USAID/UKRAINE

MID-TERM PERFORMANCE EVALUATION OF THE FINANCIAL SECTOR TRANSFORMATION (FST) ACTIVITY
EVALUATION REPORT (UPDATED 10.22.2019)
September 2019

This report is made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of this report were prepared by IBI under IDQ No. 7200AA18D00011, Task Order No. 72012119F00002. The views expressed herein are the sole responsibility of IBI and do not necessarily reflect the views of USAID or the United States Government.
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<tr>
<td>CDCS</td>
<td>Country Development Cooperation Strategy</td>
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<td>CSO</td>
<td>Civil Society Organization</td>
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<td>DGF</td>
<td>Deposit Guarantee Fund</td>
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<td>EQ</td>
<td>Evaluation Question</td>
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<td>ET</td>
<td>Evaluation Team</td>
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<td>EU</td>
<td>European Union</td>
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<td>FGD</td>
<td>Focus Group Discussion</td>
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<td>FSR</td>
<td>National Commission for State Regulation of Financial Services Market (commonly referred to as the Financial Services Regulator)</td>
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<td>FST</td>
<td>Financial Sector Transformation</td>
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<td>FY</td>
<td>Fiscal Year</td>
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<td>GOU</td>
<td>Government of Ukraine</td>
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<td>MEL</td>
<td>Monitoring, Evaluation, and Learning</td>
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<td>MSI</td>
<td>Management Systems International</td>
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<td>NABU</td>
<td>Independent Association of Ukrainian Banks</td>
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<td>NBU</td>
<td>National Bank of Ukraine</td>
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<td>NSSMC</td>
<td>National Securities and Stock Market Commission</td>
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<td>PFU</td>
<td>Pension Fund of Ukraine</td>
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<td>PMP</td>
<td>Performance Management Plan</td>
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<td>SMEs</td>
<td>Small and Medium Enterprises</td>
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<td>TA</td>
<td>Technical Assistance</td>
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<td>UNDP</td>
<td>United Nations Development Program</td>
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EXECUTIVE SUMMARY

Economic growth programming is a complex and integral part of USAID’s technical assistance to Ukraine, in addition to issues of corruption, democratic governance, and conflict mitigation. Post-Euromaidan reform initiatives resulted in a multi-stakeholder plan, Comprehensive Program for Financial Sector Development of Ukraine Until 2020, which laid out key restructuring goals for the NBU and other elements of the financial sector.

USAID’s FST activity, implemented by DAI in partnership with key Government of Ukraine (GOU) agencies, industry associations, civil society organizations, and the private sector, works to transform the financial sector into a transparent, fair, and diversified system that supports firms and consumers. The original design of FST was built on assumptions about legislative progress coming out of the Comprehensive Program, but much of the financial sector reform agenda stalled in Verkhovna Rada. FST was intended to be a flexible project in order to respond to changing context, and so became over time a large and wide-ranging project that changed in meaningful ways from year to year.

The purpose of the evaluation is to determine the relevance, efficiency, and effectiveness of FST’s interventions in its five interrelated components. At the start of field work, the ET was given guidance by USAID to place less priority on evaluating discontinued activities, and place more priority on strategically assessing programming gaps and emerging opportunities for the remainder of FST and beyond. The evaluation design and methodology addressed five evaluation questions, although the first three overlapped conceptual to a significant degree.

FINDINGS/CONCLUSIONS

EVALUATION QUESTION 1: IN WHAT WAYS HAS FST CONTRIBUTED TO BUILDING AND ADVANCING CONFIDENCE IN THE FINANCIAL SECTOR? HOW SUCCESSFUL WERE THESE EFFORTS?

The team concluded overall that FST has contributed to consumer protection and knowledge, increased capacity of regulators and other sector actors, drafting and advocacy of financial sector reform legislation, pension reform, industry discussions, and financial literacy. Past limitations on FST’s ability to contribute to strengthening of the financial sector may disappear under a new President and Verkhovna Rada.

- FST has provided deep domestic knowledge and international expertise to help shape draft legislation, and carried out multiple advocacy actions in coordination with the World Bank, the IMF, and key GOU counterparts in support of that legislation. However, the lack of parliamentary progress on the financial sector agenda was a significant obstacle.
- FST made strong and multifaceted contributions to NBU and PFU capacity.
- FST made strong contributions to NSSMC, but it is unclear whether the regulator’s capacity and resources will keep pace with expanded mandates in the future.
- FST made significant contributions to the protection of financial services consumers.
- FST contributed expertise, research, and convening authority to legislation development, industry discussions, and evidence-based policy debates.
- FST has made a strong contribution to the promotion of financial literacy in Ukraine.
• FST had contributed broadly to industry and stakeholder discussions about digital finance.
• FST had contributed to pension system reform in Ukraine.

**EVALUATION QUESTION 2: TO WHAT EXTENT DID FST AFFECT SMES’ AND MARGINALIZED GROUPS ACCESS TO FINANCE?**

The team concluded overall that FST made some contributions to both financial literacy of marginalized groups and SME leasing in the past, but the shift in financial literacy strategy does not address marginalized groups directly and leaves potential for limited contribution only to SMEs.

• FST had made a positive albeit small contribution to financial literacy of women and vulnerable and disadvantaged groups, e.g., the elderly, unemployed, orphans, displaced persons, and rural residents through training.
• FST has provided useful assistance for the leasing market and leasing activity has grown since bottoming out, but leasing activity is small and SMEs face significant obstacles for obtaining any form of credit, due in part to the lack of legal and regulatory reform.

**EVALUATION QUESTION 3: TO WHAT EXTENT DID FST CHANGE THE WAYS IN WHICH FINANCIAL INSTITUTIONS AND FINANCIAL CONSUMERS COMMUNICATE?**

The team concluded overall that FST has made strong contributions to the communications of three major state financial actors and banks, but public events have no identifiable effect and communication campaigns do not address differentiated communication needs of sub-populations besides age and geography.

• FST assistance positively contributed to changes in the way the NBU, the PFU, and the DGF communicate with the public.
• FST contributed to a change of communications between major financial sector institutions.
• Public awareness and outreach events had very limited utility other than keeping certain issues in public discussion.

