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Project Technical Sheet

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The Credit for Agriculture Producers (CAP) Project is a four-year project (2016-2020) funded by USAID and implemented by World Council of Credit Unions (WOCCU) with oversight and technical assistance from Volunteers for Economic Growth Alliance (VEGA). The purpose of the project is to strengthen the Credit Union (CU) sector in Ukraine to improve the quality of the financial services and products offered to farmers and agribusinesses in rural areas in Ukraine.

The CAP Project will support broad-based resilient economic development through a multi-faceted approach to further develop Ukraine’s CU sector. In order to achieve its objectives, the CAP Project, with support of international, CU experts and volunteers, will work closely with the National Commission for State Regulation of Financial Services Markets (NCSRFSM), the current regulator of the CU sector (referred to going forward as the Regulator), and the two national CU associations: the All-Ukrainian Credit Union Association (AUCUA) and the Ukrainian National Association of Savings and Credit Unions (UNASCU).

Over the life of the project, CAP aims to meet the following key objectives:

1. A legal and regulatory environment which respects cooperative principles, encourages meeting of prudential norms and enables CUs to compete on a level playing field with other financial institutions.
2. The two national CU associations collaborate to develop and implement policies that contribute to strengthening CU performance and expand services to meet the evolving needs of their membership.

3. The two national CU associations develop and deliver services to their members that meet member needs while contributing to the long-term financial strength of the associations and their member CUs.

4. CUs expand their agricultural and associated agribusiness loan portfolios while meeting member needs for timely, economic loans.

5. CUs both mobilize savings and demonstrate the financial soundness necessary to overcome liquidity constraints.

6. Support implementation of the existing eight year USAID DCA LPG through technical assistance to the five DCA partner CUs to utilize the guarantee, report on progress, and promote its results and lessons learned among other CUs of Ukraine. (Modification to this objective is in process as of the end of Q1 FY18.)
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<th>Description</th>
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<tr>
<td>AGLWG</td>
<td>Agriculture Lending Working Group of CUs</td>
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<td>ARDS</td>
<td>USAID Agriculture and Rural Development Support Project</td>
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<td>AUCUA</td>
<td>All Ukrainian Credit Union Association</td>
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<td>BOD</td>
<td>Board of Directors</td>
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<tr>
<td>CFPB</td>
<td>Committee on Financial Policy and Banking of Verkhovna Rada of Ukraine (the Parliament of Ukraine) – <em>also referred to as FBAC</em></td>
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<td>CMS</td>
<td>Credit Management System (DCA)</td>
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<td>CRD IV</td>
<td>Capital Requirement Directive IV</td>
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<td>CU</td>
<td>Credit Union</td>
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<td>CAP</td>
<td>Credit for Agriculture Producers Project</td>
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<td>CUNA</td>
<td>Credit Union National Association (USA)</td>
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<td>DCA</td>
<td>Development Credit Authority</td>
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<td>DCOP</td>
<td>Deputy Chief of Party</td>
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<td>DGF</td>
<td>Deposit Guarantee Fund</td>
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<tr>
<td>DG FISMA</td>
<td>Directorate General for Financial Stability, Financial Services and Capital Markets Union</td>
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<tr>
<td>DOBRE</td>
<td>Decentralization Offering Better Results and Efficiency</td>
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<tr>
<td>ENCU</td>
<td>European Network of Credit Unions</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FBAC</td>
<td>Committee on Financial Policy and Banking of Verkhovna Rada of Ukraine (the Parliament of Ukraine) – <em>also referred to as CFPB</em></td>
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<tr>
<td>FST</td>
<td>USAID Financial Sector Transformation Project</td>
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<td>FY</td>
<td>Fiscal Year</td>
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<td>GWLN</td>
<td>Global Women’s Leadership Network</td>
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<td>HKVD</td>
<td>CU Kharkiv Kasa Vzayemodopomohy</td>
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<tr>
<td>HQ</td>
<td>Headquarters</td>
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<tr>
<td>ICUD</td>
<td>International Credit Union Day</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>ILCUF</td>
<td>Irish League of Credit Unions International Development Foundation, Inc.</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>LPG</td>
<td>Loan Portfolio Guarantee</td>
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<tr>
<td>MAPF</td>
<td>Ministry of Agrarian Policy and Food</td>
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<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
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<td>MP</td>
<td>Member of Parliament</td>
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1. Executive summary

The CAP Project’s goal is to improve access to agricultural credit via credit unions (CUs) by improving their legal and regulatory framework, strengthening the national CU associations, and building the capacity of CUs to better serve their members and offer tailored services to meet their members’ needs. The project has six interwoven objectives and seeks to achieve them by working simultaneously with regulators and policymakers on one hand, and market representatives, the national CU associations and selected CUs, on the other hand.

During the Q1 fiscal year 2018 (FY18), CAP’s work intensified in advancing CU regulations to better align them with international best standards and to advocate for the passage of the draft law “On Credit Unions”, as well as participate and organize events to build support for CU market development in Ukraine among local authorities and members of Parliament (MPs). All these activities were aimed at raising CUs’ profile to bring them to the attention of market players, and most importantly, potential CU members – farmers and rural entrepreneurs interested in sustainable credit to finance their businesses and other financial services.

Key milestones of Q1 included, among others:

- Organizing a high-level international conference on International Credit Union Day (ICUD) on the “Economic and Social Role of CUs in the Sustainable Growth of Ukraine” with participation from the national CU associations, high-level representatives in the Government, the international donor community, and CUs and other USAID technical assistance projects (October 18, 2017);

- New regulations were revised at the request of the Regulator with multiple versions submitted for market consultations in Q1 for adoption in early 2018;

- CAP organized and participated in the Agrofinance Forum in Kharkiv facilitating the collaboration of local authorities and CUs aimed at enhancing access to finance and financial services via CUs in rural areas of the Kharkiv Oblast (December 18, 2017); and

- A Study Tour to Brussels was conducted to support the alignment of CU legislation in Ukraine with best European Union (EU) practices and existing laws, with emphasis on access for CUs to deposit guaranty schemes and exemption from CRD IV directives on the capital requirement (November 8-10, 2017).

The sections below describe in more detail consecutive steps undertaken to reach the abovementioned milestones during the quarter.

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1 CRD IV is Directive 2013/36/EU and Regulation 575/2013 and is a minimal capital requirement of EUR 5 million for credit institutions. Lack of exemption from this EUR 5 million capital requirement for CUs would be devastating to the sector since not a single CU in Ukraine would be able to comply. This is not an isolated case, similar exemptions were obtained for CU sectors in Poland, Ireland, and U.K. to name just a few.
2. Progress against work plan

The CAP Project has six interwoven objectives. The following sections lay out activities and specific tasks during Q1 FY18, to achieve the expected results presented in the CAP Project’s Implementation Plan for year 2 (FY18) and in the CAP Project’s Monitoring and Evaluation Plan.

Objective 1: Improving the enabling environment for CU operations in Ukraine.

Objective 1 is a complex and multi-layered component of the CAP project. The following section outlines elements of Objective 1 and results achieved against the planned activities, taking into account the everchanging political landscape in Ukraine.

Fostering an enabling environment and advocating to advance the new draft Law “on CUs”

Raising awareness and structured advocacy activities on the CU enabling environment will remain high priorities for CAP until the new draft law 6405 “on CUs” (referred to as draft CU law going forward) is passed and the reform of the CU sector is complete, in line with international best practices and EU legislation.

During Q1, the CAP team continued to advocate for adoption of the draft CU law through the joint work of CAP, the national CU associations, and the Committee on Financial Policy and Banking of Verkhovna Rada of Ukraine (FBAC). During the period, CAP repeatedly held working meetings with several MPs and members of FBAC to build support for the law and ensure it is considered by the Conciliation Council of the Verkhovna Rada (Parliament of Ukraine) that approves draft legislation to be voted upon by the Parliament. The draft law was proposed for the Council’s consideration by the head of FBAC six times in the past few months, with no result. These efforts must continue to ensure the draft CU law is placed on the agenda for the March session. The second priority is to ensure a sufficient volume of votes in favor of the law among political factions.

Advocacy does not end with Parliament members working in Kyiv. CAP actively seeks to extend its advocacy approach by actively exposing CU sector challenges to Parliamentarians and government stakeholders as well as at the oblast level through media engagement, social media posts, and participation in events.

Objective 1: Results achieved in current quarter (Q1 FY18)

- Work plan for 2018 with NCSRFSM (the Regulator) compiled and signed
- Study tour to Brussels organized to build support for EU alignment of the Deposit Guarantee (DGF) coverage, to include CUs and seek written confirmation to CRDIV exclusion for Ukrainian CUs
- Written technical notes and recommendations for regulatory norms submitted for adoption in 2018
On October 20th, CAP’s DCOP presented at an off-site meeting of FBAC in the Uman, Cherkassy Oblast, attended by the Regulator, the first Deputy Minister of Finance, representatives of the International Finance Corporation (IFC), several members of Parliament, as well as the “Kredyt-Soyuz” CU, CAP’s partner in the oblast. The DCOP outlined CAP’s role for strengthening the CU sector and agricultural credit expansion via CUs. She drew attention to the lack of conditions in Ukraine for full-fledged investment development of small and medium-sized agricultural producers. The meeting was devoted to discussing the “Tools of financing agriculture in Ukraine,” with strong representation from both the supply and demand side of the agricultural sector, with agribusiness producers on one side, and representatives from the financial sector on the other.

Currently, full access to financial instruments is available only to large agricultural producers. Small and medium-sized farms and individual entrepreneurs practically remain outside the financial system and are not able to obtain affordable credit. The critical role of CUs in financing small agricultural producers was stressed by the Regulator, who emphasized the need for risk assessment tools for the CU sector. Today, CUs remain the only source of funding for small farmers and agricultural producers. Passage of the draft CU law would allow CUs to provide more of an updated array of services to better serve the needs of members and legal entities.

Following the meetings, eight MPs inquired about CAP’s activities and the draft CU law pending a 1st reading in Parliament. The meeting showed that state offices at different levels, have an understanding of and support for financing the micro, small and medium enterprise (MSME) sector, in particular through non-bank financial institutions such as CUs. As a result, the chair of the FBAC insisted on swift consideration by the Parliament of the draft CU law and on financial leasing, as those changes would help introduce effective mechanisms for financing farmers’ agribusinesses and would promote rural development.

