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ACCESS TO CREDIT INITIATIVE

UKRAINE & MOLDOVA

NINETEENTH QUARTERLY REPORT – UKRAINE

April 1 – June 30, 2009

Contract Number: I21-C-00-04-00713

July 30, 2009

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- ATTACHMENT 2:** Notes from Paris World Bank Seminar
- ATTACHMENT 3:** German Advisory Group Report - How to develop a public debt market for retail investors.
- ATTACHMENT 4:** IRPF Trip Report, Norman Flynn, President & CEO IRPF, June 27-July 1, 2009
- ATTACHMENT 5:** Cabmin Resolution No. 363 On Introduction of the Primary Dealers Institute in the Government Securities Market of Ukraine dated April 14, 2009
- ATTACHMENT 6:** Schedule of domestic government bond placements in May - July, 2009
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UKRAINE (Nineteenth Quarterly)

A. PROJECT OVERVIEW - Ukraine

I. PROJECT DESCRIPTION – EXECUTIVE SUMMARY UKRAINE

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/credit rating 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 October 2006, the ATCI contract was amended to include development of fixed-income operations in Ukraine. Additionally, ATCI Activities were expanded to include Moldova. (NOTE: ATCI Moldova completion date was February 28, 2009)

The significant change in this Quarter, April 24, 2009, was the addition of the DCOP, **Dennis Grubb** to assist COP **Rick Dvorin** who assumed all administrative and managerial responsibilities, while performing technical assistance where and when possible, e.g., in the area of developing the domestic government bond market, after Senior Advisor and ex-COP **David Lucterhand** left the project last quarter.

Dennis Grubb, in addition to administrative duties assigned by the COP, will provide expert consultation government securities, municipal finance, leasing and mortgage finance.

ATCI is cooperating with numerous counterparts, including the USAID/World Bank PTAP (Programmatic Technical Assistance Partnership) and may sign 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 Quarter (April - June 30, 2009) include the sustainability of activities relating to the Fixed Income component, more specifically to “Assist GOU and NBU in constructing a long-term government yield curve in Ukraine”. There are several factors and activities needed to fulfill this goal, including cooperation with and from the GOU and NBU. In addition, such basics as (1) issuing domestic government bonds at market; (2) establishing a network of Primary Dealers, and (3) developing a Repo/reverse repo market are all necessary.

This activity will be under the direction of Mr. **Paul Roberti**, Government Bond expert who has joined the project for the duration, along with Vladimir Vysotskyi, ATCI Senior Advisor Fixed Income.

In addition, another priority for activities relates to establishing Risk Management criteria for the SMI and UNIA and their members. This will be under the direction of Mr. **Steve Moody**, former Country Director for ATCI in Moldova who has joined the project July 6th through September.

The project update for this quarterly report will correspond to the activities set forth in the ATCI Work Plan.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – EXECUTIVE SUMMARY UKRAINE

- ATCI ACTIVITIES IN THE DEVELOPMENT OF THE DOMESTIC GOVERNMENT BOND MARKET DOMINATED THIS QUARTERS' ACTIVITIES WITH PRESENTATION OF THE AKK (HUNGARIAN DEBT MANAGEMENT AGENCY) FINAL REPORT TO THE MINFIN AND MINFIN CONDUCTING MARKET RATE AUCTIONS FOR DOMESTIC 3-MONTH (UAH 50 MILLION) AND 3-YEAR UAH 5 MILLION BONDS ON MAY 14, 2009. THE PILOT PROGRAM FOR THESE MARKET RATE AUCTIONS DEVELOPED BY ATCI WILL BE CONTINUED THROUGH JULY 2009 AND BEYOND WITH MARKET RATE AUCTIONS HELD EVERY MONDAY. PLEASE REFER TO **GOVERNMENT BONDS FIXED INCOME** COMPONENT FOR ADDITIONAL DETAILS.
- DURING THIS QUARTER (APRIL 16), ATCI CONTRIBUTED TO THE DISCUSSIONS ON THE OVERARCHING ISSUE OF THE UKRAINE FINANCIAL CRISIS BY PARTICIPATION IN **THE ROUND TABLE DISCUSSION OF PROVISIONS OF THE BUDGET CODE AT IBSER**. THE ROUND TABLE IS A PARTNERSHIP BETWEEN BANKS AND LOCAL GOVERNMENTS DISCUSSING WAYS TO OVERCOME THE ECONOMIC CRISIS.
- ATCI, ACCORDING TO ITS PROTOCOL AGREEMENT AS THE PROVIDER OF INTERNATIONAL TECHNICAL ASSISTANCE, ASSISTS THE DEBUT OF MUNICIPAL BOND ISSUED BY THE CITY OF ENERODAR. THE PLACEMENT OF THE BONDS IS SCHEDULED TO TAKE PLACE IN SEPTEMBER-OCTOBER, 2009 AND ATCI CONTINUES A HIGH LEVEL OF TECHNICAL ASSISTANCE TO THE CITY. PLEASE REFER TO THE **MUNICIPAL BOND** COMPONENT FOR ADDITIONAL DETAILS.
- ATCI CONTINUED WORKING AND PROVIDING TECHNICAL ASSISTANCE TO THE STATE MORTGAGE INSTITUTION (SMI) ON THE PLACEMENT OF THE INSTITUTIONS' BONDS WITH A STATE GUARANTEE. THE BONDS WERE ISSUED ON JUNE 19, 2009 AND OFFERED ON THE PFTS STOCK EXCHANGE. THE ISSUE ORIGINALLY SCHEDULED FOR FEBRUARY IS TO FINANCE CONSTRUCTION OF NEARLY-COMPLETED RESIDENTIAL REAL ESTATE. PLEASE REFER TO THE **MORTGAGE FINANCE** COMPONENT FOR ADDITIONAL DETAILS.
- ATCI CONTINUES TO ASSIST THE DEVELOPMENT OF THE LEASING INDUSTRY BY CONTINUED PREPARATION OF PROFESSIONALS THROUGH THE CERTIFIED LEASING SPECIALIST PROGRAM. USAID AND ATCI CONDUCTED AN AWARDS CEREMONY FOR NINE NEW GRADUATES ON JUNE 30, 2009. PLEASE REFER TO THE **LEASING COMPONENT** FOR ADDITIONAL DETAILS.
- ATCI, WORKING WITH ITS LOCAL PARTNER THE UKRAINIAN LEAGUE OF INDUSTRIALISTS AND ENTREPRENEURS, ADVISED AND WORKED CLOSELY WITH THE SSMSC ON THE NEED TO ABOLISH THE MANDATORY REQUIREMENTS ON BOND ISSUERS TO OBTAIN A CREDIT RATING. ON JUNE 5, 2009 THE SSMSC, SHORTLY AFTER THE APPOINTMENT OF MR. S. PETRASHKO AS THE NEW CHAIRMAN ON JUNE 3, 2009, ADOPTED A RESOLUTION ON ABOLISHING MANDATORY CREDIT RATING ON BOND

ISSUANCE. PLEASE REFER TO THE **FIXED INCOME** COMPONENT FOR ADDITIONAL DETAILS.

- ATCI CONTINUES TO WORK ON THE ISSUES WITH REGARD TO CREDIT BUREAUS AND COLLECTION AGENCIES AND IN APRIL 2009 ATCI CONTRIBUTED TO DRAFTING THE LAW ON COLLECTION AGENCIES AT THE 4TH WORKING GROUP MEETING AT THE MINISTRY OF JUSTICE. PLEASE REFER TO THE **CREDIT BUREAU/CREDIT RATING** COMPONENT FOR ADDITIONAL DETAILS.
- ATCI CONTINUES TO MAINTAIN A STAFF THAT INCLUDES MEN AND WOMEN WITH PROFESSIONAL AND TECHNICAL SKILLS IN FINANCE AND LAW. ALL PROJECT TRAINING STRIVES FOR AN EVEN BALANCE OF MEN AND WOMEN.

Special Mention:

- ON JUNE 5, 2009 ATCI TEAM MANAGEMENT, RICK DVORIN, COP AND DENNIS GRUBB, DCOP PRESENTED A QUARTERLY REVIEW POWERPOINT PRESENTATION (SEE **ATTACHMENT 1**) TO THE USAID COTR, NATALIA BEREZHNA AT THE ATCI OFFICES.
- JUNE 8-12, 2009 THE ATCI PROJECT FUNDED THE PARTICIPATION BY POLYNA YAROVA, HEAD OF SOVEREIGN DEBT PLANNING, ACCOUNTING AND MONITORING SECTION, MOF TETYANA KOVAL, SENIOR ECONOMIST, SOVEREIGN DEBT STRATEGY AND MANAGEMENT SECTION, MOF AND ATCI'S SENIOR DEBT EXPERT, VOLODYMYR VYSOTSKYI, IN THE WORLD BANK WORKSHOP ON IMPLEMENTING GOVERNMENT DEBT MANAGEMENT STRATEGIES WHICH WAS HELD IN PARIS. THIS EVENT ALLOWED MOF PERSONNEL TO GAIN THEORETICAL KNOWLEDGE AND PRACTICE ON IMPLEMENTATION OF THE GOVERNMENT DEBT MANAGEMENT STRATEGIES BY OTHER EUROPEAN COUNTRIES (SEE **ATTACHMENT 2**).
- ON JUNE 18TH 2009, ATCI DISCUSSES RETAIL GOVERNMENT SAVINGS BOND INITIATIVE WITH GERMAN CONSULTATIVE GROUP ON ECONOMIC REFORMS WITH MR. RICARDO GIUCCI, TEAM LEADER, AND MR. ROBERT KIRCHNER, GERMAN CONSULTATIVE GROUP ON ECONOMIC REFORMS. THE CABMIN AND PM, AS PART OF THE EXTERNAL DEBT INITIATIVE ARE INTERESTED IN POPULARIZING THE SALE OF RETAIL GOVERNMENT DEBT BONDS AS A SAVINGS AND INVESTMENT VEHICLE FOR INDIVIDUALS. GAG IS PREPARING A REPORT FOR PM (**ATTACHMENT 3**, DRAFT DATED JULY 7, 2009). ATCI WILL RECEIVE THE FINAL REPORT FOR REVIEW.
- ON JUNE 23, 2009, ATCI SHARES THE PROGRESS OF THE GOVERNMENT SECURITIES DEVELOPMENT PROGRAM WITH JOHN FAWTHROP AND MICHAEL HEWITT OF THE EU-FUNDED *STRENGTHENING OF UKRAINIAN FINANCIAL SERVICES SECTOR PROJECT*. THE EU PROJECT HAS WITHIN ITS PORTFOLIO THE DEVELOPMENT OF THE UKRAINIAN GOVERNMENT SECURITIES MARKET, PERHAPS EU PROJECT COULD CARRY ON NEEDED ACTIVITIES AFTER PROJECT END DATE. IN ADDITION ON JUNE 25, 2009 USAID RELEASES RFP (FINREP) FOR SEGIR/GBTI IQC HOLDERS. THIS RFP SUPPORTS THE DEVELOPMENT OF THE GOVERNMENT BONDS MARKET IN UKRAINE AS A MAJOR COMPONENT AREA AND IS SCHEDULED TO START IN OCTOBER 2009.

- ON JUNE 25, 2009 ATCI UPDATES DEVELOPMENT OF GOVERNMENT BOND MARKET WITH IMF MISSION REPRESENTATIVES MAX ALIER, IMF UKRAINE REP; SERKAN ARSLANALP, IMF ECONOMIST; LAURENT MOULIN, IMF ECONOMIST. ATCI REVIEWED THE DEVELOPMENTS IN THE DOMESTIC GOVERNMENT BOND MARKET, IN PARTICULAR THE LATEST MARKET-RATE AUCTION RESULTS, THE LATEST INFORMATION POSTED ON THE NBU AND MOF WEB SITES, THE INTERNATIONAL EXPOSURE OF UKRAINIAN GOVERNMENT BOND MARKET, THE NEED TO INSTITUTIONALIZE THE PRIMARY DEALER (PD) SYSTEM, AND BONDS AS A SAVINGS INSTRUMENT FOR RETAIL INVESTORS. IMF SEEMED TO BE PLEASED IN THE PROGRESS OF DEVELOPMENT; CONCERNED THAT THERE IS MUCH MORE WORK TO BE DONE AND ATCI PROJECT CLOSING IN SEPTEMBER.
- ON JUNE 27 - JULY 1, 2009 ATCI CONTINUED ITS SUPPORT OF THE IRPF (INTERNATIONAL REAL PROPERTY FOUNDATION) PROJECT AND COLLABORATION FOR THE UKRAINIAN REALTORS ASSOCIATION. IN PARTICULAR, ATCI HAS BEEN ASKED TO ASSIST THE IRPF PROJECT DATA COLLECTION PROJECT UNDER THE SUPERVISION OF THE UNIVERSITY OF SOUTHERN CALIFORNIA. MS. KATHRYN OWENS, PHD CANDIDATE IS CONDUCTING THE DATA COLLECTION AND VISITED UKRAINE WITH NORMAN FLYNN, PRESIDENT & CEO OF THE IRPF (SEE **ATTACHMENT # 4**).

III. PROJECT EXECUTIVE SUMMARY – EXECUTIVE SUMMARY UKRAINE

Mortgage

Primary Market

ATCI and UNIA are planning for a revised and shortened CML training program to meet the needs of the market and to become sustainable as a program both technically and financially through UNIA. CML training will continue to be on a fee-paid basis, but with a shortened program, fees should be less. UNIA had sent invitations to its CML training program in the first quarter, however, mainly due to a greatly decreased Activity in mortgages along with cuts in staffing, UNIA had to postpone the training with a lack of responses.

UNIA and ATCI continue efforts with pilot data for the index construction that it received from selected banks. ATCI requested UNIA to compliment the data with the number of the deals in the secondary market to be able to finish construction of the pilot index. To date, the index is still under construction awaiting more and complete information.

ATCI continues to receive positive feed back on conferences held previously with UNIA, “Estimation of losses from mortgage defaults according to Basel II”, and “Government Policy in Housing Finance.”

Secondary Market

State Mortgage Institution (SMI)

In this quarter, ATCI continued working and providing technical assistance to the State Mortgage Institution (SMI) on the placement of the institutions bonds with a state guarantee. The bond issued on June 19, 2009 was a corporate bond of series A and G worth UAH 50 million (original issue amount 200 UAH) were placed ahead of schedule and listed on PFTS Stock Exchange in the second tier. The issue originally scheduled for February is to finance construction of nearly-completed residential real estate.

In April, ATCI met with top SMI (State Mortgage Institution) executive to discuss the placement of SMI bonds. In the meeting with Mr. Serhiy Volkov, Deputy Chairman, ATCI and SMI discussed two methods of placement for SMI bonds guaranteed by the Cabinet of Ministers in the situation of low banks liquidity - placement “in exchange” for demand rights on non-standard mortgage loans, and placement via “exchanging” the bonds for banks’ mortgage bonds.

SMI prospective UAH 1 bn bond issue was supported by the government at the end of 2008. In the present-day situation, SMI can not conduct long-term borrowing as it usually acted - via public placement - to perform its main goal. SMI needs to seek after alternates to public ways of bond placement. SMI might swap its government guaranteed bonds for banks’ mortgage bonds on repo terms.

ATCI and SMI discussed two schemes of placement: the one suggested by ATCI and the one developed by SMI. The discussion revealed that SMI’s scheme has neither the object of property right transfer, nor the pledge, and consequently can not be used for the placement. The scheme eventually is a financial loan that is not secured by pledge according to definition of the Law of Ukraine “On Financial Services and State Regulation of the Market for Financial Services.”

ATCI and SMI agreed to continue improving the scheme of placement.

At the end of May, ATCI met with SMI managers to help with placement of SMI Bonds and increasing liquidity of banks. In the meeting with Mr. S. Svyatko, First SMI Deputy Chairman, views were exchanged on what needs to be done by ATCI to help SMI place the bonds; ATCI presented the scheme of placement of SMI bonds vs the scheme that SMI developed earlier.

Pilot Issues

After the Verkhovna Rada rejected the amendments to the mortgage Bond Law in the first quarter (by a narrow margin) included in the Cabinet of Ministers' Anti-crisis Program of Activities for 2009, ATCI is considering approaches for re-introduction and ATCI continues its work on draft amendments to the Mortgage Bond Law. Jointly with the Audit Task Force under the SSMSC, ATCI submitted draft amendments regarding agreed upon procedures to the SSMSC's 1528 Regulation on Audit Reports. SSMSC published for public discussion draft amendments regarding agreed upon procedures to the SSMSC's 1528 regulation on Audit Reports.

Associated Market Infrastructure

Life Insurance Products

In past quarters, ATCI conducted a survey and analyzed mortgage-related life insurance within the associated infrastructure for goals to protect and to aid (prospective) homeowners. The analysis showed that term-life insurance is offered in 8 banks of the 20 banks polled. Based on this analysis, ATCI concluded that term-life insurance is already developed in the market, but is not yet fully offered through the mortgage companies.

Appraisals and Real Estate Associations

The text book on international standards of appraisal released has now been translated; the book will be used as the main course material as well examination basis for appraisers. ATCI worked on the translation of the text.

Norm Flynn returned (June 27, 2009) to Ukraine for further efforts in completing the merger between the real estate associations and in finalizing appraisal course work. In addition, the IRPF and ATCI are considering assisting the Ukrainian Real Estate Association to develop a single Ukrainian data base of completed real estate transactions. The database would serve to provide information on the real estate market, to stimulate transparency, to optimize business processes, to assist in developing a qualitative marketing strategy, and contribute to the analysis of the Ukrainian real estate market competitiveness.

Fixed Income

Historically, ATCI began to concentrate on developing a long-term government yield curve for Ukraine in winter 2006.

In order to assist the MOF in these developments of the domestic government bond and repo markets, ATCI contracted the technical assistance of AKK, the Debt Management Agency of Hungary in the first quarter of 2009. The key professionals of AKK have had prior experience working in Ukraine and working with the MOF of Ukraine as well. AKK work with ATCI in Ukraine began in January 2009. ATCI arranged meetings for AKK with many of the key counterparts and participants in the government bond market,

attended these meetings, and also attended and contributed in presentations to the Deputy Ministers of Finance. Presentations focused on the findings of the AKK team along with making recommendations as to what is needed for development of the domestic government bond market in Ukraine.

Among the possible solutions and other recommendations, AKK states:

- Auctions to be held using Market Pricing;
- Set up the Primary Dealer system, minimum 6 and maximum 16 PDs;
- Start with short maturities in small amounts;
- Issue domestic government securities to attract domestic savings and ‘mattress money’;
- Develop other segments of the financial market, e.g., mutual and pension funds; insurance companies, to create demand for government securities; and
- Set up an investor relations department within the MOF to improve international and domestic perceptions of the government securities market.

Subsequent to a meeting and a summary presentation of the AKK findings to Deputy Minister of Finance Kravets and recommendations developed by the AKK experts regarding the needs for further development of the domestic government bond market. Mr. Kravets agreed with the findings and the need to start pilot issuance of domestic government bonds; ATCI provided a plan for the pilot issuance program for issuance of domestic government bonds at market rates, thus the start of the structure for the yield curve.

ATCI activities in the development of the domestic government bond market dominated this quarter’s activities with the MinFin conducting market rate auctions for domestic 3 month (UAH 50 million) and 3 year UAH 5 million bonds on May 14, 2009. The pilot program for these market rate auctions developed by ATCI will be continued with market rate auctions held every Monday..

The significant ATCI tasks during the Nineteenth Quarter (April-June 30) include:

Beginning April 1, 2009, ATCI and MinFin discussed practical steps to be taken to introduce primary dealer system and ATCI presented the plan (including establishing a working group) of introduction of the primary dealer (PD) system in Ukraine to the Ministry. ATCI introduced Mr. Paul Roberti, a US expert on government debt and former US Treasury advisor in Georgia from 2001-2004. ATCI also offered help in revision of the Decree on Retail Treasury Bills.

ATCI experts met with potential exchanges (for trading government bonds in the secondary market) to determine readiness for government bond trading and discusses E-Trading with Ukraine’s Exchanges. Meetings were held with PFTS and UICE. ATCI discussed a platform for e-trading; demonstrated software for electronic trading. ATCI will compare Ukrainian exchanges’ systems, analyze their ‘pros’ and ‘cons’, and develop recommendations for the Ministry of Finance regarding secondary market trading of government bonds.

As part of the SOW or the ACTI Government Bond expert, ATCI directed the Sovereign Debt Management department of MOF in necessary activities for public relations, information disclosure, and transparency needs for participants and investors in domestic government bond market. ATCI described and presented a comprehensive plan for public relations and marketing to the Chief of Information Support Sector of the Government Debt Management Department. Transparency and information distribution is needed pre-auctions and post-auctions, with efficient methods of distribution.

On May 25, 2009 MOF conducted the 3rd auction at market rates for domestic government debt securities, raising over UAH 500 million financing for budget. MOF's latest auctions on May 25 included those for 3-month, 1-year, and 3-year debt securities, with the greatest funds raised in the 3-month series, over UAH 46 million, or approx. \$60 million. This recent auction follows the MOF's pre-announced calendar of government debt auctions, and the auctions are conducted at market rates. The development of the domestic government bond market is on its way with these weekly auctions; next is to develop the secondary market, with 2-sided quotes being continuously made by Primary Dealers (PD). The formality of setting up the Primary Dealer (PD) system is in the works with the anticipation of the formal introduction of the PD network to be done during the latter part of the next quarter.

ATCI continued to further the domestic government bond market development by assisting the Ministry of Finance in technical matters, and public awareness and education and continues to discuss the further steps in development of the domestic government bond market, including meetings with banks – potential primary dealers, as well as public awareness and education needs relating to auctions and investments in government securities (including publication of auction results, based on international practice).

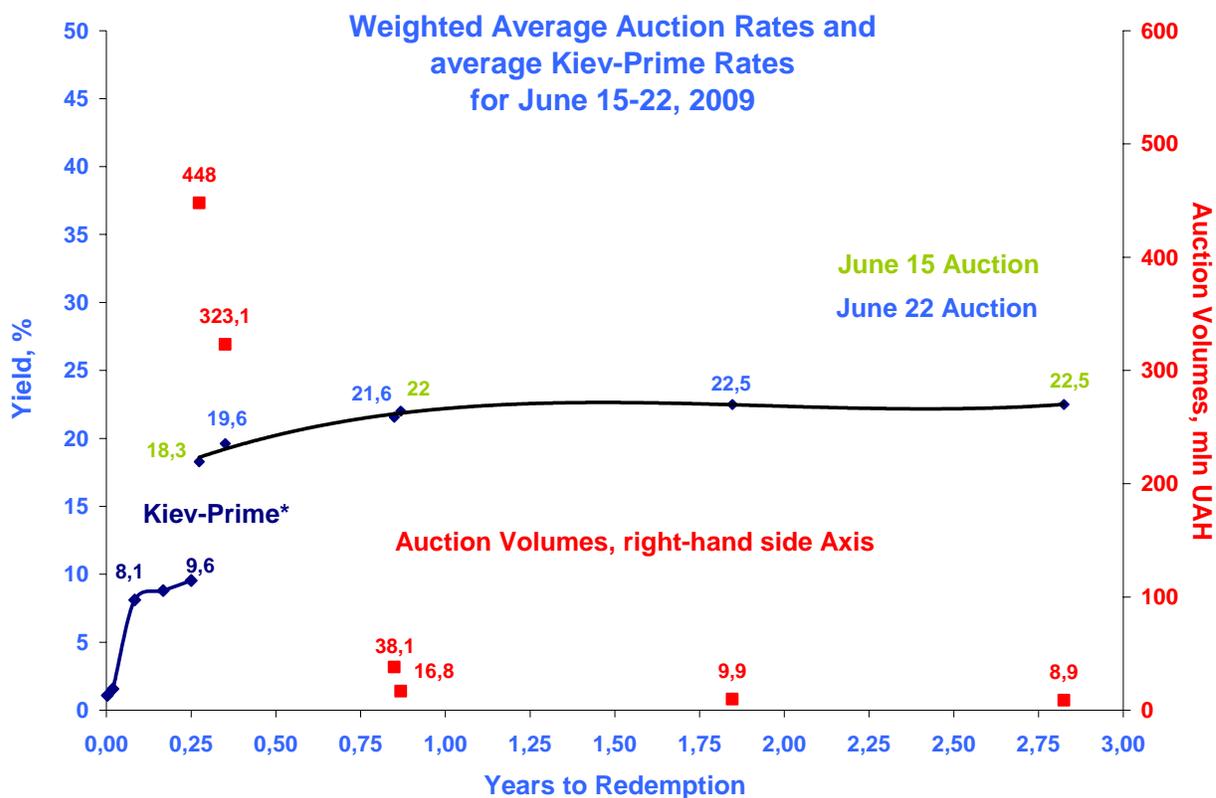
On June 2, ATCI discussed with banks and the Ministry of Finance the introduction of the primary dealer system for further development of government bond market. The meeting with representatives of banks – potential dealers – was held at an exchange. Discussed was the introduction and implementation of PD's, with agreement to have follow-up meetings with banks on an individual basis to further their interest in to entice them to apply for primary dealership.

During the month of June, ATCI continued analysis of banks as potential primary dealers in order to establish the PD System in Ukraine. ATCI held discussions for cooperation between Ministry of Finance and the National Bank in terms of secondary market organization (including frequent changes in NBU regulations on refinancing); REPO transactions; recent purchases of government bonds; use of a sliding scale based on maturity.

ATCI discussed further development of the government securities market with NBU with Ms. Natalya Hrebenyk, Member of the Board, Monetary Policy Department Director. ACTI discussed government securities as a percentage of required reserves; expanded use of government securities in monetary policy; increased information flow on secondary market activity; and government securities as retail savings bonds.

Throughout this quarter, April 1-June 30, 2009, ATCI has continued to draft many documents including draft procedures on reverse repurchase (repo) transactions; draft resolution on Primary Dealers; draft procedure on selection of PD's and draft standard agreement between the MOF and PD's.

ATCI organized a meeting with Max Alier, Resident IMF Representative, discussing the status of the development of the domestic government bond market with to gain additional support. Discussed were the current state of the government securities market in Ukraine and the bottlenecks in its development; Mr. Alier agreed that the Ministry of Finance should adopt market rates and implement one-stage auctions, use repo tools, and he supported this market advancement by means of market-making services and primary market operations.



*KievPrime is an independent reference rate calculated daily by Reuters based on offered inter-bank deposit rates in UAH as quoted by leading participants in the Ukrainian money market (Calyon Bank Ukraine, Citibank Ukraine, Erste Bank Ukraine, ING Bank Ukraine, Raiffeisen Bank Aval, Ukreximbank, UkrSibbank, and UkrSotsbank).

Municipal Finance

In this quarter, ATCI assisted the Debut of Municipal Bond issue by the City of Energodar. The placement of the bonds is expected to take place in September-October, 2009; ACTI continues a high level of technical assistance to the City.

In April, ATCI requests the assistance by Association of Ukrainian Cities (AUC) in promotion of draft amendments to the Budget Code, assisting municipalities with access to credit markets. ATCI was asked to concentrate on local budgets and draft amendments, compile explanatory notes to each draft by April 20. In all, these draft amendments will make it easier and more efficiently for municipalities to access credit markets.

ATCI also discussed Amendments to CabMin's Resolution No. 207 on Municipal Borrowing with Odessa City Council Executives at a meeting with Mr. Gennadyi Nechayevskiy, Head of the Department for Funding and Securities, Odessa City Council on April 23, 2009. The significance of the discussion related to the technical difficulty of accounting on Treasury accounts for municipal and domestic government bonds purchased in reverse Repo transactions because of the Treasury's limited software capabilities. ATCI recommended to the Ministry of Finance that they should use only historic rather than forecasted interest rates, exchange rates and capital budget revenues to exclude subjectivism. As next steps, participants agreed to carry on promotion of amendments to the Regulation 207 through AUC, IBSEER and Ministry of Finance. ATCI sent draft amendments and explanatory note to the Regulation 207 with editions based on the meeting results to Mr. Nechayevskiy, the Ministry of Finance, AUC and IBSEER. The participants decided to

address the technical problem of accounting bonds purchased in reverse Repo transactions on Treasury accounts.

ATCI continued to provide technical assistance to the City of Lviv, as it decided to issue UAH 300 mln. bond in 2009 in preparation for EURO-2012 Football Championship. ATCI advised the city on their draft City Council resolution on making borrowing, current interest rates, and bond characteristics (registered/bearer bond, call option/no options).

ATCI continued to develop its initiative on introducing amendments to the SMSSC Regulation 414 providing for a possibility of primary placement of interest-bearing municipal bonds below par, if those bonds are placed publicly at a stock exchange. This would allow cities to place their bonds in a significantly changeable capital market, where interest rates can increase in between approval of the decision of the City Council and market placement of municipal bonds. Ministry of Finance needs several letters supporting this idea from Ukrainian cities in order to appeal to the SSMSC to change its regulation. ATCI's relevant proposals were included to the Address of the Municipal Energy Saving Round Table to Ukrainian authorities.

- The Budget Committee of the Verkhovna Rada is preparing draft amendments to the Budget Code for the second reading. ATCI developed proposals to the draft amendments which are aimed to simplify local borrowings within the crises environment.

ATCI started initiatives and continues to advise client municipalities, on a pilot basis, municipal Repo transactions with domestic government bonds and municipal bonds of own issuance, as provided by the Article 18 of the Law On State Budget of Ukraine for 2009. This is the result the Cabinet of Ministers adopted Resolution #52 "On Approval of the Procedure for Placement in 2009 of Temporarily Free Funds of Local Budgets in Deposit Accounts in the Banking Institutions" which obliges municipalities to place their treasury balances exclusively in state-owned banks

As of March 1, 2009, UAH 400 mln were not repaid to cities by commercial banks after deposits' maturities. Due to such situations, ATCI started initiatives on pilot municipal Repo transactions with domestic government bonds and municipal bonds of own issuance, as provided by the Article 18 of the Law On State Budget of Ukraine for 2009.

Leasing

On June 30, USAID and ATCI conducted a Certified Lease Specialist certificates award ceremony for the newest CLS graduates; the 5th General Meeting of the NGO Certified Lease Specialist Union was held immediately thereafter. Paul Richardson, Director OEG, USAID Ukraine, awarded certificates. With the CLS certificates presented to the 9 recent CLS graduates, CLS now totals 104 in Ukraine.

On July 8, 2009, ATCI is planning to initiate distribution of the Leasing Manual at a Manual Launch ceremony. The Leasing Manual has been a major effort of the ACTI project for the last three years. ACTI staff acted as the publishing house for the book, editing, and translating the Manual's content. The Manual will be distributed to leasing companies working in Ukraine, institutes and universities, and Leasing NGO members – Certified Leasing Specialists.

On May 28th, ATCI joined efforts with UUIE and Leasing Association to raise awareness of government officials about Leasing by conducting a workshop on leasing for government officials. The workshop focused on and discussed the outstanding problems in the leasing market development in current reduced economic circumstances. A major topic of concern is taxation and amendments to tax laws effecting leasing

companies. The audience was represented by decision- and legal initiatives makers, experts who analyze draft laws, representatives of the National Bank of Ukraine, State Tax Administration, Ministry of Finance, Ministry of Economy, etc.

ATCI is currently in communications with the CLPF for the transfer of the CLS license which is anticipated to take place during the early part of the next quarter, as soon as paperwork is transmitted, signed, and exchanged.

Credit Bureau/Credit Rating

Credit Bureau

ATCI contributed to the drafting of the Law on Collection Agencies, through the 4th Working Group meeting at the Ministry of Justice.

ATCI continued to provide on-going consultancy to ensure compliance with international standards of best practice during the development phase of a credit reporting system, and to provide advice to the overall market with respect to data sharing and the reduction of data fragmentation. In addition, ATCI performed monitoring of the credit bureaus' problems in condition of crisis of the financial market.

With the transfer of regulatory authority over credit bureaus from the MinJust to the Financial Services Authority, ATCI is planning to meet with the FSR's Chairman next quarter to discuss the need and best practice for monitoring credit bureaus' activities.

Credit Rating

On June 5, new Chairman of the SSMSC (Securities Commission) declared the elimination of the mandatory requirement for credit ratings. On June 15, 2009, ATCI met with SSMSC Chairman Serhiy Petrashko to facilitate more efficient practices for issuance and trading of municipal, corporate, and government debt securities. At the meeting ATCI and SSMSC discussed:

- cancellation of requirement for mandatory credit rating; SSMSC Chairman has already declared this requirement cancelled, but need to amend laws effected by this cancelled requirement;
- cancellation of prohibition on placement of municipal bonds below par; concluded that there is no final resolution of the Ministry of Finance on the issue, so ATCI will work the Ministry of Finance to produce a letter to the Commission and the MOF for this cancellation of the prohibition;
- REPO operations; concluded that only one stock exchange meets CabMin's requirements as to REPO operations, recalled the concern expressed by potential primary dealers regarding the monopoly in the market and thus inefficiencies as to eventual pricings to customers.

Gender

Through the training Activities of the CML and CLS programs developed by ATCI, to date there are a total of 217 certified mortgage (through CML) and leasing (through CLS) professionals in Ukraine; 110 (51%) are women.

Through similar training Activities in Moldova via the ATCI project, there were a total of 131 certified mortgage and leasing professionals; 82 (63%) are women.

IV. PROJECT STAFFING – EXECUTIVE SUMMARY UKRAINE

The following personnel were engaged in project activities this quarter:

- Rick Dvorin, Chief of Party
- Dennis Grubb, DCOP
- Paul Roberti, Government Bond Expert
- Steve Moody, Risk Management Expert
- Norman Flynn, IRPF Consultant

V. ADMINISTRATIVE ISSUES – EXECUTIVE SUMMARY UKRAINE

Dennis Grubb assumed duties of DCOP, April 24, 2009 and will serve in that capacity to project end date September 30, 2009. **Dennis** will assist COP **Rick Dvorin** who assumed all administrative and managerial responsibilities, after Senior Advisor and ex-COP **David Lucterhand** left the project last quarter.

ATCI had received a waiver from USAID to employ AKK, The Debt Management Office of Hungary, as an advisor last quarter. AKK submitted its Final Report this quarter; ATCI presented highlights from this Final Report to the MOF this quarter.

LIST OF ATTACHMENTS

ATTACHMENT 1: The Access to Credit Initiative Quarterly Review presented June 5, 2009 to COTR Natalia Berezhna

ATTACHMENT 2: Notes from Paris World Bank Seminar

ATTACHMENT 3: German Advisory Group Report - How to develop a public debt market for retail investors.

ATTACHMENT 4: IRPF Trip Report, Norman Flynn, President & CEO IRPF, June 27-July 1, 2009

B. MORTGAGE - Ukraine

I. COMPONENT DESCRIPTION – MORTGAGE UKRAINE

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 through June 30, 2009.

The primary purpose of the ATCI mortgage component 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 – MORTGAGE UKRAINE

- ATCI INTRODUCED TO SMI 'THE TIED PRIVATE PLACEMENT SCHEME OF THE SMI BONDS'. THAT SCHEME OFFERED TO USE THE MORTGAGE ASSETS OF THE COMMERCIAL BANKS FOR REFINANCING BY THE BONDS OF SMI. THE SCHEME WAS INTRODUCED TO THE PRIME MINISTER'S ADVISER MR. SHEVCHENKO AS WELL AS TO NBU AT THE CONFERENCE 'ON BANK FOR TOXIC ASSETS'
- ATCI PARTICIPATED AT THE ANNUAL CONFERENCE OF UNIA WHICH WAS HELD ON 12TH OF JUNE.
- A NEW CHAIRMAN OF SMI. MR. KAMUZ, WAS ASSIGNED ON 13TH OF MAY. PREVIOUS CHAIRMAN MR. SHEVCHENKO WAS ASSIGNED AS AN ADVISER OF THE PRIME MINISTER OF UKRAINE
- SMI CHOSE A DIFFERENT STOCK EXCHANGE 'PFTS' FOR PLACEMENT ITS BONDS
- SMI PLACED ON 19TH OF JUNE ONLY HALF OF THE SCHEDULED STATE'S GUARANTEED BONDS WITH TOTAL AMOUNT UAH 500 MILLION. ANOTHER HALF OF THE STATE'S GUARANTEED BONDS WAS GOING TO BE PURCHASED BY UKREXIMBANK, HOWEVER UKREXIMBANK REFUSED TO PURCHASE THOSE ONES
- TEMPORARY ADMINISTRATION HAS BEEN IMPOSED ON 15 BANKS AS OF END OF JUNE 2009.

III. EXECUTIVE SUMMARY – MORTGAGE UKRAINE

Primary Mortgage Market

To date, CML-trained personnel now comprise one hundred and thirteen certificate holders, fifty-four of whom (48%) are women. The number of banks whose personnel have been trained totals forty-four.

All the participants came from banks. In order to make the CML designation more appealing, UNIA asked ATCI/IUE to prepare three additional lectures on risk management. Consequently, ATCI tasked IUE with the assignment adding an additional 16 days of LOE to their contract. IUE has developed the lectures now ready for presentation at the CML courses. Unfortunately, the scheduled CML training program for this quarter (April - June 30) was cancelled due to lack of participation by prospective trainees.

Secondary Mortgage Market

State Mortgage Institution (SMI)

ATCI rendered intensive consultations for SMI in the course of quarter.

In this quarter, ACTI continued working and providing technical assistance to the State Mortgage Institution (SMI) on the placement of the institutions bonds with a state guarantee. The bond issued on June 19, 2009 was a covered bond of series A and G worth UAH 50 million (original issue amount 200 UAH) were placed ahead of schedule and listed on PFTS Stock Exchange in the second tier. The issue originally scheduled for February is to finance construction of nearly-completed residential real estate.

In April, ATCI met with top SMI (State Mortgage Institution) executive to discuss the placement of SMI bonds. The meeting with Mr. Serhiy Volkov, Deputy Chairman where SMI discussed two ways of placement of SMI bonds guaranteed by the Cabinet of Ministers in the situation of low banks liquidity - placement “in exchange” for demand rights on non-standard mortgage loans, and placement via “exchanging” the bonds for banks’ mortgage bonds. SMI’s prospective UAH 1 bn bond issue was supported by the government at the end of 2008. In the present-day situation, SMI can not conduct long-term borrowing as it usually acted - via public placement - to perform its main goal. SMI needs to seek after alternates to public ways of bond placement. SMI might swap its government guaranteed bonds for banks’ mortgage bonds on repo terms.

ATCI and SMI discussed two schemes of placement: the one suggested by ATCI and the one developed by SMI. The discussion revealed that SMI’s scheme has neither the object of property right transfer, nor the pledge, and consequently can not be used for the placement. The scheme eventually is a financial loan that is not secured by pledge according to definition of the Law of Ukraine “On Financial Services and State Regulation of the Market for Financial Services.” ATCI and SMI agreed to continue improving the scheme of placement.

At the end of May, ATCI met with SMI managers to help with placement of SMI Bonds and increasing liquidity of banks. In the meeting with Mr. S. Svyatko, First SMI Deputy Chairman, ACTI exchanged the views on what has been done by ATCI to help SMI place the bonds; ATCI presented the scheme of placement of SMI bonds vs the scheme that SMI developed earlier.

Pilot Issues

SSMSC published for public discussion draft amendments regarding agreed upon procedures to the SSMSC’s 1528 regulation on audit reports jointly developed by the Audit Task Force under the SSMSC and ATCI.

Last quarter, the draft amendments to the Mortgage Bond Law were introduced to Verkhovna Rada and forwarded for consideration of the Committee on Finance and Banking. The Committee on Finance and Banking submitted a draft Resolution on adopting the draft amendments to the Mortgage Bond Law in the first reading to Verkhovna Rada. The promotion of adopting the amendments to Mortgage Bonds Law was included in the Cabinet of Ministers' Anti-crisis Program of Activities for 2009. Verkhovna Rada declined the amendments. ATCI has amended the draft Law and currently seeking MP sponsorship.

Associated Market Infrastructure

Life Insurance Products

In past quarters, ATCI conducted a survey and analyzed mortgage-related life insurance within the associated infrastructure for goals to protect and to aid (prospective) homeowners. ATCI conducted research polling 20 of the largest mortgage lending banks in order to determine what type (if any) of term life insurance they use. The analysis showed that term-life insurance is offered in 8 banks of the 20 banks polled. Based on this analysis, ATCI concluded that term-life insurance is already developed in the market, but is not yet fully offered through the mortgage companies.