**EVALUATION QUESTION 4: WHAT WERE THE UNINTENDED EFFECTS OF THE FST ACTIVITY?**

The team concluded that there is only limited evidence of positive or negative unintended effects, due largely to the nature of FST interventions.

• There were few if any unintended effects from FST interventions, e.g., regulatory body counterparts developed working relationships and the FSR left in Split Law “limbo”.

**EVALUATION QUESTION 5: IN WHAT AREAS RELATED TO FST’S SCOPE IS USAID ASSISTANCE NO LONGER NEEDED?**

FST could transition or step away from a small number of its current activities, depending on political developments. FST is a large and wide-ranging project, and has evolved over time to address opportunities and client-driven needs.

• The National Financial Literacy Strategy should be fully in the hands of the NBU, with limited support going forward to the Ministry of Education for the financial literacy curriculum.
FST support for public awareness or outreach events related to financial awareness could be scaled back.

FST support for Pillar 2 reform, which is linked to financial market development, could be phased out in favor of much larger and more prominent donors like the World Bank and the IMF.

RECOMMENDATIONS

Recommendations for both the current set of activities, and, per the guidance received from USAID at the outset of field work, and potential future new activities for FST or a successor project.

Current activities:

- **USAID should support transferring the National Financial Literacy Strategy to the NBU.** with limited support to the Ministry of Education for the financial literacy curriculum. USAID should end support for public awareness or outreach events. In addition, USAID should transfer support for Pillar 2 reform to the World Bank or IMF.

- **FST should continue support for legislative initiatives**, including provision of experts, review of draft legislation, convening stakeholders, and support for lobbying efforts. Further, **FST should be prepared to expand its legislative activities** in preparation for the extensive regulations that would follow the Split Law, Consumer Protection Law, Derivatives Law, and the large body of new yet related legislation needed in order to clarify NBU and NSSMC authority.

- **FST should focus on strengthening the communication activities of the new department, particularly the outreach to consumers of financial services.** Assistance should be tied to the new Consumer Protection law, the increase in the NBU mandate to do NBFI activities, and should also recommend an appropriate role of a call center in this setting.

- **USAID and FST should review whether the NBU’s national strategy is adequate** with respect to assumptions about expansion within the education system and which populations to target.

Future activities:

- **USAID should use the opportunity of the 2025 financial sector strategy process to continue to strengthen coordination with other donors.** Although international donors coordinate quite well across a range of macroeconomic reform issues, the more flexible nature of FST, the relatively large budgets of USAID technical assistance, and the interlocking nature of USAID programming could lead to inefficiencies.

- **FST should expand its activities with the NBU on consumer protection** and other compliance research to include public reporting of NBU enforcement of the Law on Consumer Lending and other actions by the consumer protection unit. The Digital Comparison Tool (DCT) is a potentially valuable market signal for consumers, but it means little if there is no wider public knowledge of NBU enforcement.

- **USAID/FST should explore opportunities in SME access to financing including leasing, short-term loans, grants, and other options.**
Rather than public awareness and outreach activities, USAID should consider supporting current journalists in improving their financial reporting skills, in order to strengthen watchdog capacity outside the state.
ANALYSIS

INTRODUCTION AND PROGRAMMING CONTEXT

Economic growth programming is a complex and integral part of USAID’s technical assistance to Ukraine, in addition to issues of corruption, democratic governance, and conflict mitigation. The political turbulence following the Orange Revolution and then Euromaidan events had effects on all sectors of Ukraine. Following the 2014-15 crisis in the wake of Euromaidan, the financial system was hit particularly hard: currency devaluation resulted in higher non-performing loans and bank insolvencies, which in turn exhausted the Deposit Guarantee Fund (DGF) and devastated consumer confidence in the financial sector. Post-Euromaidan reform initiatives resulted in a multi-stakeholder plan, Comprehensive Program for Financial Sector Development of Ukraine Until 2020, which laid out key restructuring goals for the National Bank of Ukraine (NBU) and other participants and elements of the financial sector.

USAID’s Financial Sector Transformation (FST) activity, implemented by DAI along with Ernst & Young and the Ukrainian Women’s Fund (UWF), works in partnership with key Government of Ukraine (GOU) agencies, industry associations, civil society organizations, and the private sector. The purpose of the FST is not just to support broad-based and resilient economic growth, but transform the financial sector into a transparent, fair, and diversified system that supports firms and consumers. Thorough reform of the legal and regulatory environment is a key focus for the activity. FST’s broad objectives include:

1. Increased public confidence in understanding and use of the banking system;
2. Transformed non-bank financial sector regulatory environment;
3. Increased access to finance for SMEs;
4. Increased financial inclusion and expanded digital finance solutions; and,
5. A balanced and sustainable pension system.

Economic development theory strongly suggests that reform of the policy, legal, and regulatory framework for financial markets (the enabling environment) is essential to achieve broad-based and sustainable economic growth. Reform simultaneously develops institutional capacity, supports financial inclusion, restores confidence in the banking sector, as well as improves access to finance.

The original design of FST was built on assumptions about legislative progress inspired by the Comprehensive Program, but much of the financial sector reform agenda stalled in Verkhovna Rada shortly after activity launch. FST was always a large and somewhat wide-ranging project, as can be seen in the number and diversity of objectives above, and this was exacerbated by a shift to a more demand-driven work plan as reform of the enabling environment slowed. FST was intended to be a flexible project in order to respond to potential political turbulence or unexpected breakthroughs, so it was relatively easy for the project’s scope and work plans to change in meaningful ways from year to year. The project simultaneously began efforts to have critical financial sector legislation passed while assisting its key counterparts to prepare for new regulatory roles. FST coordinated its legislative reform efforts with the other international financial institutions (IFIs). FST also began a series of initiatives, many with the NBU and the DGF, to improve confidence in the financial sector by changing knowledge, attitudes and behavior (financial literacy). FST began activities at the financial markets industry level to improve capital and commodity markets, and to support the development of the leasing industry. The result was a large set of activities that crossed components; were small, niche, or stand-alone in nature; and included new activities that could not be evaluated, in addition to a set of activities that were stalled or ended.
EVALUATION PURPOSE AND EVALUATION QUESTIONS

The purpose of the FST independent mid-term performance evaluation is to determine the relevance, efficiency, and effectiveness of FST’s interventions addressing five major interrelated components of the Activity:

1) building trust in the financial sector;
2) transforming the non-bank financial regulatory environment;
3) increasing access to finance for SMEs;
4) improving financial inclusion and expanding use of digital solutions; and
5) supporting a balanced and sustainable pension system.

