANY - Please see meeting notes in Appendix B.

AGRICULTURAL MARKETING PROJECT, Mr. Robert E. Lee, Chief of Party, Mr. Andriy Nykonenko, Legal & Tax Advisor, Mr. Oleg Stoyanov, Credit Specialist, Mr. William Motes (Sr. VP, Informa Economics), Consultant - Mr. Stoyanov provided very useful information on the status of the effectiveness of the Nadra Bank DCA. Mr. Lee briefed us on the Projects activities and, specifically, on outreach functions they hold in various parts of Ukraine, including one that is coming up, the end of June, in Odessa.

APPENDIX B
Meeting Notes



ATCI Meeting Notes Leasing Component



May 12, 2005

Attendees

Organization	Name
Pragma	<ul style="list-style-type: none">• Bob Homans• Ivan Webrenko, Translator
Boris Medical Clinic	<ul style="list-style-type: none">• Mykhalyo Radoutsky, President

Objectives

1. To discuss equipment financing opportunities with Boris Medical Clinic ("Boris"), a large private clinic based in Kiev, especially relating to the construction of a new medical facility in Kiev.

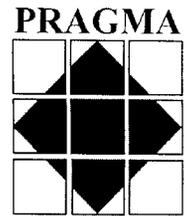
Key Takeaways

- Boris is a 12 year old private medical clinic. The company currently owns all of its own facilities and equipment. The company's service includes an ambulance service, diagnostic center and a rehab. clinic.
- Mr. Radoutsky said that the market in Kiev for their services is currently very strong. He said that when the company started only 2% of the residents of Kiev could afford private medical insurance. Today it is 30%.
- Boris is currently construction a new facility, a 12 story clinic near the Dnieper River. The facility costs approximately 16MM Euros and is being constructed by Siemens. The facility will include the first oncological cancer center in the country. Mr. Roudetsky said that the facility is expected to open in 2006.
- Mr. Radoutsky stated that he may have approximately 8MM Euros in equipment financing needs associated with the new facility.
- Mr. Radoutsky explained that most of the financial institutions he has spoken with in Ukraine wanted to specify the equipment that Boris would acquire, and lease. This was unacceptable to him.
- Mr. Radoutsky also stated that he could borrow hard currency from a Ukrainian Bank at 12%. I said that this is approximately the same pricing as he could expect to get from the US Ex-Im Bank Medium-Term Loan Insurance Program, when the cost of the required Ukrainian Bank Guarantee is factored in. The issue then becomes one of term. I stated that US Ex-Im Bank's medical equipment program has terms out to 7 years, with relaxed credit requirements.



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ATCI Meeting Notes Leasing Component



- Another advantage to the US Ex-Im Medium Term Loan Insurance Program may be the coverage of political risk. Mr. Roudetsky said that with local hard currency financing, he was concerned about his company's exposure if Ukraine decided to re-nationalize all the private healthcare facilities in the country.

Next Steps

- I will be emailing Mr. Roudesky information on the US Ex-Im Bank Medium-Term Loan Insurance Program, and have also indicated a willingness to contact my friends at Ex-Im, upon my return to Los Angeles.



ATCI Meeting Notes Leasing Component



May 12, 2005

Attendees

Organization	Name
Pragma	<ul style="list-style-type: none">• Bob Homans• Ivan Webrenko, Translator
Medikom	<ul style="list-style-type: none">• Igor V Skurkhin, General Director

Objectives

1. To discuss equipment financing opportunities with Inakom a large private clinic based in Kiev, especially relating to the construction of a new medical facility in Kiev, to be completed in late 2006/early 2007.

Key Takeaways

- Medikom is a 13 year old private medical clinic. The company currently operates several businesses, including: 1. A private ambulance service serving the City of Kiev and surrounding regions; 22 bed hospital including an O.R.; offers major medical procedures including laproscopies (used for removals of gall bladders, appendix, etc.) and sonograms. The company also offers dental services, has specialized clinics for women's and children's issues, and has an "ENT" clinic. They perform approximately 950 operations per year and see approximately 3,500 patients per month.
- According to Mr. Skurikhin the company is looking the following financing services: Equipment financing for major pieces of capital equipment for the new clinic, mostly from foreign suppliers; equipment financing for equipment, such as beds, that they intend to purchase from Ukrainian suppliers; mortgage financing for the building.
- Mr. Skurikhin expressed the same concerns about capital equipment financing as did Mr. Radoutskyy at Boris (see meeting notes for Boris). He also said that he could obtain 1 year vendor financing from local equipment suppliers.

Next Steps

- As with Boris, I indicated I would email information about US Ex-Im Bank's Medium-Term Loan Insurance Program to Mr. Skurikhin. I also said, as with Boris, that I would contact my friends at Ex-Im upon my return to the US.



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- We would make an effort to put Medikom in touch with local Ukrainian lessors who might be interested in financing the equipment he intends to buy from Ukrainian suppliers.
- With regard to the mortgage on the new clinic, I would refer Medikom to David Luchterhand or Alla Chernyak.



**ATCI Meeting Notes
Leasing Component**



May 12, 2005

Attendees

Organization	Name
Pragma	<ul style="list-style-type: none"> • Bob Homans
Ridan	<ul style="list-style-type: none"> • Lyubov Vishnevskaya, Director • Olga Tsyndrovska, Medical Device Dept. Mgr.
TransMed	<ul style="list-style-type: none"> • Alexey Kovalsky, Director

Objectives

1. To discuss the acquisition of GE computerized tomography equipment (COE US\$400,000.00) by a private medical clinic in Donetsk owned by the Principals of Ridan
2. To discuss other equipment financing opportunities for other companies owned by Ridan, and/or owned by the Principals of Ridan, including but not limited to equipment for a basalt quarry and a vendor program for a distributor of medical devices.

Key Takeaways

- The Principals of Ridan have owned and operated the medical clinic for the past 3 years. They have previously rented the facility and are now moving into their own facility, owed by the company, and will be expanding the size, and capabilities of the clinic. The new facility is expected to open in November, 2005.
- Ms. Vishnevskaya said that they have received an indication of interest from a local bank, for Hrivna financing sufficient to purchase the equipment. The terms are for approximately 12%, for 3 years, payable monthly. Ms. Vishnevskaya was interested to know if it might be possible to obtain better terms.
- Ms. Vishnevskaya also said that GE Capital ("GECC") visited Donetsk and expressed possible interest in the transaction. She said that GECC, rather than providing credit directly to Ridan, wanted to provide credit to a local Ukrainian lessor who would then, in turn, extend credit to Ridan. This would be done through the US Export-Import Bank Financial Institution Buyer Credit ("FIBC") Program. According to Ms. Vishnevskaya, Ridan was not interested in this arrangement, especially since there is likely only 1 Ukrainian lessor who could qualify for the FIBC Program. In response I stated that it is likely that GECC felt the transaction, at \$400,000.00 (\$347,000.00 financed net of the required 15% down payment) was too small for them to be interested in a "one time only" transaction. They agreed with my assessment.
- With regard to the terms, offered by the bank mentioned by Ms. Vishnevskaya, I said that US Export-Import Bank has a medical equipment program that offers terms up to 7 years and relaxed credit requirements. Ms. Vishnevskaya said that the longer term would be preferable to the 3 year term



ATCI Meeting Notes Leasing Component



offered by their bank. I said that I, through a lender that I work with in the US and under Pragma's auspices, would be interested in looking at the transaction on a "one time" basis.