While pursuing updates to the CU law in the Parliament, the CAP team worked closely with WOCCU legal experts to (a) review feedback on the current draft of the law and (b) provide a comprehensive overview and necessary amendments addressing key areas of concern to stakeholders, and where needed, proposing improvements. The information will serve as a foundation for discussions among stakeholders and for building consensus during working group meetings that will follow the 1st reading of the law in the Parliament. While CAP is not an official player in the lawmaking process in Ukraine, the project is expected to actively participate in the working group as an international expert to augment best practices in Ukrainian CU legislation and build consensus around modifications to the draft before its 2nd reading.

Raising awareness on CUs at International Credit Union Day (ICUD)

On the eve of ICUD, that annually commemorates CUs’ impact and achievements worldwide in 109 countries, CAP hosted an international conference to examine the “Economic and Social Role of Credit Unions in Sustainable Growth in Ukraine,” and to facilitate support for the sector from policymakers, the Regulator as well as other stakeholders.
The event took place at the National News Agency of Ukraine “Ukrinform” with the presence of representatives from USAID, the Regulator, WOCCU, the Deposit Guarantee Fund (DGF), the Ministry of Agrarian Policy and Food of Ukraine, the National Bank of Ukraine (NBU), MPs as well as both national CU associations, 18 CUs, and market representatives. For the nearly 100 attendees, the conference was an opportunity to learn about the CU movement worldwide and the sector’s growth in Ukraine.

The event was opened by Stephen Rynecki, Deputy Director of the USAID Office of Economic Growth, the People’s Deputy of Ukraine representative, the CAP COP and a representative from the Regulator. Two high-level panels discussed the CU sector’s role in closing the access to finance gap for non-bank financial institutions and how CUs serve as catalysts for rural economic growth in Ukraine and as sole finance providers for small agricultural producers. Panelists of both thematic plenary sessions, including the Chair of the Board of Directors (BOD) of WOCCU, the Deputy Minister of Agrarian Policy and Food, as well as the Deputy Head of the DGF; all recognized the importance of CUs for rural economic growth in Ukraine, noting their successes, challenges they face, and proposed new solutions to strengthen the sector.

Strong commitment for CU strengthening was confirmed throughout the event from stakeholders. Clear synergies were established and presented by two of CAP partner projects, USAID Agriculture and Rural Development Support Project (ARDS), and Decentralization Offering Better Results and Efficiency (DOBRE) that together, with CAP, can multiply the effect of USAID technical assistance to develop rural communities and contribute to job creation and economic growth in Ukraine.

The event was covered by 17 media outlets. The coverage emphasized the importance of the CU sector for Ukraine stressing the fact that CUs are the only financial institutions that provide low income citizens, small entrepreneurs, and agricultural commodity producers with the opportunity to access financial services.
Regulator’s 2018 work plan with the CAP project

During the quarter, the CAP project and the Regulator drafted and approved the Regulator’s 2018 work plan with detailed information on each quarter’s activities, the implementation period, and the responsible person guiding the joint work and the technical assistance provided by CAP to the Regulator. This was the second plan signed between the CAP Project and the Regulator following the Memorandum on Cooperation dated November 2016. The plan was carefully prepared to ensure that all listed activities and deadlines are in line with CAP’s objectives and respond to current needs and priorities of the Regulator. The activities were planned in the following key areas:

- Support the passage of the draft CU law;
- Provide expert assistance and consultation to ensure exemption of Ukrainian CUs from the Directive 2013/36/EU and Regulation 575/2013 (both documents combined comprising the CRD IV exemption);
- Consult on the process of revisions and on the development of the new CU market’s regulations and norms; and
- Improve CU management and supervision systems.

The plan calls for the technical assistance to be provided to the Regulator in the form of consultations and written recommendations, workshops and training, advocacy support and exposure trips, as suitable.

New CU market norms and regulation

In tandem with ongoing legal reform, it is important to ensure high standards of supervision and regulation of CUs to align with the passage of the new draft CU law which would allow CUs to offer a wider spectrum of services and serve broader audiences, beyond farms and individuals. It is also critical to secure the DGF, as a pre-condition to its inclusion in the state run guaranty fund and other programs. With that in mind, the Regulator initiated a review of their current regulations on the CU market and requested support from CAP’s technical experts. It is critical and complementary to the on-going work of the Regulator under CAP’s technical guidance, to propose a revised set of financial norms guarding the Ukrainian CU market that the Regulator aims to finalize and adopt in early 2018.

CAP worked with Eric Richard, a U.S. regulatory expert, to provide the Regulator with an overview of a process to develop stronger norms as well as feedback on the norms through an iterative process throughout the quarter. With final input provided by CAP in December, and following consultations with the national CU associations, the Regulator will propose a final set of regulations for adoption in 2018.
Regulator’s capacity

In Q1 FY18, key technical assistance activities targeting the Regulator, in addition to the activities related to the adoption of the draft law and its respective elements, included:

1. “CAMEL Rating System”

During the week of October 31st, representatives of the Regulator participated in a four-day workshop provided by Mr. Hector Noriega, a volunteer expert from the National Credit Union Administration (NCUA) with over 30 years of experience working in the sphere of CU supervision and strengthening. The volunteer introduced the Regulator to the CAMEL rating system for the prudential regulation of the CU market. The CAMEL system is a supervisory tool used globally as an early warning system and is based on the evaluation of critical supervisory areas: capital adequacy, asset quality, management, earnings, and liquidity/asset-liability management.

The training methodology, developed by NCUA, is geared specifically toward CUs and considers caveats of their operational member-based structure. The flexibility of the presenter allowed the workshop to be needs-driven by the Regulator and included extensive Q&A sessions and discussions of specific cases and examples of CU regulations and their applicability to the Ukrainian context. Introduction of the CAMEL system and learning its main components are the next steps toward adapting international best practices for better oversight and regulation of the CU sector in Ukraine.

2. “The role of Polish National Association in supervision of credit unions” and “Proportionality supervision model in practice – the Polish example”

On October 25th, CAP organized two consecutive presentations for the current Regulator of the CU market and NBU, the potential future regulator, on “The role of the Polish National Association in the Supervision of Credit Unions” and the “Proportionality Supervision Model in Practice – the Polish example.” The presentations were delivered by the President and CEO of the Polish National Association of Cooperative Savings and CUs (NACSCU), Mr. Rafal Matusiak, to a total of 15 representatives of the NBU and the Regulator.

The first presentation discussed, in depth, the role of NACSCU in regulating Polish CUs within the context of changing laws enacted from 1995 up to 2017 in Poland. The second presentation focused on the new law passed in January 2017 in Poland, the “Law on Small Credit Unions,” that allows for proportionality of supervision of CUs depending on their size, recognizing their operational limitations and proportional risks to the sector.

Both topics are critical as the draft CU law—pending a 1st reading in Parliament—if passed, would strengthen the role of the national CU associations in market regulation. Given the very diverse CU sector in Ukraine, proportionality in supervision is being actively debated by both the current and future Regulator. In the coming year, CAP will continue to attract experts from the Polish CU movement, which among the European CU movements, is the closest to Ukraine, and can provide valuable lessons and tested solutions for Ukrainian regulatory authorities.
3. “WOCCU Model Credit Unions Law-Regulatory Framework Perspective”

As part of the capacity-building workshop series for the Regulator, on October 26th the CAP project organized a practical workshop on the regulatory aspects of the WOCCU Model Law and its application in Poland. The workshop exposed participants to the most recent edition of the Model Law, its applicability to diverse CU jurisdictions globally, and reviewed the content of the selected chapters of the law that provide guidance in setting up the regulatory system. This includes, among others: powers of the supervisory institution, the relationship between supervisory and regulatory functions in relation to supervised and regulated institutions, the division of roles and responsibilities, and reporting requirements.

The Regulator expressed interest in continuing to review the details and applications of the WOCCU Model Law especially as it pertains to sector risk management and financial norms. The WOCCU model law is well-tested globally and served as a “template” for the new proposed draft CU law. It is critical for the Regulator to be familiar with not only the model law provisions and best practices in CU market legislation, but also to be aware of its duties and powers and how to execute them should the law be adopted.

Study Tour to Brussels – EU standardization

From November 8th-10th, the CAP Project, supported by the European Network of CUs (ENCU) and WOCCU, organized an exposure visit to Brussels for two key CAP project partners: the Chairman of the CU market Regulator and the Deputy Director of the state DGF, a key partner in charge of assuring equal treatment of banks and CU clients under the deposit protection schemes. The delegation was accompanied by the WOCCU General Counsel and Vice President of Advocacy and the CAP Senior Policy Advisor – seasoned CU advocacy experts in structures of the EU.

The strategic objective of the tour was to:
- Follow-up on the September 29th meeting of the Ukrainian delegation of state authorities in Brussels with the Directorate General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) regarding CRD IV capital requirement for CUs;
- Address concerns of the deposit guarantee for CU members/depositors; and
- Expose Ukrainian senior officials and the Ukraine Parliamentary Association Committee to the decision makers in the European Commission as well as to the European Parliament.

During the visit, DG FISMA discussed concrete steps and the required documentation that would be needed to formalize the CRD IV exemption for Ukraine as there is no in-house formal procedure within the European Commission—each country request is treated individually. The CAP project will support the Ukrainian regulator as needed in preparing the documentation and coordinating with other Ukrainian stakeholders to ensure timely submission to DG FISMA by April 2018.
In regards to opening the state deposit guarantee fund to CU depositors, the DGF Deputy Director pledged to work toward wide political consensus that would allow Ukraine to make the necessary legislative changes to enable such change and align with the two EU directives on the deposit guarantee scheme (#49/15 and #59/15), anticipating that the transition process is to be completed by the Ukrainian Government by the end of 2018.

**SPLIT Law**

Anticipation of the adoption of the SPLIT Law (#2413a)—which will include the transition of the CU regulator from the current Regulator to the NBU—continues. The CAP project maintains a close relationship with the NBU SPLIT group and the USAID Financial Sector Transformation (FST) project that provides technical assistance to the NBU, and when possible provides workshops and technical consultations on CU related regulatory subjects.