The evaluation will examine progress and achievements of the FST, determine its impact, examine the sustainability of its activities and their results, and provide USAID with tools to effectively utilize lessons learned to inform future financial sector project design. At the start of field work, the Evaluation Team (ET) was given guidance from USAID to place less priority on evaluating discontinued activities, and more on strategically assessing programming gaps and emerging opportunities for the remainder of the FST and beyond.

KEY QUESTIONS

The evaluation design and methodology will achieve the evaluation purpose by addressing the following evaluation questions (EQs):

EQ1: In what ways has FST contributed to building and advancing confidence in the financial sector? How successful were these efforts?
EQ2: To what extent did FST affect SMEs’ and marginalized groups’ access to finance?
EQ3: To what extent did FST change the ways in which financial institutions and financial consumers communicate?
EQ4: What were the unintended effects of the FST activity?
EQ5: In what areas related to FST’s scope is USAID assistance no longer needed?

The ET understands that the first three EQs are designed to identify performance to-date that is meaningful and sustainable. It is important to note, that even though there is a considerable conceptual overlap between the three EQs, e.g., improved communication between institutions and consumers (EQ 3) would contribute to building and advancing confidence (EQ 1), clarification was provided to the ET that EQ 1 was not intended to be an overall or ‘roll-up’ question. The fourth EQ is understood as an additional means for uncovering potential outcomes not foreseen in the original activity design, which may or may not warrant FST activity adjustment. Similarly, the fifth EQ is understood as an exercise to identify any FST interventions that could be sustainably reproduced by local actors in the future, and hence no longer need to be an explicit part of the FST activity.

EVALUATION APPROACH AND LIMITATIONS

The ET used a mixed-methods evaluation approach that is based on collecting data from multiple types of data sources: a) review of project documents and other secondary materials; and b) key informant interviews (KII). The original full work plan is in Annex N.
EVALUATION APPROACH

The IBI evaluation team relied on document reviews and key informant interviews, setting aside the planned focus groups discussions and online surveys on activities that had been discontinued.

- **Document and Materials Review** - This data source includes USAID/Ukraine strategic documents; FST plans, annual and periodic reports, and the Monitoring, Evaluation, and Learning (MEL) Plan; relevant laws and central government regulations, and policy documents; and any other secondary reports, analyses, or data (including independent data sources) that may be relevant and available. The ET reviewed all available materials before members’ departure for field work. The review of documents and materials produced several key work products that guided the fieldwork. First, the ET produced a timeline of all activity interventions. Second, we analyzed performance indicators data, using target/actual scatterplots, for instance, to visually show performance. Finally, we graphed performance monitoring data to demonstrate the match between targets and results, when meaningful.

- **Key Informant Interviews (KII)** – The ET recognized the broad array of stakeholders involved in the FST activity. The ET made every effort to include the opinions and suggestions of all key activity stakeholders, including participants and beneficiaries of FST activities, private sector partners, the host government, civil society, other donors, and USAID and non-USAID implementing partners. The Team held KIIIs with beneficiaries and stakeholders as well as non-beneficiaries and non-stakeholders. The KIIIs were held in Kyiv, where most FST activities were concentrated, as well as in FST outreach sites in Lviv, Odesa, Mykolaiv, and Kharkiv. The ET divided into two sub-teams for the interviews to maximize both time and coverage of the sites.

The ET recognizes that key informant types differ based on "causal distance": direct participants in activities and activity implementers; people who are indirectly affected by the activities; Government of Ukraine officials; USAID personnel involved in activity design and monitoring; other international donors who also are providing support to the financial sector, and other counterparts and stakeholders. The ET collected data from key informants at varying causal distances from FST’s activities, which helped the team understand whether the FST activity was achieving its targets and objectives. While random selection of key informants would be ideal, the number of key informants with direct or relevant indirect engagement with many individual FST activities is relatively small. Other FST activities are of such a niche or technical nature that KIIIs could only be found among the direct beneficiaries and FST staff.

The ET crafted each data collection instrument for each type of direct and indirect information to generate data that would specifically answer the above EQs. The team finalized the KII protocols after in-depth discussions with Mission staff. Each semi-structured KII differed slightly depending on the key informant’s role. The ET’s questions addressed knowledge and general perceptions and, most importantly, probed informants for specific examples of attitudes, behavioral changes, and both expected and unexpected outcomes. KIIIs were also asked a counter-factual question: what would have happened without FST’s assistance?

The ET disaggregated quantitative data by biological sex and to balance key informant interviews (KIIIs) by biological sex, to the extent it was possible given male and female representation in the finance sector.

The ET used qualitative analysis to examine the evidence from the materials review and KIIIs. Our analysis at the data source level included conventional and directed-content analysis to help us
systematize the KII findings. For each evaluation question, we used parallel analysis. First, we analyzed relevant implementer materials and secondary sources to develop preliminary findings. Next, we reviewed data from each type of key informant, as gathered through the various evaluation instruments, to draw further preliminary findings for each EQ, before synthesizing across all types of key informants and beneficiaries, and analyzing data by gender and site.

EVALUATION LIMITATIONS

The ET foresaw several factors that may limit its ability to generate objective data to address all the evaluation questions. The key biases that the team watched for included the following:

- **Recall bias**: Key informants may not accurately remember details of specific intervention activities. For example, training participants may respond to team questions with answers related to previous training activities. We mitigated this bias primarily through a semi-structured interview protocol that calls for questioning about specific activities, in addition to the ways that respondents used new skills and knowledge. In this way, the team helped key informants focus on the specific training topics, for example, and not their overall experience with trainings.

- **Response bias**: Informants may give the team positive remarks about the activity because they would like to remain involved with the intervention in the future, and because they think a negative evaluation could mean the end of activity-related opportunities.

  The ET had two main strategies for mitigating this bias. First, for each informant, we stressed confidentiality, then explained the team’s independence from both USAID and the activity. Second, questions designed to elicit specific examples help identify/prevent response bias; general questions allow too much leeway for general responses.