- Ms. Vishnevskaya said that there may be other opportunities to work with other companies owned by, or associated with, Ridan, including equipment for a basalt quarry and a vendor program for a part of Ridan that distributes medical equipment in Ukraine.

Next Steps

- I have emailed information, including credit requirements, describing US Ex-Im Bank's Medium Term Loan Insurance Program. Ms. Vishnevskaya said that they would prepare the information, and would probably have it ready before I left Kiev on the 19th. I said that if the package is not ready to please coordinate with Rich Caproni.



ATCI Meeting Notes Leasing Component



June 9, 2005

Attendees

Organization	Name
Pragma	<ul style="list-style-type: none"> • Bob Homans
US Export Import Bank	<ul style="list-style-type: none"> • Ms. Margaret Kostic, Director of Russia, CIS & Turkey • Mr. David Josephson, VP and Regional Director, Western US

Objectives

The meeting took place in the offices of US Ex-Im Bank in Long Beach, CA. David Josephson, whom I have known for 20 years, and I, spoke with Margaret Kostic over a speakerphone (Ms. Kostic was in her office, in Washington, DC).

My specific objectives for the meeting were as follows:

1. To inform Ms. Kostic about the Pragma/USAID ACTI Project and, specifically although by no means exclusively, the Leasing Component. In the Leasing Component I stressed that our major effort was developing the capabilities of local lessors, with the goals of increasing the volume of capital equipment and improving the access to lease financing for Ukrainian SME's, especially in the Agricultural and Healthcare Sectors.
2. To share with Ms. Kostic some of the observations I took away from my most recent trip to Ukraine, specifically the cost of bank guarantees required under Ex-Im's Medium Term Loan Insurance Program, additional contacts she might want to make among Ukrainian banks and lessors, as well as the increasing amount of activity by the Private Sector in the Healthcare Industry.
3. To recommend to Ms. Kostic possible contacts she should pursue during her up coming visit to Ukraine, scheduled for June 28 – July 2, 2005.
4. To learn more about the current activities of US Ex-Im Bank in Ukraine, most specifically activities under the Financial Institution Buyer Credit ("FIBC") Program.

Key Takeaways

- Ms. Kostic said that her visit to Ukraine was scheduled to coincide with an upcoming conference in Kiev, on June 30, 2005, being put on by Fitch, the rating agency. She said that the Ukraine Finance Minister has been invited to speak. The subject of the Conference is going to be the banking sector and municipal lending. The fact that Fitch is putting it on has potentially significant implications for everything ACTI is doing, as it could effect Ukraine's sovereign debt rating.



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- Ms. Kostic said that Ex-Im would consider dropping their requirement of a bank guarantee, under the Medium Term Loan Insurance Program, if the buyer's (borrower's) credit was strong enough. I found this comment to be significant, since it implies that the existence of the requirement for a bank guarantee for Ukrainian buyers has as much to do with the perceived credit quality of the buyer as it does with the sovereign credit quality of Ukraine. In my experience, requirements for bank guarantees result from poor sovereign debt quality and have little to do with the strength of the buyer.
- As I suspected, prior to the meeting, Ms. Kostic was substantially unaware of the increased involvement of the Private Sector in the Ukrainian Healthcare Industry. She said that both Agriculture and Healthcare were areas of special interest to Ex-Im, especially in the CIS.
- In this regard I did mention the Ridan Transaction to Ms. Kostic, which is the \$400,000.00 computerized tomography equipment for the clinic in Donetsk. I told her that I had provided a list of Ex-Im credit standards, as well as underwriting requirements to Ridan, and that our Office had translated these into Ukrainian. I also stated that Ridan has advised us that they were going to be sending a credit package to the ACTI Office, and that we would translate the package into English for review by a lender and by Ex-Im.
- Ms. Kostic expressed an interest in learning more about the Municipal Finance Component of ACTI, as it has the potential of facilitating exports of US equipment.
- Ms. Kostic said that Ex-Im currently has 2 relationships set up with Ukrainian banks, under the FIBC Program, with Nadra and Privat. There are discussions with Ukrsib, as she said that Ukrsib has expressed an interest in an FIBC relationship. Ms. Kostic also mentioned that USAID did a study of the banking sector in Ukraine, that Ex-Im has used to establish their two existing FIBC relationships. I am not sure if ACTI has a copy of this study or not.
- Regarding existing FIBC activity in Ukraine, Ms. Kostic said that the current volume of financing that Ex-Im has outstanding with Nadra is equal to about 30% of Nadra's capital and, furthermore, that Nadra has very little room to take on additional obligations under the FIBC Program. She went on to say that the outstanding borrowings with Nadra are so new that they have little, or no, payment history. She said, without elaborating, that Privat has more room under its FIBC Facility.
- Ms. Kostic said that during her last trip to Kiev, in February 2005, that she had met with Anna Kinash, at HVB, and with Anna Kinash's boss. She said that she got the impression that while Anna Kinash was interested in establishing a relationship with Ex-Im that her boss wasn't. She said that she felt that Anna Kinash's boss was more interested in facilitating German exports. Anna Kinash has mentioned to me, separately, that she has not heard back from Margaret Kostic.
- Ms. Kostic said that when Pres. Yuschenko was in Washington, last April, that Ex-Im signed a MOU with the Export Bank of Ukraine, for borrowings of up to \$50 million. She said that the Export Bank of Ukraine was actively looking for ways to apply the \$50 million.
- Ms. Kostic said that Ex-Im, along with US Trade & Development Agency, was planning to put on a conference in Kiev, tentatively scheduled for September, 2005, to cover services and products offered by Ex-Im which, she hopes, will lead to further activity in Ukraine. She asked if Pragma would be interested in possibly being a Co-Sponsor of the Conference and assist in putting the Conference on. I said that I felt safe in saying that there would be interest on the part of Pragma in such an activity.