Appraisal and Real Estate Associations

Norm Flynn returned to Ukraine June 27 - July 1, 2009 to work on completing the merger between the real estate associations and in finalizing appraisal course work. In addition, he was joined by Ms. Kathryn Owens, a Ph.D candidate at USC as the IRPF and ATCI are considering assisting the Ukrainian Real Estate Association develop a single Ukrainian data base of completed real estate transactions. The database would serve to provide information on the real estate market, to stimulate transparency, to optimize business processes, to assist in developing a qualitative marketing strategy, and contribute to the analysis of the Ukrainian real estate market competitiveness. It is anticipated that Mr. Flynn and Ms. Owens will return to Kiev before September 30 to finish the data gathering for this project (see **Attachment 4**).

IV. ADMINISTRATIVE ISSUES – MORTGAGE UKRAINE

Steve Moody, former Country Director Moldova for the ATCI arrived in Kiev, July 6, 2009 and will provide continuing Short Term Technical assistance to SMI management through most of the duration of the Project.

V. DESCRIPTION AND STATUS OF TASKS – MORTGAGE UKRAINE

A. Certified Mortgage Lender Program

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. IUE review of CML training materials and methodology for applicability to Ukraine	<ul style="list-style-type: none"> • COMPLETED IN EARLIER QUARTER
2. Select candidates from banks and financial institutions engaged in mortgage lending	<ul style="list-style-type: none"> • COMPLETED IN EARLIER QUARTER
3. Develop and administer formal training program to financial institutions engaged in mortgage lending	<ul style="list-style-type: none"> • COMPLETED IN EARLIER QUARTER

4. Deliver a series of five CML courses (two regional)	<ul style="list-style-type: none"> • COMPLETED IN EARLIER QUARTER
5. Deliver one CML Train the Trainer course	<ul style="list-style-type: none"> • COMPLETED IN EARLIER QUARTER
6. Assessment of rural lending; titling, title registration, appraisal, and of basic element of profitable agricultural production units	<ul style="list-style-type: none"> • COMPLETED IN EARLIER QUARTER
7. Deliver one SMI course.	<ul style="list-style-type: none"> • COMPLETED IN EARLIER QUARTER
8. Deliver three regional CML courses for SSMSC	<ul style="list-style-type: none"> • COMPLETED IN EARLIER QUARTER
9. Select training provider	<ul style="list-style-type: none"> • COMPLETED
10. Monitor training provider	<ul style="list-style-type: none"> • COMPLETED
11. Conduct CML courses through training provider	<ul style="list-style-type: none"> • CML COURSES CONDUCTED ON FEE BASIS THROUGH TRAINING PROVIDER • NEXT COURSE RE-SCHEDULED NEXT QUARTER, OFFERED FOR 3+ DAYS RATHER THAN 5, TO MEET NEEDS OF THE MARKET
12. Assist UNIA to become sustainable	<ul style="list-style-type: none"> • DUE TO FINANCIAL CRISIS, UNIA IS LOSING MEMBERS; MEMBERSHIP IS THE PRIME INCOME SOURCE; THEREFORE UNIA NOW LOOKING AT LESS COSTLY OFFICE SPACE AND POSSIBLE CUTS IN STAFF • ATCI ASSISTING UNIA TO BECOME SUSTAINABLE THROUGH PROJECT COMPLETION AND BEYOND • ATCI PARTICIPATED AT THE ANNUAL CONFERENCE OF UNIA WHICH WAS HELD ON 12TH OF JUNE
13. Assist SMI to become an operational liquidity facility	<ul style="list-style-type: none"> • SMI ISSUED BOND ON JUNE 19, 2009; SERIES A AND G WORTH UAH 50 MILLION (ORIGINAL ISSUE AMOUNT UAH 200 MILLION) WERE PLACED; LISTED ON PFTS EXCHANGE IN SECOND TIER; ISSUE ORIGINALLY SCHEDULED FOR FEBRUARY TO FINANCE CONSTRUCTION OF NEARLY COMPLETED RESIDENCES • ATCI AND SMI CONTINUE WORKING GROUP FOR PROMOTING SMI'S WORK WITH BANKS' MORTGAGE ASSETS AND PRESENTED A SCHEME THAT INVOLVED BANKS' MORTGAGE BONDS • ATCI INTRODUCED TO SMI 'THE TIED PRIVATE PLACEMENT SCHEME OF THE SMI BONDS'. THAT SCHEME OFFER TO USE THE MORTGAGE ASSETS OF THE COMMERCIAL BANKS FOR REFINANCING BY THE BONDS OF SMI. THE SCHEME WAS INTRODUCED TO THE PRIME MINISTER'S ADVISER MR. SHEVCHENKO AS WELL AS TO NBU AT THE CONFERENCE 'ON BANK FOR TOXIC ASSETS'.

B. Assistance to Banks

1. Standardize rules and procedures for retail mortgage lending in Ukraine	<ul style="list-style-type: none"> • COMPLETED IN EARLIER QUARTER
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2. Select candidate banks and financial institutions for on-site assistance	<ul style="list-style-type: none"> COMPLETED IN EARLIER QUARTER
3. Provide on-site technical assistance	<ul style="list-style-type: none"> N/A THIS QUARTER

C. Home Loan Guarantee (Completed)

1. Analyze market for existing mortgage insurance practice	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE
2. Sources government sponsor	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE
3. Assess legal and regulatory framework	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE
4. Complete feasibility study	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE
5. Complete business plan	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE
6. Assist in operational set-up of guarantee facility	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE
a) Draft master policy	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE
b) Determine actuarially sound rates and draft rate table	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE
c) Complete operational forms	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE
d) Complete organizational planning	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE
7. Provide on-site technical assistance to facility	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE
8. Promote the use of private mortgage insurance	<ul style="list-style-type: none"> NO ACTIVITY ON THIS ISSUE

D. Life Insurance Products (Completed)

1. Analyze insurance and mortgage markets for existing products/practices	<ul style="list-style-type: none"> ANALYZED MORTGAGE MARKET FOR EXISTING TERM-LIFE INSURANCE PRODUCTS/PRACTICES
2. Assess legal and regulatory framework	<ul style="list-style-type: none"> EXISTING LEGAL AND REGULATORY FRAMEWORK FOR INSURANCE PRODUCTS IS ACCEPTABLE
3. Analyze insurance products related to mortgages to determine necessity for certain Activities below, 4-9 (NOTE: based on existing products in the marketplace, Activities 4-9 below are N/A)	<ul style="list-style-type: none"> NO ACTIVITY THIS QUARTER
4. Assess existing actuarial data (mortality tables)	<ul style="list-style-type: none"> MORTALITY TABLES FOR 2006-2007 PUBLISHED
5. Select candidate insurers	<ul style="list-style-type: none"> N/A
6. Develop term sheet and rate structure	<ul style="list-style-type: none"> N/A
7. Draft product policy	<ul style="list-style-type: none"> N/A
8. Conduct road show with mortgage lending banks and financial institutions	<ul style="list-style-type: none"> N/A
9. Launch product	<ul style="list-style-type: none"> N/A

E. Appraisers/Brokers Associations

1. Needs assessment of UAR and appraisal organizations	<ul style="list-style-type: none"> COMPLETED IN EARLIER QUARTER
2. Facilitate development and use of unified methodology for certification of real estate practitioners between UAREP and Union of Real Estate Companies (UARC)	<ul style="list-style-type: none"> NORM FLYNN, IRPF, MET WITH REAL ESTATE ASSOCIATIONS TO FURTHER CEMENT TIES FOR MERGER

	<ul style="list-style-type: none"> IRPF, ATCI, AND UKRAINIAN REAL ESTATE ASSOCIATION DEVELOPING A SINGLE UKRAINIAN DATA BASE OF COMPLETED REAL ESTATE TRANSACTIONS; FURTHER WORK ON DATA COLLECTION WITH RETURN VISITS FROM IRPF SCHEDULED FOR NEXT QUARTER
3. Work with UAREP and UARC on adapting Russian Guild of Realtors' training or other appropriate standards	<ul style="list-style-type: none"> N/A
4. Adapt and implement IVSC standards for appraisers through Ukrainian Association of Appraisers (UTO)	<ul style="list-style-type: none"> BASIS FOR APPRAISERS COURSE AND EXAMS COMPLETED
5. Organize study tours if appropriate	<ul style="list-style-type: none"> N/A
6. Price transaction database - establish multiple listing service (MLS)	<ul style="list-style-type: none"> THE IRPF AND ATCI ASSISTING THE URA IN THE DEVELOPMENT OF A SINGLE UKRAINIAN DATA BASE OF COMPLETED REAL ESTATE TRANSACTIONS

F. Mortgage-backed Securities

1. Establish Legal Working Group to assess legal basis and regulatory framework	<ul style="list-style-type: none"> ESTABLISHED LEGAL WORKING GROUP JOINTLY WITH THE AUDIT TASK FORCE UNDER THE SSMSC AND ATCI
a) Pledge Law--multiple pledgees	COMPLETED
b) Bankruptcy Statutes--pledge excluded from bankruptcy estate	COMPLETED
c) Trust Law--bondholder representative	<ul style="list-style-type: none"> SUBMITTED DRAFT AMENDMENTS REGARDING AGREED UPON PROCEDURES TO THE SSMSC 1528 REGULATION ON AUDIT REPORTS SSMSC PUBLISHED FOR PUBLIC DISCUSSION DRAFT AMENDMENTS REGARDING AGREED UPON PROCEDURES TO THE SSMSC'S 1528 REGULATION ON AUDIT REPORTS - JOINTLY DEVELOPED BY THE AUDIT TASK FORCE UNDER THE SSMSC AND ATCI
2. Select candidate issuer(s)	<ul style="list-style-type: none"> COMPLETED IN EARLIER QUARTER
3. Draft and introduce new amendments to covered bond law	<ul style="list-style-type: none"> MORTGAGE BOND COVERED LAW AMENDMENTS PROMOTED IN THE CABINET OF MINISTERS' ANTI-CRISIS PROGRAM OF ACTIVITIES FOR 2009; NARROWLY REJECTED FIRST QTR 2009 ATCI ALONG WITH SSMSC SEEKING MP SPONSOR AFTER RE-EDIT AND RE-SUBMISSION OF DRAFT LAW
4. Conduct educational seminars on covered bonds and adoption of amendments	<ul style="list-style-type: none"> ATCI PRESENTED ESSENTIAL DIFFERENCES BETWEEN MORTGAGE-BACKED SECURITIES AND COVERED BONDS FOR UAIB
5. Conduct portfolio analysis	<ul style="list-style-type: none"> N/A
6. Develop standardized indenture	<ul style="list-style-type: none"> N/A
7. Draft investment memorandum	<ul style="list-style-type: none"> N/A
8. Registration and Listing	<ul style="list-style-type: none"> N/A

9. Identify potential investors	<ul style="list-style-type: none"> • ATCI CONTINUED TO IDENTIFY POTENTIAL INVESTORS
10. Conduct "road show"	<ul style="list-style-type: none"> • N/A
11. Price and place issue	<ul style="list-style-type: none"> • N/A
12. Convey issuance technology through educational seminars / articles / media event	<ul style="list-style-type: none"> • N/A

LIST OF ATTACHMENTS – MORTGAGE UKRAINE

ATTACHMENT 4: IRPF Trip Report, Norman Flynn, President & CEO IRPF, June 27-July 1, 2009

C. FIXED INCOME – Ukraine

I. COMPONENT DESCRIPTION – FIXED INCOME UKRAINE

This Report provides details on the events and activities relating to the Fixed Income Component of the USAID Access to Credit Initiative, as implemented by The Pragma Corporation, during the period from April 1 through June 30, 2009.

The objective of the fixed income component is to expand the availability of capital to borrowers as an alternative to bank financing. Experience in developing such markets in other countries has demonstrated that corporate bonds and other fixed income instruments can offer borrower's longer-term financing at lower cost when compared to the lending practices of most banks. In fact, most banking systems rely on short-term deposits to fund loans and are comfortable with only lending working capital to businesses. While the universe of fixed-income instruments is vast, ATCI is concentrating on identifying corporations with sufficient means and inclination to issue corporate bonds. Municipal bonds, mortgage-backed bonds, and the securitization of other asset pools are expected once enabling legislation is passed. Specific objectives include issuing at least one pilot for each type of bond. Since most government securities are viewed by investors as being the least risky and frequently are used as a benchmark for pricing other debt securities issued in the market, related objectives include working with the GOU to develop longer-term Treasury securities for construction of a long-term Government yield curve.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – FIXED INCOME UKRAINE

- ON APRIL 14, 2009, CABMIN APPROVED THE RESOLUTION NO. 363 ON INTRODUCTION OF THE PRIMARY DEALERS INSTITUTE IN THE GOVERNMENT SECURITIES MARKET OF UKRAINE WHICH WAS DRAFTED WITH ATCI ASSISTANCE. THE DOCUMENT GIVES DEFINITIONS OF PRIMARY DEALERS; ESTABLISHES RIGHTS AND OBLIGATIONS OF PRIMARY DEALERS AND MINISTRY OF FINANCE. IN APRIL-JUNE, ATCI HAD A NUMBER OF MEETINGS WITH MOF REGARDING DRAFTING OF THE PROCEDURE ON SELECTION AND FUNCTIONING OF PRIMARY DEALERS. ATCI PROVIDED COMMENTS AS TO THE SELECTION CRITERIA AND PROCESS ALL OF WHICH WERE TAKEN INTO ACCOUNT IN THE LATEST DRAFT OF THE PROCEDURE.
- AS OF MAY 14, MOF CHANGED THE TERMS OF GOVERNMENT BOND PLACEMENTS TURNING TO ONE-STAGE AUCTIONS WITH PRE-ANNOUNCED MINIMUM AMOUNTS HELD AT MARKET RATES WHICH WAS STRONGLY RECOMMENDED BY ATCI.
- IN APRIL-MAY, ATCI CONTINUED TO WORK CLOSELY WITH AKK SPECIALISTS IN THEIR DRAFTING OF THE FINAL REPORT ON THE DEVELOPMENT OF THE UKRAINIAN GOVERNMENT BOND MARKET; ATCI MADE A FORMAL PRESENTATION OF FINDINGS OF AKK FINAL REPORT TO THE SOVEREIGN DEBT DEPARTMENT OF MOF.
- IN MAY-JUNE, ATCI HAD MEETINGS WITH THE IMF PERMANENT REPRESENTATIVE IN UKRAINE MR. MAX ALIER AS WELL AS WITH THE IMF MISSION TO UKRAINE TO DISCUSS

THE WAYS OF ESTABLISHING A SUCCESSFUL GOVERNMENT SECURITIES MARKET IN UKRAINE AND JOINT ACTION ATCI AND IMF COULD TAKE IN THAT REGARD.

- ON JUNE 2, ATCI PARTICIPATED IN THE MEETING ORGANIZED BY MOF FOR POTENTIAL PRIMARY DEALERS WHICH WAS ATTENDED BY REPRESENTATIVES OF OVER 12 UKRAINIAN BANKS. SUBSEQUENTLY ATCI CONDUCTED INDIVIDUAL MEETINGS WITH THOSE BANKS TO DETERMINE ADVANTAGES AND DRAWBACKS OF FUNCTIONING OF PRIMARY DEALERS SYSTEM PROPOSED BY MOF.
- ON JUNE 10, CABMIN APPROVED THE RESOLUTION NO. 568 ON APPROVAL OF THE PROCEDURE FOR PURCHASE OF DOMESTIC GOVERNMENT BONDS IN 2009; ATCI PARTICIPATED IN ITS DRAFTING. THE DOCUMENT DETERMINES THE MECHANISM FOR PURCHASE OF DOMESTIC GOVERNMENT BONDS IN 2009 BY THE MINISTRY OF FINANCE FROM FUNDS OF THE SINGLE TREASURY ACCOUNT SIMULTANEOUSLY ASSUMING AN OBLIGATION TO SELL THEM SECURED BY PLEDGE OF THESE BONDS WITH FURTHER REPAYMENT OF FUNDS OF THE SINGLE ACCOUNT UNTIL THE YEAR END. LATER IN JUNE, ATCI DRAFTED ORDER FOR MOF ON SELECTION OF COUNTERPARTS FOR REPO TRANSACTIONS AS WELL AS GENERIC REPO AGREEMENTS TO BE REVIEWED BY THE MINISTRY.
- ON JUNE 11, ATCI MET WITH THE NATIONAL BANK OF UKRAINE TO DISCUSS THE STEPS TO ADD LIQUIDITY IN SECONDARY MARKET FOR GOVERNMENT SECURITIES AND INCREASE FLOW OF INFORMATION ON SECONDARY MARKET ACTIVITY. SHORTLY THEREAFTER, THE NBU STARTED PUBLISHING INFORMATION ABOUT GOVERNMENT BOND TRADES IN THE SECONDARY MARKET ON ITS WEB-SITE.
- FOLLOWING DISCUSSIONS WITH ATCI AND STARTING FROM JUNE, 15, MOF CHANGED THE FORMAT OF PUBLISHING THE RESULTS OF GOVERNMENT BOND PLACEMENTS SUPPLEMENTING IT WITH INFORMATION ON SUBMITTED AND ACCEPTED BIDS AS WELL AS MAXIMUM AND MINIMUM YIELD LEVELS. SUCH A STEP WAS WELCOMED BY BLOOMBERG INTERNATIONAL NEWS AGENCY WHICH STARTED PUBLISHING THE RESULTS OF UKRAINIAN GOVERNMENT BOND PLACEMENTS. ATCI, IN ITS TURN, STARTED PUBLISHING ON ITS WEB-SITE THE YIELD CURVE OF DOMESTIC GOVERNMENT BOND PLACEMENTS COMPARING IT WITH AVERAGE INTER-BANK DEPOSIT RATES.
- ON JUNE 8-12, ATCI SUPPORTED THE PARTICIPATION OF MOF REPRESENTATIVES IN THE WORLD BANK WORKSHOP ON IMPLEMENTING GOVERNMENT DEBT MANAGEMENT STRATEGIES WHICH WAS HELD IN PARIS.
- ON APRIL, 10, ATCI SENT ITS PROPOSED AMENDMENTS TO THE BUDGET CODE IN ORDER TO FACILITATE THE FINANCING OF BUDGETS FROM DEBT SOURCES TO ALL MEMBERS OF VERKHOVNA RADA BUDGET COMMITTEE.

III. EXECUTIVE SUMMARY – FIXED INCOME UKRAINE

In order to ensure the smooth placement of government securities and improve the liquidity of the secondary market, ATCI continued to work on the establishment of primary dealer system in Ukraine, in particular, with regard to legislative basis of functioning of such system. On April 14, the Cabinet of Ministers approved the Resolution no. 363 On Introduction of The Primary Dealers Institute in the Government Securities Market of Ukraine with ATCI participating in its drafting (See **Attachment 5**). The document provides a definition of primary dealers and establishes rights and obligations thereof; it also authorizes the MoF to develop and approve the procedure for selection and functioning of primary dealers. During April-June, ATCI had a number of meetings with the MoF with regard to drafting of such procedure and provided its comments which included: 1) charter capital criterion should not be a decisive one when selecting PD's 2) there should be transparency and good information support of the selection process, in particular, with regard to announcing its start and results; 3) once the PD system is up and running, a provision on mandatory rotation of primary dealers should be included in this procedure. Most of these comments were taken into account in the final draft of the procedure.

To increase the interest of the market in government securities, ATCI together with other experts (AKK) has always been stressing the importance of holding government bonds auctions at market rates. Finally, effective as of May, 14, the MoF changed the terms of government bond placements turning to one-stage auctions with pre-announced minimum amounts held at market rates and announced the schedule of auctions for May-July, 2009 (See **Attachment 6**). Though such step was welcomed by market participants as the one creating the required preconditions to implement primary dealer system and promoting further development of government bond market, international experience shows that such development must be supported by an active secondary market using pilot two-sided voluntary quotations by banks. Such quotations would help purchasers of government bonds receive profits by selling them at the secondary market, their acquiring of a practical experience in working with government bonds, improving documents regulating the relevant relations between the Ministry, primary dealers and the exchange. ATCI continued discussions with the MoF regarding that issue.

Turning to market priced auctions was one of the key recommendations provided by AKK/ATCI experts in their final report drafting of which was finished in the end of April with continued ATCI assistance. Their recommendations also touched upon establishment of PD system, development of the liquidity management, improvement of risk assessment and investor relations. ATCI made a formal presentation of findings of the Report to the Sovereign Debt Department of the MoF on May, 14 (See **Attachment 7**).

With the aim to provide further practical consultations on development of the government domestic bonds market based on the advanced international experience, in April, ATCI employed Mr. Paul Roberti, who had extensive practical experience in developing the government bonds market in Georgia and Kazakhstan. Mr. Roberti is focusing on improving the auction process and introduction of primary dealer system.

To join its efforts with other international donors, in May-June, ATCI had meetings with Mr. Max Alier, the IMF Permanent Representative in Ukraine, as well as with the IMF Mission. During those meetings, the priorities that were integral to the development and successful functioning of a domestic government securities market denominated in local currency were discussed (See **Attachment 8**). ATCI stressed that promotion of those priorities by the IMF Mission would help in furthering the goal of a transparent and liquid government securities market, with the government of Ukraine achieving the most efficient and least costly method of borrowing.

On June, 2, ATCI participated in the meeting organized by the MoF for potential primary dealers. The meeting taking place in the premises of the Ukrainian Interbank Currency Exchange (UICE), which was

favored by the MoF as a prospective trading platform for repo transactions, was attended by representatives of 12 leading Ukrainian banks. During the discussion of proposed rights and obligations of PD's, it was agreed that at the moment banks were not ready to start even voluntary two-sided quotations and were not sure of actual advantages of being a primary dealer. As a result, the MoF undertook to publish the draft procedure for PD's selection and functioning on its web-site and requested banks to provide their comments. Later on, Mr. Roberti had separate meetings with those banks to determine specific drawbacks of the PD system as it was proposed by the MoF. In particular, most common banks' concerns were as follows: 1) the PD selection process may not be transparent; 2) obligation to purchase 3% of the issue is difficult to perceive at the moment; 3) refinancing mechanism proposed by the MoF might not work properly and the NBU might refuse to refinance and affect repos with government securities.

On June, 10, CabMin approved the Resolution no. 568 On Approving the Procedure for Purchase of Domestic Government Bonds in 2009 (See **Attachment 9**). The document enables the MoF to do repo transactions using funds from the Single Treasury Account based on the results of open tender (conducted by the MoF) or an auction held via a trade organizer (stock exchange). The main drawback of this procedure is that it does not provide for the initial transfer of title to bonds to the MoF and therefore such transactions are not as safe as repo transactions. In case of default of its counterpart, the Ministry may have to undergo a difficult procedure of coming into possession of the bonds which are used as collateral before selling them and refunding losses. The requirements for a trade organizer set there, in particular with regard to equity capital, are met only by one exchange at the moment, that is, the UICE, which triggers suspicion of attempts made to ensure its monopoly position. Nonetheless, the placement of balances of the Single Treasury Account by the MoF against the government securities certainly will enhance the demand for them and thus promote the development of the domestic government securities market since it provides liquidity to market participants – holders of governments bonds. To start the placement the MOF needs to select the exchange which meets the requirements of the Procedure and develop an internal procedure on selecting counterparties of purchase agreements. ATCI developed and send to the MoF the draft selection procedure and generic agreement on June, 5 (See **Attachments 10 and 11**).

One of the major tasks in the development of domestic government bond market is building a viable secondary market for government securities. In that regard, on June, 2, ATCI met with the National Bank of Ukraine to discuss the steps to add liquidity in the secondary market. One of the most important issues was increasing the flow of information on secondary market activity since many potential primary dealers remarked that there was a need for more price discovery on secondary trades. Shortly after the meeting, the NBU started publishing information about government bond trades in the secondary market on its web-site (See **Attachment 12**).

Also successful were ATCI discussions with the MoF regarding changing of the format of auction results publishing. Starting from June, 15, the MoF supplemented the auction results with information on the amount and number of bids submitted and accepted as well as on minimum and maximum yield levels. Once the information provided on auction results became complete, the Bloomberg international news agency started publishing it as well. ATCI, in its turn, began to publish on its web-site the yield curve of domestic government bond placements comparing it with average inter-bank deposit rates (**Attachment 13**).

On June 8-12, ATCI supported the participation of two representatives of the MoF in the World Bank's Workshop on Implementing Government Debt Management Strategies. The objective of this workshop was to provide the representatives of the MoF with a greater understanding of the process and the instruments which are available to implement the government's debt management strategy. The five-day workshop targeted the front office and incorporated practitioner presentations, hands on training tools, group problem solving and culminated in a final group exercise. The presentations covered such topics as designing and implementing a government debt management strategy; instrument choice in the implementation of the

debt management strategy; execution issues in the domestic market; issuing mechanisms for government securities; debt placement with public sector investors; funding mechanisms of external debt; overview of derivatives executing; swaps and risks in derivatives.

In order to facilitate the financing of budgets from debt sources, on April, 10, ATCI sent its proposed amendments to the budget code to all members of Verkhovna Rada Budget Committee (See **Attachment 14**).

IV. ADMINISTRATIVE ISSUES – FIXED INCOME UKRAINE

ATCI employed international short term expert Mr. **Paul Roberti** as Advisor to assist the MoF on essential aspects for establishment of domestic government securities market.

According to the purchase order between Pragma and AKK (Debt Management Agency of Hungary), AKK completed its tasks in full.

V. DESCRIPTION AND STATUS OF TASKS – FIXED INCOME UKRAINE

A. Regulatory reform

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Focus on transparency and disclosure regulations at SSMSC	<ul style="list-style-type: none"> • COMPLETED
2. Present round table with Association of Investment Businesses to eliminate mandatory credit ratings	<ul style="list-style-type: none"> • ATCI MEETS WITH UAIB AND SEPARATELY WITH ULIE TO AGREE ON DRAFT CREDIT RATING LAW
3. Draft regulations on rating agencies	<ul style="list-style-type: none"> • NEW SSMSC CHAIRMAN PETRASHKO ABOLISHES MANDATORY CREDIT RATINGS FOF BOND ISSUERS; ATCI SUBMITS DRAFT CREDIT RATING LAW AND PROVISIONS WITHIN EXISTING LAWS THAT NEED TO BE ELIMINATED TO SSMSC
4. Participate in the working groups to amend pledge and bankruptcy laws / draft legislation to enable the use of trust	<ul style="list-style-type: none"> • COMPLETED

B. Assist GOU and NBU in constructing a long-term government yield curve in Ukraine

1. Asses status of Treasury debt market and impediment to development	<ul style="list-style-type: none"> • CABMIN ADOPTED THE RESOLUTION NO. 363 ON INTRODUCTION OF THE PRIMARY DEALERS INSTITUTE IN THE GOVERNMENT SECURITIES MARKET OF UKRAINE WHICH WAS DRAFTED WITH ATCI ASSISTANCE. • ON JUNE, 10, CABMIN APPROVED THE RESOLUTION NO. 568 ON APPROVAL OF THE PROCEDURE FOR PURCHASE OF DOMESTIC GOVERNMENT BONDS IN 2009 WITH ATCI PARTICIPATING IN ITS DRAFTING. • ATCI CONTINUED TO MONITOR VOLUMES, BID/ASK SPREADS AND YIELDS IN PRIMARY AND SECONDARY TREASURY DEBT MARKET
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	<ul style="list-style-type: none"> • MONITORED CHANGES IN THE GOVERNMENT POLICY AND COMMITMENTS REGARDING THE TREASURY DEBT MARKET (PUBLICATION OF MAY-JULY, 2009 ISSUANCE SCHEDULE AND CHANGED TERMS OF PLACEMENT), ANNOUNCEMENTS ON YIELD AND DURATION POLICIES, DEBT MANAGEMENT STRATEGY, INTRODUCTION OF THE PRIMARY DEALER SYSTEM).
<p>a) Propose structure for development of Government Securities market</p>	<ul style="list-style-type: none"> • CONTINUED MONITORING GOVERNMENT AND NBU POLICIES AND REGULATIONS ON CHANGES IN THE POLICY OF DEVELOPING FINANCIAL MARKETS. • ATCI PRESENTED THE FINDINGS OF AKK FINAL REPORT TO THE MOF WHICH INCLUDES A TIME SENSITIVE ACTION PLAN • ATCI EMPLOYS INTERNATIONAL EXPERT MR. PAUL ROBERTI TO WORK WITH ATCI TEAM AND MOF AND NBU IN DEVELOPMENT OF GOVT SECURITIES AND REPO MARKET
<p>b) Propose benchmark issues for construction of medium and long term Yield Curve</p>	<ul style="list-style-type: none"> • CONTINUED MONITORING VOLUMES AND TERM STRUCTURE OF OUTSTANDING STOCK EXCHANGE-LISTED ISSUES OF THE GOVERNMENT SECURITIES
<p>c) Expand investor base in Government Securities</p>	<ul style="list-style-type: none"> • MONITORED CHANGES IN LEGISLATION THAT ALLOW INSTITUTIONAL INVESTORS, I.E., STATE DEPOSIT INSURANCE FUND, TO INVEST MORE IN GOVERNMENT SECURITIES AND ESTABLISHING OF NEW PROSPECTIVE INSTITUTIONAL INVESTORS IN GOVERNMENT SECURITIES (PENSION ACCUMULATION FUND, INVESTOR'S GUARANTEE FUND)
<p>2. Assist in design of a functioning primary dealer and repo market</p>	<ul style="list-style-type: none"> • ATCI DEVELOPED PROCEDURES FOR MOF IN SELECTING COUNTERPARTIES OF REPURCHASE AGREEMENTS AS WELL AS A GENERIC AGREEMENT • ATCI FORWARDED RESPECTIVE AMENDMENTS TO THE BUDGET CODE OF UKRAINE TO ALL MEMBERS OF VERKHOVNA RADA BUDGET COMMITTEE
<p>a) Prepare standard rules for repo market activities including standardized repo agreement</p>	<ul style="list-style-type: none"> • SEE ABOVE
<p>b) Design REPO and reverse REPO market</p>	<ul style="list-style-type: none"> • SEE ABOVE • CABMIN APPROVED THE PROCEDURE FOR PURCHASE OF DOMESTIC GOVERNMENT BONDS IN 2009
<p>c) Define activities of Primary Dealers</p>	<ul style="list-style-type: none"> • CABMIN APPROVED THE RESOLUTION ON INTRODUCTION OF PRIMARY DEALER SYSTEM TAKING INTO ACCOUNT RECOMMENDATIONS OF ATCI AND AKK
<p>d) Development of dealer institutional framework</p>	<ul style="list-style-type: none"> • SEE ABOVE; ATCI REVISED PRIMARY DEALER AGREEMENT WHICH CONTAINS OBLIGATIONS FOR PDS

LIST OF ATTACHMENTS – FIXED INCOME UKRAINE

- ATTACHMENT 5:** Cabmin Resolution No. 363 On Introduction of the Primary Dealers Institute in the Government Securities Market of Ukraine dated April 14, 2009
- ATTACHMENT 6:** Schedule of domestic government bond placements in May - July, 2009
- ATTACHMENT 7:** AKK Summary Report prepared by AKK on the Development of the Government Bond Market, May 14, 2009
- ATTACHMENT 8:** ATCI Memo to Mr. Max Alier, Resident IMF Representative in Ukraine
- ATTACHMENT 9:** Cabmin Resolution no. 568 On Approving the Procedure for Purchase of Domestic Government Bonds in 2009 dated June 10, 2009
- ATTACHMENT 10:** Draft Procedure for Open Tender on Selection of Counter-Agents on Contracts of Purchase of Domestic Government Bonds
- ATTACHMENT 11:** Draft MoF Repo and Pledge agreements
- ATTACHMENT 12:** NBU information on transactions with government bonds in the secondary market in 2009
- ATTACHMENT 13:** Weighted average yields of domestic government bond placements during May – June, 2009
- ATTACHMENT 14:** ATCI address to MPs from the Budget Committee with proposed amendments to the Budget Code

D. MUNICIPAL – Ukraine

I. COMPONENT DESCRIPTION – MUNICIPAL UKRAINE

This Report provides details on the events and activities relating to the Municipal Component of the USAID Access to Credit Initiative, as implemented by The Pragma Corporation, during the period from April 1 through June 30, 2009.

The municipal finance program of the Access to Credit Initiative helps cities and communal service enterprises issue long-term bonds for essential infrastructure. The program has also been promoting the development of a municipal finance facility in Ukraine.

Technical assistance from the program's team of Ukrainian and international experts in finance, accounting, and law will enable at least three 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.

Pilot bonds will disclose legal and regulatory obstacles to bond issuance. The bond program will develop solutions and advocate for their enactment. Legal goals include promotion of stable, predictable central government transfers to municipalities, greater fiscal autonomy for cities, and full-cost recovery tariffs for utility companies.

Creditworthiness assessments and legal preparations for pilot bonds will inform the development of a viable, self-sustaining municipal finance facility that raises funds in the capital markets and on-lends them to creditworthy cities and utilities.

Key counterpart organizations supporting the bond program are the Association of Ukrainian Cities, the Ministry of Housing and Communal Economy, Ministry of Finance, Ministry of Economy, Ministry of Construction and Regional Development.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – MUNICIPAL UKRAINE

- CITY OF LVIV PLACED UAH 100 MLN. OF UAH 300 MLN. MUNICIPAL BOND ISSUE
- ATCI ASSISTS CITY OF ENERGDAR WITH PROPOSED BOND ISSUANCE BY PREPARING (1) DRAFT CITY COUNCIL RESOLUTION ON MAKING BORROWING, (2) DRAFT TENDER DOCUMENTATION FOR AN UNDERWRITER SELECTION, AND (3) DRAFT PROCEDURE OF REPO TRANSACTION
- ATCI COMPLETED DRAFTING AMENDMENTS TO CABINET OF MINISTERS RESOLUTION 207 ON PROCEDURE OF LOCAL BORROWINGS
- ATCI CONTINUED THE INITIATIVE TO PERMIT PRIMARY PLACEMENT OF INTEREST BEARING MUNICIPAL BONDS BELOW PAR, IF THE BONDS ARE PLACED PUBLICLY AT A STOCK EXCHANGE. MET WITH NEWLY APPOINTED CHAIRMAN OF THE SSMSC MR. PETRASHKO TO PRESENT THIS IDEA
- VERKHOVNA RADA ADOPTED NEW VERSION OF THE BUDGET CODE

III. EXECUTIVE SUMMARY – MUNICIPAL UKRAINE

ATCI continued advising City of Lviv on issuance of UAH 300 mln. municipal bond for preparing to EURO-2012 Football Championship. ATCI assisted the city on preparation of tender documentation for an underwriter selection and of the issue prospectus. The city got approval of the Ministry of Finance, selected underwriter, registered the bond with SSMSC and placed UAH 100 mln. to Ukreximbank. Remaining amount is supposed to be placed later on.

City of Energodar requested technical assistance from ATCI regarding proposed issuance of municipal bond for roads reconstruction and pilot Repo transaction with government bonds, which is provided by the Law On State Budget for 2009. Following signature of the Protocol of Intention (see **Attachment 15**), ATCI advised the city on parameters of the issue (preliminary UAH 10 mln., one year maturity), submitted Bond Issue Timetable (see **Attachment 16**), draft City Council Resolution on making borrowing (see **Attachment 17**), draft tender documentation for an underwriter selection (see **Attachment 18**), draft Procedure on Repo Transaction (see **Attachment 19**) to be approved by the City Council. The city will consult local banks about appropriate coupon rate and will prepare documents for submission to the Ministry of Finance.

Also, Energodar requested ATCI to review and advise on draft EBRD loan agreement with municipal heating and water-supply enterprise, given that the city is going to be a guarantor for the deal.

In cooperation with the Association of Ukrainian Cities and the Institute for Budgetary and Social and Economic Research, ATCI completed drafting amendments to the Cabinet of Ministers Resolution 207 on Procedure of Making Local Borrowings in order to simplify and make the borrowings cheaper. The amendments include elimination of mandatory credit rating, exhaustive and objective criteria for MinFin's rejection to approve, possibility of primary placement of municipal bonds below par, if those bonds are placed publicly at a stock exchange. The amendments were discussed and mainly agreed with financial and legal experts of the Cabinet of Ministers (see **Attachment 20**).

ATCI continued to develop its initiative on introducing amendments to the SSMSC Regulation 414 providing for a possibility of primary placement of interest bearing municipal bonds below par, if those bonds are placed publicly at a stock exchange. This would allow cities to place their bonds in significantly changeable capital market, where interest rates can increase in between approval of the decision of the City Council and market placement of municipal bonds. ATCI met with newly appointed Chairman of the SSMSC Mr. Petrashko and agreed that the SSMSC will amend its regulation accordingly if the Ministry of Finance applies with relevant request. Upon ATCI request, cities of Lviv, Energodar and the AUC applied to the MinFin with this initiative.

ATCI received comments from cities of Donetsk, Dnipropetrovs, Kharkiv, Poltava, Cherkasy, Kherson and Mykolaiv and incorporated appropriate ones into the draft Law on Local Borrowings. To be finalized, the draft Law should be brought in line with new version of the Budget Code adopted by the Verkhovna Rada, while the President's signature of the Budget Code is still questionable.

On April 16, 2009 ATCI participated in the round table "Partnership Between Banks and Municipalities as One of the Ways to Fight Economic Crisis". ATCI recommendations on placement municipal bonds below par, elimination of mandatory credit rating, etc. were included into the round table's address (**Attachment 21**).