- **Selection bias**: Interviewing only contacts provided by implementers could mean that the team hears only from people who have had positive experiences. This is often a problem for activities in which the main contacts typically have a longstanding relationship with the implementer. The standard evaluation approach to mitigating this bias is to expand beyond implementer-provided contacts, usually through an informal snowballing process or by identifying non-treatment contacts through other lists or networks. As with other forms of bias, multiple sources of data and questions eliciting specific examples help mitigate the risk of this bias.

  The ET did experience a different form of selection bias, which was that the response rate to our KI meeting requests was only about 60%, due in part to the summer holiday season. This meant that for some activities, the ET had limited points of data to analyze.

Overall, the ET attempted to combat these biases by clearly discussing the intentions of the evaluation with key informants and by using multiple sources of data for analysis. By combining information found in documents or interviews from multiple sources, any one piece of biased data will not skew the analysis. Finally, rather than ask questions that elicit answers based only on perceptions, the team asked questions about behavioral changes and specific examples of knowledge use.

An additional challenge was mapping FST activities to the three main EQs, stemming in part from the conceptual overlap among the EQs and in part from activities with aspects relevant to different EQs.
The ET mapped activities in whole or part that strengthened the capacity of supply-side financial sector institutions to EQ 1, leaving other activities or parts of activities that engaged citizens, private enterprise, or non-bank actors on the demand side for EQ 2 or 3 as appropriate.

FINDINGS/CONCLUSIONS

EVALUATION QUESTION 1: IN WHAT WAYS HAS FST CONTRIBUTED TO BUILDING AND ADVANCING CONFIDENCE IN THE FINANCIAL SECTOR? HOW SUCCESSFUL WERE THESE EFFORTS?

The team concluded overall that FST has contributed to consumer protection and knowledge, increased capacity of regulators and other sector actors, drafting and advocacy of financial sector reform legislation, pension reform, industry discussions, and financial literacy. Past limitations on FST’s ability to contribute to strengthening of the financial sector may disappear under a new President and Verkhovna Rada.

Sub-Component A: Increased Public Confidence In, Understanding, and Use of Financial System

The ET concluded that FST has provided deep domestic knowledge and international expertise to help shape draft legislation, and carried out multiple advocacy actions in coordination with the World Bank, the IMF, and key GOU counterparts in support of that legislation. However, the lack of parliamentary progress on the financial sector agenda was a significant obstacle. FST provided long-term support to legislative efforts to strengthen the financial sector in multiple ways: supplying expertise from within FST, providing expertise through international experts, producing relevant analyses, organizing public outreach events, and helping stakeholders organize lobbying efforts.

The ET found that FST contributed to the development of numerous draft laws that would fundamentally shape and strengthen the financial sector. Here we will focus on three: the “Split” Law (#2413) to restructure regulatory authority for the banking and non-banking sub-sectors of the financial sector; and the paired Consumer Protection Powers Law (#2456-d) and Financial Ombudsman Law (#8055) to strengthen the authorities and processes by which consumers could protect their rights. Note that the Law on Consumer Lending passed during the first quarter of the project, and is discussed below, but the Ombudsman law never made it to a first reading.

The Split Law (draft law 2413a) was the highest priority for the financial sector, according to all KIs from regulatory bodies and other donors. FST added expertise on different models for structuring regulatory competencies through internationally-known leaders and applied research. The ET found that all relevant KIs at regulatory bodies and other donors also valued FST’s role in convening stakeholders and supporting lobbying efforts with Verkhovna Rada members. NBU KIs also strongly valued the road map for implementation developed with direct FST facilitation, because the Split Law is a radical restructuring of GOU bodies, competencies, and enforcement mechanisms. Note that KIs from the NBU, NSSMC, FSR, and other donors recognized that there are advantages and disadvantages in different international models of how to structure regulatory functions, and that the one proposed in the current draft law was the most politically acceptable version at the time. All KIs involved in the drafting process mentioned in response to the counterfactual question that a Split Law had already been drafted by a
Rada member prior to FST, but that FST expertise and collaborative approach improved the language in the draft law to reflect international best practices, promoted a common strategic approach among stakeholders, and helped the draft law move faster in the legislative process. The draft law has not passed Rada yet, but it will remain on the agenda of the new Rada as it passed the first reading.

The draft Law on Consumer Protection and the Law on Financial Ombudsman together present a foundation for consumer protection efforts in Ukraine. The Law on Consumer Lending (#1734) lays out what the banking and non-banking financial institutions are required to do for consumers, but it lacks the enforcement procedures and penalties that the Consumer Protection law provides. The FSR has a mandate to protect consumers, and the NBU has, with FST urging, interpreted its mandate to include protection of banking consumers, but effective and meaningful enforcement authorities and regulations are lacking. The ET found that FST provided experts and research while facilitating a collaborative effort with the NBU, the NABU, FSR, and Rada members to draft both the Law on Consumer Protection and the Law on Financial Ombudsman to address this problem. Neither draft law has passed Rada yet, but the Consumer Protection law passed the first reading and thus will remain on the agenda in the new Rada.

“The ET concluded that FST made strong and multifaceted contributions to NBU and PFU capacity. FST worked closely with the NBU (and NSMMC, see below) to strengthen its capacity in anticipation of additional authorities mandated by new legislation.”

The ET found from the FST quarterly reports that the project was continually engaged with the NBU on a variety of topics. In addition to FST’s contribution toward legislation that reflected an understanding of how to incorporate international best practices within the Ukrainian context (see above), the project worked with NBU to improve communications, adopt consumer protection as part of its regulatory mandate, and take a leadership role in promoting financial literacy. All KIs at the NBU were able to name specific examples of how FST had helped their departments, in addition to stating the ways in which the project would continue providing assistance in the future. All relevant KIs stated that FST was able to supply valuable expertise and research as they needed. FST’s assistance in forward-planning for the transition period once the Split Law passed was particularly valued by affected KIs. The leading role played by the project in developing a National Financial Literacy Strategy and related action plan was cited by all relevant KIs at the NBU, the DGF, and other international donors. NBU KIs stated that they anticipated close cooperation with FST for the final organization and implementation of the new consumer protection unit. KIs among regulatory bodies’ leadership and other GOU financial sector actors also volunteered that FST was able to bring together counterparts for discussions on financial sector reform, which helped create more cooperative and open relationships than had existed before.