During the quarter, CAP participated in several working group and roundtable events discussing the future of the SPLIT law and transitions that would follow. Among others, the following key meetings took place with CAP representation:

- **On October 18th**, CAP participated in a working group of the SPLIT law (#2413a) hosted by the NBU and organized by FBAC to discuss the consolidation of state functions of financial services regulation. The event sought to reach consensus on a roadmap for the transition, but ended inconclusively as to the next steps and timeline. The content of the draft law is also being debated and there is no one solution acceptable to all stakeholders.

- **On December 13th**, CAP joined a public forum on “What kind of SPLIT is required by the market?” organized by the NGO “Association of Financial Institutions” with over 80 participants from the NBU, the current Regulator, MPs, associations of the NBFI sector, the FST project, and market representatives. The meeting exposed disagreements on the SPLIT law and an array of views on the proposed transition and its justifications. The meeting was inconclusive as to the next steps and no unifying agreement was reached.

CAP remains deeply committed to providing technical assistance to partners should the transition occur. CAP’s focus is on strengthening the market by improving the legal and regulatory framework and by building trust in and improving the image of financial institutions such as CUs.

**Key challenges**

In light of the strategic reforms under consideration in Ukraine—including pension reform and anticorruption laws—that have sparked public attention and lively debates, updating the

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2 The SPLIT Group is the team of NBU experts formed to support the transition of the Regulator of the CU regulatory functions from NCSRFSM to NBU should the appropriate “SPLIT” law be passed. The SPLIT Law will also transition the regulatory authority of insurance and other non-bank financial institutions to the NBU.
CU legislative framework does not appear as significant and could be pushed aside. Therefore, the project will continue to face challenges maintaining support from a sufficient number of MPs to pass the new draft CU law and strengthen the overall political will to reform aspects of the CU sector’s legal framework, including CU taxation, the transition of the Regulator to the NBU, and DGF inclusion for the sector.

For example, despite the FBAC September 5th resolution recommending to Parliament to adopt the draft CU law in the 1st reading, Parliament did not put the law on the agenda. The project has limited ability to influence Parliament’s session agenda and will continue to face challenges, as the priorities of the government and international donors are focused on anti-corruption and pension reforms.

Moving forward, CAP will intensify its efforts to put the draft CU law up for a vote during March sessions and advocate with MPs to support the motion. Backing of international donors on a high level, including USAID, would greatly enhance chances of the law reaching the voting room. Grassroots advocacy efforts, as foreseen in the joint communication strategy (Objective 2) with the national CU associations, will be intensified in the coming months by associated CUs.

An important question remains as to when the European Commission will send a draft amendment to Annex VII-2, “Rules applicable to financial services,” of the EU-Ukrainian Association Agreement, to the Ukrainian government, adding provisions regarding the exclusion of CUs from the scope of Directive 2013/36/EU and Regulation 575/2013 (CRD IV). The lack of political will to pass the SPLIT law continues, despite an intense period of consultations and debates among stakeholders, including the international donor community.

The timeline for the potential transition of the regulators is unclear. CAP’s role is to observe the process and support the transition of regulatory functions for the CU market from the current Regulator to the NBU, should such a decision be made by Parliament. In absence of the final decision, CAP will continue its work with the current Regulator building its capacity to regulate the CU market and concurrently will work with the NBU to build the foundation for its future function.

**Objective 2: The national CU associations collaborate to support policy and legal change for the CU sector.**

Under Objective 2, CAP focuses on creating a common platform for communication and coordination of efforts among the two national CU associations to build their capacity to effectively advocate in front of the Regulator and policymakers. CAP’s efforts to maintain regular communication with both national CU associations, while ensuring equal treatment of both associations despite

**Objective 2: Results Achieved in current quarter (Q1 FY18):**

- Implementation of the joint communication strategy for UNASCU and AUCUA;
- Increased engagement of seconded staff in CAP activities;
- Joint initiative on interest rate compensation initiated
their differences and unique management, has yielded closer collaboration toward common goals.

Joint national CU associations’ initiatives

During Q1 FY18, with the support of CAP experts, the national CU associations undertook a number of joint activities to strengthen Ukraine’s CU sector. A joint communication strategy was developed in close cooperation with both national CU associations. Both took initiative and followed the work plan for the quarter and began active interactions to develop a common path for advocacy on four levels (association, policymaker, media, and membership levels). Joint initiatives included:

1) The adoption of the draft CU law.

- Following successful collaboration advocating for FBAC and MPs to submit the draft CU law for the 1st reading in Parliament pending scheduling, both national CU associations reiterated that the adoption of the draft law is their top priority. To support and accelerate the process between the 1st and the 2nd readings, both national CU associations agreed to process the concerns of various state offices (received and analyzed in Q4 FY17) using WOCCU specialists’ expert opinions to prepare joint arguments for the 2nd reading. It is expected that expert arguments will, at a minimum, refer to membership of legal entities and small business entities in CUs, allowance for DGF inclusion for CUs, the introduction of a cooperative bank concept, and allowing access to payment systems for CUs.

2) Advocacy activities at the policymaker level included workshops and meetings with the participation of the national CU associations.

Inclusion of CUs in state support programs addressing lending interest rate reimbursement for the smallest MSMEs:

- On October 24\textsuperscript{th} in the Uman, Cherkassy oblast, FBAC held a workshop to discuss and develop recommendations for the Government of Ukraine to include in the draft of the 2018 State Budget, including the lending interest rate reimbursement. Currently, all state programs on partial reimbursement of interest on loans, provided to MSMEs by financial institutions, consider only loans provided by banks. Therefore, a major portion of the smallest farmers have no access to state economic programs as banks do not serve that segment of agricultural producers. As CUs are the only source of financing for small farmers, reimbursement of loan interest costs would be essential leverage for economic growth of MSMEs in rural areas.

The FBAC workshop was attended by MPs, representatives of the Ministry of Finance, the Regulator, the NBU, two large state-owned banks, the Cherkassy oblast administration and other officials. UNASCU and AUCUA emphasized the critical role of CUs in MSME sector financing and the importance of supporting agriculture
producers through the inclusion of CUs in state and regional economic programs on lending interest rate reimbursement. The national CU associations also addressed the First Vice Prime Minister on this matter.

- On December 15th, CAP specialists facilitated a meeting with the Head of Financial-Lending Department of the Ministry of Agrarian Policy and Food (MAPF), and his team with FBAC Secretariat, UNASCU and AUCUA to request MAPF support in the inclusion of CUs in state economic programs of lending interest rate reimbursement. MAPF representatives stressed that the updated draft CU law’s adoption would allow inclusion of CUs in the state programs and they were supportive of the initiative as they understood the importance of CUs’ role in providing finance for MSMEs. However, despite their support, MAPF believes there is a lack of general “political will” in Ukraine to proceed with the legislative initiative.

Light taxation regime for CUs

- On October 26th, CAP specialists facilitated a joint meeting of two Parliamentarian Committee Secretariats (FBAC and the Committee on Taxation and Customs Policy) with UNASCU and AUCUA. Opportunities for the introduction of a light taxation regime for CUs were discussed, and several scenarios for further legislative norm development were considered. Both national CU associations presented their opinion on an optimal taxation regime for CUs, and specialists of both Secretariats provided their recommendation on how to proceed with updating corresponding legislation. In Q2 FY18, with the support of CAP experts, the recommendations will be considered by the national CU associations, and a corresponding action plan will be developed and implemented.

- On November 13th, CAP organized a meeting of UNASCU and AUCUA with the First Deputy Minister of Finance and her team to raise the taxation concern and receive her operational recommendations on further legislative pursuits. As a result, the next meeting with the State Secretary of the Ministry of Finance is on the agenda for Q2 FY18.

- As a top priority, the national CU associations plan to proceed with court consideration of CUs’ non-profit status to get positive court resolutions, and meeting with the Committee on Taxation and Customs Policy and the State Secretary of the Ministry of Finance in order to lobby the views of CUs.

Feedback on the CU market norms and regulations
• The national CU associations provided feedback and comments to the Regulator on the draft order on updated CU market norms and regulations\(^3\) that were developed by the Regulator on the basis of support from WOCCU experts. As soon as the draft order was developed and published by the Regulator for public discussion at the end of 2017, both national CU associations prepared their opinion, comments, proposals and recommendations and submitted them to the Regulator at their joint meeting on December 22, 2017. In Q2 FY18 the national CU associations, with CAP expert support, will continue discussing and fine-tuning the draft order with the Regulator to finalize it in 2018. CAP experts will provide their judgement and recommendations.

3) Advocacy activities at the media level to promote a positive image of CUs:

• Both national CU associations continue to engage with media and raise awareness on CU matters. During the quarter, each of the national CU associations published and disseminated hard or electronic versions of their bulletins on credit collaboration with members and supporters. The latest news including cooperation with CAP and other prominent events in CUs everyday life were discussed, with special expanded coverage of the 2017 ICUD celebration.

• On October 26\(^{th}\) the President of AUCUA participated in a business class program at Ukrainian Radio discussing non-bank lending and the role of CUs in this process. More than 100,000 listeners of the radio program were counted throughout Ukraine.

4) Advocacy at the membership level:

• With CAP support, UNASCU developed the “Road map of advocacy” for associated member CUs that contains direct and clear recommendations for CUs on how to plan and implement advocacy at the local and regional levels to request MPs’ and state authorities’ support in promoting various legislative updates. The recommendations were prepared on the basis of CUNA expert materials that had been presented to associations in Q3 FY17.

• The “Road map of advocacy” was presented to UNASCU member CUs at the workshop on “Activities of credit unions on the support of the draft Law on credit unions” held by UNASCU on December 7\(^{th}\). All CUs were provided with templates of letters requesting MPs to ensure their support in resolving legislative issues that are critical for the development of the CU market. At the joint quarterly meeting, the “Road map of advocacy” was also shared with AUCUA, and is to be disseminated among all associated CUs in early 2018.