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Next Steps

- Ms. Kostic's direct dial number is 202-565-3413 and her email address is margaret.kostic@exim.gov. David Josephson's direct dial number is 562-980-4585 and his email address is david.josephson@exim.gov. I assume she is planning to leave on her trip in a week or so, and that Ukraine will be one of a number of stops.
- I will be sending an email to Ms. Kostic, suggesting that while she is in Kiev that she meet with the Pragma Team, including but not limited to David Luchterhand, whom she said she met on her last visit to Kiev, in February, Richard Caproni, Javier Piedra and Richard Genz. I will be providing her with your contact information.
- That ACTI consider the possibility of co-sponsoring the September conference that Ex-Im and the Trade & Development Agency plan to put on. She also requested Pragma's assistance in finding a venue for the conference.
- In the email to Ms. Kostic I am requesting that she provide us with the name of the contact person at the Export Bank of Ukraine who is handling the MOU that was signed during Pres. Yushchenko's visit to Washington.
- Ms. Kostic said she would email specific about the Fitch Conference, to be held in Kiev on June 30th.
- I am going to suggest to Ms. Kostic that she meet with the following companies and individuals: Boris Medical Clinic, Mykhaylo Radoutskyy, President; Medikom Clinic, Igor Skurikhin, General Director; TransMed, Alexey Kovalsky, Director; Stryker, Sergey Gorbenko, Marketing Coordinator/Ukraine; Ridan Medical Services, Lyubov Vishnevskaya, General Director.
- Regarding the meeting with Ridan, I am going to suggest that Ms. Kostic ask Alexey Kovalsky to assist her in making arrangements. TransMed, Kovalsky's company, is the agent for GE Medical Systems in Ukraine. GE is the manufacturer of the computerized tomography equipment that Ridan wants to buy.
- According to Vitaly Skotsyk, at AMAKO, he met with Ms. Kostic during her visit to Ukraine last February. I am going to suggest to her that they meet again, if her schedule permits.
- I am going to suggest that Ms. Kostic meet with Danny Mandryk, at Aon, for the purpose of learning more about the growth of private medical insurance plans in Ukraine, and the effect this has on the increased involvement of the Private Sector in Ukraine's Healthcare Industry.
- I am also going to suggest that Ms. Kostic meet with Tatyana Saus, CEO of Lasca Leasing. Ms. Kostic said that she had not met with Lasca during her last visit. Ms. Kostic is interested in establishing more FIBC relationships, especially in view of the current situation with Nadra. She was interested to know that Lasca is now part of the Parex Group, which is the bank in Latvia.
- ACTI might consider recommending to Ms. Kostic that she meet with Natanya Nesterchuk, at Optima Leasing. I did not mention Optima to Ms. Kostic, because I know very little about them.



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- Ms. Kostic asked me if I was planning to come to Washington in the near future. I said that I was thinking of coming this September, subject to future trips to Ukraine and also a convention I was planning to attend. She offered her help in introductions to people in various agencies who might be of assistance.

Opportunities For ACTI

- Regarding FIBC and Nadra, there may be an opportunity for ACTI to help Nadra sell some of its portfolio of existing Ex-Im borrowings to another institution. As long as Nadra is up against their lending limit, under the FIBC Program, they are not going to be able to write new business. They are going to either have to run down their portfolio, wait until there is more of a payment history in order to get a bigger Facility from Ex-Im, or stop doing this type of business. There is an agency called PEFCO (quasi Govt., I believe) that buys existing obligations, and there may be others. I can find out more about PEFCO.
- Ms. Kostic's statement that Ex-Im may be willing to drop its requirement for a bank guarantee, if the buyer's credit is strong enough, gives ACTI an opportunity to gear its training program toward helping potential buyers (eg borrowers) improve the quality of their financial information, so as to increase the probability that a bank guarantee would not be required.
- Along with the interest Ms. Kostic expressed in ACTI's activities in Municipal Finance, the fact that she knew little about the increased activity of the Private Sector in the Ukraine Healthcare Industry offers significant openings for ACTI to contribute to Ms. Kostic's knowledge of the opportunities that exist for Ex-Im in Ukraine.

I think the meeting with Ms. Kostic helped establish ACTI as a resource available to her, as well as a source of information that is at least as good, and probably better, than the US Commercial Service. Although Ex-Im's activities are tangential to our activities in fostering a leasing industry in Ukraine, having this kind of relationship is always helpful.

APPENDIX C
Examples of Targeting Leasing Programs

Leasing Program for Agricultural Credits

<u>Size</u>	\$10,000 to \$99,999
<u>Terms</u>	24 to 60 months
<u>Equipment</u>	Equipment must be agricultural related and be used in the growing, packaging, shipping or storing of an agricultural commodity or product.
<u>Time in Business</u>	Customer must have owned at least 50 acres for at least 5 years.
<u>Eligible Amount</u>	50 acres of ownership will qualify the customer for up to \$50,000.00. Each additional acre the customer has owned for at least 5 years will qualify the customer for an additional \$1,000.00. (For example, if the customer has owned 80 acres for at least 5 years they would qualify for \$80,000.00.
<u>Guarantors</u>	All customer's credit must be satisfactory, including personal credit Reports, crop lines, bank & trade references and guarantors must have a minimum Fair Isaac Score of 650.
<u>Bank Rating</u>	Lessees will be required to have a minimum "Low-5" average bank balance. Bank relationship must date back 12 months.

Specialty Medical Application-Only Program

<u>Size</u>	\$10,000 to \$99,999
<u>Terms</u>	24 to 60 months
<u>Equipment</u>	All types of income producing and office equipment used by a medical entity.
<u>Time in Business</u>	3 years under same ownership and management.
<u>Eligible Lessees</u>	All licensed medical professionals, including but not limited to the following: Board Certified Internists, Cardiovascular Surgeons, Dermatologists, Family Practitioners, General Surgeons, General Practitioners, Neurosurgeons, OB/GYN's, Ophthalmologists, Orthopedic Surgeons, Oral Surgeons, Pediatricians, Periodontists, Plastic Surgeons, "ologists" of all types.
<u>Guarantors</u>	Personal guarantees will be required by 60% or more of ownership and split percentage guarantees will not be allowed. All guarantors will be required to be homeowners, have a minimum 690 FICO score and all student loans must be paid as agreed.
<u>Bank Rating</u>	Lessees will be required to have a minimum "Low-5" average bank balance. Bank relationship must date back 12 months.
<u>Comparable Credit</u>	Lessees will be required to have comparable historic borrowings in the amount of 60% of the requested transaction, and paying as agreed for at least the last 12 months. Non-revolving accounts on the owner's personal credit report will be eligible to fulfill this requirement.
<u>Other Requirements</u>	Lessees should be listed in Dun & Bradstreet and disclose insurance affiliations on their credit application. All medical licenses must be in good standing and subject to verification. Legal name of Lessee and field of specialty must be indicated on the credit application. Expansions will require 5 years in business.