The ET found that the PFU also benefited significantly from FST assistance, albeit in different ways than the NBU. As noted in the project reports and confirmed by KIs from PFU, FST has provided deep and broad support to strengthen PFU’s capacity: updated actuarial modelling; an ICT needs assessment; analysis of Pillar II (mandatory privately managed retirement saving scheme) issues; procurement of new server that was essential for consolidated record-keeping and enhanced security; and organizing discussions between parliamentarians and PFU leadership on pension reform topics. FST worked closely with the communications department at PFU to develop print and broadcast content, media strategies for public awareness campaigns, and graphics and functionality for the online portal. PFU is currently implementing a comprehensive communications strategy developed with FST assistance, including

“FST is an integrated extension of our team, ideas and strategies come from all sides”
Department Head, GOU financial sector body
training of communications staff in regional offices and hiring over one thousand people to work on outreach and information activities in rural areas. PFU now has the capacity and tools to become, in the words of one KI, “not a pensioners’ agency, but one that provides quality services to all citizens.” In response to the ET’s counter-factual question, all PFU KIs reported that it would have taken them longer to come up with necessary budgetary resources (whether from donors or the state budget), longer to have done the work, and it would likely have not been done quite as well.

It should also be noted that FST worked to build the capacity of UUL (discussed below).

The ET concluded that FST made significant contributions to the protection of financial services consumers in Ukraine. The Law on Consumer Lending was passed during the first quarter of the FST activity, and had an effective date of June 10, 2017. FST provided expert comments on draft regulations to the banking and non-banking sector regulators, followed by consumer surveys and mystery shopping research exercise both before and after the law’s effective date. The resulting presentations and materials were valued by all relevant KIs. As a result of its research on compliance with the Law on Consumer Lending, FST prepared a legal brief arguing that the NBU could and should take a more assertive role in consumer protection. After consultations with NBU’s leadership, the NBU Board announced it was creating a department of consumer protection for the banking sector, and eventually for NBFIs once the Split Law was passed into law. All KIs from the regulatory bodies and international donor projects agreed this was the right outcome. FST has since provided technical assistance to the NBU with a consumer protection unit start-up plan, which NBU KIs endorsed positively.

The ET concluded that FST contributed expertise, research, and convening authority to legislation development, industry discussions, and evidence-based policy debates. FST produced a large number of assessments, surveys, and research studies for many different stakeholders.

- **Consumer lending research**
- **Financial literacy survey**
- **Pension reform research**
- **Cryptocurrencies**

As noted elsewhere, the ET found that FST provided expertise for a wide variety of purposes for a large number of stakeholders and partners: draft laws, international models, digital finance trends, organizational capacity, actuarial modelling, ICT needs, and so on. FST also exercised a convening authority, as addressed elsewhere, such that all KIs stated that FST-organized events could attract more participants and richer discussions because they reliably had international and Ukrainian experts.

The ET found that FST research was well-regarded by stakeholder KIs, as addressed elsewhere in this report. One prominent example mentioned unsolicited by KIs at regulatory bodies, other donors, and external analysts is the NBFI regulation White Paper, which was a collaborative effort with the NBU to analyze the non-banking sector in Ukraine and international models for regulation of the non-banking sector. One KI pointed out that the White Paper built on briefings and analyses done by the NBU, but that FST had added new insights and integrated everything into a coherent discussion.

The ET concluded that FST has made a strong contribution to the promotion of financial literacy in Ukraine. FST’s approach to promoting financial literacy changed during the course of the project, from an initial intervention focused on training for women and vulnerable groups to the more recent shift to an NBU-led national strategy through Ukraine’s education system. The shift will allow financial literacy training to be made available to a much larger segment of the population.

The ET found that FST’s initial approach with local partners was collaborative and effective: the Ukrainian Women’s Fund (UWF) had deep experience in training and an extensive network of trainers,
and had even developed a women’s empowerment training with financial literacy aspects through the earlier USAID-funded GoWomen project. FST provided experts on certain topics and worked with UWF to finalize the training modules. UWF also tailored modules as categories of vulnerable groups were added to their scope of work, e.g., orphans and the disabled, as well as pre-retirement age, military veterans, and others. Research conducted by FST and UWF demonstrated the effectiveness of the training for participants.

The ET found that FST’s switch to a national level strategy led by the NBU was driven in part by more openness at the NBU to this initiative than in the past, and in part by project concerns over limited scope and unlikely sustainability of the initial approach. According to all KIs with direct knowledge, FST and the NBU worked closely together to draft a national strategy, and FST provided an international expert to help shape the strategy and content. Although the strategy had multiple aspects, the primary intention is to focus on the large population of school youth; this would be done through an elective course that schools could offer, and portions of the curriculum would be integrated in other subjects as feasible. Teachers would be certified through continuing education courses offered by the Ministry of Education. Other aspects include a central communication platform, public outreach and events, and a Kyiv-based financial literacy hub extending the existing money museum. NBU KIs strongly valued the action plan put together by FST to accompany the national strategy.

The working group includes relevant stakeholders and potential implementers: the Ministry of Education, the Banking University system, other governmental financial sector bodies, other ministries, and so on. NBU KIs reported that not all of the working group members were fully cooperative, however. At the time of field work for this evaluation, the draft national strategy was still being finalized. All KIs directly involved in the development of the national strategy agreed that the progress that has been made and the quality of the strategy are better than it would have been otherwise. KIs outside of the working group member institutions expressed a range of strong concerns about the potential efficacy of the education-system approach that anchors the national strategy; this will be discussed in the Recommendations section.

Sub-Component B: Transformed Non-Banking Financial Sector Regulatory Environment

The ET concluded that FST made strong contributions to NSSMC, but it is unclear whether the regulator’s capacity and resources will keep pace with expanded mandates in the future. FST provided valuable capacity building assistance to the NSSMC, in anticipation of passage of the Split Law and NSSMC’s independence law that would radically expand both the scope and enforcement authorities of the regulator.