IV. ADMINISTRATIVE ISSUES – MUNICIPAL UKRAINE

NONE

V. DESCRIPTION AND STATUS OF TASKS – MUNICIPAL UKRAINE

A. Constraints to Bond Issuance

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Monitor GOU intergov't finance practices for credit risks	<ul style="list-style-type: none"> COMPLETED DRAFTING AMENDMENTS TO THE CABINET OF MINISTERS RESOLUTION 207 ON PROCEDURE OF LOCAL BORROWINGS AND MAINLY AGREED THEM WITH CABMIN EXPERTS CONTINUED TO DEVELOP INITIATIVE ON INTRODUCING AMENDMENTS TO THE SMSSC REGULATION 414 PROVIDING FOR A POSSIBILITY OF PRIMARY PLACEMENT OF INTEREST BEARING MUNICIPAL BONDS BELOW PAR, IF THOSE BONDS ARE PLACED PUBLICLY AT A STOCK EXCHANGE. MET WITH NEWLY APPOINTED CHAIRMAN OF THE SSMSC MR. PETRASHKO
2. Participate in Drafting on Law on Local Borrowing	<ul style="list-style-type: none"> COMPLETED; NEED TO BE SUBMITTED TO CABMIN BY IBSE/AUC
3. Assemble Legal Task Force for Municipal Issuance	<ul style="list-style-type: none"> COMPLETED
4. Develop a roadmap for bond issuance by municipalities	<ul style="list-style-type: none"> COMPLETED
5. A ST Advisor will investigate other legal and economic issues	<ul style="list-style-type: none"> COMPLETED

B. Prepare and Issue Pilot Bonds

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Initiation of pilot	<ul style="list-style-type: none"> COMPLETED
2. Implementation	<ul style="list-style-type: none"> COMPLETED
3. Berdyansk--Pilot Bond Development	<ul style="list-style-type: none"> COMPLETED
4. Korosten-Pilot Bond Development	<ul style="list-style-type: none"> COMPLETED
5. Cherkasy--Re-evaluate for Pilot Bond	<ul style="list-style-type: none"> COMPLETED
6. Select, evaluate, prepare 2 new Pilot Bond Cities/Utilities	<ul style="list-style-type: none"> COMPLETED

7. Luhansk	<ul style="list-style-type: none"> • COMPLETED
8. L'viv	<ul style="list-style-type: none"> • COMPLETED
9. Assist other municipalities upon request	<ul style="list-style-type: none"> • ASSISTED THE CITY OF LVIV ON PREPARATION OF TENDER DOCUMENTATION FOR AN UNDERWRITER SELECTION AND OF THE ISSUE PROSPECTUS. THE CITY GOT APPROVAL OF THE MINISTRY OF FINANCE, SELECTED UNDERWRITER, REGISTERED THE BOND WITH SSMSC AND PLACED UAH 100 MLN. • ADVISED THE CITY OF ENERGOVAR ON PARAMETERS OF THE BOND ISSUE FOR ROADS RECONSTRUCTION, SUBMITTED DRAFT CITY COUNCIL RESOLUTION ON MAKING BORROWING, DRAFT TENDER DOCUMENTATION FOR AN UNDERWRITER SELECTION, DRAFT PROCEDURE ON REPO TRANSACTION TO BE APPROVED BY THE CITY COUNCIL

C. Pooled Finance Facility (Municipal Finance Facility)

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. Pooled Finance Conference and Development	<ul style="list-style-type: none"> • N/A
2. Develop legislative basis for establishment of MFF	<ul style="list-style-type: none"> • RECEIVED COMMENTS FROM CITIES OF DONETSK, DNIPROPETROVS, KHARKIV, POLTAVA, CHERKASY, KHERSON AND MYKOLAIV AND INCORPORATED APPROPRIATE ONES INTO THE DRAFT LAW ON LOCAL BORROWINGS
3. Cooperate with IBSER and AUC to present round tables on Laws on Local Borrowing and MFF	<ul style="list-style-type: none"> • NO ACTIVITY ON THIS ISSUE.
4. Secure GOU/private financing for MFF	<ul style="list-style-type: none"> • NO ACTIVITY ON THIS ISSUE
5. Development of business plan	<ul style="list-style-type: none"> • N/A
a) Development of implementing regulations	<ul style="list-style-type: none"> • N/A
b) Development of legal and operating documents	<ul style="list-style-type: none"> • N/A
6. Develop operational policies	<ul style="list-style-type: none"> • N/A
7. Financial product development	<ul style="list-style-type: none"> • N/A
8. Develop credit enhancements	<ul style="list-style-type: none"> • N/A
9. Provide technical support for operational start-up and pilot issue	<ul style="list-style-type: none"> • N/A

D. Training and Dissemination

Defined Activity	Progress Made During Quarter/Proposed Future Actions
I. Present workshop with AUC on bond issuance for cities <800k pop; transfer of methodology to cities through AUC	<ul style="list-style-type: none">• PARTICIPATED IN THE ROUND TABLE “PARTNERSHIP BETWEEN BANKS AND MUNICIPALITIES AS ONE OF THE WAYS TO FIGHT ECONOMIC CRISIS”. ATCI RECOMMENDATIONS WERE INCLUDED INTO THE ROUND TABLE’S ADDRESS

LIST OF ATTACHMENTS

ATTACHMENT 15: Protocol of Intention Energodar

ATTACHMENT 16: Bond Issue Timetable

ATTACHMENT 17: Draft City Council Resolution on making borrowing

ATTACHMENT 18: Draft tender documentation for an underwriter selection

ATTACHMENT 19: Draft Procedure on Municipal Repo Transaction

ATTACHMENT 20: Amendments to the Cabinet of Ministers Resolution 207 On Procedure of Making Local Borrowings

E. LEASING - Ukraine

I. COMPONENT DESCRIPTION – LEASING UKRAINE

This report details events and activities relating to the Leasing Component of the USAID Access to Credit Initiative, implemented by the Pragma Corporation, during the period from April 1 through June 30, 2009.

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 can be an efficient alternative to bank credit for financing acquisition of fixed assets, and can often complement bank credit allowing a company to increase its access to needed credit availability.

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 equipment vendors and banks. ATCI will seek potential foreign and local investors, interested in investing in Ukraine's leasing industry, and assist them in their evaluation of specific opportunities. ATCI will continue to conduct public awareness efforts, alone and in conjunction with local business groups and other international donor agencies, directed at potential lessees and equipment vendors as well as the media, in order to help familiarize Ukraine's business community with how leasing works, as well as how businesses and farmers can successfully use leasing.

The Leasing Component will facilitate the increase of the number of professionals available to work in Ukraine's leasing industry, as well as increase their professional knowledge and standing, by introducing the Certified Leasing Specialist Program (CLS), a designation for market participants so that they may attain world standards of practice.

ATCI will continue to promote reform of the legislative and regulatory framework for leasing, as well as tax incentives to promote capital spending and plant modernization, to facilitate industry development and entry of foreign capital into the market.

II. SIGNIFICANT EVENTS – LEASING UKRAINE

- USING THE GOVERNMENT DATA, ATCI HAS DETERMINED THAT THE "PENETRATION RATE," DEFINED AS THE PERCENTAGE OF CAPITAL EQUIPMENT FINANCED THROUGH LEASING, AMOUNTED TO 3.9% IN THE 1ST QUARTER OF 2009 AS COMPARED TO 7.5% FOR THE SAME PERIOD IN 2008. THE AMOUNT OF NEW LEASES DROPPED BY NEARLY 60% AS COMPARED TO THE PREVIOUS YEAR AND WAS USD 127 MILLION. THE LEASING PORTFOLIO AS OF MARCH, 31, WAS USD 3.7 BILLION.
- ON MAY 28, 2009, ATCI CO-SPONSORED A LEASING SEMINAR FOR PUBLIC OFFICIALS TOGETHER WITH ALL-UKRAINIAN UNION OF LESSORS AND UKRAINIAN LEAGUE OF INDUSTRIALISTS AND ENTREPRENEURS. THE EVENT WAS AIMED AT INCREASING THE AWARENESS OF GOVERNMENTAL EMPLOYEES ABOUT LEASING AND HOW THE UKRAINIAN ECONOMY CAN BENEFIT FROM IT AS WELL AS PROBLEMS WHICH IMPEDE ITS DEVELOPMENT.

- IN APRIL-JUNE, ATCI CONTINUED TO TAKE PART IN THE WORK OF THE LEASING COMMISSION WITHIN THE UKRAINIAN LEAGUE OF INDUSTRIALISTS AND ENTREPRENEURS WITH REGARD TO LEGISLATIVE INITIATIVES AIMED AT CREATING A FAVOURABLE ENVIRONMENT FOR THE DEVELOPMENT OF LEASING. IN PARTICULAR, IT WAS DECIDED TO JOIN EFFORTS WITH TRANSPORT AND CONSTRUCTION LOBBY IN THE PARLIAMENT.
- IN JUNE, THE LEASING MANUAL WAS PUBLISHED. ATCI PLANS TO DISTRIBUTE IT TO ALL CERTIFIED LEASE SPECIALISTS AS WELL AS LEASING COMPANIES AND HIGHER EDUCATIONAL (I.E., UNIVERSITIES) ESTABLISHMENTS. WITHIN THE STRATEGY OF ENSURING THE NGO'S SUSTAINABILITY, ATCI GRANTED RIGHTS TO THE MANUAL TO THE NGO THUS PROVIDING IT WITH A GOOD SOURCE OF INCOME (THROUGH DONATIONS IN EXCHANGE FOR THE MANUAL) TO FINANCE FURTHER DEVELOPMENT OF THE CLS PROGRAM AFTER ATCI FINISHES ITS WORK. LEASE MANUAL (MEDIA) PRESENTATION SCHEDULED FOR EARLY NEXT QUARTER.
- ON JUNE, 30, ATCI HELD AN AWARDS CEREMONY FOR 9 INDIVIDUALS WHO TOOK THE CLS TRAINING FROM THE OFFICIAL TRAINING PROVIDER "KOMPAS" IN MARCH-APRIL AND PASSED ALL THREE CERTIFICATION EXAMS HELD ON APRIL 25-26. THUS, THE TOTAL NUMBER OF CERTIFIED LEASE SPECIALISTS IN UKRAINE RAN UP TO 104 PERSONS (48 MEN AND 56 WOMEN) AND THAT IS APPROXIMATELY 8% OF ALL PEOPLE EMPLOYED IN LEASING IN UKRAINE.
- IN CONJUNCTION WITH THE CLS AWARDS CEREMONY, THE 5TH GENERAL MEETING OF THE NGO WAS HELD ADDRESSING THE ISSUES OF TRANSFERRING THE CLS PROGRAM TO THE NGO AND PRESENTATION OF THE LEASING MANUAL.
- IN APRIL, 2009, STATE TAX ADMINISTRATION PROVIDED ITS CLARIFICATIONS ON APPLYING OF AMENDED PROVISIONS OF THE LAW OF UKRAINE "ON CORPORATE TAX" WITH REGARD TO ACCELERATED DEPRECIATION OF CAPITAL ASSETS BELONGING TO THE 3RD GROUP (I.E. EQUIPMENT) WHICH WAS ESTABLISHED AT THE LEVEL OF 25% OF BOOK VALUE PER YEAR. THE RELEVANT AMENDMENT PASSED BY THE PARLIAMENT IN DECEMBER, 2008, CAME INTO FORCE ON APRIL, 1, BUT WAS NOT APPLIED DUE TO ITS NON-COMPLIANCE WITH CURRENT CALCULATION METHODS FOR DEPRECIATION.

EXTERNAL EVENTS

- AS PART OF ANTI-CRISIS MEASURES, CABMIN APPROVED A PROCEDURE FOR RESIDENTIAL REAL ESTATE HIRE PURCHASE THUS INTRODUCING A NEW INVESTMENT MECHANISM TO THE HOUSING MARKET. THOUGH SUCH TRANSACTIONS WHICH ARE LEASING PER SE WERE USED BEFORE, THEY HAD NO LEGAL BASIS WHATSOEVER. ACCORDING TO THE NEW PROCEDURE, THE TERM OF A LEASE AGREEMENT IS UP TO 30 YEARS; A LESSEE ASSUMES TITLE TO THE REAL ESTATE ONLY AFTER ALL LEASE PAYMENTS ARE MADE. IT IS BELIEVED THAT SUCH MECHANISM CAN BE A GOOD ALTERNATIVE TO MORTGAGE.
- LEASING NEEDS OF STATE-FINANCED ORGANIZATIONS GROW. IN PARTICULAR, KYIV METRO COMPANY REQUESTED THE KYIV CITY COUNCIL TO AUTHORIZE THE PURCHASE OF 100 METRO CARS ON TERMS OF FINANCIAL LEASING. THE SIZE OF THIS

TRANSACTION IS NEARLY USD 105 MILLION WITH 15% DOWNPAYMENT, 27% INTEREST RATE AND 5-YEAR TERM OF LEASING.

- INTERNATIONAL DONORS ARE TRYING TO SUPPORT UKRAINIAN ECONOMY BY FINANCING LEASING COMPANIES. IN MAY, THE EBRD PROVIDED A LOAN OF USD 25 MILLION TO UNICREDIT LEASING UKRAINE TO BE USED FOR FINANCING LEASING PROJECTS IN THE REAL SECTOR OF UKRAINIAN ECONOMY. IT IS STRESSED THAT LEASING IS AN ALTERNATIVE FINANCIAL TOOL, FIRST OF ALL, FOR SMALL COMPANIES WHICH DO NOT HAVE THE RESOURCES TO PURCHASE EXPENSIVE EQUIPMENT. AGAINST THE BACKGROUND OF CURRENT LIQUIDITY CRISIS, LONG-TERM FINANCING PROVIDED THROUGH LEASING COMPANIES GIVES NECESSARY SUPPORT FOR THE LOCAL BUSINESSES.

III. EXECUTIVE SUMMARY – LEASING UKRAINE

Using data provided by the State Commission for Regulation of Financial Services Markets in Ukraine as well as State Statistics Committee of Ukraine, ATCI established that the “penetration rate,” (defined as the rate at which financial leasing is used as a method of acquiring capital equipment) amounted to 3.9% in the 1st Quarter of 2009 as compared to 7.5% for the respective period in 2008. The amount of new leases decreased by nearly 60% as compared to the previous year and was USD 127 million (see **Attachment 22**). Such drop was caused by continued shortage of sources of financing available to leasing companies and lack of solvent clients.

On May, 28, ATCI, Ukrainian League of Industrialists and Entrepreneurs and All-Ukrainian Union of Lessors held a Leasing Seminar for Public Officials to increase their awareness about this financial tool (See **Attachment 23**). Among the participants of the seminar there were representatives of Ministries of Economy, Finance and Justice, Verkhovna Rada Committees on Tax and Customs, Economic and Agrarian Policy, National Bank of Ukraine, State Tax Administration, etc (See **Attachment 24**). Main ideas that were conveyed to the participants were as follows: 1) leasing is a part of the financial market; 2) in Europe, leasing is the key means of capital investment (in 2007, the size of European leasing market was EUR 339 billion, in the United States – EUR 168 billion) The average leasing penetration rate in Europe in 2008 was 28% while in Ukraine it's only 4.1%; 3) according to the World Bank, Ukraine needs around USD 106 billion to renew capital assets, 60% of which may be financed through leasing; 4) key impediments to the development of leasing in Ukraine are excessive tax burden, exchange rate risk and complexity of the procedure of leased assets repossession; 5) developing leasing in Ukraine will help the government to attract more foreign direct investments, create new jobs and decrease financing rates; 6) leasing market in Ukraine is functioning on its own now with very little interaction with the authorities both in terms of supervision and support as a result of which nothing is done to ensure favorable conditions for its development. The seminar participants showed their interest in leasing market dynamics, advantages of leasing vs. credit, taxation-related issues. In particular, representatives of Verkhovna Rada Committee on Taxation and Customs expressed their intent to engage ATCI experts in the elaboration of relevant amendments to tax laws which would eliminate current inconsistencies and create a more favorable environment for the development of leasing in Ukraine.

In April-June, ATCI continued to participate in the work of the Leasing Commission within the Ukrainian League of Industrialists and Entrepreneurs. During that period, the Commission focused on pushing forward its legislative initiatives, in particular, as the Anti-crisis Draft Law no. 3306 did not pass the first reading in Verkhovna Rada and was returned for revision and following consultations with Rada Committee on Tax and Customs Policy it was decided to prepare a separate draft law which would include all the proposed

amendments and find a relevant MP to introduce it to the parliament. With that aim, it was also decided to join efforts with transport and construction lobby in Rada.

In June, the Leasing Manual drafted by ATCI and Certified Lease Specialists was published. This Manual is the first attempt of a comprehensive study of macro- and microeconomic aspects of leasing business in Ukraine and its comparison with best international practices in this field. It was designed to be used by employees of leasing companies who could benefit from the practical experience of its authors as well as by higher educational establishments which could use this Manual as basis for their curriculums and start preparing specialists in leasing. The Leasing Manual will also complement the CLS training and contribute to the sustainability of the NGO which received the rights to it. It was decided that Certified Lease Specialists and higher educational establishments would get the Manual free of charge, while leasing companies would enjoy only the first free copy and would have to pay the donation of UAH 200 for the following copies. The funds raised will be used by the NGO for recruiting an Executive Director and further promotion and development of the CLS designation. ATCI will hold a Lease Manual (media) presentation early next quarter.

On June, 30, ATCI held the 7th CLS Awards Ceremony. Awarded were 9 individuals who took the training offered by Kompas, the official training provider, in March-April, 2009, and passed all three certification exams. Thus, the total number of Certified Lease Specialists in Ukraine amounted to 104 people (48 men, 56 women). That was the last ceremony conducted by ATCI and from now on the NGO will be totally responsible for all CLS-related activities.

Together with the CLS Awards Ceremony, the 5th General Meeting of the Certified Lease Specialists Union was held. The discussion touched upon the legal and technical aspects of CLS Program transition to the NGO, approving of relevant internal regulations, presentation of the Leasing Manual and defining of short-term work plans (See **Attachment 25**). The participants were informed that the NGO already had its bank account set up where they could transfer their membership dues and that the CLP Foundation was finalising the license agreement with the NGO which would make the latter the exclusive administrator of the CLS Program in Ukraine. The members approved the Procedure for Compiling and Structuring of CLS Exams and set up a working group to decide on the channels of distribution of the Leasing Manual. Also, all CLS graduates were encouraged to contribute their articles to the next issue of the NGO's newsletter.

ATCI as well as other international donors and leasing community have long been encouraging the Ukrainian authorities to introduce the accelerated depreciation of the 3rd group of assets, that is, equipment, in order to boost up the development of leasing which would help to renew the capital assets of Ukrainian companies. Finally, effective as of March 31, 2009, such measure was introduced on a temporary basis as part of anti-crisis measures. The relevant amendment adapted to the Law of Ukraine on Corporate Tax provided for 25% annual rate of depreciation for such assets. However, that amendment provided for annual calculation of depreciation while tax laws in force envisaged that depreciation was calculated every quarter which presented a conflict and required clarifications by the State Tax Administration. The latter explained that such rate of depreciation was to be used by the companies only in the end of the reporting year. Despite its positive message, the actual effect of this measure is minimal since 25% depreciation rate is 6.94% per quarter as compared to 6% which existed before the amendment.

IV. ADMINISTRATIVE ISSUES – LEASING UKRAINE

NONE

V. DESCRIPTION AND STATUS OF TASKS – LEASING UKRAINE

Task I. Financial Leasing – Building Participant Capacity

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> • Polling the financial community for interest in leasing courses from which successful participants will graduate as certified financial lessors 	<ul style="list-style-type: none"> • COMPLETED
<ul style="list-style-type: none"> • Design and launch 1-3 day leasing seminar 	<ul style="list-style-type: none"> • COMPLETED
<ul style="list-style-type: none"> • Deliver seminars for other industry participants 	<ul style="list-style-type: none"> • COMPLETED
<ul style="list-style-type: none"> • Prepare and launch seminars for potential lessees and CLP trainees in the regions 	<ul style="list-style-type: none"> • N/A
<ul style="list-style-type: none"> • Develop strategy for CLP program for ukraine <ul style="list-style-type: none"> a) Development of content/study-guide b) Develop training modules c) Develop examination d) Establish local training providers e) Begin program f) Establishment of ngo g) Expand the clp training regionally h) Maintain the relevance of the CLP body of knowledge and examination questions i) Establish the sustainability of NGO j) Ensure the transition of the CLP program under the auspices of NGO 	<ul style="list-style-type: none"> • COMPLETED • COMPLETED • COMPLETED • N/A. • COMPLETED • COMPLETED • N/A • N/A • ATCI GRANTED RIGHTS TO THE LEASING MANUAL TO THE NGO THUS PROVIDING IT WITH A GOOD SOURCE OF INCOME TO FINANCE FURTHER DEVELOPMENT OF THE CLS PROGRAM. IT IS SUGGESTED THAT THE NGO COULD REQUEST A DONATION OF UAH 200 FROM LEASING COMPANIES AND UAH 100 FROM INDIVIDUALS IN RETURN FOR THE MANUAL. • THE PROCESS OF TRANSFERRING THE LICENSE FOR THE CLS PROGRAM TO THE NGO FROM THE CLP FOUNDATION CONTINUED. • ATCI ELABORATED THE PROCEDURE FOR COMPILING AND STRUCTURING CLS EXAMS WHICH WAS APPROVED BY THE NGO'S GENERAL MEETING AND WHICH SHOULD FURTHER ENSURE THE HIGH LEVEL OF THE PROGRAM AND OBJECTIVENESS OF THE EXAMINATION PROCESS

Task 2. Financial Leasing – Information Network

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> Initiation 	<ul style="list-style-type: none"> COMPLETED
<ul style="list-style-type: none"> Hold / participate in conferences/roundtables on state of leasing industry for gov't officials, media and industry participants 	<ul style="list-style-type: none"> ON MAY 28, 2009, ATCI CO-SPONSORED THE LEASING SEMINAR FOR PUBLIC OFFICIALS AIMED AT RAISING THEIR AWARENESS ABOUT THE SIGNIFICANCE OF LEASING, PROBLEMS WHICH IMPEDE ITS DEVELOPMENT AND WHAT THEY CAN DO TO SOLVE THEM. ATTENDING THE SEMINAR WERE 25 REPRESENTATIVES OF THE MINISTRIES OF FINANCE, ECONOMY, JUSTICE, TRANSPORT AND COMMUNICATIONS, REGIONAL DEVELOPMENT AND CONSTRUCTION, VERKHOVNA RADA, NATIONAL BANK OF UKRAINE, STATE TAX ADMINISTRATION, ETC.
<ul style="list-style-type: none"> Prepare and distribute educational materials on various aspects of international best practice and practice in Ukraine 	<ul style="list-style-type: none"> N/A
<ul style="list-style-type: none"> Prepare and distribute manual on 'Leasing in Ukraine' 	<ul style="list-style-type: none"> THE LEASING MANUAL WAS PUBLISHED AND PRESENTED TO CERTIFIED LEASE SPECIALISTS. IT IS ALSO PLANNED TO DISTRIBUTE IT AMONG HIGHER EDUCATIONAL ESTABLISHMENTS OF UKRAINE FREE OF CHARGE AND AMONG LEASING COMPANIES IN RETURN FOR DONATIONS PAID TO THE NGO. ATCI WILL HOLD A LEASE MANUAL (MEDIA) PRESENTATION EARLY NEXT QUARTER

Task 3. Financial Leasing – Market Research

Defined Activity	Progress Made During Quarter/Proposed Future Actions
<ul style="list-style-type: none"> Design and track a system of indicators reflecting the macro situation on the leasing market 	<ul style="list-style-type: none"> USING GOVERNMENT DATA, ATCI ESTABLISHED THAT PENETRATION RATE (RATE AT WHICH FINANCIAL LEASING IS USED AS A METHOD OF ACQUIRING CAPITAL EQUIPMENT) IN THE 1ST Q OF 2009 WAS 3.9% AS COMPARED TO 7.5% FOR THE SAME PERIOD IN 2008. THE AMOUNT OF NEW LEASES WAS USD 127 MILLION WHICH IS 60% LOWER THAN IN THE PREVIOUS YEAR. LEASING PORTFOLIO AS OF MARCH, 31, WAS USD 3.7 BILLION.
<ul style="list-style-type: none"> Prepare and carry out a survey covering main leasing macro indicators 	<ul style="list-style-type: none"> N/A
<ul style="list-style-type: none"> Monitor leasing activities of major foreign banks in Ukraine 	<ul style="list-style-type: none"> N/A

Task 4. Financial Leasing - Consulting Services

Defined Activity	Progress Made During Quarter/Proposed Future Actions
• Initiation of assistance services	• COMPLETED
• Translation-based advisory services	• N/A
• Provide advisory services on selected basis to lessors and other market participants	• N/A
• Assist new market entry on selected basis	• N/A
• Provide consulting on organizational and management Issues	• N/A
• Assistance in securing financial sources	• N/A

LIST OF ATTACHMENTS – LEASING UKRAINE

ATTACHMENT 22: Leasing Market Dynamics as of the 1st Quarter of 2009

ATTACHMENT 23: Agenda of the Leasing Seminar for Public Officials

ATTACHMENT 24: List of Participants of the Leasing Seminar for Public Officials

ATTACHMENT 25: Minutes of the 5th General Meeting of the NGO

F. CREDIT BUREAU/CREDIT RATING AGENCY – Ukraine

This report provides details on events and Activities relating to the Credit Bureau/Credit Rating component of the USAID Access to Credit Initiative, as implemented by the Pragma Corporation, during the period from April 1, 2009 through June 30, 2009.

I. COMPONENT DESCRIPTION – CREDIT BUREAU UKRAINE

The objective of this Activity is to establish and develop a Credit Bureau in Ukraine, which 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.

II. PREVIOUS SIGNIFICANT EVENTS - CREDIT BUREAU UKRAINE

- ATCI PARTICIPATES IN THE MINFIN WORKING GROUP TO DRAFT A LAW CONCERNING ACTIVITIES AND REGULATION OF COLLECTION AGENCIES. THE MAJOR CONCERN OF ATCI IS TO KEEP CONSUMER PRIVATE INFORMATION CONFIDENTIAL, AND THUS TO PREVENT THE POSSIBILITY FOR THE COLLECTION AGENCIES RECEIVING CREDIT REPORTS FROM THE CREDIT BUREAUS OR THIRD PARTIES
- ATCI, IN PURSUIT OF MARKET EDUCATION AND PUBLIC AWARENESS EFFORTS, PUBLISHES 10,000 COPIES OF FAQ BROCHURE ON CREDIT BUREAUS, DISTRIBUTING TO THE CREDIT BUREAUS AND THEIR FINANCIAL INSTITUTIONAL PARTNERS; THIS LIMITED AMOUNT USED AS PILOT TO DETERMINE RESPONSES AND NEED FOR ADDITIONAL PUBLISHED AMOUNT
- VERKHOVNA RADA ADOPTED AMENDMENTS TO THE LAW OF UKRAINE N2316 “ON ORGANIZING THE FORMATION AND CIRCULATION FOR CREDIT HISTORIES” 4TH OF MARCH. AUTHORITY FOR SUPERVISION AND LICENSING HAS BEEN TRANSFERRED FROM MINJUST TO FSR. ALTERNATIVE DRAFT LAW N2507 WAS RETURNED TO THE FIRST READING

III. EXECUTIVE SUMMARY – CREDIT BUREAU UKRAINE

During this quarter, April-June 30, 2009, ATCI made an analytical review of the comments which were made by different state bodies on MinJust’s draft of Law On Introduction of the Amendments to Current Law about the Credit Bureaus Activity. The draft Law introduces the right of the Credit Bureaus to inquire about information from the state register of the physical entities, i.e., taxpayers, by State Tax Administration.

Regulatory authority over credit bureaus had been transferred from the MinJust to the FSR; ATCI sent a letter to the Chairman of the State Commission for Regulation of Financial Services Markets of Ukraine (FSR) with request to organize a meeting for discussion of the regulation Credit Bureaus. ATCI anticipates having this meeting early in the next quarter.

ATCI participated at the Conference on Bank Toxic Assets. The director of the First All Ukrainian Bureau of the Credit Histories stated that the number of requests from the bank-partners is decreasing as the result of decreased lending activity. The bank-partners do not support the credit bureaus with information

concerning existing loans; ATCI strongly recommended credit bureaus **not** to sell credit history information to collection agencies (a major topic of conversation with the FSR; see above).

IV. COMPONENT DESCRIPTION - CREDIT RATING UKRAINE

ATCI Credit Rating component is aimed at promoting the development of competitive, fair, and effective credit rating industry in Ukraine.

The focus for ATCI during this last portion of the project is to eliminate mandatory credit ratings requirements, through amendments to provisions of related legislative documents. In this regard, ATCI has recently partnered with the Ukrainian League of Industrialists and Entrepreneurs (ULIE) to draft credit rating legislation, eliminate mandatory credit ratings and use of national scales, and to hold public and professional forums to raise awareness of best practices.

V. SIGNIFICANT EVENTS THIS QUARTER - CREDIT RATING UKRAINE

- NEW SSMSC CHAIRMAN PETRASHKO ANNOUNCED ON 5 JUNE 2009 THE PLANS OF THE SECURITIES COMMISSION TO ELIMINATE MANDATORY CREDIT RATINGS FOR ISSUERS
- ATCI MEETS WITH CHAIRMAN PETRASHKO, AGREEING TO WORK TOGETHER ON THE LEGISLATION FOR ELIMINATION OF MANDATORY CREDIT RATINGS
- ATCI ORGANIZED A SECOND ROUND TABLE ALONG WITH ULIE WITH REGARD TO ELIMINATION OF MANDATORY CREDIT RATINGS IN UKRAINE; WORKING GROUP ESTABLISHED TO DISCUSS DRAFT LAW ON CREDIT RATINGS; ATCI SUBMITTED FOR CONSIDERATION TO THE WORKING GROUP A DRAFT LAW 'ON SYSTEM OF CREDIT RATING IN UKRAINE'
- ATCI HELD MEETING WITH UAIB; UAIB PROMISED FOR FINDING A QUALIFIED MP TO SUBMIT AND IN SUPPORT OF THE DRAFT LAW TO PARLIAMENT
- EUROPEAN PARLIAMENT ADOPTED A LEGISLATIVE RESOLUTION ON 23 April 2009 ON RATING AGENCIES.

VI. EXECUTIVE SUMMARY - CREDIT RATING UKRAINE

Brief Historic Note

The mandatory rating requirement came into existence in late 2004. This required those companies wanting to issue ratings in Ukraine to be selected by tender conducted by the SSMSC. One key requirement was that the ratings company be a Ukrainian legal entity. This requirement limited participants to only a few ratings and kept the internationally recognized rating agencies out all together. Only the domestic credit ratings agency, "Credit Rating (CR)" received authority from the SSMSC to offer ratings to Ukrainian issuers. Effectively, any company or municipality that wanted to issue securities had to use them or an internationally recognized credit rating service provider, such as Moody's, Standard and Poor's, or Fitch. The

mandatory requirement remains in effect to this day and accounts for the exceptional growth of CR. This expense to be in compliance with this requirement is often the reason why municipalities and other potential corporate issuers forego the possible bond issuance. It has been noted that requiring mandatory credit ratings for a bond issuance is NOT international best practices.

VII. ADMINISTRATIVE MATTERS – CB/CR UKRAINE

NONE

VIII. DESCRIPTION AND STATUS OF TASKS – CB/CR UKRAINE

Task . Credit Bureau: Assessment of Credit Bureau Status and Establishment of Credit Bureau System in Ukraine--COMPLETED

Defined Activity	Progress made during quarter/proposed future Actions
1. Develop and establish linkages with primary international credit bureau operators	• COMPLETED
2. Secure buy-in of local data providers and users	• COMPLETED
3. Sponsor visits to potential foreign CB partners	• COMPLETED
4. Determine and review CIC development strategy with government and counterparts	• COMPLETED
5. Market best approach for structuring, establishing and operating CIC	• COMPLETED
6. Analyse and Coordinate passage of law	• COMPLETED
7. Define Business and Operations Plan	• COMPLETED
8. Outline Package of Technical Requirements	• COMPLETED
9. Discussions with Government Data Providers	• COMPLETED

Task 2. Credit Bureau: Development and Promotion of Credit Bureau System in Ukraine

• Secure Buy-in of Foreign Investors and Banks	• COMPLETED
• Develop and Deliver Package of Training Programs (banks, leasing, credit unions)	• COMPLETED
• Assist the Ministry of Justice in drafting regulations governing CB operations	• ATCI REQUESTS MEETING WITH NEW REGULATOR OF CREDIT BUREAUS, FSR; ANTICIPATED MEETING EARLY NEXT QUARTER
• Deliver educational workshops for the specialists of the Ministry of Justice and other state agencies	• COMPLETED

<ul style="list-style-type: none"> • Discuss participation in international credit bureau conference to be held in Kyiv/Ukraine 	<ul style="list-style-type: none"> • COMPLETED
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CREDIT RATING COMPONENT	
<ul style="list-style-type: none"> • Assist in the development of competitive and fair ratings industry 	<ul style="list-style-type: none"> • NEW SSMSC CHAIRMAN ANNOUNCES PLANS FOR SECURITIES COMMISSION TO ELIMINATE MANDATORY CREDIT RATINGS • ATCI MEETS WITH NEW SSMSC CHAIRMAN FOR AGREEMENT TO WORK TOGETHER IN ELIMINATION OF MANDATORY CREDIT RATINGS THROUGH ELIMINATION OF RELATED PROVISIONS OF EXISTING LAWS AND REGULATIONS AND SUBMISSION OF NEW CREDIT RATING LAW • ATCI ORGANISED A SECOND ROUND TABLE ALONG WITH ULIE WITH REGARD TO ELIMINATION OF MANDATORY CREDIT RATING IN UKRAINE.
<ul style="list-style-type: none"> • Analyze existing regulatory framework 	<ul style="list-style-type: none"> • ATCI CONTINUES TO ANALYSE AND MONITOR EXISTING LEGISLATION AND REGULATORY FRAMEWORK
<ul style="list-style-type: none"> • Market participants 	<ul style="list-style-type: none"> • DOMESTIC “CREDIT RATING” REMAINS ONLY AUTHORIZED (BY THE SSMSC) DOMESTIC CREDIT RATINGS AGENCY; ATCI STRONGLY RECOMMENDS TO SSMSC CHAIRMAN TO AUTHORIZE OTHER QUALIFIED DOMESTIC CREDIT RATINGS AGENCIES

LIST OF ATTACHMENTS – CB/CR UKRAINE

NONE

G. GENDER – Ukraine

I. COMPONENT DESCRIPTION – GENDER UKRAINE

This report details events and Activities relating to Gender of the USAID Access to Credit Initiative, implemented by the Pragma Corporation, during the period from April 1-June 30, 2009

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.

ATCI management recognizes 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; and
- 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 ATCI will work to balance the composition by gender of groups being trained by the project.

Pragma continues to partner with local organizations managed by women or consisting mostly of women. Three good examples are the Association of Ukrainian Banks and the Commercial Law Center as well as the PFTS securities trading system.

II. SIGNIFICANT EVENTS AND ACHIEVEMENTS – GENDER UKRAINE

- TO DATE, THERE ARE 104 CLS GRADUATES, 56 (54%) WOMEN, 48 MEN IN UKRAINE; CERTIFICATE CEREMONY FOR THE 9 NEW CLS GRADUATES TOOK PLACE ON JUNE 30, 2009.
- TO DATE, THERE ARE 113 CML GRADUATES, 54 WOMEN (48%), 59 MEN IN UKRAINE; CML COURSE POSTPONED THIS QUARTER DUE TO LACK OF RESPONSES
- IN MOLDOVA, WHERE ATCI COMPLETED THE PROJECT LAST QUARTER, THERE WAS A TOTAL OF 131 CERTIFIED MORTGAGE (CML) AND LEASING (CLS) PROFESSIONALS; OF THIS TOTAL, 82 (OR 63%) ARE WOMEN.

III. EXECUTIVE SUMMARY – GENDER UKRAINE

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 Ukrainian National Mortgage Association, the Association of Ukrainian Banks, the Commercial Law

Center and other organizations that 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.

In Leasing, a number of participants in CLS training included women. All ATCI training and professional development strives for gender balance during the invitation process as well as in delivery of content. Post - event analysis is conducted to understand the reasons for underweighting when it occurs.

The Project's full-time staff includes 11 women out of 21, some of whom have professional and technical skills in finance and law.

IV. ADMINISTRATIVE ISSUES – GENDER UKRAINE

NONE

V. DESCRIPTION AND STATUS OF TASKS – GENDER UKRAINE

Defined Activity	Progress Made During Quarter/Proposed Future Actions
1. 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, IBSER AND OTHER ORGANIZATIONS WHICH UNDERSTAND THE IMPORTANCE OF GENDER SENSITIVITY RELATED TO PRODUCT AND THE DEVELOPMENT OF SERVICES.
2. Increasing the role of women in the financial sector through training and /or other initiatives	<ul style="list-style-type: none"> • THE STAFF OF ATCI INCLUDES WOMEN AND MEN WITH PROFESSIONAL AND TECHNICAL SKILLS IN FINANCE AND LAW. • ALL PROJECT TRAINING STRIVES FOR AN EVEN BALANCE OF MEN AND WOMEN. • TO DATE, THERE IS A TOTAL OF 217 CERTIFIED MORTGAGE (CML) AND LEASING (CLS) PROFESSIONALS IN UKRAINE; THERE IS A TOTAL OF 109 THAT ARE WOMEN, OR 51%. • IN MOLDOVA, WHERE ATCI COMPLETED THE PROJECT LAST QUARTER, THERE WAS A TOTAL OF 131 CERTIFIED MORTGAGE (CML) AND LEASING (CLS) PROFESSIONALS; OF THIS TOTAL, 82 (OR 63%) ARE WOMEN.
3. Gender and cultural sensitization training	<ul style="list-style-type: none"> • GENDER SENSITIVITY IS PRATICED DAILY BY ALL ATCI STAFF DURING EVERY STAFF MEETING AND HIGHLIGHTED AT THE ANNUAL STAFF RETREAT

LIST OF ATTACHMENTS – GENDER UKRAINE

NONE

-- END ATCI UKRAINE --

ATTACHMENT 1



USAID
FROM THE AMERICAN PEOPLE

ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING.

The Access to Credit Initiative

Quarterly Review

June 5, 2009

Natalia Berezhna, COTR

Presented by Rick Dvorin, COP

ATCI

Funded by USAID/Ukraine, Implemented by The Pragma Corporation



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ACCESS TO CREDIT INITIATIVE
GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING.

ATCI Mission Statement

To strengthen Ukraine's financial sector through development of the mortgage industry, financial leasing, and public finance - facilitated by a functioning credit bureau and growth of secondary market trade (in government, mortgage, municipal, and, asset backed securities) that deepens credit markets and expands the availability of capital.

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ACCESS TO CREDIT INITIATIVE

GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING,

Components of ATCI

- Fixed Income Government Securities
- Mortgages and Mortgage-Covered Securities
- Municipal Finance
- Leasing
- Credit Bureau and Credit Ratings

This review will show:

- (1) **Major activities** worked on in past three months; (2) **activities** to be done for next three-four months; and (3) **key accomplishments** during past three months in each component area. Also shown are expenditures and budget numbers for the Project.

Project end date is September 30, 2009.

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ACCESS TO CREDIT INITIATIVE

GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING,

Fixed Income Component—Government Bonds

ATCI Government Debt Activity is designed to assist the Government of Ukraine in developing a long-term (7-10 year) liquid government debt securities market in domestic treasuries and its corresponding yield curve that serves as the benchmark for the pricing of other fixed-income securities in Ukraine.

Major Activities:

- Developing domestic government bond market at market pricing, with a functioning Primary Dealer system for construction of a long-term yield curve
- Developing design for a functioning Repurchase/Reverse Repurchase Market

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ACCESS TO CREDIT INITIATIVE

GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING,

Fixed Income Component—Government Bonds

Activities to be Done:

- Establishment and implementation of the Primary Dealer system, with obligations and benefits
- Establishment of the Repo/reverse repo market
- Improve publicity and transparency of pre-auction and post-auction information; public relations division to have continuous communications with PDs; investors; counterparts of govt. bond market
- NBU to allow commercial banks to voluntarily hold agreed percentage of their required reserves in short-term government securities
- Amend Laws and Regulations to relax restrictions on financial institutions holdings of government securities (currently capped at 50%)
- Create a saving vehicle accessible to general public of Ukraine to easily purchase government securities

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ACCESS TO CREDIT INITIATIVE

GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING,

Fixed Income Component—Government Bonds

Key Accomplishments :

- Along with AKK (Hungarian Debt Management Agency) (1) analyzed current situation in Ukraine regarding domestic government bond market; (2) made recommendations for development; and (3) presented a time sensitive action plan for initiation of domestic government bond market.
- Drafted and Presented MOF with documents necessary to establish a Primary Dealer system, including draft resolution on primary dealers, draft procedure for selection of PDs, and draft standard agreement on supporting government bond market.
 - CabMin adopted the instruction on approval of the concept of the domestic government bond market development for 2009-13.
- Drafted and Presented Repo/reverse repo methodology for MOF and NBU for establishment of this Repo market.
 - CabMin soon expected to adopt this methodology for MOF/NBU implementation
- Conducted several meetings with MOF and NBU along with other market participants to initiate pilot program for domestic government bond issuance at market; introduction of PD system; introduction and utilization of Repo/reverse repo market; and establishment of public relations and marketing divisions within MOF for publicizing pre auction and post auction information; and attracting investors

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ACCESS TO CREDIT INITIATIVE

GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING,

Fixed Income Component—Government Bonds

Key Accomplishments (continued):

- MOF initiates domestic government bond auctions **at market rates** (all banks invited to participate)
 - Market rate auctions initiated in pilot program on May 14, 2009; every Monday since then;
 - 12 auctions on bills and notes to date;
 - maturities from 3 months to 3 years (yield curve now at 3 yrs);
 - funds raised for the state budget from sales at UAH 784 million (over \$100,000,000);
 - MOF and NBU initiates the publicizing of results (not yet sufficient info.) of auctions on web sites; Bloomberg does same.



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ACCESS TO CREDIT INITIATIVE

GOVERNMENT SECURITIES, MORTGAGE, MUNICIPAL FINANCE, LEASING, CREDIT BUREAU, CREDIT RATING,

Mortgage Component

ATCI is establishing a viable, effective and efficient mortgage lending sector in Ukraine. ATCI is providing technical and advisory assistance, and training to commercial banks and other mortgage lenders engaged in or willing to start mortgage lending market operations, and to associations such as the Ukrainian National Mortgage Association (UNIA), the Association of Ukrainian Banks (AUB), the Ukrainian Association of Realtors, appraisal associations, the State Mortgage Institution (SMI) and others involved in the mortgage industry. ATCI delivers methodologies for the issuance of mortgage covered bonds by banks and other mortgage lenders to liquefy their mortgage portfolios, therefore making additional money available for credits.