CREDIT BUREAU ATTACHMENTS



ЗАКОН УКРАЇНИ

Про організацію формування та обігу кредитних історій

Цей Закон визначає правові та організаційні засади формування і ведення кредитних історій, права суб'єктів кредитних історій та користувачів бюро кредитних історій, вимоги до захисту інформації, що складає кредитну історію, порядок утворення, діяльності та ліквідації бюро кредитних історій.

Розділ I. ЗАГАЛЬНІ ПОЛОЖЕННЯ

Стаття 1. Мета Закону

Метою цього Закону є врегулювання суспільних відносин, що виникають у сфері збору, оброблення, зберігання, захисту та використання інформації про виконання особами грошових зобов'язань, функціонування інституцій, пов'язаних з обміном інформацією про грошові зобов'язання та забезпеченням прав та інтересів суб'єктів кредитної історії.

Стаття 2. Законодавство у сфері формування та обігу кредитних історій

Відносини у сфері формування та обігу кредитних історій регулюються Конституцією України, цим Законом, міжнародними договорами, згода на обов'язковість яких надана Верховною Радою України, а також виданими на виконання цього Закону іншими нормативно-правовими актами.

Стаття 3. Визначення термінів

Терміни, що вживаються в цьому Законі, мають таке значення:

бюро кредитних історій (далі - Бюро) - юридична особа, виключною діяльністю якої є збір, зберігання, використання інформації, яка складає кредитну історію;

ведення кредитної історії - діяльність Бюро із збирання, оброблення, зберігання, захисту, використання інформації, яка складає кредитну історію;

кредитна історія - це сукупність інформації про юридичну або фізичну особу, що її ідентифікує, відомостей про виконання нею зобов'язань за кредитними правочинами, іншої відкритої інформації відповідно до Закону;

користувач Бюро (далі - Користувач) - юридична або фізична особа - суб'єкт господарської діяльності, яка укладає кредитні правочини та відповідно до Договору надає і має право отримувати інформацію, що складає кредитну історію;

Договір - правочин, сторонами якого є Користувач і Бюро і предметом якого є врегулювання питань надання та отримання інформації, що складає кредитну історію;

Положення Бюро - правила формування і ведення кредитних історій, які затверджуються виконавчим органом Бюро та погоджуються Уповноваженим органом;

кредитний звіт - сукупність інформації про суб'єкта кредитної історії, яка є повним або частковим відображенням його кредитної історії;

кредитний правочин - правочин, за яким виникає, змінюється або припиняється зобов'язання фізичної або юридичної особи щодо сплати грошових коштів Користувачу протягом певного часу в майбутньому (в тому числі договір страхування);

кредитний бал - особлива форма кредитного звіту, який відображається у цифровому значенні;

суб'єкт кредитної історії - будь-яка юридична або фізична особа, яка уклала кредитний правочин та щодо якої формується кредитна історія;

Уповноважений орган - орган виконавчої влади, визначений Кабінетом Міністрів України, що здійснює державне регулювання діяльності Бюро.

Стаття 4. Принципи формування та доступу до інформації, яка складає кредитну історію

Принципами формування та доступу до інформації, яка складає кредитну історію, є:

забезпечення конституційних прав і свобод суб'єктів кредитних історій;

адекватність обсягів інформації цілям, для яких вони збираються;

значимість, всебічність, об'єктивність, повнота і достовірність інформації;

регулярність та безперервність надходження інформації;

цільове використання інформації;

строковість зберігання інформації;

конфіденційність інформації та її захист;

збір і надання інформації, що складає кредитну історію, виключно за згодою суб'єкта цієї кредитної історії;

незалежність Бюро.

Розділ II. КРЕДИТНІ ІСТОРІЇ

Стаття 5. Джерела формування кредитних історій

1. Джерелами формування кредитних історій є:

відомості, що надаються Користувачем до Бюро за письмовою згодою суб'єкта кредитної історії відповідно до цього Закону;

відомості державних реєстрів, інформація з інших баз даних публічного користування, відкритих для загального користування джерел за винятком відомостей (інформації), що становлять державну таємницю.

2. Бюро має право отримувати відомості та інформацію, що зазначені у частині першій цієї статті, на договірних засадах.

Органи або уповноважені особи (держателі, адміністратори державних реєстрів тощо) зобов'язані на запит Бюро надавати відомості з державних реєстрів в електронному вигляді (у форматі бази даних) у разі наявності письмової згоди суб'єктів інформації.

Порядок передачі відомостей з державних реєстрів, а також розмір плати за це та інші умови встановлюються Кабінетом Міністрів України або за його дорученням - Держателем або Адміністратором відповідного реєстру та Бюро на підставі договору.

Стаття 6. Користувачі Бюро

1. Користувачами Бюро можуть бути банки, небанківські фінансові установи та інші суб'єкти господарської діяльності, які надають послуги з відстроченням платежу або надають майно в кредит.

Стаття 7. Інформація, що міститься в кредитній історії

1. Кредитна історія містить таку інформацію:

1) відомості, що ідентифікують особу:

а) для фізичних осіб:

прізвище, ім'я та по батькові;

дата народження;

паспортні дані;

місце проживання;

ідентифікаційний номер згідно з Державним реєстром фізичних осіб - платників податків та інших обов'язкових платежів (у разі наявності) (далі - ідентифікаційний номер);

відомості про поточну трудову діяльність;

сімейний стан особи та кількість осіб, які перебувають на її утриманні;

дата і номер державної реєстрації, відомості про орган державної реєстрації та основний предмет господарської діяльності фізичної особи - суб'єкта підприємницької діяльності;

б) для юридичних осіб:

повне найменування;

місцезнаходження;

дата і номер державної реєстрації, відомості про орган державної реєстрації;

ідентифікаційний код у Єдиному державному реєстрі підприємств та організацій України (далі - ідентифікаційний код);

прізвище, ім'я та по батькові, паспортні дані керівника і головного бухгалтера;

основний вид господарської діяльності;

відомості, що ідентифікують власників, які володіють 10 і більше відсотками статутного капіталу юридичної особи:

для фізичних осіб - власників: прізвище, ім'я та по батькові, паспортні дані, ідентифікаційний номер і місце проживання;

для юридичних осіб - власників: повне найменування, місцезнаходження, дата і номер державної реєстрації, відомості про орган державної реєстрації, ідентифікаційний код;

2) відомості про грошове зобов'язання суб'єкта кредитної історії:

а) відомості про кредитний правочин та зміни до нього (номер і дата укладання правочину, сторони, вид правочину);