Key challenges

\(^3\) "On Approval of the Regulation on Mandatory Financial Standards and Requirements Restricting the Risks of Financial Assets of Credit Unions and the Loss of the Validity of the State Commission for Regulation of Financial Services Markets of Ukraine of January 16, 2004 № 7"
Discrepancies of opinion and approaches to pursuing joint goals are common and not unique to Ukraine or to CU advocacy efforts. Despite this challenge, CAP continues to work with both national CU associations to alleviate communication bottlenecks. The regular quarterly meetings, ad-hoc joint consultations and discussions, combined with the presence of seconded staff in the CAP office have been effective in building collaboration and consensus between the national CU associations.

In Q1 2018, there was a change in the seconded personnel from UNASCU. This required additional CAP staff time to onboard, train and bring the seconded expert up-to-date with project results since FY16.

**Objective 3: national CU associations offer improved services to CUs.**

Under objective 3, CAP activities and support aim to strengthen the two national CU associations. The project works to help the national CU associations better serve their CU members by offering high-quality tailored products and services and to become more effective advocates of legislative reform that pertains to CU activities. Strategic planning, expansion of the services portfolio, and knowledge-sharing are the most important parts of these activities. In Q1 FY18 each national CU association undertook steps in strategic planning, new service implementation and in adapting international standards to the Ukrainian environment.

**Strategic planning finalization**

Following approval of the Strategic Plan in September 2017, UNASCU began designing an operational plan for its gradual implementation. On December 5th the national CU association approved an action plan for 2018 to implement the Strategic Plan for Year 1. Expansion of the services portfolio is one of the most important components of the national CU association’s strategy for next three years. The UNASCU Strategic Plan outlines 12 services than can be developed in the three-year period including development of policies for CUs, risk analysis services to CUs, internal audit services for CUs, social performance referral services, and financial literacy courses for CU members.

The UNASCU 2018 plan includes advocacy efforts, CU risks analysis service improvement, support of financial literacy growth (especially among young people), agriculture lending development, and renewal of the legal department of the association.

Similarly, AUCUA developed the first version of their Strategic Plan based on their priorities and vision and with recommendations and support from the international experts from the Ukrainian Federal CU (US-based Ukrainian Diaspora CU). On November 17th, AUCUA held a Skype-conference of the AUCUA team and Board of Directors (BOD) to review the
proposed draft Strategic Plan and plan for next steps in 2018 to ensure its adoption by the BOD in the summer of 2018. The BOD will also propose the implementation schedule and discuss needed funding. Strengthening IT systems of AUCUA is one of the priorities, where CAP’s support has been requested. Once the scope of work for the IT consultancy is developed, CAP will seek a qualified expert-volunteer to support AUCUA.

The processes of the Strategic Plans’ adoption and implementation differ between the national CU associations, as foreseen in their chapters of association and related documents. CAP continues its support and aligns with the internal pace of each of the national CU associations.

**New services provided to CUs by national CU associations**

In Q1 FY18, the national CU associations continued to inform their members regarding CAP activities and opportunities on the Agriculture Lending Working Group of CUs (AGLWG) participation (see objective 4). During the period, with support of the CAP team, seconded staff and associations identified and introduced one new service: video communication support by AUCUA. AUCUA created short videos/shorts about member CUs for display on the national CU association’s YouTube channel and Facebook page. These videos promote CUs and create a positive image. In Q1, videos were made in two CUs and their branches – “Kredyt-Soyuz” (Cherkasy city) and “Boikivshchyna” (Drohobych, Lviv oblast).

Several other new initiatives took place during this reporting period:

- **Internal Audit Service** – From November 13-24th, UNASCU hosted a mission of two experts from the Irish League of Credit Unions (ILCUF). The aim of the mission was to improve the CUs’ internal audit procedures. UNASCU and the experts held two workshops for CU leaders on best practices of internal audits and risk-management practices in Ireland and Ukraine. Tools for internal audit and risk-management, which are used in Ireland, were adjusted to the needs of CUs in Ukraine. The team then conducted internal audits in three CUs which are members of UNASCU.

- **Advocacy Training** – On November 17th, AUCUA held a workshop on advocacy for member CUs for 15 participants. The workshop was based on CAP materials and on CUNA’s expert presentation on advocacy best practices used by CUs in the U.S. (Q3Y1). On December 1st AUCUA staff conducted an on-site workshop on advocacy for the “Boikivshchyna” CU (Drohobych, Lviv oblast).

- **Adaptation of PEARLS system** – From November 6-9th, Vice President of AUCUA participated during a joint workshop with the WOCCU expert and CAP Agrofinance Specialist to adapt Ukraine’s CU reporting standards to the PEARLS monitoring system. The team made a step-by-step analysis of available indicators reported by Ukrainian CUs and analyzed their correspondence with PEARLS indicators. This adjusted tool will be used by CAP and the national CU associations for further diagnostics of partner CUs.
Key challenges

Given the uncertainties surrounding the CU legal and regulatory environment, the national CU associations face difficulties planning and adjusting to a changing environment. The strategic planning process is complicated and requires significant effort to complete as well as resources and the will of the national CU association managers and leaders. Strategic plans can be a strong development tool, but require a consistent approach and monitoring across organizational structures, which can be difficult in light of limited resources and competing priorities.

Regarding new CU services, coordination of needs is required to create a menu of tailored services. This must be timed well with new opportunities and the changing needs of CU members. International best practices and the experiences of the national CU associations from similar constituencies in Europe and the U.S. are valuable and the Ukrainian national CU associations should use these resources to ensure local adaptation. However, the two national CU associations have limited human, technical, and financial resources and this can hamper the expansion of these services.
Objective 4: CUs expand their agriculture finance portfolio.

Under Objective 4, CAP collaborates with PUM Netherlands expert volunteers to support a group of carefully selected CUs to increase their technical capacities, boosting their agricultural lending activities. Following the selection and evaluation of the CUs, Q1 FY18 was dedicated to training events of both individual and regional character and adapting the training program for the new CUs that joined the AGLWG at the end of Q4 FY17. In cooperation with the WOCCU expert, the contextualization and testing of the PEARLS monitoring system was carried out at selected and interested CUs.

Engagement of PUM – agricultural lending expansion strategy

Following the training program developed in Q4 FY17 by PUM and CAP experts, with input from CUs, members of the Agricultural Lending Working Group (AGLWG), continued with technical training that began in August 2017. Two series of training sessions were conducted in Q1 FY18 as described below.

**Individual training sessions for the AGLWG CU members**, represented a continuation of the August group training sessions held in Stryj. Home assignments completed by CUs thereafter, took place between October 19th and 27th. During the period, two teams of PUM Netherlands experts, CAP Project specialists, and representatives of both of the national CU associations visited seven interested CUs (out of 11 CUs in the original AGLWG) and trained a total of 36 employees. During the hands-on workshops, CUs have received practical recommendations on the following issues:

- Improvement of strategic plans, including alternative ways of increasing growth strategy development and setting specific tasks;
- Studying the environment and existing preconditions for goals formation;
- Comparative analysis of strengths and weaknesses in CU activities and competitiveness (SWOT-analysis);
- Assessment of existing and promising directions of activities; and
- Improvement of HR policies and HR strategies of CUs.

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4 Expansion process: (1) selection, (2) baseline assessment, (3) technical assistance program design, (4) technical assistance implementation, and (5) knowledge sharing.
In addition the “Loan Product Passports for Agri-producers” developed by CAP and the seconded staff were presented to the CUs. CUs were trained on how to apply this document for the development of new loan products for agri-producers and on how to systematize existing loan products.

From December 11th to December 19th there were three regional trainings on, ”Marketing and Market Research” for CAP CU partners in Lviv, Kyiv, and Kharkiv held by the PUM volunteer and the marketing expert from the Netherlands, with the CAP specialist’s support. The training attracted a mix of CU participants from different structural departments within CUs: business development, management, marketing, and the credit department.

In total, 53 employees representing 17 CAP CU partners attended the regional training sessions. Overall, the participants comprised 47 percent of middle managers and 33 percent of senior managers. With the focus on marketing, the following subjects and concepts were discussed:

- Marketing – general concepts and the “why” of marketing;
- Market research – steps and key rules;
- Strategic planning to achieve goals, including increased agricultural lending volumes; and
- Marketing results – monitoring and evaluation.

Participants also received a template marketing plan for review and in-house use. The interactive training format allowed all participants to engage in practical tasks, share experiences, exchange creative ideas for finding new marketing solutions, and identify next steps to improve CUs’ marketing results.

All participants appreciated the new more interactive training format, provided positive feedback on the topics discussed, found information useful and expressed their readiness to continue active participation in the training activities of the CAP Project.

**Agricultural Lending Working Group – diagnostics processes and adaptation of PEARLS**

As the AGLWG is fully established, the work of Q1 FY18 focused on process improvements and in-depth assessment of all CU partners, aligned with a review of new CU members and developing a training program of their adaptation to the level of knowledge that had been acquired by member CUs in FY17.

From November 6th to November 17th a special mission of a leading WOCCU expert, Adrian Rodriguez, was held to adapt the PEARLS monitoring system and to improve the diagnostic procedures for partner CUs of the CAP Project.
The objectives of the mission included: (1) an initial introduction to CAP and CUs on savings; (2) working with CAP to design a strategy/training plan for CU strengthening, based on diagnostics carried out during a site visit, and (3) initial PEARLS and business plan training for staff as a tool for performance tracking of CUs. The WOCCU expert also held a pilot-test of the PEARLS tool adopting it to the Ukrainian context on two CUs. The objectives of the mission were met. In particular the following was accomplished during the two-week mission in Kyiv and during on-site visits:

1) PEARLS monitoring tools:
   - Training on the PEARLS monitoring system structure and its application and use was conducted for the project staff and representatives of the national CU associations.
   - Reclassification of indicators in Ukrainian CUs’ financial statements in accordance with PEARLS requirements and methodology was carried out together with the CAP Project staff and accountants of the national CU associations.
   - Adaptation of the PEARLS monitoring system to the Ukrainian context and creation of the new version of bilingual set of indicators of PEARLS in Excel for CAP use was completed as well as a guide for filling the file.
   - Updated diagnostics tool for CUs was tested in three CUs – AGLWG members in partnership with the CAP Project.