Major Activities:

- Assist UNIA to become sustainable to continue to train mortgage professionals and build capacity of mortgage lenders
- Assist SMI to become an operational liquidity facility supporting mortgage lenders in their financing needs



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Mortgage Component

Activities to be Done:

- CabMin's and SMI's acceptance of ATCI's financing scheme to have SMI bonds being issued to help provide liquidity to and help finance banks, thus activating the mortgage market
- Train SMI professionals in areas related to risk management and operating in this crisis environment
- Adoption of amendments to Covered Bond Law; Assistance in Mortgage Covered Bond Issuance as requested
- Ensure viability of UNIA's business plan for sustainability; assist UNIA in their trainings and capacity building efforts
- Utilization of universal appraisal methodologies in Ukraine
- Effect the merger of the RE associations; establishment and utilization of transaction data base

Key Accomplishments:

- ATCI held joint seminar with UNIA on "State Policy in Housing Financing" to build capacity of mortgage lenders, presenting case studies and examples from other countries' experiences on creating mutually beneficial policies
- ATCI and SMI establish a working group for promoting SMI's work with banks' mortgage assets; ATCI presents to SMI a scheme that involves the issuance of SMI mortgage-covered bonds to finance banks
 - SMI mortgage bonds included in the list of eligible pledges for NBU refinancing
 - SMI schedules UAH 1 billion of CabMin-Guaranteed bonds for 2009; schedules issuance of UAH 150 million of mortgage bonds

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Municipal Finance Component

ATCI has provided assistance to city councils in preparation for bond issuance by helping the city determine its investment priorities, preparing for and facilitating the credit rating for the city and the issue, structuring the issue, preparing necessary documentation to obtain borrowing approval from the MOF Ukraine, drafting tender documents and advising on the competitive process necessary to select an underwriter, and preparing necessary documents to register the issue with the SSMSC.

Major Activities:

- Drafting Law and amendments on Local Borrowing to ease access to credits for municipalities
 - Developing legislative basis for Muni. Finance Facility that may become a financial source for municipal financing
- Assisting Municipalities in bond issuance upon request
 - Energodar (pop. 52,000), Lviv, and Odessa assisted by ATCI
- Presenting workshop with AUC on bond issuance to educate more cities as to alternatives to bank financing

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Municipal Bond Component

Activities to be Done:

- Presentation of workshop on Draft Local Borrowing Law, with partner AUC
- Adoption of legislation on Local Borrowing
- Continued assistance to municipalities in (1) easing constraints to borrowing/issuing and (2) issuance of muni. bonds to gain efficient financing
- Secure financing for MFF

Key Accomplishments:

- ATCI developed and submitted proposals on draft amendments to the budget code and CabMin resolutions on procedures for local borrowings, included provisions for development and functioning of a Municipal Finance Facility;
 - When adopted, municipalities will have easier and less costly avenues of gaining financing
- ATCI initiated methodology on pilot municipal repo transactions with domestic govt. bonds to avoid loss of local budget funds due to insolvency of state banks within the financial crises environment.
- Advised Lviv on draft city council resolution on issuing bonds regarding more realistic interest rates and bond characteristics (e.g., put options)
- Advised Energodar in its debut muni bond issue
- Promoted inclusion of the legislative initiative to permit primary placements of interest bearing muni bonds below par, allowing the municipalities to cut expenses during the early years of the bond's life.

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Leasing Component

The Leasing Component contains two major activities – (1) the Certified Leasing Specialist (CLS) Program; (2) advisory services directed at both local lessors as well as investor groups interested in entering the Ukrainian Leasing Market. The CLS Program awards certificates to individuals who pass a set of three exams, thus insuring that a pool of qualified candidates is available to help accelerate the growth of the industry in Ukraine. Advisory Services are designed to broaden the capacity of companies already in the market, as well as to assist companies entering the market, either as operating leasing companies, vendors, or as outside investors.

Major Activities:

- Drafting, editing, and publishing of Leasing Manual to become a basis of university courses as well as a staple for each leasing company in broadening their capacity
- Maintaining relevancy of CLS Body of Knowledge; drafting new and updated sets of exam questions to ensure high quality of CLS offering services to the public
- Assisting in sustainability of Lease NGO to guarantee continued quality control of CLS capabilities and understanding of the leasing market in Ukraine

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Leasing Component

Activities to be Done:

- Distribution of Leasing Manual
Execute distribution to certain parties for 'donations'
- Sustainability of Leasing NGO
Transferring CLS license from ATCI to NGO
- Monitoring leasing activities
- Providing advisory services as requested, to existing or new leasing companies and suppliers

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Leasing Component

Key Accomplishments:

- ATCI assisted NGO training; total number of CLS in Ukraine is at 105 (up from 95 last quarter)
- Contributed to legislative initiatives aimed at creating a favorable environment for the development of leasing
 - ATCI participated in and sponsored seminars for public officials to raise their awareness and understanding about leasing; focused on lowering of taxation of goods being imported for leasing.
- ATCI participated in the distribution of the annual leasing survey, analyzing results and presenting to interested leasing companies, vendors, investors, and government officials the developments (or lack thereof) in the leasing industry
 - E.g. findings (end 2008) showed a 40% drop in new leases as compared to 2007 and decrease in leasing portfolios in the 4th quarter of 2008.
- Held several meeting with NGO working group elaborating grant seeking strategies and plans to attract new members to ensure sustainability of NGO
 - Completed drafting of Leasing Manual; publishing to be completed along with the initiation of distribution this month

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Credit Ratings and Credit Bureau Components

ATCI Credit Rating component is aimed at promoting the development of competitive, fair, and effective credit rating industry in Ukraine. Ukraine faces great challenges in fostering further development of capital markets that enable efficient mobilization of domestic and foreign capital to support sustainable economic growth. Credit Bureaus serve as a primary tool to increase consumer access to financing, improve bank portfolio management, and lead to asset diversification and new banking products. Therefore, the creation of effective Credit Bureaus in Ukraine is essential for stimulating growth in the SME and consumer (mortgage, credit cards, micro-lending, car loans, etc) sectors.

Major Activities:

- Eliminating mandatory credit ratings requirement from legislation (partner ULIE); drafted credit ratings law to make issuing of securities more efficient and affordable
- Ensuring proper supervision of credit bureaus keeping customer information confidential
 - Participated in drafting of law on collection agencies
 - Prohibiting sale of credit histories to collection agencies
- Drafted, published, and distributed brochure on credit bureaus for public education and awareness, particularly in the area of customer rights

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Credit Ratings and Credit Bureau Components

Activities to be Done:

- Adoption of Credit Ratings Law eliminating mandatory credit ratings
 - In addition, amending other laws effected by elimination of mandatory credit ratings, to cause more efficiencies in issuing of securities
- Introduction/Adoption of Law on Collection Agencies to protect customer information
- Further distribution of brochure on credit bureaus to inform customers of their rights regarding credit bureaus

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Credit Ratings and Credit Bureau Components

Key Accomplishments:

- Drafted credit ratings law as well as provisions amending other laws effected by the elimination of mandatory credit ratings
- Participated in the drafting of law on collection agencies within MinFin working group
 - Stressed need to keep customer credit histories confidential
- Published and initiated distribution of brochure on credit bureaus to educate public on their rights (currently 5 licensed credit bureaus licensed)

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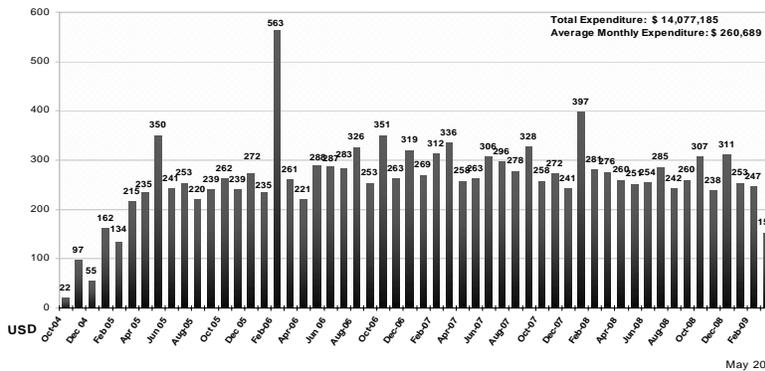


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Access to Credit Initiative
Cumulative Project Expenditure By Month
through March 31, 2009
(USD 1000)



ATCI

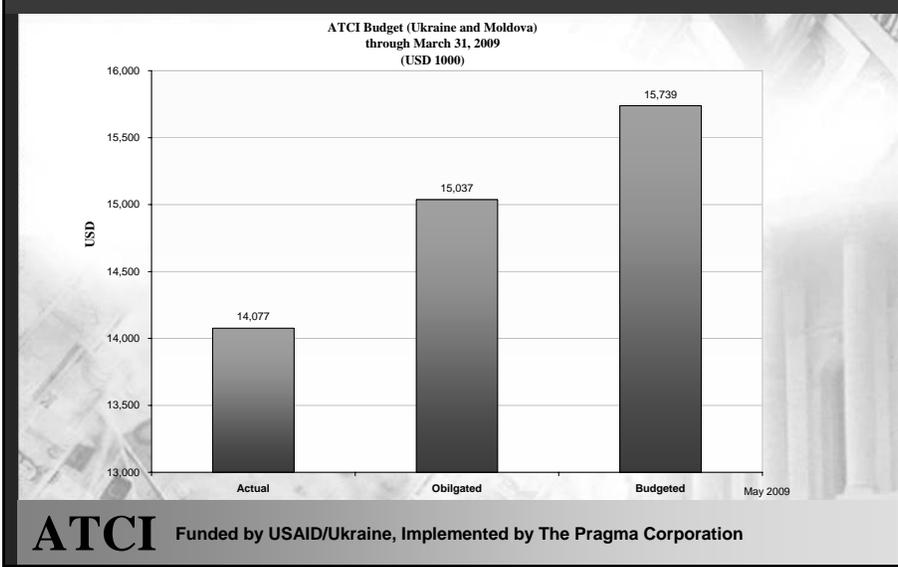
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ATTACHMENT 2

Event: Implementing Government Debt Management Strategies World Bank Workshop in Paris on June 8-14 2009 attended by
Polyna Yarova, Head of Sovereign Debt Planning, Accounting and Monitoring Section, MoF
Tetyana Koval, Senior Economist, Sovereign Debt Strategy and Management Section, MoF

Significance: The objective of this workshop was to provide the representatives of the MoF with a greater understanding of the process and the instruments which are available to implement the government's debt management strategy. The five-day workshop targeted the front office and incorporated practitioner presentations, hands on training tools, group problem solving and culminated in a final group exercise.

The presentations covered such topics as:

DESIGNING AND IMPLEMENTING A GOVERNMENT DEBT MANAGEMENT STRATEGY
INSTRUMENT CHOICE IN THE IMPLEMENTATION OF THE DEBT MANAGEMENT
STRATEGY

EXECUTION ISSUES IN THE DOMESTIC MARKET

ISSUING MECHANISMS FOR GOVERNMENT SECURITIES

DEBT PLACEMENT WITH PUBLIC SECTOR INVESTORS

FUNDING MECHANISMS OF EXTERNAL DEBT

OVERVIEW OF DERIVATIVES EXECUTING

SWAPS AND RISKS IN DERIVATIVES

During the exercise, the representatives of the MoF were given the government funding requirements spread over the year, estimates of the market absorptive capacity, the previous year funding plan and broad guidelines on the objectives of the issuance program. Based on that, they presented a funding plan for the year. This implied deciding on the timing, size and instrument type of issuance.

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ATTACHMENT 3



German Advisory Group
Institute for Economic Research and Policy Consulting

Policy Paper Series [PP/02/2009]

How to develop a public debt market for retail investors?

Ricardo Giucci, Robert Kirchner, Cyrus de la Rubia

Berlin/Kyiv, July 2009

About the Institute for Economic Research and Policy Consulting

Institute for Economic Research and Policy Consulting (IER) is the leading Ukrainian analytical think tank focusing on economic research and policy advice. The IER was founded in October 1999 by top ranking Ukrainian politicians and the German Advisory Group on Economic Reforms.

The mission of IER is to present an alternative point of view on key problems of social and economic development of Ukraine. In frame of the mission IER aims at providing top quality expertise in the field of economy and economic policy making; acting as real leader of public opinion through organisation of open public dialog; contributing to the development of economic and political sciences as well as promoting development of Ukrainian research community.

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About the German Advisory Group

The German Advisory Group on Economic Reforms, which is active in Ukraine since 1994, advises the Ukrainian Government and other state authorities such as the National Bank of Ukraine on a wide range of economic policy issues and on financial sector development. Our analytical work is presented and discussed during regular meetings with high level decision makers. The group is financed by the German Federal Ministry of Economics and Technology under the TRANSFORM programme and its successor.

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How to develop a public debt market for retail investors?

Executive Summary

While the major share of public debt by most states around the world is owed to institutional investors in the form of wholesale bonds, instruments specifically targeted at retail investors are gaining importance. Indeed, such retail bonds face some very positive features. From a fiscal point of view, retail bonds can decrease funding costs and stabilise the funding basis. In particular, they can reduce the dependency from foreign investors and lessen the vulnerability to exchange rate fluctuations. From an economic point of view, retail bonds can foster the saving activity by the population and bring cash hold under the mattress back into the formal economy (mobilisation of savings). On top, they can contribute towards developing capital markets. Given these positive features, it is hardly surprising that many countries have successfully developed a public debt market for retail investors. In view of Ukraine's plans to issue retail bonds soon, we review the international experience with these instruments and comment on the recent legislation adopted by the Cabinet of Ministers in Ukraine.

The bonds foreseen the relevant resolution are pretty simple: Bearer securities in documentary form with a face value of UAH 500, a 12 months maturity and fixed quarterly interest payments of UAH 20, which implies a yearly interest rate of 16%. In our view, this "plain vanilla" approach is the right way to get the market started and we clearly support this resolution. At the same time, we think that this initial stage should also be used to get more information about the preferences of the population (i.e. about the demand side). Consequently, we suggest offering not just a 12 month, but also a 6 month bond to savers. By comparing the demand for the two issues, the Ministry of Finance can gain valuable experience about the preferences of the people regarding maturity.

In the long term, we suggest introducing "paperless" (i.e. book entry) bonds, in order to reduce the relatively high issuance cost, which is clearly the most serious disadvantage of this instrument. Also, in order to increase competition at the distribution level, the marketing channel should be broadened from currently only Oshchadbank to all future primary dealers in government bonds. Finally, once the market gets going, the effective maturity of the bonds should be extended using different mechanisms.

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1. Introduction

Compared to many other countries, Ukraine has a relatively low level of public debt. Nevertheless, the country currently faces some problems serving the outstanding sovereign bonds and to raise new debt. While the main reasons for these problems lay in the current global financial crisis, the refinancing difficulties have also to do with the fact that most of the holders of Ukrainian sovereign debt are institutional investors and/or investors from abroad. The latter react generally more sensitive to turbulences than domestic bond holders. In addition, due to the high share of bonds denominated in foreign currency, the creditworthiness of Ukraine has suffered as the hryvnia has depreciated dramatically against major international currencies. Summing up, this means that the current funding basis is too narrow and the debt structure vulnerable to external shocks. Retail bonds (i.e. saving instruments for retail investors) could be an adequate mean to mitigate some of these challenges.

Against this background this paper intends to give answers to three questions, amongst others:

- Does it generally speaking make sense to establish a retail bond program?
- If so, which instruments should be introduced in Ukraine in the short-term?
- What should be the long-term objectives of a retail bond program?

2. Reasons for developing a retail market for government bonds – pros and cons

In most countries the main share of public debt is hold by institutional investors. Retail investors hold government bonds mostly in an indirect way through mutual funds, pension funds, life insurance etc. This is true for most developed countries as well as emerging economies. The main arguments against the introduction of retail bonds typically are the following ones:

- a) Costs: It is said that it is more cost efficient to sell big tickets of government bonds to a few institutional investors instead of selling the bonds in small denominations to millions of retail clients. Retail investors could, the argument goes, get exposure to sovereign debt through financial intermediaries like mutual funds.
- b) Competition: Often the financial sector claims that the financial products offered by the state represent an unfair competition, making it more difficult to gain deposits from the private sector as well as lowering margins when funds and other products are sold.
- c) Liquidity: Finally, the liquidity of the government bond market might suffer when a bigger share of public debt is sold as non-marketable bonds to retail investors.

While these arguments shouldn't be ignored, especially the points b) and c) are not of bigger relevance as long as the share of retail holders of government bonds remains below 20% or so. At the same time there are a few arguments which support the view that the development of a retail segment in the public debt market can make a lot of sense:

- a) Lower funding costs and stabilisation of the funding basis: The government can broaden its funding basis, intensifying by this way the competition for public debt instruments amongst investors. Ideally this leads to lower refinancing costs.

- b) Lowering dependence from foreign investors and immunizing against exchange rate movements: If a big chunk of public debt is financed in foreign currency the targeting of retail investors may represent an important step in the process of diversifying the structure of the public debt towards a bigger share of domestic currency and diminish the dependency from foreign investors. When Canada tried to revive its retail government bond program in 1996 one important target was to reduce its dependency from investors from abroad. In addition the impact of currency movements on the sustainability of the public debt could be reduced.
- c) Emergency lending: In the past many states have used retail bonds as a mean to finance wars or to get finance for reconstruction in the aftermath of natural catastrophes. In the US so called Liberty Bonds were issued to fund World War I.
- d) Fostering saving activity: The implementation of a retail bond program could serve the goal to foster a saving culture of private households. E.g. the retail program of South Africa explicitly focuses on the goal to change the weak saving culture.
- e) Improving the infrastructure of capital markets: If the public sector creates capital market instruments, which target retail investors, these could serve as a benchmark for the private sector. E.g. it may be possible that corporates start to issue small denominated bonds targeting retail investors as well.

It is clear that there is a trade off between higher costs, which come along with the development of the retail bond market on the one hand, and the advantages of having private households investing directly in the public debt market, on the other hand. At the end of the day the question if the implementation of a retail government bond market should be pursued depends not only on the pecuniary cost-reward structure of the project, but also on the socio-economic aims the government has in mind, such as improving the saving culture and the mobilisation of cash hold at home by the population). In addition, it should be considered that some targets may not be reached in the short, but rather in the long term.

3. Which instruments should be offered to retail investors?

3.1. Preferences from retail investors differ from those of wholesale investors

As a matter of principle the preferences of retail investors differ from those of institutional investors:

- **Denomination.** Small denominations are indispensable for retail investors to make government bonds accessible to private households with middle to low income. Wholesale investors only invest in much higher amounts.
- **Complexity.** Retail investors prefer generally easy-to-understand financial instruments. Ideally it should be possible to describe the main characteristics of the instrument in one or two sentences. E.g. a fixed rate bond could be described by its coupon and its maturity. In contrast, wholesale investors like also to buy more complex products e.g. linking the return to different kind of events, if this goes along with the possibility of higher returns or a better fit to e.g. the liability structure of the company. What is considered to be an "easy-to-understand" instrument may vary between countries.
- **Risk aversion.** It is safe to assume that the risk aversion of retail investors is on average higher than the risk aversion of institutional investors, although this attitude could change with the economic cycle. Often private households are inclined to forego some yield if the issuer guarantees that no capital loss will occur, even in the event of selling the instrument before final maturity. Likewise many retail investors fear liquidity risk. Instruments which allow investors to withdraw the money

before final maturity are probably favoured against those ones which do not carry this possibility, even at the cost of accepting a lower coupon.

- **Taxation.** Retail investors may find it attractive to buy financial instruments which are exempt from tax payments, not only due to the idea of saving money but also due to the fact that the administrative costs for the investor are much lower under these circumstances.
- **Documentary form.** Under certain circumstances it could make sense to deliver a true security document (or at least to provide for such a possibility). A simple record in the security account may not be sufficient for some investors, especially in such countries, where the capital market structure is less developed and the legal uncertainty leads to distrust against public and private institutions.

Against this background, many governments have decided to offer various products which are tailored especially for retail investors and which are in many cases not marketable. In many countries retail investors have the possibility to buy marketable securities in small denominations, though.

Table 1

Retail government debt programmes

Countries	Marketable	Non marketable
Belgium		Yes
Brazil	Yes	
Bulgaria		Yes
Canada		Yes
China		Yes
Germany	Yes	Yes
Indonesia		Yes
India	Yes	Yes
Ireland	Yes	Yes
Italy	Yes	Yes
Japan		Yes
Pakistan	Yes	Yes
South Africa		Yes
Sweden	Yes	Yes
UK	Yes	Yes

Source: The Euromoney international debt capital markets handbook (2007)

3.2. Characteristics of debt instruments for retail investors - Pros and cons of different instruments

Apart from the general characteristics of public debt instruments tailored for retail investors, the exact design of those instruments depends very much on the private investor's experience with respect to their savings in the past. Countries where hyperinflation occurred and/or people suffered due to massive depreciation of the domestic currency would certainly

look for instruments which act as a long term maintenance of value. This could be government bonds which are linked to inflation or to a foreign currency. In countries with a more stable macroeconomic background, investors might concentrate more on the issue of a stable yield. Below we will outline in a general way which retail instruments could be offered, analysing the main advantages and disadvantages for the investor and the state. The instruments a. to d. are discussed under the assumption that they must be held until the end of maturity and that they are not marketable. This means that investors face a liquidity risk. Point e. describes, how the "hold-to-maturity"-rule can be softened.

a) Inflation-indexed bonds: The coupons as well as the capital amount are usually linked to the consumer price inflation index

- Advantages for the investor: The investor is able to protect his assets against the loss of purchasing power. Indirectly he hedges against currency depreciations as in many countries an increase of inflation goes along with a depreciation of the currency (especially in longer periods of time)
- Advantages for the government: Assuming that inflation diminishes after the issuance of inflation-linked debt, the debt service would fall. It could even be argued that the issuance of inflation-linked debt represents an incentive to conduct an anti-inflationary policy.
- Disadvantage for the investor: The general consumer price inflation might deviate from the inflation of the individual basket of consumer goods of the investor. Therefore it is possible that – despite investing in inflation-linked instrument – people experience a loss of purchasing power.
- Disadvantages for the government: If inflation increases, the debt burden increases as well. There is no possibility – as is the case with classical fixed rate instruments – to lower the debt burden through higher inflation.

b) Exchange rate-indexed bonds: Both the coupon and the capital amount are linked to an international currency such as the USD or the EUR.

- Advantages for the investor: The investor gets the possibility to maintain the asset's value in terms of the foreign currency the instrument is linked to. For those countries where inflation is high and investors have little trust in the domestic inflation index, a linkage to an international currency might be preferred versus an indexation to inflation.
- Advantages for the government: As the currency-linked debt instrument is denominated in domestic currency, the public issuer does not need to have foreign exchange to serve this type of debt. In addition, the ex-ante yield of this debt should be lower than for fixed rate bonds.
- Disadvantages for the investor: The conservation of the purchasing power may be far from perfect as imported goods usually come from different countries with different currencies. Apart from that it is possible that the corresponding foreign currency depreciates.
- Disadvantages for the government: When the domestic currency depreciates heavily, the debt burden increases correspondingly. A vicious circle could evolve, as the higher debt burden means that the credit worthiness of the sovereign will suffer, which could lead to capital flight, meaning that the currency would lose further value and so forth.

- c) Bonds with variable interest rate: In this case the coupon is usually connected to a short-term key interest rate and adjusted on a regular basis (e.g. in Brazil, where the share of variable debt is significant, the central bank rate has been chosen). The coupon is paid on a quarterly or semi-annual basis. The capital amount does not change.
- Advantages for the investor: The investor does not run the risk of locking-in a low coupon in an environment of increasing interest rates. In addition, investors are protected to a certain amount against some kind of inflation assuming that short term interest rates move up when inflation increases. By the same argument, variable rate instruments offer a certain protection against depreciation of the domestic currency. However, in both cases it is only the coupon payments that may adjust indirectly to inflation and/or currency movements, not the capital amount.
 - Advantages for the government: Usually variable rate notes could be issued with longer maturities than fixed rate notes, as the investor does not run the risk of having locked in a low coupon in an environment of increasing interest rates. For the government it is easier to lengthen the maturity structure of the public debt portfolio thereby diminishing the refinancing risk
 - Disadvantages for the investor: Usually short-term interest rates are lower than long-term rates, which means that investors pass on some revenue.
 - Disadvantages for the government: The interest rate risk increases. If this instrument represents an important share of total public debt, a vicious circle can evolve: Assuming an increase of capital flight, this would go along with higher interest rates thereby increasing the debt service for variable interest debt. The credit worthiness of the sovereign would be hurt, leading to an accelerated capital flight and so forth.
- d) Fixed interest rate bonds: The coupon is determined beforehand and is paid once or twice a year. The capital amount will be repaid at the end of maturity.
- Advantages for the investor: Assuming an adequate compensation for the risks of buying this sort of instrument (especially risk of higher inflation), the yield of these bonds should be relative attractive. A further significant advantage is its simplicity and transparency. In the case of linked bonds, a manipulation by the issuer of the underlying variable (inflation, exchange rate, etc) cannot be excluded. Consequently, fixed interest rate bonds are especially appropriate for an initial stage in countries in which the government faces credibility problems concerning the correct calculation of the payments due.
 - Advantages for the government: Fixed rate instruments alleviate the debt management of the government as the debt service payments of the future are well known (in contrast, in the case of e.g. variable interest rate bonds cash outflow is not known exactly). In addition, if inflation increases the debt burden with respect to fixed rate debt decreases.
 - Disadvantages for the investor: The investor exposes himself to higher inflation. When inflation increases the real value of the coupon payment and the capital amount decreases.
 - Disadvantages for the government: In an ex-ante view fixed interest rate bonds represent the most expensive way to finance public debt.
- e) The instruments a. to d. could be endowed with the option to return the bond to the issuer before the final maturity (put option). For the design of this option there are some alternatives, e.g.:

- i. Returning the bond with a predefined notice period of e.g. 3 months
 - ii. No option to return the bond in the first year, afterwards anytime
 - iii. Returning a maximum volume of bonds in the period of 1 month/quarter/year
 - iv. Returning the bond at anytime, however paying a penalty
 - v. A combination of the alternatives i. to iv.
 - Advantages for the investor: The liquidity risk is lower than without such an option.
 - Advantages for the government: The sovereign issuer should be able to offer a lower coupon because he bears the risk of early repayment. In an ex-ante view this means lower debt service.
 - Disadvantages for the investor: Lower coupon payment than for instruments without put option.
 - Disadvantages for the government: Depending on the form of option chosen there emerges the risk of early repayment. In an extreme case (fear of bankruptcy of the sovereign) the option to return the bond will probably be drawn by the majority of the investors leading to a run on the public debt (comparable to a bank run).
- f) The instruments a. to d. could be endowed with compound interest rates, which means that coupons are not paid out but accumulated and paid out at maturity. E.g. in Germany retail bonds with compound interest rates are offered.
- g) The instruments a. to d. could be marketable instruments. In this case the investor would not face a liquidity risk but a price risk if the bond is to be sold before maturity as the price for the above mentioned instruments will vary. Even in the case of variable interest bonds there is some price risk as the credit worthiness of the issuer may vary.
- h) Lottery bonds: These bonds have different designs. They exist e.g. in Ireland, Pakistan, and Sweden. Here we will present the example of UK, where the share of lottery bonds outstanding is around 3%. The investors have the possibility to buy lottery bonds at a minimum amount of 100 Pound Sterling (100 Pound = 100 lottery bonds). By this way they participate at a monthly lottery drawing, where a payout of up to 1 m Pound is possible. There are no coupon payments. The return of the bond to the government without penalty is possible anytime (put option).
- Advantages for the investor: The investor purchases a combination of a bond and a lot. With luck he can gain much more than with a traditional bond. In addition, the investor is protected against a loss of capital.
 - Advantages for the government: The total amount of payouts may be lower than in the case of classical bonds as people attribute some value to the lottery component of the bond.
 - Disadvantages for the investor: Investors don't have a calculable cash flow.
 - Disadvantages for the government: Additional cost due to the more complex structure of the bond.

- i) Saving accounts callable on a daily basis: This is an account where money can be deposited at an adjustable interest rate. Investors have the possibility to withdraw their money on a daily basis (or linked to some conditions like maximum amount per day etc.). In Germany only recently a kind of saving account in the form of a money market bond was introduced last year (see below).
- Advantages for the investor: A saving account provides the investors with the highest degree of flexibility as a withdrawal of money is possible every day.
 - Advantages for the government: While the investors have the possibility to withdraw their money on a daily basis, there will be usually a more or less constant stock of money deposited in these accounts. This could provide the government with a relatively stable and low cost funding.
 - Disadvantages for the investor: The high flexibility of the saving account goes along with a low yield in comparison to instruments with longer maturity
 - Disadvantages for the government: Fear of sovereign default could lead to a run on saving accounts.

In practice governments design a number of variations of the above mentioned instruments. Generally we would recommend starting a retail bond program with only a few easy-to-understand instruments. If successful more variations can be introduced which might fit with the preferences of even more retail investors. E.g. in Poland the program started with an inflation indexed bond as it was clear that the citizens had a clear preference for an instrument that enabled them to protect themselves against the loss of purchasing power.

4. Distribution channels and marketing

4.1. Distribution channels

Apart from designing the right financial products it's just as important to find an effective channel to sell the instruments. As a matter of principle the chance to sell the bonds will be the greater the broader the distribution network is. The most cost efficient solution seems to be to resort to an existing network of outlets. This could be e.g. banks with a broad branch network, post offices or supermarket chains. In addition, internet solutions should be pursued. Some of these alternatives are discussed below.

Banks with an extensive branch network

Banks do not have a natural incentive to sell public debt instruments to retail investors, as banks will usually try to sell in-house financial instruments. Hence, the government has to provide for some incentives, e.g. by paying a competitive provision linked to the transaction volume. Alternatively private investors have to pay fees. However, the financial institution may not have the interest to define a fair fee structure for the public debt instruments. If the government implements a maximum fee, the above mentioned incentive problem arises again. The experience of the USA might be instructive in this respect. While there are currently at around 40,000 financial institutions eligible to sell so called savings bonds the fees paid by the Treasury to the banks amount to USD 0.50–0.85 per transaction which covers reportedly not more than 25% of the cost of processing a savings bond purchase transaction. Small wonder that savings bond's share in total privately held public debt has diminished dramatically over the last decades to only 2.5% per end of 2008.

Net of post offices

Using such a network would usually enlarge the range of coverage especially in the countryside. However, the post office employees would have to be qualified, which means higher investments. In addition the infrastructure investments to carry out financial transactions will be more expensive than in the case of using a network of bank branches.

Finance ministry and/or central bank, through corresponding branch offices

Usually the net of branch offices won't be very extensive, if existing at all. This would mean that the finance ministry/central bank would have to build up a branch network. This could improve the credibility of the public debt instruments. In addition, the government would have direct control over the selling process. However, the initial investment would be high. We guess that the costs of the initial investment and the operating costs would outweigh the advantages such as credibility and direct control (which can be pursued by other means).

Internet

Under certain premises this mean is certainly the most cost efficient alternative to sell retail public debt instruments. However, it may be very difficult to reach a broad range of households. In most emerging economies the diffusion of the internet is still very low. In addition, investors must possess a credit card or a current account where the money can be debited electronically. Even in Germany, where around 250 per 1,000 inhabitants do have access to the internet, this sales channel for retail bonds is still underdeveloped.

Usually the finance ministries resort to various channels of distribution, as these channels complement each other. E.g. in South Africa retail bonds can be ordered in post offices, banks, supermarkets and via internet.

Saving schemes

It may be efficient to offer saving schemes. E.g. it could be offered to enable the investor to buy every month a certain amount of a retail bond. This could occur through a bank account or through an account at the debt management agency (if existent). In Germany such saving schemes with government bonds are very usual. The saving schemes could also be connected with the payroll payments. This would mean that the employer buys every month a predetermined amount of retail bonds which are then transferred to the security accounts of the employees. This is done in the US.

4.2. Marketing

Marketing is of extraordinary importance in the phase of the introduction of the retail public debt program. During this period the government has to implement advertisement campaigns through TV, radio, news papers and internet with the target to popularize the new financial products. Having said this, the success of the marketing campaign depends predominantly on the choice of the right products. The instruments must be tailored to the needs of the private households, while remaining easy to understand. While a certain stock of advertisement is needed over the longer term, the bulk of marketing costs should be concentrated on the start of the campaign.

5. International experience

Looking at international experience there are plenty of countries which have set up a program of retail instruments in the past. For a detailed overview of retail instruments in EU countries, see Table A in the Appendix. Lessons are to be learned not only from mature

financial markets like Germany and UK, but also from less developed like South Africa and Poland. We will concentrate here on South Africa and Germany.

5.1. South Africa

The Ministry of Finance set up a retail bond program in 2004 with the first retail bond issue coming to the market in May 2004.

According to the ministry the main objectives of the retail program were

- fostering saving: "create awareness amongst the general public of the importance to save"
- to offer retail investors more financial instruments to invest in
- to broaden the investor base

To influence the saving behaviour of private households seems to be a particular motivation, for on the corresponding web site there is given broad room to the explanation why private households in South Africa have a low saving culture.

5.1.1. Instruments

The retail bonds are non-marketable and are dubbed "retail savings bonds". There are two main instruments on issue: Fixed rate bonds and inflation indexed bonds. Both are offered with three different maturities: 3, 5 and 10 years.

Common features of inflation linked and fixed rate retail savings bonds

- Minimum capital amount: 1,000 Rand (around 85 Euro) per purchase, with a maximum of 1,000,000 Rand (around 85,000 Euro) for an individual's total portfolio.
- Eligibility: only a natural person who is either citizen or permanent resident of the Republic and is in possession of a valid South African identity number, and hold a bank account with a financial institutions in the Republic, is eligible to purchase any of the retail savings bonds series.
- Early withdrawal: the notional amount will be repaid to investors on the maturity date. However, an investor may withdraw a portion of or the entire notional amount before the maturity date, but only after 12 months from the settlement date, subject to the penalty being imposed. The penalty corresponds approximately to one coupon payment.
- Call option from the treasury: the national treasury reserves the right to allow early withdrawals prior to the expiry of twelve months from the settlement date, but only under extraordinary circumstances.
- No special tax treatment of interest payments received out of retail bonds.

Fixed Rate Retail Savings Bonds

- Pricing of the bond: The prevailing coupon for each of the maturities of the retail savings bonds is priced off the current government bond yield curve. In practice, retail bond yields are changed only when yields on government bonds change by more than 50 basis points (0.5%) within a month.
- Payment of coupon: the coupon due on each of the fixed rate retail savings bonds is paid into the designated bank account. However, investors have the option to have their entire coupon payments reinvested.
- Special coupon payment frequency for pensioners: pensioners of the age of 60 or above have the option to receive their coupon monthly.

Inflation Linked Retail Savings Bonds

- Description: the capital amount as well as the semi-annually coupon is adjusted to the consumer price inflation according to the CPI index.
- Pricing of the bond: the coupons for each maturity are derived from the government inflation linked bond yield curve.
- Payment of coupon: coupon payments are made to investors on the semi-annual payment dates
- Reinvestment: there is no option to reinvest any Coupon payments

5.1.2. Distribution and market share

Distribution

The transaction can be done through different points of sales:

- Any branch of the South African post office
- Any branch of certain supermarket chains (Pick 'n Pay, Boxer or Score)
- RSA retail savings bond website (www.rsaretailbonds.gov.za)
- Directly at the National Treasury
- Telephonically

Market share

By the beginning of 2008 the market share of retail bonds was at merely 0.3% (some 2.5 bn Rand or EUR 200 m). While the set up of the retail program is relatively young (start in May 2004) the development seems to be somewhat disappointing. However, given the world wide banking crisis the program might gain some positive dynamics as people look for alternatives to bank deposits and stock investments.

5.1.3. Conclusion

The South African retail bond program is characterized by non-marketable easy-to-understand products. Given the high inflation figures in the past it seems appropriate to offer inflation indexed retail bonds. Citizens have many different possibilities to buy retail bonds. The possibility to buy retail bonds through various supermarket chains means that the distribution network is very broad. However, the precondition to hold a bank account may not be fulfilled by a big share of the population, excluding them from the purpose to give an incentive to increase savings. Likewise the minimum amount of 1,000 Rand (around EUR 85) required to make an investment does not seem to be appropriate for lower income groups. While the market share of retail bonds is still very low this does not mean that the retail bond program could not be a success in the future. Some modifications to the program, probably a more effective marketing campaign (we don't have information about the marketing efforts done), and a changing financial environment (global banking crisis) might do the trick to increase public attendance to the program.

5.2. Germany

The German debt management agency introduced a retail bond in 1969. In 2008 the agency (Deutsche Finanzagentur) started a marketing campaign to increase the share of the retail investors in the public debt market from 2% to around 3 to 5%, which would correspond to some EUR 50 bn. While the agency does target retail investors since some 40 years, the

recent campaign got a lot of attention due to the first retail product innovation during the last 30 years: July 2008 the agency launched a money market bond for retail investors attracting in less than one year some EUR 3.4 bn.

The main motivation of the recent effort to increase the share of retail investors with respect to public debt is the broadening of the funding basis. Interestingly the debt management agency is positioning itself also as a competitor to private banks, e.g. when advertising that a depot at the agency is without costs while private banks usually take fees.

5.2.1. Instruments

The range of products offered to private investors spans from non-marketable bonds with conditioned put option to marketable bonds which are traded also by institutional investors. In addition, the debt management agency gives retail investors (and institutional investors as well) the possibility to keep a securities account with the agency (limited to public securities) and to transact most of the public securities through this account. The purchase and sale through the debt management agency is free of charge. Retail public debt instruments are not exempt from tax.

Non-marketable

Money market bond (Tagesanleihe): The money market bond can be bought only through the German debt management agency. The minimum amount invested is EUR 50. The maximum amount to be invested per day is EUR 250,000. Withdrawal is possible every working day with a maximum amount of EUR 1 m Euro per day. Not only retail investors but also institutional investors are allowed to invest into this product.

Federal treasury financing paper (Finanzierungsschätze): This short term paper exists for 1 and 2 year maturities. It's a discount paper without Coupon payments. In addition it is not possible to hand it back to the debt agency before maturity. The minimum amount to be invested is EUR 500 and the maximum is EUR 250,000 per day. With the exception of banks everybody is allowed to buy this instrument.

Long term federal savings note (Bundesschatzbriefe): The main characteristic of this bond is that each year the coupon payment does increase in a predetermined way (step up bond). Only natural persons and non-profit organisations are allowed to buy these instruments. The minimum amount to be invested is EUR 50 with no upper limit. After 12 months the investor has the possibility to withdraw the money before maturity with a maximum amount of EUR 5,000 in the period of 30 days. The maturity of the instrument is 6 years (Type A) and 7 years (Type B). The Type A retail bond makes Coupon payments every year while the Type B instrument reinvests the coupon payments.

Marketable

Private investors are allowed to buy the whole range of public debt instruments. However, not all of these instruments can be purchased or sold through the securities account at the debt agency.

Five year federal notes: Out of the marketable securities the five year notes are the most in demand by retail investors. This instrument is a classical fixed rate bond (yearly coupon payments, repayment of the nominal amount at maturity) which can be traded on the exchange market. This means that the investor faces a price risk. The minimum to be invested is EUR 110 assuming that the bond is bought through the debt management agency. Otherwise the usual minimum amount is EUR 1,000.

Inflation-indexed bonds: Currently there are two inflation indexed bonds outstanding, which have original maturities of 5 and 10 years. These bonds cannot be purchased through the debt management agency. However, retail investors can buy them through banks security accounts and transfer them to their security account at the agency without facing any costs.

Other instruments available for retail investors: Apart from the above mentioned securities others instruments that can be purchased by retail investors are bonds with original maturities of 10 to 30 years (Bundesanleihen), 2 year bonds (Bundesschatzanweisungen), Treasury Bills (Schatzanweisungen), and US-Dollar bonds with an original maturity of 5 years. The usual minimum amount to be invested is EUR 1,000 (and USD 1,000 in the case of the US-Dollar bond) with no upper limit. The purchase of these bonds is not possible through the debt management agency but only through financial institutions. With the exception of the US-Dollar bond all above mentioned bonds can be deposited at the securities account of the debt management agency. The transfer is free of charge.

Financial instrument planned: The debt agency plans to offer a standardized investment fund which comprises public debt securities with different maturities. In addition, an inflation-indexed retail bond might be on offer soon.