б) сума зобов'язання за укладеним кредитним правочином;

в) вид валюти зобов'язання;

г) строк і порядок виконання кредитного правочину;

г) відомості про розмір погашеної суми та остаточну суму зобов'язання за кредитним правочином;

д) дата виникнення прострочення зобов'язання за кредитним правочином, його розмір і стадія погашення;

е) відомості про припинення кредитного правочину та спосіб його припинення (у тому числі за згодою сторін, у судовому порядку, гарантом тощо);

є) відомості про визнання кредитного правочину недійсним і підстави такого визнання;

3) інформацію про суб'єкта кредитної історії, яка складається із сукупності документованої інформації про особу з державних реєстрів, інших баз даних публічного користування, відкритих для загального користування джерел:

а) наявність заборгованості за податками та обов'язковими платежами;

б) рішення судів, що стосуються виникнення, виконання та припинення зобов'язань за укладеним кредитним правочином;

в) рішення судів та органів виконавчої влади, що стосуються майнового стану суб'єкта кредитної історії;

г) інші відомості, що впливають на спроможність виконання суб'єктом кредитної історії власних зобов'язань;

4) відомості про операції з інформацією, яка складає кредитну історію:

а) дата оновлення кредитної історії;

б) найменування Користувача, який надав інформацію до кредитної історії, у разі його згоди на це;

в) коментар суб'єкта кредитної історії у випадках, передбачених цим Законом.

2. Реєстр запитів містить таку інформацію:

а) дата запитів про надання кредитних звітів та інформація про надання кредитних звітів;

б) відомості про Користувача, який надав інформацію до кредитної історії суб'єкта кредитної історії, а також про Користувача або Бюро, яким було зроблено запит про надання інформації, що складає кредитну історію:

для фізичних осіб - суб'єктів підприємницької діяльності: прізвище, ім'я та по батькові, ідентифікаційний номер, місце проживання та номер телефону;

для юридичних осіб - повне найменування, ідентифікаційний код та відомості про уповноважену особу - представника Користувача або Бюро, яка зробила запит, місцезнаходження та номер телефону;

в) вид наданого кредитного звіту.

3. Обсяг інформації про суб'єкта кредитної історії, що надається або отримується Користувачем, визначається з урахуванням вимог, які передбачені цим Законом.

Стаття 8. Інформація, яка не підлягає збору

Бюро забороняється збирати та зберігати в кредитних історіях інформацію про фізичних осіб щодо:

національності, расового та етнічного походження;

політичних поглядів;

релігійних і філософських переконань;

стану здоров'я;

членства в партіях та інших об'єднаннях громадян.

Стаття 9. Порядок збирання інформації та формування кредитної історії

1. Інформація для формування кредитної історії надається Користувачем до Бюро лише в разі наявності письмової згоди юридичної або фізичної особи, яка уклала кредитний правочин з Користувачем.

2. Користувач у разі укладення кредитного правочину та отримання письмової згоди суб'єкта кредитної історії на збір, зберігання, використання та поширення через Бюро інформації щодо нього надає до Бюро інформацію:

1) про себе, що ідентифікує його як Користувача;

2) про суб'єкта кредитної історії, яка визначена пунктами 1 і 2 частини першої статті 7 цього Закону.

3. Користувач має право відмовитися від укладання кредитного правочину або укласти кредитний правочин на умовах, що враховують ризики від укладання кредитного правочину, у разі відмови суб'єкта кредитної історії надати згоду на доступ до його кредитної історії та/або на передачу інформації до Бюро про кредитний правочин з Користувачем.

4. Користувач зобов'язаний повідомити суб'єкта кредитної історії про назву та адресу Бюро, до якого передаватиме інформацію для формування його кредитної історії.

5. Бюро залучає інформацію, передбачену пунктом 3 частини першої статті 7 цього Закону, тільки для формування кредитної історії.

6. Бюро не пізніше семи робочих днів після отримання інформації від Користувача щодо суб'єкта кредитної історії вносить відповідну інформацію до його кредитної історії.

Стаття 10. Порядок зберігання та вилучення інформації, що складає кредитну історію

1. Бюро вилучає з кредитної історії:

1) інформацію, яка передбачена пунктом 2 частини першої статті 7, у разі відсутності кредитного правочину, Договору або визнання їх недійсними;

2) всю інформацію, що міститься у кредитній історії, у разі відсутності письмової згоди суб'єкта кредитної історії на збір, зберігання, використання та поширення через Бюро інформації про нього;

3) інформацію, яка передбачена пунктами 2 - 4 частини першої статті 7, у разі закінчення терміну зберігання інформації в кредитній історії.

2. Бюро має право за участю Користувача здійснювати звірення інформації, яка була надана цим Користувачем для формування кредитної історії, та вносити до неї зміни на умовах і в порядку, передбачених цим Законом та Договором.

3. Бюро зберігає інформацію протягом десятирічного терміну з моменту припинення кредитного правочину.

Стаття 11. Підстави та порядок надання кредитного звіту

1. Бюро надають інформацію з кредитних історій у формі кредитних звітів. Кредитні звіти містять усю інформацію з кредитної історії, якщо інші обсяги інформації не передбачені Положенням Бюро або Договором.

2. Користувачі мають право звернутися до Бюро за отриманням кредитних звітів упродовж дії укладеного правочину між ним та суб'єктом кредитної історії, а також за наявності у Користувача письмової згоди суб'єкта кредитної історії на доступ до його кредитної історії.

Користувачі мають право звернутися до Бюро за отриманням кредитних звітів у разі звернення суб'єкта кредитної історії до них з метою укладення кредитного правочину, а також надання Користувачу письмової згоди на доступ до його кредитної історії.

3. Бюро надають інформацію, яка складає кредитні історії, виключно Користувачам та іншим Бюро на підставах, передбачених цим Законом.

4. Бюро надають кредитні звіти Користувачам за їх запитом на паперовому або електронному носіях на умовах, передбачених цим Законом та Договором. Під час опрацювання запитів Бюро можуть перевіряти наявність кредитних історій суб'єкта кредитних історій в інших Бюро.

5. Кредитні звіти надаються Користувачам без права передачі їх або інформації, що міститься в них, третім особам.

6. Надання Бюро кредитних звітів на умовах, визначених цим Законом та Договором, не вважається порушенням банківської або комерційної таємниці.

7. Бюро здійснюють ведення реєстру запитів щодо кредитних історій відповідно до цього Закону.

8. Інформація в реєстрі запитів зберігається протягом трьох років з дня її надходження.

9. Надання Бюро кредитних звітів чи будь-яких послуг, пов'язаних з веденням, обробленням, аналізом інформації, що складає кредитну історію, є платною послугою, крім випадків, передбачених цим Законом.