The ET found that FST engaged from the beginning of the project with NSSMC, which is one of the two regulatory bodies for the non-banking financial sector responsible for capital markets. NSSMC is a particularly important actor in the financial sector: it is expected to become one the two remaining regulators for that sector upon passage of the Split Law, a proposed derivatives law (#9035) would also change the scope of its authority, and it is the responsible government body for the Financial Reporting System, which is intended to standardize and track financial reporting by mandated firms. KIs strongly valued FST-supplied training and discussions with staff from the U.S.-based Securities and Exchange Commission and the Commodity Futures Trading Commission; one KI noted that it was “very
important to me, because I came here from business.” KIs also valued the contingent strategic planning done with FST assistance. An issue raised by all KIs external to NSSMC is that the securities and stock markets have had relatively low volume, and is possible that it might not be prepared for the volume of activity it will have to undertake once and if the Split Law, the Derivatives Law, and other legislation passes; the concern expressed by the KIs is that there will be a mismatch between the timing of new mandates and the needed capacity and resources.

“The project has helped strengthen NSSMC’s ability and what role it should play in the financial services market...we want faster and better reforms, but we lack political will” Key Informant, NSSMC

The ET found that FST’s role in strengthening the ICT capacity of the NSSMC was viewed as vital. FST along with sub-contractor Ernst & Young conducted a needs assessment that then became the strategic plan for upgrading systems. There are two key ICT initiatives: first, improving the functionality of NSSMC IT systems for inter alia management processes, cybersecurity, and human resources; and second, the Financial Reporting System, which is based in turn on the implementation of a standardized business reporting language. KIs at NSSMC valued the IT systems upgrades, which together with the contingent strategic planning and other donor assistance will help the regulator exercise its new authorities, should the proposed Split Law and Derivatives Law pass. As reported by KIs at other donors and donor-funded programs, the financial reporting system has made strong progress through effective collaboration between FST and the EU-funded FinStar project. The system is slated to be fully implemented in January 2020.

A related intervention is bolstering ethical market conduct by strengthening the capital markets profession, but this process is ongoing. All relevant KIs reported that FST is positively contributing to improving the licensing process for capital markets professionals through funding, key technical experts, and convening authority that boosts participation.

**Sub-Component C: Increased Financial Inclusion and Expanded Digital Finance Solutions**

The ET concluded that FST had contributed broadly to industry and stakeholder discussions about digital finance. FST has been both responsive and proactive on issues of digital finance. At the request of the NBU, the project produced a research study on cryptocurrencies, which FST reports is the most downloaded report on their website. FST has also, however, worked closely with the NBU on digital financial services more generally, including assistance to drafting of legislation on direct debit transactions and e-invoicing, cashless payments, and other tailored payment schemes. With SWIFT, FST is working with the NBU Innovations and Payments Department to modernize the Bank’s messaging system to comply with ISO 20022, thereby facilitating instant money and direct debit transactions. Most recently, FST co-hosted a well-attended forum on financial inclusion that extensively covered advances in digital finance.

**Sub-Component D: Balanced and Sustainable Pension System**

The ET concluded that FST had contributed to pension system reform in Ukraine. In addition to the capacity building of PFU discussed earlier in this report, FST provided assistance to the PFU and the NSSMC for different parts of the pension system emerging from reforms. The ET found that PFU and other related KIs valued the actuarial modelling done by FST experts for Pillar 1 (state pensions.) KIs from key stakeholders also valued the project’s assistance on Pillar 2 (mandatory privately managed pensions) development, including research studies, strategic recommendations, and working group participation. The working group includes NSSMC, which under the expected Split Law would be the primary...
regulator for the non-bank sector actors that would host non-state pension funds and provide investment vehicles.

EVALUATION QUESTION 2: TO WHAT EXTENT DID FST AFFECT SMES’ AND MARGINALIZED GROUPS ACCESS TO FINANCE?

FST made some contributions to both in the past, but SME access to finance is a challenging task.

The ET concluded that FST had made a positive albeit small contribution to financial literacy through training to women and vulnerable and disadvantaged groups, e.g., the elderly, unemployed, orphans, displaced persons, and rural residents. The shift from the smaller-scale training approach through NGO partner Ukrainian Women’s Fund to a larger-scale strategic approach through the NBU and the education system will assuredly mean more Ukrainian citizens will be exposed to financial literacy issues, including females and vulnerable populations among school youth. The ET found that participants in the earlier financial literacy approach benefitted from the training, and international experience indicates that school youth will benefit once that part of the national strategy is implemented, including school-aged women and vulnerable populations.

**UWF Training:**  
- 7674 trained (79% women)  
- 90% report more secure  
- 70% report now using banking services  
- 60% self-reported livelihood improvements

However, women and vulnerable populations beyond school age would no longer have any access to financial literacy training under the national strategy. All KIs at organizations that engage with these populations mentioned that they are among the most vulnerable to financial scams or poor decisions, and have the most to gain from financial literacy lessons. All KIs also mentioned that older generations, particularly pre-retirement workers, have need of this training.

The ET concluded that FST has provided useful assistance for the leasing market, but SME access to finance is generally low and FST’s programmatic limitations due to the multiplicity of other donor-funded projects are significant obstacles to potential contributions outside legal and regulatory reform. The leasing market largely collapsed with the banking sector in 2014-15, but along with small business loans it is key for development of SMEs. The ET found that FST had worked closely with the UUL, the main leasing industry organization that is nonetheless weak and under-resourced. FST experts provided assistance to UUL through a market needs assessment and a strategic plan for the organization. UUL KIs reported that they were very satisfied with the project’s work with them, especially during 2018-19 when there was a 10-city awareness campaign aimed at SMEs. FST has also supported leasing activity through comments on a draft Law on Financial Leasing.

The ET found that the market is small and dominated by equipment leasing, primarily car fleets. UUL KIs pointed to tremendous growth in leasing over the last two years as the economy has recovered from the 2014-15 economic crisis. Leasing of agricultural equipment is limited to new equipment that only the more stable medium-sized agricultural enterprises can afford. Second-hand and less expensive farm equipment is sold directly, and is not available through leasing firms; note that USAID’s Credit for Agriculture Producers (CAP), which works primarily with credit unions, would be the lead activity for agri-business SME credit. Real estate leasing exists for office and residential space.
The ET also found that bank loans to SMEs are a small part of overall portfolios, due as much to low demand (because of high interest rates) as to low supply (because of lack of financial information about borrowers.) According to the NBU data, 17% of bank corporate loan portfolios in June 2019 was to small enterprises (defined as excluding firms with less than €50,000 annual turnover). On the demand side, only 31% of small enterprises that responded to the 2019Q2 NBU business outlook survey reported plans to borrow from banks over the next 12 months. KIs that interact regularly with SMEs asserted that SMEs often do not have the financial statements, borrowing history, or collateral needed for bank loans.