5.2.2. Distribution and Market share

Distribution

While the money market bond can only be purchased through the public debt management agency, the bonds with retail character are offered by the debt management agency and by most financial institutions (commercial banks, saving banks, and cooperative banks). The other bonds which usually are tailored for institutional investors, but are available for retail investors as well, can be bought only through financial institutions. With respect to bonds that can be purchased directly through the debt management agency investors can order these securities via postal mail, telephone or internet. If these securities are transacted through financial institutions, the channels through which the transaction is possible usually is telephone, internet or directly at the bank's branch.

An important contribution to the success of the retail products is that investors can acquire them via a savings scheme on a regular basis.

Market share

Measuring only the market share of the retail bonds (Bundesschatzbriefe and Finanzierungsschätze) as a percentage of total federal debt outstanding retail bonds account for a share of 1.1%. The money market bond, which can also be acquired by institutional investors amounts to 0.34% of total debt. Given that wholesale bonds are also in the portfolios of retail investors the public debt share retail investors hold is at about 2% (January 2009). The debt agency aims for reaching a share of 3 to 5% by 2013. Currently the agency administers 450,000 retail accounts and wants to double this number by 2013.

5.2.3. Conclusion

The recent initiative of the public debt agency to gain more retail investors proved to be a success. The rise in the number of accounts which were gained over the last few months is owed to the combination of a successful marketing campaign, the right products on offer and above all the banking crisis. As so many banks face difficulties to survive, stock markets are heading south and corporates are defaulting, people desperately search for a safe haven. The money market bond is the most successful instrument in this respect as it gives the investors the highest possible flexibility without any default risk. However, as the retail

bonds step up bonds can be acquired via a saving scheme these instruments face also a solid demand.

The federal debt agency is adopting quiet quickly to the needs of retail investors in Germany. These needs are of different degrees of sophistication. While the possibility to have a securities account at the debt agency has some important advantages for retail investors (lower costs, more security), the complexity of the products on offer (e.g. the step up bonds) may be somewhat too high for markets where investors are not so familiar with financial products. The easiest to understand product is certainly the money market bond. While this instrument does not represent a reliable funding instrument, it might be at least an excellent marketing instrument to attract retail investors.

5.3. Pricing of retail bonds

Generally governments take marketable government bonds as benchmark for pricing retail bonds. There is no clear cut rule with respect to the relation between yields for retail bonds and yields for wholesale bonds. In the US and UK interest rates paid to retail investors seem to be somewhat lower than the payments to wholesale investors. In Germany we can not observe an important difference. In South Africa it seems that wholesale investors receive even lower interest rates than retail investors.

Table 2

Current pricing of retail debt programmes

Retail government bonds			Wholesale government bonds	
South Africa (Moody's: Baa1 / S&P: BBB+ / Fitch: BBB+)				
2-year fixed rate		9.00	2-year fixed rate*	7.16*
3-year fixed rate		9.25		
5-year fixed rate		9.75	5-year fixed rate**	8.45**
3-year linked	inflation	2.25 (+inflation)		
5-year linked	inflation	2.50 (+inflation)		
10-year linked	inflation	2.75 (+inflation)		
* Maturity August 2010				
** Maturity September 2015				
Germany (Moody's: Aaa / S&P: AAA / Fitch: AAA)				
Money market bond (Tagesanleihe)		0.28		
5-year fixed rate (marketable, small denomination)		2.51	5-year fixed rate	2.47
Step up bonds 6 years (if held until maturity)		2.68	6-year fixed rate	2.81
Step up bonds 7 years (if held until maturity)		2.99	7-year fixed rate	3.05

United Kingdom (Moody's: Aaa / S&P: AAA / Fitch: AAA)			
Easy access savings account	0.3 – 0.7		
2-years fixed interest savings certificates (if held until maturity)	0.95	2-years fixed rate	1.16
5-years fixed interest savings certificates (if held until maturity)	1.90	5-years fixed rate	2.79
USA (Moody's: Aaa / S&P: AAA / Fitch: AAA)			
EE bonds (30 years maturity, redeemable after 12 months, redeemable without penalty after 5 years) (these bonds were substituted by zero coupon bonds in May 2005 with a different pricing structure)	90% of 6-month-averages of 5-year treasury securities market yields	30-year fixed rate	-

Source: Bloomberg, Websites of National Treasury South Africa, Deutsche Finanzagentur, National savings and Investments (UK), US Treasury, data as of June 26th

Given that in UK investors have a put option and returns are tax free, it does no surprise, that yields received by the investors are somewhat lower than the payments on comparable wholesale instruments. However, although in the case of South African retail bonds savers have a put option too (but no tax exemption) the yields retail investors receive are higher than for wholesale investors. This could be interpreted as a measure to subsidise retail bonds.

6. Current plans in Ukraine

Many above mentioned general arguments in favour of a retail public debt market apply also to Ukraine. Both, the savers and the government would be able to gain from it:

The advantages of a retail public debt market for Ukrainian savers

Due to the current financial and economic crisis many people do not have faith in the banking sector and hoard a lot of cash money under the mattress. This is certainly not an optimal situation. For once there is the danger of theft. In addition people loose money because cash does not bear any interest. It seems clear that people would like to have an alternative where to put the money without running the risk of loosing it. Apart from that the saving instruments which are offered by banks do not fit to the needs of savers in terms of e.g. flexibility and pre-cancellation. As banks are apparently not able to provide for a secure alternative at the moment, it would make sense even in the short term to enable a public entity (like the finance ministry or the central bank) to offer securities accounts for retail investors, through which different public debt instruments can be bought.

The advantages of a retail public debt market for the Ukrainian government

Given that the Ukrainian government faces a difficult funding situation all means that would enable Ukraine to get through this crisis should be taken into account. One important mean in this respect could be certainly the development of a retail public debt market. Given the need of Ukrainian people to find alternatives for their saving, and assuming that the right products are offered (see below) such a project could prove to be successful. Having said this, it remains a difficult task to gain a significant number of retail investors to alleviate the funding problems of the Ukraine. However, there are above all some important long term arguments in favour of a retail public debt market. It could be a way to reduce the dependency from foreign investors. Hence the funding basis could be broadened and stabilized. In addition, the structure of Ukrainian debt could be changed, shifting away from foreign currency debt to hryvnia denominated debt, which would increase the flexibility of handling financial crises very much.

Although currently retail government bonds in other countries do not play a major role in most economies, they contributed to a significant amount to the funding needs of some countries in the past. The financial crisis lays probably the seeds for a revival of the attractiveness of retail public debt instruments. It seems to be an adequate moment to start this kind of project. The German experience supports this view.

Recent measures by the Ukrainian government

The Ukrainian government has recently taken steps to establish a retail bond programme in the country. The legal basis for this decision is the resolution of the Cabinet of Ministers of Ukraine from 14.04.2009¹. The resolution instructs the Ministry of Finance to issue domestic retail treasury bonds in hryvnia with the following main features:

- Natural persons are entitled to purchase the bonds, which are in the form of bearer bonds in documentary form
- Principal of UAH 500
- A coupon of UAH 20 is paid every three months, i.e. UAH 80 per year. This corresponds to an interest rate of 16% p.a.
- Maturity is 12 months
- Each issue will total a volume of UAH 200 m, a new issue is placed after the previous issue is sold out

The distribution of the bonds will be done through the branches of OAO Oshchadbank, which shall be the general agent for issuance, transport, collection, circulation, repayment and liquidation of retail bonds. For these services, it receives the following fees:

- For placing, collecting cash payments, circulation services, repayment and liquidation of the bonds, Oshchadbank should receive 1% of notional value of sold bonds from the government
- For transportation of T-bills certificates – 0.2% of notional value of bonds to be sold from the government.

¹ See Resolution 362 from 14.04.2009 "On issue of treasury bills" (as amended by CMU Resolution 470 from 13.05.2009).

7. Policy recommendations for Ukraine

The launching of retail bonds should be seen as a long-term project. In particular, retail bonds should not be seen as a decisive instrument to combat the fiscal consequences of the current economic and financial crisis. Consequently, the goal in the short-term should be to establish and to propagate the instrument. In this respect, it is important to clearly separate this new product, which is sold on a strictly voluntary basis, from past (i.e. Soviet-time) schemes of forced subscription, which may still be in the minds of parts of the (older) population. A clear and unique branding strategy is a necessary step to disconnect these new products from past ones. The population should get acquainted with the instrument and have positive experiences with it. With the time, this instrument will certainly gain in quantitative importance, but its fiscal relevance should not be pushed too aggressively in the coming months. In short: If the new bonds contribute to ease the fiscal situation, this is fine. But if they do not contribute much, this should not be seen as a failure.

7.1. Short-term recommendations

The central objective in the short-term should be the successful introduction of retail bonds. For this to happen, the instruments must be attractive for the population and very simple to grasp. While there are some arguments in favour of indexation of principal and/or interest payments, we are convinced that at least in the initial stage the bonds should not be linked to any variable such as CPI, exchange rate, gold and/or benchmark interest rates. First, it is of paramount importance to keep the bonds as simple as possible. Second, the indexation of bonds can in principle be misused by the government in its position as debtor. Practically all official variables or indices are calculated by the state and thus a conflict of interest might arise when setting the final value of the variable in question. For example, if a bond is linked to the exchange rate UAH/USD, which value of the exchange rate is the appropriate one: The interbank market rate, the official rate by the NBU or the average rate at kiosks? The possibility of manipulation of the underlying variable by the government could deter many potential households from buying indexed bonds.

Recommendation 1: We strongly favour the "plain vanilla" approach chosen by the government. For the time being, any link of capital and/or interest payments to a variable/index would decrease demand for the new instrument and could jeopardize the whole project.

A key question regarding the specific features of retail bonds is the issuance currency. There is a strong incentive for introducing retail bonds in foreign currency, since many households in Ukraine do hold their savings in foreign currency. But possible advantages of such a move should be carefully compared to the negative implications of such a policy. As the current crisis demonstrates, the dollarisation of the country is a central weakness of the financial system, which has clearly augmented the size of the current crisis. Consequently, we strongly suggest not introducing bonds in foreign currency at any time. A denomination in foreign currency would create currency risks and foster dollarisation in the country, two clearly negative features.

Recommendation 2: Retail bonds (and public bonds in general) should be denominated in national currency, as foreseen in the government resolution. In general, the authorities should avoid measures which foster dollarisation in the country.

Furthermore, in order to make the bonds attractive to investors, they should carry a decent interest rate. In particular, the interest rate should be higher than the rate of inflation².

² In economic terms, a positive real interest rate is in our view a necessary feature.

Recommendation 3: The interest rate should at least cover the current rate of inflation of roughly 15%. Given the current disinflation tendencies, the interest rate of 16% foreseen in the resolution has to be considered as a highly suitable one.

At the same time, the introduction phase should be used to gain information about the preferences of the population regarding retail bonds. Of course one can guess about such preferences, but there is no alternative to concrete experience when it comes to assessing the preferences of the demand side. In particular, the government should try to gain information about the preferences of the population regarding maturity. For this purpose, we suggest to introduce two instruments at the same time: one with a maturity of 12 months (as foreseen) and another with only 6 months. While the question of a possible roll-over arises immediately when considering shorter maturities, we think this issue should not be overstated. Retail bonds can be characterised – as opposed to wholesale bonds – as having a relatively stable and high rate of roll-over, e.g. are not so much subject to sudden shifts in investor perception. This can be traced back to the fact that both types of bonds have different types of investors – the population versus (often foreign) institutional investors. However, in order to facilitate roll-over of short-term retail bonds further, the selling agents should be able to offer upon maturity immediately a new bond to the retail client.

Recommendation 4: In addition to the 12-month bonds, the government should offer 6-month bonds with a lower interest rate. In such a way, the government will learn about the preferences of the demand side regarding maturity. Furthermore, to facilitate roll-over of these shorter term instruments – which may be a concern for the Ministry of Finance – the selling agent should be at all times able to offer their clients a new bond in exchange for an maturing one.

The importance of this recommendation can be illustrated with a simple hypothetical scenario. After the introduction of the 12-month bonds as the sole instrument, the government might have to realise that the demand for such bonds is weak. But how to interpret this empirical result? Does it mean that the population does not trust the government and that the project of retail bonds does not make any sense? Or does it mean that in principle people were interested, but not ready to invest their money for a relatively long period of 12 months? If two instruments are introduced simultaneously, then it will be much easier to answer these or similar questions. Besides, having two instruments will certainly not be confusing for the population; the system remains simple.

7.2. Long-term recommendations

The marketing and distribution of the bonds through Oshchadbank is certainly the right decision in the short term. But in the long-term, the system needs competition between distributors. Consequently, further distributors should be secured for the long-term success of the instrument. The new directive on the establishment of a primary dealer system in Ukraine³ provides an excellent chance to broaden the list of distributors.

Recommendation 5: In order to increase competition at the distribution level, the future primary dealers in government bonds should also be allowed to distribute and sell retail bonds. The conditions for the primary dealers should be the same as for Oshchadbank.

³ See Resolution 362 from 14.04.2009 "On issue of treasury bills" (as amended by CMU Resolution 470 from 13.05.2009).

At the same time, the government should put much emphasis on decreasing the cost of issuing retail bonds, clearly the weakest point of these instruments from a fiscal point of view. One main possibility to decrease costs is the introducing "book-entry" bonds ("non-documentary" bonds). Thus, once the paper bonds are well established among the population, the government should add a further instrument, the "book-entry" bond.

Recommendation 6: In order to reduce the costs of issuing retail bonds, we propose to offer "book-entry" bonds to the population, since the costs of these bonds from a fiscal point of view are much lower than bearer bonds in documentary form.

Similarly, in the long run, the distribution efforts over the "Internet channel" should be strengthened, as this can be considered a very cost efficient solution. While the current number of internet users in the country can only be estimated⁴ and is low in international comparison, a future growth in this number can be predicted with certainty. These internet users are usually quite young, and probably have less old, Soviet-time prejudices about government bonds. Furthermore, the distribution of the necessary electronic payment/debit cards seems also not a problem: 37.2 m different cards are issued.

Recommendation 7: The distribution efforts over the internet should be increased over time, as a number of benefits are associated with such a strategy.

Finally, the extension of the maturities of the bonds offered must be a key objective for policymakers in the long term. In case the instruments are a success among local investors, the government should introduce in parallel bonds with longer maturities, e.g. 24 months. A further incentive for the population to purchase such bonds could be the introduction of a coupon payment that increases in the second year (as compared to the first year) in a predetermined way (i.e. a step up bond similar to Germany's long term federal savings note (Bundeschatzbriefe)).

Recommendation 8: The extension of maturities of the bonds on offer is an important long-term objective. To increase interest among the population, the feature of a step up bonds (where the coupons increase in a predetermined way) should be seriously considered.

⁴ While the CIA fact book lists 10 m internet *users* in 2007, the latest official data (Q1 2009) report 2 million internet *subscriptions*. However, these two sources of information do not necessarily contradict each other.

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Appendix

Table A

Retail instruments in EU countries (2000)

	existence	specific	type	issuance	% of total debt
AUSTRIA	NO				
BELGIUM	YES	YES	Plain vanilla or restructured Maturity 3-8 years	4 times a year ; placement using a consortium of financial institutions	2%
DENMARK	NO				
FINLAND	YES	YES	Fixed rate instruments, maturity 2-5 years	Selling by banks and directly from the State Treasury	2,9 %
FRANCE	YES	NO	Sale of a limited part of the OAT 10 Y and the OATi 10Y	Placement using a consortium of financial institutions	2%
GERMANY	YES	YES ⁷	Federal savings bonds and Federal Treasury financing paper		7,7%
GREECE	YES	YES	Saving certificates	Public subscription	2%
IRELAND	YES	YES	Saving bonds Maturity of 3 to 5.5 years Fixed rate	sold through the Post Office	13.3
ITALY	YES	YES	Postal saving bonds (not marketable)	sold through the Post Office	8,7 ⁸
LUXEMBOURG	NO				
NETHERLANDS	NO				
PORTUGAL	YES	YES	Saving certificates	Sold at IGCP or at any post office	19.8%
SPAIN	YES	NO		Placement using a consortium of financial institutions or directly to the treasury (Internet under discussion)	
SWEDEN	YES	YES	Mainly fixed rate issues Maturity 3-15 years	Selling by internet, telephone, through mail order, or using a consortium of financial institutions	1%
UNITED KINGDOM	YES	YES	54 % floating rate, 31% fixed rate, 16% index-linked	Non Marketable government liabilities issued by National Savings	17.5%

Source: European Commission (2000)

Notes: ⁷Five-year special bonds are also sold to the retail sector for a period of six months after which they are offered to the auction group.

⁸This percentage is referred to the total of State Sector debt, which includes not only Treasury marketable debts, but all liabilities of State Sector (corresponding, more or less, to Central Government), cleaned by liquid assets. Previous percentages

List of recent Policy Papers

- The Role of Trade Policy in Reducing Ukraine's Current Account Deficit - Lessons from Abroad, by Christian Helmers, Veronika Movchan, Ricardo Giucci and Kateryna Kutsenko Policy Paper 01, March 2009
- Assessing the impact of the protracted economic slowdown on the pension insurance in Ukraine: Hope for the best, but prepare for the worst! by Lars Handrich, Oleksandra Betliy, Policy Paper 10, December 2008
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- Public Private Partnerships for Ukrainian Highways: Key Principles for Success, by Ferdinand Pavel, Policy Paper W16, February 2008.
- Postal sector reforms in Ukraine. Improving postal services but not the post office, by Lars Handrich, Sven Heitzler, Policy Paper W15, February 2008.
- How you pay is what you get! Reforming hospital reimbursement in Ukraine, by Lars Handrich, Oleksandra Betliy, Policy Paper W14, February 2008.
- The international financial crisis: Risks and policy implications for Ukraine, by Ricardo Giucci, Robert Kirchner and Veronica Movchan, Policy Paper W13, February 2008.
- Ukraine and the UEFA EURO 2012 How to secure its economic potential, by Ferdinand Pavel, Natalia Sysenko, Policy Paper W12, December 2007.

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Private External Debt Distress in Ukraine

Recommendations for an Orderly Restructuring Process

Dr. Ricardo Giucci, Robert Kirchner, Christoph Trebesch
German Advisory Group

Berlin/Kyiv, July 2009

Structure

1. Introduction
 2. Private External Debt Distress in Ukraine:
Quantitative Risk Assessment
 3. Why Should the Government Care?
Pros and Cons for Public Intervention
 4. Types of Public Intervention: International Experience
Government-Directed Restructuring
Market-Based Schemes - Government as Mediator
 5. Policy Recommendations
 6. Summary
- Appendix

1. Introduction

Introduction

Current Situation:

- Since end-2008, Ukraine faces a “sudden stop” in capital inflows; net inflows turned negative over 1Q 2009
- Financial distress in both public and private sector: Focus in this presentation is on private sector
- Two types of distressed private debtors: banks and corporations

Three key questions:

- How severe is the external debt distress for corporations & banks in Ukraine?
- Should the government intervene?
- If yes, how should the authorities help to restructure the distressed external debt of the private sector?

2. Private External Debt Distress in Ukraine: Quantitative Risk Assessment

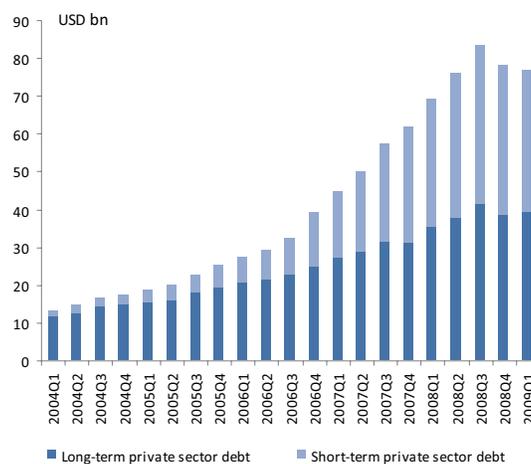
Quantitative Risk Assessment (1)

Private External Debt

- Rapid increase in private external debt by banks & corporations since 2004
- Mainly short-term
- Thus, decline in reserve coverage: Ratio of (total) short-term debt to official FX reserves:
 2007: 111%
 2008: 88%

→ Notable drop of more than 20 percentage points!

→ 2008: “Rule of thumb” of reserve coverage (100% coverage) violated



Roll-over rates on private external debt in 2009

	IMF projections (Programme 2008)	IMF projections (Review 2009)	Actual figures for 2009 Q1 (BOP)
Banks	75	70	
Foreign Banks	95	85	78
Domestic Banks	20	30	
Corporates	95	80	105
Multinationals	110	90	
Others	90	70	
Aggregate	85	75	84

- Current IMF estimates: More than USD 30 bn of private external debt have to be paid back in 2009
- Refinancing problems mainly by banks and corporations that are domestically owned (see Appendix for examples)

3. Why Should the Government Care?

Arguments in favour of intervention:

- Ukraine faces a systemic problem: A large number of individual restructurings of external debt are unavoidable
 - From a Micro Perspective (firms & banks not able to pay)
 - From a Macro Perspective (part of the unavoidable “adjustment” in the financial account)
 - In this situation, sole reliance on market mechanisms might not be appropriate
 1. Risk of business disruptions, avoidable defaults and fire sales (“cascade effects”, one default follows another)
 2. Ukraine lacks proper legal frameworks for efficient bankruptcy/insolvency procedures
 3. Risk that “messy” individual restructurings and losses for foreign creditors will hurt the country’s reputation
- Without intervention, danger of severe costs for economy (delayed recovery) and, ultimately, for sovereign

Arguments against intervention:

- Danger of market distortions:
 - Short-run: Free-riding effects by healthy firms
 - Long-run: Moral hazard, competition effects
- Risk of fiscal costs for government and bottom-up risk transfers (widespread bailouts)
- If poorly implemented, government interventions might not solve problems, but rather cause additional ones
 - Risk of delays in restructuring process
 - Risk of lobbying, corruption and “hijacking” of the process by interest groups

Conclusion:

- In the current situation in Ukraine, a purely non-interventionist approach might not be the optimal response to the existing problems
- Risks of non-intervention:
 - Adverse effects of worsening country reputation
 - Delayed recovery due to uncoordinated and thus ineffective private negotiations
- At the same time, the concrete outcomes of public intervention depend directly on the way it is conducted
- Is there a way to minimise reputational and economic costs without causing major distortions?
 - If yes → Pros of intervention outweigh cons
 - If not → Avoid intervention, danger of severe costs
- Crucial: Intervention has to be carefully designed and properly implemented in order to achieve its policy objectives

4. Types of Public Intervention: International Experience

Two basic approaches:

1. Government-Directed Restructurings

→ “Top-down”, across-the-board debt restructuring

2. Market-Based Schemes

→ Government as mediator, helps developing voluntary, but standardized restructuring procedures

Government-Directed Schemes

- **Basic Idea:** Governments orchestrate the restructuring of corporate and bank debt, via laws and decrees.
 - One example: Across-the-board restructurings, in which all private external debt is exchanged at similar terms (applied e.g. in Latin America in the 1980s, see Appendix)
 - Pros: Comprehensive, transparent, quick
 - Cons:
 - Can imply large fiscal costs for sovereign
 - Poorly targeted, does not differentiate between viable and non-viable firms
 - Danger of reputational losses and conflicts with foreign creditors and investors
- Avoid “one-size-fits-all” approach in Ukraine
- Too simplistic given current situation
 - Danger of reputational loss

Market-Based Schemes

- **Basic idea:** Government takes the role of a mediator to coordinate and facilitate corporate debt restructuring in a voluntary, out-of-court process
- This is commonly known as „**London approach**“, which provides a set of rules (principles) and was first implemented in Great Britain in the early 1990s
- The approach can be **more or less formalized**
→ In the 1990s Asian Crisis countries tightened the London Rules. Result: Not purely voluntary but framework with fix rules, warnings and penalties.
- Generally, related schemes have been mostly applied to restructure domestic debt and debt owed by corporations.
- **However, the approach is flexible** and has been adopted in very different crisis situations

Key Advantages of the London Approach:

1. Minimisation of fire-sales, losses & closures of viable firms
2. Better and quicker debt restructuring due to avoidance of lengthy and inefficient in-court restructurings
3. Assurance of interim financial support for distressed firms

Key Elements:

- Well-organized consultations between creditors and debtors
- Voluntary, fair to all interested parties, negotiated
- Based on a set of principles and rules
- Executed outside judicial procedures
- Temporary debt standstill agreements (keep lifelines)
- Often: negotiation committee, including representatives of creditors and debtors, as well as public actors

Experience with London Rules: Asian Crisis 1997-99

Indonesia South Korea Malaysia Thailand

Process Design

Majority of financial inst. participated?	No	Yes	Yes	Yes
Formal process, with deadlines?	No	No	Yes	Yes
Penalties for noncompliance?	No	Yes	No	Yes

Out-of-court restructurings: Cases

Number of registered cases	323	104	53	721
Number of cases filed	157	93	27	406
Number of restructured cases	26	46	10	157
% of total debt restructured	n. a.	40	32	22

Court-supervised restructurings: Cases

Number of registered cases	88	48	52	30
Number of cases filed	78	27	34	22
Number of restructured cases	8	19	12	8
% of total debt restructured	4	8	n.a.	7

Note: Data given refer to the situation after about 2 years from the start of the crisis (as of August 1999)

Sources: Claessens, Djankov, and Klingebiel (1999); Meyermann (2000); International Monetary Fund (1999).

5. Policy Recommendations

- 1. The Government should intervene, but avoid a centralized across-the-board debt restructuring**
 - Without intervention, risk of reputational losses and delayed recovery. Also: Inefficient to rely on uncoordinated, purely market-based negotiations
 - But: “One-size-fits-all” legislation not appropriate either
 - Also: Avoid large scale bail-outs and risk transfers to sovereign
 - Promising solution: Adopt London Approach
- 2. Designate one public institution to establish and monitor London Approach of corporate and bank debt restructuring**
 - Designate one public institution, e.g. Ministry of Finance or NBU
 - Main Risk: Overlap of tasks/responsibilities and lack of coordination
 - This institution should develop a holistic strategy for corporate debt restructuring and set the aims and basic principles of the approach
 - The institution should also help in introducing legislation that sustain an efficient application of the scheme in Ukraine

- 3. Establish a restructuring committee of qualified experts**
 - The designated public institution should initiate the formation of a restructuring committee consisting of representatives of:
 - (i) Ukrainian banks and corporations
 - (ii) Foreign creditors
 - (iii) Government actors and
 - (iv) IFIs such as the IMF, EBRD, World Bank
 - Absolutely crucial: Hire experts of highest qualification both at the top and at the administrative level of the committee. This should include:
 - (i) Debt restructuring experts and
 - (ii) Legal experts
 - Experts should have access to local expertise on Ukraine
 - The working language of the committee should be English
 - Possibly: Co-financing of the scheme by IFIs

4. Main tasks of the Committee

- Identify the main impediments to a London Approach in Ukraine and collect feedback from banks, debtors and legislators
- Develop a set of rules/principles for private sector external debt restructuring that is attractive for both debtors and foreign creditors (Possibly: Explicitly develop a set of incentives and penalties)
- Amongst other, the scheme should set procedures on
 - The documentation and analysis to be provided by the parties
 - Mechanisms to assure surveillance and compliance by parties
 - Timing and sequencing of the negotiation process
 - When and how debt standstill agreements should take effect
- In parallel, the committee should also start identifying and closely monitor a pool of top priority restructuring cases
- Likewise, it should be able to identify “rogue creditors” and cases of investor cohesion before and during restructuring processes
- The committees should continuously collaborate with public bodies and legislators in Ukraine to facilitate the scheme’s aims

Key Success Criteria for London Approach

1. Clear Assignment of Responsibilities within the Authorities
2. Trust in the Scheme
 - Restructuring committee must be impartial
 - Also: Engage highly qualified personell (incl. international experts)
3. Create Incentives for Participation
 - Credible threat of liquidation of in-court procedures
In East Asia: new legislation on insolvency and bankruptcy mechanisms acted as an important incentive (example: Indonesia & Thailand instituted specialized bankruptcy courts)
 - Possibly: Impose penalties & fines for noncompliance
4. Eliminate Impediments
 - In particular: Adapt laws that could inhibit out-of-court solutions
 - Prepare against potential legal risks from challenges in court

6. Summary

Summary (1)

- Current Situation: Large amortisation of private external debt while access to foreign capital has basically stopped. Particularly troubled: Domestically-owned banks/corporations
- A large number of external debt restructurings seem unavoidable (both from a micro and macro perspective)
- If done properly, there are good reasons for some government intervention in this process. Main reasons:
 - Avoid loss of country reputation due to “messy” individual restructuring processes
 - Firms have little experience with restructurings and all face similar problems (→ economies of scale)
- However, the government should avoid uniform (top-down) solutions via laws and decrees
- Also, it should avoid large-scale bailouts and assuming fiscal risks in the process

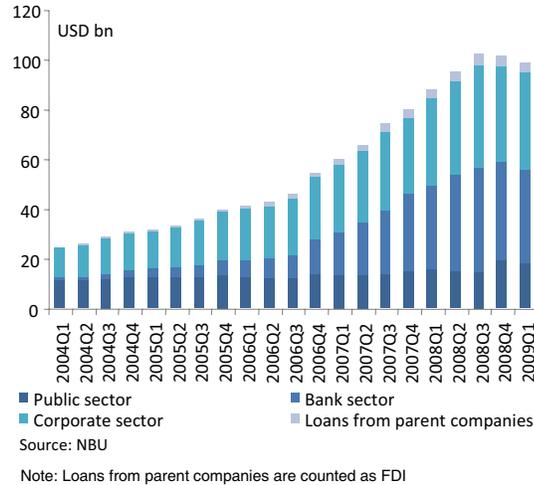
Summary (2)

- We recommend following the example of Great Britain and other countries by adapting the so called London Approach - a voluntary, out-of-court restructuring scheme
- Thus, the government should act as mediator and
 - Designate one public institution that coordinates the process and possibly helps in adapting legislation
 - Create an impartial restructuring committee composed of representative by (i) Ukrainian debtors (ii) foreign creditors and (iii) IFIs (IMF, EBRD, World Bank)
- This committee should develop a set of standardized rules and procedures for individual out-of-court restructurings and identify administrative or legal hurdles to such a scheme
 - Crucial: Policy coordination and political support
Also: Hire highly qualified experts (possibly from abroad)
- Once “code of conduct” is established and once legal hurdles are solved, scheme can start

Appendix

Gross external debt in Ukraine 2004-2009:

- Increase in external debt mainly due to private sector
- After peaking in Q3 2008, decrease in external debt
- Currently (Q1 2009): 86% of est. 2009 GDP



- Some recent evidence on major Ukrainian banks and corporations in distress

Debtor	Amount	Circumstances	Offer and results
Ukprrombank	USD 120 m Total external debt	Restructuring of external debt is condition for state recapitalization	Up to 70% acceptance; terms are not public
Nadra	USD 175 m Eurobond (plus other external debt)	Maturity in 2010 but restructuring is condition for state recapitalization	Bondholders are offered two options: 15% cash payment or new bond for 40% of principal with maturity in 2014 and 9.5% coupon. Negotiations in progress
XXI century	USD 175 m Eurobond	Put option was deferred to 08.07.2009 from May 2009 with consent of bondholders; Maturity: 24.05.2010	Offer: Maturity extended by 4 years, principal amortized; put option cancelled, PIK option (15% coupon), coupon decreased from 10% to 9%; 50% of cashflow from asset sales; new loans to be used to return principal; 5% of stock with warrants attached for 10% more Bondholder vote to be held on July 3

Examples of Top-down Restructuring:

Mexico 1980s: Introduced a scheme (FICORCA) that restructured USD 12.5 bn of external loans of 2000 corporations. Exchange into loans in domestic currency and with a longer maturity. Central Bank assumed exchange rate risk. Overall: Successful, but fiscally risky.

Chile 1980s: The CB bought USD 2.9 bn of corporate debt at par from the banks. All loans were then restructured at fixed terms. Overall: Stabilizing effect. However, very costly and no differentiation of bail-outs by viable and non-viable enterprises.

Hungary 1991-95: Government restructured 55 firms directly. Overall: Limited success, intervention often delayed restructuring.

Great Britain 1990s: The Bank of England informally coordinated the process. Result: BoE actively involved in 160 restructurings, but many more workouts followed same set of rules

Thailand 1997-99: Bangkok Approach (600-700 priority cases)

- Established a set of 19 principles for the process (Appendix)
- Restructuring Committee included representatives from government, CB and associations (incl. foreign bank associations)

Turkey 2001-03: USD 5 bn of loans of 220 firms were restructured through the “Istanbul approach”

Indonesia 1997-99 (Jakarta Initiative)

- Focused on foreign debt by corporations
- Hired international experts to accompany process
- Set strong incentives for participation (e.g. insured creditors & debtors against exchange rate risks, once rescheduling agreements reached)

A.4.2.: London Approach – Experience (2)

Feature	Indonesia	Korea, Rep. of	Malaysia	Thailand	Czech Republic	Turkey	Mexico	Brazil
Name of initiative or coordinating body	Jakarta Initiative Task Force (JITF)	Corporate Restructuring Coordination Committee (CRCC)	Corporate Debt Restructuring Committee (CDRC)	Corporate Debt Restructuring Advisory Committee (CDRAC)	None	Istanbul approach	Unidad Coordinadora del Acuerdo Bancario Empresarial (UCABE)	None
Basic approach	Forum for negotiations, followed by adoption of time-bound mediation procedures	Forum for negotiations, superseded in the fall of 2001 by a legal approach (Law on Corporate Restructuring)	Forum for negotiations	Forum for facilitation, superseded by contractual approach (debtor-creditor agreements)	None	Forum for negotiations, superseded in the fall of 2001 by a legal approach (Law on Corporate Restructuring)	Promotion of a voluntary debt workout program for the largest 40 corporations (only about 10 percent of all bank lending)	None
Onset of the crisis	Late 1997	Late 1997	Late 1997	Late 1997	1997	February 2001	Late 1994	January 1999
Resolution of inter-creditor disputes	No special procedure	Possibility to have loan of opposing creditor purchased; also arbitration committee consisting of private experts	Nothing special, apart from persuasion by central bank	Three-person panel to attribute differences, but any concerned creditor can opt out	No established framework for creditor coordination; efforts to reach settlements frequently undermined by minority and dissenting creditors	None	Possibility to form a <i>convenio</i> ; all creditors are treated equally and decisions bind all creditors	No possibility of consensual resolution among parties or establishment of creditor committees
Current default structure for failure to reach agreement	JITF may refer uncooperative debtor to government for possible bankruptcy petition ^a	Foreclosure, liquidation through court receivership	Foreclosure, liquidation or referral to asset management company with super-administrative powers	If less than 50 percent support the proposed workout, debtor-credit agreement obliges creditors to petition court for collection of debts	Regular bankruptcy	Regular bankruptcy	Criminal bankruptcy procedures or "suspension of payments" to banks permitted by courts	Financial institutions not allowed to invoke insolvency relief pledge for secured debt; unsecured debt can be deferred or reduced (<i>concordata</i>)

Source: Claessens 2005

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A.4.2.: London Approach – Experience (3)

Indicator	Indonesia	Korea, Rep. of	Malaysia	Thailand	Czech Republic ^a	Turkey ^b	Mexico ^c	Brazil ^d
All or most financial institutions signed on to accord								
Mid-1999	No	Yes	Yes	Yes	n.a.	No	No	n.a.
Mid-2003	No	Yes	Yes	Yes	n.a.	Yes	No	n.a.
Accord provides for formal arbitration with deadlines								
Mid-1999	No	No	Yes	Yes	n.a.	No	No	n.a.
Mid-2003	Yes	Yes	Yes	Yes	n.a.	Yes	No	n.a.
Accord imposes penalties for non-compliances								
Mid-1999	No	Yes	No	Yes	n.a.	No	No	n.a.
Mid-2003	No	Yes	No	Yes	n.a.	Yes	No	n.a.

n.a. Not applicable.

Source: Claessens 2005

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ATTACHMENT 4



TRIP REPORT

UKRAINE

JUNE 27-JULY 1, 2009

INTERNATIONAL REAL PROPERTY FOUNDATION

BY: NORMAN D. FLYNN, PRESIDENT & CEO

TRIP REPORT UKRAINE

JUNE 27-JULY 1, 2009

INTERNATIONAL REAL PROPERTY FOUNDATION

BY: NORMAN D. FLYNN, PRESIDENT & CEO

I flew from Nairobi to the Ukraine via Istanbul. It was an overnight flight leaving at 2:30 in the morning and getting into Ukraine at 5:00 in the afternoon. That was the third overnight flight in a row on this trip.

Meeting with Oleg Ochtkon

At 2:00 p.m. on Sunday, I met with Oleg Ochtkon, President of the real estate company Janus and currently a government official in the taxation department but on temporary leave. Oleg has been active in the real estate business longer than anyone else in the Ukraine starting his activities even before it was legal to do it. He also has a Masters Degree in Computer Science and Mathematics and has always been an innovator in computer activities and the use of a main frame. He has without doubt some of the deepest real estate history in the country. I make it a point to meet with Oleg nearly every visit because he has kept his thumb on the activities of the real estate community, its politics and, as the Founder and original President of the Union of Real Estate Specialists of Kiev, an important person in that organization. He also has the deep respect of Andrey Shulga, the President of the Ukrainian Realtors Association (URA).

He indicates that Shulga has asked him to be a Senior Advisor on a pro-bono basis and does call him from time to time to ask his opinions. Oleg strongly supports the formation of an MLS Committee and agreed to work with Arthur Ohanesyan to help create model activities in the MLS.

His sense of the state of the market is it is fundamentally total inactive. The developers are now eager to cooperate as are the construction companies whereas in the past, they pretty much ignored the real estate brokerage/agency community. He indicates there is a price decline of between 40%-50% and, in some sectors of the market, 100%. Although he pointed out one bright spot in a very select neighborhood in Kiev, they had 75 properties under development. In a matter of 2 months, 24 of those were sold. Actually he indicated that in a couple of instances there were actually some minor price increases.

He did suggest that Shulga is having difficulties with the number of fragments in the Association. While he has cemented relationships with the Guild, he still hasn't made peace with Alexander Rubanov who is the President of the Union. In discussing that with Shulga, he indicates he did give him some increased responsibilities especially in the commercial market. His projections and pronouncements were so negative that he felt he was doing a disservice to the market and relieved him of that activity.

Ochkton felt that Shulga needs to be more democratic and to listen more carefully. Irina had indicated that she had called Rubanov to set up a meeting for me and had not received a return call. Ochkton placed a call immediately and we set up a time for Tuesday morning to meet.

Meeting with Kathryn Owens

Kathryn Owens is a Doctoral Student of Dr. Richard Green at the University of Southern California. Her specialty is in Real Estate Finance and Banking. She has worked for 2 ½ years with the World Bank and has done analytical work in 15 emerging markets. We both were under the impression that Vika, the English speaking staff member of URA was to have set up meetings with brokers and bankers for her to “test the waters” of the possibility of doing price analysis and forecasting. It turns out that on the following day, Monday, was a national holiday for the Ukraine (Constitution Day) and all offices were closed. We were able to make appointments with Pragma and had a scheduled half-day meeting with the President of URA, Andrey Shulga.

Kathryn appeared to be very bright and articulate and had the necessary background to assist immeasurably in the project.

Meeting with Dennis Grubb

Kathryn and I met with Dennis Grubb and Pragma. He was the Serving Deputy Chief of Party as the Chief of Party was out of the country on holiday. He indicated that the Access to Credit Initiative (ATCI) was winding down in September. The final wind-down date is actually September 30th but it would be fundamentally closing down on the 18th. There will be a new project that will grow out of the activities of ATCI that will be on USAID’s website this week. It will emphasize training and more loan activities to help perfect the activities of the work that Pragma has done. This will focus on lending activities and activities within banks. The new initiative will be under an IQC and apparently Pragma will not be allowed nor is intending to bid for any work under that activity.

When asked if there would be any additional funds available between now and the end of September, he suggested that there were monies available in the project if there were continued activities that could be supported and/or an additional consultant to finalize activities were already underway. There would not be monies for any new initiatives. What this may mean is that with MLS, which has been an ongoing activity, we might be able to ask for additional funds for Peter Shuttleworth to meet again with the key players and principals that are involved there. In addition, we might be able to get an additional trip paid for by Kathryn Owens to finalize the data gathering with the University.