Стаття 12. Захист інформації, що складає кредитну історію

1. Бюро зобов'язане забезпечити захист інформації, що складає кредитну історію, згідно із законодавством України.

2. Бюро не мають права доручати третім особам здійснювати діяльність з ведення кредитних історій.

3. Бюро та Користувачі несуть відповідальність згідно із законами України за перекручення, незаконне розголошення та нецільове використання інформації, що складає кредитну історію.

Стаття 13. Права суб'єктів кредитної історії

1. Суб'єкт кредитної історії має право ознайомитися з інформацією, що міститься у його кредитній історії, а саме:

1) кредитним звітом;

2) інформацією з реєстру запитів.

2. Суб'єкт кредитної історії має право ознайомитися з інформацією, що передбачена частиною першою цієї статті, шляхом звернення до Бюро у порядку, визначеному Положенням Бюро.

3. Суб'єкт кредитних історій має право безоплатно ознайомитися з інформацією, що передбачена частиною першою цієї статті, один раз протягом календарного року, а також у разі отримання відмови Користувача від укладення кредитного правочину.

4. Бюро зобов'язане надати суб'єкту кредитної історії інформацію, що зазначена у частині першій цієї статті, протягом двох робочих днів з дня отримання від нього відповідного запиту.

5. Суб'єкт кредитної історії має право звернутися до Бюро з письмовою заявою у разі незгоди з інформацією, що складає його кредитну історію, за винятком інформації про кредитний бал. Заява має включати коментар обсягом не більше ніж 100 слів щодо інформації, що заперечується.

6. Бюро при отриманні заяви від суб'єкта кредитної історії зобов'язане на час перевірки інформації позначити кредитну історію такого суб'єкта кредитної історії відповідною позначкою та протягом п'яти робочих днів з дня отримання заяви звернутися до Користувача, який надав інформацію, що заперечується, про її підтвердження або зміну.

7. Бюро залишає кредитну історію суб'єкта кредитної історії без змін та знімає з кредитної історії позначку у разі підтвердження Користувачем інформації, що заперечується. У цьому випадку суб'єкт кредитної історії має право на включення до своєї кредитної історії коментарю обсягом не більше ніж 100 слів щодо інформації, що заперечується, а Бюро зобов'язане долучити цей коментар до його кредитної історії.

8. Бюро вносить зміни до інформації, що міститься у кредитній історії суб'єкта кредитної історії, та знімає з кредитної історії позначку у разі зміни Користувачем інформації, що заперечувалася суб'єктом кредитної історії.

9. Бюро вилучає з кредитної історії суб'єкта кредитної історії інформацію, що заперечується суб'єктом кредитної історії, а також знімає відповідну позначку, якщо Користувач, який надав цю інформацію, у п'ятнадцятиденний термін з моменту звернення до нього Бюро не надав відповіді.

10. Бюро зобов'язане повідомити суб'єкта кредитної історії, Користувача, інформація якого заперечувалася цим суб'єктом, а також усіх, хто звертався до кредитної історії цього суб'єкта впродовж одного року, про зміну інформації, що заперечувалась або була вилучена з кредитної історії, відповідно до пунктів 1 і 2 частини першої статті 10 шляхом надіслання, не пізніше двох днів з моменту внесення таких змін до кредитної історії цього суб'єкта, копії його оновленої кредитної історії.

11. Суб'єкт кредитної історії має право оскаржити в судовому порядку дії Бюро або Користувача, які порушують його права.

Стаття 14. Бюро кредитних історій

1. Бюро створюється у формі господарського товариства відповідно до законодавства з урахуванням особливостей, передбачених цим Законом.

2. Засновниками Бюро можуть бути юридичні та фізичні особи. Засновники Бюро - юридичні особи повинні здійснювати діяльність не менше трьох років з дня реєстрації та не мати заборгованості із сплати податків та інших обов'язкових платежів за останні три роки.

3. Статутний капітал Бюро формується виключно за рахунок грошових коштів засновників Бюро і має бути не менше п'яти мільйонів гривень.

4. У назві Бюро обов'язково зазначаються слова "бюро кредитних історій".

5. Слова "бюро кредитних історій" та похідні від них дозволяється використовувати в назві лише тим юридичним особам, діяльністю яких є виключно ведення кредитних історій.

Стаття 15. Діяльність Бюро

1. Предметом діяльності Бюро є виключно ведення кредитних історій, а також здійснення іншої діяльності, що має на меті реалізацію положень цього Закону.

2. Бюро починає здійснення своєї діяльності з моменту отримання ліцензії.

3. Ліцензія надається Міністерством юстиції України на підставі заяви Бюро та документів, що підтверджують наявність:

1) сплаченого статутного капіталу в розмірі, що передбачений цим Законом;

2) Положення Бюро, яке, зокрема, повинно містити правила:

а) збору, опрацювання, коригування та передавання інформації;

б) надання кредитних звітів;

в) зберігання та захисту інформації;

г) ведення реєстру запитів кредитних історій.

4. Положення Бюро, за винятком розділу щодо зберігання та захисту інформації, підлягає опублікуванню в офіційних виданнях протягом одного місяця з моменту отримання ліцензії.

5. У разі ліквідації Бюро:

1) інформація, що визначена пунктами 1 і 2 частини першої статті 7 цього Закону, підлягає поверненню Користувачу, який її надав;

2) інформація, що визначена пунктом 3 частини першої статті 7 цього Закону, може бути передана або продана до іншого Бюро;

3) інформація, що визначена пунктом 4 частини першої статті 7 цього Закону, та інформація, що залишилася нерозміщеною, підлягає знищенню.

Стаття 16. Державне регулювання діяльності Бюро

1. Державне регулювання діяльності Бюро здійснюється Уповноваженим органом відповідно до цього Закону.

2. Уповноважений орган:

1) приймає відповідно до вимог цього Закону власні нормативно-правові акти та рекомендації щодо діяльності Бюро;

2) здійснює функції органу ліцензування, які визначені законодавством України про ліцензування певних видів господарської діяльності;

3) веде Єдиний реєстр Бюро та письмово інформує Бюро про всі зміни в Реєстрі;

4) контролює відповідність діяльності Бюро вимогам цього Закону, нормативно-правових актів Уповноваженого органу та Положенню Бюро;

5) здійснює контроль за цільовим використанням інформації, що міститься в кредитній історії під час реорганізації або ліквідації Бюро;

6) звертається до Бюро з письмовим застереженням щодо припинення порушення та вжиття необхідних заходів для його усунення;

7) звертається до суду з вимогою про застосування фінансових санкцій;

8) здійснює інші повноваження, що передбачені законами України.