2) Pilot diagnostics of three partner CUs (CU “Kredyt-Soyuz”, Cherkassy, CU “Skarbnytsia”, Storozhynets, CU “Sniatynska”, Sniatyn) were carried out together with the CAP Project staff and seconded staff, namely:
   - Analysis of the CUs’ performance with the help of the adapted PEARLS monitoring system;
   - Institutional diagnostics of the CUs; and
   - Evaluation of prospects for agrilending in the context of needs of overall capacity building of those CUs.

During international experts’ trips, it is critical to maximize time and training with CAP experts and seconded staff from the national CU associations to ensure the knowledge remains well-grounded locally and available for further dissemination as needed. Following the PEARLS expert’s visit with CAP, with support from the national CU associations’ seconded staff, the project will independently:

   - Carry out diagnostics of new members of the Working Group (5 CUs) utilizing new tools with support of the national CU associations;
   - Conduct analysis of the performance indicators of 11 CUs (the first composition of the Working Group) with the help of the adapted PEARLS system;
   - Based on diagnostic results, identify two interested and capable CUs willing to closely collaborate with CAP experts to undergo an in-depth strengthening process following
PEARLS methodology, develop business plans, and serve as pilot CU models from the sector.

Work in this direction began in December through diagnostics using a new questionnaire with two partner CUs - SuperCredyt and Koryukivska.

Cooperation between the CAP Project and national CU associations - dissemination process

During Q1 FY18, CAP continued to actively engage employees of the national CU associations to participate in the work under Objective 4 and support communication and training for their respective CU members. The national CU associations have provided webinars to members on CAP trainings, assisted in collecting feedback and information from their respective CUs, and published information about CAP activities that is to be placed at their websites under a special “agri-club” sub-portal in FY18.

In addition, in Q1 seconded staff continued to travel to the field to join activities with the CUs directly, and as part of CAP team will participate in diagnostics of the remaining new members of the AGLWG during Q2 FY18.

New instruments and tools for agricultural lending – partnerships with AgriAnalytica and IFC

CAP is dedicated to improving credit technologies at partner CUs, ensuring new tools and instruments available are known and accessible to interested CUs and their borrowers. Assessment of creditworthiness of potential borrowers, including the efficient analysis of the borrowers’ ability to repay debt is central for loan approval processes and to the quality of a loan portfolio.

With that in mind, CAP collaborated with two partners:

1) Strategia and Sviluppo Consultants Ukraine (SSCU) to provide AGLWG CUs with free access to its online business assessment tool “AgriAnalytica” and
2) IFC to make their software system “Clara” available to CUs, as an alternative for the creditworthiness assessment of the borrower, and to explore collaboration with the Ukraine Crop Receipt Project which has sparked the interest of CUs and their members.

1) Collaboration with SSCU on “AgriAnalytica”

During the quarter, CAP continued a dialogue with AgriAnalytica regarding system improvements and results of the test-phase at CU “Kredyt-Soyuz” – the key user of the AgriAnalitica system. On November 7th, CAP facilitated a joint meeting with representatives from AgriAnalytica and CU “Kredyt-Soyuz” to discuss the new program version with its new functions for users and its availability to partner CUs free of charge.

The new functions, not yet available to CUs, allow for analysis of multi-crop agribusinesses, typical in Ukraine for SME operations, especially among CU borrowers with an average 100
ha of land. CU “Kredyt-Soyuz” tested the new program version during the quarter confirming that agro-producers in Ukraine diversify their risks and typically grow several crops.

The current demo version of the AgriAnalitica system available to CUs does not permit multi-production/multi-crop analysis. Moreover, CUs detected problems with individual users and accounts and corresponding IP addresses, assigned by the system to the location of the PC. This is problematic, as users—farmers often jointly with CUs—fill in data into the system from one PC located at the CU branch and the system sees it as one unique user based on the IP address. Only one unique user can use the CU PC and the system blocks access for other users, despite their unique logins. Further collaboration will depend on the availability of the full version of the program for CUs and on solving IP address concerns.

Encouraged by the partnership and automatization of the loan analysis process, and with the new experience, CU “Kredyt-Soyuz” decided to develop its own program, in an Excel format, to assess borrowers’ lending with a simpler functionality, which would allow for greater flexibility to account for CU specification and members’ needs. Specialists of CAP will supervise the process and provide their expert opinion and support to this and other partner CUs on further proceedings with the risk assessment software application.

2) Collaboration with IFC

In addition, on November 3rd, the CAP Project held a meeting with the representatives of the IFC Project to discuss a potential partnership to enhance agricultural lending in Ukraine through greater involvement of CUs. To initiate cooperation, representatives of both projects agreed to:

- **Cross-exchange information between CUs** – Hold ALGWG member and IFC training events on crop receipts as new risk hedging instrument for lenders that had been developed by the IFC and implemented by banks only in a few oblasts of Ukraine.
- **Involve IFC staff** – representatives of the Crop Receipt Project are to consider specifics of crop receipts application by CUs, develop corresponding recommendations and updates and present Crop Receipts to the ALGWG regional trainings.
- **Prepare a Memorandum of Cooperation** to frame collaboration of the two projects to be signed in January 2018.

By the end of December 2017, representatives of nine CUs took part in training events of the Ukraine Crop Receipt Project. In addition, the presentation of the project took place during the December regional CAP training sessions for all ALGWG participants. The representative of CU “Kredyt-Soyuz” also took part in the presentation and shared practical
experiences using agrarian receipts with CUs. All AGLWG members received a sample of a financial crop receipt.

Engagement of regional authorities and partners in CU development under CAP

During the reporting quarter, partner CUs actively participated in public events organized by the CAP Project, such as:

- The international conference, "The economic and social role of CUs in the sustainable development of Ukraine," hosted by the CAP Project on ICUD. Seventeen partner CUs took part in the event on October 18th – see objective 1 for more details.

- The Agricultural-Financial Forum, "New opportunities for small and medium agricultural producers", hosted by the CAP Project at request of the Kharkiv Regional State Administration. During the Forum, two local partner CUs - HKVD and Karat presented their lending approaches and distributed their promotional materials among the producers.

The latter event in Kharkiv was organized in response to a request and initiative of the Kharkiv Regional State Administration who is interested in supporting SME development in the region. The event was hosted by Kharkiv National Technical Agricultural University and attracted over 100 participants, including over 80 farmers from the Kharkiv region interested in learning about new opportunities in accessing finance and new support mechanisms for agribusiness development that are being developed and supported by CAP partner CUs.

The event was also an opportunity for other USAID projects, invited by CAP, to present their regional activities and build synergies with and via CUs – central development financial organizations. Both ARDS and DOBRE presented their projects during the event, as part of on-going collaboration with CAP in supporting rural development.

The damage to the CU sector’s image during the 2008-2009 crisis is still reflected in the attitude toward CUs in Ukrainian society. As a result, highlighting the benefits the CU sector can have for rural development in Ukraine and the international support for CUs is relevant. Equally important is the establishment of cooperation with local authorities, especially taking into account the decentralization course underway in Ukraine.

Until recently, only the Lviv Regional State Administration has actively cooperated with the CAP Project and has supported CUs at the local level. CUs are included as lenders of the Integrated Program of Support and Development of Agro-Industrial Production in the Lviv Oblast for 2016-2020. The Kharkiv Regional State Administration identified the partnership initiative with the CAP Project and it is ready to consider cooperation with CUs, which is an

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5 A farmer can now secure a credit union loan using an agrarian receipt, in which a farmer pledges repayment through future agricultural yields or cash. The CU conducts a risk assessment of loans with agrarian receipts, based on a cash flow analysis of the farm’s agricultural production.
important step for spreading this practice to other regions of the country. For example, the Cherkasy region is also beginning to act in this direction. Joining efforts of the CAP Project, local authorities and partner CUs will have a cumulative effect in strengthening the communities’ economic development.

### Active collaboration with other partners

Leveraging other projects and its own resources through collaboration and coordination remains important for the CAP team. Active working relationships were established earlier in FY17 and CAP continues to periodically meet with partner projects to plan activities and explore new opportunities. During Q1 FY18 joint training events were conducted with USAID projects ARDS and DOBRE, who also participated in the CAP regional event in Kharkiv (see section above). Moreover, CAP continues to actively collaborate with the Ukraine Horticulture Business Development Project (UHBDP) supporting participation of partner CUs in training events of UHBDP in Southern oblasts of Ukraine (CU Yednist, Kherson oblast).

On November 27th, CAP participated in the First Trade Forum, organized by ARDS and met developers of the online platform “AgroYard” – a multifunctional trading platform for various segments of agribusiness – whose representatives are interested in cooperation with various lenders, including CUs to develop the option of online lending to agricultural producers through its platform. Following regional training sessions in December, the online resource was presented to the AGLWG. In January 2018, a survey of partner CUs will be conducted to assess their interest in using such an option and to study their requirements for an online loan application.

### Key challenges for the AGLWG

With the current composition of 18 CUs spread through the country, the AGLWG constantly challenges CAP’s technical and logistical capacities, as the group represents a very diverse set of needs, potential, and capabilities. There are also high expectations. Complicated logistics due to the geography of the country and localization of the CUs in rural areas add to the complexity of the planning and the implementation process. As the AGLWG expands, this will further strain CAP’s resources, most importantly it will strain available time to reach each CU individually.

Moving forward, CAP will have to fine tune its approach, finding balance between group and individual training, and will need to use technology more to deliver content, while maintaining the quality of technical assistance. An individual approach could be applied to a limited number of AGLWG participants in the future. This will be determined based on data analysis of annual AGLWG performance. In addition, regular evaluation of AGLWG members’ performance might require periodic adjustment of the group composition and consequently, adaptation of CUs – newcomers that would require allocation of additional resources of CAP.
It is important to keep in mind the lack of an updated legislative framework for CUs in Ukraine, which remains a significant barrier for CUs' ability to increase agribusiness lending activities in areas of high demand. First of all, this is due to an inability to finance agriculture businesses, and second, there is a need to increase external sources funding for CUs since CUs are not currently part of the Deposit Guarantee Fund.