The meeting was cordial and both sides indicated that in looking at the scope of work that they had initially entered into that every activity had been fulfilled in its entirety.

Meeting with the Ukrainian Realtors Association (URA)

At noon, I met with Andrey Shulga along with Kathryn Owens. Andrey indicated to us that they had completed a business plan and then had revised it after we had commented on it. Unfortunately, it was to have been sent to us by Irina and she was out of the country in Moscow during our trip here and for 10 days afterwards. It was indicated that we would receive that business plan as soon as she returned.

They had preliminarily announced the data collection program and immediately got 50 participants giving information on 100-120 transactions throughout all of Ukraine. It appeared that cities outside of Kiev were more active than those inside. They had planned for the following day a round-table discussion that Owens and I would participate in as well as the President of the Technical University, Shulga and the key staff member who is the Director of the Information Center at the URA.

Shulga also mentioned that they had preliminarily announced and discussed the project in Yalta at the Yalta Conference that had 150 participants available. Forty-two of those participants indicated a willingness to participate and received a questionnaire in which they could begin to develop information that could be used in the project.

He encouraged us to check out the website of the URA. He indicated that there are certain properties available on the website.

They have now completed the National Real Estate Standards and are encouraging all of the other Associations in Ukraine to adopt the same standards. The Guild of Realtors already has indicated that they would adopt and Rubanov of the Union says that they also have similar if not identical standards. To enforce the Standards, they have been working with the Minister of the Economy and with the Minister of the State Property Fund. There is now joint recognition and all will monitor the adherence to the Standards. Under the Standards, each company must have one certified realtor. In addition, for a company to enter into transactions they need one certified realtor to do it. Shulga is hoping that the Union, the Guild and the URA can merge into one single unit.

Shulga did indicate that there are still a number of activities that need to be worked on to make the market more flexible and efficient. The taxation problems at the point of sale are over 20% which gives rise to the erosion of the quality of information that is recorded. In addition, he indicates there are registration difficulties where it takes considerable time to get things registered. Lastly, he believes that the data base is wholly inaccurate.

During the meeting, Kate Owens indicated to Shulga that they would need 10 times more data points of information before the project could be relied upon. He felt that that would not be a huge difficulty to achieve.

We did indicate that we would send to Shulga a copy of what NAR produces on a monthly basis by way of information and data. This could be used to sell to banks, insurance companies and other interested parties.

We discussed in some detail the program that would be hosted the following day. An agenda had been prepared. They were expecting approximately 25 people. Lastly, I discussed with Shulga how he was coming along with Alexander Rubanov. Shulga feels that Rubanov is still extremely negative and his tact has been to deal with Mr. Abranmov and Mr. Nodnopofov, the two Vice-Presidents. He believes that the Vice-Presidents are far more cooperative and more eager to get the Associations on the same page and united in their activities.

Meeting with Alexander Rubanov
June 29, 2009 10:00 a.m.

I met with Alexander Rubanov to discuss the current state of the Union and their relationship with URA. He says the circumstance is still complicated that it seems difficult to merge the businesses as the Union's companies. The URA is individuals and the Guild is a mix. His personal attitude toward Shulga has not changed. He believes that he "talks a lot but doesn't do much." When I asked him what the solution was to the problem of getting a merger together, he said that if the existing Kiev Union could become the Regional for Kiev that would resolve the matter. I told him that I thought that would be difficult as Shulga was supported by the URA Members of Kiev and unless they were built into that organization, he would never support that. He said that he understood that and perhaps that had to be a "quid pro quo" of the merger coming together.

It is clear that both organizations have very similar goals and objectives. Part of the difficulty is that it is personality driven with Rubanov not supporting Shulga and vice versa.

Roundtable for the Presentation of the Data Collection Project
June 30, 2009 12:00 p.m.

The Roundtable for the Data Collection project was co-hosted by the International Business Institute whose president is Alexander V. Mertens, PhD, the URA and IRPF. There were 24 people in attendance of which 6 were staff members or hosts. The presentations dealt with the project itself, the contributions of IRPF as well as the data collection requirements to make it all work effectively. The actual program went about 1 hour and there was an additional 2 hours of questions and answers. The bulk of the questions were right on point and extremely positive.

On balance, the majority of the people were strongly in favor of the project and indicated a willingness to both collect the data on a regular basis and send it in. What remains to be done now is to devise the appropriate questionnaire so that the materials on the properties would all be delivered in the same fashion.

Kathryn Owens intended to meet with Alexander Mertens and the staff member who would be assigned to the Data Collection Project within the URA. Lastly, the finalized budget and business plan which will be mailed within the next week will need to be evaluated and the final numbers put to the project.

Summary and Conclusion

It appears that Shulga is moving forward in driving the data collection project and is interested in pursuing the Multiple Listing Program. He also has an ambitious program in which to build programs, products and services that would be made available to the Regions. Apparently in last years' budget, there was \$180,000 surplus for the URA. It is his intention to spend a portion of that surplus to develop these programs, products and services. There is a small battle going on between Vladislov Orlov the Executive Vice President and Andrey Shulga. Bonderenko, the President for the preceding five years had been appointed as the Vice President under Shulga's regime. At the last Council Meeting, Shulga asked him to resign that position. It was generally felt by Ohaneysian that the purpose for that was to clear the way for him to replace Orlov. Orlov had gone to Dnask and had won the support of the representatives of that regional association to support his continuance as Executive Vice President. Bonderenko had given Orlov a tremendous amount of authority which he used to travel the country and establish rapport with most of the regional associations. Replacing him will not be an easy task.

The market itself is working against the Association and the current President. Being that business is substantially off and prices have declined so remarkably, it makes bringing satisfaction to the members extremely difficult.

Given those scenarios, I believe that the URA will survive, that there will be a merger of all of the major players into one unified voice, and that the market will improve and, as it does, the data collection project will be successful. Pragma indicates that the banks have been severely damaged in this financial crisis. As they improve and the financing improves with it, the market should return. Most are projecting that that will not return until the third or fourth quarter of 2010.

ATTACHMENT 5



CABINET OF MINISTERS OF UKRAINE

RESOLUTION

dated 14 April 2009 # 363

Kyiv

On Introduction of the Institute of Primary Dealers in the Government Securities Market

The Cabinet of Ministers hereby **RESOLVES**:

1. To introduce the institute of primary dealers in the government securities market.
2. To approve the attached Regulation on the Institute of Primary Dealers
3. The Ministry of Finance shall develop and approve the procedure for selection and functioning of primary dealers;

Prime Minister of Ukraine

YU. TYMOSHENKO

**Regulation
On the Institute of Primary Dealers**

1. This Regulation shall establish conceptual fundamentals for functioning of the institute of primary dealers.
2. Primary dealers shall be the banks recognized by the Ministry of Finance which undertake an obligation to cooperate with the Ministry in part of development of the domestic government securities market in exchange for exclusive right to participate in placement of the domestic government bonds (hereinafter – the bonds) and obtaining a preemptive right to participate in other transactions effected with such bonds by the Ministry of Finance.
3. Primary dealers may be the banks which have:
 - 1) a license to carry out professional activities in the stock market – activities in securities trading;
 - 2) paid-in statutory capital equivalent to not less than Euro 10 million;
 - 3) practical experience of work in the bonds market– total volume of the bonds trading no less than UAH 1 billion.
4. Total number of primary dealers shall not exceed 16.
5. Minfin shall enter into agreements with primary dealers specifying the following obligations of primary dealers.
 - 1) to participate in bonds placements;
 - 2) to ensure:

purchase during bonds placement of not less than 3% of the total volume of their placement during every six month period;

conclusion of bonds purchase and sale agreements in the secondary market in the volume not less than 3% of the total volume of such agreements during every six month period;

constant (every business day) proposal to other primary dealers to purchase and sell bonds;
 - 3) to provide consultative support to the Ministry of Finance regarding needs in placements of the bonds and volumes of their placement, maturities, placement schedules based on their own market assessment.

Unofficial translation by ATCI

6. The agreements concluded with the first six primary dealers regarding an exclusive right to participate in bonds placement shall become effective upon conclusion of agreements with the first primary dealers and the Ministry of Finance.

ATTACHMENT 6

Schedule of domestic government bond placements in May-July, 2009

Calendar month	Type of notes of internal state borrowing	Placement days			
		first Monday	second Monday	third Monday	fourth Monday
		Maturities of notes of internal state borrowing			
May	short-term state notes			6 and 9 months	3 and 12 months
	mid-term state notes			2 years	3 years
June	short-term state notes	6 and 9 months		3 and 12 months	6 and 9 months
	mid-term state notes	2 years		3 years	2 years
July	short-term state notes	3 and 12 months	6 and 9 months	3 and 12 months	6 and 9 months
	mid-term state notes	3 years	2 years	3 years	2 years

ATTACHMENT 7



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ATCI PRESENTATION ON THE REPORT

On the Development of the Ukrainian Government Bond Market

prepared by
the Government Debt
Management Agency (AKK),
Budapest

May 14, 2009

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BACKGROUND

Based on the contract signed between the Pragma Corporation and the AKK in January, 2009, the representatives of AKK, Mr. Zslot Bango, Head of the Treasury Department, Mr. Laszlo Buzas, Deputy CEO, and Mr. Andras Rez, Head of the Middle Office, visited Kyiv 3 times during the period of January-March, 2009, to determine the current situation in the Ukrainian government securities market and elaborate an action plan to revive the primary market.

The main findings of the Report prepared by AKK team as a result of those visits with regard to the development of the government securities market in Ukraine may be summarized as follows.

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CONTENTS OF THE REPORT:

- **Executive Summary**
- **Summary Table of Recommendations**
- **The Primary Market of Government Securities in Ukraine**
 - The current situation**
 - Auctions**
 - Investors**
 - Recommendations**
- **The Primary Dealer System**
 - The primary dealer system in general**
 - Primary dealer systems in the international practice**
 - Recommendations**
- **Repurchase Agreement**
 - General features**
 - Recommendations**
- **Risk management**
 - Risk management in general**
 - Risk management for Ukraine**
- **Annex I**
- **Annex II**
- **Annex III**

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THE CURRENT SITUATION:

- In the last couple of years most of the financing came from external sources in foreign currency exposing the government to huge exchange rate and refinancing risks and raising sensitivity to ratings
- With the devaluation of the UAH these risks have turned into realized, or non realized costs
 - Increase of the debt/GDP ratio (though still acceptable in international comparison)
 - Increase in debt service costs (the depreciation of the UAH made the cost of foreign currency debt similar to that of the Hryvna denominated debt)
 - Difficulties in rolling over a part of the foreign currency debt (with the market pricing in a sovereign default only IFIs can be expected to extend loans, but as a negative side effect official help created a perception of extreme weakness)
 - Repeated downgrades by the major rating agencies

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THE CURRENT SITUATION:

- The domestic market came to a complete standstill
 - A large number of auctions are being conducted week by week, the failure rate of these auctions is over 90 per cent; 2009 auctions conducted not at market rates were mostly unsuccessful as well
 - Only about the half of 2008 domestic financing plan could be accomplished
 - No primary price guidance due to the lack of auctions at market rates
 - No real secondary market information due to the lack of dedicated market makers (Primary dealers)
- Though a quick recovery in the domestic market might not be expected we would advise to make an early start given the time needed for building the necessary market infrastructure and develop/educate the investor base

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RECOMMENDATIONS: Auctions

- Start issuing T-bills (and/or bonds) in small amounts at market interest rate to increase market demand and improve the success of auctions
- Adhere to a pre-announced auction calendar with minimum volumes
- Use single stage multi price auctions instead of the present 2 stage system
- Have only 2 securities issued at one auction to concentrate demand for a few maturities at a time
- Eliminate the announcement of a minimum price (maximum yield)
- Delegate decision-making (within certain limits) to an auction committee composed of SDMD Staff
- Publish auction results (on websites, Reuters, Bloomberg, etc) within 1 hour to minimize risks for auction participants
- Use standard rules to react to market demand

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RECOMMENDATIONS: Securities

- There should be a limited number of securities series offered in a given year (more T-Bill and less bond series)
- Preference should be given to discount T-Bills which may be used to manage short term liquidity or hedge positions
- Use standard maturities (3, 6 and 12 months) not to create competition with the NBU's Certificates of Deposits (up to 60 days)
- Do not reopen coupon bonds with less than 1.0-1.5 years to maturity

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RECOMMENDATIONS: Investors

- Build and develop the domestic investor base to increase demand for domestic securities at competitive yields
- Eliminate restrictions to buy bonds by certain groups of investors
- Offer retail securities in paper form to households
- Develop other segments of the financial market (pension, insurance, mortgage) to facilitate the emergence of the institutional investor base

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RECOMMENDATIONS: Primary Dealers

- Set selection criteria for PDs (basic minimum net regulated capital and minimum level of liquid assets)
- Set the number of PDs to ensure fair competition
- Give primary dealers exclusive right to participate in auctions
- Use primary dealers as preferred partners in debt management operations
- Make long-term contracts with PDs and terminate the contract only if they fail to meet the requirements
- Measure the performance of primary dealers on a half-yearly basis
- Require 3% primary market share with no excuse for failure to reach it
- Pay auction selling fee to primary dealers (ATCI comment: paying fee to PDs automatically creates a separate class of investors and allows weaker dealers to re-offer just auctioned securities at a discount)
- Introduce secondary market price quotation
- Choose and introduce an electronic platform for price quotation
- Set up information systems for the disclosure of market information to the public (yield curve, auction results) and define the role of PDs in this field

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RECOMMENDATIONS: Repo/Reverse Repo Transactions

- Complete the draft decree on reverse repo facility with repo transactions
- To reduce the potential risk it is recommended to use classic repo transactions
- Introduce one of the internationally accepted repo master agreements to the Ukrainian money market with its adjustment to the Ukrainian law
- Define the eligibility criteria for possible counterparties
- Develop a real DvP (Delivery vs. Payment) settlement procedure
- Use sufficient haircuts to limit counterparty risk, and market prices to evaluate collateral
- Select a reliable and transparent electronic trading platform (Bloomberg, Reuters dealing, local Stock Exchange platform, etc) for repo transactions

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ISSUES REMAINING

- Development of the risk management capabilities
 - Dedicated risk-management unit within the MoF
 - Debt management strategy
 - Benchmarks
 - Planning and forecasting
- Portfolio management (structure, hedges, prepayments, etc)
- Liquidity management (depos, repos, forecasting, reverse auctions, stand by facilities)
- Financial markets (capital, money, swap markets)
- Related issues (e.g. pension reform)
- Setting-up of PR and marketing programs to deal with media, PDs, and investors

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THANK YOU

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ATTACHMENT 8



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Memorandum

To: Max Alier, Resident Representative in Ukraine, IMF
CC: Vladimir Vysotskyi, Senior Advisor, ATCI
Paul Roberti, Senior Advisor, ATCI
From: Rick Dvorin, Chief of Party, ATCI
Date: May 28, 2009

Priorities for ATCI is Developing the Domestic Government Securities Market in Ukraine

ATCI, together with external international experts (AKK, Government Debt Management Agency of Hungary), has derived a list of priorities that are integral to the development and successful functioning of a domestic government securities market denominated in local currency (UAH). The MOF has initiated auctions at market rates; since May 14, 2009, there have been three (3) days of auctions, selling government securities from 2 months to 3 years in maturity. Still to be implemented is the Primary Dealer system as well in addition to many other activities to be accomplished.

We must keep in mind that the MOF has in fact made public an auction calendar through July 2009, but has not yet determined the sizes of each auction. These sizes will be announced a few days in advance of the weekly Monday auctions. The MOF has accepted the idea of market rates during this initial pilot program and ATCI is continuing to work with the MOF and the NBU in the full development of the domestic government securities market.

Although the list of activities is much greater for the fulfillment of the establishment of a successful domestic government securities market in Ukraine, the following represents a list of priorities (it must be noted that ATCI along with AKK have already presented these activities to the MOF):

- MOF must provide timely and transparent information to all interested parties as to calendar of auctions and results through various channels, the foremost being the official web sites of MOF and NBU. MOF must do a better job in publicizing and communicating with the public, investors, and (potential) Primary Dealers pre-auction and post-auction activities and results;
- MOF should through a transparent vetting process choose at least six but no more than sixteen commercial banks as primary dealers and sign necessary legal agreements. MOF must foster the creation and growth of a viable secondary market by promoting the voluntary market making of the Primary Dealers with the aim of an obligatory market making role for PDs at sometime in future;
- NBU should employ government securities when implementing monetary policy/open market operations, i.e., repurchase and reverse repurchase agreements outright purchase and sales;

- Commercial banks should be permitted to voluntarily hold an agreed percentage of their required reserves in short-term government securities;
- MOF should provide a means for PDs to purchase and inventory government securities through the use of repurchase agreements;
- There should be significant loosening in any restriction, law, or regulation as they pertain to percentage of government securities that can be held by financial institutions such as insurance companies, mutual funds, credit unions, and public/private pension funds. For example, within the law “On Insurance” and FSR regulations, insurance companies can hold in their reserves amounts up to 50% in government securities; this 50% restriction should be lifted or at least loosened to allow up to 75% in government securities; and
- Create a savings vehicle accessible to the general public to easily purchase government securities (e.g., in certificate form through the Savings Bank branches) or greatly increase the possibility of using non-competitive tenders in pre-announced primary auctions.

The support and promotion of these priorities by the IMF mission will help in furthering the goal of a transparent and liquid government securities market, with the government of Ukraine achieving the most efficient and least costly method of borrowing.

If you/the IMF have other requests from ATCI, please let me know for our reaction and/or implementation.

ATTACHMENT 9



CABINET OF MINISTERS OF UKRAINE

DECREE

Dated June 10, 2009 # 568

Kyiv

On Approval of the Procedure for Purchase of Domestic Government Bonds in 2009

Pursuant to part 1, Article 18 of the Law of Ukraine “On State Budget of Ukraine for 2009”, the Cabinet of Ministers of Ukraine hereby **decrees**:

To approve the attached Procedure for Purchase of Domestic Government Bonds in 2009.

Prime-Minister of Ukraine

Yu. TYMOSHENKO

APPROVED
by the Decree of the Cabinet of Ministers of
Ukraine
dated June 10, 2008 # 568

**PROCEDURE
for Purchase of Domestic Government Bonds in 2009**

1. This Procedure shall determine the mechanism for purchase of domestic government bonds (hereinafter - the bonds) in 2009 by the Ministry of Finance from funds of the Single Treasury Account (hereinafter - the single account) simultaneously assuming an obligation to sell them secured by pledge of these bonds with further repayment of funds of the single account until the year end.
2. The terms used in this Procedure shall have the following meaning:

Bonds purchase agreement (hereinafter - the purchase agreement) shall mean the agreement under which bonds are purchased simultaneously assuming an obligation to sell them secured by pledge of these bonds pursuant to pledge agreement.

Counteragent shall mean a legal entity holding and/or dealing with the bonds, with whom the Ministry of Finance entered into purchase agreements.

Trade organizer – a stock exchange whose rights are registered with the Securities and Stock Market State Commission and contain specific features of organizing and holding exchange trading in bonds which has relevant software and technical support to enter into agreements on purchase of securities for a certain term assuming an obligation to sell them and effect settlements on such agreements in the real-time mode based on the “delivery against payment” basis and whose equity capital totals no less than UAH 40 million.

3. The Ministry of Finance shall:

draft template agreements and pledge agreements and publicize them by posting on its official web-site,

approve and publicize the plan-schedule of bonds purchase indicating the relevant amounts which could be adjusted based on the decision of the Minister of Finance,

decide on bonds purchase based on the analysis of the government debt payments schedule, situation in the government securities market, information of the State Treasury on condition of the single account, operating information on fulfillment of the state budget as well as taking into account the situation in the monetary and credit market.

4. The winners to enter into purchase agreements shall be determined based on the results of open tender selection conducted by the Ministry of Finance in the established manner or auction held through a trade organizer.

If bonds were purchased through a trade organizer, the Ministry of Finance shall conclude an agreement on provision of services related to organization and holding of auctions.

The fee charged by a trade organizer shall not exceed 0.04% of the bonds value pursuant to purchase agreements and shall be paid by the counteragents no later than the day following the auction day.

5. The notice on holding tender or auctions shall be publicized on the official web-site of the Ministry of Finance no later than the working day following the working day when decision on purchase of bonds was made.

The notice shall contain the following:

date and time of tender or auction;

term and time for filing tender or auction bids;

amount of funds on the single account which can be used to purchase bonds pursuant to the decision;

term to effect transfer of funds to a counteragent and issue instruction to the National Bank regarding bonds blocking;

deadline to purchase bonds;

other information.

6. The Ministry of Finance shall establish the minimum yield rate on purchase of bonds at which the Ministry of Finance shall accept bids during tender or auction.

During tender or auction the participant shall offer yield rate on purchase of bonds which can not be lower than the minimum rate providing the participant agrees to conclude purchase agreement at such rate.

7. Priority shall be given to bids submitted by those participants who proposed the highest yield rate on purchase of bonds. If the total amount of bids which must be satisfied does not exceed the amount of funds on the single account which can be used by the Ministry of Finance to purchase bonds, the Ministry of Finance shall consider lower yield bids. Satisfaction of bids shall be withheld if the total amount of bids which must be satisfied corresponds with the amount of funds on the single account which can be used by the Ministry of Finance to purchase bonds. Bids of participants with the same yield rate shall be satisfied proportionally.
8. The agreement shall be concluded within the marginal amounts and terms established by the Ministry of Finance in coordination with the National Bank factoring in balance on the single account.

At that, the purchase agreement must be concluded to the amount exceeding UAH 5 million.

9. Based on the results of tender or auction, the Ministry of Finance shall establish the amount of purchase agreement separately for every agreement as the amount of funds on the single account which must be paid for the bonds which will be the subject of agreement and the current yield on bonds placement) as well as income calculated based on the yield rate on purchase of bonds. The amount of bonds which will be the subject of purchase agreement shall be calculated by dividing the amount of agreement by par value of a bond. If the quotient is not an even number, it shall be rounded up.
10. Based on the results of tender, the winner shall sign and transfer the purchase and pledge agreements to the Ministry of Finance.

Based on the auction results, the winner shall sign and transfer purchase and pledge agreements to the trade organizer with further transfer to the Ministry of Finance.

The agreements shall be signed in two copies and transferred to the Ministry of Finance no later than the day following the day of holding tender or auction.

11. The Ministry of Finance during one day shall check and sign purchase and pledge agreements and provide:

Order on transfer of funds to the State Treasury,

Order on blocking of securities serving the subject of agreement in favor of the Ministry of Finance to the National Bank as depository of government securities

Notice on entering into pledge agreement to the Ministry of Justice,

One copy of each agreement shall be given to the counteragent.

12. The State Treasury based on the Decree of the Ministry of Finance shall transfer funds from the single account to the counteragent in the established procedure and account for the above transaction in the state budget fulfillment report.
13. Bonds serving the subject of pledge shall be blocked by the National Bank as depository of government securities based on the “delivery against payment” basis on the respective accounts of the counteragents.

The National Bank based on the effected transactions shall submit to the Ministry of Finance a note certifying that the bonds transactions were effected.

14. The agreement shall expire no later than December 25 of the year of its conclusion.
15. On the day of funds repayment the counteragents and the Ministry of Finance shall issue to the National Bank as depository of government securities an instruction on bonds de-blocking based on the “delivery against payment” basis on the respective accounts of the counteragents.

The National Bank based on the reconciled instructions shall form payment orders on transfer of funds which must be repaid by the counteragents to the Ministry of Finance and shall provide them to the counteragents.

The counteragent shall transfer funds to the Ministry of Finance in the manner envisaged by the legislation.

16. If the counteragent fails to fulfill his obligations under purchase agreement, the property right to respective bonds shall be transferred to the Ministry of Finance. The above bonds shall be liable to early redemption.
17. Information regarding fulfillment of purchase agreements and early redemption of bonds shall be registered in the state budget fulfillment report in the sections “Financing of Current Transactions” and “Financing of Debt Transactions” pursuant to the orders of the Ministry of Finance.
18. Results of bonds transactions shall be reflected based on the orders of the Ministry of Finance in the expenditure budget of the general state budget fund as government debt servicing expenditures signed plus (minus).

ATTACHMENT 10



MINISTRY OF FINANCE OF UKRAINE
ORDER

Dated

On approval of the Procedure for Selection of Counter-Agents on Contracts to Purchase Domestic Government Bonds,

I hereby **ORDER**:

1. To approve the Procedure for Open Selection of Counter-Agents on Contracts to Purchase Domestic Government Bonds.

2. To appoint the Commission on Tender Selection of Counter-Agents on Contracts to Purchase Domestic Government Bonds consisting of:

- Kravets A. M., Deputy Minister of Finance – Head of the Commission
- Bashynska O.M., Director of Sovereign Debt Department – Deputy Head of the Commission
- _____ - Secretary of the Commission

3. To authorize Kravets A. M., Deputy Minister of Finance (the person who is temporarily performing his duties) to sign contracts on purchase of domestic government bonds.

Minister

APPROVED
by Order of the Ministry of Finance
of Ukraine of
No.

**Procedure
for Open Tender on Selection of Counter-Agents on Contracts of Purchase of Domestic
Government Bonds**

I. General provisions

1. This Procedure (hereinafter – the “Procedure”) shall regulate conducting by the Ministry of Finance of Ukraine of an open tender on selection (hereinafter – the “Selection”) of counter-agents on contracts of purchase of domestic government bonds (hereinafter – the “bonds”).
2. The terms used in the Procedure shall have the following meanings:

purchase contract shall mean a contract under which, with the funds of the unified treasury account, government bonds are purchased with a simultaneous obligation to sell them secured by pledge of these bonds in accordance with a pledge agreement subject to a future repayment of the unified treasury account funds by the end of the year;

counteragent shall mean a person holding and /or disposing of the bonds and with which the Ministry enters into the contracts.

contract rate shall mean the annual yield that is in line with the income from depositing an amount of unified treasury account funds that must be paid for the bonds during the term of the contract.

Contract term shall mean the term between the date of purchase and the date of sale under the contract.

3. Selection of counteragents shall be organized and conducted by the Sovereign Debt Department by means of a tender selection, if the total amount of purchase is above UAH 100 million or by means of an auction that is held using a trade organizer.
4. Auctions to determine the counteragents shall be held by the Sovereign Debt Department at the trade organizers meeting the requirements established by the Cabinet of Ministers of Ukraine.
5. A notification of holding auctions to determine counteragents, model purchase and pledge agreements (Annex No. 1 and Annex No. 2 hereto), codes of bonds issues that are purchased and their number by tickets shall be publicized by trade organizers that hold them at least three days before the date of the auctions.

The notification shall specify:

date and time of holding the auction;
the term and time for submitting bids to participate in the tender or auction;
the amount of unified treasury account funds that may be used to purchase the bonds in accordance with the approved decision and the minimum yield of purchased bonds;

codes of the government bonds that may be the subject of purchase specifying the date of their repayment and the number of bonds per every UAH 100,000 in the unified treasury account that may be used to purchase the bonds per each code and contract term;

the term by which funds shall be transferred to the counteragent and the instructions shall be issued to the National Bank of Ukraine to block the bonds;

the deadline to purchase the bonds;

other information.

6. The amount of tickets (the amount in the unified treasury account that must be paid for the bonds) must be a multiple of UAH 100,000 and not smaller than UAH 5,000,000.

7. The bonds issue to be purchased shall be selected out of the issues maturing within the next 15 months; the maturity date may not fall on the date of validity of the purchase contract. The subject of a separate contract may be only one code of domestic government bond issue.

8. To define the number of bonds on the purchase contract, the lot amount (volume of funds of the unified account to be paid for the bonds) increased by the amount of collateral and amount of income from placement on deposit of the volume of funds of the unified treasury account to be paid for the bonds, for the period of the contract, shall be divided by the nominal value of one bond which is the subject of the contract. Result of division which is not an integral number shall be rounded upward.

9. Amount of sale shall be amount which equals a lot amount (funds of the unified account to be paid for the bonds) increased by the amount calculated from the lot amount on contract rate depending on validity of the contract.

10. Amount of collateral shall be amount calculated from the lot amount (volume of funds of the unified account to be paid for the bonds) depending on the period remaining until bond redemption at the interest rate which equals 25% for 15 months until bond redemption. The indicated interest shall be reduced by 1.5% in case of decrease of the period until redemption of 15 months by one month, but shall be not less than 10%.

Validity of the contract shall be divisible by one week.

11. The Public Debt Department shall establish minimum rates for the contracts on the level not higher than NBU discount rate.

12. According to the auction results, the winner shall be the participant who offers the highest contract rate for a certain lot which cannot be lower than the minimum one. Bids of the participants with identical contract rate shall be satisfied proportionally.

3. Not later than the day following the day of adoption of the decision on tender selection, the Department shall ensure publication in the official web site of the Ministry of Finance of a notice on tender selection.

The notice shall contain:

- Date and place of holding of the tender selection with a proposal to submit bids for conclusion of the contract in a sealed package, with mentioning of the date and time of their submission, and invitation to open bids;
 - list of data mentioned in the bids;
 - total volume of bond purchase according to the adopted decision, and minimum yield on purchase at which the Ministry of Finance accepts the bids for consideration;
- USAID ATCI Project, implemented by the Pragma Corporation – Nineteenth Quarterly Report
Attachment 10 : Draft Procedure for Open Tender on Selection of Counter-Agents on Contracts of Purchase of Domestic Government Bonds*

- deadline until which the counter-agent shall transfer funds and give instructions with respect to the bonds;
- deadline for bond sale;
- codes of government securities which may be the object of purchase and sale, with mentioning of the date of their redemption and number of bonds per every UAH 100,000 of the treasury account funds which can be used for bond purchase, on every code and contract validity; and
- other data.

Draft contracts on purchase and pledge shall be attached to the notice.

4. The date of tender selection shall be defined by the Department not earlier than 2 days after publication of the notice).

5. Participants of the tender shall be suggested to mention the following data in their bids:

- full name of a legal entity which submits the bid:
- last name, first name and patronymic of the official who concludes the contract, and the grounds on which he acts;
- last name, first name and patronymic of the official who will be present at opening of the bids;
- type of main activity;
- legal address;
- EDRPOU code;
- details of the banking and depository accounts;
- amount of bond purchase, and period of their placement;
- yield on bond purchase; and
- number of government securities which are the object of purchase and pledge contracts calculated according to the procedure established by the Cabinet of Ministers of Ukraine.

6. Deadlines for sale shall be defined with taking into account of the fact that term of the contract should be divisible by a week.

7. The Department shall ensure access of the persons mentioned in the bids to the place where the bids will be opened.

8. Opening of the bids shall be made in presence of at least 3 employees of the Department, one of which is appointed by the Department Director to be a Secretary of selection.

9. Before opening, on request of those present at opening of the bids, integrity of the seals on the bids shall be inspected.

10. During opening of the bid, the following shall be announced:

legal entity which submitted the bid;
the amount of purchase under the contract;
yield of purchase;
code of securities issue.

11. After the end of announcement of all received bids, data mentioned in item 11 shall be entered in the minutes of selection, beginning with the highest yield at which the funds are placed. At that, amount of bids and yield which corresponds to the purchase and sale price is separately mentioned for every bid as a progressive total, with taking into account percentage of contract increase as of the date of transfer of ownership right to securities to the Ministry of Finance. The minutes shall be signed by members of the Commission on Selection of Counter-Agents who are present during selection and approved by the Commission Head.

12. The bids worth the amount not exceeding the volume of funds of the single account offered for placement shall be subject to satisfaction. The first bid a progressive total of which exceeds the amount of funds of the unified account offered for placement shall be satisfied in the amount remaining to the amount of funds of the unified account offered for placement. Should there be yield rates similar to the rate of such bid, these bids shall be satisfied in proportional amounts.

13. The bids which are subject to satisfaction shall be announced to those present during selection.

14. The winners of the tender selection or auction shall sign and transfer the contract and pledge agreement to the Department in two copies in compliance with the standard agreement publicized by the Sovereign Debt Department no later than the day following the auction day.

15. The Sovereign Debt Department during one day shall check and sign the relevant agreements at the Minister (authorized person) as well as provide special instruction on transfer of funds and bonds to the State Treasury of Ukraine.

One copy of each contract shall be given to the counter-agent.

16. Implementation of the purchase contract shall be reflected in the budget performance report pursuant to instructions issued by the management.

Director of Public Debt Department

O.M. Bashinska

ATTACHMENT 11

**AGREEMENT ON PLEDGE
of Domestic Government Bonds #**

Kyiv

2008

The Ministry of Finance of Ukraine (hereinafter –MinFin) represented by
basis of _____, and

Draft
who acts on the

Joint-stock commercial bank _____, (hereinafter –
the Counteragent) represented by the Chairman of the Board of Directors
who acts on the basis of the bank’s articles of association (hereinafter called together the Parties and
separately – the Party),

have concluded this Agreement on pledge of domestic government bonds (hereinafter – the Agreement)
with the terms having the same meaning as in the Purchase agreement:

1. Subject of the Agreement

1.1. In fulfillment of its obligations under the Agreement on purchase of domestic government bonds
simultaneously assuming an obligation to sell them # _____ dated _____ 2009 (hereinafter – the
Purchase agreement), the Counteragent shall transfer such domestic government bonds to Minfin for
pledge (hereinafter – the Bonds):

ISIN code	Quantity	Par value, UAH	Redemption date	Pledge value, UAH

1.2. The Parties shall evaluate the Bonds to the amount of UAH _____ (_____).

1.3. The Counteragent shall acknowledge that he holds the Bonds and they are free from pledge against
other obligations or other restrictions in their circulation, they do not serve the subject of judicial disputes
which is acknowledged and certified by the Counteragent’s signature in the Agreement.

1.4. During the term of the Agreement the Bonds shall be blocked on the securities account of the
Counteragent.

1.5. If the sold amount is not transferred to the Counteragent in full on the Date of sale, the Bonds shall
pass into the ownership of Minfin on the working day following the Date of sale pursuant to the relevant
instructions given to the National Bank no later than on the Date of purchase.

2. Rights and Obligations of the Parties

2.1. Minfin shall be entitled to:

2.1.1. Check the documental and actual availability, limits and condition of the Bonds without any restrictions from the Counteragent.

2.1.2. Acquire the property right to the Bonds in case of failure to transfer the sold amount on the account of Minfin on the Date of sale pursuant to the terms and conditions of the Purchase agreement and effective legislation of Ukraine.

2.2. Minfin shall undertake to:

2.2.1. Ensure that all relevant actions were taken pursuant to the terms and conditions of the Agreement to free the Bonds from any encumbrances upon fulfillment of all obligations by the Counteragent under the Purchase agreement

2.3. The Counteragent shall undertake:

2.3.1. Not to alienate the Bonds without the privity of Minfin, transfer them into other pledge to the third party or otherwise encumber before transfer of the sold amount on the account of Minfin on the Date of sale.

2.3.3. Not to impose any legal or judicial obstacles in case of Minfin fulfillment of the acquired property rights to the Bonds.

2.4. The Counteragent shall be entitled to:

2.4.1. Possess and use (receive due interest) the Bonds through the effective term of the Agreement.

3. Other Provisions of the Agreement

3.1. The Agreement shall be concluded since the moment of its signing by the authorized representatives of the Parties and shall be effective till full execution of the obligations by the Parties.

3.2. All information shall be transmitted between the Parties in writing by sending e-mails, letters or telegrams, etc.

3.3. The Agreement could be changed only upon mutual agreement of the Parties by way of concluding additional agreement which shall be an integral part thereof.

3.4. In case of introducing changes to the Purchase Agreement, the Agreement shall not be terminated until full execution of the obligations under the Purchase Agreement.

3.5. Disputes arising during the term of the Agreement shall be settled through negotiations and in case the Parties fail to reach an agreement – pursuant to the procedure established by the legislation of Ukraine.

3.6. With regard to all the issues associated with execution of the terms and conditions of the Agreement being unregulated by the Agreement, the Parties shall follow the effective legislation of Ukraine.

3.7. This Agreement is written in Ukrainian in three original copies, one copy for each Party and the National Bank of Ukraine being depository of government securities. All copies are equally authentic.

4. Details and signatures of the Parties

Minfin

Counteragent

CONTRACT
on purchase of domestic government bonds with simultaneous obligation to sell them #

Kyiv

2009

The Ministry of Finance of Ukraine (hereinafter – the MinFin) represented by _____ who acts on the basis of _____, and _____

Joint stock commercial bank _____ (hereinafter – the Counteragent) represented by the Chairman of the Board _____ who acts on the basis of the bank Charter, (hereinafter together – the Parties, and separately – the Party),

In view of the fact that based on results of the auction on _____ exchange on lot # _____ the designated winner was the Counteragent (extract from the Minutes # _____ dated _____ 2008 which is an Appendix to this Contract),

[In view of the fact that based on results of the open tender selection conducted by the Public Debt Department of the MinFin the designated winner was the Counteragent (extract from the Minutes # _____ dated _____ 2008 which is an Appendix to this Contract)]¹,

have concluded this Contract (hereinafter – the Contract) on the following:

1. Subject of the Contract

1.1. According to the procedure and on the terms defined by the Contract, the Ministry of Finance shall purchase with simultaneous obligation to sell, and the Counteragent shall sell with simultaneous obligation to purchase domestic government bonds (hereinafter – the Bonds) for the amount of UAH _____ (_____) (hereinafter – Purchase amount):

ISIN code	Number, pcs.	Nominal value, UAH	Redemption date	Purchase price, UAH	Sale price, UAH	Purchase amount, UAH	Sale amount, UAH

1.2. On _____ 2009, according to the procedure and on the terms defined by the Contract, the Ministry of Finance shall sell and the Counteragent shall purchase the Bonds for the amount of UAH _____ (_____) (hereinafter – Sale amount).

1.3. Fulfillment of the Counteragent’s liabilities under the Contract shall be ensured by pledge of Bonds according to the Pledge Contract # _____ dated _____ 2009 (hereinafter – the Pledge Contract).

¹ This provision is used in case of conclusion of the Contract as a result of an open tender selection.
USAID ATCI Project, implemented by the Pragma Corporation – Nineteenth Quarterly Report
Attachment 11 : Draft MoF Repo Agreement

2. Rights and Obligations of the Parties

2.1. The MinFin shall be obliged:

2.1.1. Not later than 2009 (hereinafter – the Date of purchase), to give to the National Bank as the depository of government securities an instruction to block the Bonds in the Counteragent’s securities account for its own benefit, and an instruction to deposit Bonds in the securities account of the MinFin on the next business day after 2009 (hereinafter – the Date of sale) in case of non-receipt of Sale amount in the MinFin’s account on the Date of sale.

2.1.2. Not later than the Date of purchase, to transfer to the Counteragent the Purchase amount into account # _____ opened in JSCB “ _____ ”, MFO _____, EDRPOU code _____.

2.1.3. Not later than the Date of sale, to give to the National Bank as the depository of government securities an instruction on de-blocking of the Bonds blocked in the Counteragent’s securities account for MinFin’s benefit, upon the condition of receipt of the Sale amount in MinFin’s account.

2.2. The Counteragent shall be obliged:

2.2.1. Not later than the Date of purchase, to give to the National Bank as the depository of government securities an instruction to block the Bonds in the securities account for MinFin’s benefit, and an instruction to transfer Bonds to the MinFin’s securities account on the next business day after the Date of sale in case of non-receipt of Sale amount in the MinFin’s account on the Date of sale.

2.2.2. Not later than the Date of sale, to transfer the Sale amount in MinFin’s account # _____ in _____.

2.2.3. Not later than the Date of sale, to give to the National Bank as the depository of government securities an instruction on de-blocking of the Bonds blocked in the Counteragent’s securities account for MinFin’s benefit.

3. Liability of the Parties

3.1. Should the Purchase amount not be transferred in full volume by the Ministry of Finance within the period of time mentioned in item 2.2.2 of the Contract, the Ministry of Finance shall pay a fine in the amount of Counteragent’s expenses paid to _____ exchange for participation in the auction, and the Contract shall be deemed terminated. The fine shall be paid by the Ministry of Finance in the account given by the Counteragent within five banking days.

3.2. Should the Sale amount not be transferred in full volume by the Counteragent on the Date of sale, the Bonds shall be transferred into MinFin’s ownership on the next business day after the Sale date according to the relevant instructions given to the National Bank.