3. До Бюро можуть бути застосовані такі фінансові санкції:

1) за проведення діяльності з ведення кредитних історій без ліцензії, одержання якої передбачено цим Законом, - штраф у розмірі до 5000 неоподатковуваних мінімумів доходів громадян;

2) за порушення Бюро законодавства України та нормативно-правових актів Уповноваженого органу - штраф у розмірі до 1000 неоподатковуваних мінімумів доходів громадян;

3) за ухилення від виконання або несвоєчасне виконання письмового застереження Уповноваженого органу - штраф у розмірі до 500 неоподатковуваних мінімумів доходів громадян;

4) за системні порушення прав суб'єктів кредитних історій - відкликання ліцензії та порушення питання про ліквідацію Бюро.

Стаття 17. Професійні об'єднання Бюро

1. Професійні об'єднання Бюро засновуються у формі асоціацій (спілок) на принципах добровільності та діють з метою захисту і представлення інтересів своїх членів, розвитку міжрегіональних і міжнародних зв'язків, забезпечення наукового та інформаційного обміну, професійних інтересів, розроблення рекомендацій щодо діяльності Бюро.

2. Професійні об'єднання Бюро мають право приймати для членів об'єднання правила професійної діяльності Бюро.

3. Професійні об'єднання Бюро можуть здійснювати комерційну діяльність виключно з метою досягнення та відповідно до цілей, для яких вони створювалися.

4. За рішенням Уповноваженого органу професійному об'єднанню Бюро може бути надано статус саморегульованої організації, яка по відношенню до свої членів має право:

здійснювати методичне забезпечення діяльності Бюро;

здійснювати навчання та підвищення кваліфікації фахівців Бюро;

розробляти і впроваджувати правила професійної поведінки фахівців Бюро;

здійснювати інші функції відповідно до статусу саморегульованої організації.

Розділ III. ПРИКІНЦЕВІ ПОЛОЖЕННЯ

1. Цей Закон набирає чинності через шість місяців з дня його опублікування.

2. Юридичні особи, які здійснювали діяльність, передбачену статтею 15 цього Закону, до набрання ним чинності повинні привести її у відповідність з вимогами цього Закону або припинити таку діяльність протягом одного року з дня набрання чинності цим Законом.

3. Внести зміни до таких законів України:

1) статтю 9 Закону України "Про ліцензування певних видів господарської діяльності" (Відомості Верховної Ради України, 2000 р., N 36, ст. 299, N 45, ст. 377; 2001 р., N 11, ст. 45, N 16, ст. 76, N 22, ст. 105; 2002 рік, N 6, ст. 39, N 7, ст. 50, N 17, ст. 121, N 20, ст. 134, N 30, ст. 207, N 31, ст. 214; 2003 р., N 13, ст. 9, N 23, ст. 145, N 36, ст. 276; 2004 р., N 12, ст. 155, N 13, ст. 180, N 15, ст. 228, N 38, ст. 468, N 50, ст. 537; 2005 р., N 4, ст. 106, N 5, ст. 114, N 6, ст. 138, N 9, ст. 183, NN 17 - 19, ст. 267) доповнити пунктом 74 такого змісту:

"74) діяльність, пов'язана із збиранням, обробленням, зберіганням, захистом, використанням інформації, яка складає кредитну історію";

2) у статті 20 Закону України "Про державну реєстрацію юридичних осіб та фізичних осіб - підприємців" (Відомості Верховної Ради України, 2003 р., N 31 - 32, ст. 263):

а) частину другу доповнити абзацом четвертим такого змісту:

"бази даних (сукупність інформації Єдиного державного реєстру в електронному вигляді), для цілей бюро кредитних історій";

б) частину п'яту доповнити другим реченням такого змісту: "Порядок передачі Бюро кредитних історій інформації з Єдиного державного реєстру у форматі бази даних, а також розмір плати за це та інші умови встановлюються спеціально уповноваженим органом з питань державної реєстрації та бюро кредитних історій на підставі договору";

в) частину дев'яту доповнити словами "за винятком передачі даних бюро кредитних історій";

3) частину четверту статті 3 Закону України "Про кредитні спілки" (Відомості Верховної Ради України, 2002 р., N 15, ст. 101) доповнити другим реченням такого змісту: "Кредитна спілка може бути засновником (учасником) юридичної особи, що здійснює збір, оброблення, зберігання, захист та використання інформації про юридичну або фізичну особу щодо виконання нею кредитного правочину";

4) у Законі України "Про державну реєстрацію речових прав на нерухоме майно та їх обмежень" (Відомості Верховної Ради України, 2004 р., N 51, ст. 553; 2005 р., N 10, ст. 194):

а) частину першу статті 28 доповнити абзацом четвертим такого змісту:

"бюро кредитних історій на їх запит щодо інформації Державного реєстру прав, передбаченої частиною першою цієї статті, в електронному вигляді (у форматі бази даних), у разі наявності письмової згоди юридичних, фізичних осіб - власників нерухомого майна";

б) статтю 29 доповнити частиною п'ятою такого змісту:

"5. Порядок передачі бюро кредитних історій інформації з Державного реєстру прав в електронному вигляді (у форматі бази даних), а також розмір плати за це та інші умови встановлюються Кабінетом Міністрів України або за його дорученням Держателем або Адміністратором Державного реєстру прав та Бюро кредитних історій на підставі договору";

5) у Законі України "Про забезпечення вимог кредиторів та реєстрацію обтяжень" (Відомості Верховної Ради України, 2004 р., N 11, ст. 140):

а) частину першу статті 45 доповнити реченням такого змісту: "Держатель Державного реєстру зобов'язаний на запит бюро кредитних історій надавати витяги з Державного реєстру в електронному вигляді (у форматі бази даних), у разі наявності письмової згоди юридичних, фізичних осіб - власників рухомого майна";

б) статтю 46 доповнити частиною третьою такого змісту:

"Порядок передачі Бюро кредитних історій інформації з Державного реєстру в електронному вигляді (у форматі бази даних), а також розмір плати за це та інші умови встановлюються Кабінетом Міністрів України або за його дорученням держателем Державного реєстру та бюро кредитних історій на підставі договору".

4. Кабінету Міністрів України в тримісячний строк з дня опублікування цього Закону визначити Уповноважений орган та створити умови для його функціонування.

5. Кабінету Міністрів України, Національному банку України в шестимісячний строк з дня набрання чинності цим Законом привести свої нормативно-правові акти у відповідність із цим Законом.

6. Уповноваженому органу в тримісячний строк після його визначення Кабінетом Міністрів України розробити нормативно-правові акти відповідно до цього Закону.