EVALUATION QUESTION 3: TO WHAT EXTENT DID FST CHANGE THE WAYS IN WHICH FINANCIAL INSTITUTIONS AND FINANCIAL CONSUMERS COMMUNICATE?

FST has made strong contributions to the communications of three major state financial actors and banks, but public events have no identifiable effect and communication campaigns do not address differentiated communication needs of sub-populations besides age and geography.

FST’s interventions related to communication between financial institutions and consumers cover a large number of individual events and a wide range of stakeholders. Much of this activity has been covered above, and this section covers additional aspects or activities.

The ET concluded that FST assistance positively contributed to changes in the way the NBU, the PFU, and the DGF communicate with the public. As noted above in the response to EQ 1, FST made substantial contributions to the communications capacity and activities of the NBU and the PFU. The ET also found that FST had contributed to the DGF’s capacity to respond to hotline calls, including training on handling especially difficult calls.

The ET found that the NBU has committed resources and attention to communications with the public. Key evidence is not just the communications department with added resources, but the national strategy for financial literacy and the anticipated consumer protection unit (including the public-facing call center.) FST KIs noted that the implementation plan following the Split Law’s passage calls for a concerted public awareness campaign.

As noted earlier, the PFU has fully embraced a proactive and open communications approach with the public, and the ET found that it is preparing to be even more of an information source for Ukrainian citizens. PFU KIs pointed to the Pillar 2 reforms as being a particularly important public communications event for the organization, and the ET found that the PFU wants FST assistance with that effort.

The ET concluded that FST contributed to a change of communications between major financial sector institutions. Prior to 2014-15, governmental regulatory bodies rarely met and leadership did not regularly engage with the counterparts. KIs on FST-convened working groups described to the ET how these organizations now engage with each other on legislative developments, industry priorities, and even public events. KIs outside governmental bodies described how much more open and transparent the regulators have become compared to the past.

The ET concluded that public awareness and outreach events had very limited utility other than keeping certain issues in public discussion. FST supported the organization and even implementation of a large number of public events, e.g., Global Money Week events, press conferences on pension reform, and industry fora and conferences. The ET found that these public awareness and outreach events had no identifiable
effect on communication between institutions and consumers, although it cannot be excluded that public-facing events positively impacted citizen knowledge and attitudes on at least a short-term basis. However, the ET found that other than raising a policy issue in public for discussion, one-off events such as press conferences or Global Money Week did not lead to changes in behavior by attendees, other than an appreciation for how well the event was carried out.

The ET found mixed opinions among KIs with respect to what role journalism capacity played in public awareness campaigns; this was a point that KIs raised while discussing the lack of media uptake of financial topics. While roughly half the relevant KIs pointed to the poor quality of journalism programs at universities, another half pointed to the fragmented media market full of small outlets that require journalists to be generalists.

The ET concluded that public awareness and outreach activities on pension reform, consumer lending, and other financial sector topics did not address the potentially different information needs of women, vulnerable groups, and SMEs. FST worked closely with the DGF, the PFU, the NBU, and others on a wide variety of public information campaigns. The ET found from KIs at relevant organizations that media strategies would take into account which media outlets or media types would best reach different demographic groups, e.g., older people watch certain television channels and younger people listen to certain radio programs, but no demographic variables were considered other than age and geographic location; to the extent it would have been meaningful for some campaigns, message content was not even varied. This is particularly problematic for private entrepreneurs, in that their accounts were potentially ineligible for full deposit guarantees and they intersect with the pension system differently than employees. Other than the DGF and PFU campaigns accounting for different age groups, it is not clear that these activities effectively reached women, vulnerable populations, or SME owners.

EVALUATION QUESTION 4: WHAT WERE THE UNINTENDED EFFECTS OF THE FST ACTIVITY?

There is only limited evidence of positive or negative unintended effects, due largely to the nature of FST interventions.

The ET concluded that there were few if any unintended effects from FST interventions. KIs were primed beforehand about this question, and most KIs had already responded to the counter-factual question that also would have primed them to think beyond the narrow scope of their intervention participation.

Three unintended effects were raised by more than one KI. First, KIs among regulatory bodies and donor organizations pointed to a positive outcome of FST’s collaborative approach and convening authority: people at the regulatory bodies, many of whom may not have known the names of their counterparts, were able to develop professional relationships and realize the full scope of interconnectedness between the regulators. Second, three KIs pointed to the delay in passage of the Split Law, which was not due to FST’s involvement in that process, as allowing the draft law’s opponents time to organize themselves and begin a lobbying campaign against it. Finally, regulatory body KIs pointed to the “limbo” or uncertain fate of the FSR due to the delay in passage of the Split Law (which again was not due to FST’s involvement), that damaged its budget, hiring, and credibility.

Financial literacy training had an additional impact on the older generation: training participants who had informal income and did not pay taxes understood the value of taxes. They registered as entrepreneurs and started paying taxes. In this way, financial literacy training helped bring money out of the gray area.
EVALUATION QUESTION 5: IN WHAT AREAS RELATED TO FST’S SCOPE IS USAID ASSISTANCE NO LONGER NEEDED?

**FST could transition or step away from a small number of its current activities, depending on political developments**

FST is a large and wide-ranging project, and has evolved over time to address opportunities and client-driven needs. Although expectations of key legislative developments were fundamental to the original design of FST, the lack of legislative progress in the last Rada complicated project work plans extensively. That said, there are some current activities that FST could transition or step away from by the end of the project.