3.3. The Parties shall be relieved of liability for non-fulfillment or partial non-fulfillment of any provision of the Contract, and the Contract shall be terminated for the period of force-majeure circumstances. Such circumstances shall include: natural disasters (flood, extreme weather conditions, fire, earthquake etc.), war, military actions, civil unrest, electric short-circuit failure, change of the current legislation, action or decision of the state power bodies, National Bank of Ukraine, strikes and other actions of personnel of the telephone companies, energy-saving bodies, other restrictions of legal, *USAID ATCI Project, implemented by the Pragma Corporation – Nineteenth Quarterly Report*

economic or political nature beyond control of the Parties which objectively impede fulfillment by the Parties of their obligations (hereinafter – force-majeure circumstances).

3.4. The period of relief of liability shall begin from the moment of pronouncement by the Party which did not fulfill its obligations because of force-majeure circumstances, and shall end at the moment of situation normalization which should be proved by the relevant documents.

3.5. Occurrence of force-majeure circumstances shall automatically extend the period for fulfillment of obligations by the whole period of its action and liquidation of consequences. The Parties shall inform each other on occurrence of force-majeure circumstances within five business days from the moment of occurrence of such circumstances. Should such circumstances last for more than three months, any of the Parties should have the right to refuse from further fulfillment of obligations stipulated by the Contract. In this case, no Party shall have the right for loss recovery by another Party.

4. Final Provisions

4.1. The Contract shall come into effect from the moment of its signing and signing of the Pledge contract by the authorized representatives of the Parties, and shall be valid until complete and proper fulfillment by the Parties of their obligations under the Contract.

4.2. Conflicts between the Parties shall be resolved according to the procedure established by the effective legislation, and shall be regulated upon mutual consent. In case of non-achievement of agreement between the Parties, the dispute shall be transferred for consideration by the economic court for resolving according to the Ukrainian legislation.

4.3. All appendices, amendments and additions to the Contract shall be done in writing and signed by the properly authorized representatives of the Parties, with mandatory reference to the Contract. After signing, they shall become an integral part of the Contract.

6.4. All notices under the Contract shall be considered made properly if they are made in writing and sent by a recommended letter, by courier, telegraph, or delivered personally at the indicated address of the Party. The date of receipt of such notices shall be the date of their personal delivery or the date of post stamp of the receiver's post office.

6.5. The Counteragent shall confirm that it is the payer of income tax on general grounds according to the Law of Ukraine "On Taxation of Enterprise Profit".

6.6. The names of articles and sections of the Contract shall be used only for convenience and should not have any influence on their contents and interpretation.

6.7. The Contract is concluded in three original copies in Ukrainian, one for each of the Parties and for the National bank as the depository of government securities. All copies have equal legal force.

5. Requisites and Signatures of the Parties

Ministry of Finance

Counteragent

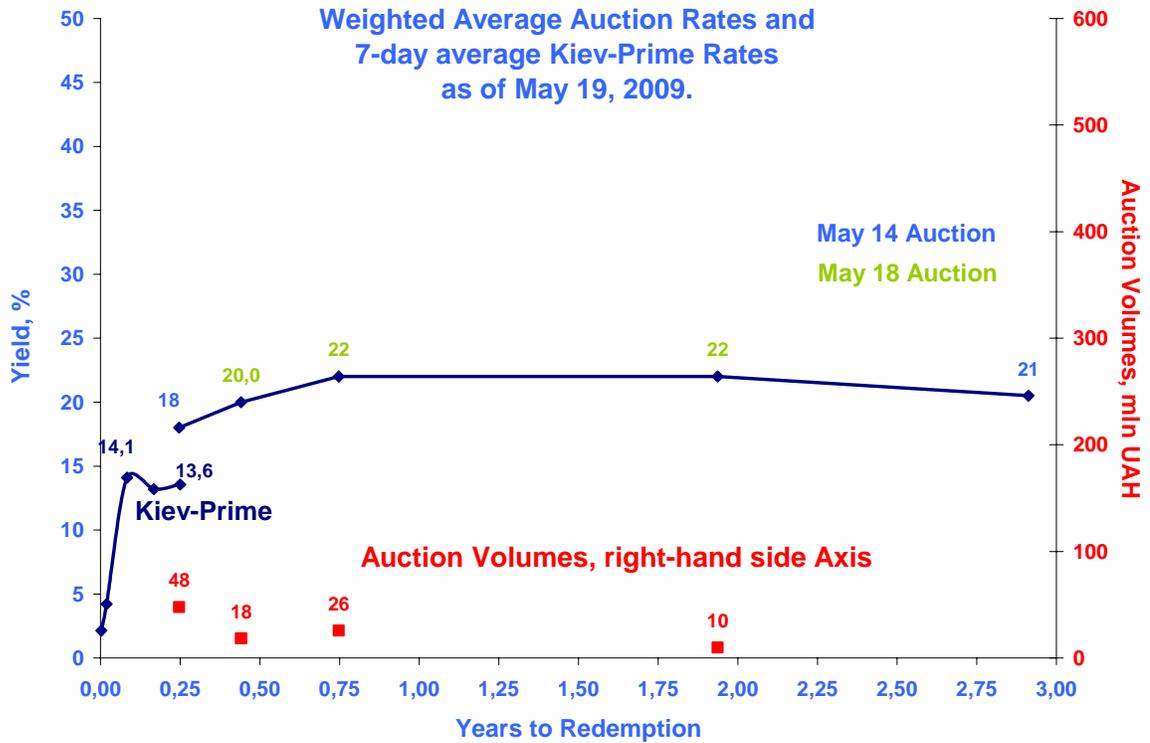
ATTACHMENT 12

NBU information on transactions with government bonds in the secondary market in 2009

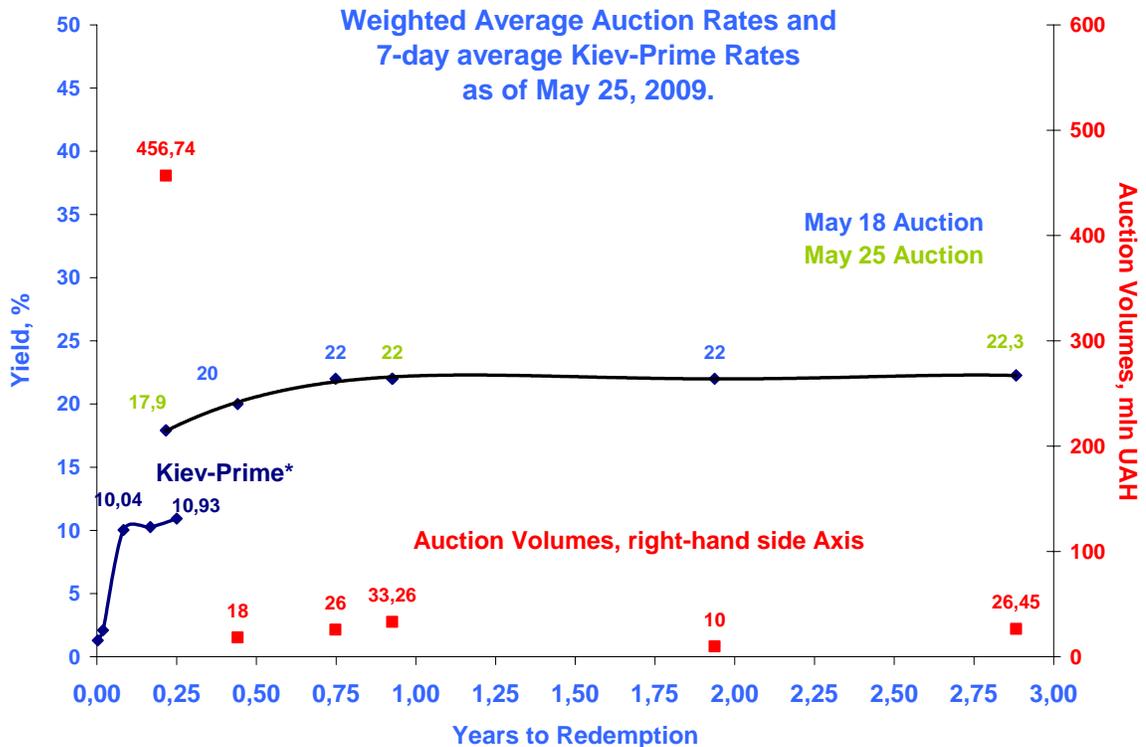
Date	Type of government bonds	Via stock exchange				OTC			
		Number of transactions (pcs)	Number of bonds (pcs)	Weighted average price, per bond (UAH)	Weighted average yield (%)	Number of transactions (pcs)	Number of bonds (pcs)	Weighted average price, per bond (UAH)	Weighted average yield (%)
30.06	Short-term	1	7100	972.63	23.98	21	31967	1074.11	8.72
26.06	Short-term	-	-	-	-	20	37460	1094.59	-0.82
25.06	Short-term	1	10	991.67	19.16	26	490227	886.52	19.83
24.06	Short-term	-	-	-	-	15	33,003	1051.63	7.81
	Long-term	-	-	-	-	1	4,000,000	1000	10.23
23.06	Short-term	-	-	-	-	17	82,000	1016.66	13.71
	Middle-term(4-5 years)	-	-	-	-	1	700,000	1014.13	15.43
22.06	Short-term	-	-	-	-	14	90,000	1017.3	15.67
19.06	Short-term	-	-	-	-	14	90,000	1017.3	15.67
19.06	Short-term	-	-	-	-	21	31,942	1112.9	2.03
18.06	Short-term	-	-	-	-	23	27,729	1199.33	-8.70
	Middle-term(1-2 years)	-	-	-	-	2	1,600	1034.16	19.08
17.06	Short-term	1	7,100	970.54	22.84	28	107,242	945.17	18.57

ATTACHMENT 13

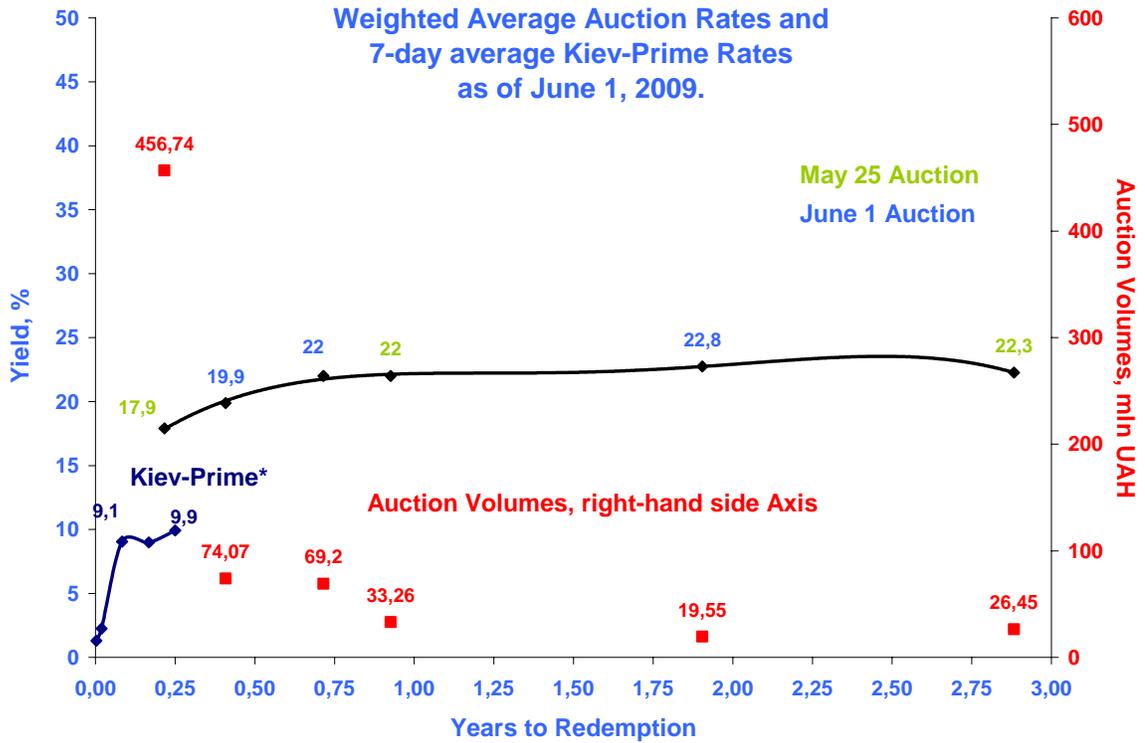
Weighted average yields of domestic government bond placements during May – June, 2009



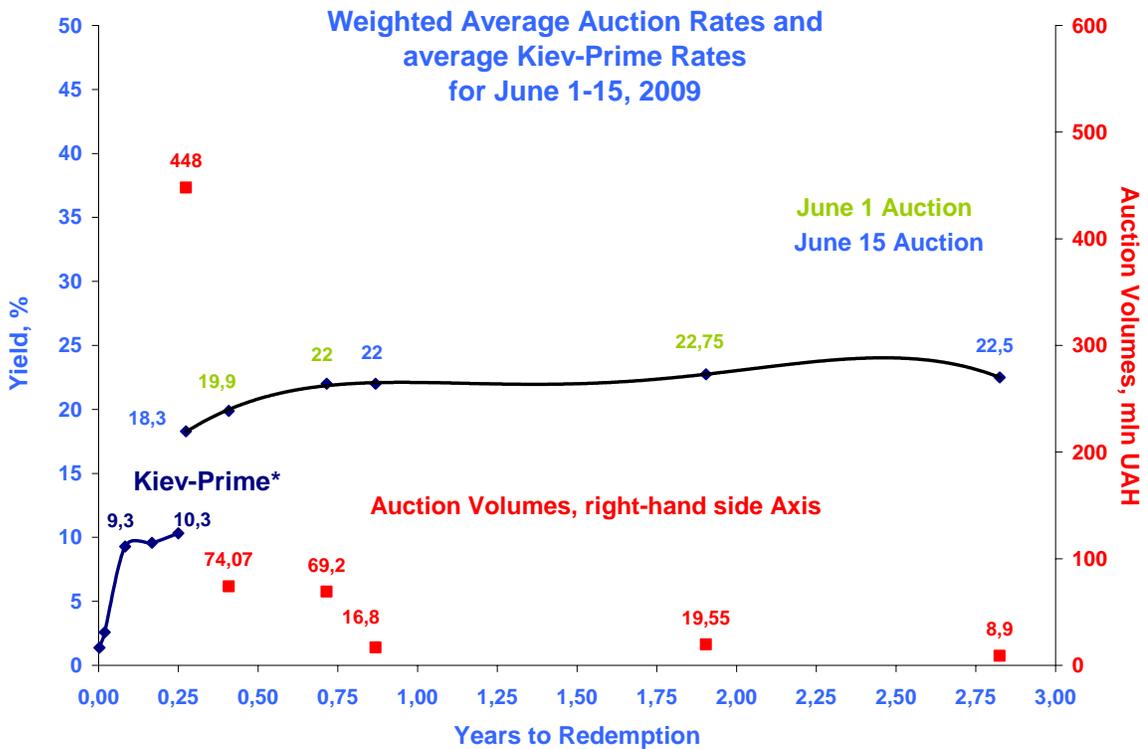
*KievPrime is an independent reference rate calculated daily by Reuters based on offered inter-bank deposit rates in UAH as quoted by leading participants in the Ukrainian money market (Calyon Bank Ukraine, Citibank Ukraine, Erste Bank Ukraine, ING Bank Ukraine, Raiffeisen Bank Aval, Ukreximbank, UkrSibbank, and UkrSotsbank).



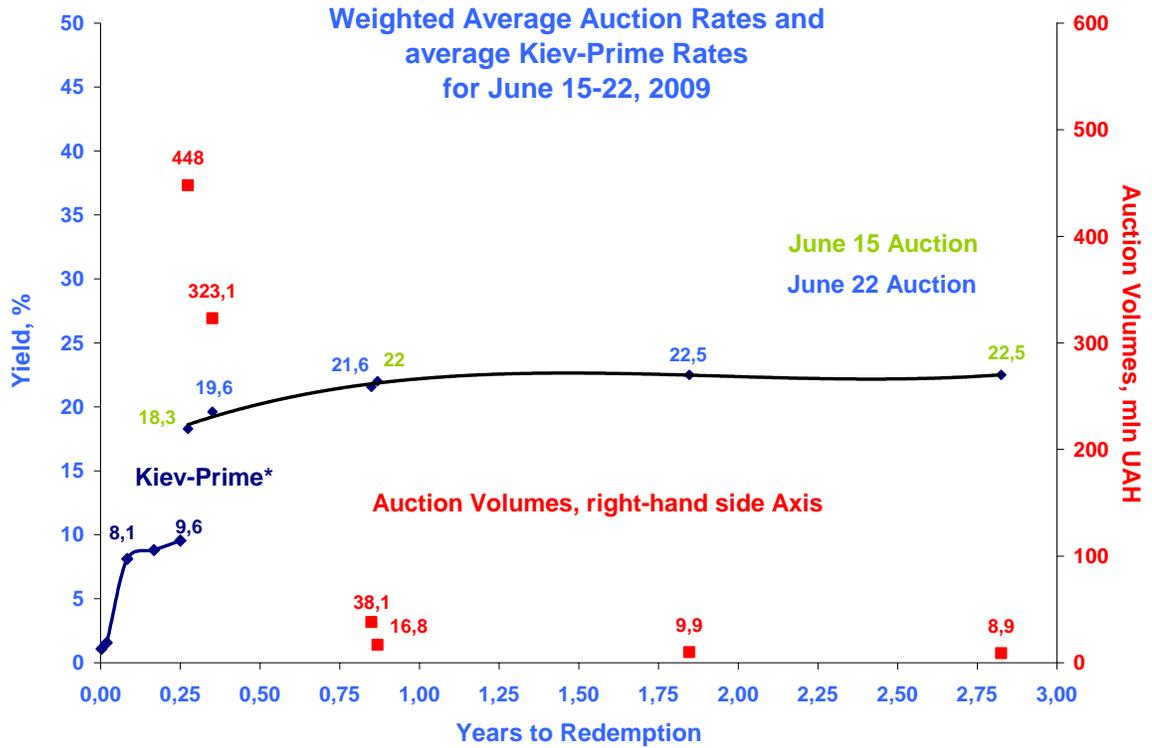
*KievPrime is an independent reference rate calculated daily by Reuters based on offered inter-bank deposit rates in UAH as quoted by leading participants in the Ukrainian money market (Calyon Bank Ukraine, Citibank Ukraine, Erste Bank Ukraine, ING Bank Ukraine, Raiffeisen Bank Aval, Ukreximbank, UkrSibbank, and UkrSotsbank).



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ATTACHMENT 14

Dear

Access to Credit Initiative (ATCI) Project funded by the US Agency for International Development (USAID) avails itself an opportunity to pay its respect and hereby informs on the following.

Objectives of the Project are to provide assistance to the public and private sectors of Ukraine in receiving key investments in the legislative, administrative and financial infrastructure to promote stable and long-term economic growth, ensure wider and easier access to credit for the Ukrainian people and institutions through development of effective financing strategy and risk assessment pursuant to the standards of world practice.

For achievement of these goals, the Project specialists have prepared amendments to the Budget Code which, we believe, will promote regulation of relations in an important sphere of budget financing from debt sources, and counter-action to financial crisis.

The indicated amendments envisage the following:

- Replacement of the term “transactions” with “deeds” in definitions of debt;
- Introduction of a definition of debt management as part of the budget process;
- Introduction of a procedure for placement of domestic government bonds through regular auctions with preliminary announcement of minimum amounts of borrowings at every auction;
- Introduction of a possibility for the Ministry of Finance of Ukraine to use services on support of bilateral quotations in exchange for exclusive access to the primary market of government bonds;
- Regulation of classification of financing and debt;
- Cancellation of prohibition for municipalities to make external borrowings;
- Identifying the Autonomous Republic of Crimea and territorial communities of cities as the subjects of borrowings;
- Possibility to write off local budget funds within the limits of proceeds of the development budget by the State Treasury in case of delinquency of debt liabilities;
- Restriction of contributions of the local self-government bodies in the statutory capital of the subjects of entrepreneurial activities with just contributions into statutory capitals of the subjects of business in the communal sector of economy;
- Establishment of maximum amount of local debt and maximum amount of annual payments on debt repayment as instruments of debt management;
- Providing a possibility for power bodies of the Autonomous Republic of Crimea and local self-government bodies to credit the subjects of business in the communal sector of economy located in the territory of the Autonomous Republic of Crimea or of the relevant city;
- The right for local communities to make borrowings for debt refinancing purposes in case of violation of the payment schedule; and

- Introduction of definition of “conditional debt” and regulation of undertaking of obligations by the state and local territorial communities under public-private partnership.

This is sent to you for your information during preparation of the draft Law of Ukraine “On Introduction of Amendments to the Budget Code of Ukraine” (# 2709, registration date 07/02/2008) for the second reading.

Sincerely yours,

Richard W. Dvorin
USAID Contractor
Chief of Party
Access to Credit Initiative
USAID/Ukraine and Moldova

ATTACHMENT 15



Protocol of Intention

Municipal Bond Program of The Access to Credit Initiative/USAID, Ukraine

and

City of Energodar

This Protocol of Intention sets forth the terms of cooperation between the City of Energodar (hereinafter the City) and the Municipal Bond Program (hereinafter the Program) of the Access to Credit Initiative implemented by the Pragma Corporation, an accredited provider of international technical assistance, as evidenced by certificate 133 issued March 18, 2005 by the Ministry of Economy of Ukraine (hereinafter "the parties").

General Terms

1. The parties' mutual goal is:
 - for the City to finance essential infrastructure with municipal bonds sold publicly in Ukraine's domestic capital markets, with market-based interest rates and maturities, in compliance with the laws and regulations of Ukraine, and within the present and expected capacity of the City to service the debt successfully;
 - improvement of the City's liquidity management through placement of temporary free City's budget balances through Repo transactions with domestic government bonds and/or the City's municipal bonds.
2. The City agrees to supply all information necessary for complete analysis of its bond finance capacity. Information will include, for example, complete financial reports, financial forecasts, project plans and cost estimates, demographic and economic information, and all other data that is needed to evaluate the size, terms, risks, and market acceptability of potential bond financing.
3. The City will name one senior official as the contact person responsible for answering questions from the Program and ensuring that required data is provided in a timely manner, throughout the period of cooperation.
4. The City agrees that time is of the essence in creating a successful financing, and agrees to devote staff resources sufficient for rapid progress.
5. The Program agrees to keep the City's data confidential. The Program will provide City data only to Program employees and consultants, who operate under confidentiality agreement with the Program, unless the City provides advance written approval for distribution to other parties.
6. The City understands that in order to place municipal bonds with investors on the open market, the City must disclose financial, management, economic, political and project information that is relevant to investors as they evaluate the City's bonds.

7. The City and the Program agree to make best efforts to structure and issue bonds that will be listed on the PFTS trading system, and that will meet accepted benchmarks for bonds that are liquid, tradable securities in the secondary market.
8. Technical assistance from the Program's financial and legal consultants is funded by USAID, and will be provided at no cost to the City. Responsibility for shared additional expenses, if any, that may be incurred in the course of bond issue development and placement shall be agreed upon by the City and the Program in writing and in advance.
9. The City or the Program may terminate the cooperation by written notice to the other party at any time. Changes and amendments to the Protocol shall not be effective unless incorporated in writing and signed by both of the parties.
10. Each Party agrees to hold harmless the other Party against any claims or liability that may arise from the performance of the Protocol. This Protocol neither creates nor restricts rights to third parties. Any controversies that may arise in the course of this Protocol implementation shall be settled on the Parties' mutual consent. Parties shall follow the principle of good faith while implementing the Protocol.

Stage One: Preliminary Structure of the Bond Issue; Draft City Council Resolution; Credit Rating; Ministry of Finance Approval

11. The City will designate at least one financial and one legal professional representative to work with the Program to develop the legal and financial structure of the bond issue.
12. The Program will request information about projects the City wishes to finance with bonds.
13. The Program will assist the city in developing parameters for the proposed bond issue, including amount, interest rate and maturity.
14. The Program will help the city develop a draft City Council resolution to authorize the bond issue and modify the City's development budget accordingly.
15. The Program will assist the City in evaluating proposals from credit rating agencies for rating the issue.
16. The Program will assist the City in preparing required documents to the Ministry of Finance for approval of the bond issue, pursuant to Cabinet of Ministers Resolution 207.

Stage Two: City Council Approval; Placement Strategy; SSMSC Registration; Structuring and Marketing Bonds; Repo transactions; Training Participation

17. The preparations completed in the Stage One will be the basis for final City Council approval.
18. The City agrees to make best efforts to designate debt service and redemption on the bonds as a protected item of the City's budget.
19. The Program will assist the City in preparing a tender to select an investment banking firm to underwrite (purchase) the bond issue. The City will authorize the Program to collaborate actively with the lead manager in structuring the bond issue.
20. The City will support the Program's efforts to develop innovative bond structures and credit enhancements that incorporate best international practices in municipal finance.
21. The Program will assist in preparation of documents for registering the City's bonds with the Securities and Stock Markets State Commission of Ukraine.
22. The Program will assist the City in preparing presentations about the bond issue to prospective investors.

23. The Program will assist the City in preparation of documents for pilot Repo transaction in accordance with Art. 18 of the Law On State Budget of Ukraine for 2009.
24. The City agrees to furnish representatives to explain the City's experience with bond issuance,, Repo transactions to other potential issuers at training and informational events that may be organized by the Program.
25. The City agrees to permit the Program to publish case studies and other material describing the process of collaboration and bond issuance. Such studies will not disclose City information except as disclosed in the Bond Issue Prospectus or other public documents, or as agreed by the City in writing.
26. Nothing herein shall be deemed to require the Access to Credit Initiative or the Pragma Corporation, or their consultants to perform any duties which would require any of them to be considered a participant in the securities market under the Law of Ukraine On Sate Regulation of Securities Market in Ukraine, or otherwise to be required to be licensed under the laws in force.

Agreed:

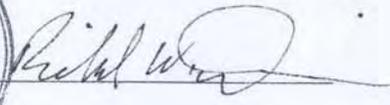


Oleksandr Kulibov, Mayor
City of Energodar

Date 15.06.09

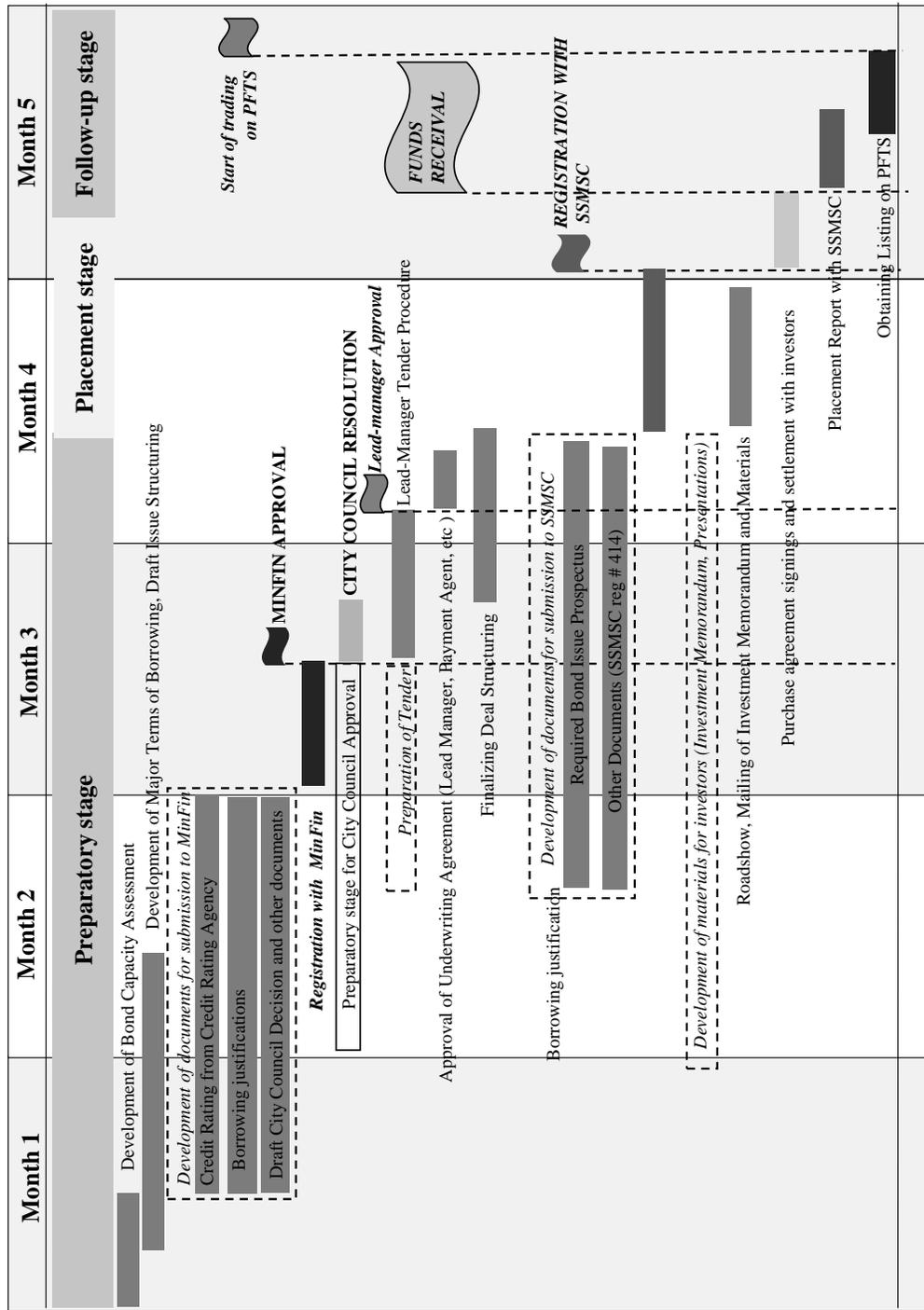
26.06.2009
Richard Dvorin, Chief of Party
Access to Credit Initiative/USAID-Ukraine





ATTACHMENT 16

Generic Bond Issue Timetable



ATTACHMENT 17

_____session_____convocation

RESOLUTION

Dated _____

№

The city of _____

On Effecting Municipal Borrowing to the Budget of _____

In pursuance of Articles 72, 74, 78 of the Budget Code of Ukraine, Article 26 of the Law of Ukraine “On Local Self-Government in Ukraine”, pursuant to the Decree of the Cabinet of Ministers of Ukraine dated 24.02.2003 No.207 “On Approving the Procedure for Effecting Borrowings to the Local Budgets” the City Council of _____

HEREBY RESOLVED:

1. To effect municipal borrowing to the budget of _____ pursuant to the terms and conditions for effecting municipal borrowings specified in this Annex.
2. To delegate to the Executive Committee of the City Council of _____ the right to perform all organizational and legal activities related to effecting borrowings to the budget of _____.
3. To authorize the Financial Department of the Executive Committee of the City Council of _____ to envisage expenses related to debt repayment and servicing during compilation of the draft local budgets for the relevant years.
4. To specify that the given Resolution shall become effective once the Ministry of Finance submits a conclusion on its compliance with the requirements set forth by the budget legislation of Ukraine.
5. The control over fulfillment of the Resolution shall be charged with _____

City Mayor _____

Annex to the Resolution
_____ session of
the City Council
of _____ convocation
dated _____ No. _____

**Conditions for Effecting Municipal Borrowing
to the City Budget of _____
in 200_**

Municipal borrowings to the city budget shall be effected under the following terms and conditions:

1. Fundamental conditions of municipal borrowing to the local budget:
 - 1.1. The amount of borrowing (principal) up to UAH _____;
 - 1.2. Interest rate accrued for using the attracted funds in accordance with the capital market infrastructure but not exceeding ___%;
 - 1.3. Interests on bonds shall be paid on a quarterly basis.
 - 1.4. The borrowing period - ___ years.

2. Borrowing to the city budget of _____ shall be effected by way of issuing municipal bonds.

3. Aim of the borrowing: attracting funds to finance the development budget of the city budget of _____ with the aim to implement the following projects

4. Marginal amounts of costs associated with effecting domestic borrowing to the local budget including commission fees and overhead expenses - ___%.

Signature of the authorized person

ATTACHMENT 18

REQUEST ON PRICE BIDS

On Providing of Services on Monetary Intermediation (organizing placement and circulation of municipal bonds)

1. General Provisions

- 1.1. The Client shall be the Executive Committee of _____ of the City Council residing at the following legal address _____
- 1.2. The Client shall announce a request on price bids on providing of services on monetary intermediation (organizing placement and circulation of _____ municipal bonds)
- 1.3. Objective of bonds issue: raising of funds to finance the development budget of the city of _____ to implement infrastructure development projects of the city: *(point out the projects)* _____.
- 1.4. This request on price bids shall contain specific provisions and conditions which shall be necessarily included into the agreement on services rendering. These terms and condition shall be reflected in specific items of its parts and must be taken into account by the participants during preparation of price bids by the latter.
- 1.5. The participant shall be given one copy of the request on price bids (quotation).

The persons responsible for maintaining contacts with the request bidders shall be:
_____, tel: _____, fax: _____, e-mail: _____.

2. Type and Place of Services Rendering

The services on monetary intermediation (organizing placement and circulation of municipal bonds of the city of _____), shall include the following:

2.1. Underwriting services:

1. Guarantee of repayment (placement) of 100% of the total par value of bonds at primary sale which shall equal par value.
2. Repayment (placement) of bonds issue at any time upon arising of legal authorities to place the issue but no later than on _____ 200 ;
3. Providing of paying agent services during circulation of bonds or hiring a certified and qualified third person to render paying agent services.
4. Providing of custodian services during circulation of bonds or hiring a certified and qualified third person to render custodian services.
5. Providing assistance to the City in the matters regarding specific features of bonds issue factoring in the terms and conditions proposed by the Client specified in the technical part of this request on price bids.

2.2. Effecting of payments necessary for this bonds issue:

- expenses related to publication of relevant information regarding bonds issue
- expenses related to assigning of ISIN securities code by the National Depository of Ukraine
- expenses related to payment of services rendered by the Interregional Stock Union
- expenses related to payment of PFTS services
- expenses related to payment of paying agent and custodian services
- other expenses necessary to effect placement and circulation of _____ municipal bonds.

2.3. Secondary market services

Organizing listing of bonds on the PFTS floor and support of listing during bonds circulation. The City shall draft an Investment Memorandum to support secondary trading. The underwriter shall quote bonds on the PFTS during the period of bonds circulation.

3. Term of Services Rendering

3.1. Services on placement of municipal bonds shall be considered effected upon placement of the last bond but no later than on 200 .

3.2. Services on circulation of municipal bonds shall be considered effected upon bonds redemption.

4. Place and Term of Filing Price Bids

4.1. Attached to the price bid (Appendix 1) shall be Information on Qualification Assessment of the Participants (Appendix 2) and information required by the Technical Part (Appendix 3).

4.2. The price bid documents shall be signed officially by the person authorized by the participant, affixed with a seal and submitted in one copy in a sealed marked envelope (Appendix 4) at the address: **within the term before (Kyiv time) 200 .**

Every participant shall be entitled to submit only one price bid which can not be changed in the future.

After the mentioned deadline, the price bids shall not be accepted.

5. Price Bids Opening

5.1 Opening of price bids shall take place at (Kyiv time) 200 .

6. Price Bids Rejection

6.1. The Client shall reject price bids providing they do not meet the requirements of the Client specified in the above request on price bids.

6.2. The Client may reject all price bids until the best price bid is determined (of the winning participant)

6.3. The Client shall not bear any responsibility before the participant in case item 6.2 shall take effect.

6.4. The Client shall send a written notification on price bids rejection to all participants.

7. Determining of the Best Price Bid (of the winning participant)

7.1. The winning participant shall be a qualified participant who submitted the bid which meets the requirements of the Client and proposed the lowest annual interest (coupon) rate on bonds issue.

7.2. The Client shall send a written notification on the results of determining of the best price bid (of the winning participant) to all participants.

8. Conclusion and Essential Terms and Conditions of the Agreement on Services Rendering

8.1. The Client shall enter into the agreement on services rendering with the winning participant no later than working days upon determination of the winner.

8.2. The agreement shall include the following essential terms and conditions:

- 8.2.1. The Client shall charge and the Contractor shall undertake at the Client's expense to render services on placement and circulation of municipal bonds.
- 8.2.2. The service on placement of municipal bonds of the city of _____ shall be considered fulfilled from the moment of placement of the last bond.
- 8.2.3. The service on circulation of municipal bonds of the city of _____ shall be considered fulfilled from the moment of bond redemption.
- 8.2.4. The Contractor shall undertake to pay timely and in full volume for the services of third Parties if these services are necessary for issue and circulation of _____ municipal bonds.
1. 8.2.5. The Client shall undertake to provide the Contractor with all information necessary to the Contractor for good and timely fulfillment on placement and circulation of _____ municipal bonds (including conducting negotiations with the Contractor's representative).
- 8.2.6. The Client shall undertake to give to the Contractor all the proxies and other documents necessary to the Contractor for organization of issue and circulation of _____ municipal bonds.
- 8.2.7. The Contractor shall undertake to render services on placement and circulation of _____ municipal bonds within the terms defined by the Agreement.
- 8.2.8. Responsibility of the Parties shall be restricted with obligation to compensate expenses which one Party incurred as a result of non-fulfillment or improper fulfillment of the duties by another Party and payment of penalty sanctions envisaged by the Agreement.
- 8.2.9. Return by the Client to the Contractor of the collateral for the contract fulfillment shall be effectuated after termination of the Agreement.
- 8.2.10. Cost of services on placement and circulation of _____ municipal bonds shall be factored in by the Contractor when calculating annual interest (coupon) rate and based on the conditions specified by the Client, the Contractor shall guarantee bonds placement.
- 8.2.11. In cases not envisaged by the Agreement the Parties shall be guided by the effective legislation of Ukraine.

Appendix 1

To be filled out and signed by the participant on the letterhead

PRICE BID

200

Project – services on monetary intermediation (organization of placement and servicing of municipal bond circulation of the city of)

We

(name of the participant)

represented by

(position, last name, first name and patronymic of the responsible person)

are authorized to make the following statement:

1. Having reviewed a request on price bids from the aforesaid project, we agree to sign a contract for services on

And to guarantee redemption (placement) of the Issuer's bonds at par value for the total amount of UAH million at any time after appearance of legal grounds for placement of the issue, but not later than 200 , upon the condition that annual interest (coupon) rate set by the city will equal (in percentage, in numbers and words, accurate to 0.01%), with taking into account requirements and conditions stated in the Request on price bids.

2. Should our proposal be accepted, we undertake an obligation to begin fulfillment of the relevant services within the period of after conclusion of the Contract.

We agree to follow conditions of this proposal during the period of time established by you after adoption of our price bids. We agree that this proposal and its written acceptance will mean an agreement between us to conclude the contract.

Our address:

Last name and signature of the authorized person

Place of stamp

Appendix 2

To be filled out and signed by the participant

In case of the participant's non-compliance with Qualification Requirements, the Client shall reject the participant's price bid

INFORMATION FOR QUALIFICATION ASSESSMENT OF THE PARTICIPANTS

1. General data on the participant

1.1. Name of the organization
Ownership form and legal status

Postal address of the participant

Telephone

Telefax

e-mail:

1.2. Place and date of registration of the organization

Certificate #

Year of establishment

1.3. Legal address of the participant

1.4. Name of the bank in which the participant's settlement account is open

Postal address

Telephone

Telefax

Participant's settlement account

MFO

ZKPO

1.5. EDRPOU code

1.6. Management (last name, first name, patronymic, position) and the person authorized to sign bid documents

Written proxy to sign the documents is attached.

1.7. Last name, first name, patronymic of the person responsible for documents preparation

Postal address

Telephone

Telefax

e-mail:

1.8. Leading direction of the organization's activities (according to provisions of the statutory documents)

1.9. Number and qualification of personnel

2. Brief background on activities of the participant and list of clients on selection profile:

3. The participant submits the following documents certified with the seals and signature:

- 3.1. Copy of the Charter (or regulation on a subsidiary).
- 3.2. Copy of the certificate on inclusion in the unified state registry of enterprises and organizations of Ukraine.
- 3.3. Certificate from the State tax administration on absence of debt on mandatory payments and fees in Ukraine as of the time of submission of price bids.
- 3.4. Copy of a license to carry out professional activities in the stock market – activities in securities trading which is issued by the Securities and Stock Market State Commission.
- 3.5. Copy of a banking license to carry out banking transactions (necessary for fulfillment of services) issued by the National Bank of Ukraine.
- 3.6. Copy of a permit with appendix to carry out banking transactions (necessary for fulfillment of services) issued by the National Bank of Ukraine.