**Objective 5: increased CU liquidity and savings mobilization.**

Under the objective, CAP is continuously exploring the potential interest of international donors and investors, as well as local banks to provide long-term debt financing to interested and qualified CUs. In late FY17, CAP also began activities, leading to the increased deposit base at partner CUs to build their own liquidity. Following a survey on savings operations in CUs, CAP began developing savings mobilization training materials and initiated training.

Unfortunately, the interest in lending or investing in CUs in Ukraine remains limited. Aside from Oikocredit, which has a history of working with CUs in Ukraine and in funding available local currency that eliminates foreign currency risks, there is potential in a new EU project focusing on non-bank financial institutions (NBFI) in Ukraine that is in process of finalizing its implementation plans and strategy.

**Cooperation with Oikocredit**

The Oikocredit and Development Credit Authority Loan Portfolio Guarantee (DCA LPG) agreement become operational in December 2017, allowing for the first CU loans to be placed under the guarantee. As some of the due-diligence processes of Oikocredit and data requirements changed, part of the due-diligence work will have to be refreshed for the CU “Anisia” (due-diligence dated back to February FY17). CAP is awaiting new procedures and templates from Oikocredit in early Q2 and will support data collection from CU “Anisia” and any CU selected for assessment by Oikocredit. It is foreseen, CU “Kredyt-Soyuz” will be next in line for consideration by Oikocredit in Q2 FY18. Once the loans are approved, CAP will ensure proper utilization of borrower funds by the CUs by providing tailored technical assistance agreed with Oikocredit.

CU lending activities in the agribusiness sphere are time sensitive and very seasonal, with most lending activities taking place in the spring through March and in the fall (by end of August). It is critical for Oikocredit to provide timely approval of loans for selected and qualified CUs to ensure they can fully benefit from the extra liquidity and fully utilize their respective loans. It will also ensure utilisation of the DCA by Oikocredit.

**Other opportunities**
Raising public awareness and reaching new players remains important to CAP’s success. First, to ensure understanding and support for CU market development in Ukraine. Second, to spark interest among financial institutions and donors that could potentially provide financing to the CU sector, helping in the long-term to alleviate liquidity constraints.

The ICUD event in Ukraine gathered a range of participants, not only current stakeholders in the CU market, but also the private sector, international donors and media interested in learning about the potential of CUs and in new opportunities for CUs. The event and coverage in the press sparked interest among participants. CAP is following-up on leads.

During the quarter, CAP continued dialogue with OPIC partner banks active in Ukraine, Agroprosperis Bank and Vostok Bank, that earlier expressed interest in exploring opportunities to work and/or support CUs in Ukraine. The interest increased following participation in the ICUD event. As for next steps, CAP and CUs are ready to conduct field visits and preliminary assessments pending internal decisions of both interested banks.

In late Q1 FY18, the CAP team met on two occasions with the team of the newly awarded EU project aiming to support the NBFI sector in Ukraine, including CUs. The team is very receptive to collaboration and discussion on specific tasks and activities, not to overlap with CAP, but to jointly complement each other’s activities. A follow-up meeting is planned for Q2, once more detailed plans are crystalized on the EU project side.

Finally, CAP is exploring opportunities to advance this objective with PUM Senior Experts that support Objective 4 of the CAP project. There is a number of social impact investors and organizations in the Netherlands, beyond Rabobank and Oikocredit that could be approached by PUM for support.

**Savings mobilization**

Work on savings mobilization was initiated in Q4 FY17 by the CAP team, a survey on the state of savings mobilization in associated CUs and initial materials for training were developed. During Q1 FY18, CAP hosted an international WOCCU expert, who conducted an on-line training for partner CUs on “Basic concepts on savings mobilization” on November 17th.

During the webinar, the expert presented the results of a survey conducted by the CAP team together with the national CU associations (Q4 FY17) on the current situation with savings mobilization by CUs, as well as recommendations for improving the working process on mobilizing savings based on international best practices and the consultant’s experience in various CU constituencies. The webinar was attended by 18 representatives of 16 CUs.

**Key challenges**

CAP is actively seeking new partners for CUs and/or the project, to secure additional sources of financing for the CU sector which is critical for its growth. However, these efforts
have met with limited success as interest in lending to CUs in Ukraine remains insignificant. Organizations willing to pilot-test working with CUs do not have disposable local currency.

The confidence-building process, to ensure trust in the financial sector, especially when it comes to deposit activities, is gradual and typically slow. Low confidence in CUs and the financial sector overall, coupled with a lack of benefits in the deposit insurance that banks enjoy under the DGF, puts CUs at disadvantage when attracting new depositors. This is also a negative factor for potential partners – lender and investors.

To build a positive public image, events with media coverage and success stories building awareness of the benefits of CUs within the target populations can contribute to a change in perceptions. Securing DGF inclusion for CUs, if achieved - would level the playing field for all credit institutions in Ukraine, eliminating discrimination and allowing depositors to make an informed choice in selecting their financial institution.

**Objective 6: improved utilization of the USAID DCA Loan Portfolio Guarantee**

**Support of the terminated DCA LPG through maturity**

During Q1 FY18, the activities under Objective 6 were very limited following termination of the DCA agreement in Q3 FY17 and mainly consisted of monitoring the remaining balance of loans still outstanding under the guarantee.

As the outstanding loan portfolio under the DCA guarantee continues to decline, the CAP team continues to support collecting the remaining portfolio data from the CUs and supporting CUs reporting to the Credit Management System (CMS). CAP will also provide required assistance to the DCA Team in Washington, D.C. monitoring the portfolio through the CMS. Other ad-hoc tasks may be fulfilled as needed to ensure CU compliance with the DCA agreements.

As of the end of Q1, three CUs still have outstanding loans under the DCA LPG and are scheduled to be fully repaid by February 2020. The total outstanding balance for CU “Anisia”, CU “HKVD,” and CU “Narodna Dovira” has declined since the last report from USD 53,574 to USD 31,300 as of December 31, 2017.

In Q1, payment of claims was received by CU “HKVD” on three loans that fell into arrears. The CAP team supported the CU in filing the “Requests for Payment Claim” and coordinated the process between DCA and the CU until a resolution was reached in December 2017.

**Modification of the DCA component**

The DCA agreement with Oikocredit signed in late FY17, become effective as of December 2017. Following the activation of the new DCA LPG guarantee, CAP discussed next steps
with Oikocredit for the upcoming 2018 calendar year with particular focus on the previously assessed CU “Anisia” in Lviv, still awaiting decision from Oikocredit on their loan since late summer 2017.

Due to new requirements from the parent company Oikocredit Netherlands, CAP received information that additional data collection from the selected CU will be required as a prerequisite to completing the lending process. New forms will be shared with CAP in early January 2018. CAP is on standby to provide support to Oikocredit as well as to the selected CUs.

As the change to the DCA recipient triggered changes to the overall project, in particular Objective 6, CAP revised the project description and M&E plan and shared which are currently under review by USAID.

Key challenges

As the DCA LPG for five CUs was terminated, CAP was not able to reach its goals and follow the approved implementation plan for FY17 and corresponding M&E plan. Following USAID’s lead, during Q1 FY18 CAP proposed revisions to the project description and M&E plan, reflecting the change in Objective 6 and other elements of the project referring to the former DCA agreement, while anticipating activities of the newly signed DCA LPG where Oikocredit Ukraine is a contractual party. Collaboration with Oikocredit may be challenging, as CAP does not have direct leverage over the company and has limited ability to influence processes that lead to DCA LPG use in FY18. USAID involvement may be required if the assessment of the CUs, the borrowers, is not timely in matching the spring season from February to April.
3. Cross-cutting activities

Gender

Gender equity and representation are important to the CAP project and are considered when planning and implementing activities across all of its objectives and when recruiting experts and volunteers. CAP is disaggregating data by gender in regular quarterly reporting of CUs and facilitates introducing a gender sensitive approach to lending and loan product designs in partner CUs.

Under Objective 4, PUM senior experts conducted a series of training for 18 CUs, members of the AGLWG with a focus on marketing and expansion of its membership (client) base and new lending products. Different channels for distributing information were debated to ensure it is evenly accessible to all potential and existing members – both male and female along with differentiating marketing approaches to better meet needs of women and men.

As mentioned in the previous reports, CAP planned to have a GWLN volunteer engage with Ukrainian regulators, analyzing the gender dimensions of laws affecting the CU sector in Ukraine in FY17. However, these were not the Regulator’s critical priorities for the upcoming period. CAP continues to honor the request of the Regulator to support the reform of the CU regulatory framework (see Objective 1) until the work is completed.

Other cross-cutting themes

Transparency of procedures and clear requirements set by the Regulator are extremely important conditions for overcoming corrupt practices, especially in the sphere of financial services, which is sensitive to shocks and changes. The CAP project assists the Regulator in creating clear rules and regulations for CUs. These rules ensure transparency for the market and help rebuild trust in institutions which were weakened during and after the financial crisis of 2008, benefiting the entire financial sector in the long term.

The procedure of the new CU law’s adoption creates opportunities for undertaking all necessary consultations and amendments for the benefit of the entire CU sector and overall improvement of the legal environment. The stronger and more professional CUs will also benefit from the process of sector clean-up which encourages growth of viable sector actors and will result in growing trust among CUs and customers.

Adaptation of CU regulations and the business environment to European standards is an important part of the legislative and advocacy work of the Regulator and the national CU associations. CAP actively facilitates the exchange of well-tested solutions and approaches in Western countries, building lasting partnerships and relationships that strengthen ties between Ukrainian players with their European counterparts. The CAP Senior Policy Advisor actively promotes EU practices with the Regulator (current and the future) and the national CU associations. During Q1, CAP hosted several meetings and workshops to educate
relevant parties and share experiences and organized a high-level exposure trip to Brussels (see Objective 1).

The advantage of working with a wide range of expert volunteers from European countries as well as the U.S., allows CAP to further embed best practices and solutions from the more developed economies, with more mature CU constituencies, into Ukrainian practices and to foster cross-cultural exchange with other CUs, associations, all the way up to regulators and policymakers. The U.S. experience in CU development may remain a distant target for Ukraine, but provides valuable lessons on advocacy and supervision, while European experiences in building CU capacities, is an important part of the training program held for partner CUs.