Президент України

В. ЮЩЕНКО

**м. Київ
23 червня 2005 року
N 2704-IV**

Пятая ежегодная международная Конференция «Платежная карта 2005»

Проводится: 8-10 июня 2005 года

Организатор: Ассоциация ЕМА, партнер - Центр конгрессов и выставок «ВнешЭкспоБизнес».

Место проведения Конференции и выставки банковского оборудования: Центр конгрессов и выставок «ВнешЭкспоБизнес», г. Киев, ул. Тургеневская, 25

Генеральный спонсор - Visa International

Официальный спонсор - ИНПАС

ОБНОВЛЕННАЯ ПРОГРАММА КОНФЕРЕНЦИИ: темы докладов и докладчики

БЮРО КРЕДИТНЫХ ИСТОРИЙ, КРЕДИТОВАНИЕ

19. 08.45 – 09.00 Вступительные слова: Оргкомитет по созданию Украинского бюро кредитных историй (Борис Тимонькин, Антонина Паламарчук, Александр Карпов).

20. 09.00 – 09.20 Каким образом кредиторы могут принять значимое участие в создании Кредитного Бюро. (Jim Aziz Старший советник Корпорация Прагма).

21. 09.20 – 09.50 Опыт кредитного бюро Турции: как и почему банки в Турции решили совместно использовать информацию на добровольной основе? Каким образом кредитное бюро способствовало развитию финансового сектора. Трудности, с которыми столкнулись на этапе запуска и развития кредитного бюро (KAZIM DERMAN Assistant General Manager "The Power of Data Sharing" Турецкое кредитное бюро)

22. 09.50 – 10.15 Снижение риска кредитных операций при использовании услуг кредитного бюро. Использование преимуществ политики основанной на оценке рисков. (Ahı ATAY Akbank, Turkey).

23. 10.15 – 10.45 Корпоративное управление и системы риск-менеджмента как жизненно важные инструменты для роста кредитного бизнеса на примере карточного кредитования. (Ali Baydas, Garanty Bank, Turkey, The Role of Credit Bureau in GARANTI BANK's Credit Card Processes.

10.45 - 11.00 – кофе брейк

24. 11.00 – 11.25 Содействует ли нормативная база предоставлению точной информации о заемщиках и точности кредитных отчетов? Опыт США: уроки для Украины. Александр Карпов, Ассоциация ЕМА

25. 11.25 - 12.45 Развитие проектов и запуск кредитных бюро в Литве, Грузии, Чехии, Румынии, Казахстане. Уроки для Украины. КредитИнфо (Исландия) Tomas Denemark, Regional manager, Aieti Kukava, General Manager-NCIB, Creditinfo Georgia Case for Georgia:

Lessons learned & outlook Board Member, Anvar, "First Credit Bureau", Director KAZAKHSTAN Conducive Environment in Kazakhstan for Data Sharing.

26. 12.45 - 13.00 Проблемы создания Бюро кредитных историй в Украине: Международный опыт: уроки для Украины. Евгений Невмержицкий, Ассоциация ЕМА.

13.00 - 14.00 - Обед

27. 14.00 - 14.30 Особенности деятельности кредитных бюро для рынка кредитования частных клиентов, малого и среднего бизнеса. Перспективы развития УБКИ с использованием опыта США и других стран. Кредитование предприятий малого и среднего бизнеса в розничном банке. Leon Chee Director, Credit Bureau Solutions, Dun & Bradstreet (S) Pte Ltd Credit Bureau – A Unique Risks and Opportunities Management Tool

28. 14.30 - 15.00 Как эффективно разрабатывать и использовать кредитный скоринг? Скоринг заявлений и использование внутри банковской информации для оценки клиента. Перспективы использования кредитного скоринга как продукта кредитного бюро. Джон Хедлоу Experian (UK)

29. 15.00 - 15.30 Информационная безопасность как основа деятельности кредитного бюро. Почему кредиторы и субъекты кредитных историй доверяют Бюро? (Джон Хедлоу Experian (UK).

30. 15.30 - 16.00 Развитие кредитного бюро: от концепции до начала реальной работы.

(Javier Piedra Советник Корпорация Прагма). 30 минут.

16.00 - 16.20 – кофе брейк

ЭФФЕКТИВНОСТЬ И КОНКУРЕНТОСПОСОБНОСТЬ БАНКА

31. 16.20 – 16.50 Андрей Фомичев, Компания «Центр Финансовых Технологий» Директор по работе с клиентами, «Инновационные решения для повышения эффективности и конкурентоспособности банка».

32. 16.50 – 17.10 Елена Чернышова, Компания «Центр Финансовых Технологий», Заместитель директора по работе с клиентами, «Новый подход к построению инфраструктуры банковского обслуживания».

33. 17. 10 – 17.20 Дмитрий Андикаловский, исполнительный директор Сети "СтранаЭкспресс". "Развитие розничного бизнеса современного банка на базе проекта Сеть "СтранаЭкспресс".

34. 17.20 – 17.40 Василий Волынский, Банковский Производственный Центр, Директор по продажам, "Клиенто-ориентированный подход к построению инфраструктуры розничного банка. Технологии самообслуживания".

35. 17.40 – 18.00 SSI KIOSK MASTER – система приема платежей с использованием устройств самообслуживания Сергей Козлов, начальник департамента сенсорных систем компании SSI.

36. 18.00 – 18.20 Роман Матусевич, Компания «Центр Финансовых Технологий», директор по развитию Системы мобильных платежей SimMP. "Услуги банка в мобильном телефоне: опыт SimMP" .

Круглый стол для руководителей Украинских банков с участием организаторов, оргкомитета и представителей ведущих кредитных бюро.

16.15 – 18.45

Вопросы:

1. Значение участия заграничного партнера в создании и работе Бюро и возможные формы участия в капитале Бюро, в технической помощи и системной интеграции. Лучшая мировая практика по вопросам управления Бюро. КБ Модераторы: Jim Aziz, Александр Карпов, Антонина Паламарчук.
2. Расширение акционеров /пользователей Бюро за счет представителей небанковского сектору: страховые компании, кредитные союзы, лизинговые компании, операторы мобильной связи и т.п. КБ Модераторы: Jim Aziz, Александр Карпов
3. На каких условиях банки/другие пользователи и бюро фактически начнут обмениваться информацией: психологические, организационный и технологический вопросы. Модераторы: Jim Aziz, Александр Карпов
4. Обеспечение защиты информации как ключевое условие деятельности БЮРО: технические и юридические особенности. Модераторы: (Джон Хедлоу), юридическая корректность (Александр Карпов).
5. Государственные реестры и иные публичные источники информации, будут ли они источником для первых продуктов Бюро, и каких? Модератор: (Александр Карпов).