**The National Financial Literacy Strategy should be fully in the hands of the NBU, with limited support going forward to the Ministry of Education for the financial literacy curriculum.**

The Strategy will be launched by the end of this calendar year, and the initial months will be taken up by finalization of teacher training modules and classroom curriculum. The ET found that national strategy stakeholders, like the Ministry of Education, are the primary partners for implementation of financial literacy training and have resources and organizational units to do both training and curriculum development. Other elements of the national strategy approach do not require FST involvement, e.g., the establishment of a financial museum. The NBU could procure research services for efficacy research from the Banking University, any one of a number of academic programs, or even private market research firms.

**The ET concluded that FST support for public awareness or outreach events, such as press conferences or Global Money Week, could be ended entirely in the medium-term.**

The NBU, the PFU, and the DGF all have capacity and experience in public communications, due largely to prior assistance from FST.

**The ET concluded that FST support for Pillar 2 reform, which is linked to financial market development, could be phased out in favor of much larger and more prominent donors like the World Bank and the IMF.**

The ET found that the multilateral donors are deeply engaged in pension reform at policy levels, and FST has played a key role in research, strategy planning, and facilitation. Those activities could be undertaken by the World Bank, while FST would be busy working with the NSSMC as the primary regulator for the non-bank actors that would host non-state pension funds and provide investment vehicles.

The remainder of FST’s support activities are either ongoing, e.g., legislative initiatives, or not at a point where the project could no longer be involved, e.g., launch of the NBU’s consumer protection unit. The Recommendations section that follows addresses these and other issues.

**RECOMMENDATIONS**

The ET presents below recommendations for both the current set of activities, and, per the guidance received from USAID/Ukraine at the outset of field work, potential new activities for FST or a successor project.
CURRENT ACTIVITIES:

- **USAID should support transferring the National Financial Literacy Strategy to the NBU**, with limited support to the Ministry of Education for the financial literacy curriculum. **USAID should end support for public awareness or outreach events.** In addition, **USAID should transfer support for Pilar 2 reform to the World Bank or IMF.**

- **FST should continue support of legislative initiatives**, including provision of experts, review of draft legislation, convening stakeholders, and support of lobbying efforts. The ET further recommends that **FST be prepared to expand its legislative activities** in preparation for the extensive regulations that would follow the Split Law, Consumer Protection Law, Derivatives Law, and the large body of new yet related legislation needed in order to clarify NBU and NSSMC authority.

- **FST should focus on strengthening the communication activities of the new department, particularly the outreach to consumers of financial services.** Assistance should be tied to the new Consumer Protection law, the increase in the NBU mandate to do NBFI activities, and should also recommend an appropriate role of a call center in this setting. First, KIs other than at the NBU and FST expressed skepticism that a central hotline would be used by consumers experiencing issues with their local bank. A better approach may be to have regional centers, along with partnerships with legal clinics, NGOs serving vulnerable populations, and Banking Universities. Second, FST should ensure that the experience of the PFU and other organizations is taken into account by the NBU when finalizing planning for the call center staffing, systems, and processes. The ET found that approximately 90% of the calls to the PFU’s hotline were not problems relevant to the PFU, and the DGF had similar experience. This has important implications for planning and training.

- **USAID and FST should review whether the NBU’s financial literacy national strategy is adequate** with respect to financial literacy and consumer protection training, particularly for women and vulnerable populations (e.g. orphans and the disabled, as well as pre-retirement age, military veterans, rural residents, and others.) All KIs with direct knowledge of and experience in the education system expressed multiple concerns about the strategy’s primary intention of working through schools. First, teachers face many competing demands for continuing education opportunities, and it is not clear how many will opt for learning how to teach an elective or how many school principals will require teachers to take the training. Second, schools are faced with increasing mandates for the number of courses in required subjects, and it is not clear how many will direct teachers to take the training in order to teach the financial literacy elective course. Finally, students have little room in their schedules for elective courses, and it is not clear how many would take the financial literacy course. This would, of course, also affect uptake by students’ families, although high-quality research has shown surprisingly positive indirect benefits for families of students engaged in financial literacy curricula.

All KIs outside of the working group member institutions expressed concerns that non-school populations, especially the pre-retirement age workers and vulnerable populations that are often most in need of financial literacy, were being left out of the national strategy and questioned the selective targeting of populations.
There are more than one option for resolving foreseeable problems from these assumptions about expansion and targeted populations. One would be for the NBU to expand the scope of its training ambition to encompass other governmental bodies like employment centers, vocational training institutes, or social assistance units. Another would be for FST to develop a parallel strategy using grants under contract to NGOs serving women or vulnerable populations, Banking Universities, and university-based legal clinics.

FUTURE ACTIVITIES:

- **USAID should use the opportunity of the 2025 financial sector strategy process to continue to strengthen coordination with other donors.** FST activities have involved regulatory bodies and other actors outside the banking sphere quite naturally as a result, primarily, of the project’s involvement with the Split Law and other related legislative developments. Although international donors coordinate quite well across a range of macroeconomic reform issues, the more flexible nature of FST, the relatively large budgets of USAID technical assistance, and the interlocking nature of USAID programming could lead to inefficiencies. For example, regulatory needs of the NSSMC and the FSR were not addressed because of the high priority and potential effect of the Split Law, or the reality that there are multiple donors working on SME access to finance issues.

- **FST should expand its activities with the NBU on consumer protection** and other compliance research to include public reporting of NBU enforcement of the Law on Consumer Lending and other actions by the consumer protection unit. The Digital Comparison Tool (DCT) is a potentially valuable market signal for consumers, but it means little if there is no wider public knowledge of NBU enforcement.

- **USAID/FST should explore opportunities in SME access to financing including leasing, short-term loans, grants, and other options.** Leasing is an important financial tool for SMEs, but is only one credit option. In Ukraine, there are different sub-markets in geographic areas, and various donor programs address different aspects of SMEs, different sub-markets, and even different geographic areas. For example, agriculture is a major economic activity in many parts of Ukraine for SMEs, but other USAID programming does not grapple with the leasing needs of agricultural SMEs; moreover, agricultural extension services providing both scientific and economic expertise are not generally available. Commercial banks do relatively little SME lending, in large part because SMEs lack the creditworthiness signals and resources of larger enterprises, not necessarily because they are not creditworthy. Other donors support loan programs for SMEs, training for entrepreneurs, and more.

- **Rather than public awareness and outreach activities, USAID should consider supporting current journalists in improving their financial reporting skills**