4. Hosting CAP project volunteers/CAP Project leverage

In Q1 FY18 CAP continued to host volunteers and apply their knowledge and experiences in achieving goals and objectives of the project. During this quarter, CAP hosted seven volunteer missions:

- **ILCUF/Ireland** – a representative of the Irish League of CU Foundation (ILCUF) and chair of WOCCU Board of Directors visited Kyiv to participate in the international Conference organized by CAP on occasion of ICUD on October 18 in Kyiv. The volunteer took part in the plenary session on the “Economic and Social Role of CUs in Sustainable Growth of Ukraine” and shared best international experiences in empowering CUs and on financial sector diversification. He also gave several interviews to the media and hosted a Q&A session with CU members of the AGWLG. On October 19, he visited CU “Kredyt-Soyuz” in Cherkasy and joined their ICUD celebrations (Objective 1, 2 and 4). An expert recruited by ILCUF also visited UNASCU for a two-week mission to review its internal audit system and propose changes to improve the internal audit function (Objective 3).

- **NACSCU/Poland** – an expert and CEO of NACSCU in Poland carried out two presentations, for the Regulator and for the NBU, on NACSCU's role in CU sector regulation in Poland and current legislation regulating CUs (Objective 1).

- **NCUA/USA** – a senior expert from the National CU Administration conducted a four-day training session for Regulator’s staff on the CAMEL system – a tool for CU performance evaluation and includes all significant financial, operational, and managerial factors which usually are analyzed for CU performance and specific risks (Objective 1).

- **PUM Senior Experts/The Netherlands** – three missions were completed during the quarter. In October two PUM experts travelled to seven AGLWG members in five oblasts of Ukraine and conducted individual training sessions for CUs on strategic planning, HR management and loan products development. In December, a PUM
volunteer carried out three regional two-day training sessions on marketing for 18 AGLWG members in Lviv, Kyiv, and Kharkiv (Objective 4).

As of the end of Q1 FY18, WOCCU has accrued USD 288,144.75 in leverage from the technical volunteers noted above as well as from a local IT volunteer, who in absence of an IT service provider, continues to provide the necessary guidance in the office on IT network design and troubleshooting of office IT equipment. Additional leverage is in the form of WOCCU staff time not billed to the project or included in the NICRA rate and the waived overhead rate of WF. Finally, the leverage includes CU technical experts funded by WOCCU to provide support to CAP.

The CAP M&E Manager continues to collect VVRS data for each of the volunteers. Per VEGA’s guidance in Washington, D.C. the process has been moved to an electronic system during Q1 FY18 under the leadership of the WOCCU HQ Program Officer. The initial results from the VVRS for FY17 show strong results. From the 15 volunteers, representing five countries, 100 percent of the volunteers felt their background and experience were well suited for the volunteer assignment, 100 percent felt they were able to achieve the goals of the assignment and planned to stay engaged with the host organization and/or beneficiaries after the end of the assignment and 100 percent reported increased cross-cultural friendship and understanding. The host organizations receiving the volunteers had equally positive feedback.

The following volunteer assignments are currently arranged for Q2 FY18:

**WOCCU volunteers:**

- **Poland/NACSCU:** one volunteer from NACSCU, Kasa Krajowa, will provide training on the Polish model of CU supervision and critical aspects of the role of the Regulator in light of ongoing reform in Ukraine. Training will be conducted for the current CU Regulator and for the NBU.

- **USA/WOCCU:** A volunteer from the WOCCU advocacy team plans to visit Kyiv for a mission to support the process of preparation of the draft law amendments and building consensus among the two national CU associations and CAP, where needed (pending 1st reading of the law).

- **Ireland and US Diaspora:** The ILCUF volunteers and US Ukrainian Diaspora volunteers will continue to lend their support to the CAP Project.

- **PUM Senior Experts:** one two-week mission is planned currently for PUM Senior Experts in Q2 to conduct technical trainings for the AGLWG CUs on topics of Borrowers’ Creditworthiness Assessment and Cash Flow based Lending (March 2018).

- **IT volunteer:** Ongoing collaboration will be provided as needed throughout the project’s life cycle.
Additional volunteer assignments may be possible toward the end of the Q2 FY18.

5. Administrative updates

Due to the workload with translations, CAP continues to work with a translation agency that supports the CAP staff translator, when needed, with written translations of documents and project training materials. This is especially critical during overlapping training events, in Kyiv and regionally.

Personnel:
During Q1, CAP initiated and concluded the recruitment of the Agriculture Finance Assistant. This is a new position opened to support activities of Objective 4 in light of planned expansion of the CU members of the AGLWG in the upcoming year and intensification of the training events for the group, both regional and individual. The new employee will begin in early January 2018. No further changes were made to the CAP team composition and none are expected or planned for Q2 FY18.

As mentioned, in Q1 there was a change in the seconded personnel from UNASCU requiring additional CAP staff time to onboard, train and bring the new seconded expert up-to-date.

6. Work plan for next quarter (Q2 FY18)

During Q2 FY18, the CAP Project anticipates focusing on the activities listed below. Modification of the project’s Objective 6 activities and M&E plan, will also be completed during Q2. This is a sample of activities planned for the next quarter, but not necessarily an exhaustive or finalized list:

1. Objective 1:
   a. Participate in the Working Group at FBAC to build support for the unified draft CU law once the parliamentary process is initiated;
   b. Conduct technical Study Tour to Sopot, Poland for the selected key stakeholders and project partners to expose them to best practices of CU market monitoring and supervision and functions of the Polish “Kasa Krajowa” - NACSCU;
   c. Provide ongoing technical support to the Regulator to finalize new regulations for the CU market;
   d. Organize training for the Regulator and the NBU “SPLIT” group on the experiences of the Polish Regulator and the National Associations (NACSCU) in supervision and regulation of Polish CU system.
2. **Objective 2:**
   a. Hold quarterly meeting between the national CU associations and CAP to plan advocacy and communication actions supporting passing the draft CU law and initiate grassroots advocacy efforts;
   b. Guide local CUs to mobilize support for the new draft law and explore options for districts’ MP support, through joint work with national CU associations.

3. **Objective 3:**
   c. Continue strategic planning process for AUCUA with support of the US Diaspora CU (by Q3 FY18 at the latest);
   d. Continue work on internal audit strengthening and new methodology application developed by international experts and UNASCU. Test in practice later during 2018 (Q2-Q3) on a sample of CUs;
   e. Seek to expand list of new services for CUs.

4. **Objective 4:**
   a. Complete diagnostic assessment of remaining three CUs – newly added members of AGLWG;
   b. Develop annual reporting procedures to evaluate results of the AGLWG members jointly with national CU associations;
   c. Conduct catch-up training sessions for seven CUs – new members of AGLWG to ensure the same knowledge is shared among group members equally;
   d. Carry out training on “Borrower assessment and cash flow credit analysis” for all 18 CUs with PUM;
   e. Formalize collaboration with IFC – sign memorandum of understanding and participate in proposed training, continue support to CUs working with IFC to streamline the documentation process and notary signature.

5. **Objective 5:**
   a. Continue to meet with selected and interested local and international institutions to explore their willingness in working with CUs;
   b. Seek technical assistance and financing support for CUs, through existing CAP partners;
   c. Pursue collaboration with AgroProsperis Bank, a partner of OPIC in Ukraine, to pilot-test lending to selected and willing CUs – partners of CAP.

6. **Objective 6:**
   Until the ongoing process of modification of the Objective 6 is finalized; CAP will:
   a. Monitor the remaining guaranteed portfolio under the terminated DCA agreement for the five CUs and provide technical assistance to three CUs;
   b. Work with Oikocredit to support due diligence and data collection of selected CUs – partners of CAP considered for financing from Oikocredit under new DCA program; and
c. Support CUs collaborating with Oikocredit as and when required.

7. Project monitoring data for Q1 FY18

During Q1 FY18, the CAP project implemented activities under Objectives 1-6. Annex 2 includes the CAP project’s Monitoring Indicators Tracking Table. The table reflects progress made by the CAP project during the quarter.

The Monitoring Indicators Tracking Table starts with a GP indicator (Goal of The Project Indicator) “Value of loans outstanding per CU.” The indicator is reported quarterly and is based on the Regulator’s data, which is published on its web-site. This report refers to data published by the Regulator, as of September 30, 2017 as the data for October-December 2017 will be published by the end of February 2018.

The GP indicator demonstrates some change. The value of outstanding loans per CU grew by 7.5 percent during this period and reached 6,460,473 UAH per CU. At the same time, the number of operating CUs decreased to 296 CUs during July to September of 2017. An additional decrease is expected in the next three months, but the data will not be available until February. There were 311 credit unions at the end of July 2017 and the change during the quarter represents a decrease of 4.8 percent.

Indicators 1.1.-1.4. reflect progress made under Objective 1. Indicator 1.1. “Number of sector amendments to existing laws” has a value of zero. The first reading of the “draft law on CUs” will take place in the beginning of the 2018 calendar year. CAP has limited influence on the process of pre-voting preparations, although the CAP Project experts maintain intensive communication with stakeholders. CAP specialists track changes in the legislative framework for CU operation in Ukraine, but recently all their efforts were focused on the draft law for CU sector promotion.

In Q1 FY18 CAP conducted three presentations for Regulator’s staff (indicator 1.2) and one study tour. During the quarter, in total 10 people were trained but only one of them was a new trainee. All other participants attended presentations in FY 2017.

Indicators 1.3. and 1.4. reflect the current state of savings mobilization by CUs and is reported semi-annually.

Value of Indicator 2.1. “Number of policy initiatives jointly developed and endorsed by the two associations” has a value of 1 in Q1 FY18 as the national CU associations were focused on advocating for CUs’ participation in governmental programs for loan interest rate reimbursement for farmers.

Indicators 3.1-3.2 include new and modern services provided by the national CU associations to their members. In Q1 FY18, AUCUA confirmed a new service as a part of their portfolios: creating videos about member CUs. Two videos were recorded for CU
“Kredyt-Soyuz” and CU “Boikivshchyna”. UNASCU did not report new services but a new Strategic Plan of the national CU association outlines perspectives for service portfolio expansion.