Signature of the bidder's authorized person

Place of stamp

Conditions set forth by the client

1. Total nominal value of bonds: UAH 00 kopeck
2. Interest rate for use of the borrowed funds: - According to the capital market conditions but not more than % per annum
3. Period of circulation: years
4. Type of bonds: interest-bearing
5. Form of bond issue: non-documentary
6. Term of payment:
 - 6.1. Repayment of debt principal: not later than 200
7. Interest payment:
 - 7.1. Quarterly
 - 7.2. Amount of interest in the next interest period, is calculated according to the following formula:

$$P_i = \frac{C}{100\%} \times FV \times \frac{T_i}{T}$$

where

- i – number of the interest period;
- P_i – amount of interest payment on each bond;
- C – amount of interest (coupon) rate, % a year;
- FV – nominal value of bond;
- T – actual number of days in a year; and
- T_i – number of days in i^{th} interest period.

8. Participant of the procurement procedure guarantees redemption (placement) of Issuer's bonds at the nominal value, for the total amount UAH million, at any time after appearance of legal grounds for placement of the issue, but not later than 200 , upon the condition that annual interest (coupon) rate set by the city will equal the one defined by the participant.

The participant must provide the calculation of cost of services. The participant must envisage in this calculation all expenses connected with rendering of services on all stages, and also to take into account all expenses according to the requirements of the effective Ukrainian legislation. Cost of services in future is unchanged and is not subject to specification. Cost of commission and overheads should not exceed % of the total nominal value of bonds, or UAH . All commissions and overheads should be taken into account by the participant when calculating the interest (coupon) rate, and in case of its establishment by the issuer the participant guarantees placement of bonds.

The participant must provide the following information:**1. General data on municipal bonds:**

- number of bonds;
- nominal value of bonds;
- total nominal value of bonds according to the terms set forth by the client;
- rights given to the bondholders;
- time and procedure of income payment.

2. Procedure and time of bond placement:

- addresses of places, dates of beginning and end of bond placement;
- terms and period of bond circulation;
- detailed description of the procedure of payment for bonds.

3. Procedure for payment of income on bonds:

- addresses of places, dates of beginning and end of payment of income on bonds;
- expected interest (coupon rate), method of calculation, procedure of income payment, conducting transactions and depositing.

4. Procedure for bond redemption:

- addresses of places, dates of beginning and end of bond redemption;
- redemption procedure;
- actions taken in case of bonds submission for early redemption
- actions taken in case of untimely submission of bonds for redemption.

5. Data on the depository, namely: full name, location, telephone and/or fax number, EDRPOU code, numbers and dates of issued licenses to carry out professional activities in the stock market: depository activities.

Reference to the effective legislation: Budget Code of Ukraine, Laws of Ukraine “On Securities and Stock Exchange”, “On Banks and Banking Activities”, “On State Regulation of the Securities Market in Ukraine”, “On Local Self-Government in Ukraine”, Decree of the President of Ukraine “On Regulation of Domestic and Foreign Borrowings Made by the Local Self-Government Bodies”, Resolution of the Cabinet of Ministers #207 dated 11/24/03 “On Approval of the Procedure for Making Borrowings to the Local Budgets”, Resolution of the Securities and Stock Market State Commission #414 dated 10/07/03 “On Approval of the Regulation on the Procedure for Issuance of Municipal Bonds”.

ATTACHMENT 19

Resolution
No. _____ of the Board
of _____
2009

On the procedure for purchasing domestic government bonds and bonds issued by council with a simultaneous obligation to sell them.

In accordance with part 2 of Article 18 of the Law of Ukraine “On State Budget of Ukraine for 2009,” to effectively use balances of development budget funds of the special budget of _____, receiving additional budget revenue, _____ council

HEREBY RESOLVES:

1. To approve the procedure for purchasing domestic government bonds and bonds issued by _____ council with a simultaneous obligation to sell them that is attached.
2. Finance department of _____ council:
 - 2.1. to open government bond accounts in National Bank depository and bonds issued by _____ in the relevant depository.
 - 2.2 during 2009, with account balances, to purchase domestic government bonds and bonds issued by _____ council with a simultaneous obligation to sell them secured by pledge of these bonds, later returning budget funds by the end of the year.
3. Control over fulfillment of this resolution shall be charged with standing commissions of _____ city council on planning, budget and finance; on economic, investment policy and banking.

Mayor

APPROVED by
resolution of _____ council
of _____ 2008 No. ____

PROCEDURE

for purchasing domestic government bonds and bonds issued by _____
council with a simultaneous obligation to sell them.

1. This procedure (the “procedure”) shall determine the mechanism of purchasing in 2009 by the finance department (the “department”) with account balances _____ (the “balances”) of domestic government bonds and bonds issued by _____ council (the “bonds”) with a simultaneous obligation to sell them secured by pledge of these bonds, later returning the budget funds by the end of the year.

2. Terms that are used in the procedure shall have the following meanings:

Agreement on purchase with a simultaneous obligation to sell (the “agreement”) shall mean an agreement under which bonds are purchased with account balances with a simultaneous obligation to sell them secured by pledge of these bonds in accordance with a pledge agreement;

Counteragent shall mean a legal entity holding and/ or disposing of bonds and with which the finance department enters into agreements.

Agreement rate shall mean an annual yield rate mirroring the income from depositing the purchase amount for the term of the agreement calculated as a difference between bonds purchase amount and their sale amount increased by the amount of interest on the bonds that are the subject of the agreement, which payment falls on the term of the agreement.

Agreement term shall mean the term between the purchase date and the sale date under the agreement

3. The department shall draft the agreements and pledge agreements in accordance with model agreements attached to the procedure and shall publicize those.

4. The agreement shall be entered into within limiting amounts and terms established by the department with due regard to cash balances in the unified account.

5. The agreement shall become null and void no later than December 20 of the year, in which it was entered into.

6. The finance department shall resolve to purchase based on an analysis of budget revenues and expenditures.

7. When resolving to purchase, the department shall determine:

The total amount of purchase;

The amount of tickets to purchase;

The bond issue that is purchased by tickets;

The number of bonds purchased in each ticket

The term of agreements.

The amount of tickets shall be a multiple of UAH 50,000

The bond issue to purchase shall be selected out of the issues maturing in 2009, the maturity may not coincide with the date preceding the date of sale of the bonds by the department.

The number of bonds in a ticket shall be calculated by dividing the amount of purchase increased by the amount of security by the discounted price of one bond at the rate of the latest placement of bonds whose maturity approximates to maturity of the bonds that are the subject of the agreement. The result of dividing that is not a whole number shall be rounded to a bigger number.

The sale amount is one that is equal to the purchase amount increased by the amount of income from depositing the purchase amount at the agreement rate for the term of the agreement with due regard to the amount of interest on the bonds that are the subject of the agreement, whose payment falls on the term of the agreement.

The amount of security is the amount that is calculated from the purchase amount depending on the term of the agreement at the per-annum interest rate equal to the Kievprime rate for deposits with the term approximating the term of the agreement.

If there is no Kievprime rate or in other cases this interest rate may be determined by the department with regard to the need to minimize losses when selling bonds in the market in a situation where the counteragent does not fulfill its obligations under the agreement.

The term of agreements shall be a multiple of one week.

9. A notice of holding auctions to identify counteragents, model agreements, bond issues that are purchased and their number by tickets shall be publicized by stock exchanges that hold them at least three days before the date of the auctions.

The notice shall specify:

The date and time of holding the auction;

The term and time of submitting bids to participate in the tender;

The amount of purchase, information about the bonds and the date of the obligatory sale of the bonds;

Other information.

10. Auctions to determine counteragents shall be held by the department at exchanges that have rules registered with the SSMSC regulating the entry into purchase agreements with a simultaneous obligation to sell (REPO), contract relations with the depository of the National Bank and the depository “Mizhrehionalny Fondovy Soiuz” (MFS) to ensure settlements by the principle “shipment against payment” and appropriate software.

11. The department shall establish minimum agreement rates for the auctions with due regard to costs of keeping the bonds.

Based on auction results, the participant wins who offers the highest agreement rate for a specific ticket that may not be lower than the minimum rate. Bids by participants offering the same rate shall be satisfied proportionally.

Auction winners shall sign and provide to the department, the agreement and pledge agreement in two copies in accordance with the model agreements published by the department no later than the day following the day of holding the auction.

12. During one day, the department shall verify relevant agreements and the chairman of _____ shall sign them; the department issues to the _____ department of the State Treasury of Ukraine instructions on transferring funds and bonds;

One copy of each agreement shall be provided to the counteragent.

13. The agreement shall stipulate that no later than the day following the day of transferring funds by _____ department of the State Treasury for the bonds, the counteragent shall transfer the bonds to account _____ in the National Bank as a depository of government securities or a depository of bonds issued by _____ council acting by the principle “shipment against payment”; upon expiry of the agreement on the day of obligatory sale of the bonds by the department, the counteragent shall transfer funds to the department in accordance with the procedure stipulated by law, and the department no later than the following day after transferring the funds shall transfer the bonds to the counteragent’s account in the depository of the National bank or a depository by the principle “shipment against payment.”

14. The performance of the agreement shall be recorded in the accounting registry of budget execution in accordance with instructions issued by the department.

Annexes:

Annex No. Agreement on purchasing domestic government bonds with a simultaneous obligation to sell them.

Annex No. 2 Pledge agreement

ATTACHMENT 20

CABINET OF MINISTERS OF UKRAINE

DECREE

Dated
2009 No.

The city of Kyiv

On Amending the Procedure for Effecting Borrowings to Local Budgets

To introduce to the Procedure for Effecting Borrowings to Local Budgets approved by the Decree of the Cabinet of Ministers of Ukraine dated February 24, 2003 No.207 (Official herald of Ukraine, 2003, No.9, p. 377; 2006, No.45, p. 3006) the enclosed amendments.

Prime Minister of Ukraine

Yu. TIMOSHENKO

APPROVED
by the Decree of the Cabinet of Ministers of
Ukraine
dated _____ 2009 No.

AMENDMENTS

to be introduced to the Procedure for Effecting Borrowings to Local Budgets

1. To supplement paragraph 3 with the following passage:

"In case of open (public) placement of municipal bonds at the stock exchange, they can be sold at the price different from their par value.

2. In paragraph 6:

In sub-paragraph 3 to replace "copy of the report" and "for the year preceding the year" with "copies of the reports" and "for three years preceding the year";

In sub-paragraph 6 to delete "information on the borrower's credit rating — in case of effecting borrowing by way of entering into agreement on obtaining of loans, credits, and credit lines in the financial institutions".

3. To introduce paragraph 7 in the following wording:

"7. The Ministry of Finance during 20 working days upon receiving the relevant information and documents specified in paragraph 6 hereof shall consider them and check whether the draft resolution on effecting borrowings or restructuring of debt liabilities or effecting any other transaction is in compliance with the budget legislation requirements.

If such debt liabilities are denominated in the foreign currency, we shall apply the official exchange rate of hryvnya against the foreign currency set by the National Bank of Ukraine as of the last working day preceding the date of the written notification sent pursuant to paragraph 6 hereof.

If the interest rate on such borrowings is fluctuating, we shall use the variable indicator of the fluctuating rate as of the last working day preceding the date of the written notification sent pursuant to paragraph 6 hereof.

Based on the consideration and examinations, special report on compliance or non-compliance of the above draft resolution with the requirements established by the budget legislation shall be drafted and submitted to the relevant authorities.

The conclusion on non-compliance of the draft resolution with the requirements established by the budget legislation shall be provided given one of the following reasons:

Non-compliance of the information and documents submitted pursuant to paragraph 6 hereof with the requirements established by the budget legislation and this Procedure. In case the submitted information and documents do not comply with the requirements of other special legislation, it shall be mentioned separately in the conclusion.

Expenditures on the local debt servicing shall not exceed 10% of the expenditures of the relevant local budget's general fund based on the local budget fulfillment report for the *USAID ATCI Project, implemented by the Pragma Corporation – Nineteenth Quarterly Report Attachment 20 – ATCI Draft Amendments to CMU Resolution 207*

year preceding the year of making a decision to borrow or restructure debt liabilities or effect other transactions;

The amount of local debt payments which shall be due any year during the whole redemption period exceeds the amount of the average annual receipts to the development budget during three last years preceding the year of decision-making net of the funds generated from borrowings.

In order to calculate the given expenditures on the local debt servicing and the amount of repayment, we shall take into account 25% of the servicing expenditures and payments to redeem the local debt related to issuing of loan guarantees, credits and credit lines by the international financial institutions.”.

4. To supplement the Procedure with the following paragraph 7¹:

"7¹. The Ministry of Finance shall not check the compliance of the draft resolution of the Verkhovna Rada of the Autonomous Republic of Crimea or municipal council on borrowing or restructuring of debt liabilities or effecting other transaction with the requirements set forth in the budget legislation, if the draft resolution complies with the following requirements:

The amount of borrowing to the local budget does not exceed 25% of the average annual receipts to the development budget during three last years preceding the year of decision-making net of the funds generated from borrowings.

The overall amount of borrowing as of the day of effecting the borrowing stipulated by the draft resolution does not exceed 75% of the average annual receipts to the development budget during three last years preceding the year of decision-making net of the funds generated from borrowings.

The amount of expenditures on the local debt servicing does not exceed 5% of the overall local budget expenditures for the year preceding the year of making a decision to borrow or restructure debt liabilities or effect other transactions.

In case of full compliance with the above requirements, the draft resolution of the Verkhovna Rada of the Autonomous Republic of Crimea or municipal council on borrowing or restructuring of debt liabilities or effecting other transaction shall be sent to the Ministry of Finance within three days.

If during 30 working days upon receipt of the above draft resolution, the Ministry of Finance has not sent written justified objection, the draft resolution shall be considered in compliance with the requirements of the budget legislation.

Otherwise, the Verkhovna Rada of the Autonomous Republic of Crimea or municipal council shall submit the draft of the relevant resolution for examination pursuant to paragraph 6 hereof."

5. To supplement paragraph 9 after “shall be sent” with “by the borrower”.

ATTACHMENT 21

RECOMMENDATIONS

SITTING OF THE ROUNDTABLE

“PARTNERSHIP BETWEEN THE BANKS AND LOCAL GOVERNMENTS AS ONE OF THE WAYS TO COMBAT THE CRISIS”

On April 16, 2009 the city of Kyiv hosted the sitting of the roundtable “Partnership between the Banks and Local Governments as one of the Ways to Combat the Crisis” conducted under the aegis of the Institute for Budgetary and Socio-Economic Research (IBSER) which implements the Municipal Finance Strengthening Initiative Project (MFSI) aided and abetted by the United States Agency for International Development (USAID).

The representatives of the government bodies (Ministry of Finance of Ukraine, Ministry of Economy of Ukraine, Ministry of Housing and Communal Economy of Ukraine, Ministry of Regional Development and Construction of Ukraine), National Bank of Ukraine, representatives of the local governments, banks, international structures, non-government organizations, mass-media participated in the roundtable.

The topicality and urgency of the chosen subject area is determined by a string of political and economic factors. Against the background of the financial crisis we experience lack of funds in all sectors of the economy along with a necessity to further develop the regions, in particular cities. Resources of the local budget, funds of the enterprises and local organizations, resources of the special-purpose funds, credit and investment resources might become financial sources of the city economic development.

As of today growth rates of the local budgets reduced due to the crisis. Therefore raising additional funds through the banking institutions and private investors is becoming increasingly urgent for the majority of city administrations.

At that, there are a number of problems in the

<p>banking sector. During 2008 growth rates of the credit provisioning tended to slow down. The crisis phenomena of the last quarter of 2008 when the banks significantly decreased their credit activity influenced the dynamics of credit provisioning.</p> <p>The growth rates of credit portfolio of legal entities in 2008 made only 11.2% (if compared to 63% in 2007). Almost half of the loans (over 45%) are issued for up to one year.</p> <p>Moreover, in October 2008 the National Bank of Ukraine approved normative requirements related to reduction of lending rates and introduced restriction on early withdrawal of deposits from client accounts. Such requirements virtually have frozen the lending market and aggravated further distrust to the banking system. Therefore in autumn banks resorted to urgent measures to avoid “resources hunger” in particular discount deposit products were developed and high deposit interest rates were proposed to the clients.</p> <p>Those commercial banks that continued effecting lending transactions revisited their interest rates on lending in the national and foreign currencies i.e. increased them. The demand for credit products at 35-40% in the national and 25-29% in foreign currencies is extremely low and issuance of loans at such rates had almost no influence on the average interest rate in 2008.</p> <p>As for municipal borrowings in 2008, according to the official information provided by the Ministry of Finance of Ukraine, it is worth mentioning that before October 2008 the local governments borrowed predominantly by way of issuing municipal bonds (MB). Moreover additional credit funds were raised and EBRD provided guarantees on such credit.</p> <p>During this period by way of issuing MB the city councils managed to raise approximately UAH 2 billion for the period of 2-5 years at 12-18% per annum, out of which municipal bonds worth UAH 1 billion were issued by the Kyiv City Council in September 2008. Commencing</p>	<p>The word-combination “credit provisioning” is unclear. It is expedient to change it into “credit portfolio” or “issued loans”.</p> <p>We propose to change the “related to” into “in the conditions of”</p> <p>We propose to change “October” into “November”, since on November 11, 2008 the city of Kramatorsk placed its bonds.</p> <p>It is expedient to specify the period.</p> <p>The Kyiv City Council failed to place its municipal bonds in September 2008. We propose to change “October” into</p>
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<p>October 2008 till the year end the local governments did not effect any borrowing.</p> <p>The above proves that the municipal borrowing market is undeveloped. In 2008 only 12 cities used the mechanism of borrowing from the banks and the amount of borrowings in 2008 made 1.5% of the local budget revenues.</p> <p>One of the reasons of insufficient financial instruments development on the local budgets level is that the budget legislation fails to regulate all the matters associated with the mechanism for attracting additional funds by the local governments from the banking institutions and other partners.</p> <p>The Budget Code of Ukraine establishes a number of provisions related to the local debt and municipal borrowing, in particular regarding an exclusive right of the Verkhovna Rada of the Autonomous Republic of Crimea and city councils to effect municipal borrowing; restricting the right to effect external borrowing exclusively for the cities with the population exceeding 800 000 citizens; restricting expenditures on servicing of debt of the general budget fund– 10% of the total fund capacity.</p> <p>However the legislation on the State Budget of Ukraine restricts granting of guarantees to the local governments on an annual basis, except for loan guarantees issued by the international financial organizations or based on the co-financing conditions jointly with these organizations.</p> <p>The roundtable participants believe that despite some positive achievements related to the draft Law “On Introducing Changes to the Budget Code of Ukraine” considered by the Verkhovna Rada of Ukraine in the first reading, the existing legislative and normative framework regulating the municipal borrowing market is outdated and requires improvements.</p> <p>For example, the mandatory nature of rating assessment established by the Decree of the Cabinet of Ministers of Ukraine dated 02.24.2003 No. 207 prevents the local governments from effecting borrowing however</p>	<p>“November”, since on November 11, 2008 the city of Kramatorsk placed its bonds.</p>
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<p>the availability of such assessment does not provide any guarantees of credit repayment. Rating assessment can be one of the conditions stipulated by the loan agreement upon mutual agreement between the parties and at the creditor's discretion.</p> <p>The provision of the Decree of the Cabinet of Ministers of Ukraine dated 11.19.2008 No.1017 "On Introducing Changes to the Procedure for Procurement of Goods, Works and Services from the State Funds" is vitally important to minimize corruption risks at municipal bonds placement. However they are not economic since the local governments loose a lot of time (3 months) to conduct the tender in the course of effecting payments on municipal debt servicing.</p> <p>One of the matters that must be considered separately is the norm of the Regulation of the Securities and Stock Market State Commission dated 12.11.2007 No.2285 "On Introducing Changes to the Procedure for Municipal Bonds Issue" regarding bond payments by the first holder at the price not lower than the par value during the placement. Pursuant to the above norm after the decision on municipal bonds issue is made, the city loses a lot of time to receive all the agreements and endorsements. Meanwhile the market changes and it creates specific risks related to impossibility to place bonds at the established par value resulting in the necessity to go through the procedure of bonds issuance once again.</p> <p>The existing refinancing rate against the pledge of municipal bonds of the National Bank of Ukraine to the amount of 60% must be revisited, i.e. increased within acceptable limits. The idea of NBU refinancing of municipal bonds against the pledge of local property must be also considered in terms of risk reduction.</p> <p>The development of private-public partnership is becoming increasingly topical in the financial and economic crisis conditions. The local governments must be given enough authorities to assume relevant obligations when entering into</p>	<p>We propose to change "credit" into "debt", and "loan agreement" into "borrowing" since the Decree of the Cabinet of Ministers of Ukraine No. 207 envisages mandatory rating assessment for effecting borrowing in the form of credit as well as municipal bonds issue.</p> <p>The statement is unclear. Is it tender to select the lead manager (underwriter)?</p> <p>Supplement with the word "bonds".</p> <p>Delete "pursuant to the above norm".</p> <p>We propose to supplement the sentence with the words "against the pledge of municipal bonds".</p> <p>To change "municipal bonds against the pledge of local property" into "against the pledge of municipal bonds secured by the pledge of communal property".</p>
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<p>agreements on private-public partnership.</p> <p>Housing and communal economy is considered one of the most reliable spheres of cooperation between the banks and local governments since this sphere ensures guaranteed receipt of funds from the housing and communal services consumers.</p> <p>Consequently,</p> <p><i>Taking into account</i> the necessity to extend the sources of financial receipts of the local governments and address the structural problems in the sphere of municipal borrowing,</p> <p><i>Considering</i> that:</p> <ul style="list-style-type: none"> • The above problems must be resolved through legislative activities; • The local governments and banks are ready to cooperate under the financial crisis; • The rights of the creditors related to guarantees to timely repay and service municipal debt must be addressed and resolved; • Borrowers must be supported in particular in terms of development of new mechanisms and funds raising. <p>To ensure attraction by the local governments of additional financial resources necessary for sustainable development of municipal infrastructure, the roundtable participants recommend:</p> <p>I. To improve legislation in the sphere of municipal borrowing, the Ministry of Finance and other interested ministries and institutions shall develop legislative proposals or consider the relevancy of drafting:</p> <p>a. Changes to the Budget Code, in particular:</p> <p>i. Deciding on the interpretation of the “local government default”; establishing creditors’ guarantees in case of their insolvency;</p>	<p>It is expedient to separately introducing the term “default” in the section of changes to the Budget Code: defining the term “territorial community</p>
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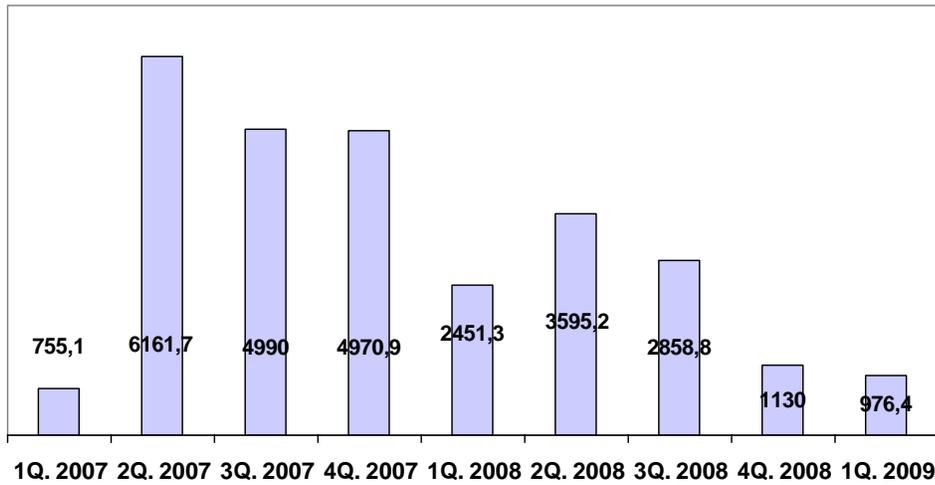
<ul style="list-style-type: none"> ii. Establishing guarantees on effecting local debt payments in a timely manner by the local governments (in particular, consider the possibility of funds intercept from the borrowers' accounts at the State Treasury of Ukraine in favor of creditors); iii. Introducing program and target method in the budget process at the local budget level which will enable using the obtained loans in the form of budget programs of the special fund which will ensure transparency and effectiveness of using the credit resources; iv. Introducing relevant changes to decrease the risks of municipal borrowing related to divestment of property and timely repayment and servicing of debt liabilities. Taking into account that local budgets might lack funds to effect debt payments from the development budgets, it is necessary to extend the sources which might be used to this end, among which saving of the local budget resources due to implementation of investment projects by way of attracting credit resources could be considered; b. Changes to the Procedure for Procurement of Goods, Works and Services from the State Funds regarding cancellation/simplification of tender procedures for effecting municipal borrowing transactions; c. Changes to the Decree of the Cabinet of Ministers of Ukraine dated 02.24.2003 No.207 "On Approving the Procedure for Effecting Borrowings to Local Budgets" in particular regarding elimination of mandatory rating assessment; d. Changes to the Regulation of the SSMSC dated 12.11.2007 No.2285 "On Introducing Changes to the Provision on 	<p>default" in the legislative acts. To delete since the next paragraph resolves the problem.</p> <p>Change " divestment " into "alienation"</p>
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<p>the Procedure for Municipal Bonds Issue” regarding authorizing the local governments to effect primary placement of municipal bonds below par under condition of public offering at the stock exchange;</p> <p>e. Changes to the Decree of the National Bank of Ukraine dated 09.26.2006 No. 378 regarding the possibility to increase the rate of municipal bonds refinancing;</p> <p>f. Changes to the Law of Ukraine dated 09.20.2001 No.2740 “On the Individual Deposits Guarantee Fund” regarding the possibility to invest the Fund disposable resources in municipal bonds.</p> <p>II. With the aim to encourage cooperation between the banks and local governments and increase the volumes of communal objects financing, it is necessary to develop the following mechanisms:</p> <p>a. Channeling funds generated from energy-efficient technologies to repay the loans obtained for their implementation;</p> <p>b. Attracting credit resources by the communal enterprises in particular by way of entering into public-private partnership agreements;</p> <p>c. Involving the population in lending to the local governments.</p> <p>III. In order to increase the volume of municipal borrowing it is necessary to actively involve in borrowing to the local governments the state-owned banks where temporally free funds of the local budgets are deposited pursuant to the Regulation of the Cabinet of Ministers of Ukraine dated 01.28.2009 No. 52.</p> <p>IV. With the aim to extend the sources of income to be channeled into development of the communal sphere it is necessary to stop the practice when the laws on the State Budget of Ukraine annually prohibit the local governments from issuing their guarantees.</p>	<p>Supplement with “under condition of public offering at the stock exchange”</p>
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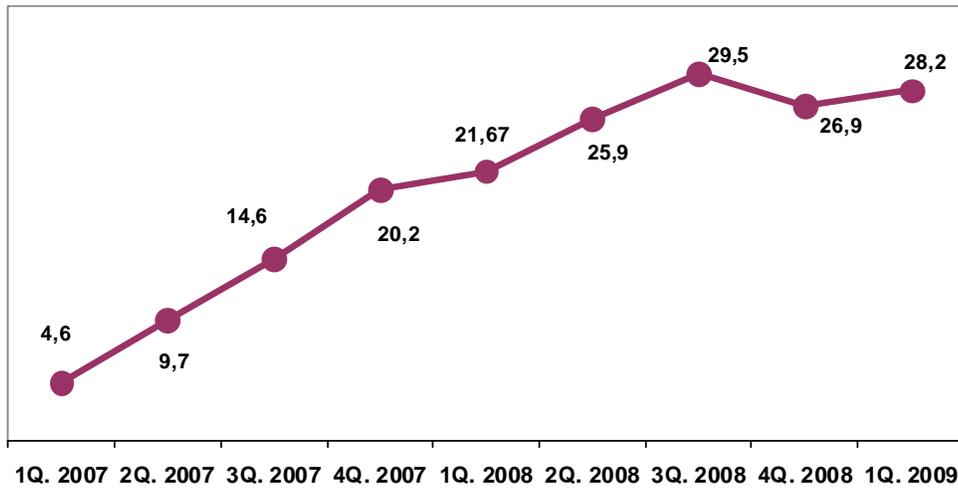
<p>The roundtable participants believe that implementation of the recommended measures will ensure comprehensive approach towards addressing the problems of the municipal borrowing market development and guarantees which will contribute to sufficient increase in financial resources of the local governments to ensure sustainable social and economic development.</p>	
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ATTACHMENT 22

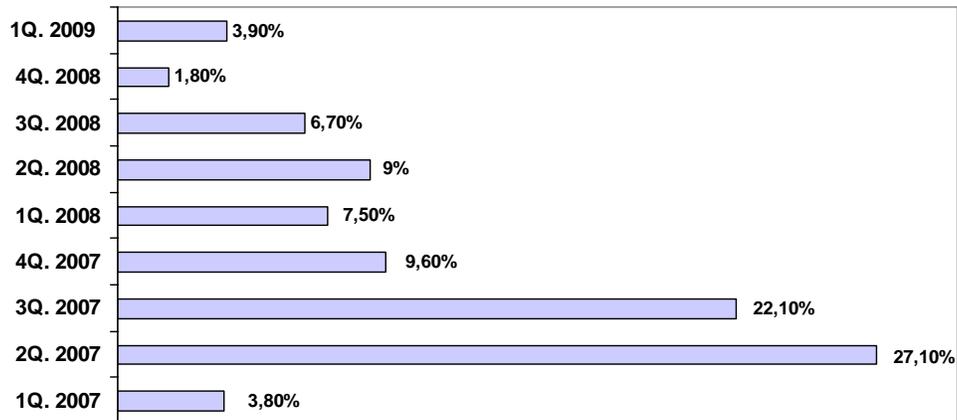
Leasing Market Dynamics as of the 1st Quarter of 2009



New Leases (UAH, mln)



Leasing Portfolio (UAH, mln)



ATTACHMENT 23

**Leasing Commission at the Ukrainian Union of
Industrialists and Entrepreneurs (UUIE),
Access to Credit Initiative (USAID),
Ukrainian Association of Lessors**

Seminar Agenda

**“Leasing: Essence, Problems
and Need to Develop”**

**28 May 2009
Kyiv**

Relevance of the Seminar

The young lease market today plays an important social and economic role assigned to it a priori – development of the medium and small business, as the key objective of the lease industry is to finance acquisition of fixed assets. In the situation when most of the Ukrainian enterprises experience an acute need in acquisition of fixed assets to ensure their effective functioning, in the conditions of non-existent banking financing, leasing becomes the key and very essential financial instrument. Because leasing means additional investments in the enterprise as it allows to use fixed assets without paying their full value at once, but to make periodical fixed lease payments instead. And all current assets remain at the enterprise.

Despite an important role of the lease industry in economy of the country, still many issues related to activities in this market remain unregulated and restrain its development. The lease market desperately requires support today because future of this country, including our future, depends on it. That is why representatives of the lease industry are willing to join efforts aimed at support and development of the lease market with the government officials.

For better understanding of attractiveness of the lease business as a financial instrument, for publicizing of the existing legislative collisions which restrain its development, the training seminar on leasing has been organized. All the speakers at the seminar are representatives of the real lease business and its experts, therefore information presented at the seminar will have an exclusively practical meaning.

Agenda of the Seminar
28 May 2009
(4 Shevchenko Blvd., Kyiv, 2nd Floor (hotel “St. Petersburg”))

Working hours of the seminar: 10.00 – 15.00

Registration of the seminar participants: from 9.30 a.m.

After the seminar – informal communication and reception.

Speaker	Subject of presentation
Oleksandr Yavorsky Vice President of the Ukrainian Union of Industrialists and Entrepreneurs	
Roman Ivanenko Member of the Board of the Ukrainian Association of Lessors General Director of “Euro Leasing” LLC	Stages of the lease market development in Ukraine
Tetyana Saus Chairman of the Board of the Ukrainian Association of Lessors General Director of “Laska Leasing” LLC	Essence and structure of the lease agreement
Liliya Snigir Advisor on financial lease and crediting, Access to Credit Initiative, USAID	Accounting and taxation of lease transactions
Deyan Pavlovych Director of “Porsche Mobility” LLC	Comparative characteristics of taxation of lease transactions in Ukraine and in the European countries
Maksym Kovtun, Member of the Board of the Ukrainian Association of Lessors” on proxy Head of legal department of the “First Leasing Company – ALD Automotive» LLC	Legal aspects of lease activities
Kateryna Galetova Member of the Board of the Ukrainian Association of Lessors General Director of “ING Leasing Ukraine” LLC Volodymer Rudenko Director of “AIS-Leasing” LLC	Lease business. Ukrainian experience in comparison with CIS countries
Peter Oberauer Member of the Board of the Ukrainian Association of Lessors General Director of “Raiffeisen Leasing Aval” LLC	On the role and place of leasing in economies of the European countries

Tetyana Saus Chairman of the Lease Commission at the UUIE	Proposals on introduction of amendments to the legislation regulating activities of the leasing companies in Ukraine
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ATTACHMENT 24

**LEASING SEMINAR
FOR PUBLIC OFFICIALS**

LIST OF PARTICIPANTS

May 28, 2009
Kyiv

	Institution	Name	Position
1.	All-Ukrainian Association of Car Importers and Dealers	Mr. Oleg Nazarenko	CEO
2.	Entrepreneurs Council under the Cabinet of Ministers of Ukraine	Ms. Oksana Bondarets	Executive Assistant
3.	Ministry of Economy of Ukraine	Ms. Antonina Deshko	Deputy Director, Financial Policy Department
4.	Ministry of Economy of Ukraine	Ms. Natalia Matsera	Chief Specialist, Section of the Analysis of Banking Services, Non-Banking Sector and Stock Market Development, Financial Policy Department
5.	Ministry of Economy of Ukraine	Mr. Yevgen Balytskiy	Head of Innovation Policy Section
6.	Ministry of Economy of Ukraine	Mr. Suren Balian	Lead Specialist, Innovation Policy Section
7.	Ministry of Finance of Ukraine	Mr. Volodymyr Kryzhevskiy	Chief Economist and Financial Expert, Section of Finance in Road and Transport Complex, Department of Finance of Transport, Communications, Construction and Service Sector
8.	Ministry of Finance of Ukraine	Ms. Olena Uskova	Chief Legal Advisor, Contractual Work Section, Legal Support Department
9.	Ministry of Justice of Ukraine	Mr. Kyryl Sushko	Deputy Head, Section of Legal Framework of Financial Services, Financial Legislation Department
10.	Ministry of Justice of Ukraine	Ms. Olga Verkhovska	Deputy Director, Civil Legislation and Entrepreneurship Department/Head of the Section

11.	Ministry of Regional Development and Construction of Ukraine	Ms. Vita Osynska	Head of Economy and Construction Development Department
12.	Ministry of Regional Development and Construction of Ukraine	Ms. Oksana Medvedchuk	Deputy Head of Housing Programs Development Section
13.	Ministry of Transport and Communications of Ukraine	Ms. Oksana Babiy	Chief Specialist, Section of Innovation and Investment Policy and Cooperation with International Financial Institutions, Department of Development and Coordination of Transport and Communication Systems
14.	Ministry of Transport and Communications of Ukraine	Mr. Anatoliy Bryl	Business Manager, LeaseTechTrans State Company
15.	National Bank of Ukraine	Ms. Oleksandra Smogolyuk	Legal Advisor, Legal Department
16.	State Commission for Regulation of Financial Services Markets in Ukraine	Mr. Vladyslav Semchuk	Head of Section of Credit Institutions and Financial Companies Methodology
17.	State Commission for Regulation of Financial Services Markets in Ukraine	Mr. Andriy Pryhodko	Chief Specialist, Section of Financial Companies Reporting Analysis
18.	State Committee on Regulatory Policy and Entrepreneurship	Mr. Viacheslav Fed	Chief Specialist, Legal Support and Claim-related Work Section, Legal Department
19.	State Tax Administration	Ms. Tetiana Kovalenko	Head of Methodology, Income and Compulsory Payments Section
20.	Ukrautoleasing, LLC	Mr. Oleksandr Skrypnyk	Director
21.	Verkhovna Rada Committee on Agrarian Policy and Land Relations	Mr. Victor Velychko	Chief Consultant, Secretariat
22.	Verkhovna Rada Committee on Economic Policy	Ms. Maryna Kravchenko	Chief Consultant, Secretariat
23.	Verkhovna Rada Committee on Economic Policy	Mr. Igor Kramarenko	Chief Consultant, Secretariat
24.	Verkhovna Rada Committee on Tax and Customs Policy	Mr. Volodymyr Yasynskiy	Chief Consultant, Secretariat
25.	Verkhovna Rada Committee on Tax and Customs Policy	Ms. Tamara Burba	Chief Consultant, Secretariat

ATTACHMENT 25

MINUTES No. 5

**of the Fifth General Meeting of NGO
“Certified Lease Specialists Union”
of 30 June 2009**

Attending participants:

Members (founders) of the organization:

- Lilia Snihir

Certified Lease Specialists:

- 17 certified lease specialists.

Chairing the meeting – Dmytro Bohodykhov, President of NGO “Certified Lease Specialists Union.”

Meeting Secretary – Alina Chernomaz, member of NGO “Certified Lease Specialists Union.”

I). Approving the agenda of the Fourth General Meeting of NGO “Certified Lease Specialists Union” (the “Union”).

All General Meeting participants were handed the proposed agenda of the Fifth General Meeting of NGO “Certified Lease Specialists Union.”

Resolved: Based on results of discussion, the agenda of the general meeting of the Union is approved.

Voted: “For” – unanimously.

II). Report on work performed.

Union President Dmytro Bohodykhov reported to the participants that currently in Ukraine there are 104 certified lease specialists, out of whom nine just received their certificates. In early June, the procedure for opening Union’s bank account was completed. To this account, all members now may transfer their membership dues. Besides, work on the Leasing Manual was completed, the copyright in which transferred to the Union.

Resolved: To take note of the information related by D. Bohodukhov.

III). Discussing the procedure for transferring the Certified Lease Specialist Program under management by the Union (legal and technical aspects). Approving the Procedure for the compilation and structure of CLSP examination modules.

Meeting participants were informed about the current state of preparing documents for transferring the CLS license from the U.S. Certified Leasing Professional Foundation as well as establishing a license fee for the next year in the amount of USD 500. Registering the LeasePro trademark in the name of the Union is due to be completed by the end of this year. Besides, ATCI disclosed its intention, after the end of the project, to transfer certain property free-of-charge to the Union necessary for its fully-fledged functioning (computer equipment, office furniture, etc.).

Lilia Snihir proposed for discussion by the participants, the Procedure for the compilation and structure of CLS examination modules regulating the breakdown of questions by subject, complexity by grade, duration of the examinations and the number of questions in each module. The procedure also envisions the establishment of a separate working group to prepare modules of qualification examinations.

Resolved: Based on discussion, the Procedure was approved and it was resolved that the ATCI is to transfer the existing base of examination questions directly to the Universal Examination Network administering CLS examinations.

Voted: “For” – unanimously.

IV). Information about the plan of Union activities

Based on discussion, the following work plan was determined:

1. Entering into an exclusive license agreement with the U.S. Certified Leasing Professional Foundation
2. Appointing the Executive Director
3. Drafting the strategy of distributing the Leasing Manual and determining the amount of charitable assistance from persons and companies in exchange for it.
4. Hotting up the process of looking for grants and completing the preparation of all necessary documents.
5. Carrying out work to promote the CLS Program and Union activities.

During the discussion it was resolved to set the amount of charitable assistance in exchange for the Manual at UAH 100 from individuals and UAH 200 from companies and also to set up a working group to determine the Manual distribution channels.

Resolved: The work plan was approved. The amount of charitable assistance in exchange for the Manual was established at UAH 100 from individuals and UAH 200 from companies; also it was resolved to set up a working group to determine the Manual distribution channels.

Voted: “For” – unanimously.

Founder of “Certified Lease Specialists Union”

Lilia Snihir

President of “Certified Lease Specialists Union”

Dmytro Bohodukhov

Meeting Secretary, member of “Certified Lease Specialists Union”

Alina Chernomaz