Indicators 4.1-4.2. reflect agricultural lending activities of partner CUs in Q1: the total value agricultural loans disbursed by partner CUs is higher than in previous quarters and exceeded 10 million UAH (558,139.1 thousand UAH on average per partner CU). The value of loans issued to males reached 69 percent of the total value while only 47 percent of borrowers were males. This happened due to a higher value of loans issued to male farmers. Share of females is higher among borrowers with household production. The total number of loans is 247 and the average value of one agricultural loan is 40,674.1 UAH (approximately USD 1,400 which is three times higher than in Q4 FY17).

The total number of CUs that started agricultural lending in 2017 is nine CUs (data as of September 30, 2017, more recent data will be available in February). Four members of UNASCU were reported in Q4 FY17. AUCUA was delayed and provided data on this indicator this quarter, reporting 5 CUs.

Indicator 5.1 under Objective 5 is reported annually. CAP activities under Objective 5 included several meetings with financial institutions and monitoring of potential opportunities for CUs to obtain financing. During the 2017 calendar year (Q2 FY17- Q1 FY18) 13 partner CUs out of 18 members of the AGLWG received financing from central CUs of both national CU associations. The total value of funding reached 24.1 million UAH (1.9 million UAH on average per CU).

Indicators 6.1-6.3 under Objective 6 will be revised as soon as a new concept of cooperation and agreement with new partners is designed.
ANNEX 1: CAP monitoring indicators tracking table

<table>
<thead>
<tr>
<th>Monitoring Indicator</th>
<th>Disaggregation</th>
<th>Q1 2018</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>Cumulative Project</th>
<th>Notes and Explanations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Actual this Quarter</td>
<td>Annual Actual/Annual Target</td>
<td>Annual Actual/Annual Target</td>
<td>Annual Actual/Annual Target</td>
<td>Actual Results</td>
<td>LOP Target</td>
</tr>
<tr>
<td>Goal of The Project:</td>
<td></td>
<td>6,460,473</td>
<td>6,460,473/7,200,000</td>
<td>6,460,473</td>
<td>10,400,000</td>
<td>Indicator is based on Regulator’s data as of Sept 30, 2017. The average value of outstanding loans per one CU grew 7.5 percent during the quarter although the total number of acting CUs declined by 4.8 percent.</td>
<td></td>
</tr>
<tr>
<td>Indicator GP:</td>
<td>N/A</td>
<td>6,460,473</td>
<td>6,460,473/7,200,000</td>
<td>6,460,473</td>
<td>10,400,000</td>
<td>Indicator is based on Regulator’s data as of Sept 30, 2017. The average value of outstanding loans per one CU grew 7.5 percent during the quarter although the total number of acting CUs declined by 4.8 percent.</td>
<td></td>
</tr>
<tr>
<td>Objective 1: A legal and regulatory environment which respects cooperative principles, encourages meeting of prudential norms and enables credit unions to compete on a level playing field with other financial institutions</td>
<td>N/A</td>
<td>0</td>
<td>0/2</td>
<td>0</td>
<td>4</td>
<td>Draft law is planned to go through its first reading at the Verkhovna Rada by early 2018. No other amendments are planned until the first reading. CAP project staff and stakeholders are concentrating on pushing the draft law’s adoption in its first reading.</td>
<td></td>
</tr>
<tr>
<td>ER 1.1 and 1.2</td>
<td>Indicator 1.1: Number of sector amendments to existing laws (quarterly)</td>
<td>N/A</td>
<td>0</td>
<td>0/2</td>
<td>0</td>
<td>4</td>
<td>One new trainee was trained in Q1 FY18. 4 events for Regulator staff were organized and in total 10 people trained, but only 1 was a new trainee.</td>
</tr>
<tr>
<td></td>
<td>Indicator 1.2: Number of Government Regulator’s staff trained in the best practices of credit unions oversight (quarterly)</td>
<td>1</td>
<td>1/15</td>
<td>34</td>
<td>34/60</td>
<td>Indicator is reported semi-annually</td>
<td></td>
</tr>
<tr>
<td></td>
<td>females</td>
<td>1</td>
<td></td>
<td>21</td>
<td></td>
<td>Indicator is reported semi-annually</td>
<td></td>
</tr>
<tr>
<td></td>
<td>males</td>
<td>0</td>
<td></td>
<td>13</td>
<td></td>
<td>Indicator is reported semi-annually</td>
<td></td>
</tr>
<tr>
<td>ER 1.4</td>
<td>Indicator 1.3: Average number of members with deposit accounts per credit union (semi-annually)</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
<td>Indicator is reported semi-annually</td>
<td></td>
</tr>
<tr>
<td>ER 1.5</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Indicator is reported semi-annually</td>
<td></td>
</tr>
</tbody>
</table>

Goal of the Project: To support broad-based, resilient economic growth by strengthening capacity of Ukrainian credit unions to expand agricultural lending which will increase employment and income opportunities in rural communities of Ukraine.
### Monitoring Indicator

<table>
<thead>
<tr>
<th>Indicator 1.4: Average value of deposits per credit union (semi-annually)</th>
<th>Q1 2018</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>Cumulative Project</th>
<th>Notes and Explanations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual this Quarter</td>
<td>Annual Actual/ Annual Target</td>
<td>Annual Actual/ Annual Target</td>
<td>Annual Actual/ Annual Target</td>
<td>Actual Results</td>
<td>LOP Target</td>
</tr>
</tbody>
</table>

#### Objective 2: The two national credit union associations collaborate to develop and implement policies that contribute to strengthening credit union performance and expand services to meet the evolving needs of their membership.

**ER 2.1. and 2.2**

**Indicator 2.1:** Number of policy initiatives jointly developed and endorsed by the two associations (quarterly)  
N/A 1 4 4 4/10 One new policy initiative was registered in Q1 FY18. Associations are lobbying for CUs participation through a governmental program for reimbursement of interest payments by loans for farmers.

#### Objective 3: The two national credit union associations develop and deliver services to their members that meet member needs while contributing to the long-term financial strength of the associations and their member credit unions.

**ER 3.1**

**Indicator 3.1:** Number of modern and/or new services available to members of credit union associations that became a permanent part of their service portfolios (quarterly)  
N/A 1 1/3 3/10 10 AUCUA introduced a new service. The Association records videos about selected CUs for purposes of CU promotion on the market and informing the population on services available.

**ER 3.2**

**Indicator 3.2:** Number of credit unions using modern services provided by the associations (quarterly)  
N/A 2 2/30 166/140 140 The videos mentioned above were recorded for 2 CUs. All other CUs which are Associations’ members have access to communication services which allow them to raise awareness on international technical assistance.

#### Objective 4: Credit unions expand their agricultural and associated agribusiness loan portfolios while meeting member needs for timely, economic loans

40
<table>
<thead>
<tr>
<th>Monitoring Indicator</th>
<th>Disaggregation</th>
<th>Q1 2018</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>Cumulative Project</th>
<th>Notes and Explanations</th>
</tr>
</thead>
<tbody>
<tr>
<td>ER 4.1 Indicator 4.1 v.1: Value of agricultural and rural MSME loans issued by assisted credit unions during the reporting period - quarter (quarterly)</td>
<td></td>
<td>10,046,503</td>
<td>10,046,503/36,000,000</td>
<td>Annual Actual/Annual Target</td>
<td>Annual Actual/Annual Target</td>
<td>21,971,981.3</td>
<td>21,971,981.3/134,690,000</td>
</tr>
<tr>
<td></td>
<td>females</td>
<td>3,134,310</td>
<td></td>
<td></td>
<td></td>
<td>8,158,173.7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>males</td>
<td>6,912,193</td>
<td></td>
<td></td>
<td></td>
<td>13,813,807.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>legal entity</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>individuals</td>
<td>10,238,682</td>
<td></td>
<td></td>
<td></td>
<td>21,971,981.3</td>
<td></td>
</tr>
<tr>
<td>Value of new agricultural and rural MSMEs loans disbursed by project partner credit unions per credit union (during the period) (quarterly)</td>
<td>558,139.1</td>
<td>558,139.1/4,200,000</td>
<td></td>
<td></td>
<td>No annual data</td>
<td>No annual data / 5,000,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>females</td>
<td>174,128.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>males</td>
<td>384,010.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ER 4.1 Indicator 4.2: Number of agricultural and rural MSME loans issued by assisted credit unions during the reporting period - quarter (quarterly)</td>
<td>247</td>
<td>247/6,000</td>
<td></td>
<td></td>
<td>1,124</td>
<td>1,124/21,700</td>
<td></td>
</tr>
<tr>
<td></td>
<td>females</td>
<td>130</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>males</td>
<td>117</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>legal entity</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>individual entrepreneur</td>
<td>247</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total agricultural loans disbursed in Q1 FY18 exceed 10 million UAH. 31.2 percent of the amount was issued to females and 68.8 percent to males. 54.9 percent of the total value of loans disbursed were issued to farmers while the number of farmers’ loans was 20.

The average value of agricultural loan issued per CU is more than half-million. 52.6 percent of borrowers in Q1 FY18 are females, 47.4 percent are males. The average agricultural loan value is 40,647.1 (approximately 1,400 USD) which is much higher than in the previous quarter.
<table>
<thead>
<tr>
<th>Monitoring Indicator</th>
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<td>Annual Actual/Annual Target</td>
<td>Annual Actual/Annual Target</td>
<td>Actual Results</td>
<td>LOP Target</td>
</tr>
<tr>
<td>ER 4.2 Indicator 4.3: Number of credit unions engaged in agriculture lending (quarterly)</td>
<td>N/A</td>
<td>5</td>
<td>5/6</td>
<td></td>
<td></td>
<td>9</td>
<td>9/34</td>
</tr>
<tr>
<td>ER 5.1 Indicator 5.1: Number of credit unions that are able to access external capital (annually)</td>
<td>N/A</td>
<td>13</td>
<td>TBD</td>
<td></td>
<td></td>
<td>13</td>
<td>TBD</td>
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ANNEX 2: CAP PROGRESS UPDATE

(See separate document)